

Brunello Cucinelli S.p.A.

"Preliminary First Half Results 2024 Conference Call"

Thursday, July 11, 2024, 18:00 CET

MODERATORS: BRUNELLO CUCINELLI, EXECUTIVE PRESIDENT AND CREATIVE
DIRECTOR
LUCA LISANDRONI, CHIEF EXECUTIVE OFFICER
RICCARDO STEFANELLI, CHIEF EXECUTIVE OFFICER
DARIO PIPITONE, CHIEF FINANCIAL OFFICER
MORENO CIARAPICA, CO-CHIEF FINANCIAL OFFICER
PIETRO ARNABOLDI, INVESTOR RELATIONS AND CORPORATE
PLANNING DIRECTOR

OPERATOR: Good evening, and welcome to the presentation of Preliminary First Half Results 2024 of the Casa di Moda Brunello Cucinelli.

And now, I would like to give the floor to Brunello Cucinelli. Please.

BRUNELLO CUCINELLI: Good evening. Welcome to the analysts investors. Thank you. Thank you very much, it's a meeting that we always like. Personally, I like this a lot. We are all here. It is a hot day here in Solomeo. So I would read out the first half results and in reality we like them a lot. They are very good. And then we would like to share our forecast 2024, with a high-degree of concreteness, being early July, and then forecast 2025 after the launch of the men's collection. We've almost finished the order intake and Luca will give you a worldwide overview of the market, considering that he came back 2 days ago from a long trip in Eastern Asia, and then we would like to reiterate some dear topics, a couple of words on products, on gentle, luxury. And then I will go into the details of the issue of prices and of the fair and balanced profits.

And then last but not least, Riccardo will explain the doubling of the Solomeo factory that will be finished by the end of next year, and this is a 10 year project. And finally, in the last 5 minutes, I will explain to you the new website that we will present in Milan next week on the 16th of July. And we like it a lot, it's a website created through artificial intelligence, it's really innovative.

So first of all, let me read out the revenues, €620 billion revenues with very good sales results, up 14% and 14.7% at current exchange rates versus 2023. All areas are very positive, America 19%, Europe 9%, and Asia 14%. Significant increase in revenues in both sales channels, retail 14.7% and 13.1% wholesale.

Well, the very good results of the first half and the very promising start of sales for Fall/Winter collections '24 allow us to confirm the expectations of a very solid growth of turnover for 2024 equal to 10% with a fair, right and sustainable profit. The very important project of the doubling of our Solomeo factory is moving forward. It will end next year with significant investments in the 2 year period '24-'25, and this will make sure that we have production capacity for the next 10 years by supporting and sustaining our plan to double the turnover by 2030.

Important events in the first half, well among these, we would like to point out the second Symposium on Soul and Economics after the first edition that took place in 2019. We repeated the Symposium this year and we met in Solomeo with some of the major personalities in the field of artificial intelligence, technology and science to start a dialogue on the big relationship between technology and humanism. Reid Hoffman was among the participants, he is worldwide acknowledged entrepreneur, considered one of the founding fathers of Generative AI. And I will then explain he received also an award. So this is it.

So the first half closed with excellent results from the viewpoint of the turnover, and considering the quality of sales, we expect the same situation in profits. We think the brand is experiencing a very positive momentum in terms of image. And this leads us to confirm our project to increase the turnover of 2024 by around 10% with adequate profits. After 3 years of accurate work, in a few days, we will present to the world press in Milan the new website of the company that was imagined and created through the artificial intelligence. And I think this is one of the first such websites in the world and this is extraordinary. And in our opinion, this will allow all our staff members to look at artificial intelligence with enthusiasm, confidence and familiarity. They were a little bit scared in the past.

As the sales campaign Spring/Summer '25 of menswear is almost over and the sales campaign for women's has just started and considering the order intake and the very good sell-outs for Spring/Summer '24, we imagine a healthy growth for '25 equal to around 10%.

Now the first half...second half...the second quarter. So first half and second quarter. As far as the second quarter is concerned, we can tell you that the second quarter is perfectly in line with the first quarter in the retail channel. In wholesale, there are different shipment timings, but we consider the wholesale campaign from 6 years, so January 01st to 30th of June and the 01st July, 31st of December. So the first half is extremely satisfactory from all viewpoints, retail sales, wholesale sales, the style of the collections, and this is always very important. This is really paramount, the image in the stores, both of the products and of our lifestyle, and last but not least, the image of the brand's behavior as a whole.

Well, I'd like to say a couple of words on the first 10 days of July. But let's say everything is in line and flows as planned. We are very satisfied with these first 10 days. For the image of the stores, they have the first winter garments already in the stores. And when you face a season with garments that are considered as beautiful by both journalists and customers, they will the season is extremely promising.

And then let's say give you an outlook for '24. So we confirm the plus 10% growth. EBIT is slightly increasing between 16.6 and 16.7. Net profits at 10% as per our project, investments are 9.5%. Well, we said 1.5% will be from 2023, because it's usually 8%. And then investments in image and events, which are very important, equal to about 7% like last year.

We imagine to rebalance the inventories that were slightly slow in '23, due to sales that were higher than expected. A healthy net financial position, even though '24 and '25 are 2 years with a huge investment, with a new factory in Solomeo and the opening of new...2 new production facilities for men's outerwear that you already know, Penne in the Abruzzo region and Gubbio in Umbria. And this is important because they will...women's outerwear are manufactured there. Well, dividends as usual, 50%. And so, we confirm with the utmost confidence our plans for the 2024 results that are really very, very good.

Outlook for 2025, and this is another important element, the sell-out of the Spring/Summer collection is...can be considered as concluded, and results have been extremely significant and important. And as I said earlier, the style, those of stores and of the collection seems to be very interesting and very successful. Well, the image of menswear, this is what I would like to point out, we consider ourselves as almost unique in the world from the viewpoint of men's taste. I would say men's taste, which is pretty unique worldwide.

The Spring/Summer 2025 men's collection that was presented at Pitti first and then in Milan in the middle of June reported really excellent results, both in terms of order intake, but also in terms of reviews by the national and international press. As you know, this is very important. The judgment by the multi-brand and by our retail managers are key, but the reviews by the press is likewise important. When a brand starts being perceived as boring and the journalists themselves do not wear the brand, we need...we must be concerned.

And considering those first reviews, well, for women, we will launch in a week. And so, considering that...the feedbacks, we feel confident for next

year and we think we will pursue our healthy growth pace at around 10% and again, with healthy and balanced profits at around 10%.

Now, Luca, well, I give you the floor.

LUCA LISANDRONI: Good evening. I'd like to go back to the analysis of the first half. And again, the first half has been extremely satisfactory. And in our opinion, the semester was characterized by 3 basic elements. First of all, I know that you're not used at translating.

So the first key element of the first half is it's a beautiful trend of growth, which, in our opinion, is a very serene growth that goes hand-in-hand with a very balanced sales profile, both by geography, by channel and by genre. We have the feeling that attention around our brand is constantly increasing.

Just a couple of numbers, so Brunello said the second quarter is exactly the same as the first in absolute terms. Percentage wise, the growth in retail has been the same as in the 1Q. And as far as wholesale is concerned, on a quarterly basis, the 13% growth is a true measure of the great success and appreciation of the Spring/Summer '25 collection. We mentioned balance, and balance can be seen especially in regions.

We closed the first half with 36% of our turnover recorded in Americas, 36% in Europe and Asia accounts for 28% of the turnover in the half year, which is very well in line with our year-end expectation. You know that in 4 to 5 years, we'd like to be as close as possible to the perfect split, 1/3rd in America, 1/3rd in Europe and 1/3rd in Asia. As far as the balancing of the channels is concerned, you see that retail and wholesale go almost hand-in-hand in the first half, so that the relative weight of both channels has remained flat versus last year.

If we look at the channels through the eyes of the customers, we have to distinguish between monobrand and multibrand world. And so, we see that 60% of our turnover is through the monobrand channel and 40% monobrand, which is always interesting for us. During this first part of the year, the growth of men's is exactly the same as the growth in women. And this reinforces the balance that we achieved at the end of 2023, so 50% of the turnover in men's and 50% in women's wear. So sales are very positive. But in our opinion, this derives from a very special and favorable encounter between our product proposition, brand proposition and the specific market trends.

First and foremost, the search for exclusivity, I will not go into the details because we've already discussed it in previous calls. I would like to focus your attention on the growing centrality of clothing. As we said at Pitti and during the Milan Fashion Week, many professionals in the field confirmed that clothing is currently the best performing category. They also say that customers are becoming increasingly sensitive and conscious to prices. And Brunello will delve on the value for money, and the importance of value for money. And then great confirmation of the attractiveness of stores, of the brick and mortar channels with great synergy with the digital world. There are a lot of customers who look at garments online and then go and buy in the physical stores.

And finally, we have a perception that communication is slightly crowded, so much so that the link between the share of voice and the share of market, which seem to be almost direct, is no longer as direct as expected.

Well, in a nutshell, we can tell you that the market situation has been extremely promising for us. We know and we are conscious that we are...well, even too positive when we describe the market context, but we

are reflecting the reality faithfully. Our brand, as it is the case for other brands in the top end of the market, are experiencing this very situation. And these feelings are supported by numbers.

In terms of geographies, America has been the most powerful engine for our growth. We've grown considerably, both in the monobrand and in the multibrand channels. And this shows, on the one hand, that demand in the United States is widespread throughout the territory. And on the other hand, this proves that we've paid the same and careful...the same attention and the same level of execution, both in monobrand and the multibrand. In the first half, we'd like to point out the opening of the new flagship store in Miami alongside our traditional and beautiful Bal Harbour and well both Miami and Bal Harbour are expressing dynamism and a very high potential.

Coming to Europe, Europe continues its growth on an almost comparable basis. As we said last month, we thought the European summer season would be very successful and the first summer months have confirmed our expectations in Europe. We think our distribution channel is extremely solid with direct stores, flagship stores, alongside specialists which are able to enhance our collection and offer them to an extremely loyal clientele, especially in the larger cities.

Important openings in May, we opened a new boutique in Venice. It's a relocation with an extension of the surface area that brought us to a special venue, the historic headquarters of the Venice Stock Exchange. And we are very keen on this opening because on the one hand, well, due to the beauty of the rooms, we think it's a beautiful location, but also for the respect with which we treated this venue. So, now in the historical rooms, there is a beautiful central bar, and the bar has become the core of the store. And customers can take a break, can drink a cup of coffee, and with

their eyes, they are able to look at the entire collection. And this is an important opening because we complete a network of Italian boutiques involving Milan, Florence, Rome, Venice and other locations. And we believe they can offer a warm and authentic welcome to our country, to the many international clients. This network...this structure will be completed at the end of the year with the opening of Casa Cucinelli and Piazza di Spagna in Rome.

As far as Asia is concerned, let me for once start with Japan. And why Japan? Because Japan is providing very interesting results, it's a market which is undoubtedly favored by the yen exchange rate. But in our opinion, it's not by chance that in a moment, when the market is focusing on exclusivity and craftsmanship, Japan is leading the growth.

Now coming to China, China is doing very well for us. In the first half, we closed double-digit without any relevant opening in the past 12 months. We see that on the one hand our positioning and on the other hand the size of our business allowed the reduction in traffic to be offset because we're able to grow not only in terms of turnover, but also in terms of number of customers. And I think we are still benefiting from Brunello's recognition as designer of the year in menswear in December 2023. So China came out of the pandemic without incentives, and we know that private savings are growing significantly without any pressure on short-term results. We see in this case that we have an even greater potential for the near future.

And moreover, as Brunello said, in the last 10 days, I was in Asia and there are plenty of new retail projects underway in China. And this means that the infrastructure is changing, is modernizing, and we see in many cities that traditional molds that drove the growth are being replaced by new ones. And this will bring about new enthusiasm and will offer larger

space to brands in order to offer an increasingly pleasant and distinctive experience.

Just a couple of words on Hong Kong. Hong Kong is experiencing a good momentum and we reasonably see 2024 to be the best year ever. We had a great event last week in Singapore with customers, landlords, brand friends from all Asian countries. And we came back with great confidence, because on the one hand, we see that we have a very clear brand positioning, absolutely true for the international brand image. And on the other hand, we see that we are reaping the fruits of that constant establishment of relationships. So globally, we can say that all our stores throughout the world are lively and welcoming, thanks to the decisive contribution of our staff and sales people working in the stores. And we always try and encourage their spirit of initiative and creativity, so that they can offer a special experience. And so, we seem to find in the stores the same positive emotions and atmospheres that runs through the entire company, making them attractive to an increasing number of customers.

We also visited the Middle East and the South Eastern parts of Asia, which are relatively new areas for us. We are still...we are going on with the analysis exercise, but we see that we find product people who are very close to our taste and to our values, and they will accompany us in understanding these countries. We're not in a hurry. We know that time has a strong value, but we continue to be curious and attentive, and we are reassured by the many new opportunities that this development can offer us.

BRUNELLO CUCINELLI: So thank you, Luca. Thank you, a nice lecture. I liked it a lot. Alright. So, in summary, let me remind you of the great topics that are dear to us. So, working conditions for blue collars from a moral perspective, you know our stance, the conditions at the workplace, and

you know how we think about that. So the conditions at the workplace are extremely important and also wage conditions and you know our thinking. This is a huge topic, but we had specific calls in the past devoted to these concepts.

Now moving to products, you heard from Luca, there's a great desire for clothing. And you know, the style of a person comes from clothing. And then you know you can dress up with any accessories, but taste comes from clothing. As you know, well, we do not like evergreen, because, you know, well, jackets 75 will come...will be longer the next year and also trousers with darts. And the role of personal stylists is very important, especially for those people...well, especially for men who are very high profile, very important and neat...what you need. When men go out, they want to feel reassured by a person...by a personal stylist. And you know, we get phone calls from people saying, please help my husband dressing the right way. And that's why we always encourage our sales people not to sell something which doesn't fit the person, and then the value of the visual and the value of lifestyle.

And then as far as exclusivity is concerned, well, we've always focused on that a lot. We not...do not agree when exclusivity is considered as a synonymous word of desirability. We believe in exclusivity and we believe in the value of the product. So products are less and less mentioned. Well, events, well, you know...but I want to talk about new products, products which are contemporary, which are explicitly made. And for us, the level of manual work is extremely important and the product must be very exclusive. I have the impression that...well, that there are many things full of anything.

And then glasses and perfumes. We are really very, very happy with the performance of these 2 categories. But most importantly, both price

positioning and distribution are at the same level. Perfumes start from €200 and will reach to €170 to €180 and glasses from €500 to €1,000. Well, in terms of image, we are fully aligned. We haven't developed a fragrance which costs half as much, and also glasses. We like the way we manage these 2 contemporary licensees with our friends from EssilorLuxottica and EuroItalia. Well, their teams come to us, we go to them, and you know, this is a high quality type of work and then exclusive luxury, as we said.

Well, you know, until some years ago, luxury had a lot of adjectives, so we said, [indiscernible] and this was in Paris and accessories. And now, I think that well, with luxury, you call anything with a lot of adjectives affordable, democratic luxury and so on and so forth. But we do not want to judge. We simply want to give our own meaning to luxury. And as you know, we said, gentle luxury is the symbol of beauty within measure. And this is going to be the slogan of the new advertising campaign that you will see in the press starting August 20.

A strong topic well prices, we confirm...sorry, Europe 100, USA 120, 21 Asia, 128. Autumn/Winter 2024, we've had an increase between 1% and 2%. We know...well, we have 400,000 customers throughout the world with great economic potential. But they often say that some prices are not justified, and this is particularly strong as a mindset among younger generations. The last trip I had in China, well, the person, the girl who interviewed me, had 2 iPhones and a tablet, and well, she was checking prices in San Francisco. Well, you know, they are extremely connected, and this high level of connection is typical of the younger generations. And so, this is a very important topic within the framework of a fair and balanced profit.

And, well, back in 2012, we talked about fair, balanced and sustainable profits that we imagined at around 10% for net profits and for an Italian company, subject to Italian taxes, for a company based and manufacturing only in Italy. We are still convinced that especially young people inform themselves about the behavior of the companies, how they manufacture their products and when financial statements are published.

But you know, I asked some time ago, a person, one of my staff, to check social media posts, and well, there were a lot of posts on prices, and this is a giant theme. For the time being, there are 2 hot topics, the prices and the way of working of blue collar. And again, when financial statements are published, there are people who write and post something which is not always pleasant.

Now, Riccardo, you can explain the new factory.

RICCARDO STEFANELLI: Yes, good evening. Well, in just a couple of minutes, so that I can give room for questions, I'd like to describe the principles that will drive and that already drive our investment in artisan production. As you know, we're...we've always been bound to a rule, according to which to produce and to manufacture twice as many garments, we will need twice as many hands. And these hands contribute to the achievement of manual component with needle, thread and scissors amounting to 60%, manual work accounts for 60% of the entire production. And we like this idea that craftsmanship and industry are not in opposition. We always support this idea of an industry with efficiency and innovation, but blended with the techniques of traditional craftsmanship. So we want to foster a production model that enhances uniqueness and quality. And quality can also include some flaws because this implies humanity. But these are the necessary requirements in order to face the growth plan for the next decade.

For this reason, we divide our investment plans, as Brunello said, into 2 parts. On one hand, we have the doubling of our Solomeo factory, and on the other, we have the opening of new production facilities in Italy. Well, the first building yard is on schedule, so we expect to open by October 2025, it's an important project that, as we said, will double the Solomeo factory with...well, the land was reclaimed. We are not going to use untouched land. And this is in line with our vision of preserving the environment, protecting the landscape.

And at the same time, we also expect that this company be able to support our manufacturing capacity until 2035. And you see that our plans have always 10 year, 12 year scope. And as Brunello said, we have important investments for men outerwear in Penne and another facility in Gubbio. It's a bit smaller, but high quality too. And both factories are fully operational and we are fully satisfied with their performance. Alongside these direct investments, we still have local artisan companies with 400 fashionists that play a very important role. And this number...the number of fashionists, well, the number of employees has increased from 6,200 to 7,800. The average age of the artisans is 43. And so, there's a generational turnover going on.

And we have evidence showing that for 50% of them, of these companies, there is already a second or third generation. The owner has an average age of 50. We work directly with them without using any platform. So we have a direct relationship, and this is very important. And we think that these workshops will give us security and production capacity for the next decade.

I'd like to end with a couple of words on our school of trades, which for the past 10 years have been nurturing the manual work and the craftsmanship we've been talking about. Figures show that 95% of boys

and girls attending the schools of trade decide to continue in craftsmanship, well they enroll as artisans and they can become the future entrepreneurs.

In conclusion, we believe that you can express your own thoughts only if you know the words to use. Likewise, some unique garments can only be manufactured with skilled hands. And in these very places, thanks to observation, to listening, but also to the patience of our masters and we would like to thank them, this can be perfectly achieved. So, again, a small overview, but we are confident that these investments, and thanks to the centrality of fashionists and the direct relationship with them will allow us to achieve our targets.

And I will give the floor back to Brunello.

BRUNELLO CUCINELLI: Last topic, the website that we are going to roll out next Tuesday in Milan to about 500 journalists, entrepreneurs and friends in a theater in Milan. Our online business is increasing 10% approximately, and we are very happy. But besides online sales, we perfectly know that you know, people come to the stores with a picture taken from the network in 60% of the cases. So it's the best showcase. Last year, we had 12 million visitors. In 2024, we should reach 20 million visits. Although, we know that in the future, we have to be less known than today. But, well, you know, there is less interest in buying online. But, well it's very important to see that they go to the stores with the pictures taken from the website.

So we started a new website. We started...back in 2016, we had a beautiful dinner in the Silicon Valley, a beautiful relationship started. In 2018, I started Dreamforce with a meeting. In 2019, the first Symposium took place with great personalities, and Reid Hoffman was attending the first symposium back then and the second too. Well, he talked about

artificial intelligence. Then the pandemic broke out. And then in June 2021, we were all vaccinated and we started planning the future. And in Milan, we presented our universal library, drawing inspiration from Alexandria the Great, beautiful, the most beautiful library in history, commissioned by Ptolemy I, a friend of Charles the Great.

And when we were talking about this, well, together with Luca, Riccardo and Francesco, we said, but how can we show this library to the world? Because we wanted that people come to the library to see the text. And so, we imagined, well, you know, the great librarian, Zenodotus. He was the wiser [ph] in Alexandria...the wise men in Alexandria. And so with these young people, we decided to train this Zenodotus, but how?

Well, you ask a question, let's say, in Indian language, and we answer your question in the same language, and we say, look, we have this book with this text, and this was a very interesting exercise. After 4 months, we set up the Solomeo AI, and Luca was there. Riccardo is an expert. Well, he is also in love with technology, let's say with Bottigliero, we took 25 people, a philosopher, a mathematician, a scientist. Well, they started working. And after a couple of months, we saw something really special. We did not want to spoil it, so it was really special. And then we said, but also for the library, we need 2, 3 years before it's over.

And so, we started this project on Brunello Cucinelli AI. And this is what we're going to show you on Tuesday. And for those who are not present, we will end the presentation at 12:30. And at 12:30, you will see the website. You can log in, it's a classic website site, and you will find a new special website. And in our opinion, this really reflects who we are.

Well, Francesco said, but how can we do that? Well, when I said, well, Hannibal, Hannibal is underestimated. He's not so far away from Charles

the Great. He was a genius. And he said, we will find a way, when he had to go to Rome with the elephants and he said, otherwise we will make it. And this is what happened. And that's the genesis of this website. It's beautiful. It's really beautiful. And we can really say that it fully reflects us manual work and the 2 hands, artificial intelligence and the human hand tied together.

So we think it's beautiful, contemporary. And you know what? I think, well, I will tell you what this website will give us for the future. But first and foremost, we can say that we are not so afraid of artificial intelligence. We were scared of AI 2 years ago, but now it is no longer the case. And this is very important. And I think that from Tuesday, when the staff, when our employees see the website, they will no longer be afraid and they will be able to work with AI with great fascination. And I think this will brought about great benefits...great benefits and advantages in e-commerce to show the products in a certain way, and great benefits when all colleagues will get to know our thinking, our culture, our way of doing things.

And so, as you said, we are slightly enthusiastic about this project. As you may have heard this is the first project...this is the first project. It's called Brunello Cucinelli.AI. Have a look at it. Log onto the website and as soon as you see it, please give us a feedback. This would be highly appreciated. But there are...well, it's really the first example. We are pioneers. There are no such examples in the world so far, but it has really opened up a world to us.

This great relationship with Reid Hoffman, one of the founding fathers of artificial intelligence, has been extremely important. When he was there, we showed it to him at 8 in the morning, and Luca and Francesco were looking at the website and you know, we're not very familiar with English,

especially with the technical jargon. But I was just looking at his eyes and the notes that he was taking down, because, well, Reid Hoffman is a man with speaking eyes. And so, I could see that he liked it. We're very honored of being his friends, but we look at artificial intelligence in a totally new, fresh way, and it's extremely fascinating to tell you the truth.

Okay. We can open up for questions.