Luxottica Group "3Q 2016 sales"
Date: October 24, 2016

CORPORATE PARTICIPANTS
Alessandra Senici, Group Investor Relations and Corporate Communications Director
Massimo Vian, CEO for Product and Operations
Stefano Grassi, Group CFO
Q&A

Welcome

Alessandra Senici

Thank you, operator. Good evening, and thank you for joining us today. Here with me are our CEO 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 measures. A reconciliation of IFRS measures to non-IFRS measures is included in today's press release which is also available under the "Investors" section of our website.

Today's call may include forward-looking statements. These statements may be made regarding Luxottica Group's future financial performance or future events that, by their nature, are uncertain and outside the Group's control. The Group's actual performance may differ possibly materially from what is indicated in any forward-looking statements. Please see the Group's filings with the SEC and Italian securities authorities for additional information and a discussion of certain risks that could impact Group results.

As previously announced, Luxottica will no longer publish its first quarter and third quarter earnings release and management statement, but will continue to report half-year and full-year consolidated results. This change in the Group's reporting calendar allows it to better represent the evolution and health of its business.

This conference call is being recorded and is also available via audio webcast from our website.

We will begin the review of 3Q sales results with Massimo Vian.

Welcome and CEO's remarks

Massimo Vian

Good evening. Welcome everyone and thank you for joining us today. Before we get into our quarterly numbers, I want to step back and look at where our business is today.

It is clear that the economic environment has revealed that it is even more dynamic than we forecasted, different trends in different regions, some more challenging than others. Despite this, we confirm our plans for this year, but today's volatility has pushed us to further accelerate leverage on our strengths and create initiative for new opportunities.

We are in full execution mode, we are positive since this 2016 has become even more a key transitional year.

As I said, we keep investing in our strengths, we have the strongest portfolio of brands that we have to grow and protect. This is especially true for our two hero brands: Ray-Ban, I will deep-dive in a minute, and definitely Oakley.

On Oakley, two weeks ago, we launched Radar Pace, our wearable device developed with Intel, and initial feedback is very encouraging. Prizm lenses were protagonists at the Olympics, and we are ready now with a less aggressive color proposal for our Sunglass Hut fall window campaign and then, again, the first frames with interchangeable nose pads, the Oakley True Bridge family. This is the expansion of the Oakley Latch family targeted to a much younger consumer. Finally, Oakley optical collection is the fastest growing brand in the Group.

So, as I said, we have to leverage on strengths, then we work hard to find new opportunities. And in fact our vertical model is once again a stepping stone for future possibilities. The first one is also the most obvious, it allows us to search for continuous efficiencies. In the past years, we had to grow the organization to conquer, I would say almost physically, new geographies and markets.

Now, it is time to streamline processes, even a more centralized business services and infrastructure management, basically, I could say, "simplify" the way we run the business.

Second, and this is less obvious, as our industry evolves, our vertical model puts Luxottica in the best position to serve our customers with an excellent and complete service. The investment we accelerated in these months in our logistic distribution centers goes exactly in this direction: we are adding new lens capabilities in the last mile journey towards our consumers.

New prescription-lens infrastructure in Atlanta, in Sedico (Italy) and in Dongguan (China) will open up growth potential, enlarging the size of the industry that we are competing in today.

So here we are once again leading the eyewear industry, we are progressing in our journey to reach €15 billion in sales by 2024.

Let's now look at third quarter results.

3Q 2016: Group sales growing despite short-term headwinds…

Group sales grew despite a flat performance of North America, with Europe and some emerging markets leading the growth.

For wholesale two factors impacted results: the “Minimum Advertised Price” (MAP) policy in the US and a fast change in distribution approach in China.

On the positive, in the first weeks of October, we have seen better results in North America and also in China, and price-mix was back to positive starting in September.

About Sunglass Hut, as you remember summer started in late June, we were commenting poor weather until June 20th, and that put us on alert mode. We were very focused and definitely was able to execute well. I would say everything went perfect for Sunglass Hut’s summer. During peak season, we have been able to attract consumers, the supply chain was perfect, conversion was great in every geography. We were also helped by very good weather in September, so a very good summer for our sun retail.

For LensCrafters, a different story, also because the optical market in the US was particularly soft and we struggled with comps through the quarter. We experienced lower traffic. We did well with conversion, but not well enough to completely compensate traffic. Consumers were more cautious and we have been also very well disciplined with a lower level of promotions during back-to-school. Total sales in any case were up versus last year, thanks to the contribution of the new store openings.

We’re very happy with e-commerce growing 18% as per our plan.

With these results, we are approaching the end of the year at the right speed, we think. We see a continuation of certain trends that we observed in Q3, so certain challenges remain in some areas, but others do show signs of improvement.

That said, October is the lowest month [of the year] in sales, so things will become material at the end of November soon after Thanksgiving in the US. Calendar benefits in retail are already visible in Q3 and will definitely have a higher contribution in Q4 as Stefano will tell us in a few minutes.

Today, this is important, we feel confident to deliver the outlook for full year 2016.

Behind 3Q 2016 performance

As I commented at the beginning of the call, behind Q3 performance Luxottica is at full speed to accelerate execution.

LensCrafters has been introducing more innovation in the last nine months than in the past five years. The new digital eye exam [Clarifye] is easier to perform and more accurate than ever. We are rolling out digital transformation that will facilitate store management in all our stores, and we are at the same time expanding LensCrafters’ footprint with the new store concept, lighter in costs and better in service.

Sunglass Hut, the only real global brand for sunglasses with approximately 3,300 stores, keeps expanding globally, and, after the great summer I’ve previously commented, the overall system is already focused on the last six and busiest weeks of the year.

Latin America is doing really well. Mexico posted a solid and steady growth. We are very pleased with what GMO is doing, over 480 stores now with the right selection of “made in Luxottica” and other products. They are fully integrated on SAP, with also a brand new owned prescription lab in Peru to serve, together with our partnership in Chile, the GMO stores in Colombia, Ecuador and Peru.

So we are happy and we are ready to move on for the challenging Q4.

Ray-Ban: continued global prominence

Before leaving it to Stefano, my last comment is on Ray-Ban. Ray-Ban continues to be the most desired eyewear brand for both optical and sun. Ray-Ban is setting the trend for the entire industry, as we continually showed you during our “Luxottica days” and we are investing in new design languages for Ray-Ban, new technical innovation, and, I am sure you are all aware, in a renewed distribution discipline.

You know that all Ray-Ban icons, more than 10 million frames, were fitted with micro-tags last year, a RFID chip. This allowed Luxottica to implement “Minimum Advertised Policy” in April and allows us today to monitor clearly and closely what is happening in the online arena.

Our efforts to clean up the marketplace for Ray-Ban are having a temporary impact in North American wholesale, but we are already seeing positive results that we can actually measure. Most important is that the average discount on Amazon for Ray-Ban has dropped from 37% in April to current 6%.

At the same time, the MAP policy is also sustaining our brands, the sale of our branded websites, first ray-ban.com and definitely also sunglasshut.com, that are growing according to our aggressive plans. We are also very pleased with the continued success of Ray-Ban Remix, the custom online platform that offers exclusive products.

In September, we had a very successful window campaign of Ray-Ban Chromance lenses that helped Sunglass Hut to finish the quarter with great momentum.

Last but not least about Ray-Ban, I want to underline that we are very happy with the roll-out of Ray-Ban stores in China, approximately 40 today, they will be 70ish before the end of the year, and we’re planning for further expansion in 2017. It is particularly important that through those stores we are now launching our test for Ray-Ban branded high-end prescription lenses, and this is a very important task for future plans.

Now I leave it to Stefano for further comments on results.

3Q 2016 sales

Stefano Grassi

3Q and 9M 2016 net sales performance vs. 2015 adjusted figures

Thank you Massimo and good evening everybody. Let’s dig into our top line results a little bit more in detail.

The overall growth in Q3 was 1.4% at constant forex and positive 1.2% on a current forex basis.

For the first nine months, you are looking at plus 1.5% growth on a same currency basis, and negative 0.1% at current forex. The first thing to highlight is that the currency headwinds that we experienced during the first six months of the year are now fading out as the difference between current and constant forex is fairly marginal, since the British pound devaluation, which during Q3 was about 16% versus last year, was partially offset by the revaluation of the Brazilian real as well as the Japanese yen.

Now, let’s move into wholesale in the middle of the page. Wholesale delivered a negative 3.6% growth on a constant forex basis during the third quarter. That said, last year wholesale sales growth was 7% in Q3 2015. Negative 0.3% was the wholesale growth for the first nine months of the year. On a current forex basis, the wholesale growth was negative 3.2% and negative 2.3% respectively for the third quarter and for the first nine months of the year.

Wholesale crossed a fairly challenging quarter especially in North America and China where the initiatives we decided to undertake in the short term are creating some headwinds, but in the longer term let me say they are the right move for healthier growth of the Group.

In particular, in the US, we do see a more uncertain macroeconomic environment. With that said, the diversification of the wholesale division between geographies, proprietary versus licensed brands, sun versus prescription, allowed us to partially offset weaknesses in a few areas with strong delivery in others.

If we now move to the right hand side of the page and talk about retail, great news here, we’re very happy with our retail division. A clear acceleration versus the first half of the year trend, as we originally planned and shared with you at the beginning of the year.

Retail posted plus 4.4% growth on a constant forex basis in Q3 versus the first half growth of 1.9% [at constant forex]. At current forex, retail growth was plus 3.8% in Q3, and 1.4% for the first nine months of the year.

Retail acceleration was really driven by three things I would say:

- positive comparable store sales at +0.7% versus last year
- favorable calendar in Q3
- the expansion of our retail footprint that actually increased by approximately 130 stores net of closure during the quarter…during quarter three, and approximately 260 stores net during the last 12 months.

If we now go into a bit more detail, let me say that we have a fantastic story for Sunglass Hut to share with all of you, a story of 14% sales growth at constant forex and comparable store sales of approximately 5% this year on top of a very strong +9% comp growth in Q3 last year. So we are very pleased with the Sunglass Hut performance and we really have to thank the entire Sunglass Hut team for delivering such an outstanding quarter.

Now, moving to LensCrafters, comps were negative 1.6% in Q3 as Massimo mentioned. As you know, several projects are going on in LensCrafters and we talked about them: the Macy's expansion, the digital eye exam roll-out, the new POS system. But I would say another key driver for soft comps was the deliberate decision we took to focus more on the brand equity message during the back-to-school period, which, as all of you know, is a very promotional period, coupling that strategy with fewer weeks of promotional activity versus 2015. Again, another example of short-term burden for a long-term healthier growth for Luxottica.

Revenue roadmap by geography

If we now move to the next page, we talk a little bit about our roadmap across the different geographies. Let’s start with our biggest one, North America, and then we’ll go through the others.

North America was flat at constant forex for the nine months of the year as well as for Q3. For us there are two different stories here: a story of growth and acceleration in retail and a more challenging one on the wholesale side.

Let me start with wholesale first, in the middle of the page. You see we posted a negative 11% growth [at constant forex] in Q3, which means -5% [at constant forex] for the first nine months of the year. I would say a few things about wholesale. First, the MAP policy is impacting quite severely and is definitely stronger than we thought. Secondly, the Oakley sport channel is impacted by the second wave of the Oakley integration. We talked about it during the second quarter and now the integration is at full regime as we speak.

Moving to retail, sales were up by 2% [at constant forex] in both Q3 and the first nine months, on-track to deliver our full year target. We're very pleased with the Sunglass Hut performance in North America, plus 3% growth in comparable store sales, and 8% growth in total sales. The right assortment and a strong execution in the stores delivered a strong rebound in Sunglass Hut versus the first half of the year where Sunglass Hut, you might remember, posted flattish comps.

LensCrafters did experience a challenging quarter, we said it, where comps were negative 1.6%, and I would give you a couple of readings. The first one, the deliberate intention to become less promotional during the back-to-school campaign with fewer weeks of promotions and a brand equity oriented message. The second one, I would say, a suboptimal execution on several different projects that the LensCrafters team has undertaken during the third quarter.

Let's now move to Europe, great stories here: +8% sales growth [at constant forex] in Q3 on top of +8% in Q3 last year. Outstanding performance, in acceleration versus the growth story we had in the first half of 2016, so very happy. We posted double-digit growth in Spain, in Greece, in Portugal, in the UK, in the Netherlands, in Eastern European countries and I could go on. Overall, the performance was positive in every country in Europe with the exception of Turkey, where the unstable political situation is not helping. So overall, very happy in Europe, that over-delivered our expectations and is proving once again the effectiveness of all the initiatives the wholesale and retail teams are putting in place in this region.

Let's move now to Asia-Pacific in the middle of the page. Flat performance in Q3, I would spot two things here. First, the trend in Hong Kong continues to be negative, although during Q3 we observed early signs of stabilization versus what we have seen during last year. And secondly, in Mainland China we did post negative growth in Q3 as we are continuing our transformation journey in exiting from our relationships with some independent distributors and we are developing a more direct relationship with our clients in China. If you exclude China and Hong Kong you will be looking at plus 4% growth [at constant forex] in Asia-Pacific for the third quarter of 2016.

Last but not least, Latin America. The growth story continues here. Plus 7% in Q3 and double-digit sales growth in the first nine months of the year [at constant forex], with a strong double-digit sales increase in Mexico and a deceleration in Brazil that is still positive if we look at the first nine months of the year.

North America: mixed results in 3Q 2016

If we now flip to the first important geography, just to give you a little bit more color with respect to North America. We already stressed that the MAP policy is working and is causing some disruption in our North American wholesale performance.

A few data points to think about the disruption that the MAP caused on the market. In searching through Amazon, including the third party websites that Massimo mentioned, we observed that the average discount on Ray-Ban products was actually down from approximately 37% in April 2016 to about 6% at the end of September. In addition, the number of listings below the MAP policy on Amazon went down about 90% during the same period. Tangible progress has been made here with respect to make a cleaner market in the United States. All of this has a price that we paid in terms of lower sales and you can see it, for example, by looking at the overall sales to third party websites that were actually down by approximately 60% during the third quarter.

For retail, we talked about LensCrafters, but let me add on the positive side the roll-out of LensCrafters in Macy's is progressing, and we already have 47 stores opened so far. We are on track to hit approximately 80 store openings by the end of the year.

Europe showing continued growth in 3Q 2016

If we now quickly touch on Europe, as we said, we are very happy. I would only add that Sunglass Hut delivered an outstanding performance across several European countries with comps that were double-digit solid proving once again the success of our retail sun business model. In addition, we are pleased with the expansion in Galeries Lafayette, where we already have approximately 50 stores which are proving to be another important pillar instrumental to our future growth in Europe.

Asia-Pacific: eyewear, a fast growing category

Now, let's move to Asia-Pacific. Let me share with you a quick flash regarding the Ray-Ban stores in China. A promising journey that just started, a store experience that celebrates the success of our leading brand, and yes, it's both optical and sun, and so far the initial response from Chinese consumers that got exposed to this new store experience has been extremely positive.

In addition, the overall optical retail comps were up double-digit during Q3 in Mainland China, which is clearly indicating that the efforts we are undertaking there are paying off.

Latin America: all-around growth continues in 3Q 2016

Last but not least, our Latin American business, a continuous growth story for us. Mexico delivered another double-digit quarter and the optical retail business delivered high single-digit comps in Latin America, very happy and we will keep running at high speed in this part of the world.

With that, I hand it over to Massimo, who will share with you a few highlights on what to expect in 2017.

Set up for success in 2017

Massimo Vian

Thanks Stefano. So we are closing this year with the right speed and we are starting 2017 with positive momentum.

Our supply chain will be optimally positioned with leaner inventories compared to the last couple of years, we are getting faster. We will be very well balanced in manufacturing, and, as I already said, we have expanded DCs and prescription lens capabilities.

A brand new story for Ray-Ban; once again in early Q1 we will launch the new on-line Virtual Try-On tool, it will be available for all mobile devices, and I can guarantee because I am testing it on myself these days, it will completely change the online shopping experience. It will be soon available for sunglasshut.com and oakley.com.

We will keep expanding the test on prescription high-quality branded lenses, starting from China, and this will really be a game changer for Ray-Ban.

A new chapter for Oakley with an integrated organization. We will pass on to Oakley what we are learning from Ray-Ban in terms of microtags (RFID) and channel discipline, and we will keep surfing the wave of the optical collection which is having a very healthy trend. We will also see the completely renewed apparel spring/summer collection in our [Oakley] stores starting from February.

As you all know, in January we are launching the new Valentino collection, an exclusive female product, very high end price points. We are very happy with the way we are approaching the product and designing the collection in partnership with professionals.

For wholesale, today's investment in disciplined distribution will be the foundation for next year healthier growth.

And I'd say that both at Sunglass Hut and LensCrafters we will be able to take the customer experience to the next level. Sunglass Hut is benefitting from a dual growth speed between brick-and-mortar and omnichannel, as well with LensCrafters we will start enjoying the benefits from our digital evolution.

So having said this, nine months into this transformational 2016, we are preparing our journey for 2017, that I would define as a year of accelerated growth.

Thank you for listening. We are now ready for the Q&A session.

Q&A session

Cedric Lecasble (Raymond James): Yes, good evening to the team. I have two questions. The first one is on the US market, the optical market in the US, and not specifically for LensCrafters, but the whole market, do you have any data of market trends in Q3? It seemed to be pretty soft across the range. Do you have any indication of eventually a negative market for optical into US in Q3? It seemed to be negative in Q2. That's the first one. And on LensCrafters, maybe adverse with traffic, you said traffic was under pressure but maybe you can put a figure here. And the second question is about the consequence of the slowdown of third parties selling online. Can you tell us what consequence it had on your own online operations, especially in terms of conversion and what you expect in the coming quarters? Thank you.

Massimo Vian: I will start and eventually Stefano can add some more color. No, we have no specific data trend for Q3 in Wholesale North America. We are, I think, in control of what is happening and the MAP effect was largely anticipated. We can say the first weeks of October in the North American market are telling us that we might be in the recovery mode for Q4.

On third-parties selling online, the slowdown had a positive effect on our direct channels, as we already commented, online discount levels are going down. We see, you know, a steady growth on our platforms, and we see a steady growth for our premium products, specifically for Oakley. So we are very pleased with what we did with Ray-Ban, we are so pleased that in the last month we planned a roll-out of microtags (RFID) on Oakley, that will be basically costless starting in January 2017. The Oakley distribution center in Ontario, California, will be moved into our Atlanta DC, where we do have the facility for microtags reading and information loading. So, leveraging on that same infrastructure, we will duplicate the positive experience of Ray-Ban on Oakley as well.

Cedric Lecasble (Raymond James): Actually, my first question was not on the US wholesale market, but more on the optical market. LensCrafters was suffering a little bit in the US, and the US market overall seems to be pretty difficult in Q3, and my question was more on the optical market in the US?

Massimo Vian: Yes, the wholesale market in the US is a delayed reading of the optical market as well as we are largely penetrated with our more than 20,000 doors in wholesale. But you are right, we do get a better reading from our direct stores, and we do not see as a super, heavier fact, lower traffic. We see it, but we think that we control our destiny and with all the initiatives we laid down from LensCrafters to Target Optical and our other retail chains we believe we can finish the year at the right speed. So we are less dramatic than others in reading a soft data trend for the optical market in the US, but it has been there, no doubt it has been there.

Cedric Lecasble (Raymond James): Thank you.

Elena Mariani (Morgan Stanley): Hi, good evening Massimo, Stefano and Alessandra and thanks for taking my questions. I'm going to start with next year. Could you help us understand how to think about 2017, it is pretty clear at this point that your previous guidance is not really feasible at this point. But for example, would you be comfortable with what the consensus is assuming at the moment: some mid single-digit growth for top line and 50 basis points of margin expansion? And is it fair to assume that growth will reaccelerate more in the second half of the year when we start annualizing all the initiatives that you have been taking in the US and in China? And also, still related to your guidance, what could be the drivers of margin expansion next year specifically when you are opening so many stores?

The second question is about your plans with LensCrafters: can you confirm that you are going to open 200 stores with Macy's next year? So should we assume that we have more contribution from space rather than like-for-like? And what would be your new target in terms of number of stores? Are you assuming or are you planning just to open stores or are you planning also to close some other stores? I think some time ago you had targeted approximately 1,400 stores for this chain?

And finally, on wholesale, how should we read your word "healthy", does it mean also lower? So are you going to try to limit your selling in the future, just to limit discounting activity? And how do you plan to tackle the discounting that we are having in Europe in the online channel given that the MAP policy is not applicable here? Thank you very much.

Stefano Grassi: Okay, good evening Elena. I'll probably take some of your questions. So about 2017, what I can tell you right now is that next year is going to be an year of acceleration for us. That acceleration could lead us to the mid-single-digit range growth for 2017. We are going through the budgeting process as we speak. So now we are working very, very hard, all the different teams, all the different organizations, and I think we would be more precise with you in early 2017.

With respect to profitability, the growth in operating income, the 1.5 to 2 times operating income on sales, it's not a question of "if we are going to do it", it is just "a matter of when". And I think we are really having and taking the time right now to make sure that we have a crystallized view on 2017 also from a profitability standpoint. You made a comment about H1 and H2 velocity for next year, which I would agree. I would say that some of the things that we have been doing this year are having the anniversary basically at the end of H1 2017, so we should see a further speed up during the second half of next year. So that is where we stand right now in terms of guidance.

With respect to LensCrafters in Macy's, I would say that the 200 stores that you mentioned could probably be lower than that. We don't necessary have, you know, a commitment for 2017, but what I can tell you is that, every quarter we reassess our store portfolio and, based on our reassessment, we look at what are the stores we could eventually go after for closure, and what are the other opportunities we could find in the United States and in other areas of the world for further openings. Massimo, do you have something to add on that?

Massimo Vian: Yes, Elena, I think what is really important to assess is that our retail strategy in North America is going to evolve for the positive. We are going to open in optical retail lighter stores that will be definitely smaller, and less expensive to open and less expensive to manage and to build. And clearly on optical retail we do have and we will continue to have aggressive plans, not only for LensCrafters in Macy's, but for Target Optical as well. A very different story on Sunglass Hut, sunglasshut.com is growing, I will say even unexpectedly, 30% year-over-year, amazing omnichannel experience. So we sell in the stores, but with products that we deliver at home, and these are sales that benefit from an almost infinite assortment of the Group through the iPad presented by the associate to the consumer.

This is important, it's not a detail, because it makes us think about how much we can leverage on omnichannel and digital platform for an emotional kind of purchase rather than still relying on simplified brick-and-mortar experience for our optical business in which you do not serve only emotions, primarily you serve eyecare and service. So I think with this strong strategy, which we are really, really convinced of, we will be faster, lighter in costs, and really makes omni and brick-and-mortar. In the second semester of 2017, we will start and see translating our omni experience of Sunglass Hut into portions of LensCrafters' business as well. That will be a second type of evolution of our optical retail chain strategy. So I think, and I hope this answers your questions.

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

Massimo Vian: On wholesale, "healthy" growth in Europe means that we will grow and hope to be happy and positively surprised. It's true we cannot implement the MAP in Europe, but we can work, you know, on a better disciplined distribution of our frames in the market. Starting in February, this is just an example, we will be live with our digital grids assortment, and we will be more and more piloting through our sales agents, you know, through iPads what they can sell, in which geographies, as MyLuxottica platform evolved. So, it's really centrally from the Milan team, activated or not, but with your frame collection for a country or another that would help us a lot to stay disciplined in Europe as well.

Stefano Grassi: And I add that in Europe we have ARA, authorized retail agreements. So, we are going through a full implementation of ARA in Europe and obviously that has also an objective to further clean up the market in our European operation from a wholesale perspective.

Elena Mariani: Okay, great.

Chiara Battistini (J.P.Morgan): Hello, thank you for taking my questions. The first one is again on MAP, and again North America, would you say that this is now mostly done and this is clean up or do you think that there is still more to go? And then, how long into 2017 would you expect this to have any impact? The second question is on M&A, I saw the comment earlier on Bloomberg that you continue to pay attention to possible M&A opportunities. So could you please expand on this? And what you may be looking for, whether retail or brands or geographies in particular and maybe a quick word on Essilor as well? And finally, can you please remind us what the calendar impact was in Q3 please? Thank you

Stefano Grassi: I will probably take the first question then hand it over to Massimo for the second one. I will say MAP is not over, obviously. It's still running and then it's going on, probably it will still have an impact in Q4 2016 and the early part of next year. I think we've got a big chunk of impact as we spoke in Q3, because we really moved to a full implementation of MAP policy on July 1st. And so, we still expect to have an impact in the remainder part of the year, although I expect that impact is probably going to be smaller than what we experienced in Q3. Massimo, do you want to comment on M&A?

Massimo Vian: Yes, on M&A, as I said earlier today during some interviews, I think it's more likely you know, a sentence that we keep repeating and repeating, but we are repeating it because it's true, we are very, very active. And in scouting opportunities, I would go more probably on the market side and distribution side to see whether there are, you know, areas with a growth potential that we could accelerate. I cannot really add more, nothing more and I think it's not that interesting the world of brands. If we talk about frame brands, our portfolio is rich and we do have to find the way not to compete against ourselves.

So we are happy with Valentino, we are concentrated on this very, very important launch. Of course, we're ready to evaluate eventual opportunities, but we are more interested in growth potentials and in new markets.

Stefano Grassi: I will take the last question you have with respect to calendar. Yes, we've got some tailwinds from a calendar standpoint and we got one more day from a retail perspective and we also got better quality days, as we gained a few sunny days in early July and we lost, from a retail revenue standpoint, a few days in October. So, all in all we've got a favorable impact in Q3 from a calendar perspective, and that is going to carry on in Q4 as well.

Chiara Battistini (J.P.Morgan): Thank you. Would you be able to quantify that for Q3 or not?

Stefano Grassi: Well, it's probably I would say, you know, a third of the retail sales growth in Q3.

Chiara Battistini (J.P.Morgan): Okay, perfect. Thank you very much.

Antoine Belge (HSBC): Yes, good evening, I have three questions. First of all, a follow-up on Chiara's question about the impact of calendar because you have, if I look at retail in Q3, so comps growth was 0.7% and then including a few things you get to 4.4% sales growth at constant forex and then including other things you get to 7.9% [at constant forex on 3Q15 reported sales].

And so, I would like to know exactly in percentage points what was the calendar effect and so, the impact of opening new stores and any other impact that explains also the three different metrics. And my second question relates to 2017, I understand your point that the formal guidance is no longer achievable especially because in H1 there will be some impact continuing from 2016. I have noted five impacts and maybe you can tell me which one will be still impacting next year. So, first, wholesale rationalization and second, the MAP policy, I think you said at least through Q1, third the global retail reorganization, fourth the Oakley integration and finally the changing business model in Mainland China. And finally, at the end of September there was an announcement that Paolo Ciarlariello left the Company. Is it something that we should worry about or is it just a normal turnover within the Company? Thank you.

Stefano Grassi: All right. So, I think when you look at our retail performance, the 7.9% you mentioned is versus the reported number. So, you remember last year, we had an insurance adjustment and you really have to look at the 4.4% sales growth [at constant forex] because that's really the apples-to-apples comparison year-over-year for retail. The 0.7% comps, then there is the calendar impact and also there is the portion of growth that is coming from new store openings that are performing really well. With respect to 2017, Massimo…

Massimo Vian: Yes, I mean, definitely we have to be careful and cautious about, you know, all the activities that might have a lag in 2017 and an impact. I see some of the comments you made as also opportunities. So if I read vice versa with a different perspective, retail reorganization is definitely an opportunity for what I just told you before: the brand new retail strategy lighter and more efficient for optical, you know, and the confirmation of our footprint for Sunglass Hut starting in the US and the great expansion globally. So, I see these as opportunities rather than eventual constraints. Wholesale rationalization, as I told you before, we are starting now with a cleaner environment in the US. But, nothing is coming up that we can't stop diverting in Europe, in Asia when we are able to find them through our RFID micro tags and the same for Oakley, so I see that again as an opportunity. We are building our wholesale strategy for next year on a cleaner situation.

For Oakley, of course, the same, I mean, we are cutting down the collection of apparel, footwear and accessories by 70%. So, with only 30% of the product assortment we are planning to have a sales acceleration for 2017. So, I see Oakley integration probably as one of the biggest opportunity for accelerated growth next year, and same is the distribution in China. We told you that we started this in Q3, because in two months basically we cleaned the situation in China, and we basically got back in our DC products that were unsold at the local distributors. So we are now clean in China.

Last comment, the departure of Ciarlariello, easy for me as we joined Luxottica basically together eleven years ago. I was in China, he was in India; so we were sort of neighbors if you allow me to say. Great manager, great skills, it was pretty normal that after more than ten years with a great Company he might seek opportunities somewhere else, and he got those. So we are all happy and to some degree proud that he will carry on with his career in another great Company. We have already a new organization both for Retail and for Wholesale and more and more we are concentrating in Dongguan the infrastructures that were present in Shanghai. So same of what is happening in Milan for Europe, the US and global, the same the operational activities will be more and more centralized in our operations facilities.

Antoine Belge (HSBC): Thank you, maybe just a follow-up. Regarding the rule of earnings growing 1.5 times sales, you know, how much is that linked to sales, i.e. you know would mid single-digit top line work to get the 1.5 times benefit in terms of profits?

Stefano Grassi: I'll take that, you know with the rule of thumb there is obviously a big portion that depends on sales growth, but don't underestimate the fact that a significant portion of that will come from the efficiencies we are going to derive from the investments that we are undertaking in wholesale, we are undertaking in retail, we are undertaking in our Operations activities. So all of this is going to give full exploitation of synergies throughout 2017 and we do expect that to be coming in 2017 and we will couple that with our expansion plans, we have further investments in different areas of the company.

Antoine Belge (HSBC): Thank you.

Julian Easthope (Barclays): Yes. Hi, thanks for taking my questions, just a few sort of follow-ups really. So in terms of the new facility for prescription lenses you have in Sedico, is that actually designed for independent opticians, so it go through you rather than one of the other sort of big lens manufactures out there? And if I review, you have sort of taken opinion as to whether or not they want to take the lens processing for them. And the second question with regards to Valentino, have you ever given the likely size of Valentino as a contract that you are expecting? A quick sort of definition thing as well, like-for-like growth, this is online included in all your like-for-likes, because online is obviously doing extremely well at the moment and I just wonder whether or not that was included in the 0.7% comparable store sales increase in Retail that you put in place. And just in terms of the US wholesale business, -11% was quite a big sort of negative, but did you actually have to do any sort of buybacks of some of the wholesale accounts to make that such a big negative figure? I am surprised at the online wholesale accounts that you distributed to them would have been that big a portion of your US wholesale business. Thank you.

Massimo Vian: Good evening, Julian. So lens infrastructure clearly for what is related to Atlanta in the US and Dongguan, the primarily strategy for our renewed lens capabilities will be directed to our stores in those regions. Maybe it's important for you to say that Dongguan will be serving Mainland China, Japan and the Australian market as well. The Sedico facility has been designed to serve our small footprint of stores in Europe. Regarding our actual client base, wholesale clients for Oakley sun prescription lenses that today are still made in Foothill Ranch and delivered across the Atlantic to Europe with obviously not the best lead time possible, we are clearly open to an eventual new strategy to use that facility for some specific wholesale key accounts and top accounts, if needed. That is one of the possibilities.

For Valentino, we are happy. It's a very, very important brand for us, it's occupying a strategic position, it's female, directed to female top fashion, I would say it will play you know a role that is played by Miu Miu and when I say Miu Miu, it's probably the only other brand in that area, a totally different game compared to Chanel or other brands. In terms of size of the business we are planning for that. For the start, we are not disclosing how big it might be. Clearly, it is relevant for us. On online, can you please repeat your question on online, Julian?

Julian Easthope (Barclays): Yes, sure. In terms of the Group retail like-for-like, that 0.7% comps growth, does that include the performance you did on your online business? So sunglasshut.com and rayban.com have been incorporated in the like-for-like and/or is that purely stores performance.

Massimo Vian: Easy, sorry for that Julian, so definitely yes, so sunglasshut.com is included in the numbers we told you before, total retail sales, not rayban.com[1]. And the last question with respect to wholesale, no, I don't think the -11% reading is about returns really, it's really about two things: the MAP policy and Oakley's sport channel in North America. If you isolate those two numbers and those two things you will be looking at very different numbers for our wholesale in North America.

Julian Easthope (Barclays): Right, okay. That's great. Thank you very much and have a good evening.

Domenico Ghilotti (Equita SIM): Good evening. The first question is a follow-up on the ophthalmic lens business in particular in Europe, I wonder if you are proactively proposing your service to your b2b clients in Europe or if you are just evaluating and in this case when are you expected to take a decision. And the second question is related to the LensCrafters strategy. You mentioned that you were sub optimal in the execution of some processes, so if you can elaborate on what's not performing in the right way. And the third question, well, you were mentioning the MAP and Oakley impact on North America, so I am trying to understand if you can quantify a little bit the impact of the two main issues that you had both in wholesale North America and in wholesale China or let's say on wholesale Asia from the direct distribution. And last question on the guidance, you are confirming basically the guidance. In fact you are clearly running below guidance in the North American market. So I would like to understand if you see some areas that are offsetting this weakness or if you expect to recover most of the impact in North America.

Massimo Vian: Good evening, Domenico. So, on lenses in Europe, we are proactively involving some of the top and key accounts in our tests, but we are not aggressive in proposing our service to them. What is today's business in North America, that is Ray-Ban branded prescription lenses that we are selling mainly through LensCrafters, that lens is the first type of prescription lenses that we might use and launch with our European wholesale accounts. On suboptimal execution at LensCrafters, I leave it to Stefano to comment with some color and some numbers on what we did.

Stefano Grassi: Yes, I mean if we look at the amount of initiatives that we have been undertaking in terms of new POS system implementation in LensCrafters, the roll-out of the new digital eye exam in several stores of LensCrafters and the first LensCrafters openings in Macy's. I mean, those are really three big initiatives that I would say are transforming the shape of our LensCrafters business unit. So all of these three clearly caused some distraction for our business that, I would say, is probably not so used to business development as much as Sunglass Hut and that's what we really think when we say "suboptimal execution". So I would say it's a great team, a lot of willingness to raise the bar every day, but it's probably the team that is less accustomed to let me call business development activities than at Sunglass Hut. And that probably is what caused that slowdown, that distraction during the third quarter.

In terms of MAP and Oakley sport channel, we won't disclose specific numbers here but I can tell you that those are really the two drivers of that -11% that you've seen in wholesale in the third

[1] Please, see also "1H 2016 results" transcript: "on the e-commerce business, e-com sales are part on the retail side for Sunglass Hut.com and Oakley.com and part resides within the wholesale side for Ray-Ban.com."

quarter, Domenico. So if we take those out you would be seeing a different number for wholesale North America.

Domenico Ghilotti (Equita SIM): And for China, if I can ask you a comment also on the impact of the direct distribution on the Asian wholesale number?

Stefano Grassi: I would say very different numbers over there as well also because the optical retail in Mainland China did perform really well. So we were very pleased with the double-digit comp sales growth in our optical retail channel. If you also exclude that impact, which again is important for the right long-term strategy of the business, China would be a different number.

Domenico Ghilotti (Equita SIM): Okay and just a last comment on the full year guidance and in particular on the different contributions, because you are you are quite below the guidance in North America, so I am trying to understand how can you…?

Stefano Grassi: Yes, I think what you are going to see is Q4 is going to get better, definitely better than what we have seen in Q3 for wholesale. And we do expect an acceleration in retail also and don't forget the calendar tailwinds that we've already seen in Q3 we are going to benefit from also in the fourth quarter.

So those two factors are important to put in perspective the fourth quarter results that we expect to see in North America. I would say Europe is trending above our expectations and Latin America is still right on the target. So we feel good about it, we understand that we will still have some tailwinds for the remainder part of the year., but we feel good about the overall full year numbers.

Domenico Ghilotti (Equita SIM): Okay. Thank you.

Luca Orsini (One investments): Hi, I just have a couple of questions. I am trying to understand what is the real differentiating factor that you refer to when you talk in your press release about a new service model unparalleled in the market for - I imagine - LensCrafters. What is the real revolution especially for a sensible customer experience?

Massimo Vian: I don't know whether you have had the chance to experience our new Clarifye digital eye exam because, I don't want to go into technical details, but it is really, really a brand new experience, with all doctors' rooms connected to our source management and all the visits performed basically with an iPad in your hand. So the actual experience, starting from booking the visit online and performing the visit in the doctor's room is completely new. And in terms of service model, we are envisioning more and more to go through the experience that has given our consumers brand new digital lenses: basically we'll have DST [Digital Surfacing Technology], the full digital technology, so customized designed lenses, customized for each of the frames our consumer could buy. We are planning, as I was telling you before, the translation of the omnichannel experience that is delivering positive results in Sunglass Hut into LensCrafters. The business model behind this is very, very interesting. So the new stores we are opening are without the in-store labs.

Luca Orsini (One investments): Without, sorry?

Massimo Vian: About store labs and the reason why we are walking away slowly from the one-hour service customer experience is not technical. We are noticing that in gateway cities there is not even time to wait one hour for your frame to get done, this is specifically true for example in New York, in our Manhattan stores. So customers rather come, make a visit, order the frames and get the frames delivered at the office, at home or in the store the following day for final registration and adjustments for the fitting.

So no more stock of frames in our stores, they will become, and actually the Macy's LensCrafters today are already like showrooms where you go, choose your frame, get your eye exam done and order your complete pair that will be delivered from our Atlanta distribution center to your place. And it's going to be a brand new frame, never tried by anybody else before you, guaranteed at source by the factory. So this is the design of the new customer experience. And I want to underline the fact that only Luxottica can guarantee this kind of experience with the efficiency of the infrastructure that stays behind. So, I repeat, it's through DST, digital lenses, customized lens design for each of the frames, vey very lean store execution and just delivery from the source with basically no inventories in our stores.

Luca Orsini (One investments): Okay, good. That looks very interesting. Thanks for your time.

Massimo Vian: Yes, one more second, I think about the second semester, when we could add the online pre-selection of frames and the booking of the visit, as well as we will have the virtual try-on solution: you book the doctor visit, you preselect the frames you look well with because you will be able to virtually see your face in the virtual mirror with the new frames. You will find as soon as you make the first visit, your frame will be there waiting for you. So the conversion between visit and purchase will accelerate even more because we will be there waiting for the consumer.

Luca Orsini (One investments): When will that start?

Massimo Vian: In the second semester of 2017, come to us and have the experience of the virtual try-on from SunglassHut.com to LensCrafters.com, once we are ready. Very, very dynamic and exciting environment to reach, efficiency opportunities and customer service possibilities.

Luca Orsini (One investments): And you can do that with bifocal lenses as well?

Massimo Vian: Bifocal, trifocal, full digital.

Luca Orsini (One investments): Okay, and also for the sun?

Massimo Vian: Yes. Ray-Ban branded, as today.

Luca Orsini (One investments): Okay. That's all from me. Thank you.

Katie Tillson (Credit Suisse): Hi, three quick questions from me. First of all, what percentage of the wholesale distribution in China have now being converted? And how big is your direct sales force in the region? Secondly, some more color on Ray-Ban: Ray-Ban is overall up globally, and I'm taking that in North America it's down. And then, could you give me some color on North America LensCrafters and Sunglass Hut, just in terms of volume and price/mix contribution? Thank you.

Stefano Grassi: I will go through the first question. Right now we don't disclose numbers regarding that because we are really going through that transformation, exiting from distributors, getting a more direct presence, but I think the real impact of that is the returns that increased because of that transformation.

Back to Ray-Ban in North America, yes, Ray-Ban in North America is impacted by the MAP policy, especially Ray-Ban sun, which is more direct, but I would say that the number again would look different, if you excluded the MAP policy impact on Ray-Ban sun in North America.

With respect to price/mix contribution, I would say the vast majority of the growth right now is related to volumes for both LensCrafters and Sunglass Hut.

Katie Tillson (Credit Suisse): Thank you.

Jamie Bajwa (Goldman Sachs): Good evening everyone. Thanks for taking my questions. Just a couple of quick ones from me. First of all, on your licensed retail brands, I was just looking at like-for-like performance there, it looks that it has slide down quite a bit in the quarter. I don't know if you could just help us understand, what's actually being driving that? And then the second one is just on the e-commerce growth that you have given us, +18% at constant forex for 3Q. Is that for both your retail and wholesale platforms, and does that include any impact from MAP? That's it from me.

Stefano Grassi: Okay. So, on Sears Optical and Target Optical I think you are really talking about two different stories here. I think we still have a growth story in Target Optical, while Sears Optical is a bit more challenging. I would say the Sears team is doing a fantastic job, but obviously we do operate in a challenging environment I would say. So different velocity between one and the other.

In terms of MAP, I would just add a comment and then Massimo if you have further comments, please go ahead. But, I would say that the MAP right now is impacting negatively on the wholesale side. With that said, we do expect to gain some benefits on a retail side, especially on dot.com in the longer term. By definition having a cleaner market in the United States, we are going to see benefit of that. I don't know Massimo if you have anything to add to that.

Massimo Vian: More longer term, we do expect benefits on wholesale proper channel as well. I mean because what we are doing is aimed at protecting our brands, we are investing to be different and that will be reflected in all our channels.

Jamie Bajwa (Goldman Sachs): Thanks a lot. I was actually just trying to understand the 18% number. Does that include the negative impact of MAP? You have also talked about sales to online retailers down more than 60%. So I was just trying to understand, what actually includes the 18% growth rate?

Stefano Grassi: 18% is the total overall growth rate for our own e-commerce channels, and that is including sunglasshut.com, rayban.com and oakely.com as well. Oakley.com is actually the channel that performed less well compared to the others, mainly because we still are suffering with a comp until mid-September that was really seeing Oakley sold through discounted websites, we call them Vaults, and of course these are not really the type of sales that we want for our brands for the future. So, we call them "non-quality sales". We shutdown those websites in mid-September last year, so if you were able to see that number real comp now starting in October, you would see that 18% a lot closer to the 30% it looks on a year-to-date basis. So, very happy with Ray-Ban, very happy with Sunglass Hut. Actually, we are very happy with Oakley, but we are comparing with the year in which we did something that we don't want to do now.

Jamie Bajwa (Goldman Sachs): Okay. Thank you very much.

Piral Dadhania (RBC Capital Markets): Hi, good evening. Firstly, I just wanted to understand what the performance of that the new Macy's LensCrafters stores you have started to open. Are you seeing a much better retail productivity in those stores versus your LensCrafters existing network? Secondly, I just wanted to understand your views on Oakley. You say you are happy with the performance, but given this year was an Olympics year, and at the half year results conference call you were talking about expecting big things around the Olympic sell-out season. I would have expected the contribution to be slightly more positive than it perhaps was. So could you just give us some indication of why you believe that the brand is in good health, at least relative to say Ray-Ban for example? And then, finally, I just wanted to touch on MAP. You had sales down 60% to your online partners, but MAP has been now being implemented since April. So about six months or so, I was just curious about whether some of your larger partners such as Amazon, who have now cleared that old inventory and have a cleaner base have started to reorder. So, when should we really expect your wholesale partners to start reordering and to see they are a second derivative improvement in the decline there? Thank you.

Stefano Grassi: I will start with the first question, with respect to LensCrafters in Macy's. I mean, let's put it into perspective, I think it's a bit too early to talk about the performance for these stores. But I can tell you three things about LensCrafters and Macy's, and they are really going to give you an idea of what you can expect to see in the longer term.

First of all, a smaller retail footprint, as the new stores are going to be smaller and more productive. Second, a more variable cost structure than a traditional LensCrafters location because we have no lab and definitely the overall structure can be more flexible and variable. Third, very important aspect is that the infrastructure and the supply chain that Massimo described you before is going to serve and be instrumental to the success of those new stores. So these are three points that I think are very important to be kept in mind in order to understand what we expect to see in the LensCrafters into Macy's.

And maybe over to Massimo on the Oakley side.

Massimo Vian: About Oakley, we are happy with the performance of the brand. And as I told you before specifically for the optical collection we have had a great year so far. Olympics gave us tremendous visibility, Prizm lenses are now growing in the selection of our sun offer. What we struggled with through the summer was the sport channel in North America. Sports Authority went the way we knew, and I would say that overall that channel has proven to be productive as we thought it might be in conjunction with the Olympic Games. But, we judge very positively the status of the brand today. That's clearly a journey to continue, I would say specifically to lower the average age of our consumers in the US, and to increase the brand visibility both in Europe and in Asia, where the potential of the brand is huge. So we are on the right track, and also we have been able to place the apparel, footwear and accessory offer where it should be. We are not distracted, as we always say, we are proudly eyewear makers, but clearly to serve the brand and the equity of the brand the apparel business makes sense, and now that it is simpler and renewed, I think it could contribute to further acceleration in 2017.

On the last question on MAP, what I can tell you right now is that the MAP policy was, like many call it, a self-inflicted decision. So we want to do business with people that comply with that, we know that we've got the full velocity of MAP beginning July 1st. So that is going to obviously anniversary next year, but again, as people comply with our regulation, with our MAP requirements, we will welcome to do business with them, but we don't necessary count on those [who don't?] in our growth story for next year, that's what I can tell you right now. This is a decision that we took purposely, and obviously we want to stick to our commitment here.

Alessandra Senici: As there are no other questions, we thank you for your attention and we wish you all a good evening. Bye-bye.

Operator: Ladies and gentlemen, thank you for joining. The conference is now over.