# Q3 AND 9M 2018 TRADING UPDATE

**Padua, October 31, 2018** – The Board of Directors of Safilo Group S.p.A. has today reviewed and approved Q3 and 9M 2018 economic and financial key performance indicators.

Safilo closed the third quarter of 2018 with total net sales of Euro 221.5 million, 9.0% lower at current exchange rates and 8.4% at constant exchange rates. Business trends in North America and Europe remained soft, similar to those reported in the first half of the year, while emerging markets turned negative, also due to a challenging comparison base.
On the other hand, the Group progressed on the cost saving initiatives outlined in its business plan, with the economic performance of the period benefitting of higher efficiencies at the industrial level and of the ongoing savings in overhead expenses which helped to counterbalance a negative operating leverage and impact from foreign exchanges. In the third quarter, gross margin equaled 50.7% of net sales, up 120 basis points compared to the 49.5% recorded in the same period of last year (+180 basis points at constant exchange rates), while adjusted[1] EBITDA margin stood at 5.4% of net sales, down 90 basis points compared to 6.3% in the third quarter of 2017 (in line with last year at constant exchange rates).

Overall, in the first nine months of 2018:

- **Net sales** equaled Euro 713.7 million, 9.7% lower at current exchange rates and 5.6% at constant exchange rates, compared to Euro 790.5 million in the first nine months of 2017;
- **Gross profit** reached Euro 366.5 million, 10.1% lower compared to Euro 407.6 million in the same period of 2017. Gross margin stood at 51.3% of net sales compared to 51.6% in the first nine months of 2017;
- excluding Euro 4.4 million of non-recurring costs, **adjusted[1] EBITDA** equaled Euro 37.2 million (5.2% of net sales) compared to Euro 43.2 million (5.5% of net sales) in the first nine months of 2017;
- At constant exchange rates, 9M 2018 gross margin and adjusted[1] EBITDA margin were up 20 basis points compared to the first nine months of 2017;
- Safilo's **Net debt** stood at Euro 144.2 million, including the third and last compensation payment of Euro 30 million from Kering received at the end of September 2018. Net debt compared to Euro 135.9 million at the end of September 2017 and Euro 171.1 million at the end of June 2018.

Angelo Trocchia, Chief Executive Officer, commented:

*"In the third quarter, we accelerated the important work on the fundamentals on which we aim to build our new 2020 business plan. In Europe and North America, where we aim to reconquer the business, we are progressing in stepping up core capabilities in the areas of customer care and service levels, and we are seeing an improvement in the business performance trends since beginning of September. The work is also ongoing in Asia and Latin America, where in each of the regions we recently appointed new, seasoned leaders with industry experience, who will help us to develop a more effective operating model in important markets like Brazil, China and Japan. On the cost savings front we are progressing well, both at the COGS level and in the area of our Overhead expenses, which in the quarter allowed us to improve the gross margin vs. year ago, and to hold up well at the adjusted EBITDA level where at constant exchange rates we were in line with last year."*

This press release may use 'alternative performance indicators' not foreseen by the IFRS-EU accounting standards (EBITDA, Net debt, Net capital employed and Free Cash Flow), and whose meaning and contents are illustrated in the specific section of the press release and in accordance with the CESR/05-178b recommendation published on 3rd November 2005.

## Economic and financial highlights

| (Euro in millions) | 9M 2018 | 9M 2017 [2] | % Change | Q3 2018 | Q3 2017 [2] | % Change |
|---|---|---|---|---|---|---|
| **Net sales** | **713.7** | **790.5** | **-9.7%** | **221.5** | **243.4** | **-9.0%** |
| | | | **-5.6%** (*) | | | **-8.4%** (*) |
| | | | **-6.0%** (**) | | | **-11.1%** (**) |
| **Gross profit** | **366.5** | **407.6** | **-10.1%** | **112.4** | **120.4** | **-6.6%** |
| **%** | **51.3%** | **51.6%** | | **50.7%** | **49.5%** | |
| EBITDA | 32.7 | 38.8 | -15.6% | 11.1 | 14.7 | -24.6% |
| % | 4.6% | 4.9% | | 5.0% | 6.0% | |
| **Adjusted[1] EBITDA** | **37.2** | **43.2** | **-13.9%** | **12.0** | **15.4** | **-21.7%** |
| **%** | **5.2%** | **5.5%** | | **5.4%** | **6.3%** | |
| **Group net debt** | **144.2** | **135.9** | **+6.1%** | | | |

(*) Sales performance at constant exchange

(**) Sales performance at constant exchange rates, excluding Gucci business

## Net sales by geographical area

| (Euro million) | 9M 2018 | % | 9M 2017 | % | Change % | Change % (*) | Q3 2018 | % | Q3 2017 | % | Change % | Change % (*) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | 331.6 | 46.5 | 360.5 | 45.6 | -8.0% | -6.8% | 91.7 | 41.4 | 98.7 | 40.6 | -7.1% | -5.9% |
| **North America** | 280.3 | 39.3 | 325.3 | 41.2 | -13.8% | -7.7% | 96.6 | 43.6 | 103.5 | 42.5 | -6.7% | -7.8% |
| **of which Wholesale** | 240.5 | 33.7 | 275.4 | 34.8 | -12.7% | -6.5% | 83.1 | 37.5 | 87.1 | 35.8 | -4.6% | -5.6% |
| **Asia Pacific** | 47.9 | 6.7 | 45.6 | 5.8 | 5.0% | 10.8% | 15.4 | 7.0 | 16.7 | 6.9 | -7.7% | -8.3% |
| **Rest of the world** | 53.9 | 7.5 | 59.1 | 7.5 | -8.9% | 0.9% | 17.9 | 8.1 | 24.4 | 10.0 | -26.8% | -21.5% |
| **Total** | **713.7** | **100.0** | **790.5** | **100.0** | **-9.7%** | **-5.6%** | **221.5** | **100.0** | **243.4** | **100.0** | **-9.0%** | **-8.4%** |

(*) Sales performance at constant exchange rates

- In the first nine months of 2018, net sales in **Europe** equaled Euro 331.6 million, down 8.0% at current exchange rates and 6.8% at constant exchange rates compared to the first nine months of 2017.
  In the third quarter of 2018, net sales in Europe equaled Euro 91.7 million, down 7.1% at current exchange rates and 5.9% at constant exchange rates compared to the third quarter of 2017.

- In the first nine months of 2018, net sales in **North America** were Euro 280.3 million, down 13.8% at current exchange rates and 7.7% at constant exchange rates compared to the first nine months of 2017.
  In the third quarter of 2018, net sales in North America equaled Euro 96.6 million, down 6.7% at current exchange rates and 7.8% at constant exchange rates compared to the same quarter of 2017. At constant exchange rates, the wholesale revenues decreased by 6.5% in the first nine months, after reporting a decline of 5.6% in the third quarter, a slight improvement compared to the performance recorded in the first half of the year.
  Retail sales at the Solstice stores in the US equaled Euro 39.9 million in the first nine months and Euro 13.4 million in the third quarter, posting a decline at constant exchange rates, of 14.3% and 19.4% respectively. The Group closed 22 Solstice stores in the last twelve months, taking the network to a total of 81 stores at the end of September 2018. Same store sales performance was negative by 6.1% and 8.3%, respectively in the first 9M and in Q3 2018.

- In the first nine months of 2018, net sales in **Asia-Pacific** equaled Euro 47.9 million, up 5.0% at current exchange rates and 10.8% at constant exchange rates compared to the first nine months of 2017.
  In the third quarter of 2018, the region recorded net sales of Euro 15.4 million, down 7.7% at current exchange rates and 8.3% at constant exchange rates compared to the third quarter of 2017.

- In the first nine months of 2018, net sales in the **Rest of the World** were Euro 53.9 million, down 8.9% at current exchange rates and up 0.9% at constant exchange rates compared to the first nine months of 2017.
  In the third quarter of 2018, net sales in the Rest of the World equaled Euro 17.9 million, down 26.8% at current exchange rates and 21.5% at constant exchange rates compared to the same quarter of 2017.

*Notes to the press release:*

[1] In 9M 2018, the adjusted economic results exclude non-recurring costs for Euro 4.4 million, mainly related to the CEO succession plan and reorganization costs in North America, and include an income of Euro 29.3 million, as pro-rata portion of the accounting compensation for the early termination of the Gucci license, equal to Euro 39 million for the full year 2018.
In Q3 2018, the adjusted EBITDA excludes non-recurring costs for Euro 1.0 million and includes an income of Euro 9.8 million, as pro-rata portion of the accounting compensation for the early termination of the Gucci license.

In 9M 2017, the adjusted economic results excluded non-recurring costs of Euro 4.4 million, mainly related to the reorganization of the Ormoz plant in Slovenia and other overhead cost saving initiatives, and included an income of Euro 32.3 million as a pro-rata portion of the accounting compensation for the early termination of the Gucci license, equal to Euro 43 million for the full year 2017.
In Q3 2017, the adjusted EBITDA excluded non-recurring costs of Euro 0.7 million related to overhead cost saving initiatives and included income of Euro 10.8 million as a pro-rata portion of the accounting compensation for the early termination of the Gucci license.

[2] The new accounting standard IFRS 15 regarding "Revenue from contracts with customers" entered into effect starting from 1 January 2018. Following the fully retrospective approach chosen by the Group, the application of the principle to the first nine months and third quarter of 2018, had an adjustment effect on the sales and cost of goods sold of the same periods of 2017 equal respectively to Euro 7.2 million and Euro 1.8 million, with a neutral effect on the gross profit. Consequently, 9M and Q3 2017 total net sales were adjusted to Euro 790.5 and Euro 243.4 million respectively. The application of the principle to FY 2017 total net sales had an adjustment effect on the sales and cost of goods sold equal to Euro 11.6 million with a neutral effect on the gross profit.

*Statement by the manager responsible for the preparation of the company's financial documents*

The manager responsible for the preparation of the company's financial documents, Mr. Gerd Graehsler, hereby declares, in accordance with paragraph 2 article 154 bis of the "Testo Unico della Finanza", that the accounting information contained in this press release corresponds to the accounting results, registers and records.

*Disclaimer*

This document contains forward-looking statements, relating to future events and operating, economic and financial results for Safilo Group. Such forecasts, due to their nature, imply a component of risk and uncertainty due to the fact that they depend on the occurrence of certain future events and developments. The actual results may therefore vary even significantly to those announced in relation to a multitude of factors.

*Alternative Performance Indicators*

The definitions of the "Alternative Performance Indicators", not foreseen by the IFRS-EU accounting principles and used in this press release to allow for an improved evaluation of the trend of economic-financial management of the Group, are provided below:

- Ebitda (gross operating profit) is calculated by adding to the Operating profit, depreciation and amortization;
- The net debt is the sum of bank borrowings and short, medium and long-term loans, net of cash in hand and at bank.

*Conference Call*

Today, at 6.00 pm CET (5.00pm GMT; 13.00pm EST) a conference call will be held with the financial community during which first nine month and third quarter 2018 trading update will be discussed.
It is possible to follow the conference call by calling +39 02 36009838, +44 330 3369411 or +1 929 477 0448 (for journalists +39 02 36026028) and entering the access code 3108875.
A recording of the conference call will be available until November 2, 2018 on +39 02 38591061, +44 207 6600134 or +1 719 4570820 (access code: 3108875).
The conference call can be also followed via webcast: https://edge.media-server.com/m6/go/SafiloQ3and9Mresults.

**About Safilo Group**
Safilo Group is a worldwide leader in the design, manufacturing and distribution of sunglasses, optical frames, sports eyewear and products. Thanks to strong craftsmanship expertise dating back to 1878, Safilo translates its design projects into high-quality products created according to the Italian tradition. With an extensive wholly owned network of subsidiaries in 40 countries – in North and Latin America, Europe, Middle East and Africa, and Asia Pacific and China – and more than 50 distribution partners in key markets, Safilo is committed to quality distribution of its products in nearly 100.000 selected sales stores all over the world. Safilo's portfolio encompasses: own core brands Carrera, Polaroid, Smith, Safilo, Oxydo, and licensed brands: Dior, Dior Homme, Fendi, Banana Republic, Bobbi Brown, BOSS, Elie Saab, Fossil, Givenchy, havaianas, HUGO, Jack Spade, Jimmy Choo, Juicy Couture, kate spade new york, Liz Claiborne, Love Moschino, Marc Jacobs, Max Mara, Max&Co., Moschino, Pierre Cardin, rag&bone, Saks Fifth Avenue, Swatch, and Tommy Hilfiger.

Listed on the Italian Stock Exchange (ISIN code IT0004604762, Bloomberg SFL.IM, Reuters SFLG.MI), in 2017 Safilo recorded net revenues for Euro 1,047 million.

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