CORPORATE PARTICIPANTS
Alessandra Senici, Group Investor Relations and Corporate Communications Director
Stefano Grassi, Group CFO
Q&A

Welcome
Alessandra Senici

Good evening, good afternoon to everyone.

Before we begin, first, as usual, we have a couple of quick items to cover. As a reminder the slide presentation, which we will informally follow during this call, is available for download from our website, under the investor relations section.

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 filings with the Italian Securities Authorities for additional information and discussion of certain risks that could impact the Group’s results.

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

Let’s start with a brief update on the proposed combination between Luxottica and Essilor. Since our last call we have also received approval in Europe, the US, Brazil, Israel and Singapore, for a total of 18 countries. In China and Turkey the proposed combination is still under review by the local anti-trust authorities, with whom we continue to conduct an open and constructive dialogue.

In China, the last condition precedent, we remain confident to get the approval soon. Turkey is an important emerging market and we are confident that we will get the approval or find a solution by the time the closing occurs. By the way the two markets together represent less than 3% of Luxottica Group sales.
We confirm our expectation that the combination will close in the first half of this year.

Pending final antitrust approval, and in respect of the process, we are not yet in a position to answer questions on the combination and future plans. As usual we thank you in advance for your understanding on that.

**1Q 2018: soft start to the year**

Moving to results, the year started on a weak note, mainly due to the unseasonal weather in Europe in March. We missed sun sales in March, which, as you may know, is the largest month for our global wholesale business. If we exclude the impact of the rainy period during March, as well as some timing effects in orders taken from some Key Accounts in Europe, results would have been in line with our expectations.

On the upside we are seeing some positive trends across businesses which you won't see reflected in the numbers for this quarter. To name a few, first Sunglass Hut globally is accelerating its sales growth to 7.6% at constant forex. This is a great example of a successful execution. The optimization of the store footprint in the first quarter of last year in North America is paying off, Q1 comps in North America grew high-single digits. This confirms that when you provide consumers with a unique and compelling experience, combined with the right brands, the results are there.

Then, OPSM is continuing to grow on top of an already solid growth last year.

The two-year old Ray-Ban store format in China is doing very well. We are growing awareness and creating new loyal Chinese fans of the brand.

Last but not least, e-commerce has become an increasingly important driver for us and more and more seamless with the stores.

Finally, CRM has helped our platform, for example sunglasshut.com, connecting smarter and more meaningfully to customers. We are creating a higher value relationship with each person who shops with us.

We can attribute much of these trends to the renewed commercial approach we have been talking about in the past couple of years, from commercial harmonization to the MAP policy, to our elimination of deep discounting, these bold initiatives designed to protect our brands and our customers are already showing their value.

We will continue to make the right decisions, even when they are the tough ones. After a strong focus on North America and China during 2016 and 2017, this year we will focus more on Europe, enhancing our selective distribution network and introducing new commercial policies for promoting fairer competition between bricks and mortar and online among our clients.

We continue to be a game changer in the industry when it comes to service for our wholesale customers. On top of MyLuxottica and STARS, we're now digitalizing the last mile of our wholesale business. In April we introduced the so called “digital sample bag”, which allows our sales reps to present the latest collection to customers in a deeper and richer way using their iPads. Customers will now see more models to choose from, as well as the storytelling behind each single brand, which can improve sales interaction and speed up the ordering process among other benefits.
As we stayed true to our roots this quarter, we made an investment in craftsmanship with the acquisition of Fukui Megane, a high-end Japanese eyewear manufacturer that will give us the special "made in Japan" expertise, as well as a strong presence in the region.

Now, I will hand it over to Stefano to give you more color on the quarter results.

1Q 2018 net sales results
Stefano Grassi

1Q 2018 net sales performance vs. 2017
Thank you Alessandra. Good evening everybody, buonasera. Let's start off discussion of our first quarter results, beginning with Group consolidated revenue and then we'll split into wholesale and retail.

In the first quarter Group sales were negative 0.8% on a constant FX basis, on a current FX basis Group sales were negative 10.7%. Very much a continuation of what we saw during the second half of 2017 with currencies creating some headwinds in our results. During the course of the first quarter you can see there were quite severe headwinds in our numbers, in particular due to the US dollar, which devalued versus the Euro during the first quarter of 2018 about 13% versus the 2017 level.

If we now start looking at the two divisions, let's start with Wholesale, negative 4.2% on a constant FX basis, negative 11.1% on a current FX basis. In Wholesale, as Alessandra anticipated, we mainly experienced three major circumstances that impacted our results in Q1. First of all, the challenging weather conditions that impacted Europe with several rainy days between the end of February and the month of March. Secondly, some timing effect of order intake from a few Key Accounts in Europe. Thirdly, and we've been talking about it for quite a while now, the strategic repositioning in China, which took place in the second quarter of last year and that has not been annualized yet.

If we now move to retail on the right hand side of the page, on the top part, 1.3% on a constant FX basis was our growth in our Retail division; we’re pleased with that growth. If we look at our results on a current FX basis we’re looking at negative 10.4% for our Retail division. Here the difference between constant and current FX is larger than in our Wholesale division, due to the fact that over 70% of our retail revenues are denominated in US dollars and therefore you have a larger swing between our constant and current results.

The shining star of this quarter in the Retail division is definitely Sunglass Hut that posted plus 8% growth on a constant FX, posting positive growth across the world. If we look at North America, North America grew high single digit and we can continue with South Africa, Southeast Asia and China that delivered a double digit growth story. So we are extremely pleased with the way we’ve started the year in Sunglass Hut.

Let me just remind you that from a comp perspective from this quarter onwards, our comp sales do only include the brick and mortar results and therefore our directly operated e-commerce is only contributing to the total sales growth and not any longer to the comp sales figures.
From a comp sales perspective, our comps were slightly negative during the course of the first quarter at 0.6%. LensCrafters continued the negative trend that we saw during the fourth quarter of last year, as we anticipated, the journey to turn the business around is not over yet.

Last but not least, let me mention our e-commerce business that in the first quarter grew 15% on a constant FX basis, thanks to the strength of our directly operated websites, ray-ban.com, oakley.com, sunglasshut.com, that day after day continue to be the consumer choice for branded eyewear and we’re very pleased with that.

**North America: eye catching performance at Sunglass Hut**

Now let's have a quick journey through our different geographies and let's start really from the most important one, North America.

North America was a touch positive in the first quarter on a constant FX basis, with Wholesale at 0.5% growth and the Retail division substantially flat. But let's start with Wholesale: the Wholesale division in North America was positive and from a channel standpoint we are happy to report a strong growth in our Key Account and e-commerce channels. And that happened after the slowdown [during 2016 and the first part of 2017] due to the severe impact of the MAP policy implementation in North America.

The driver of that growth in North America Wholesale was Ray-Ban and in particular Ray-Ban Sun, so the performance of Ray-Ban Sun for us is proving once again that after a tough market clean up with MAP, now we have a brand, Ray-Ban, that is stronger and more attractive than ever.

If we now move to Retail, I would touch again on the Sunglass Hut performance because it has been really outstanding. In the first quarter it grew approximately 8%, a pretty balanced growth between volume and price/mix, again an excellent way to start the year, and an excellent way to get ready for a sunny season in Sunglass Hut.

From a Retail optical standpoint, I will mention Target Optical that delivered double-digit growth and the LensCrafters trend that, as I said before, is very much consistent with the fourth quarter of last year, although beyond the initiatives that we have been talking about during the last calls, with respect to labor, assortment, supply chain, all the activities that we are undertaking to turn the business around, let me say that we have significantly boosted our CRM and marketing investments in the month of March. But we are not resting with that and we are continuing to do that even during the course of the second quarter and the third quarter. And as a matter of fact, the investment in LensCrafters from a marketing and CRM standpoint grew double-digit in the first quarter and are going to grow double-digit in the course of the following quarters as well. And I would say that already the early signs that we are reading are very encouraging. So, please, stay tuned for more news here.

**Europe suffering from unseasonal weather and tough comparison**

Let's now move to Europe. I think before digging into this region, I believe that we need to put Europe in perspective. This is a region that between 2014 and 2017 grew on average each year about 10% and I would define that as a very impressive track record. For the first time after 12 consecutive quarters Europe posted negative 4% at constant FX. And that was mainly due to the deceleration that we experienced in our Wholesale division.
In addition, our Wholesale division during the first quarter was comparing against the best quarter in 2017. So we have a tough comparison this quarter which comes on top of a great journey of growth for our Wholesale division in Europe.

With all that said, as Alessandra anticipated before, the persistent rain across Europe between the end of February and the month of March clearly affected the performance of our Wholesale division, in particular the sun side of the business.

Last but not least, we have some headwinds in the timing of order intakes between Q1 of last year and Q1 of this year, especially with some of our Key Accounts. And this created a favorable impact during the first quarter of 2017 and an unfavourable impact during the first quarter of 2018.

If we now move to Retail, the overall result was low single-digit positive, although that result could have been significantly better if March hadn’t come below expectations in light of the poor weather conditions that we talked about before. As summer will finally kick in, and honestly the last two weeks are very promising, we’re poised to see a very different trend during the second quarter.

**Asia-Pacific: Ray-Ban stores proving their strength in China**

Now let's move to Asia-Pacific. I would reassure you that Asia-Pacific is marching according to plan. You might remember that the strategic repositioning of our business model in China took place during the course of the second quarter of 2017 and therefore Q1 2018 is really the last quarter where we have apple to oranges comparison. And again, beginning from the second quarter, we're going to be pleased to report a different velocity for China.

Pretty much every country in this region, with the major exception of China, posted positive growth. And I would say we were very happy with what we've seen here, we're very happy with the strategy that we're undertaking in China, that strategy is progressing as we planned, with Retail growing double-digit [at constant FX] and e-commerce growing double-digit, so happy with that.

Last, but not least, I would mention our positive performance once again in our optical retail business, OPSM, and that performance is really the result of our successful repositioning in the area, a successful repositioning of that chain that was undertaken with consistency, heart and determination. I want to really thank all the employees working in OPSM for the hard work that they are doing to maintain a successful retail chain over there.

**Latin America: another encouraging start to the year**

Let's go now to Latin America. Latin America posted positive 3% growth at constant FX, with Retail in the mid-single digit territory and Wholesale delivering low single-digit. Brazil and Argentina, outstanding support to this region, lead the way. And I would mention Mexico, that after several quarters of positive growth, I think in the last three years we've always been positive in Mexico, had a bit of a deceleration during the course of the first quarter 2018.

There are several initiatives that we undertook in this region, the rollout of our Wholesale direct presence in Chile and Colombia, that we talked about last time. The successful launch of the Ray-Ban stores in Chile, Colombia, Peru, Mexico and Brazil, all up for a very promising start. And those are proving once again the strength of our Ray-Ban brand worldwide.

But before closing this journey I believe it's worth mentioning that we are approaching the sun season with a high degree of optimism I would say, also in light of the last 10, 15 days, where
essentially the weather was clement. In addition, let me say that all the business units across Luxottica have strong plans that are starting to be executed in the second quarter. And we are coupling those plans with product innovation, just to give an example, the launch of the new Ray-Ban Transition lenses exclusive at LensCrafters in early May and by the way already available in OPSM and Salmoiraghi & Viganò as we speak.

And again this is just one example of the many initiatives that we have in place and that we believe should give us improved results through the course of the second quarter.

With that I will hand it over to the operator for the Q&A session, thank you.

Q&A session

Anne-Laure Bismuth (HSBC): Good evening, I have three questions. Is it possible to have a broad indication of the LensCrafters comps in Q4 please? And when do you plan to go back to growth or a positive performance for LensCrafters?

My second question is about the impact of the unseasonal weather on the Q1 performance?

And finally can you give us an update about the performance in April, please? Thank you.

Stefano Grassi: Okay, I will take those questions. The first question was on the comps for LensCrafters: we actually got negative 5% comp sales for LensCrafters.

With respect to the impact of weather, I think we need to read the weather as well as the timing of order intakes together, as Alessandra was describing before, because I think some of those delays were due to the weather and clearly that impacted our wholesale division. I would say, if we would exclude the impact of those two items, this would give us a positive number on the overall result for the first quarter. What was the third question actually?

Anne-Laure Bismuth (HSBC): Just an update about the current trading and the performance in April, please?

Stefano Grassi: Yes, got it. I would say April is a bit of a strange month this year, as the first half of the month was impacted by the Easter shift. Last year Easter was in mid-April and this year it was at the end of March. So I would say the first half of April is negatively impacted by the Easter shift, while the second half is much more comparable and we're seeing really good signs of recovery. The weather is much more pleasant and we see the pick-up, especially on the sun side of the business. So we're happy with what we are seeing in the last 10 or 15 days.

Anne-Laure Bismuth (HSBC): Thank you very much.

Luca Solca (Exane BNP Paribas): Good evening, I was wondering how you see the competition on the design front. We're witnessing a significant change in soft luxury with the likes of streetwear brands encroaching into some of the turf that was exclusively the dominance of established luxury goods brands. I wonder if you're seeing anything in a similar vein in eyewear and how you're rating the progress of digitally native brands - there's been a lot of talk about Warby Parker but I think that there's many of them all around the world. And if you could give us
your strategic perspective of how you prepare to compete with megabrands like Ray-Ban against them over time?

More specifically - and shifting subjects, on the forays by luxury goods groups - we just saw the announcement about LVMH investing in new capacity in the North of Italy. I wonder how you see those developments and what you could potentially envisage as the impact on your own licensing business?

And then last, but not least, on digital development, you were mentioning that you are happy with the development you’re having with Ray-Ban.com and digital in general: do you see that this is today at full speed, or do you envisage more investments and further step change developments on this distribution channel? Thanks a lot.

Stefano Grassi: All right, let me try to answer all your questions Luca. First of all I would say we don’t necessarily feel a stronger competition on the design side today more than we felt in the past. And I would say our collections have been very well received and accepted.

We have the continued pulse of Luxottica Days which is the opportunity for us to interact with our clients, to really get their feedback. I mean those are not just days for us which we’re pushing revenue through our channels, but it’s more than anything else an interactive session to really make sure that we understand what our clients feel about our collections. I would say the top customers continued to give very positive feedback on our collections, even compared to what’s out on the market.

So, generally speaking, we get very positive feedback, not just on our luxury side, but also on the Ray-Ban brand. As I said before, I feel today it’s probably stronger than ever. We have got a lot of innovation coming with the Ray-Ban brand, not just on the sun side, but also on the prescription side, and more and more we are coupling, you know, prescription propositions with frames and lenses [branded lenses]. They are very well accepted by our consumer. And again just looking at the level of penetration that Ray-Ban prescription now has in our retail chains and the level of adoption of Ray-Ban prescription lenses with Ray-Ban frames, tells me that the design and the quality of our products are very much appreciated by the market.

With regards to the investment that has been made in the North East part of Italy, clearly we are curious to see how that is going to be ramped up in the future. Again, we wish all the best to this new initiative because I think we need good and healthy competition in the markets.

From a digital development standpoint, I said that we were happy with Ray-Ban.com, let me say we’re always unhappy with the investment that we’re making because we believe that ideally we’d need to make more and more and we’re doing it. I think that every time that we can, we are diverting marketing investment from the more traditional channels into digital channels. And as a matter of fact, just to give you a flavor, in the first quarter our digital investments in Ray-Ban and Oakley grew double digits.

So again we’re making and spending a lot to make our websites more appealing, to make our websites the place where people, not only can get customization of their glasses, but they also can get exclusivity of some of our products. Again, we monitor the feedback that we’re getting from our consumers on social media. And we’ve got a really expanded core customer base that is really loyal and faithful to our directly operated websites. And more and more we are pleased to see that coming through. So happy with what we’re doing, but again, we need and we will do more in the future.
Luca Solca (Exane BNP Paribas): Thank you very much indeed.

Francesca Di Pasquantonio (Deutsche Bank): Hi, good evening, I have a couple of questions please. The first one is regarding LensCrafters, you mentioned you have seen some promising changes, can you maybe articulate what KPIs are driving these changes at LensCrafters?

And secondly, by comparison, what are the KPIs which are driving the Target Optical performance? I apologize, I'll put it on mute and let you answer because there is a fire drill, sorry.

Stefano Grassi: Hopefully you are in a safe condition Francesca.

Francesca Di Pasquantonio (Deutsche Bank): Apologies for this, I'll let you answer and then I'll have a second question.

Stefano Grassi: Okay, so with respect to KPIs, I would probably mention a couple of things. First of all we are seeing an improved trend of online booked eye exams. I mean, our marketing campaign was very much targeted on eye exams throughout the month of March, we were on TV. And that was the message they were steering towards come to LensCrafters, get an examination. And we have already seen an improved trend in online booked exams for LensCrafters.

The other thing is that you know we look at what kind of customers we're getting back. We're seeing pretty positive reactivations of customers who haven't been to LensCrafters in the last 24 to 36 months. So again it's too early and premature to draw the conclusion. We're going to continue our investment during the second quarter, but again customers that have not been in LensCrafters for the last 24, 36 months is the first improved KPI that we've seen. The other one is the online booking of eye exams that we see.

With respect to Target Optical, I think it's a good balance of price mix as well as volumes. So, we've got KPIs addressing it and we're happy with what we're seeing. Obviously the traffic is clearly linked to the host performance and we're happy to report that.

Francesca Di Pasquantonio (Deutsche Bank): Okay, thanks. My second question is, I know you have said we shouldn't be asking too many questions on the proposed merger, but I just wanted to clarify one thing, especially after the call which was held earlier today by the other side of the proposed merger. So, you are stating that you foresee the completion by the first half of 2018 and that you don't think Turkey should be in the way, just to put it quite directly. What if though this doesn't happen before the 30th of June?

Stefano Grassi: So yes, we are confident that we're going to get the approval by then. And just to be clear with respect to Turkey you have been very direct and I will give you a very direct answer. So in Turkey we either get the approval or we'll find a solution to get it right by the time the closing reports. I hope that answers.

Francesca Di Pasquantonio (Deutsche Bank): Okay, so you don't think that the 30th of June represents a date that we need to focus on?

Stefano Grassi: No it does! We're planning to close by the end of June and that's where we are today.

Francesca Di Pasquantonio (Deutsche Bank): Okay, thank you.
**Domenico Ghilotti (Equita):** Good afternoon, I have two questions. The first is related to North America, you were mentioning that the market was basically flat at constant currency and Ray-Ban has been posting solid growth, so could you elaborate on what was underperforming in terms of brands and maybe give us some color also on Oakley in particular?

The second question is on the performance of Europe. In particular you mentioned also the clean-up in distribution as a reason for the weakness, could you give a flavor on what was the impact from this element? And clearly this is something that is expected to last for the next few quarters if it is a strategic decision to clean up, so could you give a sense of the magnitude for the period where we should expect this to impact?

**Stefano Grassi:** Yes, Domenico, let's start with North America. So, in North America we said strong Ray-Ban and the weak spot for us was Oakley and more in particular the sport channel.

With respect to Europe, the clean-up of the distribution is going on, right. I mean we’re not very specific about Europe, but just to give you an idea last year our relentless efforts towards counterfeiting and diverters led us to not sell about 600,000 units during the course of 2017, to clients which were identified as diverters or they were kind of boosting the grey market. I would tell you that that number for this year is growing double digit and we’re not ashamed to lose those revenues, because those are not the revenues we want to go after, those are not the revenues that will make the clean top line that we expect to see in Luxottica.

**Domenico Ghilotti (Equita):** Okay, just a follow up on the North America in general on the brand perspective, how was the performance of the luxury brands?

**Stefano Grassi:** I think Q1 for luxury was as little bit challenging in North America, but you also have to bear in mind that the weather condition was unfavourable in Europe and the same was also in North America. So we saw a trend that was impacted mainly on the sun side of the luxury portfolio and that was the main driver of that.

**Domenico Ghilotti (Equita):** Okay, thank you.

**Chiara Battistini (J.P. Morgan):** Hello, thank you for taking my questions. The first question would be a follow up on your clean-up that you have mentioned, should we assume that actually now the clean-up is done and from here we just annualize, or are you going deeper and deeper in the distribution and therefore the impact would actually increase as we go through the next few quarters?

And the second question is on wholesale for the coming quarters and in Q2 especially, given that you had some delays in order in March in Europe, should we actually expect a strong acceleration back to strongly positive territory in Q2? Thank you.

**Stefano Grassi:** Hi Chiara, I would say the market clean-up is going on and it's not going to rest. I mean it's not going to have the magnitude that we've seen on MAP North America, not at all, but we're going deeper. I mean we're going by channels, we are cleaning up our third party e-commerce websites and we're going deeper. But we're not going to get to the density of what we've done in North America with MAP.

With respect to Europe and the timing delay, well, I suspect that if we continue to see the weather that we've seen in the last 10 or 15 days the answer is yes, we should see a rebound from what
we experienced in the first quarter. And again the major driver of that, of the timing, was really the bad weather conditions, which clearly impacted more severely the sun side of the business.

So as the weather gets better and we have really seen it day after day, things are significantly better than what they were in the course of the first quarter throughout the month of April second half. So again we'll get there and the weather is going to help us.

**Chiara Battistini (J.P. Morgan):** Great, just because I'm trying to balance the clean-up in wholesale in Europe with the basically delayed orders, so it's still fair to assume that you're going to go back to positive territory in Q2, despite the clean up?

**Stefano Grassi:** Again, the clean-up is one thing right, and so for the clean-up that is going on and it's going to continue and in a way it's a continuation of an effort that we've been doing throughout last year.

With respect to the weather and the timing, that is going to create a benefit during the course of the second quarter as the weather will get better and we expect Europe to be in positive territory.

**Chiara Battistini (J.P. Morgan):** Great thank you very much, good weekend.

**Stefano Grassi:** Grazie.