

Kering Investor Day dedicated to Gucci

June 7, 2018

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- *Marco Bizzarri, CEO of Gucci*
- *Jean-François Palus, Group Managing Director of Kering*
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Jean-François Palus

Good morning to all of you. Welcome to Kering Capital Markets Day. I hope the morning, so far, have enabled you to better understand the new engine of Gucci's revolution. For this day, we have decided to bundle together 2 different parts of our business, Gucci and Kering Eyewear.

There was, of course, an element of convenience and opportunity for Gucci, specifically, since they have exceeded their 2016 targets, and so they were ripe to benefit from an update.

Also, as you know, Kering Eyewear is an entity that we have developed from scratch and which is now up and running. And it is time -- right time to shed some more light on this activity. Of course, both of them are specifically and fundamentally Italian. But beyond expediency, this pairing illustrates 2 different but complementary paragons of what Kering brings to its brands. Indeed, what is Kering's role vis-à-vis its brands? Actually, we are much more than a business pairing partner. We encourage our brands to do better, to go faster, to go beyond their limits, even though they can sometimes be conservative or risk-averse. Conversely, we bring them back to reality when their ideas are too wide. We help them stay focused and disciplined, partly by taking the responsibility for functions they can't or don't need to carry out independently. We also support them when they are struggling and protect them when necessary. We instill the set of values that are at the core of Kering and maintain their integrity and coherence over time and across geographies. We represent and enforce the search for a better good for the whole group. We arbitrate decisions and investments, and we make sure synergies are attained.

The boldness and swiftness of Gucci's relaunch is a case in point. Gucci was and will remain the anchor of Kering group. Still, we thought that its rebirth couldn't be achieved through incrementalism, so we have Gucci to step out of its comfort zone. Others would have gone for the safety of an established outside artistic director instead of Alessandro who lived and breathed the brand from within. Others would have gone for small steps instead of going for bold and radical. Others would have followed instead of becoming leaders.

We assessed Gucci's strengths and potential and set about to turn them into reality. We gave it our full managerial support, relocating managers from all parts of the group, first and foremost, Marco, and hiring some of the best people in the industry. We also gave it our full financial support to transform its store network, transform its sourcing and logistics, transform its production capacity, partly through integration, parts of it, in order to make sure that Gucci is ready for the huge transformation and the huge change of scale that we foresaw. Today, Gucci has regained its absolute status as the ultimate fashion authority, faster and with more brio than even we anticipated.

So where do we go from here? This is the story that Marco and his team will tell you. But believe me, it's only the beginning of a fantastic journey. What I can tell you is that we will continue to support Gucci's growth, to provide it with the talents and tools it will require and to make sure it benefits from the lessons that we learned from Gucci itself but also from all the other parts of the Kering group. Prior to Marco's presentation, I will invite you to watch the new Gucci video. Thank you very much.

Gucci presentation

Marco Bizzarri : Good morning. Now I read all the disclaimer. Please don't take any picture of this slide. Today, we're going to divide the presentation in 3 parts approximately in the sense that we're going to talk about the principle that inspired us to reach where we are today. The second part is going to be a kind of a progress report of all the functions and the tools and network of Gucci distribution products, sales and operation planning, communication and people, so where we are today, what we plan to do in the future. And the last one is which are the new initiatives that we're going to take. And finally, the figures, what I think you're all interested in.

So the reason why we are here today? First, because, I mean, Kering asked me to be here. As Jean-François told us before that we have reached the 2016 targets. In reality, the 2017 target -- '16 target, we are relatively more advanced than 2017. So we are here for 2 main reasons. The first one is to share with you the new ambitions. That doesn't mean that is a full potential. And the second one is to talk finally about the longevity of Gucci because everybody is talking about that, and my tan show you how much I'm worried about the longevity of Gucci.

It's kind of interesting to see the different questions that comes around in the different moments of the life cycle of Gucci. At the beginning, competition in 2015, they were telling everybody what happened to Gucci, such a pity, such a beautiful brand. What did these 2 guys did to this brand? In 2016, when the first results came out and we're showing some good double digit, they were saying it's not going to last. In 2017, they said, "Now we have a problem because they were sleeping." And now the only thing that it was saying is the longevity about the brand. How it's going to last, this brand. And my opinion is so different from the one that I read today in the papers or listen from the competition. And the reason why that I'm going to the presentation afterwards is that Gucci and Alessandro created a demand in new luxury that is very far away from a fashion moment and created a styling lexicon that is unique and is going to be the reason why I believe that, together with the use of digital that is very much the center of any activity that Alessandro is doing, is going to create a

longevity for the brand that is going to be more interesting than the other -- the longevity for brands that are more so-called established in the industry.

So starting from the beginning. From the very beginning, there -- when we started with Alessandro, we didn't look at focus groups. We didn't look at consumers. We just did exactly what we wanted to do. That was our passion. These values, shared values of respect, joy, empowering creativity through that was the key that brought us to change the positioning of Gucci. Of course, in the beginning, one of the most risky thing and more important things to do was to protect the creativity of Alessandro, because in the first 12 months, of course, nobody was really seeing what is going to happen for many reasons because the shelves were exactly the same as before, the products were exactly the same as before, so we wanted -- we discussed and we spoke a lot at that time. But of course, there was no tangible impact on the market. So one of the most important thing that we did, myself in Kering, especially, was to protect and to believe in a turnaround that otherwise would not happen if we were looking just at the short term.

So from that moment on, and here I would like to mention the -- what Alessandro said at the beginning that fashion is not about product. Fashion is about an idea that people cannot resist to buy into it. That to me is key. If we referred to Gucci just as a product, we miss completely the point. If you think to Gucci today, you don't think about the product. You think about the worth. You think about something that you want to buy into it and you want to belong to it. So -- and the way which Alessandro speaks about it, to me, is very relevant and is very unique as well. It's all about self-expression because you can really create your individuality through Gucci wardrobe. But also, there's a huge pride in belonging. And a huge use of symbols and signs of Gucci used by Alessandro are the way in which millennial recognize themselves, and that is part of the fact that to me, creates a lot of sense of belonging.

So I want to go through with you to these 5 points that, that as you can see, where the points where we started, and none of them mentioned figures. Figures, we always consider being Gucci as a consequence of choices. We never start from that. And the reason why I wanted to show this article is not because of my ego, that is still very important, but to show you that in January 22 in 2015, that was my first interview where I was officializing the appointment of Alessandro as Creative Director after the main show that was happened like a week before. If you go through these points, you realize that nothing happened by chance. What we were saying here, and that was absolutely [shelves] and Alessandro, we wanted to restore the Gucci onetime position as a major force in directional fashion. Gucci should become again a brand that is in the mind of opinion leaders, of fashion people. They should feel the need to go into Gucci shop. You invest in a logo for so many years and then you are going to be ashamed of it because there is a different trend outside. And that you remember 3.5 years ago, everybody was ashamed of showing logo product. And today, most of the competition as well is going in the direction. Legacy cannot hold you hostage of your history. Emotions versus simple rationality, and that was one of the reason why I go -- I went for Alessandro, Jean-François was mentioning. That was a bet, a big bet. Willingness to take risks. Brands and industry need to take risks, otherwise it's boring and we lose traction as a brand and as an industry. In many cases, new and newness are perceived as a risk. To me in today's world is more risky to be boring and to do exactly the same thing in the past than not putting newness.

So the brand ambition that is to me is very important. Alessandro is bringing you a dream, as we've said. Luxury is bringing you a dream. And I think that the way in which Alessandro was capitalizing a lot on archives, using signs and symbols and mixing them together in a very contemporary way brought Gucci back to a very modern attitude. The code that he invented in today's world, to me, are very relevant. And the most important thing, the reference to the past, not just in terms of times of

Gucci, but also in terms of times of the past, I've never seen Alessandro in a nostalgic way but always projected into the future. The fact that -- and to me, that's something that I'm going to stress a lot throughout the presentation. Alessandro created a new world. He created styling lexicon that really resonates resolves the age. We could talk a lot about millennials in Gucci, sure. We will see some figures afterwards. All the age brackets in Gucci grew in the last 3 years, all of them. So we didn't lose any customers. Instead, we brought back to Gucci the one that were shopping in Tom Ford and disappeared throughout the previous year.

Self-expression is a mantra for Gucci as a whole and for Alessandro. If you look at the casting, for example, of the shows, these are not the usual beauties, to say the least. The point is the reason why Alessandro goes through that is that everybody can be beautiful according to his own individuality, and finding his own way is the way forward. And everybody in his own way can be beautiful. So the way of expressing self-expression and creating the individuality is what today is changing the world. This is a mega trend that is going around the world, together with the fact that a sense of belonging of Gucci creates the unique power and asset that Gucci has.

If you look at the shows, you understand, I think, that from the very first show to the last one [in art], the way in which Alessandro -- if you look at the 2 shows together, they're very, very different. It's like Alessandro is writing a book. Every single show is a different chapter. So the chapter is different from the previous one but is linked to the previous one, creating a lifetime possibility for people to wear it. The fact that this is reinforcing the message is a very strong point for me. Of course, the storytelling that is part of all the activities of Alessandro is paramount. Rationality is something that doesn't give added value. Today, what is give added value, especially in our industry, is all related to emotions, and emotions are related to storytelling that is linked to what you see. And everything that is story told is very much linked to the roots of Gucci.

This slide I think give you a full picture on how many activities, how much they are coherent. If you go through all the activity that we do in terms of artworks, the collaboration with what Alessandro call the creative pioneers, more than celebrities, how many of them have been discovered in the digital world by Alessandro and brought to fame? The windows that have become a very important part in the last 3 years for Gucci. Advertising campaign that are really surprising is a new language. If you think about a luxury brand that was able to put (inaudible)alliance? in his advertising campaign, if you go back 3 years ago, I think you would be quite astonished, but we did it. We create the surprise. And that resonates a lot with the values of Gucci still, and that creates an engagement that show you that the reality today outside is very different from the previous past. So where is the risk, the associated risk through the company that are risking and changing and putting -- moving the bars all the time or the one that are tending to continue to do what was successful in the past? To me, I don't have a doubt. The world outside changed. Gucci created a world to speak to consumers that are really engaged with that in a very authentic and passionate way.

If you go to the stores as well, and we'll go through it a little bit later, but the stores that are at the very end very different from city to city and maintaining the same aesthetic. The reason why we went to it at the very beginning with Alessandro and Jacopo was very clear. We wanted to break the barriers between customers and shop going back to what the shops at the beginning of fashion. If you go back to the beginning of fashion, we had multi-brand shops. In the multi-brand shops, there was this possibility that, in most cases, [all by founders] of touching the product, of interacting with

the show directors. To do that, we don't -- we didn't want -- we wanted to reduce the distance between product, people and customers. We wanted to create an inclusive ambience that was something very different from the so-called perceived exclusivity that everybody now is promoting. That, to me, is a complete fake. The mega trend today is not about exclusivity. The exclusivity could be about a product, but the exclusivity of a brand is something very different. Today, what is going to win is of inclusivity of the brand, in all the aspects, shops, advertising, communication and people, especially.

The structure that we created, and then going forward, I mean, talking about website, and we'll go through it. We'll be taking prices all the time, the engagement in social media, and again, we'll go through it. But if you look at the complete picture of the slide, you can see that the impact, the coherence of the message is striking and is very consistent. Because I've been through -- I read that sometimes the fact that there's some comparison between us and other brands with brands where an approach and a strategy that could see a capsule or pop-ups is the one winning because it's a more prudent approach to business and the industry. To me, it's completely the reverse. You do a pop-up with a capsule, with a collaboration, with a different aesthetic when you are afraid of blending it together with your own network. When you are afraid, you do exactly that: you test. But then, to me, you delude the message because the aesthetic that you present is so different from the one that you have on the normal network that the final message is completely incoherent. One of the biggest brand that we normally mention, the one that we started targeting from '16 to become at least the same size, [France], did last year 88 pop-ups to me is exactly what a company today should not do. The fact that we have one and only creative director allows us to take decision very quick in a speedway, giving the possibility to express his aesthetic in our network in a complete way, either capsule or collaboration or the normal collection in a unique way. But first and foremost, the fact that we have one and only creative director and we have a merchandising team led by Jacopo, that is enhancing the creativity of Alessandro, instead of just creating basic pieces and is buying for the shops. The creativity of Alessandro is exactly what we need to do. The reason why we were so successful and so quick is because we bet at the very beginning for all the 500 shops that we have, for all the products that Alessandro did across the board. So it was the biggest bet ever. It was even more important than the one of appointing Alessandro because we put on the table billions because we wanted to raise the message immediately. Because in today's world, if you don't do that, it means that you're risk-averse. You cannot be risk-averse in this business.

So compared to other models, the 2 creative directors with the marketing -- most of the cases deciding what the shop should have, so not showing the creativity of the creative directors in the shops, to me, is exactly the way in which the future will not pay off. I'm being subtle.

In terms of values, you know how much I care about people and culture. Everything, even before the strategy, started from the culture. The reason why I decided to go for Alessandro, with the blessing of François-Henri, was because he's a nice person, is a humble person that respects people, has very strong values, to me, was the most important thing. Then it happened to be that I saw a little bit of talent, so we decided to go for him. Then of course, he became what he became because, I mean, the talent was much bigger than the one that I was expecting, luckily. But everything starts from here. We created, from the beginning, a culture of respect, of joy, of empowerment, of risk-taking across the organization that we are far away from being perfect because with 13,000 people, of

course, will always be someone that is not going in the same direction because it's a huge amount of people. But this way, we are able to empower Alessandro to foster his creativity for him, for all his team that is, as you can imagine, is very, very important in terms of numbers that is supporting him in all the decision-making process. But also in the company, changing the process, changing the organization, fostering a decision-making company that is faster than anybody else is due to the fact that we don't have layers. We are people that decides. It's true that -- at the beginning, when I started in January '15, the mantra was no democracy, in the sense that if I wanted to be quick, we couldn't look for consensus because we would have waited too long. Now is the moment where we need to empower, because if we want to keep on running, that is the way in which we can really empower people because it's clear now what is Gucci that wasn't the case at the beginning of the journey.

Innovation is the last point of the first part. Innovation goes across everything. It's -- for me, it's a mantra in the company. It's a mantra in all the functions that you see here, and we can mention everything that we see after, but I will see -- I will go through it in detail later. But the idea is very much we don't like the status quo, and nobody in the company needs to like the status quo. Because today's world and today's behavior is changing quick. Humankind has never seen a change as we are seeing today. And the company, the bureaucratic company that look like Dinosaurs, they're going to lose going forward. So as long -- until I will be in Gucci, for sure, that is not going to change. And the reason that we can run is to be complacent. Because when you grow 45%, 50% per quarter, you say everything is going to be fine. Everything is going to happen, exactly what you cannot do. You need to remain agile, very agile in decision-making process and making sure that something happens, you're able to intervene quick. That is the mantra that we want to maintain in Gucci, and I'm unwilling to take any kind of decision to change it because in which is not happening.

So I really believe that the journey of Gucci is just at the beginning. We just scratched the surface. What we are creating is something unique. But of course, I don't have any crystal ball. I cannot tell you we're going to grow 40%, 50%, 10%, 15%. That is not the point. The point that if we are able to maintain these values, these activities going forward in a consistent way as we did in the last 2 years, there's no doubt, the competition will be following. I don't see anybody in the industry today that is doing a 360 approach as we are doing. And that to me, again, is due to the organization that we put in place. We will go through it later. But the organization we have today is made by people and by a creative director that are able to work together and to take decision at the fastest pace in the industry. And on that, I don't have any doubt

So Gucci has been always typical in its value for its constant capacity for reinvention and regeneration. And the fact that digital came out in the recent past, thanks to the fact that we were able and we were in the situation to change it and to embrace it at the fullest, was a way to speed that, the message in a way that was impossible in the past. So I think that the situation of today is that, as I was mentioning before, if we are able to maintain this kind of decision-making process and this kind of agile company, agile organization and placing always creativity at the center and staying away from becoming so-called commercial, that has never been the case and will never be the case in Gucci, I don't think that there's going to be a slowdown in the process of growing in the future and too much positive remark. Okay. Sorry.

This is the second part is I'm going to give you a little bit of flavor of where we are in some of the most important areas of the company., Just to -- who was here in 2015 amongst you? Oh, many. So as I was mentioning earlier, 2015 was really the year to recreate the dream, and we talked about the dream because we want to emphasize the fact that emotions are key. Creativity is key. It's not about rationality. It's never about rationality in fashion. And then together with that, we did so many activities to clean the past. If you may remember, we went in markdown much earlier than anybody else. We cleaned all the inventory. We did an activity in order to have enough cash flow to reinvest in the brand in terms of shops, in terms of people, in terms of advertising and all the rest. From 2016, we started having some touch points like products or new shops or new communication in the network, so we were able to set the ambition. And the ambition are the ones that are listed here, that are still the one that we want to push forward because there is still untapped potential in most of them, and we see that any single day in Gucci in the figures and in traveling around the world and talking to people.

So these are the 5 points that I want to share with you in terms of where we are today and some hints on where we want to go before the presentation on the figures.

Distribution, little bit of analysis. We went from an 82% share in retail and e-commerce from '15 to 85% in '17. Wholesale decreased 2 points to 14%, and I want to give you a little bit of flavor about wholesale. I'm going to teach you later, but I think it's important for you to know it now. I hear sometimes that we pushed a lot in terms of wholesale. In reality, we closed many doors. We'll close 10% net, meaning we will close approximately 25% of the old doors, and we had the good ones in the past. So we reduced the numbers. And when the customer comes in the showroom, they have a capped budget. Everybody is complaining. They want to buy more. But if -- see if I wanted to push commercially art, I would have left it open. That's not the case. I want them to be healthy, sound and with good sell-through and being happy. I don't want to have too much product during in the structure that cannot be sold. You never know, especially now that we've pushed the no-markdown strategy. It's important for me that they sell properly. So when I hear we push too much commercially, I mean, I will say we should not because we'll be losing another capital budget. In retail, either I close the shops at 3:00 in the afternoon or I need to sell. I don't know what I do. In terms of royalties, we will see.

New store concept. The idea about the store concept was, as I told you before, to enhance the inclusivity aspect. That goes through the choice of color, choice of materials and choice of people. We wanted to have people that are passionately -- generally passionate about the customers and try to have the better experience possible. The fact is that the number of people, the number of traffic -- the traffic that we have is so enormous in the last years. Now despite the fact that we are at, last year, net, in the retail network of 1,200 people, listed people that are not served, -- listed products that are sold out in the shops. So despite that, we are experiencing this kind of growth. The reason why we wanted to go for exclusivity is because it's the way which we are, Alessandro and myself. I was tired about the business in luxury where people looks at you at a distance. They hardly open the door. I want people to touch and to feel the product, to have people that are selling with a proper and genuine smile, because again, this creates innovation and creativity, even at shop level. And I think it's time to finish to talk about exclusivity now in the industry. We touch -- we have multiple access points to every customer, all our brands. It could be seen from someone, could be beauty for someone else. And the size that we have today cannot talk you about exclusivity or perceived exclusivity. If you want to have an exclusivity of product, you come to us. I'll prepare for you once something is mentioned is something we are why, not a problem. That is just your own, fine. But all

the rest today, especially with the new generation, is all about inclusivity, is all about engagement in a genuine way.

This is what we're experiencing with the new concept. The new concept, the new aesthetic concept that we launched in July '15, the first time, I think right, gave -- is giving us amazing results in all the KPIs. But if you compare before and after the refurbishment, the increase in sales has been between 20% and 30%. As of today, end of Q1, 42% of the sales are made by the new concept. So you do the math. The only KPI that is not exceptional is conversion, but we were able to maintain conversion at least slightly above the level of the past. That means that with the increasing traffic that we had is an exceptional performance. And the reason why we're hiring and we hired in '17 so many people is because we wanted to have the best, training them, having them the possibility to serve the people properly. And even if tomorrow, we're going to have a slowdown, a maturity of the traffic, I'm sure that with this move, the conversion rate will increase sharply. And our target in these figures is that we are going to increase the conversion rate in the period 4 basis points. 1 basis point for your information is 8% of the sales.

This is the picture, the geography of the refurbished products, refurbished shops. At the end of the year, we had 165 shops refurbished, so the sales represented by the refurbished is, of course, is higher than the other because we started from the more visible and the flagship instead of moving to the second-tier cities. That again, is another huge opportunity because normally when we do this kind of turnaround, you have a lot of impact and improvement in the bigger cities, and the effect on the second and third tiers is going to come later. So that, to me, is another opportunity to improve.

In terms of customer experience, we have a lot to do, a lot to do. We started 3 years ago changing dramatically the way in which -- the approach of sales assistance (inaudible) with a customer. We have recently, together with the new structure, created a new store profiling in order to -- in more granularity shop by shop to create the proper assortment according to the customer and according to rating agencies. Starting the store has been one of the most important activities that we did in 2017 because we hired 1,200 net people. That is a lot considering the size of Gucci, so 10% percent of the entire company. We continue on using the retail constant monitoring that is kind of mystery shopping using external agencies to give us a full picture of what's happening according to some framework shop by shop in all the regions, and that creates -- that is not a control method. It creates a lot of emulation across the shops and immediately created an uplift of the service in any shop worldwide. And what we're trying to do is that, in any shop, especially the biggest one, we tend to have all the function of the company, so visual merchandising, merchandising, retail people, et cetera. So we tend to see the shop director as someone that is managing a business unit. So people -- that, to me, is key because it's the way to attract people in the shops. One of the weakness in the retail network areas that retail is not seen any more as a place where you want to work. But if you see the shop, a place where you can interact in a different fashion, it's not just retail, that changed completely the perspective. And that's what we are experiencing.

So we are taking action to improve all the KPIs. Of course, hiring is key, clienteling. The retention rate that we are having is growing day after day in a very interesting way. Store operation is absolutely key. We are able to change completely the back of house of the shops in order to make sure that it's much easier to find a product. I mean, all the usual thing that I want to buy, that is absolutely key. And many people that we have in the shops versus so-called runners. That's people going in and taking a product to bring it to the sales associate only to avoid to lose time with the clients. Training, of course, is absolutely key. We are working as well especially in the cross-training and cross-selling activities because one of the potential upside that we have, for sure, is about the UPT. That is

growing, but we can grow much more, considering the fact that the traffic builders that you will see later are absolutely standing today, and they are in acceleration. And as I told you before, cluster in the shops, we believe, is bringing us to have assortment of products per shop. That is becoming more and more key. As I told you before, traffic is crazy, as you can see from -- if you visit shops around the world of Gucci. Retention is growing, and that is a very good thing. Means that the loyalty of any age bracket is growing. And average ticket as well, that is a potential. Conversion, what I told you before. We were able to keep it positive versus the past but can be much, much bigger. And the fact that we hired so many people will bring us this conversion rate because of their training, because of their presence higher in the future.

So in '17, we reached approximately EUR 30,000 per square meter, but that is an average. There are many, many shops that are below that, and that is the challenge of the next few years and that is no reason why we should not reach that in the coming years, a little bit because of the shop refurbishment, a little bit because of the training and activity in the shops. So we are still far away from the best in class. So we have a lot of opportunities ahead of us.

Just to give you an idea, as many times, I mean, people ask me, especially François-Henri Pinault, that told that we are going to be the size of Louis Vuitton soon. This year, according to the current trend, we're going to reach EUR 9 billion retail. Meaning when I say EUR 9 billion retail to compare apple-and-apple, converting wholesale at the center that is in the lower bracket of the structure because, I mean, it's more relative, and the same for royalties. So if I put all the revenues that we have at retail value, discounting, of course, the wholesale one and royalties one with a sell-through percentage target, this year, we're going to be EUR 9 billion. So the point, to me, is not if we're going to overcome Louis Vuitton but when.

Wholesale China, as I told you -- the wholesale China, for us, is a choice. It's not something that happened. We want to be in wholesale China. I think it's important, and we have an amazing exchange of experiences and collaboration, it is a great market indicator. But when you are in a multi-brand shop, you are there that to get space and you get space, if you are better than others. If you're the best product, the best functionality, the best brand is a very much a sign of the market. If you are just in the U.S. you don't have that. And again, I'm not saying that our business model is better than others. I don't really care. Other business models are working better as well, so everybody needs to follow his own path. But to say that wholesale is going to dilute the brand, to me, is a mistake for a brand like Gucci. It's always been a great partner for us. They're going to help us to even becoming better in the future.

Travel retail has outperformed in the other channel. We started defining a business unit that is completely focused on travel retail, a dedicated organization that has been just put together with a new structure. So we are going to open, not many doors, just in the right location. And in certain cases, we're going to buy back and [retailize] some of the doors in order to control them better. But it's certainly one of the driver of the growth in the following -- in the coming years.

E-commerce has been impressive. In Q1 '18 grew triple digit versus the previous quarter, doubled the business in between '15 and '17 from EUR 120 million to EUR 270 million. The traffic growth is exponential from EUR 100 million to EUR 224 million. But first and foremost, the e-commerce is our center of communication as well. It's not an e-catalog. We use a lot, this site, to communicate

content in a different way that will engage customers, especially the new generation. We have a progressive launch of new markets, and we want to have in the short, medium term a conversion of some of the -- most of the e-tailers from wholesale to retail in order to control more the way in which it's going to be presented and sold.

China. Gucci China and in terms of e-commerce is fundamental for us. We are using external agencies to support us, and the team there, is superstrong because, as you know, it's a country completely apart. So we use that to reinforce the image on the brand in a very natural way and of course using store locators of Baidu integrated with our store that which we will be working very actively. That is the one more important for us now. As far -- as long as we -- as far as we've talked about Alibaba or JD, we are in a situation of wait-and-see. We are not taking any stance for the moment. I think it's too early. It's too kind of dilutive, what we have represented today. So we don't want to be, for sure, the first-comer there, so we see what's happening in the future. While with Tencent, we have an active partnership.

The spirit that we are trying to deliver in e-commerce has been always paramount. I mean, we're getting prices from L2, give us the prices the best digital company in the last 2 years. But certainly, the way in which we approach the e-commerce has been very heavy in the last few years in terms of investment, in terms of synchronization of buying, in terms of exclusive product. We approached different markets with different languages and a lot of investment in technology. Technology that by the way, 3 years ago Gucci -- was settled is still is today lagging behind in terms of system and information technology. But Kering started 2 years ago possibly? 2 years ago, a huge investment for the entire group, Gucci included, in terms of changing the entire system. And Gucci we caught up later. We're going to get the best technology. So I'm very confident of this process, in the system, in the near future will be an added value for Gucci as well. That is not the case today, we got too many system interfacing one to the other, so slowing down the process.

One of the activity that we're working on, a lot, is about the client service, how we create it? We're working on creating a very important customer app where we are going to kind of channel all the requests or answers to the clients for anything, in terms of both e-commerce and brick-and-mortar. That is going to elevate dramatically the level of service and the quick service that the client is going to have with Gucci that today is not perfect. And that's the reason why we're investing quite heavily in terms of people, in terms of system. And that is the reason why the investment that Kering is doing in terms of new infrastructure is key, because in that case we need to have full view of the inventory across-the-board, across-the-world in the full view of the clients in the entire funnel and in the entire history.

Outlet. Outlet is a part of our distribution strategy. It was absolutely important, especially in 2015 where we got rid of all the previous inventory or the previous aesthetic. But it's still very important today because we're charged for not having markdown in our shops. We need to have a channel to sell the unsold product. And the overlapping of this channel plus the full price of the clients is 2%. So we see that as an entry point for the full price. Frankly, I don't see that as a trivialization channel, because it's a way for us to control what we sell. It's a way for us of not destroying what we produce that because of the corporate, for the culture, of course, that we set together is something that is against our principle and values. And the fact that other big brands don't have the channel, doesn't mean that the product is not sold everywhere. Because if so-called family sales that we see, we set in another brand, with the queue outside and back of the shops, the point is the definition of family. In Italy, we have a familia, brother. The point is everybody is familia in Italy. So the point is how do you define familia? So it's the large definition of familia that creates the problem of distribution, instead of the channel or outlets. In any case, we reduced the number of outlets in the last 3 years. At the

beginning, we opened pop-ups in order to get rid of all the inventory, in order to create cash flow. We are closing them, so we closed 10% of the number of outlets in the last few years, because we want to be in the right places with the right control, and we created a business unit that is following it in order to give the right service with the right presentation, because to us it's a channel that is part of the company. It's not by chance there.

Product. Where everything started. As I said before, Alessandro creates a unique styling lexicon. Really creating new luxury. It's not at all a fashion moment. If you talk to people, if you talk to kids, if you talk to any age bracket, they thought of buying into Gucci. That is essential pride that is related to emotions. It's not simply about esthetic. If you look at the fact that many people are buying Gucci, it can be visible or not. But let's compare it. The new Gucci started 2 years ago, okay, very successful. Most of the other brands established. They are doing the same thing in the last 20 years. So let's do your maths. How many same products driving the worth today of this brand that are there from a long time compared to the 2 years of Gucci. So there is no comparison. There is absolutely no comparison. So if the longevity is supposed to come from the fact that we're selling a lot today. We're selling a lot in the last 2 years. So if the other brands have been there for like 15, 20 years selling the same thing, and the same logo, and the same product, the same bag, et cetera, you can give us 15, 20 years going forward, we'll be fine with that. In talking about creating inspiration, I want to stress especially the second part that's going to read that with you, "I love couture, but the other side, in the middle of the Street, and I think that the mix of these 2 can create something new. When I go to New York, and London, I love to see how very brightbrave the young people are. They have no rules." Alessandro always stressed that, in that he created his own unique styling lexicon, because he's blending, streetwear that is a structural trend. You like it or not, it's like the sneakers. Sneakers are the structural trend that everybody is wearing, even the most fashionable and stylish person. So staying away from sneakers or from streetwear today is not luxury, is stupid.

This one is something that I showed you already before. The fact that Alessandro is able to create a mix of products even in the most audacious look and don't forget about these looks that if you look at this, this is actually from the show, in a superficial way, it seems like it is something very strange. But then if you break it down piece by piece, you see that anything can be sold at a very high level. And this is coming from Tom Ford that is one of the most biggest supporter of the new era of Gucci. As well as in the advertising campaign, the product, is mixed between Street and tailored in this case, with this campaign of Harry Styles that just came out 3 days ago, 4 days ago. And this picture reached 1 million likes. That is the record of Gucci in terms of engagement in Instagram. There you have all the categories. As you can see all the categories have fully transitioned, of course, after 3 years in the new esthetic. If we take the average price from '15 to today, it increased 20%, but not because we increased prices. We just increased prices once in September or October of last year, 5%, because we changed completely the collection. So it's just a matter of both offering, but especially buying from customers and the perceived value of the brand and the product from the customers.

I was making a kind of a test today to look at the past. From 2010 and 2017, the average price increase of 50%, means that the perceived value of the brand throughout these years went up dramatically. It is not just a matter of offering. It is what is around.

Collection development. That is absolutely one of the key success factors of Gucci. The offer has been through the equilibrium between creativity and market needs, which are developed in order to

further enhance the creativity of the collection and not to create just basic pieces, the so-called commercial pieces, that is not the case, the collection is one and only. And the communication is balanced between fashion image and volume driven. We want to support icon, volume-driven together, and altogether because the message is so consistent that there is no reason for us not to support one or the other. Famous question about carryover and the rest, we have a balanced mix about carryover today. We reached finally, after 3 years of changing completely collection, because you need to remember that, we have 70% of collection in this carryover, very dynamic carryover, in the sense that especially over the last few months, we injected, in any season 30% of the collection about newness. Newness that is fashion driven or functionality driven. Some of this newness, according to the product, can become a carryover afterwards. And some of the carryover that are more slow, can go out. So this way of managing very active, and proactive, is to me, a big asset of the way which merchandising is managed today.

So this is the handbag offer. I'll go very quickly because I think you know all of that. But anyway, the structure is, we have an iconic leather handbags that is coming from the course of the past, are invented in a very contemporary way. We have the GG Marmont, the strap chain handbags with GG, fashion logo handbags, Dionysus, a contemporary logo combined with the house of course. And then 2 new lines, the Padlock new, and then the previous one, but overall Ophidia, that is a new line that is more an entry price point. That is, we're always capitalizing on the logo and the course of the past. The brackets of the pricing, you can see that on the bottom.

Luggage offer. Again, very clear definition of the presentation of the offer. There is a logo offer. The new line, (inaudible) the GG black, you can see the pictures. The animation of the logo, the Gucci *Correia*, the Knight *Correia* featuring symbols related to all kinds of concept of traveling the first one and more masculine fashion clientele in the second one. And then the leather offer, the Gucci Print and the GG Marmont as well. What is to me is striking is the clarity of the message and the clarity of the offer that we have in our shop, and the clarity of the merchandising grid.

We make shoes. Sneaker, as I said to you before is a structural trend, is definitely the structural trend. So in the way in which Alessandro defined aesthetic as we read together before, I think is a paramount that we keep on having good sneaker offer as we do and, of course, is very successful. But as you can see, the balance between sneakers and the rest, is quite balanced in the sense that if you look at the women shoes (inaudible) loafers and the sneakers, overall there is -- the size are the same. Male shoes sneakers are a little bit more important, but again as well the loafers and the drivers are playing an important part of the business.

Ready-to-wear. As you can see, streetwear is playing an important role then afterwards we'll see together how much streetwear is impacting the business of Gucci, and how many people are just buying streetwear? But again, I think the offer and the buying is very balanced as well in all the categories versus streetwear staple pattern fashion for women and tailoring fashion pattern streetwear for men, ready-to-wear.

Talking about streetwear. If we define streetwear like sneakers, bush shirt, T-shirt, denim jersey and outerwear, 85% of the sales are associated to non-streetwear categories, and just 10% of the Gucci

client base are exclusively purchasing streetwear categories. So despite any image that someone could have from outside, the Gucci business is very different from the one that can be perceived, and to me it's very, very solid. Traffic builders have a huge upside. We started later. We started builders to build on the categories certainly on the product and the collection, because we wanted to focus at the beginning on the most important one, like ready-to-wear and right sized shoes. So we started earlier. So the growth of this category started earlier. So now we are at full speed. So these are, of course, an enterprise point for the more aspirational customer, but are as well a huge opportunity to increase the cross-selling and multiple selling in a normal sale. As you can see from the pictures, the coherence of the message and esthetic is quite striking.

Fragrance and Eyewear. The Gucci went through a perfect storm both in Eyewear; and in Fragrance, we changed the licensee. So because Kering eyewear took over from Safilo, continued to cover from Proctor & Gamble. So what happened in the moment of transition, business went down and today we're not yet at the level of the previous year or the last year of the previous licensee. So means that the opportunity that we have here, Roberto will explain to you I think in the afternoon about -Kering Eyewear, so I don't want to overlap especially to say something that is not matching. But we'll talk about fragrance and beauty, the opportunities that we have, because of the esthetic of Gucci, to become one of the leader in the industry to me is there. And the fact that the style that we have today and the position that we have today, especially in travel retail, is the one that we have, show us the possibility that we are going forward, not just in terms of business, but also to attract the clientele that is not purchasing Gucci today. So to me that is a huge, huge lever for both things, business and image.

Communication. Communication has been paramount to deliver this message together with the product of the change and the way in which Alessandro approaches the interaction with customers. So the creativity is the one that has been the base and the pillar to touch from and to enlarge the message at communication level. Digital has been the one that speed up this communication in a way that wasn't -- not even think about years ago. And thanks to this and to the number of people that are giving us data or coming into our power shop, through e-commerce and through all the digital activities. We are able today, with new technology, to give a seamless and even more unique experience to any customer that is approaching us. I'm going through some of the activities in different areas, talking about communication. Collaboration has been absolutely paramount in Gucci in the past and still now. I think it has been maybe for the first time that the creators are ready to give the possibility to other artists, other designers to lead, to interpret the business and the brand from outside, and including this completing the strategy of Gucci and pushing them in our shops, even in our communicational base. So if you think about this crowd creativity, gives us enormous possibilities, enormous opportunities to leverage. Going forward, the creativity of Alessandro, because we don't talk about one single person. But we talk about one creator that is able to interact, to be loved by these digital creative people that can work with them. In most of the cases, they were brought to fame thanks to him. So this crowd productivity to me has been absolutely key as of today to push Gucci where we are. But it will be even more important because we create the credibility in the industry that nobody else has. And those collaborations are not fake collaboration to sell more, that doesn't make sense together, but they are very much linked to the company, to the brand. And the fact that we are putting them in our shops, in our communication campaign, give us the same signal, the same message of these creators. And to me, again, is an important asset. So here, these 2 persons, 2 of them coming straight from the digital world, Ignasi Monreal a skilled worker, and

Dapper Dan is quite impressive. I hope you know it; I don't want to bother you. But it is going to be -- it is absolutely key in the way in which they interact and they become friends of Alessandro as a person that is something again quite unique. In terms of connection, we did many, many things to the Gucci app that they engage with our brand and content in new and innovative ways and using as well virtual reality in most of the cases. The art wall in New York, in many other cities across the world, and again utilizing as well augmented reality through the app in Gucci places and the places Alessandro loves that becomes the place where the Gucci community can go and explore.

It's a way to create a world of people interacting that they share the same values in terms of the aesthetic, in terms of value -- ethical values and that are the places where they could come and see and live and breathe the Gucci work. So digital has been, from the very beginning, at the center of our strategy through, of course, the site. We had a global roll out. We changed the site in July '15. And again become the key for our content. We're strong in digital content, the app that we have, that is fulfilling every day with additionality. With digital media, we do, as everybody does, take that approach, but we are not afraid of taking full risk. And if we believe something makes sense, we'll go for it.

Connection is again -- is not in our world, and it should be very natural. We strive to be more authentic as possible because in today's world what is not authentic is seen immediately as it is fake and is canceled. This data shows are quite impressive. Our digital audience, excluding gucci.com is approximately 60 million people, that these -- today, typically these exceed those of our publishing partners. So we are a media company by ourselves. And this is the complex ecosystem that creates a long-term value that is difficult to evaluate, but it really created a base to build on the future in terms of context, in terms of engagement, in terms of grass-rooting, in terms of crowd creativity.

These are some of the data that reflect the engagement that we have in the digital world. If you look at the Instagram growth, today is even higher, 24.6 I think. Facebook as well, the engagement gross grew dramatically, if you see the share of likes on the right bottom, you can see that virtually any other competitor is by far away, the best. And that, apart the number of followers that you have, the level of engagement is the one that makes the difference, of course, because you create real emotion and real engagement. This is the air media value in the last 12 months, from February '18 to February '17. And again here what we create in terms of digital content is quite impressive and much bigger than anybody else, especially in 2018, where everybody showed kind of a slowdown. The inquiring in Gucci that is where -- the other thing that we look at in order to understand if we are out and off, we keep on having the same trend, is the Google Search, that is, as you can see from the chart, it's quite impressive. And the growth that we're experiencing is growing and growing. And the way in which we keep on fostering it is through the continued innovation, the continued creativity, the continued surprise that Alessandro's team and Alessandro are doing on a regular basis. And to do so, we put together all the effort, all the tools to allow him to be as creative as possible, to make sure that this kind of creativity through e-mail, through the crowd creativity that we said before, through collaboration, always exceed expectation. And that to me is a great asset that can be sustained only if you have the right people. That's the reason why the culture remains the key asset of Gucci. People in the creative team, they need to feel the support of the businessman, need to go very much along. They need to feel that they can take aspire, they can take risk, they can make mistakes and then you can surprise, then you can raise the bar all the time. And that's what happened in the last 2 years, and that thing is going to happen again because there is no reason why this culture that we put together is not going to happen again.

Digital media investment in 2018 is going to be the most important part of the investments, going to reach 55%. But it doesn't mean that we cut the print. Print was not cut, I was told, there was no reduction. We just allocated the new investment year after year on digital first. China is again -- is a country you only sell because of the different counter-parties, but very much closed in terms of connection, et cetera. We have a very strong local team that is helping us in understanding what is good, what is not good, and supporting agencies. It is very much helping us in the digital ecosystem in China, to interact with people and the younger generation of Chinese that are very much technologically savvy. Again, if you look at which I've focused, that is, as I told you before, is the only one which we are really interacting. I think we are doing amazing things through the team, through Robert team and through the people in China. If you look at the post we -- of the views, we are the only brand that overcome the 100,000 views, anyway, I think is a good sign of the productivity of what we're doing with WeChat.

And so creativity digital and data. We have a lot of data. We have many data about everybody. That are, of course, they signed any privacy agreement. But that allows us to use the best technology in the market in terms of artificial intelligence, machine learning, everything that is possible to use, to guarantee a unique customer journey to any customer. We just started. We are just at the beginning. I see that as a huge opportunity in order to not -- we want to avoid to become mechanical. We want to maintain this emotional side, and we are working on it. I think we are on the right track, and that the change in the organization that we did 3 months ago was as well to maintain this kind of direction.

What is absolutely important? We never target an age. We didn't want to target the millennials. We didn't want to target a specific bracket age. We always wanted to target a state of mind. And that's the reason why all the age bracket are growing. Some of them quicker than others, in between 18 and 24, the millennials as well, that is the higher part. But is very much is cross generational appeal. And that to me is the one that is creating a difference versus anybody else in the industry.

In terms of customer base, if you look at the generation, 56% of millennials in terms of sales, we'll delve on them afterwards in the next slide. Baby boomers, less than that, 8%; and Generation X, 34%. If you look at that by gender, they are very consistent versus 2015, 77% -- 67% in terms of female sales wise and very much similar to the one in '15. Same case for local client base. 63% of the sales are local based. Same of 2015, more or less. And across nationalities, Chinese, of course, they play the more important role in terms of customer by nationality, 34%. But again, it didn't change much versus '15. It's very consistent.

If you talk about millennials. This is the growth that we are experiencing. 60% of the clients are millennials today, with 56% of the sales. As you can see, you do your math, the average ticket is slightly lower versus the average, but is growing faster. So that as well is going against the myth that millennials are spending less. And also in terms of the retention rate, retention rate is very much similar to the retention rate of the entire population of Gucci. So they are loyal. It depends how you engage them. Is not a matter of generation. And also millennials are getting older, because we started talking about millennials 5 years ago. Now the millennials are -- so their available income is growing.

Strategy and operational planning. For the one that we started in June '16. I don't know if you remember, I told you that the system, especially the location of product, and SKUs, we were very much lagging behind to anybody. It was very much a push model of the product in the showroom to the shops and waiting for the sales. Today, we dramatically changed and reversed this approach. The inventory is mainly kept in the central warehouse and sent to the shops according to the initial consideration. But then the replenishment and the location is based on sales and weaker coverage all based on system. All based on algorithm, artificial intelligence, et cetera. That brought us to improve dramatically the sales per SKU, reducing the inventory because the level of inventory that we need to keep now at the shop level is much, much lower. And we are just at the beginning. So now, I think, that the thing that we put in place were completely absent in the past. It's taking care of just about that. So now 100% of the carryover is managed through the system. It is when the newness will be allocated after the first initial location takes for the sales. It could look something simple, but it was not the case. So when I joined, I saw that as a huge opportunity, and we are just catching up because, of course, the system that we are experiencing are the one that are best breed of the market. So we are able to optimize the events on the working capital in a way that was unthinkable before. So less left over. And also thanks for the fact that we used the system, we are able to allocate the time of the buys in the region in a different way, more qualitative, so less allocating and less -- and more thinking to understand what's happening in the market, what kind of brands are working well, et cetera, et cetera, traveling and talking to the shops in order to have better and better buying throughout the showrooms.

And again here we're just catching up. To me this area is something that's going to give us very good surprise going forward. You saw ArtLab and all the activities that we are doing, the exceptional work made by massimo and team to catch up with the explosion of sales, because in 2 years, the production capacity doubled, there is something alert in the business in maintaining the quality, in maintaining the lead time. So for this reason, when we moved massimo from the shoes director, shoes business unit director to as well leather goods director, that's why then ArtLab is merging both shoes and leather goods together, is because of him managing the 2 together. We started thinking about the future. Because the idea is to reduce the lead time, as we're doing for the shoe, we wanted to do the same for leather goods. So the target that we have going forward for the leather goods to reduce the lead time of 50%, that is due to investing a lot in internalizing production or any strategic partnership through joint venture or long-term contract, exclusive. We started that, already working with us. Today, between internal and a strategic partner, we have 25%. The target is going to be 65% in the coming years. We already did 10 M&A acquisitions in the last few months, and we are targeting even 10 more in the next few months. We doubled headcount in these areas in the last year. So as you can see, we are investing heavily into the future that thanks to the fact that we have a lot of operating leverage that is not impacting dramatically the profit or loss. People and culture is the most important area that I told you before. Today, there is a long list of CVs on my desk. That was not the case 2 years ago. And that to me is the most important success that we achieved. Everybody wants to work for Gucci, and nobody is leaving. And that to me is a great asset. It is a great asset because the more we grow, the more we give opportunity to the people working in the company to grow as well and to take bigger opportunities. But as well to attract the one that can bring us something different from outside. So we changed many things and we want to keep to maintain and to remain super agile. That to me is absolutely key, as I told you before. We are doing many different things. One that I just want to mention is a Gucci University that we set up in the U.S., where everybody that is joining Gucci is going to spend time in Gucci University, with people teaching and to have an induction program that is able to bring them at speed immediately as soon as they go back to the shops.

So future, finally. The future is putting at speed a new organization that has been changed in February '18 this year, right? And the reason why we decided to change this is that, because everyone told that I'm crazy, because when you grow 45%, 50%, you're going to change the organization that is working so well. The point that what I saw is that, at certain point you tend to be complacent. When you grow so much, you tend to sit down a little bit, you tend to become control freak, and you need to understand that in today's world, with all the information that we have, you cannot become control freak, because the more you become control freak, you want to control everything, you don't control anything. You just rule out the process. So that's the reason why I decided to change, to blend different activities. So the previous omni-channel structure has been broken down, and Jacopo became together with the merchandising role market leader. So we blended market, regions and merchandise together. I think it's the first experiment in the fashion industry. But again, we like to take risk, but we like especially to do that if we have the right people. The organization cannot be something setting the stone. You can change organization according to the people that you have, and we saw that was the right thing to do. We increased the responsibility of Robert, Brand & Customer Engagement, giving him the possibility to fully implement the content with the clients that is not the one in the personal way, more through digital, and putting at full speed the sales force that we recently carrying, brought -- bought. (inaudible) and we're, of course, barely stable. We are counting out a lot on that in order to enhance the customers -- the journey of our customers. Digital Business & Innovation that is being created and is managed by Nicola, where we put everything together in terms of innovation, in terms of technology, e-commerce. And we tried, if I believe, strategic planning, and we tried to make sure that all these things that are happening outside are learned and known inside the company and then spread out throughout the company as well. Then we created a new structure called Indirect Channel out in travel retail sphere that we wanted to be the focus on charter channels and business units. We see there is a lot of opportunity, but not managed with the right education in the past. So we think that now creating the structure and properly following both from a corporate standpoint and regional standpoint, we can achieve the best results both in terms of business and in terms of image.

So at the very end, there are 3 pillars. We want to be Gucci 25.0, 25 because this is the number that Alessandro loves, hard to believe, the quantum leap is not just by numbers. Excellence in the execution is just doing the journey of desire in the best possible way. The culture is the way in which we change our ways of working, and we keep on pushing people and innovate and not staying complacent or relaxed, I don't like that.

And the next one is, what is going to happen next, what is going to happen outside? We need to be very careful with what's happening outside. There are many possibilities of disruption of this industry. The talk about 3D printing. If you think about leather in vitro disrupt the supply chain of the industry, not just about us. So we are very active. We are investing and working with startups that are in this field. So we are doing the best of what we're doing. We're trying to do the best in what we're doing in terms of our operational excellence through people that are able to understand that the status quo is not what we like. And then we are very much eyes open on the world outside in order to make sure that we don't miss the train.

Some things that we are doing in terms of the future that doesn't mean that we are going to neglect our 500 shops. We're going to keep on investing in our 520 shops in training, in people, in hiring the team which is in process because that is the back of the business. But in the spirit of innovation and trying to get as well ideas from different ways of working, we created this shop in SoHo, in New York, that is completely unique. Has been -- the idea behind, there is no retail, so we have technology

there, but is working in a very similar way. The point is, in our positioning, technology needs to help us to give the best possible service, but without being the face of the customers. If you want to continue to be pushing at that level, it's the one-to-one connection that's going to create the difference. It's the person in the shop that is going to create the difference. We don't want to be fast fashion. We want to bet on people in the right one, on the right timings, that they are able to create a blend of emotion and connection with the customers. So to me we're going to take all the possible technology that is going to help these people to give their best to the customers and not to sell-through face recognition and this kind of thing. It's not what we wanted to do.

And this example shows how much people are spending time, where retail is about experience. All the sales staff is not called sale staff, but is called connectors, right, connectors. They are being hired by actors studios, visual effects companies. There is not a single person coming from selling and retail, not a single one. So they are there to tell you a story, to help you in enjoying the moment. Then if you want to buy, you buy. And it happens that they buy a lot, it's working. I'm very happy. Gucci Garden, some of you had the chance to visit it, I think, last night. Gucci Garden is -- again, is a unique experience. You blend the history of Gucci, the journey of Gucci in the previous museum, then you have a shop that is kind of a bazaar where you can find unique pieces just produced just for that shop, with an atmosphere that really engage you. And then there is the food area, down with Massimo Bottura that is something unique with a menu that you cannot find anywhere else in the world. So we blend the craziness of Massimo together with all the rest to give an experience that you cannot find anywhere else, I think.

ArtLab. I mean, you visited, I spoke about it a lot. To us is a very important investment where the innovation will come in the year to come, because all the principal about that is to increase synergies between the tool product categories, push people in terms of expressing themselves and creating new ways of working in blending technology is our affair. I don't think there is not a single similar thinking of the world because of this blending of between shoes and leather goods. So I think we are very much advanced. In terms of people and talent, we are working on -- we already almost finalized a way to create the different ways of working, smart working, to be more collaborative and more close to what the new generation are asking. They don't want to work anymore from 9:00 to 5:00. They want to have some days off, they want to work from home and that is a fact. So either you like it or not, we need to make sure that we are flexible enough to get the best talent. If they want to work in a different way, we need to understand that and we need to work around it. We decided to empower employees, to give them -- to give 1% of their time, working time, so meaning 4 days per year to NGOs aligned with the activity we do in terms of Gucci Equilibrium in Gucci, in terms of time for change or anything else that makes sense with the activities of the group. And again, I think is a way to share our ethical value throughout the company with 13,000 people. If we are able to do so and they are engaged in that, the possibility that the grassroots with their friends is enormous. So we have an impact on the world as we want to act in terms of sustainability. And then we decided to add a board of inspiration. We took 5, 6 people around the world that because of their history, their way of talking, the values that we share together are going to be invited in our shops or write things for us in order to enhance all the value that we put in front of us in terms of culture and strategy, respect, joy, passion and all the rest. And these people are keen to do that. And the fact that they are outside gives us the possibility to really enhance our message. Gucci Equilibrium is a brand that has been recently created by the team of Antonella. The idea was very much to put under the same umbrella all the activities that we did and we are doing in terms of sustainability, in terms of environment, in terms of people, in terms of new models because we realize that we are doing so many things and nobody know it. So we decided to, especially, for internal message and external

message, to create a brand about it, like an umbrella. People know that they can go and scout through the site what is happening, what they want to do, how they want to spend their 1% of their time, et cetera, et cetera, et cetera.

So -- and the last one, otherwise you will not follow me. Financial outlook. These are the magic figures. So our next ambition is going to be EUR 10 billion, and 40% plus EBIT. Why and how? What I presented up to now is the base that we share with all the team, with all my management team in the last few months and that becomes our target internally. When it is going to happen? I cannot tell you otherwise, Jean François is going to ask me the budget next year, but it's going to happen. So the growth to EUR 10 billion is going to be through license. As I told you, there is a huge opportunity, it's completely underexploited.

Organical sales, I think that is going to grow organically in terms of sales, because the sell-through is completely amazing what we are doing there. Private retail is growing faster than any other business unit that we're having. Space increased because -- I forgot to tell you, we are going to increase where we can the space of certain flagship, so the idea in between that and between buying back some travel retail doors we are going to increase in the period 10% of the square meter overall, 3% per annum approximately.

E-commerce. The idea is to move from 4% today to 10% in the plan through organic growth, new markets as well and retailization of the wholesale retail that we have today. The new store concepts that are allowed in the period of all the shops with the new concepts, I told you, on average, the sales increased between 20% and 30% from previous aesthetic and new aesthetic. So you know the -- I told you the figures, how much we are in terms of sales end of Q1 '18. So you can do the math of all the rest.

Retail KPIs. All the KPIs, but mainly conversion, as I told you before, I think there is huge opportunity there in conversion to be increased. Even it is positive, so I think is a great achievement that we did despite this traffic. But together with that as well, the cross-selling, thanks to the traffic business that we created, the collections are amazing. So the -- all the people that we are in the last 12 months, they are going to give their full support to the growth in the coming months.

So in a snapshot, the retail side will be 80%, between retail and -- retail excluding e-commerce. And the growth is the one that I just told you. The e-commerce is going to become 10% to the business through conversion of key retailers and roll out of gucci.com and organic growth.

And wholesale. I think the organic growth will increase because of the productivity. We are not planning to open new doors, not at all.

License. Again, there is a huge opportunity, both in -- in Eyewear. We are not yet at the level of the last year or the previous licensee. So -- and especially, if you think about beauty and fragrance, fragrance got all the prices possible with only fragrance launched by [Alessandro Bloom], that has been one of the best launch everywhere in the world today. But of course, in terms of visibility, we are still blending previews products with the new ones. So it's not easy to get right positioning in the doors. But the plan that we have in the next 18 months from here to the end of '19 is very aggressive, both in terms of fragrance, in terms of beauty. So I'm very confident that we'll become, again, I think a leader in that industry as well.

So in terms of sales density, the ambition is go to EUR 45,000, still below the best-in-class that are the usual suspects. So you can -- understand who they are. Of course, Q1 '18 is already higher than the EUR 30,000 as you can imagine. I do not tell you much, but do the math.

In terms of OpEx. Despite all the investments that I told you in terms of people, personnel, investment in information technology and continuing investing in communication and digital, we expect a decrease of 5 basis point in OpEx. We want to maintain a level of CapEx below 5%. 70% of this in CapEx will be going to store-related CapEx that we want to become fully refurbished by the end of 2021. As I told you, that's going to be important investment in the information technology and industrial. Okay, that is there, the 30% of the bunch.

In terms of inventory. Because of the system and because the way, which I told you before, our location by pulling and not by pushing is going to create a reduction in days of coverage of approximately 1 month to free up cash flow.

So these are the key driver. So the idea is to grow twice the market and aiming a gradual margin expansion. So we want to target EUR 10 billion and the 40% plus in terms of EBIT and maintain the CapEx below the 5% and improving the working capital.

So this is to finish, but I want to read that with you that I think is important. I'm not here to convince you. I've come to tell you the truth, my truth. Because there is no other, but one is on truth one's own truth and that's the truth. That's clear, right? Thank you.

Jean Marc Duplaix : Thank you very much, Marco. Thank you very much for having accepted to organize this session. It's a huge work for you and for your team. But thanks to the agility of the organization. You have a set up, you've been able to manage both the operations and the organization of this day. We had an amazing visit this morning. And I think you made a very inspiring presentation. So thank you for this.

Questions and answers

Jean Marc Duplaix : As we are now ready to start the Q&A sessions. As usual, I will be -- as a backdrop, and I will remind some basic rules. First, I would like to ask you to focus your questions on this presentation on Gucci. Also as time is limited and as we want to take as many questions as possible before the hot stop at around half past 1. Please refrain from asking too many questions. So you know what is the magic number you have generally in mind, 3 questions -- 2 or 3 questions and no more. And finally, please clearly state your name and your title before ask a question as the transcript of this session will be made available by the end of the afternoon. And on that note, I pass the floor now to Marco and to the team.

Marco Bizzarri : Who is choosing the person? I am?

Louise Susan Singlehurst, Goldman Sachs : Can everyone hear me? It's Louise Singlehurst from Goldman Sachs. Thank you very much, I think, firstly, for such a comprehensive presentation pack this morning. So that's very helpful indeed. One question, just in terms of the online and the virtual concessions that you highlighted in terms of the distribution strategy market. Can you talk about

where you are now? What kind of projects you have in mind? And perhaps how that will incrementally drive the online business? You clearly have a big chunk of your business coming from millennials, a tiny proportion, which comes from online today?

Marco Bizzarri : You want to answer, Nicolas? You can answer.

I try to allocate the question, if I can, to my team in order to -- for you to know them as well.

Nicolas Oudinot : So the online concession is not, at the beginning, a new business that we're going to create, it's very much following the same process that we followed in retail that is transferring some business we have with partners into a concession that we operate. So it starts from business that already exists because we have a huge business today with e-tailors such as Net-A-Porter, U.S. department stores, mytheresa. And the idea is to work with them to transfer this business into concession in a closed partnership, of course. And we believe that by doing so, we can increase their business by bringing our expertise and also by bringing more fluidity in the inventory, obviously. And the idea is that this should contribute to more or less half -- slightly -- more than half of the growth that we expect and that we presented.

Helen Michelle Brand : Helen Brand from UBS. And you gave us a growth for the pricing, up 20% over the last couple of years. When you think about the sales density uplift, how much do you think of coming from the pricing over the long term? And maybe a little bit of a breakdown. Obviously, we saw the 5% like-for-like price increase this year. How much do you think of that coming from mixed shift versus the like-for-like pricing within your price uplift going forward?

Marco Bizzarri : It's very difficult to give you an answer on that. I mean, in '18, it will be very much volume driven. We don't expect to do any increase in pricing in '18 because we did it already in September '17. So we enjoying a lot of impact in terms of margin, of course. But I think there is a room for improvement on the pricing going forward, not necessarily this year because we don't want, we decided to wait and see. In terms of the past, I think the increase has been driven approximately 1/3 from pricing in the last 2 years and 2/3 from volumes. But this year, it's going to be mainly volume driven. Did I answer that correctly, more or less? The point is it's very difficult to give you an answer on that. And I can throw you numbers, but then it's, you need to be -- in today's world, you need to be very flexible. And also currency fluctuation will change, of course, and the decision-making process. So I don't have a plan to tell you. In '19, I'm going to increase 5%, and it's very difficult to say, frankly.

Thierry Cota : This is Thierry Cota from SocGen. Three questions. First, on the sector growth. 2 years ago, you gave an indication of what you expected for the sector for the coming years. It turned out to be much better-than-expected. What do you see coming forward after 2 years of strong growth in this sector? And secondly, on your EBIT margin guidance. Are we to understand that the gross margin should remain broadly stable and the margin would rise essentially through leveraging OpEx? And secondly, I wanted to ask, you gave 2 targets EUR 10 billion in sales and 40-plus percent margin. Do we consider that they should take place or happen at the same time or one before the other?

Marco Bizzarri : So which is the first one? I forgot the first one. Which is the first one?

Unidentified Company Representative : Sector growth.

Marco Bizzarri : Sector growth. Sector growth, what I learned in my experience that if I try to do a forecast on the growth, I'm going to make a mistake. There's no doubt. So everybody is saying, so I tell you what everybody is saying, like, Bain, the consulting, I mean, the expert on the industry growth that the growth will be continued even little bit stronger than in the past because of many

reasons, because of the available (inaudible) millennial, because the Chinese middle class guy entering the market, et cetera. But I cannot tell you if it is going to happen. The point is that, for me, as a company, I need to really focus on what we do and which is the reaction of the customers, always remain agile enough. If there is any external shock that could happen, I'm very flexible to react. On the rest, if we grow 5%, 6%, 7%, to me, it changes all the time. If you look at any -- (inaudible) presents the forecast twice a year, I think, right? All the time they're different. So -- okay. So fine. I have an idea. I can tell you the 5%, 6% and whatever is going to be, but look, what happened in 2017. So it's very difficult. I cannot bet my strategy on someone else's growth. I need to be very focused on what I do, on what I can control. That I cannot control it. So that is my answer. Gross -- as we look at it, this is the three questions for me to remember all of them. Gross margin. I think gross margin, we are experiencing, if I can say, Marc on the -- is steady, is not just OpEx. So I didn't mention the gross margin, but I think, gross margin is going to improve as well. And you can see -- you will see that in the -- at the end of this semester. By the way, they told me that I can say we're not saying -- we're not seeing any sign of slowdown, just for your information in the quarter, percentage wise.

Marco Bizzarri : Last one is the same time, right? EUR 10 billion and 40%. My guess is that 40% will be much quicker than the 10 -- not much, will be quicker, much is -- it can be misleading, quicker than the EUR 10 billion. Yes.

Jean Marc Duplaix : Maybe just -- Thierry, just on the point of the gross margin and about your question on hedging. As you know, hedging is managed centrally.

Marco Bizzarri : Exactly.

Jean Marc Duplaix : So Marco cannot react on the hedging point. What Marco says is that thanks to the work done on the supply chain plus the distribution mix. And the fact that the online channel is accretive, we can expect additional improvement of the gross margin. But as regard, the hedging is managed centrally at corporate level.

Marco Bizzarri : Luca wanted to ask a question.

Luca Giuseppe Solca : from Exane BNP Paribas. Marco, I found your point about inclusivity and exclusivity that very intriguing. I wonder if you could elaborate on that? And if you do see that inclusivity is going to be far more relevant going forward versus the usual foundation of the luxury industry being based on providing exclusivity and status recognition? And is that, in your mind, going to be very different from saying that the codes and the reason why a fashion is in a way embracing also leather goods? And that the reason why one was buying -- I don't know, Dolce & Gabbana, I don't know or any other designer brand is now the reason why one is buying leather goods brands that are successful and hitting the spot of the current zeitgeist? Second question on the...

Marco Bizzarri : The third one.

Luca Giuseppe Solca : Okay. Third question on how you see your position on multi-brand digital retailers? I see that some of your competitors are securing ownership on multi-brand digital retailers. Do you anticipate to have a few partnerships that you anticipate to have a broad presence across multi-brand digital retailers? And how you see that evolution?

Marco Bizzarri : In terms of the question about inclusivity and exclusivity. As I tried to touch briefly throughout the presentation, I think there is a mutual exclusivity in the industry today. In the sense that everybody is talking about exclusivity, exclusivity, but the size of our companies, in most of the case, is so big. That talking about exclusivity, to me, is a kind of a misunderstanding. Then, we moved

in terms of definition to perceive the exclusivity. I understand what it means exactly, frankly, myself. And what I see happening outside is that, especially in the younger generation and millennials, the fact of having something that is unique to you is important, but is not as big as the possibility of being part of the tribe or they recognize a part of a tribe, still showing your own individuality. So -- and if you look at any megatrend for any scenario company, inclusivity is the one winning over exclusivity in any kind of industry. So all the culture of the company of Gucci despite this megatrend has been set according to inclusivity, in terms of approaching the shops, in terms of fostering the creativity, in terms of opening the brand to collaboration that were not normal to look at. So my impression is especially the younger generations, by the way, are the one influencing the oldest one. I think the values of inclusivity in terms of having the possibility to touch, having the product immediately, not waiting, having a closer connection with the product and the shop and the people in the shops, I think is going to win versus the thing of being distant as it was in the past. So that's my take about that. In terms of bag company, Ready-to-Wear company, I said that the way, which Alessandro is structured, the image, the perception and the shows and the events and communication on Gucci brought the cause and the aesthetic of the ready-to-wear into the bags. That is something quite unique. And the two together, they speak the same language. So it is true that, historically, Gucci has been a bag company because the rules are clearly in the leather goods. But if you think today, in your perception about Gucci, you have a completely different image. You have an image of a brand that is more umbrella, driven by the shows and the communication that is delivering very much not a product, but a lifestyle. And that, to me, is, again, the -- one of the reason why we've been so successful so quickly. The third one?

Marco Bizzarri : You know everything. The multi-brand, multi-brand, et cetera. I think we are finally where we are. We are working with the best today in terms of multi-brand. Today, to me, is a liquid society in the sense that in the past, when digital was not present, the niche brand, they needed to have just 2, 3 shops, and you say, if you want to buy, you come into my shop. Today, even these smaller brands, they're so visible because of the digital, because of the social and the rest, that is kind of suppose exclusivity, again, is not existing anymore. So the real differentiation is how much you can engage with the customers and how much you're able to create this kind of connection. That, to me, is different. So we are not expected to increase the number of multi-brand online activities. Whilst we, as Nicolas was saying, we are thinking of some of them, with the biggest one, especially, to transform them in concession in order to make sure that they have the right content, we can deliver the right product, the right inventory instead of them buying a little bit part and not satisfy the customers.

Antoine Belge, HSBC : Two questions. The first one is relatively basic is now when you look at your original profitabilities, are they significantly different? Because again, you're bullish on Chinese consumption. And I guess, you mentioned that you probably acknowledge that there would be a volatility on the leather shops? So that's my first question. And then, on China, I like to know if you're happy with your current store network? Or is it part of the 3% increase in the square footage or will come so from China? And I think are -- so maybe on the -- more specifically on the e-commerce in China, what's the strategy between your own capabilities and the sort of the one of sub-parties?

Marco Bizzarri : Okay. Can I talk about it? Yes. In terms of profitability or sales density, let's put in this way, at a regional level, we're still -- the average that you show, the EUR 30,000 -- approximately EUR 30,000 on per square meter is very much scattered. We have regions where we are far away from being there and where we've the biggest potential. And the region where we are below that are Japan because it's the one that started later. As you remember, Japan was the one because of the way we need to see fashion, want to see if there's going to be consistency in your fashion and they want to have fashion and so they look and see. And strange enough the U.S., where we experienced

a huge growth. It means that the potential that we have in the U.S. isn't normal despite the growth that we are experiencing there. In terms of China, I think, overall, we're fine with the network. We are fine with the network. So despite the fact that maybe close one shop or the other, there's some places that we're doing important investment, especially Shanghai to create a flagship is already signed the contract. So it's something going to happen. So to give a better visibility in terms of branding at shop level. So overall, we're going to close some doors, we're going to open some door by 3, 4, so not a major change. What -- strategically, what we want to do is to create point of sales in terms of size and image that are better than in the past, mainly Shanghai. And we signed already. So it's going to be open soon.

Nicolas Oudinot : So e-commerce in China. We are -- we believe we are just in the beginning. We launched the sites last year. We are operating locally. It's working very well. The first thing, I think, is that the primary role today of our -- site in China is to drive people to the brand and drive people to stores and to get -- educate consumer. A big part of the e-commerce in China happens through the platforms largely through bit of -- yes, it's mix of counterfeit, reseller, et cetera. The portion that we capture on our websites is for the moment, tiny, but it's going very, very fast. And so over time, we see a lot of potential, and we don't see -- with the appetite for digital, why it shouldn't be as big as our website and penetration in other regions. In terms of the external platforms, to what Marco was saying, for the moment, we are not present, and we have no short-term plan to be present on Alibaba or JD. We are partnering a lot with Tencent. We have a WeChat store integrated with our website. And we're growing a lot of this partnership and the other -- we're, of course, having relationship with them and wait and see when the environment improves to the present.

Edouard Aubin : Marco, just one question on the operating leverage. If we look last year, 2017, I think your EBIT margin expanded 550 basis point. And if I recall, your organic growth was around 44%. So if we look at consensus this year, consensus is expecting only half of that expansion, I think, around 230 basis point. Everything else -- I'm not asking for a guidance, but everything else being equal, if you were able to post the same type of organic growth, because you told us that there was no slowdown so far, would the operating leverage be similar this year as it was last year?

Marco Bizzarri : Let me check if I can answer.

No, I cannot.

Marco Bizzarri : Okay.

Sorry, so...

John William George Guy, Mainfirst: Marco, thanks very much for the comprehensive presentation. John Guy from MainFirst. Just a question, first of all, on CapEx. You highlighted that you are going to sustain the CapEx below 5% of sales. I think historically, in the last couple of years, Gucci has been generating free cash flow of over EUR 1 billion has been incredible achievement, tripping the free cash in the last 2 years as a group. And going forward, you said below 5%, are we talking 3, 3.5%? I mean, maybe can you give us an idea over the next few years as to where CapEx will effectively play out? And what will you do with all the cash?

Marco Bizzarri : I don't know. I don't manage the cash. [I think, I start to] -- used to manage the cash.

John William George Guy : My second question is on the internalization of production. You've given us some targets and ambitions for, obviously, for footwear and for leather, in particular. Are there any other areas where you see opportunities on the Ready-to-Wear site, for example? Maybe you could share some thoughts there? And my final question. Given the change in the organizational

structure and the new pillars that you put in place, what's been the biggest positive surprise for you so far?

Marco Bizzarri : Of course. Well, the CapEx level, the CapEx percentage...

Jean Marc Duplaix : Yes, I will address also the question on the EBITDA margin expansion so that I can provide you something. As clearly explained by Marco, we are still at Gucci in the face of investments. And last year, we have recruited a lot of people in the organization. You mentioned, the number of people in the stores. We're absolutely needed to improve the quality of service. So this year, we had a full year impact as discussed. We have decided also to anticipate some initiatives. You have mentioned, although work done about CRM, business intelligence, data mining, and it's true that we have anticipated these initiatives. We could have waited what was initially planned and we've decided to expense sooner in the process to keep the advance that Gucci has gained on the market. So that's the reason why we are quite cautious in terms of reinvestments of the gain of the gross margin and as clearly stated, and we would stick to that message, we want to gradually expand the EBIT margin, and as mentioned by Marco, there is a mission to exceed 40%. As we mentioned also, it's true that already as during the presentation of Q1, during H2, the comp base will become tougher for Gucci in terms of sales. So we prefer to remain cautious, but we believe that we could deliver a very solid operating leverage this year. As regards the cash and the CapEx, you know that what has changed in the organization of the group is that many initiatives now are managed by Kering as a corporate organization. Thanks to the import and the support of the brands. So there are a lot of CapEx, in fact, which are now carried on by Kering as a corporate organization. So the percentage of CapEx at Gucci and in the brands tend to decrease. But there are also massive investments at group level. So part of the cash generated by Gucci also is invested at corporate level to finance all the transformation programs we have, be it, in terms of logistic, in terms of supply chain, in terms of information systems, you mentioned Salesforce, which is a group initiative, of course, with a big contribution of Gucci in terms of expertise. What we could say also is that despite what has been mentioned by Marco regarding the inventories, we have now cash generation at Gucci, which should remain very high if you compare the EBITDA and the cash -- the free cash flow. So we are still keeping this ambition to deliver a very solid cash conversion. And I think that's exactly what we have agreed on. We -- and it's not detrimental to the investments you have mentioned and the CapEx investments you have in mind.

Marco Bizzarri : I think I need to finish the question. So in terms of looking at maybe internalization Ready-to-Wear or other categories. I mean, we are very careful to see there is an opportunity, of course. But at the moment, there's is nothing in the pipeline in terms of Ready-to-Wear especially. That is perfectly managed by CLEO that is managed by Calvin directly. So it's not under my direct responsibility in terms of the top line -- not the top line, the top people. And -- but of course, we're there. There are some supplier that are doing in the 95% of their work with Gucci and they are critical. And we're going to buy them, of course, but it's not the case today. And in terms of industrial organization, of course, we're scouting always in terms of accessories, in terms of tanneries in the market. In terms of what I saw, what I realized in terms of the organization, I think, we, in such a short period of time, we're able to improve the decision-making process very quickly because now the regions, I have just one person to talk to, that is Jacopo at the end. That is the one decided both on the allocation and merchandise and they choose -- the buying and the retail streaming. So of course, there's no challenge anymore. And you can do that because of the person that is in charge that is more critical than anybody else, where there is no problem of not creating challenges in any case. And the second thing that I realized is, why you do this kind of changes in a company that is growing 40%, 50%? And you are bold enough to do these changes. The impact that you have, from a mental standpoint, the organization is impressive. Because if everybody is listening -- is watching

that, they say if -- you've the courage to do this kind of change. In this situation, I should do the same. So you create a kind of a virtuous circle in the organization that is something that is very tangible from what we realize. And also, the third one. I think I created the team that was there before, a part Jacopo that was the main addition, that is really working well together. And is, to me, is a unique asset in the industry. It's not bureaucratic at all. And they work together, and they have power to take decision in a very seamless way. And to me, it's key for the successful Gucci today because of this people and the people below them.

Zuzanna Pusz, Berenberg : I have three questions, please. First of all, on your retail staff incentive system. So I guess, you have a 10% e-commerce target. And given the historically how the incentive system for the employees has been, let's say, on commissions, is there any change that you're introducing to it because technically, what is the incentive for someone that the customer actually shops online? So I guess, it's one of the challenges the industry needs to address. Secondly, just to clarify on the number of directly operated stores. So you mentioned, the 3% space growth and there will be some takeovers. But at the same time, are you going to close some more outlets? Or shall we expect the number of stores to open to stay flat or actually increase? And finally, this one can be -- may be, it's a bit tricky, but you've mentioned initially 10% space growth and then you said, it's actually around 3% per year, which means around 3 years. And I know you didn't give out a target for your financials?

Marco Bizzarri : You were listening!

Zuzanna Pusz : Does it mean that the EUR 10 billion and plus 40% EBIT margin, is at the 3-year target? Or am I trying to read too much into it?

Marco Bizzarri : Okay. As for the commission, yes. One of the issue of giving the possibility to the people in the shops to have being really omni-channel is to give the possibly to find I mean products elsewhere or through the e-commerce. So of course, they are incentivized to do it because of the commission. So we are changing the commission scheme everywhere in the world in order to make sure that the experience is going to be seamless even from that point of view. That was -- at the beginning, it was certainly an obstacle in the development. (foreign language) What was the second question?

Unidentified Company Representative : The store network.

Marco Bizzarri : Sorry, store network, I think, overall is going to be -- remain the same. Then, of course, if we buy back some travel retail, they are going to be counted. They're going to be counted like doors are going to increase. The other thing that we say the way, which we count doors in Gucci is that, if you're in a department stores, you have 4 doors in the different floors, like shoes, bags, (inaudible), four doors. So -- and so if you compare that with some other brands that they have the same shutter goes across the floors is one door. So it's not exactly apple versus apple. In terms of the 3% to 10%, I think you are good in maths, but I cannot give you an answer, no. I think -- again, what I said before, it's very difficult to plan, which is going to be the year. Because maybe tomorrow is going to be an external shop. We cannot forecast. The current situation is going to create a problem in the traffic flows, I don't know. On the overall, we have -- as you see -- as you saw in the last 2 years, we've been ambitious. We're not there to stay second. So we try to push, of course. But I cannot tell you that it's going to be 3 years, 4 years, 5 years or not. The trajectory is the one that I told you. I think, this pass on a second.

Thomas Vincent Chauvet, CITI : So three questions. The first one, Marco, you spoke about this tribe of millennials that make, we saw about 60% of your business. The two risks, I see to your future growth is a one macro shock that would probably impact that group of clientele more than the other. And to that rapidly that tastes and desire for the Gucci brand changes, and they move to another brand, which is trying to capture that good luxury demand that we're seeing. So how are you mitigating these risks on that particular group of clientele? Secondly, you showed us a slide on the outlet channel, which is a strategic channel as you said...

Marco Bizzarri : It's a channel.

Thomas Vincent Chauvet : It's a channel, but it's an important one, I guess, from a profitability standpoint. Could you just give us 2 numbers, how much does the outlet channel represent of your retail sales? And two, can you confirm that it is for the Gucci brand more profitable than your full price store business? And thirdly, as Gucci brand desirability is increasing, we're seeing your products being resold, preowned -- in the preowned online market. I guess, that's a good sign. But it's something difficult to control. We're seeing extremely good growth in that channel. How are you thinking about the development of that channel? Is it something that you would like to control?

Marco Bizzarri : Which is a channel?

Thomas Vincent Chauvet : The preowned retail market, the RealReal vestiaire is it a channel do you think you need to pay a closer eye to maybe to control more directly how do you think about the resale of preowned Gucci products?

Marco Bizzarri : In terms of millennials and consumer taste and changing and behavior, I mean, the only thing that we can -- I can say to you that, I think, was through all the presentation, I tried to outline. The way which we -- Alessandro created the aesthetic that is completely unique. The way in which we engage any age bracket, the millennial -- and not millennials is, I think, is so strong and so consistent and so genuine and so authentic that the only way, which I can mitigate that is continues to do exactly that. I continue to do that with the company, with a culture. If I'm able to maintain this kind of culture, I'm able to give the possibility to anybody in the company, especially creative team and the product team to expand themselves in a very natural way using crowd creativity as we did in the past with various [trendy] collaboration. The possibility that we have in terms of creative aspect, the creative aesthetic going forward is endless because everybody now recognize that Alessandro is the one that is putting this creative pioneers on the spot and give them fame. So everybody wants to work with him, but inside the Gucci, the Gucci brand. I don't -- frankly, I think that the risk is always there for everybody. We are in fashion, we're not in any something different. We're not automotive or whatever, the point is, of course, the risk is there. But the way in which Alexander created Gucci from aesthetic standpoint and from product standpoint, I don't think is a fashion moment. He created a demand that was not existing before, impacting all the fashion industry. If you go back 3 years ago, the aesthetic of the industry was completely different. Everything now has been impacted. The point is that the way, which has been considering Gucci, is a 360 degree in any single aspect due to the fact we are an agile organization. When we take a decision, it goes from the beginning to the end, shops, communication, social, everything is communicated and it goes across the board. There's nobody -- no layer that is deciding in a different way like in some competition aspects. So if I'm able to maintain that and setting the bar every time higher and using the huge creativity and engagement talent that Alessandro together for him the people within the team and the other people around the world pushing him in terms of new aesthetic, I don't think that is the only way which I can see a mitigation. So you see no change in aesthetic, no, not at all. I think, what is doing Alessandro is reinforcing the message, I think, he wanted to create even a more sustainable business. In terms of outlet, I don't think I can answer outlets. No, no, I cannot. The -- just to refer what you were saying,

as I told you before. I think it's a part of our strategy for many regions because I mean, deciding to stop the markdown in full price shops, I think is an important outlet to get rid of, albeit at the right path in controlling the sites. And also in terms of sustainability and ethical value, we don't want to destroy the product. So we want it to circulate. So I think as well in blending with Gucci equilibrium, I think, it's a good way to go forward. In terms of number of shop, we are not planning to open more shops. More probably, we're going to close some of them. We're going to keep the one that we want to -- we feel better. The third one is? Secondhand. There is a big discussion about secondhand or rental today. We know that. I think it's going to be something that we're going to look at. I don't think we need to be the first-comer in the sense. So we wait and see. We discussed a lot as well with Kering about it because, of course, having many brands, there is a possibility to manage directly or to rent. At the moment, we are not -- we're just looking from outside, let's see what happens. I think, you're right. It's something that is growing. But at the moment, we don't see any negative effect on us for the moment.

Jean-Marc Duplaix : Maybe just regarding the profitability of the outlet. The rationale for keeping this channel is the one that has been presented by Marco. It's not a question of profitability because at the end of the end of day, with the end of the markdown activities in the full price stores, it has boosted the profitability of the full price stores. So that the difference between the 2 channels is not significant at all. So that's the rationale supporting the decision to keep an outlet channel. What has been said by Marco is really -- the real reason behind this.

Melanie Flouquet, JP Morgan: I have two questions, please. The first one is regarding production. Can we go back to production, and you mentioned a 50% cut in lead times. I was wondering whether you would share with us what your lead times are? And I'll mention this minus 50% you've already achieved and linked also to production, sorry an extension of it, what does the supervise protection brings to you? How critical is it to the lead times, to the inventory management, to quality control, you know share maybe a bit more on that side? My second question is a bit more strategic. You mentioned how important it was to have your eyes opened to the outside world. So I was wondering whether you could share with us what you're seeing as big opportunities or big risks to your business beyond the shocks to travel in the next 3 years that are coming from the outside that we might not anticipate?

Marco Bizzarri : Thank you. In terms of the 50% reduction in lead time, it's key especially in the development cycle, but also in the production site. Of the 50%, we didn't achieve anything. It's just a target. It is coming from the part that we just invested in ArtLab. So when we sit down together with Massimo, we -- and we put all the money to do the investment, we sit down as well to set some targets. And what we are experiencing in the shoes business unit that is the one that we control the most today because we have 60% that is internalized in a way of the other to strategic partners or internal. We see that the lead time is much, much quicker than the one that we are experiencing business suppliers, external suppliers. And also in that specific context, the cost of goods sold of our factories is even lower. So the two together brought us to think that if we can apply the same methodology strategically because as well of the investment that we did here in ArtLab on the leather goods, we could expect dramatically increased reduction in lead time and potential, but is not the main objective, a reduction with the cost of goods sold, what we're seeing on the other side. That was the shoe, the production. And then one on the strategic. Yes, you see the one of the main potential disruption that can happen to the industry is everything is related to the tanneries and the leather in vitro. The strong startups that are working on that. The level of the leather today is very --

is not good at all. But considering the speed of technology, it could happen. So Kering is looking at it together with Gucci, Gucci is helping in terms of research and development. Kering is investing actively. In order to make sure that if something happen, we are there to protect our business because that is going to create a potential disruption also in a good way from a sustainability standpoint, of course, because we're going to product much less than in the past -- than what we do now. I think the other one is going to be 3D printing, especially for the prototyping and the rest. Again, we're still far away from having technology that is able to give the speed or the series that we need at our scale. So -- and the cost that we expect. So -- but something is going to happen because the development there is quick as well. I see that these two things are in terms of industrial has the more impact. Then there is all these word of artificial intelligence in terms of forecasting, in terms of customer journey, in terms of buying and also in terms of following the e-commerce and the site that we started experiencing 12 months ago with some good results and some bad results because we are not a repetitive business. And the change that we have in terms of consumer taste of aesthetic or new product, et cetera, brings you to be very careful in applying bluntly the artificial intelligence. But of course, we're working on it with also external companies and Nicola is the one leading internally. So we are keeping an eye on this because, of course, that could help in many ways, especially in their location, in the forecasting that we do for our shops.

Unidentified Company Representative : Last one.

Marco Bizzarri : Last one.

Michael Pye : from Baillie Gifford, a long-term shareholder. One question you pleased to hear. Clearly, a very rapid evolution success under your leadership. Your presentation is entitled quantum leap. I was wondering what would like to be still the same about Gucci in 25.0 years and why?

Marco Bizzarri : What I don't want to change is the kind of culture and the way which we work. Everything in Gucci started from the why, not from the how or from the what. So why we go to work in the morning, why you want to really do what you do on a daily basis? So to me, culture and people remain the most important aspect of Gucci and that isn't going to be differentiation factor whatever happens. As we're able to maintain this team and the way with the team is working together and approaching the problems and approaching the activities and processes, there is no way we can slow down, no way. So that is what I would like to speak for, say, in 25 years in terms of...

Okay. Thank you very much. Thanks a lot. Thank you.