Moncler S.p.A.

"First Half 2024 Financial 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 First Half 2024 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. Elena Mariani, Strategic Planning and Investor Relations Director of Moncler. Please go ahead, madam.

ELENA MARIANI: Good evening everybody, and thank you for joining our call today on Moncler Group's first half 2024 financial results. As usual, let me introduce you to the speakers of today's call, besides myself you have Gino Fisanotti, Moncler Chief Brand Officer, Roberto Eggs, Chief Business Strategy and Global Market Officer and Luciano Santel, Chief Corporate and Supply Officer.

Before starting, 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 Group 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 the Group to control or estimate.

Let me also highlight that given the nature of our business, interim results can be influenced by seasonal effects and therefore cannot be taken as a proxy for full year trends or results. Finally, I remind you that the press has been invited to participate to this conference in a listen-only mode.

So before handing it over to Gino, let me just present the key highlights of today's results on Page 4. Group revenues in the first half of the year were up 11% at constant FX, with the Moncler brand for the first time exceeding the €1 billion revenue mark in the first half of the year, up 15%, and Stone Island down 5% at €189 million.

The Group also reached a remarkable H1 operating profit exceeding €250 million with an EBIT margin of 21% compared to 19.2% last year. Net income was €181 million and our net cash position at the end of June was very healthy at €846 million compared to €471 million in June 2023.

Let me now hand it over to Gino for the key highlights of the Moncler brand. Gino, over to you.

GINO FISANOTTI: Thank you, Elena. Good afternoon to everyone. Again, a few things from my end, after a very strong Q1 in terms of executions and brand momentum for us. In Q2, first of all, we had the opportunity to really create an interaction between Moncler and art, creativity and design. This was the first time for the brand to be present during Milan Design Week, and again, we were by design and lucky enough to have the Venice Biennale and Design Week happening at the same time. So we strategically took the decision to take over one of the most iconic landmarks of the city, which is the Stazione Centrale, the main central station of Milan. And by doing that, we were able to transform that space into an exhibit space that, as we discussed before was all about art, creativity and design.

In terms of art, we were able to work in partnership with the French iconic artist JR, and he was able to create a full takeover of the facade of this very iconic landmark, something that of course created a lot of traction and invitation to everyone attending Design Week.

And then in terms of the creativity, of course, we worked at a project created by Jefferson Hack with some of the most extraordinary minds that shape culture today like Daniel Arsham, Deepak Chopra, Isamaya Ffrench and others, by taking over the full communication of the station. Just to give an idea over 240 billboards and more than 100 digital screens were there, all to be part of this experience that was able to connect with over 3 million people who passed by at Stazione Centrale that week, which was a new record. And of course, this helped us as a backdrop to our summer campaign that was able to reach over half a billion people around the globe.

Last but not least, connected to this as well, we were able to present through media our upcoming work on the collaboration with iconic designer Jony Ive. This is something that we will be launching later this year, but we were able to announce this during Design Week as well because we believe that was a perfect backdrop to do so.

If we move to the next slide, and before I pass the word to Roberto to talk about Stone Island, of course we continued our progression towards spring/summer diversification and Q2 was not exception for us. This is why you can see that we have been doing conscious efforts around our spring/summer Moncler Collection during this time, especially end of April and beginning of May. We were able as well to launch on the back of June, our Moncler Collection pre-fall, as well as the introduction into what is coming right now, our fall/winter collection.

So again, as I mentioned before, hopefully this starts making sense, all our conversations about how we're starting to push to become a more all-year around brand under the diversification we want to do into spring/summer as well. Roberto, to you.

ROBERTO EGGS: Thank you, Gino. Good afternoon to everybody. I would like to bring you through the main highlights of Stone Island during this last Q2.

The first one, which is probably one of the most interesting co-creation of this year, which is the co-design capsule between Dior, the Kim Jones Studio and Stone Island, a tribute to Christian Dior and Massimo Osti, the founders of the houses. The collection was introduced as a preview during Milano Fashion Week at the end of June and then in Paris during Paris Fashion Week. The collection is being sold only in Dior stores, not in Stone Island store, but it was very, very interesting to see the amount of coverage that theis co-creation has been generating and the traffic also that this has been driving also to the Stone Island store.

The second important event that took place during Milano Design Week is our Series #08 that we call Stone Island Prototype Research, very much orientated around research and experimental processes. Also here a very big success of the exhibition with more than 12,000 visitors that came to visit the exhibition at the Stone Island location.

Finally, the second drop of the New Balance 574, which is a legacy model showcased by Stone Island, which is showcasing the expertise of Stone Island colour research. Despite the fact that we increased a lot the volumes of this capsule, it was sold out in one day and we changed also the balance between online and physical sales in the store in order to drive traffic to the Stone Island stores. So it's something to be repeated, a very, very interesting launch that we did this time with New Balance.

Let me drive you through the results of Moncler and Stone Island first by geography and then by channel. I would like to start with Moncler, where we reached for the first half of the year more than €1 billion turnover, €1.041 million, which is a +15% compared to H1 2023. Q2 recorded a 5% growth supported by a solid growth in DTC channel.

Asia, which includes for us Asia Pacific, Japan and Korea recorded a 6% growth and the big drive of the growth was by Japan, positive on locals, but really driving this growth through tourists and also the positive performance of Chinese Mainland. Korea and rest of APAC showed softer trends. EMEA revenues increased by 6% in Q2, supported by solid tourist purchases, but also by positive local consumption. Finally, the Americas declined by 1% in Q2. The positive performance of the DTC channel was offset by the decline of the wholesale channel, which is something that is driven by us through conversions, but also difficulties in department stores.

On the next page on the performance by channel, the DTC of Moncler showed an increase of 19% during H1 2024 to €876 million. The comp sales growth during H1 was +14%. In the second quarter DTC revenues grew 8% versus the second quarter 2023. All 3 regions recorded positive growth with EMEA outperforming. Wholesale revenues reached €165million in H1 down 5% versus H1 2023. Q2 was in line with the performance of Q1, -5%, mainly impacted by the ongoing efforts to upgrade the quality of our distribution network.

Let me drive you through the results of Stone Island by geographies. Stone Island in H1 reached €189 million, -5% compared to H1 2023. Q2 was down by 4% with the decline in the wholesale channel almost entirely offset by strong double-digit growth in the DTC channel. Q2 in Asia grew by 27% year-on-year, with strong performance in Japan and solid growth in Asia Pacific. Trends in Korea remain softer than in the rest of Asia. EMEA declined by 11% compared to Q2 2023, with the strong double-digit performance of the DTC channel not enough to fully offset the decline of the wholesale channel. Finally, the Americas declined by 15% in Q2, here again the positive performance of the DTC channel was offset by the decline of the wholesale channel.

Last page on the performance of Stone Island by channel. Stone island recorded wholesale revenue of €96 million, -24% in H1 2024. The second quarter was broadly in line with the performance of the first quarter at -28%. The revenues in the DTC channel grew at €93 million in H1 up +29%. In Q2, revenues of this channel were up 27%, thanks to a positive contribution from all regions, with Asia and EMEA outperforming.

Finally, in terms of openings, we had 2 net openings for Moncler in terms of DOS. One is a conversion from wholesale into retail in Macau with the Four Seasons Macau, where we have been, by changing, let's say, the ownership of the store, we've been able to more than double the size of the stors. The second one is in JiNan within the Mixc mall, in the Shandong province. JiNan, for the knowledge of everybody, is a city of 6 million inhabitants.

And finally, for Stone Island one net opening, which is the former store of Moncler in Wien that we transformed into a Stone Island one. So the next 2 pictures that you see on the presentation are the example of what we did with Macau Four Seasons and in Kohlmarkt.

The floor is yours, Luciano.

LUCIANO SANTEL: Okay, thank you, Roberto. And good afternoon everybody and thank you for attending our call today. We are now at Page 16 where we report our profit and loss that shows a top line of €1.2 billion that has already been commented in depth by Roberto. And a pretty good gross margin of 76.7%, significantly higher than last year. Thanks to the higher contribution of our DTC channel that grew very, very nicely, as we said.

On the other hand, the selling expenses increased compared to last year for the same fact, but less than gross profit. That means that our stores were productive and profitable. Also thanks to the fact that most of the growth was organic growth. So very good.

G&A are a little bit better than last year, but also thanks to a one-off income of €7.5 million associated with an insurance refund we received after the unfortunate malware attack of December 2021.

Marketing expenses are a little bit behind last year, but only for a timing effect, a different and more balanced phasing of our marketing activities between H1 and H2. Still with our indication of 7% marketing spending for the year-end. An operating profit of €259 million, 21% margin. Worth mentioning, financial income, financial expenses that include a significant amount of financial income, much better than last year and net result of €181 million, up 24% compared to last year.

Let's move now to Page 17 where we report our net capex, behind those of last year, €56 million. Last year we reported €69 million, but this only for, again, a timing effect. We still maintain our guideline for the year end of about 6% capex on our revenues, more or less equally distributed between our distribution network and infrastructure.

Let's go now to Page 18 where we report net working capital that shows a slightly better incidence compared to last year, 8.5%, and last year was 8.6%. So very good, honestly, nothing to add except very good control of our credits and very efficient inventory management.

Let's move now to Page 19 where we report our net financial position. €846 million after a dividend distribution of over €300 million, that makes this number lower vs the end of 2023, but much, much higher than the same period of last year that when we reported €471 million.

Balance sheet. Page 20, honestly, nothing to comment. Of course, open to answer your questions, if any. And cash flow statement, Page 21 that shows again a quite healthy free cash flow of €126 million, while last year the number was negative for €34 million, so very good. All of the economic indicators are higher than last year, better than last year

impact of net working capital for the reasons I said before, and a timing effect of €64 million due to taxes that are due in Italy at the end of June, but because the end of June was a Sunday, we paid taxes July 1st. But overall, again, a quite good free cash flow, a quite good cash flow generation.
Thank you. We are done with the presentation and we are ready now to answer your question.

ELENA MARIANI: Yes, operator, I'll give the line back to you. I kindly ask you to stick to a maximum of 2 questions per person to give all participants the opportunity to ask a question. Thank you.

Q&A

OPERATOR: Thank you. 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 pick up the receiver when asking questions. Anyone who has a question, may press "*" and "1" at this time.

The first question is from Edouard Aubin, Morgan Stanley. Please go ahead.

EDOUARD AUBIN: Yes, and good evening. Thanks for taking my questions. One question on sales, one on profitability. Roberto, in the past, you've given us some color on the trends by nationality. If you could do that again, please, for Q2 trends? And so that's for nationality, but also related to that in terms of the movement, in terms of geography you've seen in APAC and to what extent it might or might not have impacted your profitability? So that's Question #1.

And then Question #2, Luciano, you had indicated that you were expecting gross margin expansion this year, among other reasons because of the higher DTC penetration. But clearly, it came in substantially higher the expansion in H1 than anticipated by the market. If you can just provide a little bit more color. And obviously that led to a beat in terms of your EBIT margin. So, are you sticking to the full year EBIT margin of about 29.5%, 30%? Or are you now more confident that you could exceed that? Thank you.

ROBERTO EGGS: Thank you for the questions, Edouard. Roberto speaking, I start by the question regarding the different nationalities and clusters that we have. I think the most important one everybody is interested to, is to have a review about how we performed with the Chinese. The Chinese, for us, were still up double-digits, even if during the quarter they meaningfully slowed down versus Q1. So, very positive on Chinese.

Koreans were softer, but we have to remind that the Koreans have been the fastest growing nationality for Moncler in these past 4 years. So it was something that was somewhat expected.

Japanese, flattish, but positive locally in Japan. The growth for the Japan country has been…as mentioned during the presentation, mainly driven by Chinese and by South Asian clients that have been traveling to Japan because of the weak yen.

Regarding Europeans, we had single-digit positive growth for the main important nationalities. Americans were single-digit positive in line with Q1 even if they remain volatile. So, we see positive weeks and weeks that are not as good. But overall, they were positive during the quarter.

LUCIANO SANTEL: Hi, Edouard. About your question on gross margin, of course, as you stated gross margin was much better this year than last year, thanks to the contribution of the DTC business. Assuming that in the second half of the year the contribution of the DTC business will be still growing compared to last year, we may reasonably expect a growth of our gross margin compared to last year, also in the second half of the year.

More difficult to answer is your question about EBIT, about operating profit, because, as you know, our operating margins are mostly driven by the top line and specifically by the sales density, which is something that's difficult to predict for the second half of the year for the current uncertain situation in all the different markets. Having said that, of course, our ambition is still to deliver operating profit in line with what we delivered over the past few years that is what you said before. But again, very difficult to say now something that I cannot guarantee it right now, of course.

EDOUARD AUBIN: And sorry, Luciano. Just to clarify, did you say that you expect the gross margin expansion in H2 to be more or less similar to H1 or did I misunderstand?

LUCIANO SANTEL: No, it's something I didn't say, Edouard actually, I don't know the extent of the expansion. I can predict this expansion for the reason we reported especially in the first half that is the higher contribution of DTC business, the extent of this expansion is difficult to predict. And honestly, I don't want to bet on numbers that I can't know right now, sorry.

EDOUARD AUBIN: Okay, thank you.

OPERATOR: The next question is from Erwan Rambourg, HSBC. Please go ahead.

ERWAN RAMBOURG: Yes. Hi, good evening everyone, and congratulations on a very resilient quarter relative to peers. I have 2 questions. So one on the price and the space impact for Q2, I believe price should moderate in H2 and space might expand further, but I'm wondering if you can comment on what the contribution was for both price and space and how you can project the back half.

Second question for Gino, I'm wondering how much you can tell us about the Shanghai event, not in terms of what you'll be doing, but how do you measure this relative to the other big events that you've been organizing over the years, the 70th anniversary in Milan or the big event in London, what are you targeting for this event in terms of return or visibility or how will it differ from the previous big events that the brand has organized? Thank you.

LUCIANO SANTEL: Okay, thank you for your question about the price-space contribution, am I correct? Of course we don't report this number quarter-by-quarter, but normally, the indication we provide to the market is that we expect for the full year a contribution of space mid-to-high single-digit. And we still expect this might be the case for this year.

ERWAN RAMBOURG: And the question on pricing close to 10% in Q1, and I think high single-digit in Q2. I'm wondering what the price part of the equation becomes in H2?

LUCIANO SANTEL: Okay. Price-volume contribution, you mean?

ELENA MARIANI: I think you're talking about price increases, right?

ERWAN RAMBOURG: Price increases, yes.

LUCIANO SANTEL: Price increase for this year is, as we said, in the region of mid-single digit, more or less the same first half and second half spring/summer and fall/winter. Last year was much higher for the reasons you know very well. This year is much more moderate.

ERWAN RAMBOURG: Right. Thank you. Sorry I cut you off, Gino.

GINO FISANOTTI: Oh! no. All good. All good. Thank you. Good to hear your voice! Few things on Genius, again, let me go to what I can say or what you can expect. I think the first thing I would say is that for us is the very first time that we're bringing Genius outside of Europe. And again, it's for us a great step forward to bring this to Shanghai. Of course, as you know, we have a strong relation with this market since we opened the first store in 2009. I think this is a strong developed market for us. And we believe this is a great opportunity to bring this there. As you know, Genius is a concept that is all about creativity. And we really believe that creativity is one of the sharp points that makes Moncler very distinctive within the luxury industry.

We'll keep pushing to evolve this further, so you should expect something special. Again, I think Genius have been helping us. When we start talking about not only the scale, but the return, it's not only about the immediate return, but it's about helping us to not only connect with current communities but open the door to new communities as well. We have seen the effect of London at the beginning of last year. We are very hopeful about what we will do this year as well. So again, more to come. What we announced so far is the date which is the 19th of October and the city which is Shanghai. So looking forward to share more with you as we go.

ERWAN RAMBOURG: Thank you. Best of luck. Thanks.

OPERATOR: The next question is from Oriana Cardani, Intesa Sanpaolo. Please go ahead.

ORIANA CARDANI: Yes. Good evening. Thank you for taking my questions. The first is about current trading. Can you give us an update on the trend that you see in July with some details on what's happening in each region?

And the second question regards the online business. How is this business line evolving? Thank you.

ROBERTO EGGS: Thank you for the questions. Let me take the first one, and I'm going to comment only once on the current trading because we are here to discuss about Q2, but we're ready to make some disclosure about the current performance. Just maybe to set the context, I think it's important to clarify that the Q2 performance was pretty consistent across the 3 months of the quarter. So it's not that we had one month very strong and one weak. It was pretty consistent among the three months. Let me also remind you that for Moncler, July and August are still considered low season in terms of sales. So, the trend that we're going to give is not an indication or a proxy for the rest of the year.

I would say that overall trend at the start of Q3 is not materially divergent from Q2. We are quite aligned in terms of trend. The two regions that are outperforming currently are EMEA and Japan and we have Chinese mainland that is a touch softer, even if the Chinese cluster is still positive for us.

In the light of the current environment and the ongoing sector normalization, you should not expect Q3 performance to be materially different from the one we discussed for Q2, for the DTC business. For the wholesale, let me remind you the guidance that we gave at the beginning of the year for the full year, which was high single-digit decrease. We have seen a -5% during H1, so you can expect the second half, especially Q3, where we have usually the delivery of the fall/winter season, to be on the high side of the high-single digit decrease. Especially because we took some measures last year for some of the e-tailers that were not performing. We are talking about the decision one year ago to cut the volumes and to continue with the elevation of our distribution in wholesale. So, this is something that was guided by us, decided by us one year ago. So, we're going to see some of these effects for the wholesale part on the second half of the year.

GINO FISANOTTI: Oriana, thank you for the question. Regarding online, I have to say that definitely Q2 showed a weaker performance than Q1 across all the regions. This business remains extremely volatile right now, we have been seeing this across the board. We are seeing some of the reasons for these. There is a lot of promotional activities going on in the market as well, which is sometimes affecting mainly the conversion part. I think we're seeing still strong performance in terms of the paid traffic, less on the organic traffic. And I think there is a behavioural change that we're seeing more and more of .com being a search platform where some of the transactions are definitely moving into the physical retail as well. So that's what I can share as a top line of what's going on in the online business.

ORIANA CARDANI: Understood. Thank you very much.

OPERATOR: The next question is from Melania Grippo, BNP Paribas. Please go ahead.

MELANIA GRIPPO: Good evening, everyone. This is Melania Grippo from BNP Paribas. I have 2 questions. One, if you could please remind us your structure in terms of price gaps, especially Europe versus Japan and Chinese mainland. And also, I understood that you said that your Chinese cluster is positive, but I was wondering if you could please comment to give us an idea of your performance in Chinese mainland in Q2?

ROBERTO EGGS: Thank you for the question, Melania. On the price gap, we have still probably one of the highest of the industry, even if we have materially decreased it in these past years. And this is part of the strategy that we have decided to put in place already 6, 7 years ago. It's the first time that the price gap between Europe and Asia is below 40%, it is in the range of 36% - 37%. Usually we have the regions in Asia, between Chinese mainland, Japan and Korea that are quite aligned. This year, because of the weak yen, we decided not to increase the prices in Japan to match the prices in China because we will have probably jeopardized or alienate the business that we have with our local consumers. So, we increased it to an extent that we are now having a price gap between Chinese mainland and Japan of roughly 5%, 6%, 7%, depending on the currency fluctuation, which is lower than the price gap of some of our peers. But that is enough to generate a very healthy and nice growth with the tourists, while also bringing positive figures with our local consumers. So, we're positive on the locals and strongly positive double-digits with the tourists, mainly from Chinese mainland and Southeast Asia as I was commenting during the presentation.

Regarding the Chinese cluster, I said that the Chinese cluster is up double-digits, even if it has been normalizing compared to Q1. We have been, and we remain positive in Q2 in Chinese mainland. So not only the Chinese cluster is positive double-digit, but we are positive locally with our Chinese consumers in China, while we have been experiencing, like most of the brands, an increase of the Chinese buying offshore. So, we have currently 40% of our business with Chinese that is done outside of Chinese mainland, and it was 30% in Q1.

MELANIA GRIPPO: Thank you.

OPERATOR: The next question is from Chris Huang, UBS. Please go ahead.

CHRIS HUANG: Thank you. It's Chris Huang from UBS. I have two questions as well. One on Moncler and the other one on Stone Island. Firstly, starting with Moncler, more theoretical question, can you just share some observations when it comes to the consumer behaviour during different seasons, given the business seasonality you have in the brand, especially in a weaker macro? Do you tend to see consumer demand concentrate on the core categories, such as the outerwear or do you tend to see the higher-end categories outperforming the overall brand, which I guess in your case would probably be the knitwear, the non-outerwear products?

Secondly, on Stone Island, can you maybe just break down the like-for-like and space contribution and maybe share some key learnings on the brand elevation journey? Thank you very much.

GINO FISANOTTI: Chris, thank you. Thank you for your question. Great question. I think we mentioned about the diversification around spring/summer. Without going too much into the details, what we can share with you is that we're happy to see other classifications growing faster than the brand right now. I think knitwear is that case for us. This is something that I think we have been discussing before. On top of the strength that we have as a brand in outerwear, we're seeing other classifications, we can call out knitwear, but within knitwear even cut-and-sewn as well, that have been contributing to the growth that we have been discussing. So we are happy to see that that behaviour is starting to come around in terms of theme, Moncler has a relevant brand all year round.

ROBERTO EGGS: Regarding your question on Stone Island, the DTC growth has been generating by a healthy mix between comps and space. We don't want at this stage to be more precise on this, as we are just at the beginning of our retail transformation. Retail transformation that is also starting by the elevation of the product. Very successful performance of our sub-collection, especially the ghost collection that is having success in all the regions. And that is also an elevation of the product portfolio that we have with Stone Island, the increased weight of part of their outerwear collection. We have also meaningful increase in terms of DTC performance on the main retail KPIs. We remain like the current sector negative on the traffic. But apart from the traffic, all the metrics that we have started to monitor in terms of conversion, units per transaction, average tickets are up and are following the strategy that we are currently putting in place. The campaigns that we have started to run involve people that are bringing also their communities and enlarging the reach of Stone Island. We are going to feature for the first time women in our campaigns. Peggy Gou, a very famous Korean DJ, is going to probably - is what we hope - increase the reach and increase the number of followers of the brands while staying true to the DNA of the brand.

CHRIS HUANG: Thank you.

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

LUCA SOLCA: Yes, good evening. Luca Solca from Bernstein. One question about retail space productivity. Would this help see comp sales growth? So like-for-like sales growth. And without knowing how the average store size is evolving, I was wondering whether your new goal, as far as the sales per square meter is concerned, is now approaching €50k. I wonder if you have a more precise and sort of clearer view on that.

The other point I had in mind was the fact that you had such a big price gap between Japan and Asia in general and Europe is now potentially a blessing in disguise? Because we see now a number of brands struggling to keep sort of the desired price gaps, while the Japanese yen devaluation in a way is solving your problem, because you are reducing the price gap just because of where the currencies are moving. So, my question on that is, are you experiencing a less extreme issue as far as damaging your own Japanese consumers with price increases, for example? And also without doing that, less of an with Chinese professionals coming to Japan to create parallel trade of your products? Thank you very much.

ROBERTO EGGS: Good evening, Luca. On your first question regarding the retail space, you know that the ambition we have in terms of productivity is €40k per square meter, which is not what we have achieved yet. We closed the year 2023 with a record of €38k per square meter. Let's see at the end of the year, depending on how things are going to evolve in the second half of the year, if we can reach this ambition or not, it will very much depend on the performance of the last quarter of the year. We commented the comp in the first half, which is 14%, and there was a healthy comp, positive also in the second quarter, even if we don't disclose figures regarding this. So this is where we stand and where we want to remain.

Regarding the price gap, I think we had many opportunities to already discuss it together to see if it's the right level the one we have today. We know that we have still some work to do to further decrease the price gap. But currently, and also last year, it has not been an issue that was raised by our local teams in Asia. We have been able to perform locally, while enjoying a healthy growth with travel retail destination. For the yen clearly the decrease is helping us to decrease and to come closer to where we want to be, which is below 30% probably in the range of 25% one day. It will take another couple of seasons to do so, but we don't see problems. We don't have questions or complaints from the local consumers in Asia, and we are enjoying nice growth in Japan and Europe, thanks to the price gap with the tourists.

LUCA SOLCA: Thank you, Roberto.

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

LOUISE SINGLEHURST: Hi, good evening to all, Roberto, Luciano, Gino and Elena. Thank you for taking my questions. Just a couple of follow-ups for me, if I can. Just going back to the comment, Roberto, you mentioned China being positive, which is an absolute fantastic result given what we're hearing across the peers and how tough it was in Q2. Is there anything to call out that you're seeing within, and I know we keep obsessing about China, but it's obviously very difficult to have clear observations from the outside. But is there anything that you've seen in the first half this year, which would make you feel differently, or any surprises versus where you were at the beginning of this year? Any change, whether it's traffic conversion?

And then my second question was just on space. Given where we are and the regional performance is there any difference in how you're thinking about the new space allocation by region over the medium-term? So not necessarily for second half 2024, because obviously the planning, but as you look more over the next kind of 2 years, you certainly sounded a bit more positive on really focusing on the US opportunities for store expansion earlier this year? Thank you.

ROBERTO EGGS: Thank you. Thank you for your questions. What surprised us with China was definitely the first quarter of this year with the fantastic performance during the Chinese New Year. We took the full advantage both locally in China, but also with the restart of the travel retail to maximize our sales with Chinese during Q1. And clearly since then we have seen a softer performance locally, but also because the weight of Chinese buying outside moved from 30% to 40% in Q2. So clearly this is impacting the local performance of our Chinese, even if globally the cluster even now in the start of July remains positive.

In terms of deployment and strategic deployment of Moncler, we are still under-penetrated or under-distributed compared to some of our peers in the Americas, not only US, but also South America is one of the focus that we want to add in the next year. It is not something that can be quickly fixed because we are conscious that we are under-penetrated on the North American territory. And this is going to be one of the focus that we have in the future. Europe will be mainly driven through transformation of existing stores, relocation and expansion. It will be less about openings, even if we have still some opportunities on secondary or less relevant geographies like Portugal and Greece where we want to have a footprint, but they are not the first priority that we have. We have demands locally. We are fulfilling the needs of these clients through the online or when they are traveling and we know that there is potential.

Finally on Asia, clearly for us, China remains a focus. A lot of relocation now also on the Chinese market as we have increased dramatically our performance locally and we have now access to better positions compared to when we started 15 years ago in China. So, there is a clear focus also for us to improve the visibility of the brand. And we think that with the current number of stores, which is 46, we still have some room to further increase the penetration of Moncler on the Chinese market.

LOUISE SINGLEHURST: Thank you, very much.

OPERATOR: The next question is from Charles-Louis Scotti, Kepler. Please go ahead.

CHARLES SCOTTI: Good evening. Thank you for taking my questions. I have two, and the first one on wholesale. Some of your competitors have indicated worsening trends in the wholesale channel that it doesn't seem to be the case for you as you confirm the high single-digit decline guidance for Moncler. Do you also reiterate the high-teens drop for Stone Island expected this year? And also, the market in the wholesale channel is very promotional. How do you monitor that, and could this make you accelerate your wholesale rationalization further? And another follow-up question on wholesale, will the merger between Saks and Neiman Marcus have any impact on your business?

And second question on the free cash flow, which was very good with a stronger working capital control and lower capex. Can you come back on the seasonality of the capex in H1 because it seems that you opened the same number of stores than last year, 5? And also, if you could give us more color on the sell through in your stocks and the level of inventory leftover today. I think you have been pretty conservative on production volumes for this year, but should trends were to stay soft in H2, how confident are you in keeping the working capital under control? Thank you very much.

ROBERTO EGGS: Charles-Louis, thank you for your questions. I'll answer to the first one regarding wholesale. We are currently pushing for even more selective distribution agreement and approach for both Moncler and for Stone Island. This implies sometimes also moving some of the good key accounts into a concession model. This is also what we did with some of the e-tailers that became a concession. We have just at the end of June moved for Moncler Saks.com into a concession after having moved in October last year the Saks Fifth Avenue store into a concession. We have reduced the exposure on the e-tailers by cutting 40% of the volumes for the fall/winter season in order to be able to have a healthy growth that is in line the commercial policy that we have. So, with the season that is starting now, we are quite confident that all these price promotions we have seen around the market will affect us to a lesser extent.

As I was mentioning for Moncler, the second half of the year for wholesale will be less good than the first half. So, we're going to further decrease in the high-single digit number. The performance for the Q3 is going to be worse than Q4 before seeing something that is probably more healthy next year, while staying probably negative still in 2025. For Stone Island is the opposite. We have had a strong decrease in wholesale in H1. We think that our second half for wholesale should be slightly better, and we are going to continue to push the change of business model that we initiated two years ago, moving the business into more of a DTC business with more control.

One important element on which we have been working a lot is that we are going to start managing our own online with our new website for Stone Island that we are going to launch at the beginning of August. Something we have been working strongly in this past one year that is going to help us continuing in the elevation of the brand perception and also introducing new omni-channel services like we did in Moncler back in 2018. It is time to introduce a new way of selling, an omni-channel approach also for Stone Island starting from second half of the year.

LUCIANO SANTEL: Yes. Let me answer the question about free cash flow that, you're right, was good. Actually, last year was not particularly good, because we decided to change our supply chain phasing anticipating the production in order to better serve our markets. And for this reason, net working capital impacted significantly more than €50 million negative. This year the impact of working capital is much lower also because we were able this year to manage more efficiently our inventory. So, the impact on that side is lower.

And the other point you mentioned is capex. Capex, as I said before, is only timing. The reason why it's lower than last year is about the infrastructure, because last year we reported the end of the completion of our production facility. Second, the production facility in Romania that impacted significantly some important investments in logistics.

Talking about retail network, last year we reported significant investments, capex for the opening of Zurich, Miami, Munich for Stone Island and Plaza 66. So, some very important and very expensive projects, more than this year. But again, some important projects will happen in the second half of this year. And for this reason, we still maintain the indication of about 6% impact of capex on our revenues.

Talking about net working capital, as you know, there is a lot of attention by management team in controlling net working capital and specifically receivables on one side and even more importantly inventory. Our inventory position is higher than last year, but less on a percentage basis than last year. And again, because this year we are a little bit more efficient in managing inventory. Inventory is made of the end of spring/summer season and the beginning of our fall/winter season that just started a few weeks ago. We have, what we need, honestly.

Talking about sell-through, for the spring/summer season was good, was in line with our plan. Actually is in line because the spring/summer season is still in our stores and we are still selling that season. For fall/winter is still premature, even if the season started quite well. In our open to buy strategy, as you should know very well, we tend to be very prudent in developing the inventory. And now we're open to buy, but on the other side we have some flexibility in the supply chain that makes us reactive should the market demand be higher than expected. So again, we have everything, but not more than what we need in our inventory now.

CHARLES SCOTTI: Thank you very much. That's helpful.

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

PIRAL DADHANIA: I'll try to be brief given the time. So, I have 2 questions and a quick follow-up. My first question is on gross margin. I just wanted to follow up and clarify, is all of the gross margin expansion in H1 - I think its 180 basis points year-on-year to 76.7% - driven by channel mix or is there some contribution coming from either price or regional or product mix? Just wanted to understand the dynamic because that will help us better understand or try to forecast the dynamic or what we could expect for the second half based on the channel growth rates that you have indicated for Q3?

My second question relates to performance in the second quarter by collection. Have you seen any noticeable differences between main collection versus Grenoble in terms of the sell-through rates or customer interest? And just a very quick clarification. Thank you for sharing the offshore onshore mix of Chinese spend in the period. Could you just help us understand what the tourist versus local spend is for the European market and the Japanese market? Thank you.

LUCIANO SANTEL: Okay, your first question about the gross margin. Gross margin was very healthy, honestly, as you said, mostly not totally, but mostly driven by the DTC contribution, much higher than last year. So, this is what made our gross margin very good. There are other minor good effects, but not material, honestly. And so, this is mostly driven by the channel mix. For the second half of the year, of course, channel mix will still be predominantly DTC as compared to wholesale. And so, we expect a similar, but I can't tell you how much expansion of gross margin for the same reason.

GINO FISANOTTI: Second part. Good evening. Second question was more about the performance across the different dimension of the brand. Moncler Collection remains the biggest contribution to our business. And as I mentioned before, of course, was an important focus for us on Q2 regarding our spring but mainly summer offering there. As we mentioned before, I have to say Grenoble keeps performing well across all regions. I want to keep reminding that the Grenoble is an area of focus for us. This is the second year that we introduce spring/summer at the beginning of the season. And right now, literally yesterday we introduced pre-fall. So, we're seeing really strong performance on top of what we have normally in winter. Again, on top of that, of course, we have good expectations on the launch of the collection we have in winter on the back of the show we presented in St. Moritz with this collection. So, we are excited to bring this to market.

And then last, but not the least, as we always say, Genius is an important aspect for us. But beyond the revenue itself, of course, is the biggest recruiter we have for the brand. A quick reminder that the last Genius Collection of this year was presented in February when we did the launch of Jay-Z and then we are in a pause until we go into the show in Shanghai. And right after that, we will continue. Genius is something we leverage way beyond the revenue aspect. But I would say, as we always discussed, the 3 dimensions play very critical roles for us. Strategically, we know what the role is and we are super excited to see the response we're getting across the three of them.

ROBERTO EGGS: And just some more information regarding the split between tourists and locals. For the Chinese markets, we were at 30% of the spend for Chinese offshore in Q1, that moved to 40% in Q2. Regarding Japan, you can take as a proxy that more or less 30% of the business done in Japan currently is being done by tourists, as I mentioned, mainly by our Chinese clients, but also from clients from Southeast Asia.

And for Europe, as an indication, on a yearly basis, the local Europeans buying in Europe remains the first nationality. But we have seen obviously an increase of the spending of Americans that continue to perform, Koreans that continue to be positive, and Chinese that have been raising a lot during the first quarter of the year with the Chinese New Year, becoming softer now towards the end of Q2 and start of Q3. And this is for one main reason, which is, in my opinion, the Olympics, that is also having a negative impact in terms of Asian tourists not in Europe, but at least in Paris. We have seen that especially, and I referred to my experience of London 2012, in the few weeks before the start of the Olympics, you see usually a decrease of the usual tourists coming to buy luxury. And we have not yet welcomed in Paris the tourists that are going to come for the Olympic games that are usually lower spender that are buying more entry prices. So clearly, we have adapted our assortment in that sense. What we may expect also during the summer, but time will tell, is that, let's say, location like London may benefit from some of the tourists that we're usually planning to go to Paris. So, London could be the good surprise of the third quarter.

PIRAL DADHANIA: Thank you very much.

OPERATOR: The next question is from Chris Gao, CLSA. Please go ahead.

CHRIS GAO: Thank you. Good evening. Thanks for taking my question. So, before I ask my question, we're definitely exciting to know that Moncler Genius event will take place in Shanghai. And we look forward to welcoming you in October.

And 2 questions from my side, please. The first question is regarding the Chinese mainland market outperformance. So you are doing positive growth. This is a great achievement given offline retail environment is quite volatile in Chinese mainland in Q2, and I believe this has been outperforming quite a few peers on the ground. So if looking deeper into the retail metrics, just wondering which part do you think you are doing better than peers. Are you seeing better traffic, better conversion, higher ticket size, better repurchase or it is related to more help from store opening? So just want to understand more about where that outperformance is coming from.

And the second question is regarding your strategy in Hong Kong, Macau. So as a tourist market especially for the mainlanders this year, you can see some dilution, especially from other tourist destinations like Japan market, and also some mainlanders shift back to spending in Mainland structurally, right? So right now, what are your strategies in Hong Kong, Macau market to protect the store productivity there? And also, especially I wonder what we will do more in terms of your CRM strategy. And a follow-up on that is, is there any tourist contribution in Hong Kong, Macau market now versus pre-pandemic level? Thank you very much.

ROBERTO EGGS: Well, thank you for your questions. I must say that I will answer the first one only partially because I would need to know the metrics of our peers to be able to comment on where we are doing better than others. So, it's extremely difficult to say. I think like everybody we have been experiencing a decrease in traffic towards the second half of Q2, mainly-linked to the fact that there is an increase of offshore buying from Chinese. I was commenting before 10 percentage point in total. It's a lot. But this is, as we know, always fluctuating. So, it may differ and change throughout the end of the year.

As I was commenting during the call, also during the result call of the full year 2023, I think we have a very good team locally that has a very good understanding about the needs of the Chinese consumer. And operationally they are amongst the best performing team that we have. So, I don't know if this is explaining partially the good performance that we have and if we are better than the peers, I cannot tell you. But we are happy about the team we have in place and we have a good understanding about the Chinese consumer.

Regarding Hong Kong and Macau, 2, 3 years ago I was thinking that Macau, Hong Kong were at the end of the road and will never recover the volumes of 2018. And then we have seen at the start of the year a very, very good performance of Hong Kong that has been softening now because of Chinese consumer traveling more towards Japan. We also know that one day the yen will become stronger and when it does that we'll see Hong Kong again and Macau again and Hainan returning to positive growth. So, I think we need to stay flexible. We need to be reactive and we are happy about the current network that we have there, and we are going to focus mainly on refurbishment of the existing stores and improving the customer experience both in Hong Kong and in Macau.

CHRIS GAO: Okay, thank you very much. This is very helpful. So just want to follow-up. You are continuously investing in Hong Kong, Macau and current store number is also still looks ideal for you, right?

ROBERTO EGGS: Yes. We have the Macau conversion that was something planned. So, I think it was in line and it was the best performing store that we have there. So, I think that the conversion was the right one anyway.

OPERATOR: The next question is from Liwei Hou with CICC. Please go ahead.

LIWEI HOU: Good evening Gino, Roberto, Luciano and Elena and congratulations on the hard earned good results. I have 2 questions. First one is a follow up on growth drivers for Chinese cluster in the past semester. I'm curious on how much of that growth was driven by recruitment of new customers and how much from more spending from existing Chinese customers. It would be very helpful to have some color on that?

And second question, is it possible to share with us the number of clients globally for both Moncler brand and Stone Island, especially the number of American clients, which is clearly under-penetrated, and the growth in size of clientele globally in the past few years would also be helpful. Thank you very much.

ROBERTO EGGS: Liwei Hou, thank you for the question. We haven't noticed a dramatical difference between Q1 and Q2 between recruitment and work on the existing clients. The work on existing clients is something that we have started really to work on since more than 5 years. It's really a focus of the local team in the stores. They need to welcome and work on the conversion of the natural traffic that is there, but also on all the clienteling activities they are pushing on clients that are already in the database. And on this, with also the launch of Moncler 3.0 last year, there have been a lot of tools that have been able to help the local team to enhance, let's say, the relationship with the client. We have also kept some of the innovation that were developed during the pandemic like distance sales and so on – we call new ways of selling – and we continue to push them not only in China but also in all the other region.

I didn't get your question on the Americans. So let me try to give you a little bit on holistic vision what we are trying to do in the Americas. It's a long-term investment that we have in the Americas. We know that we are under-penetrated, but we see this like a glass of wine that is half full. So we have still possibility to grow the business and to develop it. Being more relevant for the spring/summer season is clearly helping us also to develop the presence of Moncler in the southern part of the US. We have had very good experience in Atlanta, Houston and Dallas, so in the plan of development, because we have only 45 stores in the Americas, there is further development that are foreseen in terms of network development. There is also the change of business model that we have started 1 year ago in May with Nordstrom that is starting to pay off. So it's a hybrid model where we are the owner of the stock, we share the cost of the client advisor and we have higher visibility amongst in a multi brand environment.

There was a question before I did not answer on Neiman Marcus and Saks – if we see this is more as an opportunity or a threat for us. It's more an opportunity that we have because we had very strong relationship with Saks. We had the Neiman Marcus that was fixed into this business that didn't want to discuss. I hope that this may open discussion to also an evolution of the business model with them. We know also that during the next 1 year there won't be any change before there is an approval from the commission to approve the merger between the two. But overall we see this more as an opportunity for us to be even a more relevant player with them.

So, this is the global approach. There is also specific development that we want to have. We want to push more on Grenoble. We have a plan to open an additional store in resorts on top of the existing one in Aspen and Vail. We have also plans to increase the visibility in New York. We did fantastically well with the opening of the Miami District, with the doubling down on the store in Bal Harbour and also we have planned to further develop the presence in Los Angeles. So in the big 3 cities will get a much better visibility in the 12 months to come.

LIWEI HOU: Thank you very much. Best of luck.

GINO FISANOTTI: One little thing to add to what Roberto was saying regarding China. I think on top of what we were discussing about existing and new customers, I think Roberto mentioned the obsession for many years regarding current customers and of course always looking for opportunities to connect and bring new customers in. I would say the other important aspect that the team in China is leveraging pretty much is the digital platforms. And if you keep in mind the work that today we're doing around WeChat, T-mall and JD is allowing us, with really strong performance right now, to even bring new and more customers to the brand as well. So, I think a little bit to what Roberto was saying. It's like an almost end-to-end approach from the team there, which is helping us to keep this balance that you were asking for.

LIWEI HOU: This is very helpful. Thank you very much.

OPERATOR: The next question is from Rogerio Fujimori with Stifel. Please go ahead.

ROGERIO FUJIMORI: Good evening everyone. Thanks for squeezing me in. I have only one question for Roberto on the current trading for Moncler brand in the US, just to complement your July trading comments for the other regions. Thank you.

ROBERTO EGGS: I said at the start that I didn't want to comment on each single performance in July. I can only reiterate that the fact that the performance in the region is in line with the performance of Q2.

ROGERIO FUJIMORI: Got it. Thank you.

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

PAOLA CARBONI: Yes, hello. Good afternoon everybody. Just a quick one left from my side on Stone Island. Actually, can you start sharing with us any possible color about your plan for 2025, both on further brand elevation actions on the retail side and possibly what we should expect in wholesale. So how much possibly you should still work on the wholesale rationalization, whether this is complete or not, and so on? Thank you.

LUCIANO SANTEL: Okay, thank you. Thank you, Paola. I mean, Stone Island starting from this year again, you know the story, Stone Island is expected to decrease the wholesale business, as we reported in the first half, but also in the second half the wholesale business will be significantly down, hopefully offset for the second half of the year by growth of our DTC business. That is the business strategically most important for Stone Island and the business we are investing in more.

For 2025, of course, difficult now to predict, but I mean, talking from the strategy point of view, we will continue the strategy that will be to keep investing in the DTC business. Something important to reiterate that Roberto said before, DTC business is physical retail, but also the online business. And on the online business, we are ready in a few weeks, actually 2 weeks from now, to start with the new website of Stone Island that will be directly operated by us and not any longer by YNAP. And this is something we have great expectations on, of course, not only for the business, but also for the brand enhancement.

For next year again, DTC business is something we will keep investing. On the wholesale, we still expect a weaker business, difficult to say right now how much will be down, most likely in some regions less than this year. Of course, something important to remind you is that with the next year we will internalize the business that is currently operated by a local distributor in the UK. And this is something that for sure will put us in a position to rationalize that market. And this I expect for sure will imply a decline of the business, a much more selective approach, some kind of cleaning of the market. And this is something that will impact for sure the wholesale business.

In the other regions. I expect a lower decline. But again, what we are very focused on and we keep investing in is the DTC business from the organic growth point of view, that is way more important. We are investing in retail excellence project, but we are also investing in products, in the collection and in the categories that made the story and the identity of Stone Island that are outerwear and knitwear and that are performing very well and much better than the other categories.

From the new openings point of view, we still have a plan of a selective new openings. It would be less difficult to open many stores, but this is not a part of our strategy. The strategy is first to make the existing stores grow organically and then to open stores. So, for next year, don't expect an important number of new stores for Stone Island.

PAOLA CARBONI: Okay. Thank you very much. Very clear. Thank you.

OPERATOR: The next question is from Thomas Chauvet, Citi. Please go ahead.

THOMAS CHAUVET: Good evening. Two questions, please. The first one, could you provide an indication of how outerwear grew compared to knitwear and sneakers in DTC in the second quarter directionally?

And secondly, follow up on current trading, maybe, Roberto for the Moncler brand, you indicated similar DTC growth in July relative to Q2, so up high-single-digit. The comp base in Q3 is 25 points easier than Q2. So would you expect at some point this quarter to see a natural return to double-digit growth perhaps in September, which was quite weak last year, you had warm weather and a delayed start of autumn/winter, if I recall well. And also in current trading, did you say the Chinese cluster was positive in July, but no longer double-digit, if I heard you correctly. Thank you.

GINO FISANOTTI: Thomas. First question regarding the different categories. I think, again, I mentioned a bit of this before, just to go a bit more in detail. I think all categories grew well year-to-date. In Q2 specifically, I think knitwear outperformed all the other categories growing double-digit. Of course, also, given that we are in a spring/summer seasonality. But I have to say that on top of outerwear, knitwear inclusive both cut-and-sewn, and footwear having grown in all cases. So that's a bit of the high-level picture of that. And again, as I mentioned before knitwear have been outpacing the rest of all the different classifications during the first half, and specifically in Q2.

ROBERTO EGGS: Right. Thomas, I will just repeat what I said, because I don't want to give more color than what I said so far. What I said is that the overall trends at the start of Q3 are not diverging meaningfully from Q2. We have EMEA and Japan outperforming, and Chinese mainland, which is a touch softer, with the Chinese cluster that is still positive, this is what I want to say. I don't want to give more colors than that. Thank you for your understanding.

THOMAS CHAUVET: Understood. Thank you, Roberto.

ELENA MARIANI: Okay. Thank you very much for participating in this call, and for staying with us until such a late time in the evening. Let me just give you a quick reminder of the next release. Our Q3 2024 results will be on October 29th after market close, and our quiet period will start on September 30th. Thank you again for your questions, and please, as usual, for any follow ups, feel free to contact myself or any member of the IR Team. Thank you again. Have a great evening, and obviously, we wish you also a wonderful summer break. Thank you.