

CONFERENCE CALL Q4 AND FY 2012 RESULTS – MARCH 6, 2013

Roberto Vedovotto, Chief Executive Officer

Good evening and welcome to Safilo Group 2012 financial results conference call. As usual, I have the pleasure to be here with Safilo Group's CFO, Vincenzo Giannelli, and Barbara Ferrante, Head of Investor Relations. Together, we will guide you through the key facts and figures of 2012. And as usual, at the end of the presentation, we will try to answer all of your questions.

I will start by saying that we are satisfied with 2012 results, which were significant and particularly in a year characterized by a slowdown in the world economy, by the ongoing decline of consumer spending, particularly in Europe and as far as Safilo is concerned by two key business events. The first one, phasing-out of the Armani license, and the second one, the phasing-in of the Polaroid brand in our portfolio.

Again, before going into the analysis numbers and figures, I would really like to thank Safilo management team. I could not have done it without them, and I think that I want to thank the team because they stayed very focus on the successful execution of our commercial and industrial strategy. And therefore we've, during the course of the year, maintained the necessary financial discipline that led Safilo to a further decrease of our financial debt position.

Okay. Let's go into the performance. First of all, 2012 sales of our go-forward brands grew at a good pace confirming the portfolio enhancement strategy that we have adopted. The decision to focus on the most strategic, relevant partnerships paid off and allowed us to anticipate the renewal of the HUGO BOSS Group and Max Mara Group licenses.

This allowed us to expand the agreements respectively to 2020 and 2019, at satisfactory conditions for both parties.

And I think I want to make it clear the anticipated renewal had nothing to do with the Armani license phasing-out. It was just an agreement that together with our partners we decided to do to make it more profitable for both parties. I think this achievement of these early renewals increased our visibility and the visibility of our portfolio of licensed brands, giving us a comfortable timeframe during which we will further develop our brands.

Number three, 2012 was also marked by a further implementation of our strategy of growing the Safilo's brands, particularly via the acquisition of Polaroid. Acquisition of Polaroid, as you know, was finalized in April. We then managed the brand for the last nine months, starting April until the end of December so far and then clearly January and February. But on the nine months 2012, it was a period in which we reorganized the European distribution setup and we also put together the foundations for the international expansion of Polaroid, namely in America and Far East. We started to make a big comeback precisely where Polaroid was born 75 years ago, United States.

Our strategic priority in 2012 was to preserve the solidity of the group's capital and financial structure and at the same time to maintain a resilient level of profitability. This was done despite the expected decline, which was due to the effect of the phasing-out of the big Armani license.

I think we have been able, as you might have already seen, to achieve these results, also via an adaptation of our industrial manufacturing footprint through the implementation of the agreement, which we signed with the trade unions, which provided for the use of the solidarity contracts until at least over 2014.

The solidarity contracts provide us a solution which is allowing the company to manage the, on one side, the very important and fundamental social framework, to guarantee a much more flexible work organization and to pursue a production, a recovery in the production efficiency.

Now, full year results. Full year results were on track providing the strength – proving, sorry, the strength of our organic business and at the same time the solidity of our economic and financial profile. Sales were up 6.7%, 2.2% at constant exchange rates, EBITDA margin reached 10%, and the bottom line remained very close to the net profit achieved in 2011. We ended the year confirming financial leverage below 2 times and precisely at 1.9 times. Vincenzo later on will provide you with further details.

Now let's go into Q4, 2012. The last three months were particularly positive and allowed us to consolidate the key trends and all the business dynamics we have achieved in the first nine months of the year. In Q4, our performance was by all means very robust. Let's start from top line. Top line grew double-digit, up 16.6% at current exchange rate, up 13.8% at constant currency. And that was realized with all business components giving their positive contribution to the progression of the period. The organic business, Polaroid, and also the latest sales campaign of the phasing-out brands.

In Q4 2012, underlying operating profitability held up well and as in the third quarter, the net result and the net cash generation both improved.

In line with Q2 and Q3 2012, our organic sales performance confirmed a 6% growth rate supported by the majority of the brands in the portfolio and the regions we manage.

If we then take a minute to analyze our portfolio, high-end luxury brands, Gucci, HUGO BOSS, Bottega Veneta and Jimmy Choo were top performers, doing well across the main product categories and markets. At the same time, what we call the diffusion segment recorded very positive performance through the best seller brands like Tommy Hilfiger, BOSS Orange, and the majority of the American brands, from Banana Republic to Kate Spade to Fossil.

We will comment a little bit later in more details Carrera, but I would like to highlight that the growth of Carrera continued into 2012 in most of the geographies including Europe, also via the introduction of Carrera into the prescription frames category, a recent product development, which is performing very well. In sunglasses, two of Carrera's main markets, namely Italy and Spain, were lagging behind also as a result of the extremely competitive environment, which was very much characterized by significant promo activities in all market segments.

In 2012, the management team focused on the new brand positioning, focus on broadening its gender reach, and the product offer. The overall collection improved dramatically. This work that has been conducted gave us some initial positive outcome with the successful launch of the new Carrera 6000 collection and this is giving us a good sentiment for the year.

If we then look into regions, into geographical areas, Q4 2012 was a quarter where our business performed a strong recovery in Europe and this was particularly significant after the initial slowdown of the year and the second half of last year.

Sales for Polaroid gave clearly a contribution to the positive trend and it is the most meaningful contribution in terms of brand for the first three months of the year. Now, in spite of the unfortunately persistent weaknesses experienced by some important markets, I think Italy more than any other market, we were able to increase our market share in certain countries, certainly in Russia and other developing countries in Europe as well as in travel retail and key accounts.

Finally in Q4, we also recorded a further strengthening of the U.S. and the Latin American countries. In the U.S., we continued a strong performance in the independent opticians',3Os' channel and this was also due to the, I will say, width and depth of our product collection, while growth rates improved even further in Latin America and particularly in Brazil and somehow in Mexico. I think in Brazil particularly, Carrera was the top performer and Brazil has become last year the fourth largest market for Carrera.

For the moment, I think I said it all. I would like now to hand it over to Vincenzo, which will walk you through our results in much more details and then I come back at the end before the Q&A session to give you some additional comments. Vincenzo.

Vincenzo Giannelli

Thank you, Roberto. I would start from summarizing the key highlights of 2012 and then I would move to the fourth quarter. So total sales for the year reached €1,175.3 million with a reported growth of 6.7% and a positive progression of 2.2% also after adjusting for the currency effects.

At the operating level, EBITDA reached €115 million, result that allowed the group to get to a gross operating margin of 9.8%, 130 basis points below the previous year margin. This dilution resulted from the impact of the phase-out plan, especially in terms of price mix, and it was evident that the gross margin level, which moved from 59.2% down to 57.8%. Below the operating line, the year benefited from the reduction of the net interest expenses from €23 million down to €19 million as well as from the reduced impact of negative exchange rate differences.

On the interest expenses front, I would like to remind you that the two main drivers that determined the decline in 2012 were on one side the early partial redemption of €60 million high yield bond undertaken in June last year, in 2011, and of course a reduction of the average debt. At the bottom line, 2012 net result was equal to a profit of €25.9 million compared to €27.9 million in 2011.

In the full year, the free cash flow before the acquisition of Polaroid and some minorities was positive for almost €51.6 million, compared to €24.7 million in 2011. This improvement was driven by the higher flows from operating activities, which increased to €80.4 million from €56 million in 2011, thanks to the release of working capital, which mainly reflects the decrease of inventories. At the end of the December 2012, group net debt had further declined compared to the end of September, getting to €215 million compared to €238.3 million at the end of December of 2011.

Moving to slide eight, I would like to highlight that in the last three months of the year, we registered revenues of €312.9 million, up 13.8% at constant currencies, with all business components, as already indicated by Roberto, contributing to this performance.

To quantify some of the drivers that have been already described by Roberto, I would like to highlight that in the fourth quarter, the positive performance of the American wholesale market was equal to plus 10% at constant currency. Thanks to the strong growth rates recorded in emerging countries in Latin America and to the robust trends recorded by our prescription frame collections inside the independent opticians' channel in the U.S.

The positive momentum experienced by our sunglass collections in the U.S. market was testified by the continuing growth achieved during the year by our Solstice stores. In the period, retail sales were equal to €19.2 million, up 5.6% at constant exchange rates. We then had the rebound of Europe in the quarter, up around 25% at constant exchange rates, which is explained by the solid performance of our organic business, but also by Polaroid sales, which in the quarter contributed for more than half of the region's total increase.

As anticipated by Roberto, in Europe, our prescription frames business was very solid throughout the year and I would like to highlight again the strong progression we recorded in the region with our new Carrera prescription frames collections.

In the fourth quarter we recovered some momentum in Asia that registered a growth also at constant exchange rates, plus 3.6%, thanks to the development of the high growth markets and channels, but also to the improvement recorded in the most mature market of the area, namely Japan.

Moving to our operating performance in Q4, this was influenced by the different dynamics that characterized the top line in the period. On one side, we had the price mix effect of the sales from the phasing-out brands impacting gross margin, which went down from 57.6% to 54.5%. On the other side, the growth of volumes driven by the organic business and the additional revenues from Polaroid improved the period operating leverage. All-in-all, EBITDA reached €29.2 million in the fourth quarter with an increase of 16.8% over the same period of the previous year.

And the operating margin remained stable at 9.3% on net sales, also helped by the positive result of Polaroid and by the improved operating performance of Solstice stores in the U.S. As far as our retail business is concerned, in Q4, the EBITDA margin improved to 4.7% of sales compared to 1.4% recorded in the fourth quarter of 2011.

So the strategy to focus the business around the best locations has been so far successful in financial terms, and has allowed us to increase the retail operating performance from 10.6% in 2011 to 12.3% in full year 2012.

Below the operating line, net interest expenses declined by 14%, while the impact of negative exchange rate difference has decreased to €1 million from €4 million recorded in Q4, 2011. So Q4 net result was equal to a profit of €5 million, compared to €1.3 million profit in Q4, 2011.

Moving to slide 10 and free cash flow, the positive net result of the quarter, higher depreciation and amortization coupled with the continuing cash generation from working capital led to a cash flow from operating activities equal to €21.9 million compared to €12.5 million in Q4 2011. Investing activities in Q4 were characterized by a stable level of maintenance CapEx after which the free cash flow of the period was positive for €12.1 million compared to €4.4 million in Q4 of the previous year.

As said at the beginning, in 2012, group net debt declined to €215 million compared to €238 million of 2011 confirming the financial leverage in the previous year of 1.9 times. We ended the year with the gross debt, which was equal to €275 million, down roughly 16%, compared to €328 million at the end of December 2011. And this was composed by €128 million high yield bonds, €90 million of senior loan with the revolving facility drawn for €65 million and €57 million of other lines.

So having said these, I would now hand it back over to Roberto for his further consideration.

Roberto Vedotto

Okay. Thank you very much, Vincenzo. In 2013, our strategic priority is to consolidate and strengthen the positions we reached last year. And the first steps we took in the first two month of the year go exactly in that direction. Let me start by saying that in January, as you have seen, we renewed Liz Claiborne and Banana Republic, two of the most represented U.S. brands, which have been growing nicely top line and profitability in our portfolio in the last years.

This is in line with the fact that we want to give further speed to our organic performance. And these are clearly two confirmations that support our profitable presence, penetration of the American markets and which again testifies the focus on relevant strategic brands for our portfolio.

U.S. and Latin America markets did well last year. And they are among our most important opportunities for growth going forward. So we need to have the best portfolio of brands, the best product offering in order to be competitive.

Along the same line, during the first week of February, we signed a new licensing agreement with Bobbi Brown, the iconic cosmetics company owned by Estée Lauder and founded by the world renowned makeup artist and entrepreneur, Bobbi Brown.

It is by all means a very interesting project. We want to create a new category of use for sunglasses, because we want to treat eyewear like makeup, creating innovative eyewear collections that fit with Bobbi Brown's philosophy of natural beauty, of using seasonal color palettes to inspire and drive creativity.

Of course, also, we want to focus on new distribution channel represented by the brand standalone cosmetics corners and shops. We will launch Bobbi Brown in the U.S. market at the beginning of 2014. We are at the moment developing the collection. And we then will expand it in the emerging markets and Europe hoping to replicate the huge success Estée Lauder is having with the brand in the cosmetics arena.

Now products, markets, service. We are focusing and we will be focusing on Safilo's brands growth opportunity, looking at it in all different aspects.

Polaroid. Polaroid expansion plan is our strategic commitment for 2013 together with Carrera. As you know, in December last year, we celebrated the 75th anniversary of Polaroid at MoMa in New York. It was a huge event during which we re-launched the brand in the American markets, and we also launched the Polaroid Plus exclusive capsule collection.

Now, you can see that we are encouraged by the consensus that we are getting on Polaroid from markets, regions, customers, and the new product lines together with the very good acceptance of the brand, and particularly in this market environment, is clearly a good sign going forward. This year Polaroid growth will probably be driven by progression in Europe and of course by the launch of Polaroid in both U.S., Latin America and initial expansion in Asia.

As you know, last weekend was an important weekend for us, because we participated in 2013 MIDO exhibition, the world's largest and most important optical fare, which is held in Milan. During this event, we introduced our new eyewear collection and I think more importantly, a number of breakthrough products, which have not only included the latest fashion trends, shapes, colors and details, but also some very important aspects in terms of research and innovation. In fact, we introduced Avantek and UltraSight Plus lenses as well as made in Japan thin acetate.

Now, Avantek is a new revolutionary lens mounting system, developed by the U.S. based Avantek Eyewear with which we have an exclusive agreement. And basically you can mount prescription lenses with no holes in the lenses so that there is no risk of distortion or deformation and a much clearer view. In the next 12 months, we will use Avantek for Safilo brands, as you know Safilo is focusing on prescription frames only, and also we have extended the pattern to the BOSS frames collection.

As said, we also introduced the UltraSight Plus lenses, which is a further evolution of the super high quality polarized lenses, where there is no glue between the lenses and the polarized film. And as I mentioned before, a revolutionary thin acetate made in Japan, which has a beautiful effect.

During MIDO, we also launched an event, which is, which the goal is to launch a new development path for Carrera trying to get across the new brand identity, which has now a stronger segmentation with four different personalities within the collection and a common theme, the brand's racing heritage and attitude.

Milan was the first of several international events that will be held in major cities in the most important markets for Carrera, so Madrid, New York, Beijing, São Paulo. And these events will help the consumer, the trade, the customers to discover the new Carrera's collection of sunglasses and optical frames. We think that this represent an interesting potential opportunity and must take Carrera to the next level of growth.

Now on a different subject and particularly given recent concerns around our financial position and flexibility, including from rating agencies, as you have seen in the press release, today the Board of Directors of Safilo Group approved the terms and conditions of a new financing transaction for a total amount of €100 million, which will provide our company with the required financial flexibility, also in the context of the reimbursement of the high yield notes due in May 2013. And this will also provide us enough flexibility for our ongoing business development needs, and it is more importantly, also in line with the group and the management objective to further reducing the average cost of debt.

We are extremely satisfied with this transaction. It testifies trust and support to Safilo Group from our current lenders from our traditional financial partners, which is the group of banks that already underwrite our senior debt as well as from our main shareholder, which already demonstrated that by its financial support to the Polaroid's acquisition.

2013 will be another demanding year, with challenging macroeconomic environment, uncertainty over Eurozone crisis and headwinds from strengthening of euro against the dollar, as well as by our own business risk and opportunities.

In this respect, this year, we can count on one side on the full consolidation of Polaroid. So this will be a new addition in the first three month of 2013, together with the expansion of Polaroid outside Europe, which will start now in the month of March in the U.S. as well as in Asia.

On the opposite side, we will fully deconsolidate the Armani business.

Of course, this is a challenging contest, but it is not unexpected and we need to stay focused on the core projects that we have been planning and executing during the last 24 months.

Performance in January and February were in line with our expectations and up to now organic trends are satisfactory across the portfolio of our licensed and Safilo brands across product categories and channels.

As I said at the beginning, our priority is to strengthen the pillar of our business and by doing this improve our organic performance. I must say that we are clear in our mind that in life you race or you don't.