

Moncler S.p.A

"First Quarter 2018 Interim Management Statement Conference Call"

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SPEAKERS: **LUCIANO SANTEL, CHIEF CORPORATE AND SUPPLY OFFICER**
PAOLA DURANTE, INVESTOR RELATIONS AND STRATEGIC
PLANNING DIRECTOR

OPERATOR: Good afternoon, this is the Chorus Call conference operator. Welcome and thank you for joining the Moncler First Quarter 2018 Interim Management Statement Conference Call. After the presentation there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Ms. Paola Durante, IR and Strategic Planning Director of Moncler. Please go ahead, madam.

PAOLA DURANTE: Thank you. Good afternoon and good morning everybody and thank you for joining our call today on Moncler's Q1 2018 interim management statement. As usual, for Q1 and Q3 the call is hosted by myself and by our Chief Corporate and Supply Officer, Luciano Santel.

Before commenting on our revenue results for Q1, I need to remind you that this presentation may contain certain statements that are neither reported financial results nor other historical information. Any forward-looking statements are based on Moncler's current expectations and projections about future events and are subject to risks and uncertainties that could cause results to differ even materially from those expressed in or implied by these statements. In addition, let me remind you that we have invited members of the media to participate in this conference in a listen-only mode.

Moving now to Page 3 of the presentation, let me just make two comments. In the first three months of the year, Moncler posted another strong set of results. Consolidated revenues were up 28% at constant exchange rates with all regions growing double-digit and impressive results achieved in particular by the retail channel.

As you know Q1 benefited from three extraordinary positive factors: a longer and therefore also stronger Chinese New Year, a cold and a little bit longer winter season and anticipated Easter. These three factors should be considered as extraordinary. Before going into the details, let me also remind you that as usual, I will comment looking and considering constant currencies performances.

Let's move to Page 4; revenue breakdown by distribution channel. Both channels showed strong performances. In particular, retail sales rose by an outstanding 35% driven by exceptional organic growth and by the contribution of new space. All regions contributed to this organic growth with APAC and the Americas being the best performers.

Wholesale also performed well driven by the Spring/Summer Collection good results in outerwear, but also in adjacent categories and by the newly opened shop-in-shops. Wholesale results have been particularly strong in North America, China, UK and Germany. Let me also comment that our e-commerce posted a good double-digit growth in both channels.

Moving now to Page 5 of the presentation: revenue breakdown by region. In Q1 global expansion continued with international markets growing 31% and accounting for 87% of total revenues. In the quarter also our domestic market reported a sound and solid double-digit growth.

Let's now move to the following pages for a detailed analysis. Page 6, we start with a focus on EMEA including Italy. Europe and Italy combined reported a solid 16% growth. In EMEA, we continued to see excellent performances in France, UK and also in Germany, all growing sound double-digit, driven by local demand and travelers. Italian revenues achieved very good results, largely driven by the retail revenues which

have also benefited from the enlargement of the Montenapoleone store and the opening of a new DOS in Florence, both openings occurred in 2017.

Talking now about Asia, Page 7, which as, you know, includes APAC, Japan and Korea. Asia recorded an outstanding 39% growth with China's Mainland and Hong Kong being the strongest performers. We are extremely happy with the results of our flagship store in Hong Kong Canton Road; in any event, all stores in Hong Kong had showed excellent results. Also Japan and Korea continue to post sound double-digit growth largely driven by organic performances.

Moving to Page 8; looking now at the Americas. Revenues in the Americas increased 34% with similar performances in US and Canada. Both distribution channels posted double-digit growth, retail business has been driven by sound local demand and improved presence of travelers and the more favorable weather conditions. Wholesale business has been supported also by very good sell through results, both in Fall/Winter and Spring/Summer.

Finally, let's briefly comment on our store network. At the end of March our retail stores reached 205 units. In the quarter, we opened four locations including our flagship store in Dubai.

We confirm that we have some further 11 locations secured for 2018, therefore total new openings this year should be around 15 DOS with a similar number of expansions/relocations some of which being very important.

As, you know, in fact we are all working on some important enlargement and relocations, the two most important are New York SoHo store, which will be a flagship and the New London Sloane Street store. In addition,

we confirm we should open at least 15 new shop-in-shops in 2018 in the wholesale business, including some important locations in airport. One, Munich, has already been opened.

I hope we gave you a good overview on our revenue results. I will now leave the floor to your questions that Luciano and myself will take. Operator, can you please open the Q&A session.

Q&A

OPERATOR: Excuse me. This is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Antoine Belge of HSBC. Please go ahead, sir.

ANTOINE BELGE: Yes, hi. It's Antoine Belge at HSBC. Three questions, if I may. First of all, with regard to the 35% stellar growth in retail, I think you had guided to a low double-digit contribution from new stores this year. So what is the case in the quarter, I mean, and then the like-for-like would have been above 20%? Second question, I think you mentioned, you know, three external factors that boosted the performance is there a way, and I know it's difficult, to may be quantify this effect? And thirdly, when there is such stellar growth probably ahead of your expectation, especially maybe because of the long winter, is it going to translate into operating leverage, or are you going to find ways of reinvesting that into some of your initiatives that you highlighted at the Capital Market Day? Thank you.

LUCIANO SANTEL: Thank you, Antoine. About your first question, mathematically you are right; we don't report our comp, our like-for-like. But as you stated our space growth expectations in the first quarter were in line with our expectation, that is in a low double-digit growth rate. So the consequence

is that our comp was very, very good...very good and much better than what, of course, we originally planned and expected.

With regards to the three factors, it is very difficult and quite impossible to tell you how much each factor was.... I think that, I mean, there is a fourth factor that is important to highlight and which makes us very, very happy which is the strength of the brand that was still the most important driver, and what makes us confident for the future of course. But, among the three extraordinary factors, I think that the cold and long winter probably has been the most important one. And the second, for sure, was the timing of the Chinese New Year that this year, much better than last year was particularly favorable for Chinese traffic.

PAOLA DURANTE: The third question was operating leverage.

LUCIANO SANTEL: We confirm that an important component of our growth rate in retail was the organic growth, that, you said correctly, may have an important impact on our operating margins. So of course it is still definitely very, very premature to anticipate our operating margins. But for sure, as you said, a good portion of the margins we may develop will be and are being invested in the organization, and, of course, in our A&P budget. A&P, this year more than ever, which is the year of Genius, we are planning to invest a lot in communication for this Genius project. As we already said, for sure our A&P budget this year will be on a percentage basis not lower than the 6.7%, and much closer to 7%, most likely. And so this year our A&P expenses will be very high, but again the project is extremely important for the brand.

ANTOINE BELGE: Many thanks, just a quick follow-up; I think you mentioned e-commerce up strongly. And was the growth of e-commerce above the 35% retail growth?

LUCIANO SANTEL: E-commerce grew double-digit, very good double-digit. And totally in line with our growth rate in retail. So I mean, we are happy Antoine, but we also believe and we also aim to do better, but in any event the growth rate of our own online business was consistent with the average of retail.

ANTOINE BELGE: Thank you very much.

LUCIANO SANTEL: ...and I mean, I don't know if the question was also about our online business with the wholesale e-tailers, but that was very good, very good too, and again, very good double-digit growth rate.

ANTOINE BELGE: Thanks a lot.

OPERATOR: The next question is from Janet Kloppenburg of JJK Research. Please go ahead.

JANET KLOPPENBURG: Good evening everyone and thank you for taking my question. Congratulations on great sales numbers. I was wondering, if you could talk a little bit about the components of the like-for-like increase, perhaps if price or product mix had a factor of any significant effect that you could talk about? And also, I know that you are opening about 15 stores and relocating a similar number. I'm wondering, if you could give us an idea of your square footage growth outlook for this year, because I think it's accelerating. And what the relocation opportunities, in terms of size are as we look forward? And lastly, I was wondering, if you...given the strong comps like-for-likes that you recorded, if you could give us a picture on current trading trend. Thank you.

LUCIANO SANTEL: Okay. And Janet, thank you for your question. The most important of our comp growth was volumes about two-third, and one-third was the price.

And important to highlight that the increase in price was driven by price mix and also by the fact, of course, I am talking about only three months, only one quarter, but in this quarter, our Fall/Winter products' results were very strong because of the reasons I told before and you know very well. I mean, the weather was cold.

JANET KLOPPENBURG: Yes.

LUCIANO SANTEL: And as I said, volumes still represent two-third of our organic comp growth.

And about the new openings, in our pipeline we see about 15 new stores. One important was opened in the first quarter at Dubai Mall. Another important because it is the first store in Norway will be the store in Oslo. Another store that will be the first store in Mexico, in Mexico City, that is expected to be opened in the second half of the year. Another one in San Francisco, at Bloomingdale's, which is the first concession store in a US department store. And then another one that is expected to be a flagship store, will be our second store in Singapore in Marina Bay Sands.

So these are the most important openings of the year, but again this year, as much as last year, I would say that the most important projects are under the relocations and the expansions projects. We have two important relocations I want to highlight: one is in New York - SoHo, where we're relocating our existing store still in Prince Street but on the other side of the street, in a much bigger space, the former J. Crew store. And the other important location will be in London in Sloane Street. And then many others, one in Copenhagen, which is not a big city, but honestly very important for our business, where we're relocating the store to a much bigger location, but also much better location. The expected space growth, which is our rule of thumb, our guideline, is still in the region of low double digit.

JANET KLOPPENBURG: Okay.

PAOLA DURANTE: Thank you.

JANET KLOPPENBURG: And just on local, on current trends....

LUCIANO SANTEL: Yes, current trading... April is doing well, honestly, but I can say back to normal. In April, all the regions are performing pretty well, some better than others, honestly Europe worse than others, but I think that Europe is impacted by the Easter timing that helped our business in March, and to some extent is impacting our business in the first couple of weeks of April. Overall, we're doing well, but again back to normal.

JANET KLOPPENBURG: Okay. Thank you so much. Congratulations.

LUCIANO SANTEL: Thank you. You're welcome.

OPERATOR: The next question is from Piral Dadhania of RBC Capital. Please go ahead.

PIRAL DADHANIA: Hi, good afternoon, Paola, Luciano. I was just wondering with one month to go until the launch of Genius whether everything is in place there and whether you could give us an update as to how planning is going for that and anything else, we should be obviously as we start to preview the second and third quarters for the year? Thanks.

LUCIANO SANTEL: Yes. You're right. I mean the first drop of Genius is coming shortly, we are very anxious and excited for the first drop, that will be Fragment designed by Hiroshi Fujiwara, and the date is June 14th. All the machine is working very hard to make it happen, everything is doing well. We are expecting that this date will be important, because it will be the first drop

and also probably one of the most significant from the commercial point of view, because Fujiwara/Fragment is more street-wear design and less conceptual than other collections.

Needless to say, it is strategically a very important project for the brand. But, as you may know, the volumes we plan to develop under this project are not so material. For this project, also the results of our campaign were very, very good. But, in any event, the amount of business we plan to develop under the Genius project is not particularly significant, as compared to the rest of our business. But strategically, from the design, from the product, from the brand and from the communication point of view, this is an extremely important project. And we will keep you updated.

PIRAL DADHANIA: Brilliant. Thank you.

LUCIANO SANTEL: Thank you.

OPERATOR: The next question is from Paola Carboni of Equita SIM. Please go ahead.

PAOLA CARBONI: Yes hi, good afternoon everybody. I have a question more on your organization, let's say, so I am really impressed by the fact that you delivered such a strong organic growth in spite of you keep saying that you plan your business with the 5% same store sales growth. So I am joking now, but just to understand how further you went in terms of replenishment capacity and the overall organization of the supply chain? Thank you very much.

LUCIANO SANTEL: Yes, Paola thank you for your question. I mean you're right, with such an important organic growth, we may run the risk to run out of inventory; actually our inventory position is very low for the Fall/Winter season,

because most of our performance in the first quarter was driven by the Fall/Winter season, our inventory was very low, I can tell that our sell-through, which is one of the most important metrics we look at for the retail business, was probably one of the best ever. Of course, this makes us happy, but you are right, we plan our business with a mid single-digit growth and by delivering much higher comp, we may run this risk.

Honestly, considering the results, considering sales we delivered in the first quarter, I think that, our retail machine worked very well, very efficiently. Talking about auto replenishment, you touched a very important point, because our auto replenishment system did very well and permitted us to allocate products very efficiently to the stores that, more than others, needed other product. Another important point is that our supply chain, I can't tell you that is very flexible, but is getting better and more flexible. And so, we keep adjusting, not every week, but for sure every month, we keep adjusting our inventory plan, right now for the upcoming Fall/Winter season, because we are in the mid of the Spring/Summer season, and we keep adjusting our plan based on the current trend. So I think that the machine behind the business is not perfect, but it is getting a little bit better, and so, I mean honestly we are not worried about this.

PAOLA CARBONI: Okay. Sorry, just a follow-up, if I may. I don't know, if I missed during the quick presentation at the beginning. Can you elaborate a little bit on the performance by category and also within outerwear, much of this impressive Q1 performance was driven by kind of evergreen items and how much instead from your more seasonal items? Thank you.

LUCIANO SANTEL: As for the performance by category, we keep seeing a trend which is not sharp, which is not fast, but a very consistent and very continuous trend of a slight decrease of the outerwear contribution, and a correspondent

increase of our adjacent categories contribution, specifically, as you know, our knitwear and cut & sewn. Of course, knitwear more in Fall/Winter and cut & sewn more in Spring/Summer, but this trend is something that we constantly see in all seasons, in last Fall/Winter, and in the current Spring/Summer season. About the contribution of evergreen or permanent products, I mean, it is still in the region of one-third of our volumes, as much as, in the past, not more, not less.

PAOLA CARBONI: Okay. Thank you.

LUCIANO SANTEL: Thank you.

OPERATOR: The next question is from Melanie Flouquet of JP Morgan. Please go ahead.

MELANIE FLOUQUET: Yes, good evening. Thank you for taking my late question...sorry. I was wondering whether you could help me understand usually by the end of the Fall/Winter 2017. How much inventory of Fall/Winter would you have for the next Fall/Winter? And, you know, how far do you commit on your inventories for the Fall/Winter collection of 2018-2019. Thank you.

PAOLA DURANTE: Sorry Melanie, do you mean how much we have in terms of leftovers

MELANIE FLOUQUET: Because, you are commenting that you have particularly low inventory in the Fall/Winter collection at the end of the season, because you had an amazing collection, that means that you are carrying usually some evergreens already in your inventories for the next Fall/Winter, I imagine. So usually how big is that component and can you just comment from a production standpoint if you need it to towards the end of the year.

LUCIANO SANTEL: Yes, the leftover is the other face of the coin of our sell-through. So first all, our Fall/Winter sell-through was as I said before very strong, probably the best ever. As you may know, we plan our business with a sell-through of 70% which is very good. We normally make it, maybe a little bit less, maybe a little bit more. This year Fall/Winter 2017 was definitely more than 70%, that means that the 30%, which this year was less than 30% leftover, will be carried over to our outlets. For this season, of course, part of the leftovers as you stated is related to permanent or evergreen products, not that much honestly, because permanent...on evergreen products is the category we make more efficiently through our auto-replenishment system. That allows us to deliver and to produce everything, but only what we need in the stores. And so, even if that leftover is good, because it can be carried over the season after, normally is very low, and it is much lower than the seasonal product. I am not sure if I answered correctly your question, but please if I don't ...

MELANIE FLOUQUET: No, you have... So in effect, you have a low level of leftovers, but mostly for outlets?

LUCIANO SANTEL: Yes, I mean this may be not be good for outlets next year honestly, but we prefer these results than the opposite, as you know.

MELANIE FLOUQUET: Yes, perfect. That's all clear. Thank you very much.

LUCIANO SANTEL: Thank you.

OPERATOR: Mr. Santel, there are no more questions registered at this time.

PAOLA DURANTE: Okay. So thank you very much for participating. Just to give you a quick reminder of the upcoming release. First half results will be published on July 25, a conference call will take place on the same day and our quiet

period will start on June 26. For any follow-up call or question that you might have, feel free as usual to call both Anna Rita and myself and for those based in the UK, we wish you a good bank holiday on Monday. Thank you and talk to you very soon. Bye.