

H1 2020

Results Presentation

Valvigna, Tuscany, July 29th 2020

PRADA Group

Agenda

Patrizio Bertelli - CEO
Business Update

Alessandra Cozzani - CFO
H1-2020 Financial Review

Lorenzo Bertelli - Head of Marketing and Head of CSR
Marketing and Communication update

Carlo Mazzi - Chairman
Prada Group for the community
Outlook

Q&A Session

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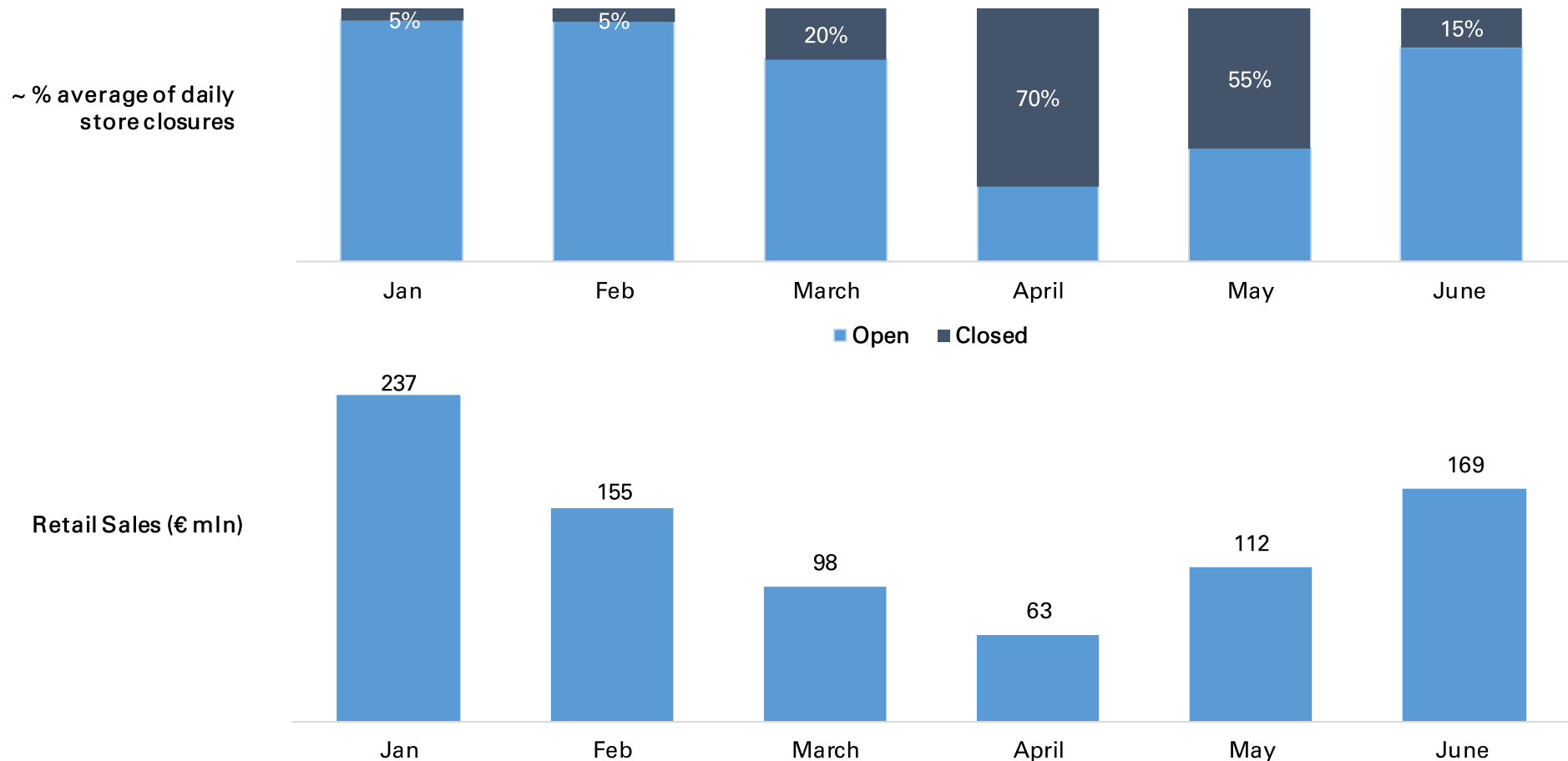
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Growth trajectory temporarily interrupted by COVID-19



Strong retail sales growth at the beginning of the year disrupted by the COVID-19 outbreak

Store network significantly affected by lockdowns worldwide

- ~40% average of stores closed between February and May
- Closures peaked at 70% of network in April
- Retail sales significantly impacted by store closures and travel bans

Effective reaction to the COVID-19 emergency

Prompt response mitigated the impact of lockdowns and preserved financial position

Ensured safe environment for employees and customers in different phases of lockdown worldwide

Jobs safeguarded, also through adoption of state aid in some countries

Able to reopen all 21 factories after just 5 weeks thanks to health and safety measures

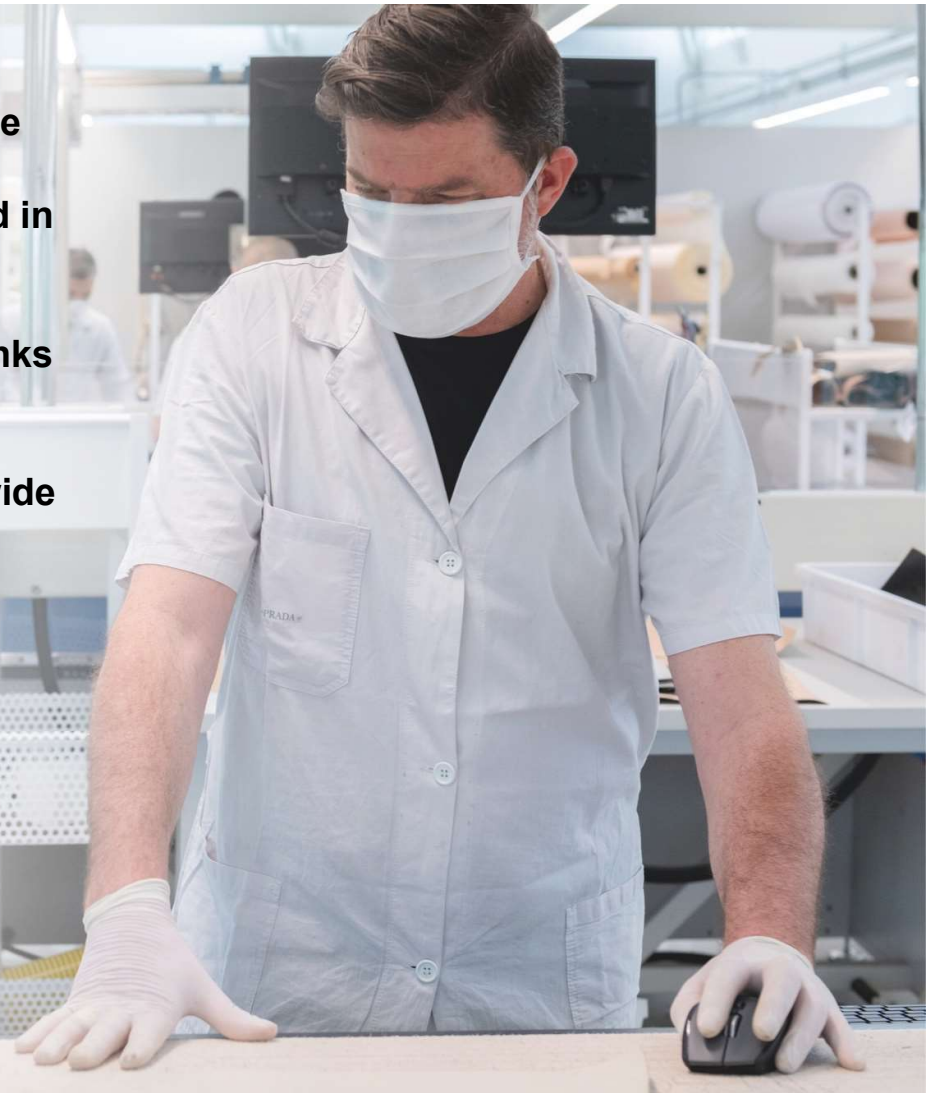
Successful proactive inventory management worldwide resulting in a limited stock increase

Capex restricted to strategic projects

Effective cost containment program

2019 dividend withdrawn

Net Financial Position well managed through cost and cash-out controls



Channels

Strength of retail network demonstrated during crisis, Wholesale downsizing on track

RETAIL

- Well-balanced presence of retail network across key markets and strong client relationships proved vital Group assets during crisis
- Significantly improved engagement with local customers in recent years thanks to targeted initiatives
- Strong global logistics platform supported retail network and ecommerce
- Investment in digital retail platforms resulted in triple digit growth in online sales during the half
- Excellent client relationships maintained throughout crisis

WHOLESALE

- Significant reduction in Wholesale sales in H1-20, due to execution of strategic decision announced in August 2019 to deprioritise Wholesale
- Increase control and price consistency in all channels to protect brand image
- Sales through Wholesale channel expected to stabilize in 2021



Positive Market reactions post reopening

Sustained consumer interest following store reopenings, particularly in Asia

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Retail network ~ 85% operational by end of June

Strong sales trend from local consumption as soon as stores reopened

Remarkable consumer response in Mainland China which resumed growth in April (trend by month +11% April, +35% May, +54% June)

Continuing excellent performance in Taiwan and South Korea

Strong growth of e-commerce worldwide

Consistent focus on investment in Brand value is paying off with strong appreciation from customers across all markets



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P&L

Profitability heavily impacted by store closures

€m	H1-2020		H1-2019	
Net Revenues	938	100%	1.570	100%
COGS	-278	-29.6%	-444	-28.3%
Gross Margin	660	70.4%	1.126	71.7%
Selling	-499	-53.3%	-707	-45.0%
Advertising & Promotion	-94	-10.0%	-101	-6.5%
Design and Product Development	-52	-5.7%	-65	-4.1%
G&A	-99	-10.4%	-102	-6.5%
Operating expenses	-743	-79.3%	-975	-62.1%
EBIT before selling expenses of the closed stores during lockdown	-83	-8.9%		
Selling expenses of the closed stores during lockdown	-112	-13.5%		
EBIT	-196	-20.9%	150	9.6%
Total Financial expenses	-40	-4.2%	-30	-1.9%
EBT	-236	-25.1%	120	7.7%
Income Taxes	52	5.5%	35	2.2%
Minority Income	-3	-0.3%	0	0.0%
Group Net income	-180	-19.2%	155	9.9%
Total D&A	-351	-37.4%	-340	-21.7%
EBITDA	155	16.5%	491	31.2%

Balance Sheet

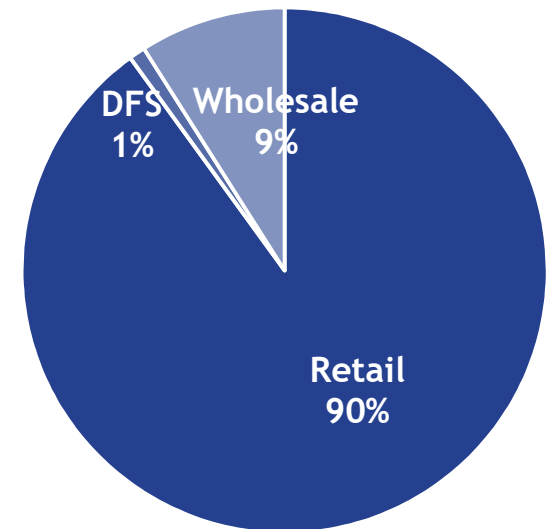
Healthy financial structure

€m	30 June 2020	31 Dec 2019
Right of use	2,225	2,363
Non current assets (excl deferred tax assets)	2,545	2,671
Net operating working capital	650	703
Other current assets / (liabilities), net	32	-6
Other non current assets / (liabilities), net	106	79
Net invested capital	5,557	5,809
Consolidated shareholders' equity	2,755	2,989
Net financial position (surplus) / deficit	515	406
Long term lease liability	1,889	2,006
Short term lease liability	398	410
Total	5,557	5,809
Net Working Capital / Sales	25%	22%
Capex	49	302
Operating Cash flow	-26	362
Debt / Equity	19%	14%

Net sales by Channel

Retail trend driven by COVID-19 crisis, Wholesale by strategic decision

	H1 19	H1 20	% change same FX
Retail	1.232	835	-32%
Wholesale	314	91	-71%
Total	1.546	925	-40%



Retail

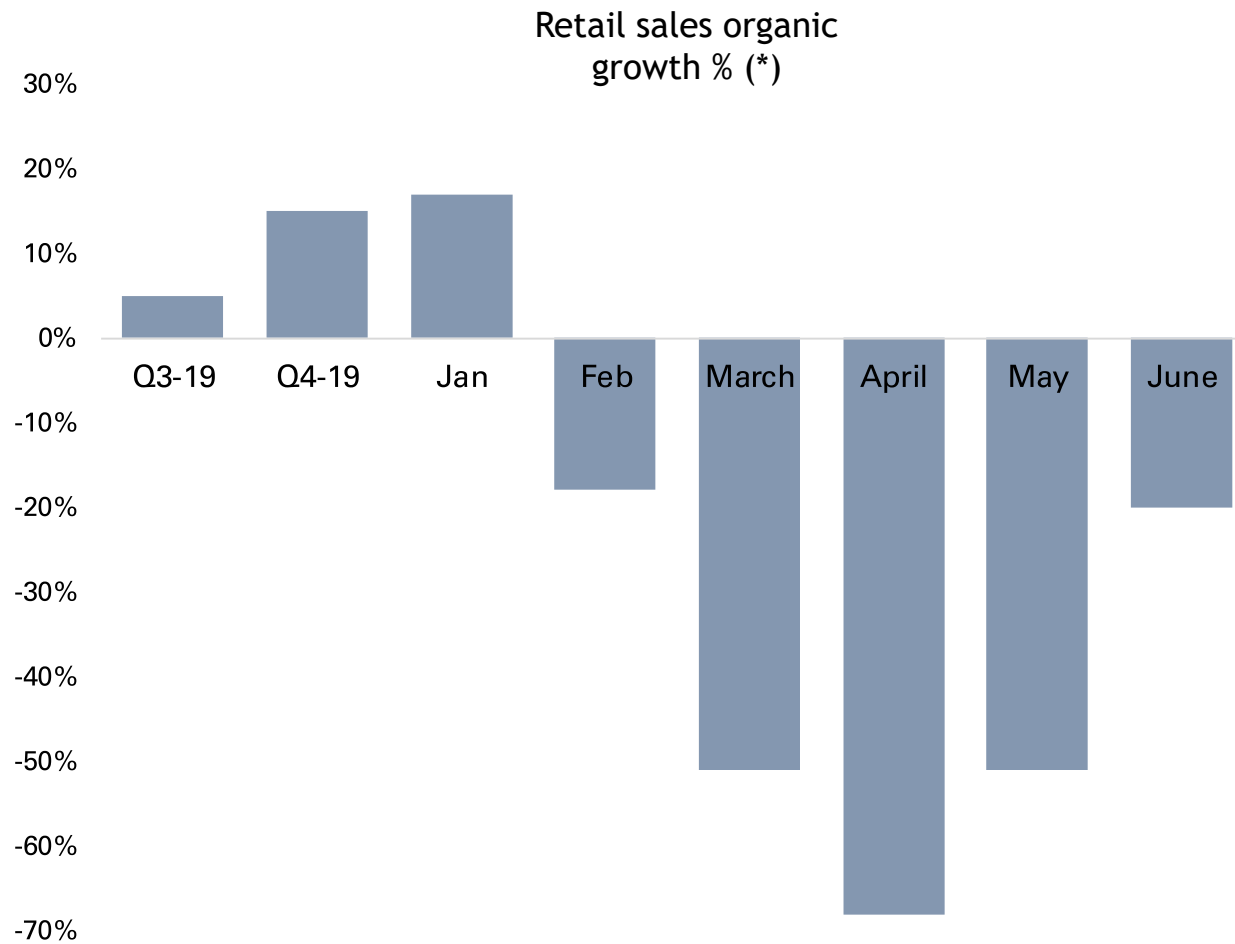
- Strong double digit growth trend until end of January interrupted by COVID-19
- Trend heavily impacted by lockdowns since February, ~ 40% of the store network closed during Feb-May
- Sequential improvement since reopening in all regions, particularly strong in Asia Pacific
- Sharp acceleration online since COVID-19 outbreak; Triple digit growth YTD even after the reopening (~+150% in H1-2020 including a peak in June at > +300%)

Wholesale

- Channel predominantly impacted by strategic decision to reduce Wholesale exposure
- Process accelerated by COVID-19

Retail sales trend

Sequential improvement in retail since reopening

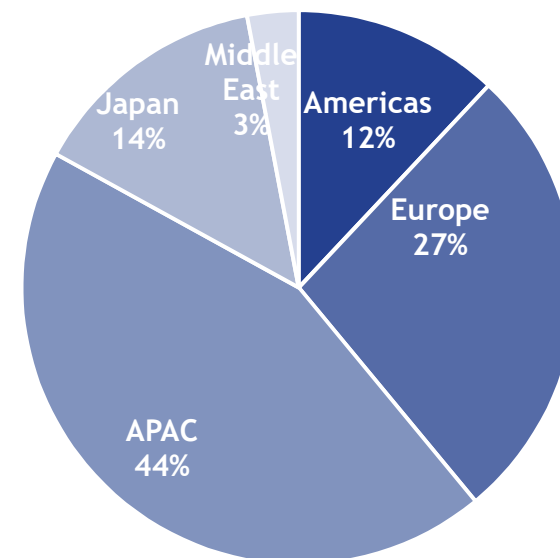


(*) Q3-19 and Q4-19 refer to full price sales

Retail sales by Geography

All regions impacted by lockdowns and travel bans

	H1 19	H1 20	% change same FX
Europe	386	228	-41%
Asia Pacific	455	370	-18%
Americas	164	96	-42%
Japan	178	113	-39%
Middle East	49	28	-44%
Total	1.232	834	-32%



Europe

- Strong double-digit organic growth in Jan-Feb interrupted by lockdowns
- Decline in tourism partially offset by a very good response from local consumers following store reopenings

Asia Pacific

- Rapid and sustained return to consumer spending since the health situation normalized
- High double-digit growth in China since reopening; South Korea and Taiwan outperformed throughout the period
- Double digit organic growth in June in the region overall despite negative trends in HK and Macau

Americas

- Strong double digit organic growth in January and February interrupted by lockdown in late March; improving trend recently notwithstanding the ongoing health emergency; sustained growth in Canada since the reopening

Japan

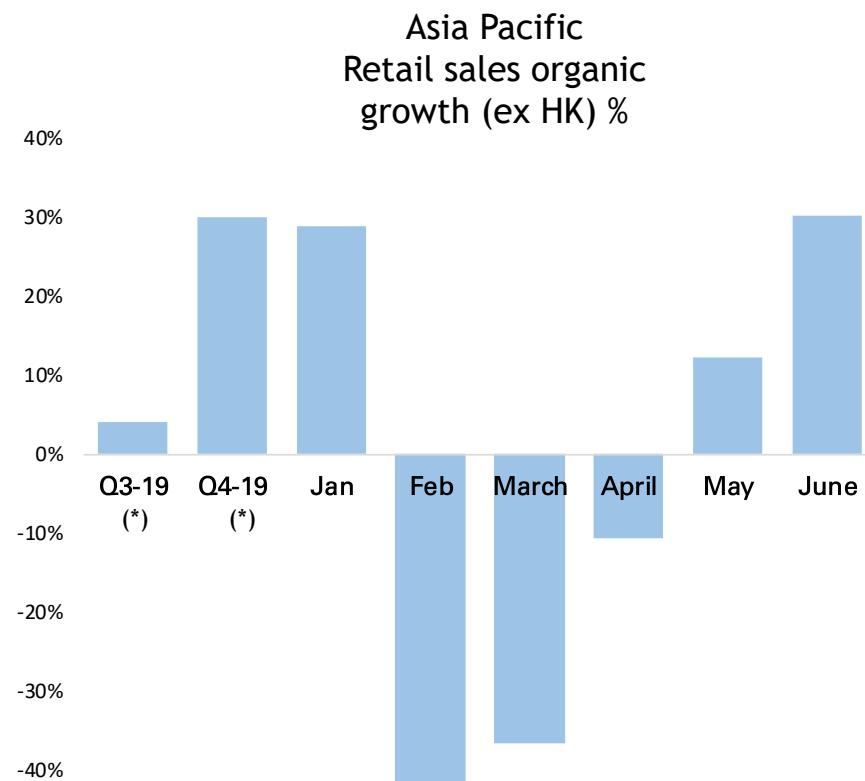
- Very positive trend in January interrupted by COVID-19 in February
- Resilient trend more recently, driven by locals

Middle East

- Double-digit organic growth in Jan-Feb interrupted by the lockdown in March. Improving trends seen in Saudi Arabia, Kuwait and Qatar; Dubai suffering from lack of tourism

Retail sales by Geography

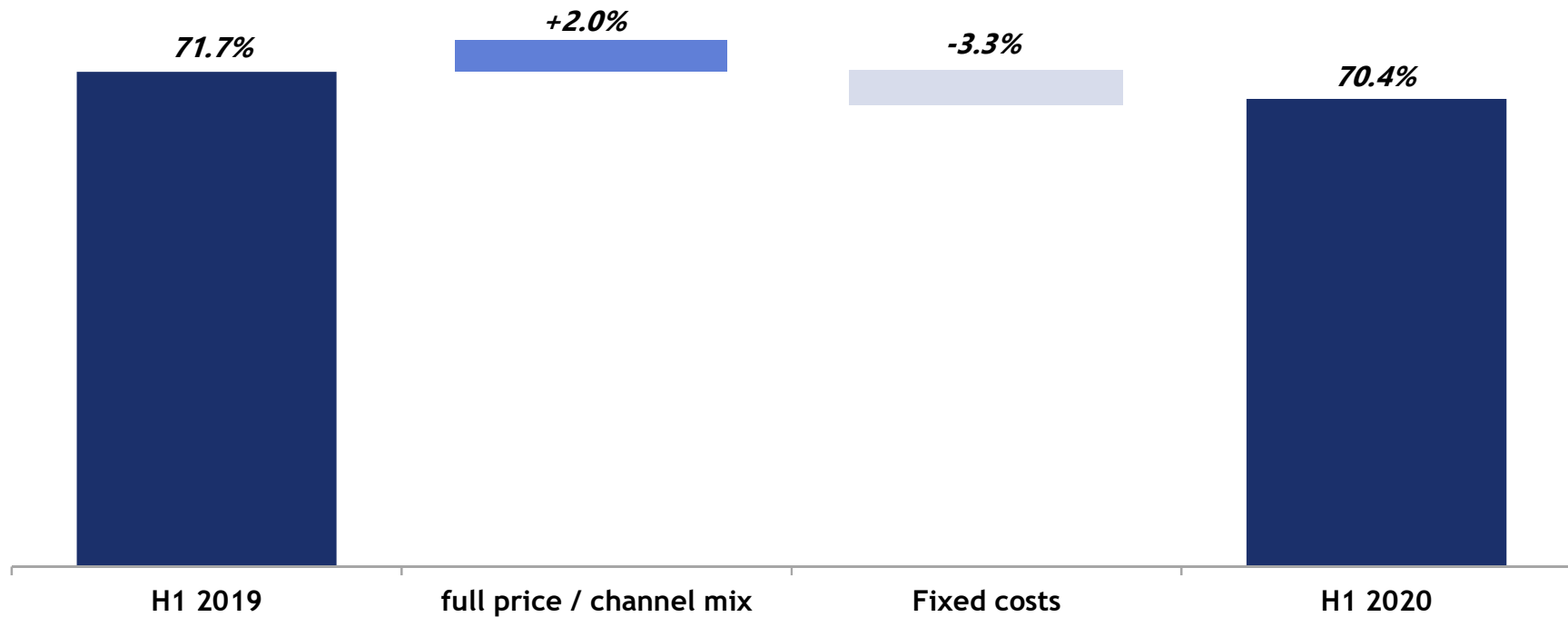
Sharp rebound in Asia Pacific



(*) Q3-19 and Q4-19 refer to full price sales

Gross margin development

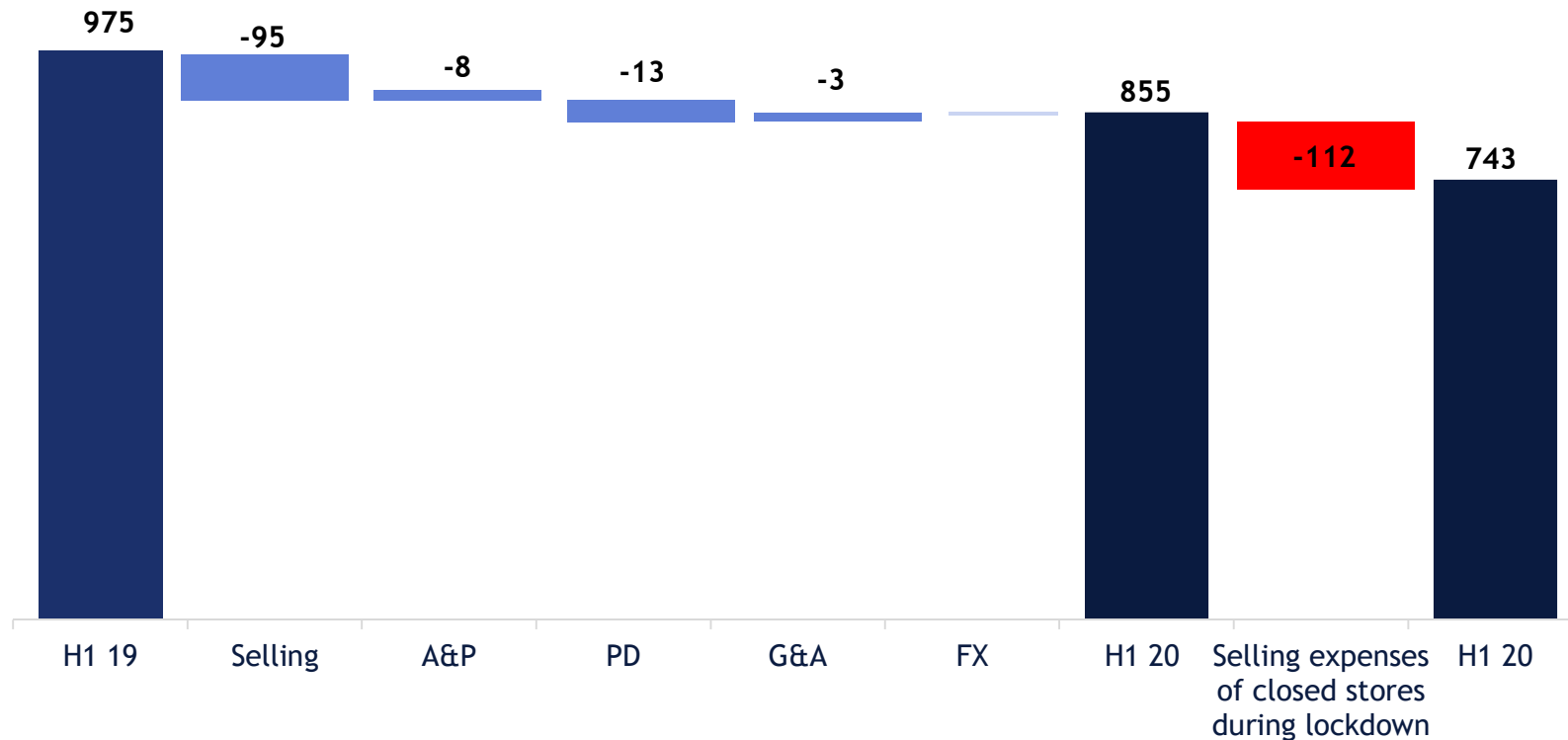
Resilient industrial margins



More favourable channel and country mix was more than offset by deleverage on industrial fixed costs; effective inventory management limited further margin impact

Operating costs

Proactive cost management



- Total opex declined by -12% (€ 120 mln)
- Extensive savings programme implemented across all areas of cost
- All the costs pertaining to the retail network during the closure period net of savings, amounted to Euro 112 mln or 18% of selling expenses that couldn't generate revenues during the period

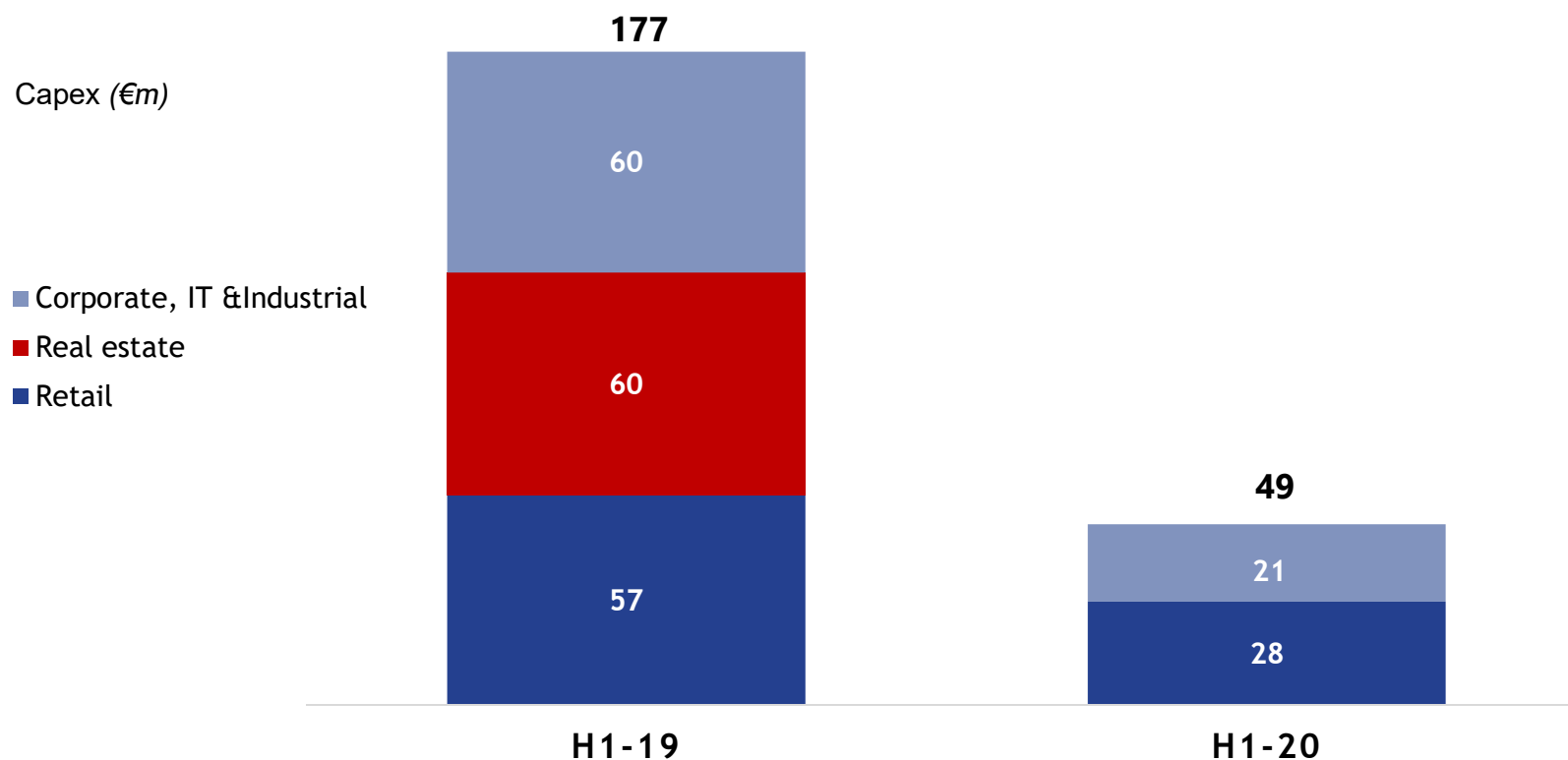
EBIT bridge

Proactive actions taken to mitigate impact on margins



Capex

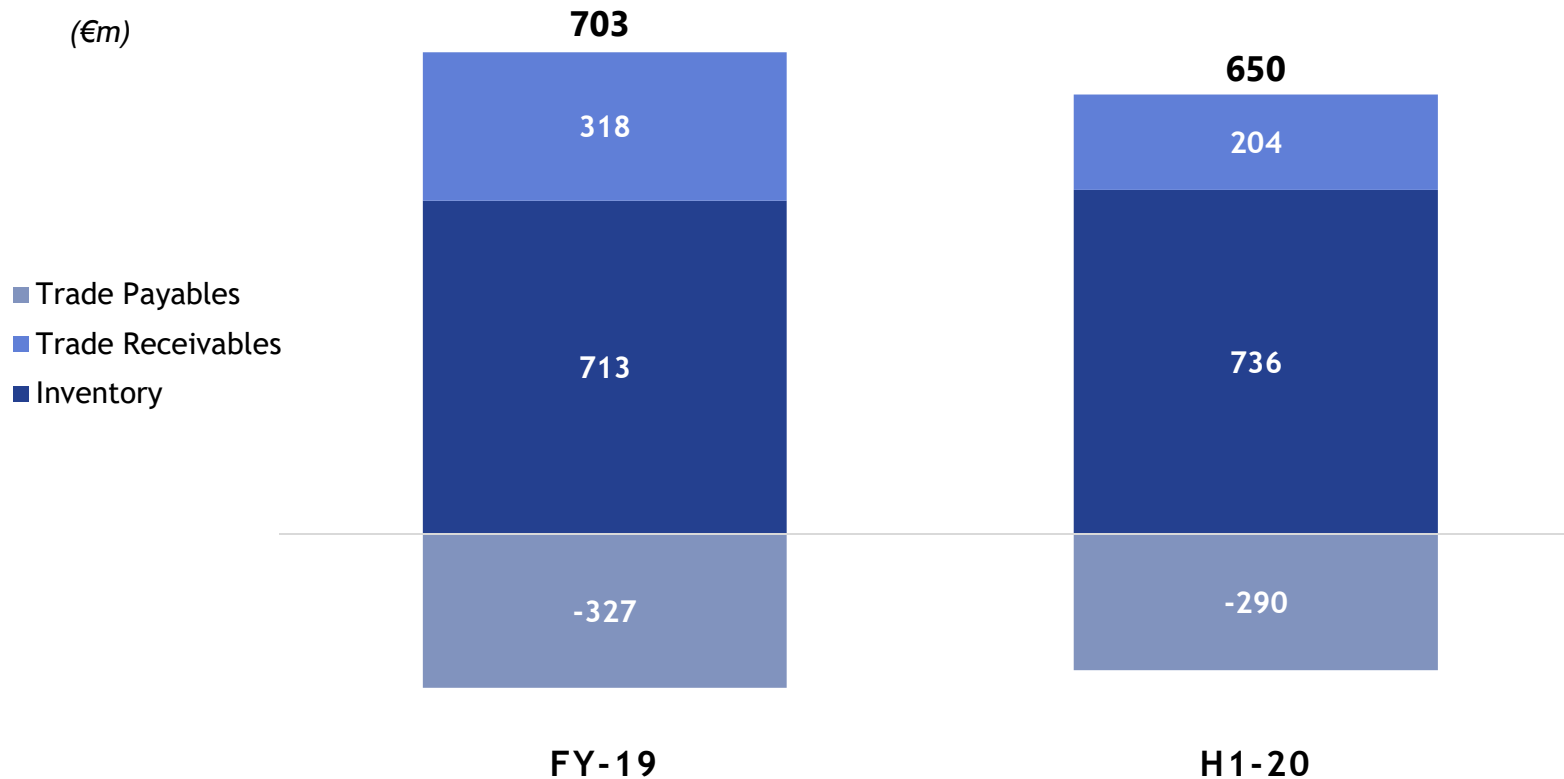
Limited to key strategic projects



- 3 openings and 7 closures during the period – 637 DOS end of June
- 35 renovations and relocations projects

Net Working Capital

Managing supply chain effectively



Net working capital remains well under control

- Direct control of the supply chain, mainly located in Italy, enabled stock management to prevent excess of inventory
- Inventory reallocation across regions
- Trade receivables down as a result of the wholesale reorganization

Net financial position

Opening Net financial position (deficit) / surplus - 31/12/2019	-406
Consolidated Net Result	-184
Net Operating Working Capital	+52
Depreciation and Amortization	+120
Capital expenditures	-49
Deferred tax assets and other	-48
Closing Net financial position (deficit) / surplus - 30/06/2020	-515

Net Financial Position substantially in line with H1-2019 (-507 mln)

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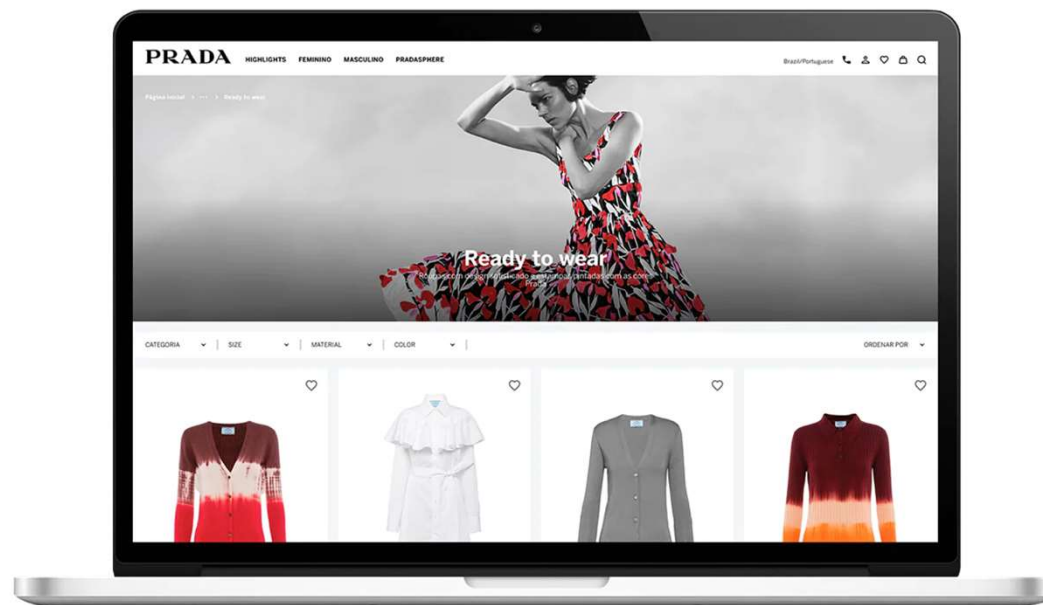
Q&A Session

Focus on e-commerce

Recent investments delivering strong results

Triple-digit growth

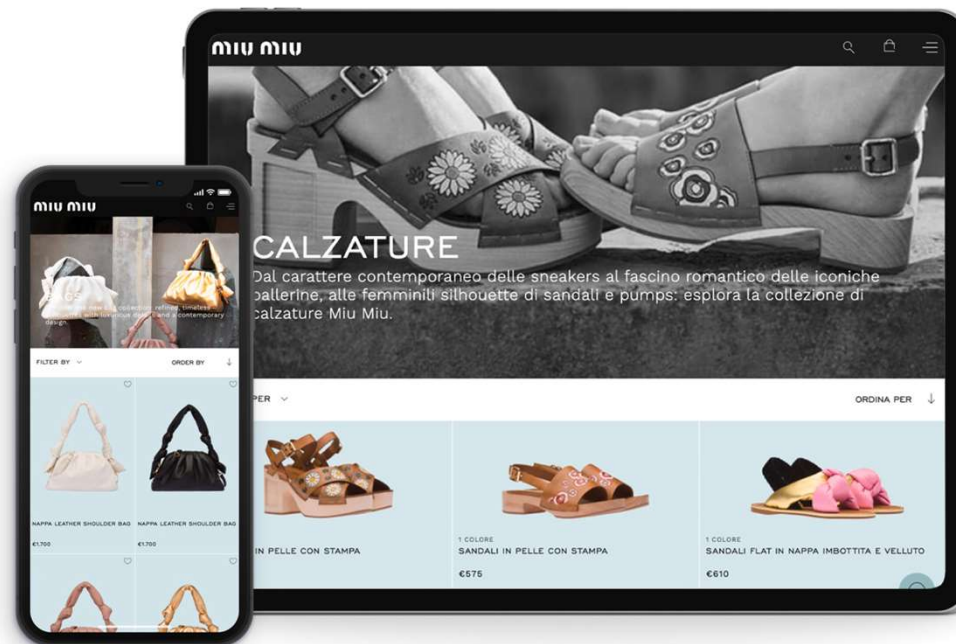
- Very strong growth across all markets with ecommerce capability, well-balanced growth across all product categories
- Revamp of Prada website across all major markets (USA, China, Japan, Canada): the new platform delivers user friendly browsing and enhanced functionalities combined with the Brand's visual identity offering a unique shopping experience and an original creative exploration of the Prada universe
- Launched Prada ecommerce in additional key markets: South Korea and Brazil
- Activated strategic and tactical online commercial initiatives to drive revenues and channel visibility across all major markets (capsule, online exclusive, digital pop up, etc.)
- Ongoing a digital acceleration program in order to further boost and enhance digital platform performance and capabilities



Focus on client engagement and omnichannel

Advanced tools supporting sales staff to enrich client relationship

- Further accelerated the evolution of sales associates client relationships by introducing new additional solutions focused on remote customer engagement and omnichannel selling
- Activated and ongoing the enhancements of the clientelling strategy leveraging customer segmentation and customer specific life-cycle «moments»
- Leverage of advanced analytics and machine learning to enable personalized and cross channel customer strategy



Amplifying our digital voice

Promoting products and values integral to Group DNA

Prada's brand heat strong and accelerating

- Among the top positions in terms of growth rate in H1-20 (3rd on Instagram and Facebook and 1st on Twitter) (*)
- Improving engagement rate in Q2-20 vs. Q1-20 especially on Instagram (**)
- Prada top ranked by mentions during Milan's Digital fashion week - «earned» media performances of SS21 Men's show (**)
- From the «owned» media perspective Prada reached quadruple digit growth in terms of engagement on Chinese social network vs. the performance of the previous Men's show (We Chat, Weibo, Douyin)

State of the art AI platform

- The Group joined a commercial AI platform to optimise its return on advertising investment, reach relevant and wider audiences, and gain insights into effective marketing contents. This partnership is a new step in the digital transformation to strengthen the web and social media communication strategy

(*) Sprinklr – YTD data as of end of June – comparing the growth rate of a panel made of 9 luxury peers

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Creative digital campaigns (1)

Intuitive consumer engagement in rapidly changing times

Prada 520: Mathematics of Love

In the occasion of the 20th of May – “5/20” – the day which, in China, represents and celebrates love, Prada ran a digital campaign featuring Kun, the eclectic Chinese singer as the protagonist of the short film which explores this emotion during and after the social distancing due to the spread of Coronavirus

Miu-Me

Digital project comprising a series of diverse international celebrities – from the realms of sport, art, dance, and fashion – to use their mobile phones to film themselves in their own environment, playing with Miu Miu Automne 2020 collection and their Miu Miu personal archival pieces



Creative digital campaigns (2)

Intuitive consumer engagement in rapidly changing times

Prada Possible Conversations

A series of digital talks exploring fashion, culture and life on Instagram

The project started as a response to the limitations of lockdown in order to create dialogues between thinkers across the world, bringing together ideas and offering an experience of connection

Each conversation will also result in a donation from Prada to UNESCO focusing on education for more than 1.5 billion students worldwide affected by school and university closures, as well as on a program to increase international cooperation in science

Prada Group REMIX

Remix is a dynamic content series discovering the Prada Group's DNA in a new unexpected way

The first three episodes focused on excellence, cultural heritage and sustainability; 2 more episodes to come

**POSSIBLE
CONVERSATIONS**

**A SERIES OF DIGITAL TALKS
EXPLORING CULTURE, FASHION
AND LIFE VIA INSTAGRAM**

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Prada Group: supporting our communities during COVID-19

- February - Supporting the Shanghai Soong Ching Ling Foundation's educational program aiming to support management of public health emergencies in China
- March - Dedicating the Prada plant in Montone (PG) to the production of 80,000 overalls and 110,000 surgical masks to meet the urgent needs of Tuscany's health care system
- March - Top management donated 6 complete intensive care and resuscitation units to Milan's Buzzi, Sacco and San Raffaele hospitals
- April - Financial support to PROTEGGIMI, a project run by the San Raffaele Hospital in Milan that will investigate on COVID-19 contagion
- April - Marchesi donated traditional Easter cakes to personnel working in Milanese hospitals as well as to a non-profit organization providing free food on a daily basis
- Prada has been one of the few companies to implement periodical serological tests to all Italian employees



Growth trajectory temporarily interrupted by COVID-19

Our strategy enables us to return to profitable growth when markets recover

Continuous investment in brand equity and focus on core values, make Prada Group as a leader in the sector

Important decisions to cut mark downs, reduce wholesale, along with investment for the future in the digital transformation have created the ability to withstand this crisis and emerge quickly

Strengthened the organisation for the future with new leadership appointments

- **Chris Bugg – Director of Group Communications**
- **Benedetta Petruzzo – Miu Miu General Manager**
- **Raf Simons – Co Creative Director**
- **Massimo Vian – Chief Industrial Production**

Evidence of sustained customer demand in markets which have already overcome lockdowns

In light of the recent good trend, we are confident that the first half of 2020 represents a temporary interruption of our growth trajectory

