Conference Call Q4 and FY 2011 Results – March 8, 2012

INTRODUCTION by Roberto Vedovotto, Chief Executive Officer

Good evening to you all and welcome to Safilo's fourth quarter and full year 2011 results conference call.

I'm here tonight with Vincenzo Giannelli and Barbara Ferrante, and together, we will guide you through the presentation, leaving some time for the questions at the end of the presentation.

Before we move to the Key Figures, I would like to highlight the significant Actions implemented by our Group over the last four quarters, as they provide an important interpretation of what we achieved in 2011 and, even more, of our strategic path in the future.

In fact, 2011 was an important year in consolidating our position from the organizational, business and financial standpoints, in light of our strategy. In particular:

- Organizational: we implemented a new organization that fits better with our business and clients' needs;
- Business: we performed a rationalization of our brands portfolio, licensed versus house brands, together with a selected acquisition strategy which eventually translated into Revenue and EBITDA growth;
- Financial: we achieved a solid balance sheet with record low level of leverage.

1) With reference to the organizational structure, we deeply reviewed it to ensure a fast and efficient execution of our plans in all key business areas.

We set up a brand new organizational framework, focusing know-how and resources on brands and products. This structure addresses the "what", "where" and "how" of our business model.

- the "what" means our three business divisions: licensed brands, Safilo own brands and sport;
- the "where" means our key business regions: EMEA, Far East and Americas, which are responsible for markets, channel policies, consumer and marketing strategies at local level;
- the "how" means the cross-function and corporate services.

2) As you know, in 2011 we completed the strengthening of the new senior management team.

After appointing the CFO in September '10, last year we added, for the very first time in Safilo's history, three new strategic positions in our organizational structure: - the Global Supply Chain, Logistic and Operations Officer, the Global Head for Licensed Brands and the Global Head for Safilo Brands.
We also kept on investing in strengthening the middle-management team in our key business areas.

3) We also confirmed our mission to become the leading pure wholesale player in the global eyewear industry and we defined our strategies and actions towards this ambitious goal.

Our strategy is to focus on the wholesale channel and have a clear positioning in the eyewear luxury space with a balanced portfolio of licensed and own brands. In this context, we have reviewed our licensed brand portfolio and carried out selected renewals, additions and non-renewals. As far as the Armani licenses are concerned, despite our strong efforts and preference to renew them, Armani decided not to renew the agreement. It is our objective to reinforce our own brand portfolio and have identified Polaroid as the right acquisition opportunity to fulfill our goals.

Having this objective in mind, in 2011, we renewed our partnerships with Alexander McQueen and Kate Spade, but also with JLO and Saks Fifth Avenue in the American market. Including those brands, between 2010 and 2011, we renewed ten licenses. Let me remind you that in 2010 we renewed Dior, YSL, Mark Jacobs and Mark by Mark Jacobs, Juice Couture and Bottega Veneta.

On the other side, we did not continue our partnerships with Valentino, Nine West, Diesel and Balenciaga.

Finally, as a result of our continuous scouting for valuable brands to include in our portfolio, in November 2011 we signed a new multi-year licensing agreement for the production and worldwide distribution of the brand Céline, a very prestigious name in the high-end segment which already has a very strong recognition in many Asian emerging markets.
We consider Céline a very interesting business opportunity and a strong and very collaborative Group to work with.

4) We also strongly reaffirmed our strategy of building a strong portfolio of Safilo own brands which cover diffusion, specialist and value for money segments.

In 2011, we kept pushing on the consolidation and expansion of Carrera, achieving its global empowerment as a master brand.
Last year we were particularly happy about the results of Carrera in the US and Latin America. They were greatly above our expectations enabling the brand to become one of Safilo's most significant brand in the region.

We also renewed our commitment to the development of the brand Safilo as we want to improve its strong brand awareness in the specialist prescription frame business to make it the right choice for the best opticians in the world.
Smith, a premium brand in the sport lifestyle segment, will also play an important role in our future growth.

Very importantly, as you know, Safilo closed the year announcing the acquisition of the Polaroid Eyewear business.

I would define it as a significant milestone for our strategy to build a strong portfolio of Safilo own brands.
This project has been meaningfully backed by our main shareholder, who will finance two-thirds of the transaction, which is expected to be finalized in the coming weeks.

I will come back to Polaroid towards the end of our presentation.

We are proud to see that those relevant actions also translated into meaningful economic and financial improvements.

In 2011, our results were overall positive, in line with our expectations and the guidance we provided at the end of September.

In 2011, sales were slightly above €1.1 billion, reporting an organic growth rate of 6.0%. In the last quarter of the year, sales were up 3.8% at constant perimeter and exchange rates.

Let's look at the Emerging countries: Asia and Latin America represented our most important growth engines, maintaining strong double-digit growth rates throughout the entire year.
Sales were boosted in China, Hong Kong, South Korea, Brazil, Mexico but also in Russia and in our travel retail business.

The US remained solid, recording a positive mid-single digit improvement, which was driven by the resilient performance of the independent optician channel.
The sunglass business of Solstice stores performed well, with like-for-like sales up 7.2% for the full year.

Europe was weak. Sales in the region ended slightly up in the full year, increasing mid-single digit in the first half but declining by almost the same percentage in the second part of 2011. This occurred on the back of the difficult economic and political environment that materialized, mainly in Southern Europe, starting from July and August.

In 2011, we were satisfied by the performance of our top licensed brands, Gucci and Dior. As you can imagine, growth was clearly very significant in emerging markets but we were pleased to see progresses also in the mature ones, proving the success of the brand and the strength of the product and distribution policies adopted by our Group.

We also appreciated the strong results recorded by the licenses of the Hugo Boss Group and Marc Jacobs as much as we were delighted by the strong international expansion of Tommy Hilfiger.

As I have already commented, I am extremely proud of the work we are doing on Carrera.
It was another strong year for our top proprietary brand, still growing double-digit.
Results were particularly significant in the US, but also in some Latin American markets, in particular Brazil, where Carrera is today our top seller.

Now, in terms of profitability, in 2011, our operating performance was up double digit, with EBITDA increasing by 13.7% and EBIT up almost 30%.

This result was achieved thanks to the improvement recorded at the gross profit level, which benefited from the volume growth and a more efficient management of the distribution channels and stocks.

Another important contributor to our operating result was represented by the exponential increase of profitability achieved by our Solstice retail chain in the US market, which confirms the strength of the Group's strategy to rationalize the network around the most efficient and profitable locations.

I would like to highlight that in 2011, we continued to invest important resources in core wholesale activities and processes, particularly in sales and marketing.

We closed the year with a net profit of €27.9 million compared to break even recorded in 2010 and a huge loss in 2009. This result was made possible also by lower interest expenses as well as by a normalized level of tax rate.

We finished the year with a strong balance sheet.
In 2011, we achieved a record low financial leverage, with net debt on EBITDA at 1.9x at the end of December. This is the lowest since the leverage buy out occurred in 2001.

I now hand it over to Vincenzo for some further and more detailed comments on our fourth quarter and full year 2011 results. I will come back at the end for some final comments.

Vincenzo Giannelli, Chief Financial Officer

Thank you, Roberto.

Let's now look briefly to slide nine, where we have the highlights of our consolidated results.

In the fourth quarter of 2011, reported sales stood at €268.4 million, up 3.8% at constant perimeter and exchange rates, while full year 2011 ended with an organic sales growth equal to 6.0%.

The operating performance of the fourth quarter was characterized by a mid-single digit improvement of the gross profit, plus 140 basis points and by the expected higher incidence on revenues of SG&A.
In the quarter, EBIT remained in line with the same period of 2010, at 6.0% of sales, while EBITDA was slightly down to 9.3% of sales.

These results allowed us to achieve our full-year guidance of 11% EBITDA, recording in the year €122.6 million. EBIT stood in 2011 at 7.8% of sales, an improvement of 150 basis points compared to full year 2010.

In the fourth quarter, the net result was positive for €1.3 million, while the year ended with a Group's net margin of 2.5%.

Moving to slide 10, we can look briefly at the main drivers of the top-line anticipated by Roberto.

In the fourth quarter of 2011, revenues of our core wholesale business were up 3.3% at constant exchange rates, 3.8% at current currencies.

By geography, Asia was again very strong, up 21.6% at constant exchange rates thanks to the general boost of our business in the high-end segments of Gucci and Dior but also in the fashion and diffusion areas of Carrera, Marc by Marc Jacobs, Boss Orange and Tommy Hilfiger. The region also benefitted from the important increases registered by our travel retail sales.

Americas remained satisfactory, up 5.2% in the last quarter, at local currency and constant perimeter; if we exclude Solstice, the wholesale performance of the region was positive by roughly 3.5%, driven by the continuing expansion of the Group in Latin American countries, and the resilient trends also in the U.S. market.

In the last quarter, Solstice comp sales were again up 7.5%. As already highlighted, in the year we proceeded in the strategy of rationalizing the chain around the best performing locations. The network is today composed by 151 stores and we expect to close additional 20 stores in 2012.

Moving to Europe, the fourth quarter was difficult, down 4%, with the main weakness registered in South European markets.
Greece and Portugal were heavily impacted by the specific economic and political issues involving the countries, while in Italy, trends remained negative on the independent optician channel.
During the year we continued to focus activities and projects on the development of key accounts, an area of business that kept growing nicely also in 2011 and on which the Group has strengthened its organization.

All-in-all, in full year 2011, revenues of our core wholesale business were up 5.5% at constant exchange rates, plus 3.7% at current currencies. Europe ended the year slightly positively, up around 1%, thanks to the positive performance of core markets like France, Germany and UK and the sales boost recorded in Russia and Turkey. In the year, Americas were up 7.7% and Asia 17.0%.

Now, let's move to slide 11.

In the fourth quarter, EBITDA equaled €25 million and a margin of 9.3%.

As said, the operating performance benefitted from the improvement of the gross profit, whose margin, in the quarter, stood at 57.6% of revenues.
This was mainly driven by the revenue growth recorded in the period as well as by the improved channel policies that resulted in a better sales mix and a general higher quality of products in stock.

On the other hand, the incidence of SG&A costs, both in Q3 and in Q4 resulted generally higher than the corresponding periods of 2010 as a result of higher investments in sales and marketing activities.
In the fourth quarter, the wholesale EBITDA margin stood at 9.9% of revenues compared to 11.4% in Q4 2010.

In full year 2011, despite the numerous investment activities undertaken in 2011 to strengthen and sustain our core wholesale business, the incidence of SG&A remained pretty much stable y-o-y.
The wholesale EBITDA margin improved to 11.2% of revenues, from 10.7% in 2010.

At the retail level, we were back to black also in the fourth quarter, with a small margin of 1.4% on sales compared to the loss of €2.2 million recorded in the fourth quarter of 2010. In full year 2011, the retail margin soared to 10.6% of sales from 2.0% in 2010.

Below the operating line, slide twelve, the net result of the quarter, positive for €1.3 million, was influenced by the impact of exchange rate differences related to balance sheet items. Like in the third quarter, this accounting adjustment was negative also in the fourth quarter following the further revaluation of the USD against the euro at the end of December.

On the positive front, the net result continued to benefit from the decline of interest expenses, down in the quarter 13.0%, thanks to €60 million partial early redemption of the high yield bond undertook in June 2011.

Here, I would like to add that the FY tax rate stood at 39.3%, back to a normal level after the last two years.

Moving to the free cash flow, slide thirteen, we closed the year, with a cash generation of €24.7 million.

This result was driven by the positive net result of the year, a tighter control of working capital, whose incidence on revenues remained in line with 2010, at 26.5%, and roughly €30 million of investments.

In the last quarter of the year, the positive cash flow from operations remained pretty much in line with the fourth quarter of 2010.

In full year 2011, total investments were mainly related to the maintenance capex dedicated to the production facilities in Italy and abroad.

Finally, following our quarterly performance, the Group's net debt remained pretty much stable at the level reached at the end of September, €238.3 million, confirming the record financial leverage of 1.9 times.

Here I would like to add that in the composition of our gross debt the revolving facility at December 2011 was drawn for €40 million compared to €50 million in September and €60 million of June. Such facilities, committed for a total amount of €200 million, will expire in June 2015 .
I now hand it back over to Roberto for his final remarks.

Roberto Vedovotto, Chief Executive Officer

Thank you, Vincenzo.

I would like to come back to our acquisition of Polaroid eyewear business as it does represent a fundamental step forward in the implementation of our strategy on Safilo brands.

We view Polaroid as an important addition to our Safilo proprietary portfolio, a strong brand we can further enhance in Europe, where it is already sold, while having the opportunity to develop it almost from scratch in the Americas and Asian markets, which are both green fields for Polaroid.

It was quite amazing for us to discover the high level of awareness the Polaroid brand enjoys even in those markets where its products are underrepresented or not sold.

Polaroid invented the first man-made polarizer for commercial use in 1929 and the first pair of Polaroid sunglasses was sold in 1935. Polaroid has been a pioneer and leader in polarizing lens technology ever since.

We will start from there, an important brand name, 75 years of polarization experience in a business segment, the specialist and value for money, where we are not present with a well-known brand name.

Polaroid will allow us to extend the reach of our house brand division, contributing to realize our full potential across markets, categories and channels.

I will conclude this presentation by highlighting how the year ahead will be a period of transition for Safilo, of additions and discontinuity.

2012 should see an overall positive business environment in our industry despite the continuous weakness of some important European markets, thanks to the predicted trends in North America and especially in main emerging countries where Safilo’s competitive position is very strong after the extraordinary results achieved in 2011.

In 2012, our revenues and profitability will be influenced by the phase-out of the Armani Group’s licenses, on which we think we will have more limited business opportunities in consideration of the early announced termination.
However, we expect that the development projects undertaken on all strategic licenses and in particular in Safilo own brands, will partially counterbalance the negative impacts of the phase-out process.