Conference Call Q2 and H1 2011 Results – August 2, 2011

INTRODUCTION by Roberto Vedovotto, CEO

Good evening everybody and welcome to Safilo's second quarter and first half 2011 results conference call.

Today is an important day for Safilo, not just for the soundness of its Q2 and first half results, but also for the very important developments in terms of Corporate Governance and the proposed strategic appointments.

I would like to start from here today, before moving to our comments on Safilo's second quarter and first half results.

The Board of Directors, in agreement with HAL, Safilo's reference shareholder, will propose to the next Shareholders' meeting the enlargement of the Board from the current 7 to 8 members and the nominee of Mr. Robert Polet as new Chairman of the Group. Mr. Melchert Frans Groot – our current Chairman – will hand over his position, remaining as a non executive member of the Board of Directors.

I think that the value of this appointment is strong and coherent with Safilo's strategy to strengthen its Board's corporate, strategic and operative dialogue, with professionals of undisputed experience and leadership in order to continue the successful journey started last year.

Mr. Polet's nominee as Safilo's new Chairman is a successful outcome for Safilo. Given his international profile, the sound understanding of the luxury world, the global experience and deep knowledge of consumer brands, he will be a fantastic addition to our Company.

With his standing, Robert Polet doesn't need much of an introduction, but I would still like to remind all of you the highlights of his extraordinary career. From 2004 to 2011, he has been President and Chief Executive Officer of the Gucci Group contributing to the successful consolidation and growth of one of the world's largest leading players in the luxury industry. He previously spent 26 years in the Unilever Group where he was President of Unilever's Ice Cream and Frozen Foods division, a worldwide business worth $ 7.8 billion and consisting of over 40 operating companies. Prior to that, Mr. Polet worked in a variety of executive roles within Unilever, including Chairman of Unilever Malaysia, Chairman of Van den Bergh's and Executive Vice President of Unilever's European Home and Personal Care division.

It will be the Shareholders' Meeting, called on October 4, to confirm the Chairmanship of Mr. Polet to whom I want to anticipate our warm welcome.

Let's now move on to the comments our 2011 second quarter and first half results.

Vincenzo Giannelli and Barbara Ferrante are here with me and together we will guide you through the results leaving as much time as possible for the questions you might have.

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I must say that we are very pleased with the performance of our business during the second quarter of this year.
Especially for the top line growth and even more so for the significant improvement of the Group's profitability.

We achieved further acceleration in the high-growth regions of the world such as Asia, Latin America, Eastern Europe, continuing to strengthen the quality of our service, the width and depth of our commercial offers, with an even more committed organization and a very dynamic work on all the Group's strategic top licensed brands as well as our house brand, Carrera.

This has allowed us to be resilient in our core market and in the US, gaining momentum in our strategic European countries.

In the second quarter, we recorded even better results with reference to profitability, with margins rising at all levels of the P&L, significantly outpacing top line growth, thanks to the good quality of sales and the leaner operating and financial cost structure.

Let me now give you a snapshot of Safilo's second quarter results:

- We registered double-digit sales growth, equal to 10.5% at constant currency and perimeter, in light of the positive performance of our top licensed brands, namely Armani, Dior and Gucci, as well as the strong expansion of our house brand Carrera and the new brands in our portfolio, particularly Tommy Hilfiger and Boss Orange;

- We significantly improved YoY profitability, with the EBITDA margin reaching 13.1% of sales and the operating margin standing at 10.2%;

- We posted a positive bottom line of 12.9 million euro. This translated into a first half net profit of 31.3 million euro, the second best result in Safilo's history;

- I'm very glad to announce that the positive results achieved this quarter allowed us to continue to improve our financial leverage to a new record level, below 2.0x EBITDA. Such a low level has never been reached in the last ten years. No need to say how proud we are of this result which testifies both the sustainability and strength of our business model as well as of the strategic path started last year.

Let me now give you a brief overview of the key Q2 2011 drivers:

- In terms of market trends first:

1. The US market continued to register positive sales growth, in line with the performance delivered in the first quarter. Along with the continuing good results of sunglasses, which are also testified by the LFL performance of Solstice stores, it was the prescription frames business the star of the period, with all our strategic collections growing in the independent opticians channel.
   Latin American markets were strong, with particular reference to Brazil and Mexico, as we are focusing our resources in order to gain higher market shares;

2. Asian markets further accelerated their double-digit expansion pace, with the usual fast-growing countries, namely China, Hong Kong, Korea and India, driven by the strong demand for luxury brands. The diffusion segment is also increasingly popular among Asian consumers, reason why we are working more also on our second-tier collections and, needless to say, our house brand Carrera;

3. In Europe, YoY trends improved significantly, with sales growth fuelled by the good momentum recorded by our top licensed brands in the key Continental and Mediterranean countries as well as the strong performance of the new Tommy Hilfiger and Boss Orange collections.
   New markets like Russia outperformed the rest of the region, also helped by our recent opening of a direct presence.

- Looking at the business Drivers, the second quarter of 2011 envisaged:

1. A significant increase in volumes with a positive contribution from a price-mix perspective. All major markets and top brands confirmed the strong appeal of our collections;

2. A good progression of the prescription frames business, which grew nicely also in the more mature markets;

3. A continuing expansion of our house brand, Carrera, in the US and in the fast-growing countries like Latin America and Asia.

Group's profitability continued to improve YOY, driven by:

1. A higher industrial margin, reflecting better volumes, sales mix and quality of products in stock;
2. The lower incidence of SG&A, thanks to the more efficient cost structure of the wholesale business and the significant improvement of the retail operating performance;
3. A lighter impact of net financial charges and a lower tax rate.

As anticipated, the Group's Net Debt declined at the end of June, thanks to the positive result of the period and a tight control on Working Capital.

Now with a little bit of tail wind in our direction, I am pleased to hand it over to Vincenzo for some further insights.

Vincenzo Giannelli, CFO

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Let's look briefly to page 3 where you can appreciate our consolidated results.

In Q2, reported sales were up 2.8%, at 302.6 million euro.

The underlying performance was much stronger. At constant perimeter and exchange rates, the top line grew in fact double digit, by 10.5%. Note that in Q2 2010, the Mexican stores registered sales of 5.2 million euro and a positive EBITDA of 700 thousand euro.
In terms of OPERATING performance, in the second quarter of the year, EBITDA was equal to 39.5 million euro, increasing by 30.9% compared to 30.2 million euro recorded in the same quarter of last year.
At the net profit level, we reached 12.9 million euro in the quarter compared to the loss of 5 million euro recorded in the second quarter of 2010.

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Now let's look at the details driving the top line for this quarter.

Sales performance was the result of:

1. The good progress of our core wholesale business, where revenues grew by 5.0% at current currencies, 10.3% at constant exchange rates, driven by volumes and better product mix in all regions, with the fast-growing countries outpacing the mature markets in Europe and America.
   Quarterly trends allowed the wholesale channel to close the first half of the year with revenues up 7.4% at constant exchange rates.

2. The retail business today is represented exclusively by Solstice's stores in the United States, which posted another good quarter, growing by 12.1% in USD. Solstice's comp sales were up 6.6% in the second quarter, driven by resilient trends throughout all the three months. In the month of June, we closed 4 stores, in line with the Group's strategy to clean up the non performing locations of the network. The chain is today represented by 158 stores and we expect to shut down other 4-5 stores by year end.

3. As far as our product categories were concerned, sunglasses and prescription frames contributed similarly to the organic, double digit increase of the period.
   Sales trends were good across all our strategic top licensed brands, while we continued to register outperforming results of the new brands in our portfolio, namely Tommy Hilfiger and Boss Orange. Please note that Tommy alone compensated for the licensed brands not renewed last year.

From a regional standpoint:

In the second quarter, the Americas and Europe delivered a similar underlying performance, with sales increasing around 9% at constant perimeter and exchange rates.
To distinguish between the two regions, the US market continued to show resilient growth trends, particularly evident in the sales of our prescription frames collections at the independent opticians channel, as already outlined by Roberto.
In the sunglasses business, our popular top licensed brands posted positive trends, while the house brand Carrera kept improving both in terms of brand equity and turnover.
We were not surprised by the continuing acceleration of Latin American countries, where we now have a more efficient organizational and commercial structure. We think that there are still significant opportunities to be exploited given the fact that our presence is still relatively small in such markets. It is surely encouraging the path of growth we achieved also in this second quarter in the two most important markets of the area - Brazil and Mexico - up respectively 25% and 53% at constant currencies, with the brand Carrera experiencing strong performance.

In Europe, sales registered a more meaningful progress, after many quarters of subdued performance. We continue to see more evident results from bigger and better organized channels which are supporting quite well the performance of continental countries, like for instance France, but also of weaker markets like Italy or Spain, where our prescription frames business was particularly good in the quarter.
As anticipated, sales in Russia, Turkey and other smaller Eastern European countries, were very strong and are paving the way for future further development.

Asia further accelerated the performance recorded in the first quarter, rising by 17.3% at constant currency in the second quarter of the year. China, Hong Kong, Korea, India and the travel retail business were again the key drivers of the regions, recording the highest growth rates.

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As you can see in slide 5, the EBITDA margin improvement of 290 basis points – from 10.2% to 13.1% – was the result of the good performance of the wholesale business which increased from 10.2% to 12.7% on revenues, and the strong increase in profitability of the retail channel, from 11.4% in Q2 '10 to 17.4% in Q2 '11.

Looking at the drivers underlying such results we experienced a better performance at the gross profit level. The industrial profitability improved in fact by 110 basis points to 59.9% of sales, thanks to the better leverage provided by the increasing utilization of the internal production capacity, driven by higher sales volumes of our top licensed brands. The higher quality of products in stock, meaning a reduction of obsolescence costs, and a favorable market mix were also key factors of the performance.

Below the GROSS MARGIN:

- SG&A expenses reduced their total incidence on sales, thanks to the better leverage of sales and marketing costs as well as the tight control on general and administrative costs.
  Promotion and advertising expenses, which are meant to show a linear trend this year, were stable in the first half and slightly contracting in the second quarter.
  As far as general and administrative costs were concerned, they remained pretty much stable in absolute amounts, thanks to a strict control on fixed costs and credit management.

  On the retail front, we are very committed to improve the channel profitability through a leaner and more efficient organization. Comps sales at Solstice store were good and going forward our focus will be on the best located and best performing stores.

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Below the OPERATING LINE, from a financial standpoint, in the second quarter:

- Net financial charges halved from 16.7 to 8.1 million euro, thanks to:

  - The decrease of net cash interest expenses following the reduction of the financial indebtedness. The interest expenses related to the Senior Loan and other short term lines declined by 7.9%, while the HY cost decreased by 9.9%, net of the accounting, non cash impact – equal to roughly 800 thousand euro - related to the euro 60 million partial early redemption of the HYB, undertook on June 16;

  - Net exchange rate differences were positive for almost 1 million euro compared to the strong negative net impact of 7.5 million euro experienced in Q2'10. This was still due to the continuing devaluation of the USD against the Euro during the period, in the comparison of period-end spot rates.

- With reference to income taxes, as occurred in Q1'11, Q2'11 results also benefitted from a better and 'normal' incidence of the tax rate, equal to 37.5%, thanks to the improved profitability of the Italian industrial Company and the consequent more balanced distribution of pre-tax profits.

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Moving to the Free Cash Flow, in the second quarter we generated a positive flow of 29.4 million euro, which took the Free Flow of the first half of the year to a total of 22.6 million euro.

This result is explained by three main factors:

- The positive performance of the period;
- The tight management of working capital, which remained under control especially as far as inventories are concerned. In particular, stocks kept declining despite the positive growth of sales volumes. At the end of June 2011, the ratio of working capital on the last twelve-month sales declined quite substantially to 26.6% from 30.0% in June 2010;
- The stable cash outflow for investing activities, which was equal to 5.5 million euro in Q2'11 compared to 4.5 million in the same period last year.

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Following our operating and financial performance, the Group's Net Debt declined at the end of June to 240.3 million euro from the 268 million euro position at the end of March, implying a financial leverage below 2.0x, compared to the 2.4x of the previous two periods.
Let me give you the details related to the composition of our financial indebtedness: 155 million of Senior Loan, 128 million of HYB, representing around 38% of our Gross Debt and a Net cash position of roughly 43 million euro.
As previously communicated, the committed Revolving facility of 200 million euro, expiring June 30 2015, was drawn for 60 million euro at the end of June for the partial early redemption of the High Yield Bond.

I now hand it back over to Roberto for his final remarks.

Roberto Vedovotto, CEO

Thank you Vincenzo.

We are all well aware that the economic and business environment in which we operate remains dotted by numerous uncertainties and we must maintain a strong focus on the sustainable improvement of the Group's fundamentals and business economics.
We are working on many projects, in many different areas. We want to increase the speed and flexibility of our organization and systems automation is an important field on which we are concentrating to become ever more rapid and effective with the marketplace.
I want to mention here briefly the new project on the Sales Force Automation. We have decided to equip the sales force of our main markets with two new tablet applications through which products and collections will be viewed and presented.
We have developed this project in cooperation with H-Umus for the software and British Telecom for the infrastructure and telecommunication management and we are confident this will represent one of those important changes to improve the management of our business processes. The new software applications will enhance the ways in which the Company presents its products and services, will make the interaction between the company and the marketplace faster and more immediate, reducing at the same time the use of paper sales materials and catalogues and the production of samples.

Safilo is today stronger and better positioned in the marketplace under many different aspects and we look forward to our meeting in September. Over the last months, the top management has been working tirelessly to finalize Safilo's Industrial Plan for 2011-2015. On the 29th of September, for the Investor Day scheduled in Paris, we will present the strategic guidelines of the new Safilo. We look forward to sharing our views on the future development of the company.

Q&A - Thank you very much for your attention and we are now available to answer your questions.