

Brunello Cucinelli S.p.A.

"2020 First Quarter Call"

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MODERATORS: BRUNELLO CUCINELLI, CHAIRMAN, CHIEF EXECUTIVE OFFICER
MORENO CIARAPICA, CHIEF FINANCIAL OFFICER
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OPERATOR: Good evening. Chorus Call operator speaking. Welcome to the presentation of results of the First Quarter 2020 of the Brunello Cucinelli Group. I would like to like to remind you that all participants are in listen-only mode. Following the presentation...the initial presentation you will have a chance to ask questions.

The speakers will be Brunello Cucinelli, Chairman and CEO of the company, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations. In order to receive help from an operator during the conference call, please press "*" followed by "0."

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

BRUNELLO CUCINELLI: Good evening, everyone. Welcome back. It is always a great pleasure to speak with you, investors, analysts and journalists. As usual, I find that these calls are pretty relevant in order to exchange our views. So we are all here in Solomeo, beautiful splendid day with Riccardo, Luca, Moreno, Dario, CFO and Co-CFO, respectively. And we would like to tell you how we would like to organize and structure the following call.

So first of all, I'd like to tell you how we are working and living. I'd like to read out the figures you're already familiar with. How we are managing 2020? And how we have planned 2021 with a pretty sound visibility in 2022, too? And then once again...we'd like to once again give you some colors on our 10-year program Plan 2019-2028.

What about today the current mood? I have to say that today, too...we only had 1 positive case here in Umbria, so I would say the situation is looking-up. After a very strong period from the emotional point of view, especially the first 10-20 days of March, that's beginning of this pandemic

you see it was pretty tough. And now, the second half, I would say, until last week, the days were slightly better, because we were seeing...we're seeing that the skies were clearing up somehow. Now we're all back to work. So the collection style 23% of people for 10 days. And then last month, everybody came back. So I have to say that we are back to normal. And the first day was pretty moving and emotional with serological samples and tests for everybody. And face masks of course, these are...this is not compulsory, but every employee decided voluntarily to take these tests.

This is a choice, a process that we have done together with Perugia University, because they asked us to under...that all our employees undergo these very important tests, in 40 minutes we have the full results with these 4 scientists working for us. And this is very interesting because they need these figures to map out in this case, Umbria region. So we have done everything. An important thing I'd like to say we have 2 doctors, a special Gazebo, a special area dedicated to the test and the sampling.

And then there is the foundation too, the foundation both with special machinery. And this machinery is able to read out and process all data in 40 minutes. And we carry out tests also to friends or people coming from far away because you see, if they come to the company and maybe they spend a couple of days with us, having the possibility to take a test and knowing everything after 40 minutes, then you have a different feeling. So it was a good choice to cooperate with the Perugia University and the hospital.

So how do we work now? We have tried to convert all this into somehow a new attitude with a focused dedication, humbleness, courage and creativity. This is what we want to put in place. And first of all, we said

to ourselves that we should be changing what can be changed, and we should be able to accept what cannot be changed. Like my Great Master, 16th Century of the greatest Humanist Thomas Omar said to me...stated for me. So we decided that until the end of the year...well, actually, I decided it...until the end of the year, we won't be using that many adjectives and many formalities. We must be very quick, very down to earth, very pragmatic to the point, and ready to change our strategy whenever it is necessary even on a daily basis.

So jokingly, but not very much. So I have always thought that you only take part in the Olympics once in your life. And this has been a sort of Olympic Games for our company. And I'll read out the comments, because I'm sure you already knew the figures. So €166.7 million, net revenues, minus 2.3% year-on-year current change, and 2.9% constant exchange rate, vis-à-vis €106.4 million the first...31st March, first quarter 2019, north America plus 9.5%, Europe minus 2.2%, Italy minus 13.9%, China, minus 27%, rest of the world, plus 6.6%. Performance per channel, minus 7.4%, monobrand retail, plus 2% wholesale, and monobrand wholesale, plus 0.5%. So what about my comment on this? The current year was off to a very, very good start from an economic and brand image point of view until February 29th...the end of February. The only exception being China due to the COVID-19 epidemic. Our company reacted to the health emergency immediately by taking action to protect the health of all its employees, co-workers, suppliers and customers all over the world.

The precautionary measures adopted and the exceptional provisions introduced by the governments of several countries around the world in order to contain the spread of the virus, have resulted in the closure of a significant number of boutiques around the world, and only affected sales in the last weeks of the first quarter, thus reducing the overall result in a

limited manner. The economic and financial impact of the pandemic is expected mainly in the second quarter with sales significantly affected by the closure of a still significant number of boutiques around the world.

Great attention is devoted to the planning of the 2 year period 2021-2022, for which we envisage a buoyant and sizable recovery of the business, allowing us to continue to work for our 10-year plan 2019-2028, which should lead us to double our turnover. We believe these to be strongly temporary circumstances. For this reason, our attention is focused on the management of the current year and the healthy control of costs keeping our company structure strong and also poised to fully resume business. We keep up our planning efforts and confirm our sound strategic investment program for everything related to the distribution and production side of the company, as well as, the support of the brand as a whole.

So how do we manage the current year? So we can say that since the mid-March, we decided to call all our analysts, investors and suppliers. And we decided to organize one...so to speak, meeting...virtual meeting a month with the financial community. At the beginning of April, we published the revenue of the first quarter and in mid-April, we organized something very interesting and very appealing, a virtual road show for 3 days. And I would say that this was really, really important to have this exchange of views. And we think that what is happening in the world is a crisis that we want to call temporary...a temporary one, very strong and sharp, but not as sharp as in 2008. I remember in 2008, banks would go bankrupt, we didn't know where to go. And I remember that my father sent me to withdraw from the Cassa di [indiscernible] bank, €16,000 in savings that he had deposited there.

But I'd like to compare the situation with an anecdote that really was important for me. When we were farmers, we lived in a family with 13 people. We had no electricity, we lived...we worked the land with animals, and I was 10, and I remember fully well because my grandfather passed away 2 months after what I'm telling you about...the story I'm telling you. And then there was a huge hailstorm that summer that destroyed our harvest. We didn't have any policy...insurance policy on that. And then in the evening, it was pretty gloomy, the mood there, my mother, the ladies there everybody was crying. And my grandfather, he said to me...you see he wanted to comfort me, to reassure me, to calm me down for that great tragedy that had hit us because, of course, to have a harvest was important for our livelihood. And the day after...the neighbor, a farmer...neighbor; basically lend us about 20 bales of wheat. And then we returned the favor the year later. And about this, my father, who is 98, and I always go and visit him every evening, the other day, he said to me, you see after the huge hail storm, however, of course, we harvested what was left. But when we went back to work the land for the seed and the sowing of the following year, we were even more careful. We were even more fond of what we were doing. So that maybe we could have some sort of recovery in the following harvest. So we...these are the great choices that we have made. So we think that this has been some sort of hailstorm for the world.

So what about the choices that we have made? First of all, we want to devote 40% of our time to managing 2020, and 60% of our time to planning for 2021 and 2022, that we want to start some sort of new time because this is what it's like. So until February the 29th, everything was going well, and the world economy was going well. We had completed all our summer collection deliveries, as usual. And we had already in-house all the orders for the fall/winter 2020 for the 3 collections, women's, men and kids. By the way, it went very well, both in terms of numbers and in

terms of taste, because you know, it's always very important to have the feedback from the press to know whether your brand is contemporary or not.

How do we manage now 2020 ongoing? The first idea is to protect the brand and all the creative and organizational minds working for it. This is what really matters. And we also try to achieve sustainable balanced results. Over the last...you see, we have been listed for 8 years, but over the past 7 years, we have doubled. So our company is 40 years old, but if we think of the period 2000-2019, we grew by 11%...we have grown by 11% on average.

So what did we do in mid-March, as soon as, the company closed down? So we actually closed the company a week in advance, because I, myself, everybody we were very scared because we had the example of China before our own eyes and we made a huge decision back then to maintain all our employees, to maintain the same salary of 2019, starting from China the first ones that were locked down. And we knew that 6, 7 weeks later, we knew that we would resume our business in the best way possible with new excitement, drawing inspiration from our Chinese employees who really, for us, represented for the good and for the bad. They have really been an example of timing and mood.

I remember fully well the letter that we received on the day of the last call, March the 11th. So 2 months after they had started the situation, so what did we do? We spoke to all of them, with all our employees over there and we asked 2 things of them. So well, actually we asked all our employees to work more until the end of August, half an hour every day...every Saturday morning. And until the end of August, only have one week off, because usually we would take 2 weeks off in August. This

way, by the end of August, we will have caught up completely in delivering the winter goods and also in preparing the collection.

The second important thing, maybe even more important, is we should try and be even more special from the human point of view, because once this painful situation is over we will come across people who are feared, who are scared, maybe because they are grieving the loss of some beloved ones. Maybe they've lost their job, and also a bit frightened by...petrified by the world coming up. So this is precisely where we have to be extremely careful. And I'm saying it to you and also to the people here with me...surrounding me. We have to listen and we have to not be arrogant at all because this is what we want to do.

So you see the reactions of our employees were very touching and moving. So we can deduct that there's a very strong sense of belonging to the company, to the area to the region. I am...myself, I'm strongly Italian, when someone speaks ill about Italy, and I really regret it. And this is what I call the great value of the community. There is no doubt that this represents this human sustainability that we are so fond of.

Another important topic is production. The whole production takes place in Italy, as you know, 75% in Umbria and the remaining 25% in Tuscany and market Veneto. We have 364 micro workshops with 15 employees on average. They all have welcomed the idea to work through August, so that we can say at the end of August we will have caught up the delay with the previous year. These micro companies that I really wanted to highlight, they were not really hit by huge losses, and because they only have...they only have basically workforces. So thanks to the furlough scheme of the government, they can basically redress their losses. But they provide us with a lot of flexibility with the delivery time, because they are basically made of workforce. And therefore, we feel some sort of

confidence and peace of mind, both for production, for 2020 and also for the new collections that will come out in July and August.

Another important thing is the value of the multibrand accounts. You see, for us, this business is 45% of our revenues with 500 accounts, about 10 department stores and then the rest, 490 are the wonderful specialty stores. We have known them for many years, have a business relation for many years, never had any problems there. In the past few years, in the former Soviet Union and in China, many multibrand stores, specialty stores, have blossomed. Therefore, we believe that for the coming years, we will have the possibility to definitely expand our business with these special players. So you see nobody has canceled their orders for fall/winter. And honestly speaking, fall/winter, we really believe very much in that, because we think that generally speaking, you see our clients might receive a bit less of what they ordered because of the production issues of other companies, of other vendors. That's why they are really asking us for help in case of...for any re-assortments if the market was to go the way we expect.

Another important thing to be mentioned is the idea of redressing the seasons in stores and the coming out of new collections. I think in the past 5 to 6 years, we had really stretched it. We had crossed the line, meaning that we would showcase in the shop windows you know, strong cashmere coats in June. And speaking with many players, we actually see a trend emerging...some sort of rebalancing of the dates when the goods are displayed in the stores, I would say with one month delay. So we are going back to normal, which means that in July...in June, you will have 80% of summer goods, and you start showing off some sort of winter garments.

Another important topic...still another one. Everything is important. So spring/summer 2021 collections. In July and August, we will present the

new connections, as usual, with the usual timing. And they will be delivered physically to our showrooms. So in New York, Tokyo, Shanghai, London, Paris, Milan, Moscow, I think that there is no doubt that before making an order, you need to touch the product. You need to feel it. You see it live, of course, if it's not possible, you can also see...visualize it online. But if you can actually do it, it will be a completely different experience.

So I'd like to say that, as far as, we are concerned, our collections will be very much...very new. They should not look old. They should look new, and maybe even more new than in the past year. And why is that, because I think that after 2 days locked down...sorry, 2 months lock down in our homes maybe in front to a computer, we have seen it all. And we will definitely feel the need to step into brick-and-mortar stores to see, to touch, to be maybe ticked by our maybe salespeople. You see, for example, I wanted to buy 2 tennis rackets, because I always played tennis since when I was young, I didn't want to buy them online. And I...that's why I want to go to the physical store so that I can have some sort of explanation there. I think that this will become true in early July when we have to show the fall/winter garments in the stores. And there is no doubt that in January already for the next spring/summer, the stores must be beautiful, very modern, very groomed, visual must be very appealing, enticing, and also DSAs must be special, because everything...because we need to display new goods.

Then e-commerce, you know, it's something we really believe in. So this part of the year, we have had a 50% increase, because, of course, the starting point is just 3% the brunellocucinelli.com, but it's very important. We had really reinforced our structure in terms of space and people by specialty space, so we can double our business without any problem, so we have the facilities for it. We think that it is a very important means for

image related or communication of the company. So e-commerce is something serious on the online world. But I also wanted to convey my personal thoughts on this.

Following 2 months lock down and always online, I don't know about you, but I really, I am fed up with these calls...no, sorry, not with the calls that we're having now, obviously. But I really I am fed up with them being online and the screen and stuff. And I think in the past 2 months, we have really visualized everything...every single thing. So there is a huge need to go back to physical things, of course, complying with the safety and security regulations. So I think that physical stores will play an important role in the future, like we were saying before. And also for the coming years, I want to go back to physical stores.

I love brick-and-mortar stores and this maybe, we will redress the balance between technology and the human factor. And there is no doubt that this time, once again will bring customers to carefully think before making their purchase. You see products; they need to understand where it has been made? How it has been made? Where the...how it has been made to the environment? So we think that there will be a return to the great...the striking difference between true luxury and accessible luxury. And the difference between products that is handcrafted, recognizable, artisanal, exclusive and expensive. Of course, if we talk about our product, that is expensive, but that can be mended and reused over time, and then on the other hand, you know, commoditized goods, industrial goods made all over the world with a very large distribution and with a low price. I think there will be a very clear-cut distinction.

And now I'd like to talk about Investments 2020. We have maintained our strategic investments unchanged, both in distribution and production. And many investments took place in the first half of the year. We opened the

meat packing district store in New York in a beautiful neighborhood. London, it is ready, but we have to wait for the reopening...restart, then Paris too, 3 very important stores, all in all. In the second half of the year, we have seized the opportunity we have been waiting for, for many years because in some locations, it takes years for something to come your way. And we will expand our store in New York. In Tokyo, we will go to Omotesando, change location and also in St. Petersburg; we will relocate to a beautiful building we had been waiting for, for a long time. So as far as our plan is concerned, we will pull forward €6 million, €7 million from 2021, and we will pull them forward through 2020 for November.

Then cost control, another important topic. So we have always tried to keep costs under control, always envisaging a restart...when the restart came, we would be poised and ready. And as a matter of fact, we are ready to start. And we have, with our partners we have basically followed a very good conduct of behaving properly, respecting human dignity and sustainability. We have chosen to behave well. And because...see, we have all been victims, this has been a hailstorm for the whole of mankind with one difference, the hailstorm that happened when I was little, only economic damage was the consequence, whereas in this case, there was a human toll, unfortunately.

This is something I want to say to you, in 1453, there was Ms. Benedetto Cotrugli, who was born in Dubrovnik, in Croatia. And in 1453, he wrote a beautiful booklet on the art of doing business. The book is called "The Book of the Art of Trade and Commerce." So basically, it is the first book about the sort of way of doing business in an honorable manner. He was a merchant. And this...he was forgotten for 5 centuries, this renaissance text. I think that this book is very, very contemporary, especially when we talk about the specific form of capitalism. Mr. Cotrugli, basically points out something very interesting. He said, one should become rich with

honor according to justice. When you buy or sell, you should respect and apply a fair price in order to preserve the human race. I find this very, very beautiful. If you're interested, we have it in Italian, but we can have it translated into English too, because it really is worth the while.

Last point...very important for 2020, the inventory. You see for 2020, in the second half of the year when we talk about the winter production, well we are confident because we are flexible in our manufacturing, because we manufacture everything here in the neighborhood with the 364 workshops. As far as, the summer goods is concerned in the DOS stores now, once the season is over, say, at the end of August, we will then decide what...how to proceed by very carefully, breaking down the evergreen items from the seasonal ones. So usually, we deliver much early starting from December. And when we reach February, mid-March, the sellouts have already reached a good point, plus the online. So we expect a quite good results, but one thing must be restated, a very important thing, we believe that in the next season, stores should display a very attractive and contemporary product. You see a year for fashion is a long time.

Since I still have 3-4 minutes, I'd like to say something more. When I was young, there was a very important knitwear manufacturer, an entrepreneur, a very refined 60 year old. And he was a romantic man, too. So he called me and he said, I bought a huge lot of Shetland Wool, and he had paid 20% of the value. And he said to me, 'Brunello, I think it was a bargain.' And I said; listen, Mr. Fagioli, I don't know whether it was a bargain, but who will you sell the Shetland wool, Shetland wool that is an itchy kind of product and nobody is going to buy it. And then I can't tell you how it ended, but it definitely did not end well. Then another important thing, whatever.

So 2021-2022, we call it a time for redressing the balance. For 2021, we envisage revenues growing 5% over 2019. EBITDA, around 14%, 15%. Whereas for 2022, we guide for revenues up 10%, with EBITDA in line with our current standard. So for...we still have a plan 2019-2028, and we still believe in this 10-year plan. And now for 2021, investments, 6% of revenues because more or less 1% or 1.2% has...will be pulled forward to the end of 2020 for the 3 openings. Then in 2021, we need to redress the balance in the inventory with the...and also the working capital needs to be redressed. The net financial position must be redressed and also rebalanced and also the dividend.

Until the beginning of April, we thought we would have a general shareholders meeting in April and then pay-out our dividend. But you see we have...the government and the banks in Italy, they have basically recommended the following to us, to postpone the dividend payout, to discuss the issue again in autumn when things will have settled down a bit and maybe pay-out the dividend in 2021. So if the conditions are met, I think we can definitely pay-out the dividend in spring. Now, on the May 21st, we will hold our General Shareholders' Meeting, whereas according to the plan, Luca Lisandrone and Riccardo Stefanelli will be appointed CEOs or will be subject for approval. Well, actually, it's been nearly 2 years that they have acted as CEOs.

And I myself would like to be the Executive Chairman and Creative Director of the company. This has always been my dream to cover this position. And now, I'd like to make a very special wish to these 2 guys sitting in front of me, this 40 year old, I've never said to them this. I'm going to say that I have a lot of esteem and high regards for them as managers and as human beings who believe in great values of mankind. So you will have to really take the helm in this year of very important changes. But my Master and genius, Einstein taught us something very

interesting. From pain and grief, you should draw the genius of creativity and the strength of innovation. And this is a beautiful statement for now.

So conclusions, from the human point of view, we believe that the worst is over. But of course, I'm talking about Italy, I refer to Italy. And China, still some countries are lagging behind, like the U.K. or the U.S. And my hope is for you to believe that maybe we are approaching the last mile of this situation. So we have planned 2021 with the very same care with which my father said, we should be sowing the fields for the coming year.

So this is my opinion, by the way. The strong liquidity in the banks and the injection of huge amounts of money into the market by different governments will make 2021 market with huge opportunities. And I really think that. Therefore for this year, we are confident that the second half of the year will make us catch-up on what we will have missed in the second quarter with the closure of stores.

So to conclude, I'd like to say, that personally speaking, I am convinced that very soon, I can feel that our scientists will give us a good gift by when...saying to us that they have found the cure. And then maybe they will have found a vaccine, but you see I myself spent 2 months talking to the head doctor, the hospital on a daily basis. So sometimes it was very harsh and also talking about face masks. And by the way, many people helped us out in the first phase, giving us the face masks. And now, we ourselves, can help out...can reach out to others, because face masks, you see they don't cost much, but they're not always so available.

And then to conclude, I'd like to borrow this statement that I read the other day by my friend Jeff Bezos, when he commented results and he said. We need humbleness, prowess, ideas and money. So I wanted to repeat it, because I found it very, very interesting. So we are open for all the

questions you want to ask us. Last thing I'd like to say, as far as, the financial side is concerned, we have enough funding from our banks with the classic credit lines without having resorted to the aid from the government, because we thought that it would be better to leave the money for the companies that might be in dire straits.