

Brunello Cucinelli S.p.A.

"Presentation of the Extraordinary Results of 30th June 2020"

Tuesday, July 14, 2020, 18:00 CEST

**MODERATORS: BRUNELLO CUCINELLI, PRESIDENT, EXECUTIVE PRESIDENT AND
CREATIVE DIRECTOR
MORENO CIARAPICA, CHIEF FINANCIAL OFFICER
PIETRO ARNOBOLDI, HEAD OF INVESTOR RELATIONS**

OPERATOR:

Good evening. Chorus Call operator speaking. Welcome to the Presentation of the Extraordinary Results of 30th June 2020 of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. Following the initial presentation there will be the opportunity to ask questions.

The speakers will be Brunello Cucinelli, President, Executive President and Creative Director, Moreno Ciarapica, CFO and Pietro Arnoboldi, Head of Investor Relations. 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:

So here we are. Welcome back, everybody. Good evening dear investors, analysts and journalists. First of all, I hope that you are well and safe because this is what really matters nowadays. This appointment may be...this is maybe the most important one in our history. We have...we celebrate our 42nd anniversary this year since our foundation and listed in the Stock Exchange since 2012, and it is the most important because of this extraordinary time for mankind.

We are obviously all here in Solomeo, and we would like to schedule and maybe structure this call in an unusual way, but I would like to say you know backwards, so 10 Year Plan 2019-2028 following on to that a detailed plan for 2022, then a very detailed plan for 2021, then details, some colors on the second half 2020 with you know drilling...diving in what we are going through, then details on the first half 2020, luckily now it is behind our back and then the last very important topic, inventory, excess production in the first half 2020 and it's allocations.

So before we start, I'd like to remind you of a very important thing. As of today, the company is the very same as it was on February the 28th with one single change. Luca and Ricardo have officially been appointed CEOs, the first one comes from outside of the family, and the second one is part of the family. I am the Executive Chairman and Creative Director and I'd like to say that I really like the way things are because I think that this structure confers really liveliness and outlook for the company for the future because I am 66 years of age and they are 39 and 41, respectively, Riccardo and Luca.

So another important thing, we have 2,024 employees as of February 28th and today, we have 2,024 employees, the same, 1,000 of whom in Solomeo and the rest staffing the boutiques all over the world. We are all at work and in Solomeo before coming back to work, before resuming our business, we...everybody was subject to first the serological test and then the swabs. And together with the Perugia University they analyzed these samples.

We basically decided that we will keep testing our staff until the end of the pandemic, so whoever comes from outside, for example today we had our Board meeting, all our Board members arrived. Whoever had not yet been subject to a test, they've had it done. And the others who have had had a test did the second one, then you wait for one hour more or less and then you can step into the premises. We believe that this helps us work with more serenity, if you will, and it also protects us from any relapse, meaning that in all our history, well, in all these testing we only identified 4 young asymptomatic cases and this enables us to really swiftly identify cases and take measures.

Another important thing to be mentioned, and you might say My God, so many important things tonight, but I'd like to really outline the large

bigger topics here. From the first, let's say when the company closed, we established that the time...business time was to be broken down as follows, 40% devoted to 2020, 60% devoted to all the plans for 2021 and 2022.

Let's now start with the first...the 10-year plan 2019-2028, so there is no change in path in our 10-year growth plan. We would like to reach 2028 doubling our revenues from 2019 and with an average EBITDA ranging between 17% and 18%. You should also bear in mind something important between 2000 and 2019. On average, we grew by 11.23%, but since the company was established in 1978 to the year 2000, we had grown on more or less 12...by 12%, so this is our growth path.

We would like to still be a ready-to-wear company, absolute luxury ready-to-wear for men, women and kids, and our revenues should be broken down as follows, as usual 85% ready-to-wear, 15% accessories, with the whole of the production fully located in Italy, as it is today, and with one single headquarters in Solomeo. And we would like to be here well, maybe not myself working for a for a very, very long time.

We want to keep investing in this project of human sustainability that at the end of the day can be summed up as follows. The safeguarding climate and reducing emission, this has not changed, and establishing a great relationship with the planet and the wildlife and maybe the pandemic helped [ph] us this way and we would like to also pay a lot of attention to human beings, because this is really what matters in life. As a whole, we want to keep working whilst we believe in a very healthy, balanced and sustainable growth.

You might ask what has changed, well, what in our opinion; there will be a great change in terms of product. You see especially young people will

start wondering where has this product been manufactured, how has it been manufactured, has the creation been damaged along the process, and this will definitely be decisive for the future, because I think that we will go back to using what Mother Earth gives us instead of consuming it. And once again, we would want to strike a fair balance between profit and giving back, which is basically [technical difficulty] I think that this pandemic is some sort of dispute between biology and creation and the creation is reaching out to us.

Then planning for 2022. So well, I would say it's pretty detailed guidance here. We envisage revenues rising by 10% vis-à-vis 2021. We think that we might go back to EBITDA around 17%, so very close to our standard...our golden standard. Then investments close to our standard, once again 80% with dividends around 50% of profit as usual, net profit. In 2022, we would like to open just 2, 3 new stores and then expand and extend 3 or 4 stores worldwide, then we would like this 2022 to be an year of rebalancing the international position and we think that this is sustainable for the current facilities and structures.

Let's now move backwards to 2021 closer to us. So once again, it is a very important plan. This 2021 has been dubbed by us the year of rebalance, rebalancing. We would like to grow around 15% vis-à-vis 2020 and then later on I will give you details about 2020. EBITDA should be around 13%, 14% and we want to invest roughly 6% in the coming year only because just over 1% has been pulled forward to the second half of 2020 for very important projects of, you know, struggling between 2020 and 2021.

In 2021, there will be 4 large extensions of stores that we are very fond of, where you see in some streets it is not easy to come up with the right location whenever you want it. So we will change location in Tokyo in

Omotesando, in St. Petersburg we have this beautiful building, in New York we are going to double our space, and of course, it was not really a very cheap lease there, and also the same goes for Las Vegas. And then we want to pay special attention to China, where as you know, we, well in the country we say we have a very small business because it is pushing 10%, but there is still route to growth in this splendid nation for us, splendid because you know cashmere, we source our cashmere from China and if the Chinese...decided to stop their supply of cashmere to us, it would be an issue for us, but we have the guarantee that we are going to keep receiving it. So in China, we would like to open one important, so well...we have 2 locations, we have to choose from and 3 important expansions.

In 2021 already we envisage a full rebalancing of the NFP. And we want to go back to our usual percentage of dividends and you are very familiar with. By the way, we never cancel the 2020 dividend, but we just said that we would set a date in November, so that we can distribute them next year, it's just a postponement.

Then what about the corporate structure? Well, in 2021, the same 2,000 employees, the 40,000 square meters, we are currently housed here in Solomeo, and it should cater for our business for 2021-2022. After that, we will have to expand...and hopefully we will have to expand because it means that the company is growing.

Then the production structure, you are familiar with it, 364 subcontractors in total, 5,000 staff with no financial, economic distress there, because, you see, they do not invest in OPEX, in the machinery, but only very high quality handwork. They have all been working like us. And we have received from them many guarantees for a very healthy and high-quality growth.

We can already say something today about them because you know, by July the 30th; we will have caught up 100% of the Fall/Winter production. And the delay was due to the 7 weeks closures, so we caught up on everything and this total recovery gives us the opportunity to envisage a good future. So even if you were to really expand in growth, there will be no production issues because we have skillful hands, young hands, and you should also know that the people working in these small companies, on average, they are 43-44 years of age and 45 years were owners, so, there are young companies.

In our stores, as usual, we confirmed that the next Spring/Summer 2021 will not have...there will not be any old, so to speak garments of 2020. All our stores should display new garments, possibly beautiful garments and this is not always easy to achieve with a very much looked after visual merchandising because...this because after 3 months of confinement everybody has really seen so many garments online. So our mind has a lot of images stored. And therefore it is difficult to invent something new.

And then we have been talking about this in the last few days because the collection is coming out tomorrow. Just imagine a Sales Assistant, who sales to a customer...a friend, customer like the beautiful movie Almost Friends, the French movie, there is...there can be a very strong relationship between a Sales Assistant and local customer.

Just think in January next year, the Sales Assistant says maybe to the customer, why don't you buy this new garment? Whereas you know that well, that it is a past season item. She would never do that, because if the customer was to realize she would lose her credibility altogether. And in luxury and I talk about luxury because that's our world each and every one of us need to know that you're buying something new.

Then e-commerce, e-commerce is going really, really well. And, of course, we have a very wide structure for e-commerce, both in terms of stuff and spaces. So we are ready to double every year. But the important thing here is that you should know that as everybody knows, it is the first place where we can basically really see what we do on...in our physical event which is a communication tool, e-commerce. So basically we will face 2021 with a healthy situation from the balance sheet point of view and with wide credit lines made available by our banks, the very same that funded our growth. And still today, we can say that we are the classic product of banks, meaning they helped, banks have always helped us a lot with their financing. We decided not to use the credit guaranteed by the state, because we didn't want to deprive other companies in distress from this and this is 2021. Hopefully, we were clear enough in our explanation.

What about the second half of 2020? In March, we said that in this special circumstances our idea was to engage in this debate, in discussion with you more or less every month, a month-and-a-half, in order to keep you updated of any changes or events. And moreover, your ideas can be important inputs for our strategy.

In this occasion, we thought it was useful and our duty to communicate all our plans with our budgets for 2021 and 2022. Of course, it is not very easy to understand and to read this time, but we think that it is our duty towards the financial community, but also towards the whole of the civil society, the whole civil society to express our vision both on the current year and on 2021 and 2022. It has always been part of our corporate culture that of trying to communicate long-term planning. I would even say a 10-year plan or just the 3-year plan. Hopefully, this time too, we can abide by our plans. Although, we you know, it might be bit difficult to decipher this well the circumstances, but it is our duty.

And here in Umbria, in our region, we basically are the most important private companies. So it is our duty to really lay ourselves bare to express ourselves. And hopefully this can be a source of inspiration for young people who are going through this really tough time. If a 20-year old feel he is something talking in a positive and confident way, they can change their mood. So we want to really take upon us to this responsibility. So maybe I'd like to repeat what my dear friend Jeff Bezos said in the last quarterly results report when he said it is a time when we need humility, courage, creativity. And he also added money, which is the truth. But, I think he was really smart when he provided his vision on the second quarter, and I really liked this very much.

So we must really take us on ourselves to take our responsibility. And it is something that we owe to ourselves and to others. Just a couple of seconds on this beautiful idea that I have of being light carriers for mankind. As you might know in the beautiful book about the March of the 100,000...the Chinese March of the 100,000, about these light carriers, light bearers, who shed light for the ones following them in the darkness.

So I think that it is now our duty to act as light carriers for those following us. So that the path is easier. And I was saying to my wife today, we should all be some small light carriers, another important thing since July the 1st, the past 14 days, well we decided to look at this second half with a new...in a new way defining it some sort of time for rebirth. We start seeing a good mood in people, of course, it depends on the time you're living-in. But there was...at the same time there is a fair caution and this is mirrored also by the initial economic figures.

So what do we expect from the second half of the year? We expect 2 quarters with a positive sign whereby 2020 year-end should be with a

slight, mild drop of 10% in revenues. And then from the second half, we expect EBITDA to be in line with the margins expected for 2021. So we want to try and read the second half as non-impacted by the first one, because hopefully if things go like they're going now, we might say, and looking at this central quarter, you see, and jokingly I say it would be great in 2020 to have 2 financial statements, the first-half and the second-half.

In the first one, we have to live with it, but we don't want to talk about it anymore. It should be put behind our back; also of course, we know this is not possible. And the second financial statements about the second-half, we should look at it in as some sort of planning to go back to sober normalcy. So what are we doing now? As you know, we are working without having laying...hadn't laid off anybody, no redundancies. And we didn't ask for any discounts to anybody. We think that this policy of protecting workers and respecting suppliers and landlords is actually yielding great results in terms of corporate credibility. And we are noticing this when we talk about future projects.

We also noticed an extraordinary commitment, and a great sense of responsibility from everybody. All this augurs well for the future of our company. In the direct store, they're all open nowadays with the very same situation ahead what was like February, we have displayed the Fall/Winter 2020 collection, as usual with...postponed by one month, it is now natural, we couldn't possibly display Winter clothes in May.

So we have our Fall/Winter 2020 displayed, and the 2020 Fall/Winter production has gone back to a healthy balance, both in terms of monobrand and multibrands, so all deliveries will end in August as it is usually the case. Of course, there has been no delivery in May and early June. So nothing has changed in terms of deliveries.

Another strong topic is collections. This week, we will be presenting all the Spring/Summer 2021 collections, all physically made and displayed in the different showrooms worldwide Solomeo, New York, Munich, Milan, Shanghai, Tokyo, and with the very same quantity of styles as last year, hopefully beautiful ones. It's up to you to express your judgment. No repetition in terms of colors, textiles, and styles.

And yesterday, we had the general meeting on the taste, on the collection, about to be released, and we have had quite a positive and excited judgment. Of course, now we have to wait for the feedback on the multibrands and the trade press. The collections are always filled with the very same concepts and number of styles. You see here too, I don't know whether it is because we are more focused or for some other reason, I remember in 2008 during the recession our 2009 Fall/Winter Collection was the best in our history. And my esteemed Pushkin once stated that in the 3 months that he spent outside of Moscow, because he was confined there, he wrote the best things in his life.

Then investments in the second-half of the year. So, we opened the London store about a month ago, a beautiful location. And in that case too really high lease. And then, the second-half of the year, we're opening a store in Avenue Montaigne in Paris, we had been looking for a location for 5 years. In Petersburg and Tokyo, towards the end of the year.

Then another important topic is advertising. In the second-half of the year, nothing has changed in terms of A&P investments. So at the end of the year, you will find the very same investments as the past year. And to conclude with this second-half, we reconfirm our great conviction and trust in the brick-and-mortar store, which is a generator...true generator of contacts with customers where the value of Sales Assistants is very high, because these Sales Assistants are somehow advisors and ambassadors of

the brand. And now I like to read out the figures of the first-half and let's start from here.

Let's start, but first of all, what was the topic of the Board. So the Board meeting has revised the revenues estimates for 2020 and has examined the preliminary net revenues of the first-half of 2020. Well, first of all, the most positive things, just the way it is. So a slight decrease of revenues for the year, around 10%, positive performance in the third and fourth quarter. First-half strongly impacted with net revenues of 29...minus 29.5% at current and constant exchange rate vis-à-vis 2019, Europe minus 23.8%, Italy minus 34%, North America minus 39%, China minus 19%, rest of the world minus 19%.

Then distribution channels, monobrand 31.7% minus obviously, multibrand wholesale 23%, wholesale monobrand 27%. Then the 2 lines that I wrote about this. The first-half of the year was strongly impacted by the pandemic that hit our planet. But already today, we can envisage a positive third and fourth quarters. That should result in a mild drop in the 2020 turnover of around, 10%.

Furthermore, we imagine a sharp recovery in 2021 of around 15%. And we really wanted to say that because this has really changed our life for the better, the following one, a special thanks to all of our employees who with dedication and a remarkable sense of responsibility, have enabled us to fully catch up on our Fall/Winter 2020 production, as well as to design and complete the new Spring/Summer 2021 collections. So, we are the very same company that we were in February.

So, after the first quarter with a mere confirmation of the same number of the previous year, well, you know what happened in the second quarter and I don't want to dwell on that too long. This has given...brought about

the figures I expressed to you. We will try not to pay too much attention to this because this is what happens sometimes in the history of mankind. But of course, as I said before, product rank first. As to the...as far as product is concerned, we think that the taste has veered towards a kind of timeless clothing, chic, well, you see, this is also in line with the current times. But there is a softer kind of taste, and to also buy clothes and garments that might last for years. This is just a cycle in fashion.

A couple of words on the multibrand. We would like to give you some information as usual on the multibrand channel. They all...they have reopened all their boutiques. They have postponed by 1 month the display of 2020 goods, the Fall/Winter 2020 and also the deliveries. Now they're all at work, and we can say that there is a slightly better ambience and environment there than in the U.S., because they know that client customers in person, very often their friends, neighbors, and this improves the mood. As you know, we have 500 accounts, high quality, and high-level. And no issues from them. Never. And none has cancelled orders for Fall/Winter; they just postponed deliveries by 1 month.

Out of this 500, 10 of them are department stores. As for the rest, they are specialty stores, with a great image and inspiration in terms of styles visual, special relationship with the customers. They know fully well the habits and behaviors of foreign shoppers, but especially local shoppers. Because the local customers, sometimes they're even more demanding in terms of taste, and they are the true advisors. So they are a source of great inspiration, especially for clothing, where, that weight and size of course makes the difference. It is...there's a great difference between Hamburg and Athens. I know that this might sound a bit difficult, but I'll give you an example. The collar of the shirt of a Chinese gentleman must be half a centimeter lower than that of an Italian gentleman. This is a small detail,

but that's what matters in fashion. And now the last very, very important, important topic.

So the inventory of excess garments, of course, all these closed...closures of stores between 2, 3 months all over the world has brought about an availability of excess garments in the first-half of this year, because there were all the deliveries as of November, December, and the winter. These...the garments have...should never be repeated in the next season, in 2021, because we think this could really damage the image and the contemporary character of the brand. Then nature...fashion by nature must always have newness and contemporary character. So these excess garments we have considered them some sort of great resource for mankind.

So we would like to now explain to you this choice that we have made as an investment for the future of our company, and investment in the great project of living and working in harmony with creation, and we also call it...this project reuse of the new, because we are talking about new garments obviously.

In the company...inside the company, we have established and setup a counsel to support mankind made up of 10 people, 6 of whom come from our family, I myself, my 2 daughters and their husbands and then Luca Lisandrone, the CEO and then there are Francesco, Letizia, many of you, [indiscernible] many of you are familiar with them. So we were able to do very important things with these people recently.

I would like to share with you this thought that has driven us or guided us in this choice, just 3-4 minutes and then we are open for discussion. So this is a philosophical thought. This is the thought that has guided us because from several western and eastern philosophers we learnt that there

is no absolute evil, as well as, there is no absolute good. There is always some good in evil and vice versa. Those can teach us something. And bearing all this in mind, we felt the need to gift mankind with the garments which due to the temporary suspension of sales were left over in our boutiques. Their manufacturing value in terms of style, their commercial value is always the same, but their meaningfulness has...was enhanced because now they become a tangible opportunity to show the new way of thinking capitalism which sees in the harmony between profit and giving back one of the most significant humanistic moments.

What is the task of this counsel that we set up? It's task is that of managing a worldwide network made up of our most sensitive partners, and these partners not only have themselves available but they were also very strongly probably motivated by this project, and they are more sensitive in relation with human beings, human beings who dedicate themselves on how to support the needy and we want to send them as a gift these garments, how. They will be an internal organization dealing with this and all these garments will have this indelible label, Brunello Cucinelli for humanity.

Every single package will be accompanied with a handwritten letter signed by myself. I will give you an example. Our partner in Berlin or maybe our Tokyo partner will liaise us with these very small organizations and he or she will help us cooperate with us and together with them, we will send small packages with maybe 40...30-40 garments 2, 3 times a year. All these garments will be very much thought after in terms of weight and sizes according the climates and the physical body of the populations.

I chose Berlin and Tokyo because I really wanted to point out how important climates and sizes are, and we wanted this project to be sustainable over the years. This great quantity of excess garments in this

first half 2020 will contribute to supporting in the next 3, 4 years to supporting the needy. These garments have a production cost for the company that is roughly around...you see it is roughly around €30 million, and in the first half of 2020 this will be considered an extraordinary item. This project that we all call intense will go hand-in-hand with the other project started many years ago that is working really well.

This way, we will provide great service to customers and mobility to the products, and it consists in repairing, recovering, reusing all of our products. As you know we already do, we really have this repairs department in-house. All this goes to complete the great project of human sustainability, circular sustainability we have always believed in and can be summed up as I said before in safeguarding climate and emissions, looking after the planet and the wildlife and looking after human beings.

And to conclude before the Q&A session, we want to convey to you our thoughts on this. And in the Board Meeting today, you see was particularly beautiful Board Meeting, because we have many new board members, so we have this great...had this great idea for mankind and considering that we will not be touching the dividends and since we don't carry that much debt, we would like this project to be considered as an asset instead of a liability so you are our investors and our guardians too. And we like to call you that way, and also you loving analysts and journalists.

So thank you very much for being with us, at this very special time for mankind. Thank you. And now, we are ready for questions. And, of course, you can always strike up a contact with us whenever you feel the need to. Thank you very much.