Natuzzi SpA

Fourth Quarter and Full Year 2023 Financial Results

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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Natuzzi Conference Call for 2023 Fourth Quarter and Full Year Financial Results.

As a reminder, interested parties can join this conference call live also via telephone by dialing in the following number +1-412-717-9633 then passcode 392-52103#. In addition to the link already provided to join the video.

At this time, all participants are in a listen-only. Following the introduction, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions.

Joining us today are Mr. Antonio Achille, Natuzzi's Chief Executive Officer; Mr. Pasquale Natuzzi, Founder and Executive Chairman; Mr. Carlo Silvestri, Chief Financial Officer; and Mario de Gennaro, Chief HR, Organization and Legal Officer; Mr. Diego Babbo, Global Retail Division Officer; and Piero Direnzo, Investor Relations. As a reminder, today's call is being recorded.

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

Piero Direnzo

Thank you, Kevin, and good day to everyone. Thank you for joining the Natuzzi's conference call for the 2023 fourth quarter and full year financial results. After a brief introduction, we will give room for a question-and-answer 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 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 last annual report on Form 20-F filing 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 today's call.

And 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 everyone and good afternoon for people which are connecting from Europe.

Let me first provide an overview of the financial figures from the last quarter of 2023 and the entire year of 2023. Following that, my colleague and I will delve into our long-term objectives and strategies. Beginning with the last quarter of the year, we observed a decline in sales. It's crucial to contextualize this decline by comparing it to 2022, a year during which we experienced a notably robust backlog, particularly evident in the final quarter. Even after accounting for the impact of this backlog on our 2023 performance, the decrease remains notable. However, it's worth noting that this decline aligns with broader industry trends, as 2023 presented a challenging market environment, particularly for durable goods and furniture.

Despite facing challenging market conditions in the last quarter of 2023, we actively pursued our goal of transitioning into a brand retail company. Notably, during this period, over 92% of our sales comprised branded goods, predominantly from Natuzzi Italia or Natuzzi Editions. This indicates a significant stride towards our objective of aligning our sales strategy with our branded offerings.

At the beginning of 2021, this percentage stood at 85%, indicating a significant acceleration in our transition. Similarly, we observed a rise in the proportion of branded goods sales, reflecting our evolution into a brand-focused company. Moreover, there has been a notable increase in retail sales, with retailers now representing nearly 60% of total sales, compared to the 52% reported in 2021.

I will delve into this later, as I believe it's a crucial aspect. It's pivotal for investors and other stakeholders interested in our story to recognize Natuzzi's ongoing transformation. We should now view Natuzzi comprehensively as a company that has dedicated over 20 years to establish its position as a globally recognized brand, particularly with Natuzzi Italia in the high-end segment of the market.

These developments also necessitated investments, which Diego will address later, to enhance our tools and organizational capabilities for effectively managing our retail and branded business. These investments were not done previously by the company. Additionally, it's clear from the last quarter of 2023 and the full year overall that we are actively executing and accelerating our restructuring plan and efforts.

In the last quarter of 2023, we recorded EUR 5.9 million in one-off restructuring costs. While these expenses were earmarked for reducing the workforce, the related benefits, both in terms of cash and operational improvements, will only fully materialize starting from the 2024. Excluding these restructuring costs, our gross margin for the quarter stood at 36.2%. Comparatively, this figure was 38.8% in the last quarter of 2022 and 34.6% in the last quarter of 2019, indicating a continued trajectory of margin improvement. It's worth noting that the underutilization of our factory has had a partial impact on our margin.

These are the key figures from the last quarter of 2023. Looking at the full year, I'd say the fundamental underlying elements that characterize 2023 are quite similar. In 2023, following two years of robust demand driven by real estate implications and consumer confidence, we experienced a notable trend of postponed purchases due to declining consumer confidence. Consequently, we witnessed a decrease compared to 2022, once backlog effects are accounted for. This decrease, while significant, aligns with what we observed among our competitors.

We've previously discussed our restructuring efforts. Allow me to provide you with some figures to illustrate the scale of these changes. In 2023 alone, we streamlined our team, particularly from the factory, by 514 positions. This brings the total reduction since the beginning of 2021 to 759 positions, equivalent to 17.5% of our total workforce. I consider this a significant achievement, especially considering the stringent labor laws prevalent in many of the regions where we operate, starting from Italy. Each step of this process required meticulous planning and execution to ensure smooth implementation and avoid any turmoil. As a result of this restructuring, we anticipate an annual benefit of about EUR 22.5 million in reduced labor costs compared to 2021.

In 2023, we continued our investment initiatives, allocating approximately EUR 12 million. Of this sum, EUR 4.6 million was directed towards retail, facilitating the opening of locations, while EUR 7.2 million was dedicated to enhancing our factory operations. These are the key highlights in terms of numbers and figures, which our CFO will further elaborate on with additional details.

To kick off the Q&A session, I'd like to provide a more comprehensive and strategic perspective. It's evident that the results reported in 2023 have been significantly impacted by adverse market conditions for furniture. It's apparent that these figures fall well below our mid-term targets and our potential.

Moving forward, there are some messages I'd like to delve into. Firstly, it's important to highlight that we have successfully completed our transformation into a branded company. As mentioned earlier, nearly 93% of our products are now branded—a significant achievement considering the 20-year investment journey we've undertaken to reach this milestone. This marks a significant shift, particularly for increasing the awareness of the Natuzzi brand, whereas we were predominantly in the value segment: for instance, in the past our products were being sold in the U.S. at an average price of $395.

Presently, in the U.S., the average ticket for Natuzzi Italia products falls within the range of $9,000, with our best-selling configurations priced around $14,000. This substantial increase demonstrates the significant efforts required to establish and justify the brand's premium positioning.

So, the first key aspect is our transformation into a branded company. The second crucial element is our significant investment in optimizing distribution channels. Distribution encompasses both direct retailing in the U.S. and abroad, including our own stores and franchising, as well as wholesale distribution of branded products through our gallery format. This gallery format is essential for us, as it ensures meticulous control over merchandising and delivers the desired brand experience.

The final element, as I mentioned earlier, is our ongoing transformation. We've dedicated significant effort to preparing for this transformation over the past few months, and now we're reaching a pace that will be sustained and accelerated in the coming year.

To delve into more detail, let's discuss our retail operations. Currently, we operate about 680 stores under the Natuzzi banner, encompassing both Natuzzi Italia and Natuzzi Editions, whether they are directly operated, DOS, or franchised. From the customer's perspective, these are simply stores. Additionally, we have around 600 galleries, which are essentially store-in-store concepts. Both our standalone stores and galleries are equally important to us and deserve our full attention.

In our first area of focus, the standalone stores, we've invested heavily in mastering the retail environment and effectively managing sales at the sellout level. Achieving this required a substantial IT investment because historically, each store was merely an account number, lacking comprehensive insights into its operations. Now, we possess a real-time and detailed understanding of store activities, including store-traffic, conversion rate, and product preferences. This capability is invaluable for our transformation into a consumer-centric company.

To ensure that this knowledge becomes progressively widespread across our market, we have not only developed systems but also established a dedicated organization. About 12 months ago, we formed a division explicitly named the Global Retail Excellence Division. This division is tasked with assimilating best practices, codifying them, and making them accessible, initially to our directly operated stores, and gradually extending this support to our franchise dealers. We aim for a consistent enhancement in the customer experience and productivity, both at our stores and at the dealer level.

Allow me to invite Diego Babbo to provide a brief overview of some examples of initiatives carried out under the Global Retail Division.

Diego Babbo

Thank you, Antonio. Good day to everyone.

Allow me to briefly introduce myself as this is my first time joining this call. With prior experience in downstream retail within the same sector, I've dedicated over 20 years to various roles within this company, spanning from purchasing to store development in our retail environment. I've personally witnessed Natuzzi's extensive efforts to facilitate the transition from a manufacturer to a retailer and a lifestyle brand. This transformation has entailed significant cultural and mindset shifts for many of us, which have been supported by the adoption of new tools and routines. As Antonio mentioned earlier, this closely aligns with the objectives of the retail division established last year.

Our objective is to establish effective retail processes and guidelines to ensure consistency in the brand experience and ultimately enhance store profitability. We are committed to collaborating with each regional manager to support them in achieving their retail network's expected performance levels.

Allow me to share some recent achievements with you. We've introduced a state-of-the-art 3D room configurator, facilitating more efficient interactions at the store level within the local trade community. Additionally, we've revamped the compensation scheme for store managers and design assistants. Combined with the launch of our first-ever sales contest for the global DOS network, these initiatives aim to enhance performance and foster a greater sense of belonging among our team members.

We're also prioritizing the training needs of our store staff by implementing a brand-new online platform enhanced with artificial intelligence-driven, multi-language live translation capabilities. This innovative platform enables us, for the first time ever, to reach all members of our network. In addition to classroom sessions, which have already attracted over 300 attendees, leveraging our store staff has yielded impressive results. For example, our ambassador stores in New York and Madrid have achieved double-digit growth. Back to you, Antonio.

Antonio Achille

Thank you, Diego.

To sum up briefly, the primary objective of the Global Retail Division is to enhance the organic performance of our network of 600 stores, in addition to those managed by the JV in China, The potential for growth through organic means alone is substantial.

Next, I'd like to address our branded wholesale distribution. As mentioned earlier, 40% of our distribution still occurs through branded wholesale channels, which remains a crucial strategic component of our business. To support this, we've developed the Natuzzi Commercial Excellence Program. This initiative focuses on two key aspects. Firstly, standardizing the format by introducing a new brand gallery format. Essentially, this serves as a business card for Natuzzi within a multi-brand environment. I understand that many of you come from the U.S., where you're familiar with large furniture retailers featuring various providers on the same floor. Due to our confidence in our brand, we aim to secure a distinctive positioning on the floor. This entails ensuring that the shopping environment and brand presentation fully reflect the brand's potential, akin to what's experienced in our own stores. Therefore, in our wholesale efforts, we've made significant investments in these areas, including appointing dedicated organizational personnel.

Secondly, the Commercial Excellence Program is focused on continuously enhancing the performance of our commercial team. We have a total of 304 individuals across various roles within the organization, including direct employees and agents who engage with clients and dealers. To ensure consistency, we are standardizing the methodologies they use to engage with dealers. Additionally, we're establishing clear productivity targets and budgets for each dealer, which can be centrally managed. This centralization is essential for reinforcing control within the widely dispersed Natuzzi organization.

On the retail front, it's vital to underscore our commitment with tangible actions. Despite 2023 being a year where many companies reduced investments, we opened nine stores, with six in North America alone. It's important to recognize that a store isn't just a name—it can vary significantly in its design and offerings. The stores Natuzzi opened 30 years ago differ greatly from those we open today. Especially in the North American market, we prioritize creating premium locations with sophisticated retailer infrastructure and environments. Take Manhasset, for instance. Situated on Long Island, it's known as the Miracle Mile for its connection between Manhasset and the Hamptons, showing one of the highest productivity rates in the area. Here, we've inaugurated an absolute flagship store, a truly iconic new addition that exemplifies our approach to Natuzzi Italia's new stores. These ventures represent significant investments in strategically chosen locations to fully realize the brand's commercial and brand potential.

Before delving into restructuring, let me briefly touch upon individual markets. As you may recall, we operate within distinct market segments. I'll now provide some insights into our most significant markets, namely the U.S., China, and Europe.

In the U.S., our focus remains firmly high. We consider US one of our highest priorities and a significant opportunity, given that it's where the company is listed and where our business model has evolved. In the last period, we've opened six branded stores and one franchised store, along with an additional seven galleries. Currently, there is also an interesting pipeline of new galleries in development.

We've also achieved stability in our organization with Lou Mossotti taking the leadership from Jason Camp, as announced in the press release on March 1st. Lou Mossotti brings over 20 years of experience in North America, having been part of our team for more than two years, previously working alongside Jason Camp. Additionally, Scott Kruger is leading the development of our branded wholesale business.

To expedite matters, we've also onboarded 24 independent agents, who are primarily covering regions where we didn't previously have direct representation. This reflects our firm belief that the U.S. represents a substantial opportunity. It's a vast continent comprised of significant states, and although Natuzzi's distribution model has evolved over the past 30 to 40 years, there's a compelling business case for reestablishing our presence.

Moving on to another important market, China. Out of our total 678 stores, more than half, specifically 346, are located in China. First, it's essential to understand how to interpret the number of stores and their productivity. Notably, stores belonging to the joint venture (JV), where we don't hold the majority stake, are not consolidated. More specifically, when assessing productivity, it's important to consider the distinction between stores. For stores belonging to Natuzzi Italia, totaling 96, we report the sell-in figures in our P&L. However, for stores under Natuzzi Editions, which constitute the majority, we only report the cost of production plus a markup in our P&L. This arrangement reflects the nature of our deal with the JV. Naturally, as a financial shareholder, we fully benefit from the growth of the JV.

In our journey towards becoming a global retail company, we've recognized the importance of integrating our JV more closely into our operations. This integration has been facilitated by our direct involvement. For example, Pasquale and I have personally visited several times—six times since it became possible to travel again. Consequently, the team now operates with a unified approach towards retail, merchandising, and visual. We're thrilled to host 24 of our top Natuzzi Italia dealers at the upcoming Milano Design Week, which presents a unique opportunity for both business development and brand positioning. This year's events will be particularly extraordinary as Natuzzi celebrates 65 years of heritage—an achievement few companies in our industry can claim.

Currently, China is being integrated into our IT system, allowing us to monitor performance at both the dealer and U.S. levels. This marks a significant achievement for us and serves as the foundation upon which we will enhance the performance of our operations in China, leveraging our JV team based in Shanghai.

That was on our two largest markets.

I am going to touch on the topic of restructuring—an area of significant importance for us. This restructuring is a natural progression of our ongoing journey. It's essential to mention Natuzzi's historical role as a major production platform, which also served third-party clients. One notable client, until recently, was IKEA. This gives you a sense of the scale of our production operations. However, as we transition towards manufacturing top-tier market offerings, we've started to develop partnerships with leading global resorts and five-star hotels worldwide. This transition has been a considerable leap, both in terms of brand positioning and production capabilities. Consequently, one outcome is that we no longer require as much production capacity as before.

Implementing a restructuring is always challenging. Doing so in Italy is particularly difficult. Nevertheless, we are making progress step by step, and it's now starting to show in the numbers. As I mentioned, we have let go 759 employees, including 266 in the southern region of Italy. Typically, when addressing such sensitive topics, strikes are common before any results are achieved. Remarkably, we've managed to navigate this process without any strike. We anticipate net savings of EUR22.5 million as a result.

I would like to invite Mario, who has played a pivotal role in leading and managing our restructuring efforts, to provide further insight into our accomplishments thus far, and more importantly, to outline our roadmap for the complete restructuring of our operations.

Mario de Gennaro

Thank you, Antonio. Good day to everybody.

Allow me to introduce myself briefly as this is my first time participating in this event. With over 30 years of experience across various sectors, including big corporations like Unilever and other listed companies, I have sharpened my skills in managing complex situations, particularly those requiring deep expertise in heavy industrialized environments, both in Italy and beyond. Throughout my career, I have consistently led restructuring, change management, and transformation projects.

Antonio has already emphasized the key figures of our transformation journey, so I won't reiterate them. What's crucial for me to underscore is that this isn't solely a reduction plan. While we are indeed implementing a fair approach to redundancy, we are also undertaking a significant transformation of the skills for our remaining colleagues. Specifically, we have initiated an extensive training program aimed at up-skilling and re-skilling all our employees to meet the digital challenges we anticipate in the near future.

Allow me to provide an example: In Italy alone, throughout 2023, we conducted over 100,000 hours of training for our colleagues to enhance their skills. This effort encompassed not only the commercial aspect but also our factory operations. Significant investments were made to adopt a forward-looking approach to managing our production, as part of our Industry 4.0 transformation program.

As Antonio mentioned earlier, we encounter various legal frameworks which can range from straightforward to more intricate when managing personnel reductions. Naturally, we uphold Natuzzi's ethical and cultural standards in all our endeavors. You may have noticed an acceleration in personnel exits during 2023. This was the result of extensive negotiations, spanning several months, to reach agreements with the Italian and local governments, as well as labor unions. Our aim was to ensure a harmonious approach to managing redundancies, free from disputes or strikes. This collaborative effort will persist over the next couple of years.

In Italy, we have implemented a specific measure akin to early retirement. This measure has led to the accrual of the entire cost of redundancy for these individuals. As Carlo will elaborate on shortly, although the cost has been accrued, the cash out will be spread over the next five years.

Back to you, Antonio.

Antonio Achille

Thank you, Mario. I'm sure there may be questions later on. Carlo, I suggest you briefly delve deeper into some of the figures we mentioned, and then we can open up for questions from our audience.

Carlo Silvestri

Good morning, everyone. Thanks Antonio and Mario and Diego for your notes. I will go very quickly through some of the numbers.

As Mario mentioned, regarding the EUR74 million of restructuring costs, it's important to note that our adherence to accounting principles requires us to accrue these labor-related restructuring costs as soon as the corresponding liability towards our employees arises. The majority of these liabilities arose in the fourth quarter.

In short, although it was planned, we were unable to accrue that cost in the previous quarter. From a financial perspective, nearly half of it has been paid, with the remaining half to be paid over the next five years. Naturally, this has impacted the way we assess our gross margin. Antonio provided a consistent comparison by deducting all the impacts of these restructuring costs for the last quarter. I will provide a similar analysis for the full year.

If we then neutralize this effect, 2023 reported a gross margin of 36.3% compared to 35.6% in 2022, 36.2% in 2021, and 31% in 2019. This confirms the consistent improvement and cost management initiatives we have undertaken in the gross margin over the past years. How did we achieve this? Not only were we able to align our purchasing levels with consumption to match the new sales volume, but we also improved inventory management and continuously renegotiated supplier conditions. Additionally, all industrial costs were managed more efficiently through better cost control practices.

Turning to operating expenses, specifically selling and administrative expenses, we observe that despite the expansion of our retail network and investments in enhancing the quality of our personnel, we nearly offset the deleverage effect from lower sales volumes. The overall selling expenses increased from 26.7% in 2022 to 27.8%.

Also In selling expenses, particularly in transportation costs, we successfully renegotiated terms. However, in terms of administrative expenses, there was an overall increase of EUR2.1 million, resulting in an impact rising from 7.7% of revenue in 2022 to 11.4% in 2023. While this is an area of ongoing focus for management, it can be partially attributed to several factors. Firstly, in 2023, we invested EUR0.4 million in further digitalization efforts and EUR0.8 million for workforce reduction accrual. Additionally, in 2022, we received a government contribution of half a million which was not confirmed in 2023.

Lastly, in terms of our net finance costs, they amounted to EUR9.3 million in 2023 compared to EUR8.5 million in 2022. While we managed to reduce our average outstanding bank debt by 7% compared to 2022, we were negatively impacted by the average increase in interests from 4.4% in 2022 to 6.2% million in 2023. Now, I'll open the floor for any questions.

Operator

(Operator instructions)

Our first question today is coming from Dave Kanen from Kanen Wealth Management.

Dave Kanen

The first one is in regard to China. I know the government has been working on different stimulus measures, including lowering interest rates. Have you started to see an inflection there where things have bottomed and they're starting to turn up?

Antonio Achille

Allow me to share insights on China, as I've spent considerable time there. Dave, during approximately three months out of six months in which I was in China, I extensively visited stores—about 70 in total. A significant portion of these stores are situated within what we call as furniture malls. To contextualize, these are similar to department stores in the U.S., where each floor hosts various furniture categories. However, it's important to note that store traffic in these malls remains relatively low.

China is navigating its path to full recovery amidst ongoing challenges. Given your broad global understanding, you're likely aware of the developments surrounding Evergrande and the struggles faced by other larger firms, such as the reported 30% loss experienced by Gucci in China.

So, in the context of durable goods, the impact of reduced spending is even more pronounced compared to the fashion industry. Currently, we're observing initial signs of recovery for Natuzzi Editions, our more affordable brand, while Natuzzi Italia is yet to see such a rebound. Our focus is on leveraging the upcoming Milano Design Week to re-engage with our key dealers. We believe in the resilience of the Natuzzi brand in China as we are the largest distributor in the market, with 350 stores compared to our competitors' few dozen. While we anticipate a strong upside in China, the exact timing of its rebound in our financials remains uncertain, given the macroeconomic and consumer environment dynamics.

Dave Kanen

And then, in the rest of the world, especially North America, have you started to see stabilization or with written orders a little bit of an improvement to start 2024?

Antonio Achille

In North America, we are witnessing clear signs of improvement in certain areas of our business, particularly in 2024. While we are still addressing the overstocking issue in the channel, we anticipate a quicker rebound in the U.S. market compared to China.

As we speak, Mario is currently in the U.S. We are closely monitoring and actively supporting our team there. Beginning today, and with a peak throughout the rest of the week, it marks a significant moment for our wholesale branded business in the market. We are confident in the strength and appeal of our offerings that we are presenting to the market.

On the retail front, we are diligently working to quickly complete the ramp-up process of the newly opened stores, and we're seeing notable improvements in performance. For instance, if we consider the top three stores in terms of productivity or even the top 10 stores in North America and compare their performance to that of 2019, we observe a remarkable improvement. Specifically, comparing to 2019, there's been a 50% increase in productivity for the top 10 stores and a 70% increase for the top three stores. This indicates a significant advancement in our ability to manage stores in the U.S. In fact, the top three stores are now generating annual revenues of EUR4 million and above each, showcasing a robust and consistent trend of improvement across the cycle in North America.

Dave Kanen

Yes, I'm a big believer in you guys expanding your North American footprint and becoming vertically integrated. So to that point, I know that you have some non-core real estate up for sale in specifically in High Point and in Italy. Assuming that those assets are liquidated or that capital comes back to you, will you be redeploying that capital into expanding your North American footprint? Because it seems like you get the most bang for the buck there.

Antonio Achille

The answer is absolutely yes. It's important to share with the broader audience that we've been in discussions regarding the sale of non-strategic assets, including High Point, a tannery in the north of Italy, and several other minor assets. The board has agreed that, in line with our long-term strategy, the primary focus for potential divestments will be reinvesting in North America retail operations. Additionally, supporting our long-term transformation initiatives will be another key priority.

In our view, the path to creating value for our shareholders is crystal clear. The board is fully aligned with us, and we remain steadfast on this journey. Our value creation strategy revolves around two key pillars: expanding our retail presence, particularly in North America, and streamlining the cost structure of our

Italian factories. Therefore, Dave, if there are additional funds available, our sole focus will be on reallocating them toward these initiatives.

Dave Kanen

Thank you for that clarification. And then in regards to the 514 person headcount reduction and the $22.5 million savings, does that number primarily show up in cost of goods sold going forward or is some of it in selling expense?

Antonio Achille

It's a combination, but I'll let Mario and Carlo comment more precisely.

Mario de Gennaro

Indeed, Antonio. As you mentioned, we're enhancing our gross margin by improving efficiency in our factory operations. Additionally, the reduction in our central staff will also positively impact our general and administrative expenses in the coming years.

Antonio Achille

Just to provide some context, the investments made by the company over the last two decades, coupled with this restructuring, have significantly enhanced our ability to generate EBIT and improve cash conversion. To illustrate, when comparing against similar year-tiers with equivalent top-line figures reported in 2021 and 2022, the company has lowered its breakeven point from approximately EUR150 million to EUR100 million. This reduction is attributable to a more favorable sales mix, the shift towards selling branded products rather than unbranded ones, and the diligent efforts to streamline our cost base and headcounts. Now, our primary focus is on driving sales. Achieving our sales targets, whether in full or even halfway, holds tremendous potential for significant economic and return benefits from our investments.

Carlo Silvestri

Antonio, to clarify further, the impact we're seeing on administrative expenses and selling expenses is only EUR1.1 million, while the remainder is reflected in the cost of goods sold.

Dave Kanen

One more question before I go back into the queue. Carlo, if I could ask, let's say over the next two years we add 15 or 20 new direct operated stores here in North America. In theory that would give us about $15 million to $20 million incrementally per quarter of revenue. That would give us about roughly $65 million to $80 million a year at $4 million average unit volume.

At $90 million to $100 million in revenue with the headcount reduction, some of the investments in automation at the factories at $90 million, $100 million a quarter in revenue, would we achieve a 40% gross margin or better?

Carlo Silvestri

Let's say that we are going in this direction in terms of improvement of margin. Of course, we need more sales to absorb better the fixed costs.

Antonio Achille

Dave, while we don't provide specific guidance, I believe it's reasonable to engage in some high-level modeling. With our integrated sales for Natuzzi Italia, we currently achieve a combined contribution margin of 65% or 68%, which includes both the producer and retailer margins. So, if you were to model a $100 million revenue with this level of productivity and margin, it naturally exceeds 40%. Essentially, we're already targeting a 40% margin organically, that is, based on our existing business structure.

Dave Kanen

So it sounds like we're well positioned during the next upturn. Hopefully, the Federal Reserve here in the U.S. cuts interest rates and we're starting to see somewhat of a bounce in housing. So we'll keep our fingers crossed that this spring things start to improve.

Operator

(Operator instructions)

And if there are no further questions at this time, I'd like to turn the floor back over for any further or closing comments.

Antonio Achille

I'll conclude with my remarks, and then I'll invite Pasquale, the visionary founder of our company, who is commemorating 65 years of Natuzzi's journey, to share any concluding thoughts.

Listen guys, for me the story is very clear. It has been a tough year, but we know what we are doing. We're very committed and very confident on the upside. This Company is now very different. You're investing in a brand- retail company. The awareness of this Company is really strong and terrific.

I do not intend to do any kind of market valuation, but I firmly believe there is substantial upside potential. Thank you for your investment in us and for joining us today as participants in this call.

I'll let Mr. Pasquale, our Chairman, to do any final remarks, if you wish.

Pasquale Natuzzi

Thank you, Antonio, for your insights. With the comprehensive explanations provided by Diego Babbo, Carlo, our CFO, and our Human Resource Manager, I am increasingly confident in our management team's capabilities. Despite the challenging global landscape marked by conflicts in Ukraine and the Middle East, along with low consumer confidence, we remain steadfast in our belief and confidence in our strategic direction.

I extend my heartfelt gratitude to all attendees of this conference call. We are fully committed to delivering improved results to our esteemed shareholders. Thank you once again.

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.

Antonio Achille

Thank you.

Pasquale Natuzzi

Thank you.