# Brunello Cucinelli, S.p.A.

## "First Quarter 2012 Results Conference Call"

## May 09, 2013

**MODERATORS:** **MR. BRUNELLO CUCINELLI, PRESIDENT AND CHIEF EXECUTIVE OFFICER.**

**MR. MORENO CIARAPICA, CHIEF FINANCIAL OFFICER**

**MR. PIETRO ARNABOLDI, INVESTOR RELATIONS MANAGER**

OPERATOR: Welcome and good evening to the quarterly results of the 1Q 2013. After the initial presentation, you will have the chance to ask questions. Speakers, Brunello Cucinelli, President and CEO, then Moreno Ciarapica, CFO, and Pietro Arnaboldi, Head of Investor Relations.

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

BRUNELLO CUCINELLI: Good evening ladies and gentlemen, dear friends, dear partners, dear supporters, dear analysts, dear journalists, all connected here to us.

In the first part of my presentation, I can give you the highlights of the Company performance, then I would give the floor to Moreno Ciarapica, CFO to go a bit more into details, then I will resume the floor to convey you what my idea is about the ongoing year, 2013 and immediately afterwards, I would like to talk about this Three Year Plan, 2013, ’14, ’15.

So let’s start from the first quarter results, 2013. Net revenues in the first quarter €88.8 million, plus 14.4% at current exchange rates, plus 15.5% at constant rates. But you know, that we establish, we set exchange rates, so what I would like to say is that this year, we have worked with 1.30 exchange rates this year, the same also for last year, therefore, what we do, it’s merely industrial profits.

Normalized EBITDA €15.3 million, plus 18.6% and then normalized net income at €8.2 million, plus 14.8%, and of course, despite very major depreciation. And we have enjoyed an important growth in international markets, plus 21.6%.

I’d now like to dwell upon the major markets, plus 26.5% Noth America, plus 18.3% in Europe. Then a very tiny decline in Italy 1.6%, and this is the result of the wholesale performance because the orders taken in September 2012, in particularly tough times in Italy, well this is what happened. But in the last four months, very positive retail performance and the mood is also quite encouraging, especially for women's collection more than men's collection. So we can possibly envisage that the years ahead are splendid, magnificent. Italy it will be a positive year, so I am very, very pleased with how Italy is doing.

We have a net debt…financial debt of €14.8 million, of course, compared to €57 million last year, well; main difference is because we were not listed last year. We have very, very sizable investments, €16.4 million, €3.7 million in the first quarter 2012 and which were mainly devoted to retail developments and then the important extension of our industrial facilities here, just opposite on the other side of the road and the works are going very, very smoothly. And then I will go back on this, hopefully we will complete works not in June 2014, but rather in March 2014.

We are very, very pleased with the like-for-like rates, currently it's 11.2%, please bear in mind though that we budget it always…consider it always factored it in at 8%. We have always envisaged that being products and everything equal, an 8% like-for-like is the interesting, the appropriate figure for us.

And now, I would like to tell you the following. We are in May as you already know; the Spring/Summer collections can be…will be completed in a couple of weeks, because around 15, 30th of June, all stores already are displaying Winter collection. It has been a great season in terms of products and taste and we are extremely mentally pleased with this, not just…it's not just a question of figures and numbers, because if you know…if you taste is always contemporary, it has a very high value attached to it. We keep on investing and believing in products, in the style and visual merchandising.

I have to tell you that while discussing with many major multibrands worldwide, I have actually perceived somehow a general complaint about the fact that at this moment in time, we are sometime designing garments that are difficult to sell. I think there is this mood around and I would like to convey to you. And the same way, I think that they say that there is somehow a too wide supply in excess rate and at the same time, there is a shortcoming of high quality day wear. They claim that we focus very much on marketing and I am talking in general, not about my Company, our Company, and so we tend to focus on marketing rather than on the products.

I would like to tell you that the feeling I have is that the women's market is better than the men's market. Of course, it's more difficult to sell men's wear; it is more difficult to renovate this kind of look. We are also very confident as far as Winter 2013 goes that is to say the collection of last January, February, March menswear and women's wear went very well. And since we have received a very positive feedback, we are very, very confident about the second half of the year. So I would think that the year ahead is pretty good maybe even more than pretty good. The international press is really paying a lot of attention to us, so we are very confident, although as I was saying in the Board meeting this morning. I would like not to use too many positive adjectives associated to our Company in this…at this moment in time, I'd like the general mood to be softer because when the macro situation is not doing very well saying that your Company is perfect and excellent, maybe it's not very polite.

So, having talked about the taste, I'd now like to give the floor to Moreno Ciarapica, the CFO, who will be dwelling about the real path and results. And then, we will be talking about the full year results and then talking about the three year period in general.

MORENO CIARAPICA: Good evening ladies and gentlemen, thank you Brunello. I'd like to start from Slide #4 of the quarter of the presentation that you have, and I'd like to highlight once again that, quarterly results can be affected by seasonality. It is a typical feature of this industry, both in terms of sales performance and of quarterly margin. In the first three months of the year, the Group has had €88.8 million net revenues with a 14.4% increase at current exchange rates, 15.5% at constant exchange rates, driven by the important staggering growth of foreign sales, plus 21.6%.

Moving on over to Page 5 we can see the revenues by region, North America still displays very solid growth with like-for-like performance that is a double digit performance, in the last 12 months three new DOS stores openings occurred and there was an increase in penetration in the main luxury department stores among which I'd like to close Neiman Marcus, Bergdorf Goodman, Saks, Harry Rosen in Canada with dedicated selling spaces**,** that are becoming bigger and bigger and with new hot shops being set-up. The European markets benefit from the development of monobrand stores network and the like-for-like results. In this case too, we report a double-digit growth with huge increase, not just in Russia and the Eastern European countries, but also in Continental Europe, in particularly Germany and Switzerland besides France and Great Britain.

Results also consider the shipments of Spring/Summer '13 collection with major shipments in the fourth quarter vis-à-vis the performance of Spring/Summer '12, because our partners multi-brand partners required for this, because there were very high sell outs, and we also had the intention to present all the novelties for the Christmas shop windows. In Greater China sales that represent 6% of hold of the total revenues are driven by the six conversions…conversions of stores to DOS stores and this happened since October the 1st 2012, and this growth is also driven by the monobrand wholesale channel and by the new openings.

As to the network stores developments, I'd like to point out that our expansion in China is pursued in a very careful and managed way, because on the one hand we are aware of the potential offered by the Chinese market, but we are always very, very careful to perform a selected and exclusive distribution. As for the rest of the world, whose weight in the wholesales is 9%, the growth is at the same kind…with the same perimeter, because no new openings occurred in the last 12 months, except for Tokyo, which however happened at the end of the 2013 first quarter.

The result was impacted by the shipments in Spring/Summer 2013. In the half year period, we expect double-digit growth in terms of revenues. In the first three months 2013, Italy actually spotted a recovery vis-à-vis against the trend recorded in the second half of 2012 and particularly thanks to the strong appeal enjoyed by the brand among the absolute luxury clients who visit our country from all over the world and they drive sales in the main cities and also in the resorts destinations.

At Page 6 of the presentation, we see that there was a very staggering increase in the monobrand retail channel, weighting 43% on sales in first quarter 13 vis-à-vis 33% in the first quarter 2012, with a very sizable acceleration of revenues in the retail channel benefiting from 10 monobrand…as many wholesale monobrand stores being converted into monobrand stores. New openings also help in the like-for-like growth 11.2% in the first 17 weeks of the year.

In the last few weeks we had a high single-digit growth in the last few weeks, as I was saying also bearing in mind the cold weather that we had in March and April. As for the end of the year expectations, a high single-digit increase is expected like Brunello was saying before. And as for weekly or monthly performance, we would like to point out that these weekly or monthly performance that are very much impacted by external factors maybe international politics or weather related factors sometimes in a positive or negative way, they tend to normalize in the longer term. So, we usually tend to focus more on season related performance that are usually occurring in a semester in six months. The monobrand wholesale channel despite a network reduction from 38 to 34 stores, considering the 10 conversions to the DOS channels, well this channel reports an interesting overall growth supported by the existing network and this network keeps showing like-for-like rate that is in line with the DOS stores.

The multibrand channel with a specific focus devoted to it at Page 10, reports a slight decrease…a slight decline. The total performance of the Spring/Summer collection at 2013 is positive and it is still performing very, very well with very positive sellout rates. Before…now moving to the rest of the income statement, Page 7, 8 and 9 of our reports, actually show a thorough snapshot of the distribution network, highlighting the network evolution in line consistent with our opening plan, which is always a managed and sustainable opening plan.

Let's now move onto the income statement at Page 11 of the presentation. Once again, we have two versions of the income statement. The reported income statement and the income statement adjusted considering bearing in mind the two slightly extraordinary one-off situations happening in the first quarter last year and this year.

The first margin improved significantly by over 300 basis points because of significant growth of the retail channel vis-à-vis last quarter whose weight goes from 19% in the 1Q ’12 to 30% in the 1Q ’13. As to the full year, we are expecting an increase that will be lower than the beyond 300 points of this quarter, also because of the development of the retail channel. The first quarter as a matter of fact was favored and benefited from extremely high retail growth. So, we think that this growth trend will be more normal “towards” the end of the year. The first margin increase is partly offset and cushioned by the increase of SG&A whose weight is going from 34.2% to 37.1%. In terms of EBITDA, margins therefore increased by 60 basis points considering the adjusted figures.

As far as operating margin is concerned, it was significantly impacted by the higher depreciation over time in this period because of the sizeable investments of the last year.

At Page 12, we report the cost changes whereby there was an increase in the SG&A weight by highlighting the increase of items related to business developments and channel mix. Their weight is 32.4% vis-à-vis 29.5% in the first quarter ’12, impacted by the setup cost for the China and UK stores, after the…following the conversion of these stores from the monobrand wholesale network to the direct stores. And bearing in mind the mix…the channel mix for four months, the weight of personnel costs increased by…from 13% to 14%, then rents from 3% to 5%, A&P from 4.8% to 5.6%, transport and duties from 3.1% to 3.6%, credit card fees 0.4% to 0.6%, whereas agents fees and general costs that are linked to the multibrand channel actually were reduced from 4.7% to 3.6%. So these…all these cost items performed very homogenously vis-à-vis the channel mix change. And then bearing in mind the growth of the following quarter, it is reasonable to expect an increase of SG&A; they will be lower vis-à-vis what happened in the first quarter thereby confirming our expectations in terms of operating margin.

As far as the balance sheet is concerned, we would like to comment on the valuations in term of net working capital in Slide 14.  The €12.13 million absorption is basically linked to the inventory increase due to the growth of the retail channel because stores…retail stores doubled from 25 at…as of March 31, 2012 to 51 at March 30, 2013, with 16 net openings and 10 conversions.  Management of other variables enabled us to have a slightly higher weight on rolling revenues vis-à-vis last year, 25.8% vis-à-vis 24.7% of the first quarter ’12.  We’d like to point out that seasonality is a very important factor also for net working capital and as for the full year, we expect a lower weight on sales vis-à-vis the first quarter because of seasonality.

And then, I’d like to point out how…the way credit performed, it’s a very positive performance because faced with wholesales revenues inline with last year credits...trade receivables were also inline with last year.  There was a reduction of €200,000, so basically we can say that this was a very good performance.  We are very happy with this trade receivables performance.

And then at Slide 16 and 17, we talk about net financial position and investments in particular.  The growth of net financial position of March 31, vis-à-vis the end of 2012 is driven by higher investments in the first quarter 2013, €16.4 million vis-à-vis the €3.7 million in the first quarter 2012.  The significance increase of investments in the first quarter in line with the full year expectation is impacted by the acquisition of the 70% stake of the Company that was previously managed by our English partner, for an overall amounts of €9 million because of the key money that was paid of the puts option, we exercised the put option and also the value of the fixed asset that became part of the good consolidation numbers and of the tax related effects of the Company aggregation. This item actually accounts for €2.2 million with a…also counterparty in the deferred tax fund, it is just an accounting position, it is not an expenditure. So this acquisition has a different kind of impact on the net financial position of only €6 million that also include the €1.5 million of the puts option amount.

So this is the end of my presentation. Thank you for your attention and I give the floor back to Brunello.

BRUNELLO CUCINELLI: So 2013, as you know, we have our 750 multibrand clients and at then end in these stores, we will have more or less 100 shops by the end of the year, and for us its very important to have our hard shops and corners in Neiman, in Saks or inside Harrods. We will have 100 DOS stores at the end, 100 monobrand stores, two-thirds of which our DOS stores and one-third franchise stores. As you know, we opt for the franchise formula mainly in Eastern Europe or in somehow in tricky countries, otherwise generally speaking, we tend to opt for DOS stores. At the end of the year, we will reach revenues whereby 55% of which will come from the multibrand channels, 45% from the monobrand channels, but out of this 45%, 35% DOS and 10% franchise stores.

And as for the revenues breakdown, it will happen as follows. 31% - 32% USA, 31% - 32% Europe, 20% - 21% Italy, 6% China, Greater China, and 9% rest of the world.

Let’s now move over to quite an important topic, investments. At the end of this year, we will have invested €35 million, out of this €35 million €5 million will be for the buying back of the US stores in England.

So these €35 million in investments, we will have indebtedness between €15 million and €17 million, but maybe €2 million, €3 million more should always be considered and set aside, because what we would like to do is the following. We are about to complete the doubling in size of our facilities, if we can complete works in March instead of June so that we can possibly move in March, which is quite a calm period for our business. If we can do this, we will be spending €3 million extra this year, which of course, will be deducted in 2014. So maybe indebtedness should be €15 million, €17 million with possibly €2 million, €3 million that could be added extra if we are able to finish…could complete our Company, so that we can work better and it will satisfy our needs until 2020.

Let's…what about margins 2013, we are exceeding slightly 18% moving toward 19% EBITDA after, that we were aiming for because we think this is just suitable for the apparel industry. We think that we are right on track to achieve this. So this is what I wanted to say as to 2013. And now and I run the risk of repeating myself, but we think it is quite important to say the following. So speaking about the Three Year Plan, in our plan, in our projects for the next three years, we would like to do the following; on the one hand, we do not want to change anything, on the other hand, we want to try and be contemporary and fresh in the products that we display on a daily basis always being brave and we have the courage to listen to high quality multibrands, because they are the ones who can really tell us where our product is aging, outdated or if it is contemporary.

So what can we do, what will the situation be like at the end of 2015? Maybe 130 stores instead of 100 that we will have at the end of 2013, and you know, that in…over the next three years, we will be investing €70 million, altogether, €35 million of which this year, the net financial position at the end of 2015 should be positive. You know, I have always been frightened by debt. Don't take me badly for that, but we would like to pay out dividends amounting at 25%, 30% more or less like we did this year, so, a gracious dividend for a Company that is investing massively in its image.

Well, personally, I always like to point out and highlight that the only thing that I do all day long is the very same job that I've been doing for the last decade. And I think that we are devoting the right amount of time to you esteemed analysts and investors, so more or less 12% of my daily time is devoted to you. I don't want to conceal from you that I really like it when you come and see us, when you come and visit to our village, in our hamlet, in our factory, because it's easier to make you understand our philosophy.

We have planned road shows for the whole year always abiding by the values of graciousness and respect, even the last road show that I took part in London. You see, I have been questioned that I always have loads of take home messages from you, because I learn a lot from you investors when you speak to me, new investors and new analysts, I always learn a lot about the way you see us. And you know that when you are successful there is always…you are always prone to stop listening. You see, there is nothing to do about this. And in the last few years, I think that the human being has been listening less and less, especially when they are successful. Well, I think that we have not lost the pleasure of listening.

So after this general overview, up until 2015, I would like to thank you all for the high esteem and consideration. I…please keep investing in our splendid Italy, and this is a message for all of you because this is a really very interesting time for Italy from the political, civil, as a human view point it is true, unemployment runs pretty high, but we will be working for make…for decreasing it in the next year, year and a half, and I don't want to hide from you that although I live in a small village, I know myself many people who lost their job. So, what I am saying…what I say to my staff every two months when we hold the General Meeting, my recommendation is do not spend your money, do not run into debt, maybe give out some money to friends who have lost their job.

But you see faced with this tough year, despite that for our Europe and for our splendid Italy, I envisage a very rosy and special future. And why do I say that? Because traveling around the world and going to China, India, South America, the impression I get is that these new human beings, your mankind is fascinated by our lifestyle, by European products. Everybody wants to wear Swiss watch, to drive a German car, to drink French champagne, so I believe very much in The United States of Europe.

As I was saying at the very beginning, we are very pleased, we are very serene in our work, and please help us not to exaggerate in with using a beautiful adjective, and we want to use more moderate kind of adjectives in this tough period. But by and large, we think that the mood around the brand is very positive.