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

Welcome
Alessandra Senici

Thank you, operator. Good evening, and thank you for joining us today. Here with me are our CEO for Product and Operations, Massimo Vian, and our CFO Stefano Grassi.

Before we begin, first I have a couple of quick items to cover.

As a reminder, a slide presentation which we will informally follow during this call is available for download from our website under the “Investors/Presentation” section. This presentation includes certain non-IFRS financial measures.

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 filing with the 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.

Before I hand it over to Massimo Vian, I would like to give an update on the proposed combination between Luxottica and Essilor, confirming that it continues to progress, with the antitrust process advancing in all jurisdictions.

Luxottica and Essilor have jointly filed with the antitrust authorities in three of the five jurisdictions whose approvals are a condition precedent to the closing of the transaction, namely the U.S., Canada and Brazil.
In the US and Canada, the investigation has entered the phase of a secondary request, as expected for such a sizeable deal.

In China, the fourth jurisdiction for which approval is a condition precedent, the proposed transaction is under the Chinese antitrust authority’s review and notification acceptance is expected shortly.

In Europe, the fifth jurisdiction for which approval is a condition precedent, the two companies are conducting an open and constructive dialogue with the Commission in the context of the pre-notification phase and expect to be able to formally notify the transaction in the coming weeks.

The two companies have already received clearance in Russia and India.

Luxottica and Essilor shared objective in cooperation with the relevant authorities is to close the antitrust process around the end of the year.

With this update, 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.

Let’s now comment on first half results with Massimo.

Welcome and CEO’s remarks
Massimo Vian

Good evening, everyone, and welcome to our first half call.

1H 2017: quality of growth driving profitability
We're very proud of what we achieved in these first six months of the year. We maintained the trajectory of investments and development that we presented to you at the beginning of this year, and we are progressing with the right speed in all the initiatives you are very well aware of, and we will further comment shortly.

Before digging into the details of our performance with Stefano, let's look at the overall results. In these first six months, we were able to find the optimal balance between profitable sales and continuous heavy investments in the Group's future growth. As a result, we are happy to report solid performance in the first half of the year, with sales up by 4.2%, +1.8% at constant FX, over EUR 4.9 billion, operating income at EUR 900 million and record cash generation of EUR 535 million.

The Retail Division led the group growth. Both optical chains and Sunglass Hut posted improved comps through the months. We see the contribution of the healthy ramp-up of the stores that we opened last year and evidently from the expansion of the network this year. Retail improvements are a sign that the renewed focus on innovative products storytelling, all the re-assortment processes we went through and less room for promotion have started to pay back.

All the data we show clearly indicate that consumers, specifically, I would say, for the sun business, enjoy the omnichannel experience. Many still want to try on and to touch and feel the eyewear, but at the same time, they are ready to choose from more digital collections and Virtual Try-On tools that we have added to our e-com platforms. Therefore, we will continue to invest, both in physical stores with a more agile footprint in those regions where our presence is low, namely the Far East and Latin America, as well as in our branded digital experience and platform. This is, we are convinced, the right direction going forward.
From a geographic standpoint, we have positive signs in North America overall, where we gained speed through the period with a definitely better Q2 than Q1, in LensCrafters, but I would say especially in the wholesale business, where the effect of the MAP policy started to ease, as we all anticipated.

We have very solid Europe, all channels: wholesale, I'd say a super Sunglass Hut with more than 500 stores in Europe. And we are gaining even more presence now in retail in Italy with the smooth and successful integration of the Salmoiraghi & Viganò optical chain.

Latin America was very strong despite economic difficulties in Brazil. And in OPSM in Australia, the rebirth story continues, more than compensating for Sunglass Hut Australia that is now going through the drastic reduction of discounts and the re-assortment processes with premium products. In China, I think we will comment later, we want to be more and more direct to consumers, so we anticipated to you at the end of last year about our strategy to bypass distributors. Even more now, we want to have a strong B2C strategy, focused on our brick-and-mortar stores and our direct e-com platforms. As part of this strategy, of course, we are experiencing a slowdown that is studied and forecasted in B2B in China.

Overall, our brand announcement strategy in all channels is also driving a positive price mix, one of the major contributors to our operating profitability results. The Group operating income grew to almost EUR 900 million, up 5%, bringing the adjusted operating margin to 18.3%. Soft, but nice improvement, from first half 2016.

The retail margin showed 50 bps increase thanks to improved store productivity and also the wholesale margin grew despite the shortfall in sales.

We also achieved record net income of EUR 567 million in the first half.

And furthermore, we're happy to post another record in cash generation. Our stricter distribution policies, our effective supply chain and inventory management, which is even more crucial in this distribution dynamism, are all visible in our cash generation of EUR 535 million. It's a record, even discounting a nonrecurring cash positive effect, that I will comment on later on.

Again, we just finished a semester to be very proud of.

Shaping the Group's long-term future through investments and discipline

As we told you already during the year, we have made important strategic choices for the Group's long-term growth.

First of all, let me spend a few words and remark on our absolute commitment to product innovation. The collection we presented just before summer was very well-received. I'd say one success on top of all is the “Ray-Ban Blaze” collection we presented in early March, with brand-new flat mirror lenses. It is definitely the trend of the summer, and we were able to deliver those products 45 days after market presentation, additional proof of the effectiveness of our go-to-market strategy. They were in the stores at the end of April.

Another hit of the moment is the “Oakley Cross Range” collection. It's a product that can suit both sport and urban lifestyle with its interchangeable stems and interchangeable nose pads and was very well-received by our active consumers. And right now, we just ended our Luxottica Days in
Como, presenting our fall collection, new styles, and we got equally amazing feedback on what will be in the stores starting mid-September.

Second, in my comments, but definitely of primary importance is our strong discipline in managing the healthy growth of our brands. We already commented on limited promotion, better assortment in all channels, better overall presentation in retail with our new digital windows, carefully selected distribution, and definitely, largely in China, very brave decisions. I don’t want to comment further on the MAP policy. You definitely know everything right now. But I’d like you to understand our adoption of a stricter commercial policy in China. As said before, more direct-to-consumer using the equity of our brand. And definitely, we’re going at full potential with Ray-Ban. We have 74 mono-brand stores right now and a much stronger online presence, continuing our solid partnerships with Tmall and JD. Do not underestimate that this stronger direct strategy will also become more and more critical in the continued fight with counterfeiting and parallel trade in that geography.

On top of this, let me say, we have critical roadmaps that we confirm. We have our synergy projects that are on time in our tight schedule. And as I said before, they start to pay back. We are confirming strong investments in our e-com platforms. We’re getting more and more ready for our omnichannel interfaces. We have digital walls with virtually expanded assortment in our brick-and-mortar retail. And actually, you could possibly envision that soon, one of the walls of our stores will become like a gigantic smartphone in which you can select virtually the infinite assortment of Luxottica. You can virtually try-on with the same app we have today at Ray-Ban.com, Oakley.com and SunglassHut.com, and order in the stores what could be delivered at home in a matter of 36 to 48 hours.

Also, the journey of Ray-Ban ophthalmic lenses continues. We launched them in Europe, talking about clear lenses. We already launched them in China. We just started US wholesale now and Australia retail, literally last week. We are, furthermore, getting ready for the grand debut in our US retail, at LensCrafter. This will happen before year-end and in all geographies it has a very positive initial response.

Talking more about operational synergies, the closures of our distribution centers in Mexico and Ontario, California, are done, finished, completed. All goods and processes are integrated either in the new Atlanta logistic hub or in Sedico. In fact, all luxury made in Italy products are primarily stocked in Italy and shipped directly to the customer. This is an evident cash and obsolescence benefit.

Many other activities have been checked out, finished, completed. But even more so, the portfolio of our ideas is still full. We’re also pleased that month after month, we’re completing what we were committed to. Given all these premises, we’re happy to confirm the 2017 outlook that we gave you in March. With all that said, I pass it now to Stefano for the details of our results.
1H 2017 results
Stefano Grassi

1H 2017 net sales performance vs. 2016

Thank you, Massimo, and good evening, everybody. A warm welcome to our last call before the summer break. So let's start with our results, commencing from our top line and then we'll have some touch with respect to our profitability and cash position. Top line for the group for the first six months of the year, you see that on the top left side of the page, 4.2% positive for the first six months of the year at current FX. If you look at the numbers on a constant FX basis, we delivered a 1.8% growth for the first six months of the year. For the second quarter, on the bottom left, you have 3.2% growth at current FX, 1.8% was our growth on a current FX basis. So very consistent growth between first and second quarter on a current FX basis for the group. Let's now dig into our two divisions and start with Wholesale. Wholesale posted 0.5% growth on a current FX basis and negative 1.2% on a constant FX basis in the first six months. Looking at the second quarter, we have a negative 1.3% at current FX and negative, -2.4% on a constant FX basis for the Wholesale Division. Unquestionably, a challenging quarter and a challenging semester, I would say, for wholesale, but I would say more as a the consequence of the choice that we took rather than widespread structural market slowdown in the wholesale segment. You know MAP, Minimum Advertising Pricing policy, had its anniversary at the beginning of July. And we also took specific decisions to realign our commercial policy in China, which effectively lead us to work with very few high-select and trustworthy wholesale partners. The two things that I've just mentioned are clearly long-term investments that create some short-term burdens. If you exclude them, you will be looking at a Wholesale Division with solid, positive growth. In addition, let me say that if you just look at Europe and North America Wholesale, our 2 major regions, both posted positive growth, which keeps us very confident about the underlying trends for the wholesale business. Let's now move to Retail, on the right-end side, beginning from the first six months performance. Plus 6.8% was the Retail growth at constant FX, while at current FX it was 4%. Comparable-store sales for the first six months of the year were negative 2.5%. For the second quarter, Retail posted consistent growth, +6.6% at current FX, +4.8% on a constant FX basis, with negative comps 1.7%. So you can see the improvement in Retail trends in the second quarter versus the first quarter. And just to give you a couple of examples, LensCrafters posted a negative 1% comp in Q2 after first quarter of negative 3% comp sales, while Sunglass Hut global after a first quarter with negative 4% sales posted a positive 1% sales growth, up double-digits in Europe, Mexico, Andes and in Southeast Asia. So, very promising results in our Retail platform. Let me just remind you that the difference between the constant FX growth of sales and comparable-store sales is actually primarily driven by 2 things: One, the Salmoiraghi & Viganò acquisition, which is non-comp; Two, the new stores that we opened during the course of the last 12 months.

Revenue roadmap by geography

But now let's have a run through our different geographies, our usual roadmap, and let's begin with our major one, North America, on the top left-side of the page. For the first six months of the year, you're looking at North America at minus 1% at constant FX. When we look at the number of the second quarter in North America, we actually have an acceleration in performance at 0.4%, both Wholesale and Retail did have an acceleration in their performance during the second quarter versus the first quarter trend. Let's start with Wholesale. Wholesale had, for the six
months of the year, plus 1% in top line growth in North America, and an outstanding second quarter at plus 5%. You know that we haven't really achieved the first anniversary yet with the MAP implementation. The growth in this part of the world is actually driven by the independent channel and specialty retail chains that are largely offsetting the deceleration of e-commerce, which is clearly impacted by MAP, as well as our department stores. So on a year-to-date basis it is slightly a touch behind our full year guidance, but we do expect an acceleration in Wholesale North America during the second half of the year, so then we can fully meet our guidance in that part of the world. Let's now talk about Retail. In Retail, you have a slightly negative number here, negative 0.6%, which is an improvement in top line versus the first quarter, although there's no doubt that the cut in promotional activities still had an impact there on our retail results.

A few words on our leading retail brand, LensCrafters. LensCrafters' second quarter comps, as I mentioned before, were negative 1%, improving versus the negative 3% that we saw in the first quarter of 2017. The hard, heavy-lift work on LensCrafters is not over yet, but tangible progress has been made there. We continue our journey in making the consumer experience in LensCrafters more exciting, leveraging on the technology, delivering top quality lenses and making our stores more productive than before. In particular, if you exclude the stores in which we pulled out the labs, and Massimo later on will give you a little bit more color around that, you will be looking at LensCrafters with flat comps, which looks like a very promising result.

If we talk about Sunglass Hut North America, comps are still negative, but have improved versus the first quarter trend, thanks to a better price-mix driven by discount reduction as a consequence of our decision – we talked about that during Q1 – to pull out major promotional activities and target more and more a brand equity message. And things, so far, are progressing as we planned.

An outstanding story now: Europe, plus 15% in the first six months of the year; plus 13% in the second quarter. And I know you'll be asking me what Europe would look like excluding somewhere S&V. Stripping out S&V contribution to sales, Europe would be up mid-single-digits. So very strong underlying performance in Europe for us, very happy and very excited about that. Asia-Pac, minus 6% for the first six months and minus 11% for the second quarter. The main driver, let me say it again, of this number is the decision that we took to realign our commercial policy in China that effectively make us work with trustworthy selective wholesale partners. Over the longer term, what you're going to see is that Luxottica will keep on expanding its retail presence with directly operated stores; we've talked already about the success story of our Ray-Ban stores in China. Also, we keep on investing more and more in our digital platforms over there. Both things that I've mentioned are performing extremely well and we are pleased with the direction that we are now taking. In addition, let me remind you that we've lost a little bit of a roadmap in India because of the change in VAT regulation, which actually caused a deceleration of the business, especially in the month of June. But on the positive side, I'd say 2 things: while we posted nice growth in Southeast Asia, we continue to see positive comps in Australia’s optical business, very pleasant result for us. Last, but not the least, the bottom right-hand side, Latin America. You see the plus 5% for the first half of the year, which comes on top of +13% last year. So over a 2 year period, in Latin America, you’re looking at growth that is close to 20%. The first half results are just slightly behind our full year target for the region. There is kind of a soft spot here that is for Brazil. You all read and know what's going on in Brazil, and obviously we are hopeful that things will get better over there, first of all, for the Brazilian people, and also for people that do business over there. But now let's run through our profit and loss, which I think it's a very good story for Luxottica.
Consolidated income statement

So if we now move to our P&L, I would say we are happy with the way we closed the first semester. On one side, profit and loss is still impacted by the strategic initiatives we implemented in the last 12 to 18 months. We’ve talked about them several times. But it's also important to mention that on the other side, we do see the large efficiency process that we undertook is now paying back and allowing us to get pretty strong leverage on profit and loss. As usual, my comments are going to focus more on the adjusted numbers, and that will give you a little bit more color with respect to the adjusting items. At the Group level, we talk about a top line at constant FX plus 1.8%. From an operating income standpoint, we were able to hold margin flat on a constant FX basis. And this is a pretty remarkable result, because, as you probably remember we would need usually a 3% sales growth to keep the margin flat at the group level. This result was achieved, thanks to tight cost-control activity. So for example, G&A costs were actually down 8% year-over-year on an adjusted basis, which is on top of a 13% reduction of G&A last year versus the 2015 level for the first half of the year. So almost, you’re looking at about 20% cost reduction in our G&A infrastructure for Luxottica. This is just an example of how deep and intent was the commitment and the effort of the Luxottica team to reduce costs, simplifying the whole group structure, centralizing processes and eliminating unnecessary layers in the organization. One other example that I mentioned to you is marketing. Marketing investments have been reduced versus the 2016 level, but it was not for the vast majority cost cutting, it was more a matter of redirecting the investment to more digital and CRM content. And the efficiency that I just described to you is obviously offsetting, more than offsetting I would say, the start-up cost that we have for the launch of Ray-Ban prescription lenses. And we're happy, once again, to fuel investments with efficiency process in a very nice and compelling balancing exercise.

Let's now look at our two divisions, Wholesale and Retail. From a Wholesale perspective, margin did improve 30 basis points on a constant FX basis, with top line declining 1%. So margin improved with top line declining at a constant FX basis, but this is a pretty important result. Also, bear in mind that last year for Wholesale, you were looking at about 150 basis points of profitability improvement versus the year before. So we’ve been able to improve margin on top of stronger leverage that we got last year. On a current FX basis, as you can see, wholesale margin still improved 50 basis points versus a year ago. The efficiency measures that were carried out within the wholesale team haven’t come to an end yet. The Oakley integration project and the focus on marketing spending are still balancing the profits and loss of our Wholesale division.

Now couple that with favorable price mix and you get a perfect situation for a strong margin improvement. And I thank again the Wholesale team for the hard work here.

Another great story, the other division, our Retail division. You know retail margin was softer last year. We said many times that the hard work that we're doing over there to protect our margins with the discount reduction, the investment we were making in expanding the retail network were all investments that are right for the long-term growth of Luxottica. But clearly, in the short term, we have created dilution in the retail profit and loss. I think today, if you look at our results, you can already see that the early stages of those investments are paying back. And I would specifically mention, optical North America and optical Australia because those two business units significantly contributed to Group’s results. So we see margin now back on track, 40 basis points improvement in adjusted operating margin at constant FX versus the first half of last year. And I’m sure you'll remember how tough last year was for us, where margin actually suffered 150 basis points of dilution versus the year before. The journey is not over yet, not at all, but the direction is
definitely the right one. Let's quickly touch on net income. From a net income standpoint, we improved quite significantly our net income. We grew net income 10 basis points or 3.5% on a constant FX basis, growing 2x our top line growth. That net income growth was actually achieved thanks to lower interest expense and a lower tax rate. On a current FX basis, you do see net income improving 20 basis points with the growth of approximately 7% versus 2016 levels.

I mentioned that I was going to talk quickly about the adjusting items. We booked about EUR 5 million of adjusting items [at net income level], EUR 31 million at operating income level during the first six months of the year. A portion of those pertain to fees related to the Luxottica-Essilor business combination, then organizational projects as well as nonrecurring income related to the sale of our previous headquarters here in Milan.

Financial position overview

But now let's move to another great story, our cash position. I recall that last year in July, we were commenting about a record-high free cash flow generation for Luxottica. It was a year ago, and we were all excited about that achievement. Now one year after, we beat that record and we made a new one. A record made of EUR 535 million of free cash flow generation in six months only. That number does include about EUR 100 million cash derived from the sale of our previous headquarters in Milan. But even if you take that out, you will still be looking at a free cash flow level above the 2016 level. So, very happy about that. Working capital days were slightly up mainly due to the DPO, while DSI inventory levels were actually down versus 1 year ago, and now DSOs were flat versus last year. Last but not least, our CapEx level was down versus a year ago as we got more efficient in retail spending and IT investments.

Confirming 2017 healthy growth outlook

Let me wrap up where we are with respect to our full year guidance that we shared with you during the Investor Day. As you can see, our sales growth expectation was low to mid-single digits at constant FX. And here we are, we are at 1.8%, at the lower end of our full year guidance. From an operating income standpoint, on an adjusted basis, we committed to be between 0.8 and 1x sales growth, and we slightly beat that number, so far at 1.1x net sales growth. From an adjusted net income standpoint, we're extremely happy to almost get to 2x top line growth, actually at 1.9x.

Last but not the least, we continue our deleveraging. We are at 0.5x in our net debt-to-EBITDA ratio already in the first half of the year.

And with that, I hand it over to Massimo and we'll give to all of you a little more color around our performance in the different geographies. Massimo.

CEO's commentary on 1H 2017 results

Massimo Vian

North America: 2Q sales showing improvement

Thank you, Stefano. And in the interest of time, I'll go very quickly on some areas that Stefano already explained. I may give you more color on some areas that need to be better explained.
So on North America, we already commented, we saw improving trends, better Q2 than Q1, definitely. We are confirming the outlook for North America. As you know, Q3 is a more important quarter for optical retail rather than sun. September and October are, let me say, the weakest months for the sun business and Sunglass Hut, whilst we have to execute very well in the optical retail back-to-school sales period. This will give us time to perfectly plan the November and Christmas season for Sunglass Hut.

In the third quarter, the new fall collection, which was presented in March will be ready to ship one week earlier compared to 2016, thanks to our improved go-to-market and overall better manufacturing distribution. Our hub in Atlanta D.C. will be fully operational and this was not the case last year. And so we think we are optimally positioned to have an effective third quarter and second semester in North America.

**LensCrafters: focus on retail excellence protects profitability**

About LensCrafters, I think we are better going through some more detail. In our constant pursuit of excellence at LensCrafters, we keep the focus mainly on 3 strategic pillars:

- **First one is people:** having the right talent in the right roles, both in the field and inside the stores. We evolved the role of store managers in LensCrafters to “Store Market Manager”. We are enlarging the responsibility outside the four walls and the interaction of LensCrafters within the local community. The market managers will be responsible for establishing relationships, growing market share and generating proactively traffic in the stores, ensuring that LensCrafters is known as the leading optical provider in the local area. Over the last six months, we invested, as never before, in training. We are developing our own digital academy to grow the potential and the performance of our Store Market Managers and our associates. We are also streamlining the field organization so that headquarters will be as close as possible to our stores.

- **Second pillar, a tighter operations management.** “Connect, explore and exceed” is our new mantra. And we are very focused on the customer journey from the moment he or she enters the stores with a welcoming attitude, initiating the digital exam and the digital experience overall, to the translation from eye-care needs to an optimal vision solution. We are using all our new tools in the store and in the exam rooms and we are following up the experience with our best-in-class after-sales services.

- **Third pillar is, obviously, product.** I will say, superior products that LensCrafters is offering. And this goes beyond the best frames and the best lenses. We are actually more and more proactive in instructing the consumer about our different options, about our anti-reflective coatings, our anti-blue light coatings, the new UV protection for sunglasses and for the Ray-Ban sun prescription and Ray-Ban clear lenses as well, our expanded assortment on digital design solution to have a customized prescription done in our central labs.

You know that in LensCrafters we are testing and implementing a lighter format of stores without labs. Our high-tech central labs are playing an important role here. In those central labs, we have the most advanced digital technology and all the best equipment. The best solution for vision needs are required more and more by our consumers and can be provided only by state-of-the-art technology to manufacture the highest quality, but also the most personalized solution. The operational machine, as I’ve told you before, in Atlanta DC is fully ready and working. During the second quarter, we’ve put our central labs to the test, closing a number of in-store labs in markets
that are easily and effectively be serviced by our central labs. The Dallas area where we do have a lab, the Atlanta and Georgia region and Columbus, Ohio. The results were superior products and service. Also price mix showed us the evidence, and we were able to increase the penetration of anti-blue light lenses. But at the same time, in that test we saw that the one-hour promise still holds value for single-vision customers. So while we will continue to shift the majority of orders to our central labs, we will also offer the one-hour service inside LensCrafters only for single vision lenses, very easy and inexpensive to produce. It's just an edging and mounting service. This will be a huge plus for customers who have a simple prescription and very urgent needs.

Now that we are late in July, of course, as I mentioned before, the back-to-school season has just started. And consistent with our decision to revisit all promotional activities in the stores, we are concentrated on the execution of 2 projects.

The first is about product and we are proactively communicating the benefit of anti-blue light coatings. This has been already very well received. We are increasing week-after-week the penetration of these new lenses, and we are continuing to gain mix share on top of the other lenses. Second, which is really, really important, we are eliminating the traditional “50%-off lenses” promotion. And we are introducing, this week, a very competitive bundle offer for a complete care solution inclusive of antireflective treatment. This is both for adults and children. Our goal with this new offer is not only to preserve the equity of our retail brands and of the product that we offer, but also to simplify the way we talk to consumers. We want to be, during this peak season for optical, more transparent and propose a simple equation between pricing and value of the vision solution.

We are planning these weeks the launch of Ray-Ban clear lenses in LensCrafters. We're now testing only in a few stores. We want to be perfect in this execution because this will be big, and this will happen before the end of this year.

**Europe continues to be a business highlight with double-digit growth**

I will skip, honestly, Europe in the interest of time. I'm pretty sure you have questions on that. Just let me remark how, let me say, smooth and easy it has been the integration of Salmoiraghi & Viganò, completely finished. And we have mutual enthusiasm, the Salmoiraghi & Viganò team at Luxottica Days, both in March and now in July. It's really a family now. They are proud to be Luxottica, and we are proud to tour around Italy and see our, let me say, in-the-family brand-new stores.

**Asia-Pacific: reflecting on-going strategic initiatives and macro challenges**

I'll do the same with Asia-Pacific. Surely, you will ask questions.

**Latin America: strong performance continues**

I would stop mainly on Latin America. Just a few words on the acquisition of Óticas Carol. The Brazilian chain has a very solid network of approximately 950 stores. Almost all of them are franchised. The reputation is a reputation of a premium network delivering exceptional service, in
line with Luxottica's DNA. This acquisition is strategic for us. It's definitely a move in a country that is actually more like a continent, with its 200 million people. In Brazil, Luxottica has been investing for over 25 years. It is now one of our major markets. This actual moment of the local economy is, for us, an opportunity, and that's why we took this moment to move ahead with the acquisition and take all the possibilities of full potential expansion and integration in the next years.

While Óticas Carol will operate independently, Luxottica intends to use its retail affiliate platform to grow the presence of our brands in those stores, increase the penetration and develop the local appreciation for high-quality products. We want more and more through Óticas Carol to educate the Brazilian consumer about the importance of eye care, UV protection and latest Digital DST Technology vision solution. With Óticas Carol, we also acquired a state-of-the-art lab, full DST with Satisloh equipment that today provides services for more or less 30% of the need of the 950 stores. It is located in São Paulo, Brazil, next door to our logistic distribution hub in Jundiaí and very, very close to our factory in Campinas. Everything is in the neighborhood of a couple of hours drives, depending on São Paulo traffic conditions. We believe that all these elements can be a catalyst for the entire Brazilian optical industry. And these will benefit everyone, definitely, including as well our beloved Wholesale Brazilian customers.

**Leading a revolution in sun lenses: from design to technology**

Before moving to the Q&A session, maybe one more word on lenses and technologies. Because really, I want to give you an example about such a success story, very short, about the ability of Luxottica to see opportunities, at the speed of light, and instantly transform them into business realities. Our proprietary sun technology lenses show the superiority of the products, and is even more consolidating the product leadership of Luxottica. The best example is Oakley Prizm lenses. The story, in general, of color-enhancement lenses started 5 years ago only. Immediately, the penetration of Prizm in the sport performance category accelerated tremendously. And in 2015, we decided to acquire the company that was producing the pigments. The following year, we decided to create our own formula for daily use and that's when in 2016, Ray-Ban Chromance was born. A few very talented engineers, both in the US and in Italy, and no more than EUR 30 million in investments. Now Prizm is 40% of the total Oakley sun offer, and Ray-Ban Chromance is doubling its size this year versus last year. With the average mark-up of EUR 30 per lens, both in Prizm sports performance and Chromance lifestyle, this represents a huge lift in sales and profitability for Luxottica and as well in our consumers’ happiness. It's an example. It's basically how with R&D and go-to-market ability we created a small, let me say, wholesale Italian business, EUR 200 million roughly with premium products and super happy customers. I really wanted to take you through this, just to give you another, let me say, element to measure our enthusiasm for future potential possibilities. I leave to your imagination the possibility to move color-enhancement lenses, nano pigments, filtering of different wave-light into the ophthalmic lenses world. The possibilities will be definitely enormous and we are looking forward to grasping all of them.

**Entering 2H with energy, planning further investments**

Again, the more we think about the future, the more we see amazing opportunities. We achieved a lot in the first half of the year and we are entering the second half with the right speed, the right enthusiasm and energy. A dense list of projects, a lot to execute, but we will stay coherent with our trajectory because we do think this is the right way forward in the 2017. And overall, as Stefano said, we are confirming our guidance for 2017.
Thanks a lot for listening. And we can now open the Q&A session.

**Q&A session**

**Elena Mariani (Morgan Stanley):** The first one, it moves away a little bit from your quarterly results. You have obviously implemented several cleanup restructuring initiatives over the past year or two. Would you think even more normalized organic growth levels for the medium-term, once all these initiatives have been fully absorbed? Do you think you could go back to the previous “rule of thumb” guidance? Or perhaps, you think may be a more normalized medium-term organic growth could be mid-single-digits? I was just interested in understanding a little bit more the medium-term picture maybe starting from next year. And then, secondly a couple of questions on the merger process. And on your press release regarding the antitrust process. With regards to the US, how are discussions with the regulator progressing? I was particularly interested in knowing whether you expect to save any meaningful obstacles to the approval? Or any potential material or even minor concessions? And finally, a more informal question. How is the dialogue with Essilor progressing? Are you collaborating mainly on the antitrust process? Or have you started a broader dialogue across all levels to align communication in the second half of the year or potential strategic objective? I'm just interested in understanding whether you're working in 2 separate silos until the merger closes or whether you have started to work more closely together?

**Massimo Vian:** Thank you, Elena for your questions. So we definitely are undertaking actions for clean-up. I'm using your word, but I'd say that we are setting the foundation for a lot more than that. So I don't want to go through again all the initiatives that we commented on. Clearly, we are investing, but we are able to find the right balance between investing and staying disciplined to our guidance. We'll have to go through our budget process during the last quarter. It will be a Luxottica stand-alone budget for the last year in Company history. But clearly, what we want to plan is to go back with higher return rates on our investments and acceleration of profitability. So as Stefano said in a previous call, it is not a matter of if we will go back to our previous rule-of-thumb guidance. It's a matter of when. A lot will change with our new partner, say, new family, Essilor Luxottica, but there will be tremendous opportunities. I'm pretty sure that with the complete job offer, with the restructuring of our distribution, and I mean, industrial distribution and retail omnichannel distribution, with all the investments on lenses that both companies are actually undertaking, you can foresee the potential there.

Your second question is about the merger process in the US. We cannot really disclose anything other than to say that everything is smooth and according to plan. And we are optimistic talking about the closure across the year-end, soon before or soon after. At the moment, we do not envision any friction or difficulties. In terms of dialogue with Essilor, actually, in order to make sure that we do not cause any delay in the antitrust regulatory process, our dialogue is very, very limited. And we are actually working as two independent companies. Of course, in our head, independently, there are already ideas on how to bring this marriage forward, starting as soon as we have the okay to go, to execute immediately.

**Cedric Lecasble (Raymond James):** I actually have three questions. So, first on Asia-Pacific. You showed on your charts that you expect quite a nice rebound in the second half. And you
didn't go too much into the details to explain how you could get this nice rebound in the second half. So maybe you could help us a little bit understand what will work better in H2? My second question is on e-com. Big focus on e-com in the last few calls. Could you maybe update us on how much it represents on total sales? And how customization continues to work? It was quite a high number in proportion of the total. How much does it represent in percentage of total e-com? And the last one would be on CapEx. We saw a decline in CapEx in H1 versus last year. We had more of a stable assumption in our full year model. Could you maybe help us explain if there would be a rebound or if we should consider lowering CapEx, I guess?

Stefano Grassi: Okay. So Cedric, I will take the first question with regard to Asia-Pac performance in the first half and expectation for the second half. Clearly, I mean, this is probably of all the regions of world, we probably have more challenges from the guidance standpoint. But again, it is kind of a balancing act, as said, right, between regions that have clearly exceeded the expectation, like Europe where you've got plus 15% [at constant forex] versus guidance of 6% to 8% growth [at constant forex]. In other areas like Asia-Pac we are behind our full year guidance. So I mean it's a balancing act, as I said. But once you look at overall, in a bigger picture, we're reaffirming our guidance. Probably, I will tell you to position ourselves on the lower end rather than on the higher end of that guidance. But again, yes there is Asia-Pac, or let me say, there's also Europe. Massimo, you can take the second one around e-com, right?

Massimo Vian: Maybe a last comment on the first question about Asia-Pac. Of course, the deliberate decision to limit the distribution was instant in terms of not getting orders and not shipping. In terms of accelerating the B2C work, it will be, let me say, faster on dot-com. Starting in March, we accelerated our plan to open our brick-and-mortar stores in the second half. There are of course speed bumps in the store opening machine including finding the right locations. So the speed of opening will be double compared to the first half.

Turning to e-com, e-com today represents approximately 5% of our total turnover. I'd say, slightly more than half of it comes from direct B2C with our proprietary websites and the remaining from our B2B in Wholesale. Out of Ray-Ban.com and the oakley.com, the level of customization represents an astonishing 50% of everything we sell. And it's growing, and it's growing fast. And that represents, again, the barrier compared to hardware distribution channel. Only Luxottica can customize the product at the level we offer today on the website.

Stefano Grassi: Last question with respect to CapEx, I'll probably take that one, Massimo. Well, yes we got CapEx that is actually lower than last year. There's probably a little bit of timing effect between 1H and 2H. But I mean, remember, in the last couple of years, CapEx has been at a pretty high-level. Yes, we said that we would directionally keep CapEx in absolute value similar to last year. But, I mean, I wouldn't be surprised if we came a little bit short of that number from our capital investment standpoint.

Chiara Battistini (JPMorgan): I have three questions, mainly on financials. The first one would be on the gross margin in the first half. That was still down despite the reduced promotional activity. So I was wondering what are the drivers for that pressure that came through? On your cost, and especially on the admin cost, I was very surprised to see the pace of savings. So I was wondering whether you could provide some tangible examples of the savings you are achieving? And then finally, on your retail like-for-like for Q3. As the comps in the main banners get even easier than in Q2, are you still comfortable with a positive like-for-like for the quarter, please?
Stefano Grassi: Okay. So Chiara, I will take these questions. I would say, first of all, on the gross margin, I would say three things with respect to the dilution that you see. Two are more important than the third one. First one, some dilution was coming from the startup of our lens business, prescription business for Ray-Ban. Secondly, we reclassified some R&D costs into the cost of goods sold to make it consistent with the rest of the organization. Thirdly, we do have slightly negative manufacturing volumes year-over-year, which create a little bit of a under absorption of our fixed costs. So those are really the three things. And as I said, first two are more important than the last one. About saving on G&A, well, I have tons of examples. I mean, we did really hard work on Oakley, and we talked about it several times last year. That work pretty much has come to the end. But now we're getting the benefit of those synergies. I mean, you're looking at G&A reduction that, especially on the wholesale side, was primarily driven by the efficiency that we got because of the integration of Oakley within the Luxottica infrastructure. We came through a significant resizing of our IT infrastructure, with lower spending. You've seen it in CapEx, as per my comments, but the results are also visible in OpEx. We are resizing our back-office infrastructure in several different regions. And that is the natural consequence of coming more together from a centralization standpoint, which has naturally freed up resources for different investments. So again, it's back office, it's the activities we've done in Oakley, the integration of different channels, the centralization activities, whether it's products, whether it's assortment, whether it's real estate, whether it's pricing, more and more we're concentrating the activity in fewer locations, and this naturally creates synergies.

Now, on retail comps, yes, we got probably an easier third quarter. I think it's an important quarter. You know we have in the United States the back-to-school season and you know we are facing that back-to-school period with no promotional activities on the front door of LensCrafters. So we really look forward to that and to see what the impact of that could be. But we look at this with optimism, I would say.

Chiara Battistini (JPMorgan): Great. And maybe if I can just have a follow-up question on your admin cost. Is there a run-rate that is sustainable also going into the second half then?

Stefano Grassi: Well, I would say, yes. But we are conscious that we definitely got a severe reduction in the last two years. I mean, we were talking about 20% reduction. So if you ask me, are we going to see the minus at the end of the year from a G&A perspective, the answer is yes.

Antoine Belge (HSBC): Three questions. First of all, a follow-up on Asia, on wholesale. And I mean, the negative number is quite impressive, and even though, I mean, it's something that you started before Q2, why is Q2 so negatively impacted? Did you accelerate some of the initiatives that you described there? Do you expect these headwinds to continue in the second half? Or because they were so severe in the second half there, they will moderate enough from Q3? My second question is on the sun season. Last year it was pretty weak. So I was maybe expecting some better results. So could you comment more specifically on how the sun season develops this year? And the third question is about the exception on the EBIT line, they were a bit above EUR 30 million, EUR 31 million. I understand that EUR 7 million or EUR 8 million is related to the Essilor-Luxottica combination. Could you comment a bit more about what you've put into exceptional items below the EBIT line? And are you expecting more to come, because it seems that for the last 2 or 3 years, there's been a lot of exceptional items, that is causing differences between reported and adjusted. And finally, a follow-up, I think you mentioned that the difference between comps in retail and sales at constant currency figure was 6.5%. I think you mentioned
the reason, but could you maybe give a split given the S&V consolidation? I think it's according to my estimates around 3% or 4% and contribution from really adding new stores, which is more, again, going to mention, more on 3%.

**Massimo Vian:** Good evening, Antoine. I'll take the first two questions, and I'll pass it on to Stefano. Decline in wholesale APAC, I would rephrase that, it was mainly China, and it was not recurrent. It has been a planned, intended move that happened in March. So this is why it affected specifically the second quarter. Soon after the call back processes we had from distributors, mainly in the last three months of last year, in January we started looking at very, very good numbers in China wholesale. It was the first month actually, where we were monitoring sales day after day. And we sort of had the clear impression that it was a déjà vu. With wholesale customers ordering a lot of products, and we were [burned] clearly in the last quarter of the previous year. And we took a very, very brave decision, not to see these goods coming back in a matter of six, eight months. We stopped those deliveries, because it was really an already seen movie, and that was in March. And believe me, it was a tough discussion in Luxottica headquarters between top executives. The decision was made. It was a bold move. We stopped receiving orders. And we decided on the acceleration of our dot-com platform, and as I told you before, the acceleration of Ray-Ban stores, Sunglass Hut owned stores, as well as LensCrafters stores in Greater China. So there's a specific reason for that. Will these keep going on in the second half? I would say, yes, because it's a deliberate move and a deliberate decision for Wholesale. The challenge here is that we have to compensate with B2C direct sales.

Your second question, about the sun season. It was weak last year until mid-June. And then, we all remember it was approximately the 18th, 20th of June, the sun came out, and we had a fantastic end of June. And even a better July through August. So it was a good summer season last year. How is it going now? Very well in different geographies. So as I commented before, super Sunglass Hut in Europe, super Sunglass Hut in different other geographies. In North America, Sunglass Hut is going through the process of promotions reduction. And we see traffic affected by this. But on the other side, our conversion is improving 8% and our AUR is improving mid-single-digit compared to last year. So we see the sign of a contraction, but on the other side, healthy attitudes in the stores. We're not welcoming consumers to sell them discounts, easy to convert. We sell them an opportunity. We are welcoming consumers in the store to sell them the excellence of the quality of our products at, as much as possible, full price. It's a different kind of job in the stores, but clearly, we are heading in the right direction.

**Stefano Grassi:** With respect to the one-off, nonrecurring items, yes, we got a nonrecurring expense that for the vast majority is related to the repayment charge for a US Private Placement that we got in the United States. But that is more than offset by the nonrecurring income related to the sale of our previous headquarters in Milan. So you net out the two, and you get a positive effect from a nonrecurring standpoint. Now, we also incurred in certain reorganization activity. Clearly, we proved that the benefit of those reorganization activities are in the profit and loss, and we do continue to see it. As I said, look at the top line growth and see that despite our top line growing around 2% [at constant forex], we're holding margin from an operating income standpoint. And remember, last year, with similar growth, actually margin was slightly diluted at an operating income standpoint. And we're actually improving from a net income standpoint. So, we do expect probably to get still something in the second half. It's hard to quantify at this stage, but
we are happy with the equation between the investments and the one-off that we’re getting and the returns that we’re getting out of those investments.

Now the last question, Antoine, was around the comps versus retail sales growth at constant forex. The vast majority of that gap between one and the other, it’s really Salmoiraghi & Viganò. It is a non-comp, by definition. It’s going to be like that for pretty much all this year. And I think the remainder part is really the non-comps stores. Remember, we’ve got a quite significant number of stores opened last year. The vast majority of those stores are still not comp. And that’s it.

**Piral Dadhana (RBC Capital Markets):** Firstly, just on OpEx. If we just focus on A&P, obviously, it’s a big step down to around 5% of sales. Should we expect that to be the new run rate going forward as you find more efficient ways to deploy money towards your advertising activities? Or will that be a step up in the second half of the year? And then secondly, just looking at the Sunglass Hut network in North America, obviously, in the previous quarters, you’ve gone through some exercise in reducing the overall store count. Should we assume now that the Sunglass Hut network in North America has finished that exercise in 1,700 or so stores, is the level that it will remain at? And then finally, just on back-to-school. Obviously, you’re talking around the importance of that in the third quarter, particularly for prescription. If we just think about the overall retail environment and how promotional it is in North America. What gives you confidence that you will be able to drive fruitful and conversion in a highly promotional environment in North America without promotion for the first time? Just curious to see what gives you that level of confidence and what others are describing as a very difficult and challenging marketplace.

**Stefano Grassi:** I’ll probably take the first question on the OpEx and on advertising more in particular. I mean, as I said, it’s not a matter of cutting costs in advertising, right, because we’re fully aware that cutting advertising costs would get you results, but over the long-term are not necessarily the right thing. I mean, we look at the investments, for example, in digital. In the digital investments, in the first six months of the year, we’re up double-digit. We’re looking at investments that we made on our leading brand, Ray-Ban, and the investments were up double-digit. This is just an example, right, to give you a flavor, that we effectively changed the mix of the way we are investing money from a marketing standpoint. And clearly digital is more efficient also from a spending standpoint because it allows you to effectively showcase the message in several different places through our digital network. And that is really what we’ve done in the first half of the year. And Massimo, do you want to take the second one on Sunglass Hut?

**Massimo Vian:** Of course. Sunglass Hut in North America, I will say, yes. The magnitude of closures is done. And we are not planning to go further with similar moves. Having said that, there will be a constant turnover of stores that we will close and we will reopen. And we are, with interest, looking at the trends of sunglasshut.com, our direct-to-consumer owned website and the possibility of the omnichannel distribution. So stay tuned, we will be dynamic, very dynamic with the Sunglass Hut footprint. But we do not think we will undergo through further closures in that market.

On Back-to-school. Back-to-school is a challenging, let me say, move we took. As I told you, we started last week and this week mainly. When I said “we are cutting promotions”, I was definitely true to the words. So we are removing all the 50%-off signs that were in the windows of our LensCrafters stores. But having said that, we do our offerings, let me say, good deals. But we are promoting them in a different way. We don't want people to come and look for price in
LensCrafters. We do not want to compete with other retailers that offer two pairs for 69.99. That's not our job and that's not the quality we want to compete with. We are a different planet. We want to offer transparency, pricing transparency and the option to consumers once they are in the store to select ultimate anti-refracted coatings. As I told you before, our base offer now is with anti-reflective coating, but we developed a premium AUR offer with oleophobic anti-fingerprint, hydrophobic, so you can clean it very easily with water. And we can offer all these different effects like an add-on and it will be the ability of our store market managers and associates to explain to the consumer which is the right option for their vision needs. So it's a challenge, yes. It's a promotional environment, yes. Consumers will want to have a good equation between price and value. We will offer that in the store. But we will explain them, and we will teach them how to take care about their eyes, and we think we are good at that. We have digital tools in the stores, information tools in the iPads, exam rooms, digital measurement. We are well equipped to explain to consumers what we do best. It's a challenge, yes. We'll tell you in a while how this goes. Maybe last, this is not really to, let me say, to under estimate the fact that, as I told you before, the logistic machine is operational. And through the logistic hub of Atlanta and the co-located distribution center, any job that we can sell in LensCrafters with very specific lenses can be delivered to the store well within a week for any specific and super customized digital lens. This is an advantage we offer to consumers that they cannot find in other stores for the similar level of lens quality. That itself will be another move to try and be successful in this back-to-school season.

Domenico Ghilotti (Equita SIM): I have two questions. The first is on the North American market. In particular, I'm trying to understand or to get a better feeling on the environment, so if you have any indication on the trend and the market share that you had in the first semester. How far are you from the performance of the market? And second, back to your comments on some KPIs, and particularly you were commenting on the traffic and then conversion. I wanted to check if these are related to Sunglass Hut only or to the whole North American market? And in particular, considering your comments on LensCrafters, how should we look at the success of your exercise on LensCrafters? What are the KPIs that we should monitor more in order to understand the success of your relaunch of LensCrafters?

Massimo Vian: About the North American market. Let's distinguish the outlook in two different areas: sun and optical because of their different dynamics. On optical, the positive feedback we get is mainly from independent customers. They really do appreciate our products. Their business inverted trend compared to last year. And they really do appreciate our, let me say, discipline in proposing latest collections with a more disciplined price approach. For Sunglass Hut, we do see mainly the department store business weakening. It's a type of business that is less focused on premium offers. And actually, the portion of department stores business that keeps doing relatively well are the outlets of department stores, which really we are, let me say, not looking at with interest because we want to offer premium products.

In terms of market share, we do not disclose numbers. We do see other retailers doing well, but the journey that we've embraced during this year is more on the quality of sales rather than on volumes and market share. And on that, we can say, we are very happy because we see price points moving up and less and less rely on second life and type of outlet businesses.

On KPIs, I mentioned to you before that traffic and conversion are definitely more on Sunglass Hut. As you all know, the optical business is more and more resilient. So more than declining optical, we see a shift between insurance-funded portion of the business, which is increasing, and
free to choose in LensCrafters that is decreasing. This is not for LensCrafters only, and it's not particularly due to the EyeMed business, that is doing super well. It's really a trend of the North American market to be more and more an insurance type of business. Why in Sunglass Hut? Evidently, the fact that we do not have in our windows promotions like 50%-off signs affects the traffic. As I told you before, we are able to compensate a lot of that decline with higher conversion rate of 7% to 8% in the stores.

About your third comment, –how we will judge the performance of LensCrafters' back to school. Clearly, it's sales, in dollars and in units. When I say, sales in dollars, it's also to understand how good we will be in promoting to the consumers the latest lenses and the latest frames collection.

**Elena Mariani (Morgan Stanley):** Just a quick follow-up from me. Looking at currencies, could you remind us of the sensitivity to the US dollar, given the recent movements? In the past, you had indicated that a 10% movement in the dollar versus euro would affect your EPS by around 7%. Is this still the case? And looking at where the dollar is right now and also the Chinese renminbi, what is the impact that you see over the full year on earnings and also on margins?

**Stefano Grassi:** The sensitivity of the US dollar, with a revaluation or devaluation of about 10%, we get 7% to 8% impact in our results. And obviously, that has come true in both ways, so whether the dollar is appreciating or the dollar is devaluing. So that's really the rule of thumb for us. Clearly, in the second half of the year, we do expect probably a little bit of a headwind if the US dollar continues to stay at this level.

**Alessandra Senici:** Okay. Apparently, there are no other questions. So, thank you very much for attending the call tonight. We wish you a very good evening. Bye-bye.