



BRUNELLO CUCINELLI

“First Quarter 2012 Results Conference Call”

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MODERATORS: MR. BRUNELLO CUCINELLI, PRESIDENT AND CEO
MR. MORENO CIARAPICA, CFO
MR. PIETRO ARNABOLDI, INVESTOR RELATIONS MANAGER

OPERATOR:

Welcome to the presentation of the First Quarter 2012 Results of Brunello Cucinelli Group. Speakers will be Brunello Cucinelli, CEO and President of Brunello Cucinelli, Moreno Ciarapica, CFO and Pietro Arnaboldi, Investor Relations Manager. The conference will take one hour, approximately.

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

BRUNELLO CUCINELLI:

Good evening ladies and gentlemen. It is a great pleasure to me to speak to you. First of all, we would like to invite you all here as soon you have a chance to come and visit here in Solomeo, close to Perugia.

So what I would like to do is the following. Let's start with 15 minutes general overview, because many of you do not know us very well, and then Moreno Ciarapica, the CFO, will provide you with some further data and then there will be time for some questions.

So I will start by talking with debut we had with stock exchange on the 27th of April. And I have to say that I have the impression the financial world has really given a great gift to our culture, our heritage, our spirituality, the devotion to our work, our pride and also the tolerance that we display on our everyday's work. So thank you, thank you very much.

Well, I have to say that as of today, we have important major international funds in our shareholder base, and we appreciate it.

Before starting, let me also thanks the banks that for 34 years have been supporting us and we would like to express our gratitude to them, considering them as our partners.

Now, I'd like to spend a couple of minutes to tell you about where I come from. I come from the Country side, so until I was 15 of years of age, I was a farmer and I led this beautiful childhood, my parents never quarreled, and never fought between them. So it was very, very nice for me.

Then I was about 15, we moved to the city, because my father's dream at that time was to be a worker in a factory, but very often during his working day, he would be offended and looked down upon. So that gave me some sadness somehow, that's why I said to myself, whatever I do in my life, I want to do it for the human dignity. This has always been my...the dream of the life of time for me, because at that age, I didn't know what would become of me, but that was my dream from the very beginning.

Then once we set up our Company, we envisaged a form of contemporary capitalism, that we then called humanistic capitalism. You know humanistic concepts of dignity and freedom and the possibility of choice of the human being, there is an underlying topic that is very, very interesting.

When my father worked, he was not very educated at that time, but since he didn't know much, he accepted everything. Nowadays, the younger generations know everything about us, about our Companies, our business, so we have to be always true to ourselves. We have to be true to ourselves when things go well, and when things look...also don't go too well.

Well, I have to say that during these years of studies, I started feeling as a guardian of my Company. You know, today we are holding our conference call and we are calling, we are talking to you from the tower of this little hamlet dating back to the 14th century. So those who designed it

so many centuries ago were thinking ahead of thousands of years of the centuries. This is a strong concept of guardianship for me.

Then in our Company, we set these rules and these rules comes from our Umbrian heritage, from Saint Francis and also Saint Benedict. I follow what Saint Benedict says..“You should try and be very straight and very sweet, a demanding master and a loving father “.

Now, the 720 employees in our Company, everybody start working at 8’o clock in morning and then we finish at 6 and no one is allowed to work after 6, because the human being needs to freshen up and if the human being have time to rest, then the morning after they will be curious and creative.

We have always believed in a product that should be extremely high quality, high craftsmanship, this is basically the same culture of the lands we come from, and it’s always been so. We have been active in the knitwear and apparel sector for 50 years. And this is the idea we have always supported in order to have a very high quality product. But in order to do that, you need the human being to be part of it. Creativity cannot always be managed, but craftsmanship and quality can be actually managed and governed.

So why have we decided to go public, you might ask, what was our need for it?

Well, I am 58 years of age, my daughters are 21 and 29, respectively and for all my life that’s the only job I have been doing. We have decided to go public, to be even more international, to be even more open in order to have some partners, guardians, investors beside us who can make this Company survives and thrive for the next 50 or 100 years, because I think this is the dream that everybody of us has that is for one’s Company not to die, when the parent dies.

We went public in order to be stronger. We didn't carry that much debt. At the end of 2011, we had more or less 1 year EBITDA. But obviously...since now, we are slightly stronger than we have no debts, we can definitely see some opportunities that are being offered to us by this fascinating and ever growing world.

The major economists worldwide say that if you go public, your Company lives longer. And last but not least, talking about my age, I always thought that you don't inherit a Company, you inherit the ownership. So I hope that my daughters one day, with my 62% stake, they will be able to lead this Company together with you, investors, partners, new managers, and new guardians of humanity.

So what do we believe in product-wise? We have always believed in one single brand and luckily enough, we are quite widely recognized and we have been acknowledged as belonging to the Top End of that luxury pyramid.

You're all aware that at the top of it there is absolute luxury and yesterday, Altgamma said that absolute luxury in the next three years should have quite positive trends. But they always talk about niche, within the niche of absolute luxury, I still believe in this. I've always believed in this. I believe in luxury, craftsmanship, quality, but not too widely distributed, not too commoditized. We are an apparel Company and this is very, very important, what I am about to say.

You know, at the end of 90's, Italy was extremely strong in the luxury ready-to-wear business, with brands like Armani, Versace, Valentino. Well, this is what we were acknowledged in the world. Now, this is

slightly missing. Even if this is lacking in the world, we've come from an apparel tradition.

I'd like to tell you what the president of Neiman Marcus, Karen Katz said to me, "You see, I have maybe 10 times the offer of accessories that I actually need, but as a matter of fact, I do not have enough chick luxury apparel" and this is very well for our future and also for the future of our Italy, because you know dealing with apparel is slightly more different...more difficult than dealing with accessories, because the very same accessory can be sold from Los Angeles to Shanghai, whereas apparel is something different, it has sizes difference... differences and so on and so forth. We are very happy in the way we are acknowledged.

We also do accessories. Last year we had 11% in accessories, this year we might reach 13%, 14% in accessories, we might reach 17%, 18% in the next two, three years. But we would like to always be an apparel company, that today it has 32% menswear and the rest womenswear, so very well balanced.

May be menswear should...could be strong, but you know men tend to spend half of what women spend in shopping, but the most important thing is that according to experts, the men's taste is very on line with women taste. So in a shop we can basically provide the same taste in menswear and womenswear.

And also it's a cross-age products from 25 to 75 years of age. Well, of course, I know that the price is quite high, but I am sorry when I am being told that my items are costly. Well, I don't like to hear that my items are dear, because it seems you have sort of exploited something, whereas this is not my case. So I'd like to supply an item of apparel that is very well manufactured. So...but once again, I am not talking about taste, because it's not up to me to judge taste.

What about collections? We have two collections because we believe in one single brand that will stay always the same for ever. We have the winter collection that is very, very important. We start delivering in June. The winter collection is very important and we deliver quite ahead of time, so that already from the beginning of the months you can have your collection in the shops. Whereas the second important collection, which it makes up 60%, is Spring and Summer; 40% are re-assortment, which means that on November, considering for example AW collections, other products start to be delivered.

We have always believed, and we have invested very much in the visual merchandising business, you know, visual merchandising it's very, very important for women, but also really indispensable for menswear.

Then internal collections, put together by myself with five people of first level and five people of second level, takes 70% of my time, that finally is devoted to visual and products. And then we have more or less 90 people working expressly, explicitly on the collection, which means that everyday we can manufacture 50 prototypes, which gives us the ability to change things in a short time.

So, the average age of the Company is 39, as well as top 15 managers. And if I called myself (58) and CFO (52) and also my CCO (50), the average age would be 37. So I can say that our Company is quite young.

Now, just briefly about the manufacturing system, because it's very important, we manufacture through craftsman people over 80% of our items in the Umbria region, then something in Tuscany, Marche and Veneto region. I talk about Umbria because these skilled hands have been there for ages, we have 8,000 people manufacturing for high quality

luxury from apparel to knitwear, and out of these 8,000 people, 2,300 work exclusively for us. These 2,300 people account for 330 micro companies, from 7 to 9 employees each independent companies.

The average age of the owners is 41 years of age, very young companies, and then the average age of employees is 40, which means that we have a very high quality artisans absolutely not old. And then we pay them 20% more on average vis-à-vis the market.

And now, I'd like to spend a minute on this because I'm very, very keen on it. Why do we pay these people 20% more, so that they can lead a normal and ordinary life and an ordinary life in Umbria means to earn €40,000 a year in a family run business, which might be €200,000 in London, and then young people, can be attracted to this kind of profession. But where do we find this 20% more from. Well, in item that comes out of the factory wholesale at €350, it includes €60 of manual skills. And when I talk about manual skills, I'm talking about manual work, not machinery. So this €350 item is then sold for €1,000 at Via della Spiga, Milan or in London. So my question is, is it not possible that we cannot find €20, €25 between €350 and €1,000? In this way these people can earn €80, €85 instead of €60.

So, and this is our strength, so their lies our strength for the future.

Where do we sell our products? Well, we can say that we have had this very same 1,000 multi-brands in the world unless there can be Harrods in London, Neiman Marcus or and some other in New York and Tokyo. Then who are these multi-brand clients? Well, I'm always had the impression that multi-brands are the real guardians of the brand. Why am I saying so? And then we'll also talk about the mono-brand segment because when people from most important worldwide luxury department store come to Milan to view the collections, believe me, the judgment they

express on the collections is very, very harsh, but it is very helpful because makes you contemporary all the time.

When Harrods decides to give you a hard shop within its department store, it means that your brand is contemporary. And now Neiman Marcus decided to supply us with nine beautiful spaces for next winter, previously assigned to another Italian brand.

And we are among Hermes, Chanel and this kind of brands which means that the brand is healthy.

But if the multi-brand clients, gives you this kind of concession then this is really helpful for us. So in order to innovate our products, we have had 1,000 multi-brands at the end of the year, we had 60 mono-brand stores in very special locations because this has always been our spirit.

What would we like to have in a couple of years...?

We'd like this to go down to half, because I'd like to make...just give an example, if in Hamburg we have a beautiful mono-brand...multi-brand store will benefit from it.

I'd like to talk to you about revenues and then the future in China. I have been going to China for the last 26 years, as you might imagine I go there to source my cashmere, I can't say that I know China deep-down, but well quite a lot. Well we started to go to this country and bring in the very same culture that we brought to America and Europe.

So the very same collection everywhere; obviously we manufacture a shirt then it is 2 centimeters shorter because their build is different, but this is just a technical issue not a taste issue.

So that's what we would like to do, we would like to go there and export the very same taste. Why am I saying this? Because I'm concerned about something.

A couple of months ago we went to Paris to choose the fabrics for the Spring/Summer next year. At the end of the first meeting I was with my staff, about 12 people, and we asked to ourselves...why do many collections of fabrics have a Chinese like taste?

Because obviously, there is trend ongoing to try and please the companies they have a large business in China. But my impression is that, as oppose to what is being said, that the European and the US markets are flat. Well, I'm not an expert to say, whether these markets are flat or not, but if your collection is not modern and contemporary in USA and Europe, no one buys your goods. So, we must be modern, we must be contemporary and in these very important reference markets, in order to be successful in the other areas.

Chinese travel a lot, they travel to Milan to New York, they want to see the product with their eyes. They want to see the visual merchandising, so we want to repeat to see the same in their countries.

We have a nice project in China, but we want to bring there the same culture that we brought to America 20 years ago, in Italy and Europe, That's why we need an international collection, and first af all a collection that is appreciated by Europeans and Americans.

We have a partnership in China with a 43 year old guy, who has a very beautiful company (150 million in sales and 1,000) and he deals with several Italian luxury companies.

And I said to him.. let me tell you 10 names of very beautiful nice companies, and to tell me which of them belong to the luxury pyramid and which don't.

He puts seven of these names in the aspirational luxury category. And I asked him why are they not in the top luxury? And he said...because they are too widely distributed. So my message is.. I believe in a product that it is distributed with a lot of care.

Consequently, we believe in a growth that is gracious, sustainable, respectful, a growth that might be 9% when things do not go too well, then the following year 12% or 13%, but when we open a store, we must be very, very careful, we waited for four years in order to land a great location in Miami in the right prestigious location. Then we are opening in Aspen in September, in the right location, so this is my message.

I believe in a Company that grows always maintaining high quality, high craftsmanship and hopefully high taste; a company with products not too widely distributed products, because that's where the difference is made.

So to windup...up until yesterday this is the only kind of work I have been doing for the last 34 years. And now, from the IPO onwards, I've only been doing this.

What I would like to say is the following...I have been doing only this, I'd like keep on doing only this.. that's why I said to my young managers, the other day, that I'd like to be with them until the day when they look at me in the eyes and say to me...your time is over.

We wouldn't like to perform any acquisitions, because we would like to grow with this brand, with this lifestyle, with this visual, with very same things. Ahead of me, I see a very fascinating world, a world that is fascinated by the very nice Italian luxury ready to wear.

Obviously, we must be there creating fresh contemporary, very high craftsmanship, but at the same time, I'd also like to give moral and economic dignity to craftsmen's work.

Let me say.. how can you ask your children to be an artisan for €980 a month..? It's not possible, but if we give the economic dignity to these workers, with 20% salary more, as I mentioned before, well.. that changes things and this 20% more does not change our financial statement.

So, as I said to the major investors who came to visit me to Solomeo, what I'm asking them it's join us in order to be guardians of our Company for 10, 20 years, knowing well that we would like to stay at the very top of the pyramid (and hopefully we will stay there).. and we do not want to commoditize the market.

I'd like to tell you what my clients said last week. She flew from New York to Cannes with her private jet and she said to the shop manager... tell Brunello that if he opens too many shops, I won't shop at Cucinelli any longer. So I believe in an exclusive product, I believe in a gracious growth. We have an open world ahead of us, we are present in 52 countries as of today and we can grow with grace.

And then last but not least we would like to dedicate here in Solomeo one Investor Day a year, and we'll invite you with your families to spend some time with us, and one Analyst Day, also in this case here in Solomeo.. I'd really like you to live the Company inside and also what happens in the hamlet after work in the evening.

So to conclude we have enjoyed an interesting quarter and now our CFO will provide with you all the details, but just to tell you that we grew by 17% in terms of revenues and by 27% in terms of EBITDA. So we had quite a good profit. I feel that there are very high opportunities in terms of products and I am reading this out of a communiqué. So there is a lot of good attitude towards the products, and the way in which the product is displayed and also in terms of lifestyle that shows a very high quality, high craftsmanship and high contemporary made in Italy.

So by nature, I've always been a realistic optimist, so we envisage a healthy 2012, but I'd like to tell you that while I speak on a daily basis to my clients and friends worldwide, I think that there is quite a good

ambience around. I was speaking to some New York people yesterday, and I think there is a good times ahead.

Finally I'd like to spend a special word on my special Italy. In January and February, during the fashion shows, the spirit was more negative, whereas now there is a very healthy awareness economic and also from the civil and moral viewpoints and this is the kind of awareness we are planning for the future. So I don't think that things looks too bad.

So thank you for the moment, I give the floor to Mr. Ciarapica, the CFO, who has been with me for the last 20 years and then we can open the floor for questions. I apologize for the length of the duration of my presentation, but this was the first time for me that I presented my first quarter results, and since many of you do not know me, I wanted to introduce the Company properly.

MORENO CIARAPICA:

Good evening ladies and gentlemen. I'll try and be as quick as possible in order to leave you some time for questions.

Let's start with **Page 3** of the presentation in order to analyze the revenue breakdown in first quarter of 2012. But before this, I'd like to remind you all that the first quarter results are affected by typical seasonal elements, typical in our business. So they cannot possibly represent the developments of the whole financial year. And also for Brunello Cucinelli and many other companies in this field, the first and in particular the third quarter represent the two main quarters, both in terms of revenues and of profitability followed by this...the fourth and the second quarter, just as an introduction.

Now, moving over to the results as of 31st of March 2012, the Brunello Cucinelli Group enjoys net revenues of €67 million then with an increase

by 17.1% vis-à-vis the first quarter. So basically similar to the change and you estimate...calculate using the same exchange rate of the March 31st. As for the weight of international markets, it has kept on growing. At the end of March, it accounted for 69% of net total revenues vis-à-vis the 63% of the first quarter 2011.

By analyzing the graphs in the bottom part of the slide, we see that the weight of the domestic market went down by 6 percentage points, going down from 37% of the first quarter '11 to 31% of this first quarter, with a...but quite stable in absolute terms. And this is basically in line with what we were expecting, and we are very pleased with this result.

So obviously, we enjoyed a very important growth in terms of exports where mainly in North America we booked a growth by 36.6% and the weight of America went up from 21% to 23%, rest of the world went up from 8% to 11%, the weight of Greater China went up from 3% to 4%, and in rest of Europe it was flat at 31%, thanks to a growth in line with the revenues forecast.

Now, moving over to **Page 5** of our presentation, we have the revenue by distribution channel. The weight of the mono-brand stores, that is a result of the sum between the retail and franchising was 34% vis-à-vis the 24% that was the weight of the first quarter 2011. As a consequence, the multi-brand wholesale channel, which includes our presence in the multi-brand stores and in the most important luxury department stores, is now equal to 66%.

Let's now move on to **Slide 6**, where we try and analyze the drivers of the growth of the retail channel. The increase by 53% was driven, both by the 10 new direct openings between the 1st of April '11 and 31st March in '12, and also by +18% in existing stores as of 31st of March 2011.

We reported also a significant growth in the mono-brand franchising channel, plus 74%, confirming the strength of the brand, which sees an increase of its network, thanks to 6 new openings, net of four conversions of franchise stores into Retail stores.

I'd like to remind you that this result was driven by the shipments of products for the franchised stores we're opening in the next weeks or which will lately after the end of the quarter. We are talking about for example, Shanghai and Hong Kong.

We can conclude, **Slide 7**, by saying that the wholesale channel is in line with our expectations, because it maintains its focus on exclusivity of distribution.

Let's now move on **Slide 8**, in order to comment on the major items of the income statement under the net revenues line. As we have already said, the results of the single quarters are influenced by the seasonality, so the first quarter does not automatically represent an automatic evolution of the results. The results of the first quarter were affected by an extraordinary capital gain generated by the transfer of a rent contract of the Milan store. This operation generated €1 million in non-recurring revenues, that you can find accounted for in the line the operating income.

Since this capital gain is a non-recurring one, I'll focus my analysis on the right part of the slide.

As for the first quarter 2012, after excluding this capital gain, the growth of revenues went hand in hand with a significant growth of margins, with an increase of first margin from 49.1% to 51.2%, so an increase by 210 bps. I'd like to remind you that our first margin includes raw material consumptions and third party manufacturing and also R&D costs.

So as a matter of fact, this figure is 2 points smaller than the gross margin itself. In the first quarter 2012, the Group EBITDA grew by 28%, 27.6% to be accurate, with an incidence on sales of 16.5%, an improvement by 130 basis points vis-à-vis, the first quarter '11 whereas the operating profit was €11.4 million, 14.7% of sales of revenues.

Then on **Page 9**, we analyze some variables of the income statements, and we basically focus on the EBITDA change, driven by the major increase of our first margin, which benefited in particular from a better channel mix that was favored by the growing...increasing weight of retail, which as you might know offers better margins than other distribution channels. And this happens as a consequence of openings, and as a consequence of a good like-for-like growth.

Also in terms of costs, the structure was impacted by the evolution of the channel mix. The personal cost includes the cost to start new DOS, and also the cost of the corporate structure reinforcement, strengthened in the second half of 2011 in order to support future developments. The increase in personal cost impacted by €2 million, weighting 13% on net revenues against the 12.6% in the previous quarter. In terms of number of employee's people, there is an increase by 100 units, over 60% of which is to start the DOS network.

As for other importance cost items, linked to the retail network development, rents in the first quarter '12 accounted for 3.4% of sales vis-à-vis 2.2% in the first quarter 2011. From the opposite side, let me highlight the decrease in terms of weight of agent fees, they went down from 6.3% to 4.7% of turnover, due to channel mix change.

As for A&P change, their weight is flat more or less, 5% of net revenues and the same as last year 2011. As for the bottom part of the slide, I would like to say that the financial charges were more or less in line with the last quarter and there was a reduction in the tax rates from 57.8% to 34.1% due to the change in geographic breakdown, which is gradually shifting towards the following countries therefore ensuring a lower tax rate. And also due to the impact of the recent Italian Laws in terms, in particular the lower weight of the regional tax of the Europe.

Let's now analyze the balance sheet on **Page 10**, well here it is important to remark that the total shareholders equity was €44.4 million before the positive affect of IPO vis-à-vis, the €38 million as of 31st of March 2011, with a net invested capital of €102.2 million.

Now, very quickly moving to **Slide 11**, we can see that the increase of the working capital was in line with our expectation and it's definitely due to a seasonality effect. Well, it was always influenced by two factors, which contributed to increase the inventories and these factors will be gradually less important over the year.

On the one hand, we started manufacturing earlier than before, we are manufacturing more items because, if we anticipate our production by a couple of weeks, we increase only partially our workforce. Also, we produced for 10 more openings, on top of the 4 openings that will be happening in the next few weeks.

Now, moving over to **Page 12**, we see the net financial debt, financial position which was €57.8 million at the end of March, vis-à-vis the €48 million at the end of 2011. And this mirrors partly the increase in the circulating capital, but also the anticipated payout of dividends on fiscal year 2011, that we paid in the first quarter this year for €2.5 million. Once

again, we have to say that the positive effect of the IPO proceedings will be perceived in the second quarter.

And then to end on **Page 13**, you can see the analysis of investments that were made over the quarter, €2 million for the commercial network and €1.2 million were devoted to the logistics the headquarters of Brunello and the maintenance CapEx.

BRUNELLO CUCINELLI:

Dear all, I would like finally to tell you something very important. In January, February when our clients and our shop managers came to see us, there was good feeling about the collection, what does it mean, it means that as of the 1st of June the second half of the year in this stores we will have beautiful collections. And this is really a good sign of hope for us. I really wanted to say this, to convey this message, because we don't know what the world will be like next months, but we know for sure that we will have quality items in our stores.