

Safilo

Price EUR8.69

FY15 results illustrate the transition year; is 2016 a more promising year?

Fair Value EUR14 (+61%)

BUY

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	15.1 / 7.4
Market Cap (EUR)	544
Ev (BG Estimates) (EUR)	724
Avg. 6m daily volume (000)	132.6
3y EPS CAGR	-7.8%

Following the pre-announced sales publication on 29th January (+8.5% as reported, flat FX-n), Safilo reported FY15 adj. EBITDA of EUR102m, fairly in line with market expectations (EUR105m). The group recorded non-recurring costs of EUR60.5m (o/w an impairment charge of EUR40.5 and a provision of EUR17m related to an investigation by the French Competition Authority). For 2016 expects an acceleration of its going-forward portfolio (excl. Gucci) driven by its own brands and the new licensing agreements (Givenchy, Swatch and Havaianas from H2 16). The group is also announcing cost cutting measures that will release savings of up to EUR25-30m over 2016-19 after a one-off cost of EUR20m. Safilo is hosting an Analysts' presentation this morning (8am CET) to review this "complicated" first year of the 2020 Strategic Plan, but more importantly, we expect more granularity on the growth catalysts and on the initiatives to protect margins.

ANALYSIS

- **Pre-announced FY15 sales of EUR1,279m (+8.5% and flat FX-n).** This performance implied a 2.7% FX-n sales decline in Q4 since a robust growth in **Europe** (+11%) was not enough to offset softer trends in **North America** (Retail) and a further drop in sales in **Asia-Pacific** (-29%). It is worth noting that the "going-forward" portfolio (i.e. excl. all Kering licences) up 2% in Q4 and 4.3% in 2015 although the management admitted a mixed performance from the group's own brands.
- **Adj. EBITDA margin declined 200bp to 8%.** The **GM** dropped 180bp to 59.2% in 2015 but the decline was less significant in Q4 (-100bp vs. -210bp in 9M) as the negative impact from obsolescence provisions are gradually easing off. However the discontinued Kering licences (negative volume impact) and the FX headwind continued to weigh on the GM.
- **Non recurring costs of EUR60.5m were recorded in 2015.** A total of EUR3m are related to restructuring costs in the EMEA and North America regions whilst the group sustained a GW impairment charge of EUR40.5m due to the poor performance of the Far East's CGU. Last but not least, Safilo passed a EUR17m provision relating to the investigation by the French Competition Authority on the French eyewear market, the investigation report should be completed by end 2016.
- **Net debt reduced by 45% to EUR90m thanks to a solid FCF generation.** It amounted to EUR74.8m (vs. -EUR12.4m the prior year) thanks to the first compensation payment from Kering (EUR30m), but also by a tight inventory management (positive inflow of EUR32.7m). As a consequence the net debt was down by ~45% to EUR90m vs. a year ago.

Safilo Adjusted 2015 Adjusted Results*:

EURm	2014	2015	% change
Net sales	1,179	1,279	8.5
Adjusted EBITDA *	118.4	102.4	-13.5
% of sales	10.0	8.0	-200bp
Adjusted net profit *	44.5	6.9	-84.4

* Adj. results= excl. two restructuring charges amounting EUR3m, a GW impairment charge of EUR40.5m and a provision of EUR17m relating to an investing from the French Competition Authority

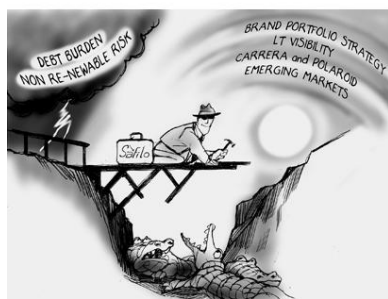
- **Management should give more details about the catalysts for 2016. Top line:** Safilo expects a higher contribution from its own brands whilst the licensed brand portfolio will continue to be well-oriented, although it is the final year of the Gucci as a traditional license. Moreover three new licenses will positively play this year: Givenchy, Swatch (from April) and Havaianas (from H2 16). **Margin:** SFL announced cost-cutting measures which are expected to yield savings of EUR25-30m over the 2016-19 period after one-off charges of EUR20m.

VALUATION

- As expected the FY15 results reflect the difficult transition year, but we believe that investors will now focus on the promising outlook that will be presented today at the Analysts Meeting.

NEXT CATALYSTS

- Analysts' Meeting today (8am CET) // Q1 16 Results on 10th May.



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