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Q&A

Alessandra Senici

Thank you, operator. Good evening 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>Presentations" section. This presentation includes certain non-IFRS financial data and information which are further explained and reconciled in third quarter results 2015 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 expectation 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 projection or forward-looking statements.

We will begin the review of the third quarter results with Adil Khan. Please Adil.

Adil Khan

Thank you, Alessandra. Good morning, good evening and thank you for joining. We are pleased with the results of our third quarter. We grew our top line double digits, our bottom line double digits and we reached record levels of cash flow. More in detail, our group sales reached €2.2 billion that's 15.4% growth in adjusted terms versus a year ago. North America and Europe were the regions leading our growth. As you know North America and Europe account for almost 75% of our total sales. So when we are firing well in North America and Europe, it clearly drives strong total Company results.

Our Wholesale division grew by 10.1%, a pretty uniform growth across key regions. Our [adjusted] retail sales were up 18.8%. We had strong like-for-like growth in LensCrafters with comps of almost 4% and very good results from Sunglass Hut both in terms of absolute sales, plus 9% at constant forex, and in terms of comps +8.7% versus a year ago.

On e-commerce we continue to see very good levels of growth. We were up approximately 50% versus a year ago.

In terms of cash flow we had a record quarter. It was our highest in the Group's history. We generated €396 million of free cash flow and we have an excellent net debt to adjusted EBITDA ratio of 0.6x.

It was also a quarter of gains and efficiency on our margin. Our operating margin is now at 16%, that is a 50 bps improvement and 18.6% growth versus a year ago. The absolute improvement was equally shared between the wholesale margin expansion and the retail margin expansion and our net income was up 20.6% to €209 million.

The next slide I am going to comment on is our "rule of thumb". We've been posting the "rule of thumb" quarter after quarter and I am happy to report that we continue to be on track to mid to high single-digit sales growth [at constant forex] at +6% and adjusted operating income and adjusted net income growing twice the sales pace and they came in respectively at a +13% and +14%.

As I said earlier, the two regions shining this quarter were North America and Europe.

In North America, our adjusted sales were up 22.8%, that's +4.5% at constant forex. Wholesale sales at constant forex were up by 7% versus a plus 11% in the third quarter of 2014. So we were able to lap a strong quarter with strong results.
We continued to progress in our Oakley integration which is now complete. And one of the results we are most pleased about was our retail comps. So there has been a lot of attention on what would be our retail performance in North America and we had some of our best results. LensCrafters comps, which I mentioned earlier, were up by almost 4% and this was driven really by conversions or by high quality client experiences inside the stores. Comps at Sunglass Hut in North America were up 7.8% driven by the excellent execution during the summer season and by high levels of demand for our eyewear collections of the Summer '15 collection.

Europe came in at +9% mostly driven by sun collections. We had double-digit sales growth in all of our main countries, which are Italy, Spain, Germany and the UK, and also our Eastern European markets showed a solid growth path.
We reached almost 4,000 doors with our STARS program, which some of you may know and is the program where we work with independents on their business model and their assortments. It continues to be a very strong program that drives growth across the customers that adopt it. And our retail performance was also very strong, +18.6% with double-digit comps for Sunglass Hut across Continental Europe.

As for Asia-Pacific, third quarter sales were up 3.2%. Excluding Greater China, growth in only Asia would have been +12.5%. In Greater China, our third quarter sales were up 11.4%, that's -5% at constant forex, and the nine-month sales, and I'd like to underline this, our year-to-date sales in China are up 31% and that's an 8.4% growth at constant forex. We implemented a price harmonization program that temporarily impacted our wholesale business and this was largely expected. So we took our pricing mostly down in China in July, and so we had a couple of months in which our wholesale clients were selling or destocking their available inventory and we're now seeing volumes pick up. So we expect now in the fourth quarter to have a strong top line growth.
LensCrafters total sales continued to grow and to partially offset the slowdown that we've seen in Hong Kong and Macau for the past 10 to 12 months. In Sunglass Hut, where we really are at the beginning of our story in China, we opened the 20th store on the Mainland. We think we'll get 30 stores by the end of the year and we also began to open stores in Thailand. The Sunglass Hut retail model is working nicely in these early stores that were opened and really mostly unchanged from our global model. That's going to allow us to go fast and accelerate the pace of coverage of our Sunglass Hut business.
In Australia, we have two stories. We have probably the best Sunglass Hut business we have across the world. We've had 40 months of consecutive growth and we are very pleased with that. On the retail side, we've intervened on our go-to-market approach and on organization. We need to get the optical part of our business to also perform at the levels that we are used to in North America and to be able to be an engine of growth together with Sunglass Hut in the Australian region.

In Latin America third quarter sales were up 13.6% at constant forex, with double-digit growth in Mexico and double-digit growth [at constant forex] in Brazil where we've seen the top end of our brand portfolio actually performing very well indeed. Our Retail division is growing fast. We had another strong quarter at GMO and Sunglass Hut again posting double-digit comps in both Mexico and Brazil.

In the next slide, the revenue roadmap by geography really gives you a sense for how we are progressing versus the statements that we made at the beginning of the year and our estimates for 2015 on the whole.
What really drives the overall number, as I mentioned earlier, are North America and Europe. You see here in the slides, for North America, we were expecting 4% to 6% [total adjusted sales] growth at constant forex in 2015 and in the first nine months into the year we are on the high side of that bracket with +6% [at constant forex].
Similarly, in Europe we were expecting 5% to 7% total sales growth [at constant forex] in 2015 and nine months into the year we are at +7%, so again at the top end of that bracket. The European

number I think was questioned by many at the beginning of the year as it seemed aggressive. We are pretty pleased to be able to be on track for the high side, three quarters of the year behind us.
I've already commented on the breakdown of the wholesale and retail businesses across the world. The only other comment I'd like to make is: you will see there on Asia-Pacific the difference between what is our growth with and without Australia. We expect that to change as we implement our corrective actions in Australia, particularly on the optical retail business.

I'll now hand it over to Stefano who will give us more details on the adjusted net sales and the details of profits.

Stefano Grassi
Thank you, Adil. As you pointed out, we are very pleased with the growth we achieved in Q3 in what I would define a more challenging environment. Top line grew by 15.4% on an adjusted basis in Q3 at current forex and by 5.5% at constant forex.

If we now move to the right hand side of the page, for the first nine months, we are looking at approximately 20% sales growth year-over-year still on an adjusted basis at current forex and at 6.4% growth on a constant forex basis, right on target with our full year guidance. As expected, the forex tailwinds were actually reduced in Q3 versus the first half of the year. The difference between results at current and constant forex was about 10 percentage points during the third quarter versus the 15 percentage points we shared with you during the first half of the year. This is mainly due to the fact that the US dollar revaluated approximately 19% against the Euro during the third quarter and during the first half of the year we experienced a 23% revaluation of the US dollar. I can share with you that at these forex levels our expectation is that the help from currency will continue to diminish in the last quarter of the year.

But now let's talk a little bit more about the two divisions, Wholesale and Retail.
Wholesale grew by 6.8% in Q3 at constant forex, which means, as you see on the right hand side of the page, approximately 7% growth at constant forex for the first nine months of the year helped by strong high single-digit growth in Europe, which actually posted the best quarter in the year, and double-digit growth in Latin America. Asia-Pacific was a bit softer due to the impact of the price harmonization program that Adil shared with you.
If we now move to the Retail division, the adjusted sales growth at constant forex was +4.7% versus Q3 of last year with comp sales at +4.3%. More specifically, Sunglass Hut posted the best comps of the year at +8.7%, with 7.8% comps growth in North America and double-digit growth in Mexico, Brazil and Australia witnessing the global health of the Sunglass Hut brand. LensCrafters continued its track record of strong growth [in North America] posting +3.8% in comps with a much tougher comparison in Q3, 2014 versus the one in Q1 and Q2 of last year. Conversely, I would say that our Chinese optical retail business experienced a tough quarter in light of a challenging macro-economic environment in particular in the Hong Kong area.

Now before we dig into our operating results, let's have a look at the adjustments that impacted our reported results. Same as in the first half of this year as well as in the last two quarters of 2014, our sales results have been adjusted by the change in the sales presentation for an EyeMed insurance underwriting agreement, so that sales are now reported on a net basis and the impact for Q3 is approximately €44 million. The other item is related to approximately €14 million of pre-tax restructuring charges we are taking during Q3 and that is mainly related to the Oakley reorganization that we disclosed during the second quarter conference call as well as few other minor reorganization activities that we already shared with you on that occasion. Those costs were widely anticipated, as we discussed in Q2, and we believe they will amount in total to €50-55 million for the full year 2015.

Now let's look at our solid operating growth and profitability. Let's look at a little bit more in our results beginning with Group results and then digging into our Wholesale and Retail divisions. Once again, as Adil pointed out, we are consistently growing the top line and bottom line and this is true for both our Retail and our Wholesale divisions. The Group adjusted operating results grew in the third quarter by approximately 19% on a current forex basis and you can see that looking at the grey box on the left of the page. On a constant forex basis we are looking at 80 basis points of improvement in the operating income margin or over 10% growth year-over-year.

This is a pretty remarkable result since you might remember that last year Q3 was actually the best quarter for Luxottica in terms of profitability improvement. For the first nine months of the year, the blue box you are looking at shows approximately 28% growth year-on-year at current forex on an adjusted basis, which is a gain of approximately 110 basis points over last year. When we look at our [adjusted] results on a constant forex basis, we are looking at 90 basis points of margin improvement for the first nine months year-on-year, which means approximately 13% growth [at constant forex], twice our sales growth.

Now, moving to the right hand side of the page, the Wholesale division did deliver an outstanding Q3 number: +12.6% growth in [adjusted] operating income or +50 basis points in [adjusted] operating margin. If you look at that number on a constant forex, you are looking at 170 basis points of improvement versus last year, which comes on top of a 150 basis points improvement in Q3, 2014 versus the year before. So over the two-year period you are looking at an improvement in our margin of more than three percentage points. I would say that the key driver of this margin improvement in wholesale is a continuous improvement in our manufacturing efficiency as well as the initial benefit of the reorganization activities that we activated as they mainly benefit the Wholesale division.

In the first nine months of the year the [adjusted] wholesale margin grew by 19.5%, up 120 basis points versus last year on a current forex basis, whereas on a constant forex basis we are looking at approximately 170 basis points of improvement versus last year, very similar to the Q3 number, with growth of 14% [at constant forex], against twice our top line growth for the Wholesale division.

In retail the [adjusted] operating margin improved by 50 basis points versus Q3 on a current basis with 23% growth year-on-year, while on a constant forex basis we are looking at flat retail margin improvement mainly due to the weak performance we experienced in the optical retail business in Australia as well as in Hong Kong. For the nine months, the [adjusted] retail operating margin did improve by approximately one percentage point year-on-year and grew by approximately 33% on a current forex basis helped by the strengthening of the US dollar as I disclosed before.

Now let's look at our net income performance. Our adjusted net income hit a new record in Q3 exceeding €200 million, up by approximately 21% versus last year with a 9.5% net margin, +40 basis points versus a year ago. On a constant forex basis net income grew 12% versus last year or 60 basis points, thus more than twice our top line growth.

In the first nine months you are looking at 30% growth or 90 basis points of increase on an adjusted basis at current forex and 70 basis points on a constant forex basis. Clearly, these results are pleasing us.

Now before handing it over to Massimo, let me comment a bit about the debt overview and our free cash flow generation for the third quarter.
Overall, I am very pleased to share with you a couple of accomplishments that we were able to achieve in the third quarter. Firstly, in Q3 we were able to hit the net debt-to-EBITDA ratio of 0.6x and therefore deliver one quarter in advance the year-end commitment that we shared with you during the Investor Day in March.

In addition, we delivered a record high free cash flow in Luxottica's history of approximately €400 million in the quarter. This means approximately €80 million more than the free cash flow we generated in Q3 last year. This record number was achieved with our Capex growing by approximately 20% in the third quarter as we continue to fuel our pipeline of investments that will better position Luxottica for 2016 and beyond.

The operating working capital was also managed effectively and generated €150 million in cash. Our DSI grew seven days [versus last year], but we are comparing ourselves with a very low level of inventory that I also shared with you during Q2 results call. Last year, in fact, we posted 11 days of reduction versus a year before.
Furthermore, let me say that we are particularly pleased with the fact that throughout the entire quarter we were able to ensure great service levels to our customers and give them the product they were looking for at the right time and therefore significantly reducing the backorder level.
Continuing on the working capital, the DSO was actually flat and the DPO did post a minus one for the quarter. Overall, let me say that we are very pleased with the way we closed Q3 and wrapped up the first nine months of 2015. Clearly, we remain very committed to deliver a strong Q4 and a full year 2015. But now let me hand it over to Massimo that will share with you some initial highlights on 2016.

Massimo Vian

First of all, let me say good evening once again or good morning to all of you. We have definitely very ambitious plans for 2016. We are focused these weeks on the budget preparation to make sure that we will enter January with the right speed and with very strong selected initiatives.

Let me start with the new products and stronger investments in innovations. We will see great new products coming out, coming to life next year starting from our November Luxottica days with the presentation of our new January collections. Innovations will involve all categories, high-end luxury, lot of new products coming out, sun lenses and do not forget that 2016 is an Olympic year and specifically for the Oakley brand is very, very relevant.

On the business side, our portfolio of initiatives will deliver solid mid-to-high single-digit sales growth. We are launching a €1 billion five-year investment plan for store expansion globally and store renewals specifically concentrated in the United States. We are also planning for the next year a very well balanced growth ratio and synergies between all our channels specifically with the right mix between e-commerce and brick & mortar investments.

Furthermore, 2016 will be definitely a year of further efficiencies, key projects that we launched this year will start delivering returns and Luxottica Group will be more and more integrated. We can foresee that our supply chain will definitely be faster throughout next year and for this reason we can say that again it will be a year in which earnings will grow faster than sales.

With all this said, we open the Q&A session.

Q&A session

Luca Solca (Exane BNP Paribas): Yes, good evening, a couple of questions on first of all the "rule of thumb". We are seeing today that you are perfectly respecting the "rule of thumb". I wonder if you see the "rule of thumb" as the cornerstone of what you are seeing for the Company also in the medium to long-term and if you commit to it for the medium and long-term as a management team. Secondly, on the US trading environment, I think Stefano was talking about a more challenging environment, but I understand he was possibly referring to China. How do you take the marginal slower growth you have in the third quarter? We have seen and we have heard a number of your peers talking about a more difficult third quarter in the US. I wonder if in your case, given that you have a much larger business in the US as a proportion of the total, you can give us more insight on what is going on there, if it's just a matter of comparable basis or if you are seeing any change in the underlying demand trends. And lastly, if I may ask given that we have a very volatile forex environment, some guidance about the forex impact and more importantly about the US dollar to Euro variation and what do you see as the potential impact of a 1% depreciation of the dollar versus the Euro in terms of the EPS impact? Thank you very much.

Adil Khan: Let me quickly take the "rule of thumb" question. You know mathematically the "rule of thumb" cannot be sustained forever. So we are definitely sticking to it this year. We declare that it's also a rallying cry internally and we are quite pleased with the fact that we can reconfirm it quarter after quarter. We are thinking now whether we should declare it again for next year or not, we'll see. So a little bit too early to commit, but certainly we are pleased with the fact that we continue to defy the odds and be able to turn that kind of performance in those metrics.

The US trading environment, as you said many of our peers talked about a slowdown in the US, not everyone, but several talked about a slowdown and that was particularly true I think on the traffic side for retailers. We saw that as well. So we saw lower traffic than a year ago in many cases, flat traffic in many parts of the US. The areas that were most affected were the tourist areas. So downside of the strong dollar is we had in those cities in the US, which are, you know, the New York, the Miami's that are tourist driven. We saw a slowdown in traffic. That's why I said earlier that we were particularly pleased with very good levels of sales growth and comps growth in the US because when traffic slows down, the priority becomes again higher levels of conversion in the stores and I think the team there did really an excellent job on that, because most of our growth is driven by not necessarily more people coming into the stores, but more purchases happening when people are in the stores, that means our assortments were right, our promotions were right, and our associates did well with the customers. So that I think is the comment on the US and that's how we were to some extent able to do better than what the traffic trends would suggest. I'll give it to Stefano to talk about the EPS.

Stefano Grassi: Yes, the sensitivity that we've been sharing as a kind of a rule it's that every 10% increase of the US dollar has an EPS impact in a range of 7 to 8%. So that that's the kind of rule we normally give.

Luca Solca (Exane BNP Paribas): And the reverse is true I imagine.

Stefano Grassi: Yes.

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

Daniel Hofkin (William Blair): Hi, good evening. Just a couple of clarification questions, fairly straight forward I think. You talked about the nine-month performance and then your year-to-date expectation in terms of "rule of thumb". In the third quarter itself if you were to look at it on a constant currency basis and that is adding back the charges related to Oakley, what was the growth in income on that basis constant currency and adding back the Oakley related expenses?

Stefano Grassi: Well, remember that the last year we had some restructuring charges as well. So if you load on a reported basis at constant forex, for the third quarter the net income growth would be around 15%. So that's what you are looking at including restructuring charges this year as well as the one we had last year for comparability purposes.

Daniel Hofkin (William Blair): Okay. So on a comparable basis and at constant forex earnings were up above 15% in the third quarter.

Stefano Grassi: Correct. Fully loaded report on a constant forex basis.

Daniel Hofkin (William Blair): Right, okay. And then just on slide #10 I just wanted to clarify one thing there where you talked about North America overall [adjusted sales] being at the top end of your full year expectation, it's up about 6% [at constant forex] through the first nine months. There is a bit of a divergence between wholesale and retail, retail outperforming wholesale which is a little bit lower than your plan. Any commentary as to what might be driving that, is that just timing, do you expect wholesale to show stronger growth in the fourth quarter or you know just help understand that a little bit better?

Adil Khan: Our third quarter was a strong quarter last year, but one of the things that's working for us well in wholesale and in general across the world is STARS, the program I mentioned earlier, working with independents on their assortments and replenishments and systemizing the information transfer with us. We are now in 460 doors in the US and growing. We expect the STARS program to be an engine. And so we are looking at the fourth quarter really optimistically, but the business had momentum and we are quite pleased with the third quarter results in wholesale.

Daniel Hofkin (William Blair): Okay. So just in terms of the year-to-date, it sounds like obviously Sunglass Hut has been, on the retail side, a continued standout performer. LensCrafters continues to perform solidly. On the wholesale side of North America is there anything that's contributed year-to-date in particular to the lower rate of growth relative to what your full year expectation was of 9 to 11%?

Adil Khan: I think the only area we were a little bit held back versus the previous year was Oakley and that's because of course we triggered the Oakley integration. So over the summer, we had a lot of moving products and we had a lot of system reinvention. We sort of concluded the mechanical part of the transition of Oakley that integrated in October 1st when we went live with a fully integrated Oakley in our systems. Now that's behind us, I think our only task on Oakley is to grow. We have a very good eyewear collection and of course the Olympics are coming up in nine-month time. And so now all the energy goes into making that a real Oakley moment. We have a steady state on the organization which I think gives us the right focus to get that done.

Daniel Hofkin (William Blair): Great. And then just one final question to clarify your prior response on the "rule of thumb" for next year. What would be the things that would cause…let's say, you sort of committed to a similar rate of revenue growth, but not necessarily doubling on net income maybe, maybe not. But what would be the things that would cause it to be less than double the growth rate? You know, in terms of investment spending or other things or do you feel like there is less room on operating margin then there has been in the past?

Adil Khan: You know, I've been here for a year, but everybody around the table is waiving their hands, telling me that it's six years that we've been delivering the "rule of thumb". I think we never commit to it being perpetual, but six years in a row is pretty impressive to me, so as long as we keep that going, we will keep going.

Massimo Vian: I would also add that it will be a great year of investments, as I mentioned before, specifically store expansion. And depending on the pace we will decide for that expansion, at the end of the day it will be down to us to decide whether we want to respect the "rule of thumb" because everything is really in our hands and it's our decision. So, it will be a strong year for growth and that will affect eventually delivering on our "rule of thumb". What we can say is that we maintain the commitment to accelerate earnings more than sales.

Daniel Hofkin (William Blair): Fair enough, all right. Thank you very much. Best of luck in the fourth quarter.

Anne-Laure Jamain (HSBC): Hi, good evening. I have three questions. Can you, please, come back on the forex impacts, I mean the number that you gave for the wholesale Ebit margin at constant forex? My second question is about LensCrafters. Have you already started to test the new store format for LensCrafters? I know that it is planned for Q4, but have you already started this project? And finally, can you share with us some detailed indications for the month of October? Thank you very much.

Stefano Grassi: Okay. On the wholesale Ebit margin the improvements on a constant FX basis was a 170 basis points for Q3, exactly the same we got for the first nine months of the year.

Anne-Laure Jamain (HSBC): Thank you.

Adil Khan: On LensCrafters, the growth so far has really been driven by excellent work in the stores, excellent conversion, working with the doctors in LensCrafters and getting good referrals. We've been rallying around net promoter score for over a year-and-a-half and that's producing very good organic growth. The second part of the exercise is the one you mentioned which is to revamp our stores. We haven't done that for a while. We've been testing different modules and different looks and different paths to purchase inside the store. Our first store in new format opens in November. We will be looking at that for a couple of months and if it confirms the traffic and trial expectations that we expect, starting in spring we will begin to expand that format across the US.

There is one other question that you asked about October. October is good. So, we've had pretty much across the globe a good October. As I mentioned earlier even our markets in the East have picked up and North America and Europe continue to do well. So October is healthy.

Anne-Laure Jamain (HSBC): Thank you.

Chiara Battistini (JP Morgan): Good evening. Thank you for taking my questions. My first question would be on the gross margin for Q3 that was up just 20 basis points [in reported terms] and which is quite of a slowdown on the improvement versus H1 that I think was up 300 basis points. So I was wondering if you could tell us the reasons why the improvement year-on-year has slowed down so much. And also how we should be thinking about the gross margin into Q4 and for the next year please? And then the second question would be on the marketing expenses that I noted are broadly flat in Q3. So I was wondering if there is any timing effect on these expenses or there is more optimization impacting that line. Thank you.

Stefano Grassi: Okay, I will probably take both the questions here. The first one on margins. When we look at our margins on an adjusted basis, so excluding any one-off impact for the quarter, well look at basically a flattish margin year-over-year. I would say though that there are a couple of readings on that. I think the manufacturing efficiency has been a strong driver for the Wholesale division. We were planning to have a lower contribution during the third quarter versus the first half of the year. And the other thing is on the retail side. As I mentioned before, we have a bit of a dilution coming from our optical retail in Australia as well as in Hong Kong, so that is really the reading on the quarter. There is no reason why we shouldn't continue to have our margin improvement in the future, but that's the reading for Q3. It's something that we were expecting in light of the current trading.

With respect to the advertising expenses, I would say that the advertising spending as a percentage of sales is not much different from the one, for example, that we've got in the first two quarters of the year. I think our spending was very much consistent. So you might have some timing shift due to the calendar shift that you might have in retail. But all in all, our percentage of investments on total sales is pretty consistent between Q3 and the rest of the year.

Chiara Battistini (JP Morgan): Great, thank you. And just maybe a follow up on the October question and that you noted pleasingly it was very good across the globe. Some of your luxury peers have noted that after the holidays actually they saw a rebound of the US and or at least some sort of acceleration of the US as the Americans came back from holidays. Have you seen that too and that's what is driving October or….?

Adil Khan: We didn't have the situation where we had a low base in August and September. So we've seen a continuation of pretty robust comps that we already had in August and September. So that makes us a little bit different in a favorable way at the moment from some of our peers, but we are seeing a good October.

Chiara Battistini (JP Morgan): Great. Thank you very much.

Elena Mariani (Morgan Stanley): Hi, good evening. Congratulations on the results and thanks for taking my questions. I have one follow up on the space expansion and the openings. I think one of your previous targets was to have 2,000 emerging market stores by 2016 and more than 4,000 Sunglass Hut stores worldwide by 2016. Can this change in light of what you said before with regards to the potential speed of expansion of the retail operations? Should we expect these numbers to be more or less or maybe a bit more diluted overtime? And the second question is about the online, I was quite interested in your point about additional synergies between brick & mortar and online. And if you could share with us a little bit more details on what you are doing and then how you are planning to even evolve you operational facilities just to face the continued growth of the online segments? Thank you.

Stefano Grassi: So I would probably take the first question with respect to the Sunglass Hut target. You know we gave targets in sales and in operating profitability and, I would say, an ambitious number of stores that we are planning to have at the end of 2016. Probably the number of stores we'll get to is something slightly less than that, but I wouldn't define it as something very material. What I think is important to highlight is with respect to the top line and the operating profitability where we are going to be right on target to what we shared with you a couple of years back. With respect to the second question, let me hand to Adil.

Adil Khan: So you know one of the nice things about eyewear is they are fashion items and people like to try them on. So we see stores remaining a center point where people make their choices and certainly our stores are doing well and both whether they are optical or whether they are more impulse-driving like Sunglass Hut, the store is a very important place. Now, as I said earlier, the online business is growing approximately 50% and we have about 2% of our sales through our own sites and another 2% across third-party sites and both are growing nicely. We have, I think, an advantage on online which is that so many of our styles are iconic. So notwithstanding what I've just said, which is that the in-store experience is an important part of selecting your eyewear, if you ask people which eyewear styles they are familiar with and which ones they would name, they would normally say Ray-Bans, they are Aviators, Wayfarers, Clubmasters, Caravans. So I think we have an advantage on the online side of the business from the fact that so many of our eyewear pieces are iconic and people have had an experience with them and probably know how they fit and how they look.
We are continuing to drive online. We think that business should be twice what it is today. So we are not happy with the 50% growth quarter-after-quarter, we want that to accelerate. If you visit, say, ray-ban.com you will find the things that we are focusing on. One, an experience on the site, which we spoke of and that includes the ability to, for example, customize your eyewear, play a little on the site and be able to build a unique piece for you, that is, that you have been able to design online. That's the kind of experience that is different online than in the store and I think that's something we will continue to emphasize. So not having a duplication or migration between the in-store and the online experience, but actually providing different experiences, so that the two are cumulative.

Elena Mariani (Morgan Stanley): Okay. Thank you.

Julian Easthope (Barclays): Many thanks and good evening everyone. I have got three questions as well if I can. The first one concerns the long-term, the 10-year plan, basically equivalent to 7% CAGR. Now I think over most of the last six years you've probably seemed twice as much great in wholesale than it has been in retail and yet in this year there has been more of an equal split and given the big sort of €1 billion investment that you have within retail over the next five years. I just wondered how you'd expect the 7% CAGR to split between retail and wholesale in the next few years.

The second question, on the short-term, in terms of Q4 you said that China was a destock, can we therefore expect a restock in Q4 from China and therefore boost the numbers? And also within Q4 last year Europe saw a very big negative performance because of the poor summer and the fact that there was no reordering taking place. Can you confirm with such a good Q3 that you think the retailers are relatively clean and therefore we should see actually quite a decent rebound in the European wholesale business?
And the last question comes back to Oakley. With all the integration now finally taking place, will the €50 million of costs benefit that you get out of your €100 million synergies take place immediately, will we actually see that coming through in Q4? Thank you.

Adil Khan: Okay. I think that was four questions, it's not three, but we will take them. 10-year plan, we declared, it requires a 7% sales CAGR and if you look at our pedigree, it's the kind of performance that we are able to deliver. Now of course they get harder and harder as the Company gets bigger and indeed one of the acceleration points for us is retail. So, looking forward without getting into too much detail, we are focusing on openings of Sunglass Hut across the world and we are focusing on a revamp. I mentioned earlier, the LensCrafters revamp is a big operation for us in North America. It has two investment areas for us next year. So I expect that when we give guidance for next year you will see a more aggressive retail number versus the past. Not sure if it has to come at the expense of wholesale, but certainly you will see better numbers on retail than in the past.

On the Chinese destocking. Firstly before I get into that, just to give a sort of perspective overall, China is 2-3% of our business overall. We declared last quarter that China is a priority for us over the next five years, because we expect the business to be at least double that and because a lot of the new users and the demographic drive there is towards eyewear demand, we expect it to come from China. We adjusted our pricing in China ahead of, let's call it, the sort of financial market turmoil behind the fact that the RMB has appreciated you know 20-25% between spring 2015 and spring 2014, so we took our prices down and what I've called a destocking is the natural result of independents relooking at their stock. And in some cases in China stock levels can be 6, 10, 12 months and making sure that they start the season post summer with relatively low levels of stocks, so that they can buy the new models, the new collections at better pricing. So that's the destocking effect.
What we expect now is that, because there is so much conversation about demand in China, having settled slightly, we think that having taken some pricing downwards, that will put us in a good place. And so certainly our volume forecast in China is pretty bullish for the fourth quarter. Do you want to take the Oakley cost benefits question?

Stefano Grassi: Absolutely. As you pointed out, we shared the €50 million cost benefit following the Oakley integration. We said that the full exploitation of those benefits will come between 2016 and 2017. With respect to the short-term and Q4 we are expecting a marginal contribution to our results for the Oakley integration. So again 2016, 2017 is the year of full exploitation of the synergies from a profit and loss standpoint. And finally, I'm not sure I understood the question well, but in Europe last year we had a situation where the weather was not favorable for us. Customers ended up the summer with very high levels of stock particularly for sun, which meant that we paid for that in the fourth quarter as customers used their overstock to fuel demand as opposed to purchases. That totally has not happened this summer. So we've had a good summer, we've had high levels of service and we expect a linear relationship with demand in fourth quarter.

Julian Easthope (Barclays): That's perfect. Thank you very much.

Domenico Ghilotti (Equita): Hi, good evening. Two questions. The first is a follow-up on China and I would like to understand if you can share with us the entirety of the price harmonization that was affecting China and also to better understand the end market, maybe if you can share the same store sales performance for LensCrafters in order to understand the retail environment. And the second question is on North America, because you are referring to Q3 as 4.5% growth at constant currency, wholesale is up 7% and retail comps are 4.5%. So what I am missing? I do not understand if in retail the contribution from new openings and closure was basically zero or even negative?

Adil Khan: Okay. So, we have a portfolio of brands, if I have to give you a sort of an average I would say that we took our pricing down between 10 to 15% overall. But when you go and look at it on a brand basis, we took higher levels of discounts or lower pricing on our most expensive brands, so some of our most expensive brands have gone down 20-25%. But the average range is between 10% and 15%. We don't release comps by channel for China, but I would say that, the total number for China is affected a lot by the Hong Kong and Macau issue that is sort of bigger than us and we've being carrying it for years. So in Mainland China we have flattish-like growth in comps in Q3, whilst we have negative comps in Hong Kong and Macau. Now, you know, one of the questions I am asking myself is what happens next because we are about to annualize that decline in Hong Kong and Macau that started more or less in this period. So, I am hoping now that we have a stable Hong Kong and Macau traffic situation and or possibly even growth as we get that behind us. But those two phenomena are going to affect our comps going forward. One is how the pricing drives the demand in comps in the fourth quarter in Mainland China and whether the Hong Kong and Macau piece is flattened out.

Domenico Ghilotti (Equita): May I ask you as a follow up if you are also revising your price points in your retail business?

Adil Khan: Yes. So we took our pricing down in wholesale first to give our customers the time to adjust their stock. And then we started this month taking our pricing down in retail. So as we take our pricing down in retail we expect that it will have an effect on the total, you know on the pricing even of the independents.

Stefano Grassi: The other question was around the difference in North America between comp sales and sales growth. I think we posted our comps in North America at 4.5% for Q3 and our retail sales adjusted growth there was 3.9%. So when we look at it, there is a bit less than one percentage point of difference between comps and sales and that is not really much different from what we've seen in the two previous quarters. And obviously there is a bit of calendar shift that we have. Remember last year we were running on a 53-week calendar and this year we are running on a 52-week basis, but that's a normal shift quarter-after-quarter, so there is not much of a difference between Q3 and the first two quarters of the year.

Adil Khan: It is true that versus how we started the year, we expected wholesale to carry North America to a greater extent than retail and instead we've had a very good performance in retail.

We've had the best performance in retail in the past five years. So when you look at those numbers it's not that we have a problem in wholesale, but simply that retail is carrying more of the number than we expected and that's good news.

Domenico Ghilotti (Equita): Okay, thank you.

Paul Swinand (Morningstar): Good evening, and thank you for taking the questions. Just wanted to add one more detail on China, I know in the past quarters of the year you had mentioned that there were more doors being opened, that there is a lot of opportunity in wholesale doors. Is that expansion still there and still ongoing? And has been affected by both the destocking and the price changing?

Adil Khan: Yes, that continues. So the cornerstone of our growth on the wholesale side will be to get increased penetration, increased territorial coverage. To some extent it's too early to assess, I think, but I think yours is a good question. When there are ups and downs in the financial markets, sometimes distributors find it a little harder to get their cash, to get their loans and to get the cash flow to work. We haven't seen that yet. But I think that's one to watch out for, but we are continuing to steam ahead. Mostly because as I said earlier, you know we have a very ambitious goal over the next five years. We're still relatively small and so it doesn't really permeate our total numbers one way or the other. On our own store side, in Sunglass Hut, we've just started. So we opened 10 stores in Q2, we opened another 10 stores in Q3. We'll probably end up with 30 stores by the end of the year. The numbers in those stores are excellent so we are encouraged to go faster, but it's still really 30 stores in China. So, it's really the first step of a long journey.

Paul Swinand (Morningstar): In those stores that you are seeing, that you've opened of your own brand, are those customers already familiar with the brands from travelling abroad or are they discovering it for the first time?

Adil Khan: No, our brands are…in our Sunglass Hut stores, our best sellers are Ray-Ban and our best sellers are the iconic Ray-Bans and those will have high awareness even in China. We think we have to invest in awareness, though, both on our retail banners and on our brands across our portfolio and for our licensees. So awareness is part of the investment areas that we think is going to drive business.

Paul Swinand (Morningstar): Got it, interesting. And real quickly I wanted to ask about Brazil, I know other consumer companies have seen some choppy economics there with the economic situation between currencies and the overall GDP growth. I know you've got your own assets there, your own production and distribution. But is there anything that you are seeing from the macro environment that makes you think it's going to slow down or is it going to continue strong? Any comments and your color on Brazil would be helpful, thank you.

Adil Khan: We've had double-digit growth in Brazil at constant forex. We are protected from the currency rollercoaster by the fact that we manufacture locally. So what we have lost on the constant forex reported sales number we have gained some of that back in cost. One of the things that has, I would say, surprised us a little positively is to see that the top-end of our portfolio, we've been seeing that since the currency went down, is actually performing very well. And we think that's explained by the tourist movements. So we have a lot of Brazilian tourists making purchases in the US and that has somewhat died down as the Reais has gone down and the US dollar is strong. We think those have turned to domestic purchases. So, it may seem a little paradoxical, but we've seen the top end of our portfolio in Brazil do particularly well since the currency crisis in Brazil.

Paul Swinand (Morningstar): Very interesting. Thank you very much and best of luck for the fourth quarter.

Operator: Gentlemen, there are no more questions registered at this time.

Alessandra Senici: Thank you all for listening to today's call. We appreciate as usual your time and interest in Luxottica. We wish you a very good evening and we are available if you have any follow up question. Bye-bye.