

Passion for Quality

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Silvano Cassano  
CEO

## Key Highlights



- Leverage on global brand awareness
- Confirm business model
- Quality over price
- Sustainable long-term top line growth
- EBIT margin improvements
- Strong cash flow generation

## Key Strategic Priorities

- Brands' positioning and consumer focus
- Quality, style and innovation
- Brand extension
- Time to market, customised deliveries
- Growth outside domestic market
- Full integration of IT systems

## Potential Positive Effects

- Store traffic
- Conversion rates
- Sales per sq m
- Network growth
- No war on price
- Enabler

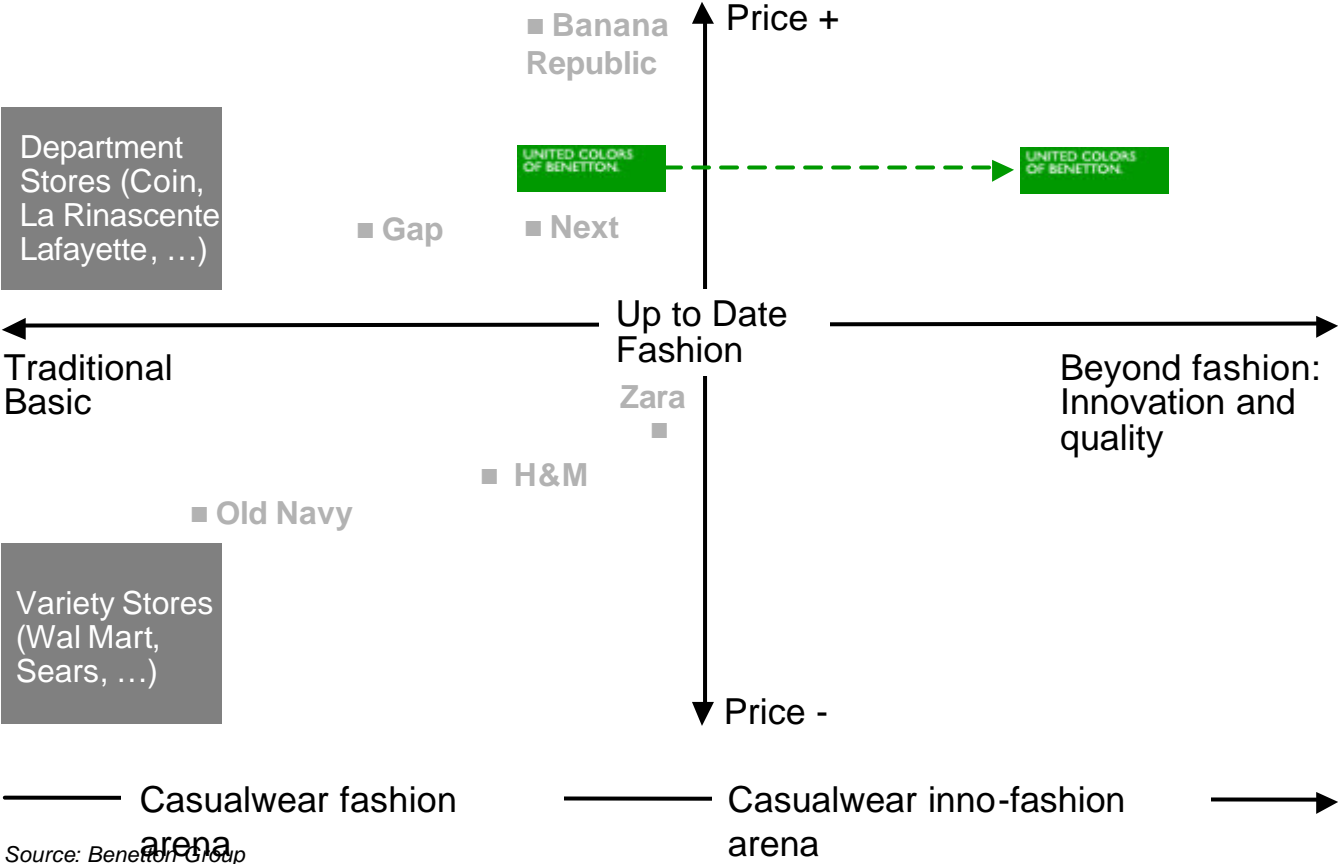


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# Competitive Positioning UCB Adult



Source: Benetton Group

# Competitive Positioning

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Sisley

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# Competitive Positioning

## Sisley

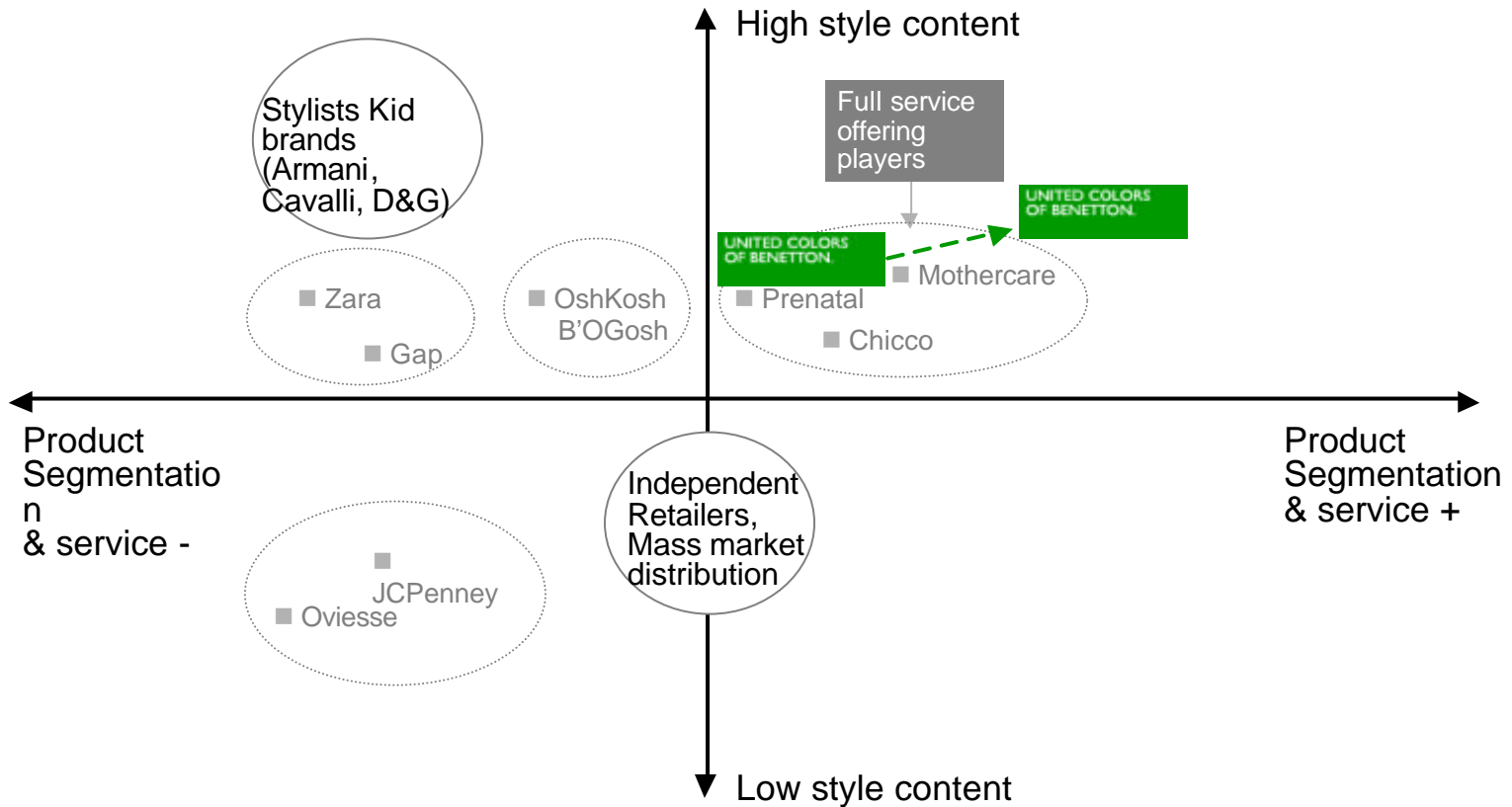
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Source: Benetton Group



# Competitive Positioning *UCB Kids*



Source: Benetton Group

# Brand Positioning **Playlife**

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# Brand Positioning Playlife

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## TARGET

- Age 20-40, dynamic and sophisticated people

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## PRODUCT

- Average / Above average purchasing power
- Focus on natural fiber innovation and quality
- Collection: 80% brand identity, 20% basic
- Style: elegant and essential sportswear

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## PRICING

- Sustain current positioning with higher quality

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## DISTRIBUTION

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## COMMUNICATION

- Development of multi-brand channel
- Updated POS concept in line with new target

# Brand Positioning Killer Loop

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## Brand Positioning **Killer Loop**

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- TARGET**
- Age 14-27, extreme sports, music and tribal life-style
  - Average / Above average purchasing power
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- PRODUCT**
- Sport and urban clothes inspired to the 3S style
  - Collection: 30% brand identity, 70% urban style
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- PRICING**
- Style: fashionable, aggressive, innovative
- 

- DISTRIBUTION**
- Sustain current positioning with higher quality
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- COMMUNICATION**
- Strong development of multi-brand channel
  - Young and tribal POS concept



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## Quality Style and Innovation



- New focus on advanced materials with high fashion content
- Increased attention to easy care fibers for greater comfort in garments
- Enhancement of knitwear R&D
- Emphasis on high quality finish to differentiate our products
- Global materials sourcing
- Quality Control / Quality Assurance processes to monitor quality directly at third party suppliers

**Commitment to talents and team work**

# Brand Extension

## Accessories

- Fully exploit accessories business opportunities in Benetton network (especially clothing related accessories and footwear)
- Focus on quality and style
- Development of dedicated visual merchandising concepts

- Revenues from €60m in 2003 to €130m in 2007

## Licensing

- Growth through new product categories and geographical areas
  - > Home, personal care, fashion accessories
  - > Partnership with international players
  - > Focus on high quality distribution
  - > Leverage on Benetton network

- Royalties from €10m in 2003 to €23m in 2007

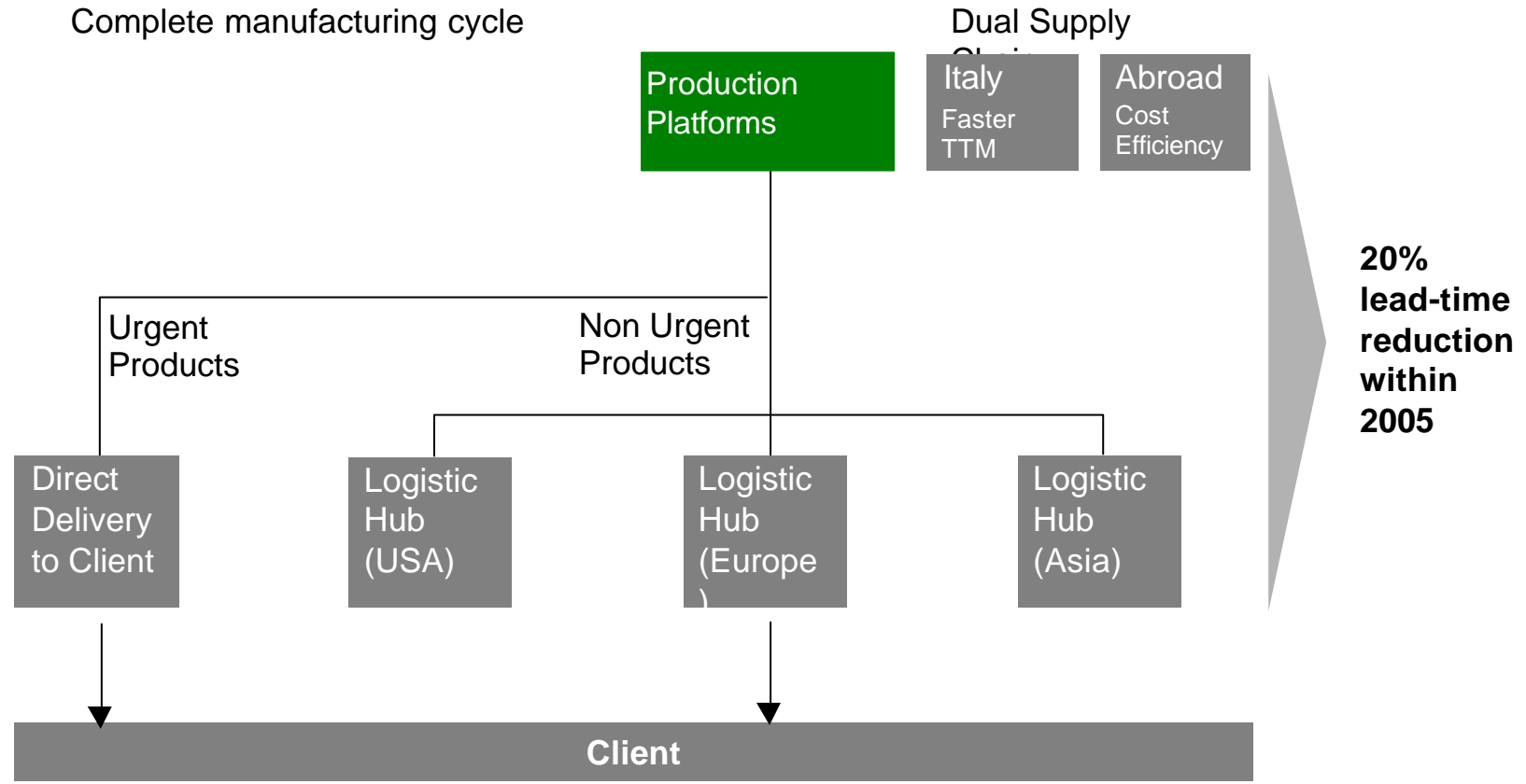


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# Faster Time to Market

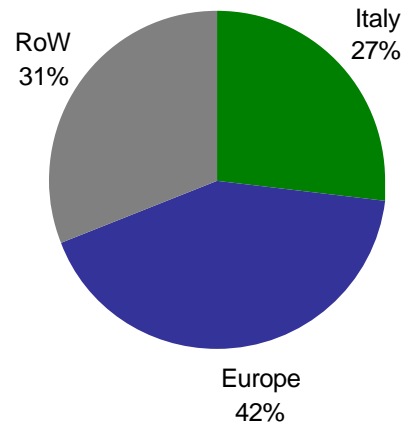




## Increase International Presence

- Regional approach
  - > Europe
  - > Americas
  - > Asia
- Customize products and logistics to local markets
- Increase sales efforts in high-growth countries (China, Korea, India, Russia and Eastern Europe)
- Strengthen European focus

### 03-07E Revenue Growth Breakdown by Geographic Area<sup>(1)</sup>



73% Growth contribution from Europe and ROW

<sup>(1)</sup> Based on total casual revenue growth of € 329 m, excluding royalties

## Distribution Network



- Manage sales information rather than distribution network
- DOS validation of sales analysis
- Network extension
- Consolidation and selective approach to real estate investments
- €50m annual expenditure in store concepts and refurbishment

# Implementation Timeline



- De-localisation
- Network investments to sustain growth
- Product, Operations and IT investments
- DOS validation of sales analysis
- International growth
- Increase revenues/sqm
- Margin improvements

**Full financial impact of strategy starting from 2H 2005**

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Pier Francesco Facchini  
CFO



## Group Targets Income Statement

€ millions	2002 actual	2003 forecast	2004 preliminary budget	2007 target	2003-07 growth
<b>Revenues</b>	1,992	1,845	1,800	2,187	18.5%
<b>Gross Profit</b>	867	809	775	991	22.5%
Gross Margin [%]	43.5%	43.8%	43.1%	45.3%	
<b>EBIT</b>	243	231	223	324	40.3%
EBIT Margin [%]	12.2%	12.5%	12.4%	14.8%	

**Strong EBIT margin retention from revenue growth**

# Casual Targets Income Statement

€ millions	Drivers	2003 forecast	2004 preliminary budget	2007 target	2003-07 growth
<b>Revenues</b>	<ul style="list-style-type: none"> <li>■ Brands</li> <li>■ Store/Surface</li> <li>■ Sales per sqm</li> <li>■ Product/Brands' mix</li> </ul>	1,559	1,588	1,904	22.2%
<b>Gross Profit</b>	<ul style="list-style-type: none"> <li>■ Delocalization</li> <li>■ Commercial Policy/Investments</li> </ul>	728	722	907	24.7%
Gross Margin [%]		46.7%	45.5%	47.6%	
<b>EBIT</b>		217	206	294	35.3%
EBIT Margin [%]		13.9%	13.0%	15.4%	

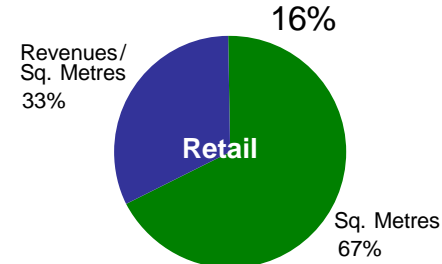
**Revenue increase driven by mix and network growth**  
**Margin improvements from production efficiencies**

# Casual Targets Revenue Drivers

€ millions	<u>Wholesale</u>			<u>Retail</u>		
	2003	2007	% Growth	2003	2007	% Growth
<b>Revenues</b>	1,416	1,692	19%	143	212	49%

## 2003 - 07 Growth Drivers

<b>No. of Stores</b>	9%	61%
<b>Sq. Metres</b>	9%	33%
<b>Revenues/Sq. Metres</b>	10%	16%



**Gradual growth of wholesale business from 2005**  
**Retail contribution to casual revenues of 11% in 2007 from 9% in 2003**

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# Casual Targets Mix Enhancement

- Product**
- Rationalise # of articles per collection
  - Mid-season collections
  - Greater width and depth of product range on sales floor
  - Increased contribution of hanging garments
  - Focus on casual menswear growth

(2002)	ITALY		SPAIN		UK	
	MKT	BEN	MKT	BEN	MKT	BEN
Women	46%	59%	56%	44%	54%	73%
Men	37%	11%	34%	16%	31%	13%
Kids	17%	30%	9%	40%	15%	14%

- Brand**
- Increased contribution of Sisley
- Markets**
- Stronger role of more profitable markets

**Mix as a competitive advantage to enhance value**



# Sport Apparel Targets Income Statement

€ millions	Drivers	2003 forecast	2004 preliminary budget	2007 target	2003-07 growth
<b>Revenues</b>	<ul style="list-style-type: none"> <li>■ Brands</li> <li>■ Multi brand distribution</li> <li>■ Dept. Store channel</li> <li>■ Re-launch of brand network</li> </ul>	48	62	125	161.1%
<b>Gross Profit</b>	<ul style="list-style-type: none"> <li>■ De-loc / subcontr. production</li> <li>■ Multi brand distribution/ Department Store</li> </ul>	19	26	55	184.4%
Gross Margin [%]		40.3%	41.8%	43.9%	
<b>EBIT</b>		6	7	16	185.5%
EBIT Margin [%]		11.7%	11.0%	12.8%	

**A realistic growth opportunity for an independent business unit**

# Group Targets Balance Sheet

€ millions		2002 actual	2003 forecast	2004 preliminary budget	2007 target
	<b>Drivers</b>				
	<b>Net Capital Employed</b>	1,768	1,677	1,759	1,763
	Asset Turnover	1.13x	1.10x	1.02x	1.24x
	Thereof:				
	Working Capital				
	<ul style="list-style-type: none"> <li>■ Credit management</li> <li>■ Supply chain</li> </ul>	912	735	700	830
	As % of sales	45.8%	39.8%	38.9%	37.9%
	Fixed Assets	979	1,023	1,031	986
	<b>Net Debt</b>				
	<ul style="list-style-type: none"> <li>■ Funds flow</li> <li>■ Capex</li> <li>■ Dividends</li> </ul>	613	475	487	164
	<b>Stockholders Equity</b>				
	<ul style="list-style-type: none"> <li>■ Net income</li> <li>■ Dividends</li> </ul>	1,155	1,202	1,273	1,599

**Improving asset turnover and strong decrease of net debt**

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# Investments

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- DISTRIBUTION NETWORK
- €50m per year
  - Store concepts
  - Store refurbishment
  - New openings
- 

- OPERATIONS
- More than €90m in 4 years
  - Completion of manufacturing cycles
  - Logistic hubs
- 

- IT SYSTEMS
- Over €50m investments in the next four years
  - Planning and forecasting systems (sales and operations)
  - In-store systems

**Around €130m capital expenditure in 4 years**

# Group Targets

## Cash Flow & Financial Ratios

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€ millions	2002 actual	2003 forecast	2004 preliminary budget	2007 target
<b>Cash Flow from Operations</b>	<b>245</b>	<b>264</b>	<b>262</b>	<b>311</b>
Net investments	(160)	(148)	(120)	(93)
As % of sales	8.0%	8.0%	6.7 %	4.2%
<b>Free Cash Flow from Operations</b>	<b>85</b>	<b>116</b>	<b>142</b>	<b>219</b>
<b>ROIC</b>		9.0%	9.1%	12.5%-13.0%
<b>ROE</b>		9.7%	10.1%	14.0%-14.5%

**Strong cash flow generation and significant improvements in ROIC , ROE and value creation indicators**



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## Group Targets Financial Summary



- Revenue growth driven by increase in total sqm and revenues/sqm
- Stable gross margins: cost of goods sold reduction reinvested for growth
- Investment plan to support operations and distribution network
- Assessment of balance sheet opportunities in progress
- Group corporate streamlining

## Key Highlights



- Leverage on global brand awareness
- Confirm business model
- Quality over price
- Sustainable long-term top line growth
- EBIT margin improvements
- Strong cash flow generation

**Focus on Execution**

## Forward-Looking Statements

This presentation is of a purely informative nature and does not constitute an offer to sell, exchange or buy, or the solicitation of an offer to buy, securities issued by any of the companies mentioned herein. It contains forward-looking statements and, as such, is subject to risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Some of these risks and uncertainties include, amongst others, ongoing competitive pressure in the sectors in which Benetton Group operates, consumer tastes and spending trends, economic, political, regulatory and trade conditions in the markets where the Group is present or in the countries where the Group's products are manufactured or distributed. The risks and uncertainties that could affect the forward-looking statements are difficult to predict.