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Q&A

Alessandra Senici
Good afternoon, and thank you for joining us today. Here with me are our CEOs Adil Khan and Massimo Vian and our CFO Stefano Grassi.
Before we begin, first I have a couple of quick items to cover. As a reminder, a slide presentation which we will informally follow during this call is available for download from our website under the "Investors/Presentation" section. This presentation includes certain non-IFRS financial data and information which are further explained and reconciled in our 2015 first quarter results press release available under the "Investors/Press releases" section of our website.
This conference call is being recorded and is also available via audio webcast from our website.
During the course of today's call certain projections or other forward-looking statements may be made regarding Luxottica Group's future financial performance or future events. We wish to caution you that such projections or statements are based upon current information and expectations and actual results may differ materially from those projected in the forward-looking statements. You can read more about such forward-looking statements on page 2 of the slide presentation. We also refer you to our filings with the SEC and Italian securities authorities. These filings contain additional information concerning factors that could cause actual results to differ materially from those contained in management's projections or forward-looking statements.

We will begin with Adil Khan, CEO for Markets.

Adil Mehboob-Khan

Thank you, Alessandra. I am pleased to report that we had a strong start to the year. In this first quarter, we delivered 22.2% adjusted sales growth and the Group reached sales of over €2.2 billion, which represents a record for us in our 54 year history. This great result was driven, in part, by currency tailwinds but also by constant forex growth of 7.2%.

Our wholesale sales were up by 16.8%. We really had strong momentum across all of our key markets.
We further strengthened our brand portfolio with the addition of Michael Kors and our retail sales were up by over 20% driven by Sunglass Hut which continues its five year streak of double-digit growth.
We had excellent retail comps particularly from LensCrafters in North America which delivered at 5.9% and Sunglass Hut global comps coming in at 7.8%.

In terms of operating income, we saw a 32.6% increase and we were up by 120 basis points. Both wholesale and retail margins came in at over a 100 basis points versus year ago. We've had strong net income growth of 33.7% [to €210 million], €38 million of free cash flow generation and no news on our net debt-to-EBITDA ratio which is stable at 0.6x.

The launch of the Michael Kors eyewear collection had a very strong start. We'll tell you a little bit more about that later.

We've also strengthened the organization across geographies: we've made some organizational changes that will make us stronger going forward.
The first one that we will announce later today is: we had a single leadership implementation in China that manages across all of our distribution channels. This builds on our experience in Brazil. We have a General Manager position which is able to call the shots on priorities across the country, and this enables us to maximize the return by leveraging and making choices across all of our distribution channels. Secondly, we've merged the Oakley wholesale sales force into the Luxottica organization in the US and Europe and this is the first step in a series of integration moves that you will see in Oakley in the months to come. And, thirdly, we have new leadership for Oakley in retail and apparel which reflects our renewed priority in driving Oakley from being a very strong brand in the US to being a very strong brand globally.

We have good momentum on our relationships with department stores and we will be able to give you some good news in the next quarters about new relationships and new presences across the globe.

And of course we've appointed Luxottica's new Board of Directors.

Let me hand over to Stefano to give us more details on our internal results.

Stefano Grassi

Thank you, Adil. As you said, we had a great start for this year. Top line grew in excess of 22% on an adjusted basis at current forex, 7.2% was our top line growth at constant exchange rates. Clearly the forex rate was a great help this quarter. The US dollar, which I remind you accounts for more than 50% of our total sales, got stronger by approximately 22% versus the Euro in the first quarter and that created a natural tailwind in our results with about 15 percentage points of difference between our constant and current forex results.

Wholesale did post a solid 8% growth at constant exchange rates, 17% at current forex. All the wholesale regions delivered solid results, the Michael Kors launch was strong and contributed about 2.5% to wholesale growth at constant FX.

Looking at retail comps, I'm very pleased with that, 5.4% growth in our retail comps sales in the first quarter. With another great quarter from LensCrafters at +5.9%, you remember that we closed 2014 with an outstanding fourth quarter in LensCrafters and we continue to see that in the first quarter of 2015. Sunglass Hut delivered +7.8% comp sales. Clearly we're very pleased with the way retail started the year and those comps were actually the highest in a quarter since Q3, 2012.

Now, before digging into more details about our operating results, let me comment on the adjustments that impacted our reported results. Since the last two quarters of 2014, our results have been adjusted by one item impacting the top line that is the change in the sales presentation for an EyeMed insurance underwriting agreement. So, sales are now reported on a net basis and the impact is approximately €42 million for the first quarter 2015.

But now let's dig into our operating results. We are very happy to couple outstanding top line growth that Adil described before with outstanding operating leverage. The Group's adjusted operating income grew approximately 33% in the first quarter, or a 120 basis points, at 15.9% on a current forex basis, delivering an outstanding quarter. This is the best quarter for the Group in terms of profitability (in percentages) over the last eight years. The result on a constant forex basis was still a remarkable at plus 80 basis points versus a year ago.

Let me add that on top of this result, we incurred approximately 11 million of costs related to a management reorganization we put in place in different geographies during the first quarter. This management reorganization we believe will make our cost structure more efficient during the remainder of the year.

Now, moving to the right hand side of the page, our wholesale division grew over 21% or a 100 basis points in the first quarter, clearly a very strong and solid result for our wholesale division. On a constant forex basis, the growth was 90 basis points in the first quarter and this result came on top of very strong P&L leverage in wholesale last year where we delivered 90 basis points on a constant forex basis, so very strong results on top of very strong operating leverage last year.
There are a couple of points on this performance. Firstly, the efficiency of our manufacturing and distribution networks was able to offset a large part of the headwind being driven from the strengthening of the Chinese Renminbi. Secondly, about a third of wholesale's growth came from an improvement of price-mix, thus generating significant benefits to the margin.

Lastly, talking about retail, our retail division grew 38% or 110 basis points in the first quarter at current forex. When we look at our numbers, at constant exchange rates, we are looking at about 30 basis points of margin improvement in our retail division.

Consistent with our operating leverage, our net income grew in the first quarter by approximately 34%, up by 80 basis points on a current forex basis to 9.3% and this is the best net income since 2008 for the Luxottica Group.

Now wrapping up Q1, as I said at the beginning, we had a great start and I think it is good to share with you a kind of a health check on where we are compared to the “rule of thumb” we shared with all of you during our Investor meeting on March 3, 2015. Well, I’m happy to share with you that our Q1 is right on target as we grew our top line by 7% at constant exchange rates and you might remember that our guideline was mid-to-high single digit, so we are obviously in the upper part of our guidance. Our commitment was to grow our operating income and our net income twice our sales growth and here we are: 14% growth for operating income and 14% growth for our net income [both at constant forex]. So we are right on target with what we said at the beginning of the year.

Let’s have a quick look at our cash position now. As you know, Q1 is usually the weakest quarter in terms of free cash flow generation with cash flow usually flat or sometimes negative. I think that this year we did an outstanding job in managing effectively all the key components of free cash flow while balancing the need for investments and efficiency and the result was great free cash flow generation of €38 million in the first quarter. This number though includes a €29 million tax payment related to the 2008 tax audit. If you exclude that item, our free cash flow generation in the first quarter is even higher than the outstanding €60 million free cash flow we delivered in Q1 last year.

In addition, we were able to grow investments. Our CAPEX grew 16% in the first quarter versus last year and we were very diligent in our working capital management. Our working capital generation was healthy: with DSO down by one-day, our DPO was flat and our DSI (Days sales of inventory) was plus 1. We planned for it as we wanted to be sure to have product ready for the high season and to be ready for the launch of Michael Kors. In addition, let’s not forget we are comparing ourself versus a 17-day reduction in inventory last year. So all in all, everything is working as planned.

And now I hand over to Massimo to give a bit more flavor on how fast we are progressing in our production system.

Massimo Vian

Good afternoon. As Adil and Stefano already said, we had really a strong quarter and definitely this is true for Product and Operations as well. We’ve been able to continue to capitalize on the key projects that we concluded last year. We obtained efficiencies in our manufacturing system with more and more automation that now is operational in the structure of our factories. We have the new IT platform implemented and up and running that is managing the supply chain for all of our network. And I am also happy to report that on April 1st we went live with the SAP platform in our last manufacturing plant located in Brazil. So now all our manufacturing sites run on SAP together with the logistic sites.

Then, we’re growing volumes as Stefano anticipated, I mean, we’ve been planning the recovery of volumes, as you know, starting from December last year. I am pretty sure that many of you remember that our inventory strategy in Q4 last year was focused on getting close to 0.5 million of Michael Kors products ready in our distribution centers by December 31st and this is what we did, and we started shipping on January 2nd. So, starting from January 3rd we started the recovery of those volumes and we've benefited from larger scales of production throughout the three months of Q1. The growth has been balanced in all geographies. I want to report that, specifically in our Italian plants, we grew manufacturing volumes by 10% for our luxury products which are "Made in Italy."

Of course, in Q1, we were affected by both the Chinese Renminbi and the Dollar revaluations, but all the efficiencies we obtained in our manufacturing processes partially offset this negative effect and were a very big driver of the strong growth in gross margin. In Q1, we had a reduction of more than 3% of total landed costs [production + logistics] at constant exchange rates. Of that 3%, we reinvested half of it in product richness, in precious materials and bringing alive all the innovation that we designed last year when we were planning to launch the collections and special projects you've actually seen launched in March and you will see launched in July. They do reflect this level of richness in materials.

You can see in the slide a couple of examples of that. One is our new Oakley X Metal Collection where we invested in aluminum die-casting, a brand new process for Luxottica and on the other side, real pearls in the new Chanel products.

As Adil said before, the Michael Kors launch has been probably the best ever planned in Luxottica Group. I have to say that during this first quarter, everything went almost perfectly. So I think it really represents another area of excellence for the Company. The timing was almost perfect. So we started presenting prototypes and ideas in May. We saw the first initial collection in July at Luxottica Days last year and, starting from September and October, we started gathering data for a perfect forecasting process. So we accumulated all forecasts and we have been able to drive the supply chain towards the end of last year with a very fresh and strong commitment.

As I said, everything was perfect in January and what we're seeing [on the slide] is actually the result that Adil talked to you about. The process is great. The collection is quite wide. We are talking of more than 50 styles that we used for the launch, specifically divided in the three segments that Michael Kors represents: the Glam, the Sexy and the Sporty, with bright lenses and exclusive materials. Now, be ready for a fantastic sun season in Q2.

I'll hand it over to Adil for the remaining part of the presentation.

Adil Mehboob-Khan

Thanks Massimo. I am going to use Slide 15 "Revenue roadmap by geography" to just give some qualitative comments on how we started the year versus the guidance that we gave for the year. Broadly speaking, as you can see from this slide, we started slightly ahead or in line in most of our main reported regions versus the guidance that we gave. The most important one is North America, that's over 50% of our business and we started Q1 with a 7% increase in revenues [at constant forex], our guidance for the year is in the 4% to 6% range. So that gives us a little bit of a buffer. And the other one which I want to call out is Europe. Europe is another 20% of our business. So together we are talking about 74% of our business between North America and

Europe and there we started the year with Q1 at 6% [at constant forex] versus guidance between 5% and 7% which we gave at the beginning of the year.

I want to call out Europe because when we gave this guidance, I think you know some of us were wondering whether it was too aggressive or not. We closed 2014 with good numbers overall, but our last quarter in Europe had been a little lackluster due to the fact that we had relatively poor weather in the Summer and that created somewhat of a backlog of orders for October and December. That's how we had diagnosed it, and we were expecting to start January, February and March strong and indeed that has happened.

Now the outlook for Europe is that we are going to have a period in the Summer which we expect to be better than last year and of course we closed the year with a relatively low base in Europe. So, we continue to feel strongly about the achievability of our guidance for Europe for this year and we certainly had a good start.

Those two regions guide the bulk of our results.

My only other comment would be on Asia-Pacific where we have India and China growing strongly. We are a little bit held back by Australia, which has been flattish so far, but other than that our performance in Asia-Pacific in the main emerging markets continues to be strong.

Let me give you some highlights by region.

In North America total adjusted sales were up by 7% in US$. In wholesale, we have our fourth quarter in a row of double-digit growth and we've had, as I mentioned earlier, solid growth across all of our retail brands. LensCrafters is keeping the pace in comps. You may recall we started having good momentum in comps around September of 2014 and we see the quality of those comps, driven by conversions and eye exams, continues to build.
Sunglass Hut, really a very impressive machine, continues to grow: comps were in the 7.4% range and e-com sales were up 30%.

In Europe, which I mentioned earlier, we had 8.5% growth in Q1, with Italy, Spain, France, UK and Turkey showing very solid progress in wholesale. And we continue to progress our STARS program, which some of you know is the program by which we manage, together with our wholesale independent clients, the assortment of the replenishments and drive best-selling items, and typically drive overall business growth for the independents at double-digit levels. We continue to expand that program, which continues to bring us very good returns in wholesale.
In retail, we are also happy with that double-digit sales growth in continental Europe and Sunglass Hut continues to have very high profile support, marketing efforts and media levels. The highlight for the next months is going to be the sponsorship of London Fashion Week.

Asia-pacific came in at 18.7% growth in Q1. China, India and Southeast Asia growing by more than 30%. In China, the main driver is really the increased penetration that's going to be a game we will continue to play over the next year, which is to conquer more of the territory. Now we are getting into Tier 2 and Tier 3 cities.

In Southeast Asia, we plan wholesale entrance in Indonesia as we speak.
And as I mentioned earlier, in Australia our retail comps are up 1.4%, with double-digit growth in sun, which is mainly Sunglass Hut and is currently offset by negative performance in optical. The total is still coming at triple digits and our goal in the next quarter is to rebalance those two.

Sales in Latin America grew 21.7% in the first quarter. Brazil continues to drive the charge, up by 17.6% and we have a celebration for Mexico that came in at record 38.3% growth in Q1 mostly wholesale driven. In retail, GMO posted double-digit growth. We are going to expand our geographical presence by entering Colombia and Chile with our wholesale model first.

This first quarter has been, as I mentioned right at the beginning, a record and it's a little bit unusual for us to have a record in January, February and March because normally our big quarter of the year is Q2, the quarter we are in now, because most of our business is done in the Northern hemisphere. So we were particularly pleased to see such a strong first quarter. As we enter the second quarter, the portfolio of orders looks very robust. So, we expect the momentum to continue and we are of course gearing up for the peak sun season and continuing to expand the things that work including STARS and including the opening in the Summer of our Ray-Ban flagship which is a test for us on Ray-Ban and that will open in SoHo in New York with a soft opening in June and proper opening in July.

That concludes the presentation and open up the call for questions from the listeners.

Q&A session

Daniel Hofkin (William Blair): Hello. Very nice start to the year. I just wanted to understand a little bit more about the margin performance and the comps, and you may have addressed this a little bit earlier, but between the price mix effect and unit volumes and then within unit volumes, to what degree you are able to dissect it to traffic versus unit per transaction? That would be helpful. Thank you.

Stefano Grassi: With respect to your first question, I think you asked about the margin performance and comp sales, is that the question?

Daniel Hofkin (William Blair): Yeah, so it sort of relates both to the total sales growth and the margin performance, if it applies the contributions from price and mix versus other things that might benefit the margin. And then on the sales side it would be, I guess, the relative breakdown between price and mix and units.

Stefano Grassi: Okay. Yes, on the contribution I would say, on the retail side I think the margin was more driven by volumes, I think that was predominantly the case in the first quarter for retail. For wholesale, it's really two thirds volume and one third price mix and I would say probably pricing playing a bit bigger role because of the price changes that we did last year and that obviously had an impact on the first quarter of this year as well.

Daniel Hofkin (William Blair): Okay.

Adil Mehboob-Khan: I would add maybe one thing, if your question was also relative to LensCrafters comps, we have a plan for LensCrafters. It has an episode one, which is to improve the comps and the quality of customer visits to our stores and that's why we are seeing comps growth driven by conversion, higher levels of conversion and higher levels of eye exams in the stores. I think episode two is going to be to drive traffic, and to drive traffic we are going to invest in the remodeling of the stores, that would begin towards the end of the calendar 2015 and will accompany us in future years. When we have those two working, that is, the traffic in the stores and good quality conversions we are going to have, we think it's very nice to have it.

Daniel Hofkin (William Blair): Okay, great. And then maybe as it relates to glasses.com or your overall e-commerce efforts either in prescription or sun, can you talk about just the general trends that you are seeing in terms of online to acquire a customer if there are any observations that you have on that in your business that would be great. Thank you.

Adil Mehboob-Khan: I would say, so overall the business in e-commerce came in the past 12 months at around US$200 million and within that we've seen at ray-ban.com almost a 100% growth, now at US$50 million, and sunglasshut.com at about 30%, 40% growth. We sold last year 1.4 million frames online and if we look at that in absolute levels of growth, we should feel quite good because we have models that work and now it's a question of continuing on the path. However, if I look overall, we have about 2% of our total business in e-commerce and I think we can do much, much more. So we see that both, as something that we know how to do and something that we have to do a lot more of, and that we are going to invest in infrastructure and marketing to get that done.

On glasses.com, we view glasses.com as a laboratory, as a place where we can learn capabilities that we can then use on glasses.com and on the rest of our portfolio. And you will see more of what glasses.com does well which includes superb levels of service permeate all over other e-commerce business.

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

Antoine Belge (HSBC): Yes, good evening, it's Antoine Belge of HSBC. I've got three questions. Actually the first one is more like a housekeeping question on Michael Kors and then currencies. I think, did I get right that you said Michael Kors contributed by 2.5% to your wholesale growth, which would mean €20 million if my calculation is right? And I think at the Investor Day you had mentioned that you had delivered for the substantial part of the launch, so first of all if my calculation is right and then what are your expectations on Michael Kors for the full year, actually this is the first question. On forex I think at the Investor Day you had guided that, given your expansion outside of Italy in terms of manufacturing, the forex impact at the EBIT level would be more or less the same and the one at the sales level, but you still have had benefit in the first quarter. So, do you expect this to be compensated later in the year? My second question is actually on the Oakley integration and especially on the apparel side: are you expecting to downscale the apparel part or do that in a different way? And finally on the LensCrafters new format, what is missing in the current format given that you seem to be already back to a better growth even in the existing format? Thank you.

Adil Mehboob-Khan: Okay. Let me answer your questions. Maybe I will try in reverse order. Let me start with LensCrafters new formats. So the last time we had a genuinely new design on LensCrafters was eight, nine years ago. So we are in that cycle where it's time not only for us to re-modernize the stores, but really to make a new design statement that can carry us forward. So it's simply a question of cycle time. It's good for us to do that when the machine is working in store on conversions, because this way we can manage and read the purity of the redesign on traffic. We are testing a couple of models. As you know LensCrafters is a very friendly place where we provide great service. So our design challenge is to find something that maintains that ones, yet has good longevity, because we want to have a radical redesign. So, we are testing various models actually across the world and we hope to lock on the design in the next month or two and then we will begin to expand it.

On the Oakley integration and on apparel, we do not want to downscale apparel. In fact, we'd like to expand apparel. So we are really focused on both, the Oakley model retail and apparel all belong to the same management. We have hired new leadership there and we are looking at that with renewed enthusiasm because Oakley has the ability to travel across different products in different form. So we are looking forward to driving that.

On Michael Kors we think we are going to meet our year one objectives probably in September if we continue like this. So, we are definitely peddling that it had a great start. We are a little bit cautious because we know that at the beginning a lot of it is sell-in, the early data that we have on sell-out is excellent, but we'll wait for this quarter before making too bullish assumptions, but you know we could be looking at the year on which we are 50-60% ahead of our going-in objectives for Michael Kors. Finally there was another question, but I am not sure we got it entirely on…

Antoine Belge (HSBC): On forex, you highlighted that you know, your currency neutral evolution in terms of margin was lower, in other words that you had a…you had a [indiscernible] boost, the margin level in Q1 that was at the Investor Day, you know you showed a chart, you know explaining that no sales on cost were pretty much in line. So is it…can you maybe explain how you are getting, why you had such a boost you know if things are….if those FX on costs are outlined?

Adil Mehboob-Khan: So in the first part of last year or in the first three quarters of last year a sort of natural hedge prevailed. So we have roughly half of our sales in dollars and roughly half of our cost in dollars. And so, we did not see big swings due to the currency effect. In the last quarter, when the dollar strengthened further, we began to see a positive currency effect and we've seen that continue in the first quarter of this year. We don't really make currency forecasts, but we think this is going to accompany us so we begin to analyze the moment when the currencies got stronger - the dollar got stronger in the pool.

Antoine Belge (HSBC): All right. Thank you very much.

OPERATOR: The next question is from Mr. Cedric Lecasble of Raymond James. Please go ahead sir.

Cedric Lecasble (Raymond James): Yes, good evening. Two questions if I may. A follow up on the last one, on the influence of forex. I am not sure I understood well, was the impact so much bigger in retail, and in wholesale maybe you could help us understand the dynamics as a positive forex impact which played much more in retail, if I got it right, than in wholesale in Q1. And the second one is just that you used to give wholesale trends at constant currency, now you're giving some qualitative elements. If you could you give us the numbers per region it would be useful for all models. Thank you very much.

Stefano Grassi: So I'll probably take the first question with respect to the margin improvement. I think in retail the main part of our margin improvement from constant to current forex is due to the profitability in North America, specifically in that region, which is higher than the average of retail, so the improving US dollar and that part of retail clearly create tailwinds in our current forex results. On the wholesale side, I would say you have, on one side, the margin improvements due to manufacturing efficiency and then you also have the headwinds that are generated by the RMB revaluation. So the impact when you move from constant to current forex in wholesale is a bit lower because of that.

Cedric Lecasble (Raymond James): Okay. And on the wholesale constant currency figures, do you anticipate you will not provide any more or didn't you provide it for a reason?

Stefano Grassi: We have been provided that the wholesale operating income improved 90 basis points at constant forex, 100 basis points at current.

Cedric Lecasble (Raymond James): No, no. I mean on top line sales. I'm sorry, if I was confusing?

Alessandra Senici: Yes, you were asking about the geographic breakdown, so this year we are changing. Now we will report wholesale and retail sales for each geography on a yearly basis only, while each single quarter we'll breakdown only North America, which is our biggest region.

Cedric Lecasble (Raymond James): Okay, understood. Thank you.

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

Bassel Choughari (Berenberg): Hello, sorry I have three questions please. The first is on LensCrafters, can you tell us where is the performance of LensCrafters compared to the US market, because if I'm correct on average the prescription market in the US is probably growing 2% to 3%. So is the market accelerating and you are in line with the market, while you all are growing twice above the market and how sustainable is that rate? The second question is on OPSM, I understood initially that more structural issues were coming from a competitor in Australia being more aggressive on pricing. Is it just the pricing issue or do you also have some management issues there? And the last one maybe on M&A, is that a short-term topic for you or you are not necessarily looking to buy a brand this year and you focus more on Michael Kors and the turnaround of LensCrafters, and integration of Oakley, et cetera? Thank you.

Adil Mehboob-Khan: So, on LensCrafters, our estimate is that the market is growing about 2% in the US and so our comps on LensCrafters would suggest share growth there. On OPSM, really we'd like to do and what we are focused on at OPSM is repeating the experience that we've had in LensCrafters. So getting first the service levels right and the client conversion right and the doctor recommendation right and with all we have a good pedigree of doing that in the US, and so we are focusing on that first. And I would say that that is the priority over we're working, you know the value equation versus any competitive retail chain. Sorry, what was your third question?

Bassel Choughari (Berenberg): M&A.

Adil Mehboob-Khan: So, on M&A, I would say no, we definitely are looking. So we think we can meet all of our goals with organic growth and the portfolio that we have currently and I think the momentum that we are showing now to some extent encourages us on that. That said, we have a very good cash position. We have a very good cash position even after having given what is arguably a generous dividend and we want to use that cash for meaningful and strategic acquisitions. So we are scanning the market and we are engaged in conversations and we may have news on that in the next six to 12 months.

Bassel Choughari (Berenberg): Okay. And sorry, maybe you want to slow up if I may…if you fail to find any acquisition, will you consider giving that cash back like you did last year?

Adil Mehboob-Khan: We don't really have a rule on our dividends. We have a norm and that's why when we doubled our norm we called it an extraordinary dividend. We have a new Board. I think it will be the new Board's discretion to decide what to do. I think we could actually do both. So our cash position means that any decision on dividends wouldn't necessarily be held hostage to a decision on acquisitions.

Bassel Choughari (Berenberg): Okay. Thank you very much.

OPERATOR: The next question is from Mr. Domenico Ghilotti of Equita. Please go ahead, sir.

Domenico Ghilotti (Equita): Good afternoon. I have three questions. The first, a follow-up on M&A, you sounded really quite confident that's something going on in the next few months, can you provide some kind of priority list in your M&A targets? Just to understand, are you looking at retail and wholesale opportunities? The second question is just a clarification on the trend in your portfolio, you were mentioning mid-teens growth, you were referring to the end of April and including forex? And the last question is related to Oakley and in particular to the €100 million synergies that you are referring to in the press release? Can you elaborate a little bit more and also I am trying to get if you have timing for this target and if we have to assume some integration costs, the reorganization costs this year in particular?

Adil Mehboob-Khan: Okay. Let me start with acquisitions. I would say broadly speaking we are looking at acquisitions that can reinforce our position in emerging markets. I would also say that we are also looking at acquisitions where we can learn new capabilities for the Company. And acquisitions such as what we did last year with glasses.com has to be seen not just in terms of the size of glasses.com or the result, but in terms of the possibility of learning new skills and new capabilities that we can expand to the rest of our portfolio.

In terms of the €100 million on Oakley, so that's a ballpark figure. We have not set that as a target for the integration. We have set integration as the goal and then we've asked the teams to come back to us as they work the integration to try and quantify the opportunities that come from that. Our first biggest move has been to integrate the wholesale sales forces of Luxottica Group with

Oakley and that's going to give us firepower and coverage and higher penetration particularly for Oakley in the US. When we project the first estimates that are coming through, we think that over the next couple of years we will have ballpark that amount of benefit coming through.

Domenico Ghilotti (Equita): Can I ask you just broadly speaking what is the contribution, let's say, revenue and costs, so is it mostly top line driven or cost driven?

Adil Mehboob-Khan: It's about equally split and we are in the phase of compiling that exactly. But I would say that we are getting more good news as we look into the synergies because really we have spent many years not looking at synergies between Oakley and Luxottica and now that we are, we are discovering pockets of good news across whole areas.

Domenico Ghilotti (Equita): Okay.

Adil Mehboob-Khan: And I think the last question was with respect to portfolio orders.

Domenico Ghilotti (Equita): Yeah…

Adil Mehboob-Khan: The portfolio is given at constant forex. So the double-digit is at constant forex and excludes any currency impact.

Domenico Ghilotti (Equita): And I assume since it is at the end of April, so basically it's an outlook at the end of the month of April. Correct?

Adil Mehboob-Khan: That's correct.

Domenico Ghilotti (Equita): Okay, thank you.

OPERATOR: The next question is from Ms. Elena Mariani of Morgan Stanley. Please go ahead, madam.

Elena Mariani (Morgan Stanley): Hi, good evening. This is Elena Mariani from Morgan Stanley. First of all, congratulations, on the excellent results. I was particularly interested in the organizational changes that you have started to implement in some key businesses and geographies and I have two follow-up questions on those. On Oakley, I'm clear, I think you've answered the questions I had. On retail, you mentioned €200 million of investments per year. This is significantly more versus what you had suggested during the Investor Day at least according to my understanding. Could you clarify in which areas you are going to focus in particular beside North America retail, where if I remember well you were planning to invest $100 million in 2015? And secondly, on the new leadership structure that you've implemented in China, do you see other countries or maybe regions where this holistic approach could potentially be beneficial besides China and which changes would you expect to achieve in those regions or countries? Thanks very much.

Adil Mehboob-Khan: So the priority for the investments in retail goes both to the complete revamp and the redesign of our optical retail across the world not just in North America. So that includes our retail operations in OPSM in Australia or in LensCrafters in China. And the other big area of investment is a continued drive on Sunglass Hut where we plan to open particularly in emerging markets up to a 1000 stores in the next three years.

On the China leadership structure, to your question of whether we see that everywhere, no, I think not, I think that's something that for us is an emerging markets model. So we have a pretty established model where our business units run relatively independently in any single territory, but in up and coming emerging nations where a big part of management's choice is to decide what to push first because you are trying to gain geographical coverage. We've seen that in Brazil and to some extent in India. It has helped us a lot to have a leadership position that can call across our business units and, calling out China as a priority, we've implemented or we are going to implement that leadership structure in China as well and that's a specific…the specific thought. The intent behind that structure is to be able to maximize growth and call the priorities across the business units that are most deserving.

Elena Mariani (Morgan Stanley): Right, thank you. Maybe one just final question, would you be comfortable in going back to the original rule of thumb of high single-digit growth for the year or would you stick to the mid-to-high single-digit which was a bit more conservative? Thanks very much.

Stefano Grassi: I would say that you know, Q1 start was obviously very encouraging, but it's only the first quarter of the year. So at this stage, we will stick with our guidance that we just gave a little bit more than a month ago and we'll see how Q2 looks like. We are obviously very optimistic, but as you know Q2 is the highest quarter of the year. So we will see how it goes and then we will draw our conclusions during the first half of the year.

Elena Mariani (Morgan Stanley): Great. Thanks very much.

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

Julian Easthope (Barclays): Yeah, thanks so much. Good evening everyone. And just a couple of questions for me, first of all on gross margin that was a 300 basis points improvement which is a very significant improvement on one quarter, I just wonder if you could sort of put a bit more explanation behind that? I guess there has been some efficiency and some mix there I guess? And also just in terms of the Oakley restructuring, I thought a number of reasons why historically Oakley has been kept separate was because of the difference in cultures between the businesses, is that something that concerns to you, now that you obviously are putting the two sales forces close together? Many thanks.

Stefano Grassi: Yeah, with respect to the margins, I think the vast majority of the margin improvement came on a constant forex basis so we definitely have an improvement due to the efficiency of our manufacturing network and that is our main driver of gross margin improvements. The other piece that we mentioned before is really related to the price mix with heavier impact of price on our margin and then naturally it creates a lift in our profitability.

Adil Mehboob-Khan: On your question on Oakley, whether culture is the reason we didn't integrate? I think not. I think we were just too busy growing it, but I think that your question is an excellent question, because the culture of Oakley and how it permeates the marketing and the product are very fundamental elements that we have to protect, want to protect and you know I am going to take personal accountability that we'll make sure that that culture which is so valuable within the brand grows in the right direction. I'll hand it over to Massimo because I think the product is an element of this too.

Massimo Vian: So the integration mainly relates to the sales force and how we do approach the market for everything that is related to research and development, the culture of innovation, the uniqueness of Oakley products, you know, that is around the culture of sun lenses and even more around the excellence of a full tier range as a center of operations for specifically injected products, high performance will remain untouched and actually had been and will be a core foundation of what Oakley will be in the future for Luxottica Group. The DNA and the culture will stay there with our scientists in full tier range.

Julian Easthope (Barclays): Excellent. Thank you very much.

OPERATOR: The next question is from Luca Solca of Exane BNP Paribas. Please go ahead, sir.

Luca Solca (Exane BNP Paribas): Yes, good evening. Luca Solca from Exane BNP Paribas. I was just wondering if you could share with us your vision about wholesale. Wholesale seems to be an important contributor to your gross margin and the best channel is supposed to continue to contribute at a higher rate than the mid-single digits broader guidance. And maybe if you could give us a bit more detail on how you see the channel developing by region because I assume that in emerging markets, for example, South America has still quite a significant opportunity to increase the number of wholesale customers, while in other more established markets, like Europe, it can probably have the opportunity to deepen your penetration, I wonder if you could give us a bit more insight into how you see the strategy and will develop it going forward.

As a second point, I seem to understand that return on investment capital is becoming more important in the way you see the business and you see things developing. I wonder if you would like to share with us what are the top initiatives that you have on your agenda today to increase the return on invested capital going forward and how this dovetails with the indication you provided that M&A is on the card. So, have you changed in anyway the benchmarks that you use to carry out M&A and are now those going to be more accretive than in the past to return on invested capital performance? Thanks very much.

Adil Mehboob-Khan: Okay. Interesting question on wholesale strategy. So, we are agnostic on wholesale versus organized trades or channels, in the sense that we support both, and supporting both has turned out to be right, because, maybe contrary to some of the projections that were floating around a couple of years ago, independents have done well in some markets like the US, independents are actually growing. So I think wholesale is here to stay. We are, I would say, excellent at it. Our numbers on wholesale are consistent and robust. So we will continue to support wholesale. Now that means supporting wholesale is not just a question of covering, it's also a question of bringing innovation to the wholesale model and this is one of the reasons we are so keen on the STARS program which is a program where to some extent we are bringing some of the organization and some of the thinking on assortment that would be more typical of more organized trade down to the independent level. And so, we are going to continue partnering with wholesale and innovating in a way and independent and go-to-market and also providing independents with technology so that he can succeed in the market. On the numbers, I'll handover to Stefano who can to tell you the wholesale numbers and answer your question on return on capital.

Stefano Grassi: Yes Adil, thank you. With respect to wholesale, we will probably see a slight improvement versus the first quarter result on the overall full year number for wholesale. Also the reason is that, if we look at our comparison to last year, you might remember that we have been a bit weaker in Q4 last year due to the weakness in Europe. So we do expect to do slightly better in wholesale for the full year on a constant forex basis. I think the other question was regarding return on capital, I think that the reason for our success there is really kind of a mix between efficiency -- that we continue to gain on working capital management and the cost efficiency that we shared with you today -- with continuous investments in Capex. I think that is going to continue to be a stronger pillar of our growth, the drivers are what we've been discussing. On one side the operational investment that we continue to make and the expansion of our retail network that we believe will continue to better position Luxottica in North America and other major geographies for us.

Luca Solca (Exane BNP Paribas): Thank you very much.

OPERATOR: The next question is a follow up from Mr. Bassel Choughari of Berenberg. Please go ahead sir.

Bassel Choughari (Berenberg): Hello, sorry one follow up for me please on M&A. I look at your portfolio of brands, I assume that all brands right now have pretty strong DNA, but also pretty different DNA. So when thinking of acquisitions, would you consider introducing more I would say internal competition amongst the brands you own or you would rather focus on brands that are different from what you already have in your portfolio? Thank you.

Adil Mehboob-Khan: I think the portfolio of brands that we have now is very strong, because it has been built really to cover all of the main client segmentation areas and positioning that allows the coverage of the market. So we compete in sport, we compete in luxury, we compete in affordable luxury, we compete on brands that have a DNA that come from fashion and we compete on brands that have DNA that comes from luxury. We have a very good spectrum both in our own brands and in brands that are licensed and we are very deliberate at building the licensed portfolio, so that we can cover the map. So I think if we went to a brand acquisition route, it may be not so much to fill a gap in our segmentation map, but to be more speculative on gaining presence and gaining penetration in markets where we may want to accelerate.

Bassel Choughari (Berenberg): Okay, thank you very much.

OPERATOR: Gentlemen, Ms. Senici, there are no more questions registered at this time.

Alessandra Senici: Thank you operator. Thank you all for listening to today's call. If anyone has some additional questions, please feel free to contact the Investor Relation team. Have a good night. Bye-bye.