

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

## **"Presentation of the Full Year '21 Results Call"**

**Thursday, March 10, 2022, 17:45 CET**

MODERATORS: BRUNELLO CUCINELLI, EXECUTIVE CHAIRMAN AND CREATIVE  
DIRECTOR  
LUCA LISANDRONI, CHIEF EXECUTIVE OFFICER  
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MORENO CIARAPICA, CHIEF FINANCIAL OFFICER  
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OPERATOR: Good evening. Chorus Call operator speaking. Welcome to the Presentation of the Full Year '21 Results 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 a Q&A session.

Speakers will be Brunello Cucinelli, Executive Chairman and Creative Director, Luca Lisandrone, CEO, Riccardo Stefanelli, CEO, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations and Corporate Planning. In order to receive help from an operator during the conference call, please press "\*" followed by "0."

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

BRUNELLO CUCINELLI: Good evening, and welcome back. So, first of all we'd like to thank the family and also the Tods Company because we have had a chance, thanks to them to start 15 minutes ahead, so we can both have our calls.

As usual, dear welcome investors, analysts and journalists. I have to say that this call reminds me very much of that of March the 11, 2020. Well, you see that was a time of great pain for the soul and the body, for us and for all humanity. And the reason being the arrival of something we did not know, something that still today I want to call plague, because you see I have always been used to reading about plagues in history. This one, today, fortunately seems to be coming to an end, this plague to the great relief of humanity. We ourselves, we will be closing down the vaccination hub here in Solomeo and next week you wanted to close actually in August, and we had to postpone by 7 months.

So today, 2 years later, we are here if you recall that happened 15 years ago and this would have been a beautiful call both for the company's results for 2021, whereby there is a total rebalancing of the company, and it would

have been beautiful also for the atmosphere that the brand is enjoying and also for the positivity worldwide that I see, can still feel that I used to feel, that I can still feel, and also due to the results of the current year that we...that seem to be pretty stellar.

So today we will tackle this call with the same...very same spirit we used in our Board Meeting today, but with 2 moods; the first mood being a pensive, gloomy mood for something we would never have imagined in the present times, and of course, we could have never imagined nowaste for the modern times. And we hope with all our hearts that everything will go well in the times to come. The second mood, well, as you know, we strongly believe at least, I myself, I [indiscernible] that I am really convinced of this. We really believe in the fascinating thought of Thomas Moore who in 1500 stated "Oh my God, help me accept what I cannot change, and help me change what I can change." So the only thing we can change is the way we manage and run our business in the best way possible with humility, courage, creativity and trust.

It is clear that if one day our collection, of course, it's better for it to be beautiful rather than average. So I think that our enterprise once everything is over, because you see, mark my words, everything will be over. We hope that if we have a beautiful collection, you will have great possibilities for the decades to come. And as it was the case for 2020 and 2021, for 2022 we will organize 6 annual calls instead of the usual 4, so that we can inform you often about the flow of things and the...how the company is faring, and then hopefully in 2023 we will go back to normal.

As usual, we are all here as the presenter said, Luca, Riccardo, Moreno, Dario and Pietro. So first, I'd like to read out the highlights. Then the CFO, Moreno will go into detail, and then I'll take the floor again to tackle the big...following big issues.

2021 results of a splendid year. We can give you very accurate, brief results here. Then an important visibility for 2022, you should also bear in mind that the first quarter is almost gone. Then good visibility for 2023 as it is usually the case, and then I'd like to very clearly talk about our 11<sup>th</sup> 5-Year Plan 2022-2026. And finally, of course, the current market with the big theme of Russia. So as I was saying to the Board Meeting this morning, hopefully this will be a very, very concrete call as we deal with big global teams. And hopefully we can gain some glimmer of hope at the end of it.

So, net revenues €712 million up 30.9%, 32% at constant exchange rates compared to 2020, with an increase of 17% compared to 2019. EBITDA €193 million with a 27% incidence compared to €89 million last year and €169 million in 2019, with a margin of...an incidence of 27.9%. Then EBIT €77 million, incidence 10.8% compared to the loss of minus €14 million last year, and the positive result of €83 million in 2019, with an incidence of 13.7%.

The net profit very interesting, €56 million compared to a loss of €32 million last year, and a €53 million in 2019 the profit. Then significant investments in line with the multi-year planning in favor of the contemporary character of our fashion house, so €61 million invested in 2021, €51 million in 2020 and €52 million in 2019.

Core net financial debt, this was a good windfall surprise €23 million, a clear improvement compared to €93 million last year and €30 million in 2019. So the Board of Directors will propose to the shareholders' meeting convened for 27<sup>th</sup> of April 2022, which will mark the 10-year anniversary of our great IPO. The distribution of a dividend of €0.42 per share.

Then the consolidated non financial statement of 2021 has been approved and also the stock grant plan for 2022-2024. So before reading my quotes, I'd like to really extend a big thank you to all the financial institutes and the banks, because we definitely are the result of the help and aid of banks, because in 2020, in 6-7 days they basically resolved over €200 million loan, to give us a credit line, to give us the possibility, to protect our suppliers and ourselves. So luckily enough, we only used a little bit in 2020, and then we paid it back in '21. So thank you very much too all our dear banks.

So I have really thought long and hard about what to write in my comments, since truth be told. And this is how it starts, I have firm faith in the wisdom of men, as a dramatic time for humanity in this winter of our struggles, a new era of responsibility is required of us. The search for a peace forged by great thoughts. I grew up in the land of Francis of Assisi, from whom I learnt the great value of dialogue as the noblest means of always achieving harmony among men.

Great challenges demand the courage to walk together and to reaffirm the common sense of humanity that only words can guarantee when these words rest on the brotherhood and wisdom of the men, who rule the world. In 2021, which we called the year of rebalancing ended with some splendid results, both economically and in terms of image for our brand. Turnover grew by 30% and consequently profit...net profits amounted to €56 million. This year opens with a quarter that is now drawing to a close and some particularly interesting results.

The order intake for men's and women's winter collections 2022 was truly, truly significant and all this prompts us to envisage yet another year of good balanced growth, with an increase in turnover of around 12%. And this is a growth that we hope will generate human thriving and prosperity for our people, for our mother earth, and for the whole of creation. And may the

heavens and the stars enlighten us at this time when souls have lost their bearings, but they're, nevertheless, filled with great hope for the bright future that awaits us. So thank you for that.

Moreno, the floor is yours. Thank you.

MORENO CIARAPICA: Thank you, Brunello and good evening. I'd like to briefly analyze some topics that featured in 2021. The net revenues of 2021 confirmed the preliminary results of 10th January. So I'd now like to analyze the income statement Slide #12 of our presentation, highlighting the results of 2019, 2020 and 2021.

So 2021, we confirmed the choice that we made in 2020 to maintain the solidity of the company and to keep investments planned unchanged. All everything that had been planned before the pandemic. And when comparing results of this year to the past years, we need to bear in mind, the impact of the pandemic in 2020 whereas in the comparison in 2019, we should consider the effect of the pandemic that lasted well into 2021 and the presence of costs with many commercial initiatives, which will start... contribute to the results expected for the coming years.

In 2021, we had 13 conversions from wholesale to retail, 3 conversions of franchising, 10 hard shops in the luxury department stores, thus making the reported growth in wholesale even more important 6.2% to 2020 and 9% versus 2019.

First margin, no significant changes here compared to the past margins in 2021 of 67.3% in line with the margins of 2020, 67.9% back then. In '21, EBITDA net of IFRS16 amounts to €110 million with a 15.4% incidence. The value of EBITDA of 31st December, '21 benefits from non-recurring assets due to the deferred tax assets for the research and development

activities for 2017 and '18. In 2020, EBITDA net of the IFRS16 and the extraordinary provision of €31.7 million for the Brunello Cucinelli for humanity project amounted to €41.8 million with an incidence of 7.7%, whereas in 2019, it had been €106 with an incidence of 17%.

Net profit in 2021 €56.3 million with a tax rate of 12.1%, which benefited from 2 non-recurring items. The first one is the deferred tax assets for €8.8 million calculated on the provision for the humanity project. The second one is the tax effect related to the research and development activities and the tax credits, because the accounting is not subject to tax and so it produces €1 million benefits. If we exclude these 2 non-recurring events, the normalized tax rates at 31st December '21 amount to 28.5% and we consider this to be healthy for an Italian company that makes its profit in Italy and that might become a benchmark for the coming years.

The following slides give the highlights of the income statement, in particular, the cost of personnel then the...so personal cost grew progressively in the period 2019-2021, following the expansion of our human resources structure to support new commercial initiatives. The expansion of the network and the processes of consolidation of our activities.

Also, the rents increase is mainly related to development of the network and we expect benefits in the coming period. Investments in communication, having incidence higher than 5%, in 2021 it was 5.1% incidence.

Then moving on to the income statement highlights, we can say that the networking capital has an incidence 23% on sales vis-à-vis 36% in 2020, which has been impacted by the pandemic and 28% of 2019. The incidence in '21 of the inventory amounts to 28% of sales where there is the overcoming of the 2020 situation and then further improvement. Thanks to

the sell out, the reduction in commercial receivables is to do with the return to ordinary terms of all the...and in the payment of wholesale after some deferment granted in 2020, basically we're not...did not happen again. So we have a healthy clients, we have very small loss on receivables 0.04% of revenues this year, and last year 0.07% of revenues. As to the commercial payables, we did not change our payment terms towards our suppliers. And the purchases of raw materials mainly happened in the second half of the year versus 2020.

On Slide #17, you see the investments in line with our multi-year planning. And on Slide 18, we highlight the strong improvement in the Characteristic Financial Indebtedness also vis-à-vis 2019. Thanks to the cash generation, and the excellent results in the management of networking capital.

This is the end of my presentation. Thank you. I'll give the floor back to Brunello.

BRUNELLO CUCINELLI: Well, so maybe 3 minutes on 2021 numbers. It is the 10th financial statements since the...as going public, but we will go back to this in April...in the call in April. Hopefully, we won't have that many emergencies to take into account. It has been a splendid year, rebalancing, very good turnover. We caught up everything and we are back on track. Very good EBITDA, we are just missing a few points, nothing big there, very good inventory, 28% incidence there, usually we have 28%, 29%, 30% depending on the year. Very well customers and payments as Brunello was saying, we have not stopped any investments in '21, but investments in stores and everything, not even in 2020 very serious here.

Net financial position very well, I'm honestly speaking, I keep saying that we can say that we virtually have carried no debt. We have a great equity or capital situation. Net profit very well and tax rates very well too, is 28.5%

ordinary, but actually the past 5-6 years I was always trying to speak in favor of Italy, somebody might say you pay too much tax. But in the past 5 to 6 years, our company must have paid maybe not more than 20% to 23%, and as a result dividends around the standard of 50%. This is as to 2021. So great figures there.

Then a small flash on the image memorable year for the company. We were awarded the Designer of the Year 2021 Award from the British GQ Magazine. Then the value of taste, we presented the project of the Solomeo universal library by the foundation, then the value of territory. We took part in that fascinating event in Rome the G20 on the theme of humanistic capitalism and human sustainability.

The value of sustainability therefore is definitely important. Then we have received a lot of attention from the world press on this. So maybe today we...in the world we enjoy a great image of total sustainability across the board. So we mean sustainability from the environmental, economic, cultural and spiritual point of view. And with this year 2021, we basically end the...we basically end the 10<sup>th</sup>, 5-Year Plan that started in 2019 and it used to be in 2019 and 2023. We have stopped it in 2021 because of the pandemic. And so, we restart again with the 11<sup>th</sup>, 5-Year Plan '22 to '26 and I will tell you something about this later.

Then 2022, we still foresee a very important year for our industry, where a growth project will shift from 10% to 12% of turnover, and we want to call it a total rebalancing of profitability to usual levels to our pre-pandemic normal usual levels and as a result accordingly, and net financial position around parity without stopping any investments obviously. First quarter, 2 weeks are left there. It is ending with very good results both in terms of turnover and margins.

Then order intake, well wholesale for winter '22 or the intake has ended with important results. As you know, our business is broken down as follows 60% retail, 40% wholesale. As usual, we have a lot of trust and belief in the wholesale, because we consider them the of our brands. And we have the 500 accounts, well 400 between men and women they are the best in the world. But in our opinion they have done something very interesting. They have redrafted their 3-Year and 5-Year Plans and thus making a very strong selection of brands with whom they want to continue their business in the years to come.

Of course, the important order intake and they allow us to call it wonderful feedback on the collections from customers and international press. All this means that probably our direct boutiques will also have beautiful winter merchandise on the shelves. Therefore we feel very, very confident for the year...the current year, then 30 seconds on how we usually build our budgets.

In around 1998-1999, there was a big dispute between the U.S. and Europe called the banana dispute. As a matter of fact, what they wanted to do, they want to impose a tax on cashmere in the U.S., 100% tax on the import of cashmere then it did not happen. If they had imposed that tax we would have had no profit at all. So from that experience, we always try to have a small spare budget for any world eventuality. And this has always protected us from big surprises. Clear, this is not applied to 2001, 2008 or to 2020, because these were really out of the ordinary, extraordinary years. This is the reason why we are very confident and for the current year.

Another important topic prices, as you know, we set prices twice a year upon that the release of our collections. So prices are subject to no change. Very important raw materials. Well, then you might say, you keep saying very important. Well, yes, because there are a few things that you must pay

a lot of attention to. So raw materials, they are all in-house for the winter and all of high quality. In the past 2 years, we have strengthened our relationships with our suppliers even more, they are always the same. And together, we have tried to plan ahead to guarantee mutual stability and quality and business.

Of course, unless you do so, the risk you are is that all of a sudden, you are without raw material. And always, we purchase cashmere on average with two years in advance. Of course, we are talking about raw cashmere, the cashmere that you can dye and do whatever you want with it. And we buy it from our historic supplier [indiscernible] with whom I started my business 44 years ago. It was him who gave me the first signs of real trust because he gave me the first 20 kilos of cashmere, I had no money in my pocket. He said, you will pay for it when you can. So thank you [indiscernible].

Another very important topic, production in 2022. All spring/summer 2022 production was delivered as usual by February. Then winter 2022 production is going very, very well with our manufacturers, 100% production in Italy as you know with 365 micro enterprises. Another thing, we have 52% of work that is really only done by hand, not...without any machinery. We are true artisans and we have always shown total openness towards our partners, also in order to strengthen the partnership.

I wrote that their creative minds, their hands and their seriousness are treasure for the years to come. This has always given us great security and confidence in the high quality Italian supply chain. Then 2023, a growth project of around 10%, and so this is the 11<sup>th</sup>, 5-Year Plan that starts in 2022 and ends in 2026. In this 5-Year period, we expect to achieve those results that we indicated back in 2019 in the 10-Year Plan, 2019-2028. So, we think that we might end the plan 2 years ahead of schedule.

Then markets...we have a couple of minutes and then we have time for your questions. So to-date, all the markets are doing very well, I would say very, very well. In the last 2 years and this is something I am really keen on, you see business has been practically domestic in all the countries in the world. So honestly speaking, I don't see any great difficulty ahead for this year. Remember when in 2020, we thought that tourists would...there would be a lack of tourists, clearly, not bearing in mind the lockdown period in various areas of the world. Human beings both either through the websites or in the cities in physical shops. So why do I call them physical stores because they once again represent something very important because it is important to touch, to feel the product for advice, experience. Therefore, we always believe very much in the physical store but it should have...provided what it is beautiful, attractive, modern and contemporary.

Russian market now, 3 minutes, very serious thoughts here. So Russian market, our business in this country for many years has been worth about 4% of the total of which 70% is wholesale with very serious reliable partners we have for many years and 30% of this 4% is retail. So wholesale, we have to limit the whole spring/summer season in February and everything went well. The winter season will start to be delivered from June onwards. So hopefully, in June, well may God protect us.

Then retail is worth about 30% of that 4%, so the first quarter is practically over, so 9 months are left. We have 3 direct shops that are closed, beautiful stores and we basically paid the wages of all our Russian employees as in 2022 in the lockdown. Well, out of these stores, one is St. Petersburg dating back to August last year, 2 in Moscow, 1, we opened in November last year, and I have to say in a month's time, we will double the size of the beautiful shops in Moscow. So they are currently closed but the employees are nevertheless being paid

So to conclude on this great team, we could say that the exposure to this country, at the most it could affect the total annual turnover by about 2.4% of which 1.6% wholesale with winter orders still in-house and 0.8% retail in the next 9 months. So to conclude, we are very confident about this year's results for our company and to speak also for luxury in general. We are working fuelled by the spirit I mentioned at the beginning. So we have 2 spirits, 2 moods, one is pensive and gloomy and the other is very much focused on our business.

And I would like to add with the statements that has been by side throughout my life and I was talking to my dad the other day. And my dad by the way is turning 100 on the first day of spring, I have always said that I have firm faith in the wisdom of men. Thank you very much, may creation protect us.