



Luxottica Group conference call transcript
Event: Investor and analyst presentation
Date: March 3, 2015

CORPORATE PARTICIPANTS:

Alessandra Senici

Leonardo Del Vecchio

Adil Mehboob-Khan

Massimo Vian

Paolo Alberti

Nicola Brandolese

Fabio d'Angelantonio

Q&A

This transcript is provided by Luxottica Group S.p.A. solely for reference purposes and is believed to be a reliable record of the conference call. Information presented is current only as of the date of the conference call and may have subsequently changed to a material extent. Luxottica does not intend to update information included in this transcript which could be considered outdated due to the passage of time or for other reasons and expressly disclaims any obligation to do so. Investors and other viewers of this transcript are encouraged to review Luxottica's regulatory filings and other material information which it discloses from time to time to the public, including information with respect to non-IFRS measures which are used in this presentation.

Leonardo Del Vecchio

Hello, I am pleased to be here today to welcome you to the new offices of Luxottica Group. The space has been designed to reflect and celebrate a culture of simplicity and functionality, which have always characterized our Group. We have had an extraordinary year, and we have already begun to take on the new opportunities ahead of us with great energy and enthusiasm. Our organization has changed, but our ambition remains the same: to produce the best eyewear in the world and in turn, grow revenues and profitability for years to come. We kicked off 2015 in a very promising way and I am sure there will be further reasons for us to be satisfied.

For us, 2015 is also a year of celebration: it's the 25th anniversary of our listing on the NYSE, our 15th anniversary with Borsa Italiana, and 20 years since our entry into the retail business with the LensCrafters acquisition.

I am very proud of how far we have come and I'm confident in what our Group can achieve in the future. It is with great pleasure that I introduce to you our two Co-CEOs, Adil Khan, CEO for Markets and Massimo Vian, CEO for Product and Operations.

They are a truly complementary team and they share the same passion for our company, our products and our success. Together, they will lead the Group in this next phase of growth.

And now I hand over the presentation to Adil.

Thank you all again for joining us today.



Adil Mehboob-Khan

Good morning. I am absolutely delighted to be here; I look forward to spending some time with all of you in the next day.

As you know, I have joined Luxottica recently. I have had a warm welcome; the first couple of months have been productive and inspiring for me. I have tried to spend my first weeks gaining face time with the business leaders of Luxottica. My first trip was to Agordo. I believe several of you have been there. It is an incredible place, nested in the Alps. It is not just our heritage site – which of course it is, it is where it all started – but it is a place of incredible inspiration, innovation, crafting, design and prototyping of the best eyewear in the world. And it is the first brick of this vertically integrated model that makes Luxottica so special.

I spent time in the US. North America is over half of our business. I spent time with the Wholesale team; they had a cracking year, and you will hear about that later, and they made the number one brand in the world, Ray-Ban, even more successful this year. Sunglass Hut is a retail model to envy, which we also will talk about further later on. I had the fortune of hitting our Optical Retail team annual event, over 1,000 people, employees of our retail stores. They are pretty fired up; they are firing on all cylinders at the moment, and you have a sense of passion and possibilities that bodes well for the future. And I also visited Oakley. Oakley is much more than a brand; it is a movement of people that are obsessed with performance, and obsessed with performance in eyewear, the best performance eyewear in the world, or maybe the universe.

And of course I spent time beginning to meet our license partners. It is clear why our license partners want to be with us: because we enable their creativity, we enable their dreams when it comes to the creation of eyewear. And then of course whatever distribution network fits their brand, we can provide distribution that is either broad or selective and we take care of that experience in store, which is a fundamental piece of the license model.

So I think, as you can guess, I have pretty much embraced the company. It is an extraordinary company, and I think I can say that. Perhaps my colleagues would be modest about it, but I am allowed, maybe just for this first time, to admire the work that this team has done. It really is an extraordinary company. We are growing. How often? Always. We are always growing. The strength of the business model and the strength of the eyewear is what keeps it going. There is incredible passion in the employees. You feel it, it is tangible, and there is a spirit of entrepreneurship that Mr Del Vecchio mentioned that is persistent, and a bias towards action that remains as the company gets bigger. So it is very much a special place.

2014 has been a good year – a great year, I would say – and you will hear about that right now. 2014, for people in businesses like ours, has been a volatile year, particularly towards the end. In our case it has been a strong year, and we became stronger particularly towards the end of the year. So we closed the year with momentum. I think now it would be right for me to hand it over to the protagonists of 2014, starting with my partner and friend Massimo Vian, my Co-CEO on the Operations and Product side.



Massimo Vian

Good morning, and welcome to our new offices here in Milan. For those of you who do not know me, I am Massimo Vian, CEO for Product and Operations. I have been with the Company for ten years, starting in Engineering, then Operations and now Product and Operations together in a united organization. It is an easy task for me this morning, to begin with, to launch the video of our record year 2014.

[VIDEO]

So, 2014 is over, and once again it has been a record year for us. €7.6 billion, an all-time record for the Group, obtained through the efforts in all geographies. So, we saw an astonishing performance in North America, both in Wholesale and Retail channels. We were very strong in emerging markets. Europe kept growing, despite the non-ideal macroeconomic conditions, and what we are probably even more proud of is our all-time record free cash flow generation, which for the first time in Luxottica Group's history broke the barrier of €800 million.

Thanks to very strong operational execution we have been able to obtain even more results than the previous years in inventory reduction, and thanks to these results we have been able to commit to an extraordinary dividend on top of our normal payout, as you know. Moreover, for the fifth year in a row, we have been able to stick to our "rule of thumb", meaning that the sales results that you see were also reflected in two-times the growth rate in operating income. Again, this is something that we are very, very proud of.

The momentum continues, as mentioned by Adil and partially also by our Chairman, Mr. Del Vecchio. The last quarter of 2014 was a great quarter. We accelerated during the last months of the year, both in sales and operating income, and that gave us the right momentum to start 2015.

We are in a very strong position at the beginning of the year. The new Governance is in place, the new team is here. We continue to be the best possible partner for our luxury licensees, and not only in the luxury world, which we will talk about in a while.

Our operational execution is still strong. It is perhaps worth commenting that the results we achieved in inventory in 2014 also takes into account what was, in my opinion, our best ever planned launch of a great brand like Michael Kors. So, those results included 0.5 million of frames that we had in our inventory on December 31st, which we began to ship very successfully on the January 2nd.

So, once again, we are ready for a great 2015. As you will see, the future is bright, and I would like now to hand over the presentation to Stefano to dig into the numbers and to give you some details on 2014 and then on what 2015 is going to look like. Thank you very much, and I will talk to you later.

Stefano Grassi

Thank you Massimo, and good morning everybody. I am Stefano Grassi, Group CFO. I have been with Luxottica since 2007. I am very happy and excited to be here today, and I am even more



excited to share with you our 2014 results, and a preview of how we see 2015. So, let us now get into our numbers.

Beginning from the right [slide 6 of the presentation], 2014 has been a strong year of growth for Luxottica. Our top line grew by 5.3% on an adjusted basis at current FX and in constant FX our growth for the full year 2014 was 6.7%. In the Wholesale division, a strong 8.6% at constant forex with a double-digit contribution from North America and emerging markets. Retail comps come in at 4%, with an improved trend throughout the year.

As Massimo and Adil mentioned before, we closed the year with strong momentum and that is what you can see on the left-hand side of the page. Clearly, forex helped in this. Finally, we did have some tailwinds in our last quarter of the year: the US dollar revaluated at approximately 9% in the fourth quarter of 2014 versus the fourth quarter of the previous year, 2013. Our total growth was about 15% on an adjusted basis in current FX. However, when we look at our constant FX, we were stronger, so the underlying business grew 9.3% excluding the impact of foreign exchange. Our Wholesale grew 6.5% at constant forex, and our Retail comps in the last quarter were up by 5%.

Now, let us look a little bit at a journey through our different geographies for both our Wholesale and Retail divisions [slide 7].

Beginning from the left, let's look at our North American performance in Wholesale. We closed an outstanding year of growth in North America: we had a growth of 11%, with 19% growth in the last quarter of the year. Our brands are healthy and our sales organization is very focused, hence these results. Retail comps were +3% for the full year and we are very pleased with the +5% in the fourth quarter.

So, we closed the year with strong momentum, and a big thanks to the LensCrafters team and to Nicola Brandolese, because LensCrafters delivered over 6% comparable store sales growth in the last quarter of the year. Also, just to remind you, LensCrafters started the year with the first quarter at -2% comp sales, achieved +1% comps in the second quarter, +2.5% in the third quarter and closed with an outstanding +6% in the last quarter of the year. So this was a remarkable result from our LensCrafters team.

There were two areas that were a bit more challenging than others, specifically the one that you see in the center of this page, the two boxes, namely Wholesale Western Europe and Optical Retail in Australia. Western Europe Wholesale closed the year on a +1% over a +7% last year. So on a two-year basis, you are looking at an average +4% in Western Europe per year, which is not necessarily a given.

Clearly, we are not happy with a -8% in the fourth quarter. I would say there are a couple of readings into that. The first one: we really did not have a summer season in many countries, especially in the Mediterranean area, and that slowed down the re-order capability of some of our clients. The other aspect is related to a change in our distribution model that we are putting in place in some European countries. As we move from a more traditional to a more STARS-oriented business model, we obviously focus more on sell-out versus sell-in, and that has a transition period which we believe will better position ourselves in 2015. By the way, we are already receiving signals in 2015 that Europe is rebounding.



Just to give you some perspective, Optical Retail in Australia represents 4% of our total business, so it is a relatively marginal part of Luxottica; that said, we are not happy with the 1% comps growth. We are facing fairly tough competition in Australia on the optical retail side, but if I see my glass as half full, I'll share with you that on the other side of our business in Sun Retail, we delivered an outstanding +8.5% in comp sales in Australia in 2014.

In emerging markets, we are where we need to be. Our Wholesale division delivered sales up by 17% on a full year basis, double-digit in China, double-digit in Brazil, double-digit in Turkey, double-digit in Mexico, and I could go on. Every country delivered on the commitment they had at the beginning of the year, and we are very pleased with that. Comp sales for our Retail division in emerging markets were +10%. That number could have been even better, were it not for a fourth quarter in one specific part of the world, namely Hong Kong, where due to the political turmoil we experienced a slight slowdown. But overall, we are happy with the +10% comp sales.

Now, before we go on to comment on our operating results, let me share with you three adjusting items that characterized 2014. The first one is the EyeMed change in sales representation of one insurance underwriting agreement from gross sales to net sales. That has a €47 million impact in our net sales number and no impact on operating income or net income. The second one is the executive redundancy costs related to the exit of previous CEOs, that has a net income impact of €15 million. The third one is the closure of our tax audits for transfer pricing in Italy for the period 2008 to 2011, which has a net income impact of €30 million.

Now let us comment a bit on our operating results. Clearly it was a year of outstanding growth, but it was also a year of outstanding leverage of our profit and loss, and that is what you see here, beginning from the left-hand side of the page. Our operating income grew by 14% on a constant FX or 90 basis points. Our fourth quarter was nothing less than that; we grew by 100 basis points on a constant FX basis in the last quarter of the year. So, obviously we are very pleased about the top line momentum and the leverage that we continued to achieve in our profit and loss during the last quarter of the year.

Both divisions, Wholesale and Retail, contributed to this growth. Wholesale improved their profit and loss on a constant FX basis by 110 basis points. In the fourth quarter it was +80 basis points. Retail saw a 60 basis point improvement at constant forex in operating income in the full year, with a 120 basis points improvement at constant forex in the last quarter. Clearly, the entire division contributed in Retail; we had some headwinds in Australia, but for the other Retail businesses we saw a consistent improvement in profitability throughout the quarters, and we are very pleased about that.

Now let us look at our net income number. We hit a record high in adjusted net income of €687 million for the year, growth of approximately 15% on a constant FX basis, and in the fourth quarter we delivered +19% growth on a constant FX basis, clearly an outstanding result.

Now, we have talked about our operating leverage, but obviously we are very pleased to also share with you the cash flow and the deleverage of our balance sheet.

We are very happy about our gearing; our net debt to EBITDA ratio went down to 0.6x in 2014, which shows a strong deleverage impact on our balance sheet.



As Massimo mentioned before, we hit a record high in free cash flow of €800 million in 2014 – that is €150 million more than we did last year – and one of the things that we are most proud of is that we achieved this result increasing our investments. The \$419 million capex that you read there [slide 11] represents a 13% increase over 2013. We achieved this through strong operating leverage and efficiency in management of our working capital. Our DSI (days' sales of inventory) went down ten days in 2014, on top of eight days in 2013. So overall, on a two-year basis, that is 18 days' reduction of inventory. So thanks to Massimo and the Operations team for the outstanding results they were able to achieve. The DSO (days' sales outstanding) was down by three days, on top of three days in 2013, and our payables continued their one-day improvement year-on-year. So obviously we were very thrilled about that.

Now, let's wrap up our 2014 with something that I am clearly very proud to share with you: for the fifth year in a row, we delivered the commitment that we made at the beginning of the year. Our "rule of thumb" was to deliver, once again, high single-digits growth in our top line with 7% growth, two-times that growth in our operating income at 14% and two-times that growth in net income. Here we grew by 15%, so we did slightly better. In our deleveraging of the balance sheet, this gave us a net debt to EBITDA ratio of 0.6x. So there was strong operating leverage, great growth of the top line and strong free cash flow generation.

Many of you have speculated about the possibility of delivering an extraordinary dividend. There you are; we are proposing for 2014, in addition to our ordinary dividend payout of 50%, an extraordinary dividend of €0.72 per share, which brings the total payout for 2014 to €1.44 per share. This represents an increase of over 120% on 2013. We are obviously very excited to share this with you and to give some cash back to our shareholders.

Clearly this is a Company that not only gives cash back to our shareholders, but also continues to heavily invest in order to better position ourselves for the future. What I want to share with you today is the investment profile from both a historical perspective and a forward-looking perspective for 2015.

So if we look at the left of this chart [slide 14], what we can see is that we almost doubled in the last five years the amount of investments that we made in Luxottica. The amount of investments dedicated to growth doubled between 2010 and 2014, and clearly we are very happy with this. Whether we are talking about new stores, the opening of a new subsidiary, or the expansion of our manufacturing capability, we want to invest more in growth.

For 2015, we are not doing anything less than what we have been doing in the past. We commit to investing 5.5% of our total sales in capex, and for the first time we are very happy that our capex dedicated to growth makes up over 50% of our total capital investment. Just to give you an example, we are planning to develop an ambitious plan to renew our LensCrafters fleet, with over 50% of our stores to be updated. We are also planning to open, within the next five to six years, over 200 stores for LensCrafters. Again, we have a strong belief in our growth, and this is really the result of that belief.



Now, let me share with you my expectations for 2015. There are certain things that are new – I am new, actually. But there are certain things that I like to keep the same, I would say, because we will keep the bar very, very high, in our commitment to deliver results. So, for the sixth year, we are sharing with you our “rule of thumb”. Our adjusted sales growth will achieve mid to high single-digit in 2015. Our operating and net income results will see an increase twice as much as the growth of the top line and we will also see a net debt to EBITDA ratio of 0.6x for 2015. That is our commitment for this year.

Now, as you know, this commitment is given on a constant FX basis and you also should be aware that currencies encounter headwinds and tailwinds, as we have seen throughout 2014 and the previous year. So what I thought I would do with you today is to show what I like to call a currency toolkit. This is a sort of toolkit that effectively breaks down sales and costs for Luxottica into the major currencies that contributed to our results. I do that so that you can appreciate that there are certain currencies, namely the US dollar, that have a natural hedge between revenue and costs. There are other currencies, such as the Chinese renminbi, where you have 2% of our sales versus 6% of our total costs, because of our considerable manufacturing capabilities in China. I would say that as a general rule, our expectation for 2015 is that currency will generate tailwinds in both our top line and bottom line results.

Now, let me share with you how we started the year. 2015 started well; January and February were on-track. Wholesale, Retail, Optical and Sun are all where they needed to be, and we are very happy about that. Clearly, March is the most important month of the quarter, but the signals that we are receiving in these first days are positive.

We have strong momentum in our brand portfolio. Michael Kors was launched, and the launch was successful. The products are in our stores and in our clients' stores. Please go and take a look at them; they are outstanding. The expectation for Michael Kors in 2015 is to deliver €70 million in top line sales. In the first quarter, our expectation is for a strong tailwind from currency that will clearly impact our sales and margins.

With that said, I thank you all, and I pass over the presentation to Massimo to talk a bit about the great initiatives that we have in product innovation and supply chain. Thank you.

Massimo Vian

Good morning. Here we are again with our completely vertically integrated business model. So, the good news is that we are not planning any changes, and if possible we are investing even more in our core assets. With this new organization, now even more research and development, product and design development work very closely with all the industrial operations and logistics, and this has given us the possibility to drag out margins and values from every ring of the supply chain even more than in the past.

So this circle continues to accelerate. This is the good news: we have been in a positive mode for a number of years, and we continue to accelerate. Further good news is that we are also including in this completely vertically integrated model the development of in-house automation strictly related to our eyewear world. So again, through the use of technology developed in-house, we will



further, and you will see in a few slides, accelerate our model. We are very, very proud of where we are.

If I may add something more, you saw from Stefano's slides that we are adding investments, we continue to invest. From our sales growth, you can easily see that we continue to grow our own operation base. Every year we're almost to add a new plant, this is what we're doing, we're adding more capacity and new technologies in our plants.

In terms of footprint, of our manufacturing sites, this is the picture of where we are today [slide 20], and we are exactly where we planned to be three years ago, when I met many of you in our Operations headquarters in Italy.

Italy is, and will continue to be, the heart of our luxury production, with a 43% output ratio, not planning to decrease in units, but to slightly decrease in terms of overall weight on the total production. However, it will remain the heart of what we do.

China is growing; in fashion products it has the fastest growth rate and remains at the center of what we do in Asia.

Brazil is not growing that much in weight over percentage, but we are growing there with the speed of the market at a 20% rate year-on-year. In the Brazilian plant, we are currently producing about 50% of what we now sell in that country, and the good news is that 50% of it (or 25% of the total sales) is made of our own brands: Ray-Ban, Oakley, Vogue, Arnette. These are now made in Brazil in our state-of-the-art plant and also, to be sold in Brazil.

In Foothill Ranch, our California plant, we are committing to stay there. We are very happy with the highly flexible manpower, and we are completely changing the logic of that plant to increasingly focus on the manufacturing of injected, high-performance Oakley products, investing largely in our fast-injected line that I believe some of you saw three years ago in Agordo. This is our commitment: staying there and increasingly accelerating operations at our California plant.

We did not only invest in growth; that would have been too easy. The journey over the past few years and what we plan to continue to do is to transform our industrial footprint and make it more and more technologically flexible. As you will see today at Luxottica, there are different technologies. So, we have to produce frames with carbon fiber, with wood, with aluminum and die-casting. Our processes had to be transformed in order to adapt to the new demand for products.

Sometimes we challenge ourselves. So we are the guys that are inventing crazy products, and we are a Company that sets our plants with the challenge of seeking out the trends that customers want and create them. We had a dramatic shift in technology mix, with the traditional metal frames in the last years decreasing in percentage in terms of appeal to the market, but we have been able, through technology and innovation, to increase the portion of plastic injection, specifically with the fast line technology that is now available also at Foothill Ranch. I think that the lines are now four times the size of the ones that some of you saw there. We have a vast number of lines, as I told you, in Foothill Ranch, in China and also in Brazil.

So our modular concept to produce injected frames is fully operational and is enabling us to play with capacity between the different geographies. In this industry, we are the only company that is able to do this.



Furthermore, we did not simply look at these new products coming in and digest this technology. What we have been able to do is to reduce complexity, especially during the last two years, and for the next two years we are planning a dramatic reduction in the number of SKUs. This is helping us to focus where we need to – niche products, special colors – but at the same time to take all of the advantages of the larger scales that specifically some of our brands allow us, Ray-Ban and Oakley in particular.

This slide [slide 22] is about our logistic footprint. Of course we have grown, and as we grow, so do our logistics and distribution network. We grow in size, but then again we do not grow in complexity. We are concentrating our efforts on our main Distribution Centers that are all around the world, located nearby and in some cases in the same building as our manufacturing platform. So in China, it is in the same building of our factories. In Italy it is in the same neighborhood, a few kilometers away from our main plant. In Ontario, California, it's close to the Foothill Ranch facility, and in Brazil, it is half an hour away from our plant.

We want to concentrate on those hubs because, going back to the results that Stefano commented on, regarding the ten days of DSI reduction last year, if we move our inventory in this first level DC, we increase the service level because that is where have the maximum availability of our products. So, an increase in the service levels, as we can find any frame there, and we reduce the overall inventory.

On top of that, the new trajectory in the evolution of the overall worldwide logistics distribution is the direct shipment, and we are already there. So this means that not only can we distribute through our DC within the continent, in the US, Europe and Asia, but we can also jump from one continent to the other, and this is what we are doing. So for example, the DC in Italy ships directly to a vast number of key accounts and department stores in the US. So we no longer go through our Atlanta distribution center; we go straight to the address of the mall. Again, it means better service, better availability and lower inventories. This has given us dramatic results, especially in luxury products made in Italy. So we do not need to position them everywhere; we keep as much as we can there in Italy and we go direct, which has again led to dramatic results.

I am happy to say that before the end of the year we also approved all of the new investments for our new DC in China that we are starting to build now. It is one kilometer away from our factories. So in the existing center, we will expand our manufacturing and the new one will be a brand new building distribution centre, which has now been launched. This will turn again into acceleration of our order cycles; as Stefano said, it is true for the past, but you do have to maintain expectations for the future. A ten-day overall reduction in manufacturing and distribution lead time will again translate into acceleration of our inventory rotation, and this is our commitment.

So, are we all about operational efficiency? Yes, but we are also about managing flexibility. I think that we are the best at using our paradox to our advantage. We do not want to be known only as the big numbers people; we are also able to manage very small-scale volumes. So, minimum batches, handmade products, luxury products, handmade with pride in Italy, and at the same time, taking the advantage of big volumes and automation.



The picture on the left-hand side [slide 24] represents a handmade frame, with hundreds of pieces of glass, which gives me the opportunity to launch a video about our Lauriano plant, in which we have already invested more than €4 million in the past two years. So the plant has been completely renovated and is dedicated and focused on products handmade in Italy: Oliver Peoples, Persol, Alain Mikli. So, just to give you an idea, I am fairly sure that you will enjoy this video.

[VIDEO]

This is what is happening now in the Lauriano plant, which is a small-scale plant. We are happy with a small-scale plant – we do not want to be just a giant – but when we need to recover efficiency and anticipate cost inflation challenges for the future, we do our work on high scales and high benches. As I said to you before, we have already started engineering our automation inside. So, here is another video; please pay attention and tell me afterwards how many human hands you see in the video.

[VIDEO]

This is an example; it is the line running now in the Agordo plant. Just to give you an idea, it is going four times slower than it could go, just for the sake of the video. It is dedicated to the Ray-Ban Aviator production, but what is good is that each module could be adapted for the manufacturing of modular automation of other styles. So it is a clever automation. It is an automation that can see, as it has cameras, and can adapt to the shape of the style. It is the latest generation in automation, and so we have great confidence that part of this module could be utilized in the future in the manufacturing and assembly of other frames as well.

So this is our nature: handmade, luxury products, taking the most out of the expertise of our maestro in Italy. At the same time, growing in volumes, but trying not to grow that much in costs, taking full advantage of the economies of scale and new technology.

Are we about process and automation, and operational execution? I wanted to conclude my presentation with a “no”, because we are about product. Luxottica is about innovation, in all senses and in all means. This [slide 25] is an example of innovation in lenses – the new Prizm lenses – which is able to cut some wave lights, improve athletes’ performance while skiing, enabling them to see in a better way, more precisely the shades on the snow. You can test these goggles this afternoon at the Luxottica Days. It took us more than one year to bring this goggle to the market, and this is an example of innovation. I am sure you might be curious about this.

This [slide 26] is another example of our curiosity, how we want to be present not only in the world of classic eyewear, but trying to stretch the boundaries of what eyewear means today. Nobody told us to go and work with these guys [Google and Intel]; actually, they came and rang the bell of Luxottica and said, “Hey, do you want to be part of this joint R&D effort?” We said “Yes”. No one knows how big this business could be in the future, but for sure we know that now, when it will take off, we will be in a leadership position, far, far away from anybody else. The frame per se sits in the perfect position – I already told you this during last October’s investor call – in front of the eyes, close to the mouth and close to our ear, this is the idea, so as to create a new interface with the external world. We are there with them. We are happy with these partnerships.



Is this all about technology? No, it is about luxury, a material like wood. Again you will see this afternoon these products, they launch now [slide 27]. It might seem to you a classic material; you have no idea how this changed our technology in our manufacturing plant, it is amazing. These are layers of thin wood glued together with a specific resin and then machined through the same machines that are now creating the plastic frames. It is amazing how we can allow our luxury partners to express themselves with any kind of materials.

Again, a crazy shape [slide 28]; I mean, I could talk an hour about this frame because this is such a mix of technologies that you have no idea how complicated it is. It is metal, it is casting copper beryllium, it is acetate. It is a very complicated assembly process, and guess what? These can resist to 25,000 opening and closing cycles. You want to do it? You test it 25 times; I will count them, okay?

Again, expressing the beauty of the inspirations of, for example, our Dolce & Gabbana friends and partners [slide 29]; they are observing the world, giving us crazy inputs, and we are the only one in the industry able to translate their needs into something physical, bring this to the market in less than 12 weeks on average, produce them and distribute them with our logistics, being able to reduce inventories and improve service level year over year over year.

These efforts I think constitute one of the real strategic advantages of Luxottica. We are about product, we are about innovation, and we are proud to think that what we are able to do what nobody else is able to do in the industry. So, thank you very much. I really hope to answer your questions this afternoon in our tour of Luxottica Days, where you will be able to touch and feel our products and our innovation. Hundreds of new models, thousands of new SKUs are launched these days in our March collections and we are very, very proud of them.

So I will see you later, and now I'm happy to hand over to Adil for an outlook on the markets side. Thank you.

Adil Mehboob-Khan

Hello again. Many of you over coffee were telling me we have new offices, we have new faces, we have new management structure. Yes, we are at the beginning of a new phase for the Company that will of course build on the things that we know how to do well and seek new opportunities. So as I try and characterize our journey to sustainable growth, we have kind of divided it into three blocks.

The first we call transformational acquisitions. Transformational because these are not just acquisitions that add revenue, these are acquisitions that change the fiber and the structure of the company, given their scale and given that we entered new channels and gained new capabilities.

The second phase, growing the cycle; that is, having done the acquisition, the moment where we could make the vertical integration model really breathe and come to life, and of course build this portfolio of brands which is quite remarkable, and we will talk a little bit more about that later. So in the next few months, with Massimo and the rest of the leadership team, we are going to be putting together our next five-year plan, and these are some of the themes that will permeate the five-year



plan. I think that will be very much the theme of our next call, but I wanted to give you a preview of some of the items that we are thinking about and why we have a very legitimate quest to have this proportion of growth going forward.

I get questions about the efficiencies; yes, we have opportunities on efficiencies. Massimo described how efficient we are on the production side, but definitely as a big global business we have opportunities of integration and opportunities of efficiency, and of course M&A. M&A is there and will continue to be an integral part of the growth model going forward.

First, let's talk about what legitimizes our ambition to continue on a steady growth pattern. The first, of course, is that we operate in a structurally growing industry. In the next five years we expect a 30% growth in the market, from 900 million frames to 1.2 billion frames. That is more or less the growth that we have seen in the past ten years, so it is not only growth, it is an acceleration of the pace of growth; in the next five years, the same growth we saw in the past ten.

The other thing to note is the colors of the pie chart [slide 32]. Today, emerging markets account for approximately a third of the total market, and in five years' time we expect them to edge towards conquering almost half, and that of course is a big driver of how we are going to chase opportunities in the future. It will be apparent in the next slide why emerging markets are going to be a big driver.

We have called these the secular growth drivers [slide 33]. Maybe I will call them the inevitable growth drivers, but the first one, the first big block here is demographics, and yes, demographics do have of course a big skew to emerging nations. An additional 500 million vision correction wearers by 2020 is our estimate. That is a very significant increase in users. Of course, also the profile is changing and our habits are changing. We are spending more time in front of screens, more time in front of small devices in our hands, and that also drives an increased need to see well.

The second block, penetration, is about the fact that there is still a gap, a significant gap, between the number of people that need vision correction and the number of people that get vision correction. I would not want you to see this only as a phenomenon of emerging nations. Only one in four clients in the US, potential users in the US, as adults have an eye test. When I look at children, one in 11 children gets an eye test before they start school, and if you look at the medical need it is about one in four who actually would find that they have some form of vision correction required. So it is not just a health issue, it is a learning opportunity, and it gives you a sense – by quoting our most developed market – of the opportunity and penetration that really exists everywhere.

The final item, premiumization, is really about the trend that we see, the very favorable trend for us, to more premium eyewear. When I joined the Company, Massimo gave me these glasses that I am wearing, and he said, "These should be good for you". I tried them and I said, "Ah, looks good. They are comfortable, I will keep them"; they were just nice and comfortable to me. Then I found out that they are multiple-material glasses. The front frame is injection molded. The temples are carbon, a special kind of carbon only we make that is actually flexible. Nose pads are integrated, the screws are hidden, there are nice temple tips in silicon that keep them steady, and there is a



pattern inside that gives it a touch of flair. My lenses are progressive, coated, extra light – it is good I got them free, really.

So the trend to more sophisticated eyewear, to more functional eyewear, eyewear that performs at higher levels, is there and it is going to be a driver of growth for us. 80% of the market in the US, as you have seen we are so strong, is still below US\$50, and that is not where we play. There is a migration from that bucket to the bucket where we do play.

Let's talk about North America for a second. It is our core business, and when I talk of emerging markets I want to make sure everybody knows that we are completely committed, bent over and investing in our core business. In many ways North America is still emerging too, because we have within it all of these opportunities, some of which I have mentioned.

There is a lot of useful information here [slide 34]. The first one shows you our total sales, our progression. We plan to add at least another US\$600 million in sales in the next couple of years going forward, a healthy rate of growth there. You see that that happens while the incidence of the US as our total business begins to level down, consistent with the fact that we are going to grow double-digit in emerging markets.

There is also useful information on the concept of premiumization, which I mentioned earlier. Just take this as a proxy. I have taken one element that gives you a sense for clients, consumers investing more in technology and in premium glasses, which is the percentage of polarized eyewear sold in Sunglass Hut. Polarized eyewear has a cost which is 25–35% higher than non-polarized, and you see there the trend that gives you a sense of investing in higher-priced items. So our growth in the US will come both from more pieces but also from the premiumization effect we talked of earlier, from a sweetening of the mix.

As far as emerging markets are concerned, you saw earlier our trend. We expect that trend to continue, probably on the higher end of that range. Consistent with that trend we are also going to have a greater presence in developing markets. So we are not just going to be guests or remote controlling from headquarter locations our presence in emerging markets; we are going to open stores, we are going to open Wholesale subsidiaries. We are going to have a local presence, we are going to have a local knowledge, we are going to have local talent, and we are going to be able to really understand the habits and practices that enable us to drive the emerging market business.

If you had to create an eyewear company today, how would you want it to be? I noted six points, and then I looked at which are our differentiation points and noted six points, and they are the same. That really is the power of Luxottica, which is that what is relevant to be the best in the industry not only we have, but they are our differentiation points, where we have a right to win.

On vertical integration you have heard a lot, but we invent, we design, we make, we assemble, we brand, and very often we sell the eyewear. So we are able to extract value at every part of this journey across the value chain.

On leveraging scale, first we have it, which is step number one, but as we leverage it we do not lose what Massimo referred to earlier, which is that craftsmanship aspect and the ability to tailor, and a recognition that we want really to have the capabilities to make every brand different and



specific, have personality, and occupy a mind space and a positioning which is unique. So we do not trade off scale, which we can leverage, with tailoring, which we can leverage.

On innovation, I think Massimo said it all, but leaders in design, leaders in materials, leaders in new manufacturing techniques, and leaders in partnerships with people that will help us define eyewear as devices and eyewear of the future. The portfolio, I find, is one of our greatest strengths, and I mean that in the broad sense of the word. It is not just a portfolio of brands which are well spaced out to cover the consumer segments, whether they are luxury or lifestyle, or fashion, but it is also portfolio intended as about half of our business is Retail, about half of our business is Wholesale. We are able to have licenses be 30% of our total portfolio and 70% of our portfolio are our own brands; that gives us independence and that gives us robustness. Of course, in the portfolio we also have just about equal weight between Sun and Optical, and that also allows us to be robust and allows us to capture opportunities as they come, whatever segment, in brands or in channels, may come our way.

We have very high coverage and excellent Wholesale, and let me state that as a person that knows Wholesale – you will hear a little more about our Wholesale business later – but our reps are becoming more and more consultants to the optician. They are able to partner with the optician and the storeowners to grow the business. We have a program called STARS, which is all about counseling on assortment, guiding the assortment so that stores can maximize their revenue by emphasizing really the bestselling items, and we are able to partner and tell them what to do. We can get up to a 20–25% lift in the individual store performance via that method, and of course our reps are super-digitized and have all of the state-of-the-art technology to get that visit to be impressive and to be meaningful to our clients.

Lastly, a proven retail model – you will hear more about Sunglass Hut – that is really impressive, five years of double-digit growth in Retail. That is difficult across any industry, and in our industry impressive and something we can count on because we are still way underdeveloped.

On the subject of being underdeveloped, one of the things that we are doing and that we want to quantify in our five-year plan is to bring the things that we are excellent at everywhere we have infrastructure, and take this as just a list to provoke the argument, as opposed to necessarily the final list. To give you some examples: Oakley, a billion-dollar brand in the US, same size as Ray-Ban, still very underdeveloped in the rest of the world. 80% awareness in the US, awareness in the 50s in Europe, awareness in the 30s in the emerging markets; building the awareness, building that brand, is a major opportunity for us.

In terms of elevating the service level, I have talked about STARS. In this model, we are able to deal with our clients. We are still under 10% coverage on the STARS program; we have a ton of opportunities to drive that further.

On Sunglass Hut I will hold my guns, because you will see that later. I have already voted for Sunglass Hut as a building block. It really is a very impressive outfit.

On e-commerce, the glass half full on e-commerce would be that we sold 1.4 million frames last year online. It is almost a US\$200 million business for us. Ray-Ban.com has grown 100% in the



past year; Sunglass Hut has grown by almost that as well. So very fast growth rates on our e-commerce, but again it is less than 3–4%, and we are going to give that channel more weight, more attention, because we have models within that are giving us good growth, that are really interesting and engaging for consumers. We need to bring that further.

We are getting a lot of pull from department stores and travel retail, and it is going to be another big building block for us going forward. It is an interesting phenomenon. Firstly, we are growing rapidly within the accessories category; second, we are still small within the accessories category, so department stores and retail are inviting us in both to run their spaces, as well as with stores within the stores, because we can drive their business. We have a track record on that.

Finally, we will be seizing opportunities in China and Latin America. In China we only compete in 10% of the space there, so we have 90% of China to conquer. When it comes to Latin America, we have a very impressive model in Brazil and we want to bring that model and that strength to the neighboring countries. So in terms of opportunities, beyond new white space, beyond acquisitions, there is also a lot of growth within the model for us to capture.

The heading of this chart is doubling sales over the next ten years, okay? That is a pretty ambitious goal. I think Massimo coined it, so maybe I should leave this to him to say how we are going to do it, but doubling growth in the next ten years, doubling the size of the company, if I wanted to dismiss it I would say, "Look, it requires us to grow at about 7% every year. What is our five-year CAGR? It is eight and a bit. So is it within reach for us to grow at the pace that will double the company in the next decade?". Absolutely yes, but we are mindful of course that it gets harder every year, which is why the list of opportunities that are below the heading are important for us to chase and legitimize that we can get there.

I was not sure about showing you this chart, but use it responsibly. This is how we expect the year to unfold on our billion-dollar brands (Ray-Ban and Oakley): between 8% and 10% growth (at constant forex); LensCrafters comps in the 3–4% range, and you will hear why that is legitimate, it corresponds to our recent trend. Sunglass Hut very much a continuation of the story, and those growth rates are very much between reach.

North America in the 4–6% range (at constant forex); maybe we are being a little conservative there. Europe 5–7% (at constant forex): that is where you may stop me and say, "Really, Europe 5-7% growth? You delivered 4.6% last year". 5–7%. I would say, if I look – we have got a couple of months under our belt – that 5-7% for us is achievable. We are already traveling this year at that kind of pace so far, and that is a mixture. That is happening in the first semester of the year, and remember that last year we had a tough second semester, so we will have a more manageable base period when we get to the second semester. Asia-Pacific and Latin America are consistent with the numbers that we published earlier for our emerging nations.

So that gives you, I think, an idea of how the near-term will unfold this year. I think that you have earned a break, but before and as a segue let's just see a video together of one of our best and biggest brands. Thank you very much. See you later.

[VIDEO]



Paolo Alberti

Hello everyone. That is not me in the picture. More importantly than that, when you think about Wholesale bursting the limits, you may think of a moment of complacency, because we have burst those limits – and now? It is kind of simple. My management has a great way – a simple way – of every year raising those limits, and we are happy to perform very well every year. I will look at a few of the things that helped us grow, and then I will talk specifically of each one of them.

Definitely it is incredible to say that North America continues to be one of our strongest emerging markets. As Adil said today, we are breaking that paradigm of Americans buying eyewear. 80% of Americans buy eyewear under US\$50. In fact, some statistics say that even 60% of Americans buy eyewear under US\$35. I will show you how we are trying to break that paradigm in the charts to come.

Then of course we always have our Asia and APAC markets, emerging markets that are doing fantastically well. We have a new subsidiary in Thailand that we opened last year. It's our second year, a bit tough in Thailand for the first few months, but now we are trading very well, and most of our Thai customers are at Luxottica Days, who you will see this afternoon are doing well with orders. We opened in Malaysia at the end of last year, and then soon to come, something else that we'll talk about in a minute.

There was positive growth in Europe, and we talked about the 1% in Western Europe. Thank God my Europe is a bit larger than that. I also have some emerging markets; I have a lot of Eastern Europe and Turkey in that, so I look at a Europe that is actually growing a bit more than that +1%. On top of that, we have to raise – and we will talk about it in a minute – the sun issues that we had.

Let us start with North America. North America basically has a CAGR of over 10%. One of those ways, and we were talking about that paradigm about Americans buying cheaper sun wear, is by having brands that are American brands for Americans. We have had, in the past, Coach. We have had Tory Burch, where we just renewed the license and which now is actually our fifth brand in the United States. Now we have the launch of Michael Kors. I can tell you that, after two months of trading, Michael Kors is doing north of 50% of its annual budget, so we are very happy with what is happening with Michael Kors in the United States.

We have also tried to do our best and are continuing to look at our sales force in order to get more leverage out of our luxury brands. We have STARS, a new roll-out, also in the United States. Imagine: STARS was only in Europe before last year. Within those 750 new doors, we have about 400 that are going to be Michael Kors boutiques, the first time that STARS moves into the world of boutiques. Remember that STARS is able to generate between 15% and 20% more sales off-take, and that is with about 15% to 20% less inventory. Obviously those clients that allow us to choose their assortments gain great strength from this system.

In general also we have worked a lot on our supply chain. Americans – especially department stores – like to get their stock on time, and when I say "on time", it means, "I would like it this day, in the afternoon", and if you do not make it in the afternoon, you do not go the next morning. So what we have been able to do in order to help our service levels, especially again for department stores, is to ship directly – as Massimo mentioned – from Italy.



We talked about Europe for a minute, and we said that continental Europe, especially Mediterranean Europe, had basically no sunshine. We had the worst summer in Mediterranean Europe since 1956. I was swimming in Corsica on August 14th, and I actually was in the middle of a hailstorm in August in Corsica. Now, that does not mean the whole year went like that, but I guarantee you that the stock that we put into all the stores did not move very much, and that is why we had a bit of a difficult moment.

That -8% in Europe was also a son of no sunshine in summer.

Again, we have been working on our service levels. On top of that, STARS again was not present in Southern Europe, in Mediterranean Europe. Now in Italy we have over 800 stores just in one year. Again, STARS makes you lose a little volume at the beginning, because you have to take the stock back from the client when you first start it, but then once it starts moving, it takes about a few months to get going and then obviously you get those 20% extra off-takes.

Asia in general has been a powerhouse for us. Ray-Ban and Oakley are both growing at double digits, not only for China but for all of Southeast Asia. Again, we have dedicated sales forces for Ray-Ban and for Oakley. We are starting to think about splitting the sales forces in order to get more traction out of Sun and Optical.

Here too STARS was not present, and now we are starting. Actually we have our first shipment in Asia as of November last year of STARS. We opened about 240 doors in 2014, and we will open up about 540 doors in 2015.

Finally, after Malaysia, we are ready to go into Indonesia. You know that Indonesia is a very large country with two areas, Jakarta and Bali, having major sun wear businesses. This is especially true for Oakley, and I am sure that there we will be able to capitalize on the tourist markets. Not only is the country growing, but also the tourist markets are growing heavily.

Brazil has had 17% growth. I am going to say it: in luxury last year, we had between 60% and 70% growth. I think that, again, part of the reason is that before, Brazilians had to travel abroad to buy their luxury goods. Two years ago, we lowered our prices on luxury goods. Brazilians are starting to buy their products in Brazil. The volumes that we have put in have more than countered the fact that we had a lower price. There again – Massimo talked about it – over 50% of our products are now made in Brazil for Brazilians. Many of them are designed for Brazil. A great thing there is that that avoids duties, but not only that: we are able to serve our clients so much better.

Again, STARS is coming to Brazil. We had our first shipments just a few months ago, and yesterday at Luxottica Days I signed up with another big client of 900 doors. We are going to start a pilot of 11 doors next month. We also were able to expand our distribution. You remember we had Tecnol distribution and Luxottica distribution. When we put the two together, there was actually a very small intersection between those distributions. Today we are taking advantage of the best Tecnol stores and the best Luxottica stores, and the two will give us added distribution for all our brands.

On a lighter note, the woman you see in the picture is the new Vogue campaign, which is part of our going “glocal”. In other words, Vogue is an international brand, but she is a Brazilian model. Her name is Adriana Lima, and she is our ambassador for Vogue in Brazil. She will also be present



in April at the Abioptica fair, which is the MIDO of Brazil. I do not know about orders, but she is definitely going to create some traffic, knowing my Brazilian counterparts.

Finally, I just want to say that great brands, first-class service, a great relationship with our customers – and you will be able to see our customers today – and a great group of colleagues will allow us to push that limit up and to try to become an even more successful Wholesale division and a bigger contributor to Luxottica in the years to come. In thanking you for listening to my short speech, I would like to introduce Nicola Brandolese, who sits on the other side of the ocean and runs our North American Optical Retail business.

Nicola Brandolese

Thank you Paolo, and thank you everybody. I will spend 15 minutes telling you about our Optical trade business. I actually lead North and South American Optical Retail business for Luxottica.

2014 has been an exciting year for Optical Retail. As you know, we started the year in a pretty difficult way. The first semester was pretty tough across all brands. We delivered a good Q3, and we delivered I think an exceptional Q4, so strong acceleration across the board for all the North American brands. Let me spend a couple of words on the minor brands, and then we'll spend most of the time talking about LensCrafters.

Sears Optical has been going through an amazing transformation over the last 24 months. We have new leadership in place, new leaders across the board in the field, in the corporate office. We have really taken proud ownership of the segment that we service with Sears Optical, and the relationship with the host has never been as strong as it is today. In 2014 we closed a huge number of stores, which we did not believe could have been profitable. We think we are almost done there. We do not foresee any more significant closures being initiated by us. After the big transformation, the team today has a motivation, energy and passion that I have never seen before. We are really there to compete and grow. The team delivered -10% comps in 2013, and this turned around to be positive comps in 2014. Amazing transformation; we are there to win and to keep investing in the Sears Optical business.

Target Optical is an amazing story. It is its fifth consecutive year of double-digit comps. An amazing story, amazing profitability, amazing top-line growth, and the relationship with the host, Target, again has never been as strong as it is today. They agreed to finally allow us to open new stores in existing Target stores. It is the first time Target, as host, has allowed us to open stores modifying the existing Target stores, which is great. We will open more than 35 stores this year, and this is thanks to the great performance achieved over the last five years, thanks to the great profitability that we also bring to Target as the host. The profitability per square foot is really interesting also for them. So, great value for money for the guests, great personalized customized fun, and an easy and simple experience in this space.

Pearle is another great story, with an okay first semester, good third quarter and amazing fourth quarter, both for our licensed operators and our corporate stores. We have roughly 600 stores. 60% of them are franchisees, and the rest are corporate stores. Both of them enjoyed an amazing performance in the second semester, particularly in the fourth quarter. The team reinvented the brand positioning, repositioned the brand and re-launched a new customer relationship



management program, both for licensed operators and corporate stores. We brought all the corporate Pearle stores into a network with VSP, enjoying amazing growth since then. We are really committed to make Pearle Vision the best and strongest network of independent, franchised, licensed opticians in America.

So, a great story across the board; now let me spend a couple of words on LensCrafters. Stefano already commented on the progression in the year – very strong growth – so I will not repeat what Stefano already said.

What is really important is the performance in the fourth quarter. You see +2.5% in Q3 and +6.3% in Q4. The good thing is that the good performance and progression was achieved on all KPIs relevant to the business. Conversion rate was strong and steady throughout the year at +3.58% in the year.

Sales from eye exams were 2.7% in the year, but look at the number that we achieved in Q4: 6.8%. These are the sales coming from prescriptions prepared in our doctor's office next to LensCrafters, so critical to drive traffic, performance, business and happy customers in the end. Traffic was variable in the first semester, flat in the third quarter and marginally positive in the fourth quarter, which equals +0.8% traffic in Q4. Average dollars per customer – average spending per customer – was pretty flat to negative in the first semester, flat in the third quarter, and again, great performance in the fourth quarter; 2.6% growth in spending per customer, thanks to better lens mix, reduced reliance on discounts and better frame mix sold in our stores.

As you see, all KPIs improved through the year thanks to the transformation starting in January 2014. You see there another KPI, "Right the First Time". This represents the percentage of jobs that get delivered without requiring any remake or rework, so they are ready when promised for the customer and right for the customer. We have been working hard, because that is a critical KPI to drive customer satisfaction. We have seen a huge improvement – now stable at over 90, and growing over time. We had 120 basis points of growth in the year, 170 basis points of growth in that KPI in Q4. That is so critical in the last quarter of the year.

Profitability was huge. Stefano already commented on the profitability results for our North American Optical Retail. For LensCrafters, we over-delivered on the expectations of profitability, particularly driven by great performance in the second half of the year. That performance was mainly driven by three factors. Labor productivity, in both dollars per hour and units per hour, grew beautifully through the year. Discounts, as I said, dropped by 170 basis points in the last quarter of the year. There was a huge profitability improvement in our supply chain. Our labs increased saturation of associates in our store labs, reducing waste and shrinkage by 20 basis points. I would say that all the KPIs of our supply chain servicing our stores delivered an amazing job improving gross margin.

So, what are the foundations of all of this? What did we work on to deliver all of that? These are the exact same areas I was talking about after our Q3 results, and I will be talking about those same levers in the quarters to come, because here is where we are really focused and where we want to build our competitive advantage. First of all, eye care, customer care and eyewear are the essence of our brand. We will keep working on those areas, and they have been instrumental in driving the performance of LensCrafters.



About eye care, we now have a brand new organization helping our doctors and receiving support from our doctors. As I said, eye exams are one of the most important propellers of our growth. We initiated a true eye exam movement at LensCrafters, rallying the entire organization behind our doctors, and eye exams started growing in July last year. The growth has never been arrested. We had amazing growth in Q3 and amazing growth in Q4, and I have to say we are having amazing growth this year. Also, we finally have a doctor in our leadership team at LensCrafters. We have a new organization. We have improved on all the operational levers to support the doctors' work; new booking system, new online appointment system, new cost center, new analytical models to allow us to target the customers and improve retention of patients and customers.

Customer care has been a primary area of focus for the entire year. Again here we have redesigned our organization in the field. We have doubled – to ten – the number of zone vice-presidents, to guarantee a tighter, faster alignment between the field, the customer and the corporate office, faster communication, better coaching, better training and a closed-loop process whenever needed. So we are much closer to the consumers.

We are investing in training. We have really focused the attention of our field force on taking care of our customers. We have simplified a number of KPIs, and now we are really, finally measuring our associates on making customers happy. We have reduced the number of KPIs. Customer count and customer satisfaction – the two combined, number of happy customers – is really what we are focusing our efforts on. New cost center, new customer care, new unit to drive a customer-centric focus to the entire organization.

I talked last time about our new segmentation. We have three main segments and two sub-segments. Segmentation was rolled out in July last year and was becoming fully operational in November 2014. I have to say that we now have a beautiful segmentation of stores that allows targeting product assortment to the specific segment these stores service.

In the top 20% of the stores we have significantly raised average dollar sales through a better mix. In the bottom 20% of the stores we have significantly dropped the average spending per customer, but that is more than offset by an increasing conversion rate. The net effect overall is extremely positive. As I said, in Q4 we delivered +2.6% in average spending per customer, but with customers much happier because they get the product that they really want. Also, we now have a channel to phase out older inventory much more easily and much faster. We enjoyed in November the highest newness and freshness of our assortment in the history of LensCrafters. It was an amazing performance here.

This is a journey we started two years ago at Luxottica North America. I have to say it is a journey that will never end. We are not done, but I think the team achieved impressive results here, driving hundreds of campaigns every single month and being able to deliver a specific proposition to a specific individual one by one, thanks to new predictive models and a new, sophisticated campaign management system. This was instrumental in delivering our performance and will be instrumental in keeping us growing at the pace we want to grow.

About labor acumen, we have been re-balancing throughout the last three or four months of the year the labor hours across the chain. We have pulled hours from 200 or 250 stores. We have invested more labor hours in the top of the chain, another 200 stores where we have improved labor hours by 15% or 20%. So we have been reshuffling all labor to make sure that we had the



right amount of labor and the right individual in the right stores on the right shift. So you see all the levers playing together beautifully; the segmentation of the stores, the CRM segmentation of the customer, and segmentation and a tailored approach also for labor. As I said before, labor productivity has improved incredibly, driving the conversion rate up through the year.

I talked about performance management already last October. We have really reduced the gap in performance between the lower-performing stores and the high-performing stores. We do not allow any store to not perform as we expect for more than a given period. We have deployed the best regional GMs and the best zone vice-presidents to tackle that and to reduce the variance of performance across all stores. This has now become the mentality and the approach of the team. We are really proud of the progress made there.

Lab service efficiency is great. I have already mentioned that we have reduced by one full day the turnaround time from our central labs to our stores for all the jobs that do not get manufactured in store. December 2014 versus December 2013 it is one full day less, which obviously drives higher customer satisfaction. We have reduced by 200 basis points the storage and we have reduced the tail of the long order to make sure that there is no customer receiving their glasses longer than what we accept. So, it was an amazing performance also on the supply chain.

So, how do we look to 2015? We look very optimistically to 2015. It will be a year of investment at LensCrafters and Optical Retail North America, and a year of learning. We will invest US\$100 million just in capex. This is just capex for our store fleet, our systems and our tools to make a better life for our associates and a better customer experience for our consumers. Then obviously we will keep investing in marketing, labor and training.

Let me talk about these investments in capital expenditure. We have, as I said, digital tools. I think we have reached a very good capability here, but we want to drive it and move the needle even more. We will roll out new applications for our doctors and our associates throughout the year. We will roll out a new activity system that will allow us to really tailor the message and propositions to every single individual coming into our stores, and that will drive even higher conversion in the years to come.

EyeMed cooperation has been amazing. EyeMed has grown to 39 million lives, and EyeMed is driving a beautiful and great service to thousands of independent eye care operators, retail chains, and obviously Luxottica Retail. There is great cooperation there, and great investment there to improve the system and to keep growing together with EyeMed.

On LensCrafters, we will be completely renewing our store system. We were relying on a custom-made point-of-sale system; we will have a brand new, state-of-the-art one relying on our 10,000 iPads. We will finally have our associates being able to deliver an improved consumer experience on the move. Honestly, this will simplify the life of our associates even more, which will ultimately drive even higher productivity of labor and conversion rate. That will be a major investment that will start in July. We roll out the entire chain by the end of the year.

As Stefano mentioned before, we have a very outdated store fleet. We are not very happy with many stores, but we have now taken the proud decision to start an aggressive program to renew our store fleet. In the next five to six years we will completely renew the store fleet of LensCrafters. We will open a number of stores. Our store count will finally start growing. We will close a few



stores where we are unhappy. They are present in C and D malls, where traffic is significantly down. Most importantly, we will open more and more stores for sure, over 200 stores in the next five to six years, where we find a spot of good traffic.

We will remodel stores. We have 500 stores whose leases are expiring in the next three years. We will take all of them one by one, remodeling, relocating, closing where needed, positioning a different way, spending our money to deliver an even better brand experience. We will obviously keep investing in the things that make our eye care experience even stronger. Digital AccuExam is amazing. Over 200 stores have Digital AccuExam. We believe this is a major competitive advantage. We will keep investing there. We will keep making our doctors and our patients happier with tools to improve the consumer experience.

So, exciting years; we are very proud of the progress made by the team. I am looking at 2015 with great optimism. With that I will turn it to Fabio for another great story, Sunglass Hut. Thank you.

Fabio d'Angelantonio

I am happy and proud to commence to report the 2014 results. It has been the fifth year in a row with double-digit growth. It has been the 18th quarter in a row with high single digit comps or above. So we are very happy, and consumers are really voting for Sunglass Hut everywhere around the world. These are very happy results.

We have been winning through product over the year. Our new product introduction is increasing year after year. In 2014 we have been launching around 1,500 new styles, new products in Sunglass Hut, which makes a little bit between 15% and 20% new product introduction every month, which depending on the size of the store translates into about 20 to 30 new styles in a single store every week. So it is really a fast fashion story. If you add to this new product introduction the number of stores we are adding year after year, Sunglass Hut is becoming an incredible platform for delivering and exploiting all the innovation, all the new styles that Massimo was talking about before, for all our brands, a fantastic place to launch new styles, new stories, new collections, new brands.

You see the numbers, an all-time high, for Polarized sunglasses; we reached 50% in North America and about 30% around the globe.

Last year we gave ourselves an objective to keep increasing luxury and premium fashion, and we reached an additional two percentage points of penetration, which means really welcoming many more women into the brand. On the other side we have been winning through brand marketing; we keep increasing our market investment to the brand and for the first time we've been having television support in North America during the summer, but we really had stronger marketing plans almost everywhere in the world.

All this translated into over 130 million consumers crossing the doors; traffic has been increasing in every single geography, and we are often over-performing the traffic of the mall and other environments. So we have been constantly growing traffic, not necessarily the case for all the different markets in terms of market performance, and on the other side we have very good conversion performance in parallel.



As I said before, consumers are voting for Sunglass Hut. We gave ourselves the goal to keep growing our emotional bonding, our emotional relationship with consumers, and today consumer research gives us back very, very good information about what consumers think about us. If you ask consumers what they think about Sunglass Hut, 36% around the globe would say that Sunglass Hut is a brand they love, and love is a big word. This number is above 50% in North America, so I go back: emotional bonding with our consumers.

All our attributes are growing, so year after year consumers are defining Sunglass Hut as more cool, more youthful, more fashionable. As a consequence, what we call the consumer funnels – that go from awareness to consideration to intention to buy – is really year after year growing in all dimensions, making our growth sustainable. As a last element, the number on if Sunglass Hut is or is not a brand I trust, and the score of Sunglass Hut satisfaction again is growing year after year.

So, 360 degree success on consumer metrics, and really beyond product the other secret weapon is our people. Sunglass Hut has a happy 19,000 associates fleet and really those people are happy to work in Sunglass Hut and very loyal to the brand. The overall engagement of the people working for Sunglass Hut is 85%, which is higher than the same results two years ago. 88% declared to be proud to work for Sunglass Hut, and 84% defined Sunglass Hut as a nice brand – a great place to work, so this is really what makes the brand so energetic and so successful.

We gave on-line as one of the avenues for growth, as one of our drivers for growth, being a native citizen in the digital world, and this is happening. We invested in 2014 twice as much investment into developing very relevant and brand-right, brand-compelling content for all our digital platforms, leveraging as you have seen Georgia May Jagger, which is and will be our testimonial and our ambassador which is exactly where the brand wants to be. So, genuine, fresh, real, somebody living their life every day and enjoying fashion, and we have been using this content through all our platforms.

We re-launched last year in June, a native mobile platform; you see the performance in the second half of the year, with traffic growing 66% and conversion growing 49% with this new platform. We launched a new desktop website version trying to improve both storytelling and making the product even more the hero, and again performance in terms of consumer traffic and the business and sales have been very nice.

E-com was launched in Australia in 2013, and has been launched last year in UK and Brazil, beyond the US, so it is today active in four different regions on four different continents. How the experience is everyday more digital, more omni-channel I think is also amazing. We have more than 3,000 iPads active in stores. We cover the entire North America and Australia and the best stores in other countries, making the assortment of the store virtually infinite, so if somebody wanted a different size, a different color, they can have access to the iPad to an assortment which is probably ten times bigger than the store itself.

We have also been in the last year implementing more than 250 digital windows, digital front doors; these can be remotely managed and changed with creativity, and those have been extremely appreciated by consumers and also translated in a first test at about 5% uplift in traffic. We are going to implement another 250 or more this year, so those are not only North America and Australia, which are the main countries, but really in the best stores around the world. So we have



those first ones, 50, already in more than 20 doors, and all this is enabled by the IT platform behind.

I was celebrating with you last year the opening of the flagship in Times Square; who could have said ten years ago or five years ago that Sunglass Hut could have a US\$10 million store? This store did overcome the reach of US\$10 million last year, as we planned.

It has been a fantastic result, but two numbers I think make this performance even more interesting. The average AUR, the average sales, the average in transaction is about 15% higher than the rest of the network, and the traffic that this store had in 2014 is over 1 million consumers, which is an amazing number. The question I ask to us and ask to me and ask to our management team is really is this store a point of arrival, or is this store a point of departure for the brand? Really, I think the answer is obvious. Stores like these, like the flagship in Sydney, the flagship in Miami, the flagship on Fifth Avenue, the flagship in Covent Garden, are really raising the bar of the brand, are really raising the image of the brand towards consumers, but also towards developers that today are knocking on our door to offer more of these prestigious locations which is exactly what makes the brand every day more relevant.

You see also how the number of stores above \$1 million and above \$2 million in North America has been increasing. From memory, we celebrated in 2008 – so, six years ago – the fact that we had 100 stores above US\$1 million; you see six years later we have 40 stores above US\$2 million and you have 250 stores above US\$1 million. So it is incredible progress. Sales per door has been increasing in the past years more than 20%, and this all is a nice translation in general into profitability for the brand.

The other thing I would like to stress is the number of doors we keep opening year after year; it has been 240 last year, would be more than this number this year, and we also last year renewed 350 doors, and we should be able to renew a similar number this year. So the network is expanding, the network is changing scheme, the network is growing with new, bigger locations everywhere around the world.

Last, I would say a few words about the future. I think 2015 looks sunny for Sunglass Hut, one more year; I think the numbers we plan align with the performance in the past years. We have a very solid and global operating model to implement, and we have today a solid global IT platform – what we call the systems behind the smiles – that really support this evolution globally.

We have been very adaptive into entering new markets with different business models. We entered in Thailand with a joint venture, we entered Indonesia with franchising, we entered in China this year directly, and those three new geographies already have interesting and ambitious plans for next year. We plan to be in China beyond 30 doors by the end of 2015. We still see nice opportunities for expansion in terms of number of doors in the geographies which we recently entered, like Spain, like Mexico, like Brazil. So really the opportunity there is to keep growing.

The last topic is travel retail and department stores. Travel retail and department stores for us has been a focus channel in the last years. The number of airport doors today is well beyond 100, number of department stores is well beyond 1,000, and we keep having discussions with travel retail and department stores for more partnership, because I think every day is more visible on the one side experience we can offer in these channels, but on the other side also the performances



we can provide to these partners. So, we have some good discussions really not far from closing, so I hope we are going to have a nice announcement in the coming months. We said years ago that our goal was reaching 4,000 stores around the globe; we plan to close 2015 very close to 3,500, so we feel we are absolutely on track. Thank you.

Q&A session

Antoine Belge (HSBC): Hi, three questions. First of all, can you come back a little bit about the new governance structure, especially after a few months being in the job, because hearing everything you said this morning there is a feeling of actually no big changes, actually, wide-changing and things which have delivered very strong results. So, maybe could you focus on what will actually change compared to the different previous management structure and why an organization like Luxottica needs to have two co-heads?

Second question is actually on your guidance for this year, which is in terms of top line medium-to-high single-digit; is this just a tweaking of words, or is it actually a slightly lower guidance compared to the high single-digit in previous years? I am slightly surprised, especially this year when you have Michael Kors alone contributing to around 1% of sales.

Finally, I think you mentioned that M&A would be still a significant part of the business model, so what type of acquisitions are you targeting in terms of geographies, and will it be more like Retail or actually Wholesale? Do you also include Essilor in your M&A strategy, because I think that was envisaged in the past, so why did it not happen? Thank you.

Adil Mehboob-Khan: Okay, wow. So, let me start with the first one on the governance question on how we work, and then maybe I will hand it over to Stefano for your second question on guidance.

So, firstly, the idea of having two CEOs was really born out of the simplicity of looking at the volume of work, looking at the opportunities that we have and trying to increase the capacity of leadership that the Company has, and this has been an idea that was in the works for several months even before I arrived. The separation of work and the delegations of authority between myself and Massimo are very natural, so if I gave you the 16 areas that we have delegations of authority on, and I asked you to split them, it would be very natural for you. It did not take us long to split them because we have different skills, we have different backgrounds, and we are going to cover different areas of the Company.

What is important for us – and I think I would like you to ask me this question again the next time we meet, because it is a little bit early – is that the Company sees that having two CEOs is an advantage and not a disadvantage, because they have access to us more, because we do not duplicate and because we are able to make decisions faster. That is the real test. We are very aware of that and we want to do a good job at that.

You also asked about what are the early impressions; the early impressions are it is pretty easy, and it is not compulsory, but we like each other, okay? So it has been fun and we are working together well and we are enjoying ourselves, so I think it has been a good start, and really there is



nothing controversial about the way the work is flowing between us at the moment. I don't know if you want to add anything to that?

Massimo Vian: You said it all basically, but I think what could be even easier to understand, as Adil said, it comes really natural, and that could be even true for the evolution of my role. So I've been with the Company for ten years, starting in engineering, then operations in Asia and then a wider sense of operations when I was back from Asia, based in Agordo. So from really buying the granules, designing and the materials to the distribution, I think these next steps, including the product development and product design within my areas of responsibility, it could only help the introduction of Adil. So I would be pretty busy myself in order to keep the machine accelerating. We have ambitious plans, we have luckily more ideas than tools to make them real, so I think this will work, and there is absolutely no confusion on the spacing, and actually it is mutual acceleration from giving you the right product, giving me the right products and selling more, and this is the way it will go; again, quite natural.

Stefano Grassi: On guidance and whether there is a tweaking of words or a change, absolutely it is a range. The short answer to the question is it is really a range; we are giving a range between mid-to-high single-digits. You could pick whichever you want to be in that range. I think it is a world in which there is definitely uncertainty, probably more than we experienced in the previous year. We have been telling you, we have been sharing with you the areas which have been more challenging for us in 2014, so we prefer to begin the year with a range, the higher part of that range, it is exactly what we did this year and it is consistent with our previous year's performance, so nothing different with that respect.

Adil Mehboob-Khan: So, on M&A I am not going to say much, as you can imagine, other than if you look at our cash position and generally our past behavior we are always ready and always able when we see good opportunities for us to intervene, and we will continue to do that, so be alert, and we are ready.

Specifically on Essilor I will not make any comments other than they are predominantly a lens company, they make some frames, and we are a predominantly a frame company that make some lenses, and the relationship that we have is really interdependent. So we talk together all the time because they are one of our biggest suppliers, and what happens in the future, we will see.

Julian Easthope (Barclays): Yes, thank you very much. Three questions as well, if I may, first of all, coming back to the Cincinnati investor day. You gave some sort of commitments in terms of margin improvements – I think it was 300 basis points at Sunglass Hut and 250 at LensCrafters – I was just wondering if you were still happy with those targets, as they seemed quite aggressive at the time?

My second question comes back to the comments about FX. I think about the first half of last year, the 5% impact that you had on FX on top line had a negative 50 basis points impact in terms of the margin. I just wonder if you have turned that around now and there is a 10% improvement or thereabouts, approximately, in terms of the FX for this year based on current exchange rates? Does that mean you will get up to 100 basis points improvement just from the translation? I know you gave us some sensitivity there, but there is obviously hedging and things that also confuse it.



The last one, in terms of STARS, I forget the actual number but I think you said it was around 10% of your revenue dictated by STARS. You seem to have a big program going through on STARS now; I just wonder where you think ultimately it could actually get to? Thank you.

Adil Mehboob-Khan: On forex I think you saw earlier that we have this balanced hedging position, because particularly on the dollar approximately 50% of our revenues and 50% of our costs are rolling dollars, which is why for most of last year we did not benefit particularly from the dollar, and that swung, as you said, in the last quarter where we got significant benefit from the dollar position which is continuing at the moment. I will leave it to Stefano to complete what that means, one for the previously declared targets in Cincinnati, and then I will ask Paulo to take us through any further information on STARS.

Stefano Grassi: The answer to the question on margin in Cincinnati is I think we are still remaining committed to grow margin. As we shared with you in a previous conversation on both the Retail Optical North America, if I am not mistaken, the target was actually on total RONA, and I think in Sunglass Hut, the commitment stays the same. You have seen the leverage that Luxottica Retail profit and loss achieves when we have top line growth, so you have seen 120 basis points improvement in the last quarter of the year, at constant FX, as a result of leverage that we have in the profit and loss. So, those targets are achievable on both the Optical and the Sun Retail side in North America. I would say we need to grow profitably, and that has been our kind of mantra: growth with profitability. That is what we have been able to achieve in 2014, and we are confident that we can do it on that path for 2015 and 2016.

Paolo Alberti: In terms of STARS, Adil mentioned 10% of revenues; I think he meant approximately 10% of Wholesale revenues, and that is where we are today. Where are we looking at? In three years from now, I am hoping to do about 20% of Wholesale revenues in STARS. Where is the upside there? The upside is that we are seeing an acceleration of STARS as more clients actually that are in STARS are happy because they are growing faster than the market with a lot less capital expenditures. Now, the other thing that is important: I think the other great upside is that our first license now in April would start with STARS. We are currently in talks with another two licensees – I will not mention the names – that are interested in also doing STARS. That is another upside that I did not consider when I say in three years 20% of Wholesale revenues.

Bassel Choughari (Berenberg): I have two questions please. The first one is on France, where reimbursement rules are changing and it seems like there will be a limit of about €150 for frames, which prices out a couple of your frames. Do you expect the retailers to take the burden here, or do you expect that to have an impact on volumes?

The second question is on Brazil. Maybe if you can help me understand the size of Brazil and then maybe the profitability, because you are selling at prices close to what you sell elsewhere in the world; half of the production is made locally, so I assume on the other half you are taking the tax burden, so your profitability is probably 50% lower than Group Wholesale, or maybe you can help me understand this.

The last question: can you give us your growth in volume and price mix please? Thank you.

Adil Mehboob-Khan: Okay, I will take the easy one which is on France, we are waiting to see what happens, I think what you said is likely. We have a portfolio and that gives us the ability to



weigh the portfolio according to what are the value needs of French customers, and we will do that. We will do that to protect our volume position and our stance in the market, should the regulations make it difficult or redefine some different price points.

Stefano Grassi: In Brazil we make a bit less than €300 million of total sales. You have to consider Brazil as kind of a unique place in a way, because we have manufacturing, we have logistics, we have Retail, we have Wholesale. So it is kind of a blended mix of different things that takes place in Brazil, and we are all happy about that. So from a profitability standpoint it is probably a bit different than in other markets, because we have really a mix of different things all blended in one place. So, I would say it is slightly lower than other parts of the businesses growing, but again you have to consider it something unique in the arena of Luxottica countries.

Massimo Vian: If I may say for Brazil, I told you before that 50% of what we produce is our house brands, so Ray-ban, Oakley, Vogue etc. That 50% of what we produce was zero three years ago, so there is a very fast-growing rate in building in Brazil high technological product, exactly like we do elsewhere in the world. So in terms of product mix, we are growing fast, very fast, and the trend will continue. So, that is another factor that will help, is helping and will further help Brazil profitability.

Chris Walker (Nomura): Three questions from me as well please. Obviously a very strong dividend pay-out today; I am just wondering what your thoughts were on the optimal gearing level for the business going forward? Obviously if there is not significant M&A going forward, would you consider paying out further returns to shareholders going forward?

Secondly, just on manufacturing capacity here, obviously looking to double sales on a ten-year view; how much spare capacity do you have in the system at the moment? I appreciate there will be further investment, I am just wondering where we are at this point.

Then just finally on China, could you give us an update on the profitability in that market please? Thank you.

Adil Mehboob-Khan: Okay, maybe I will take the high level dividends question. The pay-out at this round was driven by our very strong cash position, and I think that you see that we still have a very strong cash position even after the pay-out. We do not have a dividend policy, but we have had a norm, let us say, that we have followed so far. I think when the new Board will be formed – because we are about to review the Board – it will be the Board's privilege to decide whether we want to change the norm upwards. I think that, from a combination of our cash position and probably continued favor on currencies, you can do your own math about what our possibilities may be going forward.

Massimo Vian: On spare capacity, as I mentioned before, the growth rate has to be followed by a growth rate of our overall industrial operation, so we do every year almost add in a new manufacturing plant, whether it is a building on its own or there are built-in factories inside the factories. Today the spare capacity is there, I would say specifically in the final stages of the processes, but I think the even more important question will be if we are we ready for what we will have to produce in the future, not how much. So, the growth rate, I do not want to sound too bold, but it is relatively easy for us to plan. It takes us on average a year to be ready with a new site or with a new small factory, and this is what we are planning for 2016 as well.



The key question is: are we flexible? Because we do not know the demands in one year's time in terms of plastic, acetate, metal, and the good news is that now we have the modules in place, so if you visited our plants, you would not see relatively complicated change. You see installations, specific installations, modules. So for us it is easy, it is like a Lego game; to have the tower bigger or taller, you put one brick in. It is an easy installation to the existing system; one module, one cell, two cells, three cells. That is the easy part. The tricky one is whether we have to go through die-casting or a high pressure aluminum casting. I don't know, you don't know. But this is the beauty, and this is the challenge.

Elena Mariani (Morgan Stanley): Two questions, the first one on the capex. So last year half of your growth capex was invested in digital; this year you mention US\$100 million in Retail North America. Can you give us a bit more of a breakdown, the key focus areas for this year? I am talking about page 14 of the presentation.

The second question is about acquisitions in M&A. I know you are not going to say much, but in the past, a couple of areas that have been mentioned were new brands and also retail chains in emerging markets; are these still the two focus areas or is there something else that we should think about? Thank you.

Stefano Grassi: I would not go too specific, but when we look at our capex pie, if we forget for a second about what is growth versus what is maintenance and we look at type of investment, there are really three big pieces. One pertains to the operational piece, so to expand and renew our capacity; the second one is obviously to our IT infrastructure overall, IT digital infrastructure, which obviously is an important and critical enabler to better serve our customers; and the third is obviously dedicated to our retail network, whether you call it a new store, a renewal of our existing store, a relocation or actually a new opening and new stores. That is the third piece of our capex investment. So that is pretty much what we look at and how we look at our capex.

Adil Mehboob-Khan: On your other question I think it is yes and yes. So, on brands we have a very robust portfolio, so we are not hunting, but if something right comes our way we will be ready and we can have an infrastructure that can absorb more brands relatively easily. On Retail and emerging markets, again same reasoning; we have our own programme on Sunglass Hut of openings in emerging markets which is ambitious and independent, but if we have an opportunity we are ready for that as well.

Domenico Ghilotti (Equita): First of all, my first question is on the pricing environment that you are facing in Wholesale. Last year you were probably able to raise prices also because you had some FX headwinds, so I wonder if you are able to do the same this year with much more favorable forex.

Then on the development of the profitability in the two main divisions, if you can elaborate a little bit more on the contribution to operating margin expected from both Retail and Wholesale?

Last question is on the buyback, if you can give us some guidance on the timing and maybe also on the rationale just to understand how much it is needed to support the PSP and how much is related to other targets?



Maybe if I can add, on the free cash flow generation for 2014, my impression is that you had also some contribution from non-operational working capital. I wonder if it is correct, and if there is any particular contribution from this, and so if 2014 free cash flow is a fully sustainable level?

Adil Mehboob-Khan: So, on pricing, yes; last year we grew prices, and in part that was driven by the headwinds on foreign exchange. This year you would need a crystal ball, and plus we would not declare pricing plans here, but for sure our last quarter of 2014 was very favorable, it is favorable now, so for the moment we have no pressure to price up and we certainly may have some flexibility. We will give it a few more months to see what happens in the second semester, but we certainly have the flexibility if we feel it is a business opportunity to adjust our value propositions to do so, thanks to the favorable forex.

Stefano Grassi: With respect to profitability, I would say we do have expectation to grow both our Retail and Wholesale side as profitably as we did in 2014. I say that because some of the projects that we undertook in 2014 to generate efficiency will obviously carry over in 2015 and we do have strong leverage in our profit and loss in both divisions. Whether it is sales force optimization on the Wholesale side, whether it is the optimization of store labor and occupants in our Retail side, we do expect to continue to grow and leverage our P&L throughout 2015 in both our Retail and Wholesale side, so no change to that.

The other question I think was around free cash flow. Free cash flow expectation for 2015 is obviously we are still going to have strong free cash flow generation. I think operating working capital was the key help to our results; I think there was a bit of a difference in the overall working capital due to difference in stock options, but again, I think the critical driver for 2014 has been all around working capital efficiency, and that is something very critical and important to also finance a portion of our investment in that specific year.

On the buyback, we disclose the maximum amount of shares that the Company has the possibility to purchase. The duration I think has a maximum time limit of 18 months, and anyway it is going to be at the shareholders' meeting in 2016. We do not have a breakdown on how much of our shares, if – and again, I want to underline if – we are doing this, are going to be driven through the PSP, Performance Share Plan or to sustain the stock. We have not done it. It is just asking for authorization to do certain things, and we obviously have to assess, depending how the market evolves, how, when and if we are going to do them.

Francesca Di Pasquantonio (Deutsche Bank): I have two questions please. The first is on Oakley, and I am very intrigued by the renewed commitment to try and grow Oakley in the way Ray-Ban has been excelling. I was going to ask you for a bit more color, because I understand where the opportunities are, but what is going to drive maybe better execution, more actions? Is it about the product? Is it about the distribution, the marketing?

The second question is on China and Sunglass Hut. The 30 openings announced for Mainland China seem to be a bit of a change in pace, a change in vision for the Sunglass Hut role in China, and so what is driving your decision? What is the level of confidence? What is it that are you are seeing from Chinese shopping around the globe that makes you confident about the Sunglass Hut opportunity now as opposed to a couple of years ago? Thank you.



Adil Mehboob-Khan: We will answer your questions in reverse, if we may. So Fabio, if you want to start with Sunglass Hut, and then I will take the Oakley question?

Fabio d'Angelantonio: So, I think your comment about the change of speed is accurate, and I think it has been driven by the overall successful expansion of Sunglass Hut in Asia and other countries, plus the fact that we have been more and more successful in Wholesale in Asia, in China in the past years. This, together with every day development of more massive of department store and mall opportunities, finally convinced us it was time to get into China with the Sunglass Hut model.

That is what has happened in the last year; we have been opening already seven or eight stores with volumes per door and AUR per door extremely convincing about the opportunity. So far we've decided to stay around Shanghai and Beijing, so around the two big cities. Certainly it is a change of pace, and I think 30 to 35 are the number of doors we want to open in 2015, but this is just the beginning. So it is a change of pace, if that was the question.

Adil Mehboob-Khan: On the Oakley question, so certainly I see Oakley as a phenomenal brand. You will see us celebrate what I would call the roots of Oakley. Oakley is a brand that is anchored in performance: performance in vision, performance in fit and fit that is dedicated to activity, and you will see our stories on Oakley go more towards this aspect of the brand, which we believe is very appealing particularly to a Millennial target that we have also identified is a target that can enrich the current Oakley customer base. So, you will see Oakley go a little bit younger than it is today and you will see Oakley go very much towards celebrating its points of difference that are in performance.

On distribution, we have a lot of opportunity so we are looking at how our go-to-market and our sales, both in Wholesale and in Retail, can be optimized to carry Oakley to more people and more places. So both on the branding and performance story as well as on the distribution and the availability of Oakley, we are going to give that a lot of priority this year.

Massimo Vian: I think what we could add on top to give you some more color on Oakley is that the dynamism on the new collection design has always been very, very strong with Oakley, and this is even more true for the next coming months. So we are, together with marketing and of course with the California team, thinking about the new roadmaps, or the new evolution of the product roadmaps. Do not forget that 2016 is the year of the Olympic Games, and we are now thinking, planning and working around a fantastic collection. Never forget that Oakley is about frames and is about lenses, and we have a center of excellence of R&D for lenses in California in Foothill Ranch, and those guys are working like crazy to give us something fantastic for the next season of summer, for the Olympic Games. So there are new energies, more and more on product development within the DNA of the Oakley brand in the Oakley team, investing a lot.

Flavio Cereda (Bank of America Merrill Lynch): I have three very quick questions. Firstly, I wonder if you could tell us how much of the LensCrafters and the Pearle Vision business in the States at the moment is related to EyeMed business?

Secondly, perhaps Massimo, if I can have an update on what's going on with India and your production facility over there?



Thirdly, I am afraid, on Oakley again, which has not been a success story in recent years. So when you have on the wonderful slide 38, 8% to 10% growth this year, it is not an Olympic year, so this 8% to 10%, is this predominantly coming from emerging markets? Because I am assuming it is not coming from the US, it is not really working in Europe, so are we talking mostly emerging markets here? Thank you.

Adil Mehboob-Khan: The 8% to 10% growth on Oakley, if I may start with that question, we think is achievable mainly driven on the product offering and on the emphasis that we have put on collections this year, and we certainly include North America in that building block. Both in terms of the quality of the offering for this year on Oakley, as well as the quantity because we have a drum beat across the year of new product introductions which is significantly higher than the past, we think it is likely to bring Oakley in that range. So, North America included as a growth driver, and very much a product story. It is early to tell, but certainly from the first couple of months and the orders that are coming in on the new collections, we are very encouraged.

I will hand it over to Nicola for your question on Optical Retail.

Nicola Brandolese: For LensCrafters, group directed care represents roughly 30% of the sales, where EyeMed is around 85% of total group directed care for LensCrafters. Growing, contributing significantly to the growth of the brand, more and more consumers are leveraging group directed care to get access for their eyewear.

Massimo Vian: Our Indian site is there, we are investing. It is a very, very small facility compared to all the others. It is intentionally kept at that size. It is used now to produce mainly Ray-Ban, made in India for the Indian market, I would say Ray-Ban Aviator. We utilize only metal frame technology and we're not planning to change that in the future. What we are experimenting is to use that site as a site for final assembly of components that are made in China, delivered to India, assembled and shipped into India from India, and this is what we are planning to do in the next period with our Indian plant. So, to be sort of a receiving hub for components that are manufactured somewhere else, mainly China; assemble, finish the product and ship locally to the distribution. There are no particular expansion plans on our Indian plant. We are renewing it, but we are not doubling the size of it.

Adil Mehboob-Khan: The three of us will be at Luxottica day session with everyone that is attending there, so we'll be happy to interact and take any on-the-fly questions that may arise later today. If there are no more questions then I think I would declare it lunch, and please join us for the Luxottica day tour later on. Thank you very much.