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WEAVING SUCCESS THROUGH SMART FINANCE: THE EXPERIENCE OF BRUNELLO CUCINELLI

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ABSTRACT

The thesis examines the topic of growth financing, which is how growth companies are able to finance their expansion.

The ability of companies to structure a sustainable and balanced financing plan, based on diversified and accessible financial resources, is a crucial aspect in the sustenance and development of any company.

There are various sources of financing, each with specific characteristics that may be more or less suitable to the specific needs of a company at any given time. The choice of the most appropriate source of financing depends on a series of factors, including the company's current needs and the conditions of the market in which it operates.

The selection of the most suitable financing source often depends on the combination of these factors at a given historical moment.

"Growth is the only evidence of life" stated the theologian John Henry Newman (1845, p.187). This concept underscores the crucial importance of growth and adaptability as necessary conditions for the survival of any organism.

Lacking the ability to grow and adapt to changing market conditions, businesses risk stagnation and ultimately failure. The ability to identify and access the most appropriate financial resources at each stage of the business life cycle is therefore essential to ensure not only survival, but also long-term prosperity. This dissertation seeks to analyse this theme in the following pages.

In the first chapter of the thesis, the existing literature on growth financing will be examined, with particular attention to the economic and financial theories that highlight its importance and dynamics.

Subsequently, the various available sources of financing for companies will be analysed in detail, first illustrating traditional sources, providing a distinction between the internal and external, and then alternative ones. Furthermore, the advantages and disadvantages, as well as the impact that financial choices can have on the corporate structure and its competitiveness in the market, will be

assessed.

Among the various external financing sources analysed are: debt, convertible bonds, participatory loans, and leasing. Further in-depth analysis will be dedicated to internal financing strategies, such as self-financing and profit reinvestment, highlighting how these options can be used in combination with external sources to optimize the corporate capital structure.

As for alternative sources, crowdfunding will be analysed, and more generally, the role of business angels, private equity, and venture capital, entities that provide not only capital but also managerial skills and useful networking relationships for companies in different stages of their life cycle.

Special emphasis will be placed on the evaluation of the risks connected with each of the financing sources and the measures that can be taken by the companies. In this regard, it will be relevant to discuss how corporate governance and strategic risk management can affect financing choices and, therefore, the company's sustainable performance.

The thesis will end with the analysis of the case of Brunello Cucinelli Group (hereafter, "BC"), an Italian fashion company that has gained fame for its refined style and sustainable production, which makes it different from other competitors in the market.

The analysis covers the years 2018 to 2023, periods characterized by exponential business expansion despite the challenges posed by the pandemic emergency. This study aims to examine in detail the investment and financing strategies adopted by the BC during these crucial years.

The goal is to identify the financing that have been effective in the context of the Group's growth and to examine how these strategies helped to sustain the growth and the company's stability in the context of the economic instability.

Through the analysis of the data collected, practical recommendations will emerge for companies facing the challenges of growth financing, thus helping to provide useful guidance for managers and entrepreneurs engaged in business growth management.

1 Growth Financing: The Analysis of the Diverse Financing Resources Available for Companies

This chapter aims to provide a detailed overview of the concept of the firm and the dynamics of growth financing.

Following this, the sources of financing available to firms will be examined: internal, external and alternative. In particular, we will examine self-financing through capital increase and reinvestment of profits.

Additionally, opportunities offered by external sources will also be analysed: debt, equity loans, leasing, evaluating the advantages and disadvantages of each option.

Attention will also be paid to alternative sources of financing, such as crowdfunding, exploring the growing role they are taking on in the corporate finance landscape as they provide opportunities for access to capital.

By illustrating and analysing in detail the various sources of financing available, it is intended to provide a solid foundation for understanding growth financing strategies and their implications for growing companies.

1.1 Definition of "Firm" and "Growth Financing"

The concept of "growth financing" is a key pillar for business development and prosperity. However, before diving into the heart of the analysis, it is appropriate to set the context for this financial practice.

The Art. 2555 of the Italian Civil Code defines a company as "*is the complex of assets organised by the entrepreneur for the exercise of the enterprise*"[1] (Italian Civil Code, 1942) while the Art. 2082 defines the entrepreneur as someone who "*professionally carries out an economic activity organized for the purpose of production and/or exchange of goods or services*"[2] (Italian Civil

[1] *Art 2555 of the Italian Civil Code (1942): "The business is the set of assets organized by the entrepreneur for the operation of the business".*

[2] *Art. 2082 of the Italian Civil Code (1942): "An entrepreneur is anyone who professionally carries out an organised economic activity organised for the purpose of production or exchange of goods or services"*

Code, 1942).

The law defines a company as much more than a mere collection of assets. In fact, it is described as a complex set of elements, both material and immaterial, diligently organized to facilitate the exercise of the business. As emphasized by D. Balducci (2006, p.20), "*a 'company' is not formed by a simple sum of 'assets' intended for the exercise of the business, but by a set of elements, both material and immaterial, that constitute an organic whole and that are functionally suitable to achieve the purpose for which the coordination among them has been established*".

When talking about "organized assets," is referred to a wide range of assets including machinery, shareholdings, trademarks, and intellectual properties. These elements form the foundation on which business activities are based. D. Balducci (2006, p.20) indeed asserts that such assets "*are constituent elements, not accessories"*, that contribute to the sustenance and growth of the company over time.

In order for a "company", to exist, there must be both "organized assets" and "sources of financing".

The latter represent resources that a business can draw upon to finance its economic activity. The need for such resources varies depending on various factors such as the type of company, its size, the structure of the reference sector, financial needs, the cost of financing, etc.

The careful selection of the most suitable source of financing for the company is of crucial importance, since the very development and survival of the company depends on this decision.

However, it is crucial to consider that companies are complex entities that require careful and detailed analysis in relation to their surroundings as they evolve over time and develop within a specific context.

Indeed, companies are subject to the influence of environmental factors, such as geographic, historical, and economic context, that help shape their operations and strategies.

At the same time, the latter can exert an influence on the environment in which they operate, through decisions and actions taken. The company-environment relationship thus implies a complex dynamic.

Within this dynamic system, internal and external actors constantly interact, bringing with them specific interests and objectives. These actors consist of employees, executives, shareholders, suppliers, customers, regulatory bodies, and other players who have a say in the success and failure of the company. These relationships are essential for the development of the company and are the “forces” that are interdependent and affect the development and strategic orientation of the company in the future.

In this way, the corporate system is characterized by a constant exchange of influences and interactions between internal and external factors that contribute to its growth and adaptation to changing market and environmental conditions.

The evolution of the company is therefore nothing but the result of a delicate balance between the internal and external dynamics that influence it, requiring constant consideration of the context in which it operates and the relationships it maintains with all its actors.

Another important aspect that defines the long-term sustainability of a company is its capacity to manage and act upon the changes in the external environment. Lack of flexibility is a major issue that threatens the competitiveness of companies and their failure. Hence, the need to adopt a dynamic and responsive strategy that is in tune with the environment becomes a necessity for the survival and growth of firms in the global marketplace.

In terms of economics and finance, the company can be viewed as a system that involves the circulation of capital through a number of financial operations. These financial flows are designed to finance the operating and investment processes of the company and to cover the payment of the shareholders who invested risk capital and debtholders who provided financing.

When we talk about “inflows of funds”, we refer to sources of financing from third parties, such as bank loans, or from internal means. These funds are then allocated within the company to support operational and investment activities.

In the corporate environment, there is a process of conversion of financial inputs into economic outputs in the form of a product or service provided by the company.

However, it is necessary to note that the incoming flows are used to repay own funds and external sources of financing, for purchasing raw materials, for the development of new products or services (R&D), for the implementation of marketing strategies, and other related activities.

Considering that the analysis conducted in the following thesis aims to study “for-profit” companies, the purpose of this process is to generate added value by commercializing outputs to the target market. In other words, the primary objective is to maximize profit, representing an essential strategy for sustainability and long-term business growth.

However, within “for-profit” companies, complementary objectives of fundamental interest emerge. As stated by S. Dallocchio (2011, p. 1), “*The main purpose of companies is the lasting satisfaction of the economic interest of the entrepreneur, the shareholders and the economic interests of the subjects in various ways linked to the company*” .

This perspective reflects a broader, long-term-oriented approach, taking into account not only financial aspects but also sustainability and value creation over time. In order to pursue the aforementioned objectives and ensure sustained long-term growth, funding sources and strategies assume a central role.

The chart below (Figure 1) shows that a company's success depends on its gene pool of resources and relationships. In addition, it is essential to adopt a clear strategic direction, based on a vision, mission, and a well-structured financial and investment plan.

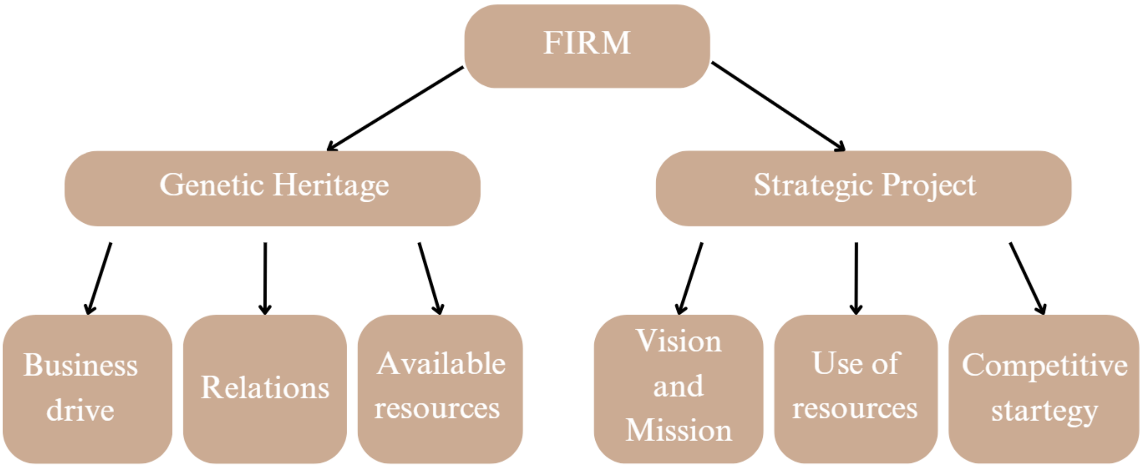

Figure 1: Essential Components for Business Success
Source: Leone M.I. (2021)

Schumpeter (1934) was the first scholar to believe in the existence of a positive relationship between innovation and sustained growth supported by financial services and intermediaries.

Subsequently, other scholars, including King and Levine (1993), confirmed the existence of a link between financing, innovation, and economic growth.

According to these economists, an efficient financial system enhances the probability of success of innovations thus promoting economic growth in a more systematic manner.

It is through this financial support that companies can invest in their assets create new products or services, expand their operations and enter new markets. Thus, growth financing becomes a crucial lever for the success and prosperity of companies in their development and expansion journey.

Growth is a necessity for the long-term survival of any company because it allows for timely and adequate responses to the ever-changing market environment.

The adaptability of enterprises also depends on the availability of adequate financial resources. Accessing sufficient and sustainable sources of finance is, for enterprises, of necessary importance when they want to invest in innovation, research and development, expansion of operations, and acquisition of crucial resources to meet market needs and competitive challenges.

Nevertheless, “fundraising” is not always easy, as it involves considerations of restrictions and rules aimed at protecting credit institutions, market authorities, and stakeholders.

“Growth financing” refers to “*a company’s use of debt, equity and hybrid financing techniques to achieve business expansion in a cost-effective manner. The focus of growth financing should be on identifying the optimal financing solution for a company*” (Attract Capital it’s what we do, no date).

The main objective of growth financing is to find the best financial solution for a company, enabling it to grow and prosper in a competitive environment.

Thus, securing the necessary funds to invest in new technologies, to expand their markets and product offerings, or to acquire strategic raw materials is crucial for companies to stay competitive, innovative, and ready to adapt to market shifts, which in turn leads to sustainable growth and success.

However, the problem of identifying financial instruments that would allow companies to achieve an optimal ratio of the costs of financing and the benefits of business expansion remains essential.

“Growth financing” is therefore a critical strategic tool for companies since the current legal framework and business conditions are complex and dynamic. This enables companies to sustain competitive advantage and operate in an ever-changing environment.

It is important to note that business growth can be financed through the use of various financial instruments. In the following sections of this thesis, the various forms of traditional financing will be discussed, distinguishing between internal and external financing, as well as other forms of financing.

1.2 Traditional Sources of Financing

Traditional financing sources can be divided into two main categories: internal (equity) and external (debt) capital.

Internal sources are funds that are provided by the owners and/or shareholders of the company, and the capital invested through internal sources does not require to be repaid and does not have a fixed time of maturity. In other words, the capital remains invested in the company on a long-term basis, typically until the cessation of business operations.

Internal funds do not entail interest payments; instead, equity capital is remunerated through the profits generated by the company, which are subject to distribution deliberation.

Another important feature of internal sources is that all business risks are borne by the owners or shareholders of the company. This means that they are directly exposed to any losses or failures of the business.

Companies can obtain capital through self-financing via retained earnings and equity increases, which will be examined in detail in section 1.2.1.1. Alternatively, companies may decide to look for other options such as hybrid bonds (section 1.2.1.2) or Initial Public Offerings (section 1.2.1.3)

External sources are funds received from outside the company and are referred to as third-party capital or "debt." These financings refer to monies borrowed on the basis of debt from banks, financial institutions, private individuals or other credit entities.

Unlike internal sources, capital obtained through external sources is subject to repayment obligations, except for special cases such as grants.

The interest payments associated with these types of financings can be explicit, in the form of a percentage rate, or implicit, including interest in the amount to be repaid at maturity.

To obtain third-party capital, companies may resort to short-term or medium-to-long-term bank loans, government or public entity bonds, leasing, convertible bonds, and participatory loans.

It is possible to further classify external financing sources and divide them into short and long term.

Short-term sources are also a valuable source of funding that is used to meet short-term liquidity requirements, usually up to 18 months.

These external financing sources enable the management of short-term working capital requirements in a more efficient and adaptable manner by offering an immediate solution to support daily operations and other unpredictable financial contingencies.

As for the long-term external sources, they are usually employed to fund long-term projects, which are usually more than 18 months.

Some of them are mortgages which are long term loans offered by banks or credit institutions, leasing which are financing instruments which enable companies to use capital assets by paying a certain amount of money periodically without having to own the assets, bonds which are debt securities offered by companies to the financial market to raise capital.

In general, sound corporate management entails using “current” or short-term financing sources to finance short-term uses, while long-term financing sources are used for durable investments (fixed assets).

In summary, the use of external financing sources is a significant way to obtain additional capital. However, it is necessary to take into account the repayment, interest, and other costs related to this type of resources.

On the other hand, internal financing sources represent an important component of a company's financial structure, offering a stable source of capital without the expenses and burdens associated with external sources.

However, it is essential to carefully balance the use of internal sources with other forms of financing to ensure a balanced and sustainable financial management.

In conclusion, traditional sources of financing represent a valid option for many companies. In particular, the use of well-diversified forms of financing, both equity and debt, is essential for every company to achieve a good financial balance and adequate cash flexibility, avoiding the risk of insolvency or liquidity shortage. Furthermore, it will be important to carefully evaluate all available alternatives for the company and choose the solution that best suits its needs.

1.2.1 Internal Financing Sources

In the following paragraphs (1.2.1.1, 1.2.1.2 and 1.2.1.3), the main internal financing sources will be outlined, including retained earnings, capital increases, and hybrid bonds.

1.2.1.1 Self-financing through Retained Earnings and Capital Increases

Self-financing is the most common internal source of funds that companies use to fund their operations and investment. This practice can be done through the retention of company earnings at the end of the fiscal year and/or capital increases.

According to the Article 2433, paragraph 1 of the Italian Civil Code[3] the decision on profit distribution is made by the assembly approving the financial statements. Thus, profit reserves are funds that are set aside for use in case of emergencies or other contingencies, for use in case of business problems or in need of funds for future investment or business expansion, which gives a strong financial base to support long-term growth and expansion.

This strategy is more sustainable in the long run as the internal funds are retained within the business instead of being used to pay interests on borrowed funds.

On the other hand, according to the explanation of the Article 2438[4] of the Italian Civil Code, the increase in share capital *"...is achieved through new contributions. This results in an increase in nominal share capital and a consequent increase in the company's net worth. The real increase in capital is carried out by issuing new shares for payment, which are subscribed by existing shareholders, who by law are granted the right of option (see art. 2441), or by third parties who thus become shareholders..."*[5] (Italian Civil Code, 1942).

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3 *Article 2433 of the Italian Civil Code (1942): "The resolution on the distribution of profits is adopted by the shareholders' meeting approving the budget or, if the budget is approved by the supervisory board, by the shareholders' meeting convened in accordance with Article 2364-bis, second paragraph.*
No dividends may be paid on shares, except for profits actually earned and resulting from the duly approved.
If there is a loss of share capital, no place a distribution of profits until the capital is replenished or reduced accordingly.
Dividends paid in violation of the provisions of this article shall not be recoverable, if the shareholders have collected them in good faith according to faith on the basis of duly approved financial statements showing corresponding net profits."

4 *Operative part of Art. 2438 of the Italian Civil Code (1942): "A capital increase may not be carried out until the previously issued shares are fully paid up [2346, 2436, 2441]. In the event of a breach of the preceding paragraph, the directors shall be jointly and severally liable for damages caused to shareholders and third parties. The obligations assumed by the subscription of the shares issued in violation of the preceding paragraph shall in any event remain unaffected"*

5 *Explanation of Article 2438 of the Italian Civil Code (1942): "The increase in share capital through payment, also known as real or onerous increase, is achieved through new contributions. This results in an increase in nominal share capital and a consequent increase in the company's net worth. The real increase in capital is carried out by issuing new shares for payment, which are subscribed by existing shareholders, who by law are*

This latter option usually provides an opportunity to rise more funds since it implies attracting outside investors who can bring a lot of money. On the other hand, the retention of earnings is based on the funds internally generated by the company, which may not be adequate to meet the financing requirements.

However, the use of retained earnings to finance business activities has the following two advantages. The first is the fact that owners retain more decision-making power than shareholders, although in large companies, this aspect is not very significant. Retaining earnings enables shareholders to retain wider decision-making powers compared to capital raising which may disrupt internal equilibrium or in the case of share transfer to third parties may lead to erosion of ownership stakes or acceptance of external conditions.

The second advantage is related to associated costs: retaining earnings within the company entails no burden, unlike issuing new shares, which incurs technical costs related to the issuance process and expenses related to the distribution of dividends on the shares issued.

In general, companies that adopt self-financing enjoy a series of advantages that contribute to the stability and growth of the organization.

This strategy also offers greater financial independence and flexibility compared to market dynamics, in addition to freeing the company from constraints arising from bank loans and external

granted the right of option (see art. 2441), or by third parties who thus become shareholders (CAMPOBASSO). To proceed with a capital increase through payment, two conditions must be met:

1) *Liberation of previously issued shares: This condition is provided by the regulation to avoid the formation of a capital represented by receivables. The execution of the increase refers to its subscription with immediate effect (Notarial Council of Milan - maxim no. 70). Indeed, even before the liberation of previously issued shares, the company may resolve the new increase but not execute it (Triveneto Notaries Committee - maxim H.G.2). Previously issued shares refer to shares that have already been subscribed.*
2) *Absence of the conditions set out in Articles 2446 and 2447: This condition is required by jurisprudence, doctrine, and the Triveneto Notaries Committee (maxim H.G.19). If the company has significant losses affecting the capital, it is necessary to first apply the discipline provided for by the aforementioned regulations and then proceed with the capital increase. According to jurisprudence, it is not possible to increase capital without first reducing it by a corresponding amount to cover the losses. An updated financial position must be prepared. The Notarial Council of Milan holds a contrary opinion (maxim no. 122), believing that it is possible to proceed with the capital increase even in the presence of losses to protect small investors.*

Administrators are responsible for non-compliance with the prohibition. This does not affect the validity of the resolution but only entails the responsibility of the administrators. It is considered to be extra-contractual liability. The responsibility also extends to auditors, pursuant to article 2407, 2nd paragraph" investments. Self-financing also minimizes the probability of high borrowings and high financial charges, contributing to maintaining long-term corporate stability.

The other reason why self-financing is beneficial in some circumstances is associated with the conditions that have to be met to obtain external financing. Companies may not always resort to external financing sources due to various variables that could hinder this option.

Firstly, the costs associated with external financing sources could be too high, thereby increasing the overall cost of the investment and reducing its profitability. Often, firms need to satisfy specific conditions to obtain external funds, such as creditworthiness and repayment capacity, which may take a lot of time and effort in some cases.

The lengthy approval and disbursement times for financing can cause delays in investment plans and limit the company's ability to seize market opportunities. Furthermore, loan interest could increase the overall cost of financing over time, affecting profitability and financial sustainability.

Consequently, bureaucratic and financial constraints may prevent companies from accessing external financing sources, forcing them to consider options such as self-financing and diligent management of internal reserves to meet their capital needs.

Indeed, during financial planning, a company must consider the cost associated with economic resource procurement choices.

This issue has been examined within the framework of “marginal analysis” by creating curves that illustrate the marginal cost of funds needed to support investment decisions.

The analysis has been conducted at the microeconomic level, and a hierarchy of sources of financing in relation to cost has emerged. Internal sources are prioritized, as they are less uncertain than other sources and are also less costly, followed by external sources such as debt issuance in the financial market, and finally, external sources related to equity placement of “shares,” which entail a higher degree of uncertainty.

As a result of the study, it emerged that in the case of a sole proprietorship (i.e., where the owner is an individual), “*self-financing is less expensive for the entrepreneur-owner compared to external* *financing to the extent that (coeteris paribus) the potential difference between the maximum interest rate obtainable externally and the interest rate to be paid on loans does not outweigh the greater burden attributable to the two components of risk, when resorting to loans rather than self-financing*" (Frey L., 1962, p. 5).

The two components of risk mentioned are: the risk of insolvency and the risk attributable to the "principle of increasing risk." The former arises when the company is unable to repay the loan at maturity, while the latter refers to an economic concept introduced by Michał Kalecki, a 20th-century Polish economist.

Companies may indeed face a second risk related to potential future profitability fluctuations. These movements could increase the interest burden to be paid on the debt incurred, thereby increasing the associated risk.

However, the study states that the advantage of self-financing over external sources also depends on the amount of financing required for the investment because if this amount exceeds the company's self-financing capacity, this means of financing may no longer be as advantageous.

In general, for individual enterprises, self-financing may be less costly than external financing when the potential difference between external and internal interest rates does not exceed the weight of the risk components associated with external financing according to the subjective perspective of investment decision-makers and when the investment amount does not exceed the company's self-financing capacity.

This suggests that for individual enterprises, self-financing may be a convenient choice in certain circumstances, especially if the cost of external financing is influenced by a high level of risk or unfavourable interest rates.

The study then considers the case of collective enterprises in the form of companies and the possibility of using sources of financing other than self-financing and loans, such as issuing securities representing the company's equity and placing them with old or new shareholders.

In this case, self-financing may be advantageous when investment decisions are made with the aim of maximizing the company's market value rather than just profits.

Furthermore, self-financing may be advantageous compared to share issuance in the market if companies are of considerable size and have significant bargaining power in the market because, in the presence of such characteristics, "*the profit maximization objective could be replaced with the objective of maximizing the company's market value, while the financing cost should be referred to the company's capital owners (i.e., the shareholders) rather than the company itself*" (Frey L., 1962, p.8).

Unlike sole proprietorships, collective enterprises have the ability to affect the market rates of interest through demand and supply of financing instruments. Thus, in these conditions, self-financing can be considered as more favourable than the issuance of equity, particularly if investment decisions are made with the aim to increase the firm's market value.

In two cases, self-financing may be more beneficial for collective enterprises. First of all, when the risk of inadequately remunerating securities issued on the market is not significant compared to the additional risk associated with external borrowing.

Secondly, when the risk of not obtaining a good return from securities issued on the market is not high enough to offset the economic advantage of self-financing compared to the costs of external borrowing, especially if the interest rate on loans is higher than the market interest rate for specific-term loans.

In conclusion, according to the paper "*Self-Financing and Cost of Financing*" presented by L. Frey in the 1962, at the microeconomic level, self-financing can represent a more cost-effective source of financing when the potential difference between the interest rate obtainable on the market and the rate required for external financing does not outweigh the weight of the risk components associated with external financing from the subjective viewpoint of investment decision-makers.

However, the presence in the market of large collective enterprises with a strong position in the financial market may reduce the probability that self-financing is the most advantageous source. This occurs both because such enterprises can accentuate the difference between the considered interest rates through their own decisions, and due to the diminishing importance of the aforementioned risk components.

Thus, the commonly adopted assumption in the construction of the "marginal cost of funds" curve, suggesting that internal financing is always less expensive than external financing, is not always true. On the contrary, quite often, the opposite may occur.

1.2.1.2 Perpetual Subordinated Hybrid Bonds

Joint-stock companies have the option to issue financial instruments not convertible into shares called “perpetual subordinated hybrid bonds.”

Unlike participatory financial instruments, perpetual subordinated hybrid bonds do not grant their holders any administrative rights, except of course for the administrative rights granted by law to holders of bonds of any kind (right to participate in bondholders' meetings and to appoint the common representative).

Perpetual subordinated hybrid bonds have distinctive characteristics, which will be detailed below. Firstly, the loan does not become due for the entire duration of the company, until an event occurs that determines its dissolution or its submission to bankruptcy proceedings, commonly known as “*perpetuity*.”

Secondly, interest payments and repayment of principal are deferred compared to other bondholders, in a mode known as “*subordination of remuneration and repayment*.”

Finally, coupon payments may be subject to suspension, deferral, or reduction, at the exclusive discretion of the company, while guaranteeing bondholders priority rights to payment of unpaid interest before any distribution to shareholders.

These instruments can also be issued in the case where the issuing company is established for an indefinite period. Generally, the competence to issue this type of bonds belongs to the administrative body, even if it leads to the registration of a portion of net equity.

Given the accounting similarities with shares, it is possible that, in certain circumstances, the shareholders' meeting may also deliberate on the issuance of perpetual subordinated hybrid bonds, as is usually the case for capital increases.

This form of bond allows the company to access funds that combine equity and debt features, without risking the dilution of shareholder rights that would occur with a direct increase in share capital.

In the balance sheet, “perpetual subordinated hybrid bonds” are classified as equity instruments. The value received by subscribers of these instruments, net of related issuance costs, is recognized as an increase in the company's net equity; conversely, principal repayments and payments of due coupons (at the time the contractual obligation arises) are recognized as a decrease in the company's net equity.

1.2.1.3 Initial Public Offering (IPO)

The Initial Public Offering (IPO) is a process whereby a company that was previously in the private domain offers its shares in the stock market for the first time for the public to buy and sell.

S&P Global Market Intelligence reported that in 2022, there were 1. 671 IPOs were launched globally, which collectively raised about $180 billion.

However, if the numbers are compared with the ones recorded in 2021, it is seen that the numbers are cut in half because of poor stock market performance, highly aggressive central bank monetary policies, and the looming global slowdown.

Despite this gradual slowdown in numbers, the EY Global IPO Trends 2023 report declares that there are good prospects for the IPO market in 2023.

The IPO process is a step by step process that goes through the following stages. Firstly, with the help of an investment bank, the company’s value is evaluated, and, therefore, the price of its shares is set. The result of this phase is the “prospectus,” a brief document that contains all the information about the company, its financial performance, risks, and potential development.

The next phase is called the “*roadshow*,” during which the company meets potential buyers to promote the IPO, addressing potential investor doubts and demonstrating the company's value.

In the third phase, the company and the banks set the price of the initial offering and the quantity of shares to be issued. There are various types of offerings:

1. Best-Efforts Basis: The underwriter does not guarantee the sale of the shares but seeks to

sell them at the best possible price.

2. Firm Commitment: An agreement between the underwriter and the issuing company in which the underwriter guarantees to sell all shares at the offering price.

3. Auction IPO: Method of selling new issues directly to the public. In an auction IPO, the underwriter collects bids from investors and sets the selling price in the market.

The last phase concerns the stock market debut. The shares in this phase are officially issued on the regulated market and begin trading. The price can clearly fluctuate based on market demand.

Typically, a company embarks on an IPO process to pursue a series of strategic and financial objectives. Generally, the main goal is capital raising to provide companies undertaking this process with greater liquidity.

Additionally, through the IPO, the company can provide an exit to initial investors, allowing them to sell their stakes.

This process can also contribute to: reducing ownership concentration within the company, diversifying the investor base, attracting new investors willing to pay a higher price than undiversified entrepreneurs before the IPO. Last but not the least, through IPO, the company can gain a great deal of visibility and brand recognition in the financial market, which in turn would improve the company's image and credibility. It also makes it easier for a potential acquirer to spot the company as a possible acquisition candidate since the company is listed on the stock exchange and provides more information about its financial status.

Consequently, in some cases, being a public company can increase the chances of being acquired.

Deciding whether to go public or not thus requires careful evaluation by management and the CFO, who must carefully consider the advantages and disadvantages of the process. It is also essential to verify the coherence and functionality of such action in order to pursue the company's financial and strategic objectives.

The theory of the *"corporate life cycle"* is based on the idea that companies go public during certain periods of their growth cycle. It is not always straightforward to apply this theory because each company is in its reference sector and has its own characteristics and goals.

A study conducted by Brau et al. called "*Initial Public Offerings: CFO Perception*" reports various theories by economists based on which going public represents a useful solution for companies.

Indeed, in the paper reviewing the IPO literature, Ritter and Welch (2002) are cited, who discuss three main reasons why companies choose to go public. Firstly, companies may opt for a listing in order to obtain additional external capital to finance growth and adjust capital structure. Secondly, owners may desire a higher level of liquidity for their holdings. Finally, companies may have motivations that are not strictly financial, such as prestige, market visibility, analyst coverage, and media attention.

Ritter and Welch (2002) suggest that there are two main theories that attempt to explain why companies choose to go public: theories of the *corporate life cycle* and *market timing* theories. Within both areas, there are various perspectives and approaches considered by various scholars and illustrated in the following table.

Article	Theory
Panel A: Life cycle theories	
Scott (1976), Modigliani and Miller (1963)	IPOs facilitate optimal capital structure.
Myers and Majluf (1984), Myers (1984)	IPOs are a natural consequence of the pecking order theory.
Zingales (1995)	Firms get a higher acquisition price after an IPO.
Mello and Parsons (1998)	IPOs create a public market for increased founder liquidity.
Dhillon, Raman, and Ramirez (1999), Brau, Li, and Shi (2005)	IPOs may allow principals to immediately cash out.
Chemmanur and Fulghieri (1999)	IPOs allow for optimal dispersion of ownership.
Maksimovic and Pichler (2001)	IPOs give first mover/reputation advantage.
Bradley, Jordan, and Ritter (2003)	IPOs allow for the creation of an analyst following.
Panel B: Market-timing theories	
Lucas and McDonald (1990)	Firms postpone IPOs if founders feel they are undervalued.
Choe, Masulis, and Nanda (1993)	Firms avoid IPOs when few other good firms are issuing.
Loughran and Ritter (1995)	IPOs occur during windows of opportunity.
Ritter and Welch (2002)	IPOs are more likely after public market valuations have increased.

Table 1: Why do firms go public? Some dominant theories
Source: Brau J. C. et al. (2006) "Initial Public Offerings: CFO Perceptions" p.6

The study by Brau also presents a survey of 438 CFOs (1996-2002) that looks at several factors concerning companies' decisions to list their stocks. The study sought to establish the reasons why firms engage in public offerings and the issues that CFOs consider when undertaking the listing.

The results of the survey have revealed a general trend that is not associated with the peculiarities of particular enterprises. The decision to become a public company is indeed motivated by three interconnected strategic considerations: growth, ownership control, and liquidity.

In the tables that follow, the responses to 29 questions posed to the surveyed CFOs designed to test theories of the corporate life cycle and market timing are reported.

	Strongly agree (5)	Mildly agree/yes (4)	Neutral/don't know (3)	Mildly disagree/no (2)	Strongly disagree (1)	Mean	Standard deviation
Panel A: General life cycle theory							
A benefit of the IPO was that it allowed our company to gain additional financing for immediate growth.	62.7%	19.9%	9.5%	3.5%	4.4%	4.33	1.07
A benefit of the IPO was that it allowed our company to gain additional financing for long-term growth.	60.1%	26.7%	9.1%	2.1%	2.1%	4.40	0.89
Yes, no, or don't know							
Smaller companies are less likely to go public.		55.8%	11.9%	32.4%			0.69
Younger companies are less likely to go public.		49.5%	12.9%	37.6%			0.71
High-tech companies are less likely to go public.		1.9%	11.5%	86.6%			0.35
Riskier companies are more likely to go public.		11.5%	28.7%	59.8%			0.61
Panel B: Capital structure/cost of capital							
A benefit of the IPO was to decrease the total cost of capital.	15.6%	22.6%	27.4%	12.7%	21.7%	2.98	1.36
Yes, no, or don't know							
We plan to issue more debt within two years.		33.7%	27.5%	38.8%			0.78
Our present debt/equity mix is optimal.		49.5%	7.2%	43.3%			0.62

Table 2: General theories
Source: Brau J. C. et al. et al. (2006) "Initial Public Offerings: CFO Perceptions" p.11

	Strongly agree (5)	Mildly agree/yes (4)	Neutral/don't know (3)	Mildly disagree/no (2)	Strongly disagree (1)	Mean	Standard deviation
Panel C: Pecking order							
A benefit of the IPO was that it allowed our company to reduce its debt.	26.9%	17.5%	17.9%	6.8%	30.9%	3.03	1.61
A benefit of the IPO was to reduce open bank loans.	22.5%	14.9%	19.4%	7.1%	36.2%	2.80	0.62
Yes, no, or don't know							
Highly leveraged companies are more likely to go public.		47.9%	30.7%	21.5%			0.61
Companies with higher interest rates are more likely to go public.		37.3%	35.2%	27.5%			0.60
Panel D: Zingales (1995)							
A benefit of the IPO was that it allowed our company increase options to change control of company.	6.3%	15.9%	31.1%	15.4%	31.3%	2.51	1.25
Panel E: Optimal dispersion							
A benefit of the IPO was that it allowed original owners to diversify their interests.	20.1%	25.9%	15.9%	12.9%	25.2%	3.03	1.84
A benefit of the IPO was that it allowed the sale of some of the owner's shares.	13.4%	16.8%	15.6%	10.6%	43.6%	2.46	1.52
A benefit of the IPO was that it increased liquidity.	45.8%	36.7%	12.6%	2.1%	2.8%	4.21	0.96
A benefit of the IPO was that it improved our secondary market.	15.1%	25.2%	42.0%	7.6%	10.1%	3.28	1.15
Yes, no, or don't know							
Our company has made a secondary offering since the IPO.		10.9%	0.5%	88.5%			0.32
Our company plans a secondary offering within two years.		48.3%	32.5%	19.2%			0.88

Table 3: Specific theories 1
Source: J Brau J. C. et al. (2006) "Initial Public Offerings: CFO Perceptions" p.12

	Strongly agree (5)	Mildly agree/yes (4)	Neutral/don't know (3)	Mildly disagree/no (2)	Strongly disagree (1)	Mean	Standard deviation
Panel F: Brennan and Franks (1997)							
A disadvantage of the IPO was that it reduced control.	8.6%	29.6%	36.6%	17.7%	7.5%	3.14	1.05
A benefit of the IPO was that it increased the alliance of shareholders and management.	7.3%	16.0%	41.1%	16.2%	19.5%	2.75	1.16
Panel G: Dhillon, Raman, and Ramirez (1999), Brau, Li, and Shi (2005)							
A benefit of the IPO was that it allowed for the retirement of the original owner.	0.5%	3.3%	13.6%	6.3%	76.4%	1.45	0.88
Panel H: Maksimovic and Pichler (2001)							
A benefit of the IPO was that it improved market perception of stock.	24.1%	24.6%	31.2%	6.2%	14.0%	3.39	1.29
A benefit of the IPO was prestige of being on an exchange.	7.9%	31.7%	35.4%	10.5%	14.5%	3.08	1.14
A benefit of the IPO was the enhancement of media attention.	4.9%	23.6%	38.3%	14.5%	18.7%	2.82	1.14
Panel I: Bradley, Jordan, and Ritter (2003)							
A disadvantage of the IPO was that it made our company suddenly open to public scrutiny.	26.9%	42.0%	20.2%	6.5%	4.4%	3.80	1.02
Panel J: Market-timing theories							
A benefit of the IPO was that the market was strong at the time of IPO.	22.0%	37.2%	15.4%	13.8%	11.7%	3.44	1.29
Yes, no, or don't know							
Companies with higher market-to-book ratios are more likely to go public.		49.2%	33.8%	17.0%			0.90

Table 4: Specific theories 2
Source: Brau J. C. et al. (2006) "Initial Public Offerings: CFO Perceptions" p.13

Based on the results, it is possible to assert that the IPO is seen by the surveyed CFOs as a tool to finance both short-term and long-term company growth. According to the survey, over 82% of them view IPOs as a means to obtain additional funding to capitalize on immediate growth opportunities, with 62.7% strongly agreeing and 19.9% agreeing (Table 2).

While 86.8% of Chief Financial Officers (CFOs) recognize that the IPO has contributed positively to increasing the ability of companies to obtain financing to sustain and promote long-term growth (Table 2).

Other CFOs, albeit only a minority, with 38.2% agreeing and 27.4% being neutral (Table 2)., believe that the IPO may be advantageous in terms of the cost of capital.

This preference supports the propositions of Modigliani and Miller (1963) and Scott (1976) that an ideal capital structure reduces costs and increases the value of the firm. This theory suggests that external equity financing may be required at some stage in the life of the firm to attain the optimum capital structure.

However, managers must carefully evaluate the drawbacks and costs associated with undertaking an IPO. Embarking on an IPO process often entails monetary costs that can be classified as direct, such as underwriting fees, fees to compensate an underwriter assisting in the operation, legal fees, and so on, and indirect costs.

Indeed, the IPO could be very time-consuming in terms of gathering necessary information about potential buyers as well as disclosure, necessary for listing.

For example, in the case of an Italian company wishing to list on the Italian Stock Exchange, it must meet a series of requirements such as: having received a positive assessment from the audit firm, having filed the financial statements for the last three fiscal years, and having a predictable market capitalization of at least €20 million.

Furthermore, there is the risk that an Initial Public Offering (IPO) may not succeed. The study conducted by Elizabeth Demers and Philip Joos in the 2007 entitled “IPO Failure Risk” identifies the main causes of failure of such operations. The work starts from the intuition formulated by Fama and French in 2004, who observed a difficulty for private companies to survive once they become public.

Among the causes of IPO failure, the role of underwriters stands out. The publication by Demers E. et al, entitled “IPO Failure Risk,” reports a statement of Schultz which claims that “*the probability of firm failure within either two or three years of IPO is negatively associated with underwriter prestige*” (2007, p.344) and by Carter-Manaster and Megginson-Weiss who declared that “*ipo firms with higher prestige underwriters earn lower first day returns, consistent with there being a lower level of risk and information asymmetry associate with these offerings*” (2007, p. 343)

An enterprise that decides to successfully go public should, therefore, engage underwriters with a high level of expertise and knowledge, and naturally, these professionals will demand a higher cost.

To avoid the failure of the IPO, there are factors that can serve as risk signals. The first concerns real assets. Companies that make significant investments in intangible assets, such as research and development, may report accounting losses and negative cash flows for several consecutive years.

However, for high-tech start-up companies, such losses may be a sign of success, unlike traditional companies.

This difference in the evaluation of accounting losses is an important factor to look at in the light of IPOs. Therefore, accounting information on companies' operating performance, such as current profitability, is crucial for evaluating the risk of IPO failure.

Finally, the financial structure of companies, including indicators of financial leverage, can be a determining factor in the risk of IPO failure.

Obviously, intrinsic characteristics of the IPO, such as the quality of the informative intermediaries involved and the market conditions in which the IPO takes place, can also influence the probability of failure.

1.2.2 External Financing Sources

In the next few paragraphs, we will describe some of the external sources of funding that exist for businesses in order to obtain capital and promote business development.

Specifically, we will discuss debt, convertible bonds, participative loans, and leasing with the aim of identifying their characteristics, advantages, and disadvantages, and criteria for selecting the most appropriate solutions.

1.2.2.1 Debt

Debt capital is another form of financing that is different from equity capital and is used to finance the operations of companies. Unlike equity, debt is a sum of money provided to companies by third parties, for example, a bank or any credit institution with the condition that it will be paid back with interest within a given period.

Going into debt means that the company automatically signs a contract with the fund provider in which the company is legally bound to repay the debt as per the agreed terms.

Debt capital can be used by companies as a source of financing for their operations and investment projects, which enables the use of financial leverage to increase operations without diluting equity through the issuance of shares.

Myers' "*trade-off theory*" (1984) acknowledges that firms can benefit from the tax deductibility, at least partially, of the interest associated with debt usage. This implies that utilizing debt as opposed to equity enhances net profitability and thus increases the overall value of the firm.

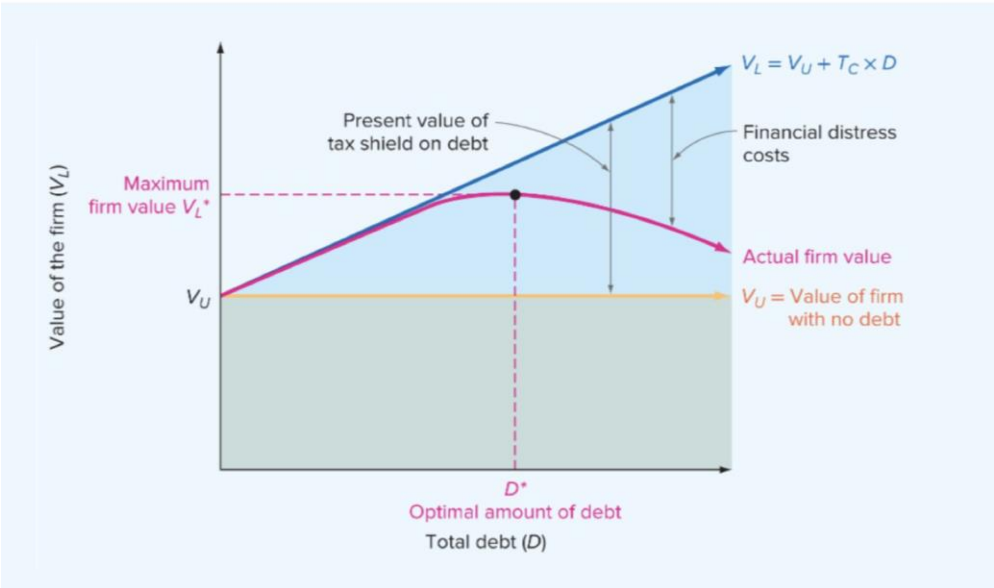

Figure 2: The Static Theory of Capital Structure
Source: Brealey, R., Myers, S. and Allen, F. (2020) "Principles of Corporate Finance"

The trade-off theory is based on the assumption that companies should optimize the mix of debt and equity within their capital structure to minimize the weighted average cost of capital (WACC).

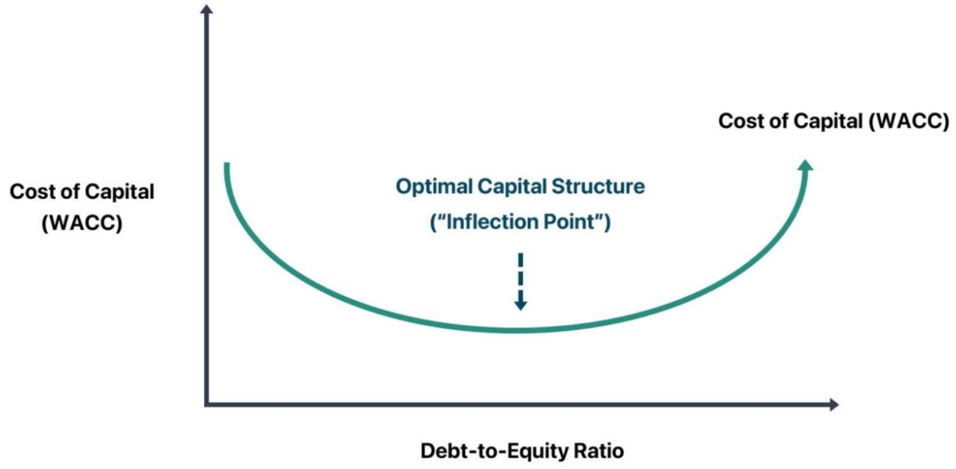

Figure 3: Trade-Off theory of Capital Structure
Source: WallStreetPrep (2023) "Trade-Off Theory: Step-by-Step Guide to Understanding the Trade-Off theory of Capital Structure"

The optimal level of debt will be "*that value for which the marginal benefit associated with interest deductibility equals the marginal cost induced by the greater default risk*" (Chair AIDAF-EY, 2014, p. 2).

Indeed, an excessive use of leverage entails risks, such as the cost of interest and the burden of capital repayment in case of financial difficulties or default risk.

It is therefore necessary to carefully consider decisions on the use of debt capital, taking into account the long-term financial impacts on the company.

Another limitation that is linked to the use of debt is the fact that this source of finance is not readily available to all firms. Following the credit crunch that occurred in 2008-2009, conventional banking organizations became more cautious and selective in extending credit to the business entities, favouring those that demonstrated high financial solidity.

Therefore, those firms that do not qualify for the stringent requirements of the conventional credit institutions may find it difficult to access credit. This is a major problem for the young or growing companies that may require funds to finance their expansion strategies.

An alternative available to companies that do not meet the financial strength criteria required by commercial banks is state debt securities.

F. Giaccari (2018, p.149) defines debt securities as "*assets that confer on the holder the right to receive a certain or determinable stream of liquidity, without, however, attributing direct or indirect participation rights in the management of the issuing company*".

A company could therefore decide to finance its economic activity through the use of state debt securities or by public entities and/or industrial and/or financial companies.

The holder of the security, in this case the company, would receive liquidity flows from the issuer of the security, deriving in part from the repayment of the capital at maturity and in part from interest. Interest related cash flows may be fixed or may fluctuate depending on the circumstances of the given case.

These securities are less risky than the conventional bank loans because they are backed by the state or a sovereign entity. If the above-stated solution does not satisfy the specific requirements of the particular corporate entity, it is crucial to broaden the analysis towards other financing types, including innovative ones.

These may be more flexible and malleable in some situations, enabling firms to secure the required capital to expand and prosper, despite the limitations set by the conventional financial structure.

1.2.2.2 Convertible Bonds and Participative Loans

Hybrid financial instruments represent forms of financing for companies that combine characteristics of debt and equity, offering flexibility for both the issuer and investors.

The hybridization of such instruments enables the firms to access funds at a lower cost, while the investors can get higher possible returns and better risk diversification.

This section will be devoted to the convertible bonds and the participating loans, and the goal is to describe the main advantages and disadvantages of these securities, the possible outcomes for the companies and investors. In this way, it will be possible to understand the importance of these instruments in the modern financial environment and their contribution to the development of innovation and the economy.

"Convertible bonds" are bonds issued by companies already listed on the market that offer investors the right, but not the obligation, to convert the loan into shares of the company, also called conversion shares.

Art. 2420 bis of the Civil Code regulates this instrument and states that: *"The extraordinary assembly may resolve the issue of bonds convertible into shares, determining the exchange ratio and the period and methods of conversion"*[6].

These shares must be purchased at a certain maturity and at a conversion price set at the launch of the operation. The investor will thus be a creditor or shareholder of the company based on their willingness to exercise the obligation.

Following this the article 2420 bis c.c. (see note 6) states: *"the company must resolve the increase in share capital for an amount corresponding to the shares to be attributed in conversion"*.

The advantages associated with this instrument are numerous and benefit both the issuing company and the investors themselves.

Convertible bonds are a favourable form of financing for companies, as they are issued at a lower interest rate than regular debt. This is because the investors can be able to benefit from any appreciation in the value of the shares. Furthermore, such instruments provide more flexibility in

[6] *Art. 2420 bis of the Italian Civil Code: "The extraordinary shareholders' meeting may resolve to issue bonds convertible into shares, determining the exchange ratio, the period, and the methods of conversion. The resolution cannot be adopted if the share capital has not been fully paid up.*
At the same time, the company must resolve to increase the share capital by an amount corresponding to the shares to be allocated upon conversion. The provisions of the second, third, fourth, and fifth paragraphs of Article 2346 shall apply, insofar as they are compatible.
In the first month of each half-year period, the directors shall proceed with the issuance of the shares due to the bondholders who requested conversion in the preceding half-year period. Within the following month, the directors must file a certification of the increase in share capital, corresponding to the nominal value of the shares issued, with the Companies Register. The provisions of the second paragraph of Article 2444 shall apply.
Until the expiration of the terms set for conversion, the company may neither resolve to voluntarily reduce the share capital nor amend the provisions of the bylaws concerning profit distribution, unless the holders of convertible bonds have been given the opportunity to exercise their conversion rights within thirty days of the publication, by means of a notice filed with the Companies Register at least ninety days prior to the convening of the meeting.
In cases of capital increases by means of the capitalization of reserves and capital reductions due to losses, the exchange ratio shall be adjusted in proportion to the extent of the increase or reduction.
Convertible bonds must indicate, in addition to what is established in Article 2414, the exchange ratio and the methods of conversion"

terms of financing than ordinary shares, as they do not directly impact the existing shareholding structure.

The act of a company issuing convertible bonds sends a positive signal to the market about the future performance of the company and this leads to an upward movement of the stock price.

On the other hand, investors benefit from convertible bonds as these give a potential of a higher return than ordinary bonds since the holder has an option to convert the debt into equity at a certain price if the shares' value rises.

Convertible bonds also offer investor protection in the event of poor stock performance since the invested amount can be recovered at maturity if not converted. In addition, the investors are allowed to sell the shares in the secondary market at a higher price than the purchase price, unless restricted by the issuing company.

Using convertible bonds is an excellent solution for companies operating in highly volatile and/or illiquid markets. The Italian stock market is an example of this. The Italian stock exchange is characterized by approximately 230 companies with a market capitalization below 500 million.

These companies are characterized by low liquidity. This characteristic is quantified by a liquidity index which is calculated as the average daily trading volume divided by the total number of shares traded in the last twelve months.

The liquidity index in the companies listed in the Italian stock market is below 0. 2%. However, investors are not inclined to invest their savings in an illiquid stock market. Convertible bonds could therefore incentivize investors to invest in illiquid securities by leveraging the protection provided by the bond nature of the instrument.

It is asserted that convertible bonds are characterized by a convex price curve, meaning the value of a convertible bond increases non-linearly with the performance of the underlying shares.

When the price of the underlying shares increases, the value of the convertible bond tends to increase as well, as it offers the possibility to convert the bond into shares at a favourable price, thus benefiting from the increase in the value of the shares.

On the other hand, if the price of the underlying shares declines, the value of the convertible bond will decline as well but not as sharply as the decline in the value of the shares.

This situation is explained by the fact that, convertible bonds include a periodic interest component, called coupon, which provides to the investors a constant income stream, regardless of fluctuations in the price of the underlying shares.

In conclusion, convertible bonds, by offering both appreciation potential when the stock market is growing and protection in case of market downturns thanks to the coupon flow, represent a highly flexible and sometimes advantageous tool for companies.

An alternative to convertible bonds is "*participative loans*", medium to long-term financial debt instruments born in Italy from the need for new instruments for the innovation and development of small and medium-sized enterprises.

These instruments were first regulated by Article 35[7] of Law No. 317 of October 5, 1991, and

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[7] *Article 35 of Law No. 317 of October 5, 1991:*

1. *"Credit institutions and financial companies for innovation and development, as referred to in Article 2, may grant participatory loans for the implementation of innovative programs and development of small enterprises, as defined in Article 1, incorporated as limited liability companies with a share capital not less than that required for the establishment of joint-stock companies. These companies are subject to the provisions of Article 2435 of the Civil Code.*
2. *Participatory loans are considered to be financings with a duration of not less than four years, in which a portion of the consideration due to the credit institution or the financial company for innovation and development is linked to the economic performance of the financed enterprise.*
3. *For participatory loans, an annual interest is payable not exceeding the official discount rate in force for the period to which the loan repayment installments refer. Furthermore, the financed enterprise undertakes to pay annually to the financing entity, within thirty days from the approval of the financial statements, an amount linked to the economic result of the fiscal year, in the percentage agreed in advance with the credit institution or the financial company for innovation and development. In the profit and loss account of the financed enterprise, the aforementioned amount constitutes a specific provision for expense, represents a cost, and for income tax purposes, it is deducted from the income of the relevant fiscal year. For all legal purposes, the annual net profits are considered net of this amount.*
4. *Participatory loans may only be assisted by personal, individual, or collective guarantees, to which Article 1946 of the Civil Code applies. In addition to these guarantees, the intervention of the Central Guarantee Fund referred to in Article 20 of Law No. 675 of August 12, 1977, and subsequent amendments, is allowed. The supplementary guarantee does not operate for the portion of participatory loans exceeding three times the net worth of the financed enterprise.*
5. *The Interministerial Committee for Credit and Savings (CICR) shall establish, by its resolution, within sixty days from the date of entry into force of this law, the implementation procedures of this article, providing for more favorable conditions for operations carried out in the territories listed in the annex to Council Regulation (EEC) No. 2052/88 and in Italian territories affected by industrial decline phenomena, identified by the Commission of the European Communities decision of March 21, 1989, and affected by the Community development actions under the aforementioned Council Regulation (EEC) No. 2052/88. The related costs*

subsequently by the decree of the Ministry of the Treasury on October 21, 1992[8].

shall be taken into account in the programming of resources allocated by the legislation on extraordinary intervention in Southern Italy to financial facilitations in support of the production system. In the initial application of this law, any costs shall be borne by the funds provided for in Law No. 64 of March 1, 1986, according to modalities and criteria established by decree of the Minister of the Treasury, in agreement with the Ministers of Industry, Trade, and Handicrafts, and for extraordinary interventions in Southern Italy, also for the necessary budgetary adjustments"

8 *Decree of the Ministry of the Treasury on October 21, 1992:*
"Article 1:
1. *Participatory loans are defined as financings, with a duration of not less than four years, granted in favour of small enterprises identified by Article 1 of Law No. 317/1991 by credit institutions operating in the field of mobile credit and by financial companies for innovation and development as referred to in Article 2 of the same Law No. 317/1991.*
2. *The consideration for participatory loans consists of:*
   a) *an annual interest not exceeding the official discount rate in force for the period to which the loan repayment installments refer;*
   b) *an amount linked to the positive economic result of the operation of the financed enterprise before taxes, in the percentage agreed upon in advance between the parties.*

Article 2:
1 *In the profit and loss account of the financed enterprise, drawn up in accordance with the format indicated by Article 2425 of the Civil Code, as amended by Legislative Decree No. 127 of April 9, 1991, the amount linked to the economic result of the operation is subject to a specific provision for expense, to be indicated in a specific item 21-bis, added pursuant to Article 2423-ter, paragraph 3, of the Civil Code and placed immediately after the result before taxes. This amount represents a cost and, for the purposes of income tax, is deducted from the income of the relevant fiscal year.*
2 *The explanatory notes relating to the financial statements of the financed enterprise must clarify that the result before taxes is gross of the aforementioned provision and indicate the economic result of the operation net of this provision.*
3 *Until the entry into force of the new accounting provisions relating to the financial statements issued by the aforementioned Legislative Decree No. 127 of April 9, 1991, the financed enterprise shall prepare a reclassified profit and loss account that highlights the economic result on which to calculate the amount agreed upon with the financing entity. The management report must clarify the nature of the provision relating to this amount.*

Article 3:
1. *Participatory loans may only be supported by personal, individual, or collective guarantees, to which Article 1946 of the Civil Code applies.*
2. *In addition to such guarantees, the intervention of the Central Guarantee Fund referred to in Article 20 of Law No. 675 of August 12, 1977, and subsequent amendments and integrations, is allowed. The supplementary guarantee does not operate for the portion of participatory loans that exceeds three times the net worth of the financed enterprise.*

Article 4:
1. *For participatory loans granted to enterprises domiciled in the territories listed in the annex to Council Regulation (EEC) No. 2052/88 and in Italian territories affected by industrial decline phenomena, as identified by the decision of the Commission of the European Communities dated March 21, 1989, and targeted by the community development actions under the aforementioned Council Regulation (EEC) No. 2052/88, the guarantee of the Central Guarantee Fund referred to in the aforementioned Law No. 675/1977 is granted, in addition to personal, individual, or collective guarantees, up to 80% of the financing, subject to the limit of three times the net worth of the financed enterprise, as set forth in the previous Article 3.*
2. *The contributions to the aforementioned Central Guarantee Fund borne by the financing entities related to participatory loans as referred to in the preceding paragraph are equal to half of those set at the national level by the CIPI.*

Article 5: This decree will be published in the Official Gazette of the Italian Republic"

Similarly to convertible bonds, participatory loans combine typical elements of debt and capital. However, unlike convertible bonds, they do not provide for the possibility of conversion into shares. The aforementioned 1992 decree stated that:

1. The financing entities could exclusively be securities credit institutions and financial companies for innovation.

2. The financed typology could only be identified among small enterprises.

3. The duration had to be not less than four years.

4. The loan remuneration was the result of a portion of annual interest, not exceeding the official discount rate in force during the reference period of the loan amortization instalments, plus an amount proportional to the positive economic result of the exercise of the financed company, calculated before taxes, in the percentage previously agreed upon by the parties.

5. The presence of individual and collective personal guarantees, excluding real guarantees.

Participatory loans are referred to as “participatory” because they involve the “participation” both of the investors in the results of the company's management and of the original shareholders in the strengthening of the company's own capital or private equity.

Regarding the first aspect, indeed, the configuration of the participatory loan includes the inclusion of a “participation clause,” which conditions the remuneration entirely or partially on the positive change in absolute value of a parameter related to the company's profitability.

Regarding the second aspect, the company's shareholders, make payments for the repayment of the installments of the loans participated in on account of future capital increase, such that ex-post an increase in the company's equity is realized.

This means that the shareholders provide funds that will be used to increase the company's own capital at a later time. The end result of this process is a strengthening of the company's own funds, or greater financial stability.

Further technical characteristics related to participatory loans concern additional guarantees and duration. As for the guarantees, the participatory loan is defined as “non-recourse financing,” meaning that financiers should obtain guarantees solely through cash flows and assets directly linked to the project.

This means that, in case of difficulty in repaying the loan, financiers would not have the possibility to turn to other resources of the company for repayment, but could only rely on cash flows generated by the project itself.

As for the duration of participatory financing, it is generally between 60 and 120 months, with an initial pre-amortization period during which only interest is paid without capital repayment, which usually does not exceed 24 months.

However, it is important to specify that since the participatory loans' duration depends on the one of the company's development project, it can vary.

Participatory loans offer investors an intermediate risk-return ratio between a pure medium to long-term debt contract and a risk capital participation instrument.

This is justified by the fact that the risk associated with the use of participatory loans is higher than any debt instrument as the return on these instruments is linked to an indexation parameter that depends on the existence of positive company results. However, the risk of participatory loans remains lower than an investment in risk capital as, at least in part, the remuneration is contractually predetermined.

In conclusion, it is possible to affirm that there are advantages and disadvantages for both the shareholders and the companies that decide to use participatory loans.

Regarding the shareholders, for example, they have the opportunity to stagger the repayment of the loan, especially during the pre-amortization period, during which only interest is paid and the capital is not repaid. This can facilitate the management of personal or company cash flows.

On the other hand, companies, by using participatory loans, immediately get the needed financial means to conduct their operations, expand the business or invest in new projects without waiting for the result of the increase in the authorized capital.

In addition, the use of participatory loans helps to strengthen the own capital of the company in the long term, enhancing the financial structure and solvency.

However, there are some drawbacks related to the timing of the disbursement of participatory loans, which can take too long sometimes because of the numerous procedures and controls needed to assess the beneficiary company and establish the conditions of the credit.

Furthermore, in Italy, the participatory loan instruments are not fully developed yet, which may also affect the availability of such financing and the possibility for the companies to obtain these resources as compared to the countries where such instruments are more widespread and better developed.

1.2.2.3 Leasing

Leasing represents a lease contract that entails an agreement between two parties, the lessor or grantor, and the lessee or tenant.

Following the conclusion of this agreement, the lessee will have the right to use an asset, usually for professional or business purposes, in exchange for the payment of a periodic consideration, called a lease payment.

In financial leasing, the asset remains the property of the leasing company for the entire duration of the contract and passes to the user only if the latter exercises the so-called “purchase option” at the end of the contract by paying a predetermined amount.

If a company decides to finance through leasing, there are disadvantages related to costs. Leasing, in fact, is more expensive than financing from third parties because leasing payments are burdened by refinancing costs, short amortization periods, administrative expenses, risk supplements, and profit margins.

However, leasing remains in some cases a very convenient solution as it guarantees a great deal of flexibility, as well as ensuring the lessee's use of the asset without the need to immobilize the amount of money necessary to purchase it. Through leasing, the lessee also transfers the risks and benefits associated with ownership to the lessor during the agreed lease period.

Compared to other forms of financing, leasing allows for the entire cost of the asset to be financed, including VAT, as well as offering great flexibility in customizing the contract to meet the specific needs of the company.

Through leasing, in fact, multiple combinations are possible, including: contract duration, periodicity and amount of lease payments, value of the asset, provision of additional services on the asset, such as assistance, insurance, maintenance, and more.

1.3 Alternative Sources of Financing

Alongside the traditional sources of finance, there are various other sources of funding for businesses that have developed and stabilized over the years. These are the other options and, in some cases, are more flexible approaches than the conventional ones.

In the context of the dynamic environment and the growing competition, companies of all sizes and from various industries are always in search of new opportunities to attract the required funds for their growth and development.

Innovative sources of funding act as tools that drive innovation and economic change, providing businesses with new ways to secure capital and pursue growth opportunities that they may not have been able to consider before.

In this regard, crowdfunding, Special Purpose Acquisition Companies (SPACs), invoice financing, factoring, reverse factoring, dynamic discounting, revenue-based financing, venture capital, private equity, and angel investors are considered as some of the major examples of the new-age nontraditional sources of corporate financing that are transforming the traditional sources of corporate financing.

By critically examining these innovative financing methods, it will be possible to illustrate a clear picture of their effectiveness in influencing the business processes and the economy as a whole.

1.3.1 Crowdfunding

A few years ago, there were three main "traditional" forms through which entrepreneurs acquired resources to invest in their business: "*market exchange, redistribution, and reciprocity*" (Pais, I., Peretti, P. and Spinelli, C., 2014, p. 4).

"*Market exchange"* refers to the acquisition of resources through commercial transactions, "*redistribution*" to the internal allocation of available resources within an organization or community, and "*reciprocity*" to the mutual exchange of resources or services between individuals or groups, establishing collaborative relationships or partnerships with other companies or individuals, where each party provides something of value to the other in exchange for resources or support (e.g., commercial collaborations and joint ventures).

In recent years, the concept of the "*sharing economy"*[9] has emerged, transforming traditional forms of financing into collaboration and sharing. "*Collaboration*" extends traditional reciprocity logic to weak ties or with unknown individuals, while "*sharing*" refers to new communities of interest that create a sense of belonging and foster the creation and management of common goods.

The term "*crowdfunding*," initially interpreted as "bottom-up financing," is a compound term derived from the combination of two English words: "*crowd*," which denotes a multitude of people, and "*funding*," which refers to the concept of financing.

The book "The Crowdfunding Handbook" by A. Brunello (2014, p.26) defines crowdfunding as "*A collaborative process among multiple individuals who decide to allocate their money, generally small sums, to support the efforts, projects, and visions of other private citizens, but also companies, organizations, and entities*."

Crowdfunding saw its initial development between 2006 and 2008, with a subsequent phase of evolution and growth recorded from 2012 onwards. It is important to highlight, however, that

[9] *Sharing economy: "…new economic and cultural model capable of promoting conscious forms of consumption that prefer the rationalization of resources based on the use and exchange of goods and services rather than their purchase, thus on access rather than possession. It is an economic model based on practices of exchanging and sharing goods and/or services…" (Borsa italiana, 2022)*

social networks have significantly contributed to the development of this practice.

The definition provided by the European Crowdfunding Network (ECN) indeed defines this activity as "*The accumulation of small investments in individual projects by a large number of individuals ("the crowd") through or with the help of the Internet and social networks"* (Città metropolitana di Bologna, no date).

Thus, three elements are necessary to speak of crowdfunding: fundraising, the crowd, and the internet. The ability of social networks and the media to influence and sensitize users has contributed to increasing awareness of certain issues and, in some cases, has offered the possibility of raising funds to finance specific initiatives.

Crowdfunding can be used for a wide range of objectives or sectors. Companies, organizations, or private citizens undertaking this initiative mainly do so to finance their activities, providing investors with benefits or rewards in return.

However, the objectives of a crowdfunding campaign are countless and may involve the development of new products, the expansion of one's commercial network, charitable activities, etc…

International literature on crowdfunding identifies four main crowdfunding models, first codified by the Massolution report in 2012.

The first introduced model is "*donation-based*." In this case, the project creator collects donations without providing material rewards, often following the logic and mechanisms typical of fundraising used by non-profit associations.

The second, called "*reward-based*," is based on a system of rewards differentiated according to the amount of funding. This model is often associated with pre-sale but stands out for the involvement of the supporter directly in the project phase.

The third is "*equity-based*," which implies financing companies in exchange for shares or stocks, guaranteeing financiers a financial return.

The reward in this case is strictly economic. An example is "*royalty-based crowdfunding*," in which the proponent offers a share of the profits from a single product or service in exchange for funding. This model, along with equity-based crowdfunding, has attracted great attention from regulators to the point that in Italy, legislation has been created to regulate them.

The last model presented is "*social lending*," peer-to-peer money lending. Social lending represents a form of collaborative financing in which individuals or companies lend money directly to other individuals or companies through online platforms, without the intermediation of traditional financial institutions such as banks or credit institutions.

1.3.2 Special Purpose Acquisition Companies (SPAC)

Special Purpose Acquisition Companies (SPACs) refer to public traded companies that are formed for the specific purpose of raising funds through an initial public offering (IPO) to acquire another company. It is a specific operation that has the objective of finding and finalising an acquisition, and it is of a temporal nature, lasting between one and two years.

The acquisition of the target company can occur either through "aggregation by contribution" or through "merger" (also called "business combination"). The "business combination" operation must be submitted for approval by the extraordinary shareholders' meeting. If the operation is not approved and the SPAC's duration has not expired, the promoters will seek a new target company.

However, if the acquisition is not done within the stipulated time, the money is taken back from the investors.

After the target company has been acquired by the SPAC, the integration process takes place where both the entities aim at aligning resources, operations and business strategies in order to enhance the value of the company to its shareholders.

Finally, the shares of the combined company are floated in the market, meaning that investors can be able to purchase securities of the new entity.

The IPO proceeds are placed in a special account of the SPAC, where the use of the funds is only possible after obtaining the approval of the shareholders' meeting. These funds can only be used for three specific purposes: carry out the Business Combination, in case the SPAC is dissolved and liquidated, or compensate shareholders who opted to redeem their shares.

Shareholders who do not vote in favour of the Business Combination indeed have the option to request reimbursement, which is done using the funds held in the restricted account, while retaining ownership of the warrants.

There are several benefits associated with SPACs. For instance, investors employing SPACs can get a chance to enter the public stock market more quickly respect to traditional IPOs.

In addition, through SPACs, investors get flexibility and funding assurance because the funds have already been obtained through the IPO by the SPAC.

Last but not the least, by using SPACs, the sponsoring company can avoid high risk exposure. This benefit arises from the fact that funds are raised before the identification of the target company and hence the company is not affected by market volatility that is normally associated with normal IPOs.

However, establishing a Special Purpose Company could, in some cases, entail some investment risks. Investors participating in SPAC transactions are subject to various risks.

First of all, there is the risk that the SPAC will fail to identify a target company within the predetermined period, which could compromise investment returns.

Furthermore, there is the possibility that the identified target company is not profitable or encounters operational problems after acquisition, with negative consequences for investors.

In addition, SPACs may expose companies to the risk of dilution through the issuance of warrants or additional shares to finance the acquisition of the target company.

Such dilution may have the effect of decreasing the value of existing shares and minimizing the current shareholders' stake in the new merged entity.

There are also legal fees and consultancy charges, which may be costly in some instances, and therefore, the costs should be well thought out.

In addition, there is a need to consider the issues of transparency and governance when it comes to SPAC transactions.

Before entering into a target company, investors in SPACs are often in a position of having little knowledge about the plans of the SPAC sponsors and the value of the target firm. This circumstance can lead to higher volatility and risk for investors.

In conclusion, while SPAC companies provide an alternative to companies seeking to go public and may have some benefits, investors need to be aware and consider the possible risks and drawbacks of this type of transaction.

1.3.3 Factoring, Reverse Factoring, Invoice Financing & Dynamic Discounting

As earlier discussed, over the last decade, firms have faced more challenges in accessing bank and other financial institutions' funds because of the higher standards set.

This negative trend was particularly evident in the period 2011-2019, with a decrease in bank loans to non-financial companies of 6.4% to June 2019 compared with the year before, which is equivalent to a decrease of 45 billion euros in one year.

Consequently, solutions provided by the alternative finance ecosystem have been on the rise due to the development of the fintech industry and the need for companies to find ways to access funding. In particular, invoice financing and traditional factoring can be seen as two options to guarantee constant cash inflows to companies by selling invoices.

However, it is important to note that there are some disparities between these two models of assignment of commercial credits.

Invoice financing through digital platforms becomes a new, convenient, fast, and efficient method of financing that can be more suitable for the needs of companies. Invoice financing is a kind of short-term financing for corporate that utilizes commercial invoices as security to access cash and enhance the working capital.

Through invoice financing, companies can: finance daily operations, add new services and products, and pursue new opportunities for development without waiting for the customer's payment.

In this case, the assignment of the credit takes place through online platforms managed by operators in the fintech sector, who apply brokerage fees for the service provided (0.4% or 0.9% depending on the duration of the credit), excluding the perception of interest.

The buyers involved are represented by professional or institutional investors competing with each other in an auction process. The entire credit transfer process takes place efficiently, simply, and completely digitally, reflecting the evolution of financial processes towards a more modern and streamlined operating mode.

The advantages for companies using invoice financing are numerous. First of all, companies are better able to manage their cash flow, avoiding periods of insufficient liquidity by receiving payment in advance for invoices at 30, 60, or even 90 days.

Flexibility is another advantage of this form of financing. The company, in fact, is not bound by any predetermined commitment, being able to choose to assign even just a single invoice according to its needs. Unlike venture capital, invoice financing does not involve the transfer of ownership shares of the company, allowing companies to maintain greater control and autonomy.

Clearly, like any other financing tool, if abused and not diversified using other economic resources, it can have serious consequences on the company's financial structure.

Assuming, for the sake of argument, a company that, recording many commercial credits in its balance sheet and serious liquidity problems, decides to improve its cash flows by exclusively using the invoice financing strategy.

Invoice financing involves the transfer of control of its invoices to an assignee, who, in addition to taking responsibility for credit collection, offers liquidity to the company at a discounted rate compared to the nominal value of the credit.

Moreover, excessive use of this financing strategy could generate significant costs in the form of fees paid to the assignee, which could outweigh the benefit of obtaining immediate liquidity.

It is clear, therefore, that the use of this tool requires caution and careful evaluation of the contexts in which it is used. It should be reserved for situations of necessity and should not be considered a customary method for the company to recover its credits.

On the other hand, it is worth mentioning "factoring", a widely established form of alternative financing. It is noteworthy that in the period between 2007 and 2013, according to data provided by Assifact, the number of Italian companies that have benefited from factoring increased by 25%, with steady growth also in the subsequent period, from 2014 to 2016.

With factoring, the company transfers its commercial credits to a factor, which is a specialized financial institution.

There are two types of factoring: *pro soluto* and *pro solvendo*. In the former case, the selling company absolves itself of the risk of default by the debtor, making the factor responsible for credit collection and invoice management. In the case of *pro soluto* factoring, three different functions are performed: management, financing, and insurance.

The "*management function*" involves credit administration, including invoice collection and management. The "*financing function*" consists of providing advance payment of credits, usually at discounted conditions compared to their nominal value. Lastly, the "*insurance function*" entails covering the risk of insolvency by customers, providing the company with financial protection against any missed payments.

Clearly, the bank, by assuming the risk of non-collection of the credit, will offer the company a lower sum of money compared to the case in which *pro solvendo* factoring is chosen. In this second case, the company remains responsible for any missed payments by customers, but this allows it to receive a greater amount of liquidity from the bank.

The choice between the different forms of factoring requires careful evaluation of various factors.

The amount of debt on the company's balance sheet should be analysed and the access to financing should be evaluated as well. In cases where the company faces problems in getting conventional financing, it could be more convenient to turn to the assignment of credits even if they entail worse conditions, in order to get cash immediately.

Suppose now that the company has several debts owed to its suppliers, and that it does not have sufficient cash on hand to cover them. One possible financing solution is “*reverse factoring*.”

Reverse factoring involves the company's request to a financial institution for financing, based on the commercial debts it holds. This process involves the shifting of debts from the debtor to the financial institution that takes full responsibility for handling them on its own until they become due.

Thus, reverse factoring can also be defined as indirect factoring, as it deviates from the traditional factoring scheme in which the creditor company requests advances on its receivables.

This mechanism falls within the scope of Supply Chain Finance or supply chain credit, an innovative financial system that does not rely on the provision of new liquidity, but rather exploits existing transactions and commercial credits to optimize credit or debt management.

Reverse factoring offers advantages such as punctual payments and improved liquidity through external invoice management. However, it also leads to increased financial vulnerability and dependence on credit institutions.

Indeed, despite its advantages, it is important to remember that through reverse factoring, commercial debt is effectively transformed into financial debt, which by its nature incurs interest charges, or costs that the company must bear.

Another alternative available to companies is represented by dynamic discounting. Similarly to invoice financing, dynamic discounting makes use of online platforms integrable with the buyer's enterprise resource planning (ERP) systems.

Dynamic discounting represents a financial strategy adopted by buyers to optimize liquidity management and improve profitability by obtaining discounts on invoices issued by suppliers. This practice is commonly applied on an individual basis, where each invoice is subject to a discount expressed as a percentage of its nominal value. Buyers typically use funds available from their balance sheet or excess liquidity to finance this program, in order to obtain discounts on purchases.

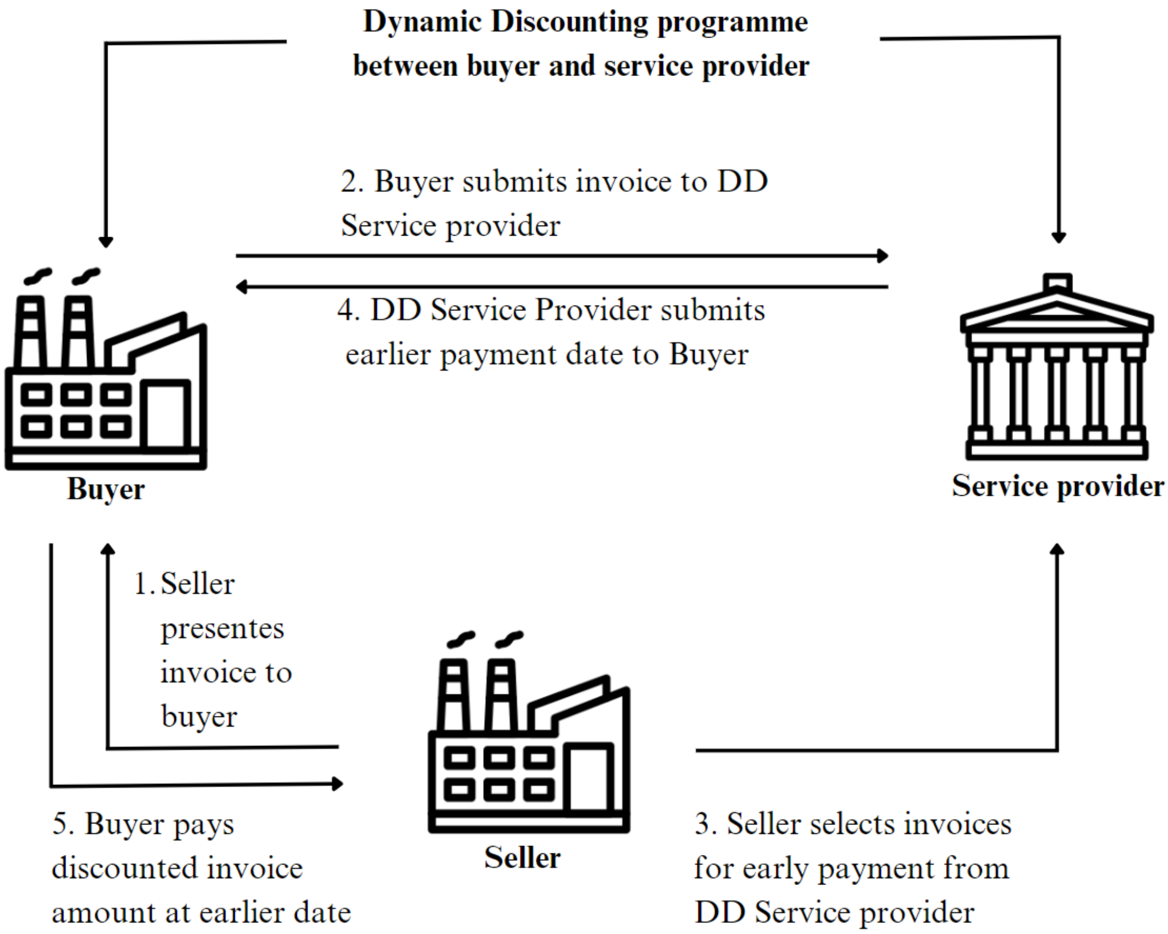

Figure 4: Transaction flow
Source: Global Supply Chain Forum (2016) "Dynamic discounting definition"

The dynamic discounting process involves various phases, as depicted in Figure 4. Initially, the seller prepares and sends the goods to the buyer, issuing the corresponding invoices in accordance with the agreements within the supply chain.

Once received, the invoices are carefully reviewed and approved by the buyer, and then uploaded to a dedicated technology platform for dynamic discounting.

Subsequently, sellers can access this platform to view approved invoices and select those they wish to be paid in advance, either immediately or on a pre-established future date. If an invoice is chosen for early payment and the buyer has the necessary funds available, the payment is made to the seller applying an agreed discount.

It is important to emphasize that discount rates are established through transparent agreements between buyers and sellers, ensuring a clear understanding of the financial conditions by both parties involved.

Additionally, the buyer has complete control over the management of sellers' credit limits and liquidity availability, allowing for accurate and independent financial planning without the need for external bank financing.

Dynamic discounting, besides improving the buyer's profitability, also contributes to reducing the cost of goods sold (COGS), thus increasing the overall profit margin of the company. Often, companies opt for dynamic discounting as they achieve higher returns than keeping funds in traditional interest-bearing accounts.

The "dynamic" element of the discount refers to the ability to vary discounts based on agreed payment dates with suppliers. Typically, early or timely payment results in more significant discounts, thus incentivizing more efficient liquidity management for both the buyer and the seller.

On the other hand, sellers participating in dynamic discounting access working capital at a lower cost of funds compared to other financing options available in the market. This allows sellers to obtain liquidity quickly and efficiently, ensuring optimized cash flow management.

Another advantage is the reduction of days sales outstanding through faster conversion of receivables into cash. This means that sellers can promptly use the funds obtained to meet other business needs, improving overall operational and financial efficiency.

In summary, dynamic discounting represents an effective financial practice that balances the interests of buyers, who benefit from reduced costs of goods sold and optimized liquidity management, and sellers, who receive flexible and transparent early payments on their approved invoices.

1.3.4 Revenue Based Financing

Revenue Based Financing (RBF) is a nontraditional financing model that is used to access growth capital by businesses. Initially used in the United States in the New England area in the 1990s by the financier Arthur Fox, this financing model went global with the help of digital transformation and big data in the 2010s and reached Italy within a decade.

In this model, investors provide financing to businesses in exchange for a variable share based on future revenues. RBF investors receive a percentage of the company's revenues until a predetermined amount or repayment cap is reached, rather than receiving fixed payments or interest as in traditional loans.

Unlike conventional loans that demand asset guarantee or company’s share issuance, revenue-based loans are based on the company’s future performance only.

In order to obtain revenue-based financing, businesses go through two scoring phases, where the first one is based on creditworthiness of the company, and the second one is based on the ability of the business to generate revenues.

The requirements regarding the company's revenue-generating capacity are not overly stringent and include: at least 6 months of investment in digital marketing and sales, demonstrable months of online sales, and a guarantee of monthly revenues of at least €10,000.

RBF is particularly suitable for businesses such as SMEs and startups, or more broadly for those with a revenue-based business model, such as software companies or subscription-based service providers.

In these cases, RBF is flexible because the payments are made depending on the performance of the company and depends on its cash flow.

If the company expands, it can pay off the financing at a faster pace; otherwise, the repayment is lower to give the company more time to recover. For instance, think of companies that sell products online and operate during specific seasons or firms that face some challenges in the short term.

Thus, the possibility of overcoming potential challenges can be achieved by changing the loan repayment according to the generated revenues, without the need for additional guarantees.

Another advantage is that RBF does not lead to dilution of equity as it does not involve the sale of shares or ownership interests. However, the investor will only get involved with the company in question through the receipt of a proportion of the profit of the financed company.

Nonetheless, RBF could be costly than conventional loans in terms of yield rates because investors are exposed to higher risk related to the company's revenues. Additionally, businesses must be willing to share a portion of their future revenues with investors, which could limit their long-term financial.

1.3.5 Venture Capital, Private Equity & Angel Investors

In the financial landscape, businesses often resort to a variety of instruments to meet their capital needs. Out of these, venture capital, private equity and angel investors can be regarded as traditional sources that are prominent in funding emerging companies and start-ups with high growth prospects.

These financial instruments are especially helpful as they not only offer funding to developing companies but also help investors to generate profits from their capital.

The aim of this paragraph is to define the mentioned financial instruments, compare them, evaluate the strengths and weaknesses of each of them, and indicate the most suitable conditions for their use.

More specifically, it will focus on the reasons that compel firms to seek these sources of funds, the goals and expectations of the funding investors.

Venture capital can be defined as a strategic institutional financing of unlisted companies or new start-up companies that are experiencing high growth rates.

Commonly identified as "*high-growth companies*," these emerging enterprises embody the ambition and vision of entrepreneurs, necessitating financial support and strategic counsel to translate their potential into commercial success.

The venture capital activity thus aims not only to inject risk capital but also to provide active involvement in guiding the strategy and supporting the implementation of entrepreneurial ideas.

Institutional investors, that operate in venture capital, do not only provide these companies with the necessary financial capital, but also with the know-how, experience, and connections.

The involvement of an institutional investor in the case of a startup can also add a lot of value to the credibility and the growth prospects of the startup.

The presence of a respected name in the financial world can enhance market confidence in the company and facilitate access to additional sources of funding, including listing.

A venture capital investment succeeds when the institutional investor (the venture capital fund) achieves a strategic exit.

This process can be done through the following ways; listing of the company in the stock exchange, sale of the stake to another company or an institutional investor, the last resort is the buy back of the stake by the original entrepreneurial team or new or existing partners. The last stage of the operation is the exit, which aims at achieving the highest return on investment for investors, and it is realized when the company has achieved significant development and demonstrated its value in the market.

Thus, venture capital represents both a vital source of funding for early-stage companies and a catalyst for innovation and entrepreneurial development. Through financial support, strategic expertise, and access to network resources, institutional investors in venture capital play an essential role in shaping the future of emerging companies and accelerating their path to commercial success.

There are also additional types of investors such as angel investors or business angels. These, similarly to VC funds, support startups and entrepreneurial ideas in the early stage.

However, there are differences that are important to illustrate in order to avoid possible misconceptions. Indeed, while VCs are institutional investors, angel investors are private investors who draw from their own resources. For this reason, often the funds allocated by the latter are of smaller size compared to those of venture capital investors.

Another difference between the two investors lies in the contribution they make to the target company.

While Venture Capital funds contribute both funds and expertise, angel investors have no interest in occupying a seat on the company's board, thus avoiding control.

Finally, an angel investor's investment can be made in a single transaction or in multiple ones, but being a risky operation, it often accounts for only about 10% of the investor's portfolio.

On the other hand, private equity (PE) is a medium to long-term investment in unlisted companies, similar to venture capital.

However, while venture capital is aimed at new and emerging businesses, private equity targets more established and stable businesses. These companies are not yet quoted in the stock exchange but they have already a place in the market.

PE investors include private equity firms, pension funds, financial institutions and high net worth investors. Private equity investment strategy is a process of buying a large block of the company’s capital with the intention of making changes that will enhance its operations, strategies or structure with the view of adding value to the company. Private equity activity, like venture capital, is not limited to the provision of risk capital but also in the provision of expertise, contacts, and institutional links.

An important difference to emphasize between PE and VC is the level of investment risk. While venture capital funds undertake high-risk investments with high growth potential, with private equity, the level of risk is lower as the companies are more solid compared to startups.

The private equity process follows several stages. The first involves raising funds from external investors by private equity managers.

Subsequently, these funds are utilized to acquire stakes in the target company. The next phase entails the private equity team collaborating to accelerate the company's growth and increase its efficiency.

These changes may involve restructuring of the company, efficiency enhancement, or diversification into new segments.

Like venture capital, the objective of private equity managers is to exit the investment, which generally has a holding period of several years. The exit can be through direct sales of the company to a strategic buyer, through IPOs or other market activities.

However, it is crucial to point out that, through private equity, the beneficiary company does not accumulate debt, unlike what may happen if the target company had to turn to bank loans or bond issuance.

1.4 Risks and Challenges of Growth Financing

Accessing capital for financing growth is a major milestone for firms who wish to grow and succeed.

However, this process is not risk-free and needs to be assessed in terms of possible effects. As it has been pointed out in the previous analysis, each of the financial instruments has its benefits that come with opportunities, risks, and challenges that need to be considered during the financial strategic evaluation.

Here, some of the risks of growth financing are briefly discussed as follows: Control dilution, costs of financial obligations, financial leverage, and risk of failure of financing operation.

Furthermore, the financing growth has its challenges like the change of the corporate culture and organization dynamics that may occur during an IPO, a process that is already involved in the challenge posed by an extremely volatile market.

For the subsequent analysis, consideration will be given to a company named “Company X,” created specifically for the purposes of the present investigation.

Company X is a family-owned company operating in the furniture manufacturing sector. The raw materials used for the production of Company X's goods are all of excellent quality, which is why the Cost of Goods Sold (COGS) on the income statement is very high.

Over the years, the company has been able to expand its activities, now finding itself in a growth phase where it intends to expand its geographic presence by opening new branches and diversifying its product portfolio.

However, in the financial statements of company X, there are numerous overdue trade receivables that have not been impaired, thus inflating the working capital. Regarding the financial structure, a division into 30% equity, represented by investments from family members who own the company, and 70% debt is assumed.

It is evident that specific actions involving strategic financial choices are necessary to enable the company's growth.

Upon initial analysis, the possibility arises that one of the main challenges that Company X must face concerns the configuration of its capital structure. Initially, there is a lack of diversification of financial sources, characterized exclusively by the use of debt and equity, with a clear tendency towards excessive debt reliance.

As highlighted in the previous § 1.2.2.1, the use of debt can provide the company with the advantage of benefiting from financial leverage. However, considering the specific characterized by poor cash flow management, paying a large amount of debt may be difficult and lead to insolvency.

It is therefore clear that X should consider revising its financial structure, decreasing the ratio of debt and considering instrumental financing alternatives.

Another viable strategy that the company might consider given its size and need to raise funds and increase brand awareness is to conduct an Initial Public Offering (IPO). This alternative opens the chance to reach the aforementioned goals but it also has numerous threats and risks.

Firstly, there is the risk of control dilution. New shareholders may be introduced, and this may lead to the dilution of the shares owned by the family members meaning that they will have limited control over the decision-making process.

In addition, the originally family-owned company may have to deal with the threat of losing its initial identity during this process. As Angiola N. states (2012, p.88), an IPO operation could "*compromise its (of the company) original family connotations*".

The IPO process also has the potential of affecting the corporate culture and the organizational structure. The change from a private corporation to a public limited company means that there is more focus on short-term results and the company is exposed to more investors and analysts. This could alter the corporate culture and therefore result to a change in the values and objectives of the organization.

Another risk associated with an IPO operation is the failure of the IPO itself. Although the company may present solid and coherent proposals, there is always the possibility that the IPO will not be successful, and the company will fail to raise all the hoped-for funds on the financial market.

This situation may be attributed to factors such as fluctuating market forces, economic forces, changes in market forces, or forces peculiar to the companies.

The failure of an IPO process can be significant and can have an impact on company's reputation among investors and in the industry, requiring, in this way, the company to reconsider its financial and growth strategies.

In conclusion, Company X will need to identify a more suitable financing strategy for the specific situation as, based on the just-conducted analysis, the disadvantages seem to outweigh the advantages.

A strategy that the company's CFO could adopt to mitigate the risk associated with control dilution, following an IPO process, is to decide to initially underprice its shares.

Setting the offering price of shares below the actual market value, will lead in fact to an increase in investor demand, since the lower price of the stocks makes them more attractive and accessible. On the other hand, to mitigate the risk of deterioration in corporate culture, it is essential for the company to maintain a strong focus on core values and alignment of corporate strategies with long-term goals.

It is assumed now that company X wishes to preserve its decision-making autonomy at all costs. Using convertible bonds cannot be a solution since they grant the holders the possibility to become shareholders of the company, and moreover, they increase the corporate debt that X aims to reduce.

Furthermore, considering the difficulty in managing cash flows due to the numerous trade receivables still to be collected and the high costs of goods sold (COGS), a prudent and advantageous strategy for Company X could be to engage in factoring, both in its *pro soluto* and *pro solvendo* modalities.

The choice between the two will depend on whether the benefit derived from the reduction of the risk associated with the assignment of receivables outweighs the greater discount connected to the liquidity provided by the factor at the time of the operation.

Another alternative to consider is dynamic discounting. Before adopting this tool, however, the company should conduct a thorough assessment of its level of cash availability. If such availability is sufficient, the company may decide to proceed with the early payment of its trade payables at a discount.

In both cases, it is crucial for the company to carefully evaluate the costs and benefits associated with each option, taking into account its immediate and long-term financial needs.

In conclusion, the use of various sources of financing to support a growth project represents a significant opportunity for any company.

It is important to remember, however, that financial planning must not overlook the careful management of the risks associated with the different sources.

Effectively mitigating these risks requires a synergy between meticulous strategic planning, a robust governance structure, and a thorough assessment of the financial market dynamics, including elements of opportunity and challenge.

2 Brunello Cucinelli's Long-Term Vision for Sustained Success

The second chapter provides an overview of the Brunello Cucinelli Group, a luxury fashion brand in the Italian and global market that has attracted attention for its remarkable increase in the period between 2018 and 2023, making it an ideal case study for analysis.

In this chapter, the internal dynamics of the Group will be studied in detail and even the financial and investment choices, that have contributed to its success.

Founded on Italian artisanal tradition and guided by a forward-looking entrepreneurial vision, the Brunello Cucinelli company has seized the opportunities offered by the luxury market, distinguishing itself for the quality of its products, work ethic, and prudent financial management.

During the period under consideration, the Group adopted a series of strategies aimed at ensuring its financial stability and promoting innovation.

These strategies included investments in research and development to sustain the company’s high standards of product quality and appearance, as well as increasing its international market presence, including through increasing the number of its retail and wholesale outlets.

Furthermore, the Brunello Cucinelli Group has also shown a good and steady approach towards the sustainable long-term growth.

This commitment has been manifested in corporate policies that embrace the environmental and social effects of its operations, and in corporate social responsibility programmes that have assisted in enhancing the company’s interaction with the stakeholders and in the creation of a reliable and credible image.

In summary, the evaluation of the case study of Brunello Cucinelli Group provides an excellent chance to identify the factors and the best practices that may be employed to foster the growth of the companies. By virtue of its leadership, innovation and social sensitivity, the Group has strengthened its position and charted a course for its future growth and prosperity.

In conclusion, the chapter, based on the case of Brunello Cucinelli, offers a comprehensive strategic overview that should be adopted by expanding companies to overcome the existing market threats and secure long-term success.

2.1 Brunello Cucinelli's Journey in The Luxury Market: The Winning Combination of Tradition and Innovation

Brunello Cucinelli, an Italian excellence in the world of luxury fashion, whose history is imbued with passion, dedication, and vision, and vision. Established in 1978 by Brunello Cucinelli, the company embarked on its humble beginnings in the production of women's cashmere knitwear in vibrant hues. However, its ambition and devotion to high-quality craftsmanship swiftly propelled it to success and sustained growth over the years.

A pivotal juncture arrived in 1985, marked by the acquisition of the picturesque 14th-century castle of Solomeo, subsequently transformed into the epicentre of its operations. Situated in the quaint medieval hamlet near Perugia, Solomeo not only provided a unique and inspiring ambiance but also symbolized a tangible commitment to the preservation of Italy's historical and cultural heritage.

In the ensuing years, Brunello Cucinelli expanded its scope, debuting menswear collections in 1994 and offering a comprehensive men's/women's wardrobe in 2002. The expansion strategy entailed the establishment of flagship stores in global capitals and premier luxury destinations, elevating the brand to a recognized international presence.

The year 2012 constituted another significant milestone for the company, marked by its listing on the Milan Stock Exchange. This step not only denoted recognition of Brunello Cucinelli's excellence and financial robustness but also heralded new opportunities for growth and development.

As attested in the company's consolidated financial statement for 2018, it is stated that "*both the company and the brand are experiencing a very positive moment: we are progressing with great satisfaction along a path of long-term growth, and after doubling turnover in the last 7 years, starting from the listing in 2012, we are structurally ready to support the growth project for the next 10 years, with a young, passionate company that can rely on solid partnerships throughout the supply chain*" (Brunello Cucinelli, 2018, p. 22)

In the subsequent years, the company continued to thrive, surpassing significant milestones such as achieving a turnover exceeding €500 million in 2017 and consolidating its global presence with over 120 flagship stores worldwide.

However, above all else, what distinguishes Brunello Cucinelli is its commitment to the values of craftsmanship, sustainability, and humanity. Beyond the production of high-fashion garments, the company stands out for its support of local communities, attention to detail, and dedication to creating a better world through fashion.

In a 2017 press release, the company states "*Brunello Cucinelli's success is rooted in the history and legacy of great craftsmanship as well as contemporary design: a value strategy based on the combination of innovation and craftsmanship.*" (Brunello Cucinelli, 2017, p.1)

Established in 2013, the School of Arts and Crafts aims to train young people in manual disciplines, which are of fundamental importance to the national cultural tradition and professional sphere.

Over the following years, in collaboration with the Brunello and Cucinelli Federica Foundation, work continued on the restoration of the village of Solomeo, while since 2014 the initiative has been undertaken to redevelop the valley through the creation of three large parks, intended respectively for the promotion of industry, youth sports activities and the enhancement of agricultural resources. These parks were officially inaugurated in 2018.

The Maison's objective, as stated in the shareholder letter of 2021, is the pursuit of a "*long-term program of 'elegant growth', always according to the principles we have adopted: respect for beauty, human dignity, and labour, ethics of fair profit, custodianship of tradition, and pursuit of harmonious innovation, embellishment of the created for future generations*." (Brunello Cucinelli, 2021, p. 6)

Looking ahead, with the relocation of its warehouse to Corciano in 2022 and the construction of a new headquarters for global shipments, Brunello Cucinelli continues to demonstrate its commitment to excellence and innovation while remaining firmly rooted in its Italian heritage and unique entrepreneurial spirit.

In its 2019 financial report, Brunello Cucinelli declares the objective of "*healthy and sustainable growth that we anticipate in the coming years, finally allowing us to look with great confidence at the goal of doubling turnover, initially envisaged for the ten-year plan 2019-2028, but which we now imagine we can achieve as early as 2026*." (Brunello Cucinelli, 2019, p. 8)

2.2 Brunello Cucinelli: a Holistic Investments Strategy

The commitment to keeping the company abreast of the times is supported by a significant long-term investment project, based on the belief that brand protection requires daily dedication to preserving its exclusivity, both in physical and online contexts.

The company consistently devotes itself to safeguarding the brand through the introduction of new initiatives, the creation of unique collections, the pursuit of high-quality raw materials, and Italian craftsmanship.

Simultaneously, it ensures a presence in top-tier locations, renewing the spaces of flagship boutiques and brand areas within the most prestigious luxury Department Stores, thus conveying its lifestyle and ongoing quest for originality.

Despite the pandemic situation and the challenges, it has entailed, the company declared in its 2020 financial statement that *"a robust investment program constitutes the foundation for maintaining the company's contemporaneity in the long term, and believing that the impacts of the pandemic were cyclical rather than structural, we wanted to strongly reinforce our corporate structure*" (Brunello Cucinelli, 2020, p. 54).

This statement underscores how investments, innovation, and resilience represent the key to long-term success for the company.

The following table presents the investments made by the company detailed by budget items.

Investments (thousands of €)	2018	2019 excluding IFRS16	2020	2021	2022	2023
Capex in intangible assets	15.781	11.442	7.432	15.118	12.901	7.116
Capex in propert, plant and equipment	27.372	38.629	39.924	43.031	55.470	66.417
Capex in non-current finanicial assets	1.190	625	2.814	981	3.206	2.549
Invesment property	678	1.895	1.432	2.472	910	2.994
Total capital expenditures	**45.021**	**52.591**	**51.602**	**61.602**	**72.487**	**79.076**
Delta trend tot CAPEX	26,17%	16,81%	-1,88%	19,38%	17,67%	9,09%
Investments in Equity with Associated Companies	0	0	0	0	15.050	0
Total Investments including Investments in Equity Investments of Associated Companies	**45.021**	**52.591**	**51.602**	**61.602**	**87.537**	**79.076**

Table 5: Investments
Source: Brunello Cucinelli, Financial Statements (2018-2023)

while the following graph shows the investments detailed by type of destination and the trends

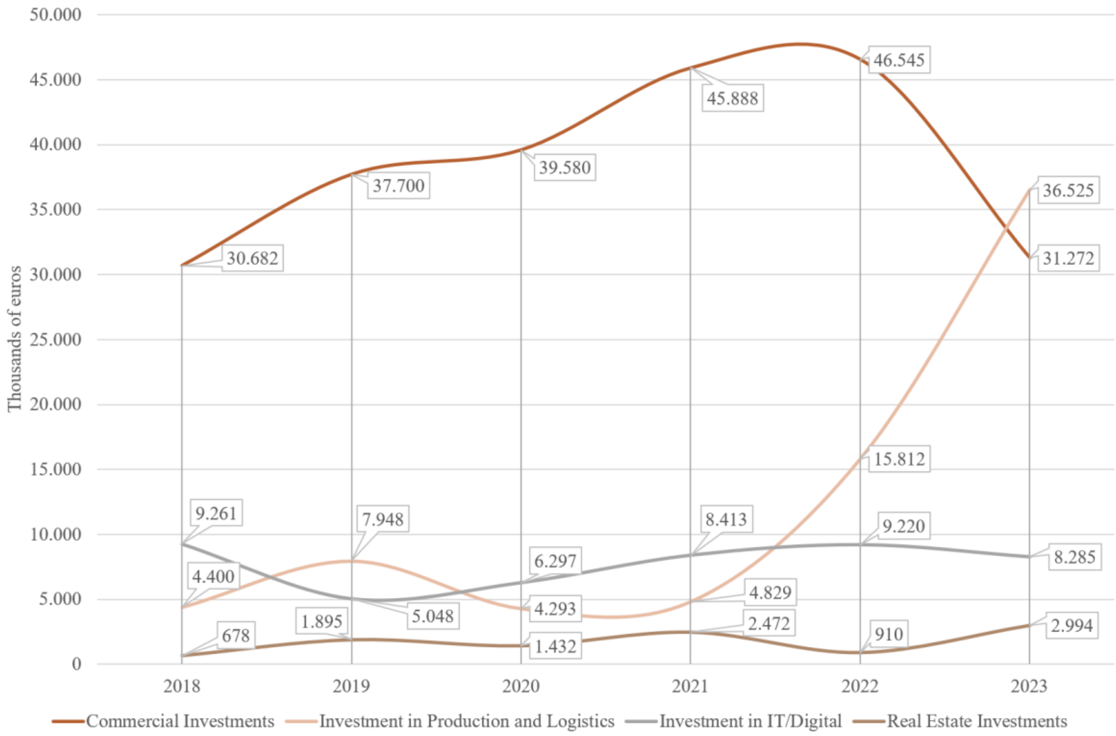

Figure 5: Investments detailed by destination
Source: Brunello Cucinelli, Financial Statements (2018-2023)

The types of destinations are: commercial, production and logistics, IT/Digital, and real estate. In details:

1. **Commercial investments** involve the expansion of prestigious boutiques, the renewal of showrooms, the increase in retail space, the opening of new Casa Cucinelli spaces, development in the wholesale channel, and the growth of dedicated areas within Luxury Department Stores.

2. **Investments in production and logistics** support the extremely high craftsmanship of “Brunello Cucinelli” branded products through the continuous renewal of production facilities, which the company keeps current by combining process innovation and highly skilled manual labour. This ensures the availability of logistic structures suitable for managing related activities.

3. **IT/digital investments** consist primarily in the project of the company's digitization while maintaining, at the same time, the traditional craftsmanship characteristic of the Group. These investments are aimed at creating information systems that allow the company to manage the Group's technological platforms and adapting the logistics aspect to efficiently and effectively support the business.

4. Finally, **investments in Real Estate** refer to compendiums of buildings and building land located in the town of Solomeo, which are managed with the aim of being restored and then leased.

As can be seen from the graph above Figure 5, the investments that have the greatest weight are commercial investments even though those related to production and logistics have grown in the years analysed (2018-2023) from € 4,400 thousand to € 36,525 thousand.

2.2.1 Investments in IT and Digital: Innovation as Driver for Success

In the current business environment, digital investments are becoming more and more crucial for companies.

In an era when digital technology permeates all aspects of everyday life and business, organizations that adopt digital innovation, are better positioned, and have more chances to take advantage of the opportunities presented by the global market.

In fact, investing in digital technologies enables businesses to expand into new market sectors, increase operational efficiency, streamline corporate procedures, and give customers a more tailored experience.

By making digital investments companies are able to: remain relevant and competitive in a constantly changing business environment, be better equipped to handle new difficulties and take advantage of emerging possibilities in the digital space.

The table below illustrates the distribution of investments made by the fashion house for IT/Digital.

Investments (thousands of €)	2018	2019	2020	2021	2022	2023
Concessions, Licenses, Trademarks and Similar Rights	3.069	1.611	2.706	3.854	5.215	4.895
Construction in Progress and Advances	3.459	2.331	2.296	2.303	1.935	1.552
Other Intangible Assets	1.364	0	0	0	0	0
IT/Digital Investments Referable to Tangible Fixed Assets	1.369	1.106	1.295	2.256	2.070	1.838
Total Investments in IT/Digital	**9.261**	**5.048**	**6.297**	**8.413**	**9.220**	**8.285**

Table 6: Investments in IT/Digital
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Under the categories “**Concessions, licenses, trademarks, and similar rights**” and “**Construction in progress and advances**”, are recorded investments in software related to IT and Digital activities aimed at supporting the business are recorded.

These investments aim to the continuous renewal and modernization of the Group's technological platforms, in particular to the improvement of the e-commerce website and the digital sales.

Under the category "**Construction in progress and advances**," the company implemented a new Enterprise Resource Planning (ERP) system in 2018 for the Parent Company's administrative and financial management. The system will be used starting in the 2019 financial year.

This tool represents a particularly valuable investment for the company as it enables the optimization of all organizational processes through the use of computer systems aimed at minimizing waste and errors as much as possible.

2.2.2 Investments in Shareholdings of Associated Companies: Strategic Alliances

The consolidated financial statements of the Brunello Cucinelli Group for 2018-2023, examined in this thesis, analytically reflect the assets and liabilities, as well as costs and revenues, of the consolidated companies belonging to the Brunello Cucinelli Group.

However, the fashion house has, in these years, also invested in affiliated companies so as to have considerable influence over the companies' activities without incurring additional costs that it would have required to choose to consolidate them.

Other fashion companies, such as Ermenelgido Zegna and Prada, have pursued this strategy by acquiring the majority of Filati Biagioli Modesto in the Prato textile district in June 2022.

In the specific case, on March 14, 2022, Brunello Cucinelli acquired a 43% stake in the share capital of Cariaggi Lanificio S.p.A. at a price of €15.050 thousand.

This fundamental decision translates into greater control by the fashion house along the supply chain to ensure higher quality of its products. The investment, as prescribed by the accounting standard IAS 28[10] for investments in associates, was valued in the 2022 financial statements using

[10] *IAS 28 - IASB - International Accounting Standard (IAS) 28, issued 3rd November 2008:*

1. *"Finality: The purpose of this standard is to define the accounting for investments in associates and the requirements for applying the equity method of accounting for investments in associates and joint ventures.*
2. *Scope: This standard is to be applied by all entities that have joint control over, or exercise significant influence over, an investee.*
3. *Definitions: The following terms are used in this Standard with the meanings indicated:*

An associate is an entity over which the investor has significant influence.
Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, revenues, expenses, and cash flows of the parent and its subsidiaries are presented as if they were of a single economic entity.
The equity method is the method of accounting by which the investment is initially recognized at cost and, after

the equity method, recording an increase in value of €7.033 thousand.

However, as of December 31, 2023, the Brunello Cucinelli Group does not hold any interests in joint ventures, and the stake in Cariaggi Lanificio S.p.A. has decreased from 43% to 24.5% of the company's share capital following the partial sale of the stake to Chanel.

2.2.3 Retail Expansion Strategy: Weaving a Luxury Network

Retail expansion is a strategy adopted by some companies to increase their market presence by opening new physical stores. In this way, through the use of this strategy, companies expand their distribution network, thereby reaching more customers and a wider geographic coverage.

The main goal that companies using this strategy want to achieve is to conquer new market segments, increase sales and consolidate the company's competitive position in its target industry. By opening new stores or acquiring existing chains, companies undertaking this strategy can take advantage of the opportunities offered by different local and international markets, adapting their offerings to the needs and preferences of consumers in each geographic area.

In addition, retail expansion allows companies to increase their brand visibility, strengthening the bond with customers and generating a greater revenue stream.

A well-planned physical presence in the territory also offers the opportunity for companies to provide their customers with a more direct and engaging shopping experience, helping to differentiate the company from its competitors and build lasting and strong relationships with customers.

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acquisition, adjusted as a result of changes in the investor's share of the investee's net assets. The investor's profit or loss reflects its share of the investee's profit (loss) for the year, and the investor's other comprehensive income reflects its share of the investee's other comprehensive income.
A jointly controlled arrangement is an arrangement under which two or more parties have joint control of the economic activity that is the subject of the arrangement.
Joint control is the sharing, established by agreement, of control of an economic activity, which exists only when the unanimous consent of all parties sharing control is required for decisions relating to that activity.
A joint venture is a jointly controlled arrangement over an entity under which the parties holding joint control have rights to the net assets of the entity.
A joint venture participant is one of the parties to a joint venture that has joint control.
Significant influence is the power to participate in determining the financial and operating policies of the investee without having control or joint control…"

The Cucinelli brand operates through three different distribution channels: retail, monobrand wholesale, and multibrand wholesale.

The retail channel represents the direct distribution channel for which the Group utilizes directly operated stores (DOS).

The monobrand wholesale channel consists of monobrand stores managed through commercial distribution agreements, while the multibrand channel includes independent multibrand stores.

Over the years analysed, the company has expanded its operations through a series of investments, as evidenced by the following table.

Distribution Channel	2018	2019	2020	2021	2022	2023
Retail (DOS)	100	106	107	114	119	125
Wholesale monobrand	27	30	31	30	30	27
Total distribution channel	**127**	**136**	**138**	**144**	**149**	**152**

Table 7: Distribution Channels
Source: Brunello Cucinelli, Financial Statements (2018-2023)

As far as the multi-brand channel is concerned, its growth is supported by the company's special relationship with the world's leading Luxury Department Stores and Specialty Stores, which increase the spaces dedicated to the brand to meet customer demand, while at the same time increasing traffic in the highest luxury segment.

The graph below illustrates revenue trends by distribution channel:

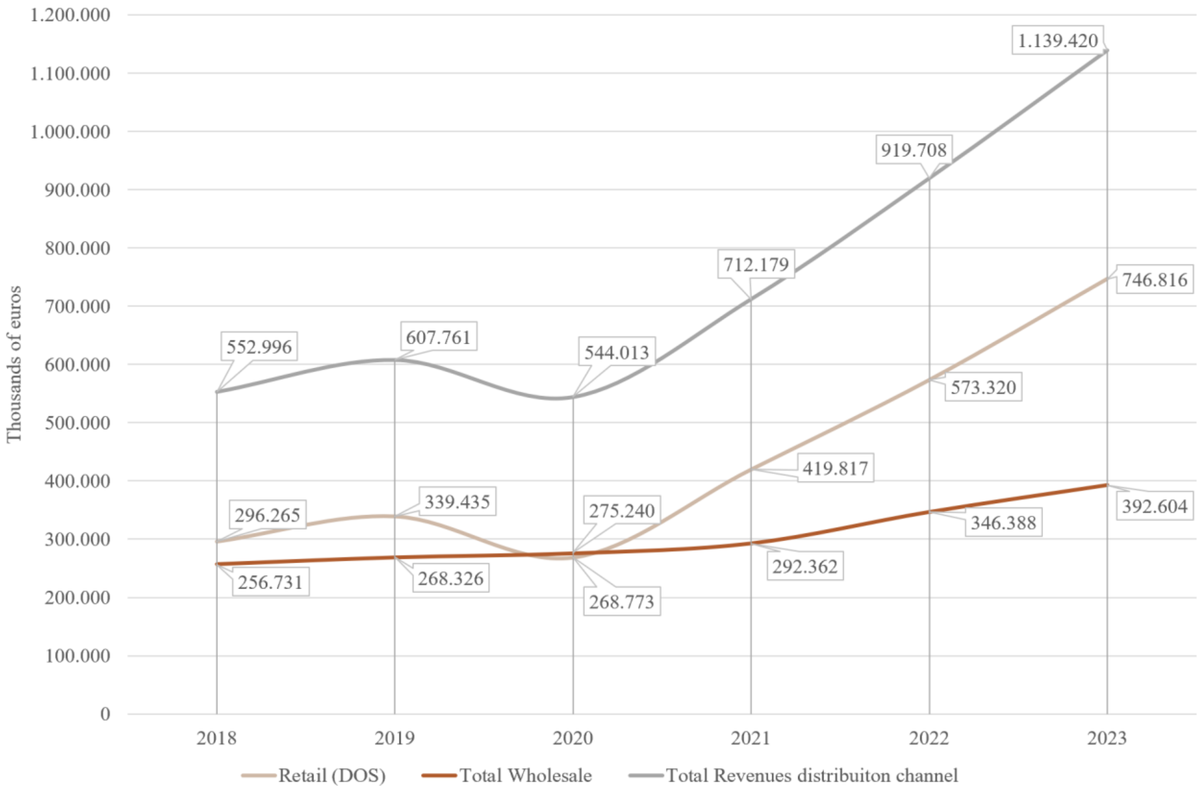


Figure 6: Revenues by distribution channels
Source: Brunello Cucinelli, Financial Statements (2018-2023)

From the graph, it is evident that the retail channel contributes more significantly to revenue generation than the wholesale channel. This can be justified by the larger number of directly operated stores (DOS) around the world compared to wholesale outlets. However, it is surprising to note that during the COVID-19 pandemic in 2020, the wholesale channel performed better, albeit slightly, than the retail channel.

The overall increase in Net Revenue in **2019** was €54,765 thousand at current exchange rates (+9.9%).

Delta Revenues for Distribution Channel (thousands of €)	2019	2020	2021	2022	2023
Delta Retail (DOS)	43.170	(70.662)	151.044	153.503	173.496
Delta Total Wholesale	11.595	6.914	17.122	54.026	46.216
Delta Total Revenues	**54.765**	**(63.748)**	**168.166**	**207.529**	**219.712**

Table 8: Increase in revenues for distribution channel
Source: Brunello Cucinelli, Financial Statements (2018-2023)

The increase is attributable to the organic growth of the Retail channel linked to the development of existing retail outlets, the dynamics of opening new Directly Operated Stores (six net openings compared to December 31, 2018), as well as five new hard-shop openings on concession and the growth of the multibrand wholesale channel.

On the other hand, **2020** was a particular year, characterized by the COVID-19 pandemic. Indeed, despite the year opening with very positive sales in the retail channel, there was a sudden and profound drop in traffic in boutiques worldwide. The company managed to limit this effect through various actions:

1. the significant growth of online sales, which doubled its relative weight to around 5%,
2. the activation of "Casa Cucinelli" as a new channel of interaction with customers,
3. the extensive work done on Visual Merchandising in physical boutiques and the digital boutique.

Additional initiatives such as the precision of production and delivery timings, the crucial assistance in replenishment, the opportunity to physically touch collections during presentations, and the contemporaneity of the offer, contributed to achieving excellent results.

In **2021**, Cucinelli made further commercial investments aimed at the realization and expansion of those spaces of meeting and full expression of the lifestyle concept defined as "Casa Cucinelli," equal to Euro 2,182 thousand, in addition to those supported in IT/Digital as seen in the previous Table 6.

In **2021, 2022**, and **2023**, there was again an increase in revenues thanks to the support in the solidity of sales on a like-for-like basis, the growth of the network, new openings, the expansion of existing spaces, and the conversions to direct management from the wholesale channel of some boutiques and spaces within Luxury Department Stores.

Despite **2023** undoubtedly confirmed the centrality of physical retail; however, digital retail plays a significant role, returning a multidimensional reality indissolubly interconnected with the physical channel, a reality in which the interpretation of the brand's values and identity appears increasingly integrated.

2.2.4 Geographic Expansion Strategy: Cucinelli and International Markets

Geographic expansion represents a strategy adopted by companies to expand their business into new geographic markets. Through the use of this strategy, companies pursue a goal of growth beyond national borders while diversifying risk, simultaneously increasing their volume of business and consolidating their competitive position.

Through geographic expansion, in fact, companies benefit from new sales opportunities, access to resources or markets, cost reduction through economies of scale, and increased brand visibility internationally.

The decision to undertake a geographic expansion strategy requires careful planning and analysis of target markets, as well as effective management of challenges related to cultural, regulatory and operational diversity. When successfully executed, geographic expansion provides companies with significant competitive advantages and contributes substantially to the company's long-term growth and success.

The following table illustrates the distribution of the company's retail outlets across different territories.

Total number of boutiques	2018	2019	2020	2021	2022	2023
Italy	15	14	14	14	14	13
Europe	46	48	49	46	45	46
North America	26	31	32	36	38	35
Cina	22	24	24			
Asia	0	0	0	48	52	58
Rest of the World	18	19	19	0	0	0
Total	**127**	**136**	**138**	**144**	**149**	**152**

Table 9: Total number of boutiques around the world
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In general, the increase in the number of stores justifies and sustains the company's growth over the years analysed. The table below shows revenues distributed by geographic area.

Revenues by geographic area (thousands of €)	2018	2019	2020	2021	2022	2023
Italy	88.220	89.720	68.323	84.223	102.753	128.852
Europe	163.707	184.751	181.472	219.150	263.814	299.380
North America	187.236	204.109	172.778	238.238	334.693	404.453
Cina	54.887	62.898	61.726			
Asia	0	0	0	170.568	218.448	306.735
Rest of the World	58.946	66.283	59.714	0	0	0
Total	**552.996**	**607.761**	**544.013**	**712.179**	**919.708**	**1.139.420**

Table 10: Revenues by geographic area
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In **Italy**, revenue growth is justified by two factors: solid increases in purchases by both local and international customers. In 2020, during the COVID-19 period, revenues in Italy experienced a slight downturn due to the partial absence of tourists, which was partially offset by the company's resilience in Specialty Stores in provincial cities.

In **Europe**, major luxury capitals such as Paris, Milan, and London showed significant responsiveness post-COVID in the recovery of sales, especially in customers' desire to return to experiencing the physical spaces of boutiques.

In **North America**, revenue growth is correlated with positive performance in both the monobrand and multibrand channels. In 2023, Cucinelli S.p.A. opened at Saks, a famous department store on Fifth Avenue in Manhattan, and participated also in an event in Los Angeles at the Chateau Marmont, which was attended by many high-profile brands. Clearly, all these initiatives increase the brand's visibility in such an important market as America.

In **China**, despite the pandemic, revenues were positive and experienced an acceleration in the latter part of the year. China represents a very interesting market for Cucinelli to expand into, both in terms of the monobrand and multibrand channels. In 2022, revenues in China and Asia in general were very high and ensure future growth prospects considering the exponential growth and relevance that the no-logo and ready-to-wear offerings are assuming.

2.2.5 Product Portfolio Expansion Strategy: Diversifying the Offering while Respecting the Brand Identity

Businesses must constantly innovate and adapt in today's competitive world, in order to be relevant and prosper in their target market.

In fact, through the broadening of the range of goods and services businesses offer, they will be able to tap into new markets, to better serve current customers, and to boost overall profitability.

Product portfolio expansion is one of the key strategies that modern companies use to meet this challenge and undertake a growth process that leads to business success.

Starting in **2019**, Brunello Cucinelli has expanded its product portfolio by introducing the "**Kids**" collection. This represents a natural extension of the ready-to-wear offering aimed at catering to an additional market segment.

In November **2022**, Brunello Cucinelli entered into a decade-long agreement with EssilorLuxottica to produce its own line of **eyewear**. Cucinelli remarked regarding the eyewear line, "*The beautiful product resulting from this heartfelt collaboration represents a pinnacle of luxury craftsmanship and the Made in Italy that is recognized and warmly welcomed worldwide. Plato said: 'Beauty is the splendor of truth,' and for this reason, I sincerely hope that our glasses, so true and beautiful, can garner the interest of customers and achieve all the success they deserve*" (Scafati, S. 2024).

Starting in **2024**, Cucinelli-branded **perfumes** are available in stores on via Montenapoleone in Milan. For the production of perfume, Cucinelli has teamed up with EuroItalia, a Sgariboldi family member and global leader in Italian cosmetic manufacturing,

However, it is crucial to keep in mind that businesses run a big risk when they expand their product lines too much because it can undermine their unique character and cohesive brand.

In fact, the firm runs the danger of confusing its clients and weakening its market positioning when it expands its product line too widely and diversifiedly. Diffusion of this kind might result in a loss of specialization and focus, which are essential components in creating a distinct and identifiable company identity.

In particular, a wide range of products can make it difficult for consumers to associate the company with a particular market segment or distinctive shopping experience. This can generate confusion among consumers and weaken brand perception, compromising customer loyalty and the company's long-term competitiveness.

Moreover, an overabundance of product offerings may cause logistical and operational issues, raising management expenses and lowering overall company effectiveness.

The requirement for additional resources in the areas of production, distribution, marketing, and after-sales support may arise from the necessity to handle a broad range of products. This could put strain on the company's operational capabilities and lower the overall quality of services provided.

Therefore, while diversification can be a valid strategy to stimulate growth and mitigate risk, it is essential for companies to exercise caution in expanding their product portfolio, always maintaining a clear and distinctive corporate identity, and ensuring effective management of resources and operations.

However, Cucinelli is clear about the objectives of the fashion house and its intention not to enter other sectors such as hospitality. Cucinelli states, "*We have always been focused on clothing and that's what we want to remain. But in over 40 years of history, we have become a fashion house and a brand known worldwide, and we felt ready for perfumes, as was the case with eyewear, which debuted two years ago. Technically, it would be licenses, but I prefer to call them partnerships between companies that have many similarities*" (Crivelli, G. 2023).

2.2.6 Beyond Luxury: Investments that Define and Increase the Value of the Brunello Cucinelli Brand

The value and success of a brand are not only measured by the company's revenue but also by the image of the brand that is created through strategic investments and wise choices. The brand image is the company's intangible asset that is crucial for capturing and maintaining consumers' attention, shaping their perceptions of the quality and value of the offered product or service, as well as building trust and loyalty with various stakeholders involved in the business process.

The strategic investments in the brand image development and promotion help the company to stand out from the competitors, convey the values, mission, and vision of the company, and establish an emotional connection with the customers.

By effectively controlling the communication and marketing strategies, the company can influence the brand image to fit the expectations and needs of the target consumers, thus creating interest, desire, and loyalty towards the brand.

Moreover, strategic decisions for building the company's reputation are also concerned with the consistency and credibility of the chosen values and policies in terms of quality, ethical conduct, and CSR. A company that shows genuine concern for environmental protection, its employees, and the community can gain the trust of consumers and become a leader in the long run, thus enhancing its position in the market.

Apart from the above mentioned measures, there are other marginal yet supportive activities that have been undertaken by the Brunello Cucinelli Group that helped in the success of the brand. Of these, the "Solomeo School, School of Contemporary Craftsmanship for Arts and Crafts" project, which was introduced in paragraph 2.1.

Through the establishment of this school, Cucinelli aimed to introduce younger generations to the world of tailoring, thus ensuring the survival of the tradition of Italian craftsmanship.

Cucinelli stated, *"...at least until a few years ago, a boy or girl didn't enjoy telling their friends they had a manual job...*" and added *"...a benefit that is not only theirs, because it goes straight towards the glorious revival of our craftsmanship, restoring moral and economic dignity to artisanal work...*" (Brunello Cucinelli, "La Scuola di Alto Artigianato Contemporaneo per le Arti e i Mestieri di Solomeo", 2024)

The commitment and attention that the fashion house has towards culture are also evident in light of the 2021 project of the Brunello Cucinelli and Federica Cucinelli foundation, where the "Universal Library" was presented. The ambition behind this initiative is to collect a vast amount of philosophical, historical, and literary publications to offer to its visitors.

Another significant project for the group's success was the “Humanistic Craftsmen of the Web” project. A digital project whose conception began in 2015 and led to the publication of two distinct online sites.

The first dedicated entirely to the company's philosophy, its founding values, and entrepreneurial history, and the second site dedicated to the e-commerce boutique, for the presentation and sale of collections, with the aim of narrating the humanistic enterprise on digital channels consistently with the narration in the physical world.

The group leveraged digital channels to spread the atmosphere and culture of the company and Solomeo, focusing on high-quality content, selecting online visibility initiatives, and protecting the brand from the overexposure that the network itself can generate.

Furthermore, implementing e-commerce represented a global digital flagship for the group, providing it with a wide assortment as a tool for the digital presentation and representation of the company's collections, image, and creativity.

The “Contemporary Factory” project is a tangible manifesto of the fashion house's relentless commitment to staying ahead and adapting to contemporary context changes through investments in the digital field and collaboration relationships.

The project involved an investment of €3 million, between 2017 and 2018, and lasted 18 months during which, in collaboration with universities and technological research centers (University of Perugia, MIT in Boston, Bocconi in Milan, and IIT-Italian Institute of Technology in Genoa) and technology suppliers, the group developed a strategy based on research and innovation to promote the transformation of the Italian manufacturing sector towards new product systems, processes, and technologies. This project led to the emergence of a new model of production in the fashion industry from design to collections to distribution.

Last but not least, it is also important to mention that Cucinelli invests in scientific research, which is not a typical feature of luxury fashion companies. Together with the Xgen Venture fund, the family holding supports TES Pharma, a company engaged in the development of innovative drugs for the treatment of rare diseases. Regarding this initiative, an article on *Spettcaolo Sky tg24* reported a Cucinelli' statement, "*Let's not call it an investment, what we did is a support project for humanity*" (Bonini, A. 2024).

In conclusion, the value and success of a brand are the outcome of the combination of financial value and reputation, where the brand image acts as a key element in shaping perceptions, decision-making, and trust, which in turn helps to build a competitive advantage and sustainable value for the company.

The first section of Chapter 2 on investments illustrated the initiatives undertaken by the Group in various areas.

The following section will illustrate how such activities were funded and how ultimately embarking on them increased the value of the fashion house between 2018 and 2023.

2.3 Brunello Cucinelli: The Winning Financial Strategy

In the contemporary world, innovation has emerged as one of the key pillars that define the success of organizations in the economic environment. But the introduction of new ideas and technologies is not only a question of vision and creativity, but also of sufficient financial resources.

In the framework of comprehensive economic and financial evaluation, the investment factor is one of the most significant factors that define the success or failure of a company in the pursuit of innovation as the key to its development.

In the next sections, we will provide a detailed analysis of how Brunello Cucinelli company funded its investments, the strategies and the main choices that have led the company to achieve its goal of growth and development.

The table below, provides other interesting evidence of the exponential growth that the company has recorded in the years under analysis.

Reclassified Balance Sheet (thousands of €)	2018	2019	2020	2021	2022	2023
Net Working Capital	129.457	155.104	186.735	142.162	140.786	178.330
Fixed Assets	172.829	607.091	655.252	715.133	774.207	773.784
Other Non-Current Assets/Liabilities	(368)	18.376	24.861	34.864	47.499	62.586
Net Invested Capital	**301.918**	**780.571**	**866.848**	**892.159**	**962.492**	**1.014.700**
Net Financial Debt	14.536	30.070	93.549	23.029	7.147	6.146
Net Financial Debt for Leasing	0	451.162	512.195	546.730	562.369	554.941
Equity	287.382	299.339	261.104	322.400	392.976	453.613
Sources of Funding	**301.918**	**780.571**	**866.848**	**892.159**	**962.492**	**1.014.700**

Table 11: Balance sheet reclassified by sources and uses
Source: Brunello Cucinelli, Financial Statements (2018-2023)

The following paragraphs will analyse in detail the Group's sources of financing: the market listing, government grants, and finally the tax breaks it has benefited from.

2.3.1 Debt financing: Composition and Strategy

The table below portrays the composition of the Group's sources and uses between 2018 and 2023. In 2019, the Group adopted IFRS 16 (see 2.3.2), which resulted in an increase in Net Invested Capital and debt of € 451,162 thousand. The data of 2018 do not take into account the new standard.

Statement of Financial Position Reclassified by Sources and Uses (thousands of €)	2018	2019	2020	2021	2022	2023
Uses						
Net Working Capital	129.457	155.104	186.735	142.162	140.786	178.330
Fixed assets	172.829	607.091	655.252	715.133	774.207	773.784
Other non current assets/liabilities	(368)	18.376	24.861	34.864	47.499	62.586
Net Invested Capital	**301.918**	**780.571**	**866.848**	**892.159**	**962.492**	**1.014.700**
Net Financial Debt						
Cash and Cash equivalent	56.606	68.932	72.834	98.003	117.400	106.944
Current financial assets	9.013	9.130	11	80	108	883
Current lease finance recivables	0	315	173	2.633	2.628	2.954
Liquidity	**65.619**	**78.377**	**73.018**	**100.716**	**120.136**	**110.781**
Current financial debt	30.062	59.436	2.409	10.934	45.854	64.782
Current finance debt for leasing	0	62.661	75.412	79.610	90.066	97.498
Current part of non-current financial debt	24.067	18.072	103.635	35.324	31.164	24.259
Current financial debt	**54.129**	**140.169**	**181.456**	**125.868**	**167.084**	**186.539**
Net Current Financial Debt	**(11.490)**	**61.792**	**108.438**	**25.152**	**46.948**	**75.758**
Non-current financial debt	26.026	30.624	60.350	74.854	47.637	24.932
Non-current lease debt	0	388.816	436.956	469.753	474.931	460.397
Non-Current Financial Debt	**26.026**	**419.440**	**497.306**	**544.607**	**522.568**	**485.329**
Total Financial Debt	**14.536**	**481.232**	**605.744**	**569.759**	**569.516**	**561.087**
of which						
Characteristic Net Financial Debt	14.536	30.070	93.549	23.029	7.147	6.146
Leasing Debt	0	451.162	512.195	546.730	562.369	554.941
Equity	**287.382**	**299.339**	**261.104**	**322.400**	**392.976**	**453.613**
Total Sources of Founding	**301.918**	**780.571**	**866.848**	**892.159**	**962.492**	**1.014.700**

Table 12: Sources and Uses
Source: Brunello Cucinelli, Financial Statements (2018-2023)

The Group primarily utilizes the following financing instruments:

1. Medium/long-term financing with multi-year amortization plans to cover investments in fixed assets.
2. Short-term financing and bank overdrafts to finance working capital.

Upon examining the previous Table 12 a further distinction between characteristic debt and leasing debt can be observed. The former represents the difference between the company's financial liabilities (such as bank loans, bond issuances, etc.) and liquid assets and marketable securities (such as bank accounts, short-term investments, etc.). Essentially, it indicates the net amount of the company's financial commitments net of its available financial resources.

The “leasing debt” refers exclusively to obligations arising from financial leasing contracts entered into by the Group to obtain the use of assets (such as machinery, equipment, vehicles, etc.) under leasing arrangements.

Therefore, the Group record both on its balance sheet and the following graph (see Figure 7) depicts the trend of the two sources of financing.

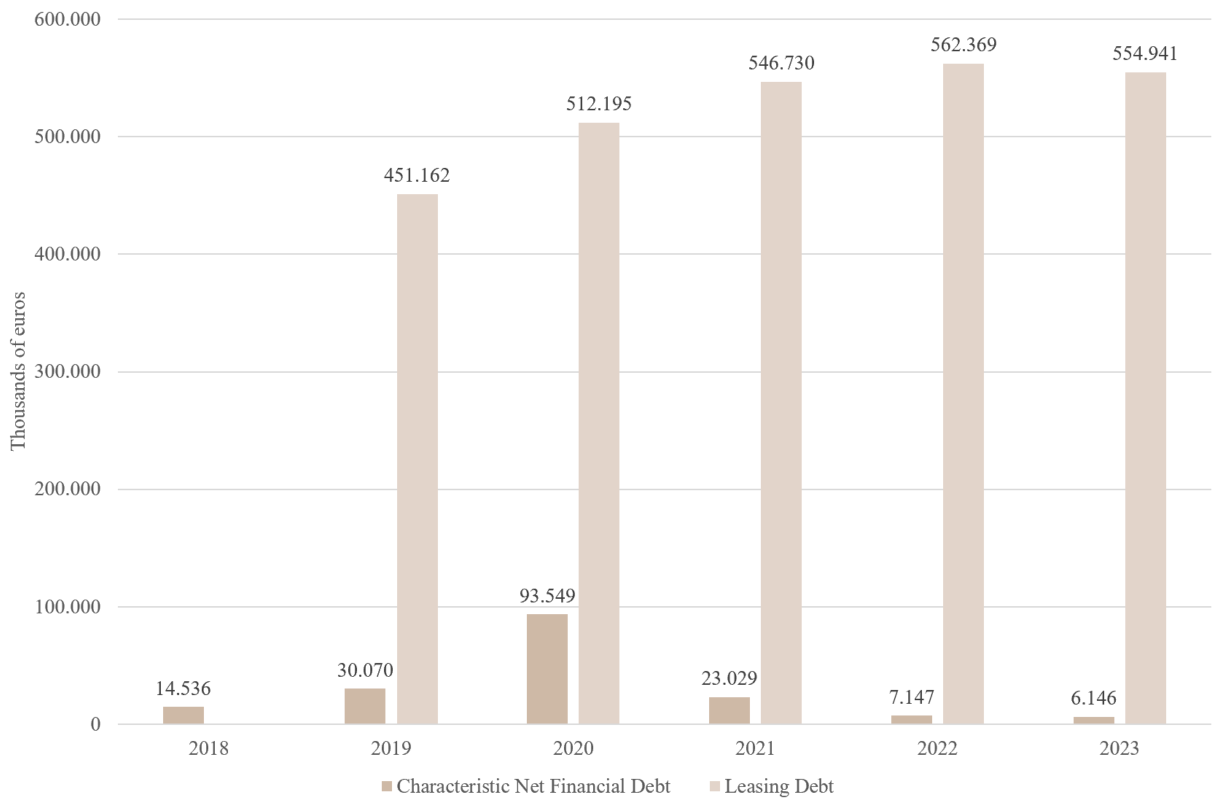


Figure 7: Composition of debt
Source: Brunello Cucinelli, Financial Statements (2018-2023)

It is clear that characteristic debt assumes marginal significance compared to leasing debt. Concerning the years between 2020 and 2023, it can be observed that the relative value of net characteristic financial indebtedness decreased during the analysed period, decreasing from €93,549 thousand euros to €6,146 thousand euros.

This decrease was facilitated by the positive economic results and the effective management of net working capital, despite the significant investment plan undertaken by the company (€61.6 million in 2021, €87.5 million in 2022 and €79.1 million in 2023, see Table 5).

This situation is favourable and provides reassurance to external financiers regarding the Group's debt sustainability.

Further reassurances for stakeholders pertain to the prudent approach consistent with sound financial management of Brunello Cucinelli Group, based on a series of measures aimed at reducing financial risk.

One of these measures is resorting to less costly forms of financing. The average cost of the Group's bank indebtedness is indeed indexed to the performance of the 3-month and 6-month Euribor rates, plus a spread depending on the financing instrument used and the Company's rating.

Additional prudence involves the constant monitoring of interest rate sensitivity to risk factors. The Group subscribes to financial instruments to hedge against fluctuations in interest rates, which could affect the cost of medium to long-term financial indebtedness, and exchange rates, which could impact the Group's economic results.

In order to mitigate market risk exposure resulting from fluctuations in interest rates associated with medium and long-term indebtedness, the Group employs derivative instruments such as *interest rate swaps*. On the other hand, short-term debt sources from banks are not subject to interest rate risk coverage.

Analysing the sources of financing reveals the following ratio between equity and third-party funds:

Leverage (thousands of €)	2018	2019	2020	2021	2022	2023
Characteristic net financial debt	14.536	47.827	93.549	23.029	7.147	6.146
Leasing Debt	0	433.405	512.195	546.730	562.369	554.941
Total Financial Debt	14.536	481.232	605.744	569.759	569.516	561.087
Equity	287.382	299.339	261.104	322.400	392.976	453.613
Total Sources of Founding	**301.918**	**780.571**	**866.848**	**892.159**	**962.492**	**1.014.700**
Leverage with IFRS 16 effects	*0,05*	*1,61*	*2,32*	*1,77*	*1,45*	*1,24*
Leverage without IFRS 16 effects	*0,05*	*0,16*	*0,36*	*0,07*	*0,02*	*0,01*

Table 13: Leverage with and without the application of IFRS 16
Source: Brunello Cucinelli, Financial Statements (2018-2023)

This scenario allows us to affirm that the Group, excluding the application of IFRS 16, prefers to utilize equity as a means of financing. As evident, leasing debt represents almost the entirety of the Group's debt. Therefore, if we consider only characteristic debt, the company is financed almost exclusively with equity.

In support of this thesis, the following table illustrates the increase in retained earnings, which transition from €220,381 thousand euros in 2018 to €313,574 thousand euros in 2023.

Profit Management (thousands of €)	2018	2019	2020	2021	2022	2023
Distribution of Dividends	18.471	20.483	1.076	0	32.294	53.118
Reserves	220.381	231.496	278.585	249.219	288.344	313.574

Table 14: Profit management
Source: Brunello Cucinelli, Financial Statements (2018-2023)

For instance, on April 9, 2020, the Board of Directors, in view of the health emergency from COVID-19, resolved to revoke the proposed dividend distribution and allocate all of the 2019 fiscal year profit of 57,216,429 euros to reserves.

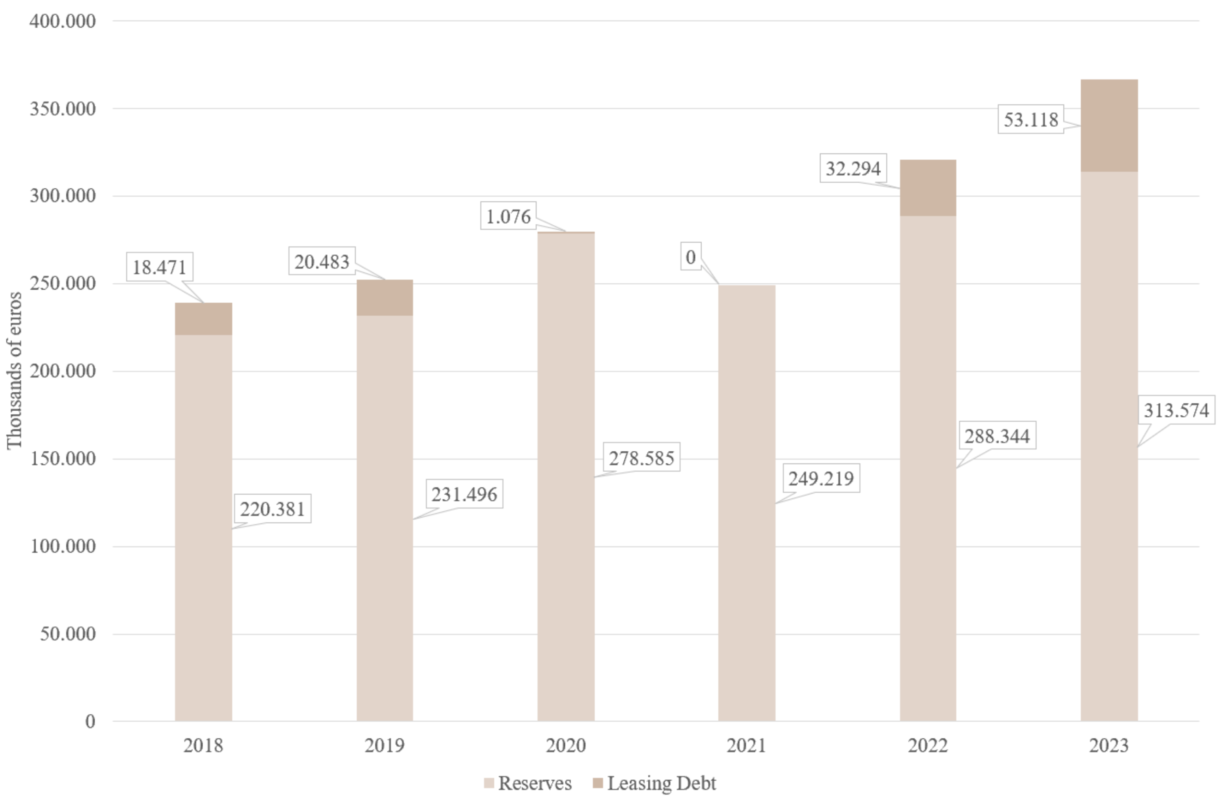


Figure 8: Dividend and Reserves
Source: Brunello Cucinelli, Financial Statements (2018-2023)

2.3.2 Leasing and IFRS 16: New Rules, New Risks

The IFRS 16 was first issued by the IASB on January 13, 2016, and became effective from January 1, 2019.

In the past, under IAS 17[11], operating leases had minimal impact on the balance sheet, because the

[11] *IAS 17 - IASB - International Accounting Standard (IAS) 17, issued 3rd November 2008:*
1. *"Finality: The purpose of this standard is to define, for lessees and lessors, the appropriate accounting treatment and disclosures for leasing transactions.*
2. *Scope: This standard shall be applied in accounting for all leasing transactions other than:*
   (a) leases for the exploration or extraction of minerals, oil, natural gas and similar non-regenerative resources; and
   (b) licensing agreements for assets such as films, video recordings, performances, manuscripts, patents and copyrights.
   However, this standard should not be applied as a basis of valuation for:
   (a) property owned by lessees that is accounted for as investment property (see IAS 40 Investment Property);
   (b) investment properties granted by lessors through operating leases (see IAS 40);
   (c) biological assets that fall within the scope of IAS 41 Agriculture used by lessees through financial leases; or

practice was to consider as expenses only the monthly portion of the lease payment and the portion of the liability to the supplier, related to the invoice to be received. This meant that there was absolutely no impact on the assets, but it also provided an incorrect display of the company's actual financial commitment to the contract entered into for the asset. A company incurring a lease for a work, let us assume five years, did not, in fact, have an effective reflection of its actual exposure.

With the introduction of IFRS 16, this commitment was standardized: leased assets are essentially treated as owned assets, while lease liabilities are immediately recognized on the balance sheet, providing a clear view of long-term debts.

This standard applies to all transactions involving a "right of use," irrespective of the contractual form, be it a lease, rental, or hire.

Therefore, from an accounting point of view, with the introduction of IFRS 16 starting in 2019 in the balance sheet of companies adopting the standard, the item "right of use" is recorded on the assets side, while on the liabilities side "lease liability" leading to an effect on net financial debt, leverage and net invested capital.

In the income statement, depreciation and amortization and any write-downs/right-of-use asset write-offs are recognized as operating expenses, interest expense accrued on lease liability is recognized as financial expenses, and any interest income accrued on leased assets is recognized as income.

The income statement indicators that change as a result of the adoption of the new standard are EBITDA and operating income.

In the scenario where amortization of the right-of-use asset and interest expense accrued on the lease liability are directly associated with the realization of assets, they are capitalized on those assets and subsequently recognized in the income statement through the depreciation/amortization

(d) biological assets within the scope of IAS 41 granted by lessors through operating leases.
This standard applies to contracts that transfer the right to use assets, although material services may be required of the lessor in connection with the use or maintenance of such assets. This Standard does not apply to contracts for services that do not transfer the right to use assets from one contracting party to the other…"

process or as a write-off.

The income statement also includes:

1. Short-term and low-value lease contract payments.

2. variable lease payments, which are not included in the determination of the lease liability (e.g., payments based on the use of the leased asset); and

3. when subject to separation, any non-lease components present;

For what concerns the cash flow statement, IFRS 16 stipulates that lease liability principal repayments are classified within the net cash flow from financing activities, while interest payments are classified within operating activities if expensed, or within investing activities if capitalized and related to assets leased out to create other assets.

When a new lease is entered into on the basis of IFRS 16, so right of use and lease liability, no flow is recognized in the cash flow statement, either in financing or investing activities.

In addition, there is an improvement in the net cash flow from operating activities, which no longer includes lease payments, but only interest expense disbursements on the lease liability.

Finally, with IFRS 16 in the statement of cash flows there will be a worsening of the net cash flow from financing activities that accommodates disbursements related to the repayment of the principal of the lease liability.

From 2019, Brunello Cucinelli has also adopted IFRS 16 accounting standard, which is why the financial analysis carried out in this section will cover the period between 2019 and 2023.

With regard to the balance sheet, we can see the recognition of the item “right of use” which relates to the object of the lease, “Current lease financial assets” concern sublease contracts receivable and have been identified as “financial leases” and classified and accounted for as financial assets for investment.

Balance Sheet Assets (thousands of €)	2018	2019	2020	2021	2022	2023
Right of use over real estate	0	433.449	470.040	504.551	519.454	500.252
Right of use on equipment	0	0	0	261	221	181
Right of use on other intangible assets	0	172	157	156	391	618
Right of Use	**0**	**433.621**	**470.197**	**504.968**	**520.066**	**501.051**
Financial assets for non-current leases	**0**	**676**	**402**	**3.886**	**5.633**	**3.272**
Current lease financial assets	**0**	**315**	**173**	**2.633**	**2.628**	**2.954**

Table 15: Balance sheet assets
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Offset in liabilities are current and non-current lease payables. As can be seen from Table 16, the lease payables that have the greatest weight are the non-current ones.

Balance Sheet Liabilities (thousands of €)	2018	2019	2020	2021	2022	2023
Non-current financial liabilities for leases	0	388.816	436.956	469.753	474.931	460.397
Current financial liabilities for leases	0	62.661	75.412	79.610	90.066	97.498

Table 16: Balance sheet liabilities
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Regarding the impacted indicators, by introducing IFRS 16, leverage, as was imaginable, worsens, as the level of debt relative to equity increases.

Liabilities Balance Sheet (thousands of €)	2018	2019	2020	2021	2022	2023
TOTAL SHAREHOLDERS' EQUITY	287.382	299.339	261.104	322.400	392.976	453.613
TOTAL LIABILITIES	208.373	697.588	818.626	846.101	930.012	926.267
Leverage	**1,73**	**3,33**	**4,14**	**3,62**	**3,37**	**3,04**
Non-current financial liabilities for leases	0	388.816	436.956	469.753	474.931	460.397
Current financial liabilities for leases	0	62.661	75.412	79.610	90.066	97.498
Total liabilities excluded IFRS 16 effects	208.373	246.111	306.258	296.738	365.015	368.372
Leverage excluded IFRS 16 effects	**1,73**	**1,82**	**2,17**	**1,92**	**1,93**	**1,81**

Table 17: Effects of IFRS 16 on the leverage
Source: Brunello Cucinelli, Financial Statements (2018-2023)

However, the offset to this will be reflected in the improvement of net invested capital as a result of the recognition of "right of use". The graph below shows Net invested capital with and without the application of IFRS 16.

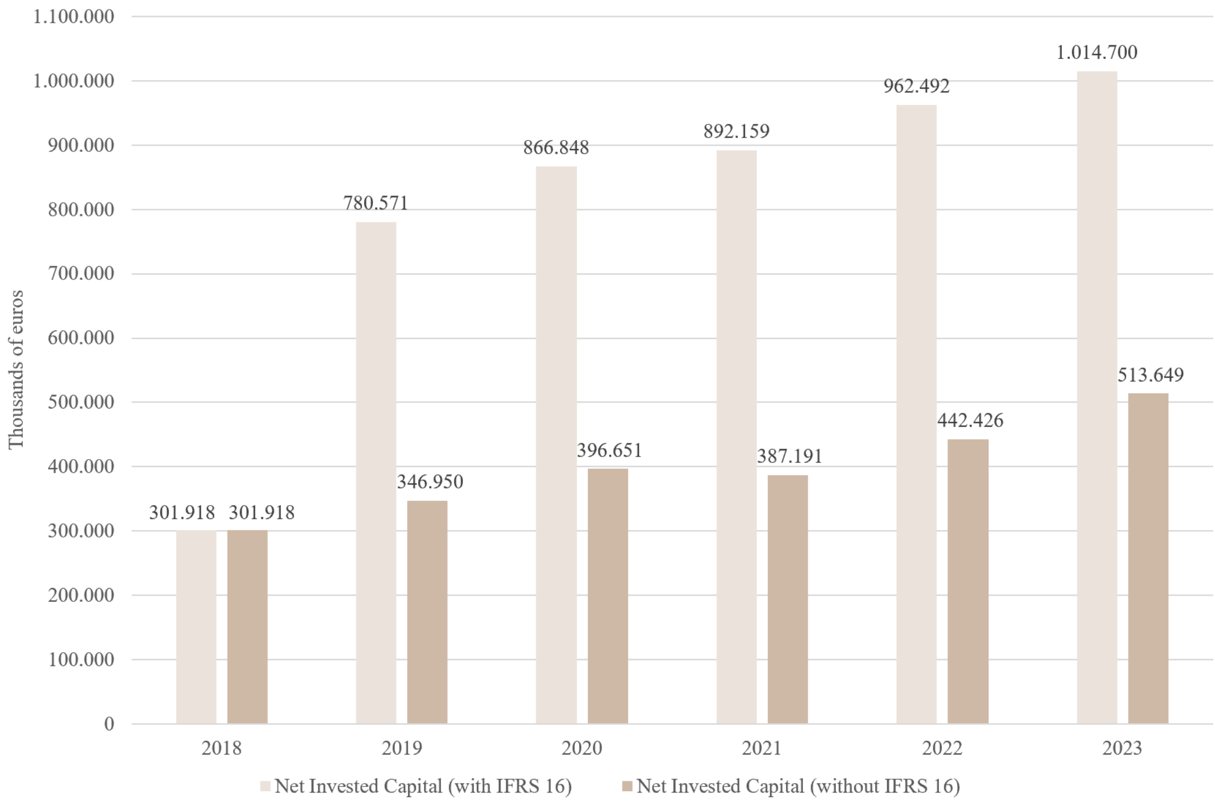


Figure 9: Net Invested Capital with and without the application of IFRS 16
Source: Brunello Cucinelli, Financial Statements (2018-2023)

With regard to the income statement, the main effects of the application of IFRS 16 involve the replacement of rent with depreciation and finance charges, which have an impact on the improvement of EBITDA, for the total amount of rent, and operating income for the effect of interest.

Income statement data (in thousands of €)	2018	2019	2020	2021	2022	2023
EBITDA	**95.143**	**169.626**	**89.466**	**193.311**	**266.357**	**326.251**
Total depreciation	**25.605**	**86.250**	**104.284**	**116.275**	**131.945**	**138.845**
Of which Depreciation of right of use	0	60.827	74.278	81.320	91.002	95.664
Operating Profit (EBIT)	**69.538**	**83.376**	**(14.818)**	**77.036**	**134.412**	**187.406**
Total financial expenses	**26.330**	**41.401**	**46.956**	**34.908**	**80.917**	**61.338**
Of which Finance charge leasing	0	10.463	13.162	10.837	13.524	19.887
Total financial income	**22.074**	**27.201**	**27.992**	**21.898**	**70.472**	**42.273**
Of which financial income on leasing	0	1.674	17	1.387	4.122	73

Table 18: Income Statement
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In the table below, EBITDA was reconstructed in the case where IFRS 16 was not applied.

As can be seen following the application of IFRS 16, the values for the item EBIDTA are higher. This increase is due to the effect of the breakdown of the lease fee. Previously, the lease fee flowed entirely to reduce EBIDTA.

With IFRS 16, on the other hand, this fee is broken down with an impact on operating income, equal to amortization, and in financial expenses for the part related to interest.

Further effect illustrated concerns the impact of EBITDA on revenues, which in the years analysed shows an improvement. An incidence of less than 10 percent does not represent a brilliant result, between 10 and 15 percent a fair value, between 15 and 20 percent a good result, and above 20 percent a very good result.

EBITDA with and without the application of IFRS 16 (in thousands of €)	2018	2019	2020	2021	2022	2023
EBITDA	95.143	169.262	89.466	193.311	266.357	326.251
EBITDA excluded IFRS 16	95.143	106.058	41.759	110.013	172.411	230.279
Net revenues	552.996	607.761	544.013	712.179	919.708	1.139.420
% Sales	17,21%	27,91%	16,45%	27,14%	28,96%	28,63%
% Sales excluded IFRS 16	17,2%	17,45%	7,68%	15,45%	18,75%	20,21%

Table 19: EBITDA with and without the application of IFRS 16
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In the specific business case, IFRS 16 generated a significant positive change in the percentage incidence of EBITDA on revenues.

In **2019**, the company's performance relative to this value was positive, increasing by 0.2 percent from the value of 17.2 percent recorded in 2018. However, the application of IFRS 16 brought this value to 27.9% with an increase of 60.34%.

The value of EBITDA in **2021** with the adoption of this new standard is 193,311 thousand euros, corresponding to 27.1% of Revenues. In **2020** EBITDA was euro 89,466 thousand and in 2019 it was euro 169,626 thousand, or 27.9% of Revenues.

On the other hand, as far as EBIT is concerned, the application of IFRS 16 has a positive effect because rent is replaced with depreciation, which is generally lower.

With regard to the cash flow statement, the effects of the new standard are produced on the cash flow from operating activities limited to interest paid and in the cash flow from financing activities for the part related to the repayment of lease liabilities

Cash Flow Statement (in thousands of €)	2018	2019	2020	2021	2022	2023
Net Income	**51.042**	**53.083**	**32.069**	**56.295**	**87.205**	**123.809**
Interest on lease liabilities	0	10.463	10.705	10.578	11.753	13.017
Interest income on leasing assets	0	(22)	(17)	(18)	(51)	(73)
Interest on lease liabilities paid	0	(10.463)	(10.705)	(10.578)	(11.753)	(13.017)
Interest on lease liabilities collected	0	22	17	18	51	(83.676)
Cash flow of operating activities	**70.102**	**115.096**	**36.462**	**215.937**	**208.176**	**209.048**
Repayment of lease liabilities	0	(53.272)	(50.630)	(83.989)	(95.478)	(95.437)
Collections of financial assets for leasing	0	288	255	1.918	2.693	2.612
Net cash flow absorbed by financing activities	**(23.682)**	**(51.595)**	**11.268**	**(127.382)**	**(115.652)**	**(163.618)**

Table 20: Cash Flow Statement
Source: Brunello Cucinelli, Financial Statements (2018-2023)

2.3.3 Public Grants: Funding Opportunities for Brunello Cucinelli's Growth

The Italian government and the European Community have provided financial help to Brunello Cucinelli company over the 2018–2023 analysis period.

The adoption of an accounting prudence principle in the context of the Group's financial statements involves a process for documenting public gifts intended to guarantee a cautious approach.

Therefore, such grants are recognized only when there is reasonable certainty that they will be effectively received and that all associated conditions are met.

Public grants related to specific cost components are accounted for as revenue but are systematically distributed across accounting periods to properly reflect the recognition of costs they intend to offset. Within the framework of the accounting practice adopted by the Group, it is noted that the grant related to a specific asset is subject to recognition as revenue through a uniform accrual scheme over the expected useful life of the asset in question.

With regard to non-monetary grants received by the Group, it is noted that both the asset and the related grant are recorded in the financial statements at their nominal value and charged to the income statement according to a constant accrual regime aligned with the estimated prospective useful life of the asset involved.

The following table summarizes the contributions received by the Group during the analysed years:

Public Grants (thousands of €)	2018	2019	2020	2021	2022	2023
Tax Credit			110	79		
Tax Credit on Incremental Advertising Investment					40	36
Tax Credit for Investment in Capital Goods			75	124	103	182
Energy and Gas Tax Credit					320	275
Research and Development Credit	1.039		544	5.202		
Non-repayable Grant			39			
Exemptions from Payments			174	52		
Support for Occupations and Wages			4.370	1.499		
European Contributions				2.298		
Contribution Exemptions Law 205/2017					52	63
COVID Emergency Health Care Contribution Waivers					40	172
Art Bonus Tax Credit (Art. 1, DL 83/2014)						235
Total Public Grants	**1.039**	**0**	**5.312**	**9.254**	**555**	**963**

Table 21: Public Grants
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Tax credits represent a fiscal bonus available to all businesses resident in Italy, including permanent establishments of non-resident entities, regardless of legal form, size, industry sector, or tax regime for income determination. In essence, tax credits constitute a credit towards the state that reduces the amount of debts or taxes owed, and in some cases, may be refunded through income tax returns.

The decree-law of April 24, 2017, no. 50, converted with amendments by law no. 96 of June 21, 2017, and subsequent amendments, introduced from 2018 onwards a **tax benefit related to incremental advertising investments**. Since 2019, companies that increase advertising investments by at least 1% compared to the previous year in newspapers (both local and national newspapers and periodicals) and local radio-television broadcasters can obtain a tax credit equal to 75% of the increase in these investments.

Regarding the **energy and gas tax credit**, from January 1 to March 31, 2022, it represented 20% of the expenditure incurred for energy, while for the second quarter of 2022, the tax credit was equal to 20/25%. The "bill decree" then extended energy and gas tax credits for businesses to the second quarter of 2023.

Non-repayable grants, on the other hand, are loans that do not require repayment by the beneficiary. In this case, the public funds granted to the company are not subject to repayment constraints, and neither the repayment of capital nor other types of interest are required.

The Budget Law 2018, known as **Law no. 205 of 2017**, established a permanent mechanism for reducing social security contributions for private sector employers. This benefit specifically applies to indefinite-term employment contracts entered into from January 1, 2018. However, this contribution reduction is subject to the condition that the hired individuals fall within specific age limits defined by regulations.

Law no. 106 of July 29, 2014, concerning "Urgent provisions for the protection of cultural heritage, the development of culture, and the promotion of tourism," established, through Article 1 known as "Art-bonus," a tax credit mechanism aimed at promoting liberal donations for the support of culture and entertainment, regardless of legal form or nature, representing a tax relief of 65% for liberal donations.

During the pandemic period, the Group received exceptional support for the COVID health emergency. In particular, public contributions aimed **at supporting employment and personnel remuneration** were disbursed to maintain the well-being and employment levels of employees.

These aids amounted to Euro 4,370 thousand in 2020, representing a containment of costs equal to 3.7% of the total personnel costs for the year, and in 2021 respectively, Euro 1,499 thousand

and 1.1%.

As evident from the graph below, the level of employees during the years under consideration has increased.

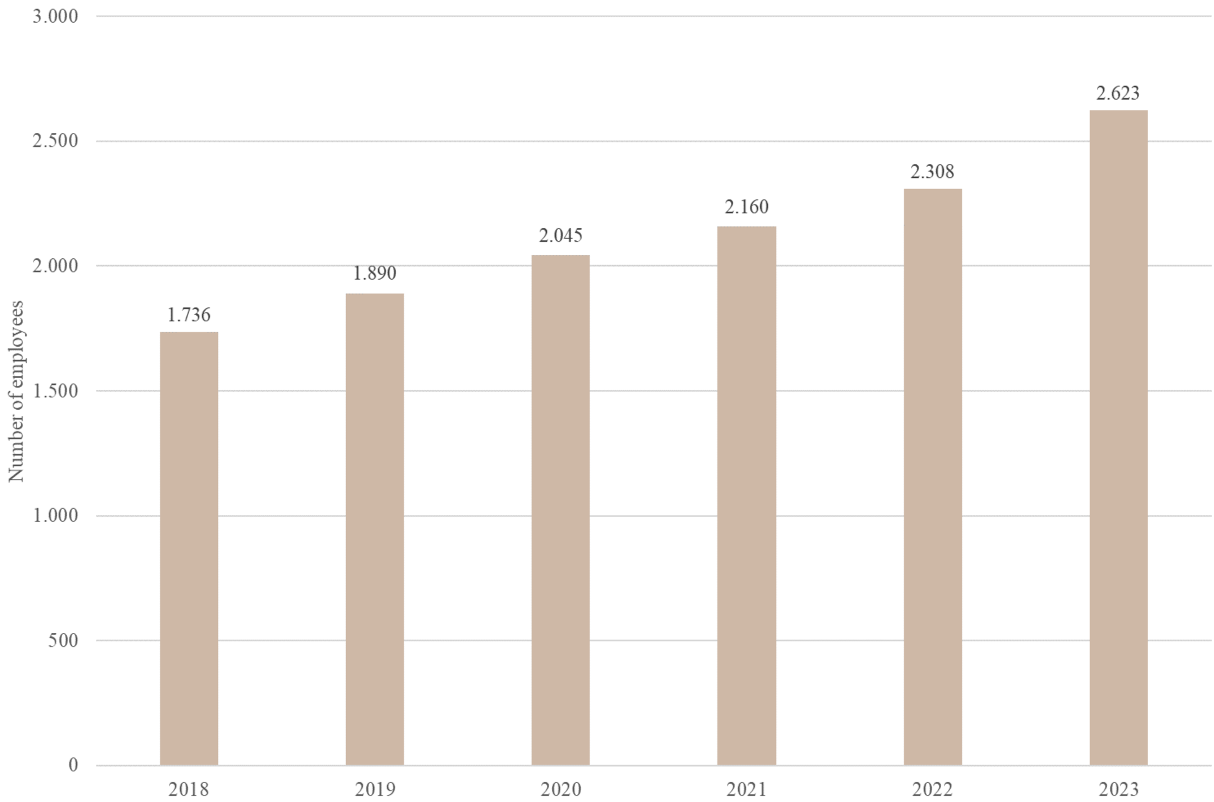


Figure 10: Number of employees
Source: Brunello Cucinelli, Financial Statements (2018-2023)

2.3.4 Patent Box: Protecting the Value of Innovation to Support Development and Competitiveness

The Patent Box represents a favourable tax regime available to holders of protected intangible assets, commonly known as intellectual property assets.

The decree-law of October 21, 2021, no. 146, subsequently converted into law with amendments by law no. 215 of December 17, 2021, introduced significant simplifications in the regulation of the Patent Box.

This optional regime is aimed at encouraging investments in research and development activities in the field of software protected by copyright and related rights, industrial patents, and legally protected designs and models.

Companies with protected intangible assets who have previously elected for the Patent Box regime can continue to do so for the duration of the option period which is five years.

On February 15, 2022, the Revenue Agency released a provision that sets the first rules for the implementation of benefits resulting from the new version of the regime.

In order to decrease the taxable income and the value of net production, the legislation allows for an increase of 110% of the expenses incurred for personnel, materials, consulting services, etc. for research and development activities related to the conservation, enhancement, protection, and valorisation of the intellectual property assets.

If eligible expenses are only partially attributable to relevant activities, they may be increased only for the portion attributable to such use.

Furthermore, companies have the possibility to cumulate this 110% increase with the research and development tax credit, offering a potential benefit exceeding 50% of the expenses incurred for the creation of intangible assets.

In general, the Patent Box legislation defines eligible *intangible assets* for the benefit as industrial patents, software protected by copyright, and legally protected designs and models.

The Revenue Agency also defines as "relevant" and therefore eligible for the benefit, activities such as industrial research, those classified as technological innovation, design, and aesthetic ideation, and activities related to the legal protection of rights over intangible assets.

In these scenarios, relevant activities must be technically supervised by the company through its personnel, and the contract for such activities must specify that the risk, both technical and financial, of any failures lies with the company. Additionally, "relevant activities" must be carried out in laboratories or facilities located in the territory of the Italian State or in European Union member states.

Brunello Cucinelli has leveraged the benefits of the Patent Box to finance its process of innovation and growth. On August 30, 2017, Cucinelli S.p.A. signed an agreement with the Revenue Agency, defining the "*methods and criteria for calculating the economic contribution to the production of corporate income from intangible assets for the so-called Patent Box, with reference to the tax years 2015-2019.*" (Brunello Cucinelli, 2017, p. 1)

The table below illustrates the Patent Box benefits that the company has enjoyed between 2018 and 2023, which ultimately impact the company's financial performance.

Patent Box Benefits (thousands of €)	2018	2019	2020	2021	2022	2023
Tax benefit "Patent Box"	5.023	5.649		1.451		
R & D			544	5.202		
Tax Credit for investment in capital goods			75	124		

Table 22: R&D-related tax benefits and credits
Source: Brunello Cucinelli, Financial Statements (2018-2023)

During 2018, the income taxes amounted to €14,240 thousand (see Table 23), constituting 21.8% of the consolidated pre-tax income. This result was achieved thanks to the tax benefit of the "Patent Box"; otherwise, the tax rate would have been 29.5%, resulting in taxes of €19,263 thousand.

Naturally, the tax benefit also reflected in the net income for the period, amounting to €46,019 thousand (see Table 23).

In the subsequent year, the Group engaged in significant research and development activities, incurring costs amounting to €10,582 thousand to develop new products meeting customer needs (e.g., the Kids line) and to consolidate the accumulated know-how.

In 2019, the net income was normalized by the effects of the tax benefit derived from the "Patent Box," allowing for a reduction in direct taxes by €5.6 million. Thanks to the application of the Patent Box, taxes in 2019 amounted to €16,093 thousand, with an effective tax rate of 23.3% on the consolidated pre-tax income (see Table 23). Otherwise, without the Patent Box benefit, taxes would have amounted to €21,742 thousand, with a tax rate of 31.4%.

It is evident, therefore, that for a company aiming for long-term growth and sustainability, a tax advantage such as the "Patent Box" represents a significant contribution to its financial and economic structure.

The following table illustrates the effects that the Patent Box had on taxes and consequently on net income for the years 2018, 2019, and 2021, during which the Group benefited from this tax incentive.

Patent Box effect on Net Income (thousands of €)	2018	2019	2020	2021	2022	2023
EBT	**65.282**	**69.176**	**33.782**	**64.026**	**123.967**	**173.341**
Taxes	14.240	16.093	1.713	7.731	36.762	49.532
Effective Tax Rate	21,8%	23,3%	5,1%	12,1%	29,7%	28,6%
EAT	**51.042**	**53.083**	**32.069**	**56.295**	**87.205**	**123.809**
Patent Box Benefit	5.023	5.649	0	1.451	0	0
Taxes without Patent Box	19.263	21.742	1.713	9.182	36.762	49.532
Tax Rate without Patent Box	29,5%	31,4%	5,1%	14,3%	29,7%	28,6%
EAT without Patent Box	46.019	47.434	32.069	54.844	87.205	123.809

Table 23: Patent Box's effect on Net Income
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Regarding R&D investment the budgets from 2020 until 2023 financial statements do not state specific information.

2.3.5 IPO: Brunello Cucinelli's Leap to the Big Market

Brunello Cucinelli S.p.A. entered the public market in 2012. The initial offering price for its shares was set at €7.75 per share. Through the IPO, the Group managed to raise €59 million, equivalent to the total subscription of the 8 million shares issued, net of the maximum commissions paid to the underwriting consortium.

Brunello Cucinelli S.p.A. also specified that demand at the maximum price (€7.75) exceeded 345 million shares, approximately 17 times the quantity of shares offered, for a total value of €2.6 billion.

During the IPO, the Group received offers from institutional investors from the United States, Continental Europe, and the United Kingdom, whose demand exceeded the reserved quota by 18 times.

Additionally, retail investors played a significant role in the share listing process, with their demand surpassing the reserved quota by 7 times. Other major fashion companies also participated in purchasing shares of the Group, such as Benetton, which acquired a 2% stake for €10 million, and Ermenelgido Zenga, which acquired a 3% stake.

Based on the offering price of €7.75 per share, Brunello Cucinelli S.p.A.'s initial market capitalization was €527 million (68 million total shares, of which 8 million were sold to third parties).

As seen in the preceding paragraphs, Brunello Cucinelli experienced significant growth over the analysed years. This growth was also reflected in the stock market, where the value of shares increased year by year, as shown in the graphs below.

Year	IPO Price	Minimum Price	Maximum Price	Closing Price	DELTA Increase of the Closing Price Respect to 2018
2018	7,75	24,7	41,7	30,5	0,00%
2019	7,75	26,54	35,7	31,56	3,36%
2020	7,75	23,7	38,74	35,7	14,57%
2021	7,75	33,04	63,9	60,7	49,75%
2022	7,75	39,14	73,25	69,1	55,86%
2023	7,75	67,2	92,65	88,6	65,58%

Table 24: Price of Brunello Cucinelli S.p.A.'s shares
Source: Brunello Cucinelli, Financial Statements (2018-2023)

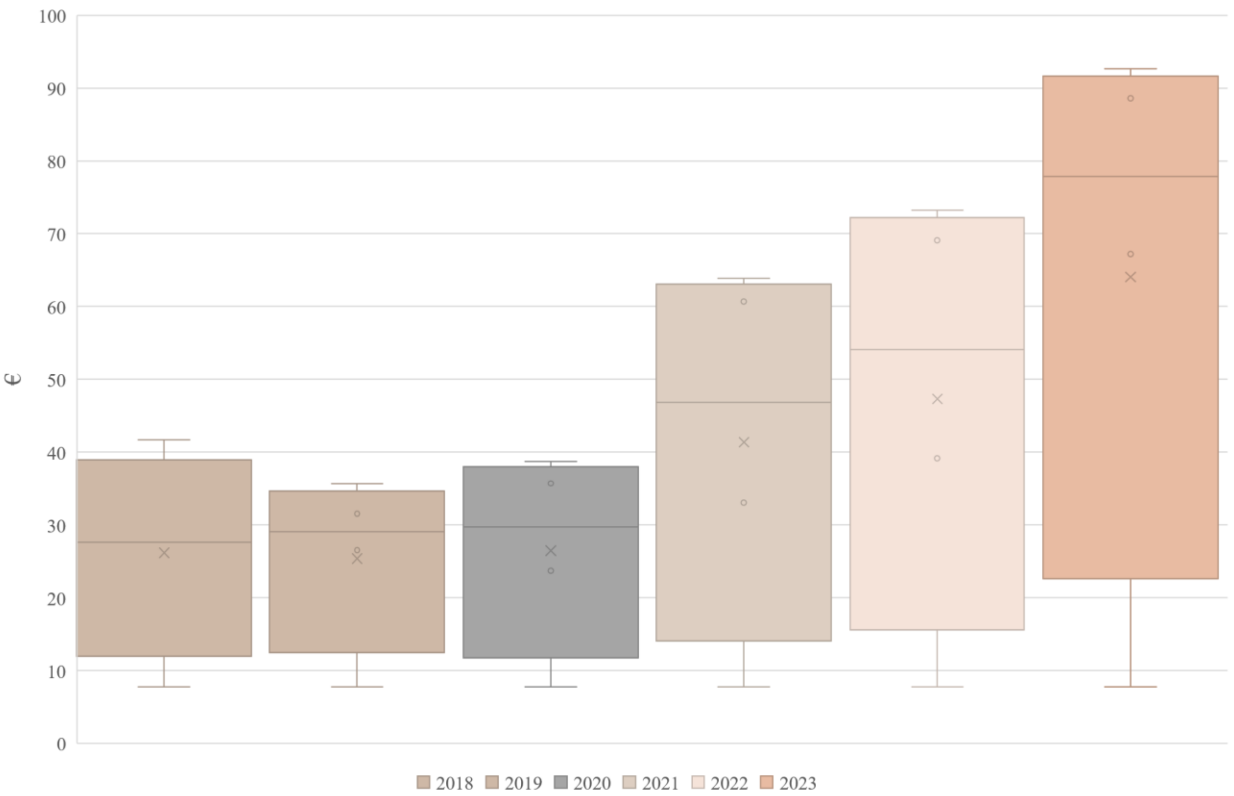


Figure 11: Price of Brunello Cucinelli S.p.A.'s shares
Source: Brunello Cucinelli, Financial Statements (2018-2023)

As evidenced, the closing price of the shares from 2018 to 2023 has increased by 65.58%. This trend provides a significant indication of the favourable reception given by the market to the strategies pursued by Brunello Cucinelli S.p.A. over these years.

It is therefore evident that the strategic directions adopted by the company have yielded positive results, manifesting concretely in the appreciation of the company's share value.

Indeed, the entrepreneur Brunello Cucinelli stated to the Milano Finanza magazine in 2024, "*Since the IPO in 2012, we have reported healthy revenue growth, averaging 13 percent annually. We are happy to be listed*" (F. Camurati, 2024), thus highlighting more general corporate growth.

In conclusion, the analysis carried out in this chapter clearly demonstrates how, through an excellent strategic management of the Group's resources, which are based on substantial investments and a strong financing strategy, it was possible to record a remarkable growth in the examined years, even in the face of the great difficulties that arose from the Covid-19 pandemic.

The strategy chosen was effective in helping the company to operate in an environment that was highly unpredictable in terms of economic trends, which proves the necessity of effective financial planning and forecasting for any business.

In addition, the targeted investments and the strong management of stakeholders helped to build a stable environment that would allow for further development and retain the confidence of financial players even in the context of a crisis.

The increase in stock value since 2018 is a testament to the fact that that the company's development and growth have been well received in the market, thus enabling the appreciation of the shares and the ability to raise capital.

This dynamic set-in motion a cycle of investment and development where the firm's ability to attract external financial resources and effectively and strategically deploy them within the firm was on the rise.

Furthermore, the increase in the value of the stock has also contributed to the reduction of the perceived corporate risk. Banks and financiers, as will be discussed in more detail in the next chapter, have demonstrated a greater willingness to fund the business, even in the event of a temporary financial downturn, such as during the pandemic period, due to the company's stability and sustainability.

The rise in the share price is therefore a clear sign of the success of the corporate strategies that have been implemented, showing how sound financial management and strategic planning can lead to sustainable growth and improvement of the company's value in the stock market.

In conclusion, this case study underscores the importance of integrated and flexible financial strategies that enable companies to quickly adapt to changing market conditions and capitalize on emerging opportunities through significant investment programs.

3 Balance and Resource Optimization as Growth Drivers

In this chapter, the aim is to examine the economic and financial performance indicators of the Group and its competitors (Hermes, Tod's, Salvatore Ferragamo, and Moncler) to provide a comparative analysis of the results.

The objective is to identify the main areas of strength that the Group has leveraged to support its development, as well as the areas of weakness that require greater attention.

Specifically, the economic results, the incentives that have stimulated and supported such growth, and the risks associated with the expansion strategy will be examined to assess how these may impact the future of the company.

Subsequently, the topic of corporate growth will be addressed in relation to the importance of balance in terms of financing, investment, and development in general, in order to pursue a successful strategy and ensure sustainable and lasting growth.

3.1 Evidence of Growth and Development of Brunello Cucinelli Group

In the previous chapter, we analysed the composition of the investments and financing of BC, which has shown strong growth in recent years due to an intensive expansion program implemented by the company.

As illustrated in the following chart, revenue growth has followed an exponential trend, reaching its peak of €1,139.4 million in 2023.

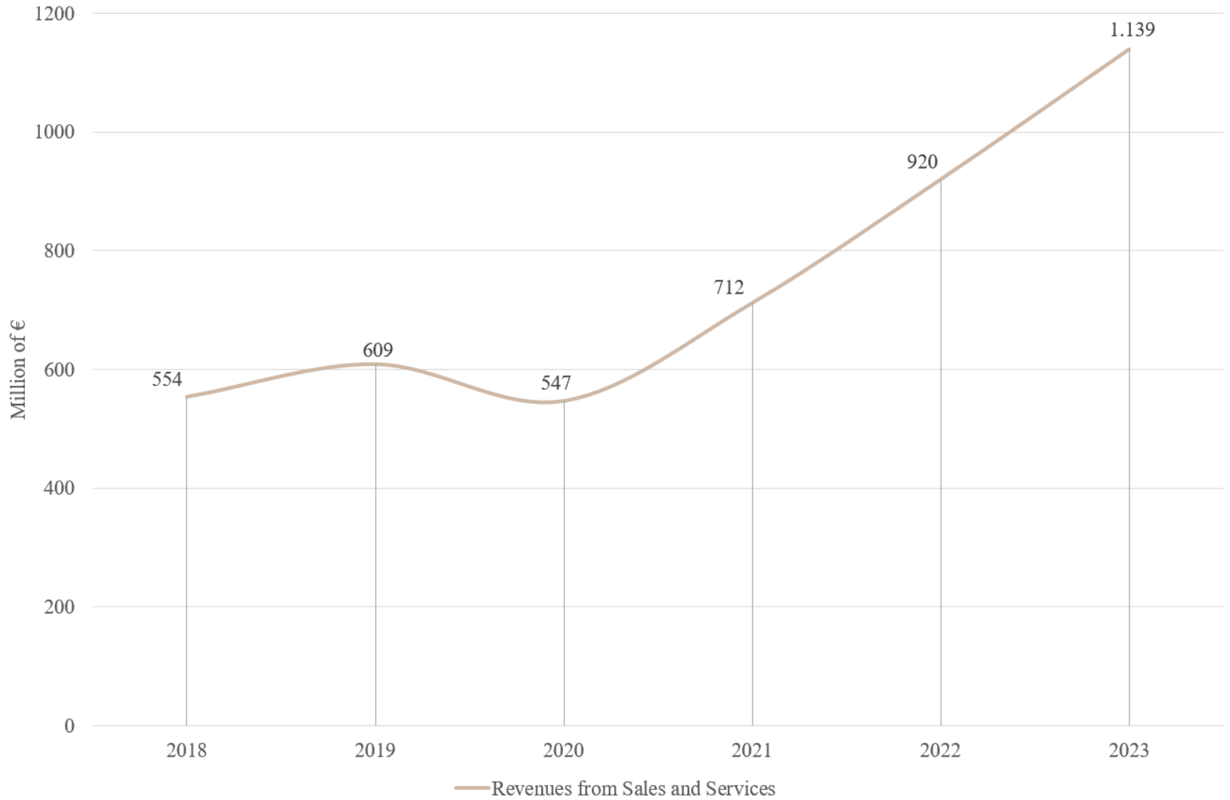


Figure 12: Revenues from Sales and Services
Source: Brunello Cucinelli, Financial Statements (2018-2023)

The preceding graphic illustrates how the pandemic caused a large drop in sales for the company in 2020. However, this was subsequently recovered, with sales in 2023 reaching approximately double (+87%) the value of 2019.

The confirmation of the company's evident growth can be recognized by considering its profitability margins, which analysts often use as essential indicators to evaluate its financial and operational performance, as well as to measure its sustainability and level of long-term success.

Two examples of profitability margins frequently used by analysts are the EBITDA Margin and the Operating Margin, which allow for the assessment of the operational performance and the company's ability to generate profits.

These indicators, in addition to providing a concise and clear judgment of the company's annual performance, offer an additional undeniable advantage as they can be considered in their temporal evolution, allowing for the identification of the potential trend in the business's development.

The EBITDA margin, which stands for Earnings Before Interest, Taxes, Depreciation, and Amortization, is a crucial metric for assessing a company's profitability because it represents the portion of total revenue remaining after deducting production expenses.

This indicator excludes the effects of operational factors, such as depreciation and amortization, and non-operational factors, such as interest and taxes, measuring solely the company's ability to generate earnings from the core operations of its main business (revenue minus production costs).

The chart below illustrates the EBITDA Margin values of BC from 2018 to 2023. As can be observed from the data trend, from 2019 to 2023, with the exception of the pandemic period anomaly and 2018, the company consistently exceeded the 27.14% threshold (the result from 2021).

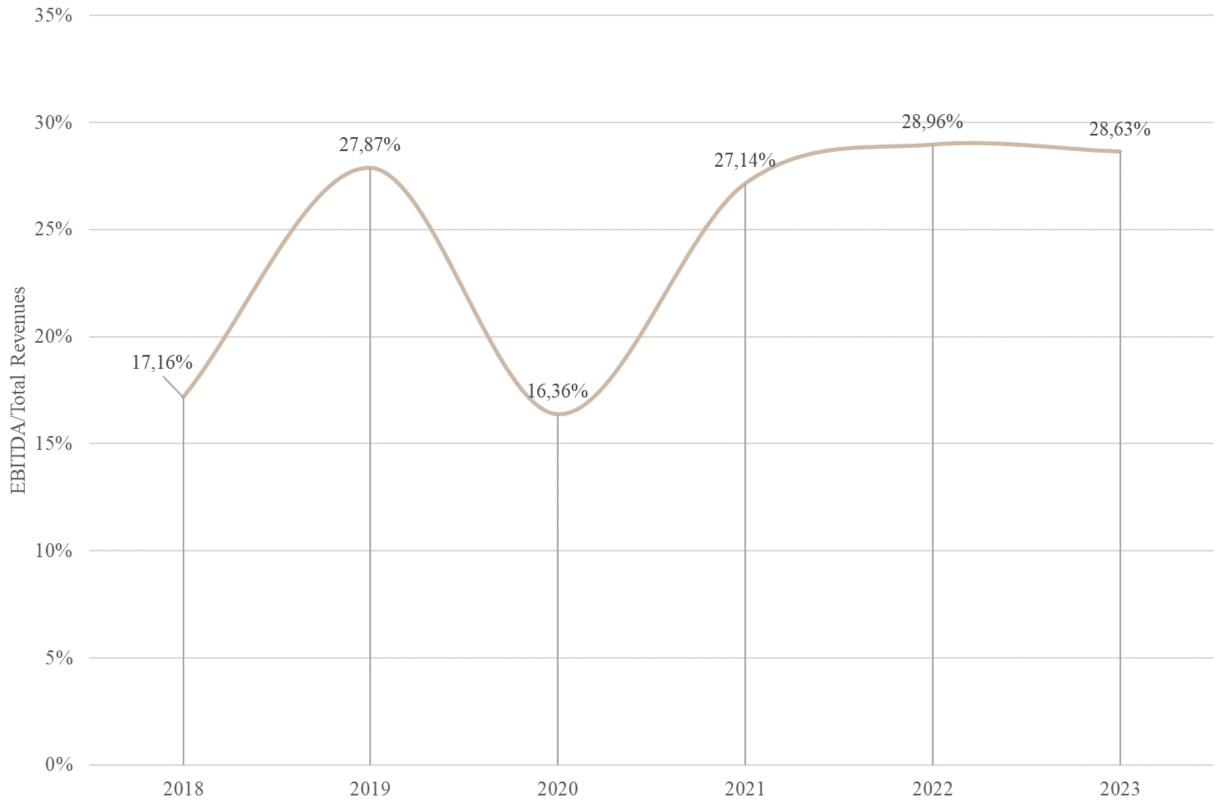


Figure 13: EBITDA Margin between 2018 and 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Values between 10% and 15% for the EBITDA Margin are generally considered good, while performance is judged excellent when above 20%. It is evident that BC, over the past five years (including the pandemic year), has shown variable but consistently good to excellent results.

Even when comparing these values (averaging 24.35% from 2018 to 2023) with the sector average (23.3%, Refinitiv data), the company confirms its excellent performance compared to competitors.

A higher EBITDA Margin for BC compared to the sector average can be attributed to two main factors.

First, it concerns the company's greater operational efficiency, resulting in more effective management of operational costs compared to the sector average.

The second factor is related to the company's ability to maintain a superior market position, allowing it to apply higher final prices or have a more loyal customer base that purchases products without being negatively influenced by possible price increases (inelastic demand).

In the case of BC, there are ideal conditions that allow for both of these potential reasons to be satisfied. The company benefits from both strong economies of scale and solid relationships with suppliers, allowing it to reduce procurement costs, especially for materials of very high quality with high unit costs, as well as having a loyal and high-spending customer base.

Analysing the historical trend of the margin (2018-2023), it can be noted that there has been strong growth over the years, occasionally dampened in the pandemic year (2019).

The annual trend of the Operating Margin also allows for the identification of a clear growth trend in BC's business results.

This margin represents the profit that a company makes on a dollar of sales after covering all operating costs (raw materials, salaries, depreciation, and impairments) but before paying interest and taxes: it represents the revenue available to cover non-operating costs.

Therefore, the Operating Margin measures the efficiency with which a company is able to generate profits through its core operations. The higher the ratio of EBIT to Revenue, the more efficient the company is in its operations, transforming sales into profit.

The following Figure 14 depicts the trend of the margin achieved by the company in the years from 2018 to 2023:

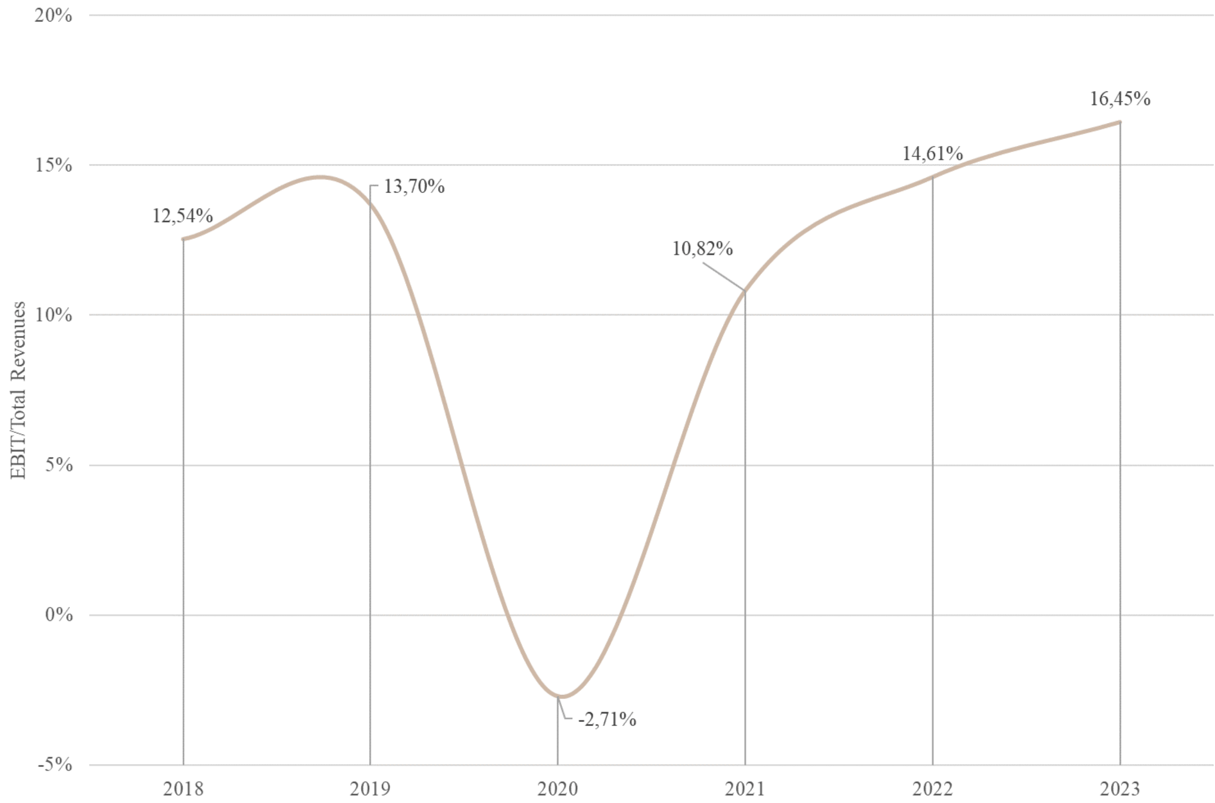


Figure 14: Operating Margin between 2018 and 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In this case, an Operating Margin exceeding 15% is considered good, while the reference sector of BC has an Operating Margin of 16.10% (Refinitiv data).

In the post-pandemic years, BC significantly improved its Operating Margin, showing a rising trend from 10.82% to 16.45%, surpassing the values of the pre-pandemic period.

This growth was caused by BC’s ability to maintain an excellent revenue-to-cost ratio during these years, recording a proportionally greater increase in revenue compared to the costs associated with operational activities.

The following Figure 15 compares the trend of revenues and costs between 2018 and 2023. From the data, it is evident that despite a 43.52% increase in costs, there was a corresponding increase in revenues of 51.47%.

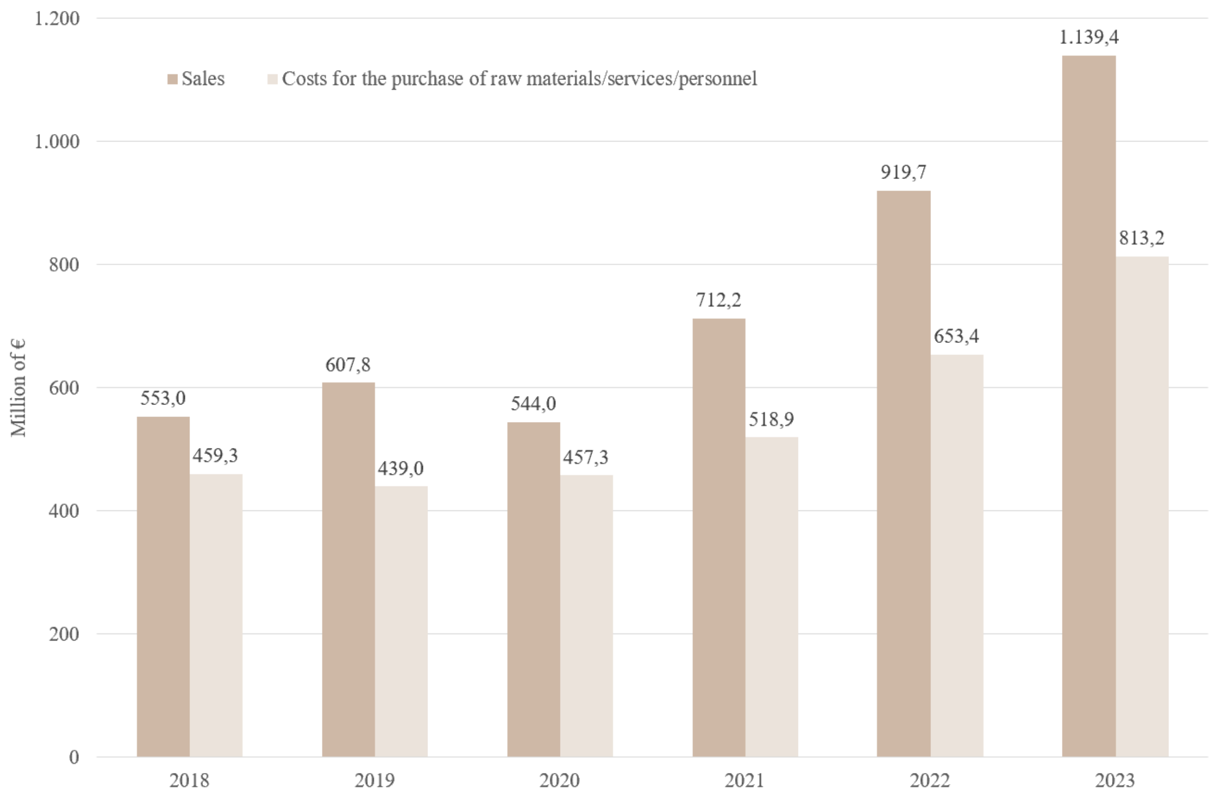


Figure 15: Operating Relation between sales and costs during 2018 – 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Consequently, there has been a progressive reduction in the cost-to-revenue ratio, decreasing from a peak of 84.1% in 2020 to a minimum of 71.4% in 2023 (see Figure 16).

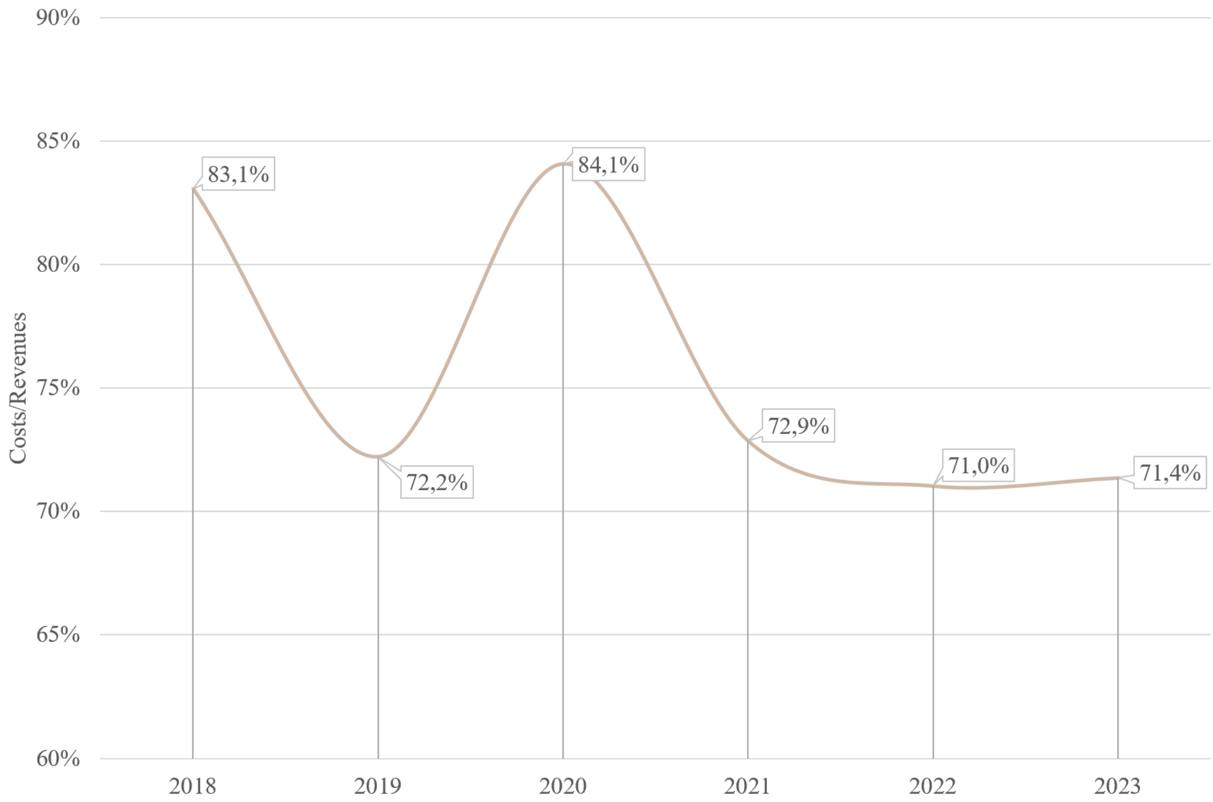


Figure 16: Costs-Revenues ratio between 2018 – 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

Such result has been made possible not only by the improvement in the level of efficiency and organization within the company but also by the high economies of scale achieved within the production chain.

Based on the simultaneous consideration of the aforementioned performance indicators achieved by the company between 2018 and 2023, it can be assumed that the Group has experienced exponential growth, which seems to be sustainable in the long term.

However, the growth of BC cannot solely be measured by the increase in revenue or efficient cost management.

As illustrated in the second chapter, the company is actively engaged in various social and cultural initiatives to promote its philosophy of “Human Sustainability.”

These initiatives constitute a fundamental element of its entrepreneurial strategy aimed at generating value not only from a financial perspective but also from a social and cultural one.

Themes such as social well-being, resource preservation, natural landscape enhancement, and the protection of historical and artistic heritage are part of a holistic and comprehensive vision present in every corporate action or initiative.

The concept of “sustainability” in its broadest sense represents a harmonious set of values, aspirations, and objectives that companies must constantly consider in formulating their medium- and long-term plans so that, in addition to achieving economic goals, they can ensure a positive and lasting impact on society and the environment.

In order to pursue and achieve these objectives, therefore, the fashion house, in collaboration with leading international research institutes, formulates its own investment and development plans and programs. The production of positive impacts on the social well-being of the communities involved is thus one of the results that the company aims to prioritize following investments.

In the annual balance sheet of 2023, the fashion house quantifies the Social Return on Investment (SROI) generated in Solomeo (PG), in the Umbrian territory, and internationally, which exceeds twice the value of the investments made over the years.

In fact, the Social Return on Investment (SROI) measures the social effects produced relative to the financial worth of investments backed by a business and other relevant stakeholder.

This index provides a thorough evaluation of the impact per unit of investment by giving a monetary value to the outcomes of social, environmental, and cultural activities. SROI gives stakeholders the ability to evaluate how well initiatives and projects produce observable social benefits.

The following figure graphically illustrates the different stages required to calculate the index and provide a report:

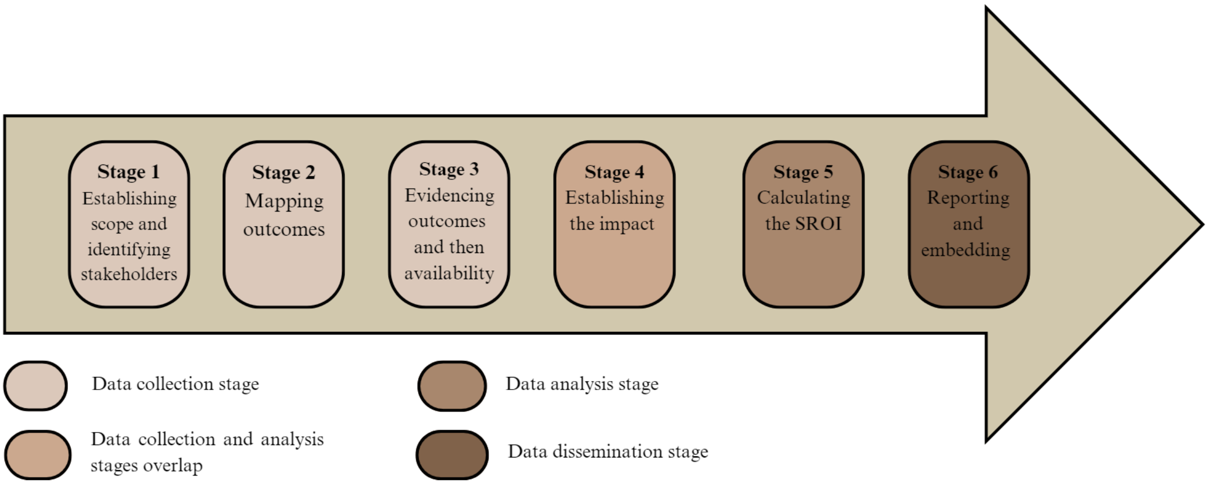


Figure 17: Social Return on Investments Index (SROI)
Source: Banke-Thomas, A., et al (2015) "Social Return on Investment (SROI) methodology to account for value for money of public health interventions: A systematic review"

The "creation of value," understood dynamically, represents a fundamental element associated with the organic growth of the company. Therefore, the SROI constitutes tangible evidence of the continuous expansion and success of the fashion house.

However, it is crucial to emphasize that the success of growth resulting from the aforementioned investments was made possible by the formulation of a well-structured financing policy.

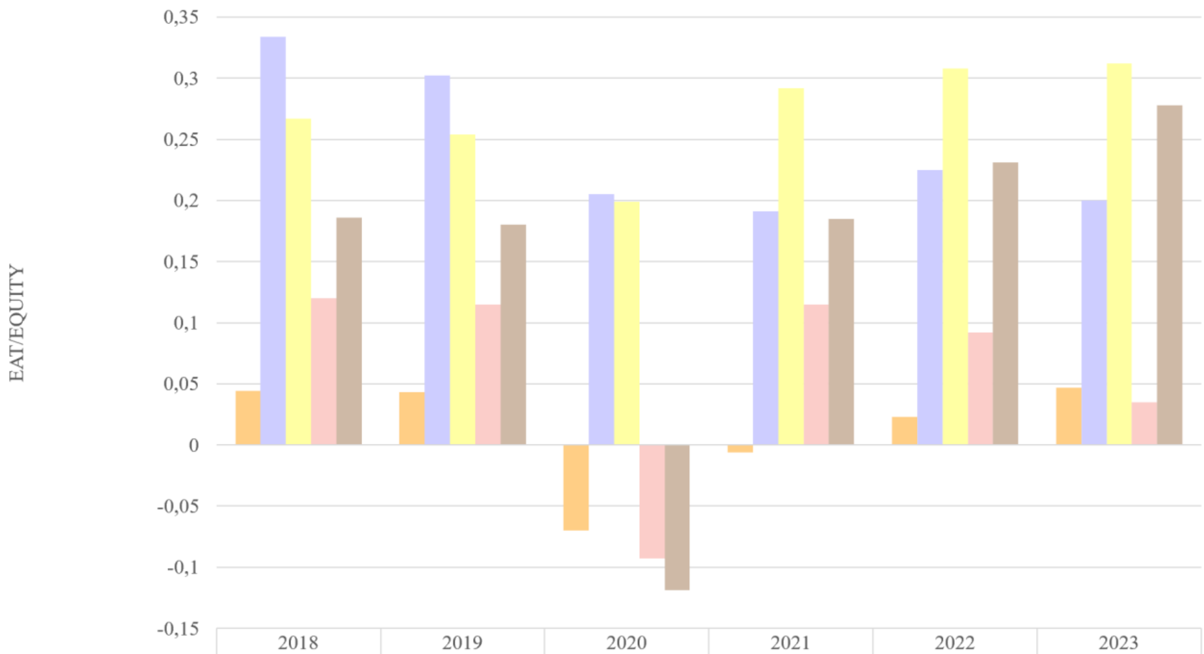
An expanding and financially solid company must unequivocally demonstrate its ability to meet the expectations of its financiers. Analysts often consider the Return on Equity (ROE) and its temporal evolution for this purpose. This indicator represents a measure of the return that shareholders realize following their investment in a specific company.

Indeed, it is unlikely that a corporate entity showing unsatisfactory performance in terms of ROE can maintain its long-term financial sustainability, as it will encounter difficulties in retaining existing shareholders and, more importantly, attracting new ones capable of providing additional capital to the company.

The analysis of variations in a company's ROE over time provides significant insights into its operational efficiency, its ability to generate value for investors, and its overall growth.

ROE is considered positive when its value exceeds the minimum return rate required by investors or the company's cost of capital.

To better understand the quality of BC's ROE, it is useful to compare it with that of other companies (e.g., Hermes, Tod's, Salvatore Ferragamo, and Moncler) operating in the same sector. The values of these companies' ROE from 2018 to 2023 are illustrated in the following graph:



	2018	2019	2020	2021	2022	2023
Tod's	0,044	0,043	-0,070	-0,006	0,023	0,047
Moncler	0,334	0,302	0,205	0,191	0,225	0,200
Hermes	0,267	0,254	0,199	0,292	0,308	0,312
Salvatore Ferragamo	0,120	0,115	-0,093	0,115	0,092	0,035
Brunello Cucinelli	0,186	0,180	-0,119	0,185	0,231	0,278

Figure 18: ROE evolution during 2018 – 2023 for BC and competitors
Source: Refinitiv

From the data presented in the previous graph, it emerges that although Moncler recorded a higher Return on Equity (ROE) than all other competitors in 2018, between 2018 and 2023, it decreased from 33.4% to 20.0% (with a decrease in the ROE value from 2018 by 40.1%).

On the contrary, BC is the company that managed to grow its ROE the most compared to all other competitors, increasing from 18.6% to 27.8% (with a 49.5% increase in the ROE value from 2018).

Regarding the other companies, as can be observed in the following graph, the variations in ROE between 2018 and 2023 were positive (although more limited compared to the case of Brunello

Cucinelli: +49.5%) with an increase of +6.8% in the case of TODS and +16.9% in the case of Hermes. On the contrary, in addition to the decrease in Moncler's ROE (-40.1%), Salvatore Ferragamo saw a decrease in the ROE from 2023 compared to 2018 by a substantial 70.8%:

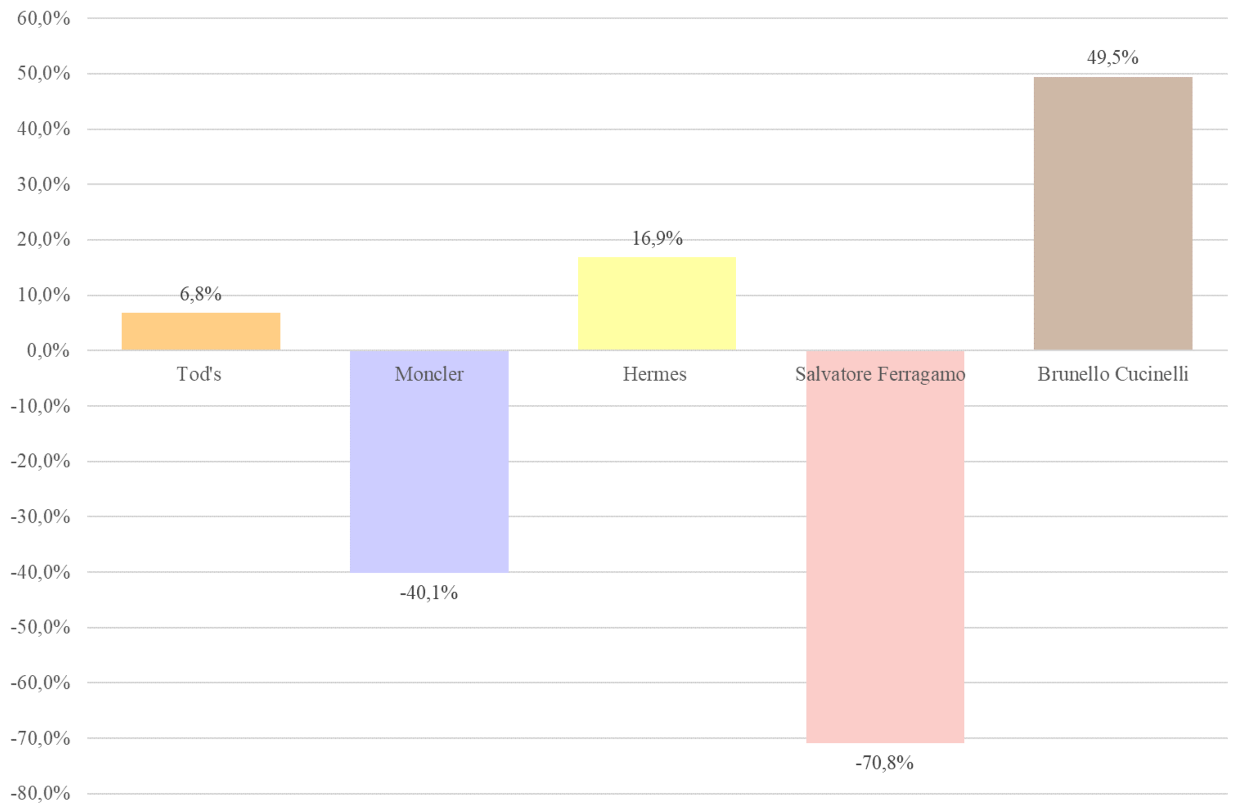


Figure 19: ROE variation during 2018 – 2023 for BC and competitors
Source: Refinitiv

Based on the previously reported ROE values, BC represents an excellent investment opportunity for investors in the market, ranking second only to Hermes but showing a better evolution of ROE from 2018 to 2023.

The increase in BC's ROE has consequently led to an increase in the risk premium, which is the additional compensation offered to investors or financiers for allocating capital to this company by purchasing its securities rather than risk-free securities such as ten-year bunds or Italian BTPs.

In this regard, it is interesting to compare the values of the risk premium for BC securities compared to ten-year Bunds or Italian BTPs over the same period.

The values are reported below:

Time	2018	2019	2020	2021	2022	2023
BUND	0,25%	-0,19%	-1,00%	-0,18%	2,56%	2,03%
BTP 10Y	2,77%	1,43%	0,52%	1,18%	4,70%	3,70%
BC's ROE	**17,80%**	**17,70%**	**-12,30%**	**17,50%**	**22,20%**	**27,30%**
ROE BC-BUND	17,50%	17,90%	-11,70%	17,60%	19,60%	25,30%
ROE BC-BTP 10Y	14,99%	16,31%	-12,80%	16,28%	17,49%	23,59%

Table 25: Risk premium for BC's stocks during 2018-2023 years
Source: Investing.com

From the values present in the previous table, it is clear that from 2018 to 2023, investing in BC "adequately rewards" the risk associated with the investment, which has exponentially increased over the years considered as a result of the company's general development process.

3.2 Fueling Growth: Unveiling the Incentives Behind Brunello Cucinelli's Success

In order to ensure the growth and success of a company, it is essential to promote and optimize all of its constituent elements that contribute to its operations and underpin its development.

Porter, in 1985, theorized in his best seller "*Competitive Advantage: Creating and Sustaining Superior Performance*" the "Value Chain" model, which described the structure of an organization as a limited set of processes.

According to the above model, an organization is seen as a set of nine processes, five primary and four supporting, through which the company succeeds in creating value for the customer.

The following Figure 20 graphically represents the structure of a company broken down by activity according to Porter's model.

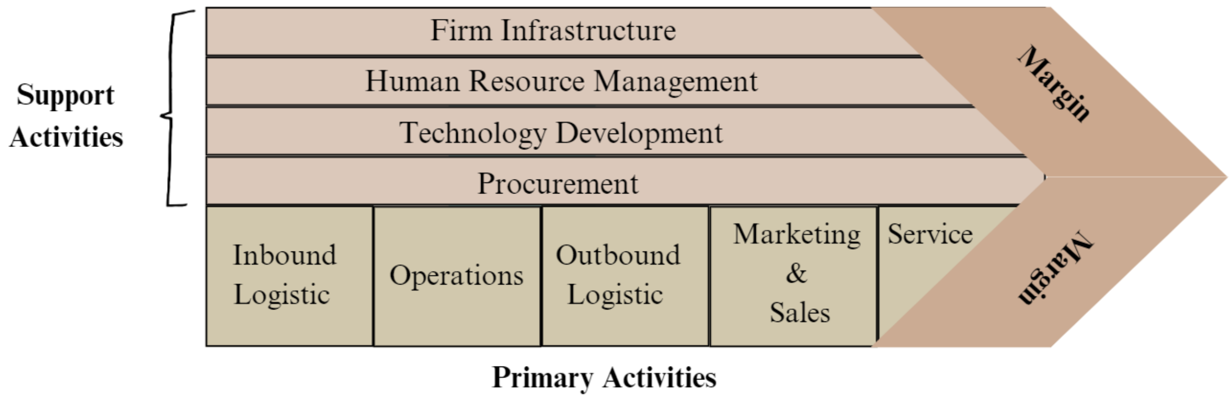


Figure 20: Value Chain according Porter Model (1985)
Source: Yun, J.J., "Editorial: Open Innovation in Value Chain for Sustainability of firms" (2017)

The Porter Model's structure not only makes it possible to pinpoint the strengths and weaknesses of each business activity, but it also provides a clear organizational framework that can be used to establish strategic goals.

Since every action carried out by the organization must be carefully coordinated with its overall objectives, the enterprise can maximize the efficiency of its operations by optimizing the interactions among its many departments.

Thus, defining corporate objectives makes it possible to focus resources and efforts in areas that have more need, ensuring that each link in the value chain makes a meaningful contribution to the attainment of the objectives.

In the end, balance, synergy, and coherence in production processes are crucial to achieving a smooth manufacturing process free from major hiccups. These elements facilitate value creation for consumers and stakeholders within the company at large.

Quality control of the raw materials used in production processes is of paramount importance and constitutes an indispensable constraint for the manufacturing process within a company like BC, which strongly believes in the artisanal component of its production.

The quality of raw materials used by the company for its products determines their characteristics and the final qualitative level, which are the typical distinguishing elements compared to competitors' offerings.

Prudent and careful management of raw materials, integrated with advanced control strategies, ensures consistency of results, coherence with the company's style, and operational excellence.

In the previous chapter, for example, the purchase (in March 2022) by BC of a 43% stake in the share capital of Cariaggi S.p.A. was mentioned. This decision clearly represents a strategy adopted by the entrepreneur to obtain a series of advantages.

Firstly, through this investment, the Fashion House can exert greater control over the supply chain of critically important raw materials, thereby reducing dependence on third parties and simultaneously improving supply management and timeliness.

Secondly, following the acquisition of a share of the share capital, the company can interact more directly with the supplier (Cariaggi S.p.A.) to more easily monitor the maintenance of high standards of quality of the raw materials necessary for the production of final products.

Thirdly, the operation allows the company to reduce the risks of supply interruptions and commercial relationship instability, ensuring a favourable position compared to other potential customers of the supplier. The participation has thus allowed the company to benefit from greater stability and security in ensuring the constant availability of necessary resources.

Fourthly, through this significant integration process, the company and the supplier can create operational synergies, ensuring a higher level of efficiency in production and procurement processes, with cost savings and faster delivery times. This can help increase profit margins and manage production expenses more skillfully.

Fifth, closer cooperation between a supplier and a firm can be achieved through participation in the collaborative development of new goods, technologies, or processes. This can stimulate innovation in both the supplier and the company, making them more competitive in their respective marketplaces.

While the importance of having high-quality raw materials cannot be overstated, it is crucial to understand that they alone are not sufficient to ensure the health and sustainable growth of a company. Instead, coherence and synergies among all the activities outlined in the previous Figure 20 contribute to and enable the achievement of this objective.

In order to pursue significant and sustainable corporate growth, it is imperative to establish an effective and synergistic collaboration between the decision-making levels of the company and its operational staff. This collaboration should be centered around the common goal of improving business operations, promoting innovation, and pursuing strategic objectives.

For the long-term success of the business, it is imperative that such synergistic ties be developed in order to promote a positive and productive work environment. The vital cornerstones of corporate success are the active engagement and motivation of both employees and management. Fostering a collaborative culture and common goals with the organization helps to better connect its human resources with its mission and vision, which improves strategy implementation and corporate goal achievement.

This approach, based on qualitative, managerial, and human elements of excellence, forms the foundation for sustainable and enduring company growth and entails a constant commitment to innovation and success within the context of modern enterprises.

A company's performance and long-term viability are largely dependent on the health and happiness of its workforce.

Understanding this idea is critical to creating a positive and productive work atmosphere, which benefits the organization as a whole.

Brunello Cucinelli, a prominent entrepreneur in the fashion sector, fully understands the importance of promoting employee health and well-being and considers it a prerequisite for the overall well-being of the company and its sustainable long-term growth.

Since he started his business profession, Cucinelli has consistently supported policies and initiatives that improve the health and welfare of workers. These initiatives are not only morally right, but they also show a business strategy that aims to provide the best possible working conditions in order to increase output and the success of the enterprise.

There is, therefore, a strong and direct link between employee health and the health of the company itself, which is why investing in employee well-being represents an intelligent and strategic investment to promote sustainable, enduring, and successful company growth.

Starting in 2012, the entrepreneur embarked on a series of initiatives, such as when he decided to share €5 million in profits with his 783 employees as a reward for those who had grown with the company.

In 2016, BC allocated a culture bonus to the company's 1,450 employees, distinguishing between single employees (who received a €500 bonus) and those with families (who received a bonus of €1,000), with the aim of providing economic support to promote the cultural interest of the recipients.

Cucinelli actively promotes cultural initiatives with the goal of fostering among his collaborators a philosophy and vision aligned with the company's objectives.

The culture incentives offered to employees not only provide individual benefits but also serve as a tool to cultivate a shared corporate mindset and a deeper understanding of the mission and inspiring values of the company policy.

This strategic approach aims to foster the formation of a team of motivated and success-oriented collaborators while simultaneously promoting education and personal enrichment of employees through meaningful cultural experiences.

In conclusion, BC's dedication to fostering a positive workplace culture among its staff members serves as an illustration of how making investments in people and the workspace can greatly aid in creating a happy, productive business that is consistent with entrepreneurial principles. What emerges clearly is that this process represents a virtuous circle, where growth generates further growth.

Following the results of the first semester of 2022, BC has decided to grant a financial bonus to its Human Resources as a sign of gratitude and support to offset, to some extent, the high level of inflation experienced during the period compared to previous years.

This decision follows the company's commitment to recognizing and adequately compensating the contribution of its human resources in the face of current economic challenges. The implementation of reward and recognition programs seeks to sustain a positive work atmosphere and raise employee morale, which in turn supports organizational cohesiveness and persistence in achieving goals.

Regarding management, Brunello Cucinelli has chosen to implement a stock option plan-based incentive program beginning in 2022.

On April 27, 2022, the Ordinary Shareholders' Meeting of BC approved the Stock Grant Plan 2022-2024, which envisages the free allocation of shares to executive directors and employees of the Company and its subsidiaries upon achieving certain performance objectives.

The stock grant reserve in 2022 amounts to €5.523 million, while in 2023 it amounts to €9.232 million, with an increase of €3.709 million compared to the previous year (+67%).

On January 9, 2023, the board of directors of BC authorized Mediobanca to commence, from January 10, 2023, a share buyback program on behalf of the Company: as a result of the operation, the Fashion House acquired 47,250 of its own shares.

Subsequently, all these shares were granted free of charge to executive directors and top employees of the Company and its subsidiaries.

Stock grant plans "equity settled" as provided by IFRS 2[12] are valued at fair value recognized in the income statement over the service period by the beneficiaries, and, in return, an equity reserve is recognized. The determination of the fair value of stock grants is made on the date of their allocation, reflecting market conditions existing at that date.

In cases where a "vesting period" is envisaged, during which certain conditions (achievement of

[12] *IFRS 2 – IASB – International accounting standard (IFRS), issued 3rd November 2008:*

1. *"Finality: The purpose of this IFRS is to define the financial reporting of an entity that enters into a share-based payment transaction. Specifically, it requires an entity to recognize the effects of share-based payment transactions, including expenses related to transactions in which share options are granted to employees, in the income statement and statement of financial position.*
2. *Scope: Scope: An entity shall apply this IFRS in accounting for all share-based payment transactions, regardless of its ability to specifically identify all or part of the goods or services received, including:*
   (a) share-based payment transactions settled with equity instruments,
   (b) cash-settled share-based payment transactions, and
   (c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide that the entity, or the supplier of those goods or services, may choose between cash settlement by the entity (or with other assets) or the issuance of equity instruments, except as noted in paragraphs 3A-6. In the absence of specifically identifiable goods or services, there are other circumstances that may indicate that goods or services have been (or will be) received, in which case this IFRS applies…"

objectives) must be met for the grantees to become entitled to the right, the cost recognized in the income statement, determined based on the current value of the shares at the date of allocation, is spread over the related service period.

However, it is important to look at history as a lesson for the future: there are indeed risks associated with stock options.

In the 1990s, in the USA, stock options were one of the most common forms of compensation for top managers, middle managers, and often for all workers. However, at the beginning of the century, corporate scandals tainted the image of this instrument, turning it from an alternative incentive form into a useful tool for corruption.

To fully understand the history and problems of this instrument, it is necessary to frame the situation in the USA in the 1980s; during those years, a major industrial restructuring was undertaken, abandoning mature sectors and turning to emerging ones.

The tools used were Leverage Buy Outs (LBOs), which increased companies' debts and promised managers gains in the form of stock options if the restructuring was successful. The success of LBOs led many companies to adopt them in their incentive programs.

However, while LBOs have a reference shareholder who holds a significant share of the company and decides the compensation offered to managers, in many American companies, it was the same board of directors, appointed by the CEO, who decided the CEO's compensation.

It is clear, therefore, that this situation exposed companies to possible corruption scenarios. Another problem related to this situation in the USA was that managers were offered stock options with a very short time horizon.

This condition led, in some cases, to managers manipulating accounting data to increase the stock price and, consequently, the value of the options they held, which, when quickly sold, allowed them to earn significant profits.

To align the management's goal with that of other shareholders, therefore, it is important for stock options to have a very long exercise horizon so that managers are forced to hold the shares for a long time.

Since top management decisions have a strong impact on the company's value, only when stock options are properly structured do they represent a very valid tool to induce them to operate correctly towards the company by making the right decisions to increase its value.

In conclusion, it is evident that harmony, synergy, and balance within an organization, encompassing aspects such as processes, human resources, and financial structure, are fundamental to ensuring the efficiency of its operation and, consequently, the increase in value and success of the company.

3.3 Beyond the Horizon: Examining Risks Associated with Brunello Cucinelli's Growth

The growth process of a company, along with its positive economic and financial effects such as increases in turnover and profit, and other indirect effects such as improved market positioning, brand recognition, and increased attractiveness to investors and/or financiers, entails significant challenges of both an operational and financial nature.

Identifying and understanding the potential effects associated with growth processes are fundamental for developing an effective, efficient, and sustainable long-term strategy. To enable optimal company growth, based on a significant investment plan, it is essential to develop a carefully structured financial plan capable of meeting financing needs effectively and prudently over time.

In the specific case of BC, between 2018 and 2023, the company experienced exponential growth, which, as illustrated in Chapter 2, was made possible through important investment projects.

These projects were made possible by a Group policy aimed at maintaining adequate financial solvency, ensured by a liability structure always balanced with the composition of the asset base.

As already outlined in the Chapter 2, the main financing instruments typically used by the Group are:

1. Long-term financing with a multi-year amortization plan, utilized to cover investments in fixed assets.

2. Short-term financing and bank overdrafts, employed to finance working capital.

The management of BC must adopt a proactive approach in managing financial resources, based on the projected needs of the company's production/commercial sector. This involves ensuring an adequate balance between equity capital and debt, as will be further elaborated in the subsequent § 3.4.

An effective financing strategy not only covers liquidity needs to support business expansion but also maintains the solvency and financial stability of the Group.

Furthermore, conducting a careful analysis of the cost of capital and market conditions is crucial to optimize the financing structure and minimize its negative impact on the income statement.

The accurate management of credit risk, interest rates, and currency fluctuations is another crucial element to ensure sustainable and lasting growth.

As evident from the examination of financial data, the Group's management highlights the potential risks associated with its solvency and financial stability.

Subsequently, based on the information reported in the Group's consolidated financial statements, the following risks will be illustrated: currency exchange rate risk, interest rate risk, liquidity risk, and credit risk.

In particular, BC is exposed to fluctuations in currency exchange rates in which sales transactions are settled (mainly US dollar) with subsidiaries and third-party customers, against a cost structure primarily concentrated in the euro area.

Due to the geographic composition of the corporate structure, which includes controlled companies in different countries with different currencies, the Group is exposed to exchange rate risk related to intercompany financial flows (mainly dividends, financing, capital transactions, etc.).

Furthermore, adverse effects on the income statement may occur due to the differing significance of costs and revenues denominated in currency compared to when price conditions were defined (economic risk) and as a result of the conversion of commercial or financial receivables/payables denominated in currency (transactional risk).

Such a situation exposes the Group to potential losses affecting its performance, as the euro equivalent of revenues may decrease due to unfavourable fluctuations in the exchange rate, no longer guaranteeing the previously anticipated desired margin.

Other effects associated with exposure to this risk include:

1. The revaluation/devaluation of active and passive items denominated in foreign currency;
2. Changes in the fair value of derivative instruments used to hedge active and passive items denominated in foreign currency;
3. Changes in the fair value of the ineffective component of derivative instruments used to hedge highly probable future transactions in foreign currency.

Currency exchange rate fluctuations can also affect the equity through changes in the fair value of derivative instruments used to hedge highly probable future transactions in foreign currency. In general, an appreciation of the US dollar against the euro has a positive effect on the Group's operating profit as it increases the value of revenues denominated in dollars when converted into euros.

Conversely, a depreciation of the US dollar could result in a decrease in the value of revenues denominated in that currency when converted into euros and, consequently, in a reduction of the Group's operating profit, as revenues from countries with currencies in dollars would be converted into euros at a less favourable rate.

This situation can result in a decline in the Group's overall profitability and have a big influence on strategic choices about investments and managing foreign exchange risk.

The Group can reduce the currency rate risk using a number of different tactics. The one adopted by BC is represented by entering into forward foreign exchange contracts to pre-agree the conversion rate or, at least, a predetermined range of conversion rates on future dates.

The use of derivative instruments allows companies to mitigate fluctuations in the exchange rate related to these transactions, recording changes in their market value directly in equity.

Contracting debts and credits in the same currency is a good way to balance foreign currency liabilities and assets in order to reduce exchange rate risk.

This strategy, referred to as "natural hedging," consists of creating revenues and incurring liabilities or costs in the same currency to balance out foreign exchange cash flows. By using this method, the Group's economic performance becomes more predictable, financial results stabilize, and net exposure to exchange rate risk is decreased.

Careful financial planning and integrated management of currency holdings are necessary when implementing a "natural hedging" strategy to make sure that the maturities of loans and credits line up to optimize the efficiency of the hedge.

The second risk to which the Group is exposed is "translation risk." This danger arises when the assets and liabilities of consolidated companies, whose functional currency is different from the euro, may have variable euro equivalents depending on exchange rate movements. Such variations are reflected in the "translation reserve" within the equity.

Furthermore, the Group's strong exposure to the exchange rate increases the risk of converting the assets and liabilities of foreign subsidiaries (with a currency other than the euro).

The third risk illustrated in the paragraph is related to the interest rate, mainly attributable, in the case of BC, to short-term and medium-to-long-term financing. The interest rate risk represents the danger for the company of being exposed to unfavourable fluctuations in interest rates, which could impact the market value of the Group's financial assets and liabilities, the level of net financial expenses, and ultimately, the burden of medium-to-long-term financial indebtedness.

In conclusion, therefore, the interest rate risk could imply significant costs that impact the company's income statement, such as possible variations in financial charges, differentials related to derivative instruments in use, and potential changes in the market value (fair value) of derivative instruments. Regarding the equity, variations in the value of the effective component of hedging derivative instruments are recorded following changes in their fair value.

BC, specifically, is subject to this risk only with respect to variable-rate debt instruments, and in order to minimize the likelihood of this scenario occurring, the company carefully plans its financial structure while keeping overall exposure under control and resorting to less burdensome forms of financing.

The Group also utilizes derivative instruments such as interest rate swaps, as mentioned in §2.3.1, to hedge against interest rate risk and manage the balance between fixed-rate and variable-rate borrowing.

Interest rate swaps are a particular type of derivatives, which are financial instruments whose value depends on that of an underlying asset, such as stocks, bonds, interest rates, or currencies. Among the main types of derivative contracts there are even options, futures and forwards.

These instruments can be used for various purposes. "Hedging" is one of the main uses of derivatives, allowing investors and companies to reduce the risk associated with market fluctuations, thus protecting their investments from potential losses.

Additionally, derivatives are used for "arbitrage" purposes, a strategy that takes advantage of price disparities between financial instruments or marketplaces to make money with little risk. Finally, traders can take positions on future price movements and try to profit from market volatility by using derivative contracts for "speculative" purposes.

In the case of BC, derivatives are used exclusively for hedging purposes to minimize exposure to transactional exchange rate and interest rate risks.

Interest rate swaps involve the exchange between the company and an intermediary of opposing payment flows, one at a fixed rate and the other at a variable rate, anchored to a contractually specified parameter (usually the 3 or 6-month Euribor).

This instrument is typically used by companies that fear interest rate hikes and instead decide to convert existing variable-rate financing into fixed-rate financing, using interest rate swaps to define the cost of financing.

Extinguishing variable-rate financing would entail costs that are not incurred because the company, by receiving or paying a differential relative to the variable parameter (typically Euribor), transforms the variable cost into a fixed cost.

This avoids increases in such costs beyond certain levels but foregoes potential decreases associated with possible declines in the parameter.

Another potential risk to which all companies are exposed is liquidity risk, which occurs when the company is unable to meet payment obligations due to difficulty in raising funds (funding liquidity risk) or liquidating assets in the market (asset liquidity risk).

The consequence of such an event is a negative impact on financial results if the company is forced to incur additional costs to meet its obligations or, as an extreme consequence, a situation of insolvency that jeopardizes business continuity.

To avoid incurring this risk, companies' risk management should attempt to maintain an adequate amount of readily available financial resources to cope with exogenous shocks (drastic changes in scenarios, restrictions on access to capital markets, etc.) or to ensure an adequate level of operational flexibility for the company's development projects.

In the specific case of BC, risk management seeks to limit exposure to liquidity risk by always monitoring the components of operating working capital, particularly receivables from customers and payables to suppliers, as will be further discussed when addressing credit risk.

Therefore, liquidity risk management plays a fundamental role in assessing a company's financial stability.

In order to provide a clear and detailed representation of current and future liabilities, it is presented below in the Table 26 The stratification of BC's outstanding liabilities over the various years according to amounts, maturities and associated costs.

This detailed analysis shows, with precision, the Group's short- and long-term financial commitments by identifying critical maturities and related borrowing costs.

The table below, therefore, provides an essential overview for proactive liquidity management and ensuring that financial strength is maintained in the context of the company's operations and contractual obligations.

Expiration and years	Capital (Euro/000) (Financial Debt)	Interests (Euro/000) (Financial Debt)	Commercial Debt (Euro/000)	Derivatives (Euro/000)	Total (Euro/000)
2018					
By 12 months	24.089	261	76.585	205	101.140
Between 1 and 2 years	12.260	152	0	104	12.516
Between 2 and 3 years	9.418	89	0	17	9.524
Between 3 and 5 years	4.234	28	0	(31)	4.231
Between 5 and 7 years	0	0	0	(1)	(1)
More than 7 years	0	0	0	0	0
Total	**50.001**	**530**	**76.585**	**294**	**127.410**
2019					
By 12 months	18.049	258	89.453	192	107.952
Between 1 and 2 years	15.204	165	0	113	15.482
Between 2 and 3 years	9.551	86	0	41	9.678
Between 3 and 5 years	5.759	36	0	(4)	5.791
Between 5 and 7 years	(17)	0	0	(1)	(18)
More than 7 years	0	0	0	0	0
Total	**48.546**	**545**	**89.453**	**341**	**138.885**
2020					
By 12 months	103.552	829	91.412	241	196.034
Between 1 and 2 years	26.573	217	0	147	26.937
Between 2 and 3 years	18.749	128	0	59	18.936
Between 3 and 5 years	14.895	65	0	12	14.972
Between 5 and 7 years	(1)	0	0	0	(1)
More than 7 years	0	0	0	0	0
Total	**163.768**	**1.239**	**91.412**	**459**	**256.878**
2021					
By 12 months	35.270	587	102.654	164	138.675
Between 1 and 2 years	29.958	735	0	(258)	30.435
Between 2 and 3 years	23.064	484	0	(222)	23.326
Between 3 and 5 years	20.708	255	0	(123)	20.840
Between 5 and 7 years	0	0	0	0	0
More than 7 years	0	0	0	0	0
Total	**109.000**	**2.061**	**102.654**	**(439)**	**213.276**
2022					
By 12 months	31.134	1.796	137.040	(1.282)	168.688
Between 1 and 2 years	24.240	1.043	0	(790)	24.493
Between 2 and 3 years	15.326	390	0	(275)	15.441
Between 3 and 5 years	6.850	109	0	(81)	6.878
Between 5 and 7 years	0	0	0	0	0
More than 7 years	0	0	0	0	0
Total	**77.550**	**3.338**	**137.040**	**(2.428)**	**215.500**
2023					
By 12 months	24.239	1.019	166.244	(783)	190.719
Between 1 and 2 years	15.329	312	0	(195)	15.446
Between 2 and 3 years	6.851	82	0	(54)	6.879
Between 3 and 5 years	0	0	0	0	0
Between 5 and 7 years	0	0	0	0	0
More than 7 years	0	0	0	0	0
Total	**46.419**	**1.413**	**166.244**	**(1.032)**	**213.044**

Table 26: Stratification of outstanding liabilities of BC between 2018-2023 referring to financial instruments by residual maturity
Source: Brunello Cucinelli, Financial Statements (2018-2023)

The Group may also be exposed to credit risk, which is the possibility of losses from counterparties' noncompliance with agreements, if it decides to pursue a growth plan.

Credit risk is categorized into two groups: financial and commercial. Daily business activities like sales and purchases expose a company's liquidity to the risk of nonpayment from consumers. This is where commercial credit risk originates.

Derivative contracts and other transactions involving financial counterparties assessed at fair value are examples of financial activities and investments that are associated with financial credit risk.

The financial health of the organization depends on the efficient handling of these two types of risk.

Credit risk in the context of BC primarily pertains to sales to wholesale channels and those made in the retail channel where cash or credit or debit cards are accepted as forms of payment.

Credit risk and liquidity risk are related and critical aspects of risk management of Brunello Cucinelli Company. Liquidity risk is another major risk that the company faces, and it is minimized through proper management of the operating working capital, especially the supplier payables and the customer receivables.

However, it is crucial to point out that the increase in commercial credits might be associated with revenue increase, and, therefore, the existence of a relationship is necessary to evaluate to determine the company’s efficiency in managing commercial debts and credits in relation to the revenue growth from the year 2018 to 2023.

This analysis will enable an assessment of how business growth affects the financial structure and determine the measures that BC has put in place to maintain a balance between its commercial debts and credits and the measures to avoid liquidity issues.

The following Figure 21 illustrates the relationship between trades payables and receivables of BC between 2018 and 2023.

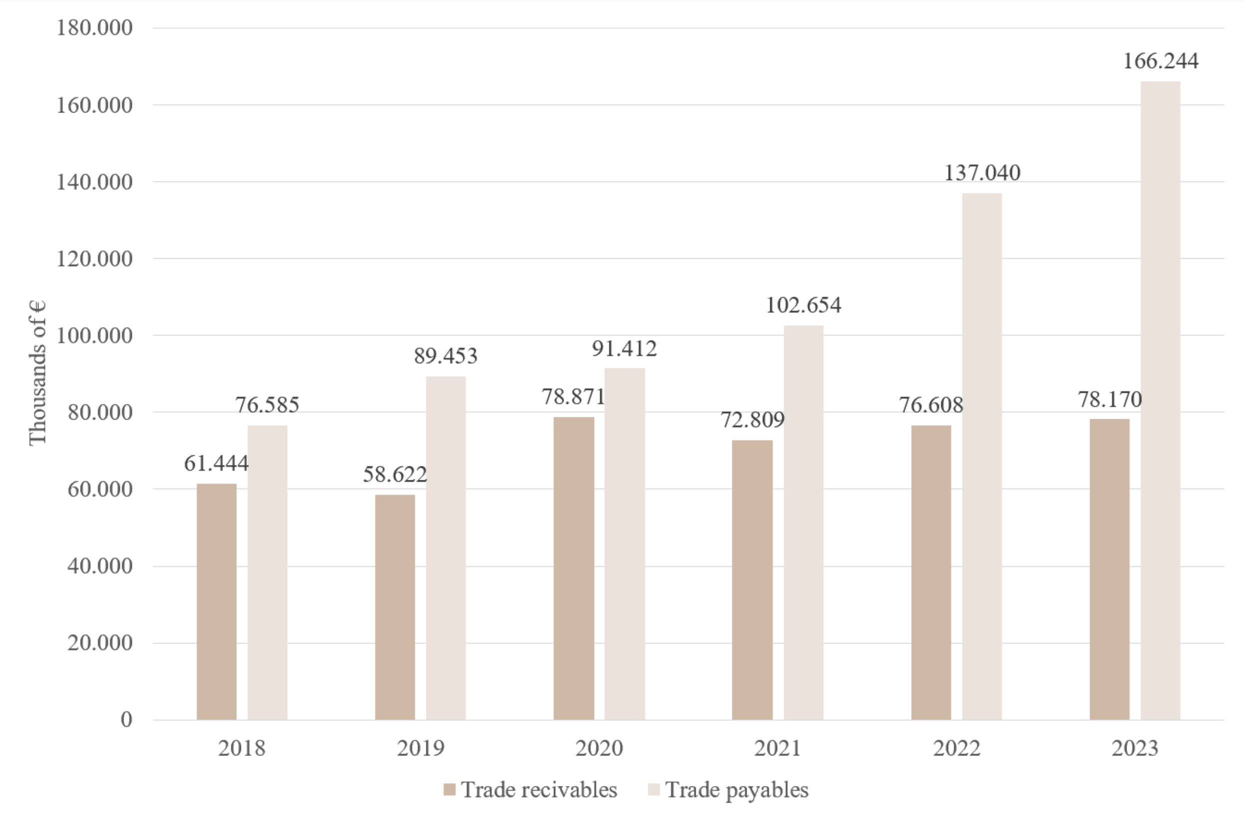


Figure 21: Trades Receivables and Payables of BC between 2018 and 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

During this period of growth, accounts receivable from customers grew by 27.24%, from 61.444 mil euros in 2018 to 78.170 mil euros in 2023.

Looking at the graph, however, it is possible to see a significant increase in trade payables, which grew from 76,585 euros in 2018 to 166,244 euros in 2023 (equal to +117.15%).

The increase in trade payables is mainly attributable to a physiological increase in the main costs (ancillary and consumable raw materials, processing, advertising and other commercial expenses) related to the increase in the volume of business in the year.

In fact, the increase in accounts payable is due to a number of reasons, including the increase in procurement activities and investments in the expansion of operations.

In general, therefore, the dynamics of trade payables are organically related to business growth, new development initiatives, and major investments, including those in communications.

An important element to consider in order to highlight the company's economic-financial-operational health is the fact that, during FY 2020, which was characterized by the pandemic, and the following years (2021-2022-2023), although characterized by a substantial increase in payables, the Group did not change the timing of payments to its suppliers, collaborators, and consultants.

However, one must consider the effect of this growth on the cash flows and the liquidity of the company. However, higher payables may result in a higher cost in terms of interest, so proper management of the financial cycle and payment policies is important.

In this regard, the Group states that it seeks to obtain sufficient cash generation in order to exploit it in the outgoings necessary for supplier payments without, therefore, compromising the short-term treasury balance and avoiding critical issues and tensions in current liquidity.

Observation of the dynamics shown in Figure 21, in addition to what has just been stated regarding trade payables, indicates that the Group has effectively managed cash flows during the growth period.

In addition, the moderate growth in receivables compared to payables suggests, that the Group has been able to extend the time to pay suppliers longer than receiving payments from customers. This strategy has been useful in ensuring that the Group has a good liquidity position, and has not been faced with cash flow issues, and that there is adequate funding available for future investments and operations.

Maintaining a higher balance in accounts receivable than accounts payable has helped the Group to exercise better control of the financial resources, thus improving working capital management and ensuring a proper balance between income and expenses.

This situation is attributable, primarily, to a dynamic of healthy collection management, both to the relative incidence of sales from the wholesale channel and to sales made through the retail channel.

The Figure 22: graphically shows revenues by distribution channel in order to give an idea of the differential growth among them.

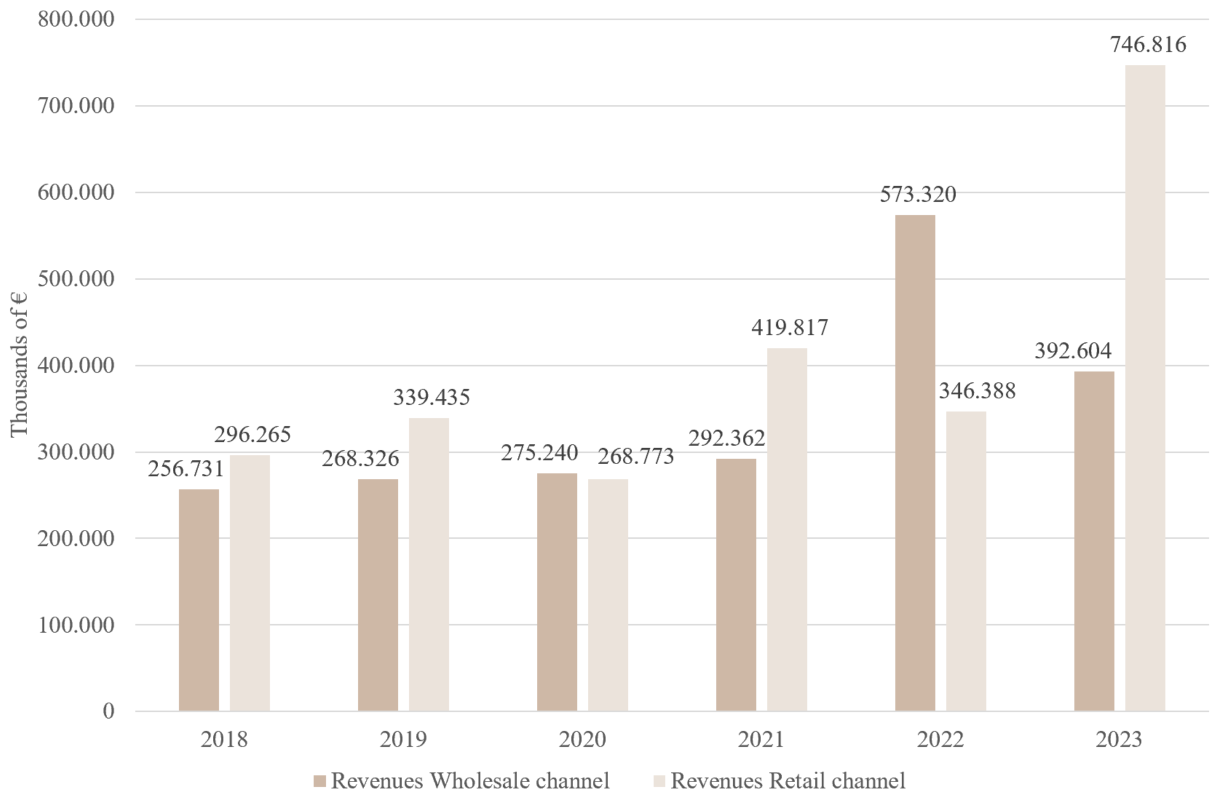


Figure 22: Revenues by distribution channel for BC between 2018 and 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In 2020, during the pandemic, the value of trade receivables increased by 20.249 million of €.

This increase can be attributed to a number of factors. First, the delay in payment by some customers due to the economic difficulties generated by the health crisis. Next, the other two events that caused an increase in trade receivables in 2020 were: the increase in shipments in the wholesale channel and the increase in the balance of overdue receivables.

However, with the exception of extraordinary circumstances such as 2020, the Group has demonstrated sound management of its trade receivables over the years, as evidenced by the analysis in Figure 21.

In fact, one of the strengths of the BC lies in its commercial policy based on close proximity and collaboration with established and high-quality customers.

In addition, in order to reduce credit risk, the Group's policy is to maintain business relationships as a priority with customers with whom established relationships have been established over time.

Before granting credit, another precaution taken by the Group is to conduct a preliminary assessment of the creditworthiness of the debtor, both with reference to information obtainable from specialized agencies and through observation and analysis of data on the trend of the number of existing customers.

During emergency events and periods of strong global market tension, such as the Covid-19 pandemic, the customer selection methods followed by BC have allowed for the activation and maintenance of an extremely collaborative and mutually supportive relationship, even in the management of commercial credits.

Similarly, in 2001 (the September 11 attacks on the World Trade Center, New York) and in 2008 (the bankruptcy of Lehman Brothers), the Group was able to manage credits with flexibility and positivity, and within a couple of semesters, it was able to return to ordinary conditions without prejudicing business opportunities.

Starting from the following year, in fact, the balance of "Commercial Credits" had decreased compared to the previous year by an amount equal to €6,062 million, despite an overall increase in turnover of +30.9%, of which +6.2% in the wholesale channel alone.

The restoration of ordinary payment terms after the turbulence in the global markets of 2001 and 2008 was facilitated by certain significant wholesale customers. To these customers, with whom the Group has established over time a relationship of close collaboration and consolidated mutual trust, payment extensions had been granted.

Another element to consider in assessing the Group's ability to manage its credits is the analysis of the relationship between the increase in sales of BC and overdue credits, as illustrated in the following graph (Figure 23).

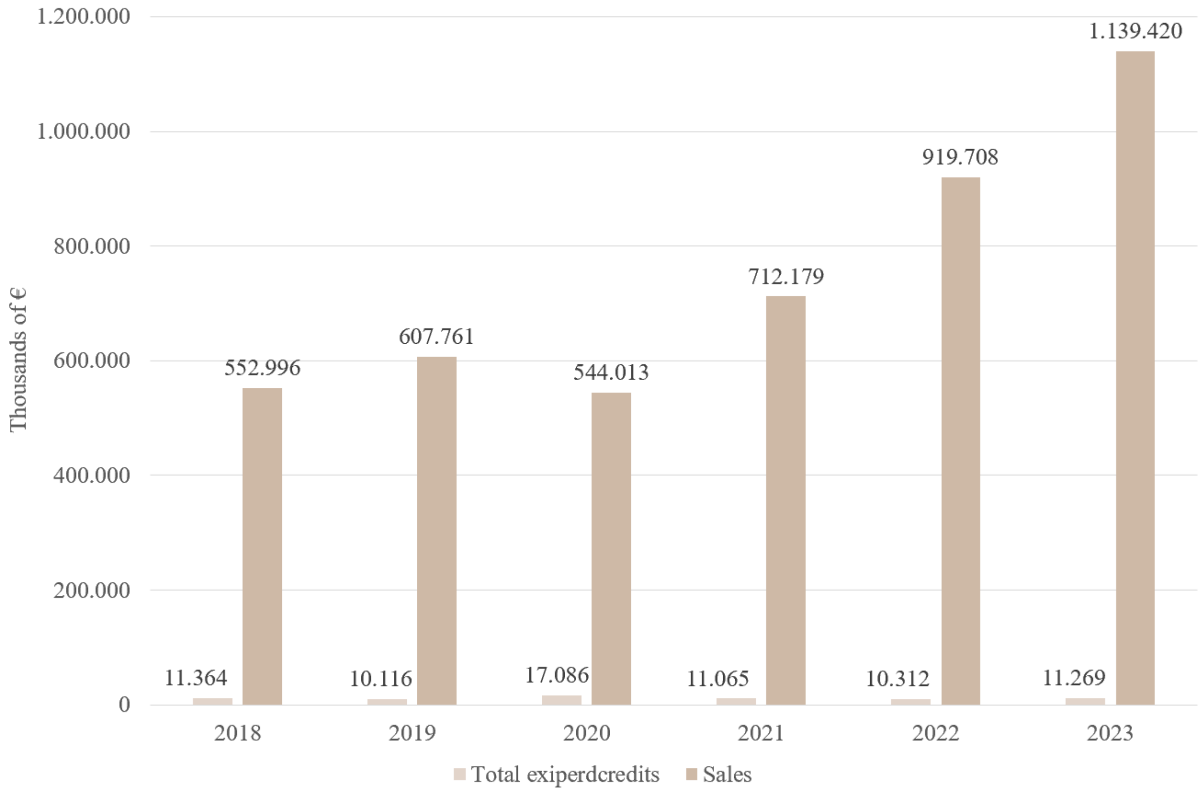


Figure 23: Relation between expired credits and sales of BC between 2018 and 2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In fact, despite the increase in sales, the company has been able to maintain a manageable level of credit risk exposure, avoiding a disproportionate increase in past due or uncollectible receivables.

The table below shows the Group's past due receivables in the years under analysis, which, as can be seen from the data shown, have remained essentially stable despite the increase in sales.

Expired since:	2018	2019	2020	2021	2022	2023
0-90 days	5.336	4.231	9.397	3.880	5.639	7.284
91-180 days	3.078	3.820	3.555	3.138	2.577	3.199
More than 180 days	2.950	2.065	4.134	4.047	2.096	786
Total	**11.364**	**10.116**	**17.086**	**11.065**	**10.312**	**11.269**

Table 27: Amount of BC's receivables past due by year between 2018-2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

This scenario is further evidence of the Group's ability to effectively manage credit to customers and maintain a healthy balance between business growth and financial risk management.

In conclusion, it can be said that through prudent business relationships with customers, BC manages to ensure sustainable cash flow while reducing the potential negative impact due to credit losses.

In addition, credit balance monitoring during the year conducted by BC succeeds in keeping the risk associated with credit management under control so as to ensure timely intervention and reduce the risk of losses.

3.4 Balance as a Winning Strategy

The balance within a company is a fundamental aspect of sound business management; it represents, in fact, a guiding principle for all economic entities aiming to be resilient and sustainable in the long term, maintaining harmony and coherence among the various aspects of entrepreneurial activity.

As seen in the preceding paragraph, balance must manifest in the company's ability to effectively manage human, financial, and material resources to successfully achieve its short, medium, and long-term objectives.

A balanced view within the company also implies harmonization of different functions and departments, ensuring collaboration and coordination among various business areas.

This enables optimizing resource allocation and maximizing operational efficiency while promoting a positive and motivating work environment.

Corporate balance, however, also extends to financial management, representing a crucial aspect to ensure long-term operational sustainability.

The financial structure of a company must be well-balanced between external and internal sources of funding to ensure effective management of financial risks and the ability to adequately cover financial obligations.

A healthy corporate philosophy is founded on financial balance as a guiding principle, aiming to maintain a financial position resilient to market fluctuations and economic challenges it is called upon to address.

This entails, in addition to proper management of equity and debt, careful evaluation of available sources of funding and their implications on operational and strategic decisions of the enterprise.

The ability to harmonize growth and investment needs with a sustainable financial structure is fundamental for balanced business management aimed at long-term success.

The concept of balance sheet equilibrium has already been partially addressed in § 1.2.2.1 through Mayer's theory, which theorizes the company's ability to establish its financial stability.

Mayer's “trade-off” theory states the need for companies to find a balance between the tax benefits of debt and the costs associated with financial risk such as insolvency risk, creditor monitoring costs, and loss of financial flexibility.

According to Meyers, companies optimize their market value by choosing a capital structure that maximizes the difference between the tax benefits of debt and the associated costs.

Contrary to Meyer's assertions, the Modigliani-Miller theory assumes that a company's value is solely determined by the profitability of its assets and not by the capital structure. The theory is based on three principal assumptions regarding the market, which must be free of: information asymmetries, taxes, and risk of bankruptcy.

In the presence of these three conditions, Modigliani-Miller demonstrates that the market value of a company is independent of the capital structure, and therefore, the costs and benefits of debt cancel each other out.

However, Modigliani-Miller also acknowledges that in the presence of taxes and other market distortions, the capital structure can somehow influence the company's value. An example is the tax advantage of debt that makes leveraging preferable to reduce the company's income tax.

In the real world, characterized by market distortions and the obligation to pay taxes, debt represents both a challenge and an opportunity for companies. A growing company, such as

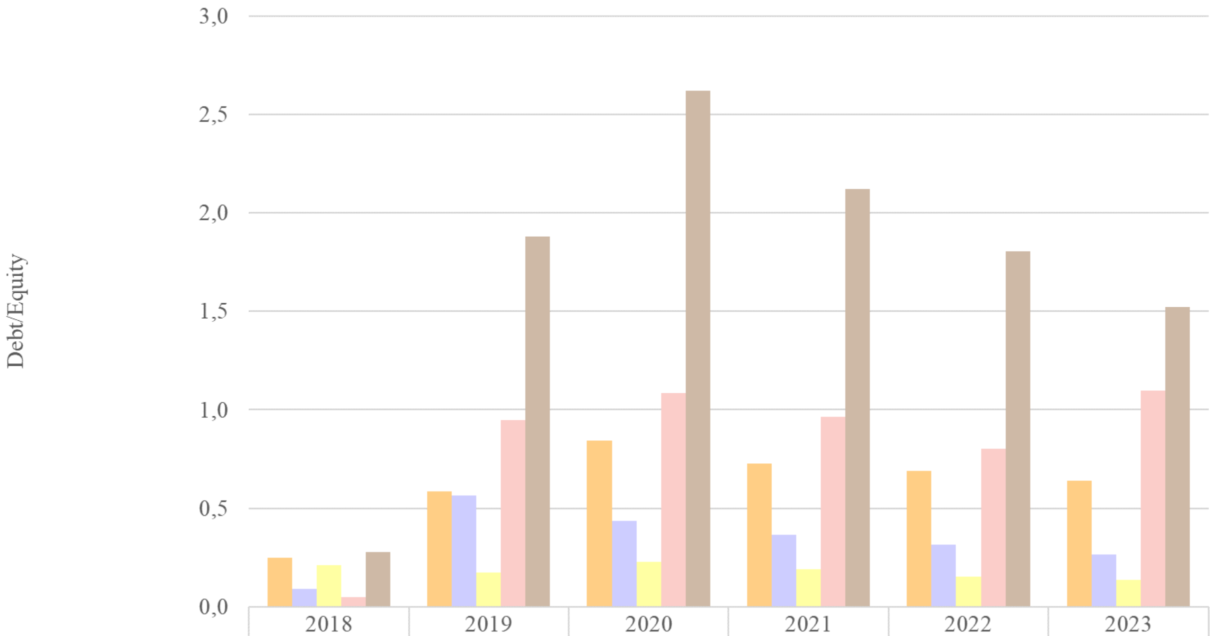
Brunello Cucinelli's, must therefore carefully plan its financial structure for several reasons.

Firstly, as demonstrated by the theories mentioned above, because the financial structure has an impact on the company's value creation, which is of fundamental importance considering its presence in the public stock market.

Secondly, a well-organized equity structure improves the level of financial stability of the company, avoiding possible risks of insolvency.

Below, therefore, the analysis of the financial structure of BC will be illustrated through the financial leverage ratio, which plays a fundamental role in measuring the level of indebtedness of a company.

The following graph shows the level of indebtedness of BC compared to other companies operating in the same sector. To calculate a company's level of indebtedness, the level of equity and debt is compared, as shown in the following graph:



	2018	2019	2020	2021	2022	2023
Tod's	0,250	0,587	0,846	0,728	0,691	0,640
Moncler	0,090	0,566	0,438	0,366	0,315	0,264
Hermes	0,213	0,174	0,228	0,192	0,155	0,136
Salvatore Ferragamo	0,049	0,949	1,087	0,963	0,804	1,097
Brunello Cucinelli	0,280	1,879	2,619	2,120	1,803	1,521

Figure 24: Debt/equity ratio for BC and competitors between 2018-2023
Source: Refinitv

This ratio represents an important financial indicator used to assess the level of indebtedness of a company and its dependence on external financing compared to equity.

In the specific case of BC, it is important to clarify that its debt is almost entirely attributable to the application of IFRS 16.

As can be seen from the values above, the data related to this index increased significantly between 2018 and 2019, the year in which the new accounting principle was applied.

From the graph, it also emerges that the debt/equity ratio is higher for BC, with a peak in 2020, and furthermore, the ratio is significantly higher than that observed in the reference sector, which is 0.76 (Refinitv data).

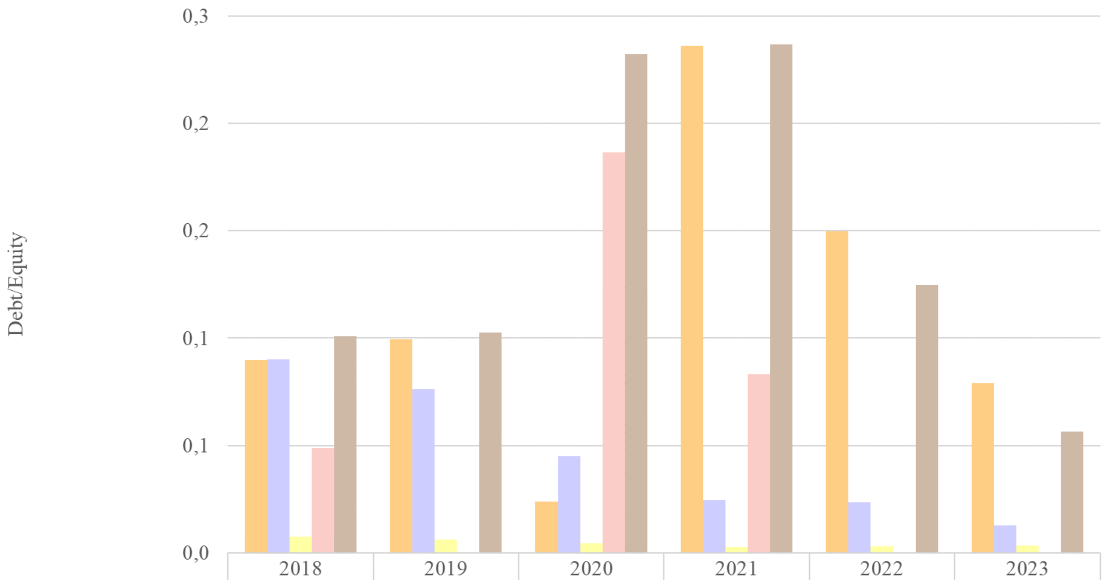
A Debt/Equity Ratio greater than 1 indicates that the company has more debt than equity: this situation may indicate a higher level of financial risk because the company is heavily reliant on external financing and, consequently, is more exposed to the risk of insolvency in case of financial difficulties.

On the other hand, a Debt/Equity Ratio less than 1 indicates that the company finances itself more with its own capital than with third-party capital: this situation is generally considered more stable and less risky from a financial standpoint.

The Debt/Equity Ratio is crucial for assessing the solvency and financial soundness of a company; often, this indicator is used by investors and analysts to evaluate the financial structure of a company and its ability to repay debts.

A high dependence on debt can negatively affect a company's ability to obtain future financing and to adequately manage financial obligations.

In the following graph (Figure 25), the value of financial leverage for each company is illustrated, recalculated in the case where leasing debts are excluded:



	2018	2019	2020	2021	2022	2023
Tod's	0,090	0,099	0,024	0,236	0,150	0,079
Moncler	0,090	0,076	0,045	0,025	0,023	0,013
Hermes	0,007	0,006	0,005	0,003	0,003	0,003
Salvatore Ferragamo	0,049	0,000	0,186	0,083	0,000	0,000
Brunello Cucinelli	0,101	0,102	0,232	0,237	0,125	0,057

Figure 25: Debt/equity ratio without IFRS 16 application for BC and competitors between 2018-2023
Source: Refinitv

As can be seen from the graph above, the leverage ratio improves significantly for all the companies considered, although BC, along with Tod's, remains the companies with the highest level of leverage.

The following Figure 26 illustrates the comparison of the trend of leverage “with” and “without” leasing debt for the various companies and the years under analysis.

Figure 26: Comparison between debt/equity ratio trend with and without IFRS 16 application for BC and competitors between 2018-2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

As can be seen from the above graph the Hermes company, as already seen in the graph above, has a low level of leverage, which clearly becomes even lower if lease debts were excluded.

On the other hand, in the event that for the purpose of calculating the leverage ratio of BC leasing debts were not considered, there would be a sudden decrease in values.

This first part of the analysis has thus revealed a significant debt redemption by Brunello Cucinelli that although predominantly attributable to leasing activities, as just verified and illustrated in Figure 26 above could pose a problem if the company's operating activities were not sufficient to repay it.

For this reason, analysts are also used to analyse debt by considering two other important ratios:

1. Financial debts/EBITDA;
2. Financial charges/EBITDA.

The first index makes it possible to measure in how many years the company would be able to repay its financial debts if it used, for this purpose, all the flows from its characteristic activity, in addition to the availability of liquid resources.

The higher this index, the longer it will take to generate sufficient resources to honour the entire outstanding financial debt.

In the following Figure 27 it is shown the trend in the years between 2018 and 2023 of BC's Debt-to-EBITDA ratio is illustrated:

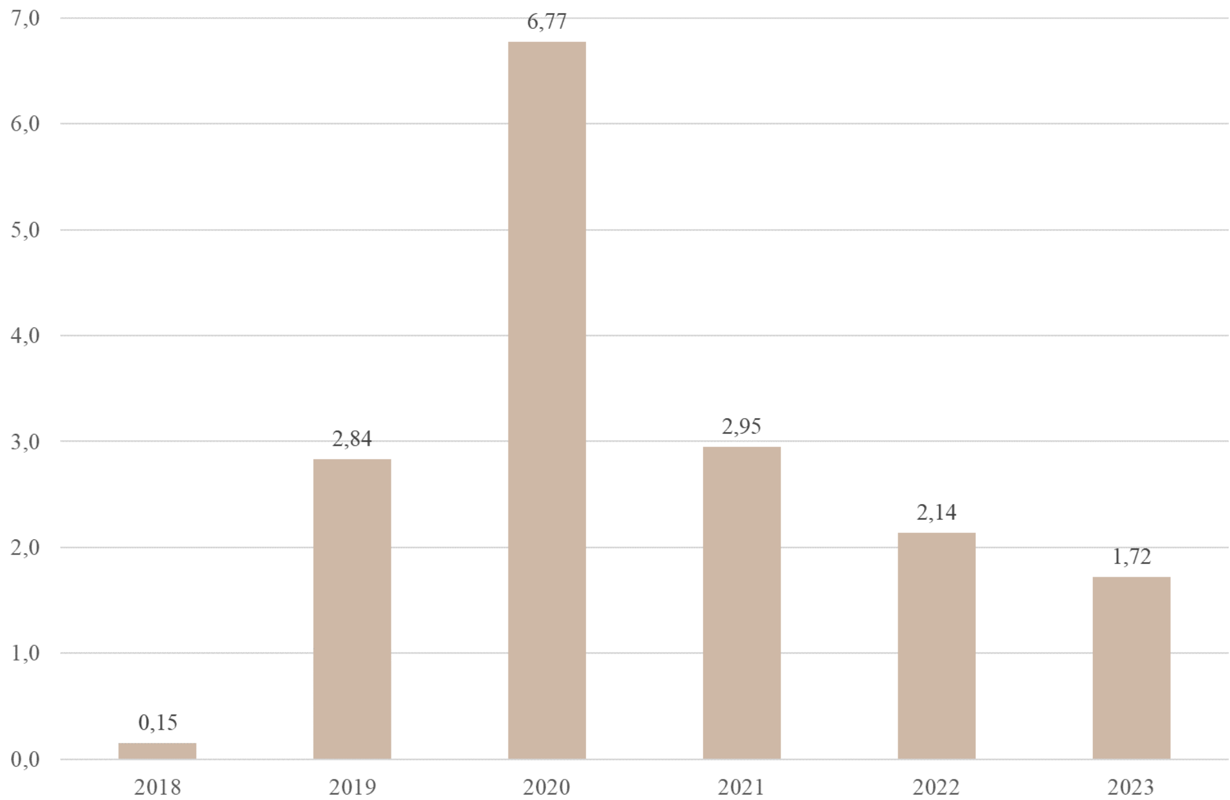


Figure 27:BC's Net financial position/EBITDA ratio trend between 2018-2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

As can be observed from the previous graph, the peak was reached in 2020 with a net financial position to EBITDA ratio of 6.77.

The asset quality reviews conducted by the ECB define 6 as the threshold value for the aforementioned ratio: once this threshold is exceeded, a debtor company transitions from Stage 1 to Stage 2.

This situation becomes problematic because when banks calculate the ratio to assess creditworthiness, if the ratio is close to or above 6, significant alerts are triggered, affecting the company's ability to access financing.

Therefore, 2020 represents the only critical year for the analysed ratio, while for all other years, the ratio seems to have been well managed.

In the 2020 financial statements (corresponding to the pandemic period), the company declared that it formally requested, even before the financial statements closing date, a waiver to enforce the financial commitment related to meeting the minimum threshold for NFP/EBITDA to the relevant credit institutions with explicit reference to the financial statements for the year ended December 31, 2020.

All credit institutions showed understanding of the situation and agreed not to consider the existing financial parameter on such financing and consequently not to apply the consequences related to any failure to meet financial parameters as provided for in the respective contractual agreements.

As can be seen from the data, already from 2021, the company managed to improve its ratio thanks to the dual effect generated by a decrease in net financial position and an increase in EBITDA compared to 2020.

Another very important indicator for assessing debt is the ratio of financial expenses to EBITDA. This ratio is often used to measure how financial expenses paid to banks and other financial intermediaries are able to “absorb” the self-financing of operational management.

This indicator is very important for external financiers as it allows observing the company's ability to repay debts to them.

Moreover, the ratio highlights the impact of the main component of non-operational management (financial expenses) on the gross economic result of operational management and, ultimately, on the net result of the fiscal year.

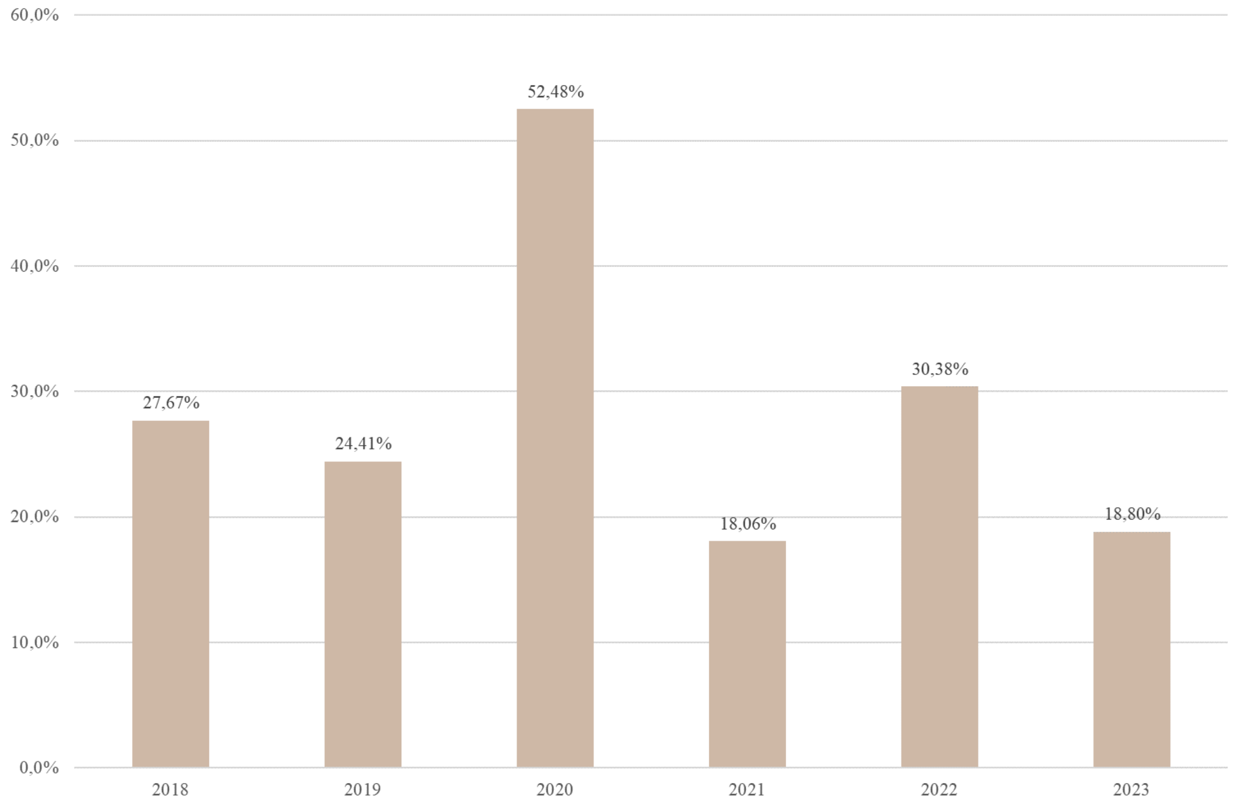


Figure 28:BC's Financial Expenses/EBITDA ratio trend between 2018-2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

In this case, a higher ratio indicates a higher risk that the company may have difficulty repaying its debts.

As can be seen from the graph, similar to the ratio illustrated above (NFP/EBITDA), 2020 (the pandemic period) was a challenging year for the company, but it managed to recover immediately starting from the following year.

In this case as well, the reduction in debts and consequently the financial expenses associated with them, along with a simultaneous increase in EBITDA, played a fundamental role in reducing the ratio in 2021.

The increase in the ratio in 2022 was caused by a higher increase in financial expenses compared to the increase recorded in EBITDA compared to the previous year: this increase can be attributed to a series of situations, some of which were extraordinary.

For example, the acquisition of a 43% stake in Lanificio Cariaggi S.p.A. during the 2022 fiscal year, evaluated based on the approved financial statements as of December 31, 2022, was recorded under the item “Effect of valuing equity method investments” and had an impact on financial expenses.

Or, the impact of expenses resulting from hedging operations on interest rates and currencies, amounting to €6.115 million in the 2022 fiscal year compared to €2.145 million in the previous year, contributed to increasing financial expenses.

Based on the analysis conducted on the aforementioned ratios, it emerges that the company demonstrates adequate capacity in managing its debt thanks to high-performance levels in its industrial sector.

However, it has been observed that the company faced significant difficulties when market conditions deviated from the state of equilibrium, highlighting the risks associated with excessive reliance on external financing.

The above findings demonstrate the importance of avoiding excessive debt usage, as this could seriously compromise the health and financial stability of the company.

It is crucial to emphasize that the abuse of excessive debt levels can undermine the financial flexibility of the company and its ability to adapt to unforeseen changes in economic conditions.

Prudent debt management and careful risk assessment are therefore essential to ensure long-term financial stability and sustainability.

In conclusion, the experience conducted by the examined company highlights the need for a balance between the use of debt to finance growth opportunities and the maintenance of a solid and resilient financial structure.

Such an approach aims to ensure prudent financial risk management and preserve the overall financial health of the company.

However, it is also important to remember and illustrate the specific benefits associated with the indebtedness of BC.

Indeed, in some cases exploiting leverage brings a number of important benefits to companies, such as the tax shield, already mentioned in §1.2.2.1, as well as improving return on equity (ROE) by increasing the company's profit and consequently earnings per share (EPS).

When a company earns a higher rate of return on its assets (ROI) than the interest rate on its debt (ROD), the excess return benefits shareholders.

Using leverage, therefore, allows companies to achieve higher profits than they could have achieved using only equity; the relationship between ROE and other indicators such as: ROI (equal to the ratio of Operating Income to Operating Invested Capital), ROD (equal to the ratio of financial expenses to total financial debt) and Debt Ratio is as follows

$$ROE = ROI + (ROI - ROD)\ x\ \frac{Debt}{Equity}$$

and indicates that overall profitability (expressed by ROE) depends directly on the return on capital invested in operating activities (measured by ROI).

The graph below shows the comparison between the ROI (Operating income/invested capital) and ROD (Net Financial Charges/Total Financial Debt) of BC:

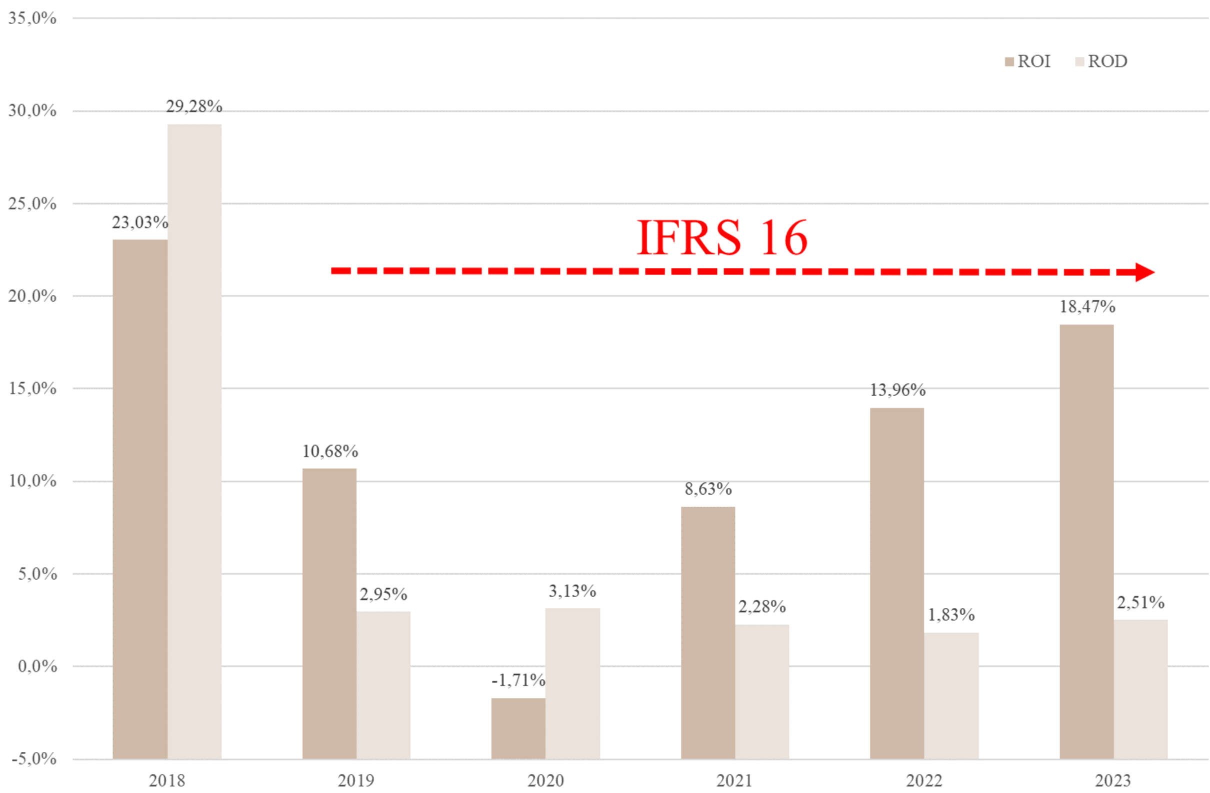


Figure 29: Comparison between BC's ROI and ROD trend during 2018-2023
Source: Brunello Cucinelli, Financial Statements (2018-2023)

A good ROI value is between 8% and 9%, while when it exceeds 10/12% the result becomes excellent. From the values shown in Figure 29 above it is evident that BC is able to generate a significant profit on invested capital by presenting an average ROI between 2018 and 2023 of more than 12%, having also considered the result of the pandemic year (-1.71%) while, if it is excluded, the value exceeds 14.9%.

Regarding ROD, on the other hand, as can be seen from the graph above the introduction of IFRS 16 has had a major impact on its value by significantly decreasing it from 2019 and making it cheap when compared with ROI.

However, ROE, as can be understood from the formula above, is also affected by the debt ratio (Debt/Equity), which exerts a multiplicative effect of financial origin (leverage) on overall profitability.

If ROD is lower than ROI, the firm has convenience in financing its investments with debt capital; this convenience, can be amplified the higher the debt ratio.

Having high debt ratios of a firm, therefore, is not always a negative aspect as the value of ROE may increase.

Indeed, if the company utilizes borrowed funds to finance profitable investments, it can lead to an increase in profits and net income.

However, since the increase in financial resources is through debt and not through the issuance of new shares, the number of shares of stock will not change. However, the rise in net income can result in a corresponding rise in EPS, which will be positive for shareholders.

As a result of the increase in ROE and EPS, the company becomes more attractive to investors, thereby generating an increase in stock price and contributing to a higher market capitalization of the company.

However, it is important to remember that abusing debt could, in some cases, entail risks that outweigh the benefits, rendering the operation no longer advantageous.

Therefore, it is necessary to determine the right level of financial leverage to achieve maximum profit, using all the advantages of this instrument, but minimizing the risks. Companies must carefully evaluate a set of factors including their risk tolerance, the interest rate environment, as well as industry dynamics, to determine the optimal level of financial leverage that aligns with the company's objectives and enhances profitability.

An illustrative example of the above is provided by companies operating in capital-intensive sectors such as manufacturing, which may opt for a higher utilization of financial leverage to finance their operations. In contrast, service-oriented companies may use a lower level of financial leverage.

It is important to understand that financial leverage can influence the turnover of a company quite considerably. When a company borrows money or uses other forms of financing, it increases its total assets, and thus, even the resources that can be used for activities and to generate revenues will also be raised.

The increase in resources can positively affect the asset turnover ratio since the company has more resources available to generate revenue.

It is essential, however, to assess whether the increase in assets is accompanied by a proportional increase in revenue.

If the company is unable to achieve the required sales to offset the increase in debt or financing, then this would mean a decline in the asset turnover ratio.

In other words, if the company does not use the additional resources to increase the revenue, the overall impact may lead to the reduction of efficiency in the use of resources and, therefore, turnover.

Thus, it is imperative to assess the effectiveness of financial leverage on the efficiency of operations and the generation of sufficient income to offset the costs of financing.

3.5 Sewing the Future: Brunello Cucinelli's Achievements and Future Outlook

Based on the analyses conducted on the consolidated financial statements published by Brunello Cucinelli for the years 2018 to 2023, it can certainly be stated that 2023 was the most favourable for the group.

However, despite a generally positive picture, the day after the publication of the 2023 financial statements, the company's stock experienced a noticeable decrease in value in the financial market.

The Sole 24 Ore, in an article published on March 15, 2024, examined this event, explaining that the decrease in the value of BC's shares was caused by results that, although positive, did not meet the market's expectations, as they would have valued the stock with a "*market capitalization 69 times the net profit and 29 times the net equity*" (Ca L., 2024).

Simultaneously with the approval of the financial statements, BC's management proposed a distribution of the 2024 dividend (related to the 2023 fiscal year) amounting to 0.91 euros per share, with a 50% payout (Redazione Soldionline, 2024).

This decision, according to BC's management, was supposed to positively influence the value of the shares; however, it depends on various factors, and dividend distribution does not guarantee an immediate increase in their price in the short term.

On the other hand, an increase in dividend amounts can be interpreted as a sign of confidence by the company regarding the possibility of achieving positive results in the future, with consequent excellent financial performance.

Furthermore, dividend increases can represent a strategy for the company to make its shares more attractive on the stock market and capable, thereby, of attracting new investors while retaining existing ones.

As mentioned earlier, however, this strategy alone cannot guarantee a positive impact in the short term on the movement of share prices, as it also depends on how the market will react.

If investors interpret the increase in dividends as confirmation of the company's financial strength and future prospects, a situation partly confirmed by the performance of the 2024 fiscal year, they may be more inclined to buy and/or hold shares, supporting their price.

However, despite an initial decrease in the valuation of the stock, the performance recorded in the first months of 2024 by the Group reinforces the forecast of a growth rate that, for this year, is expected to be around 10%.

The growth forecast for BC is further confirmed by its investment program planned for 2024 both in Italy and abroad (especially the Americas and Asia).

In its 2024 press release, the company declares that, despite significant growth in all geographic areas, with America (+21%), Europe (+17%), and Asia (+40%), China represents an opportunity for further growth for the group, confirming the trend seen in recent years.

Indeed, it is important to remember that China has been one of the largest consumers in the luxury market for many years: in 2021, this market represented 21% of global spending.

Bain & Company, a consulting firm, published a report in 2021, the “China Luxury Report 2021,” which highlighted that sales of personal luxury goods in China increased by 36% annually, reaching 471 billion yuan in 2021, equivalent to 74 billion dollars, almost double compared to 2019. Furthermore, the report stated that leather goods recorded a growth of 60%, followed by fashion apparel and jewellery.

During 2021, online sales in the personal luxury goods sector in China recorded an increase of 56%, far surpassing the growth of traditional physical stores, which constitute the main distribution channel for this industry.

Bain & Company also predicted in 2025 that China will become the largest market in the world in this sector.

Another study, reported by Sole24ore, provides further insight and declares that companies operating in the luxury sector should not only focus on the Chinese market but should also pay particular attention to Gen Z, namely the portion of the population born between 1996 and 2011.

Jing Daily, one of the leading digital publications launched in 2009, studies luxury consumption trends in China, seeking to understand the forces shaping the future of the luxury industry by providing the latest news, analyses, features, and reports exploring developments in that country.

Jing Daily attempts to understand how the definition of luxury is changing and, consequently, its consumption, how the digital landscape is developing in China, and how brands are adapting to and benefiting from these changes.

According to Jing Daily, Gen Z currently represents 40% of consumers in China, a figure that, according to Bain/Altagamma, will soon reach a global scale in luxury goods purchases, surpassing Millennials.

Sole 24 Ore declares that, at the European level, Gen Z represents a tiny part of the income pyramid, while in China, they represent the driving force of the market. This situation can be explained by two significant sociodemographic phenomena in China: the transition from a communist economy to a free market has led to a considerable increase in per capita income over the past 30 years, increasing by 13 times (or 1,300%), marking the largest shift from poverty in human history.

Once out of poverty, the social classes that had previously lived for decades on the verge of subsistence and were thus starved of consumer goods felt the need to earn money to buy previously inaccessible goods, aspiring to achieve the same level of well-being typical of Western countries.

This desire was also motivated by the need to obtain a sort of "social promotion," demonstrating, through consumption, that they were part of the growing emerging middle class.

In addition, there was a second equally significant phenomenon: the national one-child policy, brutally adopted throughout China for a third of a century, from 1980 to 2016, concentrated the new purchasing power of Chinese families on a single heir, creating millions of "little emperors" to whom everything that previous generations could never have imagined was granted.

These two phenomena are possible explanations for the high purchasing power of these young people and the significant impact of Generation Z on consumption in China and, consequently, in the global luxury market.

Regarding the Italian territory, the Group has planned two important investment projects for the coming years: the first concerns the expansion of the Solomeo headquarters, while the second involves the opening of a new men's tailored clothing factory in Penne in spring 2025.

The entrepreneur at the helm of BC believes that the realization of the new plant in Penne constitutes an opportunity to develop know-how for the production of high-quality men's clothing, as well as increasing employment (350/400 more employees).

Brunello Cucinelli (2023, p.7) states in its press release that "*Penne represents a special place, where the tradition of the finest Italian craftsmanship has been expressed at its best in the making and tailoring of men's clothing; therefore, we would like to contribute to a bright future for this lovely tradition, uniting the artisanal wisdom of excellence from Abruzzo and Umbria. We wish that the new enterprise can always give economic and moral dignity to the noble manual labour and that it can become a place-symbol where we can train young people to whom we entrust our future. We will try to create all the right conditions so that our artisans of today and tomorrow can renew the most fascinating Italian sartorial creativity, so greatly admired throughout the world*".

The Group's continuous pursuit of quality and innovation is evident in its commitment to ensuring maximum operational efficiency and the development of new techniques while maintaining excellent standards in its product manufacturing.

The Group believes that the ongoing improvement of the final product and the optimization of production processes are essential objectives to consolidate its leadership position in the industry and meet the needs of an increasingly demanding and refined clientele.

This commitment is reflected in strategic investments in infrastructure aimed at minimizing the environmental impact of operations, in line with BC's principles, as well as in the constant updating of personnel skills.

Moreover, the aforementioned investment program is facilitated by tax benefits provided by the Local Authority, which aims to attract investments and employment to the local area of competence.

These investment modalities confirm the Group's constant commitment to maintaining a strategic balance aimed at promoting sustainable growth.

The company's policy, therefore, aims not only to enhance operational efficiency and technological innovation but also to establish a synergistic relationship with local institutions, thereby contributing to the economic development of the territory and reinforcing its leadership position in the high-quality tailoring sector.

The decision to invest in the area of the Municipality of Penne sends a strong signal for the potential development of the national territory, which, following the new productive establishment of BC, could become a hub of textile production due to the progressive diffusion of skills in the employed workforce and other professions necessary for the operation of the plant.

This scenario could evolve by attracting productions from other brands in the tailoring sector, thereby revitalizing the local economy and further consolidating the reputation of the Region as the current headquarters of other centers of excellence in tailoring production.

4 Conclusion

In this thesis, through an in-depth analysis of the Brunello Cucinelli case, it was highlighted how the adoption of an effective financing strategy enables the generation of useful wealth to be reinvested in the company.

This study highlighted the importance of a dynamic and adaptive approach to corporate financial management, demonstrating how such flexibility is critical for continued growth and innovation.

Business leader Max DePree, former CEO of Herman Miller and author of "Leadership Is an Art", published in 1989, wisely observed that "*In the end, it is important to remember that we cannot become what we need to be by remaining what we are*" (1989, p.100).

This quote underscores how change represents the driving force for progress and transformation, principles central to the growth philosophy of any organism, be it an individual, a material, a production process or, more generally, a company.

Individuals, materials, and production processes are the fundamental components of a company, and their development directly impacts the organization as a whole: individuals progress through training programs, raw materials are transformed into sellable products through processing, and production processes improve through continuous transformations and optimizations in terms of efficiency and effectiveness.

As a result, the evolution of the above key components involves the overall evolution of the company. Evolving in harmony with the environment, by responding to the dynamics of the surrounding market through strategic investments and a consistent financial structure, enables companies to thrive and remain efficient.

Brunello Cucinelli represents an excellent example of how a company can effectively respond to these needs.

The first tangible example of the Group's growth and success is the increase in turnover between 2018 and 2023, which rose by 106.4%, from €554,444 thousand to €1,139,420 thousand.

This result was clearly made possible thanks to a substantial investment plan, which allowed the company to expand its distribution channel, product portfolio, geographical presence, and online presence ("Humanistic craftsmen of the web") in order to meet the new market demands.

Furthermore, the company's success is rooted in its fundamental principles: the search for high-quality raw materials through important business relationships such as that with the Cariaggi wool mill, and careful attention to personnel. Training programs at the School of Solomeo, the project of the Universal Library as a place of education, culture, and personal improvement, monetary incentives for the management and the employees, and other initiatives that have contributed to creating an environment of development, innovation, and growth that has led to the company's success.

The Group's development is also clearly reflected in the evolution of its financial structure, which has undergone significant changes over time.

In 2012, BC S.p.A. started the process of going public, a strategic move that enabled the company to seek new funds and increase its chances of being around for the long haul.

As stated by Brunello Cucinelli in an article published by Repubblica in 2012, "*listed companies are longer-lived than unlisted ones*" (Bennewitz, S. 2012). The entrepreneur, who defines himself as a "custodian" rather than an owner, chose the listing to ensure the continuity and growth of the company, attract new managers, and ensure the future success of the brand.

The Group has also leveraged the synergies resulting from innovation through "patent boxes," reducing costs and reinvesting savings in further innovative projects, creating a virtuous circle of investment and growth.

Also significant was the benefit that came from government grants and the use of tax credits. For example, the group was able to expand its marketing campaigns thanks to tax credits on incremental advertising investments, technological innovation activities and improvement of production processes were financed by the tax credits for research and development funded.

Additional benefits were derived from tax credits related to the "Art Bonus", which encouraged investments in cultural and artistic heritage. These tax instruments provided the Group with additional financial resources, contributing significantly to its growth and competitiveness in the market.

At the same time, the use of leasing has helped the firm to have company updated equipment and machineries without being burdened with liabilities that are usually experienced in outright purchase of equipment, although this has increase the firm’s debt and therefore leverage ratio as discussed in chapter three.

However, even during the pandemic period, the company has demonstrated to be resilient to the crisis scenario and over that, to have an optimal capacity of managing its debt strategically avoiding, in this way, significant risks.

In conclusion, Brunello Cucinelli embodies the importance of a flexible and proactive approach in business and financial management.

The analysis of this company demonstrates that, to become what we desire, we must embrace change, invest in innovation, and continually adapt our strategies to the changing market conditions.

This study offers valuable evidence on how companies can successfully meet economic challenges and grow sustainably, ensuring not only the survival of their business, but also, and more importantly, long-term prosperity.

However, it is important to recall that, an entrepreneur's success is measured not only by studying the economic and financial metrics of his company, but also by looking at factors that are difficult to quantify monetarily, such as the well-being and the bond that the entrepreneur creates with his employees, making them an active and indispensable part of the process.

Again, Brunello Cucinelli represents a model from which many businesses should be inspired.

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