

# **Moncler S.p.A**

## **"Q1 2020 Interim Management Statement Call"**

**Wednesday, April 22, 2020, 18:00 CET**

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OPERATOR:

Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Moncler Q1 2020 Interim Management Statement. 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 Mr. Remo Ruffini, Chairman and Chief Executive Officer of Moncler. Please go ahead, sir.

REMO RUFFINI:

Good evening everyone and thank you for attending our conference call tonight. Although, normally I do not participate in the first quarter, today I thought it was very important to be here with my team and with you all. In these days, in which we are all far apart, being together has become even more important. In Moncler, together we are facing these difficult moments. Together we are reacting to them. Together we are supporting our community. Together we have adapted our way of working. Together we are shaping our new future. And together, I am sure, we will come out of this situation, stronger than before.

2020 will be remembered as the watershed between the before and the after. We have faced an unknown challenge. We understood that we are a truly global society and that we need sharp, deep and coordinated actions. This is what we have done in Moncler. I ask my people to go back to basics. I ask them to think, even more, digital first. I ask them to further engage with the Moncler community, both internal and external.

Since the outbreak of the virus, we acted with 2 priorities, taking care of our people and of our brand having always our client in mind. We have

created a task force to face the crisis. In one weekend, we learned how to work from home. We have started an energy plan to keep in touch with our people. We have started to communicate differently. We supported in this emergency an important project for our city, for Milano.

Albert Einstein said in 1929 “crisis can be a blessing to any people, to any nation. Crisis bring progress. Crisis are moments of learnings. They oblige people, or companies, to take time to reflect, to look inside, to analyze deeply strengths and weaknesses, to choose the essential, to find new energy and to act. Now it’s the time to act. We restart and we have to do while remembering what these weeks and months have taught us.

I feel an unbelievable energy in me, in my team and in all Moncler’s people. New ideas are arising for today and for tomorrow, new ways of thinking, new tools and behaviors to interact with our clients, to talk with them even if far apart. 2020 will be difficult. We all know this. But Moncler will not find shortcut to improve short term results. We have never done it and we will never do it. We have skills, we have talents and financial strength and we know that is better to suffer today in order to be strong tomorrow. Also for this reason, I supported the board’s resolution to withdraw the payment of dividend, a decision absolutely not necessary, but that I welcomes and I ask to waive my total compensation for 2020 and the variable one for my executives.

We have always managed this Company with strong rigor. To restart we have a powerful Brand and clear strategy but also financial strength and motivate people to continue to find our inner genius, all altogether. Our yesterday crafted our today, our today shapes our tomorrow, our future is carved today. We are ready to face this challenge with the same energy,

the same emotions and rigor that we had at the beginning of this journey. All together we will take it. All together, we will make it.

Thank you very much. I'll leave the floor to Paola and Luciano.

PAOLA DURANTE: Thank you, Remo and good afternoon everybody. First of all, let me highlight that tonight we are all connected, as you can understand, from different places, from our homes. It's the first time we are not physically together, and it is a new experience which I hope we will go without problems.

I will start providing you a brief overview on our revenues. And then, I will leave Luciano commenting on all the actions we are taking to face the current situation and to answer your questions. Luciano will manage primarily the Q&A, given the logistic constraints.

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

Let's now go to the numbers, to the results moving to Page 5 of the presentation. I will make 2 quick comments. The first one is that, in these 3 months of the year, we have been, as you all know, severely impacted by the global emergency that we are facing. All channels, except the online, and all markets have been affected by the spread of the virus COVID-19.

As a result, our revenues declined 18% at constant and reported currencies.

Moving to Page 6, revenue breakdown by distribution channel. In the first quarter of this year, retail revenues were down 19% and wholesale was down at 15%. Retail performance has been impacted by the temporary closure of many stores during the quarter. In February, we temporarily closed up to 14 stores, mainly in China, while in March, we progressively temporarily closed up to 111 stores. At the end of March, we had all stores in EMEA and in Americas temporarily closed.

Our wholesale revenues performance reflects not only the difficulties of the moments but also, and even more, the actions that we have taken to limit the risk of overstocking. In particular, we have postponed all deliveries expected to be done in February and March. Let me also underline that our e-commerce posted very good growth in the both channels and in all regions.

I will now move to Page 7 of the presentation, revenues breakdown by region. As said all regions have been severely impacted by the current crisis with barely no exception. The current performance incorporates, not only the closure of all the retail stores from March 9, and also the previous sharp decline in traffic, but also the actions taken on the wholesale channels. EMEA outperformed the rest of the regions thanks to a strong start of the year, and also a more limited numbers of days of closures for the retail. Asia and Americas reported similar performance both down 23%. In Asia, Japan and Korea in particular outperform while Hong Kong remained the most difficult market.

Let's now focus on the region EMEA including Italy, Page 8. Europe and Italy combined reported a -12%, with both channels recording negative growth. Germany and the Middle East posted the best performance in the region, also driven by positive results in the retail channel. Italy and partially France, underperformed the average of the region, having had more retail closing days in the quarter and having been affected by lower travelers in the previous weeks. Online was up double-digit.

Let's now talk about Asia, which as you know, includes APAC, Japan, and Korea. Mainland China has been highly penalized by the COVID-19 spread, in particular in the month of February while in March we have started to see signs of improvements, which has continued also in April. Hong Kong remains a very difficult market as well as Macau. Japan and even more Korea. outperformed the rest of the region. Korea in particular has been less impacted by the virus and benefited by the strong local demand. Japan, also had less stores closures in the quarter and had a sound local demand, but unfortunately now the country is completely locked, all the stores are closed. Online business, in particular in China, but also in Japan, has been growing strong double-digit, of course, even if we are talking about off a smaller base, but very nice growth.

Finally moving to Americas. Revenues in the Americas decreased 23%. Not much to add here, both distribution channel suffered for the effects of the virus of the COVID-19 spread.

And finally, on our store network, Page 11. At the end of March, our retail stores reach 213 units. In the quarter, we opened 4 locations including our store in Kiev in Ukraine, the new market.

In terms of stores temporarily closed, I have already commented. I can just add that as of today, we have 130 stores temporarily closed. In April, unfortunately we had to close all the Japanese stores. While in the meantime, we have opened 8 stores in Europe. In addition, in the quarter, we opened 2 wholesale mono-brands stores, but we also converted from wholesale into retail other 2 stores.

I will now leave the floor to Luciano that will take you for a deep dive into all the actions that we have taken to face the current crisis and then for your Q&A.

LUCIANO SANTEL: Thank you Paola, good afternoon everybody and thank you for attending our call today. We are now at Page 12 where we report, as Paola said, all of the actions we are taking to protect the Company, our people and our stores from the coronavirus. We see all the most important pillars we are working on. The first and most important one is our people. People is the most important asset of our Company and, for this reason, we took actions to implement very stringent health measures to protect people that kept working in our facilities, to protect them from health point of view.

In addition, we implemented actions to protect their compensations, mostly for people that are not currently working. I am talking about people that work in the stores that are currently closed. We decided to integrate their salaries and to maintain their level of salary.

Brand and clients. We keep communicating the value of the Brand and we keep communicating with our clients, mostly our local clients in order to keep alive, as much as possible, our relationship with them, now more than ever.

OPEX and CAPEX. The current situation is having a very severe impact on our sales and also on our P&L. In order to reduce as much as possible such impact, we are working to reduce our OPEX and our CAPEX by selecting and working only on high priority projects, digital first and some important retail projects. Talking about CAPEX, we cut our CAPEX budget by about 30%.

We are also working on inventory. As we said during the last conference call in February 10, the Monday right after the COVID outbreak, we took immediately actions to adjust as much possible our Open to Buy and to cut our production plan for the Fall/Winter season of 2020. This is an ongoing activity and is very important not only to protect our P&L but also to protect our brand integrity. We also cut our marketing budget focusing as much as possible only on important projects and on digital projects.

Rents. Rents is an open negotiation with landlords, not easy at all, very tough, very difficult, but very important to protect our profitability.

Last but not least, cash. We have the benefit of having a very important net cash position which is about €700 million net cash but we also took a decision to withdraw the dividend payment that, as Remo said, was and is not strictly necessary but we believed that it's important in such delicate and critical time to protect the Company for the future.

These are my comments and we are now ready to answer your questions. Thank you for your attention.

Q&A



OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "\*" and "2." Please pick up the receiver when asking questions. The first question comes from Ms. Louise Singlehurst of Goldman Sachs. Please go ahead.

LOUISE SINGLEHURST: Hi, good evening everyone. Thank you very much for taking my questions. I'll just ask 2 and then we can move on. The first question and the obvious one, was, can you tell us a little bit about China and the reopening of stores just in terms of appetite? Obviously, mindful that the rest of the stores around the world remain closed. And then secondly, very interesting to see such sharp discipline being taken in wholesale during the quarter, as much as the greater control in terms of the inventory. Can you just help us thinking about working capital and how you are going to deal with the unsold inventory for this current season? Presumably you get some benefit with such a small seasonal weight for Q2, but can you keep a large chunk of inventory for next year in terms of the evergreen products and just the seasonality of the business? Thank you very much.

LUCIANO SANTEL: Okay. Thank you for your question. About China, the first question. China was the first country, first market severely impacted by the virus, but also was the first market, the first country that reopened the stores. Right now China is in a much better shape than any other markets, all the stores are open and we see very encouraging signs of improvement, good signs of improvement in March and even better signs of improvements right now in April.

So we are confident that the situation recovers very pretty nicely in China. Even if I have to tell you that right now April and May are the 2 least important months for our business. And so, even if the signs are very encouraging, I can't tell you that are still particularly significant, but again very good signs of improvement in China.

About working capital. Working capital is the problem because it is the most important problem of our profit and loss, not just working capital but also the impact that working capital may have on our profitability. We took immediately actions, first on inventory. I am talking about retail first because we immediately implemented actions to cut our production plan for the coming Fall/Winter season. And we couldn't do a lot on the current Spring/Summer season because at the time of the outbreak, most of the production was already completed.

But we are now working on something that you anticipated correctly. We are now working on the collections and we are very selectively selecting some bestseller items of the current season that were very bestsellers in January, but because of the closure of the stores are still in our inventory. And some of these bestsellers will be carried over to next year to Spring/Summer 2021. So this is something we are doing very selectively because we don't want to move a problem from one year to the other. I'm talking about only bestsellers of this season.

And the second action that has already been taken was also communicated by other brands. As soon the stores will reopen, we plan to maintain our Spring/Summer products in our stores longer than the normal, longer than last year. We normally implement the changeover in end of May/June, this year the changeover will start probably in June, but we will maintain

our Spring/Summer products until August or September in order to minimize as much as possible the impact of the leftovers.

About wholesale. Wholesale is a channel made of stores that are facing the same situation. So we expect to face this problem with our wholesale customers, but because of this situation, our wholesale business in general was doing very well and it was well over the results of last year. But right after the outbreak, we immediately stopped our deliveries to our wholesale customers, exiting order to minimize the impact of their inventory and this is the reason why our wholesale business is down in the first quarter and it is down only because we stopped deliveries to our customers in order to minimize the inventory problem they may have.

Of course, we also implemented relations that are still alive with our customers, with our wholesale customers in order to see whether or not we can get some returns from them at the end of the season. But of course, to make the long story short, the inventory is the problem of this year. We are acting as much as we can on the Fall/Winter season, but we are taking the initiatives also on the Spring/Summer season but for sure we will have leftover products at the end of the season. I told you what we are doing, I didn't tell you what we don't want to do. It would be the most simple but the easiest solution to take to push Spring/Summer leftovers to our outlets next year that would maximize our outlet sales but this would be disaster for the brand. So this is something that we are not doing and we will never do.

About working capital, the other component is credit. The credit is strictly under control. Our receivables are protected by our insurance policy. Having said that, we are looking very closely at the overall situation of our wholesale customers and in particular of some department stores,

specifically in North America, and also at the rumors that are circulating right now about some difficulties that were expected. But in any event, our credit is totally protected by our insurance policy. Thank you.

LOUISE SINGLEHURST: Thank you and one quick question just to clarify. Is China back to positive territory?

LUCIANO SANTEL: China is providing some positive and encouraging signs. It's still too early to tell, it's not strong, again positive but still early signs. So we are confident about China, but I am not telling you that we see strong signs in China, because it would not be true. Again, we are confident because the signs are encouraging and are getting better day after day.

LOUISE SINGLEHURST: Very clear, thank you very much for the detail.

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

LUCA SOLCA: Thank you very much indeed and thank you very much indeed, Remo, for your generosity to Milan. The first question is an attempt to understand beyond geography how you've experienced organic growth trends by nationality, so that we can better isolate the impact that the Chinese suffered from COVID-19 and how that is going to reverberate across the various nationalities? More practically, you were talking about the change and the adjustment to manage inventory. I wonder if on the back of the disruption you are changing the Genius calendar this year and how you are planning to change it in case? And then more technically on operating deleverage. It's very difficult I believe at this time to make any forecast for the full year. It's very likely that it's going to be a very difficult year, as you pointed out earlier in the call. I wonder how you see operating deleverage work for you, and given the actions that you are taking, what

kind of top line reduction would bring you to breakeven point? Thank you.

LUCIANO SANTEL: Thank you, Luca. And now to your first question, organic growth by nationality. What I can tell you is that our Chinese cluster is suffering more than the others first because what happened in China because China was the first market where our stores were closed, but also because Chinese people are not travelling and didn't travel after the outbreak. In January and after the outbreak, for the first week or 10 days after the outbreak, our business in Europe was pretty good, also thanks to tourists and specifically Chinese tourists. But after they went back home, they didn't travel at all. So Chinese cluster, which is still our most important cluster, is down compared to last year also on a percentage basis. All the other clients are more or less in line with last year even if South Korea is better than last year because Korea is the market that is suffering less than others. So, the Korean cluster is a little bit better. And also in the first quarter the Japanese cluster is a little bit better, but as Paola said, in the end of March or beginning of April we closed all the stores in Japan, so this information is not particularly meaningful.

About Genius. We are working on the calendar. We originally planned to deliver Simone Rocha and Richard Quinn between March and April if I am correct. Now we are planning to deliver the 2 collections in May and we hope to be able to maintain and meet this plan. But, of course, we may change. We also maintain our plan to deliver in June Fragment probably with some weeks of delay, but right now it's not a big problem. We want maintain as much as possible our Genius calendar because if you attended the show held in Milan, in February, all the collections are very nice and impactful. So, we really hope to be able to deliver with the same calendar or with some delays all the Genius collections.

About our operating deleverage. We have a number in mind. It is not a number I can tell you. But what I can tell you is that, it is a big number. The reduction in order to breakeven, that means not to make any profit, is a very big number. We have about 40% of variable costs. Costs that are variable or costs that we force them to be variable. An example is marketing, which is not a variable, but considering the current situation we are cutting our marketing budget and also expect for this year a percentage closer to 6% than 7%.

Something important to say is that, our personnel cost is something we are taking actions on, but with the first priority in mind that is to protect them, to keep them motivated as much as possible for the time when will we reopen the activities in the stores. We prefer to spend more money now to integrate their salaries then to save that money, because that money is an investment in motivation. Again, to make the long story short, in order to breakeven you have to cut our top line of a big number. We plan and we hope to maintain a reasonable topline still with a significant cut, but to report a profitability and operating profitability that will not be what we and all the market is used to see, but still a reasonable and fair profitability, because we are taking all the actions I said. Thank you.

OPERATOR: The next question is from Antoine Belge of HSBC. Please go ahead, sir.

ANTOINE BELGE: Yes, good evening to you. Thank you for organizing this call. 3 questions if I may. First of all, compared to some of your peers, it seems that the U.S. has been suffering more relatively to the other region. So can you explain if there is a specific region? And maybe about the timing, is it truly the month of March that led to that minus 23% decline?

Second question regarding stores. They are a big part of your story and usually they contribute sort of high single-digit number. So first of all what was the contribution of new stores in Q1? I think you are talking about a 30% reduction in CAPEX, I guess some stores will not be opened this year. So what's a reasonable number of stores that we could expect?

And finally on the gross margin. You mentioned a bit of a challenge in terms of inventories and also maybe retail will not outperform wholesale, not being the case in previous year. So, should we expect a decline in gross margin this year and what would be the magnitude of that decline? Thank you.

LUCIANO SANTEL: Thank you for your question. About the U.S., North America is suffering more or less in line with other regions. I can tell you that some decline is associated with the wholesale business first because we anticipated in November and December deliveries because the department stores in the U.S. at that time wanted to receive products as early as possible to sell out the product before the Christmas. As usual, but even more than before. So in January deliveries were lower, softer than last year and also because in February and March we start deliveries in all the market, in all countries, but the U.S. was impacted significantly by these few reasons.

On the retail point of view, you may remember the comments we made at the time of the last conference call. We said that also before the virus arrived to the U.S. or to Europe, the stores in the U.S. as well as in Europe were not doing extremely well, because after the outbreak in China, the worldwide mood was very critical and was very weak. So, our retail network started to perform not very well before we closed the stores. In Europe, we got the benefit of the Chinese New Year for about 10 days after the outbreak. In the U.S. much less and this is another reason.

Overall, there is not a specific reason for the Q1 results in the U.S. Of course there are some concerns, some reasons to be concerned about the U.S., because the wholesale business is made of some big players, department stores that are suffering, that are facing all their stores closed right now.

About the new store contribution. The new store contribution in Q1, not only because it's only one quarter but also because of the current situation, it's not particularly meaningful. Definitely the space contribution is less than the high single-digit we normally indicate, it's less. But this is due to the current situation that makes that metrics in the first quarter of this year not particularly meaningful.

About gross margin. Gross margin declined because the impact of the negotiation of inventory will be something visible and touchable at the end of the first half and it is difficult and premature to predict how much will be the impact for the year end. Hopefully much, much lighter. But in Q1 that is not something we report. Internally we close the books every month, the impact is significant. If I told you the contrary I would lie because Spring/Summer leftover is a problem. It could not be a problem if, and only if, we decided to carryover that inventory to our outlet next year, an easy solution but a disaster for the Brand. Our financial statements reflect our business strategy. You will see a gross margin decline in the first half, hopefully less for the year end. Thank you.

ANTOINE BELGE: Thank you. May be I could just to follow-up on my question about the new stores. Thank you for the answer about Q1. But regarding the full-year and what's the store count this year? What's the most likely number of net openings?



LUCIANO SANTEL: Yes. The net opening is still in the region of 12 to 13 stores. We have postponed some openings. We have postponed some projects, because we have cut our CAPEX budget of 30% and apart from this 30% that has been cut relates to retail projects that are new openings or expansion, relocation. So big projects in China, in Beijing, in Sanlitun that was expected to happen in October have been postponed to next year. We still maintain some important projects, one for all, our projects in Paris Champs Elysée, which is by far the most important project of the year. Honestly with some concern because of the construction site in Paris right now being closed, because of the situation. So we are not sure 100% to be able to open that store by the end of the year. But we are working hard to meet that plan. But in any event, if we will not be able in November, December, for sure it will be January, February.

Another important project, which is not in Europe, a relocation, it's the store in Rodeo Drive, Los Angeles. We are relocating our store to another much bigger location, much more visible. This will be in this year. A very important new opening is the first store we are opening this year in Spain, in Barcelona. Another project very important to mention. The total number would be in the regionhhh of 12, 13 new stores.

ANTOINE BELGE: Thank you very much.

LUCIANO SANTEL: Thank you.

OPERATOR: The next question is from Susy Tibaldi of UBS. Please go ahead, madam.

SUSY TIBALDI: Hi, good evening. And I hope you all are well. Can we go just back to Mainland China for a second? I wanted to check, if you're seeing trends that can vary by region within China. And I'm asking this because I

imagine that your store network may be still a little bit underpenetrated versus some of your peers. So I was wondering if you think that you're well-positioned to capture the recovery or if you could see some headwinds given your stores network in Mainland China.

Secondly, I wanted to ask, with regard to the supply chain. Ruffini has been very vocal in the press saying that it's important to go back to work as soon as possible. So I was wondering, if you have any clear visibility at the moment. As we have heard that some of your peers have started to reopen, for example, some prototyping factories. And also, I just wanted to check if your production in Eastern Europe was also affected by corona? Thank you.

LUCIANO SANTEL: Yes. Thank you, Susy. About the Mainland China. It's difficult to tell you whether or not there is a visible trend within China. As you stated correctly, our retail network position right now is good, because our strategy has been since ever, and way before this unfortunate situation, very selective and to open stores everywhere in the world, but in China specifically, only in very big, important Tier 1 and some selected Tier 2 cities and in very good locations. So obviously, yes, some stores are doing better than others. But April and May are not significant months of for our business.

I can tell you something which is not important, but just to give you some more color and the flavor of the situation. For example, in Beijing, that is a city that I think you know very well from the retail point of view, there is a big department store SKP , where they normally hold twice a year in November and April a big event, this event is a pluri million euros event in one-week for our business, €3, €4 million a week. November, much more than in April, in any event. But this last year, of course, they had

delayed, this year they, of course, correctly decided not to hold this event because it generates thousands and thousands of people in order to protect people from the possible revamp of the virus. They decided to hold and to postpone this event. This was something negative.

We monitor the market very closely and we see very encouraging signs of recovery also because we keep talking with our clients, the local clients. This is something we never stopped to do and we see their wish to come back to the stores or to see the collections. We are positive, we are confident, but it is still premature to come to a conclusion.

About the supply chain. We do have a very clear visibility and I'm happy you asked this question, because exactly today, this morning at 8 o'clock, we reopened our facility in Padua where we develop the collections. Actually we never stopped that process because we kept working under remote working with our prototype people working from home.

But today exactly we reopened that facility, so we can now accelerate the product development process for the Spring/Summer 2021 collection. The rest of the supply, and specifically our production site in Romania, never stopped working. Other factories in Romania unfortunately are still closed. But overall our production process never stopped. There has been a slowdown. We may have some delays, nothing I'm worried about because the most important factor is that Romania kept working and our factory, which is by far the most important, never stopped working. Of course, some Italian factories are closed because of the current situation.

So we have some troubles but nothing so relevant to be worried about. Our logistics hub in Italy never stopped working, with the limited operation, with a slowdown of the operations, but we keep shipping out

raw materials to our factories in Romania. We keep receiving finished product for our factories in Romania. And we keep shipping out product to our regions and to our customers around the world.

SUSY TIBALDI: Thanks. And just to follow-up. So with regards to the e-commerce, was the distribution center maybe closed at some point or because I think that's your online shopping maybe just in Europe, but there was a period where it was not working, is that still the case or what's the situation there?

LUCIANO SANTEL: Yes, you are correct. Our e-commerce online business is operated by YNAP and there a distribution center in Bologna. It has been closed for few weeks. Right now, that distribution center is open again, but with limited operations. So something that we transparently communicated to our clients, this has been affecting our online sales even though, as Paola said, our online business in the first quarter was up double-digit, and so did pretty well, much better than the other retail business or wholesale business. Notwithstanding that distribution center was closed in mid-March or 20 March, now that distribution center is opened again, but with limited operations, so is day-by-day recovering the order backlog, which is significant and processing returns. It's working but, you are correct, for about 3 weeks, 4 weeks it was closed.

SUSY TIBALDI: Thank you very much.

LUCIANO SANTEL: And not only in Italy, also in the U.S. by the way.

SUSY TIBALDI: Great. Thanks.

OPERATOR: The next question is from Elena Mariani of Morgan Stanley. Please go ahead, madam.

ELENA MARIANI: Hi, good evening, everybody. First, can I ask a couple of clarifications? I'm sorry. I'm going to go back to China. Did I understand correctly that you've seen signs of improvements? But so far into the second quarter, the Chinese cluster is still negative? I'm asking because some of your peers have planned very high double-digit growth in April. And so I was wondering where you stand, I mean, is it a single-digit improvement overall locally that you've seen or is it more like low double-digit one. If you could quantify that would be helpful, because that's a very important aspect just to affect the pace of the recovery.

Second clarification, you've talked about inventory and what you are doing to manage that. But if you're not doing discounting in stores, which is your policy, and you're not planning to use massively outlets, so can you clarify a little bit better, what you're planning to do with your inventory because you know, still the vast majority of your products are more like seasonal and fashion, as opposed to carryover.

And then, thirdly on the operating profitability, you were very clear in talking about the risk of operating leverage, but at the same time we know that your business is quite seasonal and maybe this year this could prove to be quite helpful to you. Should we assume the scenario of potential recovery in the second-half, is your statement from last time about the €100 million loss in sales, the maximum level you need to see to keep margin stable still valid or at this point, given the meaningful deterioration you expect in the first-half, you think this could be challenging?

And then, if I may, can I ask one question to Mr. Ruffini. I'm curious to hear from him, how he expects the luxury industry to change after the crisis. There has been a lot of discussion in the press about luxury moving

back to a slower fashion. After a few years with a strong focus on capsules and newness which is exactly what you've been doing with Genius. What is your point of view on this topic? And you know, would you plan also to move back to slower fashion, or at this point you still believe that your current modus operandi is the right one for the long term. Thank you.

LUCIANO SANTEL: Thank you, Elena. About your first question. I'm happy to hear what you said, because it's exactly what I wanted us to say. I know that some brands, actually not many, said that they see very strong recovery in China. I think not many and I think that other are still suffering. But we are looking at Moncler. I would lie if I told you that we see strong double-digit recovery. We are very confident because we believe in our brand, and we believe in the importance of our brand for our clients. We see that right now starting from mid-March the business is recovering very nicely. But I don't want to say huge double-digit whatever. China is doing better and better every day. We are seeing something that makes us very confident for the future, but not huge numbers also because again of the seasonality.

About inventory. You can't say that inventory is either you sell it or you hold it. If you can't sell your inventory during the regular season, you and we and all can carryover that inventory to outlets, but this is not Moncler strategy, Moncler strategy, is to the extent only to what our outlet can sell maintaining a strictly contribution of outlet business, within the precise number that we have in our mind. We will never push our outlet sales, because this would be a disaster for the Brand. We know exactly how much our outlet can sell out next year of the exiting leftovers. This is not what we have now in our inventory, unfortunately, and some of this is inventory will be selectively carried over to our regular stores, and

selectively means that we are all working only on some items, only or some best seller items that we were selling very strongly in January and December, but unfortunately because of the closure of the stores we stop selling them. On these items we are working to carry them over to next season. Another action is something that other brands are doing. We will try to keep the current season longer than normally, and to keep our Spring/Summer products in the stores longer than last year, probably until August.

If at the end of all these actions, there will still be leftovers, and unfortunately there will be an unsold leftover, that leftover will be, has already been depreciated. Right now I can't evaluate that impact and hopefully after the second half it will not very important but mathematically there will be an impact on our gross margin. I am not talking about accounting arena, I am talking about business and brand strategy. So that inventory will be held in our warehouse somewhere in our distribution center, but never ever we will discount it.

About profitability. You're totally right, this unfortunate situation is very bad but it could have been much worse if it happened in September, October, because our seasonality makes our business much stronger in the second-half. Having said that, if the stores will be reopened soon, if the traffic will restart soon, if everything will be normal, we will be very happy and confident about the second-half. Right now it's something that I can't say, but of course, we hope this would happen also because we have been talking about stores that are closed, but Paola anticipated that right now some stores in Europe reopened. I'm talking about the Wien, Salzburg in Austria, some in Germany and North Europe. We will see if this trend will continue and all the other stores in Europe step-by-step will reopen, the situation may change very nicely. But again, too early to say.

I think the last question was for Mr. Ruffini.

REMO RUFFINI:

Yes, I think is. I don't think this question of slow fashion or slower fashion or fast fashion, I think the world is changing and I think we have to consider it and I really feel that all our strategy, not only need an evolution, because we have to respect this moment, I think, we have to respect also the reaction of the customer. Having said that, I don't feel the Genius project is wrong for this moment. I think it's not a question of selling product or selling collection. It is a question of the relation with the customer. Yes, I think in today's world, it is even more important to keep the relation daily, weekly and monthly with our customers. We need to understand the mood of the customer. I don't think we have to make any decision today. We already worked a lot in these last 40 days, because we need really an evolution of our strategy.

Having said that, I can say, in 2 more words, we don't have to push. I don't think we have to push in the next quarter, I don't think we have to push in the next month, because we have to recover what you lost in the last 40 days. I think we have to think about the brand. I think we have to think about the long term strategy. I want to keep the brand very healthy, and I want to really have an evolution of my strategy because you have to consider that the world is really changing.

Having said that, I, we do realize that the Genius project is not as good as what I feel. I will change part of them or I will change all of them, I don't know yet, but for sure, I want to follow my customer, I want to follow my community, that this is one of the most important things is in our strategy. Thank you.



ELENA MARIANI: Thank you very much to both of you.

OPERATOR: The next question is from Omar Saad of Evercore ISI. Please go ahead, sir.

OMAR SAAD: Thank you for all the information. Thank you for taking my questions. I hope you are well. Most of my questions have been answered. But I do want to follow-up on digital. I want to see if you can talk in more detail about the importance of digital connectivity and engagement. Remo, you were mentioning some of those factors. As well as e-commerce maybe an update on what's happening with your e-commerce business and website. Again, considering a longer-term change in social distancing and consumer behavior of this channel, its importance may be rising for you? Thank you.

LUCIANO SANTEL: Hi, Omar. About digital, about e-commerce specifically, as said before, we have on the top of our priority projects, the digital projects because is more than one. One is the implementation of our online platform, which has been implemented in Korea. We are working in Korea not because of the importance of Korea, which is very important market, but because we use Korea as some kind of laboratory to develop tests specifically on all the possible omni-channel transactions we can implement in order to be able eventually to extend the platform to other markets, which is something we have not decided yet. We will make a decision and communicate the decision at the end of the first-half of the year because again our online business right now is operated by YNAP. The contract as you know is expiring at the end of this year. With the next conference call in July we will tell you and to the market our decision. But in any event, we strongly believe in the importance of digital, not only of the online business but everything associated with the digital communication. The

way we communicate with our clients has changed more than ever. And right now, more than ever, our digital communication is extremely important. We communicate right now more than our business content, we tend to communicate our brand values, because the stores are closed, people are all online. In Europe and North America they are all at home. So, we tend to communicate our brand values, we tend to communicate the fact that we are close to them. We are communicating also Genius deliveries- As said before current deliveries have being postponed so we are not communicating here right now Genius. But Genius before this situation and hopefully soon, when the stores will reopen, it will be an important part of the content, we will communicate digitally.

I don't know, if Mr. Ruffini wanted to add something.

REMO RUFFINI:

I can say that at this moment, these give us possibility to be more digital in terms of relation with the customer, in terms of sales, in terms of everything. I hope this is going to push us more and more to have a digital company as we project mainly a few years ago. Having said that, I think we have to change really the mood of the approach. I don't think the physical experience is going to be disappear. I think the reaction of the market could be different. I think Asia could be a totally different mood. We see already in these days, they are back to shopping. I don't think Europe will be the same as well America. But, I think we have to respect all the culture and we have to be as much domestic as we can really to improve our new vision to the customer.

Having said that, we have lot things to do. The good things that, in the last 40 days we work a lot, even with the video call. But we are able to really make our good smart working, remote working and we already plan to give to the customer, new ideas and new adventures, but we need to go

back to the office. We hope end of next week and then start working to approach this new world, and again not in the different way, we need a strong evolution. But, honestly, I feel a lot of energy, I feel we are ready.

OMAR SAAD: Thank you for the information, best wishes.

PAOLA DURANTE: Sorry, operator, there was a question from the website that is related to e-commerce. The question was, what are the revenues made through e-commerce in full-year 2019 and in Q1 2020. I just answer very quickly. Full-year 2019 e-commerce, including both retail and wholesale, was around 10%. In Q1, we never comment really quarterly performance but, of course, it was the only channel growing this quarter. So for both retail and wholesale, the weight is growing. I leave for the follow-up question. I leave to the operator to take that one.

OPERATOR: The next question is from Marion Boucheron of MainFirst. Please go ahead, madam.

MARION BOUCHERON: Hi, good evening everyone. Thanks for taking the questions. I was wondering if you could tell us what's the weight of wholesale in Americas region. Then my second question would be, if you could give us some more color, on your production outlets for the Fall/Winter 2020. Is it more on the seasonal thing that you have been adjusting production on the carryover, I mean, how and what flexibility do you have then to readjust orders? And the last question, on the stores opening plan for this year, do you have any views on the timing, I know it's difficult to say this thing right now, but if you had any color on the quarters, when you expect them to open? Thank you.

LUCIANO SANTEL: Hi, about wholesale in America. The wholesale contribution in America is about 40% of the total business in America. Wholesale is very important in America. America is probably by far the most important market of wholesale, because the large distribution is implemented through retail stores, but not many locations, not in our case, but also and even more through some important department stores like Neiman Marcus, Saks, Nordstrom, Bloomingdale's and others, not many others honestly, because Barney's was another but last year they signed for bankruptcy.

About production cut. We tend to cut more a seasonal items for the Fall/Winter season, because carryover is something easier. Firstly, because, by definition, even if we produce too much we carry them over, to the excess. Second because, if we are talking about carryover, permanent or iconic product, this is something that we keep producing very easily and very fast in our factory, because we hold raw materials, components. This is a neverending action. We can slow down it, we can stop it, but we can easily turn it on anytime with a very short lead time. So carryover in general is not a bigger problem. Of course, we have slowed down our carryover production. But this is the easy part. The most difficult part is the cut we implemented in our seasonal products, because on one side seasonal product is very risky, because they may be trending this year, but may not be trending next year. The other risk is that we need to maintain absolutely an important contribution of seasonal product in our stores in order to maintain the stores exciting and interesting for our customers. We can't put in stores only carryover or iconic product. You will never find our iconic products on the floor of our stores because they are hidden in the back of house. The important work is on seasonal, in order to balance the 2 components. About the timing of our stores opening. It is mostly this year, more than ever, in second half of the year. Last year we also opened a lot of stores in second half, and most of them

in Q4, but this year because of the situation you will see most of the new openings in Q3 and Q4. Again, some of the projects said before like Paris, Rodeo Drive and Barcelona will be of course in the second half, The stores we opened in Q1 are the stores that Paola mentioned. One important because is the first store in Ukraine, is the store in Kiev.

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

MELANIE FLOUQUET: Yes, good evening. I wanted to check if you can explain a little bit better the outperformance of EMEA in comparison to Italy, that was very acute in Q1, it is actually down, it slowed down, really the magnitude of the difference is very meaningful. So I was wondering whether you can provide an estimation that would help me understand better, how they are so different.

My #2 question is on the production plants and could you share with us or remind us what is the percentage of sales that you almost carryover that I suspect under replenishment and retention scheme. And by how much have you kept Fall/Winter products in plans for the time being? And my last question sorry is for Remo, if that is possible. You mentioned in your opening speech that the only crisis highlights the strengths and weaknesses and brings changes. I was wondering whether you could share with us what are the one-off weaknesses you've identified that you are already working on that would shed differently your business? Thank you very much.

LUCIANO SANTEL: Honestly, yes, EMEA did not too well, but again better than other regions, because there are 2 elements. Talking about retail which is the most important element, Europe was the last one, and Italy closed the stores

first. The rest of Europe closed the stores later and so it was less impacted. France, Germany and the other European countries were less impacted than Italy from the closing of stores. The second point is that Europe in January was doing very well and also continued to do pretty well until mid February because of the tourism was still pretty active in the first few weeks after the outbreak also with the Chinese customers who kept shopping in our stores in the main cities of Milan and Paris.

Another point is about wholesale for which timing is the only explanations and, not related to business, in January we shipped out a lot of products from the wholesale point of view and Europe was a country where we shipped more than other countries. And this is explaining the better performance of Europe and explains also the worst performance of Italy. About production plan, carryover, permanent, represents more or less 30% of our business, and again carryovers together with iconic products could have represented more, but we tend to maintain sales of our iconic products low because we don't want to inflate this kind of product. So this is the answer. The other question?

MELANIE FLOUQUET: How long have you kept the Fall/Winter production? You mentioned the production plans are down from the second half.

LUCIANO SANTEL: Production plan. I can't give you the number but the cut was pretty significant on one side. On the other side, for the carryovers, permanent and iconic products, we have production lines that keep working. We can easily slow them down or accelerate them but we have also some flexibility that has been implemented over the past years on seasonal products which is something that in the past was not possible.

Right now, we are able to react to the market demand also on seasonal product and we prefer to cut them more and to maintain the flexibility to react, during the season, to the demand of the market with a longer lead time, longer than on permanent and iconic products but still in time to meet the market demand. The lead time is longer but we are taking into consideration also this aspect that is important but also thanks to our own factory in Romania, we are more flexible now than in the past.

I can't give you a number but we are cutting hopefully more than what is needed. We also hope to be able during the season to get surprised by a stronger demand from the market and to have the problem, which will not be a problem, to make more production in our factory. This is doable and not only for carryover products but also, for some extent, for seasonal product.

REMO RUFFINI:

Okay. If I understand well the question, I think it's actually what I said in my speech at the beginning. I think from the crisis you learn a lot. You have the time to think, time to reflect, to look inside of your company and not continue to run and check what's happening in front of you but you have time to watch back too. I think this is very important. At the beginning of the start of this crisis, I talked with the people in the company, with my people, I say we have to go back to basics. We have to choose the essential. This was the moment when one month ago we started this lockdown period. I think we continued to have a lot of energy in the company and I think we realize that the world is starting to change and we started thinking and implementing or evolving our strategy in the sense that we feel that the customer is looking for something, I don't think total, totally different, but I feel and I think with another approach.

I think the market, the consumers, will be more let's say human in some way, at the same time, they will continue to have the relation with us, the relation with the brand and I think what we want to really is to improve our relation with our community as well. I think this is one of the most important point.

I think this crisis could be a big opportunity for a company like us because we can redesign more or less everything. We can redesign our view on the market. We can redesign our product. I think functionality has become very important. I think more than 3 months, than 1 year ago and I think this is the question of working product and talking to the customer, try to communicate another message. And as I said before, we have to evolve our strategy. I don't think our strategy was wrong in the past. I think it's only a question to think that the world is changing at the moment, at least for the next months, the next years. Honestly, I think it's an opportunity to really think a new way to work, a new way to talk, a new way to make your own journey. I think this is important.

Again, for me it is important, we have to go back to work and I think we have the possibility to recover these 40 days. I don't want to recover this in the next 2, 3 months because I think we have to think about the long-term, we have to think about the brand, the brand perception, and I think you don't to have push your customer to come back to the stores. We have to invite them. We have to propose. I think there could be a totally different approach, or at least a different approach. And honestly, we are ready. We want to go back to work and I hope what I have in mind is correct for this new world.

MELANIE FLOUQUET: Thank you very much.



PAOLA DURANTE: Operator we have time for the last question. It's very late, but if there is a one final question, we will take it.

OPERATOR: Thank you, madam. The final question is from Flavio Cereda from Jefferies. Please go ahead, sir.

FLAVIO CEREDA: Final question, exciting. Thank you. So look, 2 quick things. Firstly, I was wondering in terms of details about inventories and what you are planning now for Spring/Summer and Fall/Winter. Given that the majority of the sellout for the rest of the year will be in Asia Pacific region, is it a challenge to make sure that you have the right amount of product at the right time in that particular area? Are you implementing any particular action to make sure that the supply is there? And the other thing, seriously, I just think you deserve credit for being honest and open about the situation and what you are doing. I wish everybody do the same, not often it's not the case, so well done on that. Thank you.

PAOLA DURANTE: Thank you, Flavio.

LUCIANO SANTEL: Thank you, Flavio. About inventory. We are planning to have the fair amount of product in all the regions but in APAC, in Asia Pacific is important to keep under control, more than ever, inventory as much as possible in our central warehouse and to allocate inventory to our regions later depending on the specific demand from one market more than others. Of course, considering that Asia Pacific and specifically China, we see interesting and encouraging signs of recovery and improvement, we will ship more products there than in other regions. This is something that is not very difficult in our operating model.

So this is not a specific problem on the space. The most important problem, which is something we are addressing as much as we can, is to make sure that we don't develop, we don't build too much products but I feel that for China, where right now is spring, we have definitely the right amount of product and we are also ready to ship to China more products if they will need it because we have products in our central warehouse. So from that side, we don't see any problem. Thank you.

FLAVIO CEREDA: Thank you.

LUCIANO SANTEL: Thank you so much.

PAOLA DURANTE: Okay. we are done. Thank you very much for participating in this call. Let me just quickly give you 3 reminders. Our General Meeting will take place on June 11 as you might have seen from our press release today. While our first half results will be published on July 27 after business hours and the conference call will take place the same day. As usual remember that our quiet period will start on June 29. I think there were some questions from the web that we might not have answered. I think we answered most of them. For any follow-ups, please feel free to call us tonight, tomorrow, anytime, we are here. Thank you. Thank you so much for so many questions and very interesting ones. Thank you. Good night.