Chorus Call

Cucinelli – March 14th, 2024

Operator:

Good evening and welcome to the presentation of the Brunello Cucinelli fashion house's 2023 results. The speakers will be Brunello Cucinelli, Executive Chairman and Creative Director; Riccardo Stefanelli, CEO; Luca Lisandroni, CEO; Dario Pipitone, CFO; Moreno Ciarapica, senior co-CFO; and Pietro Arnaboldi, Investor relations and corporate planning director.

I would now like to turn the floor over to Brunello Cucinelli. Please.

Cucinelli:

Good evening. I'm really glad because it's been three months since we've heard from you, it's always a great pleasure to speak with you, analysts, investors, some members of the press, so we're pleased.

It's true that we haven't spoken for three months, but many of you came to Pitti in Florence, to Milan, during the men's/women's fashion weeks, so we would like to thank you for coming to these fine events. We are all here in Solomeo.

We would like this call to unfold as follows: we will read out the highlights of the financial statements; then a general report on the major topics for 2023; subsequently, very important, a focus on the trend of the men's/women's autumn/winter 2024 collections; another very relevant subject: the trend of sales in the first quarter, because there are still 15 days to go; then, a broad overview of the markets and how things are going, which is perhaps what interests you most, and it is understandable; then we would like to dwell on what we have defined as "Gentle Luxury" and the great value of exclusivity.

We would then like to give you a pretty visible 2024 turnover forecast, followed by some visibility on 2025 turnover forecast, a brief update on the big projects – eyewear and fragrances; and then, last but not least, our investment in high-quality artisanal production capacity, which should cater for our production planning until 2030 and perhaps even a little beyond.

Revenues of EUR 1,139.4 million, with a fine growth of 23.9% at current exchange rates and 26% at constant exchange rates, compared to last year.

EBIT of 187.4 million, up 39.4% from 134 in 2022, with a margin of 16.4%, up from 14.6% last year.

Net profit was EUR 123 million, up 42% from EUR 87 million last year, with a margin on sales of 10.9% compared to 9.5% in 2022.

Annual investments of €79 million as part of the major three-year plan to support artisan production, the distribution network and brand image.

Net debt of EUR 6.1 million.

The excellent performance in the first months of the year and the significant order intake for the 2024 men's/women's autumn/winter collection support the visibility of our forecasts for a sound 10% growth for 2024, with a healthy profit.

The Board of Directors will submit to the shareholders' meeting, convened for 23 April 2024, the distribution of a dividend of EUR 0.91 per share. The payout is 50 per cent of profit.

We decided to call the current trend "Gentle Luxury, a symbol of beauty within measure". We were somewhat inspired by the Greeks and their with living within measure.

A particularly noble and fine year for our Fashion House has come to an end: we delivered a 23.9% increase in turnover and a 42% rise in net profit. It has been a year in which we were awarded flattering international recognition both for our designs and for our special vision of labour, and which led us to define our style with a meaningful expression: gentle luxury, a symbol of beauty within measure.

Gentle luxury is a friend who welcomes you with a sincere smile, it is someone who reaches out to you, it is creativity and genius that do not cross the line, it means finding beauty in simplicity. It is welcoming to all, it is within measure and is always appreciated, as it knows the value of respecting others. This is why gentle luxury has a universal value.

The first quarter of this 2024 is drawing to a close with particularly pleasing results, and in view of the good order intake for Men's - Women's Fall/Winter 2024, we envisage a gracious growth in sales of around 10% for this year, resulting in healthy and balanced profits.

Two words now about 2023: turnover and profits. It is a year in which we were awarded prizes, images, recognition for style, identity, territory, you know all this.

Let's restate the fundamentals. Investments: we have spent about 7%, 1% less than predicted, because 1% has been postponed to 2024.

We spent almost 7% on what we call communication, events, dinners, very interesting, which we continue to invest in.

The stock is slightly depleted compared to the standard, thanks to a buoyant demand, but that was the case in 2021, 2022 and 2023, thanks to our Italian State which granted us the possibility not to lay off anyone.

NFP close to zero, dividends 50% of profit, so 2023 for us represents a company in total balance.

Pipitone:

The final revenue figures confirm the preliminary data of 8 January, with a 23.9% growth in turnover at current exchange rates, 26% at constant exchange rates.

I will now move directly to commenting on the other items of the income statement, with the support of the analyst presentation.

Slide 31 shows a balanced cost structure, as already commented on in the August call, when the half-year figures were published. The first margin as at 31 December 2023 increased by 25.5% to 72.5%, compared to 71.5% last year.

This increase is mainly ascribable to the positive contribution of the sales mix, such as distribution channel, geographies and product mix.

In relation to the channel mix, the positive impact is related to the growth in retail, whose incidence rose from 62.3% to 65.5%. It should be noted that the retail channel includes the contribution of department stores under concession, equal to about 10% of the total for both financial years.

As far as the geographies are concerned, the positive impact mainly comes from the expansion in America and Asia, the areas with a mark-up that most favours the first margin; it shouldn't however be forgotten that this effect has a substantially neutral impact on the operating margin, as a result of the related marketing costs, which, in the geographies above, are equally significant.

To conclude on the first margin, there is the product mix, which is favoured by the end customer's ongoing pursuit of increasingly special garments.

As to the profit and loss account, there was an increase in operating costs, equal to 27.5%, as a result of the new commercial initiatives, as well as the growth in retail revenues already mentioned above, and the significant investments in communication to which Brunello referred earlier.

With reference to the latter, moving on to slide 34, we can see that as at 31 December 2023 they amounted to Euro 78.9 million, with an incidence of about 7% (6.9%) compared to 5.7% last year. This increase is in continuity with what was commented for the first half-year figures, in particular the increasing number and prestige of events held during the year.

Personnel costs amounted to EUR 195 million and displayed an increase of 18.4%, which was less than proportional to the growth in turnover, amounting to 17.1%, compared to 17.9% last year.

As at 31 December 2023, the number of human resources amounted to 2,623 full-time equivalents, with an increase of 315 FTEs ensuing from the expansion of our management structure, network and consequent business growth; and mention should be made of the increase in production workers in the framework of the expansion project of our artisanal structure.

Rental costs, net of IFRS 16 effects, increased by 16%, also showing a slight operating leverage, amounting to Euro 155 million, with an incidence on turnover of 13.6% this year, compared to 14.5%.

To conclude on slide 34, depreciation and amortisation amounted to Euro 138.8 million, a slight increase of 5% compared to Euro 131.9 million last year.

As a result of all this, we can say that EBIT as of 31 December 2023 was EUR 187.4 million, up 39.4%, and represents an operating margin of 16.4%, compared to 14.6% last year.

Against this growth in EBIT, as at 31 December 2023, after financial charges of 1.2% (in line with last year) and a tax rate of 28.6% (compared to 29.7% last year), net profit was EUR 123.8mn, representing a margin of 10.9%.

Going back to financial management for a minute, with the help of slide 35, we have shown a breakdown that highlights a recurring component (on which we project next year's expectations), another component more closely linked to exchange rate fluctuations, as well as a further component that we have defined as non-recurring.

As far as the recurring component is concerned, at 31 December 2023, the value was EUR 22.2 million, substantially in line with last year's EUR 21.1 million.

With regard to foreign exchange losses and gains, these amounted to €10.1 million in losses as of 31 December 2023, compared to foreign exchange gains of €4 million last year, which for both periods mainly related to the unrealised component of the same.

Finally, the non-recurring portion, expenses and income from equity investments, which totalled €18.2 million, refers, as already mentioned in the half-yearly report, mainly to our associate Cariaggi Lanificio, where in 2023 we accounted for the positive effects of the transaction for the sale to Chanel of a minority stake.

We remind you that the value of the same item last year, 31 December 2022, was Euro 6.7 million in income and was mainly related to the positive difference between the fair value of the net assets and the purchase price of the shareholding.

Finally, to conclude on the income statement, the tax rate as of 31 December 2023 benefited from the application of the *participation exemption* scheme to the economic effects of the same item "expenses and income from equity investments", diluted proportionally over the year compared to the figure commented in the half-yearly report.

Moving on to slides 36 and following, I would like to share some brief comments on some balance sheet items. More in detail: net working capital, investments and net financial debt.

With regard to net working capital, as at 31 December 2023 it amounted to EUR 178.3 million, representing 15.6% of turnover, substantially in line with last year's figure of 15.3%.

In detail, trade receivables show an extremely healthy situation, with a slight increase of EUR 1.6 million in absolute terms, despite a significant increase in turnover, particularly in the wholesale channel, i.e. +13.3%.

Trade payables, while keeping the payment terms to suppliers, collaborators, and third party consultants unchanged, reported an increase of about Euro 29 million, which is mainly related to last quarter's purchases of raw materials and third-party work, in support of the excellent sales campaigns and the related production mentioned by Brunello earlier.

To close on net working capital, and specifically on inventory, the incidence on turnover as at 31 December 2023 was 25.2%, compared to 26.4% last year, also favoured by the excellent sales performance of the year just ended.

Finally, on slide 38, the net financial debt was 6 million, compared to 7 million last year, with a dividend payment totalling 53.1 million and a major investment plan, amounting to 79.1, as detailed in slide 37; this accounted for 7% of our turnover due to the postponement of some investments, as Brunello pointed out, which were planned for the end of the year 2023, but were put off to the beginning of 2024.

Cucinelli:

I would no longer talk about 2023, then, because 2023 for us is also the first year of our 11th five-year plan. It is significant also for this reason.

Let's now dwell on 2024.

First element: autumn-winter sales went very well, both in terms of multi-brand orders and the feedback from the world press. The feedback of both multibrand accounts and the press is equally important, because there might be a collection that has sold well, but then the press tells you that your collection is not modern enough, and you have to start worrying. The feedback from our multibrands is very important, because multibrands view 100-200 collections each season, and when they appreciate your lineup, that's fine, but if they believe that it's so-so, repetitive, you must have the courage to listen and change accordingly.

Sales performance in the first quarter. I would also like to remind Luca and Riccardo that we only speak about exclusive luxury, so it is important that you bear this in mind.

We had a fine, very interesting quarter, and now Luca will give you a general overview, because he has just come back from China. Go ahead.

Lisandroni:

From our observatory, i.e. from the absolute luxury segment, it seems to us that all markets are experiencing a considerably positive moment, and we believe that the current market scenario reflects a good balance.

A balance that we can read and describe from different viewpoints. I would start with the geographical one.

At least for us, in this quarter, the different regions seem very well balanced, with a very interesting demand trend in all the main markets.

Let's look at them individually. Asia is performing very well across its geographies, from China to Korea to Japan, very consistently over time. America was excellent, we were very impressed by the huge success of the international events held at the beginning of the year, I'm thinking of the Grammy Awards, the Superbowl, the Academy Awards night, which conveyed some very positive vibes, at least to us. We had our Alessio who experienced first-hand this atmosphere I was trying to describe.

Not least of all Europe: once again great soundness in the European business.

In terms of dynamics, the demand for luxury persists even outside the big capital cities, a phenomenon we had already commented on a few months ago. This feeling is confirmed not only by the revenues in our stores, but probably even more strongly in the sales, orders and confidence of our multi-brand accounts, who are really going through a phase of great trust and dynamic planning. As you might know, the quality of the proposition is always key for them.

Geographically, I would like to close by reiterating the growing importance of top-level resorts, a phenomenon that has been going on for some time now.

Let's look at the channels. At the beginning of this year, the digital channel is back in line with brick-and-mortar, in a fine synergy that we already commented on last time. Sixty per cent of our customers often arrive at the boutique showing us pictures of certain looks seen on our online boutique.

As far as customer behaviour is concerned, local customers are still fundamental in all markets in this quarter as well. However, we report a progressive and constant growth in tourism, as a positive note. We must say that at the beginning of this year this rise in tourism also shows an even wider variety of nationalities than in the recent past.

We are also glad to report that our beautiful Italy, which has always been a benchmark for image, further strengthens its international attractiveness.

Overall, the search for special garments is always strong, in an increasingly conscious purchase by customers all over the world.

If we take a closer look at our sales for this quarter, which will come to an end in a few days, we can only describe them as very good.

One figure that we always look at with great interest is the growth in visits to our website and the increase in footfall in our physical stores, further evidence of the health of our brand. The above prompts us to envisage for the whole of 2024 a good growth across all areas and all channels; we expect a very similar mix to last year, perhaps with a slight increase in the Asian weight, at least for us.

As Brunello said, I have just returned from Shanghai and there we gathered our team to exchange views, share ideas and experiences, plan. We discussed extensively the values of hospitality, kindness, amiability....

Strongly restating the great value of sales associates staffing the stores, because everything starts from there.

You know that China now accounts for 12% of our turnover, and we feel that in China, on the one hand the brand positioning is clear, absolutely consistent with the international positioning of our brand, and on the other hand there is the recognition of the appeal of our style, as proven by the great recognition awarded to Brunello last December, with the GQ China Award.

In the eyes of Chinese customers, Cucinelli is a lifestyle brand, with its heart set on in ready-to-wear, exclusive, recognisable, obviously associated to the highest quality of made in Italy, and absolutely pure and protected, both in communication and distribution.

We really feel that over time we have succeeded in establishing solid foundations, and this is why this year 2024 marks the first year of a new chapter in our Chinese plan, bearing in mind the 12% base I mentioned earlier.

We are very confident that we will be able to grow organically, within the existing spaces, as well as to be able to seize the opportunities for further development of our direct network and our wholesale network in the coming period, always looking at the top tier cities.

As far as the digital channel in China is concerned, we have managed to come up with a beautiful, authentic, faithful image of our brand on Tmall, and we are very confident of the strategic importance of this channel, first and foremost for communication, even before sales.

You have seen that China has grown steadily for us in recent years, and as this potential is being realised, our confidence about the size of this opportunity is growing. We are growing gradually, step by step, and we believe that this way we will be able to build a business that is long-lasting, long-term and increasingly relevant. I would stop here, so that we leave more room for questions.

Cucinelli:

One more important thing to reiterate, Luca, although there is no need. You know that the collection is the same all over the world, only the sizes and of course the weights change, because maybe in Hamburg you sell heavier garments than in Athens. I would now like to devote a thought to this idea of gentle luxury, because over the last couple of months – across the big events in Milan and Pitti, Florence – there has been a lot of talk about this "quiet luxury". I honestly don't know what it means because we all spend so much time in the morning trying to come up with a more chic look than the day before; we prefer to define our products as exclusive and not as desirable, because desirability can also apply to my iPhone 15 that everyone has, so it is not exclusive. It's a little bit different.

I have the feeling that more and more people are seeking beautiful, very high-quality, exclusive and perhaps not throwaway items. That is a fact.

We talked about the focus on products, where they are manufactured, how they are made, but the underlying theme, the buzzword in Milan and Florence was elegance, sophistication, youthfulness. It is a big thing. So at the end of it all, inspired by ancient Greece, we coined for ourselves "gentle luxury", a symbol of beauty according to nature. You see, the Greeks taught us to live according to nature, from 800 to 400 BC. "According to nature" and "within measure" is the exact same thing. We are all pursuing beauty, simplicity, creativity, ingenuity, acceptance, which are great universal values.

Luca rightly said, and I repeat it, we like to view ourselves as a fashion and lifestyle house. I don't know if the proportion could be 70 to 30 or 80 to 20, but that's what it is.

For 2024, we entered the FTSE MIB in January, we have a projected growth of around 10%, prices have increased between 1 and 2%, the price architecture is the one that you already know, Europe 100, USA 121 and Asia 128.

For EBIT, in 2024 the margin structure does not change, we perhaps envisage some small improvement, it may be 10-20 basis points, but you know that a handcrafted product – and we have reached 60% handcrafting in these products, it was 52 three or four years ago – never brings about an economy of scale. It takes a certain amount of hours to make a suit, it takes 60 hours to make a knit.

In terms of investments, we would like to remain at around 8-8.5, but in

2024 we will have an extra point due to some projects being postponed from December to January, as Dario explained. We would not want to change this 7 per cent; it is dinners and events that give us great, great visibility, they are events for 50 people, 40, 70, where you also get to know these human beings very well. We open two or three stores every year, plus three or four relocations, so the stock will return to balance in 2024, in 2023 it was slightly depleted; the financial position will hopefully always be healthy and our dividends always 50%.

For 2025 we see it in exactly the same way. Perhaps slightly less strong as 2024, but there is no material change from 2024.

We go back to using words such as "gracious" for growth and "healthy and balanced" for EBIT and profit.

This morning in the Board of Directors we discussed the big topics, the value of the family, the value of the product and the value of our company to 2030, these are the plans we must have.

Family is a great concept that I have always believed in, and today it has prompted us to submit to the Board my two daughters, Camilla and Carolina, as Vice Presidents in charge with product, image and communication. Their husbands: Riccardo acts as CEO, and Alessio, who is not here, is co-responsible for the entire men's style team. So the whole family is involved in the business. There are six of us, with my wife who takes care of Solomeo, the theatre, the music, the events. There's a play on stage at the theatre tonight too, after this call I have to go. Then there is Luca and his wife, who we view as members of our family.

In the end, therefore, the entire family focuses on the product, and I like that very much, because if you make an investment mistake you can fix it, whereas if you get the product wrong there is no remediation possible, in my opinion. You know that we favour product, craftsmanship, rarity, recognisability and lifestyle.

So, in conclusion, what do we imagine the company should look like in 2030? We would like it to be still headquartered here in Solomeo, to have doubled its turnover compared to 2023, so that means it grows more or less 10% a year, in this valley, with craftsmanship and exclusivity still at its core.

A word about eyewear and fragrances. We are very pleased with the fine relationship that has been forged with EssilorLuxottica, next week we will present the collection in Rome. The same thing goes for Euritalia, this beautiful family-run business, father and three children, 1 billion in sales. Italian-only production, great expertise in their field.

We would like you to consider these two contemporary licences not as a category extension but as real products, because eyewear and fragrances go hand in hand with clothing. You wear sunglasses as much as you wear clothes, and your perfume makes all the difference when you meet and shake hands.

What we share with both these companies is the made in Italy, the great craftsmanship, the noble raw materials, the precious details. For example, in eyewear we researched some new acetate plates, resulting in special colours. Right, Luca? The lightness of titanium matches that lightness that we love in clothing, comfort.

It took us three years to fine-tune two fragrances. You might think three years is a long time, and it's true, but we think we have now found our two basic fragrances.

There is a very special collaboration between their staff and ours, we work side by side with them, so please don't think of it as simple license but as a contemporary license.

Now Riccardo will spend a few minutes on this great project concerning artisan production.

Stefanelli:

Thank you, Brunello. Most of the investments that Brunello has been talking about so far are allocated, as you can imagine, to expanding our artisan production capacity. As we mentioned a few calls ago, our three-year investment project on artisan production envisages – first and foremost – the almost doubling of our factory here in Solomeo, and works are going ahead according to plan. As you know, it is a project we are very keen on, because it means safeguarding the valley, the environment and the landscape that surrounds our company, which we hold very dear.

At the same time, there is the beautiful plant in Penne. Works are going ahead and we are very happy not only with that but also because we have found the high manual skills that we expected, the Abruzzi district has kept its promise. This beautiful factory, with huge windows looking out over the Gran Sasso, I must say that we really like it.

It is an investment that matches the one in Carrara a few years ago. In the same way that we view Penne as the Maranello of men's blazers, Carrara was for years a very important district for manual skills.

Why do we believe so much in this kind of investment? Because we believe that in this type of manufacturing there can be no economies of scale. If we want to double our production capacity, if we want to produce twice as many jackets, just to give you an example, we need twice as many tailors.

For this we need skilled hands, great minds and expert craftsmen. This big project, all these investments will lead us to doubling our production capacity, enough to cater for our needs for the next ten years.

I won't elaborate any further because you all know about the value of craftsmanship, you know down well what we think of blue-collar work, you know our thoughts about workplaces. In the April call, where we will have few topics to discuss other than the quarterly figures, we would like to go into these topics with you.

Cucinelli:

I just wanted to say something quite nice. Francesco Milleri, President and CEO of EssilorLuxottica, with whom we get along wonderfully, made a statement that we really liked. Listen to it: "I believe that style and beauty are also a new philosophy that is finally entering the world of work. In our group we are redesigning factories and offices all over the world with a new concept and organisation in mind. The beauty of our collaboration with Brunello for a company as big as EssilorLuxottica, i.e. 200,000 people in 150 countries, is that he has brought lightness into our world". For this I thank him.

Then he added: "We feel a strong responsibility. Every time Brunello says "labourer" it reminds me of Leonardo Del Vecchio, because he expressed the utmost gratitude with this word. Every time he had half an hour free he never missed an opportunity to go to the factory and work as a labourer, learning from those who, with their hands and creativity, give life to the product. This is a great lesson".

Before concluding, a great research on dynamic epigenetics just came out. It reads: "Dynamic epigenetics researches the extent to which the conditions of our environment can stimulate or repress a complete expression of each person's genetic heritage". In a nutshell, dynamic epigenetics can go so far as to scientifically measure the impact that the surroundings have on our DNA and our well-being, such as the view of a landscape, a nice working environment. This is to tell you that, scientifically too, this is a big issue we have to work on.

To conclude, we are working calmly and focused, surrounded by this very pleasant atmosphere, which I hope you will also feel.

I just wanted to add that on the next call on 16 April we will present the quarterly reports, everyone will be present except me, because I will be busy the whole week across Europe, with many meetings. We find such meetings particularly interesting for the brand, even though I have to take loads of selfies with guests, sometimes someone doesn't like the picture and we have to take it again; also, I never eat at those dinners, I enjoy watching people eat. This is my special and innovative diet, not eating. Do you know where I got it from? From the Benedictines, who are very thin. Consider that they eat from 12 September to Easter Day once a day at nine o'clock, and they say they sleep better.

Thank you very much, really, we have spent a great year together, thank you for your appreciation. The winter collections went very well and we feel very comfortable. We want to work on the great exclusivity of the brand.

Feel free to ask us questions. Thank you.

Operator:

We will now begin the question and answer session. The first question is from Andrea Randone, from Intermonte. Please.

Randone:

Thank you and good evening everyone. Good evening Brunello.

A few questions. The first one, you have already talked a little bit about it. In the past you had mentioned product shortage and specifically for menswear, my first question is an update on how you see your market presence and if there are more lively dynamics for menswear or other categories.

The second is on the Penne factory, so in general if you see your taking over the production as applicable to other segments. It seems to me that you have ruled out such possibility in the past, but anyway I ask the question.

In general pricing is a big issue, you don't really act on prices but you have a mix. It seems to me that this mix is moving towards more sophisticated and therefore more expensive products, or do you see stability on this?

Cucinelli:

I'll start with the last one. People are still longing for more special and exclusive items, that's for sure, but this time, Andrea, the idea of not increasing prices is also very strongly felt. This is very important.

As far as Penne is concerned, Italians are the best at making men's jackets, but it takes a lot of tailors, so we are focusing on schools. We opened two factories, one in Carrara, where there was an important plant, and one in Penne, where the highly esteemed Brioni has created a very important culture. We like it a lot, we have a lot of applications.

Menswear shortages. Let's say that in our segment, Andrea, we still find great opportunities to grow in menswear with this elegant, chic, refined, contemporary taste. We were saying this morning about men's collection, that it is a sort of modern-day Great Gatsby. In Milan, we talked about elegance. So we are very confident, Andrea.

Operator:

The next question is from Paola Carboni, from Equita Sim. Please.

Carboni:

Good evening Brunello, thank you for taking my questions. I have three points.

I was curious to know how the latest product initiatives have been received, particularly in the area of skiwear, which is a bit more technical, and a cross-sector trend. Just as a curiosity.

On the other hand, more on numbers, I was wondering how you see the inventory trend, which experienced a further reduction at the end of 2023 due to the strength of the turnover, and I was wondering if this seems to be a sustainable number as a percentage of turnover at the end of 2023.

Lastly, the nice improvement we saw in the first margin of about 100 basis points from 2022 to 2023: is this a trend that can continue? how do you see the product mix evolving? We talked about recent sophistication, so I guess that can continue, but also on the other drivers. If you can give some colour.

Cucinelli:

Regarding margins, Paola, there could be some slight EBIT profitability improvement, as we said before, it may be 10-20 basis points, because by now our cost structure is somewhat fixed.

As far as inventory is concerned, structurally our inventory is around 28%, because clearly last year production went back to normal; but we had three very busy years in terms of production and raw materials. You must always have goods available.

For skiwear, I'll tell you the truth, it was well received. I went to the mountains last week. I didn't ski because I always ski too fast and risk breaking my neck, but I did wear five or six outfits and liked them. I must say it's a very very favourable time for our taste, Paola, for sure. I was saying before that in Florence and Milan the keyword was elegance, but elegant doesn't mean old, mind you. This is important. Elegant must be modern, contemporary.