



Natuzzi SpA

Third Quarter and First Nine Months 2018 Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Piero Direnzo, *Investor Relations*

Pasquale Natuzzi, *Chief Executive Officer*

Vittorio Notarpietro, *Chief Financial Officer*

Nazzario Pozzi, *Chief Officer, Natuzzi Division*

P R E S E N T A T I O N

Operator:

Welcome to the Natuzzi Third Quarter and First Nine Months 2018 Financial Results Call. At this time, all participants are in a listen-only mode. Following the introduction, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. Joining us on today's call from Italy are Natuzzi's Chief Executive Officer, Mr. Pasquale Natuzzi, and Chief Financial Officer, Mr. Vittorio Notarpietro, Mr. Nazzario Pozzi, Chief Officer of the Natuzzi Division, Mr. Gianni Tucci, Chief Officer of the Softaly division, and Piero Direnzo, Investor Relations. As a reminder, today's call is being recorded.

I would now like to turn the conference over to Piero. Please go ahead.

Piero Direnzo:

Okay, thank you. Good morning to our listeners in the United States and good afternoon to those of you connected from Europe. Welcome to the Natuzzi third quarter and first nine months 2018 financial results. After a brief introduction, we will give room for a Q&A session. Mr. Pasquale Natuzzi together with the top Management team will be glad to answer your questions.

Before proceeding, we would like to advise our listeners that our discussion today could contain certain statements that constitute forward-looking statements under the United States securities laws. Obviously actual results might differ materially from those in the forward-looking statements because of risks and uncertainties that can affect our results of operations and financial condition. Please refer to our most recent 20-F filed with the SEC for a complete review of those risks. The Company assumes no obligation to update or revise any forward-looking matters discussed during this call.

Now, I would like to turn the call over to the Chief Executive Officer. Please, Mr. Natuzzi.

Pasquale Natuzzi:

Good morning to everybody, and thanks for participating in the today's call.

This is not the first time that I tell you about the huge transformation of our company from a pure value-for-money upholstery manufacturer into a life-style consumer brand and retail-oriented Company.

Globalization and the continuous pressure on margins have forced us to invest into the brand which means investing in the product, marketing and retail.

Building up a brand and setting up an efficient Retail business model and an international retail organization has required time and resources.

This strategy was the only available option to face the continuously changing global business scenario we have been experiencing for the last twenty years.

I am not yet, obviously, satisfied with numbers disclosed so far, but certain numbers start to support our choice. We believe we are moving toward the right direction.

Anyhow, dear Shareholders, what I want to share with you all today is the reason of my endless optimism.

In fact, two thirds of our overall revenues are generated by our branded business.

During 2018, our retail network has increased by 19 stores as a result of new openings and closures of unsuitable locations.

The deal with our partner in Greater China demonstrates that we have created an asset, the Natuzzi brand, which is bringing its first positive evidences.

In addition to the above, during the first nine months of the year, the Natuzzi Italia DOS division, composed of 38 STORES, shows an increase of 26.6% in net sales versus the same period of 2017.

If we look at the recently opened stores in USA (Chicago, Costa Mesa, King of Prussia in Philadelphia and West Palm Beach), having the new Natuzzi Italia retail format, those DOS have delivered sales as expected and reached a break-even in the third quarter of the year.

These positive results are strictly linked to the new retail store format which we continue to fine tune since we started in December 2015.

That model is based on store opening in high-traffic locations, store-size to grant a profitable display, merchandising adequate to the catchment area, marketing initiatives planned on demographics, retail selling ceremonies and retail excellence to enhance the customer experience.

At the same time, we have also completed the turnaround of our stores located in Florida and Mexico.

While we continue to further improve the existing DOS profitability, we must now duplicate the best practices generated on the DOS chain to the franchised operated stores network.

As far as the brands DIVANI&DIVANI (for Italy) and Natuzzi Editions (for China and Brazil) are concerned, we have reinforced and improved the new mono-brand store concept that has already collected various commitments from our customers.

In this regard, we have an aggressive plan of opening mono-brand stores in china, of which about 50 in 2019.

Going forward, we continue to evolve toward the branded business.

At the same time, we will maintain our partnerships with those key unbranded-accounts which rely on the quality of our products and service, and, at the same time, generate for us the expected marginality.

With regard to the consolidated profit and loss result, we have clearly identified the main issues which are behind the today unpleasant performance and are intensively working on that.

In fact, for the last quarter of this year we expect a significant improvement versus the third quarter 2018, mainly as a result of the efficiency recovery measures that we have been implementing in our operations.

As for 2019, we will continue being concentrated on reducing the complexity of the overall processes, improve the supply chain and enhance the quality of our sales, both in the retail and in the wholesale distribution channel.

the uncertainties in the economic scenario, including The ongoing discussions on tariffs, are leading us to focus more on improving the profitability of the existing business instead of looking for growth at any cost.

So, dear listeners, after years of continuous investments not yet returned, we need today to focus all of our efforts in improving quality of our sales and efficiency of the entire business operations to consolidate the foundations of the Company. We are getting there.

Thanks everybody.