

Moncler S.p.A

"Nine Months 2019 Interim Management Statement Conference Call"

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OPERATOR: Good evening. This is the Chorus Call conference operator. Welcome and thank you for joining the Moncler Nine Months 2019 Interim Management Statement Conference Call.

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. Good afternoon and good evening everyone. Thank you for joining Moncler 9M Interim Management Statement conference call. We know today is a busy reporting day, so we will keep this as short as possible. 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, I would like to remind you that this presentation may contain specific statements that are neither reported financial results, nor other historical information. Any forward-looking statements are based on Moncler's current expectations and assumptions of future events, and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied by these statements. In addition, please remember that the media have been invited to participate in this call in a listen-only mode. I will also comment on constant currency trends unless otherwise stated.

Let's now move to Page 3 of the presentation. Revenue results key highlights. I would like to make 3 quick comments. Moncler posted a good set of data notwithstanding the difficult situation in Hong Kong. In the first nine months of 2019, consolidated revenues were up 12% (10% in Q3). Results have been supported by the positive reception of Fall/Winter

collections and by the success of the Moncler Genius project which continues to boost the Brand's momentum worldwide.

Let's move to Page 4. Revenue breakdown by distribution channel. Both channels showed solid performances. In particular retail revenues rose by an outstanding 13% in the first 9 months (+12% in Q3), driven by organic growth and new space. In Q3, Japan, Chinese mainland and Korea contributed significantly to the growth of this channel.

Wholesale also performed well, in line with management indications of a high single-digit growth at constant currencies for full year. Results have been driven by the good acceptance of Fall/Winter collections by Moncler Genius and by the development of shop-in-shops and e-tailers. In Q3, wholesale results were particularly good in the U.S. and Japan. While in Europe growth was softer, due to early deliveries in Q2 thanks to a better production planning.

Let me also note that e-commerce posted outstanding double-digit growth in both distribution channels.

Moving now to Page 5, revenue breakdown by region. In 9 months, global expansion continued with international markets growing at 13% and accounted for 87% of total revenues. Also our domestic market reported sound results growing 6% in the first 9 months.

Let's now turn towards a more detailed analysis of our revenue by region. Page 6, we start with a focus on our EMEA region which includes also Italy. In the first 9 months, our EMEA region including Italy reported a solid 10% growth largely driven by the retail channel. In Q3, wholesale reported a lower growth due to the already mentioned early deliveries in Q2. In EMEA

in Q3 we saw excellent performances in Germany, as well as Austria and Switzerland and in the Scandinavian markets. Italian revenues were largely driven by organic growth in the retail channel, while wholesale performance was influenced by the ongoing selection of doors.

Moving to Asia, page 7 of the presentation, which, as you know, includes APAC, Japan and Korea. In the first 9 months of 2019 and in Q3, Asia recorded a 15% growth. Japan, Chinese mainland and Korea were the strongest performers in the quarter. All three regions showed sound, strong double-digit growth driven by very good retail organic growth. Japan benefited also from the October VAT increase which prompted many Japanese to anticipate discretionary purchases in Q3.

Hong Kong, on the other hand, has been the worst performing market in the region and, also, overall at Group level. It has experienced a double-digit decline since August. Unfortunately, the situation is not currently showing signs of improvement. Should you have further questions, Luciano and myself would be happy to answer them in the Q&A session.

Let's move to the Americas (page 8 of the presentation). Revenues in the Americas increased by 10% in 9 months and in Q3. The newly opened Mexican store, which is delivering above expectations results also contributed to this sound performance. Overall, we are satisfied with Moncler's performance in the region in retail, although it remains a more volatile market. Wholesale was good and benefited by solid sell-through and by the openings of new shop-in-shops. The two airport locations, one in LA and the second in Vancouver, are performing particularly well.

Let's finally comment very briefly on our store network, Page 9. At the end of September, our retail stores reached 199 units. In the quarter we opened

3 concession stores, 2 in Korea and 1 in the U.S. with Bloomingdales. I would like to remind you that these numbers refer to the new accounting method adopted since January 2019. 4 stores were opened in October so far including one at the important new Istanbul Airport. And we can confirm that we have 6 upcoming openings to be finalized in November and December.

During Q3, we also relocated important stores including the one in Venice, a very nice store. You will be able to see the pictures at the end of the presentation. For 2020, for next year, we expect to have some 15 DOS secured and some important relocations. In terms of shop-in-shops, we have opened 2 in the third quarter of this year and we expect another 2 to be opened in Q4.

I finish the brief presentation of the numbers. We would now be happy to answer any questions. Operator, you can 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 Anne-Laure Bismuth with HSBC. Please go ahead.

ANNE-LAURE BISMUTH: Good evening, Anne-Laure Bismuth from HSBC, I have three questions please. The first one is on retail. Retail was up 12% at constant FX in Q3. I know that you are not disclosing the split of the performance between like-for-like and contribution from new space, but you usually give

an indication, so is it fair to assume contribution from new space of mid single-digit in Q3, implying like-for-like of circa 7% in Q3?

My second question is about Japan. You flagged the contribution of Japan in Q3, probably linked to the advance purchases ahead of the VAT hike; will it be possible to quantify the impact at the group level for Q3, please?

And my last question is about Hong Kong. Hong Kong was weak in Q3, worsening probably in September versus August, partially mitigated by the growth in repatriation, especially in China, but it seems that the first week of October and the Golden week was particularly weak, can you give us an update on the situation there? And are you planning to take any actions regarding the Hong Kong market? Thank you very much.

LUCIANO SANTEL: Hi Anne-Laure. This is Luciano Santel speaking. About your first question, as you have correctly stated we do not report comp in Q3, nor in Q1. Your estimation is not far from the reality, but I can tell you that in the 12%, there was a good comp and a good new space contribution. So we are happy with both, with the comp and with the contribution coming from the new stores.

About Japan. It performed extremely well, actually it has performed very well since the very beginning of this year. In Q3 it performed particularly well, and even better in September, in anticipation of the VAT increase that happened to be on October 1st. So, Japan was a stronger contributor of our sales growth and specifically in retail.

About Hong Kong. The situation was, and still is, unfortunately, very difficult, very complex. But on the other hand, as you stated, China mainland did very well. It's difficult to say exactly how much we recovered. But what I can tell you for sure is that China Mainland as a market did very

well and also our Chinese clients, overall, did very well, not only in their local market, but also in the other markets. Something important to highlight about China is that in the first week of October, during the Golden week, was particularly strong in China's Mainland.

About Hong Kong, business faces a difficult situation. We are taking actions, of course, to reduce and/or to postpone some expenses. We are trying to protect the productivity of our stores, but still preserving our best talented people in the stores. So it's a very delicate job, but we want to maintain the asset that we have developed over the past years. We are postponing and putting on hold some investments in communication but what we are working on direct communication with our clients. Our CRM strategy has been very important, now more than ever because we want to maintain a strict contact with our clients in Hong Kong. We are also discussing rents with the landlords from early September to obtain some rents' reduction. We have obtained some significant reductions but discussions are still open and we are confident to provide more complete information at year end. Thank you.

OPERATOR: The next question is from Susy Tibaldi with UBS. Please go ahead.

SUSY TIBALDI: Good evening everyone. Could you comment a little bit, if you can, on trends that you've been seeing in October to-date? I know that you don't comment on current trading, but can give us an idea if it's broadly in line with what we've seen in the first 9 months? What we've heard from the other companies is that Hong Kong, specifically in October, has gotten worse. So, can you confirm that is it also true for you? What about the other regions?

Secondly, I wanted to ask on Hong Kong. Can you give us a little bit of color in terms of the Hong Kong market specifically? How much would you say is local versus tourists? What's the price gap between Hong Kong and Mainland China? And, in light of the recent events in Hong Kong, how should we think about the margins for the full year? Do you think that it's still possible to protect the margins? Can we estimate a flat margin year-over-year or do you think that now, given these new recent events, is maybe a bit difficult to achieve? Thank you very much.

LUCIANO SANTEL: Hi, Susy. The current trading in October is substantially in line with Q3, with some comments. First one, Hong Kong is not doing well but not better and not worse than before.

The other important comment to highlight is that, starting from the beginning of October, we have seen a slowdown in the business in Japan, but this was totally expected after the increase of VAT. As I said before, September was extremely strong, so we expected a deceleration that right now is also already recovering. The deceleration in the very first days of October now is getting better, but this, again, is natural and totally expected.

About Hong Kong. Hong Kong was in the bigger part made of Chinese customers, but this is different store-by-store. Canton Road, as other brands of our business was made with Chinese clients. IFC was made more with the Hong Kong residents and of course, the geography of our customers in that city is different store-by-store.

The price gap between Hong Kong and China is about 10%. Hong Kong is a very profitable market, not much more than the other markets, but of course the impact on the top line is impacting also margins. But, as I said before, we are working on expenses. Hong Kong represents about 6% of

our business and we are very happy with the other 94% of our business. So, for the year end we don't see a particularly material impact on our margins and, again, we are working to protect them.

SUSY TIBALDI: Very clear. Thank you.

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

JANET KLOPPENBURG: Congratulations on the strong results. I just had a couple of questions. I'm not sure but I know you said Hong Kong was down double-digits, and I was wondering if you could give us further quantification there and perhaps some idea of how much the Hong Kong decline impacted your total retail sales or the like-for-like. And should we expect that Hong Kong performs in line with the third quarter or perhaps worst in the fourth quarter? Maybe just some picture there would help? It seem like the Americas are a little bit better in the third quarter versus the first half and I was wondering if you could talk about that? And then just lastly on the wholesale business. What you've seen particularly in the North American market? Barneys may be threatened as a vendor and other trends that you are seeing in the general wholesale market? Thank you.

LUCIANO SANTEL: Hi Janet. In Q3, in Hong Kong, we lost about 40%, which is a big number but this is the reality. For Q4, unfortunately, we don't see any improvement or any worsening. The situation is flat, stable as much as it was in September. It's very difficult to predict the evolution of the situation in Hong Kong in Q4 honestly. So, for the time being, I can only tell you that the situation is not better and not worst than what it was in September.

About the North America. In Q3, the North American market was good in both the channels, particularly in wholesale, and both geographies. U.S. and Canada performed pretty well. So, North America is a market which is to some extent volatile, but we are pretty happy for our business. In the wholesale and in its big players which are department stores, we keep doing well with all the names: Neiman Marcus, Saks, Bergdorf, Bloomingdale's. About Barneys. They filed for Chapter 11. We have delivered only a small part of the Fall/Winter season which is totally protected by our credit line, by our insurance policy.

And now, we are looking at the evolution of the situation. Overall there are some names like Neiman Marcus that has been having some financial troubles, but so far so good. We are expanding our business with them. But something very important is that we monitor very closely what we sell to them and what they sell-out and the sell-out is very good.

JANET KLOPPENBURG: Okay. Thank you so much.

LUCIANO SANTEL: You're welcome.

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

MELANIE FLOUQUET: Thank you for taking my questions. First one is on Japan. You are kind enough to give us the decline in Hong Kong. I was wondering whether you could give us details of the growth in Japan or the acceleration whatever you prefer to provide to us in retail.

My second question is about Italy and Europe. We have a deceleration, and you're flagging that this is mostly wholesale related or all wholesale related.

Could we have an idea of the trend in retail in Italy and in the rest of Europe? Could you please help me understand whether an around 9% organic growth is achievable organically for the full-year? I appreciate you mentioned some timing effects that explained the deceleration in Q3, by far the largest quarter. So I'm trying to understand whether the full year target in wholesale still makes sense in this context?

And then my last question is a bit more strategic. I was wondering whether you see any change in the way you need to approach markets from a communication, pop-up stores, activities or anything to fight market share in terms of your gradual spending and how you're now approaching markets? Thank you.

LUCIANO SANTEL: Hi Melanie. About Japan, I can't tell you more than what I already said. For the first 9 months, the business in Japan was very good, it is still good with the comments I just made about the first couple of weeks of October. We don't disclose precise numbers market-by-market. The number I told you about Hong Kong is to be considered an exception but simply because now there is an important focus on Hong Kong. In any event, Japan did very well, Korea did very well, all China mainland did very well. The only focus and the only critical situation, as I said before, is in Hong Kong.

About Europe. I would not consider the growth rate in Q3 of Europe as a deceleration. It is a deceleration, but it is still a positive number. Our business in Q3 is heavily impacted by the wholesale business and specifically in Europe, we anticipated this year deliveries in Q2, in June, because our production was ahead. We delivered products from our production earlier than last year and so we serviced our customers better and earlier. So the wholesale in Q3 in Europe was impacted by this kind of a timing.

For Italy, specifically, this is a one explanation, the other explanation is that in Italy, more than in the other countries, we are still implementing our selective strategy in the wholesale distribution, so we keep cutting the number of doors. But still, we reported a positive number.

About retail in Italy. It was very good, the organic growth was very good. In Europe, Germany, Switzerland, Austria very well, North Europe very well, U.K. very well, France less well than the other countries. Our business in France is mostly in Paris. Paris was a less good than the other countries, but again, overall our retail business in Europe was good in Q3.

The other question you asked was about wholesale. Our indication for the wholesale is still the same, a high single-digit that means 8% to 9%, which is what we reported at the end of September. So nothing different from what we said, we confirm that number.

About our communication and marketing strategy. We are not changing our communication strategy, not at all. But as I said before, we are a little bit adjusting the execution of the strategy because we are not investing heavily now in Hong Kong, because if we do not make sales, we are investing more in other markets. We have a stronger focus in China, China mainland is a very important focus, not just for the next couple of months but for next year, for the future, because China is a very important market for us. What we have implemented over the past couple of years, and this year specifically, is a change of our strategy from the traditional media to the digital.

We are investing more and more in digital with very good results. But nothing particularly different from the last time we talked together one quarter or a couple of quarters ago.

MELANIE FLOUQUET: Thank you.

LUCIANO SANTEL: You're welcome.

OPERATOR: The next question is from Piral Dadhania with Royal Bank of Canada. Please go ahead.

PIRAL DADHANIA: Good evening everybody. I was wondering if you could perhaps comment on whether the weather trends we've seen in Europe and North America in the third quarter, have at all affected your retail sales channel performance. Has there been any change in the product mix that you've seen given the warmer weather relative to last year? And has that had any knock-on effects with retail KPIs such as ASP or units per transaction? Any color there would be very helpful indeed. And then just finally, on e-commerce. I was wondering if you are able to perhaps just quantify the rate of growth that you're seeing in your retail e-commerce channel, if possible? Thank you.

LUCIANO SANTEL: About your first question. It's a very smart question, because you're right as we don't like to talk about weather, but to some extent, our business maybe a little bit affected by weather in the short-term. This year, September overall was warmer than last year. But we don't complain. But you are right, if I look at our KPI, our retail KPI, all were are up. Traffic is up, conversion is up, units per transaction is up. The only KPI that is slightly down, not significantly but slightly down, is the average selling price. This is because, in Q3, we sold lighter items, not spring, but pre-fall items, less heavy items than last year when weather was colder, better from our perspective and we sold heavier products and jackets. So you're totally right, ASP in Q3 is a little bit down.

The other question about e-commerce. We are very happy about e-commerce. It is growing very well, strong double-digit. Honestly, we don't report a precise number. But we are happy about how it's doing.

PIRAL DADHANIA: Okay. Thank you.

LUCIANO SANTEL: You are welcome.

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

PAOLA CARBONI: Good afternoon everybody. Very few questions. First of all, if you can come back on your comment about the Chinese cluster. It did very well, but just to understand whether there was in the end a confirmation of the previous quarter's strengths or a net slowdown? And also comment on the American cluster please? And final question is about Hong Kong and what this might imply from a strategic perspective from your point of view. Are you thinking about any further action to tighten the price gap with China or to focus more on enlarging your footprint in Mainland China as a consequence of the possible structural change in the Hong Kong? Thank you.

LUCIANO SANTEL: Hi Paola, the Chinese cluster is still the same from a percentage point of view. It was strong in Q3 as much as it was in the first half of the year. It is in the region of one-third or 35% of our retail business, not changed, not deceleration, not acceleration. It is still again very strong, no slowdown at all.

About American cluster. The American cluster is growing and I am not talking about only the North American market, but also different markets.

So Americans are shopping more not only locally but also in the other markets, in Europe and in other markets, so that cluster is growing.

About strategies for Hong Kong. I think that, for the time being, we are not evaluating a flat price gap with China. We will maintain a price gap between Hong Kong and China. About the possibility to expand our footprint in China: distribution strategy has not changed at all. In China we still have some opportunities to open some stores but still with a very selective approach and only in Tier 1 and selective Tier 2 cities. Of course, what we are looking at, what we are working on, not only in China, but in China even more than in other markets, is to expand the size and the visibility of our stores, mostly in the most important cities, Shanghai, Beijing but not only. We don't have yet an important flagship store in China. This is something we are working on. But overall we believe that the quality of our stores is much more important than the quantity. We try to follow the quality of our stores, and I think that we have opportunities to expand the size and the visibility and the quality of our existing stores but not many new stores.

PAOLA CARBONI: Okay. Thank you very much.

OPERATOR: The next question is from Andrea Randone with Intermonte. Please go ahead.

ANDREA RANDONE: Thank you. Good evening. I have a question about the actions you are implementing to protect marginality. I wonder if you can tell us if these actions are just related to Hong Kong or if you are doing something also at group level and also if you can tell if these actions are mainly temporary actions like delaying some commercial investments or permanent actions? In this case can you give us an idea of what you are doing? And the second

question is about the secured stores you are going to open next year. If you can anticipate us what are the geographic area you consider more prominent in for next year? Thank you.

LUCIANO SANTEL: Hi Andrea, the specific issues we are taking, are in Hong Kong only. The way we look at our cost structure is not different and has not changed over the time. The situation of our business is very healthy, but regardless the situation of the business, we look, since ever, very closely at our expenses to be more efficient in our store network, in our different headquarters and in our offices. Hong Kong is in a specific situation but in the rest of the business, the way we operate the business has not changed at all with the same focus and attention to be efficient in our organization.

About new stores in 2020. We estimate about 15 new stores, most of them in Europe and Asia Pacific in APAC, some in Japan and one store in North America. Something important also to highlight is that we keep converting some shop-in-shops into concession stores. This is something we did and we are doing now with Bloomingdales and the next year it will continue also within Canada with Holt Renfrew and with Bloomingdales itself. One store important I would like to highlight for next year will be in the second half of the year: our flagship store in Milan Galleria, which is something important to mention. We are also targeting a store in Barcelona in Spain.

ANDREA RANDONE: Thank you. Thank you very much.

LUCIANO SANTEL: You're welcome.

OPERATOR: The next question is from Luca Solca with Bernstein. Please go ahead.

LUCA SOLCA:

Hello. I was wondering, how are you planning to cope with the possibility of a protracted problem in Hong Kong, assuming that the situation is not resolved and that we continued to have fewer tourist inflows here? What would you do in order to capture Chinese consumers elsewhere? As I understand you are not planning to expand your retail network significantly in Mainland China. Are you able to reach those consumers with more digital sales in China, for example? Or what else are you envisaging in the event that Hong Kong, as we seem to be seeing, it's not a problem to be solved in the short-term?

LUCIANO SANTEL:

Hi Luca. The situation in Hong Kong is very uncertain, so it is difficult now to make evaluations to implement strategies, but something important that you mention and we are doing, is how to capture our customers. Actually, this is something that is part of our DNA but now, more than ever, we are working directly with our customers, not only Hong Kong customers, Hong Kong residence but also Chinese customers. We have a very powerful customer database, so we can trace our customers wherever they buy and we are capitalizing on this to contact and to keep contacts with our customers to capture them wherever they are.

About digital. Our digital business in China right now is still pretty small. It is part of our strategy for the next year and the year after to develop a stronger digital business in China. This will be independently on the situation in Hong Kong but, in any event, we strongly believe that we will be working on making this business in China stronger. Right now it is still small, smaller than in other regions. We are working now on the integration with WeChat, which we believe will be very helpful to convey customers to our website. We have a very high potential to develop digital business in China, we have a lot to do but very strong opportunities.

LUCA SOLCA: Thank you very much indeed.

LUCIANO SANTEL: You're welcome.

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

MARION BOUCHERON: Good evening everyone. Just 2 questions from me please. The first one on the phasing of stores opening for this year than in the first quarter it is quite a big number. Is it supposed to be at the beginning of the quarter, and so we should have more contribution from space expansion or not really? And the second question comes to Genius, where I think in first quarter the initiatives you have is more November to the end of January versus last year October, December. So has it been a drive to the October performance or you know expect an impact from that phasing?

LUCIANO SANTEL: Yes, about new opening, you're right. Many new opening will happen or just happen in October, but will happen in Q4 - 4 in October, and the others in November and December. Space contribution of these stores in Q4 will not be particularly strong in this fiscal year, but we expect a higher space contribution for the first quarter of next year because we will have 10 more stores than what we had at the end of September, in line with what we said. About Genius. Also on this point you're right. Something I didn't highlight and remember before is that, in October, business is doing well despite the comment I made on Japan, but something important to remember is that last year we opened the House of Genius in Tokyo, in New York and in Paris. Our House of Genius project started early in October which was very successful. This year we are planning the House of Genius project in November and so we expect the same impact in November, but now we are facing a comparison that is more difficult. Also this year, we have some

deliveries of Genius collections in December and in January. But the strategy over the year has changed, but again, of course, we expect better results also in January.

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

PAOLA DURANTE: Okay. Thank you so much. I was just looking from the webcast if there was any question we didn't answer, but I actually think that we answered to all of them. In any case if somebody still has question as usual we are here. We thank you all for participating in this late call. And clearly, we are here today, tonight or tomorrow to any follow-up question that you might have. Ciao to everybody.