PRADA spa

PRESS RELEASE

PRADA SPA FULL YEAR 2016 RESULTS ANNOUNCEMENT

Pathway to sustainable growth: action plan to meet the needs of a constantly evolving marketplace is already delivering improved sales trends and stabilising margins

Highlights

- Net Revenues trend improved in H2 to end year in-line with expectations at €3.2bn (at constant exchange rate -9% for FY16; -6% for H216)
- Gross Margin remains high and stable at 72% thanks to relentless focus on industrial efficiencies
- Substantial progress on cost savings programme, with operating expenses down by 10% compared to 2015
- Robust operating margins, with EBITDA at 21% and EBIT at 14%, stabilising in the second half
- Strong Operating Cash Flow at €632m (€368m in 2015) driven by more efficient management of Net Working Capital
- Fully self-financed Capital Expenditure of €251m, with investment focus shifted from retail network expansion to store refurbishments
- Positive Net Financial Position, even after dividends, thanks to strong free cash flow

Patrizio Bertelli, CEO

"The Prada Group has delivered a satisfactory set of results in-line with market expectations for 2016, a challenging year of transition for the company.

Our offer has been enriched with products that stand out for their innovative style and quality, while at the same time we have also streamlined and rationalised the cost structure across all business lines.

The retail strategy has shifted from geographical expansion to network rationalisation and digital integration. We have created new store concepts to enhance customer experiences, with initial encouraging results.

To integrate the retail and online channels, we will continue to dedicate significant resources to developing an omni-channel offer, through the roll-out of our global digital platform, collaboration with e-tailers, and in-store digital integration. With this goal we have built a new team that will bring further expertise to the Group's digital strategy.

I am confident that our creative vision combined with investment in online and offline engagement with our customers put us firmly on the path to sustainable growth.

The strong cash flow generation and the confidence in the future growth of the business enable us to propose a dividend of 12 cents per share at the next Shareholders' Meeting, an increase of 9% on last year."

Full Year Results 2016

The Board of Directors of Prada S.p.A met today and examined and approved the consolidated financial results for the year ended 31st January 2017.

Net Revenues - totalled €3,184.1 million, representing a decline of 9% at constant FX compared to the same period in 2015 (-10% at current FX).

- **Retail Channel** – fell 13% at constant FX to €2,634.9 million (-14% at current FX), with progressive improvement in the trend in the second half of the year, especially in the final months.
- **Wholesale Channel** – increased by 15% at constant FX to €504.4 million (+13% at current FX), a significant increase on last year thanks to encouraging results from new partnerships with leading e-tailers.
- **Licenses** – Licensed business grew by 3% as both eyewear and fragrances saw positive trends, generating royalties of €45 million.

Net Sales by geography

- Trading conditions in **Europe** were mixed for most of the period and ended the year with a decline of 5% at constant FX. Growth in the UK was driven by local consumption and tourists taking advantage of the weaker sterling while continued outperformance in Russia generated double-digit growth over the year. The rest of Europe continued to be impacted by the decline in tourist flows, particularly in France, which in the final quarter of the year however saw significant signs of improvement.

- Notwithstanding an overall negative performance (-12% at constant FX), **Asia Pacific** was very dynamic in the second half of the year. China recovered in the third quarter and began to deliver rapid growth. Hong Kong and Macau have significantly reduced levels of sales contractions seen in recent years, with notable recoveries towards the end of the year.

- Sales in the **Americas** were down 12% at constant FX, impacted by falling tourist flows in the United States. Positive performances were seen however in Brazil and Mexico.

- After five years of consecutive growth, sales in **Japan** declined 13% at constant FX as the stronger yen discouraged Chinese tourists.

- The **Middle East** declined 10% at constant FX.

Our action plan in recent months to make the shopping experience more exclusive and immersive and to enrich the offer with highly innovative products is already producing concrete results: **Ready-to-Wear** grew throughout the second half of the year, and we saw excellent market responses to the latest collections in **Footwear** and **Leather Goods**.

Financial results

The implementation of our rationalisation program to streamline operational and management processes significantly mitigated the impact on margins of the decline in revenue. We have maintained a high gross margin of 72% and optimised our cost structure, reducing operating expenses by 10% YoY and creating a leaner, more efficient business.

EBITDA amounted to €653.4 million: 20.5% of revenues (22.6% FY 2015)

EBIT amounted to €431.2 million: 13.5% of revenues (14.2% in FY 2015)

Net income amounted to €278.3 million: 8.7% of revenues (9.3% in FY 2015)

During the year, the Group generated a strong operating cash flow of €632m (up from €368m in 2015) thanks to the efficient management of net working capital, in particular to the significant reduction in inventory levels. This cash flow has allowed us to fully self-finance the capital expenditure of €251 million, as well as significantly improving our net financial position, which moved from a negative value at year-end 2015 (-€111 million) to a positive position by 31st January 2017 of +€23 million, even after a dividend distribution of €281 million.

The Board has proposed to the Shareholders' Meeting, called for 31st May, a dividend of 12 euro cents per share, up 9% compared to the 2015 dividend.

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PRADA Group

The PRADA Group (HKSE Code: 1913) is a world leader in the luxury goods sector where it operates with the Prada, Miu Miu, Church's and Car Shoe brands in the production and distribution of luxury handbags, leather goods, footwear, apparel and accessories. In 2014, Prada acquired 80% of Marchesi srl, owner of the historic Milanese patisserie founded in 1824. The Group also operates, under licensing agreements in the eyewear and fragrance sectors. Its products are sold in 70 countries worldwide through a network that includes 620 directly operated stores (DOS) (at January 31st, 2017) and a select network of luxury department stores, independent retailers and franchise stores.