VIAVID
communications simplified.

Natuzzi SpA

First Quarter 2018 Conference Call

May 29, 2018

CORPORATE PARTICIPANTS

Pasquale Natuzzi, *Chief Executive Office*

Nazzario Pozzi, *Chief Officer, Natuzzi Division*

Giovanni Tucci, *Chief Officer, Softaly Division*

Vittorio Notarpietro, *Chief Financial Officer*

Piero Direnzo, *Investor Relations Manager*

PRESENTATION

Operator:

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Natuzzi First Quarter 2018 Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. As a reminder, today's call is being recorded. Joining us today on the call from Italy are Natuzzi's Chief Executive Officer, Mr. Pasquale Natuzzi, 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.

Now, I'd like to turn the conference over to Mr. Direnzo. Please go ahead, sir.

Piero Direnzo:

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's First Quarter 2018 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.

This time, we have prepared a short presentation that will give you more insight about the evolution of the Natuzzi brand. This presentation can be found within our Investor Relations website under the "*Presentation*" section. The presentation is called "*The Natuzzi Community Issues*". I do invite you to have a look at it to better appreciate the work the Company has been doing in building a lifestyle brand.

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 security 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 Securities and Exchange Commission 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 afternoon in Europe and good morning in America. I'm Pasquale Natuzzi, Chairman of the Group, and I'm pleased to be with you today.

As expected, the first quarter's unsatisfactory results were caused by three factors: the currency dynamics that lowered revenues by 8.2%, following in particular the devaluation of U.S. dollars versus euro; the increase in the cost of some raw materials; the difficult retail business environment evident in North America market; as well as persisting difficult macroeconomic environment in some mature countries in Europe.

Nevertheless, we have positive elements, such as: the introduction of new product lines that had great visibility on qualified press and media; Agronomist and Oceanographer collections, in collaboration with Marcel Wanders; then the Colosseum Sofa integrated with the home theatre system, LG Signature; and the Torsion sculpture table in solid olive wood developed by Mario Bellini. Then, our recent fairs in High Point and in Milano were highly successful; DOS network is significantly improving quarter after quarter - our CFO will explain how the DOS like-for-like channel grew by 22.6% at constant exchange rates. Last, but not least, the finalization of the agreement with Jason Furniture, Kuka, is moving as planned.

So despite the challenges we have been facing, the above mentioned elements make me feel encouraged and positive about the future of our Company.

I would like now to introduce Vittorio Notarpietro, our CFO, who will take you more deeply into the numbers, and then I will be here available for any questions you will ask. Thank you.

Vittorio Notarpietro:

Thank you, Mr. Natuzzi. Now let's go a bit deeper into 2018 first quarter key numbers.

Net sales were €117.7 million, up 1.6%, versus first quarter last year. Gross profit was 31% on net sales, improving from 27.2% of the Q1 2017. Operating result has been negative by €3 million, versus minus €10.2 million in Q1 last year. Net loss per share improved to €0.09 versus €0.20 loss last year.

Let's say something about currency. As expected and anticipated in our previous conference calls, currency movements played an important role during the period. In fact, following the strengthening of the euro versus major currencies, our sales, especially those denominated in U.S. dollars, were negatively affected by a total of €7.7 million, which means an impact of 8.2% mentioned by Mr. Natuzzi a few seconds ago. On the contrary, our operating costs were favored by the stronger euro by €4.7 million, so that the net impact on the operating results was a minus €3 million.

To better explain Q1 2018 numbers under constant exchange rates, let me just give some examples of the cross rates of some major currencies in which Natuzzi invoices and ships its products in the first quarter 2018 versus the first quarter of last year.

Euro versus U.S. dollar was 1.23 in Q1 2018 versus 1.06 in Q1 last year. It means a U.S. dollar devaluation of 15% versus euro; Canadian dollar devaluated by 10%; Australian dollar devaluated by 11%; Japanese yen devaluated by 10%; Chinese renminbi devaluated by 6.5%; and United Kingdom pound by 2.7%. Such currencies represent almost 58% of our total sales.

Let me underscore that a difference in currency exchange, at least euro versus U.S. dollar rates, has been narrowing in the second quarter 2018. As of today, the cross rate is even better but this is due to the political situation in Italy and European Union for which we are not so happy. If we look at the average exchange rates for the second, third and fourth quarter of last year and considering the current levels in the currency market, we should have a more favorable comparison for the current and probably for the next quarters of 2018.

Despite currencies, our business holds, and in fact, we reported slightly increasing sales for the period, thanks to our Natuzzi branded sales that increased by 2.5% or by 10% under constant exchange rates. As far as private label business is concerned, sales decreased by 3% in the period, while under constant exchange rates would have been increased by 2.4%.

Let's say something more about retail. Within the Natuzzi branded sales, we are pleased to see improvements in our retail network consisting today of 64 directly operated stores and 20 concessions in United Kingdom and Mexico. This is a further evidence that our strategy, efforts and investments in retail are proving to be in the right direction.

Net sales of our DOS chain were €15.2 million, up 26.1%, versus first quarter 2017, also thanks to the new openings. The trend in our retail network business is even more evident on a like-for-like store network. If we consider only those 58 stores existing both in Q1 2018 and in the same period of the previous year, we saw sales of €13.1 million, which is an increase of 17.3% under current exchange rates, or 22.6% under constant exchange rates. At the same time, thanks to the activities implemented over the last few quarters. our DOS profitability improved as compared to the same quarter last year.

For example, Italy's DOS chain, Divani&Divani, in spite of a difficult economic environment, turned from a loss in Q1 2017 to a little profit in Q1 2018. The same for stores acquired in Florida last year. New business acquired in Mexico has been profitable too. Chinese, Spanish and Switzerland like-for-like numbers confirm to be positive. We are now focusing on our DOS chain in United Kingdom in order to address the business and recover profitability. We will continue to increase the number of DOS, according to the cash available, of course, in those markets where we already have a retail organization to leverage on the investments already done.

We are still very much in the midst of a huge transformation of the Company toward retail. At the same time, we know that today most of the Company business is still a wholesale business, so we understand that it is of crucial importance that we transfer to our wholesale customers the main ingredients that are making our DOS successful - store location in retail parks, store size, the adequate merchandising, marketing tools, retail excellence, ceremony and so on. That's the way to let them be more profitable and to let sales grow for everybody. Nazzario will surely add some more flavor on this.

We also need higher volumes from our unbranded division. During the last six, nine months, we have been redesigning our private label collection to get more efficiency in production, get economies of scale, and more importantly, present new models with more appealing functions and price points, which we're missing. The first reactions of top clients during the recent sale in High Point has been positive. We expect to see an improving trend later in the year, starting from Q3 2018, as these are generally long lead time, of course. Gianni is available to give an update on the current state of the Softaly business.

We reported for the first quarter 2018 a gross margin equal to 31%, mainly affected by adverse currency movements, as said. Under 2017 first quarter exchange rates, gross margin would have been equal to 33.1%. It's important to say that the Company has put in place some selected price increases in 2018 to face new currency situations and some increase in raw material costs. In 2017 first quarter, we reported gross margin of 27.2%. Net of the €9.3 million accrued in the labor cost, gross margin would have been 35.2% of sales.

Let me comment on the same basis the two numbers. The decrease in gross margin from 35.2% in Q1 2017 to 33.1% this year depended on several factors, among which, production mix between private label and Natuzzi. In fact, during the quarter, the number of seats produced by our plants increased by 4.5%. However, while Natuzzi seats produced and shipped in the period were substantially in line with Q1 2017, we shipped 10.5% more of private label units with a lower gross margin, vis-à-vis Natuzzi.

Secondly, the increase in cost for some material used, such as foam, oil related products in general and woods. Leather price instead continues to be stable, thanks also to our different sources of supply.

Third, labor cost as a percentage on net sales increased a little bit, again, net of the €9.3 million accrued last year for legal risk. Also because some extra cost in our plant to speed up shipments. Then other SG&A which were the main problem we had last year. We had a long discussion with investors. Instead, this quarter, other SG&A were €22.7 million, or 19.3% on sales, improving from €23.9 million, or 20.6% on net sales, reported last year. We achieved these improvements notwithstanding the further investments made in Q1 this year in expanding our DOS network.

This improvement in SG&A was made possible, thanks to our cost reduction activities. For instance, we closed our trading subsidiary in Belgium and the office we had in India. We also reduced the personnel in some of our trading subsidiaries abroad. So while investing in retail, we will continue to revise our overhead structure in Headquarters and abroad to get further source of savings.

As said, in 2015 first quarter, we reported an operating loss of €10.2 million, versus an operating loss of €3 million this year. Under constant exchange rates, operating results would have reported at breakeven. As of the end of March 31, 2018, our cash was equal to almost €45 million from €55 million at the end of last year.

As stated in the press release, towards the end of the first quarter 2018, we needed to speed up our operations in order to meet the deliveries—the delivery dates requested by some of our customers. This has, on one hand, lowered our backlog and generated additional turnover for the quarter. At the same time, such acceleration in production, that was concentrated at the end of the quarter, has increased the level of trade receivables; thus using cash of €10.8 million in Q1 2018 that more than offset the cash flow generated by lower inventories of €2 million and a better accounts payable management which gave €1.6 million in cash.

During the quarter, we also paid €0.7 million as one-time termination payment in connection with the reduction of some managerial positions in Headquarters and abroad.

As anticipated by Mr. Natuzzi, the partnership with Kuka to expand our retail presence in China, continues as planned. Kuka shareholders meeting just approved the agreement and parties should be in a position to start making business in the following weeks. We expect a significant contribution to our results from this partnership. In the meantime, we must tackle the current business scenario, which has been challenging for both branded and unbranded business, especially North America. This means that we have a below than usual trend in written orders in March and April this year. As a result, second quarter sales and results of operation may be affected, while we should have recovery from Q3, third quarter this year.

Gianni, Nazzario and, of course, Mr. Natuzzi will be pleased to answer your questions about the good job recently done and the expectation for the foreseeable future. Thank you.