



Natuzzi S.p.A.

First Quarter 2021 Conference Call

May 24, 2021

C O R P O R A T E P A R T I C I P A N T S

Piero Direnzo, *Investor Relations*

Pasquale Natuzzi, *Chairman*

Vittorio Notarpietro, *Chief Financial Officer*

Jason Camp, *President, Natuzzi Americas*

C O N F E R E N C E C A L L P A R T I C I P A N T S

David Kanen, *Kanen Wealth Management*

Charles McDulin, *Kanen Wealth Management*

Gregory Cohen, *Rambleside*

P R E S E N T A T I O N

Operator

Welcome to the Natuzzi First Quarter 2021 Financial Results Conference Call.

Joining us on the call today are Natuzzi's Chairman, Mr. Pasquale Natuzzi; the Chief Financial Officer, Mr. Vittorio Notarpietro. Then, Mr. Jason Camp, President of Natuzzi Americas, and Piero Direnzo, Investor Relations.

As a reminder, today's call is being recorded.

I would now like to turn the conference over to Piero. Please go ahead.

Piero Direnzo

Thank you. Good morning to our listeners in the United States and Americas, and good afternoon to those of you connected from other countries. Welcome to the Natuzzi's First Quarter 2021 Conference Call. After a brief introduction, we will give room for a Q&A session.

Before proceeding, we would like to advise our listeners that our discussion today could contain certain statements that constitute forward-looking statements under the United States Securities laws. Obviously, actual results might differ materially from those in the forward-looking statements because of risks and uncertainties that can affect our results of operations and financial condition. Please refer to our most recent 20-F filed with the SEC for a complete review of those risks. The Company assumes no obligation to update or revise any forward-looking matters discussed during this call.

Now, I would like to turn the call over to the Company's Chairman. Please, Mr. Natuzzi.

Pasquale Natuzzi

Okay. Good afternoon and good morning to everyone.

I hope that you have noticed the different setting of press release this time, and to be honest, Antonio, our new CEO, helped us really to design that, in order to make much clearer the nature of our business, obviously.

I would highlight the most important goals that we have reached, that 87% of the sales are branded with better margins. Now, what branded means; as you should know, I hope, we have Natuzzi Italia and we have Natuzzi Editions, and we have also Divani&Divani. We have DOS, we have franchising, and we have also Gallery. All together, the three brands and the three channels represent 87% of the total sales, while before it used to be 76%. We improved almost 11% the sales of the branded sales, which means better margins.

In meantime, I would like also to emphasize, on the operations side, last year we downsized the factory in China, which was 88,000 square meters. We reduced it to 38,000 square meters because of the trade war between China and America. Because we were manufacturing and exporting almost 80% of our total production in China in the United States, the duty, the rates of duty impacted, obviously, on our P&L. That's why we decided to reduce the factory in order to dimension the factory, based on the need and the growth over the Chinese market, which is performing very well. In China, we are opening stores month after month, and we expect that within next two or three years, the Chinese production would be absorbed almost 75% from the Chinese factory.

Then, even with the growth in the rest of Asia, so in other words the factory in China, in the next two, three years, will be used just for the Chinese needs and for the rest of Asia. Even last year and this year, we started the outsourcing in Vietnam for the big customer in United States of America and Canada, in order to avoid the duty and improve the margins.

The outsourcing in Vietnam has been already well-executed, I must say, and we already are starting, and I believe that in the next 60, 90 days, we will start the production also in Mexico in order to improve the margins and improve also the service level to the American customer for Natuzzi Editions.

Those are the most important issue. The rest is included in the press release, which I'm sure you already noticed. But the most important novelty is represented by the fact that we, as a Company, we attracted Antonio Achille, our new CEO, which will start officially June 1, 10 days from now, or even less. Antonio, he celebrated his birthday, 50th birthday, the day before yesterday. He's a young fellow, he has a lot of energy, but he has also 25 years experience with the best consulting companies in the world. Last experience has been with McKinsey as a Senior Partner at the worldwide level in the luxury sector and retail. Antonio Achille has been our consulting for a little while—not a little while, for a long time, I must say, from 2019. He had the chance to know the Company and to understand the huge potential that Natuzzi has at the worldwide level.

I really welcome and I ask you please to welcome Antonio that will give continuity to the Company for what we have started 15 years ago, that is transforming our manufacturing company into a lifestyle brand managed by the retailer division.

As Chairman, I will be an Executive Chairman in order to manage the transition and to focus also in the long-term strategy in order to help the Company to execute our goal in developing more retail, more DOS, better margin and satisfy the expectation of our shareholder. By saying that, I will say thank you very much for listening to me, and I'm available, together with Vittorio and Jason, our President of Natuzzi Americas, to answer for any question you may have. Thank you.

Operator

Thank you.

Our first question today is coming from David Kanen. Your line is now live. Hello, David, your line is now live. Please proceed with your question.

David Kanen

Okay, my first question relates to the transformation of the Company. In the future or the next few years as a lower percentage of our overall revenue is private label and more comes from Natuzzi Italia, Natuzzi Editions, DOS, what do you see as the longer-term gross margin profile of our business? When I look at some of your competitors, like La-Z-Boy, Ethan Allen, Bassett, they all have gross margins north of 40%, some even into the 50s. Where do you think we will be going long-term, as that mix shifts? Thank you.

Pasquale Natuzzi

Just improve, no question.

David Kanen

Okay.

Pasquale Natuzzi

Improvement, no question about it.

David Kanen

Okay. When I look at your liquidity, to me, I'm struck by the strength of the Company, given that you've got €50 million, plus in cash you've got probably \$40 million or more of real estate. You own, my estimation is Kuka is worth over \$65 million at this point. There was an article that was written by someone that claims to know you guys, last Thursday, suspiciously right before earnings, where he theorized that the Company is going to do something highly dilutive, sell shares here, which to me sounds absolutely insane given the low valuation. Could you comment on that? Would you be willing to sell shares here, or is this person just speculating?

Vittorio Notarpietro

Okay, we received this question in recent days. Now, let me answer to those investors who ask about the Company plans to issue equity. Given the importance of this question, we want to provide you with a full recap of the context, explanation of where we are exactly.

In February 2020, due to the pandemic, Natuzzi was close to be delisted by NYSE and Board of Directors was also forced to ask financial support to the Company's major shareholder to face the potential immediate stop of the business and the immediate stop of cash flow as well. The visibility at that time on the business was really, really poor, close to zero. The main shareholder immediately granted the requested financial support, up to €15 million, as you knew already. The technical way to grant was a zero-interest credit line refundable with a future share issuance. This option for the Company will last until December 2021 for the approval in the shareholders' meeting, and in case, March '22 for the execution of the shares issued. That's the picture of where we are exactly.

Now, thanks to the effort of the Management team, today, Natuzzi has not needed to pull that money. In fact, after the \$2.5 million we received in February last year, the Company has not asked for the remaining \$12.5 million yet. If both options are not exercised, the Company will reimburse the \$2.5 million

loan to main shareholder. In the meantime, the Company, as you were saying before, is continuing its disposal of non-core assets in order to find alternative sources. I need to be clear on this: the Board of Directors is the Company body in charge of the ultimate decision on this. They will obviously consider the business environment, the financial situation, in the interest of the Company and its shareholders, both minor and major ones.

The importance of having the most efficient capital structure is something which the Company is very well aware of and continues paying paramount attention to. We are hence facing a very different situation from the one where the initial credit line was granted. Should, let me underline again, should the equity be issued, the equity option, be further confirmed, it would be because our team has found very exciting new opportunities to accelerate the growth and require additional investments. This would be done with the objective of creating substantial value, upside, for our investors, all investors.

If so, I hope we will be able, in that case, if so, to convince investors on the opportunity of such a decision, and that our shareholders could consider supporting the Company with a share issuance at a fair price. But again, so far, we are not yet at that point on the basis of actual cash position and cash projections. I hope this clarifies the topic.

David Kanen

Okay, thank you, appreciate that.

Vittorio Notarpietro

Thank you.

Now, it would be the case—I don't know if Jason started a discussion with us. It would be the case to be great to have Jason commenting on the business momentum in America, our Natuzzi key market, notwithstanding the very short-term visibility we have today, for many reasons that you should know already.

Thanks, Jason, it's your turn.

Jason Camp

Sure. Listen, good morning and good afternoon to everyone. I'll be brief this morning. The situation, we feel continued momentum in North America. When we look at our branded wholesale business, the full orders demanded, both in our retail and wholesale channels, and we compare those to 2019, we're growing at a pace of about 44% year-to-date versus 2019. When we look at only the retail channel, we're growing at a pace of just North of 50% compared to our 2019 pace, so we're very pleased with our current momentum and are working very hard to maintain and accelerate that pace.

I think, from my perspective, those are the key headlines for us at the moment, and happy to take any questions if there are.

Operator

Thank you.

Our next question today is coming from Charles McDulin. Your line is now live.

Jason Camp

Good morning, Charles, we can hear you.

Operator

Charles, are you un-muted? Please confirm.

I can read the question to proceed, is that okay? A key focus for Antonio is operating margins. Could you help us understand the opportunity NTZ has with improving operating margins with the PoltroneSofa and Poltrona Frau operating margins in the teams? Please proceed.

Pasquale Natuzzi

Excuse me, this is Pasquale. Who is asking this question?

Operator

This is the Operator reading the question from Charles McDulin. He says, a key focus for Antonio is operating margins. Could you help us understand the opportunity—I'm assuming that's Natuzzi—has with improving operating margins, with PoltroneSofa and Poltrona Frau operating margins in the teams?

Pasquale Natuzzi

Okay, all right. This is Pasquale Natuzzi. First of all, Antonio, our CEO, he will officially start to operate in the Company June 1. Today he is not here, we apologize for that. He's still engaged with McKinsey as senior partner. Again, June 1, he will be here. But anyway, I'm in the position to answer to this question.

Certainly, I don't have with me numbers regarding the operation margin of PoltroneSofa and the Poltrona Frau.

Okay, PoltroneSofa, it's a completely different company. Their best-selling product—they promote sofa for \$99. They promote sofa for \$399, for \$599, for \$699 motion two-seater, nothing to do with us. They don't have a manufacturer; they do just outsourcing without respecting the human right—nothing to do, Natuzzi with PoltroneSofa.

Regarding Poltrona Frau, it's even a completely different company. We are a manu-tailor. We are lifestyle brands, we have a store in America, store in China, all Asia-Pacific, we have a store in Europe, we have a store in Middle East, we have a store everywhere in the world. We are global, we are an Italian lifestyle brand with a presence everywhere in the world, manufacturing the product in Italy, manufacturing product in Romania, and manufacturing in China and in Brazil. Completely different company.

To be honest, we don't consider Poltrona Frau as our peer, and absolutely not PoltroneSofa, it's a completely different world. Okay, I hope I answered your questions here.

Operator

Our next question today is coming from the line of G. Cohen. Your line is now live.

Vittorio Notarpietro

Good morning, Greg.

Gregory Cohen

Hi, a question for Jason Camp. How many stores do you think we could open in the U.S. in the next two to three years, and how would you kind of describe the current trading environment relative to prior periods in your career, including at RH?

Jason Camp

Thanks, Greg.

Let me start with what I see as the current trading environment in the U.S. I've been retailing in home furnishings for 25 years, I've never seen growth like this at a macro level. When we observe what we're able to observe in the market, we're seeing people growing generally at 20% to 40%, and so we're very pleased to be in that 40% to 50%, ahead of the general market. We see continued opportunity to build a strong foundation on this business and accelerate it further.

We believe, when we look at the opportunity to open stores and we think of those opportunities both with Natuzzi Italia and Natuzzi Editions, both independently owned and Company-owned, that we can open in the range of, comfortably, 10 stores a year, and potentially accelerate that as we continue to learn more about our model and the opportunities ahead.

Operator

Thank you.

Our next question today is coming from David Kanen. Your line is now live.

David Kanen

Coincidentally, the previous caller actually posed the question that was on my mind, but I'm going to spin it a little differently. The 50% growth from retail that you saw in Q1, was that all organic, or were there stores added that were in the calculus?

Jason Camp

Thanks, Dave.

That's purely an organic number, and that's a January through April number, so it's pretty current through the end of April.

David Kanen

Okay. Then, I don't know if this is a question for you Jason, but obviously in North America, the growth is impressive. We know that Europe literally just reopened; I'm sure it's starting to come back to life. Do you think that you can see numbers comparable, getting up around, let's say 25%, 35% up versus 2019 in the U.K., Italy, etc.? Or in the initial reopening here in April, it's below that?

Jason Camp

I think that probably is a question for Vittorio. But I think, before we turn it over to him, clearly we reported in our release that, as Europe reopened, we saw substantial increase in our incoming order rate of about 16% on a global level, so you can feel the impact of what their reopened business does to our globe. I'll let Vittorio add any additional color.

Vittorio Notarpietro

Yes, you're right. The percentage after 18 weeks, the global percentage of recent orders versus the same quarter 2019 is 15.7%. But consider that we had U.K., for example, but also Italy almost closed for that period, and in fact, the April base for order flow was better than Q1, the first three months.

David Kanen

Vittorio, 16% up overall is inclusive of Europe being very weak for January, February, probably and part of March. Could you speak to specifically April and the first few weeks in May, in Europe, what kind of increase you're seeing in written orders? I'm sure it's well above 16%, but could you give us the sense as to how that is trending?

Vittorio Notarpietro

Mr. Natuzzi, would you comment on the different acceleration of growth by main region?

Pasquale Natuzzi

We divide all Europe, if we should consider Eastern Europe and even Russia as a country. We divide Southwest Europe from what we call emerging market. Now, Southwest Europe includes Italy, Switzerland, Austria, Germany, Netherlands, Belgium, France, Spain, Portugal and England. This is the Southwest Europe. We have very good managers there, and the region has been suffering very much because the lockdown of several countries.

Now, until months ago, I'd say four weeks ago, we were minus 25% with budget in this region, a very important region. While, right now, we are minus 15%, so already in four weeks, has been recovered 10%. We're very much confident that the business will pick up again in Southwest Europe.

Then, regarding what we call emerging markets, it's just unbelievable. A number I have here with me is, in the first 20 weeks, that the business, it's unbelievable, it's doing very, very well, like even the United States of America, like South America, also, is doing very, very well for us.

David Kanen

Okay.

Pasquale Natuzzi

But in general... We want more. We want to see more orders. We want to see more volume. We want to see improvement in margin every day, but it's very satisfactory, the way the business is doing so far.

David Kanen

Okay.

Vittorio Notarpietro

David, let me underline a detail on that. While the branded 18 weeks of retail orders grew 15.7% versus 2019, unbranded is down. The total order flow of the Company, if we compare with 2019, is up by a single digit. Okay? Branded is up...

David Kanen

Okay.

Vittorio Notarpietro

...double-digit, unbranded is down double-digits. At the end of the day, we are up for the overall order flow with a single digit increase against 2019, which is your question, I guess.

David Kanen

Well, even more specifically though, what I'm trying to understand is, the numbers are diluted when you include January, February, March. What I'm looking to isolate is just April and the first few weeks of May. Southwest Europe, I know emerging markets is doing exceptionally well based on the commentary from Mr. Natuzzi, but can you speak specifically to April and the first few weeks of May, in terms of written orders?

Vittorio Notarpietro

We already told you, and that's the detail that we can supply so far. With April, pace is up 16% versus Q1 pace, Q1 2021. Why? Because U.K. and other European countries are reopening and recovering. That's the number so far, about order flow in April.

David Kanen

Then is May consistent with what you're seeing in April?

Vittorio Notarpietro

April global order flow was better versus Q1 2021 pace thanks to the contribution from West and South Europe that just reopened, by 16%.

David Kanen

Yes, I understand. But what I'm asking is, the first few weeks of May, have they been consistent with April?

Vittorio Notarpietro

Yes. The year-to-date order flow is still consistent.

David Kanen

Okay, okay. Thank you.

Vittorio Notarpietro

No problem. Thank you.

Operator

Thank you.

Okay. I believe that does conclude our question-and-answer session. Would you like to make any closing remarks? I do not believe we have any further questions.

Vittorio Notarpietro

No further question.

Operator

Okay. As there are no further questions at this time, and if there are no... Do you have any closing remarks, or would you like me just to close the call?

Vittorio Notarpietro

Maybe Mr. Natuzzi would like to close the meeting.

Operator

Yes. Over to Management for any further or closing comments, please. Mr. Natuzzi?

Pasquale Natuzzi

Okay, certainly. I like to thank you very much for all the attendees which I'm reading are 33. Very pleased to have you as a listener, and I hope that next time, or any time, you need to ask a question about our Company, we would be very pleased to answer all of you.

Again, thank you very, very much for the confidence. I wish you all the best. I wish you to be safe first, same as the pandemic also, in Italy, is disappearing, and even in Europe. I'm anxious, together with Mr. Antonio Achille, our CEO, to start traveling again and meet people around the world.

Thank you very much again. All the best to everyone.

Jason Camp

Thank you, all.

Operator

Thank you.

That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.