Brunello Cucinelli S.p.A.

"Full Year 2014 Results Presentation"

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MODERATORS: BRUNELLO CUCINELLI, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

MORENO CIARAPICA, CHIEF FINANCIAL OFFICER

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OPERATOR: Good evening, the Chorus Call operator speaking. Welcome to the Presentation of the Full Year 2014 Results of the Brunello Cucinelli Group. Following the initial presentation, there will be an opportunity to ask some questions. Speakers will be, Brunello Cucinelli, Chairman and CEO, Moreno Ciarapica, CFO and Pietro Arnaboldi, Investor Relations.

Now, I'd 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 thank you really, wholeheartedly to you Investors and Analysts.

I'd now like to do the following. I would give you the overall figures, then I'd like to explain to you who we are, to take stock of the current situation at 2014. And then Moreno Ciarapica will go more into detail. And then I'd like to have the floor back to give you some colors about 2015 in pretty details and then to give you an idea of the following projects for the years to come.

Let's now start from full year '14 results. You might be familiar with some of them because as you know, we basically communicate the revenues per area in early January. Since you know, we take part in Pitti Immagine**,** which is the most important men's wear trade fair and since we meet up with many journalists, it is easier for me to tell them how the financial year went instead of being pretty vague about it.

So we have net revenues for €355.9 million, plus 10.4% at current exchange rates, compared to 31st of December 2013. EBITDA €63 million precise on the spot, plus 8.4% and net profit €31.8 million, plus 7.5%.

As far as the revenues increase in all geographical areas, both in international markets increased by 12.4% and also in the Italian markets that grew by 2.7%. And I am honestly very pleased with this result, because after two years of a slight decrease, we have now recent growth in Italy. International markets we have North America, Canada included with plus 12.7%, Europe plus 8.2%. Greater China plus 32.7%, but you know, our business in Greater China represents not even 6%. So you know, the 32% must be taken with a pinch of salt. And then rest of the world, plus 16.6%.

As far as sales are concerned, they grew in all distribution channels, monobrand retail, plus 28.6%, monobrand wholesale, plus 14.3%, net of the conversions to the direct channel. Then the final result is minus 6.7%, but it's 14.3%. And then multibrand wholesale, plus 1.5%, and a slight increase, it would be a slight increase if we exclude it the…what happened in Japan in the last part of the year.

We invested €39.7 million for the structural multi year plan, for the long time repositioning. And the net debt amounts to €42.6 million, slightly better than our projects…our plans because there were better payments than we expected especially from the Russian market. So we were paid in advance, so we are very pleased with this dynamics.

Then the Board therefore, will propose to the meeting a dividend of €0.12 per share amounting to a 25% dividend payout. This is the plan that we have been carrying ahead from the very beginning when we weren't listed, we were listed and we'd like to abide by, to comply with it for a couple of years. When then in CAPEX goes down a little bit, maybe we then will be in a position to distribute larger dividends.

I'd now like to read out to you my comments on the full year results because it's pretty important for this time. You see, we spent two years in trade fairs, men's wear and women's wear, we just finished the other day. So we have met operators from all over the world and the press. And I think that the mood is particularly exciting. I apologize, but I have a slight cough, so this is the week of flu's, but then luckily enough, we are finished with our collections.

Full year '14 results that has been checked and approved by the Board are very important. Our Group is now in the midst of a development path in Italy and abroad with excellent results, both in terms of revenues and margins. We consider this past year, a fundamental year for the image of our industry. Thanks to everybody's commitment in the Company, we are now able to win over observers and clients thanks to a clear positioning at the high end of luxury and thanks to collections that feature craftsmanship, modernity, style and quality. And I'd like to add also this goes on for the future, because we can vouch for everything apart from creativity obviously.

This has been the case also for the latest Fall/Winter '15 collections. You see they closed last week and since the order collection is now over, we can guess already the development task and we continued with the same pace this year too with a double-digit growth in our revenues. And it is with the same level of trust and satisfaction that we also take a look at the world around us, this world is increasingly fascinated by special products, but it has a lifestyle by quality and but the creative flair is able to express in order we do and make.

Generally speaking, there seems to be a very favorable time for our Italy. A weak euro will support exports, then the large quantity of capital that the ECB will inject into the economies will support companies, the reforms of our governments are on the right track and we are very pleased with this. And since our nation is mainly a manufacturing one, we envisage a very thriving time for our nation, for our Europe, and I say for the whole world.

A couple of words on who we are today. I know you are pretty familiar with us, but just to sum up because 2014 is a fundamental year for us. And why is that, because you see as a whole, the image has been…of the brand has been very, very high. One single brand, an Italian lifestyle, so you see a way of living, a way of dressing that is very, very characteristic. We are now headquartered in the headquarters that we…the facilities that we completed in 2014. Hopefully, it will cater for our needs for the next two three years, although the developments that we are enjoying, you know, is pretty good.

So definitely in the next year, we will start thinking about 2017, 2018, and 2019. So one single headquarter is here in Solomeo of 50% multibrand stores, 650 key accounts have been the same worldwide for many, many years, the major department stores or specialty stores. And then 50% of our revenue stems from the monobrand channel; 40% of which are DOS, and 10% are franchised stores. And other important thing to mention is that, our world is broken down as follows: 34% North America and Canada; then 32.8% Europe; 5.9% China; and this is what I was saying before it is…we don't have such a huge business in Greater China; 70.6% rest of the world; and 19.2% Italy.

Italy has enjoyed a 2.7% growth this year, and we are very pleased and happy because the product must…you see foreigners when they come to Italy they take a look at how the brand is positioned in the country, and this is true for France and United States too. So it is very important to be well positioned in your own domestic market and also in these three important markets that represent luxury.

I would now like to give the floor to Moreno Ciarapica, and then I will take the floor back to speak about 2015. Thank you for your attention.

MORENO CIARAPICA: Good evening ladies and gentlemen, and thank you Brunello. Since, we have already presented preliminary revenues results on January the 12, they were very widely commented in the press release and the following meetings. I just want to mention a few figures about revenues, before moving on to income statement. In particular, I would like to speak about the business conversion in Japan, whose revenues represents a significant chunk of the rest of the world revenues.

The business conversion as you might remember from the previous communication occurred starting as of the September 1st, 2014, in agreement with Itochu our partner, who has been working with us on the site for a long time, and with them we established a joint venture where we have a 75% stake, and Itochu 25% stake. These conversions, involved both the three monobrands boutiques that were wholesale and now have shifted to direct, two boutiques in Tokyio and one in Kobe. So both these three boutiques and the 13 hard-shops in the Luxury Department Stores in Japan.

As a results of this, the wholesale monobrand results they show a 6.7% decrease. But as Brunello was explaining before, they were impacted by these conversions at constant perimeter we would have had a 14.3% increase in 2014, and the same phenomenon also happened in the multibrand wholesale channel that was plus 1% at the end of the year, this was the result, and this was…and the increase was the results of the conversion of the 13 hard-shops that were in the multibrand channel before. And as of September the 01st, with the Fall/Winter collection, they now produce generate their revenues in the retail channel.

Let's now move on to the income statement. The revenue grows by 10.4%, was also combined with an increase of the First Margin, it was 15.6%. And then together with this, they were higher SG&A, plus 18.7%. And then apart from these dynamics, which will be then explained later, EBITDA grew by plus 8.4%, thus reaching €63 million with margins of 17.6%.

Before moving on to Slide 12, I would like to highlight the followings. Below the EBITDA line, so higher D&A increasing by 22.2%, with a weight that goes from 3.5% to 3.8% due to the major investments…commercial investments, and also to expand the Solomeo facilities. Then we have higher financial expenses from €1.7 million to €2.9 million inline with the growth trends of the average NFP during the period concerned a tax rate that is basically and amounts to 31.5% lower than last year but nevertheless in line with what we had achieved in the first quarters of the year.

Let's now move on to Slide 12 in our presentation. And let's now analyze margins that went up from…down sorry from 17.9% to 17.6%, with a significant increase of First Margin, plus 200 basis points and 330 basis points increase of operating costs.

The remarkable development of First Margin is inline with the trends that we already commented upon in the pervious quarters. So basically, it is the result of the channel mix evolution, the higher weight of retail on sales from 35.8% last year to 41.7%, then we have the costs related to the manufacturing of…men's suits manufacturing, following the acquisition of the know-how the D'Avenza factory. We have in-sourced the tailors working in Carrara. And this business line is now developed in-house, so it is accounted for in operating cost mainly personnel costs and it does not have any impact on the First Margin.

We'd also like to point out that if this work had been carried out by subcontractors in 2014 this cost would have been part of…would be account for above the First Margin. Therefore, we would have had a lower First Margin increase, compared to the actual one. Of course at EBITDA level, the shift from above to below the [indiscernible] of the First Margin there has no impact. As far as, the operating costs are concerned, the 330 basis points increase is driven by the personnel cost, plus 170 basis points and also rent costs plus 180 basis points as you can see in Slide 13.

The increase in personnel costs is driven by two main factors. First of all, the increase of the headcounts in direct monobrand stores, in the stores employee and office staff item, whether it is new openings or store conversion, and also for the direct management of the business in Japan. Secondly, the higher number of tailors following the acquisition of the D'Avenza know-how. And you can see now this accounted for in the item manual workers.

Let's now move on to rents, this increase is of course ascribable to the development of the DOS, because we went for 61 boutiques in 2015 to 71 boutiques at 31st, December 2014. In a scenario of growth and price increase of the real estate market especially of the most exclusive locations, we would like to point out other trends that impact the rent cost of our Company, besides the new openings and new conversions, in particular increases due to the relocation and expansion of some of the most important boutiques. We spoke about this in the previous conference calls. And then the renegotiation of expiring contracts, the opening of new showrooms like the Tokyo one and Shanghai one, and the relocation of the important New York showroom.

Moving onto Slide 14, we'd like to highlight that net of the personnel and rent costs, there is also a small operating leverage on the remaining operating costs moving from 19.9% to 19.7%, therefore reporting a drop. Within these costs, we'd like to point out the A&P costs are flat compared to vis-à-vis revenues, 5.5%.

Let's now analyze the balance sheet. In Slide 15, we point out the increase of net working capital amounting to plus €26.4 million with a weight on net revenues that goes from 22% to 27.4%. This increase in line with what we have said so far and previously is driven by the physiological and structural increase of our inventories, because there are three main factors impacting on it, the business developments of the direct monobrand store. We have 10 additional stores, five new openings and five conversions. Then we have the 13 hard-shops in the luxury Japanese department stores that went from the multibrand to the direct retail channel. And then we have a very strong boost in the men's wear offering with a number of models, because that went from 15 to over 60 models for men's suits.

There was a positive management of trade payables, receivables and other credits and debits. And in particular, some important cash-ins occurred in the last weeks of 2014. And this cash-in was expected at the beginning of 2015. So…and also the trade payables was very, very well managed and this basically supports the reliability of our partners, 0.50% of our revenues. In 2014, in terms of investment indicated, it was the third year of the multi-year project that we planned and we started in 2012.

In Slide 16, we see that CAPEX amounted to €39.7 million in 2014, €26.9 million in 2012 and €39.5 million in 2013. So three years of very major investments. So this year's €39.7 million can be broken down as follows, €22.7 million for commercial investments and we can call this a kind of ordinary level for a positive commercial development like the one we are targeting in order to support position and exclusivity of the brands. Then we have investment in headquarters and logistics, €10.6 million focusing on the…and expansion of the Solomeo facilities. These works were completed in 2014. It will be supporting and will be enough for our growth until 2017.

And then we have other investments at €6.4 million, €2.7 million of which relating to a very important four-year project that we already mentioned in the previous calls. And the aim of this project is to develop IT infrastructure and our exclusive presence on the web. And this will be implemented in the next three-year period, 2015-2017.

To conclude, net financial position as a result of the above reaches €42.6 million as of 31 December, 2014, against €16.1 million at 31, December, 2013.

Thank you for your attention and I would like to give the floor back to Brunello, and then you will have time for your questions.

BRUNELLO CUCINELLI: Yes, thank you very much, Brunello speaking. I'd now like to focus on 2015 and maybe also give you some colors on '16 and '17. But as I said before, 2015 we have collected all our orders, they are already there for a Fall/Winter. Collections were received…were welcomed with lots of appreciation. And we are always pleased with this, because apart from the orders of the multibrand stores knowing for sure that from June onwards, you see in our stores that will be closed; they have been very much appreciated both by clients and the press. It's really a sign of hope for the sales in our DOS too.

Another remark about Russia, because you see, as you know, we do not have any DOS there, but orders held pretty tight in for this type of product for Russian clients in the summer. And in the winter, we were able to achieve the same results and we think we are pretty…can be pretty satisfied with this, so good mood, good atmosphere. The like-for-like of the first two months of the year amounts to 4.6%, in line with expectations, full year expectation which is 5% for us because in the plans that we drafted also for the coming years, we'd like to report a healthy 5% like-for-like.

So as far as this year is concerned, and I can also speak for '16 and '17, we envisage a healthy double-digit growth in revenues. And we have always set exchange rates from the very beginning although 60% is in euro and 40% is in foreign currency, but we set exchange rates and this exchange rate fluctuation, we think it can impact between 1.5%, 1.7%, this can be the impact on our revenues.

We have an opening plan of nine DOS in major cities. They have all been secured. Tokyo, Monte Carlo, Vancouver, Ala Moana, Frankfurt, Düsseldorf, Houston, these are some of the names, so prestigious locations. So these locations will occur in very important cities, but I'd also like to mention another important thing, the new…the prices for rents in this prestigious locations, but you see they are very nice, but their prices are sky rocketing. I just want to give you…tell you one anecdote. We just renewed the contract of Madison from 1.4 million to 5.2 million, Hong Kong we renewed in November, December, you know that in…it last for three years in the…38%, plus 38% in three years.

But what I'd like you to remember is that we have carried out a survey on the prices of these rents, these beautiful streets from 2002 to today. Milan 4.7 times, Rome 4.6 times, Los Angeles 3.1 times, New York 2.9, Shanghai 5 times, Paris 2, London 3 times. So just to tell you that in these particularly beautiful streets where our boutiques are positioned, well, rents represent quite a high…they have quite a high price because there is really a rush in order to be able to secure these locations. So in 2015, we will have a cost increase that is more than proportionate than in 2014 in terms of rents.

So this year, we had 17.6% EBITDA of revenues, but for next year we envisage EBITDA around 17% of revenues because of this very high increase of rents worldwide. There is a slight operating leverage, but this rents cost actually offsets, you see, and goes a bit beyond what we were expecting. We are an upper apparel company, you know, accessories represent just over 15% of our revenues. We believe in accessories obviously, but as we were stated in the Board, we want to be a real apparel company.

This year, CAPEX €35 million, part of which for this IT platform which will happen partly in 2014 then 2015, 2016, and 2017, and at the end of the year our NFP should be between 13% and 14% of revenues. So if we take a look at the coming years, we think that we can definitely support a double-digit growth of revenues in sales. We think that this 17% of EBITDA could increase slightly a little bit. Thanks to some operating leverage.

As far as CAPEX are concerned for 2016 and 2017. As we think, we will go back to normal around €25 million per year, and as a result, all this should lead us…should drive us to a situation where our NFP at the end of 2017 should be around 8%-9% of our sales.

So to conclude, I'd like to say that we believe that this can definitely be a very, very important year, honestly speaking for our company because we have felt a strong important push for the lifestyle that we were able to create. You see, we do not want to convert the business to the direct channel in other countries in Russia or the like.

As far as the project for beauty that you might know, where for a couple of months ago we basically allocated in the market a few points of shares to finance this project. We will be completing 70% at the end of the year and in May/June 2016; it should be completed fully, entirely. It is a pretty important commitment for our families' foundation. But I'd like to say, that we believe, that it can be as important in terms of guarantee…a sort of collateral for the development of our Company. If I see my company in 30 years time, I'd like to think that this company basically expands and develops in this very same valley, of course, complying with the rules of the territory.

We'd like to convey to you, the facts, that we wish without…we work without anxiety. We try to keep an ear and feel the pulse of the market. We think that we were able to create a typical recognizable Italian Cucinelli taste. And in the future, we believe that this could offer pretty many opportunities to us, because you know, that once you have established the brands you can further develop it. And we are not absolutely saying today that we are about to venture into Fragrances of eyewear.

But what we wanted to establish was the brand, further it was recognizable in the Italian lifestyle, because once you have that settled then it is easier to envisage a growth, but always within the boundaries of one single brand positioned at the very high end of luxury that you see how life has its routes in an Italian manufacturing company of luxury ready-to-wear. Then the proportion men's wear, women's wear is always two-third women's wear and one-third men's wear. Although, in terms of number of SKUs, it's 40% men and 60% women; but the value of women's wear is slightly higher. Therefore it reaches two thirds.

I'd like to now say goodbye to you, and thank you for all the attention that you bestow upon us. We should try and never change anything in our relationship with our clients, with the entire world, and we try and convey serenity in work and respect for the human being for the community and for everybody, because in the long run, I think that this can definitely be an important step. The last remark, I think that the territory is becoming increasingly important, and this is what we are working on with foundation. Of course, this is not something to do with the listed company just with the private foundation.

Now, we open the floor for questions.