

Brunello Cucinelli S.p.A.

"First Half 2021 Results Conference Call"

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BRUNELLO CUCINELLI: I hope that this holiday has somehow regenerated, reenergized us after at least for me, but for everybody, after more than a year spent in fear, sometimes in pain, at least for me, in hope for body and soul. So best wishes for some sort of [indiscernible] economic renaissance that I think we are seeing in humanity.

By the way, about a month ago, I was received by our Prime Minister Draghi for a chat, and he was very nice to me when I stepped into his office, he said "I'm honored of having you here." I said well, actually be surprised that I'm the one who is honored, but just to give you an idea of how a President can be gracious towards someone. So, we are honored to have him as a Prime Minister.

So first of all, I'd like to talk about the vaccines for 10 seconds. The vaccine habit been still working at full speed, even at night for the youngest, and I'm very pleased that also at national and regional level, we have reached 70% of general...fully vaccinated people. So, the company...in the company we have almost all been vaccinated. We have about 1% of employers who decided not to get the vaccination for now, but we had an assembly, a general meeting where we said that the day, we can go back to work without masks inside, that will be the day when we will only enter the company with a green pass.

As you know, as it is our culture, we don't want to force or even convince anyone to get vaccinated, so if that's the case, we will grant paid leave for 6 months, and then we will see how things develop. But so far, we only have a very tiny percentage of anti-vaxxers, because you see, our job is to protect everyone, but it is clear that no one wants to work 8 hours a day, or to have lunch for an hour in the canteen, near someone who is not

vaccinated. That's the great truth. So, we need to protect 99% of the vaccinated workers.

I'd like to dedicate this call, of course, to about more the addition to earnings, but that's clear. I'd like to dedicate it to the product, to the Solomeo area, and also to 3 major markets. The first one, the U.S., it is doing very, very well and we'll talk about it. So, we will just have to spend a few words on it. Then Europe, really interesting market for us, and which we want to consider as it is, perhaps for a year or so, and then China, an immense, a very interesting market, a source of work for mankind for the coming 50 years or 100 years, and we always...we want to devote a great deal of time to it, in order to gain in-depth cultural, human and economic knowledge. So, this is tonight's call, the schedule.

So, at the beginning, you see when we got listed, I was often told that some conference calls could also be made by or run by the CFO alone, but this actually never convinced me, on the contrary, so honestly, I've always wanted many of us here to...here in the office, to listen to your questions and observations, and some important comparison for common growth. So, we are all gathered here, ready and, so if we are...we are here available to answer any of your calls. So today, we are officially opening a 5 people call, so it's not that these people were not there before, there has always been about 9 of us, but around the table you can ask questions to Pietro, Investor Relator, Luca, CEO, not Co-CEO, because he has not been downgraded, Riccardo, also CEO, Moreno, CFO and me, the President of Operations and Creative Director. So now, I will read out the main results, after which Moreno will go into detail. And then I will come back and discuss these big topics in...especially China in more detail.

So, we have net revenues €313.8 million, up 7.7% at current exchange rates, and plus 10% at constant exchange rates as of 30th of June 2019,

compared to 30th of June, 2019 and plus 52.9% at current exchange rates vis-à-vis 30 June, 2020, but this is not really relevant this quarter. That was not really happy fortunately last year. Then second quarter 2021 reported sales of €149.2 million, up 13.8% compared to the same period in 2019. This is a great value for us. EBITDA of €80.6 million, 25.7% margin compared to minus €3.4 million last year and €79.2 million as of 30th of June, 2019.

EBITDA excluding IFRS 16, so excluding IFRS 16 impacts of...amounted to €39.9 million, 12.7% incidence compared to minus €14.1 million at 30th of June, 2020 and €49.9 million as at 30 June 2019. EBIT €25.3 million, 8.1% incidence, compared to minus €53.3 million net last year, net profit €21.9 million, incidence of 7.0%, compared to a loss of €47.7 million in the first half 2020 and a profit of €25.0 million in the first half of 2019.

As you know, we have not made any change to our investment plan, €29.9 million in the first half 2021 as part of a multi-year project confirmed even in the presence of the effect of the pandemic, and supported...to support by the solid capital structure. Core net financial indebtedness of €96.3 million, compared to €136.5 million as of 30th of June 2020. So, these are the main highlights, and this was my comment.

The first half of 2021 closed with very, very interesting results. Sales of the Fall/Winter 2021 collections, and this is very important, got off to a very good start, and the brand seems to be gaining broad consensus, both in its stylistic expression and in the way it relates to the local community and to humanity as a whole. Another important thing, order intake for the Spring/Summer 2022 Men's and Women's collections, now almost at an end, was excellent. All this prompts us to envisage a strong rise in turnover of around 20% for the current year and to view this time as a sort

of year of rebalancing, and for 2022, we expect a return to a healthy growth of 10%.

These are the highlights, as I said. So, Moreno you can give us more detail, and then we will talk about strategy.

MORENO CIARAPICA: Good evening, ladies and gentlemen, and thank you Brunello. I'd like to analyze some of the issues that characterize the performance of the first half 2021 results. Slide #8 of our presentation summarizes the income statement figures highlighting the values as of 30th of June, 2019, 2020 and 2021. Clearly, the direct comparison of the results of the first half '21 with those of the first 6 months of '20 is of limited relevance the latter being strongly affected by the pandemic. And since we chose to preserve the solidity of our corporate structure with the confirmation of all the activities and investments we had planned. When comparing this with the first half of 2019, we must take into account the following.

The continuing effects related to the pandemic in the first 6 months of this year, the dynamics development related to commercial initiatives, the development of the network in the presence of the new direct boutique openings, 112 boutiques as of 30th of June, 2021 compared to 102 in 2019 with 12 conversions to direct management of hard shops in luxury department stores the last 12 months and the major expansions of certain sales spaces.

Net revenues for the first half of '21 are in line with preliminary values communicated on July the 13th. We would like to point out that as of 30th of June, 2021, the income statement item, and the revenues amounted to 2,1 € mio has been classified under other operating costs.

Slide 17, in the annexes instead of being entered under revenues from sales and services as in previous communications. For this...for the sake of uniformity and comparability of data, the same reclassification has also been made in the presentation of the income statement figures as at 30 June, 2020, where other revenues amounted to €1,347,000. And the first margin as of 30th of June, 2021, amounted to 66.8%, a slight increase compared to 66.5% as at June 30th, 2019.

In relation to EBITDA, we have proposed an additional table that stabilizes the accounting effects of the application of IFRS 16 and as regards 30th of June 2020, it also stabilizes the accounting effects relating to the extraordinary provision of €30 million relating to the item inventories for the Brunello Cucinelli for Humanity project.

The EBITDA margin as of 30th of June 2021 excluding IFRS 16 amounts to 12.7% compared to 17.1% as of the 30th of June, 2019 considering the impact of the pandemic that continued in the first 6 months of '21, and also considering costs whose benefits on sales and results will be progressively visible in the coming months.

The net profit of €21.9 million as of 30th of June '21 benefits from the recognition of deferred tax assets for a total amount of €9.2 million calculated on the balance of the inventory write-down provision for the Brunello Cucinelli for Humanity project. We'd like to remind you that the €25 million of net income as of 30th of June, 2019 included €2.5 million of tax benefits related to the Patent Box. As the last year of this benefits, details of personnel costs, rent, communication investments and depreciation are analyzed in Slide 10.

I'd like to highlight the progressive increase in our human resources with the number of FTE's rising from 1,842 to the current 2,127 people supports

the growth projects rosed in the digital world and the expansion of the network. As to the rental costs, the evolution of the network is behind the increase here. The first 6 months of '21 include costs related to the expansion of sales spaces, new boutique openings and new hard shops managed directly within the luxury department stores. With the relative benefits on sales and results that will be progressively visible in the coming months.

We now turn to the balance sheet. And so, we analyze working capital investments and net financial debt. So Slide 12, with the dynamics of inventories showing the complete recovery of the increase reported as of 30thof June, 2020, mainly related to the lockdown period, and a balance in June '21 equal to €208.8 million influenced by the growth of the retail network,5 new openings and 10 hard shop conversions in the first 6 months of '21, then the expansion of some existing boutiques, the expansion of the digital channel activity and the development of the new initiative related to the kids collections at the Sartoria Solomeo project.

As to trade receivables, we'd like to point out the return to normal terms of payment of some wholesale customers to whom we had granted payment extensions to help them deal with the effect of the pandemic. With regard to trade payables, we point out the payment terms to suppliers, collaborators and consultants remain unchanged.

Slide 13, shows the great attention we continue to devote to investments amounting to €29.9 million as in the first half '21 with a net financial debt the classic one on Slide 14 of €96.3 million of 30thof June '21 compared to €136.5 million reported at 30thof June 2020, which had been impacted by the effects of the pandemic. Already at [indiscernible] December 2020 the NFP showed a significant recovery and we expect for the end of '21 a further improvement compared to 30th of June '21 considering the

dynamics of cash generation in the second half of the year. And also remember the seasonality of sales which leads to the peak of the NFP between June and September.

This is the end of my presentation. Thank you for your attention. I'll give the floor back to Brunello.

BRUNELLO CUCINELLI: So here we are. First of all, let's talk about product. Fall/Winter sales, so it's August. So, we have been selling this for a month and a half, sales in multibrand and monobrand stores of the Fall/Winter '21 collections are going very, very well. The collections are viewed as youthful, modern, chic, very luxurious and exclusive. So, really, we are experiencing a great time. In all sincerity the '21 collections were really, really very beautiful. And this echoes that statement by Einstein that fascinates me so much. In difficulties genius unleashes its creativity, because we have spent a year in difficulty.

We spent a year when we worked in physical presence all the time, except for 6 weeks of total lockdown in March and April 2020. And the concentration, dedication, courage and humility led us to the...and maybe some luck to lead to the creation and designing of the very special garments for which we will receive a truly unique awards next week in London. We can't tell you exactly what it is officially and if you have received it once in a lifetime. So, I have my father who is 100 years old who lives opposite to me. And I said to him dad, do you remember when he used to work those fields with oxen and the sole was made up 50% of stones which were small. And I said...I told him about the award and he was moved, and so was I. And he told me what he always says to me, be a good man. So, this is about the collections and the price next week, it's something we were really honored by, we will let you give the details very soon.

So next new collection, Spring Summer '22. The Men's Collection uncomplete, the women's collection is almost at the end. The results have been really, really special. We do not have the judgment, a feedback from the press, because we will collect this in September in Milan. There is no doubt that all this and the order intake gives us a glimpse of a very interesting and very positive 2022.

And jokingly, I'd say, let's hope that this mood about the brand continues for a few years, even for a few decades, I wouldn't mind that at all. But, you know, that when you start the year knowing full well that you received positive feedback on the product, this really is a good start. Then what happens in the world, you can really fathom, but the products you can vouch for that.

Then the Solomeo area, we have talked at length about the value of the territory and its support for the brand. I honestly believe, and I'm telling you this because of the question you asked us, what happens after Brunello? Well, let's hope that business goes on even after Brunello. But I believe that Solomeo gives and it's given the brand some sort of limited immortality, and why is that? Because it will survive with its buildings, its epigraphs, its identity, its history which will survive the passage of time, so I believe that this Hamlet will remain for long decades, hopefully centuries, it will still be the Hamlet of cashmere and harmony and the history and humanistic capitalism.

I'm telling you this because at this moment in time, the brand is benefiting from the value of Solomeo. And I'm telling you this because after the restoration of the Hamlet, you saw that we built the Theatre in 2008, a secular temple of art. In 2016, we built the winery, as a tribute to the Earth, who will...it will be there for 1,000 years. Xenophanes says

everything comes from the Earth. In 2018, we built the monument to the dignity of man, and always as a family foundation. And this is always very much separated from the listed company whose company invest in the territory 0.2% of revenues, the rest is taken care of by the foundation for the 1000-year projects.

Now, on October the 28th, if you happen to be in Italy by any chance, in Milan...at the Piccolo Teatro in Milan, we will present a project for the next 1,000 years, it will take about 3 years to complete this project, but I think it will keep giving something very important, contributing and putting something important to the Hamlet. So, I believe that even the cultural chain of the territory and the cashmere artifacts will also enjoy some sorts of immortality, because these micro companies, high-quality companies, and workshops, where it will...they can really be a...it's also satisfaction for the future. As to turnover, profit, NFP, EBITDA, investments, shop store expansions, we, you know, everything...we confirm everything and everything can...is clear.

Now we wanted to talk about markets. I'd now like to open a nice and interesting window on the whole world. So, at the end of the year, we'll have 32% Americas, 44% Europe, 24% Asia, of which almost 15% China. So, China for us is starting to become quite a good business. Do you agree with that? Yes. So, if we were to envisage this breakdown in 3 years' time, we would like to envisage the following, 30% U.S. because it is a very important market for absolute luxury, both for men and women, and also in terms of taste, because they have a very special taste, we'd like Europe to account for 40%, very important as a sort of showcase for international taste in Paris, Central Bay London, and Milan, 30% Asia, on which 20% in China and the rest in the other Asian countries. I think that Asia is super important now for many companies and for the time to come and also valid for international taste. We have these young celebrities.

You see, they wear exactly the same garments as in Los Angeles, showcased in Shanghai, this is very interesting.

I'd just like to remind you that we...85% of our business accounted for by ready to wear. So, the taste is important, the shapes, the colors, and the lifestyle. And I'd really like to call our company a company, a business of fashion and of lifestyle.

So, let's start from these 3 large markets. The U.S. just a few words, a very important reference market for us, also in terms of taste, recovering both in terms of numbers and also psychologically, as we can see from the wholesale orders of the important major department stores for the Spring-Summer 2022 collections. And it is a market that we have always considered and viewed as a domestic market.

Then Europe, a big market for us, this too very important, as a world reference, very...performing very well in average cities with wealthy customers....well-off customers, so very positive performance overall. Well, more difficulty in the larger cities, but generally speaking, really important as a reference point for taste, visual merchandising, and major cultural changes. Because sometimes when I'm in London for 2, 3 days, you take a look at the streets and you see how the taste is changing. So, we see Europe as it is for the coming year, because I think that the pandemic is...will be with us for the coming months and we will coexist with it. But you see, Europe, we have always seen...considered it a large domestic market.

Let us now move to China, very important country, and I think that it will provide us with important satisfaction of this century. But as to China, we would like to...we'd like to tell you how we started...how it all started in China, I would like to make some major considerations.

First of all, China will be the great driver of growth for all humanity. Yes, you all agree. I see you all nodding. Then we have always wanted to have a special relationship with this people, because I started working my business with Germany. And I was welcomed there because I knew the culture. I did the same in America, we tried to do the same with China too. We started to work together not more than 10 years ago as exporters of manufactured goods, and since then we have called this special project Celestial Empire.

You see our Chinese friends love this definition, we started out as cashmere pullover manufacturers about 40 years ago, and clearly the finest raw material in the world comes from Mongolia and China. And, of course, we have all been influenced by these very...like this people, we of course live with cashmere. We've met a thousand of times to discuss the quality and quantity of cashmere. You see [indiscernible] the better the cashmere is then we discuss the relationships with the producers, with the shepherds and this has allowed us to see China from a different point of view. I have always thought that in enjoying a good loyal and fruitful relationship is possible if you do each other's customs and cultures.

So, for me, the experience of being a supplier and customer for very long years, has been very important. When about 10 years ago, we decided to start the reverse process that is exporting our products, we consider this very distant country as a foreign market because it was further away, so we have Japan domestic market, Europe and America domestic markets. So, when we started about 10 years ago, we started with important fundamentals.

First of all, it had to be a long term projects, but we have always done that. And we have always told you about this, so long term projects for us and

for China too. So, we wanted to start with a homogeneous international taste Los Angeles, Shanghai, Milan, and London. And we also wanted a good economic growth, also cultural growth, and also human relations had to be pretty special. So, from...we tried to forge long term projects there. From the very beginning, we have viewed...we have seen in this world, something extraordinary for this century, at least for me, you see a fourth of the world population resides there, so I like this very much.

Then, what about taste. So, first of all, one single taste on an international level, our first partner was saying, why can't we have some striped, polo shirts, and the answer has always been, no, because we need to sell an international single taste. Then, not because we wanted to be arrogant, but I remember one anecdote. And when an American customer wanted to have wide leg trousers, we would answer this is not our culture, we can't do that. So, how come you can't do larger, you see, leg trousers. Whereas, the truth was that we wanted to maintain the identity of our brands, because in clothing either you have it or not, it is not the same as in accessories. So, we wanted an understated product, a handmade, because we have 52% of...is done by hand, you see, as you know, we are a no logo company, and also with a healthy visibility, that's how we wanted to tackle this market trying to convey the idea of product, culture. This has always been the way in which we communicate, and also an exclusive product and pretty expensive too. We have always wanted to manufacture here in Italy with craftsmanship.

So, we see a lot of young actors and you should know that we have no brand ambassadors or paid brand ambassadors while we see many young celebrities and who dress exactly the same as their peers in Los Angeles for example. So this is very interesting taste wise, then economic growth. When we started at the very beginning, also following on your recommendations. We wanted to have, yes, definitely a faster growth than

in other markets because it was just the beginning compared to U.S., Europe and Japan. But at the same time, we wanted some sort of balanced growth. We wanted to have a fair price, and also compared to Europe. And this has always been an issue for all the markets. The idea that Europe...America has plus 20% compared to Europe, China 27%, 28%, Japan 33%, plus 33%, why? Well, you see, there's communication there.

I remember an interview in Shanghai, when there was a young member of the press with 2 iPads and an iPhone, and I was really impressed because she was asking me questions, and she was showing me the prices of the single items in Shanghai, Milan and San Francisco and I was very impressed with that. As usual, we believe in multi-brands and still today, we believe that Chinese multi-brand stores can be leaders, teachers, they know the size, they know the taste. So, we basically follow on their footsteps.

And also, we want to have a very clear and sincere relations with the landlords, as we have had in America and Europe, because as you know, in the beautiful high streets in the cities, those are the prices. They might...also, behavior plays a role in assigning one space or another, you see the prices are very, very high, the rent prices. And so, since they have a lot of demand that landlords can choose how to allot their spaces and behavior plays a role here.

Then cultural growth there. We have a team of 200 people and only, only local Chinese people. So, our team in China is made up of only Chinese people and they come to us in...to Solomeo. We talk with them. We try to gain insight in our mutual cultures. We are parts of the Italy, China Foundation and I am also part of the [indiscernible] Italy, China. And I have always had a passion for philosophy.

If you come to our village in the square of the wisemen in Solomeo, we have Leonardo on the one hand then we have Confucius and Plato. When Confucius and Plato...they lived at the same time, one is the father of the west, the other is father of the east. And for a Chinese person, Confucius is extraordinary.

So before leaving the floor for questions, I would like to tell you that we have a very positive attitude towards this market and we need to be gracious towards them. So, a year down the road, after the start of the pandemic, we wouldn't have imagined this kind of level that we have achieved. So, I'm saying this to you and also investors listening, to you 2021 is a year of rebalancing.

The only thing that is missing is a few points on EBITDA but inventory...investments we have gone back to our balance. So, we are very confident. And in the company, there is a very fascinating mood around. But this also is the result of the time we experienced in terms of taste. So, to conclude the usual warning, I always have for you is the product. Our product needs to be useful, exclusive, contemporary, cutting edge and chic and luxury. This is what we think matters the most. We have spoken at length about China because we wanted to convey to you the way in which we tackle this very important market, this special culture that is destined to rule in this century.

So, I am not in my prime anymore, but I am convinced this is the way ahead. So, thank you very much once again. We wanted to really convey to you some of our culture without only relying on numbers and now the floor is open for discussion. Then the next call will be around October the 20th but we already have July and August already with the order intake. So, we are pretty confident. Thank you. Thank you very much.