

Safilo

Price EUR7.00

H1 16 results above expectations thanks to a robust performance in Q2

Fair Value EUR11 (+57%)

NEUTRAL

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	11.8 / 6.3
Market Cap (EUR)	438
Ev (BG Estimates) (EUR)	477
Avg. 6m daily volume (000)	102.5
3y EPS CAGR	49.3%

In Q2 sales came in at EUR349.5m and topped the CS forecast (EUR336.5m), thanks to a sharp acceleration in the adj. FX-n (+9% vs. +1% in Q1), as Safilo addressed the production bottlenecks (-3-3.5pp positive contribution) and the licensed brand PF performed strongly. This top line growth acceleration and some cost-saving initiatives led to a 90bps-expansion in the adj. EBITDA margin to 9.5% (H1: -40bp to 8.9%), close to CS (9.5%). All the painful initiatives implemented over the past two years seem to start reaping fruits even if the Gucci transition remains a key headwind for H2.

ANALYSIS

Q2 sales of EUR349.5m (CS: EUR336.5m). Like in the Q1, this top line decline in organic terms was caused by the discontinuation of small Kering licenses at the end of H1 15 (AMQ, Bottega Veneta and Saint Laurent) and the gradual exit of Gucci this year (~16-17% of total sales). Stripping out these headwinds, the "going-forward brand PF" accelerated strongly to 9% vs. +1% in Q1, driven by a catch up effect following the production bottlenecks encountered in Q1 (-3-3.5pp positive impact) and a broad-based performance amid the licensed brand PF (Dior, Jimmy Choo, Céline, etc.). The management was also very happy with the first results of Givenchy and Swatch. On the negative side, the proprietary brand PF remains a bit on the sidelines: whilst Polaroid improved in Q2, Carrera was still weak and Smith was affected by sluggish trends within the U.S. sports channel.

By region, focusing on "going-forward brand PF", Europe had an impressive acceleration with 18.6% adj. FX-n (Q1: +3.6%), driven by double-digit growths in France, Italy or Germany and a rebound in Russia in Q2 also played positively. In North America the wholesale channel grew 7.6% (Q1: +3.1%) but it was partly dented by a 18% decline at Solstice (Q1: -17%) that suffers from the negative impact from store closures (118 DOS vs. 129 at the end of H1 15) and a tough retail environment. Unsurprisingly, sales in Asia continued to decline by 14.4% (Q1: -14.6%) given challenging market conditions in Greater China (especially in H-K) and the reorganization of its distribution network.

Quarterly FX-n sales growth of the "going-forward brand PF" by region:

EURm	Q1 16	Q2 16	H1 16
Europe	3.6	18.6	11.8
North America	0.8	3.1	2.0
Asia-Pacific	-14.6	-14.2	-14.4
ROW (incl. Latin America)	2.8	12.3	7.6
Total	1.0	9.0	5.3

* = excluding the Kering licences that were/will be discontinued

Source: Company Data

Q2 adj. EBITDA margin up 90bps to 9.5% (H1: -40bps). This rebound is entirely derived from the cost-cutting measures and the positive operating leverage, consequently opex costs only accounted for 50.7% of sales (-160bps) whilst the GM contracted 70bps to 60.2% (Gucci, retail, FX), leading to a 90bps-increase in the adj. EBITDA margin to 9.5%, in line with the CS forecast. It is also worth mentioning the more favourable financial result (EUR0.8m vs. -EUR22.7m), enabling Safilo to more than double its adj. net income to EUR22.9m.

Group net debt down 6% to -EUR103m. Safilo had a negative FCF of EUR9.3m vs. EUR51.6m in H1 15, as Safilo benefited from the first EUR30m compensation payment from Kering the prior year. In H1 16, the Group had to deal with an increase in trade receivables that should be collected in Q3 but also due to a higher inventory level, justified by the strong organic growth and the gradual exit of Gucci, which might imply higher obsolescence costs in H2 (=> impact on GM). Last but not least, capex increased EUR7m to EUR22m (plant investments + EYEWAY IT transformation plan).

Safilo H1 16 Results:

EURm	H1 15	H1 16	% change
Net sales	674.9	651.1	-3.5
Gross profit	409.9	394.6	-3.7
% of sales	60.7	60.6	-10bp
Adjusted EBITDA	62.7	58.3	-7.0
Adj. EBITDA margin (%)	9.3	8.9	-40bp
Adj. Net income	9.9	22.9	130.6

Source: Company Data



(To be continued next page)

- **The management is reasonably optimistic about H2.** This confidence is explained by the strong performance of the licensed-brand PF and the promising start of the new licenses, all the more since Havaianas will contribute in H2. Yet, two issues remain: **(i)** a lack of traction from the proprietary brand that already disappointed in 2015 (-2.5% FX-n) and **(ii)** the gradual exit of Gucci should have a higher negative impact in H2 than in H1 (~7.4pp incl. the three other small Kering brands), which is factored in our FY assumptions.
- **We leave our FY16 assumptions unchanged.** We expect 8% FX-n growth for the “going-forward brand PF”, which should be offset by a -9pp negative impact from the discontinuation of the Kering licenses. In our view, the negative impact on the profitability (unfavorable product/price mix, lower cost absorption) should be mostly offset by the ramp up in the cost-cutting initiatives and the robust organic growth of the “going-forward brand PF”. We still expect a 60bps-decline in the adj. EBITDA margin (to 7.4%), which might appear cautious in light of the H1 performance (-40bps) but the Gucci headwind limits the visibility at this stage.

VALUATION

- We were clearly pleased by the strong organic growth achieved by the “going-forward brand PF” (+9% vs. +1% in Q1) on top of a weak performance from the proprietary brands and a more difficult environment (e.g. in Asia). The first positive results from the painful and longstanding actions implemented over the last two years are starting to deliver positive results at the top line and margin level but again, the Gucci transition remains a key issue for H2 given its size (still 16-17% of total sales). Nevertheless, the Q2 results show that Safilo goes in the right direction.

NEXT CATALYSTS

- Safilo will release its Q3 16 Trading Update on 9th November 2016.

[Click here to download](#)



Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loic Morvan
Antoine Parison
Virginie Roumage

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56,4%

NEUTRAL ratings 32,9%

SELL ratings 10,7%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
				Regulated by the FINMA

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..