Conference Call Q4/FY 2010 Results – March 16, 2011 (6.00pm CET)

Roberto Vedovotto, Safilo Group CEO

Good afternoon to you all and welcome to Safilo's fourth quarter and full year 2010 results conference call.

VG, and BF are here with me and together we will guide you through the results trying to leave as much time as possible for the questions you may have at the end of this presentation.

As an introduction to our call today, I would like to say that I'm very proud of the meaningful progress we made in 2010, which were made possible thanks to the outstanding and tireless work of our entire organization.

As you know, 2010 has been one of the most meaningful years in Safilo's history: from the recapitalization plan successfully completed in March to the strengthening of the Group's management team, and the renewal of the partnerships with the most prestigious fashion and luxury brands.

Looking at the business fundamentals, our results kept improving during the year in light of a progressively recovering business environment, which allowed us to achieve, quarter by quarter, top-line growth, a marked recovery in profitability, and a cash flow generation that eventually translated in a more adequate financial position.

In the fourth quarter of 2010, we consolidated the progresses achieved in the first nine months of the year.

In particular:

- we experienced further sales recovery, recording, like in the third quarter, double-digit growth, partially helped by positive currency effects but negatively impacted by the different retail perimeter. At constant exchange rate and perimeter, sales would have increased high-single digit;

- we improved YoY profitability, both above and below the operating line;

- we achieved a positive net result, which helped us, coupled with positive WC dynamics and focused core investments, to generate further positive Cash Flows;

- As a result of all this, we were able to reduce our net debt closing the year with a record financial leverage of 2.4x the EBITDA, the LOWEST in ten years;

- As far as our licenses are concerned we were, once again, supported by our partners, in particular:

    - We renewed, between April and May, the agreements with Marc Jacobs, Marc by Marc Jacobs and Juice Couture;
    - In September, Dior granted us a longer than average renewal which will expire in December 2017;
    - In the month of December, with great satisfaction of both parties, we finalized the renewal agreements with other two important partners: Yves Saint Laurent and Bottega Veneta. We signed the first until December 2015 and Bottega Veneta until the end of 2020. We are delighted to continue working together with these two leading luxury brands, synonymous of style and quality all over the world.

- We further strengthened our management team in key areas of our organization with the appointment of experienced managers such as:

    - Vincenzo Giannelli, as CFO of the Group who will walk you through 2010 results in a moment. As you know, previously to Safilo, Vincenzo spent his career in FIAT demonstrating unparalleled leadership and financial skills coupled with a deep understanding of the industrial manufacturing business;

- Maurizio Roman in the role of Global Supply Chain, Logistics and Production Operations Officer. Maurizio joined Safilo a few weeks ago and we count on his long and outstanding career, deep knowledge and understanding of the industrial environment to support the Group's strategic goals in one of Safilo's most strategic and critical business areas;

- Luca Fuso has just joined Safilo in the role of Global Head of the Licensed Brands Division. He is fully dedicated to the development of this strategic business with a global responsibility and focus on the entire value chain, from product development to communication, marketing, trade marketing and distribution. Luca gained significant experience with leading brands of the Made in Italy, developing at the same time an international expertise across different business areas and his contribution will be extremely valuable to Safilo's new organizational set up

Let me now give you a brief overview of Q4 2010 results, before leaving the word to Vincenzo:

- In terms of market trends, we experienced:

1. Additional acceleration in the Americas thanks to a very strong sunglass business across all our main brands and distribution channels. Sales performance was solid in US and very strong in Latin American markets;

2. Asia kept rising double-digit. Consumers demand for high-end products continued to pick-up and this is good news for our brands. We are very happy about our performance in China where our business more than doubled in the fourth quarter;

3. Growth in Europe was more moderate, low-single digit, following a business environment still volatile in a number of markets. Nevertheless, we are relatively satisfied about the performance of the region, taking into account also the distribution rationalization that we operated starting from the beginning of the year.

- Looking at the business Drivers, the fourth quarter envisaged once again:

1. A good recovery of volumes and improving price/mix dynamics, particularly in the sunglass business. The performance of this category was solid across all major markets and brands confirming the strong appeal of these products when consumers confidence starts to recover;

2. Strategic licensed brands grew nicely in the main markets, with some important "come backs" resulting from the development of well-balanced collections targeting different segments and consumers needs;

   We are very proud of the results achieved by the new eyewear collections of Boss Orange and Tommy Hilfiger, well above our best expectations, as well as the outstanding performance of other priority brands in our portfolio like Hugo Boss, Marc by Marc Jacobs and Bottega Veneta in the luxury segment;

3. In the house brands portfolio, Carrera maintained a strong pace of growth, further stretching its reach in Europe and US, where the brand awareness is growing rapidly thanks to the strong product propositions supported by the intense communication and social media activities. I will come back later on the new Carrera's worldwide advertising campaign.

Group's profitability improved YOY, in line with the recovery experienced in the previous quarters. This was driven by:

1. a higher industrial margin in light of the increased utilization of production capacity in all our plants;
2. better absorption of SG&A expenses, which remained substantially stable in absolute terms YOY thanks to the smaller retail business and;
3. a lighter impact of financial charges.

In the fourth quarter the net result was positive. We were able to also benefit from the favorable dynamics of net working capital, which remained flattish despite the growing business and the Group's will to improve service to the points of sales.
Finally, investments in the core business were mainly dedicated to maintenance and technological upgrades and were partially counterbalanced by the proceeds from the sale of the retail operations in Mexico which took place in December 2010.

All in all, we decreased our year end Net Debt by 2.5% compared to the end of September improving the financial leverage to a record low.

Now, before I hand it over to Vincenzo, I'd like to spend two words on Japan. I think we have all seen news reports of the devastating earthquake and tsunami in North Eastern of Japan. We've also seen that widespread damage has been caused in Fukushima affecting thousands of people.

Very briefly, our people are safe and we have some disruption in Japan. Japan is a relatively small part of our business. I just wanted to say that our thoughts are with people in Japan, with our team and their families, but we were lucky enough that all of them were safe and healthy.

We have moved some of the people from the Tokyo office to the Asia Pacific headquarter in Hong Kong and some other people to our Osaka office. And we have our logistics center in Sabae where we keep invoicing and servicing customers in a fully operational way. At the moment we have no supply disruption. But again, our thoughts are with our employees and their families.

With that said, I now would like to hand it over to Vincenzo for some further insight on the numbers.

Vincenzo Giannelli, Safilo Group CFO

Let me move to Safilo's Q4 FINANCIAL HIGHLIGHTS:

- Total sales were up by 10.7%, at 261.8 million euro;
  At constant perimeter and exchange rates, total sales would have been up 8.0%, substantially in line with the trend recorded in the third quarter.

  Please note that in Q4 2009, the sale of non-strategic retail activities in Spain and Australia registered sales of 8.4 million euro.

- Moving down in the P&L:

  - Gross margin stood at 56.2% of total sales or 147.2 million euro, an improvement of 290bps over the 53.3% margin registered in Q4 09;

  - EBITDA reached 25.4 million euro or 9.7% of total sales compared to the 4.5% EBITDA of 10.7 million euro in Q4 2009;

  - EBIT was equal to 15.4 million euro or 5.9% of total sales, compared to the adjusted Q4 09 operating loss of 5.5 million euro;

  - Net result was positive for 4.4 million euro versus the adjusted loss of 12.9 million euro in the same period of 2009.

Full Year results closed with:

- Total sales at 1,079.9 million euro, up 6.8% or 6.0% at constant perimeter and exchange rates;
- Gross margin of 58.3%, improving by 170 bps;
- EBITDA and EBIT in line with the nine month results, respectively at 10.0% and 6.3% of total sales, up 350 and 470 bps on the adjusted FY 09 results;
- The total net result of the year was slightly positive for 0.7 million euro versus the adjusted FY 09 loss of 33.7 million euro;
- The Net Debt, at the end of December 2010, reduced to 256.2 million euro, thanks to the cash generation experienced during Q4 2010.

Let me move quickly through the trends of our top line growth, which were already well described by Roberto.

In the fourth quarter, sales were up 10.7% or 8.0% at constant perimeter and exchange rates driven by:

1. A resilient wholesale business, experiencing growth similar to the third quarter of 7.5% at constant exchange rates (+13.8% at current exchanges), thanks to volumes growth and improving price/mix dynamics.
   As already mentioned, the sunglass business was the main driver of growth, envisaging solid double-digit improvements across all our major markets and segments, including our top strategic licensed brands.

2. The like for like retail business was strong, proving the good sales momentum of sunglasses.
   At constant perimeter and exchange rates, the channel grew by 14.9% in Q4 2010, mainly thanks to the comp sales performance of our Solstice stores in the US, up 13.1% in the period.

In the Full Year, the Wholesale business was up by 9.8% (+5.3% at constant exchange rates) and the retail business grew by 15.6% at constant perimeter and exchange rates.

From a regional standpoint:

In the fourth quarter, Americas accelerated, almost matching the double-digit performance of Asia. At current exchange rates, the region posted a strong +24.7% (+13.2% at constant exchange rates) with sunglasses being the absolute stars in all our main distribution channels including, as said, our Solstice stores in US.
Heavy snowfalls and strong product lines also contributed to good seasonal reorders of Smith sport products in the fourth quarter.
Sales performance was significant in Latin American markets where we are strengthening our organization and commercial activities.
In the full year 2010, Americas' sales increased by 15.1% at current exchange rates (+7.8% at constant exchange rates).

Asia grew double digits in the fourth quarter, up 25.5% at current exchange rates (+14.0% at constant currency) with China, as anticipated by Roberto, leading the league, the travel retail business supporting the region's performance and Japan marginally improving.
Over the full year, sales in Asia were up 23.7% at current exchange rates (+15.7% at constant exchange rates).

After the relevant improvement registered in the third quarter, Europe was more stable in the fourth quarter, growing organically, at constant perimeter and exchange rates, by 2.4% (-0.6% reported).
We saw positive trends in France, Spain, Portugal and generally speaking business was good with key accounts. Italy was flattish while sales in Greece remained very weak.

In the full year 2010, Europe grew by 2.3% at constant perimeter and exchange rates, -1.0% reported.
As pointed out by Roberto, we are relatively satisfied by this result as it was achieved despite the distribution rationalization in the close-out channels.

In terms of OPERATING PROFITABILITY, EBITDA in Q4 2010 improved by 520 bps, driven by:

- the higher gross margin, which increased by 290 bps as a result of the higher productivity of our plants driven by increasing volumes.
  Production capacity utilization was confirmed at the end of the year at around 65-70% of our total capacity.

Below the GROSS MARGIN:

- SG&A expenses reduced their total incidence on sales, mainly as a result of lower selling and marketing costs following the sale of the retail business in Spain and Australia.
  On this area, I would like to add that selling and marketing expenses also benefitted of the more efficient central management of key accounts, a policy implemented by the Group to improve service, reducing overall commercial costs.
  Advertising costs were lower in the last quarter of 2010 as a consequence of the concentration of the important activities during the previous two quarters of the year.
  Finally I would like to note that in 2010, on the back of increasing sales, we found additional stabilization in general and administrative costs.

In the full year 2010, total EBITDA stood at 10.0% of sales, basically in line with the performance achieved in the first nine months of 2010. The recovery over the adjusted margin of year 2009 was of 350 bps.

Below the OPERATING LINE, from a financial standpoint:

- net interest expenses, meaning what we pay on the two main components of our debt, declined in Q4 2010 by 43.7% following the material reduction of the net debt. The interest costs, mainly including those related to the Senior debt, declined by 75% to 1.5 million euro from 6.2 million in Q4 09;
  In full year 2010, net interest expenses stood at 27 million euro compared to 42.6 million euro at the end of 2009;

- Over the year, net exchange rate differences,_mainly related to the accounting effect of FX differences on balance sheet items, had a negative impact of 3.8 million euro compared to the net positive effect of 5 million euro they had in 2009. This was due to the frequent fluctuations of exchange rates and generally to the revaluation of the USD against the Euro at December 31, 2010 versus December 31, 2009.

With reference to taxes, the general picture of the year was impacted by the fact that we did not capitalize deferred tax assets on the Italian company where we still have losses on the bottom line.

Finally on the P&L:

The quarterly net result was positive for 4.4 million euro and we closed the FY in black with 0.7million euro.

Moving to the Free Cash Flow of the year, this improved significantly, reaching a total flow of 74.3 million euro, compared to the outflow of 10.8 million recorded in 2009.

In the fourth quarter, we generated additional 9.8 million euro thanks to:

- the net income of the period driven by the recovery of the business fundamentals and

- the favorable dynamics of working capital. In this respect, please note that in the last months of the year we raised inventories quite substantially to respond to the needs of the growing business and to guarantee a better level of service to the points of sale. On the other hand, this increase together with the normal growth of trade receivables, were temporarily counterbalanced by the increase of trade payables, which should reduce starting from the first quarter of this year;

- With reference to capex, in the fourth quarter this was equal to 10.4 million euro mainly dedicated to the maintenance and technological improvements of our production sites. These investments were partially counterbalanced by the proceeds from the sale of the retail operations in Mexico occurred in December 2010.

  In the full year 2010, total capex, gross of the proceeds from the sale of the retail operations in Mexico, stood at 29.2 million euro versus 34.6 million in 2009.

To conclude this snapshot on 2010 results, let's look at the evolution of the Group's Net Debt during the year. As you can appreciate from the slide, since the capital injections concluded in March 2010, the Company has continuously generated positive free cash flows which contributed to the progressive reduction of the Group's Net Debt.
At the end of December 2010, the position stood at of 256.2 million euro, allowing for further De-Leverage, reaching the record low of 2.4 times EBITDA.

I hand it back over to Roberto.

Roberto Vedovotto, Safilo Group CEO

I will leave to your attention, as a reminder, the following slides of our presentation on 2010 key facts and figures.

Now I would like to focus more on what we have done in these first months of 2011 with particular reference to all our strategic and priority brands:

Armani

We previously talked about the new Giorgio Armani's Frames of Life eyewear collections, a project inspired by his extraordinary archive products.
This collection will be our leitmotiv at least for the first half of 2011 thanks to the great visibility given to the product by the new travelling street initiative, called Frames of Your Life. Four great photographers and bloggers have captured real people on the streets of the major cities all over the world, who, just for a minute, became the lead players and interpreters of Giorgio Armani eyewear in front of the camera.
The Frames of Your Life adventure departed from Europe in November 2010 and will reach in the first half of 2011 the streets of New York, Los Angeles, Tokyo, Hong Kong, Beijing, Shanghai and other major cities in the United States and Asia.

Dior

With Dior, we continue to work on the selective distribution project and to develop exclusive products which reflect Dior true value. We have just brought to the market the new Dior's sunglasses collection, called 'Les Marquises', developed in an exclusive range of colors and sophisticated shapes inspired to the Fifties and Eighties.

Gucci

We launched as anticipated last November, the first Gucci's sunglasses line for boys and girls from the age of 7, which reflect the brand's commitment to impeccable quality and contemporary design also for its children collections.
In addition, following the launch of the Fiat 500 by Gucci, a couple of weeks ago we have also presented a special-edition sunglasses, an aviator model in metal, belonging to the Gucci Eyeweb collection, dedicated to the young and dynamic universe of the digital generation.

- On the house brands front, I would like to talk to you about the new worldwide communication campaign of Carrera.
  On air since last February, the headline "AFTER ALL, NO REGRETS" is a prompt to live life intensely, with personality and without regrets, with CARRERA sunglasses and optical frames as inseparable companions at all times.

  This campaign represents our renewed commitment on CARRERA, which in February has also represented its new "heritage" inspired sunglasses & optical frames collection which highlights the authentic and iconic characteristics of the brand.

As a final remark, I would like to say that 2010 signed the beginning of our new journey and our commitment is to strengthen the Group's positioning in all strategic market segments and geographies.
In the first months of 2011, we continue to register positive trends across all its main product categories. As in 2010, the American and Asian markets are recording the best performance, while the recovery remains more moderate in Europe, still weak and volatile in some areas.