FY 2018 Results Presentation

Milan, March 15th 2019
Agenda

Presentation
14:30 – 15:00

Patrizio Bertelli – CEO
• 2018 Overview and Business update

Alessandra Cozzani – CFO
• FY 2018 Financial Review

Lorenzo Bertelli – Head of Marketing and Communication
• Tech Roll-out

Carlo Mazzi – Chairman
• Outlook

Q&A Session
15:00 – 15:30
2018 Overview and Business update

Patrizio Bertelli
CEO
2018: focus on execution

**Overall good performance in a challenging environment**
- Positive sales trends across all regions and categories
- Increased full price sales
- Geopolitical environment causing uncertainty

**Transformation plan demonstrated results**
- Targeted execution of our plan: channels, merchandising, communication
- Investing in foundations of platform for growth
- Technology and digital strategy in place and delivering
- Enhanced human capital

**Our Brands: a unique asset**
- No compromise on our core values
- Brand integrity at the heart of any decisions
Brand integrity is our guiding principle

Investment in brand, technology, production and organisation
Channels
Investment in pop-ups and events leveraging omnichannel portfolio

Driving excitement and customer engagement through pop-ups and store events
- Roll-out of 48 pop-up stores and 50 Linea Rossa 2.0 special set ups in FY-18
- Fully integrated with digital and social campaigns
- More than 700 promotional events in FY-18 to strengthen relationships with local clients

Continuous optimisation of the retail network
- 29 new openings and 20 closures in FY-18
- ~ 120 renovation and relocation projects

Strong double-digit growth in e-commerce through own on-line platforms

Selective approach when choosing our wholesale partners to manage a controlled growth strategy
- Partnerships with e-tailers reinforced by exclusive capsule collections – 20 drops in FY-18
- Focus on top-tier wholesale partners

FY 2018 Results Presentation – March 15th 2019
Leather Goods – improved offer across all strategic pricing points
• Broad-based organic growth driven by both iconic and new lines (i.e. Prada Sidonie, Margit, Sybille, Odette, Belle, Ouverture)
• Bags and Viaggio outperforming

RTW – double digit performance confirming design leadership
• Prada Men and lifestyle collections outperformed
• Positive response to the relaunch of Linea Rossa collection
• High single-digit growth for Miu Miu ready-to-wear collection

Footwear – successful collections building on longstanding expertise in lifestyle and sportwear
• Outperformance of sneakers for both men and women
Communication
Targeting new audiences through brand experience

First Prada Mode
- Prada’s roving club offering its members unique experiences with a focus on contemporary culture
- An extension of major global cultural events (e.g. Art Basel Miami – Dec 2018) enhancing brand visibility

Miu Miu Club in Shanghai
- The Miu Miu Croisière 2019 collection travelled to Shanghai
- The show was held at the legendary Waldorf Astoria hotel in a unique setting designed by artistic director Tu Nan
Communication
Building brand identity and awareness through global sponsorship

Prada to sponsor Luna Rossa and the 36th America’s Cup
• For the first time Prada is the Title and Presenting sponsor of the 36th America’s Cup
• Preliminary series to take place in 2019-2020
• The final competition will take place in Auckland in March 2021
• The sponsorship provides global brand exposure with events and social media campaigns

The Prada Cup trophy
• For the first time the Challengers’ Selection Series for the America’s Cup, which will start in January 2021 in Auckland, will carry the Prada name
2018 Financial Review

Alessandra Cozzani

CFO
## FY 2018: at a glance

**Investment delivering growth**

<table>
<thead>
<tr>
<th>Condensed P&amp;L</th>
<th>FY 2018</th>
<th>FY 2017 (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>€m</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Revenues</strong></td>
<td>3,142</td>
<td>100.0%</td>
</tr>
<tr>
<td>COGS</td>
<td>(880)</td>
<td>28.0%</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>2,263</td>
<td>72.0%</td>
</tr>
<tr>
<td>Selling</td>
<td>(1,414)</td>
<td>45.0%</td>
</tr>
<tr>
<td>Advertising &amp; Promotion</td>
<td>(207)</td>
<td>6.6%</td>
</tr>
<tr>
<td>Product Development</td>
<td>(125)</td>
<td>4.0%</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>(192)</td>
<td>6.1%</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>1,939</td>
<td>61.7%</td>
</tr>
<tr>
<td>EBIT</td>
<td>324</td>
<td>10.3%</td>
</tr>
<tr>
<td>Tax rate%</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td><strong>Group Net Income</strong></td>
<td>205</td>
<td>6.5%</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>227</td>
<td>7.2%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>551</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

- Good Net Revenue performance - up by 6% at constant FX, mainly driven by full-price sales
- Opex increase mainly driven by brand investments in advertising and digital
- Margins impacted by negative FX / hedging: stable underlying trend
- 2019 fiscal year will benefit from Patent box

(*) 12 months ended December 31st
## FY 2018: at a glance

### Sound financial structure

**Condensed Balance Sheet and Cash Flow**

<table>
<thead>
<tr>
<th>€m</th>
<th>31 Dec 18</th>
<th>31 Dec 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non current assets</td>
<td>2,700</td>
<td>2,565</td>
</tr>
<tr>
<td>Net operating working capital</td>
<td>638</td>
<td>546</td>
</tr>
<tr>
<td>Other current assets / (liabilities), net</td>
<td>(38)</td>
<td>(21)</td>
</tr>
<tr>
<td>Other non current assets / (liabilities), net</td>
<td>(90)</td>
<td>(121)</td>
</tr>
<tr>
<td><strong>Net invested capital</strong></td>
<td><strong>3,211</strong></td>
<td><strong>2,970</strong></td>
</tr>
<tr>
<td>Consolidated shareholders’ equity</td>
<td>2,897</td>
<td>2,866</td>
</tr>
<tr>
<td>Net financial position (surplus) / deficit</td>
<td>314</td>
<td>104</td>
</tr>
<tr>
<td><strong>Equity + Net Financial Position</strong></td>
<td><strong>3,211</strong></td>
<td><strong>2,970</strong></td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>365</td>
<td>447 (*)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>284</td>
<td>251 (*)</td>
</tr>
</tbody>
</table>

- Increase in working capital in line with merchandising strategy
- Gearing ratio low at 11%
- Increase in Capex driven by further investments in retail, software capabilities and industrial projects

(*) 11 months
Net Sales by Channel (€ mn) – Full Year
Full-price sales driving growth

<table>
<thead>
<tr>
<th>Channel</th>
<th>2017</th>
<th>% change as reported</th>
<th>% change same FX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>2,444</td>
<td>81%</td>
<td>+4%</td>
</tr>
<tr>
<td></td>
<td>2,532</td>
<td>82%</td>
<td>+7%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>565</td>
<td>19%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>566</td>
<td>18%</td>
<td>+1%</td>
</tr>
<tr>
<td>Total</td>
<td>3,008</td>
<td>100%</td>
<td>+3%</td>
</tr>
<tr>
<td></td>
<td>3,098</td>
<td>100%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

Retail
- Ongoing strategic reduction of markdown sales impacted by low single digit sales trends; more pronounced in H2 than H1
- Regular sales consistently up across the two semesters
- Strong double digit growth from e-commerce

Wholesale
- Positive performance from E-tailers throughout the year despite strong comparatives
- Continued selective approach to wholesale partners, notably in Europe
# Net Sales by Geography (€ mn) – Full Year

Positive organic trends across all countries

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2018</th>
<th>% change as reported</th>
<th>% change same FX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1,170</td>
<td>1,189</td>
<td>+2%</td>
<td>+3%</td>
</tr>
<tr>
<td>Americas</td>
<td>432</td>
<td>426</td>
<td>-1%</td>
<td>+4%</td>
</tr>
<tr>
<td>Far East</td>
<td>973</td>
<td>1,035</td>
<td>+6%</td>
<td>+10%</td>
</tr>
<tr>
<td><strong>Greater China</strong></td>
<td>646</td>
<td>675</td>
<td>+5%</td>
<td>+8%</td>
</tr>
<tr>
<td>Japan</td>
<td>337</td>
<td>350</td>
<td>+4%</td>
<td>+7%</td>
</tr>
<tr>
<td>Middle East</td>
<td>93</td>
<td>94</td>
<td>+1%</td>
<td>+5%</td>
</tr>
<tr>
<td>Others</td>
<td>4</td>
<td>4</td>
<td>-5%</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>Total Sales</strong></td>
<td>3,008</td>
<td>3,098</td>
<td>+3%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

**Europe**
- Solid retail trends during the year, despite negative impact from social unrest in France
- Domestic consumption drove growth boosted by in-store initiatives
- Wholesale weighed on trends in H2

**Far East**
- Double digit growth in Asia Pacific mainly driven by Greater China and Korea

**Americas**
- Sound performance driven by domestic consumption
- Tourism weakened on back of USD strength in H2

**Japan** and **Middle East**
- Solid retail trends supported by both tourism and domestic consumption
## Net Sales by Product (€ mn) – Full Year

Growth in all categories; successful product launches delivered

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th></th>
<th>2018</th>
<th></th>
<th>% change as reported</th>
<th>% change same FX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather Goods</td>
<td>1,703</td>
<td>57%</td>
<td>1,756</td>
<td>57%</td>
<td>+3%</td>
<td>+6%</td>
</tr>
<tr>
<td>Ready to Wear</td>
<td>625</td>
<td>21%</td>
<td>666</td>
<td>22%</td>
<td>+7%</td>
<td>+10%</td>
</tr>
<tr>
<td>Footwear</td>
<td>624</td>
<td>21%</td>
<td>616</td>
<td>20%</td>
<td>-1%</td>
<td>+2%</td>
</tr>
<tr>
<td>Others</td>
<td>57</td>
<td>2%</td>
<td>59</td>
<td>2%</td>
<td>+4%</td>
<td>+7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,008</td>
<td>100%</td>
<td>3,098</td>
<td>100%</td>
<td>+3%</td>
<td>+6%</td>
</tr>
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</table>

### Leather goods
- Solid retail growth at Prada, driven by both iconic and new handbags
- Ongoing rebalancing of product portfolio through new launches in H2 (e.g. Sidonie, Belle, Sybille, Manuelle, Margit, Odette)

### Ready to wear
- Positive trends across all brands and markets, with strong performance in Men’s RTW
- Lifestyle lines outperformed

### Footwear
- Positive retail trend throughout the year
- Successful reception of sneaker collections and lifestyle for both Men and Women
### Net Sales by Brand (€ mn) – Full Year

**Prada brand driving growth**

|        | 2017 | % change
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>as reported</td>
</tr>
<tr>
<td>Prada</td>
<td>2,461</td>
<td>82%</td>
</tr>
<tr>
<td>Miu Miu</td>
<td>459</td>
<td>15%</td>
</tr>
<tr>
<td>Church’s</td>
<td>71</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,008</strong></td>
<td><strong>100%</strong></td>
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<thead>
<tr>
<th></th>
<th>2018</th>
<th>% change as reported</th>
<th>% change same FX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prada</td>
<td>2,558</td>
<td>+4%</td>
<td>+7%</td>
</tr>
<tr>
<td>Miu Miu</td>
<td>453</td>
<td>-1%</td>
<td>+2%</td>
</tr>
<tr>
<td>Church’s</td>
<td>69</td>
<td>-3%</td>
<td>-2%</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>+4%</td>
<td>+4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,098</strong></td>
<td><strong>100%</strong></td>
<td><strong>+3%</strong></td>
</tr>
</tbody>
</table>

**Prada**
- Good performance across all categories and markets throughout the year
- Growth underpinned by consistent performance in leather goods

**Miu Miu**
- RTW collections very well received; stable trend in footwear and leather goods
- Wholesale trends in H2 weighed on retail performance

**Church’s**
- Wholesale reorganisation offsetting consistent positive trends in retail
Gross margin development
Margins sustained despite FX headwinds

• Gross margins broadly in line with prior year at constant fx
• Ongoing investment in the supply chain, fully paid-for by contribution from increased full price sales
EBIT development
Stable underlying operating margins

• Excluding FX and one off, operating margins remain stable
• Opex grew around €90 million, 5% at constant FX, of which circa 30% were variable costs
• The remaining Opex was allocated to costs such as advertising, promotional activities as well as retail events to fuel sales, with the rest spent on growing the workforce to strengthen the organisation
• +9 net openings in FY-18: 29 openings and 20 closures
• ~120 renovation and relocation projects of which ~90 at Prada
• IT investment plan part of the Group’s broader digital transformation strategy
• Industrial projects: new Prada logistic hub in Tuscany
Net financial position

Net financial position in euros (€m) for the fiscal year 2018, presented as a bar chart. The chart shows the changes in Net Income, D&A (Depreciation and Amortization), Net Operating Working Capital, Capex (Capital Expenditure), Dividends, and Other factors, along with the NFP (Net Financial Position) at the end of December 2017 and December 2018.

- **Net Income**:
  - December 2017: 227 €m
  - Positive Change

- **D&A**:
  - December 2017: 208 €m

- **Net Operating Working Capital**:
  - December 2017: (111) €m
  - Negative Change

- **Capex**:
  - December 2017: 208 €m
  - Positive Change

- **Dividends**:
  - December 2017: (73) €m
  - Negative Change

- **Other**:
  - December 2017: (198) €m
  - Negative Change

- **NFP Dec-18**:
  - December 2018: (314) €m
  - Negative Change

The chart indicates a decrease in the net financial position from December 2017 to December 2018, with a significant decrease in Capex and a slight increase in D&A.
Dividend policy

\[
\begin{array}{ccccccccc}
(\text{€m}) & 230 & 281 & 281 & 281 & 307 & 192 & 154 \\
\text{Dividend payout (\%)} & 37\% & 45\% & 62\% & 85\% & 111\% & 77\% & 75\% \\
\text{Dividend per share (€ cents)} & 9 & 11 & 11 & 11 & 12 & 7.5 & 6.0
\end{array}
\]
Tech Roll-Out
Lorenzo Bertelli
Head of Marketing and Communication
Tech Roll-Out - 1
Ramping up e-commerce to reach global coverage by 2020

Successful steps in 2018
• New Miu Miu.com launched in Europe
• Enhanced access to Prada and Miu Miu experience (Pradasphere and Miu Miu Club)
• New Church’s.com

Strong double digit growth in sales through our digital channels

2019 activities
• Expanding omnichannel functions and improving user experience
• New Miu Miu.com in US, Asia and Middle East
• Launch of Prada & Miu Miu e-commerce in new markets
• Launch of Car Shoe e-commerce
• Increasing collaborations with marketplaces
Tech Roll-Out - 2
Investing in technology to boost operational efficiency and effectiveness

Digital Retail
• Upgraded in-store app “Clientsphere”

New merchandising planning tool
• Technology supporting efficiency and effectiveness in the core processes (merchandising planning, buying, replenishment)

Enhanced customer service
• Seamless remote customer experience
• New concierge functions launched in 5 regional hubs

Integrating CRM with AI
• Set up team of data scientists
• Cross-channel marketing automation to enable ad-hoc campaigns based on behavioural customer analytics
• Increased incorporation of data between stores and social media channels

Implementing radio-frequency identification (RFID)
• Installation of RFID on our leather goods products to be rolled out on all product lines
• App to identify product authenticity post sales & gather omnichannel customer data
Tech Roll-Out - 3
Digital projects driving brand engagement

Ramp-up of digital communication
• Special launches for Prada Linea Rossa
• Prada Delivery Man
• Miu Miu Iconic Wardrobe
• Miu Miu Other Conversations

New digital channels
• Twitter Japan for both Prada and Miu Miu (2018)
• Kakao Talk (2019)
• Launch of Prada Spotify official profile (2019)
Outlook

Carlo Mazzi
Chairman
Outlook

• The process of business transformation started in 2017 is already delivering positive results. We are:
  
  - Continuing the technological roll-out through the digitalization of client relationships to further leverage our competitive advantage
  
  - Enhancing the structure of our organization, taking significant necessary initiatives to fully deploy our brands’ potential

• As a result we expect a progressive return to volume and margin growth