CONFERENCE CALL Q2 AND H1 2012 RESULTS – AUGUST 2, 2012

Roberto Vedovotto, Chief Executive Officer

Good evening to you all and welcome to Safilo second quarter and first half 2012
results conference call. And thank you also for still being here with us on August the 2nd.
As usual I'm here with Vincenzo Giannelli, our CFO and Barbara Ferrante and together we will guide you through the financial results of our second quarter and first half of this year and then at the end we will leave some time for questions.
I'll start by saying that the last three months have been an eventful period of time for Safilo. We have achieved some significant strategic targets which give us a tangible confirmation of the validity and the strength of the actions undertaken.

Let's look briefly at the key facts of Q2, 2012. Number one, on the operations front in July together with the unions we signed at the offices of the Ministry of Employment and Social Security in Rome the solidarity contract, we had previously agreed on in June. And this is in order to best manage the industrial impact of the non-renewal of the Armani licenses.

Number two, on the portfolio of licensed brands we renewed the license with HUGO BOSS Group, one of the most important and most prestigious partnership with Safilo Group. This renewal clearly represents a fundamental step towards our strategy of consolidating relevant licensed brands and also in line with our commitment towards a portfolio selection which focuses on our top brand.

Number three, on the Safilo own brand portfolio the second quarter of 2012 saw for the first time in our perimeter the new recently acquired Polaroid Eyewear business. This is the official kick-off of our future growth in the specialist and value for money segment, intensifies our increasing focus on the Safilo brand portfolio.

Now if we take a look at our economic and financial performance, our Q2, 2012 results are inline and consistent with our expectations. I would like to highlight the organic performance of our sales. At constant currency and perimeter and when excluding the discontinued business of Valentino and Nine West and the phasing out brands of Armani and Balenciaga our organic performance on sales was positive. We were up 6.1% and clearly accelerating compared to the first quarter of the year.

Once more, I'd like to remind you all that the second quarter results were influenced by few non-organic factors and more specifically I would say, they were influenced by the strong U.S. dollar, the ongoing phase out of Armani and as said before, by the addition for the first time of the Polaroid Eyewear business.

Let's now look at the geographical performance; in the United States and in the developing countries such as Asia and Latin America, we actually experienced very good trends. The U.S. market per se gained momentum. Our performance was very positive both in prescription frames business within the 3os environment, where, as you know, Safilo has a dominant and very strong presence as well as in the sunglasses through specialty stores and department stores.
Our high end retail network Solstice had a like-for-like performance equal to plus 6.3%. I'd like to say that the results were very positive throughout the majority of the brands in our portfolio with the highlights represented by the American brands which we develop and distribute in the U.S. and with the high end collection, particularly those of the Hugo Boss Group, Jimmy Choo, Gucci and Céline performing extremely well. We are also happy with the sales growth of Latin America and more specifically I would say with the significant development that we are one side achieving with Carrera, which has already become the most important brand we have in Brazil and with the good performance, particularly in terms of orders on Mexico and Brazil. Emerging markets in Asia also progressed nicely in line with our plans.
If we then look at the strategic brands, as I already anticipated high-end luxury brands were strong and Gucci was extremely strong. With that said the diffusion brands did also very well, particularly Tommy Hilfiger, BOSS, Orange, Marc by Marc Jacobs and Carrera deserve a particular mention, and that has being true also in Asia, while in Europe the business environment remained more complex.

As far as Europe is concerned I would say Northern Europe, France, Germany have been positive. Our key accounts have been positive too. Then we had experienced different performances in other countries and in other distribution channels, where Spain and Italy remained difficult but certainly better than in Q1. Our performance with GrandVision B.V. was, in the first half of the year up 39% and in Q2 was even better, up 41%. Finally synergies are coming through.

And our business relationship is getting stronger, it's gaining momentum and we think that we can do even better than this.

With that said Southern European markets remain a little bit difficult but better than Q1 and this is also thanks to numerous projects we have been undertaking to develop brands in-store presence, overall performance on all distribution channels. I would say that we are progressively and steadily improving our performances and given the competitive scenario and the growth challenges we are also, as you have seen, strengthening our organization.
To that extent we have just recently announced the appointment of Massimo Renon as the new Head of Europe, Middle East and Africa. And we are extremely excited about Massimo joining us. He joins us from Ferrari where he had been Global Head of Sales and Post Sales, and he also before that gained more than 10 years' experience in Luxottica, where again he was New Europe Region Director. I'm particularly happy of Massimo joining because his deep knowledge of the industry, the clients, the products and his expertise in the development of premium luxury brands will on one side strengthen our senior management team. On the other side and more importantly, I think will dramatically help our performance recovery in EMEA.
Talking about more of distribution, travel retail is another front in which we have been very active and results finally started to come along. We are today in travel retail working with the most important sector operators, developing an increasing number of special dedicated projects from promotional islands to branded towers, all of the above bringing us to have a much higher space share within the travel retail environment.

The other thing I really wanted to mention was that in the second quarter, we launched Carrera 6000, which has been a very important success. Carrera 6000, those of you that are on the line from London, might have seen the advertising in the London cabs, we have about 600 cabs in London going around with our Carrera 6000 image, is a new vintage model, characterized by wavy temples and entirely made in Optyl. Few weeks after its launch, which has been basically three months ago, we have already reached 100,000 pieces sold. And this is clearly an extremely encouraging result which is giving us evidence that the work we're doing is in the right direction.

Before giving it to Vincenzo, from an economic point of view, the Group performance in the quarter has been solid. Top line grew by 7.3%, down 1.8% constant exchange rate and perimeter due to the Armani phase out. As already said if we exclude FX, Polaroid, Nine West, Valentino, Balenciaga and Armani the organic performance of second quarter was up 6.1%. This has allowed a higher resilience in operating profitability with EBITDA margin standing at 11.8% compared to a usually strong first quarter, where EBITDA was 11.2%.

As far as financial performance is concerned the net result of the period, together with good management of working capital, allowed us to have, to maintain financial leverage close to the low levels of the end of 2011.
I think with that said I will now hand it over to Vincenzo to elaborate on more details and as usual I will come back at the end of Vincenzo's comments for some final remarks. Vincenzo

Vincenzo Giannelli, Chief Financial Officer

Thank you Roberto.
I will start from summarizing the main economic highlights for the period, slide four. Starting from the top line Euro 324.6 million in the second quarter and Euro 613.3 million in the first half of the year, reporting respectively a 7.3% and 1.7% growth compared to the corresponding periods of 2011 to help on one side the strength U.S. dollar, the consolidation of Polaroid Eyewear for three months, April to June and the positive performance of the organic business. On the opposite, negative side the phase out of the Armani brands, which effects all regions and product categories.

Moving down to the P&L in the second quarter, the gross margin was equal to 58.9% of sales down 100 basis points compared to the second quarter of 2011. In the first half of 2012, the gross profit stood at Euro 365.3 million, compared to the Euro 364.3 million in the first half of 2011. The gross margins remained really at 59.6% of sales, very close to the results we achieved in the corresponding period of last year.
At the operating level the EBITDA and EBIT margins were equal to 11.8% and 8.7% of sales respectively, some 130-140 basis points lower than in the second quarter of 2011 partially closing the performance gap recorded in the first quarter. Semi-annual EBITDA amounted to Euro 70.7 million or 11.5% of sales, while EBIT stood at Euro 51.2 million equal to 8.3% margin on sales. This compares respectively to 13.3% and 10.3% in the first half of 2011.
Bottom line in the second quarter, the Group net profit was equal to Euro 9.6 million compared to Euro 12.9 million in the same period of 2011. In the first half of 2012 the net result reached Euro 21.5 million compared to Euro 31.3 million in the first half of 2011.

Moving to slide five, to the drivers of the top line, in the second quarter revenues of our core wholesale business recorded an increase of 6.7% corresponding to a minus 2.2% at constant exchange rates and perimeter with specific underlying trends by area. Americas were up 14% at current exchange rates, 3.7% constant currency. The organic sales performance as defined before was solid gaining momentum in the second quarter, up 16% thanks as said to the good sales trends of both prescription frames and sunglasses.

Looking for a while at the retail network in the U.S., Solstice stores further improved their positive like-for-like performance, up 6.3% in the second quarter, 5.2% in the first six months. The retail business was up 15.3% at current exchange rates, 3.3% at constant exchange rates as we kept focusing on the efficiency programs starting in 2011, last year. In the second quarter we closed six additional stores, streamlining the network to a total of 137 shops.

In Asia, sales were up 8.7% at current exchange rates, down 2.2% at constant exchange rates. Emerging markets in these areas were strong and could benefit from the dynamism of the high-end collections as much as from the prepositions in the fashion and diffusion segments, while sales in the region were impacted by the weakness of the Japanese market, less 25% at constant exchange rates.

European sales were up 0.6% in the second quarter as they were the main beneficiaries of the consolidation of the Polaroid business. At constant exchange rates and perimeters, sales in Europe were down 6.6%. Performance remained solid in Northern Europe with France and Germany progressing nicely and very strong on key accounts. Southern Europe was instead weak but showing better trends in June and also July. Organic sales in Europe were slightly positive in the second quarter of 2012, plus 1.6%.

Now let's move to the main drivers of our operating performance. In the second quarter of 2012, EBITDA was equal to Euro 38.4 million, substantially in line with Euro 39.5 million recorded in the second quarter of 2011. Focusing on the dynamics of the wholesale business profitability, EBITDA stood at 11% from 12.7% in the second quarter of 2011, mainly influenced by the decline of volumes of the phasing out brands. At the gross profit level, the negative price mix effect on the discontinued brands was well counterbalanced by the positive performance of the organic business.

Below the gross profit, the incidence of SG&A costs on turnover was influenced by the investments that we had performed starting from the second part of 2011 to support the development of brands and markets. As far as our retail business is concerned we are happy with the positive contribution to the Group profitability as its operating performance, EBITDA increased to 22.4% of sales in the second quarter of 2012 from 17.4% in the same period of 2011.

Below the operating line in the second quarter, net interest expenses declined by roughly 26%, thanks to the advanced partial early redemption of the Euro 60 million High Yield Bond carried out in June 2011. On the other hand, following the strong U.S. dollar appreciation, dollar financial charges were influenced by the negative impact of exchange rate differences.

The net profit of the period contributed to the solid cash flow from operating activities, we detail in the next slide. The free cash flow highlights the positive performance of the operating cash flow, which benefited from the economic results of the period and the management of working capital. On the latter, I would like to point out that the incidence on the last 12 month sales excluding the temporary effect of Polaroid where we have consolidated the overall working capital and we have just three months of sales, improved compared to both June and December 2011.

The cash outflows for investing activities is explained by the acquisition of the Polaroid Eyewear business for a total consideration of Euro 59.6 million, 58.4 million net of the cash acquired and increased to 90% of the shareholding in the Chinese subsidiary. Pre-acquisition the free cash flow of the first half of 2012 was positive for around Euro 18 million.

On the Group net debt, you find highlighted the proceeds from the capital increases reserved for HAL, 44.3 million, through which the great part of the Polaroid Eyewear acquisition was funded. At the end of June net debt declined to Euro 231 million allowing us to maintain our financial leverage stable at two times. Finally I would like to remind you that at the end of June we repaid around Euro 80 million of senior net debt precisely Facility A1 Tranche 1, Facility A2 and A3. The reimbursement was made through available financial resources, cash and utilization of the revolving credit facility available.

At the end of June 2012 our gross debt was equal to Euro 287 million, down roughly 13% compared to Euro 328 million at the end of December 2011. This was composed by Euro 128 million HYB bond, 101 million of senior loan with the revolving facility drawn for Euro 76 million and 58 million of other lines.
I now hand it back over to Roberto for his further considerations.

Roberto Vedovotto, Chief Executive Officer

Okay. Thank you Vincenzo.

As my final remarks I would say that as anticipated at the beginning, in the last three months, we have achieved three fundamental main goals for our long term development. Let me give you some additional information on the three different achievements. First, the strategic industrial agreement with the unions, which will enable us to have a better organized production footprint with more flexibility and certainly increased efficiency. This is not only in line with our industrial plan but also gives us a competitive edge going forward.

Going to more specific, a little bit but without boring you too long, the use of solidarity contracts for the period of 24 months will be first of all applicable to all Safilo's Italian plants employees. This agreement will allow our Group to address the difficulties arising from the non-renewal of the Armani license but more importantly will allow the company to limit the negative impact on production capacity, recovering competitiveness. The solidarity contract in fact calls for a much more flexible work organization based on reduction of working hours and shifts in line with current actual Group needs in terms of volumes and workers skills.

To that extent we will do training and requalification programs to increase the current skills of company's worker. And that will be able to guarantee us best in class service level, which is precisely aligned with Safilo's new requirements. At the same time we'll also do selective investments in order to update the plants and increase technological innovation in our production processes.

All-in-all, what I think is that the signing of these agreements represent a very important step for Safilo on one side to face and address in a very successful way the industrial complexity raising from external factors, on the other side protecting our employees and their job, but at the same time putting us into a situation where for sure our competitiveness will increase.

The second goal that we reached was the renewal at the end of July of the Hugo Boss license agreement. I heard people saying that the early renewal was a concern to them because they thought that we did it being desperate for having lost Armani. And as a consequence of that economics of the license were more expensive for us. Quite the opposite, we have had a very, always a very transparent and professional relationship with Hugo Boss Group and their management team. We started negotiating the renewal of the license earlier on, much earlier than losing Armani. And we kept them updated on the progresses.

The reason why we did the early renewal was that through an early renewal we have been able to sign and agree with them much better economics in terms of minimum guarantee given that the business plan that we had in the previous contract was negotiated much earlier on before 2008 crisis and all of that problems. So we are very, very happy with the fact that we have been able to renew BOSS because BOSS comes with BOSS Black, HUGO and BOSS Orange.
So to summarize we renewed 13 brands in the last 24 months and we signed one new brand very successful, Céline.

In the same period if we exclude Armani which we lost but we wanted to keep, we did not renew on those five contracts. This is clearly in line with our licensed brands strategy which we had outlined earlier on, where we wanted to be selective on the portfolio of the brands that we manage and where we wanted to be coherent in terms of profitability, revenues top line and profitability and where coherent business together with economics are the pillars of our partnership.

I think as we said before the HUGO BOSS Group license will generate a very interesting turnover. We think that we would be able to grow the business above the Euro 100 million. The third achievement goal reached is referring to Polaroid. We are developing very important projects for Polaroid. At the moment we are doing it in Europe. We are really getting ready for Americas and for Asia. And we will put a lot of effort and focus on those two areas. I don't want to anticipate much but I think that we will have a great launch of Polaroid in the U.S. market with some very important events and initiatives.

On the Safilo's brands going on with Carrera. Carrera, as you know, is a strategic pillar. The brand is performing... has been performing well. It has been weak in Italy and in Spain but we are recovering. I just recently saw market shares per brand in the most important, on the five most important countries in Europe. And May and June have clearly given us some sign of recovery. I would say that we are working hard with this brand because it does have a great potential of development and we are trying to certainly strengthen the collections to broaden the gender reach and the product offer, with a clear and global brand positioning in mind. I think that you will see very interesting new collections on Carrera.

Last but not the least and again we are talking about Safilo's brands, we will have a much greater focus on the expansion of Smith. Beyond what Smith does at the moment we think that Smith has an extraordinary opportunity of growth. At the moment Smith is mainly sport, is mainly winter, is mainly U.S., is sport channel only. We think that we can do very well in eyewear. There is a big opportunity in eyewear, there is a big opportunity in the optical channel. With that said, I think I'm done with my final remarks. I really thank you very much for having been patient with us. And I’m here with the team to answer all of your questions. Thank you very much.