

Brunello Cucinelli S.p.A.

"First Half 2023 Preliminary Revenues Call"

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OPERATOR: Good afternoon, and welcome to the Presentation of the Preliminary Revenues for the First Half of 2023 of CASA DI MODA Brunello Cucinelli.

BRUNELLO CUCINELLI: This year, we decided to have conference calls in July and December, so six times per year as we did in 2020, '21 and '22, because we still like to consider this year as the year of total rebalancing and we like to hear a lot from each other.

So how we would like this to happen, I will give you the main numbers and we talk about the first half, which we've completed. Then we'd like to update you on we think will happen in the second half. Then we'll see some forecast for 2024. We'll briefly talk about products and the value of our places, Solomeo in particular. Then we'd like to update you about the...you're all familiar with Chanel and Cariaggi, and talk about our wonderful third-party manufacturers, and we will dedicate some minutes to Fragrances and Eyewear and the website. And tonight I'd like to give 4, 5 minutes to briefly discuss Artificial Intelligence, because this is actually a call where we have this longer than usual, and so we may actually tell you something about what we are doing for this major issue for the future.

Let me now report some data to you. Revenues stand at €543.9 million, with a wonderful growth, plus 31.0% at current exchange rates and plus 30.5% at constant exchange rates over the first half of 2022. All geographies are very good, Americas plus 23.9%, Europe, plus 22.6%, Italy, plus 23.7%, Asia, plus 55.6%, relevant increase of revenues in both sales channels, retail plus 41.6%, wholesale plus 15.8%.

The first half which has already closed with very good performances, the excellent process of winter deliveries, and the flavour we see around our brand and product proposal, allow us to review upwards

our estimates for the growth of revenues for 2023, from plus 15% to a gap anywhere between 17% and 19%. And then we'll talk about this beautiful deal we have completed with the wonderful company, Channel on the purchase of a stake and the partnership we started with Lanificio Cariaggi which is our supplier of top level, top quality cashmere.

So I'm presenting myself by writing as follows. The first half of this year ended with more than excellent results. We like to think that we are reaping what the brand stands for in its style and in the way of conceiving the balance between work and the relationship with creation. Thanks to the strong demand for handcrafted and exclusive products, we continue to have a very positive outlook on the absolute luxury world market. As a result, we are very confident about the future performance of the business for the current year, where we expect to close the year with an increase in sales between 17% and 19%. Given the excellent sell-out of the Spring-Summer 2023 collections we're nearly at the end, and the significant order intake which has already been almost completed for the Men's Spring-Summer 2024 collection so far, we expect a healthy growth of around plus 10% for next year.

Now, for just a second, I'd like to clarify this issue of the guidelines. So you know, that for our culture, ever since we first started 12 years ago, we always thought we would give you a general budget for the current year and for the next year, every time we talk. Because this is what happens rather and we live in a location where we feel we have a good relationship with the institutions, and when for instance, our Mayor every day or the President of the region or the local head and representative of the government tell us how's business, why you're doing, how are things going, we would like to be active players in our community, and we cannot answer these questions by telling them we cannot say anything because we're listed. So this has always been our

strategy, also because we live in a small town, and we work in a small town.

So this is what I wanted to tell you about, so it is certainly true we can make mistakes, but myself personally and all of us, we've decided that if I were an investor, I would like to hear some forecasts. Ever since 2020 or better sorry, ever since 2000 up until 2023, we grew at an average of 13.5%, from the IPO we grew around 13% every year, 13 years ago. It's been a pretty constant growth, then of course, 2020 was a difficult year and we posted minus 10%, but as soon as we saw some possible improvements, we did tell people what we thought would happen and 2021 was a year of great rebalancing, and we ended at plus 30%. In 2022, we posted plus 30% again, even though our budget was plus 20%, but there was a very key issue there, which is, first of all, fashion suddenly twisted towards a taste which is much more in line with our taste, and also we are lacking products on the market which is still a problem. I mean, it's still something that we see in this first half of the year.

So the performance in the second half, in the second unit completes this. Of course we may make mistakes in our forecasts, but we'd rather give you some forecasts for the next 3 years, 3 years current year and we would actually prefer talking to you about this. We've been discussing this at the Board meeting this morning. Even our Directors' that they can freely talk about our company and just tell frankly about our product. We may make mistakes, but we are happy to disclose our forecasts, so please do remember that we are more than happy to give you forecasts.

So the second quarter has been pretty continuous versus the first quarter, so it was very strong, robust half-year in the end, and it was pretty strong, a robust business everywhere. So of course, the products is actually going towards this taste of ours, so what we call "quiet

luxury" is really something we have actually been spending for. And I could say that actually all geographies are doing really, really well.

I'd like to start with the US market. This is a very strong domestic market for us, and last year, this same quarter has grown by over 60% and so the half-year was plus 24% which is really relevant and important, and then Europe, I don't know what to think about this, but personally I see that wherever we go, we see American tourists everywhere. I am overjoyed by that, of course, I am really pleased that means our American friends are bringing in a nice and happy atmosphere. Italy, well you know, wherever you go, I was in Florence a couple of years ago, you can't walk down the street and never complain and say, too much, so please try to understand what I mean, but frankly, I don't know whether in the future we'd be able to properly manage and govern the amount of millions of people that are coming over to see us without risking to lose the identity of our places. So, of course, we need to protect the GENIUS LOCI, the identity of our locations in places which is very strong challenge for us. So Luca, what do you think about this?

LUCA LISANDRONI: Well, today, it's really good to see that many of our U.S. resellers, are really carefully and do personally present to their colleagues in Europe, some of the clients that are traveling to come here. So, as Brunello said the recovery and the pickup of international tourism from the U.S. to Europe is very visible and very strong. But if we look at Asia too, it is certainly true on one side that Chinese tourism towards Europe is still very limited, but there is a lot of regional tourism going on. And if you look at the performance in Hong Kong and in Singapore, those cities are doing even better than in 2019. And they have once again gone back to being a key pole of attraction for a lot of Asian tourists.

So, at the same time, we're very happy about the performance in Mainland China, and this is actually on a pretty much like-for-like

basis. So, you know that we sell 12% to 13% of our revenues in China. Do remember that, please. But actually, China has gradually and constantly getting closer to the potential we know it has. We are opening about one store per year there, today, we have 19 stores. We still serve 40 multi-brand customers there. And they're also growing very nicely on a like-for-like basis.

So, you can certainly imagine that over the last years, we've been scouting city-by-city, new beautiful specialty stores, of course, for obvious reasons, this has been more difficult in the last years, but we still do believe in the role of wholesale and multi-brands in China, and Korea is also very strong in that respect.

So, to complete our view on Asia and speaking of Korea again, so you may remember that in Korea we have a distribution agreement with a very important partner, Shinsegae, they are actually going to see us in Solomeo in the next few days. And we're getting closer and closer to our partners, even in the daily management of everything we do, because the Korean market is becoming more and more important, and it's actually having more and more relevant influence on the Asian market altogether. And Mr. Cucinelli is saying, 5 years or 6 years ago, we never went to Korea, and we do go there all the time now, so that's a very significant change.

LUCA LISANDRONI: And finally, this is Luca speaking. /There is a beautiful growth of wholesale, which is showing strongly, 3 main features of this channel. So, wholesale is a proximity channel with beautiful capillary distribution on geographical locations, it's a physical channel to begin with, and the physical channels have become very important throughout this first half year. And one final thing is that the wholesale channel is based on trust...mutual trust between sellers and buyers. And I think this is...this like-for-like improvement is something we should never forget.

BRUNELLO CUCINELLI: This is Mr. Cucinelli speaking now, and he says even during this first part of the year, deliveries have not been perfect and production issues have been felt. There's been a lack of raw materials in particular. We believe that in the second half of the year, this will be rebalanced. So for the fall/winter, we believe we are going to have a beautiful season where normalization will finally kick in. We believe that this issue of late deliveries will not hit 2024. So, many times we're told that we are lacking reorders. But besides lacking reorders, I should say that all deliveries have been late by 2 months or 3 months. And so, of course, reorders are not there yet.

But for the second half of the year, we think rebalancing will happen. For us, last year was extremely important in all channels and all geographies. So, all this should actually lead us to an yearly growth anywhere between 17% and 19%, with EBIT between 15% and 16%, and net profit around 10%, which is something we've always appreciated. Actually, this year, the growth forecast at the beginning of the year was about 12%.

Then, of course, we won the, let's say, the Oscar of Fashion for Ready to Wear for 2023. And so, this award and this improvement of the taste for quiet luxury has certainly been very beneficial for us. So, in 2019, we sold €600 million. In 2020, we lost 10%, which was actually very good. So, it was €550 million at the end of 2020, for '22 and '23, we should reach the end of this year at around €1.1 billion, which means doubling sales in the last 3 years. However, as Luca pointed out, in China and globally, we keep loyal to our strategy. So, this big increase in revenues didn't happen because we opened a lot of new stores. We kept opening 2 or 3 new stores every year and extending or restyling 3 or 4 stores per year, so this is what happened in 2023.

We've virtually concluded the sales campaigns for the men's spring/summer 2024 collection, which was very, very good. And so, the order collection was really, really performing very well. Next

week, we are going to present the women's collection, hopefully, people will like it...we like it, to tell you the truth. And, well, hopefully our clients will like it too. But this kind of planning makes us...think that in 2024, we may grow by 5% or 6% in volumes and 3% or 4% in price. And so, eventually our growth could be 10%, which is the classic growth percentage of a constant year.

Now, as far as taste is concerned you know, for men's in particular, we all went to the showroom in Milano, and we imagined this time for those of us who are maybe not that younger, I'm sure you certainly remember that beautiful movie, *The Great Gatsby*, it was set in 1925, it was chic and refined and sophisticated and fresh. And so in the 1920s, there were 3 years of war, 2 years of pandemics, and then finally the King of England himself said, let's dress up. Let's be elegant and this is actually more or less what we now call quiet luxury in the end.

So, the idea is that you should be wearing something nice all the time. And nice doesn't necessarily mean classic, but something chic, sophisticated, well-executed, something whereby you'll buy something interesting, like, 10 minutes ago, I saw something in France, they are actually supporting the value of repairing the ready to wear it and the apparel. So, the French government decided to give incentives to the people who actually want to fix their ready to wear if it needs some fixing, instead of buying new ones. We believe this is a lovely idea and keeping your garments and mixing them together with something new, something old, maybe you need to modify them to improve them, but you can wear them for decades.

So, for the spring/summer season in men, we have seen that suits are really coming back into fashion. So, with t-shirts, with ties, with denim shirts, with classic shirts, with sneakers, with classic shoes, whatever. I mean, if you wear a suit, you're chic and people in their mid-20s or 30s, well, virtually none of them owns a suit...a 2-piece suit. And the ones we have, we were a bit older, normally we bought

them before 2019. So when you look at your closet and you want to wear a suit that you first bought in 2018 or '19, first of all, you should see whether you still fit and then it looks a bit not very new, frankly. So, we do believe that suits are going to become very important for us.

Now, let me speak about 2 or 3 minutes about the value of places, and in particular Solomeo. There is a lot of VIPs coming to see us here in our small town to try and understand our taste, the way we work, our lifestyles, the place itself, which means I have dinner out every single night. So, you know, tonight it's going to be my 107 nights, I'm out for a dinner in a row with the exception of 1 night, I didn't go out at dinner. My only like is, I still lost a bit of weight, but I'm hungry as can be. So, we're really happy to see people coming over to see us, but it's a huge commitment at the same time.

So, we can say that this way of work, and this way of communication that we have is quiet, is sophisticated, and fully focused and targeted. So, when you come over you can...to the company, you see the factory, you see the product, we have dinner together, there is a lot of important people coming over. Last week, we had a festival with the main guest that was China, that was a project we originally started in 2019, and of course, we had to postpone it. So, for 5 days, we had this China team, we had about 20 young people, who came over to see what our taste would be. What kind of shows would happen, it was quite demanding because everybody went to bed and never before midnight for the whole time, but they actually experienced our lifestyle in the town, so you know, the town itself is really important. Solomeo is very important for us. We've been producing olive oil for many years, we don't sell it, we just give it to our friends. W|E also make wine, it's been quite expensive to begin with, but we're starting to sell it, you know, this enhances the local town too.

And Brunello I should also say that there is a growing and stronger and stronger connection between Solomeo and cashmere, so what

Maranello stands for cars with Ferrari, Solomeo is for cashmere. And what Mr. Cucinelli is now saying, as soon as, I leave earth, go up there, let's say, I would like to come back in a century and see what happens to Solomeo but I'm sure that even in a 100 time...in a 100 years' time Solomeo will be synonymous with cashmere. So whenever you come here, you should see ourselves, you should see cashmere, you should see our people processing cashmere with great skills and care.

Now, okay, that was Solomeo and now let me briefly update about this beautiful deal we had with our beloved partners Chanel. So maybe I'll talk about the general outline of the deal. So when we first started our business, we started buying cashmere from Lanificio Cariaggi, 45 years ago, it was father and his son's work in there, and I have to tell you the truth, there we started off buying 20 kilos of cashmere then 50 and we paid 6 months later, so Cariaggi have always helped us in our growth, maybe we helped each other in growing with a lot of quality, then in 2020, one of the 2 partners, who was not so young anymore decided to leave the company, so the company was slightly in trouble for some time and then someone approached us to say well, could you step in and buy that 50% stake of the partner who was leaving the company, so that was like May/June 2020, you certainly remember how difficult that time was, but we decided to promise that we would support the partnership even one of the partners was living. And at the time the idea was €70 million and it was actually what they were selling at the time, so we decided to support the deal and we'd like to consider this a kind of a gratitude expression for everything we've done together and hopefully we are going to do it beautiful business together in the future.

Then in 2022, our friends, we can call them friends of Chanel approached us to say we could do something together. So you know, when Chanel started approaching us, we said, "Oh my gosh," this is Chanel talking to us, at least we've always considered Chanel as something special beautiful company, top level, top quality, they've

never done any kind of transaction with anyone, but we decided together to go through with the deal on Carriagi, and Carriagi now has...so the Carriagi family now has 51%, so the majority of the stake is still in the hands of the family, which holds 51% and the majority of the Board of Directors whereas the remaining 49% is held by ourselves and Chanel in the same amount.

So Brunello I would also like to point out that of course, we share with Chanel the quest for quality, the beauty of fibers at that lovely service that this partnership with Carriagi will provide us with, but we also share something very important with Chanel that concerns our 400 people too. So what we share with Chanel is the value of high-level manufacturing in Italy and the value of serving several customers, so we agree with Chanel on the idea that serving a lot of different customers and comparing each other day-in day-out is really important.

So they always said, if some of our workers work for you and vice-versa, the creativity rate will improve. I've never met anyone saying, if we both work together, it's beneficial for us both, so the quest for innovation, for creativity, for quality is the feedstock of this company of this joint venture. So it's a continuous comparison and cross-contamination as Brunello pointed out this company like all raw materials company will have swing in revenue depending on the price of raw material, and it is a very contemporary company, they're always fully updated on the service quality they provide and so on. So it is the Rolls Royce of cashmere. Of course, their quality is as good as Loro Piana, but for Loro Piana and Cariaggi, today Cariaggi is actually bigger and provides more yarns. So we have invested in the top global company, which is actually located in a tiny little town and provides top quality cashmere.

Okay. Eyewear, very quickly. Let's update you on eyewear. So you know, we did a beautiful deal with EssilorLuxottica. I still call it Luxottica only, I'm afraid this is not nice towards Essilor, but actually

what I wanted to tell you is that things are doing very very well. So, we go there 7 or 8 of us we go to their factories, they come over, we talk about taste and style. There's a lot of affinity. There's always been a very good relationship with whom I'm happy to call my friend Leonardo Del Vecchio and Francesco Milleri and today we work with Francesco Milleri and Leonardo's children, and we still have a lovely relationship and hopefully this will continue for the next 20 or 30 or more years. But we would like to call this a contemporary license because we do work a lot of on the design and distribution. So we're very, very happy with this relationship.

Fragrances: This is another interesting topic, we just presented it some months ago. So after 3 years of research, we certainly know that fragrances are a very complicated thing. I have to tell you frankly, I still have maybe a 100 or 200 samples at home and I got really crazy of using them all, but actually what we wanted to do was come up with 2 basic fragrances for men and women, which would be like our cashmere round neck sweaters, our basics in fragrances, of course, so we chose a beautiful company €700 million revenues a lovely Italian companies father and his 3 children, we have an excellent relationship and we have the same relationship with them that we have with Luxottica..

So every day we talk about product and distribution and so on. So the early results so far if the fragrances are being sold in a limited number of stores in our 90 lovely multi-brands and a few independent stores, but we have positioned our fragrances on the top of the pyramid. So they are upscale in terms of positioning, we're very confident about this in terms of the taste, because the first thing we need is get the taste right and the fragrance right itself.

So let me say a couple of words about the new website after 3.5 years, we've been working on the new website for 5 months or 6 months, so if you have time just take a look and tell us if you like it. So hopefully,

this new site will represent the image, places, values, the vision of the world that we hold true to.

And also e-commerce which we feel is consolidating a lot is something we appreciate a lot, but you know, we had 50% more visits in one year last year and this year it's growing just as much and what is really important is that around 60% of clients will walk into physical stores, come in with some images that I have seen online, so that means the image we provide online is absolutely fundamental and it's also always been very important for us to tell about our history, the places where we work, how we work, the custodian role we see for ourselves, so we really like this website. And for the first time we actually completed the website with great satisfaction.

So let's now talk about maybe artificial intelligence, but actually before we do that let me mention Penne, the Penne facility. So on the 10th of July, we laid the first stone for what is going to be our production site in Penne, beautiful 4,000 square...4,500 square meters, factory is going to be opening in the first quarter of 2025, and it will have about 300 people working there. We'll start working there in December 2023 in a temporary facility with the first tailor who were going to work there and will help us grow in the future and let me just remind you that thanks to Brioni Penne globally and for us Italians is the place where you manufacture men's suits and particularly jackets...top quality jackets.

And so, it's a small town of about 10,000 people and up until recently they had about 3,000 tailor and the fascinating thing is that school boys and school girls maybe once or twice a week they used to go to the factory and they just try to learn how to be a tailor and to do some seaming. And so, with Luca and Brunello we had a great time in trying to imagine this factory in our projects and it's just in front of the Gran Sasso Mountain and so the aesthetics of the factory was sort of not just the sheer beauty but also the place is where our tailors will go

and work. Incidentally, I forgot to tell you something about Luxottica. In some days, we will have the eight top managers and the CEO Milleri and we decided that the eight European managers of their beautiful factories in Europe will come over here to discuss the value of the factories and the value of blue collar work. We wanted to improve the working conditions of factory workers. We heard a lot. We discussed it a lot in the previous meetings and we are going to go through with this project.

Now before we get to questions, let me speak for 3 minutes of the new website session called "Technology, Humanism and Artificial Intelligence." In 2016, I was invited to go to San Francisco by Marc Benioff and Kevin Systrom, the founder of Instagram and we had a dinner where we started talking about technology and I said, well you should actually be our leader in this sense. So, we started very close relationship in particular with Marc Benioff from Salesforce and in 2018, he invited me to open the Dreamforce convention in San Francisco which was a very, very beautiful one.

Then in 2019, we invited over to Solomeo Mr. Reid Hoffman and Jeff Bezos, so some technology gurus to come over here and discuss with us and you know, Reid Hoffman was a very, very smart person. Started talking about Artificial Intelligence back then. And he started off by saying do you remember that while he called the artificial intelligence cognitive revolution for human beings sent to support humanity and we loved the idea, but personally it's a bit difficult to understand these pioneers especially for people like me who are not tech-savvy. So, today, we have reached a very important point.

So, in 2022, we set up a team inside the company including myself even though I am not a tech person, but Luca and Riccardo are more techie than I am and Francesco Bottigliero is, let's say, the CEO of this small working group. And we set up a research group to study intelligence...artificial intelligence because on paper, this would

certainly help us improve the working conditions of factory workers. That's for sure. It's relatively easy to imagine that is going to be a main accelerator for scientific research, so we are not scared about this. And personally, I am not scared. I am always open-minded when it comes to novelties like this and it is a bit late and we have these 2-pilot system. So, they are...it is not a concern for us. We are going to investigate it thoroughly.

Then some days ago, Nicholas Thompson came over to see us. For a long time, he's been the Chief Editor of Wired and before joining Wired, he was the Chief Editor of the New Yorker and today he is the CEO of the Atlantic. So, he came over because he wanted to discuss a lot of things which we did. We had a very open discussion about many things including artificial intelligence. Now we believe Nicholas Thompson is one of the most insightful people who know and understand how to work with artificial intelligence. So, as we did tell Nicholas that we would like to call this a project for the authenticity of genius because with me personally I think even though I am not a tech guy as I told you, so I am pretty persuaded that this is going to really enhance the value and the authenticity of things.

The direct human relationships will become more and more valuable. A phone call will become more and more important. The handwritten note will become more and more important. I am pretty confident this will happen and I will be actually happy if we can actually cut 80% of the emails. It takes an hour to explain something that you can explain in one minute if you call someone on the phone.

So, and then I think this is my simple thinking also shared by Riccardo and Luca and Francesco who is our chief genius, let's say. So, you know, if you have a great journalist that you appreciate and you write something about someone, we will certainly go and look for what that journalist writes and we'll look for what they do, whatever is published. So, some days ago, I came back to a journalist who said I

didn't...we couldn't really find the date of a speech of mine and I do know it was a speech I delivered and I kept thinking about when that happened. It was about artificial intelligence and I was really surprised and I couldn't really remember when that happened.

So, they made some examples and they made me listen to Steve Jobs and Steve Jobs personally said I went to Solomeo. I met Brunello. I discussed how to humanize the net and the web and so on and it was quite impressive. So, before we gather your questions, how would we like to conclude here? You know, in terms of operations and practice, we are already using artificial intelligence to protect our brand online. We started a lovely little project on that. We also started a beautiful project with the hospital and University of Perugia to try and help in emergency management of strokes. You know, strokes in the region of Umbria is a very big problem since emergency management of ischemic strokes is something we are actually trying to manage with the help of artificial intelligence.

And so, as our friend Hoffman, we see it as a cognitive revolution to support humanity. So, when I talked to Reid and Thompson, I always tell him, you are a genius, but if you can actually build a robot who can actually shed tears when looking up at the sky, then I would be a bit more worried. Then Reid answered, said that well maybe one day we will successfully build that robot.

Now to conclude, then this is serious and very important. We work in a beautiful atmosphere to tell you the truth. We are confident. We are brave and passionate towards these new goals for mankind. So, the major issue we keep in mind at all times is the value of artisan work and so the working conditions of factory workers are our key issue. So, we keep thinking of factory workers. We don't think of sales associates and office workers because our 1,200 sales associates in stores globally are working in the beautiful environment and they are duly paid to do so. And also we have 1,300 office workers here and

they live in a beautiful environment and they are proud about the work. But factory workers, I mean they don't seem to want their children to become factory workers. So, that's where we have to improve the working conditions. So, we want to work in practice on the big, big issue of factory workers.

We are a manufacturing company. We are a strong manufacturing company. It's a little strong manufacturing country and so we can't avoid coming to terms with this major issue. In the recent days we hired young people in the company to do a specific work in knitwear we put them in a beautiful place. They have a beautiful view outside. The salary they make is pretty relevant to begin with ever since day one. Every two weeks we go talk to them. We dedicate to them a couple of hours every day to see how to be a good artisan because they may want to leave the company in two-three years once they'd learned their trade. They may want to start their own business and become entrepreneurs themselves.

So, thank you for your attention. So, I will be happy to take your questions. Let's remember that the factory workers' work is very, very important.