Luxottica Posts 11% Net Gain in Q2

MILAN — 25.07.2014 - Growth accelerated in the second quarter at Luxottica Group SpA, which registered an 11 percent gain in net profit and an all-time quarterly record in operating margin and free cash flow.

An upbeat Andrea Guerra, chief executive officer of the giant Italian eyewear company, told WWD this was achieved despite “an unfavorable exchange rate environment,” although this negative impact is “gradually declining as currencies stabilize” and the firm sees “a more favorable basis of comparison between the major currencies” in the start to the third quarter.

Guerra touted well-balanced growth across geographic markets as the company expands its business through new opportunities, while increasing its profitability.

In the three months ended June 30, earnings rose 11 percent to 235 million euros, or $322 million, compared with 212 million euros, or $275.6 million, in the same period last year.

In the first half of the year, net profit rose 5.8 percent to 393 million euros, or $538.4 million.

Revenues in the second quarter rose 2.1 percent to 2.06 billion euros, or $2.82 billion, compared with 2.01 billion euros, or $2.61 billion. At constant exchange, sales would have risen 7 percent.

In the first half, revenues rose 0.5 percent to 3.9 billion euros, or $5.34 billion, compared with 3.88 billion euros, or $5.08 billion. At constant exchange, sales would have risen 5.6 percent.

Dollar amounts have been converted at average exchange for the periods to which they refer.

The eyewear maker owns brands including Ray-Ban, Oakley and Persol, and produces under license for top names including the Giorgio Armani Group, Bulgari, Burberry, Chanel, Coach, Prada and Versace.

Guerra remarked on “good growth” in Europe, which was up 8 percent in the second quarter, and said sales “never decelerated in continental Europe,” conversely to a more sluggish Mediterranean area. Asked about the Russian crisis, Guerra said there were “no problems” as Russia and Ukraine are “not reference markets” for Luxottica.

The executive was pleased with the performance in emerging countries that are relevant for the group, such as Brazil, Mexico, Turkey, India and China. Emerging markets climbed 21 percent in the second quarter. Eyewear is “a new discovery” for customers in these regions, he noted. “We didn’t rush into these areas, educating about our products, and we now see an acceleration.”

Guerra said the U.S., which gained 4 percent in the second quarter, is the group’s biggest emerging market. “I am very happy with the results in the U.S., where we’ve seen a solid and constant growth in the past four to five years,” he remarked. Conceding that the first quarter was impacted by tough weather, Guerra said business picked up in the second quarter in the region, although consumers are now looking at “bigger purchases” such as homes and cars.

The executive said the fact that “the perception of eyewear is evolving” in the U.S. is boosting sales. The category used to be considered “a commodity,” he said — items to be used and quickly discarded. The
success with designer branded models and the group’s own labels such as Ray-Ban and Oakley helped turn things around. “We are investing a lot in the market, changing the shopping experience in bigger flagships,” said Guerra, citing as an example the opening of its most technologically advanced Sunglass Hut store in New York’s Times Square last year.

The company now counts 2,000 Sunglass Hut units and Guerra said that like-for-like sales at the group’s sun specialty chain rose 10 percent each year of late, with 50 percent growth in five years.

Operating profit in the second quarter totaled 396 million euros, or $542.5 million, up 9.5 percent compared with the same period last year and with an operating margin of 19.2 percent. In the first half, operating profit was up 4.7 percent to 666 million euros, or $912.4 million.

In the second quarter, the group’s wholesale division reported a 6.2 percent rise at current exchange to 935 million euros, or $1.28 billion.

The retail division posted sales of 1.12 billion euros, or $1.53 billion, a 1.1 percent drop at current exchange, but a 4.3 percent rise at constant exchange rates.

In the second quarter, Luxottica generated positive free cash flow of 321 million euros, or $440 million, compared with 200 million euros, or $260 million.

Guerra said the group’s free cash flow continues to improve, “consolidating our ability to seize growth opportunities wherever they happen to be.” He said the start to the third quarter “confirms a solid and well-balanced growth trend across all businesses and markets.” In light of the pace of the group’s expansion, Guerra said he expected “a good performance,” and that he faced the next quarter “serene and optimistic,” having laid the groundwork for “even more robust growth.”

Asked about the possibility of further expanding Luxottica’s stable of brands, he cited expectations for the new license with Michael Kors starting in January and said that the group on Thursday renewed its licensing agreement with Chanel through Dec. 31, 2018, further renewable until the end of Dec. 2020. The deal was first inked in 1999.

Questioned about customers looking at more niche brands and personalization, Guerra said that “anything that is customized makes sense today,” and that Ray-Ban and Oakley, for example, offered personalized eyewear — from the lenses to the cases — on their respective Web sites that is shipped in three days. “It’s an evolution and we all work on the interpretation of a personalized world,” said Guerra.

After paying dividends of 308 million euros, or $422 million, in the second quarter, net debt at the end of June stood at 1.42 billion euros, or $1.94 billion, compared with 1.46 billion euros, or $1.92 billion, at the end of 2013.