

## Safilo

Price EUR9.50

## Q3 1206 results above expectations

Fair Value EUR11 (+16%)

NEUTRAL

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	11.6 / 6.3
Market Cap (EUR)	595
Ev (BG Estimates) (EUR)	636
Avg. 6m daily volume (000)	112.0
3y EPS CAGR	49.6%

Safilo has posted Q3 sales of EUR288m (+1.1%) topping CS expectations (EUR280m). Organic growth of the “going-forward portfolio” (i.e. excl. Kering licenses) amounted to 3% (vs. +5.3% in H1), as a lower-than-expected negative impact from the Gucci transition offset a softer US market. The wholesale business was a bit more dynamic with +4.3% in Q3 and +6.1% in 9M. Thanks to the positive impact from some cost-saving initiatives, adj. EBITDA margin expanded 140bp to 6.6%, representing a significant acceleration vs. H1 (-40bp to 8.9%).

## ANALYSIS

- Q3 sales reached EUR288m (+1.7% FX-n / +3% adj. FX-n) vs. CS of EUR280m. As a reminder, the first half was marked by phasing effects due to production bottlenecks in Q1 (+1% FX-n, negative impact of ~5pp) that were fixed during Q2, which benefited from a catch-up effect (+9% FX-n, ~+3-3.5% impact). Hence, the H1 performance gives a more reliable overview of the group's performance. In Q3 alone, the “going-forward brand PF” was up 3%, driven by the licensed brand PF, whilst in the proprietary brand PF, Polaroid outperformed the group's performance, Smith was back to growth but Carrera still struggled. Organic growth incl. Gucci transition was up 1.7% as Safilo started to deliver new collections produced under the partnership agreement.
- By region, focusing on the “going-forward brand PF”, Europe continued to post a high growth rate (+9.5%) driven by key markets and broad based growth amid the portfolio. In North America, sales in the wholesale channel declined 0.6% due to softer trends in the US (also highlighted by Essilor and Luxottica). Revenues of Solstice dropped by 13.4% FX-n caused by negative LFL (-9.1%) and 10 store closures (116 DOS at end-September vs. 126 at the end of Q3 15). In Asia, Safilo is gradually recovering with a limited 2.5% decline (H1: -14.4%) despite ongoing challenging market conditions in Greater China (especially in H-K). It is worth noting the healthy trends in LatAm (+9%).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.1%	16.1%	25.9%	-11.3%
Consumer Gds	-2.5%	-4.3%	-0.1%	-5.8%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,279	1,232	1,170	1,241
% change		-3.7%	-5.0%	6.0%
EBITDA (rep.)	82.4	83.2	64.4	81.9
EBIT (rep.)	0.8	46.2	29.3	44.7
% change			-36.7%	52.7%
Net income (rep.)	-52.3	21.1	7.0	23.2
% change		NS	-66.8%	

	2015	2016e	2017e	2018e
Operating margin	0.1	3.8	2.5	3.6
Net margin	-4.1	1.7	0.6	1.9
ROE	0.7	2.5	0.7	2.2
ROCE	0.2	5.0	1.1	2.5
Gearing	9.0	3.9	3.1	0.9

(EUR)	2015	2016e	2017e	2018e
EPS	0.11	0.42	0.11	0.37
% change	-		-73.5%	
P/E	85.7x	22.5x	84.9x	25.6x
FCF yield (%)	NM	4.3%	3.5%	1.4%
Dividends (EUR)	0.00	0.10	0.15	0.20
Div yield (%)	NM	1.1%	1.6%	2.1%
EV/Sales	0.5x	0.5x	0.5x	0.5x
EV/EBITDA	8.3x	7.6x	9.7x	7.4x
EV/EBIT	823.2x	13.8x	21.4x	13.5x

## FX-n sales growth of the “going-forward brand PF \*\*” by region:

EURm	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Europe	3.6	18.6	11.8	9.5	11.4
North America	0.8	3.1	2.0	-2.2	0.6
Asia-Pacific	-14.6	-14.2	-14.4	-2.5	-10.9
ROW (incl. Latin America)	2.8	12.3	7.6	11.5	9.0
<b>Total</b>	<b>1.0</b>	<b>9.0</b>	<b>5.3</b>	<b>3.0</b>	<b>4.7</b>

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

Source: Company Data

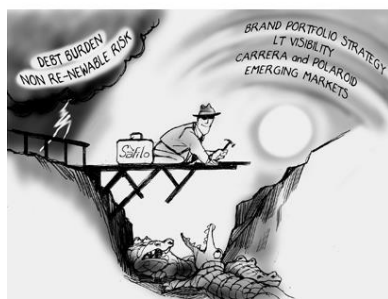
- Q3 adj. EBITDA margin down 140bp to 6.6%. The GM remained stable at 58.8% as the positive price-mix of the going-forward brand PF and favourable fixed cost absorption were offset by the dilutive impact from the Gucci transition and the poor performance of Solstice. However, cost-cutting measures led to a lower impact from overhead costs, enabling the adj. EBITDA margin to improve 140bp to 6.6% (H1: -40bp).
- Safilo continues to strengthen its go-to-market distribution. Safilo has muscled up its commercial leadership in Europe and North America. In the US, the turnaround of Solstice by the end of 2017 became the new Group's priority. Last but not least, the roll-out of the SMILE programme (automatic in-store assortment software) is progressing well.

## VALUATION

- This Q3 publication confirms the improvements seen in Q2. The group seems to be dealing with the Gucci transition efficiently (sales and earnings impacts guided in March '15 were confirmed yesterday) thanks to the first positive results from the painful actions implemented over the last two years, although the performance of the proprietary brand PF remains below internal expectations. This recovery was also reflected by the rally on the stock (+25% in 6M and +15% in 3M), also helped by the recent news flow (i.e. the early renewal of Max Mara and two new licenses that will be launched in January 2018: Moschino and Rag & Bone).

## NEXT CATALYSTS

- FY16 Results to be released in March 2017.



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