



BUSINESS

Brunello Cucinelli Denies Allegations of Russian Market Irregularities

- The luxury company said it is in full compliance with EU regulations regarding operations in the Russian market.

BY LUISA ZARGANI

MILAN - Brunello Cucinelli on Thursday afternoon firmly rejected a short-seller's allegations of irregularities in the company's business activities in Russia. This, however, was not enough to avoid a sharp decline in its shares on the Italian Stock Exchange.

Trading was suspended earlier in the day and, after resuming, shares closed down 17.3 percent to 85.08 euros.

Morpheus Research, which is betting Cucinelli's stock will fall, issued a report alleging the company misled its shareholders and continues to operate stores in Moscow.

But during a re-see of the spring collection, Cucinelli's CEO Luca Lisandrone calmly and clearly told WWD that "today we have really contrasting feelings. On one hand we are enthusiastic about the quality of the results and the great appreciation for the spring season's collection, with an excellent selling campaign."

On the other hand, he said: "We are deeply disappointed by the strong turbulence created on our shares by a short-selling fund. We are perfectly aware that these kind of funds bet on the difficulties of a company. In this case, probably not finding any critical element, the fund produced and spread a defaming report on our activities in Russia."

He reiterated that the company has "always acted in full respect of rules as it has already been ascertained by the Customs Agency's inspections we have been subjected to."

The hedge fund published its report based on a three-month investigation "involving interviews with former Cucinelli employees and partners, an extensive analysis of trade data, and visits to Cucinelli's Russian stores." This led to doubts "on Cucinelli's claims," and the fund "reveals that Cucinelli has misled shareholders. We found that Cucinelli continues to operate several stores in Moscow with a wide offering of items priced at thousands of euros."

In addition, the report highlights "that Cucinelli has resorted to aggressive discounting to manage bloated inventory that dwarfs direct peers, with items ending up in stores like TJ Maxx, risking dilution to the brand's exclusive positioning."

Putting things into context, Lisandrone said that Russia accounts for around 2 percent of company sales compared with 9 percent in 2021.

"Please allow me to indicate that in this case there is a particular coincidence between those who produced the news and those who could benefit from an economic return thanks to the short position held on our shares," said Lisandrone.

The executive concluded by expressing how, "being certain of having acted correctly" and through the "many messages" received by long-term analysts and investors that have "immediately reiterated their confidence and the strong credibility of our company's reputation, we find strength and peace. We will do all that is possible to protect our investors, our collaborators and in general all the stakeholders for the love of the truth."

In a separate statement, the company said: "The value of exports to our Russian subsidiary has fallen from 16 million euros in 2021 to 5 million euros in 2024, figures that are available annually in our financial statements." The figures are seen as providing "a clear and accurate perspective on this matter and rule out any speculation regarding the use of the Russian market to reduce stock or clear excess inventory," it said.

After Russia invaded Ukraine in 2022, the EU prohibited the export of luxury goods over 300 euros to Russia, which led many luxury brands to close their stores in the country.

The company's statement went on to underscore that the Italian Customs Agency's inspections "have confirmed full compliance with procedures, and no reports from





foreign customs authorities have been received that could suggest any commercial triangulation.”

Cucinelli’s conscious decision was to maintain its local structure in Russia when the country invaded Ukraine in 2022 to “ensure full salaries for employees and salespeople and honoring lease contracts, as we have always done worldwide, even in extraordinary circumstances.”

A customer assistance service within Cucinelli’s showroom is available upon request and provided by the staff, and the products “are those legally shipped to Russia within the limits set by the European Union, along with the residual inventory delivered prior to the introduction of sanctions. This enables us to locally generate the resources needed to sustain salaries and rents.”

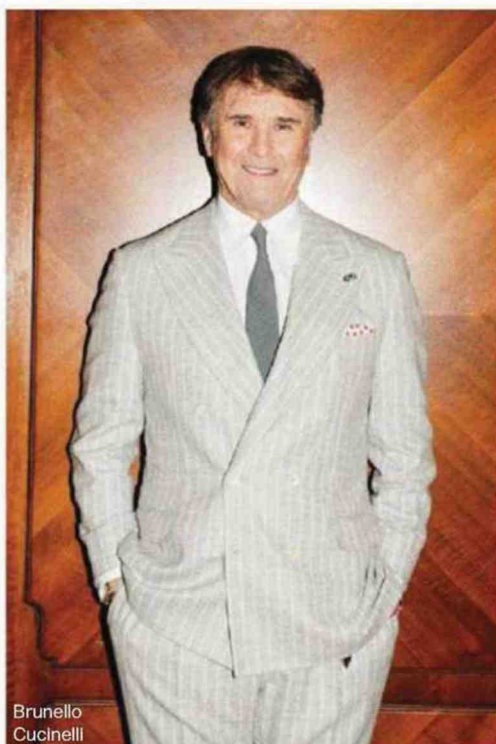
The Morpheus Research report

alleges that, “in addition to selling through its own Russian stores, Cucinelli also sells through high-end stores like Tsum, controlled by Russian luxury conglomerate Mercury Group, which appears to be supporting Cucinelli’s growth in the region in spite of EU sanctions.”

Cucinelli’s statement clarified that operations with wholesale multibrand structures remain active, but “in full compliance with EU regulations, supplying them only with the portion of the collection permitted within the established value limits.”

The company is considering legal action to protect its reputation and the interests of its stakeholders, the statement concluded.

Morpheus Research’s allegations follow similar ones reported by Pertento Partners, which also holds a short position in Brunello Cucinelli, during the summer.



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