

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

## **"9M 2023 Revenues Conference Call"**

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OPERATOR: Good evening, and welcome to the conference call on the 9M 2023 Revenues of Brunello Cucinelli. I would like to hand you over to Luca Lisandrone. Please go ahead sir.

LUCA LISANDRONI: Good evening. Thank you very much. Thank you for attending our conference call. I am here with Riccardo, and we'll be taking the floor today during this conference call to comment on the results of the first 9 months of '23. As you might know, Brunello together with Carolina and Alessio is traveling in the States, so he won't be here tonight.

However, we are a good company because we are here with Dario, our CFO, Moreno and Pietro, and we would like you to think of us as if we were accompanied by all the people who have contributed to the incredible results that we are going to comment on in a minute. So we are a very young, energetic, cohesive and enthusiastic group of people open to the world and to change.

So tonight, I will try and be exhaustive, and as brief and as clear as possible to allow those of you who are planning to attend Ferragamo's conference's call and we would like to thank Marco Gobbetti and his team for their support.

Our call will be divided into 2 parts, first part, that will be devoted mainly to the results, so besides analysing the first 9 months results, we'll be providing our outlook for the full year and then we will be providing you with the guideline for 2024 as well, and today our guideline is I think it's fair to say that it's very robust. And then we will be also illustrating our projects for '25. We have very good visibility on 2025 after completion of the 11<sup>th</sup> 5-year plan.

And then the second part of the conference call will be devoted to a more qualitative analysis, we'll be commenting with you the main

trends that have emerged on the various geographies. We would like this call to be entitled "the call of the markets" or even better "the call from the markets" because the idea is that of providing an in-depth and dynamic analysis, on the results...of the results achieved.

And I'd like to move on to the results, so revenues amount to €818 million, up 27.5% at current exchange rates which is amounted to 28.8% at constant exchange compared with the same period of '22, all the geographies have performed very well in a very balanced way, the Americas up 21%, Europe up 18%, Italy 20%, Asia 50%, so I'm rounding up the figure. As for the distribution channel, they are also well balanced with substantial growth, retail up 35%, wholesale up 17%.

The very good results of the first 9 months of the year and the attention to the exclusivity of our garments make us think of substantial growth of revenues for '23 between 20% and 22% compared with the previous estimate of 19%. And Brunello has commented as follows. In the first 9 months of this particularly good year, we have achieved significant growth in sales and image, given the high quality of sales, we expect a nice, healthy profit as a result. We see there is a robust demand for high-quality, hand-crafted garments that epitomise an idea of "quiet and precious luxury" that reflects our personality.

Based on the above, we have chosen to raise or to review upward the year-end sales growth estimates from 19% to 20%, 22%. Given the excellent sell-out rate of the fall/winter 2023 season and the exceptional order intake for the spring/summer 2024 one, we are very confident in our balanced growth project for 2024, which we have estimated at around 10%.

And in these days of distressing news, I call upon the world's great men, the temporary guardians of Creation with all my soul, and with all my mind, so that they may be enlightened and shed light themselves

on the darkness of war, and find the path of peace for so many suffering human beings. And we know that today we are asking you and major effort to leave aside for a moment the strong emotions that we have all been feeling [ph] over these days to focus on our economic and financial results.

These results are really excellent and they have been driven by the soundness of a trend that emerged in the first months of the year and has continued in July, August and September. These results are extremely satisfactory for us and they will have to combine the exclusive positioning of our brand and the relationship the very strong sound relationship with our customers.

In the first 9 months of this year, we have witnessed 2 main trends emerging; first, the wide spreading of this new concept of luxury namely "quiet and precious luxury", and then, the search for uniqueness that has been witnessed in all geographies. As for Q3, as you might have seen, Q3 in absolute terms is very similar to the 2 previous quarters and percentage wise, it features a growth of 21%.

Considering the contribution of the various geographies, well the picture that was described in June has remained unchanged. The Americas account for 35% of our sales, Europe 38%, Asia 27% and this mix is very similar to what we will be seeing at the end of the year.

As for the geographic mix, we expect that by the end of the year, Asia will grow in terms of contribution by a couple of percentage points moving along the direction that we have anticipated.

Moving from geographies to channels, the wholesale channel completed the Q3 in incredible way...with an incredible result and grew by 20%, thanks to very timely deliveries, and the order intake for the new season. As you know...as for the fall/winter season, orders intake taking place in Q1 and mainly takes place in Q3 normally.

As for the retail channel, retail ended Q3 growing 22% much higher growth rate than we expected, considering the growth rate that was reported in 2022 that was already very good.

Please remember that the timing for shipping is generally Q1 and Q3 for the wholesale channel, and that's why wholesale accounts for a larger share of contribution to sales in Q1 and Q3, whereas Q2 and Q4 are mainly driven by the retail channel. This is why our current channel mix is accounted for by retail 62% and the wholesale 38%, we can expect that by the end of the year the retail channel will account for a larger share roughly 2 percentage points more.

At the same time, however, we would like to remind you that the retail sales is accounted for by the concessions in multi-brand stores that account for 10% of the total. So, if we consider our sales broken down by single-brand and multi-brand stores, the breakdown by channels would be even more balanced. '23 will be remembered as an incredible year for our retail channel...for our retail business. However, we are extremely satisfied also with the performance of the wholesale channel.

The wholesale channel has seen the advent of new multi-brand players, both physical and digital. I'm thinking, for instance, of what we managed to achieve with the Lane Crawford in China, or Mytheresa digital player, they have laid the foundation for a stronger, and even greater growth going forward. At the time, where we are witnessing a change in taste, we believe that being present in multi-brand stores has been of paramount importance because we have been able to make our brand visible to customers who had not paid so much attention so far to our brand, and so the number of customers has increased substantially in this year. But let's now look at the next quarter, Q4.

We have discussed at length about the guideline provided, and in preparing the estimates for Q4, we have considered the number of factors that will affect the results of Q4. Well, first of all, we have been able to retain our positive performance, and every quarter we have exceeded the expectations that we had at the beginning of the quarter. And of course, we are particularly satisfied with these results.

And then the winter season started off very, very well in terms of sales at the store. This means that our customers...at the end, customers appreciate what has already been appreciated very much by our buyers and by wholesale channel, and then the seasonal nature of our business, consider the average price of the fall/winter season collection that is generally higher than the spring/summer collections because of overcoats, heavy jackets, or knit wear.

Q4, as a consequence, is the quarter that reported the highest sales in the year, but at the same time, we consider that Q4 in 2022 was a very strong quarter where both the wholesale and retail channels performed very well. In those days, if you remember, the markets were euphoric after the concerns brought about the pandemic.

In our retail network, we see numerous customers who have already purchased the fall/winter season...at the beginning of the season, and of course, at the same time, if we have to consider the tensions in the Middle East. We're not so much concerned about the impact that such tensions can have on the Middle East area, rather because of the violence that involves innocent people, something that we wouldn't like to see.

As a whole we...and on the ground, that I've just illustrated, we expect a very sound Q4. We expect €3 million worth sales. That would be the record sales ever experienced by our company, and this is definitely a target that we couldn't even think of a few years ago.

This is why we have reviewed our estimate for the full year '23. So, by the end of '23, we expect our sales to increase...our revenues to increase between 20% and 22%, which percentage-wise, and in absolute term, this would mean €1.1 billion in terms of revenues achieved by the end of the year. This translates into 2 main targets achieved. First of all, we'll be exceeding the €1 billion milestone, and it would mean doubling our revenues compared to 2020.

So, this year, the sales trend has led us to review upward our estimates, and this additional performance has been generated with a network of stores and wholesale clients that has remained unchanged, and especially these results have been achieved with the very same strategy and the very same initiatives that we had planned at the beginning of the year. So, we've been really surprised by the way that our collections have been, let's say, received and welcomed by the markets.

This applies to our brand, but also to many other luxury brands. Today, we hear about the slowing down on the market, but if you look at the absolute figures of our sales, of our store traffic, or the acquisition of our customers, well, we've got the impression that we're still witnessing a very sound, and strong demand. And thinking of the past...the thinking of October, November, last year, and you know that October, November is the time when we draft the budget for the following year.

I remember, last year, speaking with the colleagues of other brands, and everyone would have been very happy to report a double-digit growth rate. And I believe that most of the healthy brands that are on the market will report a much higher result in terms of revenues than the one expected and hoped for October last year.

And I would like to refer to the other KPIs. Again, revenues are expected to grow between 20%, 22 %. EBIT is expected to grow by 16%, in line with margins reported in the first 6 months of this year,

growing versus the 14.6% reported in 2022, and then net income between 10%, 11%, which is very, very good, and then as for stocks, we expect 25%. CAPEX amounted to 8%, investment on advertising and events, 6%, 7%, the net debt remaining unchanged, and we expect to pay out dividends amounted to 50% of our profit.

So, this is...I believe, the ideal situation for our company. The company is reporting very high and quick growth of revenues without diluting the perception of exclusivity that accompanies our brand. Quite the reverse, we do believe that revenues growth has been accompanied by a further strengthening of an idea that we cherish, namely an exclusive brand, with an accent on the ready-to-wear and a distinctive taste.

So, a company has a sound P&L, balanced margins, and very sound balance sheet that despite the substantial investments made over the past years, and consider the investments that we have planned will remain sound. Currently, the company has 2,500 million employees that account for the most valuable asset of the company, and also the basis to plan future growth...and after the 2024.

Let's have a look at 2024. For 2024, we expect revenues to increase by 10% with good balance between the price mix and the volume increase...

**RICCARDO STEFANELLI:** May I interrupt you here Luca. This balance in effect between volumes and price mix is something which we think will happen with very well-balanced pricing. So we'll keep our pricing strategy, which is 100 in Europe, 121 in the US, 128 in Asia. So, sorry for interrupting.

**LUCA LISANDRONI:** So, of course, I would say that in 2024, we do expect that both sales channels will increase their sales. For the wholesale channel, we already have very relevant information. A great part of our revenues is

represented by the good orders we have already collected for the sales campaign of spring/summer '24, which is going to be the revenues of the first quarter of '24.

As to the retail channel, we still trust we'll see a further improvement of comparable sales, both for the menswear and womenswear, based on comps that are going to be pretty relevant from the beginning of the year. We can actually confirm that the opening of new stores...the plan of new openings for 2024 is already consolidated. We are going to open 3 main stores, 2 in the first part of the year, Miami Design District, and a lovely store at the Macau Four Seasons.

Whereas in the second half, towards the end of the year, we are scheduled to open one store in Toronto at the Yorkdale Mall, which is one of the most important malls, not just in Canada, but in North America as a whole. So you know, well that over the last few years, a very important role was not just opening new stores, but also extending existing ones. So extensions of existing stores allow us to improve our presence in the cities where we do operate already, so we can capitalize on locally established presence without exaggerating in expanding the network of our stores.

Amongst the most important extensions for next year, there is 2 that are particularly charming. At the end of the first quarter next year, we expect to extend the store in Venice, whereas towards the end of the year, we are going to extend our store in Vienna. Those new openings and extensions together with the CAPEX will invest in technology and the industrial part of our operations, so make us think that next year, CAPEX is likely to be again nearly 8% of the turnover.

As far as communication is concerned, we believe that the investment we did last year, or rather this year, which is 6% to 7% of revenues, will allow us to be discovered gradually by customers, but at the same time to make sure that everybody who will show their interest towards

us will receive a full representation of our taste and a full representation of our brand and product. On the other side, we want to continue along the store animation program, which was very rich and busy and very important throughout the year.

As to 2025, as we see today, we expect it to be very similar to 2024 and we expect the revenues to grow by 10% as well with the same kind of investment strategy. Compared to what we already told you recently, we can tell you that the new element is that today and for some months already, we have achieved very good visibility on all actions we expect to perform in 2024, so we are in the best possible conditions to start building our performance in 2025.

Thanks to this, we have already started scouting for the 2, 3 new stores we are scheduling to open in 2025, and so we already have very interesting and very important options there. So Rick, correct me if I'm wrong, but in industrial terms, the estimate of future needs on a segment-by-segment, category-by-category basis has already been updated and we're very confident we are all set to go. And most importantly, we also understand what the main events will be in the first part of 2025.

RICCARDO STEFANELLI: Very good. Thank you, Luca. Let me give you a couple of quick comments on production. As we anticipated in our last conference call, we have gathered our small artisan companies in Solomeo in mid-September, as we usually do, and this is really important for us not just to share results but also to share the expectations for the next few years.

All SMEs we work with seize this opportunity to go back home with a good understanding of their future, which is also based on...which is also the basis on which they will make decisions on their investment, their future, on training their people. When we meet our SMEs, we also work about the blue-collar and factory workers, which is

something that, as you know, has been very important for us for quite some time now. It's a direct contact. There's no platform to go between...it's typical of the Italian culture and this allows us to experience products first-hand, day-in, day-out.

Then Solomeo, we believe that the project for the new factory, which is continuing and the investments we've made in all the land surrounding our industrial facilities, will guarantee the company and Solomeo to keep growing for the next 100 years, which is what we like to think of. So you all know that as a family, we're very strictly connected to the concept of long-lasting things, long-lasting products, and investments. And also, we believe that the combination between Solomeo and the factory is the best prerequisite for us to think in secular terms.

Looking out of Solomeo, in mid-November, we will actually open the first part of the new Penne facility, where we'll start manufacturing the first product any time soon and we are really eager to see and to start using this facility because, as we imagine, the location is really rich in artisan know-how and skill-sets. So, you may remember we first discussed this in April, but we get access to manual skills and artisan skills there that are quite rare and scarce and lead us to think that we can expect a great growth there.

LUCA LISANDRONI: Thank you, Rick. Now, let's close this part on numbers. As usual, we wanted to be totally open with you and let you know about our expectations, and I think we should look at markets now.

So if you agree, I'll start with America. There is 2 data that are important for us. America accounted for nearly 30% of the total growth of revenues of the company in the first 9 months of 2023. From a different angle, in the first 9 months of...well compared to the first 9 months of 2019, the American market grew by 91%. Both things make us believe that America is a very important domestic

market for us, a very relevant and important one, but it hasn't really become the typical mature market for us.

If we look in particular at 2023, we see that some very clear things happened in America. The first very clear event is that the demand for luxury has become much more widespread in different locations. So, demand has kept very strong in large cities like New York City, Los Angeles, Chicago, and Miami. It has grown enormously in all main resorts like Aspen, the Hamptons, and Palm Beach. But the real surprise for us was actually the performance in, let's say, second tier cities such as Austin, Texas, Minneapolis, Nashville. So, all cities where we do have operations through specialty stores and department stores.

Another very relevant issue we have observed in America is that ready-to-wear is becoming more and more important. And there is a kind of rebalancing of traffic within department stores between the ready-to-wear and accessories categories. And this is a trend which is very strong, very visible in America, and I think it's pretty much visible everywhere, which is people attach more and more importance to understanding and acknowledging the value of exclusivity and brand position in an artisan quality of product. So, we keep investing in America. We're very convinced about this market. We invest in our own stores and in multi-brand stores. We believe that multi-brand partners are fundamental for us to help bring the same brand image to all end customers.

At the beginning, we said Brunello is travelling in US, let me give you some information about that trip, because I think it's really telling unpredictable about our strategy on the American continent.

Choose the night, starting from the East Coast, we celebrated 25 years of fantastic mutually satisfactory partnership with SACS. For that celebration, we completely took over the 6 store windows on 5<sup>th</sup>

avenue, and the layout and the setup of the windows was really...specially was the Solomeo expressed a kind of a dream train that started from the windows and went into the stores with stops and stations in the individual outputs on different floors of the department store. One of which was dedicated to the exclusive launch up until the end of the year in the North American market of our fragrances.

The event was completed with a lovely dinner at the upper floor restaurant where Brunello and his family had an opportunity to personally thank the many people who, by simply coming there, expressed their estimate and their appreciation of the brand.

Now, the group has traveled to the West Coast, where in the iconic location of Chateau Marmont in LA, Brunello is going to receive the many Californian friends of the brand in a private event where a very heterogeneous group of guests was invited, including artists, actors, musicians, great entrepreneurs, at a moment which is going to be a very friendly gathering of people. And we had an opportunity to gather all of those beautiful people who, over time, have been a kind of a reference point in that beautiful part of America. The last day of that trip will be dedicated to the product completely and to the last chapter of the celebration for the very important Neiman Marcus Award, which Brunello received earlier this year.

So, you see, there's pretty much everything in this trip. There's a lot of care for image, a lot of unrelenting attention for the visual merchandising, the product as a key core, an important issue for us, the need and desire to gather all the categories under the same umbrella. We love to listen to people, look for their feedback. There's a lot of glamour, but also gratitude and personal relationships, and we believe all those elements together were fundamental in driving us in America through a very successful journey.

Europe now; well, Europe is still the dream destination of luxury clients globally. Even today, European cities still host all the most important stores, the actual flagship stores of a lot of luxury brands, so much so that they become actually travel destinations in individual cities.

Think of Paris, for instance. If you really think about it, today, Paris has 2 open-air luxury salons, one in Avenue Montaigne, the other in Rue Saint-Honoré. You may remember that up until a few years ago, Rue Saint-Honoré was a luxury destination just in the top part of the street, whereas the whole street, which is really long, has now become a luxury retail street. And the Champs-Élysées are also joining in as a further luxury destination in Paris. So, using Paris as an example to show that the importance of luxury in European cities and global cities is increasing enormously over the last years.

On the other hand, take London. Now, despite Brexit, despite the cancellation of tax-free release, London is still having very interesting turnover, both in mono-brand stores and in the wonderful department stores the city, and it keeps investing in its own development quite a lot. So, I'm thinking of Sloan Street, for instance, which may certainly become much more charming and interesting than it is today.

One final example for Europe is the Côte d'Azur, the French Riviera. So, we had a very, very positive season there. The French Riviera was very successful thanks to our presence through a flagship store in Monte Carlo, a new lovely store in front of the Palais de Cinema in Cannes, and a small but resort-oriented store in Saint-Tropez. And we believe that the French Riviera gave a huge contribution to our revenues in the first 9 months, but also gave a great contribution to strengthening our image as a lifestyle brand.

Italy, Italy is experiencing a record year through both sales channels. And this is mainly due to the unique, multi-centered nature of luxury

markets in Italy itself. So, there's not a single great capital, but there are many cities like Milan, Rome, Venice, Florence, that are extremely important for luxury retail. There are resort locations and provincial cities as well. And there again, retail was very lively and very brisk and interesting. So, altogether in Europe, we did experience a lovely summer. And we're really confident we'll experience winter, which is going to be just as lovely and interesting. And also, we are confident to say that also thanks to the really domestic nature of our operations here.

Then, Asia. Asia contributed 40% of the overall growth in the first 9 months. 2 areas in particular were most important, China and the Middle East. But we also had excellent performance in Japan and Korea. I just came back 3 weeks ago from Asia. And I have to say that I saw for myself, I felt and I realized the great potential of this project, which they call the Greater Bay Area. So, first of all, I saw an infrastructure which is complete by now. I drove around from Hong Kong, Macau, Shenzhen. And then in a very short train trip, I reached Guangzhou. And in each of those 4 cities along the perimeter, I found luxury retail, which is absolutely exciting. And the level of investment made there is absolutely remarkable. Now, this area by size and by concentration of wealth is deemed to become one of the most important luxury areas globally. It is called a hyper-connector. It's a hyper-connector connecting finance, technology, fashion, art, and entertainment.

Hong Kong, Hong Kong is in great health. And we are actually far above the performance of 2019. And in particular, Hong Kong is back to welcoming a great number of tourists coming from Mainland China at the Mid-Autumn Festival a few weeks ago. Something that really struck me as I came back from my trip to China is the intention of many landlords from Hong Kong and from Mainland China to try and reproduce in these destinations to some of the atmosphere of outdoor luxury retail. So in Hong Kong, Shanghai, and Shenzhen, I noticed

there is a lot of desire to go beyond the typical design of indoor malls, which is typical in China. They would like to integrate some outdoor open-air locations to increase the space for creativity of individual brands and to offer shopping experience to end customers, which is going to be really rich in content and fully immersive.

And then in general, city-by-city in China, I noticed that luxury retail is becoming more and more elevated, which is speaking well for the future. And our sales are increasing in each individual city where we have operations. Thanks to serving more and more clients. So on one side, we have new clients walking into our stores for the first time. But on the other side, I'd like to remember that our established clients have a loyalty level which is just as high as the Western benchmark.

I conclude about China to inform you that we are waiting for the next award that will be given to Brunello next December. And this award will be, again, awarded in a country that we believe is extremely...has an extremely high potential where our brand is still very young, namely China.

As for the Middle East and Dubai, they're still attracting tourists coming from all over the world. And there we expect incredible times characterized by growing expenditure devoted to garments by the local customers. And thanks to this, we have been able to extend our local customer basis. And we have seen a high contribution of the Middle East to our revenues. And thanks to the recent openings in the area and the great job done in this area recently, we have been able to see growing the contribution of this geography. And we rely on this going forward as well.

And concluding about the digital channel. So the physical channel has accounted for the live share in 2023. However, direct sales through the digital channel are growing as well. But what is growing even more is the number of visits of our website. And something that is very, very

interesting, in my opinion, is that the number of interactions of the native digital customers with our staff is increasing substantially, which means that digital customers are looking for a piece of advice and human interaction. As you know...as you might know, ever since we started our boutique online, we've always aimed at having high-quality websites, very effective and efficient websites. But above all, we wanted to endow a tool that is, I mean, un-personal with a human touch.

I would like to conclude by thanking all our co-workers, our employees, the journalists, the analysts and investors for accompanying us along this path. So thank you very much. And now we are open for questions.