Conference Call Q4 - FY 2009 Results - 29th March 2010

Roberto Vedovotto - CEO

Good evening to you all and welcome to Safilo's fourth quarter and full year 2009 results conference call.

It's been a long time since we met in November last year. These have probably been the four most important months in the history of this Group and this is the reason why today's agenda will also try to recap on the key events of 2009 and the first months of this year.

We will focus on the following topics:

- a brief recap on 2009 which was the year of the crisis but also a cornerstone for the "New Safilo";
- an overview of the Recapitalization Plan approved by the Board of Directors in October 2009;
- the new shareholders' structure after the completion of the Transaction and a snapshot of our new Partner;
- the new Board of Directors appointed by the Shareholders' meeting held today;
- we will then move to review and comment Q4 and FY09 results to conclude with an update on the current trading and our ongoing initiatives, projects and activities.

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.

2009 a very challenging year…
It was indeed.
Last year was a cornerstone in Safilo Group history. The extremely challenging macroeconomic environment forced us to act in a timely manner, with determination and commitment, both on the industrial and financial fronts in order to create the basis for our long term growth.
Let's have a quick look at the key themes in 2009:

- The general economic downturn drove a decline in discretionary items, most impacted by the slow down in consumers' spending. In this context, the eyewear industry, especially the high-end / luxury segments, suffered the most. Volumes certainly declined together with the progressively more marked price/mix;
- Safilo was particularly affected by these trends: we experienced an unprecedented contraction of our business with Net sales dropping by 11.9% at current currency – by 13.1% at constant currency – ending at ca. 1 billion Euro;
- Profitability hit a record low in 2009, with reported EBITDA at 5.8% of sales or 58.2 million euro, declining by 54% on last year number;
- We achieved better results in terms of Net Debt, as it remained flattish on last year, closing at 588 million euro compared with 570 million euro in 2008;
- 2009 represented an unprecedented year also in terms of extraordinary items, all non cash, we had to or decided to book and which greatly impacted our P&L and Balance Sheet. We will see this in detail later on;

- From an industrial standpoint, we worked hard on our core business during the year:
  - we deeply restructured our manufacturing footprint, downsizing or shutting down selected European plants;
  - during first quarter 09, we started our activities in the new fully owned factory in China;
  - we continued or started many different projects, all aiming at strengthening our business model at the various levels of the value chain.

…but also a cornerstone for the New Safilo

We experienced financial and liquidity issues during 2009. At the end of the first semester we asked our financing banks to waive our covenants and to postpone the payments of our Senior Loan commitments.
A recapitalization plan was strongly needed and we had to find a long-term partner to create the basis for the future development of the Group:

- HAL Holding N.V. is the financial and industrial conglomerate that made this plan possible through various injections of capital;
- We received plenty of support from all our financing banks, Intesa Sanpaolo and UniCredit in particular, which finally resulted in the signing of an Amendment Agreement, which provides for longer tenor, lower interest margins and less stringent covenants on our Senior Loan contract;
- We turned 2009 with a more appropriate industrial set-up, new license of Tommy Hilfiger awarded until 2015 and improvements in working capital.

Let me quickly recap the 10 steps which allowed us to start this new journey
- October 19th the Board of Directors approved a binding investment agreement underwritten by HAL, Only 3T and Safilo;
- At the end of November HAL successfully completed the Tender Offer on Safilo Senior Notes, accepting and acquiring 51% of the outstanding notes;
- In December we obtained the exemption from Consob from the mandatory tender offer as well as the go ahead by the European antitrust authority and by Safilo's extraordinary shareholders' meeting;

With particular reference to the Transaction:
- at the end of December we sold to HAL our non-core, loss making retail activities in Spain and Australia;
- the 5th of February, the Reserved capital increase was subscribed by HAL, with its shareholding in Safilo increasing at 11%;
- the same day, we communicated that the Amendment Agreement to modify the Senior Loan was underwritten by all financing banks;
- the most recent history is the successful completion of the Rights Issue which has been fully subscribed by the market. In this respect, I would like to take this opportunity to thank the market who strongly sustained us in this difficult environment demonstrating, once more, trust in the management, the company and its successful business model. All this could have not been possible without the guidance and the commitment of the Tabacchi family that will continue to represent the legacy to our roots;
- finally, since last Thursday, thanks to the successful completion of the capital increases and the payment of at least 185 million Euro to the Senior Lenders, the Amendment Agreement is effective.

The total proceeds from the Recapitalization plan amounted to around 285 million euro:
- at the end of December 09, we cashed in around 14 million euro for the sale of the retail activities;
- between February and March 2010, we received 13 million euro by the Reserved capital increase and 257 million euro from the Rights Issue, also including the proceeds from the Rights Auction sale.

Safilo has today a new Shareholders' Structure
- HAL has become the new reference shareholder and partner of the Group, owning at the end of the Rights Issue, 37.2% of the new share capital;
- Only 3T, as for the original agreement, got diluted at 10%;
- the free float is therefore pretty substantial at 52.8%, with no relevant positions of or above 2% communicated as of today;
- I just want to add here that the new Share capital is of 1 billion 136.4 million shares or 284.1 million euro. The Board of Directors approved a reverse stock split, one share for every 20 owned, in order to facilitate trading activities on the stock. It will be our next Extraordinary Shareholders' Meeting, at the end of April, to approve this proposal, following which Safilo total share capital will decrease to 56.8 million shares, of a nominal value of 5 euro each.

Many of you already know HAL but let me just take few minutes to give you a snapshot on the HAL Group:
- HAL Holding N.V. is a Dutch Company, fully owned by HAL Trust, listed at the Euronext and at the Amsterdam stock exchange;
- Their strategy is focused on acquiring shareholdings in listed and unlisted companies, placing particular emphasis on the possibility of carrying out an active role as a shareholder;

- They have a deep know how of the eyewear industry, being present in the marketplace since 1996 and owning today around 4,000 optical stores in 37 countries, with a total turnover of 2.6 billion euro at the end of 2008;
- HAL today represents roughly 3.5% of Safilo total sales.

You can appreciate in the next two slides the numerous local banners HAL owns throughout Europe, under the two big umbrella brands Pearle Europe and Grand Vision.
HAL is not just our reference shareholder, but a long term partner that will sustain our growth thanks to its in depth know-how of the industry and the better access that we will have to the approx. 4,000 points of sale of in Europe.
Today, the Shareholders Meeting appointed Safilo new Board of Directors, which is composed by seven members. It will remain in office for three years until the approval of the financial statements at 31.12.2012.

- Mr Mel Groot is the new Chairman of the Group. He led for HAL the entire Recapitalization Plan of Safilo and he is today member of the Executive Board of HAL Holding N.V:, member of the Supervisory Board of Pearle Europe B.V. and chairman of the Supervisory Board of Grand Vision S.A.;

- I remain the Chief Executive Officer of the Group, reporting to Mr Groot and to the Board of Directors;

- We have four independent Board directors, all with strong skills and senior competences in different business areas, from operations to marketing and distribution:

  - Mr Giovanni Ciserani, today President of Procter & Gamble Western Europe Operations;

  - Mr Jeffrey Cole, President and Chief Executive Officer of Cole National Corporation from 1983 to 2003; today member of the Supervisory Board of Pearle Europe B.V.;

  - Mr Marco Jesi, today Chairman of the Board of Directors of Limoni Profumerie S.p.A. and of Argenta S.p.A.. Previously Chairman and Chief Executive Officer of Galbani S.p.A. and President of PepsiCo Europe;

  - Mr Eugenio Razelli, today Chairman and Chief Executive Officer of Magneti Marelli and Chairman of ANFIA;

  - From the list of Only 3T, Mr Massimiliano Tabacchi was nominated as the seventh director of the Board. He is going to remain executive, in charge of the sport business.

Let me give you an overview of Q4 and FY 2009 results and what we leave behind us:
We can summarize the year as follows:
- Our top line was deeply affected by the general weakness in consumers' spending for non durable goods;
- Volumes declined together with price/mix which hit sales progressively more and more: clients and costumers kept trading down towards more affordable products, moving away from the more expensive products where Safilo concentrates an important part of its business;
- To address this trend, the Company has been expanding its product offers by introducing a greater number of new entry price levels in each collection;
- Sales of mid price products remained generally strong in the industry throughout the year. Carrera was our most powerful asset. Strong products, important advertising and marketing campaigns, right price. These were all keys of success for our house brand which grew by over 20% in 2009, after the strong double digit growth registered in 2008. Carrera is not just an Italian phenomenon any more; last year, we accelerated its expansion also in countries like France, Spain, Germany and Greece;
- America performed better than Europe and Asia for Safilo. To explain this result, we can mention the higher exposure of this market to the more resilient prescription business and our strength with the independent opticians as well as the general higher consumption by American clients of medium-end products;
- The unprecedented contraction of sales strongly hit our profitability. Our industrial margin was impacted by the heavy under-utilization of our Italian factories and by the un-efficiencies in the production cycles due to the deep restructuring of our industrial set-up, with the down sizing and shut down of some plants. In 2009, around 750 staff was put on the extraordinary subsidized wages schemes (*Cassa Integrazione Straordinaria)*;

- Retail costs and wholesale commitments and mandatory costs were the main reasons for the greater incidence of SG&A costs on sales experienced during the year;

- 2009 was also characterized by many extraordinary, non cash items, that were further increased in the fourth quarter for the closure of our financial statements:
  - a provision of 7.4 million euro related to the restructuring of our production activities;
  - the write down of goodwill and the incurred loss for the sales of the retail activities for 279.4 million euro;
  - a write down of deferred tax assets of 30.9 million euro;
  - on the other hand, at the end of the year we cashed in around 14 million euro for the sale to HAL of our non strategic Spanish and Australian retail operations.

My further comments on our results will refer to our adjusted figures, excluding the extraordinary items just commented.

Q4 2009 RESULTS HIGHLIGHTS
The market environment remained difficult in Q4 although we saw a stabilization in the contraction of the business:

- Total sales were down in Q4 by 16.2% reported, 11.5% at constant currency;
- EBITDA reached 10.7 million euro or 4.5% of total sales, declining by 56.3% over Q4 2008, mainly as a result of the contraction of our industrial profitability;
- Adjusted EBIT was negative for 5.5 million euro or minus 2.3% of total sales (EBIT was positive for 14.7 million euro in Q4 2008 or 5.2%);
- We closed the fourth quarter with a net adjusted loss of 12.9 million euro or minus 5.5% of total sales versus the break even result of Q4 2008.

Q4 reported results were impacted by non cash extraordinary items of 152.4 million euro.
In consideration of the persisting weakness registered by the Group also in the second semester of 2009 and of the more prudent expectations of recovery of the international markets, we ran and completed in these weeks a further impairment test on our *Cash Generating Units*, proceeding to a further write down of the Goodwill of 137.0 million euro. On the other end, at the end of the year we booked a loss on the sale of the retail business lower than the provision of 28 million euro accrued in the nine months 2009.
Net income was also adjusted for the write down of deferred tax assets for 21.7 million euro.

FY 2009 RESULTS HIGHLIGHTS
Key financial highlights:

- FY total Sales were 1,011.2 million euro, with a reported decline of 11.9% vs. 2008. At constant currency, the decline was equal to 13.1%;
- Adjusted EBITDA was 65.7 million euro or 6.5% of total sales (126.3 million in 2008 or 11.0% of total sales); a decline of 48% 2008;
- Adjusted EBIT was positive for 16.1 million euro, or 1.6% of total sales (86.3 million in 2008 or 7.5% of total sales);
- Adjusted Net result was negative for 33.7 million euro, or minus 3.3% of sales (14.6 million euro in 2008 or 1.3% of total sales);

FY09 reported results were impacted by non cash extraordinary items for a total of 317.7 million euro.

IN SOME MORE DETAILS Q4 AND 2009 RESULTS
Distribution channel standpoint:
in the fourth quarter 09,
Wholesale revenues were down by 15.8% reported and 11.4% at constant exchange rates. The negative price/mix effect impacted more our sales starting from the second half of the year, when the introduction of more appealing products by the Company became more important;.
the Retail business registered 24 million euro of sales, with a decline at constant currency of 12.6%. This result is explained by a different sales recognition in Q4 2008 To appreciate the core retail performance, it is better to look at the channel performance in second-half 2009, which reported a decline around 4% over the same period 2008.
Performance of comps sales in Q409 improved compared to the previous quarters of the year. They in fact registered a contraction of a more moderate 5.7% compared with the decline of 17.2% in the nine months

2009. More importantly, performance of Solstice stores in US turned to a positive low single digit (+2%), while Mexico and Australia were the weakest markets.

In the full year 2009

Wholesale revenues declined by 13% reported and 14.4% at constant exchange rates. The performance of the channel was impacted by a decline in the average price/mix and in volumes. The latter was also the result of the strong focus on the quality of receivables the Group continued to have throughout the year, with particular reference to some regions and countries. The second half of the year was then impacted by the difficult company-specific, corporate situation Safilo was going through and which created great uncertainty in the marketplace.

In retail, we closed the year with 327 stores vs. 321 at the end of 2008. These, of course, include the 106 stores we sold to HAL at the end of December 2009.

Comps sales were down in the year by 14.8%, with Mexico and Spain the weakest countries.

From a product category and geographical standpoint:

In the fourth quarter 2009,

Sunglasses sales declined by 19.1%, impacted by the higher price/mix effect on sales due to Safilo's wider product propositions on more accessible price ranges; The prescription frame business was apparently even more hit in the last quarter, declining by 18.0%. As for Q3 2009, comparison with the same period 2008 was difficult as prescription frames had registered good results both in Q3 and Q4 08. On top of that, the product segment was surely the most impacted by the devaluation of the US dollar against the Euro in Q4.

America,. in Q4 2009, started to recover some ground, ending flattish over Q4 08 (-1.7% at constant currency). US in particular did well also thanks to the improved performance of department stores.

The decline of sales in Europe was again strong in Q4, dropping by 19.6% and taking the contraction in the full year at 18.2%. Mediterranean markets were the worst performers in the period, together with some Nordic countries.

Asia improved in Q4, reporting a growth of 5.9% at constant currency (-9.4% at current currency). Japan continued to be very weak but business performance was better in the majority of the other markets of the area, like Hong-Kong and South Korea.

In the full year 2009,

No much to add on the performance of sunglasses and prescription frames for the full year. The first declined overall by 13.5%, while frames were generally less affected by volumes declines, dropping by 11.7% in the year;

America was on the whole, the most resilient market for the Group in 2009 reporting a decline of 5.4% in the year (-8.6% at constant currency) thanks to the satisfactory performance of our products at the independent opticians (3os) level and higher incidence of consumers' spending in the middle price product segments;

Against the backdrop of overall sales performance in Europe, the house brand Carrera performed very well, closing the year with net sales up by more than 20%, after the strong double digit performance already registered in 2008.

In 2009, Europe was the region more severely hit by the contraction in consumption as more exposed to the high-end, luxury sunglasses business.

Asia, in the year, declined by 11.5% (-15.5% at constant currency), particularly hit by the difficult market conditions in Japan, but also, more generally, by the great attention given by the Group to the quality of receivables.

In terms of OPERATING PROFITABILITY,

EBITDA in the fourth quarter was 10.7 million euro (4.5% of total sales), compared to 24.5 million euro (8.7% of total sales) in Q4 2008.

In particular, in the wholesale business, EBITDA reached 6.7% of revenues, compared to 10.8% recorded in Q4 2008.

The retail business registered again a negative EBITDA of 3.4 million euro (negative for 2.8 million euro in Q4 2008), mainly impacted by negative comps sales.

The main drivers of our operating performance in the quarter have been the following:

- Gross Margin declined 340 basis points in Q4 2009, reaching 53.3% of total sales, affected by a higher incidence of fixed costs, again in light of some further underutilization of our production capacity. The more marked reduction of average ticket prices, not yet fully compensated by the containment of the costs of production, impacted even more the industrial profitability of the last quarter of the year;

- The higher incidence of SG&A costs was yet again due to the higher impact of retail costs and the higher incidence on sales of some fixed costs

We continued in our effort to reduce our costs base. In the wholesale channel in Q4, total SG&A costs declined by around 9% in spite of the increased allowance for doubtful accounts.

In 2009,
the wholesale EBITDA was equal to 8.0% of sales compared to 12.2% of 2008 business, dropping by 43.1% over the previous year;
the retail business lost 6.7 million euro in 2009 against a small loss of around 1 million euro registered in full year 2008. This negative result is attributable to the loss-making, non strategic retail activities we sold to HAL at the end of 2009.

- In 2009, the Gross margin declined by 120 basis points driven by the dynamics described during the year. It is important to remember that the various negative effects were mitigated by the improving profitability of some collections thanks to our new product development strategy;

- The greater incidence of SG&A expenses on sales was driven in the year by the impossibility to reduce in the short term some fixed costs peculiar of our costs structure. I am referring to items like advertising & promotion expenses or royalties which are related to the achievement of minimum guaranteed and are set on the basis of previous year results.
  As commented for the fourth quarter results, this area of costs was also impacted by the increased provisions on doubtful accounts we accrued on the back of the very difficult market conditions.

From a financial standpoint:
in the fourth quarter 09,
the net adjusted result was impacted by higher depreciation due the accelerated amounts accrued on the back of loss making retail stores.

Below the operating line, net financial charges, increased to 22.0 million from 17.1 million registered in Q4 2008. In Q4 2009, we accounted around 2 million euro for the write down of one financial participation and around 5 million euro for the negative impact of the fair value of Interest Rate Swaps (IRS) on medium and long-term debt on which a commitment of renegotiation already existed.
Ordinary taxes, before the write down of deferred tax assets, are represented by an income of 13.8 million euro vs. 2.9 million euro in Q4 2008.

in the full year 2009,
below the operating line, net financial charges slightly declined due to the positive impact in the year of the exchange rate differences while the ordinary taxes were constituted by an income in 2009.

Free Cash Flow in 2009 registered an outflow of 10.8 million euro, compared to an outflow of 32.1 million in 2008. We had a positive free cash flow of around 1.5 million in Q4 2009, as a result of the following initiatives:

- Improved working capital management. Here, we had a decrease in trade receivables as well as in inventories. The decline in inventories is related to the great attention we placed to the streamlining of production outputs and to the quicker exit of slow rotation products. Trade receivables and payables declined as a result of the normal business cycle and for the strong drop in sales we registered;
- The lower cash flow from operating activities in 2009 was due to the lower results of the year compared to 2008;
- The outflow from investing activities decreased in 2009, standing at 22.3 million euro versus 88.4 million in 2008 also benefiting of the 14 million euro cash in for the sale of the non strategic retail activities to HAL in Q4 2009. I remind you that at the beginning of 2008 Safilo had acquired the Mexican and Australian retail chains;
- Capex in 2009 was mainly dedicated to the maintenance of our production factories and to investments in the new plant in China.

As a result of the above, our net financial position at the end of December 2009 was of 588.0 million euro, in line with the position registered in the nine months 2009 and slightly higher than the position at 2008 year-end of 570 million euro.

Remaining on the Net financial position, I'd just like to draft our pro forma Position, considering the total proceeds from the Recapitalization plan completed during this month.
We bridged the various impacts, starting from our existing net debt of 602 million euro, before the Retail Assets disposal, .
From the year-end Net Financial Position of 588 million euro, we cashed in:

- around 13 million euro from the Reserved Capital increase subscribed by HAL and
- 250 million euro from the Rights Issue and around 7 million euro from the Rights Auction Sale

As you can see, our pro forma Net Financial position is thus reduced to around 318 million euro.with a leverage which reduces to 4.8x from the starting point of 8.9x.

This position is mainly composed by our Senior Debt.
We have in fact around 195 million euro of High Yield Notes 2013, plus roughly 140 million euro of Senior Loan after its amendment. The latest is made of:

- 100 million euro, after having repaid 24 million euro, are all bullet and represented by line A1, A2 and A3. Around 75 million euro expires in June 2012, the rest in June 2014;
- the Revolving line, drawn for 40 million euro, after having repaid it for 160 million euro. This line remains available, until expiration in June 2015, up to a total amount of 200 million euro.

The Restructuring agreement, as you know, also includes a two year 'covenant holiday' and less stringent covenants after June 2012.

Let me move forward to discuss CURRENT TRADING and the MANY PROJECTS and ACTIVITIES initiated in 2009

Being at a couple of days out of this first quarter 2010, we can draw some conclusions on the year to date:

- following from the good momentum registered in the last quarter of 2009, Asian markets (still except from Japan), kept performing well in the first three months of 2010;
- we have also seen improving results in the US, also testified by pretty good comps sales at our Solstice sunglass stores;
- in the rest of Europe the market is still difficult, showing mixed results and a general cautiousness of clients on high-end, luxury products;
- negative price/mix effect is still an element of 2010 sales also in consideration of the ongoing price enlargement of our products offers;
- Carrera is very strong also in this first quarter and we will keep investing in its success with important advertising and marketing campaigns.

All in all, we can anticipate a Q1 2010, flattish in terms of sales.

Projects and Activities
In 2009 we worked to implement a great number of projects and initiatives at the industrial, organizational, and commercial / product level to strengthen our business model, to grow in terms of sales and achieve future margins recovery. I already mentioned these projects in previous occasions and today I would like to give you some additional feedback on some of those:

Marketing:

- Increase the level of integration with our clients;
- Focus on visual merchandising;
- Focus on marketing and advertising campaigns.

Production

- Optimize our European manufacturing;
- Reduce the number of models and SKUs;
- Increase operations in China.

Product and distribution

- Focus on house brands;
- Increase appealing propositions for all our fashion brands;
- Chase new opportunities in the fashion segment;
- Focus on selective distribution projects.

Service

- Extend the implementation of 'Project Smile', software integrated in around 600 key account stores. Developed in collaboration with TXT, it suggests the replenishment of the best product assortments, allowing a better defined management of their and our inventories;
- Upgrade our planning systems as well as implement best practices in our production plants.

Some tangible examples of recent important projects and activities:

Our new Product Development Strategy:

- This project is paramount for the Group for the cost-efficient development and industrialization of our products. We are reducing SKUs and new styles;
- In 2009, we cut the first by 20%, the second by 12% and we need to continue through a more pragmatic and scientific analysis of our collections by product category and gender.

We continue to invest in our strengths: quality of production and service. We have defined a technology road map to update and enhance our production and our products. Some examples are represented by the:

- Complete revision of injected flow (project Michelangelo): new mould design, new tumbling, new automatic varnishing…to give our products even better surface quality, better brightness, more steady colors, and possibilities of new colors. It allows lower costs and faster production;
- Metal varnishing "DURR", a brand new automatic washing and varnishing plant (from automotive industry), allows strong reduction of waste and reworking, better blended and more steady colors. It allows lower costs and faster production;
- New machines for lens milling (Sphera), through a selection of best in class lens cutting machines and replacement of old variable technology. They allow for the reduction of cut costs, improvement of cut quality, consequent improvement of lens/front match and reduction of creaking effect.

New Products and strong Design propositions
We maintain a strong focus in the development of unique and distinguished shapes and designs for all our collections:

- In January 2010 we launched the first new Optical Collection for Giorgio Armani;
- These are 13 men's models and one woman's model, inspired by traditions preserved over the years in the eyewear archives.

Focus on House Brands
Carrera is our must and we want it to become a "must have" for an increasing number of consumers. We need to keep investing on this brand. Product and marketing are the ways in which we can do it.

- We have just rolled out the new 'SHINE ON' Carrera eyewear marketing campaign;
- It is a new worldwide campaign, rolled out both in Europe and the United States;
- It is very strong, based on broad mixture of media, with substantial implementation also through digital media channels;
- We also launched the new website www.carreraworld.com;
- Also targeting high-profile special events, public relations and music product placement activities.

We want to increase our presence in the fashion industry.
This is a very interesting segment where we can have, going forwards, new opportunities of development.

- The recent signing of the global licensing agreement with Tommy Hilfiger through 2015 is a poof of this;
- As usual, we are talking about the exclusive design, development, production and distribution of ophthalmic and sunglass products, which will become available starting from Fall 2010.