

# **Brunello Cucinelli S.p.A**

## **"Year End Update 2022 Conference Call"**

**Tuesday, December 06, 2022, 18:00 CET**

**MODERATORS:** BRUNELLO CUCINELLI, EXECUTIVE CHAIRMAN AND CREATIVE  
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OPERATOR:

Good evening, and welcome to the Update for the end of the year of the Fashion house, Brunello Cucinelli. Speakers will be, Brunello Cucinelli, the Executive President and Creative Director, Luca Lisandroni and Riccardo Stefanelli, both CEOs, Moreno Ciarapica, CFO, and Pietro Arnaboldi, Head of Investor Relations and Corporate Planning. In order to receive help from an operator during the conference call, press "\*" followed by "0."

And now, I'd like to give the floor to Brunello Cucinelli. The floor is yours. Over to you.

BRUNELLO CUCINELLI:

Yes, here we are. Good evening, we are extremely pleased and glad to be here. We are all gathered here, we're very happy, with holding this call because, you know, first of all, last one we held was in October, and you see, we thought that letting 5 months lapse between now and the next one, we thought it would be too much. So we liked this idea, we didn't want to spend 5 months without you know, reporting to you and specially, yes.

And we did something that we are very delighted with. We started in Milan at the Casa Cucinelli where we met with about 25 investors, then our analysts, we met them during an evening when we also introduced and presented you wine we make in the village that we did with journalists and analysts, and this was a dinner of gratitude. Then in Milan, 25 investors, then Paris a few days ago, London, and now, next week, we will conclude this round with New York.

So we really like this initiative, because next year you see, personally speaking, there are a couple of important things that I need to do. I will be on the travel, on the move quite a lot, and I wanted to meet you in person. And hopefully, we hope that...hopefully we hope that we can hold something like this in China too, it's been 3 years without going to China.

We have defined these meetings, dinners of gratitude or Thanksgiving, giving thanks to say, heartfelt thanks for everything you have done for our company, 10 days after the listing for our land, our Italy, for myself or our family, for our foundation.

And as I keep saying, we would not have been able to do all this, had we not listed. So we sold part of the company, to be able to do special things for creation...to support creation. So what about this call? We have all the time in the world available. We'd like to talk about 2022. We have reached the end, then, because then, on January the 9<sup>th</sup>, the day before petty starts, you will receive your figures about revenues, investments and net financial position.

So here we are. So forecast for 2022, just a second. I need to read out the following. So the excellent sales in October and November, following this excellent, magnificent result in the first 9 months of the year, basically lead us to envisage for 2022 a beautiful, magnificent growth of revenues of about 28%. The very important order intake for the spring/summer 2023, both in terms of quantity and quality, enables us to envisage 2023 that is extremely interesting, with a healthy growth of around 12%, and the achievement of the significant goal of €1 billion revenues.

So just a few days ago, we received an international prize from Neiman Marcus, and this will be...we will be presented with it in Paris next March...March next year, and then I will...we will talk about this "Contemporary License", 10-year license with EssilorLuxottica, to further develop our offering in eyewear, and then I'll tell you why we call it contemporary and we still keep working on what we spoke about this morning during the great project about the universal working conditions for the human being, the beautiful factory within this idea of a humanistic

capitalism and human sustainability for the environment, for the economy, for the culture, spirit and moral.

Then, as you know, we have this great project that we envisaged with the then Prince and current King of England in Himalaya. It is something very appealing, you see, Riccardo went for lunch a few days ago, and our esteemed King sent his greetings saying that he would really love to come to Himalaya with us so thank you. And, so this is basically the time we are living in, so we have harvested a lot in this 2022, the year of the full rebalancing for our fashion house, thanks also to the serious, creative and manufacturing country we live in Italy. And we are honored to belong to it.

And we also have to thank the...its important welfare state. During the last 2 years of the pandemic, we have not made anybody redundant, which has certainly allowed us to maintain our production and commercial facilities in full efficiencies. And this has also put us in a position to meet the demands of the world market, where, it seems to us that demand exceeds supply. So, such are the extraordinary conditions that allow us to envisage a splendid end of the year, with an increasing turnover of around 28%.

In the forthcoming 2023, that we want to call it a new time for mankind, well, the 11<sup>th</sup>5-year plan 2023-2027 of our company is being launched. And above, first and foremost, we want to talk about labor, above us through a project that we defined the universal working conditions for the human being and our idea of a beautiful factory. Just a few days ago, we had the wonderful news that we were awarded for 2023 the prestigious 'Neiman Marcus Fashion Award for Distinguished Service in the field of Fashion', it is about a 100 years old this recognition, and the award ceremony will take place next March.

The orders portfolio for spring/summer '23 are very remarkable, both in terms of quantity and quality, and this leads us to envisage a very, very interesting next year 2023, with a healthy growth of around 12% and a healthy and fair profit in keeping with our culture. As a result, it is reasonable to envisage that we can reach a very, important milestone, namely, €1 billion turnover. And it is something which is serious for us to be cheerful about.

So the forecast, so 2022 and then, of course, we'll talk about markets, prices, raw materials, but first of all, our idea of 2022, so 2023 pretty good visibility, 2022, it's been a record breaking year for us. We will have about 28% growth rate of our turnover. So minus 10% in 2020, plus 30% in 2021, and plus 28% approximately in 2022, so we could say that since 2019, we have grown by about 50%.

Then, of course, we will generate EBITDA of around 18.5%, net profit around 10% and dividends around 50% of the profit, and this 10%, this kind of profit is what we view as a just, fair profit. They come from our culture over the years, where we have always envisaged as Italians, that a profit of 10% in our beautiful Italy is somehow a great result. We were saying this morning, in the past 5.5 years, we have had a tax rate of 22%, because I can't...we can't say that we are living in a country where tax is unbearable.

So at the end of 2022...so why are we saying that? Because at the end of 2022, we basically closed our projects and we will start on January the 1st, 2023, so that you can have a proper idea. So what about the breakdown of revenues? 35% US, 40 Europe, 25% Asia, of which 13% China, as you know, 60% retail, 40% wholesale. Then men's wear in terms of numbers of SKU's 50%, like women's wear in terms of revenues, ladies, 54%, 55%, because the price is on average higher.

So at the end of 2022, we can say that the old plan 1923 is over. We actually 2021 and '22 were very special, yes, that's why we decided to close the plan in 2022. So now, 2023, this is the first year of the new 5-year plan '23-'27 to-date, the 11<sup>th</sup>. So this will be the 45<sup>th</sup> financial statements and we're starting the 46<sup>th</sup> year of our business. We see it as a very interesting year in general and we believe very interesting for our fashion house. We see it with a growth of around 12%, EBITDA always around 18%, and then perhaps it could improve along the way. And as we were saying before, we think that we will achieve €1 billion in turnover and a very very interesting time for the taste and the product. And we will talk about it later.

So 2023, we already have our orders in house and just 2 days ago, we came out with the fall/winter collection. '23 women, first results are excellent. So it is yet another plus here, but you know, a lot depends on the sellout, the sellout on the fall collection was great, and if the collection is good, is beautiful, as it seems to be the case, we can definitely achieve great results.

Then 2024, of course, not as much visibility as in 2023, but pretty strong. We'd like to grow by 10% in revenues, EBITDA, starting point is 18% investment, as you saw in the past, it's always around...it's always hovering around 8%. So between '22 and '23 is 8%, then, it can be 8.5% or 7.5%, and then dividends 50%.

Another important point, we in 2024 we should be able to double the revenues that had been planned in the 10-year Plan 1928, in advance or earlier, by 3 years that is to say, in 2024. And there is no doubt that the way we behaved during the pandemic has perhaps underpinned supported us. The way we behaved with customers, suppliers, with the market in general. So these are the highlights for 2022, '23 and '24.

Then something about prices, what we want to say here, prices are changed twice a year, when the collections are released, the exchange rate is fixed and prices Europe 100, US 120, Asia 128, these are the rules about prices, because, you see, we have the impression that there is somehow, some discomfort, or unhappiness, disappointment at world level about the way the prices are made. And this is also the case for very wealthy people, because if you...even if you are wealthy, you don't want to pay, you don't want to be ripped off, you don't want to overpay. So this becomes...makes you uncomfortable and we hear these kinds...this kind of kind of comments because at the end of the day, we can say there is a certain morality even in having a fair price than markets.

Well, we can say very, very well across the board, actually, I don't think any of us expected anything so good this year. It is a special time, particularly for our Italy. So you will have seen that today they said the GDP in Italy will grow by 3.9%. And my take is that we will reach 4%, because the supply of products worldwide is lower than demand. And we see this very much in our multi-brand stores, we're talking to them, even today, there is no doubt that they're have...they're still not receiving 100% of the shipments, you know and the 80% to 85% is being delivered. So the fact that we have strong production facilities, well, this has enabled us to achieve these results. But you see, this is across the board, not just for us.

And then, we can say that perhaps, even in 2023 the world production chain will not be fully rebalanced. So it could be still at an advantageous year for our Italy. So I don't know how much the world will grow, but Italy, perhaps it will grow a bit more, because of its manufacturing nature.

So about markets, maybe I can hand it over to Luca, so he can provide a good vision about China. But you see, this is a call that we are holding before Christmas. But we do not want to shape your thoughts of what you

know and think about China, because it is just 13% for us, it's a very small one. Luca.

LUCA LISANDRONI: Thank you, Brunello and good evening. Luca speaking. So our year China was undoubtedly a good one, because we were...we gave further continuity to growth and we consolidated our positioning with increasing effectiveness. Of course, our result must be read, taking into account that in China we are still a very young brand that produces about 12% to 13% of its total turnover in the country with a short network of direct shops and concentrated in large cities. And because of exclusivity, we have a very limited digital exposure there.

We believe that ready to wear is becoming more and more important, and we are very happy to see a growing number of customers stepping into our stores looking for both special garments and also everyday clothing and testifying to an ever increasing culture of quality and an international taste. You see, we believe that the Chinese market is still evolving and the end customer is increasingly more sophisticated and we believe that China retains all the structural features that make it the main engine of development for the entire luxury industry not just for us and also for the coming decades.

And even in the current scenario still impacted by the pandemic, we believe that one of the clearest evidence is the confirmation that luxury has become increasingly important in the lives of millions of Chinese customers and that nothing has dampened their desire to join and feel welcomed by large international brands.

As in other parts of the world, it seems to us that during this year, the clear distinction between absolute luxury and more...and how we can...can I put in more extended luxury with an increasing appeal of the value of exhibit is



also becoming increasingly clear in China. I must say that never before this year have we recorded a great interest in our brand by many magazines in the industry. And we have received beautiful writings great humanity and poetry that in some cases have really impressed us also, from a spiritual and human point of view.

On the one hand, we had many covers dedicated to us by fashion magazines and they have offered a beautiful image of our product offer and taste, style too in a no logo style. And at the same time, there are more and more frequent requests for interviews with Brunello by Chinese newspapers and economic newspapers to deep dive into the idea of humanistic capitalism that was just profit, fair profits, harmony with creation, fair growth, balanced between profits and giving back, this has obvious points of contact with the confusion thoughts.

So as you will have understood, we are still very positive about China and confident in our progressive development plan. Based on the idea of continuing to let us be discovered little-by-little by whispering about quality and above all manuality and giving a lot of value to creativity and exclusivity.

BRUNELLO CUCINELLI: I hope you liked Luca's analysis who speaks to our Chinese friends 6 times a day.

Now, a couple of things, well, you know almost everything we'd like to confirm no problem with raw materials, no issues with production and the relations with our dressmakers. No investment issues, but we can say that in 2021/2022, we did not stop any investments. And it is very likely that this has produced today's results.

In total, we open 2 to 3 stores a year and 4, 5 re-styling's or extensions per year. But what we would like to confirm is that we believe firmly that even boutiques that are performing well they need to be refurbished very, very often. There's no way around it. And the fact everybody is online all the time, it is very contemporary on the one hand...well, let me make this comment. He said...can I show you my boutiques? Yes, he showed me the boutique with a video and then said are you coming to visit? No, why should I already seen it on the screen. So it is very important for stores to be contemporary than product. You know that we always place it at center stage.

The Designer of the Year award last year that by GQ UK in 2021 has given the brand and in particular menswear a great value. We have been recognized a taste a style and identity, and I think that this will keep giving also in the years to come. Then a few days ago, the...this award by Neiman Marcus and you know it has been awarded to Coco Chanel, Dior, Valentino, Armani, Miuccia Prada, Karl Lagerfeld and others. We believe it is a great recognition that honors us, and it will also help us in the time to come.

And then about product. We have about 60 people working on product, average age is 40. And there's a rule, no decision can be made alone. So it means that if many of us consider that a garment is valid, then this is the case. But this idea of making decisions together applies throughout the company is not just in the product department. And we also think that women's wear we have a lot of room for growth there. But for menswear, perhaps even more.

3, 4 years ago, the New York Times said something very appealing, they said that our taste is the way young CEOs wants to dress. And I think it is a fresh chick, useful, refined way of dressing that does not only apply to the Silicon Valley people but across the board to all young CEOs. Then 52%

of our garments are made only with our hands. What really matters is, how long your garments last they should almost be there to be left as you know to the following generation quality and then exclusivity a very important topic for us. But I think there is always a big difference between uniqueness and exclusivity. I always say that my iPhone is one of a kind, but I cannot say that it is exclusive. So what is exclusive? Exclusive is a product that is not always easy to find.

And then the great project, just 20 seconds on this, the working conditions. We spoke about this at length last October. And this is an issue for everybody that works in that applies some humbler trades, and we want to let you know that we have made 2 wages supplements, the first one in June about 4% inflation, and the second one in December for Christmas. The June supplement was only for those who are earning up to €2,500 per month whereas the December one is for everyone. But we can say that it's close to one month wages this wage supplement. We know that this is what we have to work on in the coming 10 years, the working conditions.

So we are very happy with the partnership with Cariaggi, great growth, there, great revenues. But you see, it was a decision that we made at a tough time in June 2020 when we decided to acquire Cariaggi and when we basically the banks asked us some extra warranties and this year the revenues will be pretty good, and with a wonderful product. And we are very happy because it is a 70-year old company but very high quality.

Then a couple of words on eyewear, well this is a beautiful corporation with EssilorLuxottica for the next 10 years, and we call it "Contemporary License." So, we are forced to call it license, because that's the way it is, but it is a different way of working. Last week, we had the people...style people here. We talk about style. We talk about packaging. We talk about distribution and luckily enough we have Luca with us who worked in this

field, but this is not your ordinary license, because everything is made together with mutual esteem. Of course, it is a different trade and we can't possibly think of doing it just by ourselves alone, but this packaging, style, distribution, everything is very well looked after.

So, to conclude, I believe that this has been...well, as far as, I'm concerned, it has been a difficult 3-year period for the soul and the body, but also perhaps one of the most painful times, but also exciting times of my life. It's been a 3-year period of ideals, values, and responsibilities and hopefully we have tackled it with humility, courage, creativity, and I want to also add what our President of the Republic once said with seriousness. We think we have tackled a 3-year period with seriousness. Of course, do you remember Moreno when we drafted the budgets in April 2020, we drafted 4 versions, and I still remember saying to myself, I would give away 20% of my company if I had a guarantee that everything will go well.

So, 2022 has been an intense year full of great human content and last night we had a dinner with the members...the Board Members, and I had my 2 granddaughters sleeping there on the couch and we are looking at them and thinking that we are perhaps building a better world for them. So, to conclude, we would like to say that we are extremely grateful to workers. They come first, because perhaps they are the ones that make, you see a bit less money. Then suppliers, banks, customers, journalists, analysts and thank you investors, that's why all these dinners at the end of the year we call them dinners of gratitude. So, best wishes from the depth...deep of my heart in this new time.

You see I hope it brings us some more reflection, joy, serenity first in our families and this is what we did when we were farmers. You see just 20 seconds on this, but at this point of the year, when we were farmers, we had sold the wheat. We just had to harvest the olives. Then we would go to the

owner of the land to make all the different accounts and when my grandfather and my uncle came back from this chat with the landowner, he never...they never mentioned how much money they made. They just say yes, wheat went well, corn so and so, olive oil okay. So, in order to give us hope for the coming year. So, thank you very much.

Let's open up for discussion before wishing all the best after the end of the call. Thank you for everything that you have been doing for us in the past decade. Thank you.