

PRADA

MILANO

DAL 1913

H1 2017 Results Presentation

Milan, September 8th, 2017

Agenda

Presentation

14:00 – 14:30

Alessandra Cozzani – CFO

- H1 2017 Financial Review

Patrizio Bertelli – CEO

- Business Update

Chiara Tosato – Prada General Manager and Digital Director

- Digital Transformation

Patrizio Bertelli – CEO

- Outlook

Q&A Session

14:30 – 15:00

H1 2017 Financial Review

Alessandra Cozzani
CFO

Group P&L

€m	H1 2017		H1 2016		% change
Net Sales	1,442.6	98.2%	1,529.3	98.4%	
Royalties	26.1	1.8%	24.9	1.6%	
Net Revenues	1,468.6	100.0%	1,554.2	100.0%	-5.5%
COGS	(380.0)	25.9%	(432.2)	27.8%	
Gross Margin	1,088.6	74.1%	1,121.9	72.2%	-3.0%
Product Development	(66.8)	4.5%	(63.7)	4.1%	
Advertising & Promotion	(82.6)	5.6%	(76.0)	4.9%	
Selling	(679.6)	46.3%	(678.2)	43.6%	
G&A	(92.8)	6.3%	(90.4)	5.8%	
Operating Expenses	921.8	62.7%	908.2	58.4%	+1.5%
EBIT	166.8	11.4%	213.7	13.8%	-21.9%
Net Financial Income (Expenses)	(0.5)	0.0%	(6.2)	0.4%	
Income Taxes	(50.2)	3.4%	(62.2)	4.1%	
<i>Tax rate%</i>	<i>30.2%</i>		<i>30.0%</i>		
Group Net Income	115.7	7.9%	141.9	9.1%	-18.4%
D&A	112.7	7.7%	116.3	7.5%	
EBITDA	279.6	19.1%	330.0	21.2%	-15.3%

- Better quality of sales supported higher gross margin
- Operating expenses well under control resulting in a satisfactory level of profitability

Group Balance Sheet and Cash Flow

€m	31 Jul 17	31 Jan 17	31 Jul 16
Non current assets	2,530	2,600	2,561
Net operating working capital	553	556	674
Other current assets / (liabilities), net	51	51	17
Other non current assets / (liabilities), net	(116)	(126)	(91)
Net invested capital	3,018	3,081	3,161
Consolidated shareholders' equity	2,799	3,104	2,915
Net financial position (surplus) / deficit*	219	(23)	246
Total	3,018	3,081	3,161
Operating cash flow	208	632	267
Capital expenditure	106	251	108

- Strong operating cash flow thanks to disciplined approach to cost and working capital management
- Capex now at normalised levels
- Net financial position remains healthy; turned negative in the period due to dividend payments
- Balance sheet remains very strong

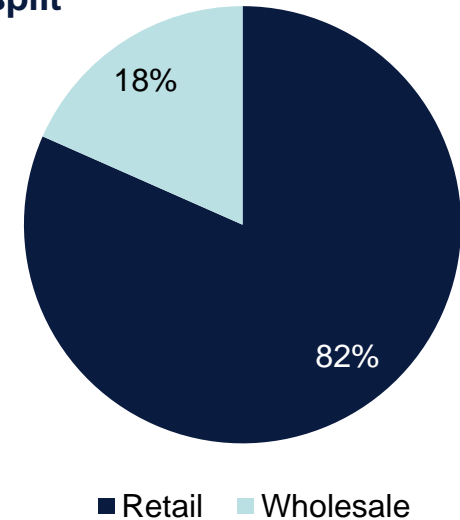
*Note: *NFP without related parties*

Net sales by channel

Quality of retail sales improved, solid performance from wholesale

€m	H1 2017	H1 2016	% change same FX
Retail	1,177	1,277	-8.0%
Wholesale	265	252	+4.5%
Total	1,443	1,529	-5.9%

H1 17 split



Retail

- Trends impacted by strategic decision to significantly reduce the markdown sales
- Contrasting trends across countries and categories
- 7 net closures (+6 openings -13 closures) during the period resulting in 613 DOS
- Digital strategy on track resulting in growing online sales

Wholesale

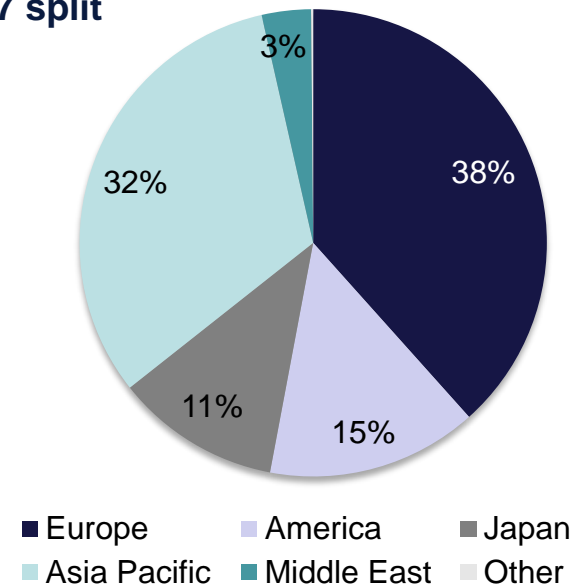
- Solid results driven by strong e-tailer partnerships, thanks to both existing and new customers

Net sales by geography

Robust growth in Greater China

€m	H1 2017	H1 2016	% change same FX
Europe	554	600	-6.6%
Asia Pacific	463	461	-0.6%
<i>Greater China</i>	302	289	+5.2%
America	210	218	-5.8%
Japan	164	192	-14.2%
Middle East	49	56	-13.1%
Other	2	2	-
Total	1,443	1,529	-5.9%

H1 2017 split



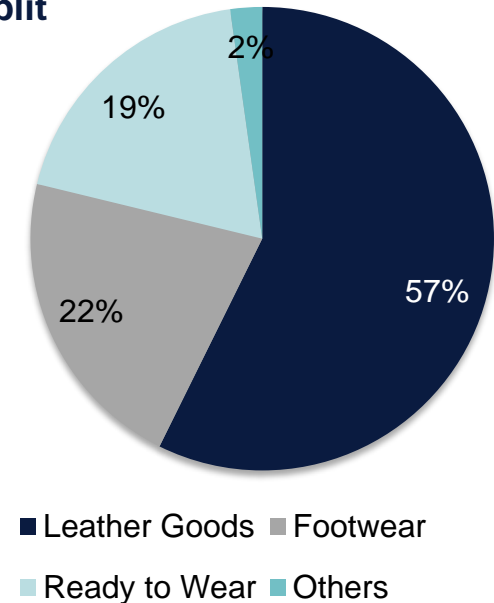
- **Europe** trends slowed later in the period due to euro appreciation and tough comparable base (Brexit)
- **Asia Pacific** improvement mainly due to **Greater China**
 - Positive retail trends in China, Hong Kong and Macau
 - Korea impacted by political tensions
- Less declining trend in **America**
 - Organic growth in Canada and Mexico
 - Good performance from US department stores
- **Japan** remained impacted by weak tourist spending and domestic spending
- **Middle East** reflected ongoing geopolitical tension

Net sales by product

Mixed performance in leather goods, RTW very well received

€m	H1 2017	H1 2016	% change same FX
Leather Goods	827	894	-7.9%
Footwear	310	344	-9.5%
Ready to Wear	274	262	+4.1%
Other	32	29	+5.7%
Total	1,443	1,529	-5.9%

H1 2017 split

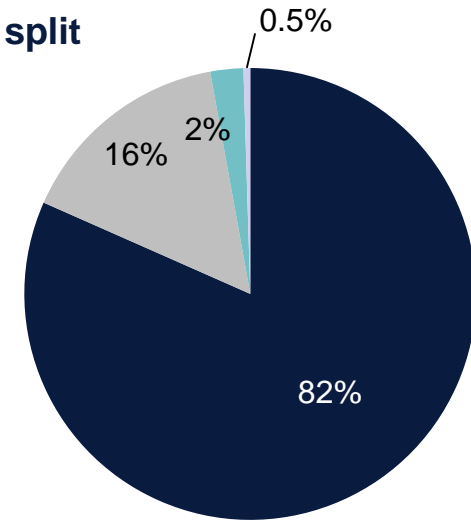


- **Leather Goods** showing mixed performance
 - Excellent reception to new collection (i.e. “Prada Etiquette”, “Prada Cahier”, “Paradigme”) in all markets
 - Very encouraging trend in Prada Asia Pacific
- Very good performance from **Ready to Wear**
 - Positive organic growth across all brands in all key regions witnessing the leadership in design

Net sales by brand

€m	H1 2017	H1 2016	% change same FX
Prada	1,177	1,234	-5.0%
Miu Miu	224	249	-10.2%
Church's	34	40	-10.5%
Other	8	7	+11.9%
Total	1,443	1,529	-5.9%

H1 2017 split

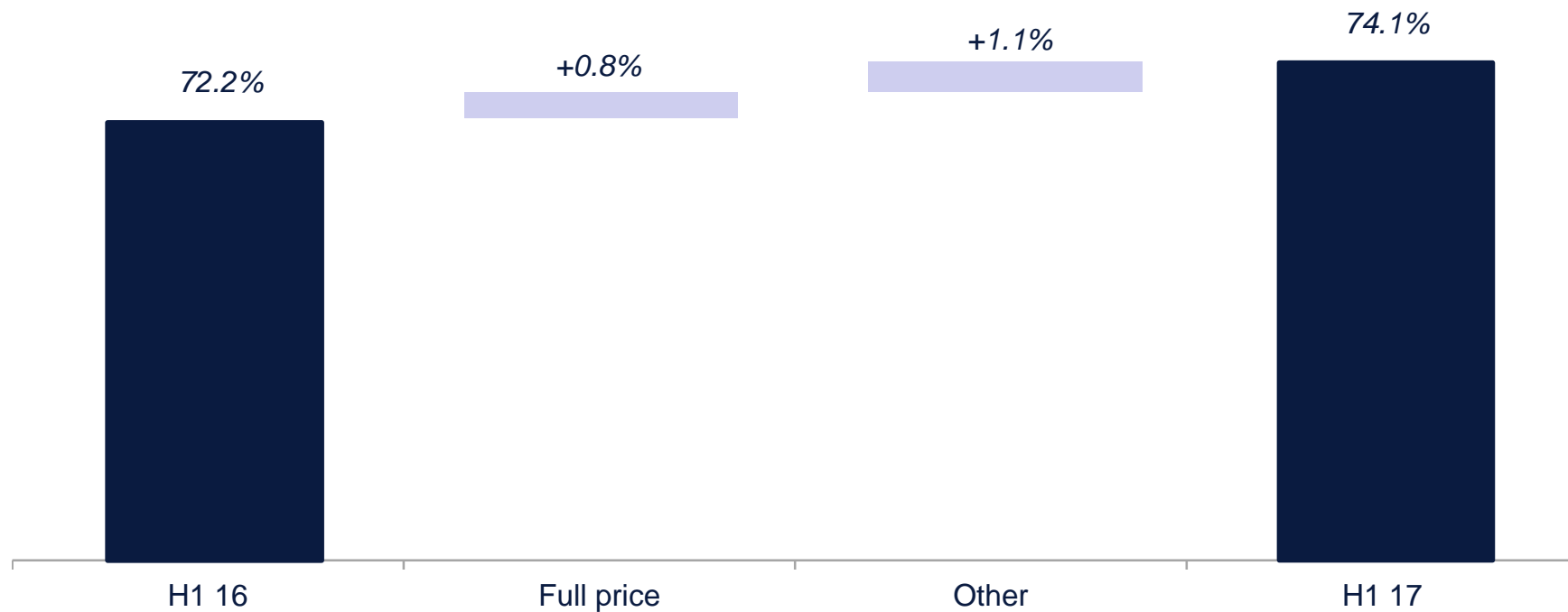


■ Prada ■ Miu Miu ■ Church's ■ Other

- Improving trend at **Prada** compared to H2 16, albeit negative impacted by strategic decision to reduce markdown
- **Miu Miu** negatively impacted by store closures (8 during the period)
- **Church's** impacted by recent restructuring of Wholesale channel

Gross margin development

Boosted by better quality of sales

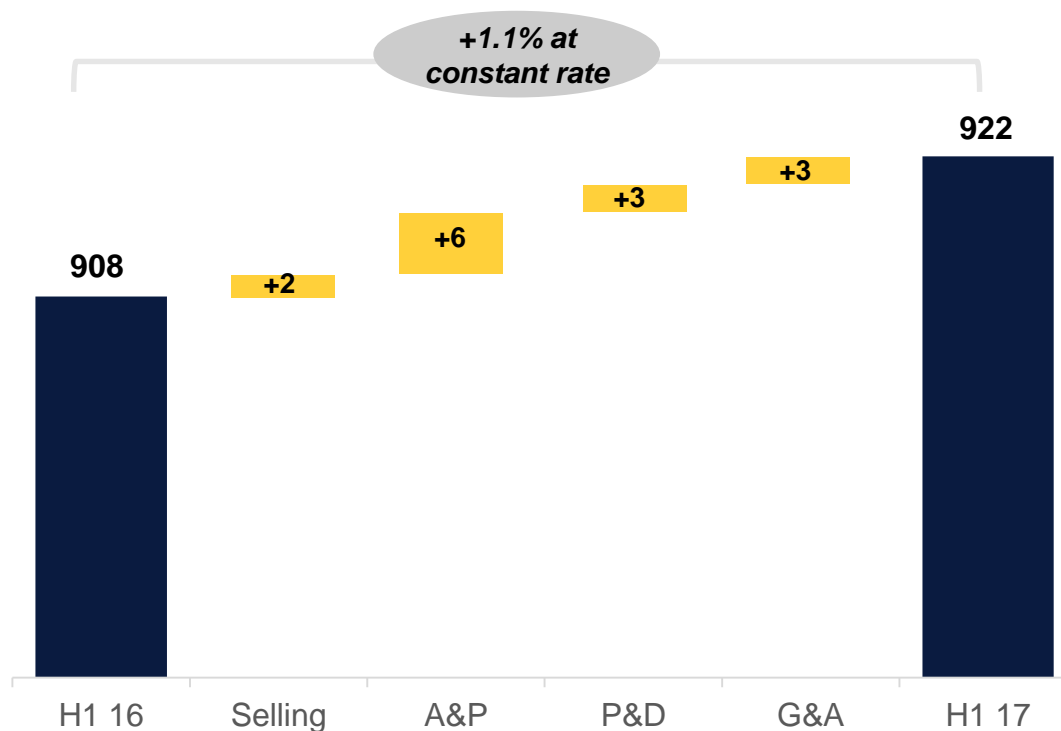
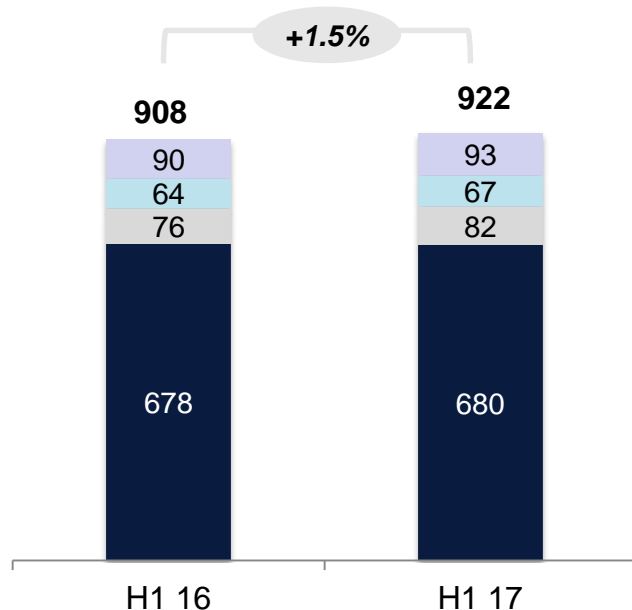


- Strong gross margin supported by higher contribution of full-price sales
- Other includes forex and industrial efficiencies

Operating costs

Investing in the brand within streamlined cost structure

Operating expenses (€m)



■ Selling
■ Product Development
■ Advertising & Promotion
■ G&A

■ Positive Change

■ Negative Change

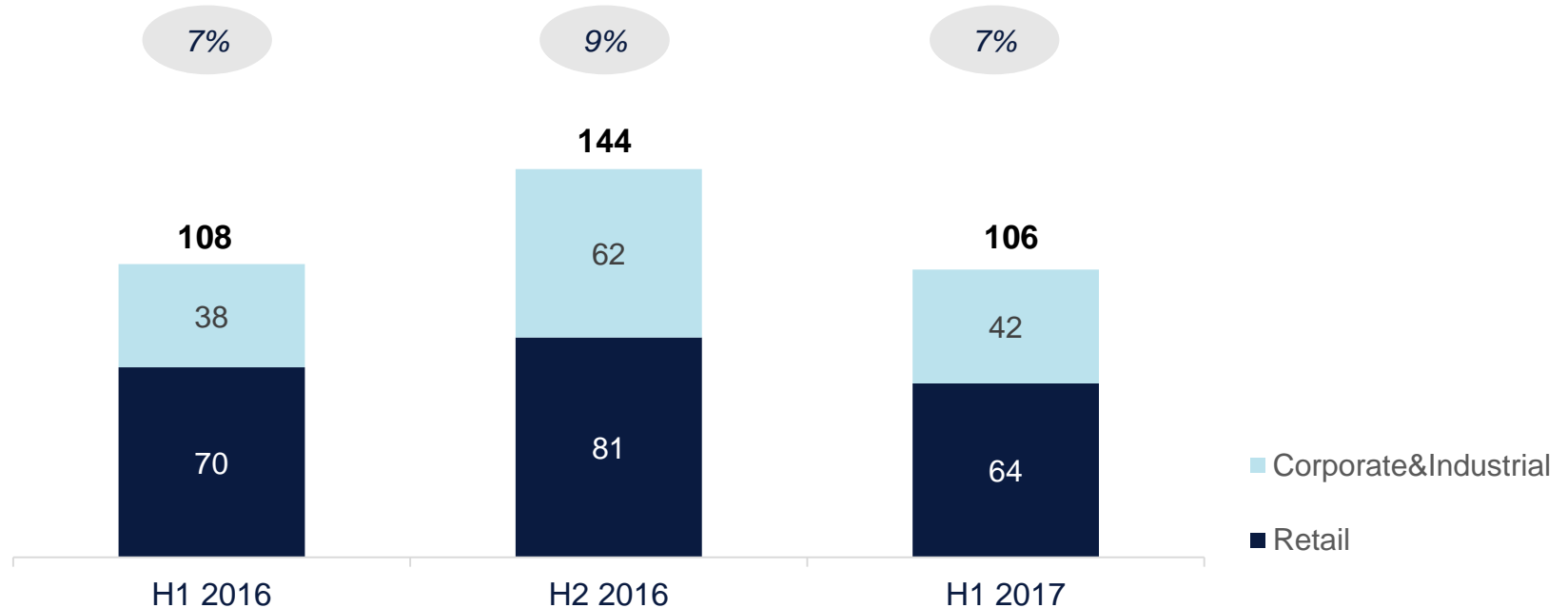
- Successful cost reduction programme completed last year still delivering results
- Increasing spending on digital media
- Operating expenses increased due to normalized level of incentive plans

Capex

Focus on store renovations and industrial know-how

Capex (€m)

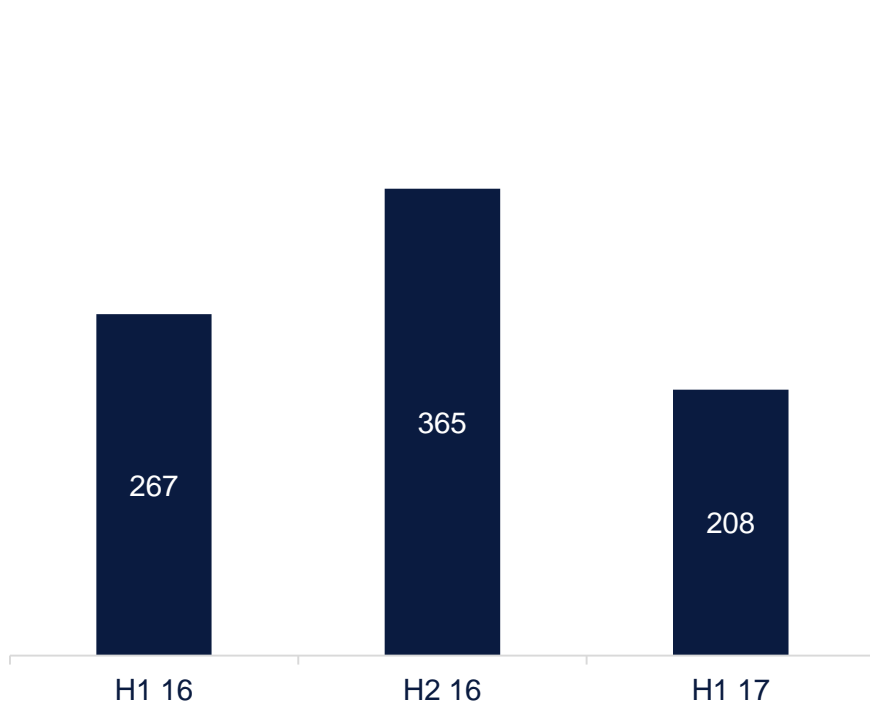
As % of net sales:



- 7 net closures – 13 closures and 6 openings
- 76 renovations and 15 relocations
- Continued investments in production to preserve quality and know-how, ~50% of the corporate and industrial capex in H1-2017

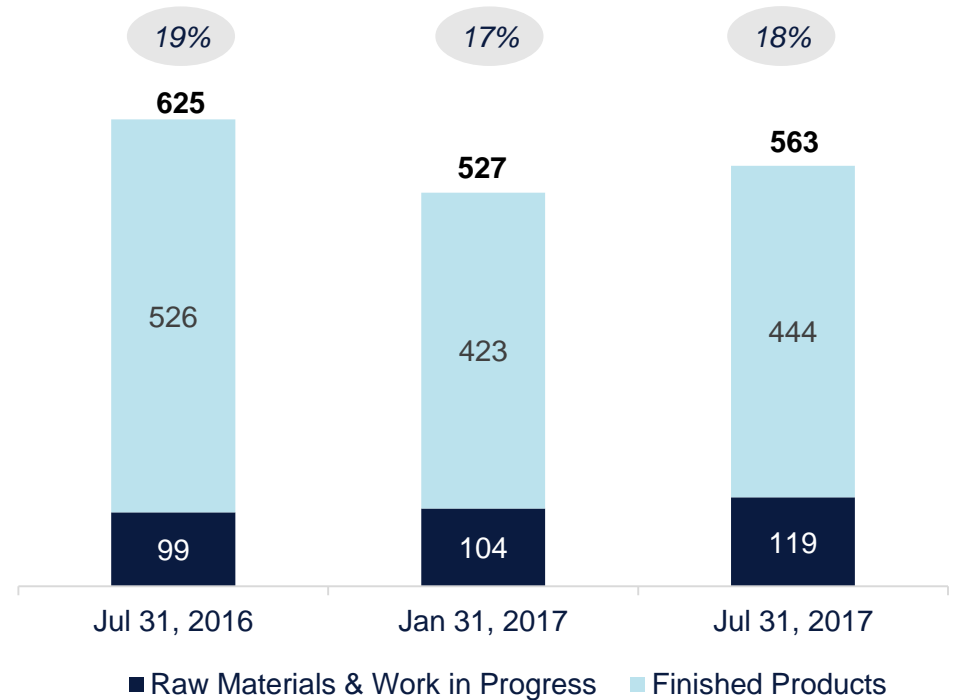
Cash flow

Operating cash flow (€m)



Net inventories (€m)

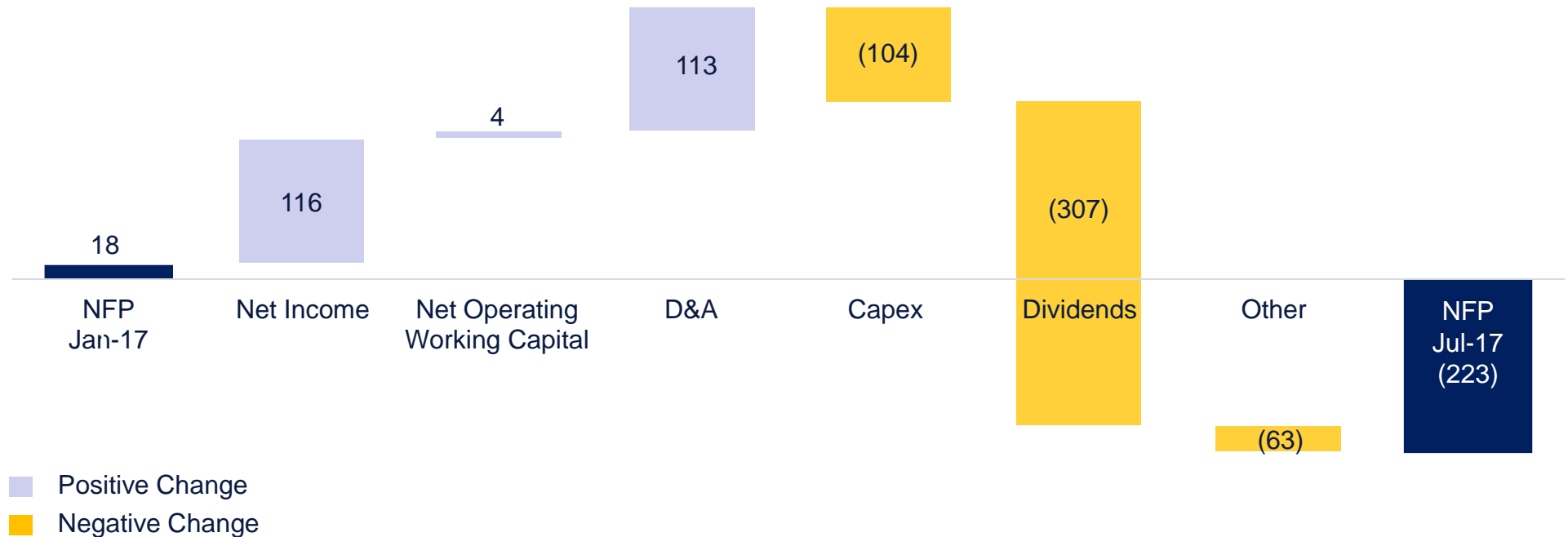
As % of net sales



- Consistently strong operating cash flow
- Driven by tight control of costs and disciplined working capital management
- Slight increase in stock to fill stores with better inventory level

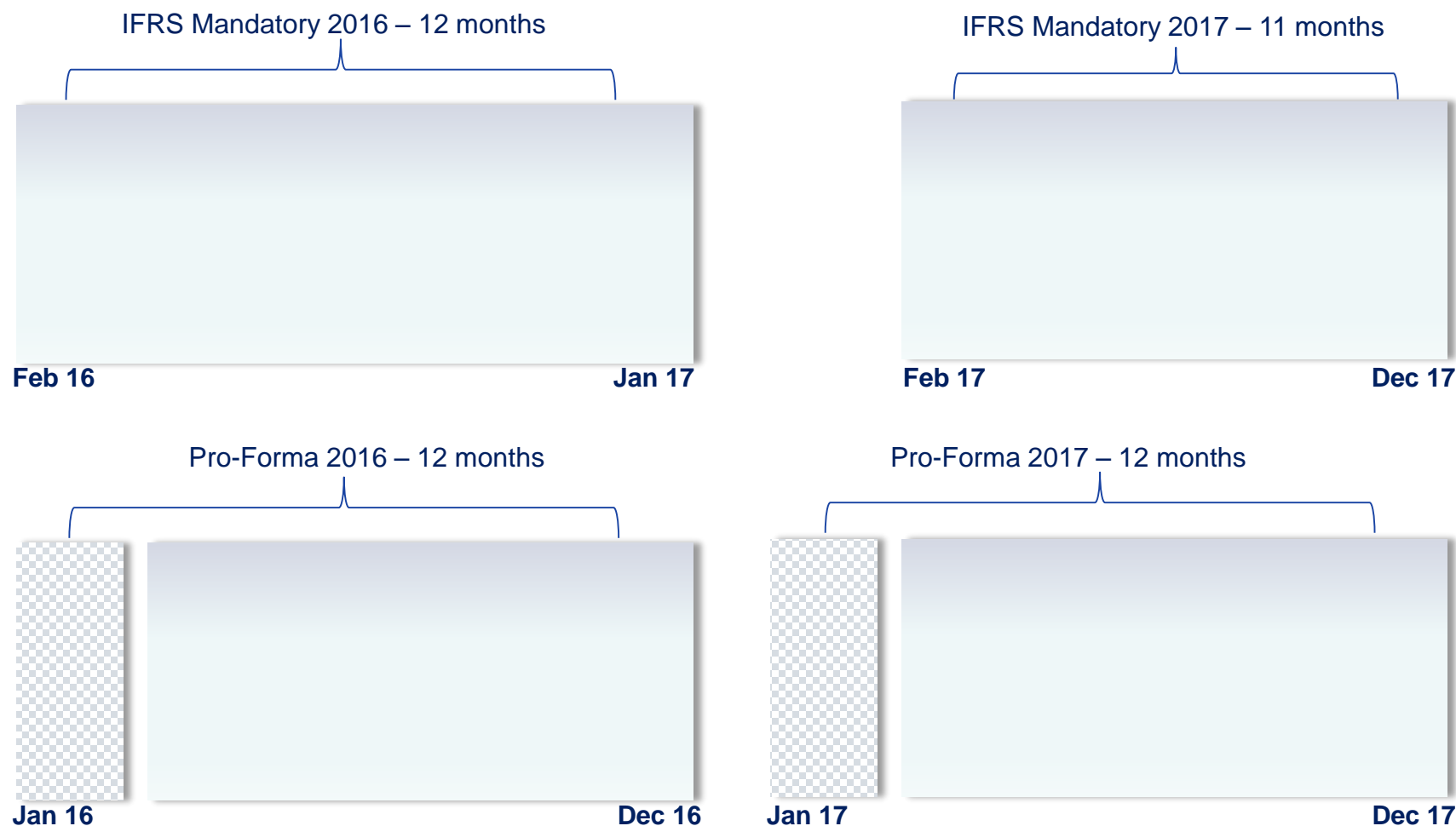
Net financial position

(€m)



Change of Fiscal Year-end to December 31, 2017

2017 Annual Report will include



Business Update

Patrizio Bertelli
CEO

H1 Overview

Transformation underway

- We are in a phase of profound change
- Our strategy built around our brand integrity and value is the best way to return to steady growth albeit taking longer than expected
- Initiatives to unlock the value of our global retail network - three key actions this half:
 - Enriched product offer in upper price range
 - Refreshed shopping experience by creating excitement around new store concept
 - Progressed digital strategy, moving towards seamless channel integration
- Leadership position in design and innovation evidenced by consistently solid performance of RTW and strong reception to Leather Goods novelties
- We are confident that there are significant untapped opportunities, such as in digital and in building out the Leather Goods offer across all price ranges



Retail strategy

Unlocking value from the retail network

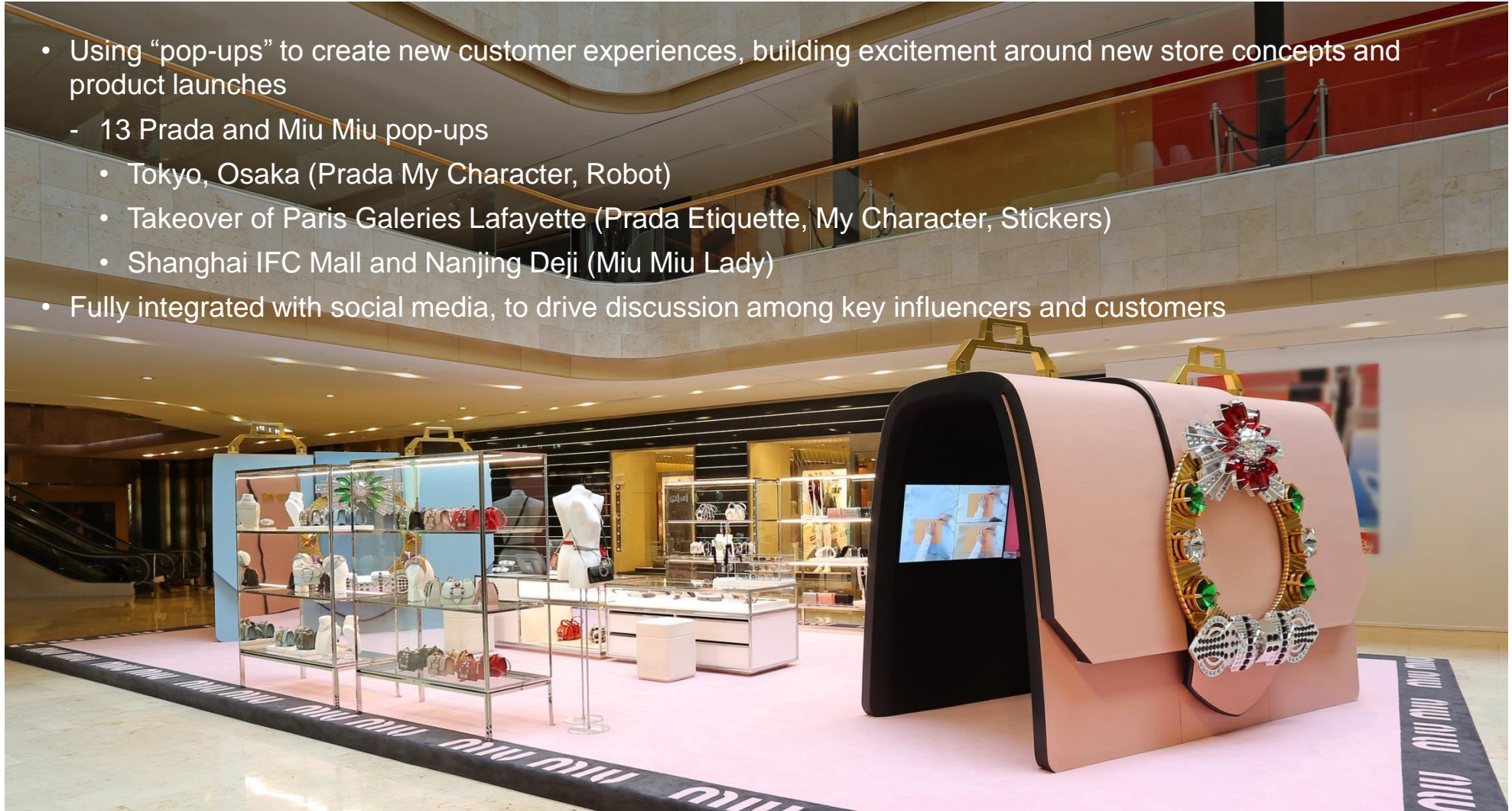
- **Even in a digital era, the retail network remains the most important touch point**
 - Luxury costumers still heavily influenced by what they see and experience in physical stores
- **Continuing the roll-out of new store concepts** that offer creative interpretations of Prada's and Miu Miu iconic heritage: ~100 projects in H1 2017
 - Miu Miu “Blue Tale” concept launched in 60 stores
 - 35 Prada store concept projects (modular, graphic rooms, and resort)
 - Resort concept rollout in Porto Cervo and St Tropez



Retail strategy

Unlocking value from the retail network

- Using “pop-ups” to create new customer experiences, building excitement around new store concepts and product launches
 - 13 Prada and Miu Miu pop-ups
 - Tokyo, Osaka (Prada My Character, Robot)
 - Takeover of Paris Galeries Lafayette (Prada Etiquette, My Character, Stickers)
 - Shanghai IFC Mall and Nanjing Deji (Miu Miu Lady)
- Fully integrated with social media, to drive discussion among key influencers and customers



Merchandising strategy

Built around our brand integrity and values

- **Strong focus on building out product offer** across all strategic price ranges
- **Increased investment in product development and manufacturing** to leverage iconic heritage, safeguard quality, and elevate know-how
- **Strategy already delivering results**
 - Successful launch of new products in the high-end (Cahier, Etiquette, Paradigme, Ribbon)
 - Global growth in RTW, outperforming market and making increased contribution to sales
 - Positive performance of menswear and travel bags
- **Raising awareness of enhanced product offering** through sustained investment in advertising and promotion



Digital Transformation

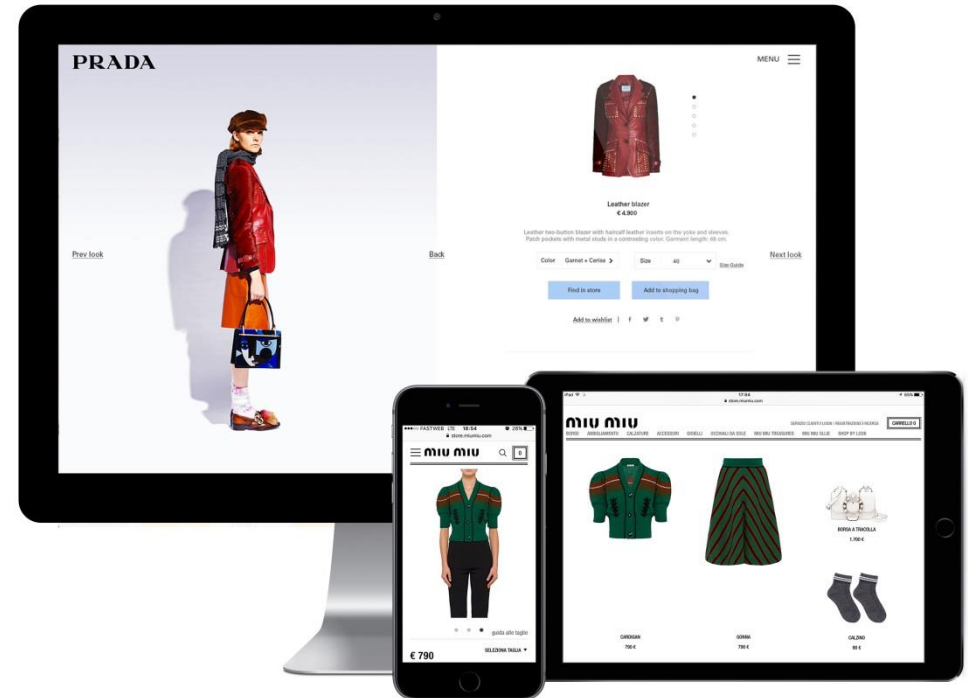
Chiara Tosato

Prada General Manager and Digital Director

Digital excellence driving growth

E-commerce roll-out on track

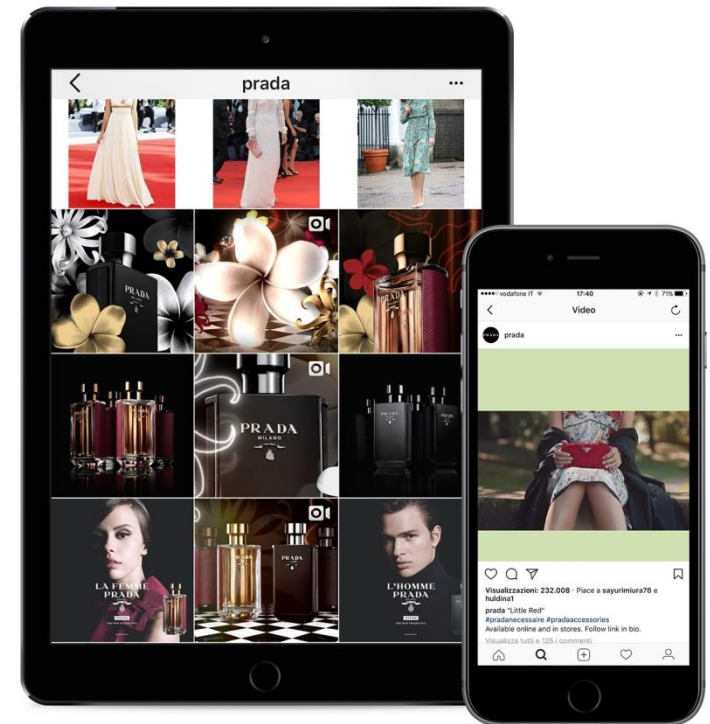
- **Highly customizable and localized e-commerce platform** rolled out in Europe and US
 - Improved user experience, fresh design and richer media content
 - Cost-efficient logistics model
 - Integrated with social networks, including local payment methods
 - Easy to optimise for local languages
 - Aim to more than double SKUs on the platform by year end
- **Platform to launch in key markets by end 2017**
 - Including China, Korea, Japan, Australia and Russia
 - Global coverage by end 2018
- **Luxury e-tailer partnerships enhance and complement digital strategy**
 - Working with all major luxury online retailers (Net-a-Porter, MyTheresa, Matches Fashion etc.)



Digital excellence driving growth

Providing a seamless shopping experience

- **Fully integrated digital and retail strategies**, leveraging all consumer touch points
- **Strengthened omnichannel strategy** catering to all customer segments and habits
 - 4 ways to shop online and in-store available by year end
- **Enhanced CRM** to build a 360 degree view of the customer
- **Services to be rolled out by year end** include:
 - 7/7 customer service on email and phone (already in Europe and US)
 - Instant chat, digital assistants, and online personal shoppers
 - Same day delivery, on a city-by-city basis



Digital excellence driving growth

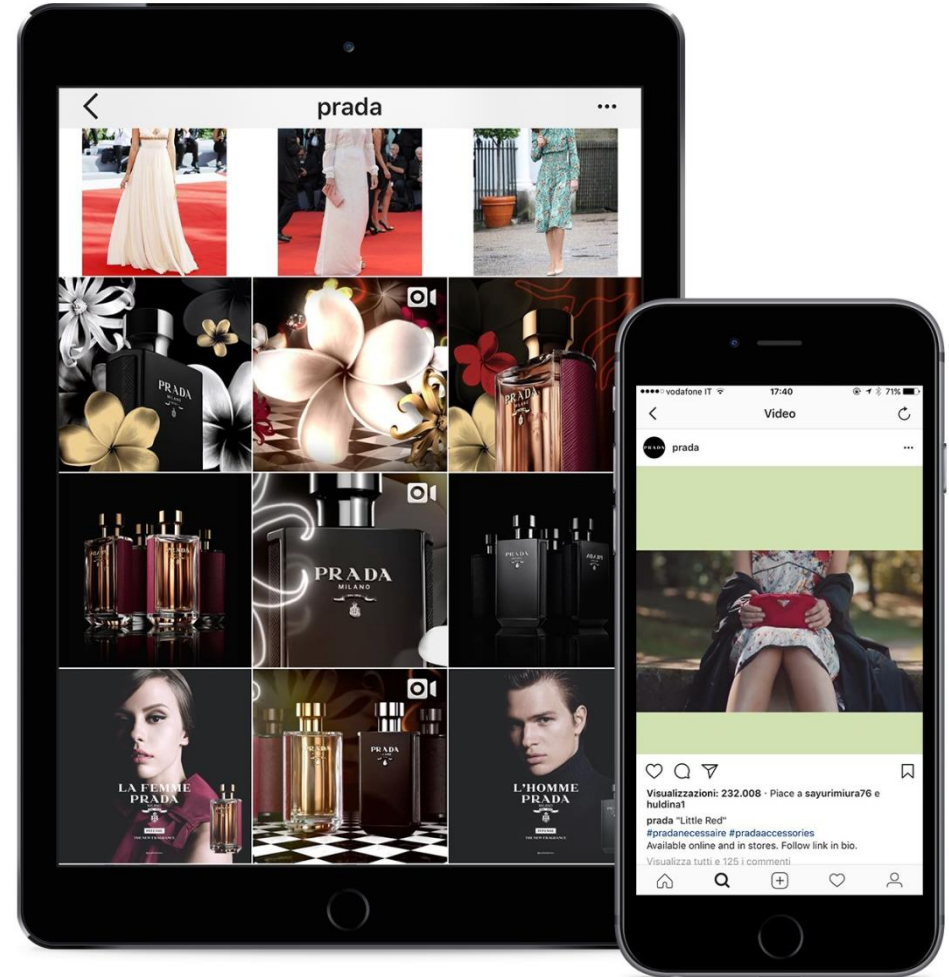
Investing in digital communications

- **Increasing investment in digital communications**
 - Now represents a relevant portion of total media spending
- **New, comprehensive strategy**
 - Coverage of all channels
 - Increased focus on product
 - Targeted advertising for specific audiences
- **Innovative use of content**
 - Localised campaigns and commercial strategies
 - Creative content to support “pop-up” stores



Dynamic and consistent communications with new and existing customers at every touchpoint

Leveraging brand strength and consumer interest to drive traffic in stores



Outlook

Patrizio Bertelli
CEO

Outlook

Priming the business for a return to growth

- We are confident in the the long-term prospects for the luxury sector
- We are responding to changes in consumer patterns with measures to transform the business while taking care to preserve the iconic heritage of our world-renowned brands
- This approach is protracting the transformation process, but will pave the way for long-term growth
- Disciplined approach to costs, investments and working capital will continue to protect cash flow and safeguard future dividends
- The Group's balance sheet remains strong, giving us the freedom to focus on creating value for shareholders over an extended time horizon



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Q&A SESSION