

Brunello Cucinelli S.p.A.

"Nine Months 2021 Results Conference Call"

Thursday, October 21, 2021, 18:00 CET

MODERATORS: BRUNELLO CUCINELLI, EXECUTIVE CHAIRMAN AND CREATIVE
DIRECTOR
LUCA LISANDRONI, CHIEF EXECUTIVE OFFICER
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OPERATOR:

Good evening, Chorus Call operator speaking. Welcome to the Presentation of the Nine Months '21 revenues of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. Following the presentation...the initial presentation, there will be a Q&A session.

Speakers will be Brunello Cucinelli, Executive Chairman and Creative Director, Luca Lisandroni, 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."

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

BRUNELLO CUCINELLI:

So here we are, and good evening, everybody. Kind investors, thank you for joining us, dear investors, analysts, journalists and we are all here as always. Luca, Riccardo, our CEOs, sitting beside me, Moreno, the CFO, Dario, his Junior CFO and the whole team, 8 of them...of us, sorry.

Well, you know, to tell the truth, I have to repeat that I really like these calls, and this is the last one this year, alas, because there's none else actually scheduled, and we will...we'll have the next call in March 2022, and as it is our custom, since we did this from the very beginning, when there is a call following the Board Directors, we have a quiet strong...we have shorter press releases, whereas when there is no call they will have broader press releases. So on the January 2022, we will have a very broad press release, whereas in March it will not be so long.

So personally, I really enjoy hearing from you, you see first that for me the best thing would be to speak to you once a month. So the way we did in

the past year, year and a half, the toughest year in our life. So how about this call, how will this unfold? So first of all, I will read out the highlights, then second topic, a few words about the company which is back to business as usual as during normal times. Third, worldwide sales but honestly they are doing so well, physical stores too, that we just want to devote little about the time to it, and then to rather devote your attention to more important topics. Fourth, product, the "Designer of the Year" award 2021 and you know, especially I, myself, I am always busy with the product, because I believe the products really is key and then the closing of the sales campaigns Spring/Summer 2022. Fifth topic, the final focus for 2021, and the fairly detailed 3 year project '21, '22 and '23, its October already, so we have details for you here. And then sixth, we'd like to devote some time to these new projects for the Town of Solomeo and also for the Brunello Cucinelli brand for the coming 50 years.

So net revenues of €502 million, up 9.4% at current exchange rates plus 12% at constant exchange rates, compared to 3rd of September 2019. Excellent growth reported in Asia, plus 18%, Europe plus 14% and honestly I don't want to read the decimals, but Americas 7.9%, where you know, this case decimal is important with a limited decline in Italy of 6.9%...minus 6.9%. Retail channel up 15.6% and wholesale up 3.3%.

In the third quarter of 2021, net revenues of €188.8 million up 12.5% compared to the same time in 2019. And now, the revenues vis-à-vis 2020. So growth of 32.7% at current exchange rates compared to 3rd September, 2020, 35.4% at constant exchange rates, then Asia plus 35.9%, Americas plus 37.4%, Europe plus 31.6%, Italy plus 21%. With the retail channel growing by 56.5% and the wholesale channel by 13.5%. This is what my comments on the highlights.

The first 9 months of the year have gone very, very well indeed; the Autumn/Winter 2021 collections are proving very successful worldwide, and everywhere we are seeing a strong desire to return to physical stores. We honestly couldn't have imagined such an excellent result just a year ago. And all this leads us to envisage that we will end the current year with a wonderful 25% growth in turnover compared to 2020.

Also thanks to the "Designer of the Year 2021" award that was given to us by the prestigious British Magazine GQ, our brand is receiving countless certificates of appreciation for its stylistic expression, that's very important, as well as, for the way it relates to humanity and the territory, surroundings. And with the Spring/Summer 2022 order collection now complete, we can now envisage a next year lived in the healthy balance between work and private life with a growth in revenues, in turnover of around 10%. So these are the broad highlights.

So company to start with, so we can confirm that we are all physically at work, and 99% of us are vaccinated. For the remaining 1%, there are 3 doctors have been here from the beginning of the pandemic, they are still with us and they will be with us until the end of the pandemic, and they are available daily for swabs.

All the stores in the world are open, and they are open with the very same staff as before the pandemic, and you know this is very important. And perhaps, it also has a very positive effect on our sales. As you know, in March 2020, we decided...we made actually 3 important decisions, very important ones. The first one, not to lay anyone off, this was March the 12th, and also we decided to guarantee everyone the same salary as in 2019. We also decided not to ask for a discount, but you know, you see...I keep saying that this is part of who we are. And with all the surplus goods, we set up this project called Brunello Cucinelli for

humanity that you are familiar with, and it really gives us beautiful human experiences.

So another important thing is that we don't have any trouble or difficulties with raw materials, you see, because we have always believed in a healthy stock of raw materials and even in 2020. It is true that for us, many raw materials really are the staples for us, so you have raw cashmere and you need to dye it afterwards, so it's easier. As you know, all production is imperatively made in Italy, with a true manual labor rate of 52%, which means the needle, thread, scissors the true manual work.

And then we have not reduced any major investments over this time, including investments in communication. In 2020, and 2021, it was always between 5% and 6% and it stayed the same during the pandemic. In short, we would like to call this time, the year of rebalancing practically in all, but a few points on EBITDA. But I think it will be back, it will go back to balance next year. We feel you see inside the company, we...you can breathe that collective creativity on a daily basis, which I think you can only generate by working in a physical presence on site. Because if you work on site, there is a very clear cut distinction between family life and work, collective creativity, and young people...young stuff can really learn the corporate culture.

Then on to sales, as we said before, we attend to...sales are going very, very well, I would say, all over the world, including in Europe. And as we were saying today at the board meeting, Europe is always very, very important for the taste and the way we showcase the product, you know, that we believe in a collection that brings along the same taste anywhere in the world, maybe sizes change you would have more small sizes in Japan and large sizes in Germany, but the taste and the design is the same.

And in general, whoever you talk to everybody says that things are going very well. There is a great deal of confidence positivity, new projects in physical stores a great...some people redevelop the store. And there is a great craving to see touch, try on garments, and also get advice from the salespeople, especially for men's, but also for women's. It is important to talk about one wardrobe on how to mix and match the different garments. This is really true. So just a few seconds on sales, but it doesn't really need any more time because everything is going well.

Product and sales campaigns Spring/Summer 2022. So we can say that our products and consequently the brand, they are really experiencing great momentum. We won the Designer of the Year 2021 award from the British Magazine, GQ. And I have to say that this award makes us very proud. And it also gives the brand a very clear cut connotation of taste and identity.

And as a result, perhaps it also contributes a longer life to the brand itself. Since when we were young, you know, have always [indiscernible] from Ralph Lauren, you see Ralph Lauren taste is still the same. You see it's still there after 50 years. So it seems to me that there is a very strong demand for particularly well-made clothing and we have 85% ready to wear kind of clothing that is very handcrafted, exclusive, expensive but that lasts over the years. Like if it was something you never throw away that you can reuse, repair, recondition, and mend. This is something very, very contemporary.

We have finished now 20 days ago, finished collecting orders for men's and women's Spring/Summer 2022, and the season went super well. And we also received excellent feedback from the press. And you know, that if the feedback from the press matches the feedback from the clients' then it's

easier, if there is a mismatch there probably it means that the brand somehow all you need to...you need to work on it.

So to conclude this first part, we can say that...that all this leads us to look forward to a very positive 2022 and we can say that we are continuing a longer path with a very, very long-term project taking care of the way human beings work and the workplace, everything needs to be special there. We try to stimulate creativity by trying to give human dignity and responsibility, because this really ranks high on the agenda. If I empower you, you are more creative, then we try to take care of all the micro enterprises 365 of them, the third-party manufacturers that cooperate with us, and we try to give them a kind of long life to the enterprises and to our territory, because this value chain...well, we can say that altogether that we are attaching some sort of supply chain immortality to it.

So to conclude, on this, we can say that the...you see, with this supply chain of cashmere product, we hope that it will definitely be immortal cashmere products, we continue to believe in our way of communicating, starting from Solomeo, which we define as the hamlet of cashmere and harmony. So we keep repeating that our hamlet is the hamlet of cashmere and the place where we try to live in harmony. And we claim that it is important to live and work in harmony with creation, this is something really important. This is actually what we mean by human sustainability.

So now before moving on to major topics for the years to come. So the project for '21, '22, '23 the plan, as we are almost at the end of October, we are trying to give you our final thoughts on this 2021, which we keep saying, we have defined it as the year of rebalancing, because apart from EBITDA everything went back to normal, so turnover up by around 25%, we grew slightly compared to the late...the last call, but things are going so well that we feel pretty confident there, EBITDA around 13%, then

inventory around 30% of turnover. And we consider this to be totally rebalanced. Net financial position, we should close with around €65 million compared to €93 million in 2020. So we are going to rebalance here as well.

Investments always around 8% of our turnover, clearly sometimes you are waiting to for an opening in a specific high street and then, when this does happen, we seize the opportunity and we pull forward our investments for the year. But usually with 8% we can feel confident, the 8% investments of turnover. So that we can have modern stores, modern showrooms, dividends around...going back to around 50% of profit as per the ongoing plan. So this is 2021, well, hopefully God will help us.

Now, a few highlights for '22 and '23. So this plan envisages a growth in turnover of around 10% per year. You see, in the past we mentioned 8%, but we thought that we have to recover minus 10% last year. So this year 25% and the coming 2 years 10% per year, so that together we might then go back to our plan for the second 5-year plan. So to again resume our planned path of the 2019-2028 project.

So, the 2023, so for the first milestone. I think that maybe we can reach that at the end of 2022. So for the coming 2 years, what we envisage, turnover of around 10% per year growth, then EBITDA that is rebalanced and inventory that is balanced as it is already this year with interesting stock as we were saying before, continuously improving net financial position, investments around 8%, then advertising between 5% and 5.56%, dividend around 50% of profits. My esteemed friends, these are the coming 3 years that we are working on, and we feel pretty confident.

Now, on to the...some major projects that we have for Solomeo and the brand. First of all, as I was saying we were awarded this important prize

in London. It is an important prize for taste, because one day, maybe the company might suffer for a season or 2, but the state...the taste is always very well identified. And Solomeo is very strongly identified as a place of cashmere, and also identified as a way of working, cashmere, human capitalism, and human sustainability, that is very, very important. So, we keep working on this project, that next week in Milan, we will be presenting to national international press, this big project for Solomeo.

And as you know, it is taking care of by the Family Foundation, not by the listed company, and we think that this project and we can't reveal anything about it, but we'll let you know in a few days. We think that it will give Solomeo further strength for the coming 50, 100, maybe 500 years. Then, in this village, you know, in this hamlet, we have the forest or the wood of spirituality on the hill, and then coming down to the village we have the secular temple of the amphitheatre. Then we have the headquarters in the valley, we have the winery with the monument to the Earth to Xenophon, everything comes from...all things come from Earth, and then we have the monument, a tribute to human dignity. Something really fine that you saw, and then on Thursday next week in Milan, we will present this new charming project, a bit on the expensive side, but I hope that you see children and grandchildren will keep believing in this fascinating project.

So as far as the project that is important for the brand and for Solomeo. Then we have another project, a 50-year project for the company. So, you...you might say always talk about 50, 100 years ahead. This is the 43rd statement of financial statements this year. And the first 43 years of the company, we went through COVID and we are about to restart. As you know, the place where we work, the places where we were, the property buildings where we work, they are not...there's nothing new there, they have all been reclaimed. These are former buildings of the 60s and the 70s that have been adjusted to modern life, modern working life,

and I spoke about this with the Prime Minister Draghi too, because we, in our surroundings. You see, we have 40% of buildings that are absolutely not in use. So, I said to Draghi, if the government can give us a hand there. We should try and redevelop these properties, these buildings otherwise peripheries our outskirts will be suffering. And truth be told, we had this chance here very close to Solomeo, there is a huge area, a giant company of 50 years ago, and until 30 years ago.

And then, as things go, it's...so we were able to buy this from the [indiscernible] only a few days ago, 50 hectares, everything needs to be reclaimed, obviously because we are talking about factories and plants of the 70s and 80s making paint, but this will enable us...will enable company to expand for the next 50 to 100 years, because we can build 70,000, 80,000 square meters. So, over the years it will be very interesting. So, it is a great momentum for us because on the one hand we have the prize that we were awarded. On the other hand, we have this project of the foundation that I'll disclose, next week, and then I'd really like you to send us an e-mail with your feedback on this opinion, I like it or I don't like it, we'd really like to receive feedback from you.

And then, you should try and really understand for us. This is...you see these buildings are not for logistics, this is a true factory. This is a plant we manufacture here, we want to defend know how our production system. So tomorrow we have...visiting us from the European community, we have the Ministers of Agriculture, because I had the pleasure about 20 days ago, I spoke at the G-20 talking about human sustainability, so they're now coming to visit tomorrow. But this area, I mentioned before, it really gives us the possibility to imagine factory for the coming 100 years. So it is some sort of collateral or guarantee, as far as, spaces or surface area is concerned. So there will be a closing of Solomeo of the brand. We feel very confident because of that.

And now, I wanted to tell you something with some emotion, actually, I'd like to disclose that at the end of next week, I have been called to contribute, to give a contribution on humanistic capitalism and human sustainability in front of an audience that I would never have imagined in my life, so I cannot really disclose what it is all about. But this really honours us, because in front of this kind of world audience we will have a chance to speak about humanistic capitalism, human sustainability and relations with human beings, because you know, that this topic of sustainability. Well, I...what I really I'm keen on is human sustainability because very often we talk about emissions, and of course, it's just a fair right we tried to recover, to collect rainwater, but you see human sustainability is a great, great topic.

So, on October the 31st, I have been summoned to come to give this contribution, and you know, I cannot sleep at night and hopefully the heavens will protect us. But I think it is a good thing for the company, for the corporate culture, for Italy, for Umbria, because you see calling an entrepreneur to speak in front of such a worldwide audience to talk about humanistic capitalism and human sustainability. Really, it is an honour for us, and hopefully, I hope that you will get to know that this is something very, very serious and important to us.

So, to conclude, so then you can ask all the questions that you want, we would like to consider this current year for these great events that have taken place as the some sort of golden year for our company. I don't know if you agree Luca and Riccardo, golden year for the price for the Best Designer 2021 for the brand for Solomeo and for the acquisition of this area that secures us for the next 100 years and also the participation in this great world event. So very well for the brand, very well for Solomeo, but you should know that we work always focused but in a healthy mood of

serenity, because going back to work healthy amount of hours with right focus, with a right amount of online time, I am really happy with that.

So this is the end of my speech.