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Q&A

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Alessandra Senici
Thank you, operator. Good afternoon and thank you for joining us today. Here with me are Andrea Guerra and Enrico Cavatorta.

Before we begin, first, I have a couple of quick items to cover. As a reminder, a slide presentation which we will informally follow during this call is available for download from our website under the reading Investor Relations, Presentation section. This presentation includes certain non-IFRS financial information within the meaning of Regulation G under the US Securities Exchange Act. Further information, including additional information required by Regulation G, is also available in Luxottica Group’s press release relating to its results for the second quarter of 2013, which may be found on our website, under the reading Investor Relations, Press Releases section. This conference call is being recorded and is also available via audio webcast from our website.

During the course of today’s call, certain projections or other forward-looking statements may be made regarding Luxottica Group’s future financial performance or future events. We wish to caution you that such projections or statements are based upon current information and expectations and actual results may differ materially from those projected in the forward-looking statements. You can read more about such forward-looking statements on page two of the slide presentation. We also refer you to our filings with the SEC and Italian Securities Authorities. These filings contain additional information concerning factors that could cause actual results to differ materially from those contained in management’s projections or forward-looking statements.
We will begin with our CEO, Andrea Guerra.

**Andrea Guerra**

Thank you, Alessandra. Welcome to our second quarter business review. And I want to say that right at the beginning we are very happy about our performance, really happy.

Why? I would list three or four items. First, obviously record top line, almost double-digit growth at constant ForEx, breaking the €2 billion sales in the quarter, big profitability, and excellent cash flow.

As usual, looking to the different part of our business, geographies and brands, we got some super stars. I would note that this quarter wholesale has been a super star. Sunglass Hut has been for another quarter the super star. And I would list these two as over-performing, over-exceeding in terms of business. Ray-Ban, Oakley, all luxury portfolio and the very encouraging start of Armani, I would list as brands. Armani right on track to reach €130 million in the year. Uncommon to be said, I would list Europe as the region which has been a super star. We will go deeper and in more details about Europe, but obviously this has surprised us.

Should we find some negatives in this kind of framework? Yes, we should. And I would list one: LensCrafters in the US we only had 1.3% comps in the quarter. April and June pretty positive, the average comps we like. May was not. We made some mistakes and we paid for that. What is good is that, first of all, we obtain the kind of performance we obtained with not the wonderful quarter by LensCrafters in terms of top-line, while in terms of profitability and bottom line, LensCrafters helped and helped substantially our performance of the quarter. So it's only a quarter, we will improve.

We feel good. July let me say, overall for the Group has been in line with same performance of the first six months. So I would immediately stop here. Enrico.

**Enrico Cavatorta**

Thank you, Andrea. I would look a little bit more in detail into the numbers.

Just starting from our top line, as Andrea said, we delivered almost double-digit sales growth, excluding adverse currency ForEx. I would note, first of all, that all across, the second quarter number looks better than first half, so the left part of slide 5 is better than the right one. We are accelerating our trend, and we've said last quarter that a comparison versus the 1Q 2012 would have been the tougher the other quarters and the result of the second quarter proved it. More importantly, if I look at the two year performance, in this quarter we achieved a total growth at Group level, at constant ForEx, in excess of 16%, that is in line with what we did during the first quarter.

Looking at the two divisions, wholesale, very little to add to what Andrea just said: +14% constant ForEx growth, is an outstanding result. Clearly, Armani launch helped, but even if I discount the full effect of Armani, wholesale would have delivered a high single-digit performance at constant ForEx.

Retail, positive comps, better than Q1 at +4.4%, with again Sunglass Hut in the high single-digit area, better than 1Q13. China confirmed double-digit as in 1Q13, and even
Australia was strong in the high single-digit, exactly as 1Q13. So the only soft spot was I would say optical in North America, LensCrafters in particular.

Looking at profitability, I’m very pleased to report that we achieved on an adjusted basis 18.4% margin, and this is our new record because the previous one was achieved in 2007, so six years ago at 18.3%. You should note that meanwhile, our size and the company grew 50% as compared six years ago. So our net income and operating income is 50% higher than it was six years ago. I tried to look back at our historical database, just to see if we had higher results and we have to go back more than 10 years to see results better than this one, but it was another company in another world.

The improvement in terms of basis points has been 120 at constant ForEx. Clearly, wholesale has been the star with 140 basis points improved at constant ForEx. And this come at the end of a four-year period, where in total in wholesale, we have grown 5 percentage points, we were 22.5% four years ago in 2009. So clearly, this has been a great result.

Retail, again, as I said, we have increased less, 50 basis points, but I would look at this as a positive result. Do not forget that last year retail improved 150 basis points versus 2011, so we are in the region of 2 percentage point improvement in two years. Also, as we’ve said, we have our main optical retail chain LensCrafters that had just +1.3% comp. So despite that, we have been able to drive our profitability up, and this clearly speaks in favour of good cost control and good cost planning. Also, I would mention that in the quarter, we had some non-recurring costs of a few million dollars in North America, in order to further streamline our fixed cost operation. And we should see the benefit of these already in the second half of the year. I mentioned these are the adjusted numbers, the only non-recurring item, basically I have excluded is a €9 million operating cost to reorganize Alain Mikli, no other non-recurring item has been excluded from our reported P&L to calculate adjusted base.

Net income, clearly it’s a record quarter. For the first time ever, we have delivered more than €200 million of net income in a quarter. You might recall, that four years ago, we had €300 million for the full year. So clearly it’s a great result. And again, 10.8% similarly to operating income is our highest results, even higher than what we achieved in 2012.

Free cash flow, as Andrea mentioned, we view this result as an excellent performance. Our debt was close to €1.9 billion, slightly up from the end of March, clearly, we paid €274 million of dividend during the month of May, and this is the reason why our debt increased. But in term of gearing, we are stable, as this March at 1.3x, and as compared to 12 months ago when we were at 1.7x, we are substantially lower. Free cash flow has been higher than year ago, €200 million versus €180 million for the quarter. And this clearly reflects higher profitability and effective working capital control.

In terms of days, we were in the operating working capital almost flat versus a year ago, plus 1 in DSO, positive 1 in payable, and we were almost flat in inventory, including Alain Mikli, so, on a comparable basis, our inventories would have been two days better. And finally, during this quarter, we are seeing our inventory going down. Just to remind you, at the end of June last year, we had the same days in inventory as at the end of March, and in terms of absolute number, we were €20 million higher than the end of March that was last year. This year at the end of June, we are seven days lower than at the end of March,
and we are actually almost €10 million lower than at the end of March. So clearly, there is a change in speed during the second quarter, and we should see this continuing during the second half of the year.

Finally, this results for the full first half bring us fully in line with our so-called rule of thumb. You see the number at current ForEx up 6% for the six months top-line, +12% bottom line. Let me say that, if I exclude the ForEx effect, we are more or less there. I would say we are in the +8% top-line, +15%/16% bottom line. So fully in line with our rule of thumb, and also in terms of gearing our 1.3x at the end of June, fully in line to achieve 1x or below 1x at the end of the year. Thank you.

Andrea Guerra
Thank you, Enrico. So, when we move and we focus on the top-line roadmap slide, we are fine. I just wanted to focus your attention on adding up the two years. So, in places like US wholesale, we have done a plus 9% on a plus 21%. In emerging markets wholesale, we have done plus 21% on a plus 18%. In Western Europe wholesale plus 5% through the six months. And I would say that this is made by a wonderful acceleration of Q2, where total Europe grew 14%, with the Mediterranean Europe growing 11%, which is a result that I would have never thought about. And I mean, we could also have blamed the weather, if we wouldn’t have touched that number, not having had spring all across Europe, I would say. But a number of activities have really worked well in our favour, and obviously Armani also helped.

Now, looking at North America, the business has grown 5%, with a remarkable Sunglass Hut, where, if we add the like-for-like growth of the last three years, so 2011, 2012 and 2013, basically we are at plus 30%. We already talked about wholesale. LensCrafters was cited by me and then by Enrico at the beginning. And I would refer back one second to something that Enrico stated before. In the North American territory, so all across the country, we pushed one step ahead in a moment of growth, in a moment of strength. Our wish to be ready for the digital challenge, to be ready for a 360 degree immersion of our retail in front of consumers. And we have gone through a remix of people, tools, resources, spending, as Enrico was saying, some millions of dollars in the quarter.

Moving to Sunglass Hut overall, I would just tell you a small story. It’s regarding our Sunglass Hut in Times Square. We opened on July 4, and maybe it’s stupid, but for everyone who has been working in Luxottica for a while, it’s a kind of dream becoming reality. I was there a week ago and I stood still in the store for basically half an hour, looking at consumers pouring in and really allowing all of us to think that for the first time, one of our stores would post eight-digit sales. Happy and proud for the team, for the people that have worked for us, and for all of us looking at that specific symbol.

Europe, we said that Q1 would have been our worst quarter of the year. As I said before, we had no expectations for a performance like this. We are happy, Ray-Ban did really well. I think all the new lens stories, the flash lenses, the colored lenses, the mirrored lenses, really proved to be a great success. Oakley is on fire and Armani helped.

Emerging markets, difficult to talk about one market or one region compared to another. We are happy of the performance. I would give you just a very stupid equation to allow you to think what kind of big opportunities we still have. Just take New York metropolitan area: €200 million sales by Luxottica. Let’s move to Jakarta, same population, obviously different GDP: €1 million sales in a year by Luxottica. These are the kind of stupid equations that I
love, that allow us to think that growth has just started. And even if we always refer to a high-teens or double-digits or 20% growth in emerging markets, and, as we write in the headlines “seizing the way”, I really think there is a huge opportunity in front of us.

A few last things before moving on. One regards Ray-Ban.com. Ray-Ban.com has been live in the last three years in the United States, I mean Ray-Ban e-commerce. Now, it’s moving to Europe as well. The journey started only in five countries, not offering regular collections, but it really allows you to have your best icons, the best iconic Ray-Ban products as you wish. You can personalize your case, lenses, colours, temples, frames and receiving it the day after in the comfort of your home. So go out and check Ray-Ban Remix.

On the other side, Oakley. I think that we have been pretty successful in Europe so far. It has become a reality: all the journey done so far, in the stores, on the people, with the training, with lenses and with the proper athletes. We won the Giro d’Italia. We won the Tour de France. It’s on the faces of Alonso and Valentino Rossi and really on the face of all the winners, so we’re really happy of this long journey today.

How to look forward? We’re fine and we’re confident. Obviously so far, but always keep in mind that once we go through September and October, basically the year could be said it’s over. So, the order portfolio is good. As I said, July is in line with the performance so far. So we’re pretty confident for the remaining part of the year.

Having said all of this, I would turn back the word to the operator. And ready to listen to your comments and ready to answer to your questions. Thank you very much. Operator.

Q&A Session
OPERATOR: We will now begin the question and answer session. The first question is from Daniel Hofkin of William Blair. Please go ahead.

DANIEL HOFKIN: Good afternoon. Just a couple of questions; first of all, if I could clarify, I think you said in constant currency terms, 8% top-line, 15% to 16% bottom-line, was that a year-to-date number for the first half?

ANDREA GUERRA: Yes, it was, six months.

DANIEL HOFKIN: Okay, would you be able to give that for what it was in the second quarter. I assume both of those numbers would have been higher than that?

ENRICO CAVATORTA: Yes, top-line was +9.4%, it is on the slide, top line and bottom line would have been in the region of +17%.

DANIEL HOFKIN: Okay, great. And then on the topic of LensCrafters, could you elaborate a little bit more about, you said you know, a couple mistakes that you paid for. What would you say happened and what gives you confidence about kind of putting that back on track?

ANDREA GUERRA: It’s a very simple story. So we have gone through our anniversary of 30 years. So we had our internal celebrations, we had really a good moment of great emotions and great happiness. So we turned this into an event on the consumer, but
probably we took it too late. We didn’t plan it well, we didn’t execute it well. So this is what happened during May.

DANIEL HOFKIN: so June and July, how much different is it than May?

ANDREA GUERRA: So May was in the 4% to 5% negative. So to achieve a plus 1.3% comps, it means that April and June were not bad at all.

DANIEL HOFKIN: Okay. And then, I guess, finally on the emerging markets opportunity, we are around 13% of total sales right now. Is that right?

ANDREA GUERRA: Yes, 13% of total sales.

ENRICO CAVATORTA: Yes, group level. We are in the mid-teens here, yes.

DANIEL HOFKIN: Right. And you know, I think you’ve said 20% kind of an intermediate term you know, next two or three years perhaps. How high do you think that could go over the next, let’s say, decade?

ANDREA GUERRA: About the decade, I have got no idea, believe me. Maybe we are too Italians in planning, but in the decade I have got no idea. The real thing is, if we go back the last three, four, five years, we have always grown between 15% to 25%. The real thing is that we have constantly grown in the other regions as well. So, I do not know exactly which would be the rate, but we will exceed by 5% to 10%, our rest of the group…no doubts, and we would continue to invest. So, we will have our organic growth and we will continue to invest in local retail chains in Latin America, South East Asia, so it's a journey that will continue.

DANIEL HOFKIN: So just from an absolute standpoint, the type of growth that you have seen in the last few years, any reasons to think that that's not sustainable in emerging markets, in other words in that 15% to 25% range?

ANDREA GUERRA: I don’t think it's unsustainable for the next two or three years.

DANIEL HOFKIN: Okay, all right. Thank you very much.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is from Bassel Choughari of Berenberg. Please go ahead.

BASSEL CHOUGHARI: Good afternoon. Hi, three questions for me, please. The first one is you’ve posted a very impressive performance in Europe and notably in Southern Europe. Could you please help us understand to what extent that was driven by Armani, and how do you think that’s sustainable through the year? That’s one thing, the other one on M&A and licenses; how do you think of your strategy? You have some licenses expiring at the end of the year, so are you looking to offset that with acquisitions, could you give us some colour here? And the last one on your guidance, it seems like, except Australia, you are in the lower end of the range. You have a softer comp basis in your second part of the year. How confident are you on reaching, like the higher end of that range? Thank you.
ANDREA GUERRA: So you know, when you have a range, let us be in the range, and I think that we can be in that range. And I really do not know if we will be in the upper part or in the lower part. And so, we are happy with the performance in Australia. We got a range at plus 6%, plus 8%, and it’s comps, and hopefully we will continue with the velocity we had so far.

In terms of licensing; so, I do not know what you were referring at with licenses that expired. So we got Chanel, but with Chanel we already exchanged letters that we will continue to move on. But we just need to discuss on some details of the action plan on how we move on. We are looking in the licensing world for 2014/15, and we are working on that, and we are working on a couple of topics.

In terms of M&A; we are always looking to the same thing to some great brands and to some smaller to medium retail chains in Latin America and Asia and we are in talks.

In terms of wholesale Europe, so we have been able to be in the middle of our range. We really think that, as we said from the day number one, that range would have been one of our most challenging objectives. We are at plus 5% in the first six months, the first six months are normally tougher than the second six months. Armani helped, but let me say, of that +5% in Europe for a +1.5%. Ray-Ban, Oakley and some of the luxury brands have been the superstar in this region. I always repeat our mantra here. So, as you know, we have gone back five years ago to say that “Vista”, prescription, would have been one of the leading part within our growth strategy. That has happened, and this is going on and as a result prescription is growing almost double-digits in Europe, with unbelievable performances in France, in Germany, in the Nordics, so I’m really happy to report all of this. In Mediterranean Europe, let’s look at the six months together, so probably there has been some psychological stop and go in the first three months, people were little bit more anxious than I thought… when sun came out, everyone was happier. And let me say, all the plans that we put in place worked well, so very happy to see that number.

BASSEL CHOUGHARI: Thank you. Just if I may on acquisitions, are you more looking into like Sun or optical or maybe a mix of both?

ANDREA GUERRA: No, as usual it’s a mix; in sun it’s more probable that we go organic. If you’ve seen our sun sales, on one side our comps were in the +7%, if I am not wrong now. Instead our total sales were at +9%. So there, we are constantly opening new stores, you know, we got this a long-term wish to open one store a day. We are opening one store every three days today. We are opening stores in many different places where we are already present, and really converting some of our smaller stores into bigger stores in North America. So really constantly moving on, more on organic and opening new stores rather than buying chain, because there are not many chains around the world.

BASSEL CHOUGHARI: Thank you.

ANDREA GUERRA: Thank you.

OPERATOR: Your next question is from Domenico Ghilotti from Equita SIM. Please go ahead.

DOMENICO GHILOTTI: My first question is on the retail margins, in general. So first of all, I wonder if you expect to catch up the performance in North America to reach the 4% - 5%
growth. And how did you manage to improve the margins in the second quarter in LensCrafters, as you said in spite of the soft top-line?

ANDREA GUERRA: It’s in the gross profit: it’s in managing lenses, labs, scraps, wastes and managing some of our discounts. So I would say that this is it, and it’s not around G&A or other expenses or on store labor or on things that are once and then dead, but it is our continuous journey on the gross profit.

DOMENICO GHILOTTI: So, it’s pretty sustainable

ANDREA GUERRA: Yes, absolutely yes. And are we able to move from 3 to 4? Absolutely, yes.

DOMENICO GHILOTTI: Okay, and then my second question is on wholesale. Can you give us some indication on the contribution of volumes versus price mix on the top-line? And are you willing to raise or are you going to raise prices in markets where you have currency headwinds?

ANDREA GUERRA: In terms of volumes and price mix, I would say 75%-25%. So, we are really back to a very healthy way of managing our mix.

In terms of where we got the highest headwinds in terms of currency, basically it’s all emerging markets, where we are not going to lift prices because we are in a journey of expanding our price range. So, it’s going up and going low, and at the end we’ll keep it all the same.

In Australia, I would say that, probably yes, the currency is going against us, but probably it’s a rebalancing of an Australian dollar which has been really strong in the last two, three years.

DOMENICO GHILOTTI: Okay, thank you.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is from Julian Easthope of Barclays Capital. Please go ahead.

JULIAN EASTHOPE: Thank you very much. Good evening everyone, and just a couple of questions. First of all, perhaps I was just going to ask how Brazil was going along, and now that you have actually introduced some more products into that market? And secondly, in terms of your new luxury division, obviously you now have done Alain Mikli for a short period of time. Does the 9 million also include transferring the manufacturing back to your own in-house operations rather than externally and how far have you actually got with that integration? Thank you.

ANDREA GUERRA: So, Julian, I understood your second question, but not your first. So I will answer immediately to your second?

JULIAN EASTHOPE:Okay.

ANDREA GUERRA: The second question, those money are everything. So closing down of certain offices, closing down of logistic centers, closing down of some facilities of
assembling and deploying of products, moving in products to our supply chain, we will manufacture, let me say, most of Alain Mikli products in our factories by January 2014.

JULIAN EASTHOPE: Oky.

ANDREA GUERRA: It's regarding IT platforms. It's all you can imagine about integration that we are expanding in one quarter only.

JULIAN EASTHOPE: Perfect, thanks. And in terms of the...yes, the first question was to do with Brazil, and then how the new product has actually gone down now?

ANDREA GUERRA: Pretty well, so Ray-Ban prescription is there, Arnette is there, we are planning the second. The next thing is Vogue Sun in August and Oakley prescription in January/February, so everything is moving as we said.

JULIAN EASTHOPE: Thank you very much.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is Antoine Belge of HSBC. Please go ahead.

ANTOINE BELGE: Yes, good evening. Antoine Belge from HSBC. I've actually three questions, if I may. First of all, in terms of China, how many stores have you opened and how many do you think you will be opening over the full year? And second question relates to the US, especially in terms of how premiumization is going there. Have you seen some positive trading up from consumer overall in the first half? And finally, in terms of production, can we expect further shift from production from Italy to China this year? Thank you.

ANDREA GUERRA: So regarding China...so it would have been unfair for me to say that we were really positive in our comps and our growth in China, because we usually said it's a marginal market and it is in reality a marginal market. But obviously the growth rates that we are having on like-for-like in retail and the wholesale are pretty strong in 2013. We are more involved in fixing and really flying with our retail as it is today. Yes, we opened more or less 10 stores, we are pretty stable and we will be stable in 2013. But really the performance has dramatically improved.

In terms of premiumization, I think that the journey of sun, the journey of Sunglass Hut continues, I would call it as a very similar way of calling the premiumization of sun in United States.

Manufacturing - this year is one of those years where we don't move much in terms of percentages in manufacturing output between Italy and China, because of the great entrance of Giorgio Armani made in Italy. So the mix between Italy and the rest of the world would remain more or less stable during the next 12 months. We will benefit in the next six to nine months by all actions done in second semester 2012 and first quarter of 2013 regarding SAP roll-out and the launch of Armani. So I think there has been a lot of work, and now, we have the opportunity to have six/nine months without big things to be in our way, so really looking(168,954),(824,997)
ANTOINE BELGE: Thank you very much.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is a follow up from Domenico Ghilotti of Equita. Please go ahead.
DOMENICO GHILOTTI: I have a follow-up on your retail margin. So, if LensCrafters was supportive on margins in spite of the soft top-line, did you have any chain where the operating leverage was below your expectation or largely disappointing? And should we expect, together with an acceleration in North American same-store sales, also an acceleration in the retail margin improvement in the second half?

ANDREA GUERRA: Let me say that the journey of our profitability is that, so don’t expect much more. And on the other side, we could expect something more from Sunglass Hut, but we constantly balance between expansion and profitability.

And regarding the first question you had, I would say, no. As I said, this has been a quarter that I would like to frame, put it there and repeat it constantly. It’s one of those quarters where everything was good and we had no surprises.

DOMENICO GHILOTTI: Okay, so I am trying to find a small negative. Corporate costs probably were the only point where you were up, maybe it’s a structural trend. So, should we double the number in the first semester or is there something specific?

ENRICO CAVATORTA: No, I would say in the first semester there were some non-recurring corporate costs that will not be repeated in the second half and were not material. Thus, we have not disclosed them, and we are not reporting them as an adjustment, but we had some costs related to some specific projects that we didn’t go through and therefore we had to expense them through the P&L.

DOMENICO GHILOTTI: Okay, thank you.

ALESSANDRA SENICI: Okay. We think there are no other questions. So thank you very much for listening to today’s call. For those who are coming to our Luxottica Days, see you tomorrow and for the others, we are available to answer further question. Have a good afternoon and bye-bye