

Brunello Cucinelli S.p.A.

"First Quarter 2021 Revenues Conference Call"

Wednesday, April 21, 2021, 18:00 CET

MODERATORS: BRUNELLO CUCINELLI, PRESIDENT, EXECUTIVE CHAIRMAN AND
CREATIVE DIRECTOR
MORENO CIARAPICA, CHIEF FINANCIAL OFFICER
PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS

OPERATOR:

Good evening, Chorus Call operator speaking. Welcome to the presentation of the First Quarter 2021 revenues of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. Following the initial presentation, there will be the opportunity to ask questions by the financial community.

The speakers will be Brunello Cucinelli, President, Executive Chairman and Creative Director, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations. In order to receive help from an operator during the call, please press "*" followed by "0."

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

BRUNELLO CUCINELLI:

So here we are. Good evening. It is always a pleasure to speak to you although it's the last meeting dates back to just a month ago. It is always very interesting to hold these calls, so analysts, investors and journalists, just over a month ago, we met, we...in this call that we considered very, very important, and we still call it the call of the rebirth of the renaissance following a just over a year of pain and sorrow for us, body, soul and the spirit.

And in this call...in that call besides the financial statements 2020, we basically showcased our idea for resumption of activities and the projects for the coming decades. But today's call, you see, we would like to call it "the call of style and taste" of Brunello Cucinelli, and you'll understand why later on. For the coming decades, trying to envisage the large opportunities that this brand can offer us. So before we start, we'd like to tell you that in this vaccine hub that we opened about 25 days ago, in the park of beauty for those who know Solomeo, where the foundation and the company only provide the location and the wages for the nurses and

doctors. So we are vaccinating unfortunately, you know, at quite as normal kind of pace and rate, but the hope is that starting from next week with the arrival of new vaccines, we can really reach at night many vaccines and also we can have night shifts too because we have all the lights...night lights in this location. And I think, that I said to the doctors, there will definitely be young people who want to be vaccinated even at 3 AM in the morning.

Of course, first of all, we...it's compulsory we follow the age standard...the age criterion, because it's very important. Our President of the Republic on December the 31st and the end of the year speech and address he said "let us all be vaccinated when it is our turn." Of course, if we finish one day earlier, we have saved a human life, and we also have gained one day to resume our business.

So as usual, we are here in Solomeo, and we are...we have all been at work in presence physically since May the 3rd in 2020, and in the end, we only closed for only 6 weeks. I am very happy with that, because I think that the work we carried out together in the factory, in the offices, on the one hand, this brings about a very powerful collective creativity. I really believe in this. Then a very clear distinction between time for work and time for private life. And perhaps also the corporate culture is strengthened as a result, and it becomes an important lesson for the young generations.

So together with me, you know, I am the Executive Chair and Creative Director since April last year, and I have my 67 years of age with me. Then there are the usual people, Riccardo and Luca the young 40 year old young CEOs, they were appointed precisely a year ago, and I have to say Luca, Riccardo, you know, it couldn't have been a better situation you know, just to start your stellar highly responsible...response career. We

are very, very happy with you, and we say this publicly. Thank you on behalf of the whole company, and I hope also on behalf of the whole financial community and the whole Solomeo community. I am sure about that.

And not just because of your expertise, but also for your human qualities that we attach a lot of value to...in order to see, build better people. And then we have Moreno here, 59 years of age, not so young anymore, has always been stalked on a daily basis by his young and passionate serious CEO...Dario, CO-CFO, and if everything goes according to plan, as soon as Moreno ends his mandate, he will be the young...new young CFO. So that Moreno will become his Senior Advisor according and pursuant to the "Generation Pact" that we signed over 10 years ago. So this...the idea is that once you turn 60, you become a Senior Advisor.

And then we have Pietro, you all know him. He is 45...46 years of age, and in a few months time he will be moving into his new house here in Solomeo with his family. As you know, we attach a lot of importance to the new...to young people settling down in our community. 40 years ago, the Solomeo hamlets had more or less 350 people, today 900. We like this healthy, cultural growth of the territory, and we believe that this really is the sap for the company and for its culture in the decades to come. Hopefully the company can stay here at least for one century.

And then we have Giuseppe, our 50 year old serious esteemed lawyer, who always checks that everything is according and pursuant to the legal human and behavioral regulations. You see I really wanted to highlight once again the top level staff, that hopefully will keep running this company for the 20...next 20-30 years, and of course this does not involve me too many years ahead. And I don't know about you Moreno, either.

So we would like to structure the call as follows. You see, I think it's a very important call. First of all, I'll read out the highlights of the first quarter 2021 we are very, very happy with. Actually also, the first quarter 2020 was not bad at all for our company. I'd like to remind you that for our company, only the second quarter was very negative in 2020. The remaining 3 quarters were positive compared to the same time the previous year. And then I will give you our take on the world market, very...honestly very positive today. Then I will restate once again the highlights of '21 and '22, and we will also add 2023 to the equation, because 2023 represents the closing year of the first half of the 10 year plan 1928, where we would like to take stock of the situation at the end of the half way through in 2023.

And then I'd like to devote some important time to the identity of the Brunello Cucinelli brand. I'll read out the figures now. So all these figures I'm about to say are vis-à-vis 2020 and then 2019. So in comparison to 2020, net revenues €164.6 million, plus 5.1% at constant, but current exchange rate plus 7 in constant exchange rate. Performance by geography, Europe 3.9, Italy minus 3.6, Americas minus 4.8, Asia plus 28.9.

Performance per distribution channels, retail 11.5% plus, wholesale plus 0.4%, and now vis-à-vis March 2019, this is really fundamental figures for us. First quarter 2021 reported an increase of 2.86% at current exchange rates and 3.3% at constant exchange rates. Powerful growth in Asia, 18%, sound performance in America 4%, and Europe plus 1.5%, and then we called a limited drop in Italy, minus 17%. We have many tourists. Then both sales channels were up with the retail increasing by 3.2% and wholesale up 2.2%.

And that's how I call these results. It is with a feeling of great positivity that we disclose our results achieved in the first quarter of this year, which we have defined as the year rebalancing. It was a very, very positive quarter, which indicates a gradual return to normality in daily life with a strong desire for healthy planning.

The taste that the brand represents is at this moment in time is currently generating a strong consensus that translates into important national awards that honour our company culture, our land and all of us. The more than satisfying performance of spring collection sales and the sizeable quantity of orders in the portfolio for Autumn, Winter the coming one, with the resulting excellent feedback of the world press on our collections make us envisage a year 2021 with an excellent growth in turnover of between 15% and 20%. We also see a solid increase in sales for the year 2022 namely around 10%.

Now a couple of words on the world market. So the Asian market performed very, very well and for us it accounts for 22% of revenues. And, you know, nearly everything about this. What I find very interesting Luca is what Michael that our President in China said the Chinese consider their country to be the safest in the world. Of course, obviously, perhaps this year, we will not travel but it is very understandable what they say.

So America very well 32% for us and a lot of inspiration for the product too. They also, that I mean, was saying in the Member of Board, he said that they to consider their country to be the safest. And I have to say that in America you feel this great craving for physicality, whereas on top of it the desire to do many, many things and it is out of doubt that there will be an important return to movement and interaction. In the American destination places a lot of events are being planned great in

multi...monobrand and we are ready for these Americans who will not travel much.

Europe is worth 45 points for us, and there's no doubt that there is a lot brewing on, because every day, day-by-day we are waiting a new beginning is just around the corner. But we...what we say is that Eastern Europe they're very, very well with Russia rising, in the Rest of Europe there is a great difference between the boutique located in the big cities more tourists there and those in the small, medium sized cities and towns with local customers. And the beautiful multibrand have a lot of value. They work a lot with new system of local clients, because they send the goods to their home with private exclusive appointments.

And honestly speaking that this way of working is already very much well established in our stores too. But we believe that it will be a very valid formula also for the time to come. For example, if you don't have time, I can send you home a few garments that you can try on. Honestly, I am among those who think that my country is the safest. And as a matter of fact, we now prefer to travel in our own country. This is the natural instinct of human beings. Whether you talk to well new projects are mentioned regarding at least the coming 3 years, and this really is very strongly felt. And this gives us a lot of energy. Company medium to short term projects '21, '22, '23 are basically all secured and also planned.

So now I want to provide you with all this highlights of the coming years '21, '22, '23. '21 and '22 you already know we have added '23 because it's April already so that's the right way to proceed. For '21, we envisage revenues arising between 15% and 20% vis-à-vis 2020 and 3% to 7%, vis-à-vis 2019 and EBITDA around 13% and 14%. For 2022 and 2023, we would like to grow of around 10% a year with a new balance in EBITDA around 17%, which means that at the end of 2023, you see, we will have

achieved what we imagine envisaged in 2019. That's why there is a slightly higher growth in the coming years.

What we would like to do? Well, in investments-wise, in commercial and productive...production between 7% and 8% of revenues, then investments in communication, you see as usual, it's always between 5.4 and 5.7. Net financial position will improve. And from next year onwards, we'd like to go back to a dividend policy of 50% of net income. We never would achieve that, maximum was 45%.

So now in the coming 10 minutes, I'd like to talk about the products, because they are very young and you will understand why? First of all, because we have time, we already mentioned many things a month ago. But you see, I am really keen on the products, because it is something that gives us the opportunity to envisage the coming 30, 40 years. This is going to be the 10th fiscal year since the listing in 2012. And we're very happy with the listing. I've always said that. The 44th year of our heritage, but actually we want to consider it the first year of the new cycle for the next 50 years.

So at the end of 2020, we took stock of our situation, who we are, what we did in terms of...from the economic, financial and sustainability point of view, but especially in terms of style and taste because that's what matters the most. So...and we said, what is the taste and identity of the Brunello Cucinelli brand. So we analyzed all this after the end of the sales campaign Winter '21, last March, at the beginning of the great restart as if we were about to tackle a new cycle in mankind.

Just one minute of your time to tell you where we started from with our brand. My dream as a young man was always to start...since when I started was that of identifying and matching my name to a very precise

and clear taste. So what did I want to do? I wanted to do "made in Italy", clothing, high quality. I wanted to have luxury an exclusive product, something that you never throw away, but you actually hand over, hand on to your future generations, high craftsmanship and quality and with a sporty chic luxury taste, and a no logo product too. No logo because I did tell you the story of when I was modeling for [indiscernible] and the owner, this very fascinating Mr. Servadio, we have...we struck up a friendship when we grew up. So he has this #1 company in 1982 till I was their competitor the important ski...skiers. And then he said Brunello, can you tell me why this product is not going so well, is not doing so well? And I said to him, you know, Leonardo, it's difficult to tell you but you should have the courage to remove your logo which was a half tennis ball, orange in color.

Well actually, I have always believed that if you can create a style, it will last for centuries, and styles can be only created through clothing. Edward VIII, the prince of Wales after the First World War and after the '18 '19, the end of the Spanish flu, he started arguing that they should try to dress better to rediscover the way of dressing up. And still today, the kind of case is recognizable and charming, even one century down the road. When I started this business, I drew inspiration from the great names of the worldwide clothing and fashion that were able to create a taste recognizable over time. That's precisely what I wanted.

Just a few names from the very beginning, there was a Japanese genius of Yohji Yamamoto with the most fascinating shapes that I've ever met. Then, of course, I drew inspiration from the Great Italian Master, Giorgio Armani, and also the magnificent French [indiscernible] channel, it's been there forever.

And more than anybody else, my source of inspiration was Ralph Lauren, who was able to create loads of beautiful products. But especially, he was able to create a unique way of doing visual merchandising, and it was always a source of inspiration for me. I went to see him in 2019 in New York. We exchanged pleasantries and we took a picture together and we were both very moved. He was the true inspiration for me.

And then I could really list a very, never ending number of great fashion designers we draw inspiration from, because inspiration is a good thing, but copying is not something I like, never.

And I'd like to thank all these fashion designers for their inspiration. In the past 10-year, I would say that things have gone pretty well. We have a very clear cut image of our brand and we have very important, strong ties with our places where we work and live, Solomeo. And hopefully, we can organize a dinner together, Solomeo. We have called it the hamlet cashmere and harmony. Well, you know a lot about Solomeo, but I hope that you can come to dinner maybe end of June, July.

So creativity, I have always believed that you need to have a young team who has the courage to listen, especially what the market they don't...did not appreciate. Sometimes you say, you see, I was too ahead and the market did not understand. You see, I like acting as a creative director of the team. And at the same time, I keep saying that I want to vouch for everything that comes out of this Solomeo factory, both in terms of product and style and communication and way of behavior.

I have always maintained that as you get old, as you become elderly, you lose part of your creativity. I'm sure about that, especially the most sort of...so to speak edgy creativity, but that is vital to make your brand fascinating. But what happens is that your taste strengthens and you never

lose that. So still today, if I see something, I really like to voice my opinion on the taste.

In the past few years, we received from the international press and from our partners really a plethora of acknowledgments, regarding the recognizability of the brand. Of course, all this has always honored us and has given us the strength to keep believing in our style and taste and its contemporary character.

In the last 3 or 4 years, these acknowledgements have basically turned into a great recognition. In 2018, The New York Times published a piece by the great fashion expert Guy Trebay, a very demanding guy, but a very nice guy, who highlighted a comparison between me and my great master, Ralph Lauren. And in the very same piece, he called us Brunello Cucinelli is their favorite brand of the coolest CEOs in the world, and this was a great, huge honor for us.

In December 2019, GQ UK appointed me the second person among the top 8 most elegant men in the world. And you see why are you saying that? Because I really wanted to talk about the recognizability of the brand, and GQ UK wrote, the tycoon of cashmere is the man that the billionaires of technology go to like Jeff Bezos, when they need to understand how to dress well. And it seems also when they need to understand how to behave as good citizens. It is not a surprise that this very same Cucinelli surprises us all.

And last, in December 2020, Telegraph U.K. Yes, we should build a monument to the Americans and the British. They defined me the most stylish man of the last 10 years. Did you hear my pronunciation, because now...I...every day, two and a half hours of English lesson. And by December, I will be speaking English, when I come to see you in

December, London and New York, I hope, I can really exchange a few words with you in English. And the comment by the Telegraph was, the man...the stylish man of the last 10 years. Of course, this gives us a lot of strength.

The journalist said you might not have heard yet about the titan of fashion, Italian titan of fashion Cucinelli, who runs his eponymous luxury brand from the very tiny hamlet he owns in Umbria, Solomeo, but his approach to clothing has become one of the most influential over the years.

The unrivaled quality and the concept of combining smart and casual are his pillars, and he left his mark all over the world of menswear. Of course, it does help that the 67-year is the best spokesperson of his brand by embodying himself Italian elegance and refinement. And we thank the Telegraph for that.

So what did we do? We have tried at different times to understand the reasons of these very important acknowledgements. So statistically speaking, we think that the fact that we do not believe in having a lot of carryovers and evergreen makes collections more contemporary. You know, and I say it once again, if I have my blue blazer on today, but it is not the same as 2 years ago, it is 1.5 cm longer. So I've always believed in this. We do not believe in evergreen.

We are definitely on the lookout for something that is fresh and new. And this is the pure meaning of fashion. We very...we are very happy that we have associated the brand to Solomeo and we believe that this has brought about a lot of fashion for the brands, sorry, of charm for the brand.

A few years ago together we were talking about the Family Foundation project to support the hamlet and it's...the outskirts. The project for

beauty that you are familiar with, you know, when we tore down all those warehouses. Today, we believe that this is very much linked to the very big, highly debated topic of sustainability that we call living and working in harmony with creation. So to support all this a few days ago in London at Harrods, a beautiful department stores you know, and they basically asked us to do that. And we were very pleased. So we opened this space that we call soft furnishings or home wares with candles, pillows, tableware just right adjacent to do, but...to, but this isn't immortal brand, Hermès and Dior. Unfortunately, I only had a chance to see a picture of this space, but I liked it very much, because I think that it really represents us to the end.

Before coming to a conclusion, we would like to highlight once again, the most important concept in the world. And I will keep telling you till the end. Marketing is important, but having a contemporary product is vital. So to conclude, we were really keen on highlighting once again the value of the brand, because this is the first year of the next 50 years. We are very much convinced that the value of the brand represents something that offers great opportunities in the years to come.

We can definitely envisage the manufacturing of eyewear, fragrances, home ware, and many other things, because we have the brand. Today, we do have the brand, we think, but we should always remember that each and every one of these is a different kind of trade. We are working with high concentration, focus and serenity. You know that from the very beginning, we have had 2 doctors in the company, who basically test everybody coming from the outside and all the employees, so that we could all work full time and with a better...in a better mood.

In the company, we can feel an atmosphere of rebirth, may be thinking that the worst is over. And by the way, we really need...we have a really

big desire to meet again, smile, and shake hands. How long has it been since we haven't laughed? I haven't been laughing for a year, maybe a few smiles, but not really good laugh. So thank you once again for listening to us, for your time. We really wanted to walk you through this topic of products, because a month ago, we went into detail about our business. So thank you very much.

Now we are open for questions. Whenever you want, you can call us and hopefully we can meet again soon.