Moncler S.p.A

"Full Year 2019 Results Conference Call"

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OPERATOR: Good evening. This is the Chorus Call conference operator. Welcome, and thank you for joining the Moncler Full Year 2019 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

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

PAOLA DURANTE: Thank you, and good afternoon, everybody. Thank you for joining today's call on Moncler Fiscal Year 2019 Results. First of all, as usual, let me introduce you to the executive team on today's call. We have here with us, our Chairman and CEO - Mr. Remo Ruffini, Luciano Santel – Chief Corporate and Supply Officer, and Roberto Eggs – Chief Marketing and Operating Officer.

Before starting the presentation, 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. By their nature, forward-looking statements are subject to risks, uncertainties and other factors that could cause results to differ even materially from those expressed in or implied by these statements, many of which are beyond the ability of Moncler to control or to estimate. I remind you that press has been invited to participate in this conference in a listen-only mode.

I'll now hand over to our Chairman and CEO – Mr. Remo Ruffini.

REMO RUFFINI: Good afternoon. 2019 has been another extraordinary year for Moncler. Another year of double-digit growth in all economic and financial indicators. Revenues grew by 15% at current exchange rate, exceeding € 1.6 billion with an EBITDA margin above 35%, while our net cash continued to climb reaching 663 million euros.

Today, I was ready to talk to you about our many achievements and our plans for the future. But in the last days we had to face a new and unexpected scenario. That's why during this call, I want - I believe I have - to focus on how we are managing the current situation.

First, and more importantly, let me say that our love and care go to China and to our people in the region. We trust all the significant and urgent measures that have been put in place to rightly face this health emergency. Our first concern has been to protect our people. At the same time, we immediately started to act, at all levels, to protect also our Company. Organisations should be valued for their capacity to react quickly to changing scenarios even when these are completely out of their control. This, I believe, is one of the most important asset of Moncler.

Since we start our journey, I wanted Moncler to be based on a solid, long-term vision, while knowing that strategy has to be flexible and to evolve. This is driving our decision. We understand that the current situation would recover eventually at a speed that can be even faster. But today, it is impossible to forecast how long it will last. In Moncler, we have already put in place a clear contingency plan in all divisions. We have started to postpone some costs and investments while focusing only on projects essential to further consolidate our Brand.

In addition, everything we have done in the past can further help us today. We have continuously worked on our Brand, leveraging on our unicity while evolving through innovation and creativity. Moncler can engage with its client using their language: Genius has taught us how to do so.
We have developed a selective, high-quality and profitable network of stores. We can rely on excellent, passionate people: we are a never-ending start-up. Last, but not least, Moncler has almost € 700 million of net cash in its balance sheet.

Moncler is an ever-evolving company, we never stop while always remaining true to ourselves. We must continue on this journey backed by the support of all our stakeholders, and above all, with the contribution of our 4,600 extraordinary people. Their energy is unique. It is powerful. It gives me the strength and total confidence that Moncler can face the situation and become even stronger.

Let me now leave the floor to Roberto and Luciano for more comments on our results. Thank you.

ROBERTO EGGS: Thank you, Remo. Let me come back to the key highlights for the FY 2019, starting by revenues. Revenues grew by 13% at constant exchange rate and 15% reported, reaching 1.627 billion euros. Retail revenues grew by 13% at constant exchange rate, reaching 1.257 billion euros, with a comp growth of 7%, with solid results in all regions. Wholesale revenues recorded double-digit growth, +10% at constant exchange rates, reaching 371 million euros. EBIT reached 475 million euros, with a margin on sales of 29.2%, exactly the same that we had in 2019. Including IFRS 16 application, the result would have been equal to 491.8 million euros, with a margin on sales of 30.2%.

Net income reached 361.5 million euros, +9% compared to FY 2018, +16%, normalizing the one-off tax benefit recorded in 2018. Including IFRS 16 application, net income reached 358.7 million euros with a margin on sales of 22%. Finally, as stated by Remo Ruffini, net financial position reached 662 million euros of net cash versus 450 million euros of last year, which is an increase of 212 million euros. Including IFRS 16 application, it amounted to 23.4 million euros of net cash.

Let me now comment the revenue breakdown by region. In FY 2019, Moncler continued to show outstanding results, surpassing 1.6 billion euros, as mentioned before, +13% at constant exchange rates, with double-digit growth in all regions. Also in Q4, Moncler reached an excellent 13% growth, which is completely aligned with the results we had during the first three quarters of the year.

During the FY 2019, Italy recorded a +10% growth with an important acceleration in Q4, +21%, driven by the retail channel. EMEA results grew +14% during the FY 2019 with a strong performance in Q4, +19%, led by U.K., Germany and France, but also Austria, Switzerland, Benelux and Nordics that reached all double-digit growth. Asia and Rest of the World rose by a good +13% in the year, +9% in Q4, notwithstanding the negative performance of Hong Kong and Macau. Mainland China and Korea led the growth. Americas delivered good performance in all markets and in both channels. Revenue rose by +11% in FY and +11% in Q4.

Looking at the split between wholesale and retail, the balance between retail and wholesale remains at 23% for wholesale and 77% for retail thanks to the double-digit growth of the wholesale channel. As already mentioned, we had a very good results in retail with a 7% comp store sales growth. E-commerce continued to strongly outperform doubling the growth of the retail channel. Wholesale grew +10% thanks to the airport openings, the e-tailers performance and also the shop-in-the-shop openings.

If we look at our retail network, we reached 209 stores at the end of 2019 compared to the 193 in 2018, with 16 new openings. We managed to open the 10 stores we had in the plan during Q4 and also the 4 that were planned for the month of December. We opened Val d'Isère, Beijing Shin Kong Place, Shanghai ONE ITC and one flagship store in Osaka. For 2020, around 15 new DOS are secured.

Concerning wholesale mono-brand stores, we reached 64 locations compared to the 55 we had on 31 December 2018. We opened 2 wholesale mono-brand stores in Q4, one in Cambodia with DFS and other one in Munich with Oberpollinger.

Let me hand over the microphone to Luciano Santel.

LUCIANO SANTEL: Thank you, Roberto, and good evening, everybody and thank you for attending our call today. We are now at Page 10.

On page 10 we report our income statement under the new IFRS 16 application and the comparison with the statement before the application of the IFRS 16. The new IFRS 16, as you know, changes the way companies recognise their lease obligations. Consistently with what we did during the presentation of the first half of the year, we will comment our financial results excluding the application of the IFRS 16. If you have any questions later, we will be more than happy to answer. But now we are making comments on the income statement before the application of the IFRS 16 on Page 11.

Top line 1.6 billion euros, already presented in detail by Roberto, +15% as compared to last year, with a very remarkable gross margin of 77.7%, better than the last year thanks also to the expansion of our retail business, notwithstanding the negative impact on our results of the Hong Kong situation that impacted in Q3 for about 10 million euros, about 20 million in Q4 for a total of about 30 million. Not to say that the gross margin is still very healthy.

Selling expenses are good and substantially in line with last year, higher on a percentage basis, but simply because we have expanded our retail network and with a minor negative impact of about 1.5 million euros due to rent costs associated with the stores that have not been opened yet (two very important examples Milan Galleria and Paris Champs-Élysées).

G&A 9.1%, substantially in line with the 9% that we reported last year. They include the important work to make our organisation stronger in all the different fields of our business. Marketing expenses are 7%, totally in line with last year, with our plan and guidance. Stock-based compensation, same amount as last year, but with a lower impact, 1.8% on revenues. And EBIT margin of 29.2%, exactly the same margin that we reported last year.

Below EBIT, we have to comment taxes. As Roberto already commented at the beginning of this presentation, tax rate is higher than last year but lower than what we expect for 2020 because in 2019 we still report a positive impact of the Patent Box that in 2018 was even higher. The different timing impact of the Patent Box is the only thing that makes our net income higher than last year, 9%, but not as much as it would have been without this different timing. Bottom line, EBITDA adjusted is remarkable, 35.3%, even a little bit higher than last year. So a very good set of results.

Page 12, CAPEX is pretty high, significantly higher than last year as planned and as expected and already communicated to the market, because of the expansion of the retail network, but also because our infrastructure CAPEX (or as called before corporate CAPEX) are growing more and more because of investments in our information technology platform, because of the expansion and the automation of our logistics centre in Italy and not only and the important e-commerce project implemented in Korea started in June of last year.

Page 13, net working capital, 7.9% compared to last year 7.3%, slightly higher but still very good. Very strong credit control. Very good inventory management notwithstanding the situation in Hong Kong that impacted our top line, but also the amount of our inventory.

Page 14. We report a net financial position, as Roberto and Mr. Ruffini said, equal to 663 million euros before the application of the IFRS 16. After the application, it's still positive but much lower. It is at 23.4 million euros cash. I would say a very good number.

Page 15, balance sheet. Nothing to say unless you have a question.

Page 16, cash flow statement. Cash flow statement, as you know, is a summary of the most important business results. The first one is the very good EBITDA of 575 million euros. The other numbers that are worth to comment are: CAPEX, significantly higher than last year and the line change in other current and noncurrent assets, which is the real difference against last year. Last year was 48 million euros positive, this year is 24.9 euros million, mostly due to the Patent Box impact told before. This is the reason why our free cash flow, equal to 340 million euros, is still very good, lower than the 362 million euros we reported last year. This is the only reason of this small decrease.

Okay. I don't have any comments now. We are all ready now for your questions. Thank you.

Q&A

OPERATOR: Excuse me. This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pickup the receiver while asking questions. Anyone who has a question, may press "*" and "1" at this time.

The first question is from Susy Tibaldi with UBS. Please go ahead.

SUSY TIBALDI: Good evening. Congratulations for another great set of results. My first question was on China and the impact of this virus. As you said, it's really hard right now to still quantify what the impact would be for the full year but, I wanted to ask if you can maybe give us some colour on what you are seeing in the first month or first few weeks of this issue? So, did you have to close some stores? How many? Are you reducing your operating hours? How much is traffic down, etc? Can you give some detail on the costs and investments that you're postponing? Are you sort of taking similar measures of what you were doing in Hong Kong when the protest first started? Are you are sort of switching off the advertising spend or is this case a bit different? Is the e-commerce is helping? So, any colour that you can provide there will be super helpful.

Secondly, on the stores expansions. So, you have secured 15 locations for 2020. I wanted to ask a little bit more, maybe longer term. Given that all of the luxury players right now are trying to relocate stores, expanding, etc, do you think that potentially in the longer term, it could be more and more difficult to secure really prime real estate space?

And thirdly, you have mentioned a few times that you're sort of accumulating more and more cash given the exceptional results. Do you have any colour that you can give on your plans potentially for this cash? If there's anything on your radar or if you're planning to do maybe another small buyback? Anything will be great. Thank you.

ROBERTO EGGS: I'll start. Good evening Susy, this is Roberto Eggs. Let me start with China. I'll give you some more qualitative highlights and let maybe Luciano then comment on the financial impact.

Let me first start by saying that we had a very good start of the year in all markets until the 23rd of January. As you know, on the 24th of January, the coronavirus was discovered or it was announced in China and closing some of the malls was an immediate measures taken by the Chinese government. We have seen immediately a very strong impact in Hong Kong, Macau, Singapore and China. In China, we have closed one-third of our network, so 14 stores and in the ones that are open, we have seen a decrease around 80% of the traffic in the stores, with a similar decrease in turnover for the Chinese markets. We are following the guidance of the

Chinese government. And as soon as there is the possibility to open store, we will reopen them.

We had an impact also in Korea, where for a few days last week, we had 5 duty-free shops closed. And again, it's not a Moncler decision, but it was a department store decision to close. Similar for China. The 80% decrease of the traffic, told before, has been contemplating in the mall, not only in Moncler store. We have decided to postpone some of the investment on the Chinese market. We had 3 relocations planned that have been postponed to hopefully beginning of 2021 and also 2 new openings that have been postponed.

Concerning advertising, I will say that now for the time being, this part of the spend that we had in China is more freeze and postpone to the second half of the year. We are monitoring closely what is happening. And we are, of course, ready to react very fast.

Concerning the e-commerce, the issue for the Chinese market is that, for the time being, for the last 2 weeks, we have seen also issues on the logistics of the Chinese market. So it's not only us, but all the e-commerce in China has been slowing down because of some logistics center being closed.

Regarding stores expansions, it has not been too difficult so far to secure our 15 DOS. We had a plan that was slightly higher this year, but linked to what is happening on the Chinese market, it was postponed. But for us, there is still a lot of possibility to open because there are markets where we are still not present. We are going to open our Spanish market in retail. We are going to open Ukraine in retail. We have secured also the largest store of the network that will open during the last quarter of the year in

Paris, in the Champs-Elysées that is going to be by far the largest store that we have in the world.

LUCIANO SANTEL: Hi, Susy, this is Luciano speaking. About the financial impact of the current situation in China, I can tell that the business impact over the past 2 weeks has been very serious, as Roberto said. I also believe that any extrapolation of the current trend would be very imprudent. So, I'm not going to tell you what we may expect for the year-end, but not even for the end of the first quarter because the situation can change. But, just to give you a fair and transparent picture as we speak, the situation is critical.

We have started exactly after the outbreak to take important actions to cut expenses. Our expenses are 99% important for business, but some of them are more important than others. And as a management team, together with Mr. Ruffini and Roberto, we started a plan to reduce and/or postpone some expenses and some investments, in order to protect our margins. We are acting on our stores expenses, on our rents. The same we did in Hong Kong, even if Hong Kong landlords are less open, at least were a few months ago, to discuss about rent reduction compared to the landlords in China that are totally cautious of the current situation. So we are acting on several different fields. We are doing the same for our CAPEX plan that is very ambitious, very important, but right now we are setting priorities. We are giving priority to some projects that we believe are essential for the Brand first and for the business.

About cash. Yes. I thought you asked a question about potential M&A. We have almost 700 euros million cash and, now more than ever, we are very happy to have cash and not to have debt. We don't have any specific plan for buyback. What I can tell you is that we are proposing to the shareholders meeting an increase of our dividend pay-out ratio, that was

$0.40 last year, and this year it will be increasing at $0.55. We don't have any plan to implement a buyback, also because it was normally strictly instrumentally implemented in the past to buy shares needed for our performance share plan.

About merger and acquisition, we don't have any file, any dossier on our desk, but as we said in the past, we are open to look at eventual opportunities. We don't see any now, but we are open to look at opportunities eventually in the future. Thank you.

SUSY TIBALDI: Thank you.

OPERATOR: The next question is from Oliver Chen with Cowen and Co. Please go ahead.

OLIVER CHEN: Hi, thank you. Regarding the contingency plans and your proactive planning, what are your thoughts around inventory management? And what you can do around inventories and the seasonal nature of some of the inventories to read and react to the evolving situation? Second question is on U.S. wholesale. U.S. wholesale has been a tougher market. What are your thoughts about sales trends in sell-in versus sell-out? And how the U.S. wholesale market has trended? Has it been somewhat promotional and there's also price matching? Thank you.

ROBERTO EGGS: Okay. I think the answer on the inventory will be a shared answer between Luciano and myself. We have been quickly reacting on the buy that has been planned for the end of the year and we have been working on giving us some flexibility to manufacture according to the way the sales are going to evolve. It is something that we are monitoring.

Regarding the current season, the spring/summer started very well. We had also a very good month of January. Requests are also coming from the wholesale market because, at the beginning of January, we were with some points doing better than in 2019. We need to see now also how this China coronavirus will affect the sales. But so far, the spring/summer season is doing well. We have freeze some of the shipments that were planned for the Chinese market and redirected the merchandise that was planned for the Chinese market, for Macau and Hong Kong to some other regions, especially in Europe, where the performance is currently good.

Regarding the wholesale in the U.S., 2019 has been a good year, supported by the fact that we have been rationalising the approach on the North American market. We have also completely reviewed where the buying was done. And let me say that we have retailised the approach on the wholesale market with a more qualitative approach in terms of buying and a slightly different balance between permanent and seasonal products. Strong support, in terms of training, is given for the people in our shop-in-the-shop. And so far, the performance has been good. Even if there is always a lot of volatility on this market, so far, so good. We have also started the retailisation in terms of conversion of some doors in the U.S. market. So the base of comparison between 2019 and 2020 will slightly change as we are starting now the conversion of Holt Renfrew in Canada and also Bloomingdale's into concession. We have started now to convert some of the doors into retail operation.

OLIVER CHEN: And our last question is about sustainability. You've been a leader in this movement. What are your thoughts longer term with what you're seeing with re-commerce and circular economy? How Moncler may participate in what we are seeing, which is a lot of growth at different levels in the circular economy. Thank you.

LUCIANO SANTEL: We are looking very closely at how the market is changing. We are implementing projects on the circular economy, giving the to our customers the possibility to return their product. This is something that we are working on. We are looking with much attention to the business impact on this, for example, on business players, like, RealReal. I think that it is an important field of attention of growth. It is something for which we have not make a particular business plan on this, but it's something very important to look at.

ROBERTO EGGS: Maybe just some more colour to the answer. In the past 2 years, we have been working a lot on the repair of our jacket because there was a strong demand from consumers that were coming with jackets that were 10/20 years old, and they wanted to still wear these jacket because of the emotional link to the product and to the jacket. We have been investing a lot in the past few years. It's something that we have not really been advertising, but we have now repair centres in all our regions that are fully equipped also to extend the life time of our products. And as you know, on another tone, this is also linked to the circular economy. We have been launching our first bio-based jacket and recycled jacket in the last quarter of the year that have been very successful.

OLIVER CHEN: Very helpful, congrats on your results. Thank you, best regards.

OPERATOR: The next question is from Antoine Belge with HSBC. Please go ahead.

ANTOINE BELGE: Good evening. It's Antoine with HSBC. 3 questions; first of all, I'd like a clarification of what you said about the store opening plan. I think you mentioned 15 and then you mentioned 2 in China being postponed, and then you mentioned other opportunities as well. So does it mean that the

15 goes to 13? Or does it mean that it remains 15? Are you going to find 2 location outside of China?

My second question relates to the Genius pipeline. Without the impact of the virus, how was the sort of schedule? And how it will be different from previous years? To what extent, if there is no improvement on the virus situation, this could impact the Genius pipeline for the remain part of the year?

And finally, going back to the question of having a lot of cash and also potentially buying brands. At the end of last year, Remo published a press release after we had talks about a potential tie-up with Kering. So could Remo elaborate a bit on that? And when he is talking to other operators in the industry, what's the idea? And what such a tie-up could bring to Moncler? Thank you.

ROBERTO EGGS: Antoine, on the first question regarding the opening. We had 17 openings planned, 2 have been postponed to 2021. So we are still with the plan of opening 15 new DOS this year, including 2 new markets.

Regarding Genius, we have not changed the planned openings for this year. Probably in the first 2 launches, there will be a reduction of the merchandise being sent to China, depending on the way the situation will evolve. We have presented already the launch of the new Geniuses who are going to be part of the program for this year, one being a very successful designer, JW Anderson. We will be presenting also 2 new collaborations, one with E-bike and another one with RIMOWA. These are going to be presented on the 19th of February during our show here in Milano.

Maybe let me give you also some highlights about the results of Genius in 2019 because we are very happy about its the evolution with our clients. It still represents slightly less than 10% because, as we always mentioned, Genius wants to increase the desirability of the Brand and not to maximize the sales. We have been learning, launch after launch, on how to do better, how to create the desire through the investment in social media. The split between outerwear and non-outerwear in Genius is the one that we consider being almost ideal. The one that we would like also to reach in the next couple of years for the Moncler collections, with a 70% of outerwear, 20% of knitwear and 10% of other categories.

The things that has improved, because we were lacking a little bit of time line, is to see how consumer were reacting to Genius. Last year we said that 50% of the clients that entered and bought the Genius collection were also buying the Moncler collection. Now after 2 years after the first launch, we can say that 66% of the consumer that bought Genius, bought also the Moncler collection. So it's really also amplifying the effect on the Moncler collections. 50% of these consumers are next-generations, meaning generation Y and generation Z. What is interesting is the quality of this consumer, because their average ticket is 30% higher than the average of Moncler. The average spending is 2.5 times more than the average ticket of Moncler. UPT is the one that we would like to reach also in a few years because we are at 1.8 UPT with Genius, which is something that we are striving for the Main collection.

REMO RUFFINI: HIAntoine, talking about M&A. I can say exactly what was written on the press release we sent in December. We are talking with many people around the world. We are really interested to see if there is any possibility, but the real truth is that we're looking to make the next step of Moncler. At the moment, I can say exactly what I said in December. There is nothing on the table. We don't have any discussion. It's really the way we work. I am always talking with everyone in our industry. I have a very good relation with everyone. But there is nothing consistent, nothing realistic on the table.

ANTOINE BELGE: Thank you. I think Roberto mentioned that 1.8 UPT for those clients buying Genius. Is it possible to have an idea of what was the UPT for Moncler as a whole? Is it now higher than the 1.5?

ROBERTO EGGS: Antoine, it has never been 1.5. It was 1.04 in 2015 and now is 1.40. It has been increasing by 2% in 2019 and the objective is to go up, because with the expansion, the quality of the new collections and also with the internal culture that has been developing on knitwear, on shoes, on bags and soft accessories, there is room there also for increasing and Genius is setting a little bit the path on where we want to go with the Main collection.

ANTOINE BELGE: Thank you.

OPERATOR: The next question is from Elena Mariani with Morgan Stanley. Please go ahead.

ELENA MARIANI: Good evening. A couple of questions from me as well. The first one, I'm afraid, going back to the virus. You've talked about the impact you've seen in China, but some of your peers have also highlighted that since this week things have got worse also outside of China, given the travel ban. Could you remind us, out of your 33% exposure to the Chinese consumer, how much is within Mainland China? How much abroad and what you're seeing elsewhere outside of Mainland China? Beyond the Chinese consumers, have you seen a change in mood also within other consumer segments, given that the media impact of this virus has been very broad?

Just to help us understand what the overall group effect might be. And still related to this, I was trying to figure out what the sensitivity of your margins could be. Perhaps could you highlight what you think your underlying OPEX growth is going to be into 2020, taking into account all your growth projects, the internalisation of your online capabilities, and how much of these underlying OPEX you could actually control and maybe reduce?

And then the final question, going back to what Mr. Ruffini has just said. I just wanted to better understand what you mean with potential strategic opportunities. Is that selling the Brand to another conglomerate just to maximize the future development of Moncler? Is it a combination with another company or could it be even buying another brand within the Moncler group or maybe at the Ruffini holding level? If you could help us understand what exactly you would have in mind for whatever you can say, of course, and how we should think about this in the context of your increased voting rights mechanism that you've asked to approve? Thank you.

ROBERTO EGGS: Good evening, Elena. Regarding the impact on the Chinese and the Chinese clientele, we are still at 50% of buying from Chinese on Mainland China and 50% out of China, 25% is on the countries that are in the vicinity, including Macau, Singapore, Hong Kong, Japan, Korea and Australia, and the other 25% is between Americas and Europe. After the coronavirus was made public, we didn't see immediately an impact outside of China because the travellers are still outside because of the Chinese New Year. But clearly, in the last couple of days, we have seen a decrease also outside of China, especially in its market vicinity. Korea, Japan, Australia and Singapore registered a strong decrease also on Chinese tourists. We expect, especially for the groups travels, there will be an impact and we will see probably a slower recovery from the travellers when the coronavirus issue will be solved and probably a faster recovery on Mainland China. The mood has also been impacting other nationalities. We see now a slight decrease in the other nationality on top of the Chinese tourism and what is happening on China, Hong Kong, Macau and Taiwan.

ELENA MARIANI: Thank you.

LUCIANO SANTEL: Hi, Elena, this is Luciano. About your questions on margins, as we said before, we are taking all the actions needed to protect our margins. Our first priority is to protect our assets. People is the most important asset together with the Brand. So what we will never ever do is to destroy this asset that has been built over the past years and represents the most available asset we have. Having said that, of course, we are working to protect our margins and to reduce expenses that are not strictly essential and needed for our business or for our Brand. It is difficult to give you a sensitivity also because EBITDA margin (35.3% in 2019) is something that does not represent, honestly, a benchmark we look at. But an EBITDA margin in the region of that percentage, 33/34% is definitely something we target. If the top line should decrease, just to give you a rough number, but within a 100 million decrease, I think that the Company can react and to protect totally that margin. Over 100 million, of course, the margin may decrease. But again, I think that one of capability of this Company, of the management team, of our people is the capability to react, to be flexible. We are concerned about the current situation, but on the other hand, very positive about the capability to react to this situation, and again, to protect margins.

ELENA MARIANI: One follow-up, if excluding the impact of the virus and the initiatives you are taking, what would have been the underlying OPEX growth expected for 2020?

LUCIANO SANTEL: It is difficult to tell you a number. As you know in our income statement, we normally expect selling expenses in line with what we reported this year, taking into account that the retail network is growing. So selling expenses are normally growing as much as the gross margin. This is our rule of thumb.

G&A will not be lower than this year, maybe a little bit higher depending also on the investments we are planning for this year. This is under normal circumstances. Right now, many of the investments we had in our plan, OPEX and CAPEX have been put on hold. Whatever we are implementing is to maintain this ratio between OPEX and sales and to maintain the same margins as last year. We plan A&P to be in the region of 7% but it will depend on the evolvement of the current trend. For the time being, our plan is still in the region of 7%. If you look at our current income statement, there are no significant differences. And again, whatever we are trying to implement now is to protect the contribution of expenses and at the end our operating margins. Did I answer your question?

ELENA MARIANI: Yes. Thank you. It was very clear.

REMO RUFFINI: Elena Mariani, your question about M&A. I can say exactly what I said in the last call and what I said before. We explore the market. There could be the opportunity. We didn’t find yet at the moment, but we continue to explore. We don't have any news. I think this market has changed a lot, I think there is opportunity on the market, not in a typical luxury word but in the new young luxury experiment. I think there is something interesting in the market. But again, we don't have anything on the table. And now we are very concentrated in Moncler to face this problem with China. And I think all the company is very keen to solve this problem.

ELENA MARIANI: Perfect. Thank you very much.

LUCIANO SANTEL: Okay. There was a question about loyalty share, Elena. Am I correct?

ELENA MARIANI: Yes.

LUCIANO SANTEL: Okay. Loyalty share is something we decided, and we want to submit to our Extraordinary Shareholder Meeting. There are several different reasons, but the most important one is to provide the Company with higher stability, continuity and to maintain the direction that has made the success of the Company over the past years under the leadership of Mr. Ruffini and his management team. This is the main reason why we are doing that. Of course, we look also at potential in the future, opportunities of M&A, that again, are not on the table now, but may happen in the future based on eventual opportunities and the potential dilution impact of a possible combination with other entities. This is an additional reason why we would like to give to our main shareholder, to Mr. Ruffini, the possibility to increase his voting right. Highlighting the fact that in any event the maximum voting rights will be capped to 29.9%, so the Company would still be open to the market.

ELENA MARIANI: Very clear. Thank you.

OPERATOR: The next question is from Luca Solca with Bernstein. Please go ahead. Mr. Solca, your line is open.

LUCA SOLCA: Good evening. I have 2 questions, actually. I would like to understand a bit better with you the moving parts that you have in larger stores when it comes to the underlying metrics, I mean, if you have any significant differences in traffic and conversion rates, in sales per square foot or in any other metric that could potentially be important in terms of unit per ticket, for example, and so on. And if you are continuing to think that larger stores could indeed be a growth opportunity for Moncler going forward?

Secondly, I wonder how you are thinking about the evolution of Genius. This has been an incredible and very effective way to drive organic growth. And you've been on the front foot on this and other initiatives, I assume. But are you looking at any differential impact that this is having over time, both positive and negative in terms of, for example, how you could continue to get good momentum from this initiative and how you would have to update it, so that it always looks new and drives traffic to your stores? Thanks very much.

ROBERTO EGGS: Good evening, Luca, regarding your first question, we don't disclose metrics according to the cluster of the stores we have, but what I can tell you is that, overall all our metrics have increased this year, being traffic, conversion rate, UPT and average transaction value, roughly between 3% to 4% for all of them. This growth has been driven mainly by the larger stores that we have because their capacity of display, their attractivity having the full collection and also having the engine where we display the Genius and where we do CRM activities. They are the ones that have been increasing the most in terms of retail KPIs.

So this is clearly a confirmation of what we have been looking at and following closely in the past couple of years. That is comforting us on the fact that the new format that we have in store roughly between 200 to 250 square meter selling is the ideal format for Moncler, allowing us to display all the categories but we have seen also that what we consider flagship, being 500 square meter, are more global stores than flagship stores for other brands. But this is our format of flagship store and it has also been performing at a higher level than the average of the network. We still have globally almost 100 stores, a little bit less now that we need to upgrade. So we didn't discuss this but on top of the 15 new openings that we have for this year, they are also 15 relocations of existing stores that are going to match the metrics that we have in the plan.

REMO RUFFINI: Good evening, Luca. I think what we did with Genius in the last 2 years was something honestly unique. All the Company was very excited when we launch the project. Step-by-step, we are realizing that also the customer liked the project and loved to come to the stores to understand what's going on. We honestly feel that we are at the beginning, even if 2 years already are passed, but of course any strategy must need an evolution. This year, we launched a very interesting project with RIMOWA, it is a project that is a part of our new vision and new strategy for Genius. We really try to give a voice to our customers. This one of the milestone for the next season where we're going to improve this strategy for the future. It’s really a question of being able to talk with a lot of customers. We really try to find the best out of it. Having said that, I think the momentum of Genius is very strong and the reaction we have on everything is very interesting. For sure, we learn every day. For sure, we did something very good. We did some mistake and it was something very new for us or something very new for the industry. But now honestly, after 2 years we feel very confident in this project. For sure, we are starting every day in evolution, and we're going to have an evolution next

February. We work a lot. We work very hard to have the next step of Genius for the next year to come.

LUCA SOLCA: Thank you very much.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone.

PAOLA DURANTE: Maybe, operator, I just take the opportunity to read 1 question that is coming from the webcast. Krishna is asking what is the CAPEX guidance for fiscal year 2020.

LUCIANO SANTEL: CAPEX guidance, talking about our original plan, which sees an increase of our CAPEX in the region of less than 10% as compared to 2019. Still an increase, but not particularly material. As said before, we are under some kind of reshuffle of this plan now because we are setting priorities and we are putting on hold about 20% on this total amount which is a significant amount. This is the best I can tell you now.

OPERATOR: The next question is from Marion Boucheron with MainFirst. Please go ahead.

MARION BOUCHERON: Hi, good evening everyone. Few questions for me. The first one: could you just clarify when you were saying the traffic has been declining 80% and sales as well. So is that number referring to stores that were opened and we need to add to that the stores that were closed? Then on the fourth quarter, the acceleration you had in Europe. Could you give us some colour from what clients or cluster has been driven? Was it Europeans or was it the big inflow of Asian in Europe? And then when you were saying that you have seen an impact also on local consumption in other markets, you mentioned the decline. Is it a decline or a slowdown in growth? And just another question on Genius. You mentioned 66% of clients who buy Genius are also buying Moncler. Is it also a proportion of new clients to the Brand or it's totally different number? Thank you.

ROBERTO EGGS: Good evening, Marion. What I was mentioning regarding the traffic in China is that it is evolving day-by-day and it's 80% on the stores that are opened. This is the impact that we have seen in the last 2 weeks with not big fluctuation and it's something that is not improving. We have seen also a slowdown in the traffic in Hong Kong, which was already impacted by the crisis of last year and we have also seen a further decrease in traffic.

Regarding the slowdown that we have seen and the impact on the other regions, it's something that needs to be seen market-by-market. The markets that are closer to China have been the one most impacted. We have seen less of an impact in Europe. But Chinese were in Europe, and because the Chinese government extended the period of holiday, we have not seen at the beginning, a slowdown. Now since a couple of days, as they have been flying back returning to China, we start seeing also a decrease in the traffic of the stores in Europe. There is also a calendar effect that you need to remind because last year exactly now was the Chinese New Year. So there is also a calendar effect that needs to be taken into account, and probably, we'll have some more clarity on what is going to happen during the course of the next few days.

Regarding Genius, in terms of weight, the amount of new clients versus existing clients is similar that what we have for the Moncler collection, but this is linked to the fact that we are leveraging a lot on our preferred clients for the launch of the Genius collection. So we have now, since 2/3 years, a very good knowledge of our consumers, their preferences, and we have an established database that we are leveraging through all our CRM activities in the stores. All the CRM actions that we are focusing in the store are mainly driven by the content and the content is driven by the Genius launches. This is why, at the end we come to something similar, probably without all the CRM activities and clienteling activities that we are developing, the rate of new consumers will be higher with Genius, but it's balanced by the fact that we have a very strong CRM and clienteling activities around those consumers.

Regarding your question on Q4. The growth in Europe has been mainly driven by local customer because this is the period where the local customer in Europe buy for the Christmas. It’s always where we have a stronger growth and stronger weight of the local consumers. But to answer your question, the Chinese and other tourists have been performing also well at the end of Q4 in Europe.

MARION BOUCHERON: And would you give us for 2019, what was the growth with Europeans and Americans for the Group?

ROBERTO EGGS: We don't disclose this type of figures, but generally as a guidance, the growth that we have had with Europeans has been in line with the growth of the one we have with the Company. So the weight of the local consumer in Europe has not been decreasing. And same for the Americans, sorry, as you ask also for the U.S., market.

MARION BOUCHERON: Okay.

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

PAOLA CARBONI: Good afternoon, everybody. I just would appreciate if you can elaborate a little bit more on the trend you are seeing for the other nationalities, not just for Chinese. You mentioned that you are seeing some impact also on the other nationalities. Can you elaborate a little more on that? Not only by region as you then pointed out, but also by nationality? Thank you very much.

ROBERTO EGGS: Good evening, Paola. I think here we're looking too much at something that is just the result of the last 1 week. What I can tell you that in the first 3 weeks prior to the coronavirus, the growth that we experienced was in line with the result of 2019. Then for Europe, there was less of a stop because the tourists were still here. We have seen a strong decrease on the Chinese market, in Hong Kong, Macau and Singapore, an effect on the duty-free shopping in Korea, a decrease also in Japan in the last 10 days and slightly less in Europe. But I think it's a little bit early now to see if the contamination will have an impact in Europe and in the other countries. It’s something that we are closely monitoring. But clearly, we have seen that the mood for shopping has been decreasing in the past 10 days.

PAOLA CARBONI: And sorry, if I may, also a follow-up on your flexibility. You have referred to flexibility in terms of postponing some initiatives or some investment. On the day-by-day instead, I was wondering if you can share with us how much of your rents in Mainland China are linked to revenues or if you have any flexibility in terms of personnel, which clearly doesn't mean to lose this person, but considering that hours are reduced and some stores are closed, I was wondering whether there is also some flexibility on the usual personnel costs there? Thank you.

ROBERTO EGGS: I start with the personnel cost. You see we have a strong seasonality in Moncler that has been decreasing a little bit over the past few years, because we have been improving the performance on the spring/summer, but our Q2 is lower in terms of weight of sales, similar also for the months of March. So in the way we plan our team, we have a team that is permanent employees that are working for us during the full year. And we are working and training people that worked with so-called temp to help us cope with the peak of the end of the year. This is, for us. Maybe it is different for some other players in the industry that have a more stable business. But for us, there is this planning of decreasing the number of temporary people in the months of February, March and then having none of them during the second quarter. I think this is going to help us coping with the effect of the productivity per client advisor. For the people that are permanently employed for us, we don't want to touch because we consider this as being one of the key assets we have been developing and training in the past few years.

LUCIANO SANTEL: Yes, Paola. About rents, we normally have a variable range in China, but with the minimum guarantee. What we are doing now is negotiating with the landlords to remove the minimum which honestly is not so difficult, considering that many shopping malls are closed. There are not so many people working around. Negotiation right now is not the most difficult task of this situation. So on rents, considering the current situation, we are reducing removing the minimum guarantee.

And about the payroll, I think that Roberto already answered the question.

PAOLA CARBONI: Okay, perfect. Thank you very much.

PAOLA DURANTE: Sorry, Paola, do you have a follow-up.

PAOLA CARBONI: No, thanks. Thank you.

PAOLA DURANTE: Sorry for that. Now, I was just jumping into to say that I think we have time for one last question.

OPERATOR: The next question is from Louise Singlehurst with Goldman Sachs. Please go ahead.

LOUISE SINGLEHURST: Good evening, everyone. Just one question for me, please, for Mr. Ruffini, if I may. Can we just talk about the Genius line-up? Obviously, an interesting additions with RIMOWA and MATE-bike. Is this more about making Moncler more of a rounded lifestyle brand going forward? Can you just talk about the choices behind those collaborations for 2020? Thank you.

REMO RUFFINI: Honestly, it's not based on lifestyle, it is based on experience. I think we always try to find a solution to get to our customer with new experience. And I don't have the products right now. When you'll see products, you can understand that is not a new bag or a new product but it's a new concept to give the possibility to our customers to have a new experience when they travel, when they're around the world. I think Genius next February will be very strong. As you know, we have designers, the newest one is JW Anderson, that I think is one of the strongest designer in the market today who gives us the possibility to make a totally different approach in terms of design, in terms of collection. It is genderless, it is a product for men and women. I think, this is something very new for the market. At the same time, we have this kind of new experience. And we feel is an improvement to our presentation. 19th February is in a couple of weeks and we will see the reaction of the people and the customer. Thank you.

LOUISE SINGLEHURST: Thank you.

PAOLA DURANTE: Okay. If there is no other question or in any case, we are going to close the call. But we are at your disposal any time as usual. We would like to thank you, everyone and remind you that Q1 will be released on April 22, after market close, and our silent period, will start on March 24. I wish you a good evening. If you have any follow-up questions, please feel free to call us any time. Thank you. Bye.