Natuzzi S.p.A.

Fourth Quarter and Full Year 2021 Financial Results Conference Call

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Robert Marcin, *Penn Capital*

PRESENTATION

Operator

Welcome to the Natuzzi Fourth Quarter and Full Year 2021 Financial Results Conference Call.

As a reminder, in addition to the link already provided to join via video, interested persons can also join this conference call live via telephone by dialing in the following number: (+1) 412-717-9633, then passcode 39252103#.

Joining us on today's call are Natuzzi's Chief Executive Officer, Mr. Antonio Achille; the Executive Chairman, Mr. Pasquale Natuzzi; 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's Fourth Quarter and Full Year 2021 Financial Results 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 reasons. 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 Chief Executive Officer. Please, Antonio.

Antonio Achille

Thank you, Piero, and good morning, good afternoon to everyone attending. I might briefly recap the key messages from the press release where Pasquale Natuzzi, Executive Chairman, and I share our view on the ending of 2021 and key highlights on the fourth quarter.

As you've certainly noted from the press release, we end up of course on a positive note in 2021. Top-line sales has been 30% above the previous year, 2020, and we exit 2021 stronger than the year before COVID. In terms of top line, we reported a growth of 10.4% versus 2019.

In addition of these, we closed the year with €114.4 million portfolio orders, which is above the last year by some €10 million. So we could have been closing in term of top line even on a higher number if we didn't face such a stronger headwind from supply chain disruption. 2021 reported also improvement in gross margin where we closed at 36%, which is almost 7 points above 2019 where it was 29.7%. These, despite the need to overcome a spike in most of the raw material, which sometimes has been double- or triple-digit in terms of price increase during the year.

We ended 2021 with a profit of €4.9 million, which compare to a loss of €10.6 million in 2020 and a loss of €22.5 million versus 2019. So we improved in terms of operating profit of €27.4 million versus 2019 and €15.5 million versus 2020. In terms of EBITDA, we closed the year with €24.9 million that compare with €12.3 million in 2020 and €1 million in 2019. I often refer, as you could expect, 2019 because I believe that it provides a more solid metric of comparison, because it was not affected by COVID. So, if we look at Adjusted EBITDA, which is clearly an important metric in term of value creation compared to 2019, the Company improved by €23.9 million.

Also cash position has improved. We closed the year with €53.5 million versus €48 million in 2020 and €39.8 million in 2019. So I will say, overall, a year with respect to strong momentum in the market which also provides some early sign that our strategy of focusing on retail and brand, initiated by Pasquale a decade ago, has started providing some results which are also of satisfaction for potential investors.

We do want to provide also some brief highlights on how the year started. In term of order flow, the year started quite with a positive trajectory. Order flow, which means the order we receive, not the invoices, sales are up 32% at week 12, and this is also a result of strong momentum we are getting in retail in U.S., where Jason will compare. These, as the full year, we're also posting the results for the fourth quarter. We are pretty much in line with the same trajectory with the exception of operating profit. At the level of operating profit, we reported operating profit which was positive by €0.6 million, but was lower than what we wanted to achieve mostly because we suffered from a significant increase in transportation costs, especially towards North America that we were only partially able to recover from our client invoicing. We reported in fourth quarter €6.5 million of extraordinary one-off transportation costs versus North America.

That's a bit I will say the key highlights for the economic performance. Other key messages I would like to share. With Pasquale, the Board, we continue working on the organizational side. As you remember from our last discussion, we put in place organization, which now is centered on the brand. We now have two divisions. One which is fully responsible for the strategic merchandising of Natuzzi Italia; one which is fully responsible for the strategic merchandising on the Natuzzi Edition. Those divisions are increasingly exchanging view and opinion with regions, so to come out with the best distribution strategy in each region.

In addition, we created a division for furniture. As you might remember, we started our strategy to become a total lifestyle brand. So we want to add to our traditional strengths of upholstery, a very convincing offering of furniture. For this reason, we created a business unit. We have a new manager which is coming in next week in to the Company which is going to be providing a very strong experience in the furniture sector. And this is part of the idea of strengthening our leadership team.

Other potential information which are worth sharing with you regarding the evolution we're doing on our manufacturing. The most important achievement where we are very satisfied is the result of the pilot 4.0. We are in a plant here in Italy. We're testing really a state-of-the-art technology coming from the automotive, something I'm not aware is already in place in our industry, which are providing very exciting results. The ones that are going to be stabilized, those technology would be the standard base for all our direct factory, not only in Italy, but in China, in Brazil, in Romania.

To note on our JV, as you're aware, we are in a JV since 2018 with Kuka Furniture for the commercial development of China. In that JV, Natuzzi S.p.A. holds a minority of 49%. Hence, we don't consolidate line by line. The JV is proceeding very well on all key dimensions. Last year, we added 84 new stores in franchising. We're producing a profit, which is more than double last year. And the JV sits on a significant cash position that we are discussing how to make available also for Natuzzi S.p.A.

Other positive highlight that will be subjected to a specific press release. We eventually closed as planned, a joint venture for the development of the rest of Asia Pacific with a very predominant player in the region, which acquired 20% of Natuzzi Singapore for a correspondent of $5.3 million investment. That JV will be a platform for the development of the rest of Asia Pacific commercially, but also will be the base for strengthening our operation locally.

Let me stop here, just to provide a bit an executive summary of what you received (phon), to welcome your question and observation.

Operator

David Kanen, your line should be now live.

David Kanen

Great job in transforming the Company. First question is in regards to transportation costs, which were up quite a bit. We track a number of companies in the logistics area, and what we're seeing is signs of declines. Could you comment on that, what you're seeing?

Antonio Achille

Let me comment first.

In taking your question on the transportation, let me quickly comment on the fourth quarter events and what we are witnessing here. On the fourth quarter, we had been experiencing a strong spike of transportation, especially towards North America. Our practice is to pass over this cost in the form of freight surcharge in a very transparent manner to our partners. What happened in the fourth quarter is that the speed of increase of the freight did not allow our system to adjust rapidly enough. But now we have corrected that also to make more automatic some of these, let’s say, price adjustments that would account to freight surcharge.

Okay. On the commenting on what’s happening, we do see a flattening of those costs. The situation remains very fluid, because as all you're aware, not only we are experiencing a significant turbulence caused by the war, but there is also still very much issues which are geographically specific like China. The oil price more is than $100. So at the moment we see a plateauing (phon), in some geography a decrease, but we remain very vigilant, because basically we need to witness day by day what's

happening. And this is very much a delicate situation, because we cannot say that the situation is being stabilized, rather the opposite.

I don't know, Pasquale, you've been in the industry for 60 years. I'm sure you've seen more of this turmoil. I don't know if you want to comment on the transportation price as well.

Pasquale Natuzzi

No, I've never seen in my 60 years' experience anything like last year and obviously even this year. So, I mean, transportation is—I mean, it's really very complicated, very complicated, because the price—you cannot plan the price, because unless we are willing to pay very high price and make a contract. But to be honest, in this uncertain time, we are really looking almost day by day the business, at least from the transportation cost point of view.

Antonio Achille

Yes. What we—we made very clear to every business responsible is that—so regarding the margin is the top priority, especially in light of such a strong portfolio order flow and also strong fourth quarter demand. So every business leader, and of course U.S. is very important in that aspect, has really been incentivized to pass these kinds of extra freight surcharge in a very timely manner. And we're paying a lot of attention to avoid that. We had like last year surprises when we closed the quarter. This is a bit the way we are reacting to the situation that very clearly Pasquale mentioned of a situation outside (phon), which still is quite dynamic.

Pasquale Natuzzi

You explain it better than I, Antonio.

Antonio Achille

No, no, no, Pasquale.

Pasquale Natuzzi

Let's say it's also difficult to explain. So try to imagine what is in the reality. Okay?

Operator

Thank you. If there are no further questions at this time, I'll turn the floor back over—actually one moment, please. David, your line is now live.

David Kanen

Okay. I'm sorry, I had a couple of follow-up questions. Not trying to monopolize, but there's a lot on my note sheet here. In regards to your backlog, I noticed that despite the continued acceleration in written orders, it looks like backlog was up about $4 million sequentially. And then in Q1, I know orders were up about 31%. We own a—I'm not going to mention the name, but we own another European furniture company based in the U.K. And about a week ago, they told us their lead times from Asia are down from 20 weeks to 13 weeks, which tells me that we're seeing signs of some resolution in supply chain and bottlenecks in logistics. Can you comment on that as it relates to Natuzzi? And is it reasonable here in the next three to six months that we would start to see you guys work down your backlog? Because my math is, if you continue to write orders around €115 million or better, and we start to work down the backlog to what's normal, it seems like we're going to have some significant increases in revenue. So can you comment on that, in particular, and if you're seeing your lead times start to come down, or if not, when?

Antonio Achille

Okay. I think it's also a matter of reading carefully what others announce, because the backlog clearly is function of two elements. How faster—I mean, doing an analogy with top of a sink which is full of water, how much water you're able to pull out, which means how fast you're able to accelerate your production, and also how much additional running water gets into the sink. So for what Natuzzi is concerned, we were extremely surprised positively by the strong start of the year. So the running water, additional running water has been very strong.

In term of additional production, we have a very articulated (phon) production footprint, then our view long-term will constitute an advantage. And we were able to catch up quite significantly. Since the last week, the China production, which is quite important, especially when it comes to Natuzzi Edition North America, is closed because of COVID. As you know, as you're probably aware, this is not just Natuzzi, it's a very generic problem. Foxconn, which produce the screen for iPhone has stopped the production near Shanghai, stopping the production of iPhone for Apple. So not Natuzzi only.

We're working very hard. We just need to recognize that first, which I believe is still good news for investors, the additional running water doesn't seem to stop, rather the opposite. So we're getting more orders every day, at least until (inaudible). Second, despite all our effort, is really a kind of continuous backdrop. And for instance, we were not expecting this lockdown in China, because of the stringent measures they're talking. It's already the second week that the government is postponing the reopening of the Shanghai area. And for us, this is not an immediate solution to that, because even though to restore it, reorganize the supply chain in another district, like it could be Vietnam or other district, is not something you can do overnight.

To your question, Dave, we're really working very hard, because that not only will mean additional revenue, but also even more importantly, will mean better service to our customers and clients, because at the moment for the special order, we have not been able to reduce their timing. So we're working on that. It's not easy in a context where geographically there's always something coming up. Like China, we discussed. Romania, the other important plant we had is suffering because of the Black Sea, given the war, shipping cannot happen. And that was a route for receiving raw material.

I wish I could say the issue is solved. The issue is addressed very seriously. But I could not say it's solved.

David Kanen

Okay, thank you for that update. And then I noticed that branded product was 88% of revenue in the quarter. And I know branded traditionally is much higher margin, up around 70%. Do you expect branded to get over 90% at some point this year? And then the other side of my question is our blended gross margins with the investments that you're going to be making in technology and automation on the manufacturing side. Canyou speak to what effect that will have on our gross margins both the combination of a higher percentage of branded, and will we get above 90% and the implementation of, as you put it, the state-of-the-art manufacturing technology?

Antonio Achille

Thank you, Dave. This allows me to answer a bit in a structured manner on a question which I believe is very close to U.S. investors, I mean, you generally as investor, which is about margin expansion. So, we see three main avenues for margin expansion, and you touched upon it, so then I would like to comment. The first one is the brand mix. As you pointed out, we are on a continuous trajectory to increase the relevance of the branded business versus the unbranded.

Just to give you that point, Natuzzi Italia has a margin which is a 10 point percentage above the unbranded business. So every dollar we move from unbranded to Natuzzi Italia is 10 margin points more.

As you mentioned, we are 88%, we developed a five-year plan, and the trend of reinforcing the branded business is central to that. So we expect to continue marginally increasing the relevance of the brand business from the unbranded business. And we also put the cutoff very rigid that we will not accept any unbranded business that does not match our minimum profitability requirements. So last year, we dropped some significant clients because they were not matching our new target for minimum profitability on the branded business. So the first avenue for margin expansion is the mix.

The second one is the retail. And I will ask maybe later for Jason to comment. We're continuously improving retail, especially in North America, and in well performing stores, the integrated margin means the margin that we do as a manufacturer. The margin as we do as a retailer is north of 70%. So that is also another view to increase marginality. And that is very central to our five-year business plan.

The third lever is the one you mentioned, which is about making more efficient, more digital our production. As I mentioned before, we saw through the pilot 4.0 the opportunity to significantly increase the productivity and efficiency of our production. This is also significant for that. In close agreement with Pasquale, the Chairman, we launched (phon) to simplify the collection, which is a bit the root cause also for some inefficiency in the supply chain. We expect that the combined effect of simplifying the collection and getting a more efficient production will result in gains in productivity, which are measured in several percentage points.

These are the three levers we are moving to get to a marginality which will be more satisfactory for any investors in this Company.

I hope I addressed your question. Maybe as an additional data point, I could ask you, Jason, to comment on the performance of retail in 2021, but maybe also some initial highlights of what's happening in 2022.

Jason Camp

Sure. Happy to do that. For the first 12 or 13 weeks of the quarter, North American retail had I think a very strong showing. The 12 stores on a comp store basis grew about 25% in order flow growth over the year before. And essentially that puts them basically at a double over 2019, and our top six stores, which we were talking about a $4 million pace last year, are now pacing at five. So we're very pleased with our start, and working hard to make sure the rest of the year finishes like it started.

David Kanen

Okay. Thank you for that update, and congratulations. So just to finish the question that I have, Antonio, do you expect in 2022 for branded to become greater than 90% of your overall mix? Or is that more of a 2023 event?

Pasquale Natuzzi

Antonio, you are on mute.

Antonio Achille

Sorry, guys. Now, as you see, we have basically historically over the last few years added 1 percentage point of branded business every year. I expect this trend to continue also in 2022, at least.

David Kanen

Okay. And then the last question. Even though I'm pleased to see the JV in Singapore, I'm going to leave that, because it looks like it's not an enormous driver yet. So I'm going to leave that for another call or another caller. But could you speak to the China JV? There's an enormous amount of cash there now and it's performing exceptionally well. When I kind of do my numbers on it, it appears that we have $10 to $12

of value in the China JV and essentially we're getting our core business which is a $500 million, $600 million now profitable growing business in transition for free. Can you speak to monetization of that, potentially a spin-off, or ways that for Natuzzi shareholders we can realize some of those exceptional results translated to our stock price?

Antonio Achille

Thank you, Dave, that is clearly a very central topic. It's part of the Board discussion and the discussion we are having daily with the Executive Chairman. You're very right, China, which I think is a very positive news for everyone is on a terrific trajectory in terms of growth. We discussed the three year plan, and expect actually to accelerate the growth. Now we need to see in the short term how the COVID will affect 2022. But on the long term, there is a lot of confidence to delivering

Currently, the JV has some €62 million, which will be roughly $67 million in cash, which roughly is 30% of the total revenue of the JV, which is really a level of cash when assessed to the need of the Company. Also, because the future business plan expects to increase the level of cash, not to decrease.

The question how to do a better valuation of that for the benefit of the Natuzzi S.p.A. shareholder is very central. We do see two avenues to that, which I would say can be sequential. The first one is to reduce the level of cash through a capital reduction so that that cash can be utilized for the purpose and the priority of Natuzzi S.p.A., which includes opening more stores, accelerating the factory restructuring. That's something we've been discussing and discussing with the Board. So we need to find an agreement with our counterpart. Has been done a first proposal, we're still iterating on that level of discussion.

Then I believe what you said could be definitely a good option to do a separate IPO. We put this on the table to our partner that, as you know, is a listed company, Kuka, and they are open to explore that dynamically. That's not something that will happen this year, but it's something, definitely—there could be definitely an ambition. Maybe, I will ask Pasquale to comment, because he actually initiated this JV. Pasquale is equally excited by me, by the idea to list the company in China separately in a market where it has higher multiple, where we can bring a story of a branded company from Europe, growing double digit in top-line margin and also having a predominant role in this part of the business. That, for me, would be a very natural and a great scenario for capturing value of the JV.

I don't know, Pasquale, if you want to add any color on this.

Pasquale Natuzzi

You covered everything, Antonio.

Antonio Achille

Thank you, Pasquale. But Dave, I want to reassure you and the other investors that we are not sleeping over the matter. It's clear, and I know you are quite seasoned enough about the dynamic with China that when you are in minority, the speed of the execution of some of this deal (phon) depend on how fast you can reach an agreement with your counterpart. So it's not totally in our control.

David Kanen

Okay. Thank you, guys. Good luck and I look forward to speaking with you next quarter.

Antonio Achille

Thank you so much, David, for your trust as an investor.

Pasquale Natuzzi

Thank you.

Operator

Thank you. Our next question today is coming from George Melas from MKH Management. Hello, George. Your line is now live. Perhaps your phone is on mute.

George Melas-Kyriazi

Okay. I'm sorry. Okay, here I am. Congratulations on the transformation of the business. It's remarkable. And thank you for the high level of reporting about all the different parts of the business. It makes it—I think you're really trying to educate us on the business, and I appreciate that every time.

Two quick questions. One of them is on the manufacturing in North America and Mexico. Maybe trying to see if there's any progress there. And also, Jason, maybe on the U.S. retail—congratulations for a great 2021. Maybe, give us a little bit some of your plans in '22 and '23.

Antonio Achille

Okay. George, I might start on Mexico. And then I'll leave Jason to comment on retail.

We are very much looking into Mexico. You need to recognize that Natuzzi as a company with 60 years of history. So when you take a decision on direct investment is looking at these through cycles, okay, to make sure that those are opportunities for investors not just the next three months but next 30 years, especially when it comes about direct investment. Why I'm saying this? Because Mexico, if you factor in today the extraordinary logistics cost from Asia, will come as an no-brainer, okay? But if you need to look across cycle, you need to understand which is the intrinsic opportunity in Mexico beyond the potential differential with shipping costs. This consideration led us to be quite cautious about Mexico, but determined. Determined because, as we speak, we have started the production in outsourcing with a leading player, FurnMaster, which is a listed Danish company operating in the Monterrey area, for a subset of products, which are Natuzzi Editions Quick Program, means that our product which are highly rotating with our partner.

We are testing this with 12 top partners so that we make sure that this is not only matching our quality standards where we invest a lot of time, but it's also commercially viable. If that works, that quick program will be a standard to a larger number of clients in North America, and this would cut radically the logistics time from 16 weeks to four or five weeks.

In moving from this to a direct investment, we want to make sure that our experience in this outsourcing confirm to us that the direct investment is viable also for the long term. So when it comes from outsourcing, we're fully committed, we're operational as we speak with our clients. When we come to direct investment, we want to have confirmation also through this direct experience that investment is financially viable, not only in this cycle, where definitely will be because of benefit of lower transport costs, but also in a longer time cycle, given all the other elements, especially the differential in cost of goods.

I mean, long story to say, outsourcing we are active, it's starting, will be a great benefit, has been presented in High Point, extremely well received by the client. Our production, we are continuously exploring. We are open, but we are not starting in direct investment yet.

And if George, that addresses your question, I'll maybe pass over to Jason to comment on retail.

George Melas-Kyriazi

Yes, thank you.

Jason Camp

Good morning. Happy to do it. So if I understand sort of the bent of your question, I think maybe your question is about the pace of our retail store count growth in the U.S. As we mentioned, we've got 12 Natuzzi Italia stores that we manage ourselves and consolidate the full retail sales and P&L in the U.S., and those stores are off to a great start with this year, up 25% over '21 and about double over 2019.

From a store opening perspective, and we look at our total store count in North America across both brands, whether those stores are independently owned or owned by us. We've got about 20 stores in North America between Natuzzi Editions and Natuzzi Italia. And as we have shared, we plan to open about 10 stores a year for the next three to five years. And we are on track to do that this year. And this summer, we'll plan to do a dedicated press release about our store openings and some of those specific locations that you'll see pop up around the country in Q3 and Q4. We did open two Natuzzi Editions stores in the first quarter: one in the Dallas Metro area and one in the Palm Springs area.

I hope that answers your question, George.

Antonio Achille

To repeat, Jason, again, we are not in the business of advertising, but we have weekly retail meetings where every country's presented with retail dynamics. We had one which was last Friday, and I was quite encouraged by seeing that what we call project, which are a situation where a client comes to our stores, so we don't sell them an upholstery piece of sofa, but we sell them a solution for the house, are becoming more and more a regular way for us to doing business.

And Michele Griner, which is our Retail Manager for North America, presented two projects, so where the average order ticket in that circumstance has been at $100,000, hundred K, $100,000. So we have now an average order value for Natuzzi Italia, which is $8,500 and growing. But we have a situation where we're selling a solution, not a piece of furniture. And that's, of course, a very interesting avenue to grow the profitability of a store.

Maybe, Jason, you want to comment. I mean, I already did it a bit, but maybe you want to add some color on this, if you feel like.

Jason Camp

No, listen, I mean, a big part of our strategy to build our strength and our reputation and to bring our brand to life in a way that feels inspiring is to make sure that we build the talent in the stores and our showrooms that can design full rooms, and in some cases full homes, for people and help build that loyalty and build our average order size. So that's definitely a big part of our strategy.

George Melas-Kyriazi

Yes. But at the same time, your other distribution channels keep growing as well. So you are maintaining those, and also growing those to some extent. And because, for example, if I look at galleries, galleries was €157 million in '21, in 2019 was €137 million. So it was some nice growth. It's sort of across the portfolio of distribution channels. Can you comment on that?

Antonio Achille

George, if you look at the data we presented, so the weight of retail, where for us, retail, we take a bit the customer's perspective, and we include U.S. direct operated store and franchising because, in fact, our franchise is very strictly managed. They operate on our IT system, they expose the merchandising taken by Natuzzi S.p.A., so from a customer's perspective, it's still retail. The weight of that part of the business increased, in 2021 it was 49.2% versus 43% in 2019. So we increased 6 percentage points of that part of the business.

When I look at the wholesale, which includes the rest of the business, has been stable in 2021 versus 2019. But since the overall business increased, the business, the relevance of the wholesale channel, in percentage points decreased. So there is clearly a movement towards FOS in the U.S.

Gallery, a well-executed gallery is a bit in between, because for us, it's okay. So what we don't want to have is a poorer presentation of the brand. But a good executed gallery is something very favorable to us. So when we talk about wholesale, we think about the kind of lifecycle where we want to elevate the quality of distribution from just a product, what we call slot business. So the clients buy from us three models and basically expose them in a floor together with other suppliers. We want to move from that to gallery. Because gallery really presents the assortment in the way that we want and the customer experience we want to have. And from gallery, we want to elevate to FOS.

In an ideal world, we will have just retail in good executed galleries for the branded business. The unbranded will be always following slot dynamics because those, by definition, are large clients, like Macy's or others where the gallery comp will never be applicable. So we do continue increasing the weight of retail. I don't know how you cross the data, but the weight of retail is increasing. We don't discriminate galleries, because gallery for us is good.

What we want to reduce is the weight of branded product sold as slot, which means individual models together with other brands in a setting where the customer does not perceive the richness of the retail experience and the brand experience of Natuzzi.

George Melas-Kyriazi

Okay, that's very helpful. Thank you very much.

Antonio Achille

No, my pleasure, George. Thank you so much for the trust in our Company.

Operator

Thank you. Our next question is coming from Robert Marcin from Penn Capital. Your line is now live.

Robert Marcin

Thanks, guys. Could you comment on how the U.S. store openings went last year and whether we hit our target or not?

Jason Camp

Last year was really a year where we got one store opened last year, a Natuzzi Italia store with a great partner in the Dallas market. I can comfortably and confidently say, that store is performing above our modeled expectations. And then the momentum really builds for this year from an opening standpoint.

Robert Marcin

Okay. The question is, really, what I was trying to get at was did store openings spill over from last year into this year? And is that 10 unit number realistic? Or is it a combination of two years and need to be adjusted going forward?

Jason Camp

I think it's fair to say that we had intended to open a few more stores last year than we did. I think we now have the team, the broker network to run at the pace that we've set for this group.

Robert Marcin

Okay. Thank you. The shareholders look forward to those 70% gross margins passing through the income statement as quickly as possible.

And my second question is on margins in general. The last time I was on this call, I asked if you guys would consider giving us something in an intermediate term margin target. Is there—I looked last quarter—just so we could sort of have some kind of sense of where, when the business is running very well globally, and we're out of pandemics and wars and oil shocks and all that kind of stuff, what kind of operating margins the company might achieve on even a range of revenues three to five years out. Some companies do that intermediate-term thing just to sort of show off what they believe their true earnings power is when things are fixed. So it's not this quarter, it's not this year. It's not 10 years out, not five years out like a Chinese plan, but it's sort of a three to four year kind of situation.

Last quarter, restoration hardware generated 17.5% after-tax margins and facet furniture generated 3.6% after-tax profit margins. That's what we have to work with in the U.S. as comps. I would assume you're going to be closer to the former than the latter when this business is humming. But can you sort of give us any sense of where you would want to be on an operating or net margin target, two, three or years down the road?

Antonio Achille

I perfectly remember your question, and I completely understand your, say, appetite for this kind of information. Let us be very transparent. So we approved and our Board, basically, four weeks ago, a five-year plan, which is the trajectory Pasquale, myself and the full team is committed on. And that, of course, is fully detailed not only in strategy but in numbers, of P&L, respectively, for the next five years.

We do have an internal expectation and internal objective, which is based on growing significantly the top line, so double-digit growth over the next five years and reaching a margin which, as you said, is more positioned on the high digit rather than the low digit. That is definitely our objective.

In terms of being more explicit on providing guidance, we have not come with a final conclusion. As you see the world around us, it is not just because of bad will, but the world around us remains very uncertain. If we had to provide a guess on this year, that will be extremely difficult because—I mean, we started the year in a phenomenal way. Now, we are in Europe with a conflict in place (audio interference) and is contaminating not only Europe at war. We have China, which is going to lock down. So providing guidance can be powerful, but also misleading. And we want to do it when we feel we are pointing the investor is actually in the right direction. So be reassured we have a plan. Be reassured the plan is based on top-line growth, significant growth based on transforming the Company, continue transforming the Company in branded retail and getting margins which are aligned to the peers, the European peers in the branded business we're operating. So this is a bit of direction.

In providing the precise number, let us further consider that. We are hearing that this could be beneficial for you, so we'll take very seriously this request, and we will come back in the next call with a decision on that.

Robert Marcin

Thank you very much. At least we have a five-year plan that entails significant growth and significant margins improvement. And I would hope that the Board was intelligent enough to include significant compensation bonuses for Senior Management, should they choose (audio interference).

Antonio Achille

Okay.

Robert Marcin

If the shareholders make money, I hope the Management team participates with equity participation. Thank you.

Antonio Achille

Thank you.

Operator

Thank you. If there are no further questions at this time, I'll turn the floor back over to Management for any further closing comments.

Antonio Achille

Thank you, Kevin.

It seems there are no further questions at the moment. So we can conclude the conference call right now. Thank you, everybody, for joining the call. And should you have any further questions or doubts, please reach out to me with email or a call. Thank you all, guys. Bye, bye.

Operator

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