

Brunello Cucinelli S.p.A

"End of the Year Update of the House of Fashion Conference Call"

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OPERATOR:

Good evening, and welcome to the End of the Year Update of the House of Fashion, Brunello Cucinelli. The speakers will be Brunello Cucinelli, Executive Chairman and Creative Director, Luca Lisandrini, CEO, Riccardo Stefanelli, CEO, Dario Pipitone, CFO, Moreno Ciarapica, Co-CFO Senior and Pietro Arnaboldi, Head of Investor Relations and Corporate Planning Director. In order to receive help from an operator during the conference call, press "*" followed by "0."

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

BRUNELLO CUCINELLI:

Good evening. Good evening everyone. So we were talking soccer because there are some matches tonight too. So seriously speaking, we'd like to tell you that we are honored to have you here for this last call of the year. You see, this is a practice we started in 2020 during the pandemic, and then, honestly speaking, this idea of you know, striking up the contact with you in October the 20th and then you see again at the end of the March, you know, too much time would elapses. So we prefer to organize this end of the year call.

We are all here in Solomeo as is our custom, returning from various places in the world. Luca and I particularly have just returned from 3 days in China, and the other day we were awarded a great award, and we will talk about it later.

So before listing the topics, we would like to discuss...we really would like to thank you from the bottom of our hearts for this wonderful and a list of us end of the year dinners, where in New York, Luca and Riccardo with their presence, and I joined by a video call in Paris. I couldn't go because there was a strike. I went to London and tomorrow night there is the last one of the series in Milan. And as you know, we met about 100 investors in total, and we find a way to discuss, to meet, to smile and

sometimes when we come home, we are no longer victim or subject to this fear that we usually feel.

So as I always say to Luca and Riccardo, we should never really miss out on this opportunity. Since there are no data to read out, we would like to conduct this call as follows. So report of the fourth quarter, because we've reached the end basically, 10 days are left, then a forecast update of our envisioned closing for this year, this beautiful 2023, we couldn't have expected anything better, also with all the surprises.

We would like to provide you with quite a lot of visibility...visible forecast for 2024. We have all the summer orders in-house, and we have already come out with the pre-collection autumn/winter 2024. We'd also like to provide you some visibility for 2025, having already in-place all the future openings of new stores that Luca will basically dwell on the world luxury market today. Then we'd like to mention these awards and also talk about the product taste, creativity, lifestyle recognizability, craftsmanship.

We would like to once again dwell on the great value of manual labor, Artificial Intelligence, because I'm very fascinated by this, and then Riccardo will provide you with a report on Sustainability after 2 years of work, and what is for as long as much as it pertains to our village and our community. And then, last but not least, we would like to present to you with an outline for the 2024-2030 project, 7 years, we discussed it in the board meeting.

So this morning, we mentioned this during the board meeting, because these Christmas Board Meetings are very interesting from the strategy point of view. Now, I'll read out this year-end update.

Excellent results are expected for 2023 and, thanks to the very positive sales in recent months, we are revising our estimates upwards, imagining great sales growth for the whole year of between 22% and 23% at current exchange rates. The excellent order intake already completed for the spring/summer 2024 collections, and the excellent start to the sales campaign for 2024, well...they allow us to envision a solid growth in the region of 10% for 2024.

We called this noble international recognitions received in 2023, "GQ Designer of The Year", awarded to us on December the 7th in China and we like to call...we like the reason why we received it for distinguishing himself as a trendsetter in fashion and lifestyle. "Neiman Marcus Fashion Award" back in March, this is somehow an academy award of fashion, and it was presented to me last March in Paris.

In the meantime, we received a Ph.D. in Rome from The La Sapienza University, and we didn't include this, then a prestigious inclusion and we'd like to thank you so the inclusion of Brunello Cucinelli company in the main index of the Italian stock markets starting as of December the 18th, 2023. The significant value of manual and craft labour within our idea of Humanistic Capitalism and Human Sustainability. Then the forms of sustainability, the contribution to the improvement of our planet's climate and the estimated social return of the major works carried out throughout our history.

The important 3 year investment plan for artisan production with the exclusion of the Solomeo headquarters and the construction of the new men's tailoring factory at Penne in Abruzzo. And this is the Maranello, like Maranello Ferrari. And then the great project of sustainable and balanced growth maintaining the very same profile of exclusivity of our brand and the very high quality craftsmanship of our products.

My comment was, another year that we like to describe as "particularly beautiful and noble" is drawing to a close. The 2 great international recognitions received this year go to strengthen the idea that the Brunello Cucinelli brand represents a fashion house of absolute exclusive luxury. A Made in Italy business of high craftsmanship with a one-of-a-kind personality in an Italian lifestyle that is in our DNA, because it originates from our centuries old culture, and from an idea of living in harmony between nature and man.

We expect to close the year with an increase in sales of between 22% and 23% at current exchange rates, exceeding this €1.1 billion, and given the quality of sales, we expect an attractive profit. In addition, taking into account the very good order intake for autumn/winter 2024, we envisage a flattering sales growth for the next year of around 10%.

So, this last quarter was very robust for us, despite the comparison basis that was pretty challenging with 2022 with the wholesale up 53% compared to 2021, and retail up 25%. Of course, all this is the result of the style identity, all the awards and the low and the shortage of products in the...on the market in general due to production issues.

Undoubtedly, you are already familiar with the reasons by now, but we could sum them up as follows, a strong trend of this kind of so-called style and luxury taste. You see, I find this definition is somewhat basic, because I would rather speak of a return to great craftsmanship, chic products, beautiful luxurious clothing instead of quiet luxury. So, if you have a well-cut blazer it's not really quiet luxury, is it? It doesn't really compass the whole idea of luxury.

So it has been a few years that our stores have been turned into a kind of meeting places where you can have breakfast, and especially for men, because men want to get advice and our sellers are somehow becoming friends with our customers. I always make...quote the example of the Madison Avenue store in New York, many people may just turn up to have a cappuccino and brioche to have breakfast with us.

We are now recognized for our lifestyle, the way we run our business, and this enhances not only the products, but also the whole environment. So today, you should view us as a ready-to-wear and lifestyle business. So this was perhaps the reason why we were awarded this prize last week in China. "GQ Designer of The Year" for taste and lifestyle.

The award received in Paris in March which was some sort of Academy Awards of world fashion, basically has the right same reasons...very same grounds. We held a lot of events this year, and they are really great events, where we have between 50 to 100 attendees, and with these people you can...you know you can chat. We organized about a 100 of them all over the world, and I took part in many of them. But these events really are an important way of disseminating your culture and your message. And, so you can really learn a lot from the way we speak.

So we have been doing this for a couple of years, and we would like to keep on doing it, so much. So, that you see, the incidence is 6.7%, no longer 6%. So we are about to close another important year where we will increase the turnover between 22% and 23%, the current exchange rates with a very, very important EBIT margin and profit, which is very significant and relevant for our idea of gracious growth and healthy profit, and you know this down well.

I'd like to also underscore that since 2020, we have doubled our turnover, but our growth since the listing of our company has been around 13% per year, and since the year 2000 until now, it has been of around 12%. Since our listing in 2012, the stock has grown 10 times and of course, we are very pleased with that. But the idea we want to convey to you is that of a gracious, healthy growth in the last decades. All the parameters of 2023 are basically in compliance with all that you know. So, turnover between 20% to 23% growth at current exchange rates, nice EBIT margins and net profit, healthy profits, and maybe even slightly better investments between 7% and 8%. Then, you know, it might vary slightly.

Investments in image, it's usually been 5.4%, 5.3% in the last couple of years this number has gone up to 6% or 7%, but these are very, very important investments, because you need to have new refurbished stores and showrooms, because unless you have a new showrooms, then your collection is not displayed properly. Then 26% inventory this year, slightly low, usually it is around 28% to 29%...26 %.

NFP, not far from parity, but we basically consider as if we carry no debt. Dividends always to be around 50% of profit. So, we see this end of the year as a very strong, healthy, solid, and balanced one. So, we can say to-date that our company is in full balance, but in full keeping with the idea...of the idea of how we want to run the company. I apologize, but the sound is really bad. It's really difficult to hear. So, before dwelling on '24, '25, I wanted to thank you, investors and analysts. We have joined the FTSE MIB 40 36th Place, and that honors us.

Another important thing, 2023 is the first post-pandemic year of this 5-year plan. It is the 11th 5-year plan, 2023 to 2027, since when we set up our business. So, what about 2024? So, we see it as a strong year, a healthy year for our fashion house, and we actually want to call it fashion

and lifestyle house. We have all orders in the spring/summer '24 in-house with more than excellent results. We started the autumn/winter 2024 sales campaign with excellent results, and I have to say that this season's excellent sellouts also play an important role.

So, what we are envisioning then for 2024, a sound sales growth of around 10%, slightly better EBIT margin, no longer EBITDA, but rather EBIT. In percentage terms, it will be higher. All the very same KPIs, and then new store openings, 2, 3 per year, plus relocations or expansions. That's our usual schedule. 2025 more or less, the same as in 2024, very visible. So, healthy sales growth of 10%, healthy EBIT, and healthy profit.

Now, Luca, perhaps you can give us an overview on the market in general.

LUCA LISANDRONI: With great pleasure, I would like to start from the market analysis. Okay. As we're saying, I would like to devote a few minutes to an initial focus on the main factors, dynamics, we have observed during the whole 2023. And then, of course, we would go into greater detail and in-depth in understanding and reading our results and performance.

We'd like to share with you 3 snapshots that we have pictured in our mind, as a memory of the evolution of the markets throughout 2023. The first image...the first snapshot, is that of a luxury pyramid that has been elongated out of the effect of 2 different forces. So, the first is a horizontal force that has been acting on the base of the pyramid, and extended it, because of the greater desire and skill of many brands to increase their brand awareness, and to adapt their product offerings to suit a more heterogeneous audience. So, as this base of the pyramid was extended, it also received an upward push. So, there was kind of an elevation of buying patents and shopping patents, which rewarded our companies through the key feature for 2023, which is exclusivity.

BRUNELLO CUCINELLI: So, we do not want to talk about exclusive luxury too much, though, says Mr. Cucinelli, this might be misleading. We're talking about exclusive luxury in our company because we believe in the quality we provide.

LUCA LISANDRONI: And Mr. Lisandroni is now saying, We know that the search for exclusivity has been very strong globally and has been shared by a lot of different customers in different age groups and nationalities and in different categories in the luxury industry too. In our eyes, exclusivity today is more and more sought after and more and more scanty. It's an invisible, immaterial element that is likely to have been very fundamental in dictating the performance of individual brands versus some others. And today, we feel there is an even bigger trend towards absolute luxury and a bigger and bigger gap between absolute luxury and all the rest of the market.

I was thinking of something this morning, something I said to myself and Riccardo when speaking of the great entrepreneurs words of 20 or 40 years ago when he said, "Normally people don't line too long outside of thought."

BRUNELLO CUCINELLI: Yes, this is a big issue, says Mr. Cucinelli. This is something that a great entrepreneur said nearly 40 years ago, and I still think about it.

LUCA LISANDRONI: Now, Mr. Lisandroni is speaking again, and said, the second big feature I would like to share with you is that we feel the luxury market has a kind of performance that is shared by all regions. So, the world in 2023 seems to be going in the same direction in a pretty quick and simultaneous manner. We've already talked about the quest for exclusivity pretty much everywhere in the world, but there are some other features that have been

shared by old markets, and I'm thinking, for instance, of the importance of ready-to-wear, which is becoming more and more visible. We have discussed this several times. We've seen it last week in China too. I'm thinking of attention for quality, for the need and the desire to avoid wasting, and also many, many customers seem to be very interested in understanding how products are made, what history, what values it conveys.

And last but not least also the performance of individual brands in old geographies seem to be more and more homogeneous, so because of all those factors, I think it's fair to remember that 2023 was a year when physical retail became even more important, but at the same time, the invisible thread of digital communication also provided us with the possibility to interact with the world, which is totally interconnected. And the behavior of individual brands seems to be more and more global these days. So, we are now told that 55% to 60% of the people walk into the stores having seen the images of our products on the websites already. So, this is something we need to remember at all times.

Then, my third and final remark is that customers seem to shift away from products only to embrace the larger content related to our products. They're more interested in what we call lifestyles. They don't want to purchase individual products. They're more interested in purchasing a whole experience.

Brunello was talking about the main events we have organized and attended throughout this year, like we've also did in 2022. It's certainly been very demanding for our organization, but at the same time, all those events allowed us to just be on the markets, to be close to our customers, to understand their sensitivity on some issues, to receive their continuous feedback.

We nearly completed a photo album, it is certainly true, we invested 3% to 4% more than in the past in communication, but actually, this is money well spent, because eventually you have all those Instagrammable pictures, which can be sent over to friend's and sons, so physically it was very demanding, but it's been very fruitful.

It's been very interesting to meet people globally. It's a form of quiet communication because it's one-on-one communication mainly, it doesn't overexpose the brand. And I have to say this was really, really important in actually helping us to achieve the results we obtained. We didn't really look for visibility. We actually looked for the possibility to spend a nice night, and smile together to help people discover the true nature of our brand.

Then, each individual picture is actually turning out to be like the purchase of a new garment, which is...this is really important for consumers today. So, this is the context, it's a golden year for us and we're really happy with our results. Also, this year, all of our geographies have produced results that are actually exceeding our earlier expectations.

For the end of the year, we expect the geographic mix will be very similar to what we have presented in the first 9 months of the year. And compared to 2022, we are moving in our desired direction, so we are actually having individual continents that contribute similar amount to our turnover.

So if we look at the US, the robustness of the US market has helped us get rid of any doubts on the state of health of the American market, especially for the upscale market. We received a very strong demand in large cities, in main doors and stronger markets. And the event that has been

promoted attacks with the takeover of all store windows, the dinner with the Brent's Friends in Los Angeles, have been very effective in actually drilling down the roof in our market. In that market, it was so important for our brand, and it was good testimony of the affection that surrounds our brand.

As to Europe, it's been a full, rich year, a round-off year, and as we close 2023, we expect 37 to 38 of our sales to come from Europe. Thanks to local customers in particular. The first part of the year was excellent. The summer was excellent. And we feel winter is going to be just as good. So the second half is growing. And the overall value of revenues will be higher than the first half. As we speak, we have...we think very beautiful windows at Harrods dedicated to Christmas in White. And we feel these are just speaking of your lifestyle. And this is actually what we imagine as our lifestyle.

Finally, Asia, China in particular, our awareness of the potential, which is progressively coming up there from time-to-time is increasing. The brand positioning is very clear, very visible. It's fully consistent with the rest of the world. So as Brunello said, we appear to be trendsetters in fashion and lifestyle. So this is my key message for you today. And let me remind you that the day before the award ceremony, Brunello had an opportunity to hold a conference on the charm of life and work-life balance. He was speaking in front of top influencers and celebrities from China.

So their views, their attention, their sensitivity on these issues made us understand that this world is getting closer and closer to us. Besides China, we have beautiful growth in the Middle East too. It's a pretty young market for us. We just opened in Saudi Arabia. We feel a lot of energy from Korea, loyalty from Japan. So all of this makes us think that the future is rosy and rich.

Now, sales breakdown by channel, as you know, the fourth quarter is a quarter when normally retail has a higher weight than in the previous 3 quarters. However, we imagine that the 72% to 38% retail wholesale mix may see retail gain in a couple of percentage points. But we would like to remind you that the retail sales include about 10% of products sold through concessions. And also we are particularly satisfied because even this year we'll be able to grow double-digit in wholesale.

So for this...we thank all of our multi-brand accounts and clients that are very serious in their connection to us. We want to thank them for the beauty of their locations and their stores that are still a major source of inspiration and for the love and care that they devote to our products even to this day.

BRUNELLO CUCINELLI: Thank you, Luca. Now I'll speak for another 6 to 7 minutes and then we'll hear from Riccardo, then we'll open the floor to questions. Now the last 3 years have been very special. In 2021, we won the British GQ award. In 2021, we attended G20. This was a major step forward in sustainability. This year we were given these 2 major awards. So all of these are particularly important. And all this leads us to support the identity, quality, craftsmanship, exclusivity, rarity of the brand. And my friends, the collection is the same pretty much everywhere.

So some last week in China, we have seen many things that were produced for the Chinese market only. But personally, I don't agree with this approach. We need to have the same collection with the same taste. Of course, we have different fits, different sizes, but it's really important to come up with a single image.

So you never imagine we can buy other brands. This is not a possibility. I'm not talking about the supply chain, which is...what we did when we acquired Cariaggi together with Chanel. If we do have acquisition opportunities in the supply chain, we do go through with them. But we want to manage our company with great respect for the wonderful artisan micro-businesses. We want to support them, but we would like these businesses to be run independently, autonomously.

So the first theme is the true craftsmanship. But you know, the first thing that true craftsmen are concerned about is deliveries. I mean, of course, they're also interested in profits. Of course, profit matters, but we gather our suppliers every Friday in a...we're going to meet them next Friday in a beautiful theater, and then we're going to have dinner together to really thank them for everything they did.

The factory worker and factory workers is a major theme for us. I had the pleasure to discuss it in the US too. And the occasion of the award in China, well you know, we discussed the great value of the fair working hours. And another big issue we discussed in China was the connection of young people to work and to their families.

And to tell you the truth, as far as, working hours, we are trying to work on it. And the question of children is always the same everywhere in the world. I mean, my granddaughter is so young, and she goes out of her home at 7.30 in the morning and comes back at 3:00 and still have to study. They seem to have no more time to think, to explore their soul. So artificial intelligence is something we work on day-in, day-out. We love it. We are very curious.

Personally, I'm under the impression that in the future, we need more and more people who will think, design, and actually make things with their

hands. We also discussed this at the board meeting this morning. So quite possibly, our craftsmen are also going to be particularly in demand.

Now, Riccardo, would you please report on sustainability? We have worked on it for 2 years, and you will find information about this on our website in the next few days.

RICCARDO STEFANELLI: Okay. Thank you, Brunello. I would like to start by giving an update on our commitment towards the environment. Let me tell you that we are complying with the emission reduction commitments we made in 2021 as we adhered to the targets we set out. Actually, we had made a commitment to reduce our emissions by 60% by 2028. And we are in line for that goal. So despite the fact that our revenues grew more than we originally expected, the commitment of all of our people and our artisans too have made sure we could contain the environmental impact of that growth, because it grew less than proportionally to our results.

But as Brunello said earlier, today we would like to update you on the findings of a study that has been very demanding for us in the last 2 years because we started working out a method to measure all of the great works we have implemented in the history of our fashion house. So this survey was originally started, thanks to your stimulus, your encouragement throughout the years, throughout roadshows, every time we met. We discussed this with you and many times you prompted us to question the right metrics for measuring our idea of sustainability.

In all possible forms |we may think of spiritual, environmental, economic, cultural, technological, and more of sustainability. And many times, some of these forms of sustainability are pretty hard to measure. It's hard to find the right metrics. But at the end of our survey, we decided...we understood, actually, there is a method. And one of the most reliable

methods to give an objective value to everything we do is the so-called social return on investment. Technically, this is defined as a measurement process and communication of social, environmental, and economic values generated by an organization. And the purpose is that of reviewing and examining in qualitative and quantitative terms, the process by which we can generate social values through a company. So for this, we need to thank Ernst & Young for accompanying us, for supporting us, for suggesting this analysis method, and providing us with these values, which I'm trying to list for you here.

So as Brunello said earlier, we always divided our great works in 3 major areas, Solomeo, our borough, our territory of Umbria, and everything that concerns our international commitment. In all of those areas, we tried to analyze the actual value of the most important values, the activities we completed, and everything where we were involved, both as managers and as the entrepreneurial family.

Let me remind you that maybe 90% of all the great works have been completed through our foundation, because we always believed it's the responsibility, moral and economic responsibility of the foundation, and not of the listed company, to enhance the local community it works in. So I'll try to list them in individual clusters. So in Solomeo, we restored over 50 buildings dating from the 1,300s till the 2,000s, and in practice, this helped make Solomeo, the borough of Cashmere in harmony, as you know, it.

The artisan school for the arts and crafts is something which we consider to be one of the best feeding elements of our artisan production capacity, with a high employability level, actually, 85% of graduates land a job immediately. The project of beauty in the industrial park is another great work, so at the same time, we restored over 700 cubic meters of industrial

buildings, and we destroyed, to give it back to nature, another 400,000 cubic meters of industrial sheds that have been destroyed to go back to nature.

And last but not least, the planting activity 220,000 trees in the 200 hectares of our park. So looking at our region of Umbria, we want to recall the restoration of the Etruscan Arch of Perugia. It's very important, not just for the history of the city but also to testify to the Etruscan routes, the 2,300 years ago. Then with the restoration of the Cathedral and also the theatre dating back to the 1800s. And then 2 symbols of the Norcia town, the theatre and the tower. As you know, we've always been very strictly tied to this town, because of the Benedictine monks...the Benedictine monks that keep inspiring many of the founding values of our fashion house.

And then as far as our international commitments are concerned, first of all, we would like to recall the great relationship we have enjoyed with Malawi for 15 years, and we support this nonprofit organization whose aim is to improve the health conditions of the population of one of poorest countries in the world. Then the initiative that was set up during the pandemic by Brunello Cucinelli for humanity and this is already part of a way of interpreting the longevity of our products. We donated new unsolved items to the poor. Then the latest project with the King of England, very high value from the civil and moral point of view, not an economic commitment though...not a high economic commitment where we are following a regenerative agriculture project in one of the villages there. And which is one of region of the finest cashmere, and we renewed the commitment for the coming 2 years during the last COP28.

So what is the result of this? All of these great works they have an individual social return and impact on the communities that is measurable

according to objective criteria and we decided to give a weighted average of these investments, and the value is 2.1. For each euro invested, €2.1 are the return benefitted by the community. As Brunello was saying, in the coming years, we will publish the results of this report on our website and both myself, Luca and Pietro are of course available for you...should you have any questions.

BRUNELLO CUCINELLI: Thank you, Riccardo. Great explanation. Just one minute. So this morning's board meeting, we discussed how we would like our company to look like in 2030. We want nothing to change in the valley. We have a land for the next 100 years. We want to still be exclusive rare artisans. We then in...as far as economic terms concerned, we would like to double our turnover with a balanced profit. We would like to work to set up...sorry to train new craftsmen for the 2030-2040 decade, because honestly speaking, until then we think that we are already all set. Then we are expanding our factory in Solomeo and also there is a production facility in Penne, Abruzzo for men's clothing.

To conclude, this is a very positive momentum for the brand and hopefully god will help us. Personally speaking, I am very pleased with Luca, Riccardo, Moreno and Dario very, very happy with them. But especially, I am really pleased with your moral responsibility. My time, well, 90% of it is devoted to products together with a 66 style and lifestyle people. So I don't want to hide from you that I would really, I want to be considered a co-senior in style.

Thank you very much to you all, all you analysts, investors, members of the press. |But really big thank you also to our workers and laborers who with a skilled hands enable us to be who and what we are. We want them to be sure that we look at you with a very special eye, which is the eye of

the soul. So thank you very much. I apologize for being so long, but we want to tackle many topics, especially sustainability and market.