

Brunello Cucinelli

"Nine Months 2019 Results Conference Call"

Thursday, November 07, 2019, 18:00 CET

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BRUNELLO CUCINELLI: Here we are. Good evening, everyone, and it is a pleasure to be here. As usual, I'd like to really thank from the bottom of my heart all the investors, analysts and the press as usual. Well, since we are drawing close to the end of the year, we'd like to call this a call of...an end of the year call because as a matter of fact, it is only a month away, the end of 2019 is only a month away and we were just saying this morning, time really goes by very fast. In my case, now I have reached the fourth part of my life, the last stage and as my Seneca [ph] put it, my team Seneca we need to be...try and be senior advisors to the young generations.

So I often say that personally I'm very fond of these calls because it is a time for exchange and whenever there is an exchange there is growth there, then of course the main condition is that you are always willing to listen, but we do not...we have somehow...have lost the patience of listening. Well, we are here with the whole team and I would like first of all to give you the highlights of the first 9 months of the year. Then I'd like to supply you a strong visibility on 2019 because the year is nearly over and then I'd like to give you good visibility on 2020. And a good visibility too on 2021 for this Business Plan '19, '20, '21 the 3-Year Business Plan. And then last but not least, we'd like to tackle with this big topic with you, this great topic of harmony and sustainability that we have just commented.

So net revenue is €459.2 million, plus 8.8% at current exchange rate, 7.7% constant exchange rate vis-à-vis €422 million last year. Then increase in the international markets by 10.2%, Italian markets 2.2%. So Europe 9.6%, North America plus 9.2%, China at 14.4%, Rest of the world up 11.3%.

Then there has been an increase in all distribution channels, retail 11.2%, monobrand wholesale 3.2%, multibrand wholesale 6.9%. I have defined this specific time as follows. We have nearly reached the end of 2019, an excellent year for our business in terms of both results and image. The Fall/Winter sell out rate was very good. And our brand seems to be enjoying much appreciation. Based on these results, we can already envisage the year closing with a good revenue growth of around 9%, coupled with a healthy profitability rise.

Given the global development of luxury Made In Italy ready to wear, and the buoyant order intake, and for Spring/Summer 2020 we believe the next year too will deliver positive growth in revenues and profits, in line with our 10-year Plan 2019-2028.

A special thanks to all our co-workers whose creativity enables us to push ahead with a project we call working and living according to nature. So we have reached the end of the year and we can say this, we have reached 60% of the fourth quarter. We have a like-for-like of around 4% and for us it is a satisfying result I should say. The third quarter reported a more like 10% growth and our forecast as we were saying before, since just a month is elapsed, is missing, we believe that the fourth quarter will see some slight acceleration too. So it is out of doubt that taste plays a very important role at this moment in time, and we have to say that lately the general taste has moved and shifted towards the general DNA of our business for men's wear but especially for women's wear.

As I was saying last time, we subsequently work with more energy and serenity. Experience actually tells us that trends tend to last 4, 5 years. But whereas when the trend, the 5 year trend is less fitting or in keeping with your taste then it is tougher. This does not mean that designing a fresh collection is an easy task. So we believe that the next 4, 5 years to

come will be slightly more in favor, advantageous to our company, but of course this...it goes without saying that we must be modern, fresh and innovative because unless you have a valid product, then the rest goes down the drain.

And then compared to last August call, there is one great piece of news we'd like to convey from the commercial point of view, we have secured the contract, the agreement for 2 beautiful boutiques, one in Paris Avenue, Montaigne and we had been in the lookout or searching, seeking it for 4, 5 years and it's not always easy to find a spot in that specific street and we are very pleased.

And the other one in the meat packing district in New York, neighboring the beautiful boutique of our very highly regarded Hermes. And we believe this is a new neighborhood that is really up and coming, very chic, very trendy and I would say very young too because the average age there is 35 to 45, so it is a very contemporary upbeat neighborhood with restaurants, so we are very confident in this beautiful boutique. So 2 new boutiques under our belt and they will be opened in the next...in the early months of next year. And from the economic viewpoint, we invested more or less €4 million and this amount is to be considered as some sort of advance on the 2020 Investment Plan. So our plan to invest in our Investment Plan 2019-2021 does not change the Investment Plan. So the 3 year Business Plan does not change.

So, what about the end of 2019? What do we envisage for that? So we called this year excellent. And revenue is slightly above €600 million, EBITDA growing more than proportionally, profits rising, the tax rate should stand at around 30, 31 and we call it quite a good rate. And by the way, we still enjoy the advantages of the Patent Box. And in the last 5 years, this initiative has resulted in a taxation rate of 22%, 23%. So we

can definitely call it an appealing and interesting 5 year term for an Italian company. 6% of revenues is the net financial position.

And as to the dividends, I would say 45% is what we envisage...45% of profits. And we consider this some sort of ideal stage, ideal level in keeping with our strategy, the 10 year strategy. And as we also often put it, we feel pretty sound as a company. We have a net equity that slightly exceeds 50% of sales. And we honestly keep thinking that true luxury and mind you this is a very powerful concept. We have witnessed this in the last 3 to 4 years.

True luxury really requires a huge investment because everything ages very fast, the store, the showroom, everything needs to be refurbished. So if you want to be contemporary and up with the times, you need to change, reinvest, refurbish, revamp and this is true both for the physical world and also for the online world.

And now, we would like to provide you with what we call a very wide ranging and precise visibility on 2020. Why do we call it wide ranging? Because, we have already had the order intake Fall Spring/Summer, excellent amounts there. And what really matters here is also the feedback, the inputs we received about our collection. So the multibrand stores were very positive about our collection and this translated into huge orders. And then there's yet another important feedback that coming from the press and other excellent feedback there. And as you know, sometimes the press can be enthusiastic about the collection and maybe your clients are may be less enthusiastic. So, in this case, you should maybe be concerned because maybe your product is not as good. The best situation is when both feedbacks are aligned, of course, the fact that you enjoyed good feedback on the goods that will be displayed in our stores

until June. Well, the fact that this happens...this has happened makes us work with serenity and peace-of-mind.

So as to the projection for 2020, we would say the following. Revenues rising by 8%, approximately, EBITDA that is more than proportional...then profits more than proportional there to, investments around 80%. And you should also consider the €4 million were already invested in 2019, and improving net financial position and then dividends around 50%. Next year this should be the optimal, the ideal level for us to be delivered in 2020. So in...for 2020, we keep...we expect yet another wonderful year.

And as I said before, the sell-out rates for Fall/Winter is very important for this season of the year. Because, in January, they will all come back to you with the budget, ready to do the buy and it depends on how the previous season said, so but since we have reached November we can be pretty sure about what will happen in the coming months.

I'd now like to give you some highlights on 2021 estimates. This is to be the last year of the 3-year plan. Good revenues, still more the proportional EBITDA, 8% investments and then net financial position improving and dividends payout 50%. So these are the rough figures for the next 3 years. Hopefully everything goes according to plan. But you see, we have somehow the feeling that these plans are well balanced, they are deliverable. They're pretty pragmatic. And we would like hopefully will manage to, we would like everything to grow with grace, with moderation, or at least as what we would like. We'd like to keep working in an environment that is pleasant as we like to say pretty often.

So, I'd like to now give you the highlights on what we discussed last August. We spoke about the great value of physical stores we still

have...we are still very confident in the brick-and-mortar channels. And also it is very important to have the so-called brand ambassadors in the stores and we have set up a school for brand ambassadors [indiscernible]. The Kid's line collection and we have given you the details of that too. And also the value of made-to-measure for menswear and also the importance of believing in menswear, especially in suiting because these are very important...is a very important garment. So, these are the main topics.

And then, last August, we also mentioned the importance of darning and mending garments of reconditioning them and this goes hand-in-hand with the idea of not wasting anything. You see personally, I have to say I do not shop for many, many new things, because I have always maintained and argued that you have...if you have a well reconditioned and mended garments is still has some sort of appeal and charm better than the new one. As I like, I was saying, last time in our company, we have a very interesting department where we recondition our garments, we do it in-house. So when we receive the garments, the item then we can recondition and send it back in a very short time.

And then another very important time is the update of the institutional website. 3 years ago, we decided to redo completely our institutional website and the website was made up of 2 main parts. The institutional site web and then the online business. And I'll give you a couple of highlights on that. So these as to the institutional part, we wanted it to tell our story, who we are, where we live, how we work, our idea, our take on life.

And I have to say that 3 years down the road, the feeling is that it was pretty much appreciated. But in the last couple of months, we have tried to introduce some contemporary changes. As to the boutique part, we are

very, very pleased with the way it's doing. We wanted our online boutique to really depict identity as much as in the physical world. So it is important for sales, but even more so for communication to convey the taste and the lifestyle, all these...those things that you are already familiar with that we wanted to show. So 2 days ago, we have updated our website by publishing, [indiscernible] the life of the company, some highlights on the places where we work.

And another thing I wanted to mention, another thing we'd like to receive your feedback on. We have tried to tell the story to put into writing our idea of human sustainability that we called living in harmony with creation. So this is the great job that we carried out. And as you know, it is very important because once you write it down, once you...it is set on paper, it stays there. So we have always supported these ideas for 40 years. Hopefully you will appreciate it, now there you can find it written somewhere and hopefully we can practice what we preach.

So first of all, we provided a general document on what we mean by Humanistic Capitalism and a Human Sustainability. And then, there is...the rather 10 rules we want to comply with...we try to comply with. And then we have broken down into 3 our actions. There is a first part devoted to the relationship with the local land, the environment, architecture as if we were somehow some temporary guardians. And by the way, we live and work in a former industrial premises of the 70's that we have refurbished to make them contemporary. But here we have an architectonic...an architecture plan, a landscape plan because...and I could see guardianship plan. And because you see maintaining things is pretty costly and we know that in a few years these and our factory will have to be refurbished completely and also we explain how we behave with the...I mean with the wildlife, how we grow our plants and vegetables. Another thing, another part is what we do inside the company

with our co-workers, then we call them loving...lovable, endearing employees, so you can find there what we do in our company.

And then another important part of the third one is devoted to the relationship with our partners. And because we always ask them to really share our views in our relationships. Hopefully, we asked this a kind way. So we use the conditional mode and we say we would like you to do that. We would like you to share our views because we always try to entertain inspired relationships with others. We didn't want to impose anything. We just wanted to highlight, what we would like to do together with them.

And now, drawing towards the conclusion, I'd like to tell you that we will keep doing our road shows. On the one hand, there will be me doing the road shows and then some others will be held by Luca and Ricardo, who will be the new young CEOs starting from next-year. We will be travelling the world. So somehow we have a chance to meet you in America, in Europe, all around the world. And you should know that these meetings are really inspiring for us. There is definitely a lot to really take home from these meetings. I keep repeating 7 years after going public, I keep saying this; you must be willing to listen because when somebody disagrees with you, you tend not to listen, but it is important to listen nevertheless.

So all the figures, the results that I provided you with of the 3-year period 2019, 2021; all these figures are expressed through the old accounting principles. From now...from next year onwards, we will also have a comparison with the new system in force.

And now, we would like to convey to you the mood with which we work. And it is always a serene, a peaceful mood, it's always attentive, it is never pressing because we are always in the lookout for the contemporary taste.

Today during the Board's meeting, well, Andrea Pontremoli, our Director, he is always a genius-like and he said we should really consider our business as a plan forever. Everything must be open to the world. If not...if something changes in the world tomorrow, we must be able to change accordingly.

So we are very confident in the world, we like the atmosphere surrounding our brand. So generally speaking, we are very confident towards mankind. Thank you very much for your attention.

And now we are open and to welcome your questions and besides that do not hesitate to contact us, to write to us, we are always very happy to have an exchange of views with you. Thank you for now.