Luxottica Group FY 2016 results presentation #BrandYourPrescription

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Q&A

Welcome

Alessandra Senici

Thank you, operator.

Good morning, and thank you for joining us today. Here with me are:

Our CEO for Product and Operations, Massimo Vian, our CFO, Stefano Grassi and our President Wholesale, Paolo Alberti

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 yesterday'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 the announced combination with Essilor, 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.

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

During today's call, we may briefly cover a few items relating to the combination between Luxottica and Essilor. Given that this transaction is still at an early stage, we will not be in a position to comment further in the Q&A session. Thank you in advance for respecting this point when asking your questions.

Before I hand it over to Massimo, I would like to invite you to watch a video highlighting how we transformed the company in 2016 and how the digital world is more and more part of our daily life.

For us, as we are already working on 2017 plans, this is a rare opportunity to stop and take a look back at what we accomplished collectively. I hope you enjoy it.

[Video playing]

Welcome and CEO's remarks

Massimo Vian

Good morning everyone. As you just saw from the video, we have been hard at work shaping the eyewear company of the future, investing in innovation, in our brands, and in creating a new consumer experience that remains at the heart of our strategy.

Today, we will give you more color not only on our very solid performance, but on our vision for future and the journey we’ve started.

2016: Strengthening the business model while maintaining growth

Every important journey starts from a launchpad.
I can tell you the importance of the launchpad can’t be overestimated.
Solid and simple business principles, reliable and flexible infrastructure are at base of our long term business growth -- this is largely the foundation we’ve been laying over the past year and it is critical to our success.

In 2016, we took a number of initiatives aimed at elevating our sales quality.

Firstly, we improved our commercial approach with the implementation of the Authorized Retail Agreement in many different countries and the launch of the MAP policy in North America. Paolo will expand on this later.
In the second half of the year, we made the bold decision to remove promotional activity and discounts from our retail network that were eroding brand perception.

In addition, we started to restructure our wholesale presence in Mainland China, which improved the equity again of our brand portfolio as well as sales quality in general.

We are also increasing the value of our products, through richness of design, performance and materials. This is clearly reflected in our latest collections, that we just launched at Luxottica Days, and this richness in product is more than rewarded with productivity and faster service levels throughout our supply chain across the globe.

In the course of ’16, we also continued to simplify our organization.

We’ve been removing complexity from the business, leveraging on simpler and optimized internal processes while capitalizing on a day-to-day entrepreneurial spirit across the Company.

We keep centralizing functions here in Milan's headquarter and this allows us more direct business control, business monitoring and definitely faster decision making. E-commerce is probably the best example: all the IT platforms have been centralized in Milan, same now for Ray-Ban.com, Oakley.com and Sunglass Hut.com. Those platforms share the same digital asset systems between different brands, and as much as possible where we can, we shared those infrastructures with retail and wholesale as well.

We have been centralizing our product assortment and allocation. We can now control our products globally, across channels and geographies at the single SKU level, that's helped our customer service and inventory control. We have been improving the DSI in the course of 2016 as well. Stefano will give you more detail later.

Also our real estate strategy is more and more centralized. Decisions of where to open stores are more coherent globally, allowing us to focus on faster return on investment and to execute our plans for higher brick and mortar productivity in a much faster way.

In the course of 2016, also the Oakley organization has been fully integrated within the Group. The last milestone was achieved during Christmas time when we completed the relocation of Oakley North American logistics into the Atlanta facility and that allowed us to leverage on Ray-Ban infrastructure and launch RFID microchips in Oakley best selling models. I am proud to announce that last week the first Oakley with RFID microchip has been shipped out from the Atlanta facility in North America. The process was completed during the second week of January.

At the same time in 2016 we have been boosting investments. We have been digitizing the experience in store and online, we are setting the bar for a new standard of e-commerce for the industry. We made investments to improve all the supply chain and this is strictly connected to our digitalization journey, so as to make everything faster and to create the ultimate service level that we have in mind. And of course, we continue to invest in R&D redefining what eyewear can be for the consumer from a design and functional standpoint.

In 2016, again a very intense year, we made key investments in our retail. We completed the acquisition of Salmoiraghi & Viganò, the biggest optical chain in Italy, and we also completed the acquisition of Óticas Carol, the biggest franchise network in Brazil. So a very, very dense year we are proud of.

2016: A year of continued growth, improving momentum in 4Q

Despite the execution of all these initiatives, 2016 has been a year of solid growth for the Group. This speaks to the strength of our business model and and as well to our ability in execution.

We reached all-time high sales: over €9 billion, with Europe leading the way, but also North America continuing to grow.

Group adjusted operating income of above €1.4 billion, with operating margin at constant currency almost unchanged, while a more efficient financial management - Stefano will expand on that - enabled us to deliver a record adjusted net income of nearly €900 million with an increased dividend as well.

Free cash flow generation, this is very important, has been of more than €660 million after Capex growing almost 30% compared to the previous year. A very dense year, very solid performances.

In addition to that, we're celebrating the 80th anniversary of Ray-Ban, the 100th anniversary of Persol and the 30th anniversary of Oliver Peoples.

We're incredibly proud of these historic milestones, and we're moving fast to the next opportunities.

So, let's look at where we are in the journey.

A fascinating journey, leading the eyewear evolution

Where is Luxottica today?

All these initiatives of the past two years set us up to win in a fast changing world.

We continue to invest in our brands equity. Brands matter! And we have taken brave brand-healthy short and long-term measures. Paolo will expand on that.

We will rebuild a strong fully integrated logistics platform. Till today we've been excellent to evolve logistic infrastructure, but even more to create a powerful bridge and synergies with the new possibility of distribution given by new digital technologies. It's essential to serve the new digital distribution with absolutely state-of-the-art and upgraded logistics infrastructure, and this is completed, in 2016 is done.

Now, 2017 will be a year in which we can leverage on that. We've been working on the digitalization of the consumer experience across all channels. And again doing this, I remark we closed the year with over €9 billion in sales.

So, where will Luxottica be tomorrow? We'll be building the eyewear company of the future, either on our own or, or much better, as a combined entity.

Let me recap the two possible scenarios.

Luxottica's current strategy. Clearly, we could continue to seize opportunities of a structurally growing industry, benefit from a proven business model, a complete consumer-centric and omnichannel approach with our diverse distribution, and we would be targeting €15 billion in sales in 2024.

But, as a combined entity, we will strengthen the offer for eyecare professionals and end consumers, in other words coupling brand management with eyecare, thus, adding a crucial pillar to our business model to complete the vertical integration. Over €16 billion in sales for the combined entity, if we put together 2016 sales for Luxottica and Essilor. This is of course the direction we're heading in. The combination will allow us to put our foot on the gas and accelerate our vision of producing the complete pair of frames and lenses together with the most perfect fit and the shortest delivery time to better serve our wholesale customers and our end consumers.

This can be a game changer for consumers, that have been hungry for excellence and innovation.

Eyewear global market worth about €100 billion, still set to expand

To fully appreciate the opportunity for us in the future, let's take a step back and look at the market. Today, the global eyewear market is worth about €100 billion, and it will continue to expand. This is quite an usual slide for you. But what it shows is quite powerful, because it shows that the global demand for both frames and lenses [in terms of units sold] is expected to grow double-digit, by 19% and 17% respectively in the next five years. Such double-digit growth shows us a very solid and rosy future.

Secular growth drivers

So what will be the secular growth drivers for our industry? We've discussed these sector drivers many times, but let's take another look and then let's expand at the end for future possibility.

First, it's the demographic factors, such as an aging population and behavioral changes, as well as low awareness that must be addressed with education.

Second, under-penetration, what do I mean with this is: there is a huge lack of awareness when it comes to vision health and product quality. Industry data suggest that only 60% of the population needs vision correction, but only 25% pursue vision correction.

And also sunglasses is a category that still has to be discovered, especially in less traditional channels like travel retail, department stores and emerging markets.

From the eyewear perspective, the secular growth driver has been and will be premiumization of brands. With premiumization, I also mean all the journey of late customization processes that we will describe in the next pages. Both sunglasses and prescription glasses are increasingly perceived as a desirable and must-have accessory to complete one's personal look.

Our aspiration goes beyond today's consumer behaviour. We want eyewear to play a role in "wardrobing", which means having the right pair of frames and lenses for the right situation, whether that means the office, the gym or a night out. Consumer will own multiple pairs to suit their different lifestyles.

So then we have identified a new driver of growth for our industry which addresses both eye-care and eyewear needs. It is the ability to offer and create at the source a complete pair solution, frames and lenses together.

This is a new product that hasn't been offered to wholesale consumers nor to end-consumers at scale yet. It is the highest possible level of personalization, both for frames and obviously for lenses and prescription lenses.

Producing frames and lenses at the same stage of the production cycle means responding to each single consumer's individual vision needs, giving both our wholesale customers and our final consumers a new 360 degree solution.

Consumers who are craving personalization and speed will get the most perfect fit delivered in a short period of time with better end-to-end service.

All the best of our abilities combined will make up the last mile and this is where we believe the combined magic is.

With this in mind, I hand it over to Stefano to discuss our 2016 financial results.

FY 2016 results and 2017 outlook

Stefano Grassi

4Q and FY 2016 net sales performance vs. 2015 adjusted figures

Thank you, Massimo and good morning, everybody, buongiorno.

Let's start with our 2016 results beginning from our top line and then a bit more detail on our profit and loss and then we will guide you through our 2017 expectations.

So let's start with our sales. Beginning from the bottom left of the page, top line grew for the full year 2016 1.9% on an adjusted basis on a constant forex basis, plus 0.8% was our full year adjusted growth on current forex basis.

We closed the year in acceleration, Q4 top line, you see on the top left side of the page, it was plus 3% at constant forex. Actually, the best quarter of the year for Luxottica, in acceleration versus the trend of the first nine months. Currency helped us in the last quarter, thanks mainly to the revaluation of the US dollar, 1.5% approximately versus a year ago, and therefore, you see on a current forex basis our growth in the fourth quarter was actually plus 4%.

Wholesale, you see that in the middle of the page, substantially unchanged year-over-year at constant forex, negative 1.8% on a current forex basis for the full year 2016. As you know, wholesale went through several strategic initiatives between the end of 2015 and 2016. Some of them are already paying back in the course of last year. And one example is the positive performance that we were able to achieve in wholesale North America, with a plus 5% in Q4, after a third quarter which was quite challenging.

Retail had a very nice progression throughout the year. Q1 top line at constant forex, you remember, was plus 1.6%. Q2 was actually plus 2.3%. Q3 was 4.4% and we closed the last quarter of the year at plus 5.2% at constant forex on an adjusted basis, which leads us to a full year performance of plus 3.4%.

LensCrafters in North America continues its journey to strengthen the brand equity and reported sales up 1.3% for the full year with flattish comps. Sunglass Hut confirmed its leadership in the sun segment and reported total sales up 8% at constant forex, so remarkable performance from Sunglass Hut for the full year.

When we look at our total e-commerce sales, they were up double-digits with our directly operated websites up 24% on a constant forex basis, proving once again that day after day, our directly operated websites are the consumer choice for branded eyewear online.

Revenue roadmap by geography

Let's now move to the next page and let's have a run through our different geographies. Let's begin with our biggest one, North America. Top part of the page from the left, full year North American results were plus 1% on a constant forex versus guidance of 2% to 3%, which you see there in the grey box. I would say two misses here, one the impact of the MAP policy which had a more severe impact on the second half of last year, probably more severe than what we originally thought.

The second one, the impact of a slowdown in the Oakley business, in particular, in the Oakley Sport Channel and Oakley Retail. If you look at our wholesale performance in the middle of the page, we are very happy and very pleased with plus 5% in wholesale North America in Q4 [at constant forex]. That 5% you remember comes after a minus 11% in the third quarter [at constant forex] from wholesale North America. That was a nice rebound for wholesale in terms of performance. We are really happy with that. I will give you a couple of highlights here. Pretty much all channels in North America were actually positive during the last quarter of the year with the exception of e-commerce. E-commerce was actually negative, but we were expecting that as we experienced the impact from the MAP policy in the e-commerce channel and in wholesale North America.

On the other side, I will give you a couple of good examples, probably the most meaningful ones which pertain to Ray-Ban's impact in North America. If we look at the average discount rate of Ray-Ban products sold on Amazon, that discount rate was on average 37% as we started our MAP policy implementation in April 2016. That discounts actually went down to about 6% between the end of October, beginning of November and now as we speak, the average discount of Ray-Ban product on Amazon is about 3%. So, tangible reduction of our discount rate and that tangible reduction is visible and it means that we are cleaning up the markets in North America.

We move to retail now, on the right hand side of the page, plus 2% right on target with our full year expectation [at constant forex]. Sunglass Hut sales were up 4% on a constant forex basis. LensCrafters sales are up 1.3%. On our last call, we talked about suboptimal execution in LensCrafters during the course of the second part of the year. We are working on it. I would say it's a day to day exercise to energize the team, to focus on the basics of store excellence. We have a new leadership and then we are starting this journey to turn the business around again.

It won't happen from day to night, that's why probably today we are taking a more cautious approach on LensCrafters for H1 2017, but we are confident we are going get it back on track.

Europe, you see on the bottom left, plus 7% [at constant forex] for full year 2016 which comes on top of 7% growth last year, so over the two-year period you are looking at 14% growth in Europe. If you look at last quarter that was an acceleration, we delivered plus 12%. These are growth rates that you would normally see in emerging countries, not really in a region in the so-called old continent. So we are very happy with the performance we are able to achieve in Europe.

We were up double-digits in Italy, up double-digits in Spain and Eastern Europe, and we were high single-digit in the UK, in Belgium, in the Netherlands, and in Scandinavian countries, and so pretty much widespread positive growth in our European countries, in the whole region. We are very happy with that. I want to thank our organization in Europe and Paolo Alberti here for having delivered such a strong result in this part of the world.

Asia-Pacific, in the middle of the page, minus 2% [at constant forex], two hot spots here: one Hong Kong, that continues to be challenging for us; second, Mainland China wholesale. As you know we are transforming the way we do business there, getting out progressively from our relationships with distributors and getting more and more into direct distribution in wholesale in Mainland China.

On the positive side, we mentioned a couple of things. One: our growth in Japan, in Southeast Asia was around mid single-digit, so we are happy with that. Second, our optical retail in Australia had a very nice progression from a comparable store sales perspective as we reenergize the team there and we are actually changing the overall assortment of our product offering that we have in that part of the world and we clearly see tangible benefits of that turning around.

Latin America, last but not least, was up 10% [at constant forex]. Very nice growth story and double-digits aligned with our target expectations. I would say very good performance in Mexico, double-digit growth, where the first digit is not a one, comps in excess of 30% for Sunglass Hut in that country. Brazil, a country where the economic situation is probably not the most favorable for business, we posted positive growth for the full year 2016.

GMO our leading retail chain in Latin America delivered an outstanding performance once again in 2016. So, overall, a nice picture for 2016 from a top line perspective and now walk with me through our consolidated income statement that you see on the next page.

Consolidated income statement

When we look at our profit and loss, I will focus more on the adjusted results and that will show you more an apples-to-apples comparison. We talked about top line, 1.9% growth [at constant forex on an adjusted basis], up 0.8% on a current forex basis.

When we look at our adjusted operating income, our operating margin was substantially unchanged year-over-year on a constant forex basis; it was down 20 basis point on a current forex basis.

Our deliberate objective in the last couple of years has been to balance on one side the effort to dramatically reduce duplication and streamline processes and, on the other side, to reinvest some of the efficiencies generated into key strategic initiatives that will benefit Luxottica in years to come and that is really a balancing effort for us. From one side efficiencies, from the other side reinvestments to really hold the margin and what you see here from our wholesale division, it’s kind of this story.

When we look at our wholesale division, the wholesale margin on a constant forex basis was actually up 30 basis points and that was thanks to the efficiencies gains. Thanks to the integration between Oakley and the wholesale infrastructure of Luxottica. So with flattish sales, we were able to get our margin up and actually wholesale delivered the best profitability since 2008.

On the retail side, we faced a dilution of about 100 basis points and I will give you a couple of details here. The first one, when we look at our retail margin, we had a quite significant amount of store openings in the course of 2016. We opened over 600 stores, which naturally carry an early dilution when we opened those stores. Secondly, we do have a significant investment in our “hub approach”, where you’d remember we do have our lens manufacturing and our logistics centers, all in the same place, and we had some start-up costs that impacted our retail performance in the course of 2016. Thirdly, we got some dilution out of our Oakley business, Oakley retail business, which I think is going to get better throughout 2017.

If we now look at our net income adjusted performance, we are very thrilled about that. Our net income on an adjusted basis at constant forex was actually up 30 basis points versus 2015. And the growth was 5% year-over-year on an forex basis.

On a current forex basis, the improvement in margin was actually 20 basis points on the net income adjusted and, if you look at that number, really the benefit of a lower cost of debt as well as an improved tax rate were instrumental to get to that point. With respect to the adjustments we are looking at operating income level, a charge of about €87 million of adjusting items mainly related to the reorganization projects we undertook in 2016.

On an after tax basis, you are looking at an approximately €31 million charge for adjusting items, which include a one-time gain related to the acquisition of Salmoiraghi & Viganò. After profit and loss now let’s look at our financial position…a strong financial position.

Final position overview

We generated free cash flow in excess of €660 million, as Massimo said before we did increase our CapEx, our investments by approximately 30%, €140 million year-over-year. So we generated cash, strong cash generation and at the same time we invested heavily in the company and we were able to do that also because we were very diligent in managing working capital, you can see that on the bottom of the page.

Our working capital days were actually down six days year-over-year. Our DSI, Day Sales of Inventory, actually improved by four days. Our DSO was flat and our DPO was actually up two days. When we look at our net debt to EBTIDA ratio on a reported basis, we were at 0.6x. If you exclude the impact of the share buyback, our net debt to EBITDA ratio would be a 0.5x. So pretty remarkable results that really strengthened our financial position.

2016 wrap up

Now let's wrap up 2016 and let's see where we are versus the guidance we shared with you in the middle of the year[1]. On a full year basis, top line came right on target at 2% growth at constant forex. When we look at our profitability, the adjusted operating income came slightly below our target. So we grew our operating income 1%, our original expectation was to grow at the same pace of our top line. But we fully recovered to compensate that at a net income level, as you can see net income grew 5%, 2.5 times faster than our top line.

Our net debt to EBITDA ratio excluding the share of buyback is right on target at 0.5x. So a pretty substantial alignment with our guidance.

Proposed dividend payment

With that, let me move to the dividend proposal, so for the year 2016, we are proposing a dividend per share of €0.92. This represents an ordinary payout of 50% on the adjusted net income and dividend growth of over 3% versus the 2015 dividend level.

2017E: healthy growth outlook

Now let's close 2016 and let's get into our 2017 outlook. What kind of a year is 2017 going to be for Luxottica? Our view is that 2017 is still going to be a year of growth for our company. Yes, it's going to be a year on which we continue to streamline processes and simplify our organization. But more than ever, we will deliver healthy growth for our shareholders.

What do you mean by healthy growth? I mean, a growth that is not necessarily going to be driven by short-term tactical promotions, which might be a benefit for a month, for a quarter, for a semester but will definitely damage the long-term health of our brands. So we are going to preserve the long-term health of our brands and we are going to stay away from promotional activities.

Our sales expectation for 2017 is going to be in the range of low to mid single-digit at constant forex. From a profitability standpoint, our adjusted operating income and our adjusted net income is expected to be in the range of 1 to 1 with our top line growth.

Last but not least, our net debt to EBITDA ratio is going to be at 0.5x. Let me just add one more thing, that during the year we could post a material tax benefit that will potentially impact the Group tax rate and consequently Group net income. The quantification of this benefit at this stage is unknown, and therefore not reflected into our guidance.

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[1] Please, see "1H 2016 results" presentation (25th July 2016) available at www.luxottica.com

2017E: leveraging global presence

We talk about guidance and outlook for 2017, let me just run through our different geographies and the expectations that we have for our four major regions where we are present and do business. So, North America, let's begin from our biggest one, our top line expectation is to be up 1% to 2% at constant forex in 2017. Wholesale, probably, is going to have an acceleration during the second half of 2017, as we get to the anniversary at the end of June Q2 our MAP policy in North America. And therefore we do expect an acceleration during the second half of this year. Retail growth is going to be 1% to 2% at constant forex, and then it's really going to be driven by the growth of the new stores that we will open as well as our solid store base.

Latin America and Asia-Pac are fast pace growth stories. Latin America is expected to be very much in continuation with what we have seen in 2016, and we are happy that we are going to grow and we will continue to grow in countries like Brazil, like Mexico, like Chile and the rest of South America. So, let me say, to this growth we will add a new asset, as Massimo mentioned, which is Óticas Carol, which will be instrumental to our growth in that part of the world.

Europe plus 6% to 8% at constant forex, not new for us, we will continue to grow in Europe as we have seen in the last couple of years, a very high pace. So, Salmoiraghi & Viganò the acquisition that we just mentioned, it's going to be instrumental to our growth over there.

Last but not least Asia-Pac, Asia-Pac up by 5% to 6% at constant forex. It's going to be a strong rebound from the minus 2% seen before, and we believe that we are really going to be able to enjoy the fruits of some of the choices that we are making, for example the transformation of our business model into a more direct presence in wholesale Mainland China. And we are also getting a very nice positive indication for our Ray-Ban stores performance in Mainland China.

So, we are happy and thrilled and excited about what we can achieve in 2017 in Asia-Pacific.

Seizing investments with focus on healthy sales and returns

So, now we've talked about the economics of our growth for 2017, Massimo and Paolo will take you through the business rationale of our outlook for 2017, but now take a step back with me. And look at our financial building blocks for the year to come.

Revenue is clearly going to be critical for us. Top line growth is still going to be important, but it's going to be a different way of growing. It's going to be more growth and it's going to focus on the quality of our sales, less promotional activities, more disciplined work in understanding and looking holistically every quarter at our store portfolio, to make sure that we selectively open the stores and eventually we rationalize our store network wherever we see that there is high density.

We are going to be very careful in the returns that we are going to pursue. We are going to be careful with the money that we put into, and we are sure that every euro that we are going to invest is going to be put in the right place to ensure a proper return whether it is going to be wholesale, retail or operations.

Clearly, our capital investments are going to be very important for that, we plan to have our CapEx level pretty much at 2016 levels for 2017 (in absolute value), and we are going to fund a part of that growth through further efficiencies in working capital. You see in 2016 how we were able to manage inventory and we plan to get further benefits in 2017 as well.

Last but not least, the marketing investments, those are going to be very important for us. The marketing mix is going to change throughout 2017 and we expect to increase our marketing investment in social media engagement and CRM activities.

With that, I will hand it to over to Massimo that will give us more flavor around Luxottica's next frontier. Massimo.

The next frontier

Massimo Vian

Thank you Stefano. Before we move forward I want to stress again what Stefano just said. So, we just finished a year of solid investments and infrastructure improvements and at the same time we are being courageous. We showed courage in terms of making tough decisions in order to continue to elevate our brand equity.

The key is definitely to have the right foundation, the right launchpad, and I think clearly is what we have today to base our challenging assumptions for 2017 and to make sure that it will be another year of success.

The next frontier for customer engagement

Now, to give you some more insights into how we're thinking about our customers and our consumers today. We have always been two steps ahead, but in this new world we now intend to be five maybe 10 steps ahead. And this is what will differentiate us even more in the marketplace.

Brands matter, I will not expand on this. This is for Paolo in a few minutes.

The other approach is the hub approach, infrastructure tools, that we use at scale to redefine what the supply chain is. And it will be a true game-changer even for the combined entity, both for our wholesale customers and for our end consumers.

And then, of course, our DNA, a relentless pursuit of innovation that has always been the key driver of Luxottica and even more today is a unmatched in the industry.

The hub approach: a new service model

In 2016, we heavily invested in our supply chain, as we said more than once, with the aim of higher integration between production and logistics infrastructure.

Our distribution factor has been re-imagined in the course of 2016 as proper strategic hubs, where the product is customized, in some cases manufactured, assembled and distributed. This allows us to better manage working capital with the results that Stefano showed, and better serve our customers with a fast service time. It has been a vital transformation project in the course of 2016, giving us enormous advantages of scale and more than ever advantages in owning all critical factors for service excellence.

The hub approach: branded lenses

To best illustrate the potential of the hub model I want you to take a look back in the history.

Operator: Ladies and gentlemen, we apologize for the technical issues. The conference call we resume from Slide 15. Please go ahead.

FY 2016 results and 2017 outlook

Stefano Grassi

Our apologies again for the technical inconvenience we faced. We thought that we will start from slide 15, because it really represents a summary of our outlook in 2017.

So I will take again this slide, and just making sure that everybody is on the same page here.

2017E: healthy growth outlook

So 2017 outlook, what do we expect from this year from a financial outlook standpoint? This year it's still going to be a year in which we are going to continue to streamline processes, simplify organizations, but more than ever, I would say more than ever, we are going to be looking for a healthy growth from a top line perspective.

What do I mean by healthy growth? Couple of things, first of all, a growth that is not going to be looked through the last promotion, it's not going to be changing the last promotion which will definitely get a benefit on the short-term but on a longer term we believe it's going to damage the health of our brand. We are going to relook at our store portfolio on the retail side, quarter-after-quarter, month after month and making sure that we carefully understand where are the stores that we want to open and where are eventually the one or the area, we want to resize our store portfolio in order to become more efficient.

So, our top line expectation is low to mid single-digit for the full year 2017. Our expectation from a profitability standpoint is that adjusted operating income as well as adjusted net income are going to grow at the same pace of our top line.

In addition, let me say that during the year we could post a material tax benefit that will potentially impact the Group tax rate and consequently the Group net income. At this stage, the quantification of this tax benefit is unknown, and therefore, we took the decision not to reflect that into our guidance.

We will continue to deleverage our balance sheet and from a net debt to EBITDA ratio, we are looking for a guidance of 0.5x for the full year 2017.

Now I hand it back to Massimo with his continuation on 2017 journey.

The next frontier

Massimo Vian

Again, I apologize from my side as well for the technical inconvenience. I have to go as fast as I can and not steal some more time for your questions afterwards. I cannot stress more what Stefano just said, that it has been a phenomenal year in which we solidified our performance, but moreover in which we heavily invested in creating all the physical and digital infrastructure to have a fantastic year ahead. A year in which we showed clearly courage in taking some tough decisions to continually increase the equity of our brands, and to grow in quality and cleanliness of our distribution.

The next frontier for customer engagement

So somewhat inside on how we are thinking about our customer and our consumer today.

It's clearly "brands matter", and Paolo will expand on this. It's the hub approach and an unmatched level of innovation.

The hub approach: a new service model

So a few words again on our new hub approach. In 2016, we heavily invested in supply chain with the aim of higher integration between production and logistics infrastructure. Our distribution centers have been re-imagined and rebuilt as proper strategic hubs where product is customized, in some cases it is manufactured, assembled and distributed. This allows us to better manage working capital with the results that Stefano just showed you with a further improvement in 2016. This allows us to better serve our customer and to assure a very fast service. It has been a vital transformation project during the course of 2016; it gave us enormous advantages of scale and moreover advantages in owning every critical factor for service excellence.

The hub approach: branded lenses

An example of how we could leverage the hub approach in the future. Few milestones here take you back in history: Persol debut, Ray-Ban debut, Oakley debut, and what we did more recently for Oakley, frames and lenses, Ray-Ban frames and lenses and all the new anti-reflective coatings, polar coatings, et cetera.

Also thanks to the hub approach, we can now take our sun lenses experience and translate it into branded prescription lenses and this is crucial for you to understand. We can offer now to our Ray-Ban consumers the Ray-Ban experience in prescription lenses, made specifically at the source, during the last mile journey towards the consumer, guaranteed at the origin, and using a fully digital process with the latest digital surfacing technology (DST) design. This will be "the complete pair experience" with branded lenses and branded frames combined at the source. It is an unmatched product excellence and service level that we can now guarantee to our wholesale customers and final consumers. We will keep updating you on this very important project.

Moving deeper into innovation beyond frames

Moving deeper into innovation, of course, we're constantly thinking about which elements can make our frames more functional, special and, in general, how to reach the next level of excellence.

We are super active in innovation with new design, new materials, of course, now thinking about wearable electronic in the case of Oakley Radar Pace, the real time voice activated coach, and of course it is the case of RFID microchips that now are present in Oakley iconic frames .

And also, it is innovation in digital tools, where the VTO, virtual try-on, I think is the perfect example. We have now a brand new generation of virtual mirror available in our websites.

Oakley goggles and helmets

Let's have a look at what we are doing with Oakley ski goggles and helmets. We just launched the helmets this winter and they are doing really, really great, actually it is great. The new Helmet line, extensive R&D effort went into making it. The Mod 3 and Mod 5 models solve some of skiers biggest problems. We have a patented modular system that allow hot humid air to escape the goggles throughout the brim and helmet, so no more fogging during skiing performances. It's a perfect integration between helmet and goggle that is guaranteed by a gasket that you can change depending on which Oakley Goggles you choose, so that there will be no gap between goggle and helmet.

There is also a magnetic buckle that you can access to close your helmet on your neck even while wearing gloves. It's really a most advanced protection system that now you can have available for skiing and with also a very high level of standards of safety and high number of patents that are embedded into this project.

Oakley Crossrange

Another example of innovation is Oakley Crossrange, which features interchangeable temples and nose pads, so for every frame you've got two extra temples and two extra nose pads. Nose pads clearly help you find the perfect fit for your look, for your eyebrow shapes and the different temples can be changed with one click to be adapted for a normal lifestyle or a sport activity.

Ray-Ban Carbon fiber

Another example of innovation is how we constantly leverage on carbon fiber. Carbon fiber is now a cult material for Ray-Ban Tech fans. It is lightweight; it is resilient and from the very first tests in 2008 and 2009, it represents today a specific and very successful segment in Ray-Ban offer. We were the first to introduce carbon fiber in eyewear and it's now already a trend. It is now a proper segment very well established and very successful.

Bvlgari serpenti

If we move to luxury, we are clearly innovating on this side as well. The Bvlgari Eyewear Collection is the best example and features its distinctive serpent icon with incredible artisan workmanship. These temple decorations are, of course, handmade, handmade in Italy, in our Agordo plant, there's mother of pearl and applied Austrian precious crystals.

This is just an example of the latest collection that you will find in the stores at the end of April, beginning of May.

E-commerce: digitizing the consumer experience

Together, with this innovation, we've also, of course invested a lot on innovation in the digital experience. We are making our mark today in the consumer eyewear experience online.

For example, we are rolling out, I mentioned to you before, the new Virtual Try On tool. You can find it now live on the rayban.com website. Until Q4 last year it was only available to some consumers in the US, then it was vastly improved and at the end of March, there will be an even more improved version.

It's a very easy experience, the tool is web based, super fast, it can be common for all the other dot com websites or it could be applied to oakley.com and to other branded websites in the future. And it gives a really, really realistic look at how frames would fit on consumers' face. The experience is really user-friendly with a 10 to 11 clicks; you can play with your taste and with an enormous variety of SKUs. Just to remind you, this tool has now 2,000 SKUs available for you to try on virtually. The old version had only 180 SKUs, so even the expansion of the offer has been dramatic.

On top of that, we are relaunching oakley.com in 21 countries; Ray-Ban.com now is present in 27 countries in the world.

And in our journey of premiumization and customization, I'm happy to say that within Ray-Ban.com the Remix experience, the fully customized experience, represents today 40% of total Ray-Ban.com sales. It is a super powerful tool, also to create a customized Ray-Ban experience compared to other online wholesale players.

Connecting the physical to the digital: more omnichannel

Whilst investing in pure e-commerce, we take advantage of all possible synergies with our physical network and this also why we are investing very hard in omnichannel experiences and distribution.

It is more and more difficult to define where the consumer experience starts and where it ends.

It's more and more like a circle, and we need to be there, wherever the consumer enters in the journey, and we have to try and stay with the consumer all around his experience that virtually never finishes. It does assume that, as a purchase experience finishes, we have the immediate possibility to reengage the consumer and start a new one.

This is the mantra: we must keep the consumer engaged, create emotional connections that stay active in every channel.

Here are some functionalities we just introduced in our omnichannel experience.

First and most important is the endless aisle. So, in our stores you will not only find the offer that is physically hanging on the walls, we go far beyond the facings that are physically there, and our associates can, thorough their iPads, offer the consumer basically the full extended product offer that Luxottica has without essentially the need to have physical presence in the stores.

In Sunglass Hut, these types of sales are growing crazily. We have weeks of triple-digit growth of omnichannel, in-store sales which are dramatically helping all our supply chain, while giving almost infinite possibilities to consumers.

For optical retail, basically, you know, the vast majority of eye exams are now booked online through the website of our retail chains, and we are offering the possibility to pre-select the frames online, and then choosing the lenses and getting the perfect fit in the stores.

We also offer the possibility to click and collect at any stores, reserve and collect at any stores.

Also another possibility is to buy everywhere in the chain, rely on the equity of our retail chains and return anywhere, with a dramatic improvement in service levels and after-sales service levels.

Evolving Luxottica's retail presence

While we are investing in pure e-commerce and Omnichannel, of course, we never forget about our powerful network of brick-and-mortar stores. You see more and more big players, even Amazon, moving into physical retail, because the formula of distribution of the future simply doesn't work without brick-and-mortar. But the physical experience is constantly evolving as well.

So I just told you about our omnichannel experience, but also our human experience in the stores needs to constantly evolve.

So we are planning, Stefano has just briefly touched on the store excellence program that we just launched last year. We are planning to improve even more the in-store experience through our associate practice.

Our NPS (Net Promoter Score) indicators have been growing basically month-after-month since we launched the program in the course of ’16, and even more at our brick-and-mortar stores we are focusing on productivity other than density. Both in sun and, particularly, in optical retail we want to focus on lighter stores, as we already mentioned in the previous call, smaller and more productive.

We have quarterly reviews of our footprint globally, of course, throughout all geographies, and we have also big opportunities to evolve that, because as you can imagine we have hundreds of leases expiring every year, and that represents for us a fantastic opportunity to dynamically play with the portfolio of our stores, whether they are in North America, South America, Asia or even today Europe as well.

We of course leverage on distinctive chain positioning, so each brand will continue to invest in its unique branding, and its value proposition.

Throughout the different chains we have much better category management, because we leverage on global assortment, centralized here in Milan, but also we allow quite a vast room for local customized exclusives or avant premiere collections.

On top of that, inside the physical brick-and-mortar, we want to enhance the CRM intelligence, so to know our customers better and better. And to this respect Sunglass Hut does a great job with the perks program. The program is great to cultivate relationships, is a fidelity program, and we see more and more customers returning to the stores to enjoy the experience, to enjoy the premieres, without necessarily us having to offer discounts, which is key, of course, for the premiumization of the brand, the equity of the brand, and overall our business performance.

I will then hand it over to Paolo. As mentioned he will take us through the details of how disciplined we have been in our wholesale distribution, and moreover how brave we have been in investing in the equity of our brands.

Brands matter

Paolo Alberti

Hello, everybody, brands matters, and here are a couple I saw this morning, I asked my girlfriend to please if you could pass me the box of Kleenex it was on top of the fridge there, right next to the scotch tape behind the Tupperware, but right, close to the aspirin. And there is really nothing interesting in what I said except that almost every noun I used is an actual brand name. These are companies that have invested heavily in their brands that now have become household names.

Brand power matters

The other day, I was at the MIDO and I walked in, and it was noisy. There were a lot of people. There were a lot of brands, some no name brands, some other brands, smaller brands, and it was like something out of Star Wars or probably Star Trek. It was almost alienating at a certain time, then I took the corner and there was our booth there with Ray-Ban and Oakley, and then I realized brands do matter and Luxottica has them.

But in order to have them and to keep them, like the companies that I mentioned before, you have to take care of brands in a 360 degree way. That means taking care of distribution, spending on R&D, and marketing and after sales, and in general the whole retail experience to keep brands alive, to keep nurturing brands. And I might talk about distribution a little bit later on, because obviously quality distribution attempts that we have had with the MAP policy have had a bit of an impact on our volumes, but that's one of the brief things you have to live through if you want to keep your brands alive.

And brands are ours, but some brands are under license. We are going through the launch of Valentino where we took all the couture savoir faire and we translated that into the eyewear collection that we just are selling in right now and we are going through our Luxottica days, when we present to all our international clients and Valentino is being presented and it's actually doing better than expectations.

Ray-Ban: a growth story since the acquisition

And if we talk about brands though, we have to talk about the good and the bad and the good and the bad about Ray-Ban.

Ray-Ban has an incredible story, I mean since 1999, and I remember when Ray-Ban was actually not where it is today. You could find it everywhere, and I remember we used to buy…in a suitcase store, we used to buy for about $20 at the time, and though they were kind of cool, they were kind of...I don't know how to say that, I don't want to say it was dead, it was suffering, but definitely when we bought it, and we didn't sell it or produce it for a whole year, another bold decision made by Mr. Del Vecchio at the time. We repositioned the brand and since then Ray-Ban has become what is today.

And sales have grown, sales have grown both with the icons and some other new products, and they continue to do so since 2000 with a CAGR of about 15%, and I can guarantee you, we are very far from brand maturity, but we are still doing the best we can to keep this brand alive and to protect it with all our strength.

Ray-Ban: as desirable as ever

And the protection that we are providing is paying off, because about three out of every five consumers - we talk about sunglasses - they are talking about Ray-Ban, and 90% awareness, you expect that, you could expect that in the United States where it was launched like we said 80 years ago, but really it's over 80% or so in China, in India.

In India where we actually even have a small factory that produces Ray-Ban that have a stronger gold content, which is what Indians love and cherish.

The full Ray-Ban experience

And above that also what we need to do is, like I said it is a 360 degree experience, so even in our internet sales, and if we think about what we do, what we have done, and that is 40% of the sales on our website are actually ad hoc products. In other words, these are products called remix that you can actually build yourself. So what is more, what's the better consumer experience, how can you best address what consumers want? You know, even more so, they can choose exactly how they want their glasses.

So you can give yourself that Icon with a personal touch and make that experience even stronger.

And then look at the stores we are opening. The one in the slide is Soho, but I could say the same for Shanghai. We are opening up Ray-Ban stores in China that are continuing to build equity.

Now, I hope next year to be able to talk to you about an initiative we have in some emerging markets. As wholesale, what we do is, we identify retailers and opticians, that we think have strong potential and maybe their store doesn't look as good as it should, and what we do is, we make agreements with them, so that a portion of their store we would invest and redo completely, and what we say as we sell...we send them…actually send to them a "store in a box", and they open up their box and they have their corner...the Ray-Ban corner, and then we help them build it and believe me, it stands out, and that's that first step to building a great relationship with our customers, and with the customers consumers on their end.

And then, you know, we talked about the Ray-Ban experience in terms of ophthalmic. Now, here I have to give you a little small personal experience myself. Well, I am blind as a bat, and when I go to buy my Ray-Bans, and this is even before I worked for the company, I bought them for two reasons. One, it gave me an exclusive expression, a kind of a cool safety, but it was just that kind of coolness that I have got, you know, kind of the Tom Cruise, let's say, coolness, that I was kind of buying into. And then the other reason and probably even more importantly was the lenses, the quality of the lenses. And the Ray-Ban...that edge Ray-Ban logo on those lenses gave me that assurance that I was buying the best possible lens for my eyes.

And then unfortunately though that lasted about 30 seconds, because I had to leave the glasses with the optician, he took the lenses out, put my prescriptions in, and what did I have afterwards? Well, they were kind of cool still, but they weren't Ray-Ban lenses anymore actually. The color didn't match, and there was no edge, there was no logo on it, and all of a sudden I was walking around with something that kind of disappointed me a bit, and now that's no longer true.

I have even changed every single Ray-Ban that I have bought. Even in the past, I have put new lenses in now, and there is something about walking around with prescription lenses that have that quality reassurance, and I know where they come from, and I know what, you know, how good lenses are, and by the way they also have a logo.

And then, you know, we don't just invest in Ray-Ban.

Oakley: one obsession and **Oakley integration**

Oakley has been a disrupter, a kind of rogue brand, and it continues to be so, and the lenses there again, it is not just about frames, that are just amazing frames in there, and you know if we think about it these frames are so good at the end, and they are so comfortable, and they are so high in performance that 600 athletes at the Olympics wore them of which I think over 100 ended up on the podium.

So the performance is definitely there, but imagine lenses that can somehow help you fish, and it can help you fish, you know, you can choose, you can fish in shallow water, or you can fish in deep water, and we have lenses for both of those. And again, that is an amazing performance, and then again, also the stores that we have. We have our store downstairs from the building and that Oakley retail experience will only get better as it expands throughout the world.

“Change of perspective” with Valentino

And then, we talked about Valentino, and I am not going to talk about the technical aspects of the rock stud, because I am just not really the best to talk about that. But I can tell you that like Ray-Ban, Valentino, had its difficult moments in the past. And in the last five or ten years, I mean it has been growing heavily and really becoming an icon of savoir faire, and it’s getting even a bit more edgy as time goes on from the classical red dress, and in this success story, let’s say, a wedding with Luxottica, and it’s design, and it’s distribution and all that like I said brand obsession that we have, I’m we will be looking towards a very, very positive future.

Brands enhanced by more quality-driven distribution and superior service

Lastly, I may go back to the distribution just a little bit, because when we talk about quality rather than quantity distribution, certain decisions have to be made. In the US, for example, we talk about the MAP policy, which means, minimal advertised price, that means that, basically what we do is that we decide centrally, what can we advertise, and what kind of discounts can be advertised. Now, we can do so in the United States, because the law has permitted, first law the second law because we own the brand. And this is true, not only for retail, but it’s true also for our own retail, and I guarantee you that the promotional pressure has lessened strongly, since last year...since the end of last year.

Now, this being the best thing to do, it is definitely in line with what you need to do to protect brand equity. And again, if you cannot advertise more than certain discounts, if I know where my product is going thanks to the RFIDs that are in my glasses, if I work with my partners in order to raise the value of the brand, well, this is 360 degrees, not quantity but a quality way of distributing our products, not as Ray-Ban, but is also true to every other brand.

And then we know we talked about STARS, STARS again we had Luxottica days the other day; we converted about another 80 stores into STARS. We now have between 9% and 10% of our turnover in STARS and we want to give ourselves an objective to double that through the next couple of years. So STARS there again is a great way of looking at our distribution in a way that we can give the best possible assortment to the right store and the right consumer.

Before passing the call back to Massimo, I do want to leave you with one thought about brands and you can’t see me right now, but I'm actually kind of winking at Tom Cruise and I asked him, is an aviator a fighter pilot, or is it a Ray-Ban model? Thank you. Best for 2017.

Closing remarks

Massimo Vian

Thank you, Paolo. I'm sure that this paints a more detailed picture of what we did in this past year and where we are headed for 2017. We very, very proud of what we accomplished in 2016 and we are thrilled and energized for 2017.

Looking ahead, we started 2017 at the right speed and I would say, specifically in the last 10 to 15 days of February, the momentum is really positive. March is in Q1, which is the most important for us, I would say specifically for optical retail North America, and we are optimistic about performance during the next few weeks and the remaining part of the year. So I apologize again for the technical inconvenience that we experienced. I'm happy to now take your questions.

Q&A session

Elena Mariani (Morgan Stanley): Hi, good morning, all. Thanks very much for taking my questions. This first one is on your standalone guidance. Could you give us some more details on what is the implied underlying growth for your two main brands, Ray-Ban and Oakley? And also, like-for-like versus space growth in retail given the large number of openings you have in the pipeline, and with regard to the margin, is it correct to assume that retail will continue to be a drag given the investments you are making in the network? Also, while this guidance is clearly a standalone one, was this somehow influenced by the ongoing process with Essilor? Had you put some projects on hold or is there something that has materially changed versus the full year budget that you had in place a couple of months ago? Second question, you have just announced the acquisition of a distributor in Brazil, you have completed the acquisition of Salmoiraghi & Viganò, do you see any other potential areas of opportunities for bolt-on acquisitions, would you consider for example, further expanding your retail network in Europe and what's your medium/long-term view on the distribution strategy in this region? Finally, I understand that there is very limited information you can disclose now on the deal. But, could you perhaps tell us how comfortable you are with the timeline that you disclosed in January? How smoothly are the regulatory approvals proceeding across the difference markets? Thank you very much.

Stefano Grassi: All right. I will probably take the answer to the first question, and then I will hand it over Massimo for the remaining part of your questions. So 2017 guidance and growth for Ray-Ban and Oakley, I would say we don't disclose as you know the guidance for our brands today. But I can tell you that probably Ray-Ban overall will be the leading brand, it's going to go pretty much in line with our top line overall expectation, while probably Oakley is going to be at a slightly lower pace, simply because we are going through a turnaround exercise. So, I do expect to see an improvement during the second half of 2017 for Oakley and that's our view for our two leading brands.

With respect to retail, retail margin…I don't really think it's going to be a drag for 2017 as much as you've seen it in 2016. I think a lot of the store openings that you saw during 2016 will come to full regime from a top line perspective during the second half of 2017 and therefore this should obviously create profit accretion. I think retail performance all in all in 2017 is definitely going to be better than the one that you saw in 2016 from a margin standpoint. Massimo, do you want to take the question on optical?

Massimo Vian: For optical, we just took the decision on this business. The operations of the division are progressing well and we have a lot of expectations from this great deal, talking about almost 1000 stores in Brazil. The penetration of our products there is below 50%, so there is the possibility to expand our product offer across the network.

In terms of European retail, no plans to further expand at the moment. We are of course leveraging on the new acquisition of Salmoiraghi & Viganò, integrating the chain and extracting value from the complimentary resources that we can put together here. Clearly, we will stick to our expansion plan with Sunglass Hut in Europe, but this is no different from what we communicated in the past.

In terms of our relationship with Essilor, everything is absolutely on time and in line with the process. But of course, as we already said, we are not going to comment much further during this call, other than sharing all Luxottica Group's enthusiasm for what could be a new fantastic opportunity ahead.

Elena Mariani (Morgan Stanley): Thank you. Just one very small follow-up. On the retail growth for 2017, is it correct to assume that you are implying a flattish like-for-like given the space that you are going to add into LensCrafters? Thank you.

Stefano Grassi: Well, I think we do expect LensCrafters still to be positive on a comps basis, plus I would say clearly we are going to have some lift coming from the new stores. So again, I think we are going to start from a positive comp base and then we are going to add few stores on top of that. Remember, the stores that we opened in 2016 will come to maturity throughout the second half of 2017. I think we are going to see a nice lift, and again don't underestimate the work that we are doing now with the new leadership in place on store excellence, because they are going back to basics on how to make the business excellent at the leading optical chain in North America. So we are very confident we are going to turn around the business in H2, set to be faster than H1. All-in-all, we also expect a different story also from a profitability standpoint versus 2016.

Elena Mariani (Morgan Stanley): Thank you.

Chiara Battistini (J.P. Morgan): Hi, thank you for taking my questions. Just a couple, please. Well, the first one on the US market and more broadly what are you seeing in terms of the consumer patterns and your outlook for the American market and especially in the context of the very weak traffic in shopping malls, how are you thinking about your existing store network? And any possibility of downsizing the shopping malls, please? And then I appreciate you won't talk about the Essilor combination today, but I was just wondering what has been the initial reaction from your main wholesale customers to this combination please? Thank you.

Paolo Alberti: In all honesty, I think that a lot of our customers already use Essilor, so actually for them it has two advantages. One is that they are going to have to buy less stock from us, because the stock of the frames will be where the lenses are. So, it's actually a way of getting an advantage for them without getting into STARS. The other advantage for them is that they will be able to give their customers faster and better service. And finally, the fact that they can do all this with Ray-Ban lenses and Oakley lenses - that can go through the Essilor knowledge and technology - may give them that last and strongest advantage of all. So, in general, we expect very good reactions to this possible merger coming up in the next few years. Obviously, right now, nothing changes in the short-term; I think in the short-term the only thing that they are happy about is the offer Ray-Ban lenses made by us.

Massimo Vian: Regarding the decline in mall traffic, I just wanted to remind you that, of course, we do have a majority of our stores in malls, but we have also high street stores. We do see that, especially in the last weeks, starting from the beginning of the year, those had better performance compared to mall stores.

Never underestimate that the traffic specifically in optical retail chains is driven by the doctor visit appointment. So, this is a more resilient business. Even in the case of mall traffic weakness, traffic in our stores is not really made of people entering the store from the corridor because they see the window but because they book in advance their visit with our doctors.

It is different for Sunglass Hut, but I think there we took at the right time the proper countermeasures with the omnichannel opportunity. So, I think we are defending the impulse purchase of sunglasses with investments in e-commerce and we are defending traffic into our optical stores with excellent execution of our relationship with doctors and our new practices in the stores at LensCrafters.

Chiara Battistini (J.P. Morgan): Great. Thank you.

Cedric Lecasble (Raymond James): Yes, good morning gentlemen. Thank you for taking my questions. I have three actually; the first one on your guidance for North American wholesale, as actually we had a very good surprise in Q4 from your wholesale business. And in light of the MAP impact which occurred a little later into H1 last year, what makes you a little cautious on this guidance especially in H1 according to your comments? Is there maybe some discrepancy between sell-in and sell-out? The second question is about Oakley, which is now integrated: what can we expect in the medium term in terms of targets for Oakley? And are you still willing to have greater penetration in sport or do you bet more on prescription, I mean, has the mix changed in your business plan? And the last one is on mono-brand Ray-Ban stores in China, you seem pretty happy with Ray-Ban notoriety in China. Can you give us maybe the first update on that, what have you learned about that and how fast do you want to develop this initiative? Thank you very much.

Stefano Grassi: So, I will take the question on the guidance for North America. You'll have to consider that we expect an acceleration during the second half of this year for wholesale North America. Really in H1 there is probably a bit uneasy Q1 comparison, because you remember last year Q1 was the only quarter not impacted by the MAP policy. Actually the MAP implementation beginning in Q2 created a sort of order acceleration for some of our clients during the first quarter. So, there is a bit of an adverse comparison versus Q1 last year in wholesale North America and that's why you'll probably see a number that is really the mix of two velocities in the course of the same year.

Massimo Vian: For Oakley, I would say that we definitely want to leverage any aspect of the Oakley brand and absolutely not disinvest in the sports channel or the sports equity of the Oakley brand. Actually, in the course of 2016, we were changing completely the way we manage apparel, footwear and accessories. This division has been centralized as well and is now leveraging Italian-based know-how that helps us to maintain the sports channel for frames and this is more alive than before. And clearly Oakley's optical channel is benefiting from the coupling with the North America traditional wholesale organization. So, definitely the sports equity of the brand has to be a major focus for us.

As for Ray-Ban stores in China, we have been very, very successful so far with our project. We took the decision to open stores there, it was May-June last year, and in the course of six months we opened more than 50 stores. Performances are really strong. We definitely want to increase the awareness of the Ray-Ban brand in China. So, it's not only us who are directly benefitting through our stores but clearly we are supporting sales of other parties as well. And now, with a more virtuous distribution in China, of course our own stores show the way to the independents on how they should be as well.

Cedric Lecasble (Raymond James): Thank you.

Amelia Hamer (Bank of America Merrill Lynch): Hi, guys. Just three questions, one I was wondering what was the driver of the big drop we saw in gross margins in 2016, could you just explain that a bit? Secondly, you're guiding sort of that 0.8 to 1x EBIT growth compared to sales, that's operating de-leverage at the low end of the range. So, I'm just wondering where the cost growth is going to come from. So, if I look at 2016, OpEx actually fell 1% and most of the cost growth came through the COGS, so should we expect the same going into 2017 or is it going to be some sort of significant OpEx growth that we haven't factored in? And then lastly, without asking the comment on the merger specifically but looking forward and going into that process, would you say that the priorities for the business is more in terms of expanding the wholesale side or the retail, because I know you have talked a lot about rationalizing other store networks, so just where is the expansion there? Thanks.

Stefano Grassi: Hi Amelia, Stefano here. I will answer the first two questions and then I'll hand it over to Massimo. With respect to the balance of growth between wholesale and retail divisions, from a gross margin standpoint, yes, we get our gross margin down approximately 100 basis points on a constant forex basis. I will give you a couple of readings here.

Remember our growth was more volume-driven than price/mix and that has an impact clearly on the margins. We recovered a bit from a price/mix standpoint during the last quarter of the year, but clearly that was not sufficient to offset growth that was primarily driven by volumes throughout the first nine months of the year. So that has the first impact on our gross margin. Then I would say also that the slowdown at Oakley retail in the course of 2016 had an impact on our profitability, as well as a different mix within Oakley Retail between AFA and Eyewear had an impact and, last but not least, we've also talked about LensCrafters getting back to basics. We've talked about healthy growth and we started that journey throughout the end of last year because we want to progressively get out from promotions and that kind of promotional activity which were stronger during the first nine months, especially on our Retail side, and that obviously has an impact on our margins.

With respect to the growth now for 2107, I mean we gave a range, yes 0.8-1.0x for growth of operating income. It's really for us a balance exercise with efficiencies that we are generating into the profit and loss because of the investments we've been taking, the restructuring we've been doing, in 2015 and 2016, while we are further re-investing their fruits into new investments. They are probably not going to create a short term benefits but are right for the years to come in Luxottica. So the balance of those two parts is very critical, the timing of the implementation and the benefits of the investments. So we have some uncertainty regarding the execution of certain projects, that's why we want to keep it in a range in that respect. Massimo will handle the third question.

Massimo Vian: Going to the balance of wholesale and retail, I would slightly modify the question, which is how would we evolve wholesale and retail. Our idea and our plans are that we need to maintain a balanced growth in both segments, but both segments will be different in the future. So Wholesale more and more will evolve through the STARS model, through franchising experimentation in a stronger partnership with our independent partners, so it's not a matter of growth, it's a matter of transformation. Our Retail segment will grow more in terms of the omnichannel experience and in that respect, synergies with a pure e-commerce channel will be probably even higher. And retail will expand more in terms of quality, so we are now opening much smaller stores that need less employees to manage and stores that will accelerate faster towards a complete pair model. So all the stores we are opening now have a faster return on investment.

So, I would say a balanced approach and instead of wholesale versus retail, I would say B2B and B2C with an evolution towards a more digital way to stay in contact either with wholesale or retail customers. To this regard, please let me stress again the fact that 2016 has been a year of great investment to allow this to become true and possible. I am a guy of Operations but really Operations in this case are the only foundation you can base your success on. Shorter lead times, fulfilment in a digital way so that inventory in our stores will be less and less significant because actually they will be digital inventories on the iPad of our associates. So smaller stores, less frames in the store, faster service and almost infinite possibilities for our consumer to choose from. This is the model, it will be balanced but it will be different.

Amelia Hamer (Bank of America Merrill Lynch): Thank you very much.

Luca Solca (Exane BNP Paribas): Yes, good morning. A question on your guidance again. I think the market is reacting to what we see potentially as very subdued guidance for 2017. There seems to be a disconnection between the passion and the content of your presentation today and the prudence of this guidance, especially as far as the North American market is concerned, and I wonder if you could give us more a sense of what is not working in the US and what is prompting you to set a guidance which is quite prudent, again as far as North America is concerned? Second, on retail, there seems to be a continuing significant gap in profitability and I expect even wider gap in return on invested capital between retail and wholesale and I wonder where and when you think that this gap could start to close, and how you are thinking strategically about return on invested capital for retail? Last but not least, we had news from the market that LVMH seems to be engaging along the same lines of what Kering has done as far as eyewear is concerned and starting to set up their own eyewear operations. You were saying today brands are important, brands matter, and brand owners in the luxury goods space seem to be agreeing with you but they seem to be setting themselves for independent eyewear operations, so I wonder how do you see this again strategically and how would you respond to that? Thanks very much.

Massimo Vian: Thanks for your questions. So, first of all I appreciate that our passion and our enthusiasm comes to you guys because 2016 has been one of those years which really we will remember and in our view really, really successful. Yes, we have provided cautious guidance because, specifically in North America, we have launched new projects but really this doesn't mean that the job is finished. What I've just commented on in the previous answer is really quite a massive operation in terms of transforming or evolving our brick-and-mortar footprint and bringing our consumers on the journey to become more and more digitalized. We have more than 4,000 stores in North America that need to evolve. Something that we haven't mentioned during this call is that in the course of last year we also shutdown close to 150 Sunglass Hut smaller stores or corner stores or shops-in-shop that were profitable but not in line with our expectations. So, let me say the fact that we are prudent is because we are very much cautious about the job ahead. That can be said for LensCrafters as well, as again the second semester could definitely be more positive than the one we are seeing here today. We want to very much be realistic, but we rely on a very solid foundation.

Paolo Alberti: And I would add on top of what Massimo just said that North America it's going to be a cleaner market, so we are going to see a market that is going to be less promotion-driven because we've done MAP, because we've done ARA and because even in our stores our windows are not going to be driven by promotional messages any longer. So you are going to see tangible difference in the way we are doing business and that's what justifies a more cautious approach in North America.

Stefano Grassi: Probably I will take the second question, Luca, good morning. On the return on invested capital, I don't know if we are going to get retail at the same return on invested capital as wholesale, which is a very different business model. So, I don't necessarily run retail to get to and catch up with wholesale, but I definitely run retail to be more productive and that's the direction we are taking. Clearly, in a year in which we have a higher capital employed like this one because of the high number of stores that have been opened, because of the high infrastructure investment that we've been making in the hub approach, I think, it tells for everything. You clearly have dilution in the overall return on invested capital for one specific time period, but in the long-term, there is no doubt that those investments will pay back.

We can measure, and we already measure, our productivity because the other important thing for us are the investments that we are making and the productivity we are getting from our stores. And what I can tell you is that no matter what we are looking at, LensCrafters or Sunglass Hut, we are getting stores that are smaller. We are getting stores that are more productive than they used to be and that is the other very important asset for us because by getting smaller stores we are going to get lower investments and we are going to get higher productivity in terms of square meters, revenues as well as profitability - and we are already seeing it, we have already seen it and we are happy with that trajectory. Clearly we want to see retail ROIC improvement and I think 2017 is going to be an improvement story for retail. Massimo?

Massimo Vian: About brands and international brands trying to create a sort of vertical integration of the business model and fully vertical integrated supply chain, it matters as well. So with all due respect, we see what is happening in the market and of course we wish all the best for what they are planning to do in a way their success will be a success of the eyewear industry. We feel that we have definitely different numbers however and we are playing a different game with our skills, with the powerful distribution we have both for infrastructure and logistics and definitely moreover for our distribution in wholesale, our distribution in retail and in the firepower that we can put in the investment for our e-commerce as well. So these are very important tests for the whole industry. We are also convinced that we can offer different order-of-magnitude for licensed brands compared to the one that they could create themselves.

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

Domenico Ghilotti (Equita): Good morning. I have a question on the European guidance because you are providing quite a strong growth on an already strong base for 2016 but clearly there is something additional also contributing, so can you try to help us understand what is the underlying the like-for-like trend that you expect there? And a follow-up on the North America retail performance, the retail guidance for 2017 is not so easy to understand: what is the comp growth assumed in the guidance because the low single-digit is very close to the expectation that you were providing for LensCrafters so can you elaborate also on the other chains or on the total contribution that you are expecting from the store openings and closures? And last question on the operating leverage you were commenting on the retail leverage for 2017 that will not be a drag as in 2016 but should we expect that it is still negative so are you seeing a different performance among the two division, can you give us some color on the two division operating levers? Thanks.

Stefano Grassi: Yes, good morning, Domenico, I will take probably all the three questions you asked. Salmoiraghi & Viganò. If I exclude that, I would probably guide you to a low single digit for Europe just in terms of perspective. I also tell you that if I had to make a bet on 2017 numbers, same as we did last year at Reggia Venaria's Investor Day[2], I would place my bet on Europe, because I think Europe is going to be the place where we're probably going to be pleasantly surprised. But again, I will hold it to that throughout the year to see who wins and who loses the bet here. But again, that is our expectation for Europe.

In terms of North America retail guidance, I would say just to give you a ballpark, half of the growth is going to be driven by comp sales. The other half of the growth is going to be driven by the new retail footprint. So that's really what's going to happen, because clearly we are going to have the impact of new stores, but we are also going to carefully reassess the store portfolio as it is. And, for example, you are going to see in the first quarter some closures in Sunglass Hut in North America, because we said that in certain areas of the country we have a higher density of stores and therefore we thought it was probably a good shot for us to get some of the stores closed.

In terms of operating leverage, I would say you probably see a progressive improvement in retail, which will definitely get margins better during second half. I could say that probably this will land to flattish margin by the second half of the year. Probably H1 is going to be a little more challenging, and as I said, it's mainly going to be driven by the cautious approach we are taking on LensCrafters.

Domenico Ghilotti (Equita): And can you provide any color on wholesale, as well?

Stefano Grassi: Yes. I think wholesale is a two-velocity story here as well. MAP will have its anniversary in Q2, and I believe that wholesale North America is really going to tell a strong growth story in H2. You have to remember that the comparison is going to be tougher in Q1 and easier in Q3, because of the minus 11% [at constant forex]. So I think overall H2 for wholesale North America is easier than H1 because of the anniversary of MAP in H2.

Domenico Ghilotti (Equita): Okay, and just last question. I didn't catch the marketing investments that you are expecting for 2017, if you see the need and opportunity to increase the marketing investments, advertising and promotions as you were commenting during the call?

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[2] Please, see "2016 Investor and analyst presentation" (2nd March 2016) available at www.luxottica.com

Stefano Grassi: Yes, I was expecting marketing investment to not be different in absolute terms from what we spent in 2016, but the mix is going to be definitely different, more digital, more equity-brand activities than what we have done in the past year.

Julian Easthope (Barclays): Hi, good morning everyone, just a couple of questions...in terms of your H1-H2 split, you keep on talking about H1 being quite difficult. Just how difficult is it going to be? When I look at last year, for example, you saw H1 up at 1.6% and H2 was actually up a bit more. So actually H2 looks like a tougher comparison on organic growth levels, I'm just interested to get more quantification on the first and second half. And just going back, I think Elena Mariani asked a question about Capex, whether or not some of your Capex plans might have changed, following the decision to merge. In particular, you have opened up some lens labs: I just want to know how that sort of feels throughout the organization, when you've got a pending deal, but it is not anywhere near guaranteed going through -- how do you actually manage the business in that environment? Thank you.

Stefano Grassi: Well, I will probably take the first question on H1/H2 split. Because remember, we decided to do risky things for us that were important in H1 of last year. One, the MAP anniversary that is very important for wholesale in North America, and I think it's going to fade out progressively in H2, and it's really going to be a poor anniversary comparison in H2 2017.

The other thing is LensCrafters and that really creates a more cautious approach for H1. So those are really the two major items of cautiousness, Julian, that we are taking with respect with our guidance. With respect to CapEx, Massimo.

Massimo Vian: Regards to Capex absolutely no changes compared to what has been decided for 2017, and you gave me the opportunity to stress the fact that, you know, all our core assets in Essilor and Luxottica regarding investments in infrastructure complement each other perfectly, so of course, the timing of the potential combination is, I would say, perfect because there will be a complete overlap of our points of strength and their points of strength, and for what is regarding the hub strategy, again it is something that definitely we keep pursuing, definitely for our stores, and as you all know also Essilor was pursuing for wholesale distributors. And they have no direct retail. So then again it is a perfect match, is like a puzzle with two pieces that exactly come together. So how we will manage in the future the lab operations, we will see clearly some synergies, we will add more on know-how using Essilor know-how on lenses and Luxottica know-how on final assembly and definitely logistics distribution.

Julian Easthope (Barclays): Okay. That's great. And maybe just one last follow-up. In terms of the AFA business in Oakley, are you now satisfied, you got that all resolved?

Massimo Vian: Yes, very much satisfied. We cut the number of SKUs and product offer by 50% and this was in May last year. And you see now in the Oakley stores the new collection that was designed over the course of July and August and it is in the stores for Spring, great performance as we leverage manufacturers that are experts in sports apparel. And I can say starting at the beginning of the year, AFA performance is even too good to be true, it's a very small business for us, but it helps to maintain the brand equity of Oakley. So, we will not be distracted by AFA, it just serves the Oakley brand.

Julian Easthope (Barclays): Perfect. Thank you very much. Speak to you soon.

Alberto Checchinato (Fidentiis): Hello, good morning, everybody. I have three questions and I apologize if someone else has already asked but I had some issue with my line. The first question is about your guidance. You are calling for low-to-mid single-digit sales growth. I'm assuming that it's all inclusive guidance, so I was wondering if you can tell us what is organic, so the ex-acquisitions sales growth you are targeting, I'm assuming that is taking out some area, like Óticas Carol.

And the second question is about Ray-Ban. I see your agreement with Ferrari for co-branding of Ray-Ban and Ferrari. I remember you had a similar agreement between Oakley and Formula One. I was wondering if this agreement is still in place and what is the rationale behind coupling Ray-Ban with Ferrari.

The third question is about Oliver Peoples. I have noticed that you expanded the mono-brand store network by almost four times in the past year. I was wondering if you can give us more color about how this experiment is going and what are your plans for Oliver Peoples because, if I remember correctly, you haven't done anything like that before for one of your own brands. Thank you.

Stefano Grassi: Okay. So I mean the guidance is clearly given to our current perimeter, so that's our expectation.

Massimo Vian: With respect to Ferrari, we discussed a lot how to play with motor sports that do not need eyewear to be worn while the sport is in practice, both four wheels and two wheels. We came to the decision that Oakley will be the main sponsor of two wheels; it fits with Supercross, Motocross and MotoGP. It fits with the sponsorship we have with Valentino Rossi, with Marquez, now with Viñales and with what you will see at Mugello Grand Prix in Italy, so Oakley will be fully dedicated to two wheels.

Ferrari and Ray-Ban, it is definitely a fit for what Ray-Ban will mean outside of the specific racing environment, it will not be about pure sports performance like Oakley, it will be more about the lifestyle of a Formula One addicted fan outside the area of pure racing. It is, let me say, a cultural match between what Luxottica represents and what the brand might represent in Italy and in Europe and what Ferrari represents in Europe. The collection is ready, new products will launch in 2017. New, new styles of Ray-Ban/Ferrari and they will be available in stores during the Spring. For Oakley and two wheels, we are now discussing going beyond the Mugello Grand Prix, what is the future possibilities for the brand for two wheels.

Stefano Grassi: Let me just reemphasize on the guidance, I mean the guidance that we are giving you includes obviously the impact of Salmoiraghi & Viganò as a part of our expectations for this year.

With respect to Oliver Peoples, the chain has increased by, not as much as probably four times. But the philosophical approach we are taking with the Oliver Peoples brand, that is, we are going to get more a direct presence, a direct approach with retail versus wholesale and that's why you are going to see probably more and more of an expansion of our Oliver Peoples brand through retail rather than through wholesale.

Francesca Di Pasquantonio (Deutsche Bank): Good morning. I have a follow-up question on guidance, if I may. On North America specifically, can you help me running through the math for both wholesale and retail. So I understand what you are saying, the continued streamlining, and the caution on LensCrafters. But first with retail, are you saying that the perimeter is actually going to be negative, as we take into account the rationalization of the store base? And on wholesale, is it by any chance depending on the integration with Essilor impacting your commercial aggressiveness and speed in the North American wholesale? And as a follow-up question, you are trying and you have said it many times to pursue higher quality sales. And this to me suggests that your objective over time should be increasing the profitability of your sales. So, when are we going to see this? I understand that cutting sales translates into lower scale and, you know, it has other short-term implications. But, in your mind, what is the timeframe for the positive implications of this exercise? Thank you.

Stefano Grassi: Okay. So, Francesca, let me take the guidance and help you a little bit here. So, first of all, on the retail side, retail like-for-like is going to be counting in the positive territory. Half of the growth is going to come from comps, half of the growth is going come for new stores' contribution. So, contribution is probably not going to be as material as we have seen in the past, simply because what I just said before, you are going to see new store openings, but also stores that are going to be closed. And I mentioned, Sunglass Hut in North America as a tangible example, but it's happening. I think we are closing 140-150 stores during the course of the first quarter of this year already in North America.

With wholesale, I mean our trajectory is not going to change by any activity or combination with Essilor, we are not changing our commercial approach. Our commercial approach has been around cleaning up the market with the MAP implementation and Paolo Alberti and his wholesale North American team have done an unbelievable job to keep the bar high every single month since the MAP implementation. And that has been an outstanding work, which I can tell you, sometimes has been painful, I mean when you look at the performance obviously we all know that that it's painful to see numbers like we have seen, for example, in the third quarter. But then, we knew we have all the motivation that was the right direction that we wanted to take. And that's why, you know, Q4 is actually the good number you have seen there.

With respect to profitability, the sales quality means improved profitability, yes, absolutely. And we can see it, when we do have an impact of price/mix that is helping us because of the clean-up of our market which means lower discounts and therefore higher average retail price. So, that is happening, it's progressively happening, but the trajectory is that one and I agree with you Francesca, the consequence of that is going to be an improved profitability, H2 more than H1.

Massimo Vian: I can comment further on sales quality. Yes, you have to imagine that we're like a car with two pedals, but both of them are two accelerators and we're full-time gas with both of our feet. So, that g, we want to increase the sales quality, but we want to grow as well in sales. So, of course, there is a time lapse in which you cannot obtain reassurances of results on both sides, this is the time which we are improving quality, but we are growing at the same time and we showed that in 2016.

So, in North America, you will see us growing both in volumes and in sales quality. Clearly, AUR (average unit revenue) will give us a big boost in the future and it's what we are seeing now on our e-commerce channel with basically the removal of discounts for Ray-Ban, promotions and discounts for Ray-Ban brand in North America.

Francesca Di Pasquantonio (Deutsche Bank): Thanks. Can I ask a follow-up question on Capex please? Can you remind me, what is your budget for 2017 and what is the key split of the Capex?

Stefano Grassi: Yes. Capex for 2017 projects are going to be aligned in absolute terms with 2016 levels. So, you are going to see a slight decrease in percentage because of the ratio with sales, but in absolute values, we do expect to have the same spend that we had in 2016. I would say probably a third or slightly less than that is going to go to retail, probably more on store renewals than openings. I would say, there is going to be a more rebalanced focus on store renewals and especially in those parts of the world where we feel we do have to renew some of our stores. And another portion is still going to go to what I call infrastructure, which is Operations, investments in the supply chain and a third component of our investments which I would say will go into the digital world. Digital is going to become very important more and more with IT and digital being instrumental for our growth.

Operator: This concludes the Q&A session for the call. Gentlemen, back to you for the closing remarks.

Alessandra Senici: Okay, this is Alessandra. So, thank you everyone for listening to today’s call. We apologize again and we understand that there was a big technical issue. We will try to make available as soon as possible the replay of the call. Thanks again for your attention. We wish you a very good day. Bye-bye.