CONFERENCE CALL Q2 AND 1H 2013 RESULTS – AUGUST 1, 2013

Roberto Vedovotto, Chief Executive Officer

Thank you very much. Good evening all, and once more, welcome to Safilo Group second quarter and first half 2013 financial results conference call.

As recently announced, I will be leaving my role as CEO of Safilo Group on October 15, and for this reason and before illustrating the results of the second quarter and the first half of 2013, I would like to take this opportunity to sincerely thank you all for attending this call, the previous calls we did together and most importantly, for having followed closely with me Safilo's story over the last four and a half years and particularly through various good and bad, difficult and easier phases from 2010 recapitalization plan to the reshaping of the portfolio of the brands with the strengthening of new licenses and known brands like Polaroid and the phasing out of the Armani business.

Slide 2

I must say that it has been a challenging and exciting journey for me and I am particularly proud to have been able with a fantastic team of people working with me to reestablish Safilo as a pure player, world leader in the eyewear industry.
As I said, I'm proud of this successful turnaround that was made possible by all the stakeholders of this company. I will never forget the trust we received from our license stores, from our clients, our people, the support of the financial community, the equity analysts, and I must say, most of all, I will never forget the outstanding work carried out by all of our employees and the fantastic management team that I had the possibility to be working with for the last four and a half years. For these reasons, I will say that I want to thank you again and I'm sure I will be hugely missing everyone.

Now, with that said and back to our presentation, as usual, I have the privilege to be here with Safilo Group's CFO, Vincenzo Giannelli, and with Barbara Ferrante, our Head of Investor Relations. Together, as we've done in the past, we will guide you through key facts and figures of these first six months of the year and then at the end, we will try also to answer to the questions you might have at the end of our presentation.

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So starting with first half result, as you might have seen, we have closed the first six months of the year with satisfactory results both in terms of revenues and that is due to our good performance of key licensed brands as well as the initial impact of the planned expansion of the Polaroid business outside of Europe. But we also had very satisfactory results in terms of profitability with strong improvement of all the main performance indicators.

In the first half of the year, our organic sales were up over 8%, and this together with the new Polaroid business in Q1 allowed us to offset almost completely the exit of the Armani brand, Giorgio, Emporio, and A/X as well as the unfavorable exchange rate movement. Top line in the first six months ended at around €600 million, which is substantially in line with last year. Consider that the first half of last year we had about €73 million of revenues for Armani business. Recurring profitability improved.
It improved year-on-year but also compared to the first quarter of this year, and we recorded 12.1% EBITDA margin.
So in a nutshell, strong economic results, positive cash flow, and further net debt reduction to €201 million, which means a financial leverage of 1.7 times and which represent a new record low level for Safilo Italy. I think starting to – if we start to consider less financial leverage from 2001, this has been the lowest ever financial leverage for the company.

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Second quarter. In the second quarter, results were reassuring and substantially in line with our forecast. As expected, given the final exit of the Armani business, we recorded a slight decline in revenues, the magnitude of which slightly exceeded our projection as April and May were two strong months, while June, and particularly the second half of June, decelerated, mainly in U.S. and more significantly in the emerging markets of Latin America and Asia. This was - in terms of categories - more evident in sunglasses because prescription frames held on very well, and it was also partially due to the late arrival of the sunny weather, as well as to a milder, I will define it, consumer spending affecting reorders in the different regions. All in all, net of the negative impact of exchange rate and the exit of €35 million, which was what we recorded in the second quarter last year with the Armani brands, we achieved a good implementation of our strategy to substitute Armani brands with all other brands we have in our portfolio. And if you look at organic growth, it was up 6%, driven mainly by Europe which once again after first quarter performed extremely well, and Asia. While America, because of Latin America, was a little bit weaker than we had expected.

Now, if I go into the geographies, let's start with Europe. Continental and Northern Europe were both very good; new markets particularly good, headed by Russia, which was very strong. The Southern European regions where the business environment remains difficult and somehow characterized by fluctuations in trends were a little more difficult. Even if we saw a difficult market environment, we posted an increase in organic sales in Spain and Portugal.
Italy was somehow weaker where – with independent opticians struggling while retail chains were doing better.

On the positive side, I would like to highlight the good progression we continue to register in Europe, particularly in two main channels, travel retail and key accounts, which were the best performing channels in the European region.
Our portfolio brands, led by Dior and Gucci, did very well together with BOSS and Céline but also our contemporary fashion brands like Tommy Hilfiger, BOSS Orange, and Marc by Marc Jacobs, all experienced double-digit growth.

Americas, as I mentioned earlier, after a sound double-digit organic growth in Q1, revenues in Americas slowed down a bit in Q2. As far as the core product business is concerned, we had a very positive April and May, followed by not so good June, which resulted from a weaker consumer environment at retail level, more in terms of average prices than volumes per se.
In the quarter, Brazil did not help. In fact, Brazil slowed down its pace of growth. But we see this as a temporary issue explained by the high degree of uncertainty and turmoil, which affected the Brazilian country in the last period.

Total turnover in North America was also influenced by a weak sport product sales, as well as by the termination of the Armani Exchange brand, together with the other brands of the group, which had been particularly strong in the same period of last year.
On the opposite front, I would like to mention the positive kickoff of Polaroid in America, and particularly we see new premium Polaroid glass collections as well as with the most traditional product range. I must say that Polaroid has big potential and we are happy about it. In particular, we're happy with the positive start.

Asia, as I'm sure you remember, Asia for us is mainly sunglasses and three brands; Gucci, Dior and Armani and therefore in Asia, the highest share of Armani sales has been concentrated on top high-end part of the brands and the substitution effect was less relevant.

As part of the broader reorganization plan in the region, we have focused our effort in our portfolio of luxury brands, as well as contemporary and fashion products. So what we're trying to do is to really focus on Céline, Bottega Veneta, Jimmy Choo, as well as Tommy Hilfiger, BOSS Orange, Marc by Marc Jacobs and our own Safilo brand. We strongly believe that these are the biggest opportunities for the company going forward.

So I will say that all-in-all the second quarter had solid mid-single digit sales growth after double digit in the first quarter but consider that the second quarter was more challenging in terms of comparison. I will say also that very importantly and more meaningfully, we were able to improve the recurring margins at those levels and we had there better results than what we already had in the first quarter. EBITDA margin reached 12.5% of revenues, contributing to cash flow generation in the quarter for about €17 million.

Now, I think I'll stop here and I'll hand it over to Vincenzo, which as usual will take you through the numbers in more details. And then, I'll stay here to make some final remarks and be available for any questions that you might have. Vincenzo.

Vincenzo Giannelli

Thank you, Roberto. I will start by giving you some quantification of the main items that made up our economic and financial performance, focusing my comments on Q2 results starting from slide number 7.

Slide 7

In the quarter, revenues reached €301.4 million, down 7.2% at current exchange rates minus 5% plus 7% at constant exchange rates.
Roberto already mentioned the main effects negative and positive, exchange rates impacting by 1.5% negative,
termination of Armani taking out some 11%, 12% of business, all of this partially recovered by the organic sales growth recorded in the period by our go-forward brands.

We closed the first six months of the year with revenues of €598.4 million, down 1.2% at constant exchange rates. And as it has been mentioned by Roberto, this is thanks to an over 8% organic business increase.

By region, sales in Europe totaled €126.7 million compared to €132.5 million last year, down 4% at constant exchange rates with the American wholesale business declining by 7% at constant exchange rates and standing at €97.7 million, while sales in Asia were equal to €50.3 million, dropping 9.4% at constant exchange rates. We have already pointed out that the organic performance was positive in all geographies although with different magnitudes.
Let me add that on a reported basis, in the first six month to June, Europe was positive up 1.7% at constant exchange rates, the Americas just slightly down by the same percentage while sales in Asia registered a year-to-date decline of 7%.

All-in-all, our wholesale business recorded a turnover of €277.9 million compared to €301.2 million, down 6.3% at constant exchange rates, while our Solstice stores in U.S. posted revenues of €23.5 million, achieving currency neutral an increase of 1.9% over the same period of last year. At the end of June, we were running 133 stores, which on a like-for-like basis recorded a flat sales performance.

By product category in the quarter, sunglasses were down 6.1% at cost of currencies while the drop was equal to 4.2% for prescription frames. In the same way, the positive organic performance was generally stronger in prescription frames, a trend that we continue to register from the first quarter, to which an important contributor has been represented by the ongoing progression of Carrera prescription business in Europe and the Americas. The progression of Carrera in prescription business is equal to 25% in the quarter.

All of our brands are in good shape, from Gucci and Dior, the latest of which has been one of the best performers in the quarter to all of our fashion contemporary brands, with which we aim to become increasingly relevant also in the new emerging markets.

Slide 8

Moving now to page 8 and the economic performance, the second quarter was characterized by further improvement of the group profitability at all levels, a recovery that exceeded what we had achieved in the first quarter. This is as far as our recurring results are concerned, of course.

As you have seen, the period has been hit in the area of selling, general and administrative costs by a non-recurring item reflecting for €6 million, the CEO succession plan communicated on June 19 and for €1.4 million some restructuring expenses in Europe, mainly related to the reorganization of the Polaroid eyewear structure.

I will thus make my comments referring to the adjusted results.

In the quarter, adjusted EBITDA amounted to €37.7 million, not far from the €38.4 million we had recorded last year, same period. The margin improved by 70 basis points to 12.5% of sales, up from 11.8% last year.
We recorded two very distinct dynamics. On one side, a significant increase of our gross profit margin which soared to 63.8% of revenues from 58.9% at €192.4 million. A substantial improvement which reflect the efficiency we have been achieving by reducing levels of obsolescence products through the actions we're taking in forecasting, planning and stock management.

Year to date, at the end of June Gross profit reached €372.1 million, posting an increase of 1.8% over the first half last year, while the incidence on sales increased to 62.2% from 59.6%.

Coming back to the quarter, selling and marketing expenses, together with general and administrative costs slightly decreased in the period, remaining however high and increasing their incidence of the total business as we continue to invest in the key brands of the license and proprietary portfolio including the activities linked to the launch of Polaroid brand in markets outside Europe which are green fields of the brand.

Adjusted EBITDA at the end of the semester was equal to €72.4 million with the margin at 12.1% of sales, up 2.5% in absolute terms and by 60 basis points margin-wise over the same period last year. Below the operating line, the second quarter saw a reduction of net interest expenses due to the halving of costs on the HighYield bonds, which we repaid on May 15 whilst we book a charge of €1.2 million for the loss in the valuation of our investment in an associate company.
On an adjusted basis, the tax rate of the period stood at 37.1% compared to 43.5% same quarter last year, and adjusted group net profit got to €12.2 million, up 27.3% over last year.

The first six months of the year ended with an adjusted net result of €25.6 million, recording an increase over the same period last year of 18.9%.

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Moving to slide 9 and the free cash flow, in the first six months of the year our business generated an inflow of €11.5 million marked by the cash generated in the second quarter of €16.9 million. These were made of €26.8 million cash flows from operating activities, positively impacted by the net result of the period and inflows from working capital, benefitting from the ongoing improvements in stock management and efficient and focused credit management too.

Investing activities, equal to €9.8 million, just partially counterbalanced the cash generation from operations and they accommodated regular renewal activities at our industrial plans, as well as further increases in the group's shareholdings in its subsidiaries in Asia and China (from 90% up to 97%), and Hong Kong (up from 70% to 80%), amounting to a total outflow of €3.8 million.

Slide 10

In terms of the group net debt, at the end of June, this is slide 10, it decreased by some €20 million over the end of March, ending at €200.8 million, so slightly in excess of €200 million. This compared to €231 million at the end of June 2012.
At the end of the period, the gross debt was equal to €271 million, down just over 7% compared to €292 million at the end of March 2013. And as you well know, on May 15, we completed the reimbursement of the residual part of the HighYield notes, equal to a nominal amount of €135 million. And we did this through our available financial resources without any utilization of the new revolving credit facilities finalized on May 6 for a total amount of €100 million. So our gross debt was composed by €215 million of senior loan with a revolving facility drawn for €190 million and €56 million of other lines.

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

Roberto Vedovotto

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Okay. Thank you very much, Vincenzo. I'll try to make some final remarks. As I think you have by now understood, we are happy with the results achieved in the first six months of the year, particularly considering that, as I said before, we needed to substitute about €73 million of revenues for the Armani licenses. And this is true not only from an economic and financial standpoint but also as far as strategic achievement is concerned.

In summary, I would like to remind you that what we have achieved is organic growth of our go-forward brands exceeding 8% in this semester, thanks to the success of all our main licensed brands and the initial expansion of Polaroid.

Two, we achieved the substantial improvement of economic performance driven by efficiency actions in production and supply chain management.

Three, our key performance indicators have confirmed that the progresses made in the recent past on working capital, cash flow generation and net debt reduction have been substantial.

On top of these results, I think that it is important to remind that we added to our portfolio of licensed brands, Fendi, certainly one of the best made in Italy fashion luxury brands. And we secured other key brands of our licensed portfolio through renewal or early renewal of our strategic partnership, namely Marc Jacobs and Marc by Marc Jacobs, which is the third biggest license agreement we have. And more recently, Fossil, which we expanded into the sunglasses categories and into a worldwide license agreement.

In terms of strategic alliances, we are proud of our new partnership with Essilor for the new Polaroid branded polarized ophthalmic lenses, with Jimmy Choo for the Carrera by Jimmy Choo capsule collection, with Marc Newson for the special edition of Safilo by Marc Newson Eyewear. I think that all of the above testifies the strength and the credibility reached over time by our company and it has also confirmed its strong reputation in the international marketplace.

I believe that our performance is so far confirming the validity of the actions undertaken in the recent years and is putting Safilo in an ideal position to reach its future target of structural growth.

With that said, I thank you all again for your attention, your patience, your support and we are now ready to take your questions. Thank you very much.