Alessandra Senici – forward looking statement & introduction
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Andrea Guerra
Welcome to you all to our first quarter business review.
The year started off well. The growth trends we have experienced in Q3 and Q4 2011 have been maintained, and we’re keeping up with the rhythm. The performance was good. And I’m very pleased that the performance was good across all our main geographies, all our main businesses, and all our main brands. I think this is one of the most important news of the day.

North America, our main region, is in good health. The sum of all our businesses in US gives us another growth quarter, at plus 9% in dollars. Sunglass Hut and Wholesale, well above the average. Sunglass Hut had another quarter of double-digit comps, and Wholesale, also helped by
the launch of Coach, really had a peak quarter. LensCrafters very robust, like-for-like growth of 5%, and Oakley was up by double-digits. The US has been very good in this first three months of the year.

Western Europe, very positive. I think this has been the best result in the quarter. Mid, single-digit positive in Italy, breakeven in Spain, negative in Portugal and Greece. All other countries of western Europe between mid, single-digit and double-digit growth. Always keep in mind I'm not talking about Europe; I'm talking about Western Europe only. Obviously, if we talked about Europe, including all new Europe, results would be better.

Emerging markets positive all across. We started managing Tecnol in Brazil at the end of this January. Teams are working hard on integration. And the five main projects we're working on and dealing with are:

1) One: brand portfolio. We are defining the go-forward brand portfolio, collection structure, new models, always keeping in mind the fact that we will be producing some Luxottica brands in the factory by fall.
2) The second project: commercial organization, putting together all our assets in order to plan and execute the best commercial organization going forward.
3) Three: IT, warehouses, in order to provide the best service level to our new customer base in Brazil.
4) Four: the role of the manufacturing unit, our factory, excellent team, excellent assets. And we need to define the vertical integration level of the factory.
5) Fifth: organization and infrastructure integration between entities in Brazil.

By the end of this year, we will be probably 75% or 80% done. Everything is going smooth, and we are very happy.

The results of the quarter are rich. Good leverage. Operating margin up by more than 100 basis points, exactly 110 basis points. We are really happy that we committed to have a year where our operating margins will be important and relevant, and we started off well.

Free cash flow reached a peak this quarter. Normally we absorb cash during this season. During this time of the year, we're normally piling up a little bit of inventory. Instead, we have been able to generate EUR36 million of positive cash flow. And, again, I think this is another characteristic of this healthy start of the year.

This is just an initial overview. I will now switch to Enrico and come back later.

**Enrico Cavatorta**

Thank you, Andrea. Let me give you some more details on our key numbers. First of all, in terms of sales, as Andrea has mentioned, we have been positive, and we have generated strong growth in all our businesses and regions. The key pillar of this growth has been our growth in Wholesale. We have been able to grow organically double-digit at constant currency in our Wholesale business division: +10.1%. On top of it, in Wholesale, clearly, there is a marginal effect of the newly acquired Tecnol business. It has boosted the results in Wholesale up to a sound 12% in constant currency.

Retail, our overall worldwide comp sales growth has been 6.5% with our key pillar, LensCrafters, in the 5% region. Sunglass Hut, worldwide, close to double-digits. Sunglass Hut North America in the double-digit area. And I'm very pleased to report that also OPSM in Australia grew 9% in comp sales. So, overall, our Retail has grown 6.5% on a comp sale basis. And then adding the effect of GMO in Latin America and, now, Tecnol, our total sales for the Retail division were up 10.5%, still on a constant FX basis.
And, of course, in this quarter, we have been also helped by positive exchange rate effects. The US dollar grew more than 4% versus the euro, the Australian dollar grew more than 9% versus the euro. So, all in all, the positive exchange rate effect has been close to 3 percentage points, and that’s why we have been able to grow from 11% on constant FX up to a sound 15% on a reported basis. This positive exchange rate effect will probably last for the rest of the year.

Just to remind you that, last year, in Q2, the average euro/dollar exchange rate was $1.44 and, in Q3, was $1.41. So, considering the current trading level of the dollar, probably this positive effect will last for at least another two or three quarters.

If I look at our operating results, as Andrea mentioned, our Group operating income grew 110 basis points. This number, of course, excludes the restructuring charge that we had in Q1 in Australia of EUR22 million. And we have accrued the whole effect of the restructuring in Australia in Q1. So you should not expect any further accrual for this restructuring plan for the balance of the year.

This increase in margin at the operating level is on top of the growth that we achieved last year and even the year before. So, just to put that in perspective, in the last three years, our Group operating margin grew 270 basis points.

Wholesale generated 70 basis points improvement, and the gain comes on top of the very positive performance that we achieved in 2011 and 2010. So, in total, Wholesale has grown almost 300 basis points in three years.

But I’m very pleased to report that, in this quarter, finally, we have achieved a long-awaited margin improvement in our Retail division, 120 basis points, only marginally helped by exchange rates, as we will see in a moment. Let me say that, from a margin point of view, this has been our best results for Retail in Q1 since 2007. And, if I look at the absolute results in euro, EUR125 million in Q1 are the best results ever for our Retail division.

If I look at net income, again, the results, EUR146 million, exclude the charge of Australian restructuring, and we have achieved 8.2% margin that, again, are the best result in terms of margin since 2007 and is the all-time high record net income for Luxottica Group in Q1 in euro terms. 27% is the increase versus a year ago.

And both in euro and dollars, EPS at EUR 0.32 or $ 0.41, represents an all-time high for Q1 in Luxottica’s history.

Let me just say a few words about the Retail margin improvement that has been quite strong, 120 basis points. As I mentioned, we had a little help from exchange rates. But even without that, at a constant currency, the Retail margin has increased by 100 basis points. And this has been due to two effects. First of all, the dilution effect of the expansion in emerging countries was only 40 basis points in the quarter; so, much lower than what we had experienced during 2011 and 2010. And this dilutive effect is mainly due to our expansion in Latin America. So, our so-called core Retail margin improvement was 140 basis points and both North America and Australia contributed to this result. North America retail profitability is in line today with the all-time high historical results that we experienced before the financial crisis. And Australia basically doubled its operating profit in Australian dollars versus last year.

Moving to our cash flow generation, our net debt was basically stable at the end of March as compared to the end of December and even after the EUR88 million that was spent during the quarter to close the Tecnol acquisition. So we have been able to maintain our leverage stable at 1.7 times EBITDA, despite the money spent for the acquisition. This has been achieved, clearly, because of our free cash flow generation. We’re positive in this quarter and this is quite unusual in Q1 after the marginally negative result that we had last year. Even if our total CapEx was slightly up versus last year, and this is pretty consistent with our full year estimates, where we expect to be only marginally above the EUR310 million that we spent last year.
In terms of working capital, again, a very strong quarter. Basically, our working capital absorption in the quarter, EUR225 million, is in line with the results of last year, even if, in this quarter, we basically had a 15% increase in sales that, in absolute terms, means EUR230 million more in sales. But the cash absorbed was basically in line with last year. And, of course, this translated into a strong reduction in the number of days that were 15 days less versus last year. Let me say the only one thing that is not improving nowadays is DSI. But this flat result versus last year is mostly due to the fact that we are including the newly acquired Tecnol plants and inventory. So we do expect better results in the coming quarters.

So, just a final word. Our well-known rule of thumb proved to be true in this quarter. I think this is remarkable. The rule of thumb was set for high single-digit sales growth and we have been able to deliver twice as much growth in the bottom line. Even with sales growth, on a nominal basis, it was double that, at 15%. So, clearly, we are looking forward to the balance of the year with a lot of confidence.

Andrea Guerra
Going back to the data we presented you at the beginning of March, benchmarking against the different growth rates that we were expecting in the different regions and the different businesses, I think that, in North America Wholesale, we are a little bit ahead of the plan, and, most probably, we can keep this rhythm all year long. In Western Europe, plus 6%, compared to a range of plus 4% to 6%. I think we are, again, a little bit ahead of the plan. And keep in mind that Q2 last year, Wholesale Western Europe was in the 12% to 14% positive region. So we are really benchmarking against a huge peak of Q2 last year. But, yet, we are not feeling uncomfortable with the plus 4% to plus 6% target.

Emerging markets. As Brazil will be fully integrated in Q2, we expect to accelerate, so we will be in line with those numbers in Wholesale emerging markets.

North America Retail, we are in the middle of the range. And, hopefully, we will be able to keep it up, even with some calendar shifts that we had this year for Easter, as, obviously, we benefited in Q1, and we will have some more to do in Q2.

OPSM Australia, as Enrico was saying, started the year well, and these numbers are important to the top line. But, as we said, as top line improves, we will more than proportionately recover our bottom line, and this is happening.

Same thing in emerging markets Retail, again, as the season continues, we’re sure that we can improve our overall results. We had a little bit of a slowdown in our Chinese Retail in February, where comps slowed down in the range of the 10% to 12%, regaining momentum in the last 45 days at an average like-for-like growth of plus 20% to 22%. So these were our benchmarks for the various geographies and businesses.

We already talked about Brazil. I think the most important other thing is that, obviously, now being local, now being domestic, now having a local manufacturing unit, we can apply a different price range structure to our products and brands. And so we started off with a number of brands and a number of product segments from April 1 with a new pricing strategy.

GMO is really doing well in Latin America. So, in the second half of 2012 we expect to have profitability which is in line with the rest of the Group. Integration has happened and we’re moving fast.

Wholesale, I think there is nothing more to be said. We have continued to grow in India, China, Mexico, Turkey. We’re happy about all our numbers in emerging markets.
Regarding brands, Ray-Ban again double-digit. Oakley again double-digit. Ray-Ban is celebrating its 75th anniversary. We just launched one product that will soon become an iconic product, which is a folding Aviator, the first time in history to be able to have a folding, double-bridge metal aviator. And I think that we are selling a lot of these products right now. And March 1st, Ray-Ban has gone through a global price increase, as I said, effective March 1st, with some of our customers joining a little bit later or a little bit in advance. Obviously, this is expected to have an effect at the end of Q2 and in Q3. And the price increase was 3% - 3.5%.

Oakley, double-digit, and more and more present in Europe. RX has been strong. And Oakley is getting ready for the Olympic Games.

Premium and luxury, we had another strong quarter, and Chanel, Burberry, Prada, and Persol were the stars of the quarter.

We talked at the beginning about the launch of Coach. The headline says it is delivering “wow sales,” and I would agree with the headline. We did better than what we had thought. The brand is so powerful, is so hot, is so strong, is so really into America. And we were targeting somewhere in the $45 million to $50 million. We're now targeting $60 million in the first year of sales of Coach in North America. We just launched Asia, and Asia is expected to represent around 10% or 15% of total sales at the end of the year.

LensCrafters, happy. We were coming from a very strong quarter in 2011. We had a like-for-like growth of plus 7% for Q1 2011, so a plus 5% comps is a strong result. Let me say 70% is value, and 30% is unit growth. And, again, I think AccuFit has been a major game-changer in LensCrafters and helped us well. And I think that motivation today is high, and the team is really moving fast.

Sunglass Hut, I'm pleased with the organization. I'm pleased with the results and I'm happy. I'm happy with how people have managed the entire operation. And I think the expectation is to have a good summer in the US, and, hopefully, we will execute it well.

OPSM, plus 9%. I don't think the macroeconomic environment has changed significantly in Australia. This is the third quarter in a row where we are in the high-single digits. And the network transformation is going on, and most of it will happen between Q2 and Q3. And, as Enrico was saying, profitability really grew more than proportionately compared to the top line.

Now we're are in the middle of Q2. We are entering the sun season. Weather has been a little bit up and down in the different regions of the world. We have positive sales momentum. April’s growth rate has been strong.

Obviously, Europe is tough. Mediterranean Europe is tough. Spain is tougher than Italy. I think that, really, we are, let me say, over focused. We are really focused to make sure that performance in these countries maintain proper momentum. It's not easy. But I really want to say loudly that our teams are really motivated to make it happen. We're even more on the road. We're trying our best on service in order to help all our customers to replenish fast. And, on the other side, Western Europe, London, UK, I think will help in June and July. Advertising is strong. Ray-Ban is celebrating. Oakley is celebrating introduction of new iconic products. So I think the rest of the world, except Mediterranean Europe, is really doing well. And I hope we can keep up with this first quarter growth for the full year.

With this, I will turn the call back to the operator. And, if you have any question or comments, we are here to respond.
Q&A

Stefano Corneliani, Intermonte Securities
I have a couple of questions, and then, third, a clarification. The first question is about Western Europe, of course. And I'd like just a comment from you in order to understand to what extent the growth you've seen in Western Europe is a sort of trade-off between the more mass market Oakley and Ray-Ban vis-a-vis the more luxurious brand names. Second, to Enrico, it's about net working capital and just to understand if FX played favorably in the rotation of the net working capital in the quarter. And thirdly is just a clarification. It's about the price increase you mentioned about Ray-Ban, just to recap where it would be or if it was effective. Thank you.

Andrea Guerra
I didn't get your last question, maybe I did. Ray-Ban price list increase was effective March 1, but, obviously, with some customers across the world, it will be really effective, let me say, mid-May. So we are expecting to see the full effect in Q3 but some effect in Q2 as well.

On Forex, I will leave this question to Enrico -- FX and working capital.

Enrico Cavatorta
The number that we report to you when we say 15 days less, is at constant FX, because otherwise the exchange rate on the working capital number, being a difference between two different balance sheets and two different dates, would be a mess. So the number when we quote days, the reduction or increase is always excluding the FX effect.

Andrea Guerra
Western Europe, if we have grown, let's say, 5% all in all, Ray-Ban and Oakley were above the average, but I have to tell you that 80% of our premium and luxury portfolio was positive.

Daniel Hofkin, William Blair & Co.
Congratulations on the quarter. I just wanted to get a little bit of a clarification about Wholesale, the order patterns that you're seeing going into the peak season in a month or so. Do the order patterns match pretty closely with the shipment rate, in other words, your actual Wholesale revenues at this point? Are you seeing any places where Wholesale orders are trailing or running ahead of?

Andrea Guerra
I will immediately answer your first question. When we look at the first three months, orders were ahead of our shipments. I think that, today, year-to-date, mid-May, let's say, we are head-to-head between order rate and shipments. I think, all across the world, we are still ahead. Italy and Spain are quite nervous at this time, so some weeks we have a lot of orders and some weeks, instead, we don't have a lot.

Daniel Hofkin, William Blair & Co.
Okay. And, as far as the rate of margin improvement that you've seen, especially, I think, in the Wholesale segment, where you've already seen quite a bit of improvement the last two years or so, how much further room do you think that there is in that segment as you continue to expand your global reach?

Andrea Guerra
When we talk about Wholesale, I will give you a comment, and then I will ask Enrico to give you a further comment. There are three things here to be said. The first is, obviously, scale has an effect, and so, therefore, if we are able to keep up with this kind of growth rhythm, I think that we will observe margin expansion. Second, I still think Oakley can help profitability in the Wholesale segment.
It's helping, but it's not finished. And the third, obviously, as our brand portfolio is getting richer next year, I think that probably not exactly at the beginning - I think that the richer brand portfolio going forward can help profitability. So I think that there is more room ahead. But I will have Enrico to give you some color as well.

**Enrico Cavatorta**
The only thing I would add is that, basically, this growth that we are experiencing in Q1 is more or less in line with our expectation for the entire year. So, as we mentioned at the beginning of the year, we do expect better performance in terms of margin improvement in Retail than in Wholesale. So the 70 basis points and 120 basis points improvement, basically, I think reflects our expectation for the total year.

**Daniel Hofkin, William Blair & Co.**
So, just to clarify that last point, you would expect, from where you're sitting right now, a fairly similar dynamic between the two segments in the balance of the year.

**Enrico Cavatorta**
That's correct.

**Daniel Hofkin, William Blair & Co.**
Okay. Thank you very much.

**Chris Walker, Nomura**
I just had a quick question, again on the margin side, but more from a gross margin standpoint, really. Obviously, the Group margin is up around 80 basis points. Just looking to delve into the key drivers of that, really. I assume there was quite a significant mix impact and just wanted a little bit more detail around: is that geography? Is it product? Is it channel? Or is there a significant improvement in, say, the level of discounting across the Group?

**Andrea Guerra**
I think that there are, let me say, two or three things here. The first thing is a continuous trend in manufacturing efficiency. And I think that it's paying off. I think we have given some details in our past meetings of the work we're doing, and I think this is paying off. The second, I think, LensCrafters' gross margin really helped. Last year, I wouldn't expect all of you to remember, but we had pointed out that we had gone a little bit over capacity in our lens lab manufacturing, and we had missed some of the margin. I think we did a better job this year and, I think, we recovered all what we had to recover in terms of margin there. And, third, I also think that the work done in Australia is also permitting us today to sell more and to have lower discounts as well.

**Chris Walker, Nomura**
Okay. Great. And, then, just on the operating expenses, as well, I guess they still grew around 14% or so. So you got most of the leverage through that gross margin rather than the operating cost line. Are there further improvements to come through the cost base in your view?

**Andrea Guerra**
Always keep in mind that, there, you see a lot of translation effect, which is obviously positive in the top line but is negative in G&A and operating expenses. So it's not a question that they grew, but it's a translation effect.

**Chris Walker, Nomura**
Sure. So, underlying, you are seeing those ongoing improvements in the cost base, we should assume.
Andrea Guerra
Yes.

Chris Walker, Nomura
Okay. Thanks very much.

Domenico Ghilotti, Equita SIM
I have three questions. The first is on Ray-Ban. You are running ahead of expectation with a double-digit growth in Q1, and you have also price increases supporting the growth for the next quarters. So I wonder if you see the possibility to achieve double-digit for this year or if you see some particular reasons to be more cautious.

The second question is on the US environment, if you can give some flavor on the current trading, particularly in Retail.

And the third question is on your price policy in Brazil. You mentioned that you have started to change your price policy. Could you elaborate a little bit more on what has changed?

Andrea Guerra
Regarding Ray-Ban, we’ll be always conservative, and then we’ll be happy with the results. I think, as you were saying, the price increase will help. I think the Rx, the prescription collections, are helping. Emerging markets are helping. Obviously, looking ahead, Mediterranean Europe is pretty heavy during the summer. So I hope you are right, and we will do our best so that you’re right.

In terms of the US environment, I think there are two points here to be underlined. The first is the continuous improvement of the sun category, of the sun industry, of the premium sun industry. Thinking that Sunglass Hut, with 2,200 stores, is again over the 10% growth, double-digit. I think we’ve got the best team of the world. But, on the other side, I also think the market is good, or otherwise we wouldn’t be at this kind of performance month on month, quarter on quarter.

Third, the price policy. Here, it’s a question of stretching down. We were basically playing only in the premium part of the business, becoming more domestic. And, as we go along, we will be cleaner and clearer in our explanations. But thinking about our opportunity to manufacture locally, to assemble locally, I think that we are able to stretch down some of our pricing, especially on certain segments of certain brands. And I think it was useless to wait until we start with our manufacturing. But we started immediately in order to capture, I think, this very good momentum that we have because, at the end, we are investing in that country. Our customers are really happy we are investing in that country. And, therefore, even stretching down some of the prices, we can be profit-enhancing in our Brazilian subsidiary.

Sophie Dargnies, HSBC
I have just two questions. On Wholesale, I hope you did not say it, but I also might have missed it. Wholesale, it was driven by volume and price mix. Can you just quantify a bit in order to well understand here?

And the second question is on Pearle Vision. I noticed that it was down 3.8%. Can you give us some explanation on that front, please?

Andrea Guerra
In terms of Wholesale, I would say that the vast majority of our top line increase has been volume. I think this has been, let me say, 85% volume driven.

In terms of Pearle Vision, we are in the middle and, I think, now, it’s a couple of years we've been going through this and managing our corporate stores properly, closing some, rebranding some into LensCrafters. But we are moving the chain towards franchising. Therefore, those comp sales are more and more, let me say, less important because the base is becoming smaller and
smaller every day. So we are reporting it, but, really, it's a number that we don't look at too often or too frequently right now.

Julian Easthope, Barclays Capital
A couple of questions from me. First of all, I'm looking at the comments you made about Sunglass Hut being so strong within the last couple of quarters. Do you think that's now because the US markets are starting to move towards a more European model, or are you just taking market share from competitors?
And the second thing is just on Europe. You seem to be significantly outperforming your main competitor. Is there any particular reason why you're doing so much better in taking market share away from them? Thanks.

Andrea Guerra
When you think about Sunglass Hut in the US, it's not just the last couple of quarters where we are positive. But I think this is the tenth or eleventh quarter in a row where we're double-digit-comp positive. The numbers of the only other sun chain are public, so you can compare the numbers and see what happened to market share.

In terms of Europe, I think that we gained some market share, especially in Mediterranean Europe. And I think that there could be many different answers to this question. What I know is that we know the market is tough. We know we have a good portfolio of strong brands. And be sure that we are putting 110% effort to make our customers happy in order that the few consumers that are ready to buy are ready to buy our brands. We are next to them in their stores. We are constantly presenting new ideas, new projects, new products, new collections. And, as I was saying before, we're trying really to give the best, super service possible.

Domenico Ghilotti, Equita SIM
I have a follow-up on the price increase for Ray-Ban. Are you applying price increase also in Mediterranean Europe; so, in all the markets?

Andrea Guerra
Yes. We already applied it.

Domenico Ghilotti, Equita SIM
Okay. Thank you.

Operator
(Operator Instructions). Gentlemen, there are no more questions at this time.

Andrea Guerra
Grazie a tutti. Good evening.