

# NATUZZI

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## NATUZZI S.p.A (NYSE:NTZ) SCRIPT FOR: SECOND QUARTER AND FIRST SIX MONTHS 2009 FINANCIAL RESULTS

Milan, Italy, September 29, 2009

**CEO Pasquale Natuzzi** :Good day everyone. Thank you for joining us to discuss second quarter and first six months 2009 earnings results. Just a few words to describe what we have done in this first 6 months and a forecast for the year end and then leave to Mariano the review of second quarter and six months results in more detail.

Let me just start by saying I am very pleased to have met a break even in terms of 3 months Operating income despite the unfavorable economic environment. We start this restructuring and rationalization process almost 8-7 months ago and we are taking the first positive results. We worked and continue to work very hard in order to make the Company again profitable.

My effort ,my goal is to lead the company through this changes that will bring back credibility and competitiveness; in one word to regain market share in the medium term and to attain break even for the year end in term of EBIT.

I thank the Natuzzi management that is making this effort and is still very committed to achieve our goal of 15% operating margin in 2011.

Now I will pass to the CFO Mariano Domingo the duty to explain in details our results.

**CFO Mariano Domingo** :Good morning to everyone. Thank you for joining us today. I will begin with a review of second quarter and six months 2009 earnings

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results. Following my prepared remarks it will be my pleasure together with Mr Natuzzi the Chairman and CEO of Natuzzi to answer your questions.

While the furniture industry continues to be under pressure due to a challenging economic environment, we are making meaningful progress in carrying out our initiatives and processes that will strengthen our company and position us for sustained long term sales and earnings growth.

We are beginning to see some of the benefit from the increased efficiencies and cost reductions that we began to employ at the end of last year. We expect these initiatives to lead to a break even operating margin and to a stronger cash position for the end of the year 2009.

During these first 6 months of the year we put in place many initiatives that will help the company to be profitable again including:

- Product standardization and innovation to reduce development costs and to improve the production process ( i.e. visual prototyping technologies)
- Improvement of the raw material acquisition process to reduce costs of products and to improve manufacturing efficiency particularly in leather waste;
- Moving towards reducing lead time in a range of 20-30% in each market; with the objective of increasing the client service level.

Despite the market conditions which negatively impacted net sales, we were very pleased to have delivered break even operating income in the second quarter mainly due to the reduction in consumption costs that also contributed to the considerable improvement in our available net cash.

Turning to the details of our financials:

For the second quarter of 2009, Net sales declined 20,8% to EUR 133,6 million, as compared to EUR 168,8 million for the second quarter 2008. We did see an

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increase in sales on a sequential basis with second quarter net sales up 20,1% compared with the first quarter of 2009.

Sales of the Natuzzi brand declined 27,9% from € 93,8 million to € 67,6 million. Natuzzi sales declined 23,6% in Europe, decreased 39,5% in the Americas and were down 18,2% in the rest of the world.

Sales of the Italsofa brand declined 8,8% from € 54,0 million to € 49,3 million. Geographically the Italsofa sales declined 12,7% in Europe, 6,1% in the Americas and increase 8,5% in the rest of the world .

Our Gross profit, despite the decline of the net sales, increased 4,7% over prior year second quarter totaled EUR 50,5 million. The gross margin rate respectively of the second quarter of 2009 and 2008 was 37,8% and 28,6%.

The Cost of sales of the second quarter decreased 31% as compared with the previous year. Material costs (Purchasing +net inventories) declined to € 54,7 million in the second quarter of 2009 from € 78,7 million in the second quarter of 2008 while labor costs were € 20,2 million in 2009 as compared to € 26,4 million in the second quarter of last year.

Cost of sales was 62,2% of net sales as compared to 71,4% of net sales in the second quarter of 2008.

Selling expenses declined 11% to EUR 37,2 million in the second quarter, as compared to EUR 41,8 million in last year's second quarter. In particular the variable expense decreased 28% in transportation costs ( to 10,6 million in the second quarter of 2009 from 14,9 million in the second quarter of 2008) and commission cost declined 40% (from EUR 3,3 million to 1,9 million in the second quarter of 2009). While we were unable to fully offset the net sales decrease, it demonstrated our progress in controlling our costs.

G&A expenses for the second quarter of 2009 increased 5,7% to € 12,2 million.

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As a result, Operating loss in the second quarter reached a break even totaling EUR 1,1 million as compared to a loss of EUR 5,1 million in the same period last year.

Other income went from € 4,0 M in the second quarter of 2008 to a net loss of € 2,6 M in the second quarter of 09. This decrease is mainly due to a positive realized and unrealized forex in second quarter 08 € 5,2 M, that in the second quarter 09 was a net loss of € 0,6.

For the six months 2009 net sales decreased at 28,3% to EUR 244,9 million from EUR 341,6 million for the 2008 six months. but also in this case we there have been an improvement from first quarter 2009 with net sales minus 35%.

Our Gross profit decreased 14,5 % over prior year totaled EUR 78,9 million. The gross profit rate respectively for the first six months 2009 and 2008 was 32,2% and 27,0%.

The Cost of sales of the second quarter decreased 33% as compared with the previous year. Material costs (Purchasing + net inventories) was EUR 104,9 million in the first 6 months of 2009 as compared to EUR 162,0 million in the second quarter of 2008 while labor costs were € 40,2 million in the first six months of 2009 as compared to € 55,3 million for the same period in 2008.

Cost of sales on net sales was 67,8% compared to 73% of the previous year.

Selling expenses declined 17,8% to EUR 71,3 million as at 30 June 2009, as compared to EUR 86,7 million in last year. In particular the variable part of the cost, decreased by 33% in transportation costs ( to 19,7 million in the first six months 2009 from 29,3 million in the first six months 2008) and by 40% in commission cost ( from 6,7 to 4,1 million in 2009). While we were unable to fully offset the net sales decrease, it demonstrated our progress in controlling our costs.

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G&A expenses as at June 2009 increased 1,1% to EUR 23,0 million.

As a result, Operating loss in the the first six months of 2009 rose 10,4% to EUR 15,5 million as compared to a loss of EUR 17,3 million in the same period last year.

Other income cost net went from a loss of € 6,4 M in the the first six months of 2008 to net income of €5,2 M in the first six months of 2009. This increase is mainly due to a positive realized and unrealized forex for 6 months 09 of € 5,6 M (in first quarter 09 € 6,2 M) respect to a loss of € 4,8 M in the 6 months 2008 (in first quarter 2008 was a net loss of € 10,0 M)

The Natuzzi Group ended the second quarter with net available cash of EUR 72,9 million, an increase of EUR 25,6 million over the € 47,3 million at the end of 2008; and long-term debt nearly to zero about € 6 million plus a short term borrowing for € 7,7 million.

Inventories totaled EUR 77,0 million, declining 16% from € 92,0 million last year . This reduction is mainly due to an optimization of the raw material inventories consumption .

And shareholder equity was EUR 329,3 million at the end of the second quarter of 2009.

At the end of the second quarter, the total number of Natuzzi stores worldwide was 311, including Italsofa stores and Divani & Divani stores worldwide.

With that I will turn over to the operator to begin the Q&A session.