Safilo Group S.p.A. - Conference Call Q1 2011 Results – April 27, 2011, 6.30pm CET

INTRODUCTION by Roberto Vedovotto, CEO

Good evening to you all and welcome to Safilo's first quarter 2011 results conference call.

Vincenzo Giannelli and Barbara Ferrante are here with me tonight and together we will guide you through the results leaving as much time as possible for the questions you may have at the end of our presentation.

I am pleased to say that first quarter results pointed to what I would call a dynamic start of the year, which remains, nonetheless, characterized by a challenging business environment and an uncertain geo-political scenario.

As you have seen from our press release, Safilo started 2011 with renewed growth, in the context of the steady improvement of selected mature economies and also because of the continued momentum of its addressable 'new' markets for branded high-end products.

Our unique brand portfolio, enriched by the new January 2011 collections, was the engine behind new business opportunities that we tackled in order to continue to stretch our reach and presence in the marketplace.

This allowed our core wholesale business to continue to grow in line with last year.

I would now like to underline that our revenue growth was accompanied by a significant improvement of the Group's overall level of profitability and also by a financial leverage stable at 2.4x, in line with the record level reached at year end 2010.

If we want to go into some more details, I would like to drive your attention in particular, to the following elements that contributed to the 2011 first quarter performance:

- We registered mid-single digit top line growth and we are encouraged by this result particularly in light of the positive performance of the collections of our new licensed brands, Tommy Hilfiger and Boss Orange, that made up for the discontinued business of the licenses we did not renew at the end of last year;
- We significantly improved YoY profitability: EBITDA margin is today at 13.5%;
- We returned to a significant bottom line net profit. In fact, we need to go back to the first quarter of 2007 to find Safilo's net margin at 6.1% of sales;
- We continued to be disciplined and maintained the financial leverage under control at 2.4x EBITDA.

Let me now give you a brief overview of the key Q1 2011 drivers.

- In terms of market trends:

1. The US market continued to register a positive growth trend, sustained by the strong performance of the sunglass business. Our collections registered a positive performance in all major department stores as well as in our retail stores, Solstice. Performance in the market was particularly strong in the first two months of the year.
   Latin American markets were solid. We continue to invest in our organization, with a tailored-made approach that enables us to respond better and quicker to the growing demand coming from these countries;
2. Asia continued to grow at double-digit. Excluding Japan where given current circumstance things are under control, fast-growing markets contribute today to roughly 14% of our total sales and we are well positioned to take advantage of the positive trend going forwards. In Asia, our brand propositions are increasingly successful; we enjoy a superior distribution and visibility and this is

paying off in markets where consumers demand for our brands and collections continues to be strong. The trade shows in China and Korea, last February, were the most recent occasion to test the strength of our business in Far East and we were encouraged by the new accounts we were able to open;

3. On the other hand, Europe is still flat on last year level. The business scenario remains uncertain and mixed. We have some pockets of growth represented by key accounts, improvements in countries like France and to a lesser extent UK and promising results in newer markets like Russia and Turkey. In Italy, business with key accounts was very strong also thanks to the Company's improved commercial policies and practices. Nonetheless, distribution in our domestic market is generally very fragmented and small retail stores keep lagging behind within a business environment which continues to be challenging. Greece and other Mediterranean markets registered strong declines reflecting the difficult economic conditions of the area.

- Looking at the business drivers, the first quarter of 2011 saw again:

1. A good recovery of volumes, particularly in the sunglass business, with all major markets and top brands confirming the strong appeal of our collections;

   As I have already mentioned, we are also happy with the results of our new licensed brands and with the majority of the names in our portfolio which continue to grow very nicely;

2. Our house brand, Carrera, maintained its pace of growth, counting on its higher penetration in Europe and US, and newer expansion in Latin American countries.

Group's profitability strongly improved YOY, driven by:

1. a higher industrial margin, mainly reflecting better volumes and mix;
2. the lower incidence of SG&A costs, which remained substantially stable in value terms YOY thanks to the sale of the retail business in Mexico and tight control in the wholesale business;
3. a lighter impact of financial charges and a lower tax rate.

Group's Net Debt continues to be under control and the significant improvement of our results allowed us to maintain a low financial leverage, despite the slight increase in the first quarter compared to year end, as a result of the cyclical increase of working capital and the investment we made to acquire our regional Headquartes and distribution center in US.

I now hand it over to Vincenzo for some further insights.

Vincenzo Giannelli, CFO

Let me move to Safilo's Q1 Financial Highlights:

- Total sales were up 5.1%, at 300.7 million euro;
  As said the different perimeter and exchange rates had an equal and opposite effect in the quarter, reason why the LFL performance remained exactly the same, +5.1%.

  Note that in Q1 2010, the Mexican stores registered sales of 5.1 million euro and a positive EBITDA of 600 thousand euro.

- Gross margin improved by 20 bps at 60.9% of total sales, 183.0 million euro;

- EBITDA reached 40.7 million euro or 13.5% of total sales, 140bps better than the 12.1% margin achieved last year. In value terms, EBITDA grew by17.6%;

- EBIT increased even more significantly, by 30.2% to 31.4 million euro, 10.4% of total sales, 200bps better than in Q1 ‘10;

- We posted 18.5 million euro of Net profit, with a margin of 6.1% compared to 0.6% in the same period of 2009.

- Net Debt, at the end of March, stood at 268.2 million euro.

I move quickly through the trends of our top line growth, already anticipated by Roberto, slide 4.

Sales performance was the result of:

1. The good progress of our core wholesale business, which today represents roughly 95% of Safilo’s total business. Revenues grew by 6.4% current currencies, 4.4% at constant exchange rates, driven by volumes and emerging, fast-growing markets.

2. The like for like retail business was again strong, growing by 19.1% at constant perimeter and exchange rates. Solstice’s comp sales were up 5.7% in the quarter, with double-digit performances in January and February and a more moderate trend in March, affected by the negative calendar effect of the later Easter season. Store openings made up for the rest of the channel performance as Solstice’s network counted 162 windows in Q1’11 vs 156 in March ’10.

3. As said, sunglasses were the main driver of growth in the period, with improving performances across all our major markets and Top brands. Sales were up almost double digit on a like for like basis.
   Prescription frames were instead flat, reflecting the more difficult comparison base as it was the only category to grow - by 3% - in first quarter ’10. Besides that, the product had a positive yoy performance in US - in the 3Os channel – also improving its trend over the previous two quarters.

From a regional standpoint:

I will add few details. The Americas grew by almost 9% at constant exchange rates and perimeter, with the US in line with the improvement of the region and Latin American countries outperforming. Revenues in the third and fourth markets of the area – Brasil and Mexico - were up respectively around 12% and 16% at constant currencies, also thanks to the better commercial and organizational structure we are building.

Asia grew double digits in the first quarter, +12.6% at constant currency, with Korea, India, Hong Kong and China the best performers. In the period, Japan had a good performance in January and February which was followed by a drop after the dramatic events which occurred starting from March 11.

In Europe, we were stable, up 0.5% at constant exchange rates.
The market was positively impacted by the growth of Carrera, which increased in the region by almost 20%, and totally by 27.6% thanks to very promising performances in the Americas and Asia.

Moving to slide 5

In terms of OPERATING performance, the EBITDA improvement - 140 bps – was the result of the good performance of the wholesale business which increased from 13.0% to 13.9% of sales, and the exponential increase in profitability of the retail channel, from 0.5% negative in Q1 ’10 to a positive margin of 7.1% in Q1 ’11.

Looking back to the drivers of the progress, we can indicate:

- the resilience of gross margin. The industrial profitability increased mainly as a result of the increase in volumes and better mix.

Below the GROSS MARGIN:

- SG&A expenses reduced their total incidence on sales, thanks to the better leverage of selling and marketing costs and the tight control on general and administrative costs.
  On the retail front, I would point to the improvement of the retail profitability, thanks to a leaner and more efficient organization.

Slide 6

Below the OPERATING LINE, from a financial standpoint:

- net interest expenses declined in Q1 ‘11 by 27.9% following the reduction of net debt:

  The interest expenses related to the Senior Loan and other short term lines declined by 64% to 1.1 million euro, while the HY cost decreased by 5% following the roughly 10 million euro repurchase we made in the second half of last year;

- net exchange rate differences were positive for 4.8 million euro compared to the negative net impact of 2.3 million euro they had in Q1’10. This was mainly due to the progressive revaluation of the Euro spot rate against the USD and other foreign currencies during the period.

With reference to income taxes, in this first quarter we could benefit of a normalized tax rate of 30.4% thanks the improved profitability of the Italian industrial Company and the consequent more balanced distribution of pre-tax profits.

Moving to Slide 7, to the Free Cash Flow, in the quarter we had a small net outflow of 6.8 million euro which was fully explained by the one-off investment we made to acquire the remaining 66.7% equity interest in the Company’s regional Headquarters and distribution centre in US.

Besides that, the Free Cash Flow was positively impacted by the higher result of the period, which was mostly counterbalanced by the seasonal increase of Working Capital.
On the latter, as anticipated during our FY’10 call, we experienced the strong decrease of trade payables which reversed the increase accounted in the last months of 2010 for the seasonal increase of volumes and inventories.

Moving to Slide 8.
Not much to add on the evolution of the Group’s Net Debt, slightly up at the end of the quarter for the factors just explained. I just detail the composition of the 268 million euro position at the end of March: 96 million of Senior Loan, 185 million of HYB, representing around 55% of our Gross Debt and a Net cash position of 13 million euro. The committed Revolving facility of 200 million euro is as of today fully available.

I hand it back over to Roberto for his final remarks.

Roberto Vedovotto, CEO

Thank you Vincenzo.

Now as a final remark, I would like to underline the fact that the quarter that just ended was another very important step in the right direction for Safilo Group. We maintain a strong focus and firm commitment to a constant, long-term oriented growth for Safilo. In the context of a still uncertain geo-political and macro-economic environment, to achieve this goal, we continued to strengthen our business model, our organizational structure and management team .

On September 29, in Paris, we will be pleased share with you as much as possible of the long awaited Safilo’s strategic and business plan 2011/2015 and the drivers of our future development. Closer to the day, we will provide all the details of this meeting.