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Natuzzi SpA

Fourth Quarter and Full Year 2017 Conference Call

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CORPORATE PARTICIPANTS

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Nazzario Pozzi, *Chief Officer, Natuzzi Division*

Giovanni Tucci, *Chief Officer, Softaly Division*

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Piero Direnzo, *Investor Relations Manager*

CONFERENCE CALL PARTICIPANTS

David Kanen, *Kanen Wealth Management*

Sophia Lee, *Must Asset Management*

PRESENTATION

Operator:

Good day, everyone, and welcome to the Natuzzi SpA Fourth Quarter and Full Year 2017 Conference. At this time, all participants are in a listen-only mode. Following the introduction, we will conduct a question-and-answer session and instructions will be provided at that time for you to queue up for questions. Joining us on today's call are Natuzzi's Chief Executive Officer, Mr. Pasquale Natuzzi, then Mr. Nazzario Pozzi, Chief Officer of Natuzzi Division, Mr. Gianni Tucci, Chief Officer of the Softaly Division, the Chief Financial Officer, Mr. Vittorio Notarpietro, and Piero Direnzo, Investor Relations. As a reminder, today's call is being recorded.

At this time, I would like to turn the conference over to Piero. Please go ahead.

Piero Direnzo:

Good morning to our listeners in the United States and good afternoon to those of you connected from Europe. Welcome to Natuzzi's Fourth Quarter and Full Year 2017 Conference Call. 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, Mr. Natuzzi, who, together with the officers of the Natuzzi Division, Nazzario Pozzi, and Softaly Division, Gianni Tucci, who is now in the USA to take part in the High Point Furniture Market. Please, Mr. Natuzzi.

Pasquale Natuzzi:

Thank you very much, Piero. Good morning. I would like to emphasize that despite the disappointing financial results, we are encouraged by the first progresses we see from our investment in the huge transformation of our Company from a pure manufacturer to a retail company.

2017 net sales were €421.6 million, down 2.3%, as compared to 2016, but with different results within our main divisions. In fact, private label experienced declining sales, while the Natuzzi branded division showed positive results, in particular, in the directly operated store.

Our directly managed Retail Division, which includes Natuzzi Italia, Natuzzi Editions and Divani&Divani, continues to grow globally and in 2017 represented 13.4% of our core business, compared to 10.4% in 2016. We are continuing to expand this network, having opened four new stores already in 2018, with 10 more planned during the year.

Directly operated Stores (DOS) sales in 2017 increased by 26% to €53.1 million in 2017. Within such numbers, we see Natuzzi Italia in the United States growing the fastest.

Total tickets in our Retail Division grew by almost 20% year-over-year and our average ticket size increased by almost 10%, demonstrating the value of our investment in product merchandising and brand.

Most of our new stores have been opened in North America and Europe. Last month, we announced a joint venture with Jason Furniture, KUKA, for the aggressive expansion of our distribution in China, one of the most exciting markets of our product and brand, obviously. Together with our partners, we will open a significant number of stores over the next year, which we expect will accelerate our growth in the furniture market in China.

In 2017, our wholesale branded revenue declined sales by 2.5%, but within the branded division, our Natuzzi Italia wholesale business grew by 8.4%.

In 2017, Softaly showed a decline in revenue, primarily a result of extremely difficult retail conditions of a few of larger customers in North America. We are putting much effort in recovering this unbranded business. For this reason, we have spent the past six months re-engineering the Softaly product and price for our Europe-based large customers. Early indication from the recent Cologne Fair have delivered the first encouraging results. On the basis of the job done for Softaly in EMEA, Europe, Middle East and Africa, we are presenting these days a completely new program at the High Point Market.

The first month of 2018, we see a similar trends in the order flow as experienced last year, with a different performance across the two divisions. The Group total order flow in the first 13 weeks of 2018 shows a low single-digit decrease under constant exchange rate. Within this picture, Natuzzi Division does better than Softaly and Natuzzi DOS confirm a positive trend in sales.

In December ’17, we opened a store with the new-generation retail format in King of Prussia, which is the name of a department store in Philadelphia. Sales performance from this new store are well above the average of the existing stores.

We saw almost the same positive sales performance in Costa Mesa, Orange County, close to Los Angeles, in the new store we opened in February 2018. Also, in some of the existing stores which already have the new generation format, such as Tottenham Court Road and Finchley Road in London, we are seeing double-digit improvement in sales.

Operating results. Natuzzi operating results were disappointing, and frankly, embarrassing to me, and I will ask, Mr. Vittorio Notarpietro, to provide you with more detailed information, but let me say two things.

First, a significant portion of those losses were the result of extraneous factors, such as the labor case judgment we announced last summer. It should be noted that we continue to fight these claims and have recently won interim rulings, which we hope will bring us benefit in the future.

Second, we will continue to expand our retailer footprint in America to capitalize the investment made so far in that region to build up a retail organization, with focus also in United Kingdom and Italy, while increasing the business in China with the recently announced joint venture.

All the above should allow our retail and other business to recover productivity and profitability. We are very much confident about that.

Finally, we continue to look hard at our expenses, especially those relating to overheads. We will continue to take every step we can to balance our costs to capture the profitability available from our new market strategy.

With that, let me introduce Vittorio Notarpietro, our Chief Financial Officer, who will take you through the numbers, and then I will be available for any questions. Thank you.

Vittorio Notarpietro:

Good morning. Thank you, Mr. Natuzzi. 2017 full year net sales were €449.6 million, down 1.7%, versus the previous year. On a constant exchange rate, net sales would have been flat. It has been a very difficult year with disappointing results, but let's go deeper into the results.

In 2016, the Company displayed a small operating loss of €0.4 million, while in the full year 2017, we reported €29.1 million operating losses, of which €9.3 million accrued for legal proceeding risk as a consequence of the Supreme Court judgment; €2 million extra costs for the re-employment of 168 workers, which now are under the subsidized program called "Solidarietà"; €2.6 million in one-time staff reduction costs which will give at "regime" an annual saving of about €3 million; €3.4 million from foreign exchange fully recovered with hedging activity and accounted below the operating margin; €0.6 million for bad debt deriving from financial problems of some of our clients in the USA and Italy; and finally €8.1 million increase in SG&A related to retail, which grew at 25%.

Reported numbers are what they are and we are not pleased with that, of course, but excluding all such events, we would have had €3.1 million operating loss from continuing operations. As you can realize, on this pro-forma basis, we are not far from breakeven at the operating level, which the Company achieved already in 2016 fiscal year, and again, represents the Management goal for 2018.

Let's talk more about SG&A which impacted our operating margin for a total of €11 million in 2017. As you know, the Company has been building its growth plan mainly on the expansion of its mono-brand Natuzzi stores network, with a specific focus on those directly operated by the Group, let's say DOS. To better explore the potential deriving from the retail operations, that is, the higher margin and the quicker cash flow associated to a DOS versus a franchised store, we had, first of all, to build, let's say, the frame, the infrastructure necessary to develop the retail business. Indeed, as you know already, during the last 18 months, we have significantly invested in specific retail marketing organization at both headquarter and regional level, which means hiring skilled people, new people with experience in the retail sector, new regional managers, investments in advertising and digital tools to enhance the customers' retail experience. We can say we have almost completed such investments. Therefore, in executing the retail expansion, we will mainly incur in those costs that are strictly related to the opening of a new DOS; I mean new store staff, new store managers, store utilities, store rent, etc., etc., and that's it. As the stores opened get more productive—and we estimate it takes 18 months, on average, for a mono-brand store to get fully productive—our retail and brand investments will be progressively better leveraged and properly returned. We will concentrate our mono-brand expansion in specific markets where we already have a retail organization in place. This should favor the absorption of fixed SG&A costs.

I remind you that the retail business is relatively new for us. Becoming a retailer has not been simple or a quick task. Nowadays, we can certainly assert that our brand is globally recognized and associated to high-end market positioning. As said, the 2017 acceleration towards retail expansion caused a significant increase in SG&A, with a huge impact on operating profit. This phenomenon was already in the first, second and third 2017 quarterly results, with increasing SG&A due to the opening and the acquisition of directly operated stores, seven stores in Florida, three stores in Mexico, plus 12 concessions within Palacio de Hierro Department Store, five stores in Italy and one store in Spain. Calculating personnel costs and restructuring costs for the acquired stores, lease costs, and all other directly operated stores related expenses in the new business, we accumulated €8.1 million out of €11 million that is the total increase in 2017, versus last year, but the gap versus previous year narrowing quarter by quarter. In fact, if we see each of the 2017 quarters, we appreciate the following trends in SG&A expenses: first quarter '17 was up €3.1 million versus first quarter '17; second quarter was up €4.9 million; third quarter was up €1.7 million; and finally fourth quarter was up €1.3 million versus the same quarter in 2016.

Nazzario will certainly elaborate about that with regard to 2018 DOS results, but let me say that already, in 2017, we had the very first positive signs. That's why we have clear ideas about the retail expansion for the foreseeable future. As for the moment, we have a specific DOS roll-out planned for 2018. In fact, in the rest of this year, we plan to open 10 stores in addition to those four DOS already opened in the first part of this year.

Now, let's talk a little bit about the current year. 2018 is characterized by the strengthening of the euro versus all major currencies, including U.S. dollar and British pound, which are the currencies of our two most important markets, so the comparison of 2018 numbers with previous year is challenging. The euro currency is still strong and we do not see any reversal in such trend. For example, in the first quarter 2018, euro currency versus the U.S. dollar got stronger by 15%, compared versus first quarter of 2017, but if the euro will continue to stay where it is today—and today it is in the area of 1.22, 1.23—this gap will narrow in the next quarters; I mean, the comparison with the correspondent quarter of previous year.

In this regard, let me briefly underline our hedging policy. We had a negative impact from foreign exchange fluctuations of €3.4 million on the 2017 full year operating margin, totally offset by ForEx hedging activity, accounted as income below the operating margin. You can appreciate that from our press release.

Let's come back to our plans for 2018, which focuses on different activities aimed at supporting sales, enhancing efficiency, quality and service. This year, we will continue to implement the necessary actions to support growth in sales. Nazzario and Gianni will be pleased to answer your questions on this matter, but in a nutshell, the priorities for the two divisions can be summarized as follows: Natuzzi must capitalize the retail investments done and increase the productivity of the existing stores; secondly, do selective new openings in those geographic areas where we have already an organization in place; third, improve the execution of the brand strategy in the network of franchising stores to improve the productivity of that sales chain, which is still the majority of today's business. Softaly must, and Softaly will, recover the North American business by a more aggressive and new product program we actually present this day in High Point, North Carolina, furniture exhibition. Giovanni Tucci and his team already did a great job in Europe. It's time to recover in North America.

Industrial operations, in 2018, we will continue with our lean approach to get further level of efficiency in our plan, and we have different measures to be implemented. We have been organizing our Italian operations so to reduce imbalances that may arise between supply chain capacity vis-à-vis the seasonality of the overflow, which is typical in our industry, reducing in this way the issues that occurred in third quarter 2017, and improve the overall efficiency. Then, our production organization will be further revised to reduce the cost of quality.

Most importantly, we have been also simplifying the Softaly collection in order to reduce complexity in our production. We re-engineered most of the Softaly models according to the modular platform approach, so to benefit from higher economies of scale and production efficiencies. We are also revising our Softaly customer portfolio with the aim of focusing on customers having appropriate size and potential.

All the above-mentioned activities should allow the Company to better leverage on the current industrial assets and get a higher level of efficiency.

At the same time, we continue to be focused on the management of the redundant workers at the Italian operation. As you might recall, the Company fired, in October 2016, 176 workers as deemed redundant to reach production needs. In the third quarter 2017, we got an unfavorable judgment by an Italian court, according to which the Company had to re-employ 168 workers of the 176 who we were initially fired. Although we are not pleased at all, the Company has executed, of course, such court decision, incurring additional labor costs in the last four months of last year. In this regard, as anticipated in the press release, in December 2017, we reached an agreement with the Italian Institution so to extend the scope of the current solidarity agreement with those workers who have been re-employed. This will help the Company limit the impact in the profit and loss for 2018.

We are also streamlining the overhead structure of some trading subsidiaries abroad, where we transform the structure from fixed costs to variable costs. In addition, SG&A will also benefit from a staff reduction program, for which we accrued €2.6 million in 2017, that involved some of the Group's trading subsidiaries in Italy and abroad. This transformation process of our Group from a pure manufacturer into a retail-oriented company will continue this year. Therefore, to continue such transformation, we will introduce some specific managerial competencies in those positions necessary for a more effective development of the retail business going forward. As for the Italian white collars, we will maintain a higher degree of utilization of the current solidarity agreement scheme, in Italian "Solidarietà", "Contratto di Solidarietà". This means that employees here in Santeramo will work for less hours to allow higher savings.

Two thousand and eighteen is a challenging year, but we stay focused on the transformation of the Company. Although the overall order flow is not growing yet this year, as said by Mr. Natuzzi, and in spite of unfavorable foreign exchange, we will report stable sales in Q1, in the first quarter 2018, versus the first quarter 2017. Why? Thanks to the acceleration of our supply chain that generated faster deliveries.

Let's now discuss about future. In order to capitalize on the brand equity, we got recently an agreement in China. Let's say more about the deal recently reached with KUKA.

Today, business in China is with Natuzzi Italia and Natuzzi Editions for a total of about €90 million at the retail level in 2017. The Natuzzi Group started operating in China in 2001 with just a production plant to serve the North American market. Only in 2011, we started opening the first directly operated store with Natuzzi Editions. After a few years, the business became profitable. Today, the Chinese commercial operations have the best retail performance within the Group.

The Natuzzi commercial subsidiary in China is named Natuzzi Trading (Shanghai) Limited and was established in early 2009. This business in China has grown at double-digit pace every year since 2009. Natuzzi Italia business in China in 2017 has been about €20 million of sell-in value, entirely made with 26 independent partners that operate mono-brand stores. The most important of those partners currently operates 20 Natuzzi Italia stores. The Natuzzi Editions China's business, which amounted to €21.3 million in 2017, is done by 10 directly operated stores and 90 franchise stores all over the country. Thanks to our

Chinese management and retail partners, Natuzzi brand has become the international best-known brand in the Chinese high-end furniture market.

In recent years, we have been contacted by several Chinese players and financial institutions. We have chosen at the end KUKA, because we share with them the vision about the future of Natuzzi brand in China, because we think they can better than others and faster than ourselves develop the retail network and accelerate sales in that great Country. In this venture, we contribute our excellent sales organization, our client portfolio, and our 10 DOS Natuzzi Editions which are profitable, along with the perpetual distribution license of the Natuzzi brands, of course. Natuzzi will keep the production of the licensed products, will continue to focus on product development, marketing, communication and retail concept. KUKA will lead the commercial development of the two brands, leveraging on their expertise in the Chinese territory with commercial partners and landlords. We think that the combination of KUKA and Natuzzi skills and assets will create a new strong player in the Chinese retail landscape. We'll discuss soon with KUKA about e-commerce possibilities, which seems to be very exciting in China.

They recognize the intangible value created by the Group and the Natuzzi brand and understood very well the huge potential of this venture. That's why they will invest €65 million in total in this venture; €20 million will finance the business development, while €45 million will go for tangible and intangible assets, such as the perpetual use of the trademarks, and will go to Natuzzi SpA, of course. They will pay a significant amount of cash for that and we share an aggressive business plan for the next years. The mutual goal is to leverage on this venture to aggressively accelerate store openings, to increase volumes and reach economies of scales in both industrial and commercial organizations. The plan is for some hundreds of new Editions stores, mainly with franchise partners, while we think that the Natuzzi Italia stores should be mainly directly operated in tier-one and tier two-cities. We are currently in the process to get KUKA shareholders' and local authorities' final approvals.

Nazzario, before the Q&A session, I would much appreciate you to give some highlights about direct retail trends in the first months of 2018. Thank you so much.

Nazzario Pozzi:

Thank you, Vittorio, and good morning, everybody. As Vittorio said, I would like to give you some details about the key drivers of our growth and profitability, the direct retail, but also our franchise business.

In the first quarter of 2018, the like-for-like sales of Natuzzi Italia direct retail are up 6% against the same period of the last year at constant exchange rate, and this growth has been driven by United Kingdom first, 17% up against last year at constant exchange rate, by Switzerland 13.5% up against last year, and Italy 9% up against last year. The total sales of all Natuzzi Italia direct stores, including the new openings, are up 16.7% against last year at constant exchange rate, whereas the total sales of all direct stores, including all brands, the Natuzzi Editions and Divani&Divani, are up 9% against the same period of the last year, and this is driven mostly by the United States, which is up 26.2% against last year at constant exchange rate.

Our Natuzzi Italia flagship stores are showing continuous growth. The best performer store, which is our flagship stores in London, Finchley Road, is up 39% against the same period last year at constant exchange rate. The second store in London, the second flagship, Tottenham Court Road, is up 31% against last year. Our flagship store in Milan, Via Durini, in the fashion design district, is up 20% against last year. Madrid is up 8% against last year, and also Zurich is up 5% against last year.

At the same time, the new Natuzzi Italia openings in the United States, with the right locations and now our announced merchandising concept, are proving to be up to speed much faster than expected. In the month of March 2018, the three latest openings, which are Philadelphia, King of Prussia, Los Angeles, Costa Mesa and Chicago, have ranked amongst the top six Natuzzi Italia best performers worldwide in the first month.

While we push our sales growth, we are also enhancing our margins and profits. In the first quarter of 2018, we have seen the result of our marketing and value-driven promotional strategy which we have implemented in 2017, and these have led to reduced discounts against the same period last year. Discounts in direct stores were 21% in 2018, in the first quarter, against 25% last year. In particular, in the United States, we have completed a turnaround of the stores that we had acquired in 2016, which went through inventory clearances last year. In the first quarter of 2018, discounts in the United States direct stores are down to 18% against 32% in the same period last year, and now this is due to continue on a permanent basis.

Let me also comment on our franchise business with Natuzzi Italia. In the first quarter of 2018, we have seen the results of the actions that we executed last year to translate to the success of our retail business model also into the franchise business. On a year-to-date basis, the franchise business of Natuzzi Italia is up 14% against the same period of last year at constant exchange rate, and such growth has been achieved in all markets: plus 21% in Asia, plus 10% in North America, plus 8% in EMEA, and notably plus 53% in the Italian market. We have already planned the commitments from franchise partners for five new openings; namely, in the United States, in the United Kingdom and in China, as Vittorio has explained to you.

I would like now to introduce my colleague Gianni Tucci, and then, of course, I'm available for further Q&A later.

Giovanni Tucci:

Good morning. Thank you, Nazzario. Softaly, our private label business which is distributed through Natuzzi's worldwide network, has grown in line with our forecast for EMEA and APAC during 2017, but has suffered from adverse sale conditions in North America. The positive experience during the October 2017 market at the High Point Furniture Fair, as well as the March pre-market 2018, confirms our view that we have introduced the right products at the right price points to help recover our position in these very important markets.

Solid business partnerships are continuing to grow with the existing accounts and bringing additional strategic partnerships, already in progress, with tangible results, which will certainly be confirmed by the quick addition of other targeted key accounts in the next weeks. The past year has had the main focus to realign our organization and appoint the right people to manage all aspects of this business globally.

I need to reiterate the highlights given earlier by my colleague Vittorio, as we have reviewed our operations and markets and have developed a specific strategy to rebuild this important business. In particular, we are focused on the following actions: confirming the competitive sustainability of the Softaly business through the rationalization of the collection, the re-engineering of our dedicated industrial platform, and the appropriate procedures to satisfy the key accounts' needs and planning to create and deliver the deserved quality of products and service. The impact of those actions, combined with the efficiencies realized in our Romanian factory, will enable farther efficiency for Softaly in EMEA. Adding new strategic accounts has already happened during the past Cologne Fair 2018. We are expanding the same business approach to the Shanghai plant serving both the North American and the Asia-Pacific markets, where we expect to grow double-digits this year versus 2017. We are taking similar actions focused on recapturing our position in North America. We have chosen to redesign our product offering platform and not compete solely on price. This is in line with Natuzzi's overall efforts to return our Company quickly to profitability, confirmed by encouraging results.

Thank you for your attention and I pass now the word to Mr. Natuzzi again.

Pasquale Natuzzi:

We are here all together to listen to any kind of question.

Operator:

Thank you. If you would like to ask a question, simply press the star key, followed by the digit one on your telephone keypad. Also, if you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, press star, one at this time. We'll pause for a moment.

We'll first hear from David Kanen of Kanen Wealth Management.

David Kanen:

Good morning. Can you make clear for me, from the KUKA deal that you signed, what's the total amount of cash that you'll receive at closing?

Vittorio Notarpietro:

Okay, this is Vittorio. They are investing €65 million in total. At the end, €45 million out of €65 million will be paid to Natuzzi SpA and €20 million will stay in the JV vehicle in order to finance the development of the business.

David Kanen:

Okay. Then, in terms of the development of the business, what will be the effect on your operating expenses going forward and will there be a transition period where initially your operating expenses will be higher and then in the future the revenues will start to flow, if you can just explain to me what will happen as it's rolled out?

Vittorio Notarpietro:

Okay, just to clarify, today, the Natuzzi Shanghai vehicle is already profitable, so we don't have today any kind of SG&A problem over there to deleverage it, but we are losing opportunities because the timing and capability to open—to accelerate the business plan. At the end of the deal, KUKA will control 51% of the JV, while Natuzzi will have 49%, but Natuzzi will continue to provide the JV with its plants and production. So, we will have the full impact at the wholesale level 100% in the hands of Natuzzi SpA and the consolidated numbers and we will have a 49% equity level in the JV, so we will get 49% in our equity of the future results of the JV. They will consolidate internally line by line. We will consolidate earnings at the equity level.

David Kanen:

Okay. So, in terms of your SG&A, there really will not be any impact. On the manufacturing level, whatever revenues there are in the joint venture, you'll capture that; is that correct?

Vittorio Notarpietro:

No, no, it's not. We have more than (inaudible) fixed costs in our Company. The fact that our plants both in Italy and in China will be able to produce more products, this will leverage the existing fixed costs, including SG&A of the entire Group.

David Kanen:

Right. What I'm saying, though, is in your consolidated results—forget about the 49% JV line on your income statement—on your income statement, will there be an increase in SG&A related to the KUKA roll-out?

Vittorio Notarpietro:

David, I understand your question. We will not consolidate the retail sales, okay, (inaudible).

David Kanen:

Okay. So, it will benefit your income statement in that whatever sofas and furniture that you produce for the JV will show up there on the industrial level; correct?

Vittorio Notarpietro:

Yes, correct, and also the general expenses, all the other general expenses, including the fixed costs in our industrial platform, which is huge.

David Kanen:

Okay, understood. You made reference to some savings, in particular, I guess the settlement of the labor agreement, it looks like you took back those employees, but there was some kind of a negotiation. Can you quantify for me, in 2018, what the savings is going to be, in particular, from labor, and then if there's any savings in any other line items within SG&A for 2018?

Vittorio Notarpietro:

We mentioned an accrual of €2.6 million for labor costs and we mentioned that at "regime" the full impact will be around €3 million, €3.2 million. This year, we will have a portion of that in the region of €2.7 million, €2.8 million, and this is for labor costs that we have already restructured in the Company, but then at the same time, we transformed some of our fixed costs in some commercial companies within the Group, from fixed to variable costs, and this will help the Company to leverage, on a smaller basis, our fixed costs. I've also added that a portion of those savings will be reinvested in those markets in specific managerial positions that we know will need to be reinforced in the coming months.

David Kanen:

Okay, I'll go back into queue. Thank you, guys. Good luck. It sounds like you're going to have a very good balance sheet by the middle of the summer. Thank you.

Vittorio Notarpietro:

Thank you, David.

Operator:

As a reminder, it's star, one if you would like to ask a question or make a comment. We'll pause for a moment.

Sophia Lee, Must Asset Management.

Sophia Lee:

Hi, I just have two questions regarding the JV. First of all, could you explain how the products are going to be sold with KUKA? Like, are there going to be—is this going to be a store-within-a-store concept or is KUKA going to be selling your products on their website? Then, my second question is just do you have any long-term plans for this JV in terms of number of stores or revenue and margin?

Pasquale Natuzzi:

Okay, this is Natuzzi. So, as already Nazzario and Vittorio explained, in China, we have two companies, okay, in Shanghai, based in Shanghai. We have Natuzzi China, which is a manufacturing company, owned by the Company, by Natuzzi. It's almost a one-million square foot factory and we employ 1,200 people. The factory manufactures product for Natuzzi Editions domestically for China, and even for Asia-Pacific and for North America, while the factory manufacturers also Softaly for Asia-Pacific and for North America.

Then, we have Natuzzi Trade. It's a company where we made the joint venture with KUKA. We sold to KUKA 51% of the Natuzzi Trade, that employ approximately 120, 130 people, to manage the domestic business and even Asia-Pacific business. Today, Natuzzi Trade in China, we have 10 DOS Natuzzi Editions and we have 90 franchise store Natuzzi Editions. Then, we have 15 Natuzzi Italia store franchises. So, the DOS, and even the franchise store, goes together with the Natuzzi Trade management in the Company. We have a plan to have—I mean, China really represents a huge opportunity. We are there since now almost 20 years. We have very good brand, very high brand awareness. We expect to open many, many, many stores. Okay, I mean, we have a significant growth plan for China.

Did I answer your question or…

Sophia Lee:

Right. So, I think, just to clarify, to make sure I really understood, so what you're saying is that you're still going to be producing, but, basically, all of the management of the sales is going to KUKA; is that correct?

Pasquale Natuzzi:

I mean, yes, 51% goes to KUKA.

Sophia Lee:

Okay. Thank you.

Pasquale Natuzzi:

You're welcome.

Operator:

Once again, star, one if you'd like to ask a question or make a comment. We'll pause for a moment.

That is star, one if you would like to ask a question or make a comment.

It appears there are no further questions at this time. I'll turn the call back over to our presenters for any additional or closing comments.

Pasquale Natuzzi:

So, thank you very much to the attendees of this conference call, and for any further questions, we will be always available at our headquarter office. Thank you again. Good day to everyone. Thank you.

Operator:

That does conclude today's conference. Thank you all for your participation. You may now disconnect.