CONFERENCE CALL Q3 AND 9M 2012 RESULTS – NOVEMBER 6, 2012

Roberto Vedovotto, Chief Executive Officer

Good evening to you all and welcome to Safilo Group third quarter and first nine month 2012 result conference call.
As usual, I'm here with Vincenzo Giannelli, Safilo Group CFO and with Barbara Ferrante, Head of Investor Relations.
Together we will guide you through the financial result of the period and at the end of the presentation we will answer to the Q&A session, we will participate to the Q&A session, so we will answer to the questions you might have.

Let me start by saying that the results achieved in Q3, 2012 were in line with our target. Confirming once again the strength of the strategic actions that we put in place. Those strategic actions mainly focused on pushing sales for go-forward brands on the expansion of Safilo's brands internationally, on the Polaroid integration and on minimizing the negative impact of the Armani loss.

As you all know, 2012 has been so far marked by two key events. Number one, phasing-out of the Armani licenses and number two, phasing-in of the Polaroid brand in our portfolio. Both events have had an impact on our performance, which we deem overall satisfactory.

In fact, we continue to grow our top-line, we maintain a resilient level of double-digit profitability, we generate cash flows and we have financial leverage decreasing and under control. For now, let me say that our core market and our licensed businesses continue to prove their resilience.
The clients are responding well to our go-forward brands also thanks to the numerous initiatives we are putting in place to enhance our collections and to improve our approach to the market. This translated into a very positive progression of our organic business.

The stars of our portfolio experienced a solid growth pace, reaching double-digit progression. When I say the stars I refer to Gucci, Boss Group, Marc Jacobs Group brands, Tommy Hilfiger and Kate Spade.
As I mentioned, the success of our sales is the result of selected key factors such as strong collections, carefully defined price points and high quality service levels. Our goal is not only to reach timely the doors of our customers, but to better take advantage of space allocation inside the stores through distinguishing propositions.

We have been fine-tuning and announcing our action plan on these key business areas achieving encouraging results as we are gaining momentum in some of the countries in which our position was at the end of last year penalized and particularly after the announcement of the Armani non-renewal.

Let's talk about Europe for a second. In Europe in particular, we are progressing together with our new management team, with our strong focus on trade marketing and retail marketing.

The reinforcement of Smile, our system which enables faster replenishment and more accurate assortment of products, is accelerating and improving our service levels particularly towards our most relevant key accounts.

With reference to Safilo's brands the continuous effort to improve their awareness and their success into the marketplace, we started a new strategic collaboration for Carrera and for Polaroid. The one for Carrera is aimed at giving further engine to our objective of transforming Carrera in a distinctive point of reference in the global sun and in the optical eyewear industry as a whole.
For this reason, in September, we signed an agreement with Wieden+Kennedy, one of the leading creative agencies in the world for the development and the production of Carrera's next global communication company.

As I said, we are also acted on Polaroid, in fact we signed an agreement with KKLD, one of the most innovative marketing agencies in the world to realize the new campaign for Polaroid which will encompass both for the rational and the emotional elements of such an iconic brand into the eyewear industry. I will come back a little bit later to those two agreements, but let me point out now that both those initiatives represent a further step towards our focused strategy on Safilo's brand portfolio, a portfolio which is today well positioned to grow in absolute terms in the emerging market and to gain market share in the mature markets.

Let me now go quickly on the highlight of the third quarter. Q3, 2012 was characterized by continuity along many of the trends in the business dynamics experienced in the second quarter and that we have discussed with all of you in August.

As a consequence, we closed the first nine months of the year with a go-forward brand top-line growth accelerating compared to the first half of the year. We held on profitability and we kept a very solid financial profile.

Looking at our results, it is important to bear in mind that they are influenced by some non-organic elements such as, number one, strong U.S. dollar; number two, discontinuation of some brands and phasing-out of some others; number three, the addition of Polaroid Eyewear business.

All of the above considered, our Q3, 2012 sales increased by 8.2%. More meaningfully, the organic business continues to perform well. We are satisfied to see our core product sunglasses and prescription frames, up around 6% with all main markets contributing in a positive way.

Now let's go into the geographies.
In the quarter, the improvement we registered in Europe was evident and particularly driven by the growth of one side key accounts, on the other side travel retail.
Our performance with GVBV was very strong and we expect positive trends to continue going forward. This is, thanks to the numerous activities we have in the pipeline with our most important key account.

Continental European markets remain more dynamic than Southern European’s. The Group in the Southern European markets is recovering the performance compared to the previous quarter of 2012 and this is thanks to our luxury brand, but not only; also to the champions in the diffusion segment namely, BOSS Orange, Tommy Hilfiger and Marc by Marc Jacobs.

Americas. In the United States, the underlying business trends remain solid. In fact, we maintain our relevant market position in the independent opticians channel, which kept growing proving the resilience of the optical prescription frames business.
The consistent result was also shown by the organic performance of sunglasses for which, sales grew both in the main department stores and in our Solstice stores. Our high-end retail network recorded a like-for-like performance equal to positive 6.2% in line with the trend registered in the second quarter.
On this front, we are very pleased to see that the rationalization program that we put in place, which is clearly concentrating our efforts on the best location is not only paying off in terms of revenues, top-line but also with reference to a much stronger profitability.

Latin America. Brazil was the top performer in Latin America. Strong double-digit growth supported by top luxury brands, but more significantly by the extraordinary performance and progression of the Carrera brand. This is the third largest country in the American market after U.S. and Canada and it is a strategic priority for the future development of Safilo.

Far-East. With reference to Far-East in some Asian countries, our business has been a little soft also due to some organizational and distribution changes that occurred during the year, affecting the total performance.
As already mentioned, Japan remained the most difficult country and with a more selective distribution of some of our luxury brands, we have been suffering a little bit but nevertheless the organic trends improved in the third quarter, China is back growing and we expect to see a stronger progression going forward.

Briefly from an economic point of view, the Group operating profitability was mainly affected by the phasing-out processes, recording 120 basis point drop at EBIT level, in line with what was experienced during the second quarter.
At the net level, the quarter showed a substantial improvement compared to the third quarter of 2011 where we lost 4.7 million. Q3, 2012 was almost breakeven also thanks to the decrease of financial charges.
These results together with the positive cash flow from working capital allow us to further reduce our net debt, maintaining our financial leverage at around two times.
With that said, I now like to hand it over to Vincenzo to elaborate in more details and I will come back to you at the end of Vincenzo presentation for the final remarks before the questions. Vincenzo.

Vincenzo Giannelli, Chief Financial Officer

Thank you, Roberto. I will start from summarizing the main economic highlights for the period and I will start from the top-line.
In this quarter we registered revenues of Euro 249.1 million, reaching Euro 862.4 million in the first nine months of the year. The growth was respectively up 8.2% and 3.5% compared to the corresponding periods of 2011. Such results were positively affected by the strength of the U.S. dollar, by the consolidation of Polaroid Eyewear starting from April this year and by the positive performance more importantly of the organic business.

On the other hand, the top-line has been negatively affected by the declining sales of licenses that we didn't renew, at the end of 2011, namely Nine West and Valentino and by the phase-out of the Armani licenses impacting all our core product categories.

On the latter front, I would like to add that the phasing-out process is progressing quite well. Up to September sales decline has been pretty linear and this decline has been in Q3 more evident in the American market where our commercial policies are aimed at minimizing the risk of unsold product returns after the licenses expiration.

Moving down in the P&L, over the third quarter we maintained a strong grip on the gross margin, stable at 57.7% on sales compared to the 57.9% in the third quarter of 2011, which allowed us to remain at 59% of revenue in the first nine months gross margin limiting the gap with the corresponding period of 2011 to 70 basis points.

At the operating level, the EBITDA and EBIT margins were equal to 6.1% and 2.3% of sales respectively, showing a basis point drop very much in line with the one recorded in the second quarter. Nine month EBITDA reached Euro 85.9 million or 10% of sales, while EBIT stood at Euro 56.9 million equal to 6.6% margin on sales. As I said before, at bottom-line the third quarter achieved a significant improvement with a substantial breakeven compared to the loss of Euro 4.7 million same period last year.

Moving to the next page and looking in more details at the drivers of the top-line, the quarterly turnover in our core wholesale business grew by 7.8% to Euro 228.2 million, up 0.9% at constant exchange rates.

As anticipated by Roberto, it is meaningful to highlight the sales growth we recorded also in this quarter with our organic business which refers to the portfolio of the going forward brands. Excluding the sales of Polaroid, the brands not renewed at the end of the 2011 and phased out in 2012.

Our core products, sunglasses and prescription frames were up roughly 6%, a strong performance by our portfolio and clearly not an easy task given the still volatile business environment in which we all operate. And to complete the picture I would add that the quarterly performance was affected by the decline recorded by the sport business of ski goggles and helmets especially in the North American market.

Main trends by area were already explained by Roberto, but let me just focus on the most meaningful one. The American wholesale business was up 3% at current exchange rate, down 7.2% at constant currency. This performance was affected by the slowdown of phasing-out sales and the significant drop of the sport business.

Core products we were up organically mid single-digits, a trend consistent with the performance we are foreseeing for the period for the optical business.

Latin America positive, Brazil very strong, but we have more in the pipeline for Q4 in this area. In Asia, trends continued steadily. Sales were up 9.7% at current exchange rate, down 1.4% at constant exchange rate. And as said before, the organic business performance was more positive than in the previous quarters of the year, but we are convinced that there is room to improve given the changes we completed in the organization of this area.

Moving to Europe. European sales were up double-digit, 12% in the third quarter, current currency and perimeter. As you know, the area benefits from our new brand Polaroid. Net of these, the trend was positive mid single-digit. Key accounts were very strong and supportive, travel retail marching well. Southern European markets showed some recovery compared to the previous quarters of the year.

Now moving to the main drivers of our operating performance, I would say that the wholesale business EBITDA at 5.5% from 7% last year was characterized by the stability of the gross margin as I commented before, a significant result given the decline of volumes of phasing-out brands. Below the gross profit, the incidence of selling, general and administrative costs on turnover was influenced by a series of factors.

Activities to support the sales of phasing-out brands, investments performed starting from the second part of 2012 for the development of core brands and markets, and Polaroid seasonality.

On Polaroid, the combination of the seasonality, we must refer that the new collection will be distributed starting from November-December this year and of the start-up of the reorganization was such that the operating profitability of the Group has been diluted by about 60 basis points in the third quarter.

As far as our retail business is concerned in this quarter the sales mix was less favorable than in the same period last year due to more promos in the month of July and August. The EBITDA margin was however solid, standing at 13.3% compared to 14.7% in the third quarter of 2011.

Below the operating line, quarterly net interest expenses declined by roughly 10%, while net exchange rate differences were irrelevant both factors contributing to the improvement we registered at the Group net level very close to the breakeven point.

The cash flow of this quarter was positively affected by the contribution of both the operating activities and the change of working capital, leading to Euro 17.4 million cash generation, compared to Euro 4.2 million in the third quarter of 2011.

Investing activities were characterized by the usual maintenance Capex, and increase from 51% to 70% of our shareholding in the Hong Kong subsidiary.
In the third quarter, free cash flow was positive for Euro 9.2 million, compared to an absorption of Euro 2.3 million in Q3, 2011, contributing to bringing the nine month pre-Polaroid acquisition free cash flow to Euro 27 million.

On the Group net debt, at the end of September, it had further declined to Euro 224 million allowing us to maintain our financial leverage stable at two times.
After having repaid around Euro 80 million of senior net debt at the end of the first half in June, at the end of September our gross debt was equal to Euro 296 million, down roughly 10% compared to Euro 328 million at the end of December 2011.

This was composed by Euro 128 million high yield bond, Euro 110 million of senior loan with the revolving facility drawn for Euro 86 million and Euro 58 million of other lines.
Having said this, I now hand it back over to Roberto for further considerations.

Roberto Vedovotto, Chief Executive Officer

Okay. Thank you, Vincenzo.
Let me come back for a second to Safilo's brands and to some of the important results we reached thanks to the larger focus work carried out by Safilo’s brands team.
Carrera. This partnership and by the way with such a prominent advertising agency, for the development of the brand’s new global communication, is a key project.
It is a key project which together with the renewed product approach, the new collection and the new brand positioning will enable Carrera to become a real worldwide successful player in sun and optical.
And again, the partnership is another milestone for the development of our brand on a global scale. We initially focus on the new teaser campaign that we are now launching on various media channels including online, as well as in a worldwide point of sales in a massive way. This campaign will underline the dynamic and timeless spirit of the Carrera brand, a spirit whose roots go back to 1956 when the brand started and began its successful growth and development, while still maintaining its racing heart.
The second step will be a new global brand communication platform that will kick off worldwide in the first quarter of 2013.

With reference to Polaroid, we are also enthusiastic about this new brand and we are enthusiastic about this new project as much as we are about the celebration of Polaroid Eyewear's 75th Anniversary at MOMA in New York. At MOMA in New York in fact, within the collection of Architecture and Design, there is an original pair of 1946 Polaroid sunglasses.
The event of MOMA is very important. We want to dedicate this event to the press and in particular to our clients to seal the official launch of Polaroid in the American market. A moment in which guests will discover, explore and interact with the brand's technology, as well as learn how Polaroid Eyewear is moving forward into the future.

We are planning to offer a clear picture of what Polaroid should represent for our consumers, which is a brand of heritage and innovation, best-in-class polarization through the unique and perfect vision of the Polaroid, polarized lenses combined with a brand new style designed for minimal and urban look.
The kick off in the U.S. will be an opportunity to preview, touch and try our new Polaroid Plus sunglass lenses. We will launch a capsule collection which features the Polaroid UltraSight Plus lenses which are an evolution of the already well known polarized lenses, now also glue-free to ensure perfect vision, high protection and comfort, as we call it, EYEWEAR AT ITS BEST.
As previously mentioned, this will further be supported by the new Polaroid advertising campaign which will encompass both the rational and the emotional elements of this unique and iconic brand.

As you know, Safilo is today fully focused on managing this transition year laying down the foundations for a new start in 2013. We are fully aware that next year will be challenging given the Armani discontinuation, but we are strongly convinced that our strategic actions are going in the right direction and that today Safilo has all the instruments to successfully compete in a complex environment.

For this reason, we look at the future with a positive attitude knowing that from today's challenges we will be able to extract value to continuously improve our people, our organization, our products and our service.