Natuzzi SpA

Second Quarter and Half Year 2021 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Natuzzi Second Quarter and Half Year 2021 Financial Results Conference Call.

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

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

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

Piero Direnzo

Thank you. Kevin.

Good day to everyone. Thank you for joining the Natuzzi Second Quarter and Half Year 2021 Conference Call. After a brief introduction, we will give room for a Q&A session.

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

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

Pasquale Natuzzi

Thank you, Piero.

Good morning to everyone, and thank you very much for attending this conference call. We're very pleased about that.

I'm very encouraged to see a change in trajectory of our business, amid the numerous challenges that are characterizing the supply chain in 2021, probably one of the most complex years I have witnessed in my 60-year experience, it's really unbelievable. The supply chain disruption remains a challenge that is affecting our ability to properly serve the growing demand. The furniture market continues reporting solid growth in most of the geographies where we operate, and this is providing a positive tailwind to our business.

More than by the positive results of the first part of this year, however, I'm encouraged to see how effectively the new governance is helping our Group to accelerate its retail and brand transformation. Antonio Achille, our CEO, had an incredible jump-start in the business, and I'm now collaborating with him and our Board of Directors to further strengthen our Organization by bringing new talents on board, such as Mario De Gennaro, who is joining as new Chief Human Resource and Organization Officer and who brings more than 55 years of experience in people-led transformations.
So we are very pleased to have sincerely our CEO, and even our Chief Human Resources Manager.

I will allow Antonio, our CEO, to comment in detail the results of the second quarter and the first six months.

Antonio Achille

Thank you, Pasquale.

And good morning, good afternoon to everyone. I joined the Company last June, and this is my first analyst call. I'm working very closely with Pasquale in the new governance, and thank you for your very kind words, Pasquale.

Today, for me this is an important meeting, not only because it's my first analyst call, because I interpret my mission, in a sense, as a simple mission. My mission is about creating value for investors, which I believe today is well represented in its audience, as measured per-share value increase.

The other mission is, of course, to satisfy the other shareholders of the Company, which I intend to be our final customers. So those are, let's say, my two priorities, equally important, and those are based on a reset of our fundamentals, on which we are very hard working with Pasquale.

In terms of numbers, I believe you've seen our second quarter numbers by this time. We continue reporting strong sales: 76% versus the second quarter of 2020, and 17.7% versus the same period 2019. So growth is back, I would say, for the sector because, as Pasquale mentioned, the sector is enjoying positive growth, which we start believing can become structural, but it's also very good for us. We believe that in a lot of geographies including the U.S. we are gaining market share, so we are growing faster than the market.

And it's not just about the absolute number of growth, but it is the quality of growth. As you may know, if you're following this stock from enough time, the Company has taken the decision to grow on two main avenues. One is the branded business, so leveraging the strength of Natuzzi Italia, which is 60 years of heritage, which is entirely manufactured in Italy. And Natuzzi Editions, which is designed in Italy, its price point is more than an affordable price point, and the production takes place where you need to be, so closer to the end market.

When I say I'm pleased to see the quality of the growth, it’s because the branded business represents now 87% versus total. To me that is quite an interesting achievement because, as you know, the Company started 60 years ago but with a completely different scheme. It was producing great product at an affordable price point, but business comes mostly from brand, so you can imagine much effort and much investment. We calculated roughly $1 billion in investment, went to move from being a manufacturer to being a brand.

The second avenue which for me is a symptom of improving quality is that retail in the geography where we start having a right team and a right receipt is working well. For instance, if you look at the U.S., where we have our manager which is attending this call, Jason Camp, that brings 25 years of experience at a different company, including Restoration Hardware, who built a strong team around him really with retail competencies. In this geography we have our best stores pacing at $4 million sales per year, reporting 169% sales like-for-like increase versus 2020 and 49% increase versus 2019.

I would say significant numbers of organic growth, which did not happen by chance, it happened because we have a strong team. The strong team is implementing a very good merchandising retail strategy, has launched, and I'm sure Jason could give more color along the way, what is called “quick program”. So based on advanced analytics we read the data of the previous three seasons to understand which are the best products in term of rotation. And of those products we take a major risk in terms of stock so to be able to serve the client with very short-term delivery time, which in this turbulent time of supply chain is really a competitive advantage.

Brand business is growing well. Retail is growing well in those geography where we have enough focus of the Management team to start playing by the book what a good retailer should do. And we intend, of course, to deploy this winning receipt to the remaining geography.

I would say what I witnessed after three months of my joining is a team which has a very clear view of the strategy I had. The strategy I had is based on branded business, retail in three priority geographies, U.S., China and Europe.

I also see and I’m encouraged by the fact that Pasquale said it is true not only for me as I just joined since three months, but also for him who’s in the business since 60 years, I also see an unprecedented level of supply chain disruption. And this happens on the three main elements of the entire supply chain. It happens to the raw material where we witness price increases up 100% versus the beginning of the year. It happens in terms of manufacturing where we see demand outpacing our ability to fulfill the demand for a very different reason. And we see this in the shipping where it’s increasingly complex to secure a timely shipping of our product with the proper cost of serving.

This is, I would say, keeping us very focused. We are centered on the reduction of backlog, because, of course, we want in these days our final customer, which trusts our brand, not to suffer from these issues.

As you know, it's not just Natuzzi. As you know, it's not just the furniture business, it’s the global economy which is facing this global challenge. So, we are working very hard on this, but we cannot claim to have the full map to say it will be sold for Natuzzi next week. And this is the other important aspect we want to share with you in a very transparent manner should be communication with our trusted advisors and investors.

Let me stop here, because I assume you have seen the rest of the press release and would be a better use of your time to address your questions rather than continuing on this introduction.

The other element I might want to highlight is that I spend the first weeks with Pasquale, with whom I'm working extremely closely, to align the full team on the future vision for growth. We have been investing a lot of time on creating alignment. We just ended up this weekend another off-site with the full Management team because we believe that this will be a people-led growth acceleration plan. And one of the elements, beyond creating alignment on the vision and increasing communication within the team, another element which we wanted to actively use to create this alignment to create sense of ownership and management is the incentive systems. So we have in place since the beginning of the year an MBO which is anchored on short-term results.

Our Board just gave us approval to define and fine-tune by the beginning of next year a stock option plan. There will be a standard to a limited number of managers, including myself, with the intent of creating a perfect alignment with the shareholder and also being a long-term retention instrument, because it will be with a vesting period relatively long. Today, we don't have the detail on that, because it's being finalized. But the decision by the Board has been taken on quite a clear journey in terms of timing to complete the stock option plan. So, definitely, I'm sure that in the upcoming next analyst call we will be able to provide more details on this element, which I believe will be very important to create ownership instinct in the top Management.

Okay. Let me stop here. Maybe, Kevin, you want to—unless Pasquale has another remark, or you want maybe to open for question. You're on mute, Pasquale. Kevin, can you un-mute Pasquale?

Pasquale Natuzzi

Antonio, you listed complete issues, so we can certainly start listening to our shareholders for their questions.

Operator

Thank you. We'll now be conducting a question-and-answer session.

Our first question today is coming from Kyle Travers. Your line is now live.

Actually, I do apologize. One second, Mr. Kanen, you were first. Please go ahead Mr. Kanen. Your line is now live. Mr. Kanen, perhaps your phone is on mute on your end. I do believe I hear you now. Mr. Kanen, can you hear me? Mr. Kanen, I'm just going to move forward. Would you mind just re-raising your hand, please. One moment please.

Kyle Travers, your line is now live. Please un-mute yourself.

Kyle Travers

Hi, I'm un-muted. Can you guys hear me?

Operator

I can hear you. Please proceed.

Kyle Travers

Hi, good morning, guys. I appreciate you taking the time. I had some time over the weekend to go through your press release.

One question I had in particular was about your U.S. stores that I think you said are trending at around $4 million, at over 70%, I guess, contribution margins. And I was curious. How many of your stores are headed in that direction? And if you could also remind me just of your total U.S. store count.

Antonio Achille

Jason, I guess that's for you.

Jason Camp

Good morning, Kyle. It's Jason.

We have 13 stores in the U.S. And when we look at our top six to seven stores, those are the locations that are pacing in the $4 million range. And generally those stores were pacing at about $2.5 million in 2019. So they're up in the seventies, plus-70% or so to 2019. Those top six or seven.

Kyle Travers

Okay. And I think the other, I guess, other six stores, I guess, dream big with me for a second. How long do you think it would take for the other six stores to get to the $4 million run rate? When do you see this the soonest that could be achieved?

Jason Camp

Sure. Well, the average pace of the 13 stores was $3 million, just to give you like some ability to do the math. And in general, I think, we definitely see a lot of growth beyond this $3 million to $4 million pace and we expect and hope that our work in the area of talent, merchandising, marketing, lead time improvement, all that work will lift all boats. Generally, it's my experience that your best locations grow faster than the average.

I hope that generally answers your question, Kyle.

Kyle Travers

It does. I appreciate it.

Jason Camp

You bet.

Kyle Travers

And I guess just one other question. This is a little bit broader. And I don't know if you guys might be able to point me in the right direction. But there's some things that are off balance sheet, (audio interference), you have some land and you have a JV here in China. And I guess I was wondering where I could find, one, the China, the Kuka information about their operations and how those are trending, maybe you guys could just summarize sort of the land opportunity and some of the stuff that—maybe not particularly strategic to the longer-term vision and how much you guys think you would be able to monetize by selling real estate. So two questions there.

Vittorio Notarpietro

Antonio, would you like me or would you like you to answer?

Antonio Achille

Vittorio, I think you're best positioned, you should do it, then I do a bit of more general comment on capital employment, capital efficiency, but please comment on land and then Kuka.

Vittorio Notarpietro

Okay. The program to sell our noncore assets is going ahead correctly as anticipated one and a half years ago. This year, in the first quarter, between the first and second quarter, we sold a Group's company, and then we sold two lands in Italy. And in July we just finished and completed a sale of a land in High Point. So we are moving ahead in the right direction so far.

As far as Kuka JV is concerned, you'll find in the profit and loss the so called "share of profit of equity method investees". It is below the net finance income. Today, for the first half, they contributed with 2 million euro profit to the Natuzzi consolidated profit and loss, compared with 0.9 million euros in the first semester of 2020. So, this morning, I just had a look to the August results. I do confirm they are moving ahead with both brands with retail rollout.

I'm sure that Antonio will elaborate a little bit better than me from a qualitative point of view.

Antonio Achille

No, you did a perfect answer. Just a bit of elaborating and linking this back to my opening.

As I said, the full Company is working to increase value of the share, depressed share. Of course, capital efficiency is an important matter. So we are continuing to explore ways to get light our balance sheet in terms of capital. And of course, non-strategic asset are a focus of that effort. We are in advanced discussions to continue that journey. Of course, we want to do it in a proper manner to maximize the current value.

JV China is a bit different matter, it's more strategic, more structural, but equally we are exploring, and it's more mid-term ways to make sure that the Natuzzi investor gets the full value of what's happening there, which is very encouraging, because we are growing significantly in term of numbers of stores. We have roughly 300 stores there among the two brands. And performance are doing very well. And our partner in close collaboration with us is really establishing the dual brand strategy, with Natuzzi Italia being our top luxury brand, positioned very high, and Natuzzi Editions being more affordable.

If you think about the potential value of this story, China luxury, fast growth clearly can be significant. And we will continue looking at ways to capture more of this value going forward.

Kyle Travers

I think it would be incredibly helpful for somebody on my side to have a little bit more granularity on what's going on with Kuka, and even the metrics we always look at are sort of sales and EBITDA, and we're going to pop a multiple on there and just to understand (audio interference) 49% is worth just so it's little bit clear, because people that are new to your story, there's obviously no (audio interference) coverage here. So it's a little harder to do a full sort of sum of parts here and understand what's completely (audio interference).

I will leave it at that, and I appreciate the details, and I appreciate you guys taking my questions. So thank you very much.

Operator

Our next question is coming from Greg Cohen. Your line is now live.

Greg Cohen

Hi, guys. Can you hear me?

Operator

Yes. Please proceed.

Antonio Achille

Yes, please.

Greg Cohen

Hi. So, congrats on the strong growth in Q2, particularly in the U.S.

My first question is, are you seeing strong trends in written orders continue into Q3. We're almost at the end of Q3 here, so just I was wondering if you can give some color on the trends in sales, whether they're accelerating or staying the same or what you're seeing. If you can provide some guidance on that.

Antonio Achille

Yes, sure. I refer back to the press release, because in the intent of providing transparency as suggested by SEC. We also shared the information on the first 36 weeks of written orders. Currently we are starting week 38. So basically we're talking about two weeks before now, so mid-September. And written orders are plus 36 versus 2020 and plus 14.5 versus 2019. So, the positive momentum continued. Now we are month nine of the year, hence the consolidated written order two weeks ago were still very positive versus both 2020 and 2019.

I hope this addresses your question. You see this information in our press release in first page and also...

Greg Cohen

That's helpful. I guess my question is on the U.S. in particular, because from my perspective that's our key growth market. So, is there any more detail you can give on how the U.S. is doing in particular over the past couple of months or so?

Jason Camp

Good morning, Greg.

I would generally confirm what Antonio shared, that the pace of business that we're seeing into Q3 in a pure dollars perspective is holding true to what we are seeing in the first half. And for the first half of the year, when you kind of double-click down on to just the U.S.A in the branded wholesale business or the retail business, right, our growth numbers are somewhere between plus fifty and plus seventy…

Greg Cohen

Got it. That's helpful.

And I guess as we look forward, can you just kind of give a little bit more color on our store opening plans? I know in previous calls we had discussed, I think, there were six or seven that were going to be open in sort of a near-term timeframe. If you could just kind of give us a little bit more color on the pace of store openings in the U.S., I think that'd be helpful.

Antonio Achille

Jason, again, I think it's for you. And, again, we don't provide guidance with precise numbers, but I think we actually can share what are our (audio interference) and of course, depend on the real estate opportunity. But Jason, please, you are clearly better entitled than me.

Jason Camp

Sure. When we look at total number of openings in the region, we expect to have opened four stores between independently owned and stores we operate this year and 10 stores in ’22. That's sort of our, let's call it, a eight to twelve store range, but we are targeting for 10 for 2022 between both brands and between independently owned and the company operated.

Greg Cohen

Got it. And just one last question for me and then I'll hand it over to the next caller. But could you give an update on some of the other strategies in the U.S. and globally that we're pursuing, such as e-commerce? And kind of the second ancillary to that would be where we are in the opening of the Mexico plant to service the North American and South American markets.

Antonio Achille

Maybe I’ll start taking those two questions. And maybe, Greg, a further clarification to what Jason said. Again, with the spirit of being capital efficient, some of the openings will be done in partnership. It makes sense that we will be—majority partner will be fully running the show, the operation in the store, but we will also involve a partner to lower the capital need of those openings.

E-commerce and Mexico.

E-commerce is on track. So it will be a global new platform merging the existing 46 digital platforms that are present in the brand. So it will be a global platform for all geographies for Natuzzi Italia and Natuzzi Editions. It will start being operational—the current plan is to start being operational for the brand Natuzzi Italia and for the geography U.S. by the end of this year. So this is the plan. As you can know by e-commerce, we are pursuing a kind of agile implementation, which means there is going to be a first release which are going to be progressively enriched, and we are targeting this year.

Mexico is an absolute priority. The work is going ahead. We are now moving our senior team of Natuzzi Italia from Natuzzi headquarters in Mexico to secure a better pace of our implementation, but this is among like the three or four major priorities for next year. So also there the objective is to progressively ramp up the production into 2022, and that objective for the time being is confirmed.

Greg Cohen

Thank you. That's incredibly helpful. And just, I know you’ve only been there for three months, but the work you've done so far is very impressive and energizing, and I think shareholders really appreciate your focus on return on invested capital and a new focus on profitability, as well, obviously, as high-quality product, but personally, I'm very much looking forward to the years to come, and it seems based on current trends we’re set to grow in a very big way and be very, very profitable. So look forward to hearing the update on the next quarter.

Antonio Achille

Thank you for your encouragement. And I can share back the consideration that Pasquale and I did. That is that, clearly, the Company had a very strong instinct for growth. We want to preserve that, but include a more systematic instinct from profit generation and value generation, which are increasingly used as a matter of discussion among our team metrics, which are really focused on incremental cash generation.

I think it's good to start with a company which has strong growth instinct. We now need to take benefit of this momentum to reset a bit the machine and the KPI and the culture to be equally focused on value creation.

Operator

Thank you. Our next question today is coming from Charles McDullin (phon). Your line is now live.

David Kanen

Good morning. Dave Kanen on Charles McDullin's line. Are you guys able to hear me?

Operator

Yes. Please go ahead, sir.

David Kanen

Okay. Sorry about the earlier problems.

In terms of the new store openings, it's encouraging to hear there are 10—your goal is about 10 for next year. Looking out three, four years, how many stores do you think you can have in North America? And the reason I'm asking for more color there is, your statement that branded and DOS stores contribute 74% gross margin; obviously, we'd like for that ramp to occur as soon as possible.

So if you can give us a longer-term goal. Is that 10 stores per year sustainable? Where are we going to be in three or four years?

Antonio Achille

Jason, why don't you take that one, and then maybe Pasquale and I can give more color.

Jason Camp

Sure. In general, Dave, when we look at the combined opportunity of both brands, both Italia and Editions, the truth is, on a kind of a long-term saturation in the United States and the region, honestly, we could probably have almost 10 times the number of stores that we do today. So there's a really long runway. We're not going to achieve that over three to four years, but there's a really long runway from a regional growth standpoint.

Antonio Achille

And Dave, another comment on that. Everyone, including as you can imagine, the shareholders, Pasquale and myself, are looking with great excitement to what we are achieving in terms of return to performance in the U.S. And we will prioritize any dollar to continue the journey. Present time, we need to recognize that opening a store is an investment, and it needs to happen in the proper manner.

So if you look at what luxury brand do in, let say, personal luxury and fashion luxury brand do, for them it's like a major investment opening a store. So they take consideration of the addition, they take consideration of the long-term potential, they want to structure very well the lease. So we're looking with great excitement at the opportunity, but also in a very informed way. So we will not build up a presence prevailing on rigor of choosing that location.

Example being New York. We want to do a location reopening in New York, which of course will be important, because it's where the Company listed, where before Pasquale built the success of this Company, personally starting the relationship with Macy's. So it has many meanings, and we want to do it in the proper manner so we're not rushing in doing things which may be good for being reported in an analyst call, but not be as good in three four years down the road.

David Kanen

Okay.

Jason Camp

Dave, if I could just build on that for a moment. I think one of the most costly mistakes that a company can make is rushing into locations and leases that are not A locations, at A-level economics. And so often when companies get into a very accelerated rollout, I think, the wheels come off. I've actually watched that happen in RH, where they're opening 20 stores a year. And then two years later, they were nearly in bankruptcy.

And they've, obviously, found their way through that and become a very successful organization, but I think making sure that in our early years we're negotiating A locations for each brand at A-level financials is honestly one of the most important things we can do, right. What's the biggest difference between our top six to seven stores and our least successful stores is location, and once you sign a lease you're generally locked in for 10 years. So we want to make sure that we ask enough questions before we get married in all of these (multiple speakers) so we know we're happily married.

David Kanen

Okay. I appreciate that color. I'm sorry. Go ahead.

Antonio Achille

No, the other element which I realized, we are not ready to do it today, but maybe we do it next time. We continue investing in elevating the store experience, especially with recent events for Natuzzi Italia. We just defined and fine-tuned a very exciting new retail format for Natuzzi Italia, which has been rolled out in Shanghai and China with very great, well, let's say, comment from customers and partners.

Maybe next time we're going to be virtual touring the new store that's been developed by an archistar designer, *Fabio Novembre*. It speaks about the DNA of the brand, it speaks about our soul, it's very bright and very innovative. So for us as we develop the retail, it's also elevating the retail experience. That will happen to the infrastructure, and I'm talking about the retail new store, it will happen through the experience. So we are investing in new training for our sales force with a proper clienteling and proper storytelling, both for final customer and for the architect and designer teams. So for us, retail will proceed in two ways, more opening and better opening.

David Kanen

Okay. Yes, I appreciate the thoughtful approach to the expansion. That completely makes sense and sounds like you are learning from other people's errors.

In terms of gross margin, I know that you've seen inflation in raw materials, you pass through about a 15% price increase. Can you give me the timeline on that? What I'm kind of wondering about is on a go-forward basis are we going to see an expansion in gross profit on a consolidated basis from these cost increases. For example, if they were passed through in May or June, you did not have the full quarterly benefit. So that's what I'm trying to ascertain, if you could speak to that, again, the timing, and if on a go-forward basis the price increases are going to help improve gross margin.

Vittorio Notarpietro

Hi, David, this is Vittorio.

Let me focus on Central America first. We did the first price increase by November 2020. Then following the trend in raw materials and transportation costs from China, we did a second one in February; but recently, we just adopted another surcharge for transportation cost in September. This means that in the Q4 we will have the full impact of price increases on our profit and loss. And this is just the example of our North American Editions. More or less the same in terms of timing for Softaly for the un-branded. For Natuzzi Italia, we had December 2020, July ’21, October ’21.

David Kanen

Okay. So, the price increases that we've taken recently are going to have a favorable impact on gross profit going forward?

Antonio Achille

David, yes. But again, I think for the time being it’s a game of running faster than the bullet, because we don't see yet a decrease in this crisis. So please when doing your math considering also that. I believe that at one point, but it’s my personal expectation, so it not any guidance, at least the raw material, we should see a normalization. And when that happened, that will constituting a major advantage for us, because we have increased prices in some geography and some brand up to 30% in nine months, which I think testified the resilience and the strength of our brand.

If and when raw material price will go down, then is where we’re going to get a very strong uplift, because of course we will not lower down our price again. But in the short term, the combination of us increasing price—raw material spike is still a battle, that is important to mention.

I don’t know, Pasquale, if you want to comment. I see you nodding. Again, I mentioned, you have been 60 years in the market. I'm sure we have more experience than me in judging these trends.

Pasquale Natuzzi

Listen, you learn very, very fast. All the statement that you have made are the good one.

Jason Camp

Dave, I will add to the other comments that on a global basis cost of materials has been significant in the North America region, specifically freight is really the most volatile. And when Antonio speaks of outrunning the bullet, freight is really the one we're chasing right now. And we're living in historic times; it relates to access to containers, access to railcars, access to trucks, and all the prices related.

Antonio Achille

Right. And maybe just to add some color which I believe could be relevant for you if you intend to follow this stock and this Company for the mid-term. When we look at supply chain disruption, I believe there will be some effect which are short term and which we need to defend and other which we are more mid-term opportunity and which we need to readjust. So raw price increase for me is more, let's say, for medium- to short-term in the sense I don't expect that the reservation for this to continue forever. And this we are trying to defend by a better raw material sourcing and of course the price increase that everyone is introducing in the industry.

When it comes to shipping, just to quote you, we're reporting another cargo shipping from Vietnam going in six months from $2,000 to $16,000, $17,000. I personally believe this will be more structural, which means that, let’s say, the global economy, which in a sense was using Far East as a factory and selling product with a mark up in the rest of the world. For me, it’s something we don't want to bet on anymore.

We’re going to have Natuzzi Italia, which is our luxury brand, which is going to be continued being manufactured in Italy where we can leverage an experience of 60 years with some of our more experienced working having 36 years of experience in their hands on auto craft and luxury product. When it comes to Natuzzi Editions the design will still be fully in Italy with internal design team, the production needs to be in a logical place. Also for a sustainability standpoint, we don't want to contribute to unsustainable practice. So we’ll have Mexico for North and Central America, we’ll have our Romania plant and some of selective production in Europe for Europe, and then we have Shanghai, our own plant in Vietnam for China and Asia Pacific.

That for me makes more sense, it's more sustainable, it will support reducing shipping cost and getting a better service. So (inaudible), raw material strategy is defending, shipping strategy is optimizing long-term supply chain (phon).

David Kanen

Okay. You guys kind of beat me to the punch on transportation. That was really my next question. Transportation costs were up 420 basis points. And if you look at the history of that, shipping containers, it's somewhat cyclical, and historically when they've had large price increases they've been followed by price declines. I would like to believe that over the next 12 to 18 months we're going to recapture some of those 420 basis points along with the price increases that we've taken that will drive gross margin higher.

I know you don't give guidance, but looking out 12 to 24 months, as you most likely reclaim some of that 420 basis point increase in transportation, you start to get the benefit of price and declining raw material prices. Being that operating income adjusted for the one-time Canadian issue was about almost $3 million, is it possible that we can get well into a double-digit EBITDA margin? I mean, we were at about—pro forma, I think we are at $8 million of Adjusted EBITDA for the quarter. Could we get to a 10% or better margin over the next 12 to 24 months?

Antonio Achille

So, as you currently said, we don't provide guidance, so I cannot say, yes or not.

Pasquale Natuzzi

Antonio, I mean, just because of my experience I can answer to one of the questions.

David Kanen

Absolutely. Please, Pasquale, please.

Pasquale Natuzzi

Yes. Regarding the transportation cost increase. I mean, we export in America from Italy for example since 40 years. And I mean, never anything like what happened today, I mean, I can remember in 40 years. Okay. The price increase could be at 10% or 20%, or more or less. But here we are talking about we used to pay $2,500 and now, $10,000, $12,000. This is a speculation situation. It’s something that it's—there is no way to understand why it’s happening, anything like that. And it cannot continue to be like that, but that's just my feeling. All right. So it never happened before in 40 years, I can guarantee you. That regards the cost of transportation.

Regarding supply chain, we are certainly sourcing by purchasing, importing components from China. And also on importing from China we are penalizing, because of the cost of component never can justify transportation costs like that. So we are going to review, as Antonio explained, the supply chain. Whatever we manufacture in Italy we should try to have a component, raw material, everything as close as we can. And then the same would be in Romania, the same would be in Shanghai, and the same would be in Brazil. So we are going to review the complete supply chain in order to avoid transportation cost and make our Company sustainable, as Antonio said. Okay.

So that's what I can say.

David Kanen

Okay. So in other words, you have other initiatives to mitigate cost inflation in transportation and raw materials, you're controlling the things that you have control over. That's good to hear.

And then I have a question for you, Mr. Natuzzi, on product development. Today, it seems like you're moving more towards training your sales force in-store, where they're more designing a room for a customer as opposed to just taking an order for a product, where I come in looking for a sofa but taking a more holistic view.

Are you going to be increasing the number of SKUs in product development to further increase the penetration that you have with that customer "designing a room" as opposed to just selling them a product? And if you can give any color there of some of the—if you are, what would some of those product categories and SKUS be?

Pasquale Natuzzi

I believe we have a product and color enough. Okay. We need to just now focus on selling. I mean, our total merchandising today, the merchandising we have today for Natuzzi Italia, but even for Natuzzi (inaudible), but talking about Natuzzi Italia, can support the lifestyle brand. So in other words, we are in the position to decorate an entire home for very demanding people in terms of style, coordination.

I mean, investment on product development must be reduced, because we need more to training people in the store and work on retailer merchandising. So that's the next 12-month challenge here of the Management.

David Kanen

I see. So you have enough SKUs to meet the customer is what you're saying.

Pasquale Natuzzi

Yes.

David Kanen

And then just last question, I don't want to monopolize. In terms of e-commerce, when is your launch? And if you can provide any color around that and expectations of shareholders that we should have.

Pasquale Natuzzi

But Antonio already answered (multiple speakers).

Antonio Achille

Yes. I think, David, maybe you had some problem with the camera and don't mind…

David Kanen

I'm sorry.

Antonio Achille

No problem, but don't mind to summarize. So we're targeting end of the year for a global launch of a new information and branding platform for Natuzzi Editions and Natuzzi Italia globally. They will be substituting the existing 46 platforms that exist in each different market. The platform will be also transactional for U.S. Natuzzi Italia, which will be the first market we will be launching e-commerce. So we are targeting end of the year. Of course, we are rushing a bit, so we will not release the e-commerce unless it's reasonably stabilized and solid, but for the time being the plan of U.S. Natuzzi Italia by the end of the year is confirmed.

And sorry, maybe I consider it obvious, but maybe it is not obvious. One of the areas where we're going to have a discontinuity is marketing, which will be moving radically to digital, and it will be mostly about customer activation rather than brand building. And Natuzzi enjoy a terrific brand awareness in most of the geography where we want to grow, including U.S. where it's number one in terms of European furniture brand. So the communication will be predominantly in the form of customer activation, it will be mostly digital. On average, a consumer searches for 23 days a product before buying it in furniture. We want to be very visible in that journey, which happens a lot on digital. On average, there are in U.S. eight digital touch point, being social media or being the site of the company, and we want to do a leapfrog in our ability to be present and influence there. We have a manager, Jay, who has an extensive knowledge in U.S. on digital marketing, who is working closely with our headquarters to accelerate that process.

David Kanen

Okay. That's very helpful. Thank you, guys. Congratulations and good luck in the upcoming year.

Pasquale Natuzzi

Thank you, Dave.

Antonio Achille

Thank you.

Operator

Thank you. Our next question today is coming from Stanford Wyatt. Your line is now live.

Stanford Wyatt

Hi, guys. Thanks for taking my question. I appreciate it. And I'll echo what one of the previous callers said, that all the additional detail in the press release was really helpful, and the focus on the return on capital and some of the other changes you made have been great. So thank you.

And just to circle back on one of the previous questions, I'd love to hear, I know you're not giving guidance, but just on the long-term EBITDA margin potential in this quarter. I thought the EBITDA margins were pretty strong, considering all the headwinds with transportation and supply chain cost. But love to hear just any thoughts on over the long term what the EBITDA margins can get to. And then I've got one more question after that. Thank you.

Antonio Achille

So, maybe a more strategic consideration where—I use the word strategic not to be blurry, but to reaffirm more to the mid-term. So we claim and we aspire that we want to be a brand company and, at least for Natuzzi Italia, be a luxury vertically-integrated company. So if you look at the benchmark in those industries, they all clearly have double-digit EBITDA, that's for sure. So when we say we aspire to that sector, it doesn't mean that we aspire to the sector just because we use that word, we will use that word in our press release, but because we aspire to the economics and the multiples of that the industry. That is the kind of mid-term strategic answer. More short term, when I say we want to rebalance our supply chain, I firmly believe the only sustainable company will succeed also from an investor perspective, but there is terrific value to do so.

If you think that currently the production from China to U.S. is paying 25% of tariff, if you think that that production needs to pay the shipping cost we mentioned, you can imagine if we move it to U.S. where there is zero tariff, so from 25% to zero, and where production can travel on truck, on wheels, rather than shipping, what could be the impact on margin?

By doing logical things like Pasquale said, reducing the complexity of our collection, by reviewing our supply chain, by increasing the efficiency of retail as we demonstrated to be able to do in the U.S., we expect that our journey towards becoming a brand and luxury company will not just be a statement, it will be reflected in the EBITDA, EBIT and return on capital employed metrics.

Stanford Wyatt

Yes, that's great. Thank you. And just to follow-up on that. I saw you guys also look to have spent $800,000 this quarter to reduce the redundancy of your Italian factories. And just kind of curious along those lines if there's more opportunity there and what the potential is.

Antonio Achille

I will call maybe Pasquale to comment.

That is, of course, a legacy from our past. The Company used to be completely dependent and relying on Italian production for every part of its business.

Of course, going forward, as Natuzzi Italia will continue growing, there will be still a logic for that, because Natuzzi Italia needs to be producing in Italy, because being made in Italy is part of the DNA of the brand. But for the rest of the business, as I said before, the fact of being sustainable, being closer to the market will not require necessarily to be produced in Italy. So we started, with the help of the new HR Director, a discussion before summer, which now is accelerating to find a sustainable solution on that front. Sustainable because that is part of the philosophy of the Company and Pasquale. Sustainable because you cannot proceed unilaterally. In Italy, the workforce environment is quite rigid. So you need to find a solution which encounter (phon) the sustain (phon) of the workers, the trade unions, and the government.

We are quite advanced on that front. If that happened, it will be, I would say, an additional significant step in term of having the supply chain how we want to have it and also in terms of releasing marginality.

But I'm sure, Pasquale, you want to add color, because I know this has been a battle you fight over time. And by the way, interesting to know because we did it in a silent way, or at least now we did it, the Company, but over the last decade already more than 1,500 workers left the Company in a very, let's say, not dramatic way, not dramatic way.

But please, Pasquale, maybe you want to comment on the topic of restructuring.

Pasquale Natuzzi

Antonio, help me to understand a little too bit more. I mean, you describe the fact that we manufacture Natuzzi Italia in Italy and the reason why. And then, I mean, in order to make sustainable production and delivery and supply chain, we are already have a plant in Brazil, we have a plant in China, we have a plant in Romania, and we are going now to organize production in Mexico. I mean, you describe it very well. I don't know. Probably I…

Antonio Achille

Okay. Then it should be fine. Okay. If you don't have nothing to add, that's fine, Pasquale

Pasquale Natuzzi

Okay.

Stanford Wyatt

Thank you. And then just my second question—also great to see the alignment and you mentioned your stock compensation plan, your stock option plan that starts next year. And I think at the end of your prepared remarks you mentioned MBO or some—it sounds like you might already own some stock with any more detail, what that is. I wasn't sure what that was referring to. And then also just on the option plan, I guess, why wait until next year? I mean, you guys are working on a lot of good stuff. Why not incentivize the Management team right now? I guess, just any details on what that—are you going to grant the options now and they vest next year, is that what that means, or any further detail would be helpful? Thank you.

Antonio Achille

Thank you for also this comment. Let me take it maybe one step back. When I joined Natuzzi is because I believe this Company—and this is my belief, again, not guidance, my belief. This Company has a terrific upside potential. Okay. And I believe there are the conditions to achieve it, and I hope that working out that we're going to achieve it.

I think at one point we will share detailed information. My best salary is roughly one third of my last employment, a senior partner and global leader luxury, McKinsey, or the potential upside will happen only and if there will be an upside for you as shareholders, and it will happen in the form of a stock option plan.

There won't be—the deal we're discussing with the Board is not that going to be granted, there is going to be stock option. There will be a strike price, which is in my case be determined as 30 days before my joining. So, of course, that will be pushing me to incremental value creation. And it's really to double and triple the Company value to make this—I would say, first of all, a successful journey personally, and professionally, but also financially. So there is a bit of the economics of the stock option plan for me.

But again, we are finalizing this, it will be in place we believe by the end of the year beginning of next year for myself and the key Management team.

Stanford Wyatt

Yes. That's great to hear. Yes, it sounds like so the strike price will be the 30 days before you join. So you obviously…

(Multiple Speakers).

Antonio Achille

Yes.

Stanford Wyatt

Yes. You're incentivized now and going forward, and it sounds like a great opportunity, and love to see that alignment as a shareholder. So thanks a lot for your time, and keep up the great work. Thank you.

Antonio Achille

Thank you.

Operator

Thank you. If there are no further questions at this time, I'd like to turn the floor back over to Piero.

Piero Direnzo

Thank you, Kevin. We have no further questions. So, therefore, this concludes the conference call today.

Thank you all for participating in the event. And do not hesitate to reach out to me for any questions that you may have.

Have a nice day. Thank you.

Operator

Thank you. That does conclude today's webinar. You may now disconnect and have a wonderful day. We thank you for your participation today.

Antonio Achille

Thank you. Bye-bye.