Conference Call Q2 and1H 2010 Results – August 3, 2010 (3pm CET)

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Good afternoon to you all and welcome to Safilo's second quarter and first half 2010 results conference call.

Francesco Tagliapietra and Barbara Ferrante are here with me today and together we will answer the questions you might have at the end of the presentation.

We closed the first half of the year with some positive results that I will highlight in a moment, but most importantly we have continued to lay down the foundations of the new Safilo Group:

- In the context of a still challenging and uncertain market conditions, particularly in Europe, we achieved top line growth;
- We improved our profitability, with EBITDA reaching 64.8 million euro or 11.2% margin, a 200bps progression vs. last year;
- After two years, we returned to Free Cash Flow generation, thanks to more focused investments in the core business and improved working capital management;
- We kept our Net Financial Position under control, with a decrease of 46 million euro compared to the previous quarter;
- We strengthened our management team, with the appointment of Vincenzo Giannelli as Safilo Group CFO;
- We continued to manage our license portfolio in line with the economic and financial targets associated with our policy;

Let's start with a brief overview of Q2 2010. The results of this quarter were in line with the trend experienced in Q1. In particular:

- From a geographical standpoint, we experienced:

1. Strong improvements in Asia, with China being the main driver there;
2. Additional performance consolidation in America, although with opposite trends between sunglasses and prescription frames;
3. Still difficult trading conditions in Europe where we did not witness any further recovery vs. Q1.

- In terms of business Drivers, in this quarter we saw:

1. Higher inventory restocking by clients and less marked price trades down by consumers;
2. Sunglasses better performing than prescription frames. This was mainly due to the higher reactivity of this category to the product and commercial activities developed by the Group during the year;

- Our efforts in terms of cost rationalization are giving come early tangible results in terms of Profitability. In particular, we registered:

1. A better fixed costs absorption of the production capacity in all our industrial plants;
2. A smaller and more profitable retail business after divesting the loss-making activities.

The Financial leverage was the most meaningful result of the quarter. Thanks to the cash flow generation in Q2 2010, we were able to reduce our indebtedness by 46 million euro. Our Net Financial Position is now equal to 269.4 million euro compared to 315.4 million euro of the previous quarter, a 15% decrease. This was possible thanks to:

1. Further progression in terms of working capital management and
2. Focused investments in the core business;

Despite these signs of recovery, we need to remain focused and we prefer to be very cautious:

- Europe, the Group's most important market, is still lagging behind in our main business segments;
- It is still the medium price products which are winning consumers' preferences in our important markets: Italy, Germany, UK and the majority of Continental Europe are still playing a prudent game;
- America is growing, although the resilience of the US consumer is not to be taken for granted;
- BRIC countries are doing very well but they still represent a very, too small, portion of our total business.

Let me move to Safilo's Q2 FINANCIAL HIGHLIGHTS:

- Total sales grew by 7.3%, at 294.3 million euro;
  Let me remind you that at the end of last year we sold our non strategic, loss making retail activities in Spain and Australia. In Q2 2009, these chains registered roughly 9 million euro of sales, with a negative EBITDA of 1.1 million euro.

  At constant exchange rates and perimeter, total sales in Q2 2010 would have been up by 5.3% over Q2 2009.

- Profitability improved:

  - Gross margin increased to 58.8% of total sales or 172.9 million euro, an improvement of 170 bps on the 57.1% margin registered in Q2 09;

  - EBITDA reached 30.2 million euro or 10.2% of total sales, growing by 41.6% over the adjusted 7.8% Q2 09 EBITDA of 21.3 million euro;

  - EBIT amounted to 20.6 million euro or 7.0% of total sales, almost doubling compared with the adjusted Q2 09 operating profit of 10.2 million euro;

  - Net result was negative for 5.0 million euro versus the adjusted loss of 9.6 million euro in the same period of last year, due to very negative net exchange rates differences as well as the prudent non-accrual of deferred tax assets.

Following these Q2 results, the First Half 2010 closed with:

- Total sales at 580.3 million euro, growing by 3.2% or 4.6% at constant perimeter and exchange rates;

- Gross margin improving by 80 bps to 59.7%;

- EBITDA and EBIT, reaching respectively 11.2% and 7.7% of total sales, an uplift of 200 and 250 bps on the adjusted 1H 09 results;

- The net result of the period was negative for 3.3 million euro versus the adjusted 1H 09 loss of 7.9 million euro;

- As anticipated, the Net Financial Position at the end of June stood at 269.4 million euro, thanks to the strong cash generation during Q2 2010.

Q2 2010 SALES IN SOME MORE DETAIL

Total sales grew in the period by 5.3% at constant perimeter and exchange rates.

This performance can be explained by:

1. Further growth of the wholesale business, where revenues reported an increase of 4.2% at constant exchange rates. Performance was driven by volumes growth and an improved products' price/mix.

   Carrera maintained a strong growth pace thanks to its development in Europe and in the US market. We are very proud of this house brand, which experienced outstanding results through the whole cycle.

   Our most important licensed brands all showed improving performances thanks to better price points differentiation. Positive trends were more evident in American and Asian markets, especially as far as the sunglasses business was concerned.

2. Strong like for like retail business.
   At constant perimeter and exchange rates, the channel grew by 20.1% in Q2 2010, thanks to the performance of our Solstice stores, up by 17.3% in the period, proving the solid performance of sunglasses in the US market.

   We closed the quarter with a total number of 218 retail stores.

As a consequence of this, first Half 2010 saw the Wholesale business up by 3.6% at constant exchange rates and the retail growth at 19.1% at constant perimeter and exchange rates.

From a product category and geographical standpoint:

In Q2 2010,

In terms of markets,

America performed extremely well, taking advantage of the USD strengthening against the Euro during the quarter, thus growing by a solid 15.3% on a reported base. At constant exchange rates, the region slightly improved the performance achieved in the first quarter, increasing by 6.1%.
As already indicated, in the US market, we continued to have nice results in all the major department stores and in our own retail network, Solstice, confirming the positive trends of our sunglasses collections.
On the other hand, the prescription frames business was weak in the quarter, highlighting lower product rotation in stores. Results in the area were also positively affected by the solid growth of the sport business as well as good performance in Latin America.

In the First Half 2010, sales in America grew by 8.4% reported and by 5.5% at constant exchange rates.

Asia was strong, representing the main driver of growth in the period.
China led the league, with Safilo's products achieving higher penetration in the country thanks to increasingly focused commercial activities.
The reported increase of the region, in the second quarter, was of 31.4%, or 21.5% at constant currency.

First Half 2010 sales in Asia grew by 20.9% reported, up 17.8% at constant exchange rates.

Europe, once again, was the weakest area also in this second quarter.
At constant exchange rates and perimeter, the area would have been flat in the quarter (declining by 3.8% reported), with countries like Portugal, Spain and France providing the most consistent upsides, again in the sunglasses business more than in prescription frames. Greece was weak and some Continental European countries are lagging behind, still keen to increase volumes in return for more appealing price ranges.

In the First Half 2010, sales in Europe contracted by 3.2% reported, slightly increasing by 0.6% at constant perimeter and exchange rates.

By product category, in Q2:

Sales of sunglasses achieved strong results in this quarter, growing in the period by 14.5% reported, plus 17.1% at constant perimeter. This was driven by:

- interesting volume increases all along our important product propositions as well as
- a more moderate impact of the price/mix effect

In the First Half 2010, sunglasses reported an increase of 5.9%, plus 8.5% at constant perimeter, providing a better performance than the prescription frames business.

The latter was in fact weak in the second quarter as already mentioned, down by 4.4% reported, minus 0.9% at constant perimeter. Product performance was more disappointing in the US market where the category did not maintain the promising results achieved during the first quarter of the year.

In the First Half 2010, sales of prescription frames were slightly negative, by 0.6% reported; up by 2.5% at constant perimeter.

In terms of OPERATING PROFITABILITY,

EBITDA in Q2 2010 totaled 30.2 million euro (10.2% of total sales), growing by 41.6% compared to the adjusted 21.3 million euro or 7.8% of total sales registered in Q2 2009. EBITDA in the quarter improved by 240 bps.

The main drivers of Q2 2010 EBITDA performance were:

- Gross Margin improvement, to 58.8% of total sales compared with 57.1% achieved in Q2 2009. The progression by 170 bps has been the result of the better absorption of production capacity in all our plants thanks to increasing volumes.
  Profitability was also helped by a more efficient development of new collections, in line with our project to reduce product complexity. These positive trends were partially counterbalanced by an increased level of obsolescence due to the reorganization and clean up of some distribution channels that we started at the end of last year.

- SG&A expenses, which in this analysis exclude depreciation and amortization costs, weighed less on total sales. Their incidence decreased in this quarter to 50.1% of sales, down from the adjusted 51.4% in Q2 09. Selling and marketing costs generally benefitted from the retail business divestiture, while general and administrative expenses decreased as a result of the Group's stricter control on general overheads.

EBITDA in the wholesale business, reached 27.3 million euro or 10.2% of revenues, 160 bps better than the adjusted 8.6% recorded in Q2 2009. The improvement was driven here by the Gross margin recovery, followed by the containment of G&A expenses.

The retail business, in the second quarter, achieved a good positive EBITDA of 2.9 million euro after the break even of 0.2 million euro in the same period of last year. The result was explained by the sale of the loss-making retail activities that, in Q2 2009, recorded 1.1 million euro negative EBITDA, but also by the better performance of Solstice stores in the period.

In the First Half 2010, EBITDA stood at 11.2% of total sales, compared with the adjusted 9.2% recorded in 1H 2009:

EBITDA in the wholesale business improved to 62.0 million euro or 11.6% of revenues compared with the adjusted 54.0 million euro or 10.6% recorded in 1H 2009, increasing by 14.6%. The margin lifted by 90 bps in the period.

The retail business closed the first half of 2010 with a positive EBITDA of 2.8 million euro compared with the loss of 2.6 million euro registered in the same period last year.

From a financial standpoint:

below the operating line, the net result in Q2 2010, negative for 5.0 million euro compared with the adjusted loss of 9.6 million euro registered in Q2 2009, was due to:

- net exchange rate differences, negative in the period for 7.5 million euro due to the strong revaluation of the USD, which directly impacted our financial position and payables in USD, just partially counterbalanced by receivables.
  In the second quarter of 2009, net exchange rate differences were positive for 5.0 million euro.
  Pure interest charges were down in the quarter, by 37.4% to 6.5 million euro from 10.4 million registered in Q2 2009, thanks to the combined reduction of interest rates and average gross debt;

Net result was also impacted by:

- the Group's prudent policy to continue not to accrue deferred tax assets. This was the reason for which income taxes, in the second quarter, stood at 8.3 million euro on a pre-tax profit of 3.9 million euro.

The same dynamics explained the net result of 1H 2010, negative for 3.3 million euro compared with the adjusted loss of 7.9 million euro registered in 1H 2009.

Free Cash Flow in 1H 2010 improved significantly, generating a total cash flow of 51.9 million euro, compared with an outflow of 18.6 million in 1H 2009. This was the result of:

- Improved net result;
- Our efforts in terms of better working capital management. In this quarter, we were able to generate a positive change of 42.4 million euro, explained by:

  - the reduction of inventories, also thanks to disposal of part of the retail business;
  - containment of trade receivables in spite of the growing business and thanks to the favorable sales mix;
  - the temporary increase of trade payables as a result of a different seasonality in some payments to suppliers and other creditors. This will translate in higher outflows in coming quarters.

- The outflow from investing activities almost halved in 1H 2010, standing at 10.6 million euro versus 19.5 million in 1H 2009;
- Capex in the period was mainly dedicated to the maintenance and further technological improvements of our production factories.

As a result of the above, at the end of the First Half 2010, the Net financial position was equal to 269.4 million euro, declining by 14.6% or 46 million euro over 315.4 million euro registered at the end of March after the completion of the recapitalization plan.
As a consequence, the Financial Leverage improved to 3.4 times at the end of June 2010. It was 4.5 times at the end of March and 8,9 times at the end of last year.

I would like to highlight that in the last four months we have continued to work, among other things, on our brands portfolio with the aim to make it ever more profitable and in line with the Group's objectives:

- In April, we announced the extension of the global license agreement with Marc Jacobs and Marc by Marc Jacobs, by an additional four years until end of 2015;

- In May, we renewed to 2013 the license agreement with Juicy Couture, taking the distribution of this brand to a worldwide scale from being limited previously to the US territory;

- Some days ago, as foreseen, we announced the termination of the partnership with Diesel.
  I would like to express Safilo's and my personal appreciation and respect for the work carried out over the last twelve years with Diesel Group and particularly with its founder, Renzo Rosso. He is, and always will be, one of my heroes.

  At the same time, we regret that we could not reach a shared vision on Diesel's future development and in line with Safilo economic and financial targets for the renewal of its license portfolio. The Diesel license represented approximately 2% of Safilo Group 2009 total revenues, roughly 20 million euro.

We are continuing along the route aimed at strengthening the Group's fundamentals through targeted projects, focalized investments and a highly qualified management team able to enhance our core business.

In this respect, Vincenzo Giannelli has been recently appointed in the role of Chief Financial Officer, to further strengthen an area which was never fully covered before and that it is strategic for the long term development of Safilo.

Vincenzo has spent the last ten years at FIAT, most recently as Chief Financial Officer of FIAT Auto, acquiring significant experiences in the areas of finance, planning and controlling and risk management.
We look forward to welcoming him on board starting from the beginning of September.

Q&A - Thank you very much for your attention and we are now available to answer your questions.