UNITED COLORS OF BENETTON.

Presentation Transcript

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Silvano Cassano, CEO

Good afternoon, and thank you for taking the time to be with us.

Why Passion for Quality – the title we are giving to our Strategic Guidelines? Passion for Quality because we will rely on the strength and awareness of our global brands. Passion for Quality because we will consolidate our textile craftsmanship, together with technological and industrial innovation and leadership. Before we go into the highlights, let me just tell you what we have done in the last few months, since we joined the company, and how we put together this plan.

These Strategic Guidelines have been put together with real teamwork effort. We have involved over 100 of our managers worldwide. We have reviewed and analysed the different market scenarios in all the major markets we have in Europe, the US, and Asia. And of course it has been approved by the Board and the shareholders. In other words the plan is shared by all the company. Since I joined in May, we spent a lot of time, along with our CFO and other new managers, travelling worldwide to have a lot of discussions and visual meetings with all our key management and employees and independent agents and distributors in all the key markets in Europe, in the US, and all the Asian markets. We spent a lot of time visiting our plants, our manufacturing location in Italy, Croatia, in Hungary and in Tunisia. And we have had a lot of discussions and meeting with our independent partners, our retailers, the people who invest their own money in our mono brand location. We have found an incredible level of technological skills in our labs and in our R&D facilities for instance, which will be one of the basis of our plan.

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If we look at the key highlights, as I said, all our market research is confirming the incredible strength and the global brand awareness of Benetton and Sisley. We want to devote more time and focus on the different brands we have in our portfolio. So, of course, Benetton will be very important, but Sisley is a clear mission, which we will take a look at in a while, and we have two brands in the sportswear division, Playlife and Killer Loop, which have a lot of mileage, which we want to take advantage of.

If we think of the comments from our customers, which we are now interviewing in focus groups in each of the key markets, for the key words we are asking them to define -what are the values of the brand, especially Benetton- what comes out is: "as you can see, you know you are safe with Benetton"; "it's a brand that goes further than fashion"; "it's a brand that has grown up with me". In other words, the key elements which are coming out are: it's a friendly brand, it's young, it's colourful, it's reliable.

The second point of our key highlights is: we confirm our business model, which is based on three points of strength. The number one, I already mentioned, the value of the brand. The second element is: the strength of the global network of qualified partners, with over 5000 locations in 120 countries. These are independent partners who have a long-standing relationship with us and with whom we can have an extremely constructive relationship, some of the points of which I will share with you in the next few slides. The third element is a strong industrial know-how and technological leadership. I have seen a lot of innovation in our labs and we will start seeing some of this quality and innovation in our product and style hitting our shops in the Spring/Summer Collection of 2005.

A third element is Quality over Price. Why do we say that? Because we intend to leverage on our capacities which some of our competitors do not have, and maintain our price position with enriched product development. In other words, a key slogan for us will be: more product at the same price.

We believe we will show to you that we have a sustainable long-term revenue growth, based on product mix, new markets, the menswear growth, the role of Sisley. This will give us over the time period 18.5% revenue growth, over the four years. It will mean an EBIT margin improvement of 40% and it will double our free cashflow over the same period, which once again shows the resilience of the business model.

Our plan is prudent, it is feasible, it is realistic and is based on organic growth. In other words, it does not include any extraordinary items.

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What are the key strategic priorities we are focusing on?

The first point, as I already mentioned, will be to differentiate the clear and different positioning of the separate brands we have – Benetton, Sisley, Playlife and Killer Loop. We want to pay greater attention to the feedback from the final consumer. We will have much more focus group and much more feedback along with our partners to react faster to the needs of the different markets on a global scale.

More research and development, more R&D, as I said already. Quality and style we can touch and feel and we can deliver to our locations, to our customers. It must be visible to the consumer.

We believe there are good growth opportunities with a brand extension close to our core business in two key lines, which are accessories and licensing.

We want to receive faster sell-out data in order to achieve a better supply chain reaction and faster time to market, to take advantage of the different needs of the different markets, whether they are in Europe, in the US or in Asia, with a more efficient supply chain as I said.

And over 70% of our growth in the period, which will be 330 million euros will be achieved outside our main domestic market which is Italy.

Of course, a fast, dynamic company is the one we have in mind. We need strong IT investment in the integration, mainly in sales planning and forecasting and product design and manufacturing integration.

(Slide 6)

Let's now review our brand positioning one by one. Let's start, of course, with Benetton Adult, one of the key brands we have. Benetton Adult accounts for 48% of our revenue base. We will strongly rely on the key values of our brand, which I already mentioned, friendly, young, colourful and trusted. With a new dynamic take and emphasis on fresh and updated visual merchandising overall – new concepts, new layouts, new product rotation, new product mix.

We reject the positioning based on what we call the disposable fast fashion model, and rely instead on the innovation, style, quality, with particular focus on R&D in new materials, for example, colour fusion, which is a unique approach towards colour interpretation, applied on all materials, whether it is cotton, wool or silk, with a novelty three-dimensional effect. And again these new elements will be shown in our Spring/Summer collection in 2005. We have hired, for instance, a new Art Director, Joel Berg, a Swedish professional, 37 year old, who has had important experiences with Calvin Klein, Harper, Bazaar, H&M and who is already very active and working with us in all the points of sale and visual merchandising layouts and innovation.

(Slide 8)
Let's look now at Sisley. Sisley has a completely different role and mission from Benetton. Sisley is a more aggressive brand, a latin brand, with a metropolitan lifestyle. Who is the Sisley typical customer? Who are our targets? Sisley accounts for 22% of our revenue base. It's a young metropolitan customer, as I already said. We will strongly rely on development of upmarket fabrics, more silk, more cashmere in our collection. And again, this will start being visible in our new collections, starting from Spring/Summer 2005.

We will open more monobrand stores in key locations in high fashion locations, to give more substance to the differentiation between Sisley and Benetton. The average ticket price is already higher than the United Colors of Benetton, with a strong menswear contribution, which we want to achieve also in Benetton.

And we see significant growth opportunities outside our domestic market. In other words, we will rely strongly on a much more marked differentiation between Benetton and Sisley to achieve growth in a different segment.

(Slide 9)
UCB Kids, what we used to call 012, accounts for 27% of our revenue. It's already the market leader in Southern Europe: Italy, Spain, Greece, Portugal. We will continue in this segment to deliver a quality product with attention to detail, functionality and with particular emphasis on a more complete range of services for new mothers, for instance, and growth in Northern Europe where we will have a more tactical approach, and where we see growth opportunities.

Let's now talk about our sportswear brands.

(Slide 10)
All our market research indicates that sportswear is growing faster than casual wear. Sportswear within Benetton is now organised as an independent business unit with dedicated product design and distribution. Today both Playlife and Killer Loop are present mainly in Southern Europe and we see excellent opportunities for expansion in markets where we have not been before. We have recently hired, for example, a new designer from Dolce & Gabbana to give a distinctive look to both Playlife and Killer Loop.

(Slide 11)
Let's look now in detail at Playlife.

Our target mass customer for this brand is very similar to Sisley: metropolitan, dynamic, sophisticated, with an elegant and essential sportswear style. We will focus on natural fibre innovation and quality and, as I said, we see excellent growth opportunities outside the key markets where we are present today, which are mainly: Italy, Spain, Greece and therefore we are already developing new agreements in Northern Europe, Eastern Europe and Russia. And we will also take a less traditional approach in terms of distribution. We will achieve differentiation in growth via multi-brand sports stores and department stores.

(Slide 13)
Killer Loop. Killer Loop again is slightly different from Playlife. We will go back to its tribal roots. It's a more aggressive brand. It's the "MTV generation" brand, as we call it. It's a very young target, 14-27, a sport urban lifestyle, inspired to surf, skate, snowboard, with an aggressive innovative style. As for Playlife, Killer Loop has

growth opportunities in the same markets, and we are already seeing a lot of requests from department stores and sportswear stores to have this brand as part of their range of products.
Let's now take a look at what we mean by Quality and Style, after having seen the brand positioning.

(Slide 15)
As I said, we will put more emphasis on research and development and on new fabrics and material. Customers are now demanding warmer and lighter weight fabrics. As an example, we strongly co-operate, being one of the largest buyers of wool in the world, with Australian labs, in terms of new treatment to give the wool a more sophisticated feel, a cashmere type of approach. We re-confirm our knitwear and dyeing technological leadership. We will put more emphasis on high quality finish for instance. We are the first in Europe to use a machine for digital printing Shima Seiko, which is a Japanese company, a leader in its technology. And again we are doing a lot of testing and most of it will be present in the Spring/Summer Collection of 2005.
We are also moving quality and control and assurance directly to our third party suppliers, to achieve more efficiency and to eliminate dead times to achieve faster time to market. In other words, strong commitment to talent and teamwork.

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As I mentioned, in terms of brand extension opportunities, we see significant potential in two areas: accessories and licensing.
As far as accessories are concerned, we want to take full advantage of incremental revenue opportunity in our network. We focus on footwear and bags, with increased visibility in our windows and product displays. Revenues are expected to grow from 60 million euros to over 130 million euros and from 3% to 6% of our total revenue base.
Likewise, in licensing, we expect to grow in three key areas : new product categories, especially in homeware, cosmetics, fashion accessories, watches and toys; new geographical markets like the USA, Asia and South America; and new partnership with global players to take advantage of our global network.
Let's now take a look at our industrial business models.

(Slide 18)
An important contributor to our growth will come from a faster time to market. How will we achieve this result?
First of all, we will have complete manufacturing cycles with sourcing, dyeing, logistics, packaging and quality control in the different production sites we have throughout Europe.
We will create three logistic hubs to be closer to our key markets, the main one we already have in Europe, we will have one in Asia, based in Hong Kong and one in the States, based on the East Coast, to be closer to our markets. We will locate production considering a trade-off between time to market and total efficiency, according to a dual supply chain approach. In other words, we will take advantage of velocity when the market is asking for a faster reaction, while maintaining a percentage of our production, for instance in Italy, which allows us to react much faster.
Thanks to this flexible organisation model our objective is to reduce our time to market by over 20% by the end of 2005. For instance, in July I visited the Dell factory in Ireland near Shannon. They are an example of logistic efficiency. And what surprised me was that although they have already achieved a high level of efficiency to a degree

similar to ours, they try every day and they continue to look for continuous improvement. It's the kind of approach we want to have in Benetton.

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Over 70% of our revenue growth, as I said, will come from outside the domestic market, so how will we achieve this result?
We will take a more regional sales approach for our key markets, both in Europe, in Asia and in the US. For instance, we know there are different sizing needs in Japan and in the US and there is a distinctive product style in Korea which we have to take account for. We need to have more flexible logistic and production structures, to better serve all these regions.
We expect to more than double revenues in China, in India in this four year period and we will also continue being focused on other countries like Russia, like Korea, Eastern Europe. In Europe, of course, we will maintain a heavy focus, because it will be a key contributor to our revenue. Today Europe accounts for over 85% of our revenue base and by 2007 it will be around the same level for casual wear.

(Slide 20)
Let's now look at the distribution network.
We do not need to control the distribution network. We need to monitor and manage in a faster way the sales information to react faster to the needs of the different markets.
Retail, the directly operated stores we already have, will maintain its strategic role for the validation of our new visual merchandising, the new concept, architectural solution, and different layouts, which we are already testing in Italy and in other markets. We will, of course, continue to open new locations. In the plan we have built in between 450 and 500 new locations worldwide. And as far as real estate is concerned, we believe that we need to move from a period of heavy expansion to a period of consolidation. The slogan we have internally is: "from walls to windows".
We will of course take advantage of every opportunity in the market place. For instance, next year we will open 4000 square metres in Paris, in Boulevard Haussmann, and we will have an important opening also in 2005 in Munich in Germany. But a lot of focus, time and investment will be at the point of sale: visual merchandising, product rotation, product mix. In January, a new Real Estate Manager will join us. Today he is working in Asia with a top brand, with experience in both the US and in Europe and he will help us to better manage this area.

(Slide 21)
Let's now look at the implementation timeline of the plan. As I said, we have a clear focus, strong values and awareness of our brand and consolidated industrial know-how and technical skills. So what we will concentrate on from tomorrow – the immediate priorities.
We will continue the process of delocalisation within Europe. Today we have achieved a level of 60% of manufacturing outside of Italy and in the plan we will move to 80%. We will do network investments, as I said, to sustain growth and deliver energy and dynamism throughout all the network, in existing and new markets. We will make investments in product, operation and IT for a fully efficient and faster reacting organisation. We will support our distribution network through validation of the new sales concepts in our directly operated stores, to better share with our partners, the sales results of the new techniques which we will implement. We want to add new energy and dynamism in the network to achieve high level growth.

We expect the first positive results of the plan in the second half of 2005, with full deployment in 2006 and 2007.

I will now pass you over to Francesco, our CFO.

Pier Francesco Facchini, CFO

Thank you, Silvano.
Good evening to everybody.

(Slide 24)
We start from the consolidated income statement, where we see already our two main targets: a growth of consolidated revenues of 18.5% over the period, bringing the consolidated revenues up to almost 2.2 billion euro in 2007 as a target; and the growth of our consolidated EBIT of 40%, with a 2007 target at 324 million. This confirms one of the main characteristics of our business model, that is to say: the high retention of revenue growth at the EBIT level, with 27% of the additional sales converting into incremental EBIT, that is to say: a good operational leverage power model.
The growth of revenues, 18.5%, is affected by the deconsolidation of sport equipment in 2004: net of sport, growth in the period is in the region of 25%.
Also, the decline that you see in revenues in 2004 is affected by the deconsolidation of sports equipment. Net of this effect, there is growth already in 2004, around 2.6%, stronger in retail and in sportswear and sports apparel, more conservative in wholesale. The growth rate of revenues accelerates in the second part of the plan.
Talking about EBIT, we have a conservative guidance for 2004 with a stable EBIT margin, compared with 2003, at 12.4%, growing in the second part of the plan, up to a target of 14.8% in 2007.

(Slide 25)
We go to the next slide, casual income statement.
We have two main highlights. A revenue growth of 22%, driven by both: an increase of sales surfaces and an increase of the network, and the growth of revenue per square metre, where a key element is the enhancement of the mix, both brand and product mix. We have rising margins, especially in the second part of the plan, both gross margin and EBIT margin, related with production efficiencies, resulting from the manufacturing delocalisation plan. The revenue target for 2004 is quite conservative, with a growth of 2% compared with 2003,that is, as I said before, stronger in retail than in wholesale. It accelerates in the second part of the period, especially from 2006, when we benefit from the results in terms of revenue per square metre growth, related with the actions taken on supply chain fine tuning and product mix.
Gross profit and gross margin are driven by two main factors: targeted and significant investments in the market and in the network, quite stable over the period, and the growing production efficiencies related with the manufacturing delocalisation. This explains the development of gross margin, that is to say, the slight drop that you see in 2004 and the re-increase in the second part of the plan, up to a 2007 target of 47.6%.
As I said before, in terms of EBIT, our guidance is quite conservative for 2004, with an EBIT margin of 13%, a first recovery in 2005 and a more significant increase in the second part of the plan, up to an EBIT margin of 15.4% as a 2007 target.

(Slide 26)
We come to the main drivers of casual revenue: square metres -the growth of our sales

surfaces- and revenue per square metre.
As you see, first of all, the growth in retail is slightly stronger than the growth in wholesale, 49% versus 19%. This results in an increase of the weight of retail on our casual revenues, up from the current 9% to 11% in 2007, confirming our still tactical approach to the retail business.
The main driver of retail growth is, as you see, the growth of square metres -the growth of the sales surfaces-, mainly achieved already in the first part of the plan, 2004/2005, and slowing down in the second part of the plan, and taking place entirely in the Rest of Europe and in the Rest of the World. In Italy we remain more focused on our traditional wholesale distribution model.
Coming to wholesale, we have a very balanced growth mix. Out of the 19% growth of total revenues, 9% is the effect of the growing network and 10% is the effect of the revenue per square metre growth. The growth of the network starts in 2005, in particular, both in the Rest of Europe and in Italy and is quite linear, quite gradual, over the period. Coming to revenue per square metre, the more significant growth starts in 2006, when we benefit from the actions taken on the supply chain and product mix, with a faster growth in the area that we call Rest of Europe, that starts from a lower performance in 2003 and filling up about 50% of the gap to Italy by 2007.

(Slide 28)
We come to mix enhancement. It's something that we have mentioned already a few times. It's a key element of our business plan as mix is obviously a key driver of revenue per square metre, of average price and EBIT margin.
We have three declinations for this concept: product mix, brand mix and market mix. In terms of product mix, we want to rationalise the number of articles in the collection. Currently we have about 50% of the articles making a very significant portion of our sales. The challenge here is: very close teamwork of sales operations and product functions, in order to assure that all the products are developed with a very close view to the market in terms of pricing, volumes and costing, for instance. We want to improve the average assortment of our stores, which is a key driver of revenue per square metre. The analysis shows us that currently there is a significant portion of our stores that is far from the average, both in terms of width of assortment and depth of assortment on the sales floor.
We want to increase the contribution of hanging garments, now representing 13% of our Fall/Winter collection and 5% of our Spring/Summer collection, with a price, with an average price, which is about threefold the average price of the total collection. So, opportunities in terms of increasing hanging garments by a few percentage points in the mix and leveraging by that on our average price are quite significant.
We want to push on menswear. As you see, from this data, referring to three of the main European countries, menswear in Benetton has a much lower weight than the average weight on the market. This means once again opportunities for additional volumes and also higher average price, as menswear average price is 38% higher than womenswear for UCB brand, for instance, and 15% higher than womenswear for Sisley brand. Sisley is already on a very good track as menswear in Sisley represents 21% of the total collection versus 11% in UCB.
Brand mix. Brand mix for us means increasing the weight of Sisley within our total sales, especially in the area that we call Rest of Europe, whereas in Italy Sisley is already a quite strong presence. Again, this will allow us to increase the average price of the collection as Sisley has a higher price than UCB by around 3 euro, both for the Fall/Winter and Spring/Summer collections.
Market mix means an increased weight of more profitable than average markets. Two

good examples are Japan and Korea, that have a gross margin between 5% and 10% higher than our average gross margin.

(Slide 29)
We come to sport apparel. Sport apparel for us means a realistic opportunity of growth for a business unit that we want to become more and more independent.
We have quite a challenging target for revenue growth: 160% over the period. There is good growth already in 2004, as you see.
We will benefit from a growing market segment, growing faster than the overall casual market. And we will leverage in particular on a sales organisation which will be more and more independent from the Benetton agents network, with a strong appetite for growing smaller brands in comparison with our major brands, like UCB or Sisley. We want also to diversify our distribution channels, with a re-launch of the so-called monobrand channel -we have for this channel 30 new stores in the pipeline already for Spring/Summer 2004-, the launch of the so-called Store within Store channel -including, for instance, department stores-, and of the multibrand channel, consisting of the specialised sportswear stores.
Gross margin rises slightly over the period, thanks to the fact that the growing channels have higher than average gross margins.
We have been more conservative in EBIT forecasting, as we plan significant investments in the first part of the plan, in particular on such areas as product network and communication, for example. We have a more significant growth in the second part of the plan, up to a 2007 target of 12.8% margin.

(Slide 30)
We go to the Balance Sheet, to our Consolidated Balance Sheet.
This Balance Sheets excludes extraordinary transactions.
The Net Capital Employed is quite stable over the period, with an improving asset turnover from the current performance of 1.1 to a target of 1.24 in 2007.
Looking at the main component of our Net Capital Employed, Working Capital, we have also an improvement here, with a decreasing percentage on sales from the current 40% to 38% in 2007 -a 200 basis point improvement- thanks to a better management of Accounts Receivable and the reduction of our Overdue Receivables. We have also gradual and significant improvement in our Net Financial Position, down to a target of 164 million in 2007 thanks to the strong cash generation from the operations and despite a significant investment plan.

(Slide 31)
Let's take a look at this investment plan, the following slide. Thank you Barbara.
We have a capex programme of around 430 million over the four years, mainly addressing three areas: distribution network, operations and IT systems.
Distribution network means both our wholesale network and our retail network. We have a constant stream of about 50 million per year of investments, mainly focusing on: an upgrade of store concepts, the refurbishment of existing stores, and the new openings -in particular the goodwill that we need to pay in order to acquire prime locations around the world-.
Operations investments are also very significant, exceeding 90 million in four years. They are concentrated in the first part of the plan and they mainly address two objects: our independent platforms overseas, with completion of manufacturing and logistic cycles -which is a very important enabler to achieve a faster time to market and a faster supply chain-, and logistic hubs, with the creation of two additional regional hubs in

2005, in the Far East and in North America.
Information Technology investments will exceed 50 million over the four years, mainly focusing on three areas: an improvement of sales forecasting production and delivery planning systems -which is a key enabler of our supply chain fine tuning-, retail management systems -in order to structure in a better way the collection and the use of sell-out data-, and the roll-out of product design software.

(Slide 33)
We come to cashflow and financial ratios. Our plan sees a significant rise in our cashflows and a significant improvement also on all the value creation indicators, in particular on the return on invested capital.
This cashflow excludes extraordinary cashflows -as, for instance, the ones related to the disposal of sports equipment in 2003- and also excludes the dividends.
Cashflow from operations before capex is quite stable in 2004, related to a stable EBITDA, and increases to a 2007 target of 311 million, with a 50 million increase, more or less, resulting from: 100 million additional EBITDA and an increased working capital of around 50 million, due to the fact that in 2007 the growth rate of revenue is still quite significant.
Net investments, as you see, decline slightly over the period, also, due to the fact that 2003 has a very material component of real estate investment, of around 80 million, and also the fact that operations investments are concentrated in the first part of the period. Nevertheless, in 2007, the ratio investment on sales remain at 4.2%, still in line with the best in class of the industry.
As a result, free cashflow from operations, after capex, shows a significant increase already in 2004 to 140 million, more or less, and almost double by 2007 as a target.
Return on Invested Capital, defined as Net Operating Profit After Tax -that is to say, EBIT less the related tax charges- on Average Net Capital Employed is stable in 2004 and increases to a target range between 12.5%-13% in 2007.
Return on Equity shows an improvement already in 2004 and surges to a target range between 14%-14.5% in 2007. This ROE target is based on an assumption of stable payout ratio from the past , 50% of the previous years net profit.

(Slide 34)
To summarise the main highlights of our economics.
We have a significant growth rate, relying on both components of growth: the increase of the network - increase of sales surfaces- and the growth of revenue per square metre.
Especially, we confirm the capacity of our business model to translate these additional sales into incremental EBIT.
We have stable or slightly rising gross margins over the period, with material savings, industrial savings, related to the growing manufacturing delocalisation, which will be reinvested for growth in the market and in the network.
We have a significant investment plan supporting operations and the expansion of the distribution network.
We have assessment of significant benefit opportunities which is still in progress and we recently approved, as you maybe know, a significant group reorganisation, resulting in an effective streamlining of our corporate and organisational structure.

I ask Silvano to draw the conclusions. Thank You.

Silvano Cassano, CEO

Thank you, Francesco.

So let's recap before we close and we move to the Q&A session.
We want to re-confirm the key highlights: the value of our brands and our global brand.
We confirm the business model based on the three elements of strength: the brand, the strong independent network and the consolidated industrial know-how.
Quality over price with emphasis on R&D.
Sustainable long-term revenues growth achieving 18.5% growth over the period.
40% EBIT improvement and doubled free cashflow.
Heavy focus on execution. This is a strategic guideline. We will, of course every year, give the budget forecast, with a quarterly analysis when we will monitor the development of the plan.
Thank You. We can now move to the Q&A.

Q&A

Christopher Seidenfaden, UBM Unicredito

Just a general question to start with.

I notice that you are planning to build a hub in the US and given that in the past your company, and Luciano Benetton also, has been very negative about the US market, I was interested: you probably wouldn't help your share price today if you said you were expanding in the US and getting dollar exposure, but I wanted to ask you: what are your thoughts about the North American market, where your presence is very very small at the moment, and what it means, this hub as well?

Silvano Cassano, CEO

We are spending a lot of time to discuss with our management in the US about how we want to develop the brand. The brand today is an upmarket brand with a niche positioning. It accounts for roughly 6% of our revenue base -the CFO can be more specific-. We are relatively strong in the East Coast with more work to do on the West Coast and the Central hubs.

The regional sales approach I mentioned goes exactly into that direction. We want to develop more focus, certainly for the US and also for Asia, in terms of more product customisation for what are the real needs of the US marketplace. Certainly we need to have a logistic hub to better serve our network -we are close to 200 shops.

There is no negative feeling about the US. It's a very important marketplace. It is very challenging. We want to take all the necessary time before we make any significant move. We have a significant level of new shops which we want to open in 2004/2005. As I said, it's one of our key markets. It's certainly one of our top five markets. We don't want to make any move which would jeopardise the value of the brand. So today, in our plan, we have assumed we will continue with the same model of monobrand locations. We are very happy with the positioning we have in Boston, New York, Washington and in the Florida region. There are growth opportunities in the Houston and in the Chicago areas, and in the West Coast. And we are working very hard also to increase the sales focus and efficiency and the product customisation.

Jeremy Richardson, Credit Suisse Asset Management

I wonder if I could take you back to the slide you showed us, where you were talking about the competitive positioning of the United Colors of Benetton Adult brand.

You have got the brand moving into the top right hand segment, where it's all alone. Why is it do you think that there aren't any other competitors in that particular segment? How big is the market? And could you perhaps help me picture the sort of products that fit into that sort of market segment.

Silvano Cassano, CEO

We didn't want the chart to be too crowded….

No, the key elements of these charts: you know we can spend hours on the chart and we can make extremely elaborated analysis, but what we want to do is: we want to take some picture of where we are today and start giving some guideline of development. The key issue about the position of the Benetton Adult brand is: do we take a move, do we take an approach towards copying some of our competitors, or do we take a more distinctive approach which relies more on the strengths of the brand?

As you have seen, and as you can imagine, after a lot of research and discussion with both our partners and also consumers -focus groups with our consumers-, we believe that it is much better if we rely on the strengths of the brand. Now all positioning and movement can be done in a certain way, of course, but the key issue, which we want to highlight is: we want to maintain the price positioning, we want to have a more distinctive product and style, and we need to react with a much faster industrial model to the needs of the market. Certainly we need to customise products and deliver it by market much more. We have recognised that and I think the logistic hubs and the dual supply chain will go into that direction.

As far as Benetton Adult is concerned, it is almost half of our revenue, so any movement we will make will be extremely well thought out as you can imagine. I can be much more aggressive in talking about independent distribution and new product and design, for instance, for Playlife and Killer Loop, which will be almost an experimental tool for us, to see what we can achieve in that area. But as far as the Benetton brand is concerned, the feedbacks that we are getting, especially from our customers, are basically saying: “we like your model, don’t move into a too aggressive, fast fashion type of product design, that’s not you, we don’t want you to go into that direction but be more energetic, be more fresh, innovative, stay the course, but “freshen up” the content”.

A lot of our efforts will be in the visual merchandising and point of sale. A lot of what we do and -as I mentioned several times in my presentation- will be visible in the Spring/Summer collection of 2005, will be useless -all of the R&D, all of the emphasis on product finish, new material and garments- unless we put a new emphasis and new investments in product rotation, product mix, visual merchandising and display. And that’s an area where we will spend a lot of time and money. As I said, we want to use our directly operated stores as a validation tool, to have more intelligent discussion with our key partners on a worldwide basis, to share with them what we have achieved -failures and hopefully success-, and to convince them to change some of their sales patterns and order mix.

Jeremy Richardson, Credit Suisse Asset Management

I wonder if I could just follow up. I appreciate it’s maybe early days, but in view of what you have just said, and looking towards 2005, could you perhaps give me a few indications or examples of exactly how the product will change and precisely how you will differentiate yourselves?

Silvano Cassano, CEO

We are having several meetings and discussions putting together in the same room product and design people, manufacturing and sales and marketing people. And the key issue around the table is: how do we want to move and how do we want to differentiate the two key brands we have, as I said before Benetton and Sisley.

One of the key elements in the past and certainly with the megastores strategy is that the brands sit together. So we also want to make sure that there isn’t contamination, if you will allow me the word, from a product point of view. Sisley has a different role, totally different.

How do you move a brand? You do it step by step, of course. You know, you don’t achieve that over one or two seasons. So what we are doing is: we are feeding the research we are doing, whether it’s desk analysis or consumer focus groups or internal feedback for both Benetton Adult and Sisley -we have started in Italy but we want to do it in France, Germany, Spain, the UK and in the US, and it will take some more time of course. and transferring it to the product people. Then we want to take in our sales people and our most important customer agents and sit down with them and discuss with them, share with them how we want to move.

If you are too aggressive in moving the product, for instance, the network might not follow us. So we want to be sure that they understand why we do that, all the logic behind it. If you want, this might sound like a slower approach but it is certainly extremely sound. We are testing new concepts for the Autumn/Winter 2004, of course the Spring/Summer is already mostly out, and we will start testing some of that into, for instance, new product mix, new material, as I said.

Sisley will rely heavily on the content of more fashion and more silk and cashmere. It will go into that direction, but you don't move that too fast, because the network has to follow you. We have people who have invested a lot of money of course, and we want to share it with them: we want to share all the analysis, the research, the focus groups and make sure their way into the model. That I think is a very sound way of proceeding for our structure.

Roberto Casoni, Citigroup

I have a few questions.

The first one relates to the asset allocation. Is it possible to know, on 2003/2004 how your Capital Employed is allocated between retail, wholesale and sports apparel? It looks to me that the Return on Capital Employed for the retail division looks particularly poor and despite this you continue to invest in this area. It just comes up into my mind that you have been in the retail since 1999, investing 800 million euros in your retailing activity plus something like 160/170 million of related EBIT losses, which makes a total of 1 million, more or less, and this retailing activity division doesn't produce any kind of return so far. So what is that I should expect in the future, how will you allocate the assets and what is your Return on Capital Employed in 2004 and in 2007 as a target if it's possible.

Then, the second question is on EBIT, consolidated EBIT 2004. I understood from your previous conference calls that the EBIT in 2003 was also going to be depressed by around 20 million euro extra provision that you defined very conservative and cautious, and another 7 million of advising fees, so fees which were allocated for the advisors of the Group: so basically, instead of approximately 230 million EBIT given as a guidance in 2003, the adjusted EBIT should be in the range of 257. In 2004 you come back to 220 million. Is my interpretation correct?

That's it for the moment.

Pier Francesco Facchini

It started from the segregation of the capital invested by sector, by business. For us, retail and wholesale are two distribution channels, so we don't segregate our Balance Sheet by retail and wholesale and I cannot provide you with figures of Net Capital Employed by these two sectors.

In relation to the profitability of retail, you have maybe in mind a guidance for 2003 of 35 million loss, I imagine. I just want to point out that we decided to make a restatement in our criteria because our retail margin is not including the margin realised by wholesale, in particular by Benetton Group in transferring the product from wholesale to retail, to our retail companies or into our retail stores. This margin is worth around 37 million for 2003. So including this margin, which makes us comparable to all the retailers around the world, we can say that we are already at a breakeven in retail for 2003, with a profit of around 2 million. Starting from this level of EBIT for 2003, we come to a ROS as a target in 2007 of around 8%, so we think we will recover profitability in retail.

Roberto Casoni, Citigroup

Thank You. Just to come back to the restated criteria. Just let me understand. Now, you have the wholesale division producing for the retailing division. The retail division will come out with retail sales of 150. So we can say that the wholesale price, so the price at which we should , is 70. Of this 70, the EBIT produced by the wholesale is 35, isn't it?

Francesco Facchini

That's correct.

Roberto Casoni, Citigroup

And you add it back to the retail?

Francesco Facchini

Basically, in transferring this product from the wholesale, from the factory, in principle, to the retail stores, there is an inter-company margin realised of 37 million, data for 2003.
This in the past was included in the performance of the wholesale.

Roberto Casoni, Citigroup

Which is correct?

Francesco Facchini

No. Not in our opinion. Because this is an inter-company margin that concerns in our opinion the retail chain.

Roberto Casoni, Citigroup

But retail is a distribution channel, so if you add 10 additional franchisees, that EBIT would have been left into the wholesale margin.

Pier Francesco Facchini

Yes, but in this way, we wouldn't be comparable to all the retailers around the world. I mean, having only the retail business, it's quite obvious that the companies don't add the cost of goods including this margin, because of the transfer price from the wholesale division.
So this statement, or this disclosure using the criteria as we did in the past, doesn't make us comparable to anyone of our retail competitors. This is the reason why we decided to disclose the results according to a new criteria. But we could also have a long discussion, I think, on this. We are really convinced that it is very logical, also according to international accounting standards.

Keith Wills, Goldman Sachs

You are targeting a 10% improvement in sales per square metre in wholesale and I think 16% in retailing. A simple question: can you tell me what the sales per square metre are currently, and what you think pricing is going to do between now and 2007?

Pier Francesco Facchini

You are referring only to wholesale, yes.

Keith Wills, Goldman Sachs

Well both ideally.

Pier Francesco Facchini

To the total casual?

Keith Wills, Goldman Sachs

The difference in sales per square metre in wholesaling and in retailing, as a base number. The current revenue per square metre and….ideally some flavour as to where that …where the shortfall is, as it were.

Pier Francesco Facchini

For wholesale, of course, this is referring to selling prices: we are around 1800 euro per square metre.

For retail, and this is referring to sell-out prices -so the figures are hardly comparable in our view-, we are around 2800 euro per square metre. In 2003.

Keith Wills, Goldman Sachs

The second half of the question is what do you think is going to happen to pricing between now and 2007.

Silvano Cassano

The assumption we have taken for the plan is that pricing will not increase or decrease, for a simple reason.

As I said in my presentation we decided not to take on a price war, although we might have in some markets a tactical approach to certain items of our collection. One of the key elements of the analysis we are developing, which has been slightly hinted by the CFO, is the opportunities we see in the product mix, in the rotation of the mix in our shops and also the depth of the assortment and the range of the product. To give you an idea: we have done a benchmark analysis by specific product families, and in some of the key markets we have already completed the analysis. In what we call the hanging garments, so jackets, coats and so on, we have opportunities to grow because we are below the market standard. So we are much larger in terms of sweatshirts, wool, cardigans, t-shirts, and so on, but we can go much faster into hanging garments.

Just to move a one point percentage in hanging garments, because it has a much higher ticket, will deliver 25 euro cents to the average ticket price of the entire collection. So we are putting a lot of effort into this area by market to see how we can move that. And that's where the retail, the directly operated stores, validation of the model would be very useful. That is an opportunity we have not reflected though in the plan. As I mentioned before, the plan is prudent and pragmatic. We still have to do a lot of work in this area, but certainly it's an indication of what could be achieved in some of the key markets if we improve our product mix and our "share of body", you know: share of mind, share of wallet and share of body. So what we are discussing now within the company is how we can dress more of the same customer once he comes in, so how we can deliver more products. And, as I said, some of the product families have a much higher average ticket which will contribute to our growth overall. That is not reflected in the plan though, because we have taken a more prudent approach.

Pier Francesco Facchini

I apologise to Mr. Casoni, maybe I didn't answer his second question. If I can catch up on this: you mentioned the decrease of the EBIT in 2003, you expected it higher because of the provision…..

Roberto Casoni, Citigroup

…in 2004.

Pier Francesco Facchini

In 2004, sorry, you expected it to be higher because of an extraordinary provision in 2003. OK. First of all, we reflected conservatively a certain cost increase on certain areas. As I said, we have a quite material investment plan, so this is increasing areas like depreciation for instance. We also want to invest a lot on our people, with a better mix in terms of more investment in departments like design for instance, product, and sales, especially sales in the field. And then we also reflected a support to the mark-up of our network, because we want to have full motivation from their side to open new sales surfaces. So conservatively, once again, we reflected a certain support to these mark-ups, so these are the main reasons for the decrease.

Michael Pacitti, ABN Amro

I was going to ask you to answer Roberto's question, but I think fundamentally there is another core issue, which I think Mr. Cassano brought up, referred to on a couple of occasions. You have over 5000, or 5400 points of sale around the world, of which I think a couple of hundred are directly owned, directly operated, and the issue I think that Mr. Cassano referred to is, how to take that network with you, how you convince those independent entrepreneurs to take up this initiative and to go with it. I think you just mentioned some incentives to them. Are those financial incentives? What sort of encouragement can you give them?

Silvano Cassano

Yes, this is a very important point, of course, for us. First of all, the way we are structured, there are established levels between us and the independent network: agents and distributors. So for instance, in Italy we have 10/12 agents who will help us to convey the message to a broader network of our independent partners, and abroad we have similarly the same structure. For instance, in the US, we have one distributor for the East Coast.

I have spent a lot of time and we will spend a lot of time in meetings, sitting down with them, and making all the analysis. What Francesco was referring to before is a business model where we share with them a business plan by region, whether in Italy or by country: we are talking about, for instance, what we want to do in Austria, what we want to achieve in the East Coast in the US, or in Korea, where we have a joint venture. We sit down with our people, with our partner, and review the issues of the marketplace, look at competition, look at the opportunities for opening new locations or for consolidation of new locations, and then decide how to move. What are their needs in terms of product? Do they need a different product mix or product design or product style? What are the pricing issues and what are the key challenges ahead? Short term, as we said, we built in the planning a more cautious approach, because, of course, one of the key elements of our plan, and one of the strengths, is to have a strong network which goes back to investing money in the marketplace. At the end of the day we are talking about entrepreneurs who share the same objective as we do. So for that point of view all the meetings and discussions we have had so far will go along into the same direction. Of course, some issues are easier to tackle, some will take more time. We talk about product customisation or logistic hubs. We are already delivering to them specific plans to make sure that by 2004 we start delivering. If it is an issue related to product mix and ordering for 2004, it is much easier to agree locally, but we do that, on a very local basis, you know, as a business model. So we sit down with the analysis, with the sales analysis, the product mix, the product they have ordered in the past, and we discuss. I deal personally with the top 20, let's say, agents worldwide and then we use all our sales people in Italy and abroad to deliver the same type of plan, and then we agree how we want to move on. I don't want you to go away with the thought that we have to talk with 5000 independent partners, because there has been a lot of consolidation. We have a very strong level of agents and distributors who will help us to make this kind of job together. And then our sales people in the field, our management in the countries, are doing the same job, of course. That's why we are taking a lot of time to visit all the main markets in Europe. We have been to Japan, Korea, China and the US, to make sure that we share all of this. As I said, the model implies more consolidation, more sharing of information, but it is very efficient, because most of these people have been with us for over 20 years. So they understand the challenge and they like the approach. Some will be short term. Some will be more medium term, as I said. But we are moving together in the right direction.

Barbara Ferrante

While we are waiting for other questions from the room, there are actually two questions from the web site.

They are asking us about the level of money spent on advertising, as a percentage of sales and the payout ratio going forward.

Silvano Cassano

Well I will answer the first part and then Francesco can take care of the second.

After deconsolidating the technical sport equipment division, in the plan we have assumed that the level of advertising will be steady at around 4% for the institutional advertising. I think throughout the presentation the emphasis has been shown about point of sale and visual merchandising, what we call the below the line activities to support the network. As far as the plan is concerned, we have not taken into account any major change: the institutional advertising that Benetton makes on a global scale is very effective and has contributed heavily to the global brand awareness and we are now focusing heavily on the point of sale. The point of sale is very important for us, what happens in the store. So most of our efforts are into that direction. On payout ratio, Francesco.

Pier Francesco Facchini

We decided to maintain our assumption of a stable payout ratio, compared to the past, of 50% on the previous year net profit. We know that this is decreasing a little bit our financial leverage. Anyway, in terms of weighted average cost of capital, it's not going to have a very material impact: because of the lower leverage, our weighted average cost of capital will increase from 7.4% to 7.6%; because equity, calculated at market value, in the mix of our financing sources is by far the most important component.

Sagra Maceira, JP Morgan

I wanted to talk a little bit more about Sisley since it seems to be taking a lot of protagonism within your portfolio: give us a little bit of an indication on what is the core profitability, what is the core sales trend and how big do you believe this brand can get.

Silvano Cassano

Thank you, Sagra. One of the things we discovered when we started looking at the numbers, almost by view, was that Sisley has a strong potential for growth. Why this?

First of all, because it starts to have distinctive positioning, very very clear. And I will go back to that in a moment. Secondly because Sisley has less coverage from a network point of view and a worldwide scale than Benetton. If you look at Benetton it's a more mature brand, certainly it's well known worldwide, but Sisley, as all the market research indicates, has further potential to grow. So what are we doing with Sisley? Sisley accounts for 22% today of our revenues?

Francesco Facchini

21%

Silvano Cassano

21%. So as we said Benetton Adult, 48%, Kids, 27%, Sisley, 21%-22%. What do we like about Sisley? The average ticket is higher. The profit margins are good. The menswear contribution is almost double that of Benetton. It's around 22%, if I am correct, versus 11% for Benetton.

What is important is that if we start looking at the impact of the brand, not just from an advertising point of view, but also from a network point of view, especially in the foreign markets -because Sisley in Italy is already an extremely well known brand-, we see a retail independent network with monobrands, with specific Sisley monobrands, maybe with a sales surface of between 300-400 square metres, to represent a more distinctive collection which costs less on a wider scale. And talking to our product people they have very clear in mind what they want to achieve. What we need to do, as I mentioned before, sitting together in the same room with the sales, production, product design and marketing people, is to ensure that we accompany this movement, starting from where we are today. Today, and I go by memory, roughly 80% of the network is run by both Benetton and Sisley, the same type of entrepreneurs. We want to work with them to make sure that they understand why we want to move Sisley into a totally different direction, you know, much more, as I said, urban lifestyle, more sophisticated materials and approach. And, of course, this implies a higher price mix, a different product mix. Last week, before starting the roadshow, we showed the 2004 Winter Collection for Sisley and I think there were some incredible elements of novelty and distinction. And I spent a lot of time sitting down with a lot of our clients, our independent partners, and agents, who had come from every part of the world to see the collection: they are starting to appreciate the importance of running Sisley as an independent unit, if you want, as a separate brand. We have not reflected all of that in the plan of course, because it will take some time to make that movement. I believe that the Sisley identity will be even more marked starting from the Spring/Summer 2005 collection and we will put a lot of effort into diversifying the visual merchandising, the product mix and rotation of Sisley, vis-à-vis the Benetton brand. Of course we have megastores with both Benetton and Sisley altogether so we will have to make a special effort at those locations, at least to have separate floors where the distinctive elements are maintained without making too much confusion.

So I would say that Sisley is a very stimulating challenge for us over the next two to three years. The product people are totally on board. Now it's just a matter of time in working together with the network to make sure they make the right investment in terms of opening the monobrand locations in the typical retail high fashion street if you want. And we will have to do much more work on the market research, in the markets where Sisley is under-represented, not where it is already well represented.

Sagra Maceira, JP Morgan

Also another question about the positioning of the kidswear business: can you be a little bit more specific on how do you plan to become more of a full service provider, rather than a speciality concept?

Silvano Cassano

If we take UCB Kids as a division, there are some very strong elements, very distinctive elements. First of all, as I said, we are the market leader in Southern Europe. It is true that we are almost not present in Northern Europe, but there is a very strong dividing line.

When you look at the kids, what we used to call 012, we actually have three or four sub-segments you know: you have the new mothers, almost, then you have the 0-12 months, or newborn, you have the 1-3 and then you have primary and secondary school, all with different needs.

So what we are doing is: I have asked my people to go back and tell me exactly what they can do for each of these sub-segments. What we have discovered, and this is true in Southern Europe mostly, is that in the area of newborn or new mothers, our customers are asking us for more support in terms of advice, in terms of having…for instance, paediatrician. This is something that Pre-Natal, for instance, does extremely well in some of the markets. Maybe Mothercare in the UK does the same. That's an area where we can grow. It's an area where accessories can also play a bigger role. I don't want to look at the kids just as one segment. I have asked for much more in-depth analysis to make sure that we take advantage of every possible single element of sub-segmentation. We are almost obsessed by this kind of approach if you want, because when you talk about a customer, a mother who comes in for a newborn or a 6 month old baby, she has totally different needs than when she comes in with an 8 year old kid, where maybe functionality and style is much more relevant. So we are adding people also to our staff, to our product and design content and we are adding more service elements into this direction, both to give support to our network, to make them understand why sometimes they need to differentiate their approach, but also within the shops, because we are seeing that some other chains are doing an excellent job in this new field, not new but new for us, in this field of newborn and new mothers, where we see opportunities. Because one of the key elements in this area is trust and reliability. And as I mentioned before our brand has trust and reliability, especially from mothers.

Roberto Casoni, Citigroup

On Return on Capital Employed: if we analyse Return on Capital Employed, particularly the Working Capital on Sales ratio should be down from 40% to 38%/37%. This is still well above the best in class. And this is not a matter of stock rotation, where you are very much in line with the best in class. It's a matter of relationship with suppliers and customers. Can you please explain a little bit better what is going on? I mean, why you cannot improve the terms of selling your clothes and receive payments at the right time??

Pier Francesco Facchini

I think we have set already some interesting target on this, as a reduction of past due receivables. I think receivables is an integral part of our business model, so it's not a matter of receiving payments more timely. It's really I think really an integral part of our business model. So it will be very difficult to squeeze down receivables beyond a certain level. I think we already set some good targets for that with a material reduction of past due receivables.

Roberto Casoni, Citigroup

Did you include the fact that you retailing activity is increasing in terms of importance? Retailers normally receive payment in cash.

Pier Francesco Facchini

Mr. Casoni, there is not such a significant variable this change of mix. Because, as I commented before, the retail is just increasing from 9% to 11% on casual revenues, so I think it's not a component that can squeeze down accounts receivables.

Roberto Casoni, Citigroup

Yes, but then, the Working Capital on Sales just reducing from 40% to 37%: you couldn't do any better than that?

Pier Francesco Facchini

Well I think, again, that we set already some challenging targets for that.

Roberto Casoni, Citigroup

That's perfect. That's what I wanted to hear.

Pier Francesco Facchini

With this model it's basically very difficult to do better.

(Speaker's name inaudible)

Hi. Can I ask just another question, following on from Keith's question on sales per square metre. Can you give us some idea of what your sales per square metre are in your stores compared to what you believe at the retail level the sales per square metre are in the third parties, so in the main independent stores. And do you expect the third party retailers to be able to make up the difference, to increase their sales per square metre closer to the sales per square metre that you achieve in your own DOS outlets?

Silvano Cassano

Let me give you a semi-qualified answer. Most of our retail megastores have been opened in the last two to three years so there is a learning curve we have to take into account. That's why we put a higher target into those increases in sales per square metre in our shops. The selling data is hardly comparable, of course, to what we do in the wholesale division.. So from that point of view we are more conservative in our analysis.

The key challenge is, as far as I am concerned, is to validate in our directly operated stores the new product mix, product rotation, visual merchandising, to make sure we extrapolate more sales per square metre and then to work with our partner independent network and to use that element of leverage to share with them these new results. I would like to say, at a qualitative level, that we are talking about a network, on the wholesale side, which has been working for us for the last 15-20 years, and that comes with the good and the bad of course, because it's very radicated in the way it works and so on. With a megastore, a directly operated store in the retail division, where we have large surfaces in key locations, we have very little experience from a timing point of view. So the two are not really directly comparable.

Barbara Ferrante

OK. Is there any other question? OK so we can close the session and obviously we thank you all very much for your interest. Thank You.