

# PRADA

MILANO

DAL 1913

1<sup>st</sup> Half Results as of July 31<sup>st</sup>, 2016

Milan, August 26<sup>th</sup>, 2016

# Agenda

## Presentation

14:30 – 15:00

**Carlo Mazzi** – *Chairman*

- Overview

**Alessandra Cozzani** – *Group CFO*

- H1 2016 Financial Review

**Stefano Cantino** – *Group Strategic Marketing Director*

- Commercial Update

**Carlo Mazzi** – *Chairman*

- Outlook

## Q&A Session

15:00 – 15:30

# **Overview**

## **New pathway to sustainable growth**

**Carlo Mazzi**  
*Chairman*

# Overview

## Mixed H1 2016

### SALES PERFORMANCE STILL IMPACTED BY TOUGH TRADING CONDITIONS

- Macro-economic environment remains volatile
- Geo-political backdrop reducing tourist flows globally
- Rapidly evolving spending patterns and behaviour of international luxury consumers

### SUCCESSFUL COST EFFICIENCY PROGRAMME AND ACTION PLAN PROGRESSED

- **Maintaining satisfactory operating margins: Ebitda at 21%, Ebit at 14%**
- **High level of gross margin maintained** thanks to industrial efficiencies
- **Excellent progress on costs** with significant reduction in operating expenses YoY
- **Strong operating cash flow** thanks to more efficient inventory management
- **Fully self-financed growth**
- **Capex normalised** with expansion phase now complete; priority to store refurbishment
- **Healthy net financial position**
- **Encouraging initial results from e-tailing partnerships**

# New pathway to sustainable growth

## Adapting to an evolving marketplace

### ACTION PLAN UNDERWAY LEVERAGING PRADA'S UNIQUE LUXURY HERITAGE

- Boost online sales with roll-out of own e-commerce platform, achieving global coverage and continue to strengthen relationships with e-tailers
- Improved digital engagement with new generation of consumers
- Redefining product offer strengthening all strategic price points, while providing a more intimate and tailored shopping experience
- Rolling out new store concept with personalized areas dedicated to specific product categories
- Further rationalization of retail network and optimization of spaces within stores
- Enhanced operational flexibility and efficiency through a rigorous structural review of costs

**2016 is a turning point**

# H1 2016 Financial Review

Alessandra Cozzani  
*Group CFO*

# H1 2016: at a glance

Mixed performance; cost reduction program taking effect

## Condensed P&L

€m	H1 2016	H1 2015	% yoy
<b>Net Revenues</b>	<b>1,554.2</b>	<b>1,824.4</b>	-15% / -13% at fx
<i>Gross Margin</i>	72.2%	72.7%	
<b>EBITDA</b>	<b>330.0</b>	<b>440.1</b>	-25%
<i>EBITDA Margin</i>	21.2%	24.1%	
<b>EBIT</b>	<b>213.7</b>	<b>293.2</b>	-27%
<i>EBIT Margin</i>	13.8%	16.1%	
<b>Net Income</b>	<b>141.9</b>	<b>188.6</b>	-25%

- High level of gross margin maintained thanks to industrial efficiencies
- Satisfactory operating margins
- EBITDA broadly in line with expectations

# H1 2016: at a glance

Strong operating cash flow; healthy net financial position

## Condensed Balance Sheet and Cash Flow

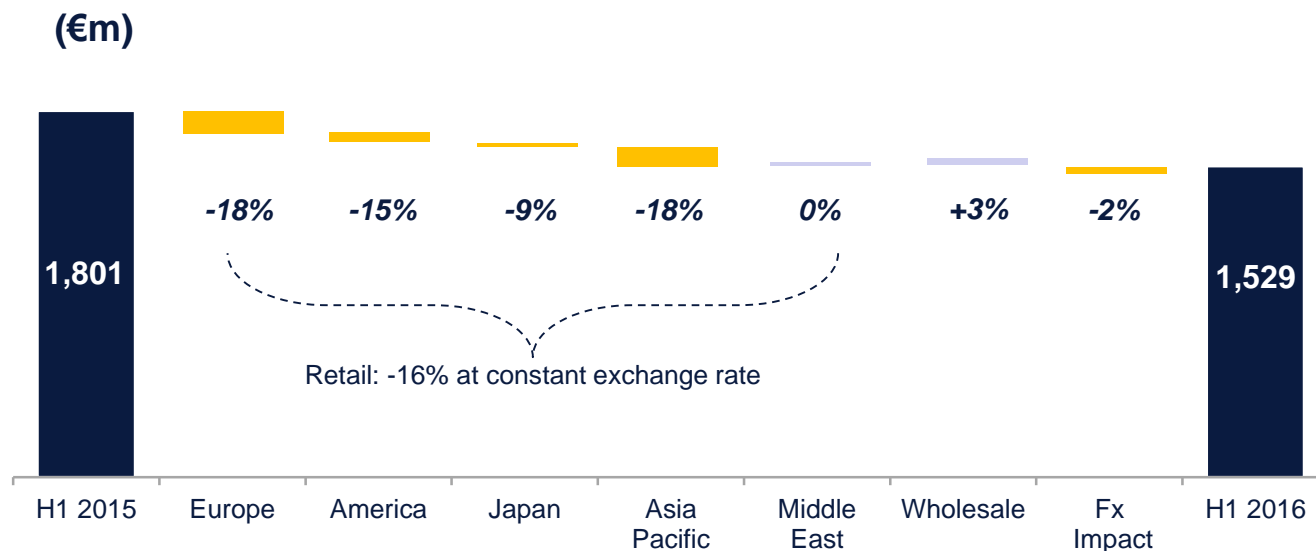
€m	31 Jul 16	31 Jan 16	31 Jul 15
Non current assets	2,561	2,587	2,615
Net operating working capital	674	665	748
Other current assets / (liabilities), net	17	26	(82)
Other non current assets / (liabilities), net	(86)	(66)	(42)
<b>Net invested capital</b>	<b>3,167</b>	<b>3,212</b>	<b>3,238</b>
Consolidated shareholders' equity	2,915	3,097	2,978
Net financial position (surplus)/deficit	252	115	260
<b>Total</b>	<b>3,167</b>	<b>3,212</b>	<b>3,238</b>
Operating cash flow	267	368 (*)	63
Capital expenditure	108	337 (*)	176

(\*) FY-12 months

- Operating cash flow supported by progress on inventory management
- Self-financed capital expenditure
- Healthy net financial position, having also distributed the same level of dividends of the previous year



# Net sales by channel and region



- **Retail -18% yoy, and -16% yoy at constant exchange rates:**

- Conditions remain challenging in Asia Pacific; first signs of improving trends in Mainland China and stabilization in HK and Macau
- Europe impacted by tourism decline; resilient local consumption; strong July start in UK; double digit organic growth in Russia
- US market remains tough; LatAm however performed very well
- Strengthening of the Japanese Yen weighed on tourism in Japan; but resilience shown by local consumption
- Improved performance in Middle East

- **Wholesale +1% yoy and +3% yoy at constant exchange rates:**

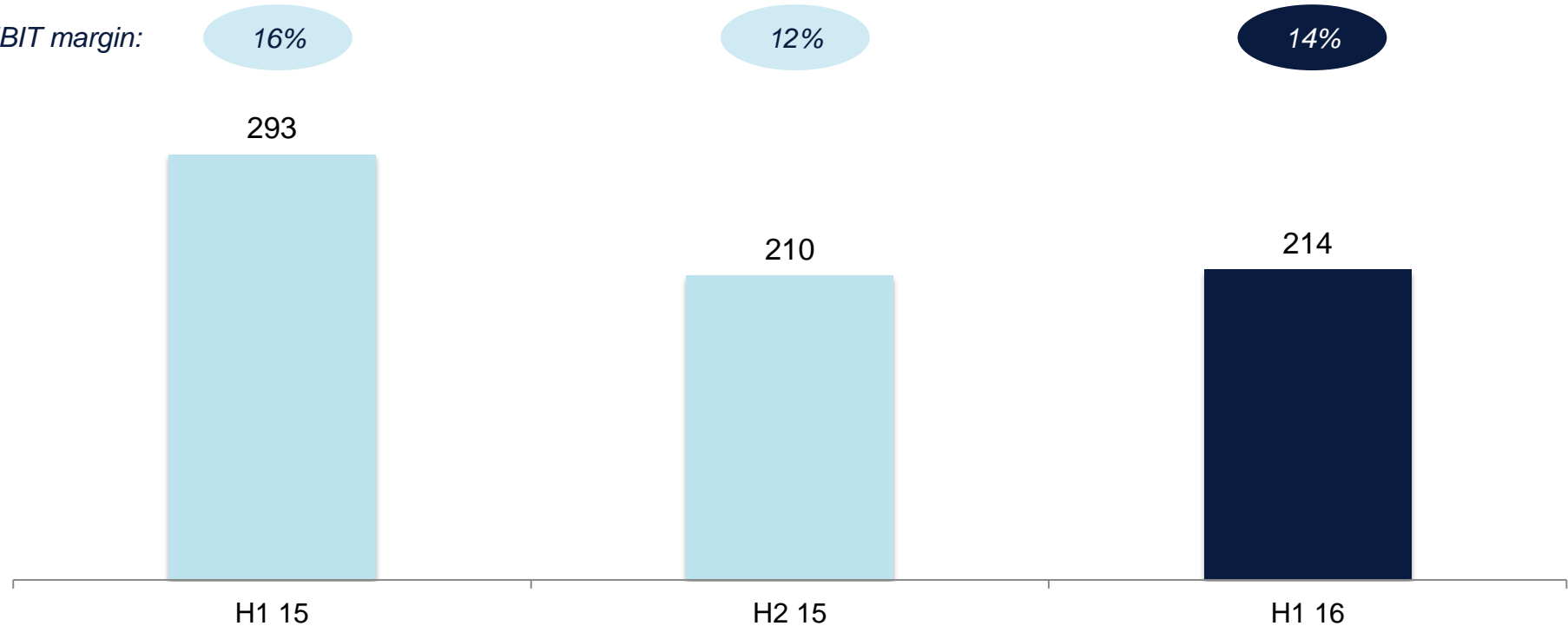
- Recent partnerships with leading e-tailers (Net-a-Porter/My Theresa)
- Double digit organic growth at Church's

# Operating performance

Action to reduce costs and stabilize margins

**EBIT (€m)**

*EBIT margin:*



- Strong progress on cost savings delivers stable operating margins half-on-half
- Cost reduction (excluding D&A) delivering 600bps positive impact on margin

# Cost reduction

## Line-by-line review of operating costs

### YoY change:

- €94m reduction in operating costs (-11%)
- €30m reduction in D&A

### Labour costs reduction in progress

- Freezing hiring of non-operationally critical staff and short term incentives

### Systematic rent negotiations

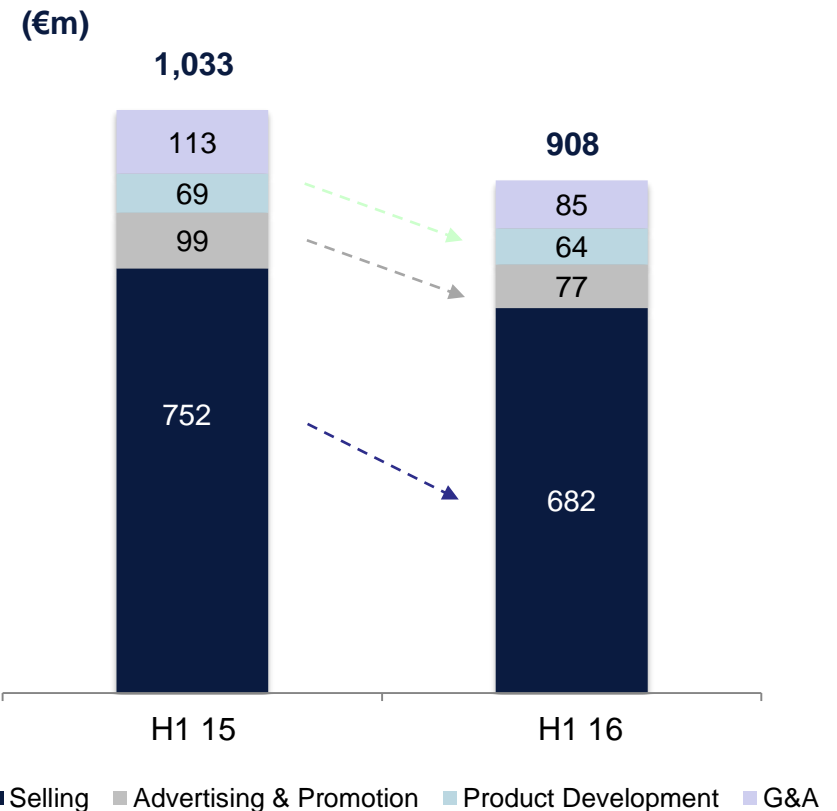
### Continuously trimming G&A and indirect costs

(eg travel, consultancy, general services)

**Advertising** spending for the full year expected to be broadly in line with last year

- Increasing investments in digital communications and special projects
- Reduced investment in traditional media

### Operating expenses -12% yoy

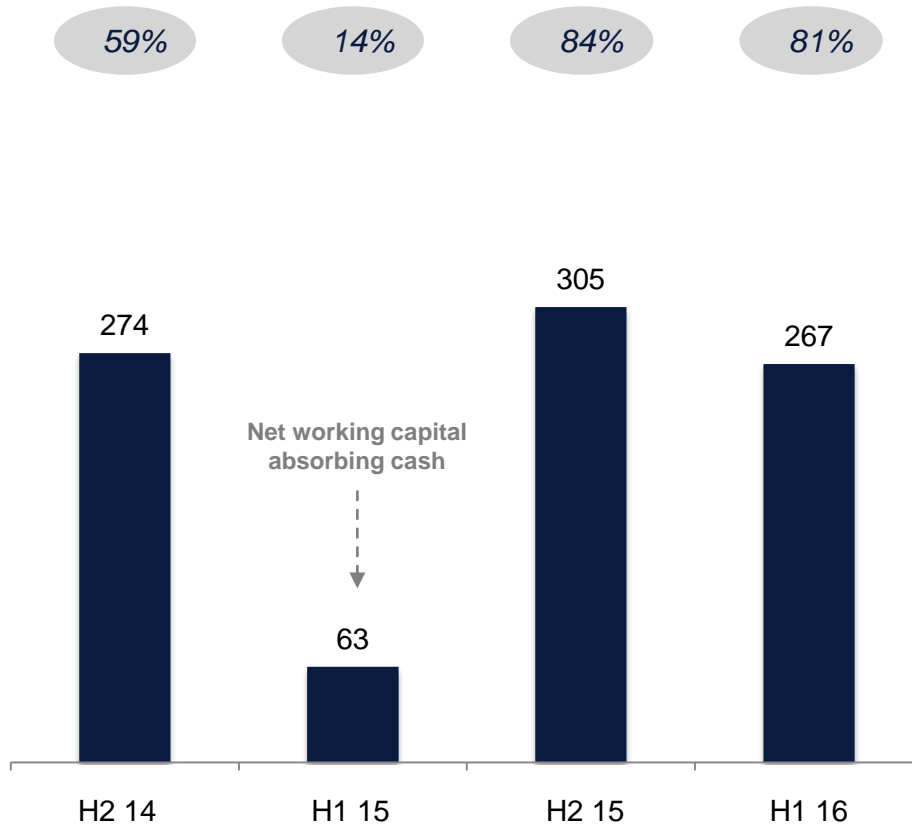


# Cash flow and Balance sheet

Proactive inventory management supporting strong operating cash flow

## Operating cash flow (€m)

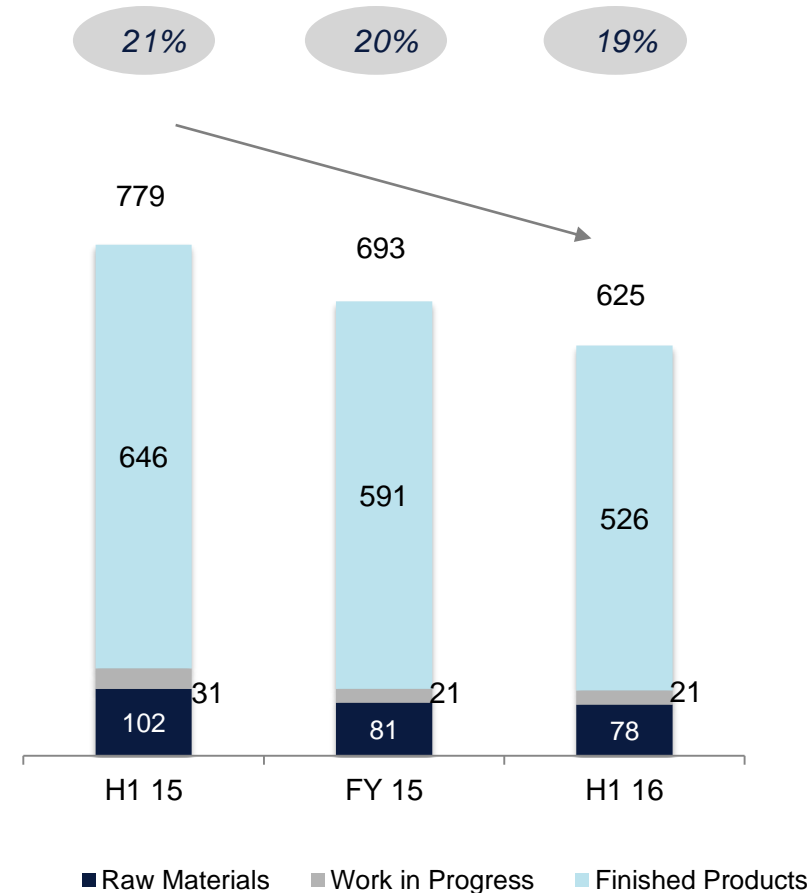
Cash flow conversion:



- **Strong operating cash flow** generation
- **Inventory reduction** plans making headway

## Net inventories (€m)

As % of sales:

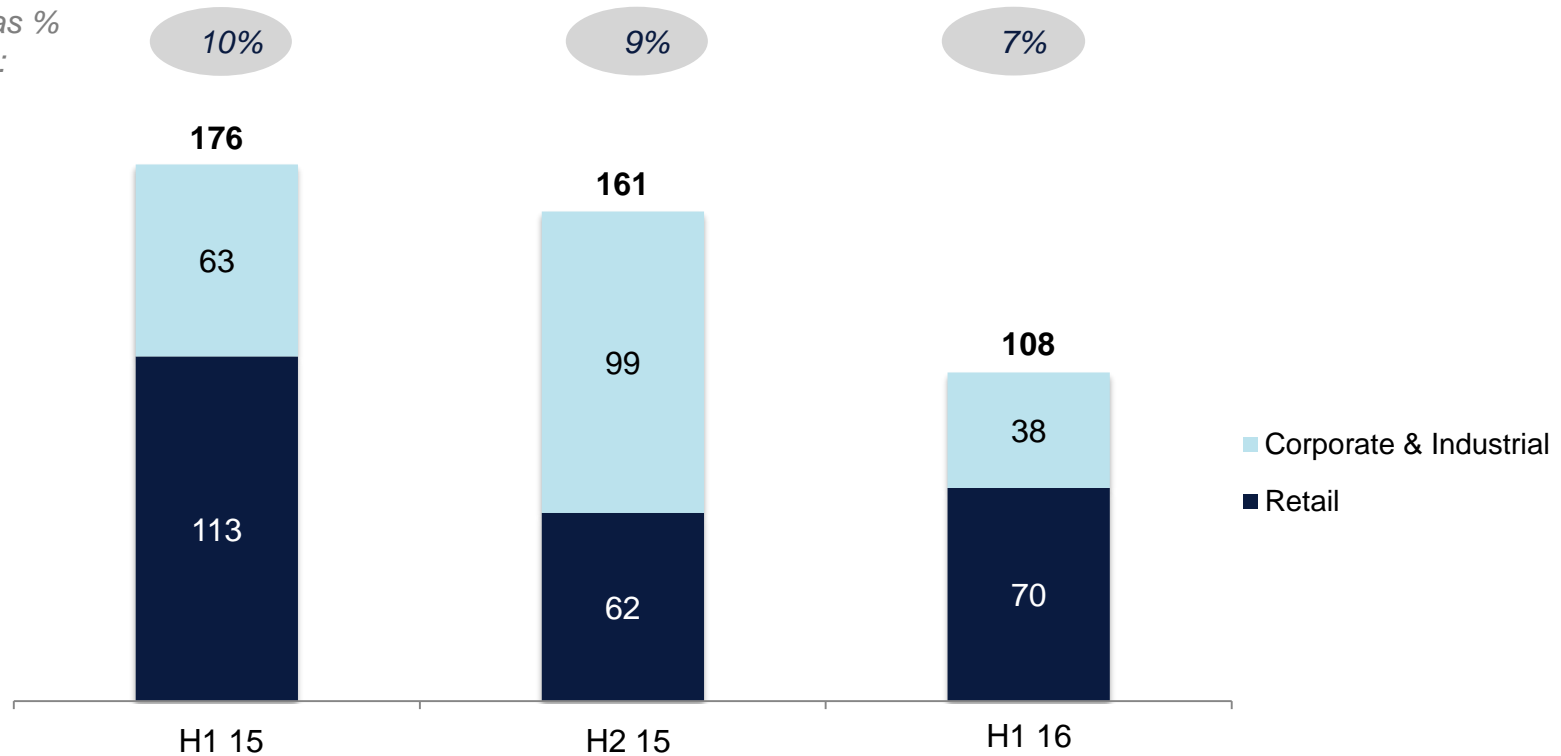


# Capex

## Priority to shift from openings to refurbishment

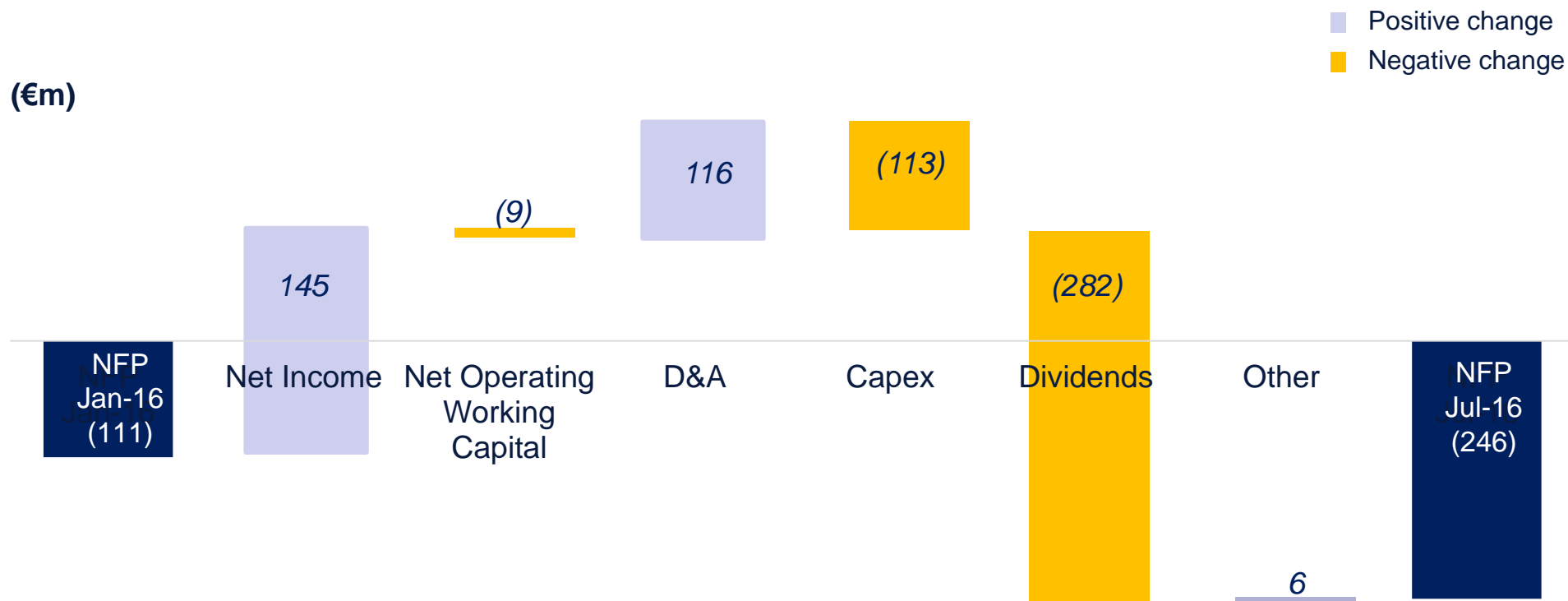
### Capex (€m)

Capex as %  
of sales:



- 18 openings and 14 closings in H1-2016
- 19 renovations and relocations
- Continuing to invest to enhance logistics and manufacturing efficiency

# Healthy Net Financial Position (\*)



- NFP at €246m, improved by €12m compared to July, 31st 2015

(\*) NFP without related parties

# Commercial Update

Stefano Cantino

*Group Strategic Marketing Director*

# Retail footprint

## Optimising the network to enhance sustainable growth

- Extremely selective DOS openings only in highly attractive new markets and detailed performance analysis of margin dilutive stores, resulting in rationalisation of networks:
  - around 20 openings & 25 closings over FY 2016 at Group level
- Systematic rent renegotiations, particularly in Asia Pacific
- Enhance the shopping experience to meet altered and more sophisticated customer expectations and improve engagement
  - New store concepts create unique shopping moments for all product categories, generating a more intimate and individual shopping experience
- Focus remains on service and on surprising and delighting customers

### Initiatives to drive improved SSSG and ROI





# Wholesale

## Strong platform for a progressive growth

### **Completed rationalisation of wholesale network**

- Only maintained best-in-class strategic partners
- Focus going forward on building relationships with key accounts

### **Extremely successful debut on NET-A-PORTER.COM and mytheresa.com**

- In July 2016, Prada debuted on NET-A-PORTER.COM and mytheresa.com for womenswear
- Prada will launch on MR PORTER.COM for menswear in September 2016



# Licensing

## Maintaining good growth momentum

### Successful fragrance launches

- New Miu Miu fragrance very well received in all geographies
- Launched quintessential Prada fragrances La Femme and L'Homme

### Eyewear performing well

- Prada MOD glasses, a flagship partnership with Luxottica
- Miu Miu Scenique – digital project



# Emphasizing and growing social media presence

## Engaging with millennials and converting followers into customers

- Focused efforts to raise the brand's profile among the 'always connected' millennials through innovative social media projects
- In China: successfully launched on Sina Weibo in February 2016; WeChat presence expanding rapidly
- Achieved further rapid growth across all international social media (see data below)
- Working on potential launch of 'shoppable' content with selected key items on Instagram

***Prada: “The most ‘engaged with’ brand on Instagram during Milan’s Men’s Fashion Week with 206k interactions on the Sunday, reaching 8.6m followers.”***

Source : Blogmeter

Prada followers: Current (increase in H1 2016)



# E-commerce strategy

## Global roll-out plans supported by social media coverage

### Roll-out of e-commerce platform in all major markets over next two years

- Launch first in China, HK, Singapore
- Brazil, ME, Russia, Australia, Korea, Taiwan, Malaysia to follow
- Deepening and enlarging product categories

### Fully integrate e-commerce within the business

- Unique shopping experience between online and offline
- Evolution of the operating model to support efficient stock allocation, warehouse management and logistics
- Capture synergies between Marketing, IT and Operations

### Development of omni-channel offer to capture younger generations

- Integrate digital offering with physical stores

### Further develop partnerships with e-tailers





# Merchandising strategy

Enriched, tailored to our sophisticated customers  
and true to our brand

**Building a leather goods offer that covers all strategic prices ranges, while preserving essence of brand**

- Novelties well received in all strategic price ranges
- Very good response to newly-launched bags in high price range
- Ongoing new launching in both entry-mid price range



**Further offer segmentation providing  
a more balanced portfolio**

**Enrich iconic lines and leverage on our heritage of  
innovation**

**Increasingly localised product mix**

- Market and store-driven merchandising policy
- Increased price harmonization on new products



# Outlook

Carlo Mazzi  
*Chairman*

# Outlook

## Pathway to sustainable growth in a rapidly evolving market

Prada is an iconic brand set to prosper in a rapidly evolving sector

We have a clear vision for our future and are strongly positioned in key global markets

Our action plan is underway and starting to deliver benefits

2016 is a turning point: sustainable future growth in revenues and earnings



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Q&A SESSION



# APPENDIX

# Group Profit and Loss – 1<sup>st</sup> Half

€m	July 2016		July 2015	
Net Sales	1.529,3	98,4%	1.801,4	98,7%
Royalties	24,9	1,6%	23,1	1,3%
<b>Net Revenues</b>	<b>1.554,2</b>	<b>100%</b>	<b>1.824,4</b>	<b>100,0%</b>
COGS	(432,2)	27,8%	(498,5)	27,3%
<b>Gross Margin</b>	<b>1.121,9</b>	<b>72,2%</b>	<b>1.325,9</b>	<b>72,7%</b>
Product Development	(64,5)	4,1%	(69,3)	3,8%
Advertising & Promotion	(76,6)	4,9%	(98,5)	5,4%
Selling	(682,0)	43,9%	(752,0)	41,2%
G&A	(85,1)	5,5%	(112,9)	6,2%
<b>EBIT</b>	<b>213,7</b>	<b>13,8%</b>	<b>293,2</b>	<b>16,1%</b>
Net Financial Income (Expenses)	(6,2)	0,4%	(7,5)	0,4%
Income Taxes	(62,2)	4,0%	(94,1)	5,2%
<b>Net Income</b>	<b>145,3</b>	<b>9,3%</b>	<b>191,6</b>	<b>10,5%</b>
<b>Minority Income</b>	<b>3,4</b>	<b>0,2%</b>	<b>3,0</b>	<b>0,2%</b>
<b>Group Net income</b>	<b>141,9</b>	<b>9,1%</b>	<b>188,6</b>	<b>10,3%</b>
D&A	116,3	7,5%	146,8	8,0%
<b>EBITDA</b>	<b>330,0</b>	<b>21,2%</b>	<b>440,1</b>	<b>24,1%</b>

# Net Sales by Channel – 1<sup>st</sup> Half

€m	July 2015		July 2016		% change as reported	% change constant FX
Retail	1,552.4	86%	1,276.6	83%	-18%	-16%
Wholesale	249.0	14%	252.7	17%	+1%	+3%
<b>Total</b>	<b>1,801.4</b>	<b>100%</b>	<b>1,529.3</b>	<b>100%</b>	<b>-15%</b>	<b>-13%</b>

# Net Sales by Geography – 1<sup>st</sup> Half

€m	July 2015		July 2016		% change as reported	% change constant FX
<b>Retail</b>						
Europe	541.6	35%	429.5	34%	-21%	-18%
Americas	203.8	13%	168.5	13%	-17%	-15%
Far East	557.6	36%	435.0	34%	-22%	-18%
<i>Greater China<sup>(*)</sup></i>	368.4	24%	278.7	22%	-24%	-21%
Japan <sup>(**)</sup>	194.2	13%	189.7	15%	-2%	-9%
Middle East	53.4	3%	52.8	4%	-1%	-
Others	1.7	-	1.1	-	-38%	-23%
<b>Total Retail</b>	<b>1,552.4</b>	<b>86%</b>	<b>1,276.6</b>	<b>83%</b>	<b>-18%</b>	<b>-16%</b>
<b>Total Wholesale</b>	<b>249.0</b>	<b>14%</b>	<b>252.7</b>	<b>17%</b>	<b>+1%</b>	<b>+3%</b>
<b>Total</b>	<b>1,801.4</b>	<b>100%</b>	<b>1,529.3</b>	<b>100%</b>	<b>-15%</b>	<b>-13%</b>

Note<sup>(\*)</sup>: PRC, HK, Macau

Note<sup>(\*\*)</sup>: Japan and Hawaii

# Net Sales by Brand – 1<sup>st</sup> Half

€m	July 2015		July 2016		% change as reported	% change constant FX
Prada	1,262.2	81%	1,028.5	81%	-19%	-17%
Miu Miu	257.9	17%	217.5	17%	-16%	-14%
Church's	25.8	2%	25.1	2%	-3%	+1%
Other	6.5	-	5.5	-	-15%	-15%
<b>Total Retail</b>	<b>1,552.4</b>	<b>86%</b>	<b>1,276.6</b>	<b>83%</b>	<b>-18%</b>	<b>-16%</b>
<b>Total Wholesale</b>	<b>249.0</b>	<b>14%</b>	<b>252.7</b>	<b>17%</b>	<b>+1%</b>	<b>+3%</b>
<b>Total</b>	<b>1,801.4</b>	<b>100%</b>	<b>1,529.3</b>	<b>100%</b>	<b>-15%</b>	<b>-13%</b>

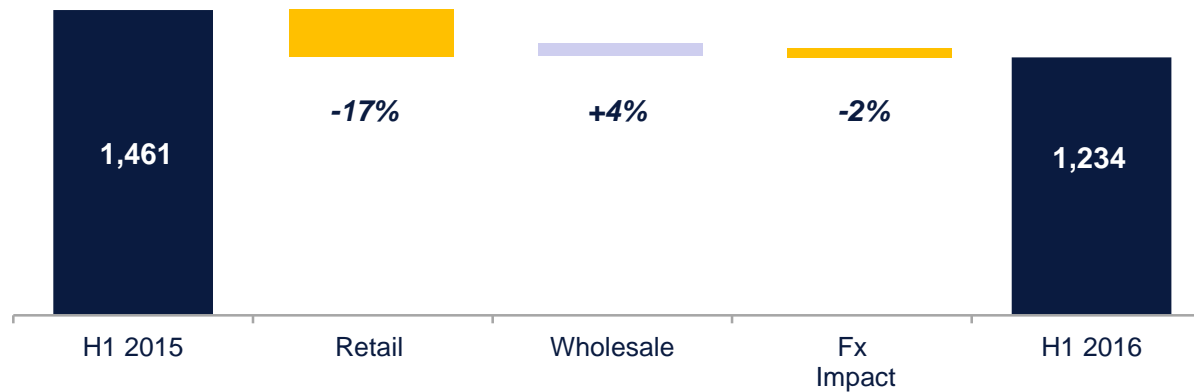
# Net Sales by Product – 1<sup>st</sup> Half

€m	2015		2016		% change as reported	% change same FX
Leather Goods	997.1	64%	776.8	61%	-22%	-21%
Footwear	272.9	18%	247.6	19%	-9%	-6%
Ready to Wear	248.9	16%	223.3	18%	-10%	-8%
Others	33.5	2%	28.9	2%	-14%	-11%
<b>Total Retail</b>	<b>1,552.4</b>	<b>86%</b>	<b>1,276.6</b>	<b>83%</b>	<b>-18%</b>	<b>-16%</b>
<b>Total Wholesale</b>	<b>249.0</b>	<b>14%</b>	<b>252.7</b>	<b>17%</b>	<b>+1%</b>	<b>+3%</b>
<b>Total</b>	<b>1,801.4</b>	<b>100%</b>	<b>1,529.3</b>	<b>100%</b>	<b>-15%</b>	<b>-13%</b>

# Prada – Total Net Sales by Channel – 1<sup>st</sup> Half

-16% as reported / -14% constant fx

## Sales Development – last six months (€m)

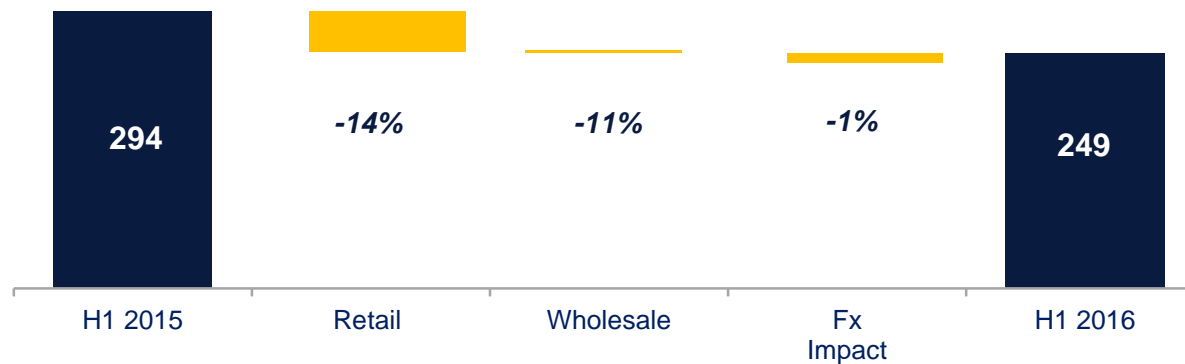


- Positive change
- Negative change

# Miu Miu – Total Net Sales by Channel – 1<sup>st</sup> Half

-15% as reported / -14% constant fx

Sales Development – last six months (€m)

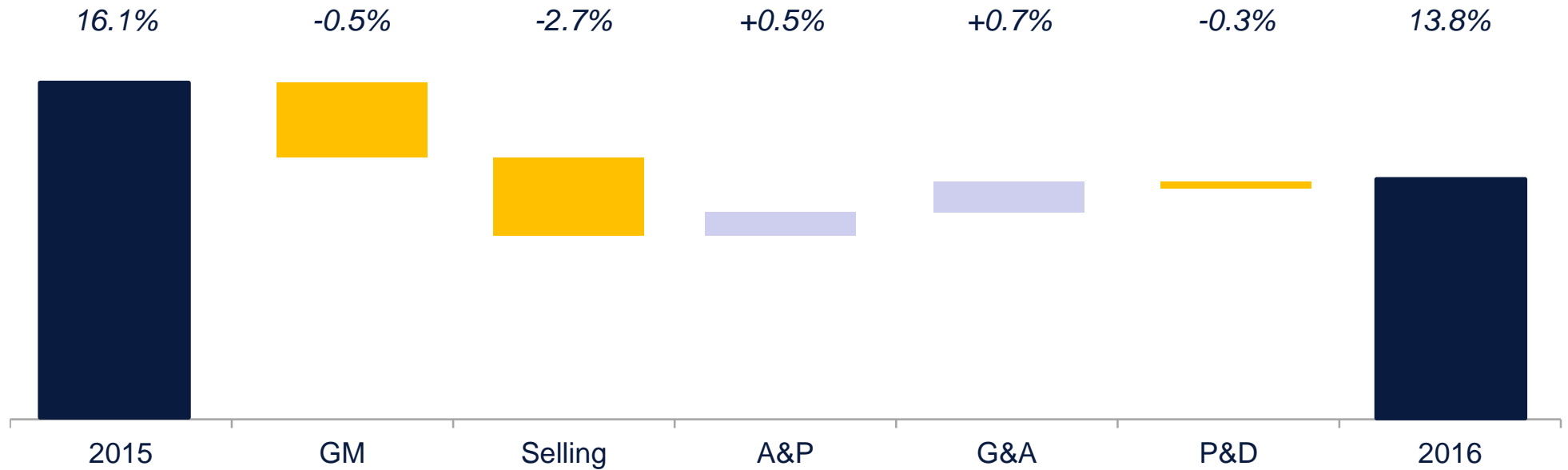


- Positive change
- Negative change



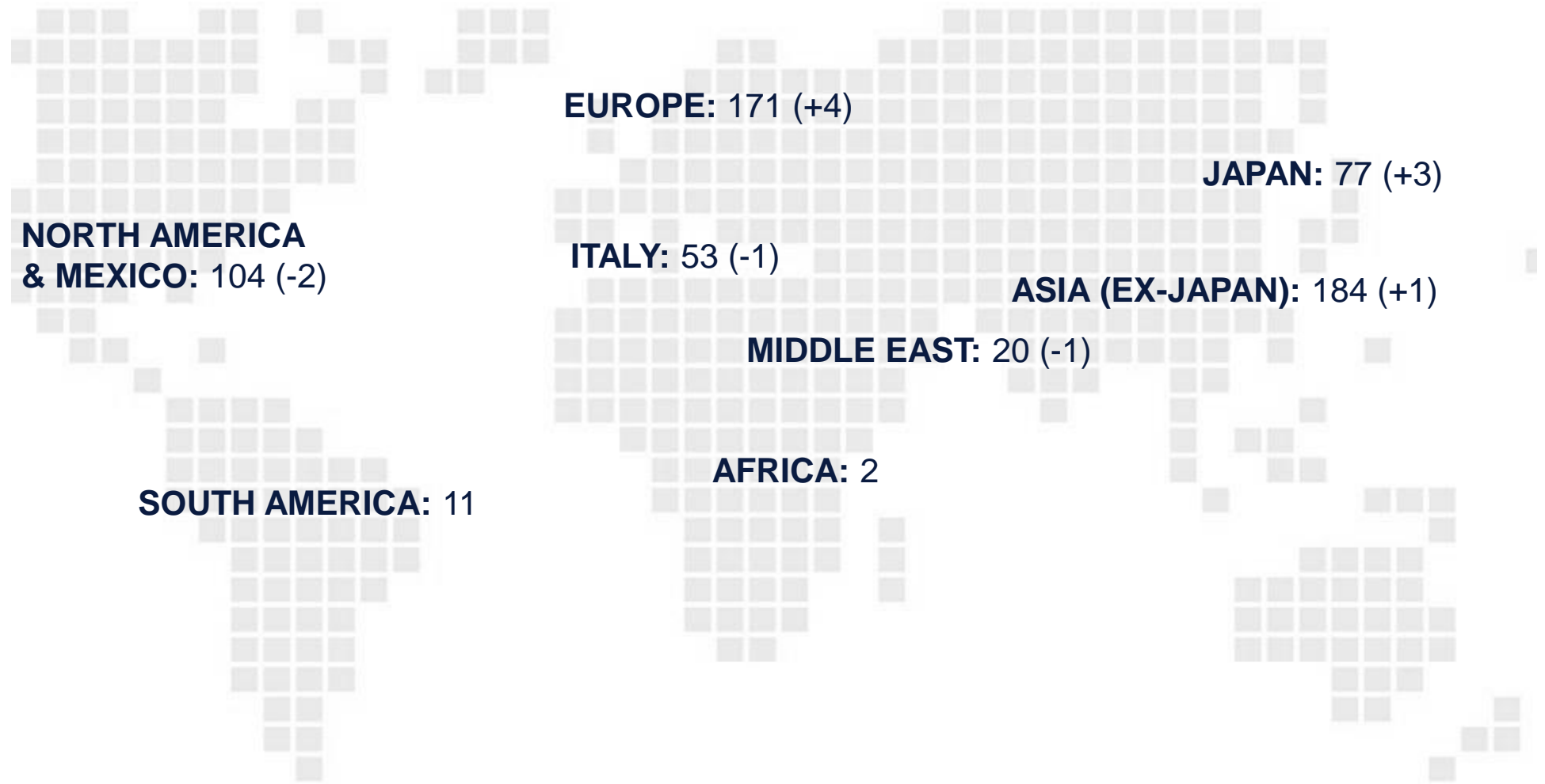
# EBIT Development

EBIT Development – last six months (€m)



# Retail Overview - 622 Dos at July 31<sup>st</sup>, 2016 (\*)

4 Net openings (\*\*)



(\*) including 2 Marchesi shops in Italy

(\*\*) comparing to January 31<sup>st</sup>, 2016