

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

## **"Full Year 2022 Results Conference Call"**

**Wednesday, March 15, 2023, 18:00 CET**

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DIRECTOR  
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We have wondered a lot about the way we live in modern times, but there's something that escapes, because I have the impression that 8 billion human beings are all looking for something. We don't know what, but they're all in the lookout for something. With this year, we resume the usual number of calls 4, we've held 6 in the last 3 years. We added July and December, because we felt the need to speak with you every month and a half.

Before we begin, we would like to say a big thank you for the great cooperation and the trust you placed in us during this 3 year period that will still be remembered in...for centuries in the history books.

So as usual, we are all here. We have Luca and Riccardo, the 2 CEOs, Moreno and Dario, the CFOs and the co-CFOs, and then Pietro. And the next call in April for the quarterly figures will only be held by Luca, Moreno, Dario, and Pietro, as Riccardo and I will be in Dallas for the big Thanksgiving event for the awards received by Neiman Marcus last week. And I will give you more color about this later on. So this award is viewed as some kind of Academy Award of Fashion, not buzz. So this is how we would like to proceed. I will read you the highlights of 2022, then the CFO, Moreno, will go into details. I will take the floor again to talk about.

First of all, the 11<sup>th</sup> 5-year project from 2023 until 2027. Then, the major teams in 2022 had very good visibility on 2023, and the pretty solid visibility on 2024. So the teams we would like to address after the numbers. So pretty important. We'd like to touch upon style and the awards, the special relations with multi-brands. We held a dinner in Milan during the Fashion Week. A great project we have ongoing with King Charles III in the Himalayas. And the first kilos of Cashmere arrived a few days ago and we appreciated very much.

And then the very important topic, which is the blue color or artisanal labor, because this really ranks high on the agenda. So net revenues €919 million with a splendid growth of 29.1% current exchange rates and 24.8% at constant exchange rates. EBIT €134 million up 74% with margins reaching 14.6% compared to 10.8% in the previous year.

Net profit of €87.2 million up 54.9% with year-on-year, with a margin on sales of 9.5% compared to 7.9% in the previous year. Significant investments of €72.5 million plus €15 million for the acquisition of...that you are familiar with 43% stake of the prestigious Lanificio Cariaggi Cashmere that enjoyed a particularly good year. Net financial debt of €7.11 million, a further improvement compared to the €23 million last year.

So an important part now, the excellent first quarter, almost at an end, and the important fall/winter, because it's just 15 days left for the first quarter. So the important fall/winter 2023 men's, women's order collection just completed, make us envisage for the year 2023 as strong revenue growth of around 15%, up from 12% with a healthy, fair and balanced profit.

So the Board of Directors will propose a Shareholders' Meeting convened for 27 of April, the distribution of €0.65 dividend per share payout ratio of 50%.

So this is my comment on this. I thought long and hard about this quote, but you see, I really wanted to tell you something interesting. So the year 2022 was for our Fashion House, a year that we defined as one of high inspiration of consistent growth, but above all, of striking recognition of our brand for its identity in style, craftsmanship, exclusivity, and in the way it presents itself with respect to creation. So how we behave with the world.

We view this year 2023 as the beginning of a new time with the awakening of great values and ideals, and perhaps it is time to come up with up to date solutions for blue collar workers, restoring moral and economic dignity to the craft trade.

Italy, being a manufacturing country that is well loved by the entire world, so after the lofty, Nobel, International Neiman Marcus Fashion Awards 2023, received a few days ago in Paris, which represents some sort of academy awards of fashion. And given the excellent sales in the first quarter almost ended and the sizable fall/winter 2023 orders for men and women, we have decided to raise our estimates to a plus 15% growth in revenues whilst assuming a healthy increase of around 10% for 2024.

So Moreno, it's over to you for the details and then I'll resume the floor.

MORENO CIARAPICA: Good evening, everyone, and thank you, Brunello. I would like to start analyzing the main financial trends for 2022, remaining as well as available for any further insights in the Q&A session. Profit and loss account. The final net revenue figures confirmed the preliminary ones of 9th of January. I would, therefore, move directly to the analysis of the profit and loss account, starting with the Slide #23.

The significant revenue growth of 29.1% contributed to the complete full rebalancing of margins and the reabsorption of the transitory effects of the pandemic on the main cost items. We believe that this result was favored by certain choices made during the pandemic years when we decided to preserve to keep the corporate structure unchanged and to keep planned investment and business planning also unchanged.

The first margin shows an important increase with a margin of 71.5% compared to 63.3% last year. Thanks to the positive contribution of both

the sales mix channel, geographical area, and products, as well as, the currency dynamics. In relation to the channel mix the positive impact is related to the growth of the direct channel amounted to plus 38.6% with the growth like-for-like and the positive contribution of net...of the network developments.

In relation to the geography mix, the positive impact is related to the growth in America plus 40.5% and Asia plus 28.1%, proportionally higher than the growth in Europe. With markups favoring the first margin. Please note that the markup differentials in America and Asia vis-à-vis Europe, favor the first margin, but they have an essentially neutral impact at the operating margin level, as they only cover the higher marketing costs, including transport and duties. The product mix is favored by the growing attention of the end customer and the search for special garment with the highest content of manual skills and craftsmanship.

Currency in this 2022 has positively impacted the first margin, contributing, however, to the increase in overheads produced abroad. New commercial initiatives, the expansion of retail and digital channels contribute to the development of the business, but they also contribute to the overall increase in operating costs, which we comment on in Slide 26 and 27. Personal costs amounted to €164.7 million against €132.9 million at the end of '21 or 17.9% compared to 18.7% last year.

In 2022, our human resources amount to 2,308 FTEs compared to 2,160 FTEs in 2021. Net of IFRS 16 effects, the cost of rent is €133.6 million, incidents 14.5% against €115.3 million in 2021, incidents 16.2%. The increase in rental costs, which grows less than proportional to turnover is mainly related to the development of sales spaces, the opening of new flagships, boutique extensions and the opening of the Casa Cucinelli spaces.

Significant investments in communication with a significant strategic value were up from €36.1 million to €52.2 million, with the relative incidence rising from 5.1% to 5.7% of revenues. The growth is also related to events and activities dedicated to hospitality with customers in the boutiques in the Casa Cucinelli spaces and having guests visiting our village of Solomeo.

EBITDA net of IFRS 16 effects reached a margin of 18.7% up from 15.4% last year. EBIT margin amounted to €134.4 million against €77 million last year, with a margin of 14.6% up from 10%...10.8% last year, an improvement.

Net financial charges showed a negative value of €10.4 million, down from €13 million in 2021...minus €13 million. This decrease is influenced by the positive effect in 2022 of the accounting of the transaction related to the purchase of the 43% stake in Cariaggi. There was a positive difference of €6.7 million, indeed, between the purchase price of the equity investments and the equity value based on the approved financial statements by Cariaggi as of 31<sup>st</sup> December, 2022.

In comparison with the figure as of 30th June, 2022, which instead reported a positive value of plus €11.9 million, the negative value of 2022...negative by €10 million, is significantly impacted by exchange rates. The first 6 months of 2022 reported a strong positive contribution of unrealized foreign exchange gains, mainly on real estate use rights, which was diluted in the second half of the year against the dynamics of the euro.

In particular, if we take as an example the most significant foreign currencies, i.e. the U.S. dollar, the comparison between the exchange rate on December 22, 1.0666, and the exchange rate as of 30th June, 2022, 1.0387, this highlights the significant revaluation of the Europe, resulting in

the dilution of the unrealized exchange gains that had been recognized as of 30th June, 2022.

Finally, net profit reached €87.2 million, up 54.9% on last year, with a tax rate of 29.7% that we can view as ordinary and healthy for a group that pays most of its taxes in Italy. As of 31st December 2022, net profit as a percentage of sales was 9.5%.

Now, trade working capital investments. I would now like to share some brief comments on net working capital. Moving on to Slide 28. Net working capital at €140.8 million compared to €142.2 million as of 31st December, 2021 is stable in absolute value against a strong growth in turnover amounting to plus 29%.

The absolute value of inventory rose to €242.8 million compared to €199 million in December 2021, with growth correlated to business development. The inventory ratio at 26.4% against 28% in 2021, well, the inventory ratio benefited from the excellent sales performance in the second half of 2022, which was higher than expected and resulted in a momentary and extraordinary reduction in the ratio compared to our usual standard.

With regard to trade payables, I would like to emphasize that the group has not changed in any way the payment terms to its suppliers, co-workers and consultants. The increase is therefore mainly related to purchases of raw materials and external workmanship, which increased in the second half of 2022, following the excellent performance of the sales campaign for the spring/summer '23 collection and the significant start of production for the fall/winter '23 campaign.

Turning to Slide 29, investments in sales, production, logistics, IT and digital amounted to €72.5 million, with an incidence on sales of around 8%,

plus the purchase cost of €15 million for the 43 stake in the Cariaggi Lanificio.

So, the pre-IFRS 2016 typical net financial debt was €7.1 million, a further improvement over the €23 million at 31 December, 2021, with a cash generation from operating activities and the healthy management of net working capital, enabling the group to sustain investments at the distribution of a dividend of €0.65 per share, up 55% compared to last year, with a payout consistent of 50% of consolidated net income.

So, this is the end of my speech. Thank you. I give the floor back to Brunello.

BRUNELLO CUCINELLI: So, we can say a very special year. So, first of all, I'd like to dwell on our 5-year project, because with 2022, our 45th year has come to a close. And we define this year as a year of total full rebalancing for our industry. You see, not just for our company. Perhaps the same will be true for many companies in 2020-2022. You see, there were companies that really were at a loss in 2022...2020.

From this 2023, well, this year marks the beginning of our 11th 5-year plan, '23-'27. And as Ricardo was saying, we like this idea of having a 5-year plan. Well, and we also have a pretty good visibility in the next 10 years. If we had to say something special about this plan, we would hope that business in China, which today accounts for about 12% of the total, well, will come closer to that of the Americas to reach a balance like the following, Americas 30, Europe 35, Asia 35. So, this is what we envisage for the future.

For the rest, we would like everything to flow with normality in healthy growth, fair and balanced profits, very rigorous in our style, which is what



we have built over the years with daily patience and dedication, because style and products are key. It's in these 45 years, for almost 25 years, we have only made Cashmere pullovers. So, this brand, we started with a total look at the beginning of the year 2000. So, the brand in its total look can be said to have little more than 15 years of history. The time we dedicated this past year, well, I would like us to dwell only on the great contemporary themes. The first theme is the great value of exclusivity. This is what we think, obviously. This is not what the market thinks.

For us, exclusivity has a very high value. This theme is increasingly felt and strong in all markets. You see, I have always believed that the truly elegant do not want items that are too widely distributed and massified, even if they are very much cherished and sought after. This has always been the case, also starting from Emperor Hadrian. Many customers are buying special items, well-made, durable, expensive and exclusive, that can be reused and repaired.

I saw an ad on TV of a company that sells cars in Europe, and they talk about the value of repairing, and I liked it. So, this is generally happening very strongly in many markets, and out of all, we would say America. So, the average price is growing, not because due to price increase, but because they buy pricey items.

So, exclusivity and then taste. Well, you know, there are usually 7 years of one taste and 7 years of another one. The taste has turned towards elegance, refinement, cleanliness, and we saw the fashion shows, and this is the case both for ladies, but especially also for men. There is a great comeback to wearing very chic, refined outfits, and this is in line, in keeping with our taste and thought. Hopefully, we can ride the wave of this 7 years. So, we feel that we modestly feel we have a great future in this category in men's.

You see, the GQ U.K. 2021 award has definitely established our taste, and maybe we can say that there is not so much on offer in this range in men's wear...Italian men's wear. Then, craftsmanship, very important. We...what is appreciated is the level, degree of craftsmanship in our garments. You see, many customers actually buy a garment, and they take a look at the inside, which means that they want to know how it was built.

And we repeat that in our collections, the rate of craftsmanship is around 52% manual work, I mean, so we really need skilled hands. The other day, we were talking about the artificial intelligence with Reid Hoffman and we were saying, if you gave us a small robot, we would like to put it in a workshop to see whether it is able to cut. And so...and of course, Reid was laughing, perhaps he's coming to meet us in April to talk about AI and how to govern technology. So this is the great theme of the blue collar labor for the coming decades. And then I will dwell a bit more on this.

Another big theme this year, the lack of good products on the market resulting from the difficulties of manufacturing. Well, I have to say that in Italy, thanks to our welfare state that allowed us not to lay-off workers, we have a...had...and have full production facilities. And this has helped us a lot in the past year. So this was seen in the large amount of restocking by both our mono-brands and multi-brands, who were actually complaining about deliveries in general from supplier companies, because there was a lack or shortage of product, this has benefited us in terms of turnover image and also in terms of inventory, because it is the first time that our inventory is at 26 and usually we had 29 and 30 but business went well luckily enough.

And honestly, I still believe that...still in the first half of the year, there is not a full rebalancing of production, because there is still a shortage of product on the market.

Briefly on prices, we update prices twice a year, when the collections come out. And our benchmark is Europe 100, USA 124, Asia 128 this is an important theme, especially now that many people are back on the road. So arriving in Rome and finding a completely different price to your place of origin can definitely make the difference.

So the 2023 collections are over and for 2022 we have had an average increase of around 8%. But the purchase of pricey items has increased. But these are actually garments with a very high degree of craftsmanship. Then in 2022...so the...I apologize there's a beautiful sunset outside Brunello says.

So the first quarter 2022 was rated good. Good plus or good staff for the second quarter excellent and excellent both the third and the fourth quarter. These are the comparisons that we have used for 2023, because this way of rating everything with a straightforward adjective gives us a concise quick and true assessment of everything.

So to summarize about 2023. So given the very good first quarter, that is almost over, we're talking about 2023 now, given the excellent fall/winter '23 men's/women's order collection, you know that the order collection was excellent went well, it went well, in terms of numbers, but also in terms of feedback provided both by customers and members of the press knowing that from August onwards you will be displaying in your stores very good pieces in your stores. Well, this definitely is very comfortable.

So given the brand's great momentum, because of the taste and for the awards and a bit of idea of humanistic capitalism and human sustainability. Well, this is very strongly felt. So therefore, we envisage a year with these figures. So this is for 2023.

We raise turnover estimates from 12% to 15% then EBITDA around 18%, 19% and we like this lot. EBIT around 15%, investments around 8%. It's very important to keep your image contemporary of the stores, the showrooms, the Casa Cucinelli, we were just talking about this, this morning, we believe that the lifecycle of a contemporary store perhaps is no longer what it was 10 years ago for 6 years, perhaps you need to really renew the whole store every 2, 3 years. So, we invest a lot, so that the showroom and the stores are cutting edge and contemporary.

We like the idea of having a net profit of around 10% that this is a fair result with some sort of dignity of work. This is what we believe Moreno mentioned the tax rate 29% but you did not tell the Moreno that for 5 years in a row we paid 23%, because our government for 5, 6 years once with the patent box and with everything. So, it went down to 23%, and I believe having a 23% tax rate is pretty important.

Then the regular distribution of dividends and net financial position positive not bad. So positive for the first time. But you see I have always maintained that positive net financial position is good. But extreme care was taken to ensure that the products and the stores are important, they need to be fresh and contemporary otherwise as I say jokingly you see there was a friend of mine who kept talking about cash, and I said to you beware a full cash can take you to the graveyard. So just jokingly we try and invest in taste and style of course not having that is important.

Then last for 2023, the boutiques. We will open 3 new stores particularly enticing in Chengdu now to buy more in April. Sorry, it's not Dubai mall, we already are present in the Dubai mall with excellent results. And then we will be opening a great boutique in Miami between October and November. In Rome, we changed our location, we moved to Via Condotti and we will hold the opening at the end of the month. So these are our

plans, April. So 3 new boutiques a year extending a few stores. And sometimes it's not always easy to find a location in the prime streets.

Then 2024 forecasts. So we still maintain our plan to open around 3 new stores. And for 2024, we envisage a healthy growth of 10%. Then since 2012, the year when we went public to 2022, our average growth was 12.6%, and we have also made up for the loss in 2020. So we still have our growth projection of 10%. Of course, '20 growth, '21 was to catch up on 2020, and '22 was unexpected for how the market picked up again, the taste and everything.

Multi-brands, we held a dinner in Milan, we have 400 accounts worldwide, perhaps the world's best. We held a dinner devoted to them. And it was part of the Milan fashion week. And I have to say it was a very special occasion, because they went back to feeling important. They can definitely...they have a trustworthy partner in us for the next 5 to 10 years.

I took about 416 photos with them, because you know, some ladies might not like the selfie and they want to take it again. But seriously speaking we received beautiful letters from them, because it is the first time that they felt really center-stage. We believe in them very much. We always consider them to be the true guardians of the brand because the day before we had the journalists 500 members of the press. Then they turned up 400 of them, who had already viewed the collection and placed the orders. So, when you go home, you feel more reassured because if they tell you that the brand is doing not so well, you must be willing to listen to their feedback. When they actually turned up, both journalists and multibrands, wearing your stuff, well then you can imagine that your brand is doing well.

Then the important theme of craftsmanship. So, we would like to try and remove the word operaio, blue collar worker. In Italian, operaio is not a

very nice word. You see the young people do not like to work as operai. Because everyone talks about good jobs, that is great to be a tailor but then as a matter of fact, we'd prefer others to ply these trades. Do you agree? I see that you're nodding. So, this kind of labor, this word needs to regain moral and economic dignity.

So, we held an assembly on February the 15th. We were all connected also from abroad and we made it official for the first time that these artisans, they must earn 20% more than the white collar workers, because we...as you know, they make. And artisans, they make more money because they are what in Italy, they were called specialized blue collar workers. I remember my father. He would have really gone out of his way to be viewed as a specialized blue collar worker.

And then workplaces. At least in Italy, but abroad too, my friend from Del Vecchio, from Luxottica before he passed away, he was telling me that we need to have the courage to make beautiful workplaces because we have been used to having our factories windowless, because it is a waste of time. We think the opposite. Workplaces must be beautiful with windows.

A couple of seconds about King Charles because we started this beautiful project in the Himalayas for the regenerative agriculture for the wildlife, for planting trees and the other day, we received the first kilos of cashmere and you might know this kind of cashmere, pashmina cashmere just a few kilos because it comes from an altitude of 4,000 meters and Ricardo is actually going there in a few days, but we really like this relationship with the king. It all started when we went together to the G20, invited by our former prime minister, Draghi. And he talked about the climate and then we started this project there. Then he sent me his wishes for the festive season. I sent him a special letter and he replied to me on January the 28th in a very...he sent me a beautiful letter and he said not only that, he not only mentioned this

beautiful project in the Himalayas that he is very pleased with, but he also said that the words I sent to him actually reassured him. It's a very nice letter.

Just the final words on the king's letter. Just one sentence, I feel the need to write this down because I felt greeted and reassured. And then I will tell you how it ended. I want to bless you for the remarkable leadership you are showing and for the profound sympathy that abides in your soul. So, I said, wow, that's a beautiful language. Fantastic. So, this is the great project with King Charles and you know, I mentioned this because this is a project of the SPA investing €500,000 a year, but I like it very much and we will make exclusive pashmina garments with this cashmere coming from this fantastic area.

Style and awards. In September 2021, we were presented with the GQ UK prize for the men's taste and this has reassured and strengthened our menswear. In November 2022, Nieman Marcus announced this award and we went to receive this prize last week in Paris. A 100 years old prize that presents some kind of Academy Awards of fashion.

And I have to tell you a fun anecdote. Before going to Paris, I basically went back to my birthplace and from the square, I could actually see my home where I was born. Then I went to the cemetery from there and I also mentioned this in my acceptance speech. I went to visit all my relatives and I said "Hey I am about to leave for Paris. Pray for me. Help me out. And as soon as I come back, I will show you the prize." And then I was moved myself. But that's what I did. I went back...came back from Paris and I went to show them the prize. This might sound odd but this prize really represented for us the consecration of taste. This is something that really strengthens us. And there is no doubt that in 2022 was affected by the prize

received in '21 and already now with the prize and the sales, the prize is definitely helping us and something unexpected.

And then family. We were saying this morning that the true luxury brands, they have always had a family behind them. A Ferrari and all the rest. The Patek Philippe and Dumas family. So, this morning, we submitted to the Board that the last additions to the family that was not part or member of the Board, Piastrelli Alessio has been [indiscernible] my daughter. It will be submitted to the shareholder's meeting that he becomes member of the Board. He is in-charge of the menswear team although he is not...he's very good at that. So, we have a...I really like this idea that the whole family is within the company where there is myself, the Executive Chairman and Creative Director, Riccardo, CEO, Luca is not part of the family but actually he is a little bit part of the family. Then we have Camilla, my eldest daughter, in-charge of ladies style, Alessio men's style, Carolina is with me co-presidents and creative. So, there is the family in the company.

Then conclusions. I am trying to tell you the following, but we feel that this is a very favorable time for special taste, special luxury. Therefore for our enterprise too, this is what we feel. And before bidding goodbye, I'd like to say that I am putting together some sort of 10 rules. So, I'd like to write down 10 rules about our idea of longevity for the coming 2 centuries. And once it is over, we will show it to you and you will tell us what you think. For example, the fact that the company is not greedy might make a company live longer. The fact that you do not decide alone, because sometimes being alone does not bring good decisions. Then arrogance. Well, a company does not survive with that and then some others.

So, thank you for everything. Ask us all the questions that you need. Hopefully...well, we were pretty clear. So, what I said at the very last that



it is...things are going well for true luxury. This is the kind of idea we would like to convey. Thank you.