

Brunello Cucinelli S.p.A

"First Nine Months 2022 Conference Call"

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BRUNELLO CUCINELLI: Good evening and I would like to greet you all with pleasure, analysts, investors, and usually there is some members of the press too. So as you might know, we always attach a lot of importance to these calls. So much, so that we have already notified to you that another one will be organized for December the 6th, because you see, having another appointment for next March the 15th we thought it would be too long, so we will have it in December. So we are all here as usual, except for our esteemed Luca Lisandrone, who is in Korea for 3 days, the first trip after the end of the...after the beginning of the pandemic.

So before I begin, I would like to bring to your attention something that you know, I don't really want to boast, but last week, La Sapienza University of Rome acknowledged to me a very great recognition. It is a very important recognition because as you know, La Sapienza is one of the major European Universities, and it was actually set up 5, 6 years before the Perugia, the Perugia University, and I was awarded an honorary PhD in management, banking and commodity sciences, but actually it is, as if it was for my capacity as a CEO of the company.

What I actually we felt honored above all, was the fact that the magnificent Director and with her speech and then the Dean, and the Department Director with their 2 notations and praises was...they were really fascinating speeches, fascinating for what they said about our company. And at the end of it all, we were acknowledged or recognized this idea of working with humanistic capitalism and human sustainability, and, you know, it all.

So truth be told, we are working with a very good attitude, with a good spirit. So I don't know about you, but what's there, but it's like 22 degrees

Celsius today, it's like spring here. I don't know what the weather is where you are.

So how the call will unfold? First I will read out the highlights to you, then we would like to comment on the manufacturing Italy, and today...and also about the politics, because the new government is now forthcoming. We will comment on the first 9 months of our business. We will be talking about markets, the forecast closing of 2022, then the forecast for 2023 with orders in-house for the Spring/Summer 2023, the wholesale orders, and also we will mention this new 5-year plan, and because we have changed it, the date once again it's '23-'27. And then, last but not least, 4, 5 minutes to what we consider the most important theme. And we mentioned it during the Board Meeting; we called it a great plan for a great future, universal working conditions for human beings. So we attach really a huge importance to this, and I'll tell you why later on. So, now, the highlights.

Net sales amounted to €642million, with a splendid growth of plus 27.7% at current exchange rates, plus 23% at constant exchange rates compared to last year. Then we enjoyed very good growth in all channels and geographies with sell-outs of the Fall/Winter 2022 collections that actually have a very high value. Very, very good growth in all regions, Americas plus 45%, Asia 22%, well and here I will tell you later we break down or break out of this China which amounts 13% out of 22%, Europe 21% and Italy 10%. Very strong results in both the retail channel, up 43%, and the wholesale channel too, up 10.5%, so very, very interesting. So these results and the great appreciation reported for the collections currently in the stores, all this lead us...leads us to imagine a wonderful growth in revenues in 2022 close to 25%.

So this is my comment, the results of the first 9 months of 2022 really are splendid. We are indeed achieving great results, thanks to the image that

the brand enjoys worldwide for its style, way of working and humanistic conception of business. The above lets us envisage an extraordinary positive end of the year, with a growth in sales close to 25%. We continue to support our great project for a great future. Universal working conditions for human beings.

There is no doubt that having our production and sales facilities at full capacity, having not laid-off anyone during the last 2 years, well, this allows us to cope with the large quantity of goods requested by the markets where, in general, demand exceeds supply. The weakness of the euro and the short production chains are rewarding not only us, but the entire Italian fine manufacturing sector, proving just how strong our welfare state is. The order intake for Spring/Summer Men's-Women's 2023 was excellent, both in terms of image and quantity. All this makes us envisage a 2023 with sound sales growth of 10%.

So before we start, I'd like to spend a couple of words on Italy as a manufacturing country. The other day we met with Milleri, the CEO of Luxottica and talking in general about our eyewear and projects, we will just say that there was a strong request, a strong demand for special products, and he said, well, yes, we have a large demand for a Horn, a Horn that comes from Agordo, that is very special.

So what is happening in our view? Well, first of all, the demand is stronger than the supply, and why do I say this? We can say this, [indiscernible] is better if you have wholesale to compare, because the wholesale clients maybe...do tell you that they are receiving less winter goods, and this is something...they would never notice if you only have run your own stores. So what we say is that as welfare state that enabled us not to lay off anyone, not to fire any workforce, and we mentioned this during the Board Meeting this morning too.

Well, we believe that there is a strong production structure, there was a strong commercial structure, and this way we can be present internationally, and we can cope with this demand...with this increasing demand. You see our GDP it was 3, then now they say 2, so we start at 3, then 3.2, the national GDP now they say 3.4, but there's no doubt that what we are seeing now is the great availability of products. Thanks to our production facilities.

Currently we have an unemployment rate in Italy which is about 7%, 8%, and in the past 20 years similar rates happened in 2008, so for us it's something very, very special. And also we have a short production chain, and this is very important. Another factor there is the weak euro, we are exporters, manufacturers, and we believe that these great benefits perhaps could be there to stay, also for next year. So as we were saying this morning, I don't know what will happen to the GDP next year, plus 03 or 05, but we will have advantages, because the production chain cannot be built overnight. You need expertise for that. So this is the advantage of a manufacturing Italy.

Then sales; so in the first 9 months of the year, sales went very well. And so, they are also for the first 15 days of October. You see I said this because sometimes we asked how the last week...how we performed the last week, so, for those of you who are interested, if things are going well in October too. So now, it's been 3 or 3 months that the new Fall/Winter '22 collections are in the boutique. So now you can have an opinion about the appeal of the product. And this is very important, the fact that you know that people like the product, was if your product is less interesting, you see that's a problem.

What is really strongly felt is the demand for exclusive, special, high quality, handmade garments. In our opinion, luxury means well-made

garments, exclusive garments, garments that can be handed down to the next generations. And it seems that customers are looking for garments that they will never throw away. This is a very strong feeling, it's perhaps you see especially among young people, the fact of reusing, reconditioning, repairing, this is very, very strongly felt. Perhaps, it's just for us, because our garments are pretty expensive.

Then, markets, in general we would say that all markets are performing very well. So USA very strong, Europe very strong too, Asia strong with China, and for us it is doing well. But mind you, you should know that it is about 13% of our business. So our business breaks down roughly as follows, 35 US, 40 Europe, 25 Asia, of which 13% China. Then a special word about...a special word on Europe. You see, the...even its regular customers, even in small towns are performing very, very well, so local customers are doing well.

Then, as far as the digital world is concerned, we are enjoying a good and balanced growth of around 25%, 7% direct from Solomeo and overall our estimates is for about 13%, 14%. But you see, it is...our website is still a very interesting communication tool. 2, 3 months ago, our finding was that 60% of customers arrived in the physical store with the image they actually saw on the website, and this is very important. So in this important channel we see a healthy and robust growth over the years. Of course, somebody 2 years ago said that, perhaps we would not need the physical stores anymore. I remember, a Member of the Board even said that maybe we wouldn't even need the ladies or the staff to make coffee. But physical stores are, however, very important for the image and for the business. And we see it in our retail.

We see the results that we achieve with Mytheresa, in terms of numbers and taste. It is true that they have a very good taste, that MR PORTER great

results, a company with a lot of taste. I think you see, they are beautiful online store and they will have a future, but provided that they are fresh, modern, the way in which they mix and match, the way in which they display, but I really like them, congratulations.

Then physical stores, we have returned to a basic importance, because customers, first and foremost, they want to be advised, especially for menswear. You know, that many wives actually call us, asking us to advise their husbands as to what to wear. Of course, also well off or rich people need to look good when they go out, so they need reassurance. And by the way, our business currently is menswear and women's wear is 50:50, just slightly higher for the women in terms of price.

And then another important theme is kindness. The people meeting you in the store...the people staff in the store, because the idea that we nurture is that of never, never pushing. So if you turn up at the store, the sales associate will welcome you, sometimes they even become your advisor, then maybe you can have a cappuccino, a coffee. You see in the physical stores they play a very important role.

Then the taste of stores, a few years ago, our first store to be opened was Saint-Tropez at the...in the early 2000. And we wanted these stores to be somehow...some sort of living room where the largest stores they have a bar like in the Madison, London. Paris, then we have the middle-sized one, 270, 280 square meters, and they have a mini bar...an average bar, and then the small stores have a mini bar.

What does this mean? It means, that you turn up at the store, you can have a cappuccino while your wife is shopping, and at the Madison we have customers who basically turn up for a cappuccino and a pastry, and then maybe they do not shop at all or maybe they shop the day after. So every

one of these stores has a medium or small library between 40 and 70 books, you see, we would like everything to be somehow a small, but pleasant experience.

And now, I would like to devote one minute to the praise given by my friend. I'd like to relay what he said during an interview, because this is precisely what we built our brands upon. So I would like to pass on to you a nice judgment given by my New York friend Robert Burke, who first worked for a decade at my Master's Ralph Lauren. And I told you that in 2019, I went to see him and he had tearful eyes, and then he....Robert started working at our wonderful client Bergdorf Goodman, and now he's a freelancer.

When we start...started...in the year 2000, we started the Total Look, and Robert Burke had another wonderful friend, Peter Ritzo, Michael Bastion, Yuki Katsuda, a 40-year-old gentleman, and when they came to [indiscernible] you could spot them immediately, and they would come here to Solomeo in the early 2000, and that's when we were starting to put on these garments, we would mix and match them and talk about combinations. And for me that was really an encouragement to me because they were particularly fascinated by the brand.

And Robert, who is now a great expert in luxury retail, he said 2 things, from Day 1, the brand presented itself with a very strong identity and remained true to that aesthetic, focused on quality, craftsmanship, and exclusivity, and it soon became the benchmark for Italian luxury products. Then, he said, I think that today they have reached the pinnacle of luxury. And then, another good thing he mentions, Cucinelli is extraordinarily focused on the product and his customers whom he knows very well. And then he ends by saying they have become excellent retailers of their

products, and they have created a unique and special experience in their stores.

We now see other brands starting to adopt a similar approach to retail, but Cucinelli is ahead of the curve. So what I say thank you Robert, you're always...have always been very chic and kind to us. But I really wanted to say this, because it was the Goodman team at the beginning of my past at the early 2000s to talk to me and discuss with me and choose the path ahead.

Then prices, the price structure, you know, it's already is the following, 100 Europe, 120 US, 128 Asia. We change prices twice a year when we release our collection. Raw materials, for everything concerning raw materials, we would like to confirm that we have no difficulty in finding them, and because the warehouses in the factory are in place to guarantee quantity and quality. And perhaps this was one of the biggest decisions, we took in 2020, when we did not cancel any order. We said, let us leave the Cashmere orders and the silk orders. And now, we have raw material to meet the demand.

So, likely full year 2022 earnings. Well, we can call this the year of total rebalancing. So 2020, it was minus 10%, revenues, 2021 plus 30% plus...in 2022 plus 25%. We will reach a healthy EBITDA of around 18%, a healthy inventory around 29% is healthy for us. You can't have a factory unless you have an inventory, then healthy investments of around 8% and then we'll see in 2 months time. But we are perfectly in line. Then a healthy net financial position, we basically do not carry any debts. And a sound capital structure of close to 50% of turnover. And dividends, as you know are at 50%.

Then, we have ended 2023 collections with excellent results. So the important orders in-house collections are viewed as young, at the same time

beautiful and elegant. And we were saying, it is not always easy, but you see, we enjoy what we have. Everybody seems to be in the lookout for exclusive garments. And for now, we envisage for 2023 with this, the growth of a healthy 10%, as planned.

So, we think that in 2023, we will return to a nice balanced business...then a new 5-year plan...a new change here. A few calls ago, we said that we had closed 2021, and we had started the 2022 5-year plan, but we actually realized that 2022 is not really a linear year because there's some products missing. You see the results are rather odd, so we decided to leave it as a suspended year. So, our 5-year plan...well we'll make it start on 1st of January 2023, where...so everything is extremely positive for us.

So, now why in this 5-year plan, we decided to choose as the main theme this great project for a great future? It will be the most important project for the coming years. We called it a great plan or a great project for the great future, universal working conditions for the human being.

You see, as we have heard around many people actually resigned without having another job. Riccardo was saying that this new phenomenon that is called the silent quitting. So, people work without passion while they wait for something better. And for all companies, regardless of their size...gold companies, they're saying that they cannot find people to hire, especially young people. So, this is a very serious phenomenon. So, for us, however, this is not the case for us, but we want to devote all our forces for the coming years to this very sensitive issue. So, it's not that we have not focused on it in the past, but we still consider it very important.

So, what should we look at? Well, workplaces, we can't hide...well in this discussion, I would like you to focus on production department, in the factories, not just the nice offices. We have a 2,500 people, 1,200 on retail,

and they receive important salaries, and they staff our stores. So, we would like everything to be focused on production too. So, we need to have better workplaces, better working hours, and also the fact of being online all the time.

Wages especially for blue collar workers, this is another theme. And we want to focus on salaries up to €2,000 in our Perugia, perhaps €2,300 for those living in Milan. And then how do we treat each other daily at work? This is a very strong theme, and we see it. We feel it from the people who are coming for job interviews. Often, you see our factories are nice with nice offices, but this is not always the case for the production departments. We have been taught that in the production departments, there should be very few windows, because it is considered a distraction, whereas I think that there is more creativity if you can see outside.

Now going back to wages, I think that all this needs to happen up to €2,000 net amount, because it's not the same whereas instead of earning €1,300 you earn €1,900, your life changes and especially you find people who are willing to come to work for you and then by the way, a small digression. In June, we have taken action to basically reduce inflationary pressure on those who earn under €2,500 per month for the year 2022. So, for us, it is about a €1,000 out of €2,500.

Then working hours. We must return to balancing working hours as well as the right time spent online. I said very often perhaps we could work for 7.5 hours a day. But as we were saying in the board this morning we do work for 8 hours, but actually we calculated that one hour is not for the company because you basically spend time on your device. So, we...all-in-all, we work 7 hours, although we spend 8 hours in the office, plus 2 hours to go to and fro for work and then one-and-a-half hour of lunch. You see

that means adds up to many hours. So, 7 hours should be enough to have enough time for your private life.

So, in our beautiful factory, you see we allow ourselves to call it beautiful, but you know that Leonardo before he passed away...he said our factory in Agordo, Leonardo Del Vecchio said Agordo, our factory in Agordo is very beautiful. We would like there to be a nice climate of esteem respect in people, because you see, if I give you esteem, esteem generates responsibility and responsibility engenders creativity that's for sure. And creativity in product does not depend on 3 to 5 people. We have 60 people to create the product, but I don't think that creativity comes from all 60 of them. There are other people in the company that just with one small piece of advice, they can improve conditions and creativity. And then one more minute and then we open up for Q&A.

How can we imagine our young people coming to work in our factories, if we do not give them moral economic dignity? So, very often, we would like other...the children of other families to ply specific trades. If you say, you see I'm going to work in a factory, I earn €1,250, I work in production with the conditions that I've described before. It is not very easy to suggest these jobs or recommend these jobs to our children. And these great concepts still apply to everyone not just to us. It applies to pizzerias and restaurants, all activities. And this is what we tried to put into practice in our wonderful...that's how we call them wonderful schools of arts and crafts in Solomeo, where this year we are being very successful because all...they all found the job after finishing the school, and this year, we would have almost 50% more students.

Perhaps in the end, we could say that all this is human sustainability. You know, that our sustainability is broken down into climate-related emissions, economic sustainability, where you work, how much you earn, and what

kind of work environment really you work-in. Then there is cultural sustainability. What does your company do to create corporate culture and also in the community and then the spiritual sustainability, I think it is very important.

You see if you treat me well, my spirit is lifted. If you give me a nice view and nice window, I become more creative. If you maybe comfort me when I'm blue, when I feel blue, my spirit will be lifted. So, the spiritual sustainability perhaps is the most important one.

So, to conclude, my dear friends, first of all, before...so, for the future, we imagine that perhaps it will be more difficult to find people to make beautiful garments rather than to find people to buy these beautiful garments. We are working in a very good atmosphere, so there was the...we had this assembly of the 100, the other day and we hold it every 2 years and we took stock of our company, and we said it always went well, but this time it is going even better. We really have...need to have the courage to improve the workplaces and the wages, and especially the work conditions in the production department. And that's what I tried to say when I discussed at the G20 in 2021, when I talked about humanistic capitalism and human sustainability.

So, before I forget, tomorrow in the evening, we will have a dinner in Milan. Then we will have one in Paris and London and then one in New York and with our investors, and I hope that I will meet about 100 of you in the coming 2 months. Then, if you can come and visit next year, for me, it will be more difficult to meet you unless you come here because we have events in China, America, Northern Europe, and Eisenach.

How I will do that? Perhaps I will send the youngest, Luca and others and Riccardo. But you see, you have...whenever you think of our company,

really working conditions rank first. You didn't need much you see, if we can maybe improve...increase wages for the production workers, it really has a very small impact on EBITDA, but it does change their life completely, and also, the vision of the company because young people are struggling. Thank you very much. I apologize for being pretty lengthy, but I really wanted to work...to talk about labor.