Luxottica Reports Strong Retail and Wholesale Q3, Officially Confirms Two Co-CEOs, Names New CFO

MILAN—Against the backdrop of a strong third fiscal quarter, which saw increases in the company’s retail and wholesale division, worldwide and, particularly, in North America, Luxottica Group (NYSE:LUX) said its board of directors, today, upon the chairman Leonardo Del Vecchio’s recent proposal, entrusted Massimo Vian, on an interim basis, with all executive responsibilities until former P&G exec Adil Mehboob-Khan officially joins Luxottica as co-CEO, markets in January 2015, as reported by VMail. When Mehboob-Khan comes in, Vian will assume the role of co-CEO of products and operations for the group.

In addition, the board appointed Stefano Grassi as Luxottica Group’s new chief financial officer. Grassi, most recently financial controller, will work with the two co-CEOs. Grassi, who has been with the company for five years, succeeds Enrico Cavatorta, who officially resigns today, following his decision to depart a few weeks ago after having been named co-CEO which also took place after the departure of former CEO Andrea Guerra and the announcement of a new management structure in early September.

Luxottica founder and chairman, Leonardo Del Vecchio, who initially reassumed an interim executive role amidst the initial senior management changes, moved back to a non-executive role in early October.

On a conference call with financial analysts today, Vian emphasized that the upcoming new co-CEO structure, with him overseeing products and operations while Mehboob-Khan focuses on markets and the two sharing corporate functions, “will allow us to leverage all the strengths of Luxottica” in the future. He said, “We are growing consistently and see opportunities ahead. Innovation is part of our DNA and will be a core part of what we do.”

In terms of his priorities, Vian said, in response to an analyst’s question, “We are staying focused on our planning for 2015 and we are focused on the budget process now. We look forward to the debut of Michael Kors in January, and we are busy coordinating the Google Glass launch, which will happen sometime in the early part of 2015. We are of course looking forward for Adil to join us, but we are not planning to make any substantial changes in our overall strategic direction.”

Vian also said the company was “not putting merger or acquisition activity on hold,” in response to another query. “We are observing the market,” he said, “and always are looking for opportunities to strengthen our brand portfolio or retail channels. We continue to scout in the market and we have ambitions there. It’s part of the DNA of our company and we have no reason to be any more or less cautious in this regard compared to the past.”

In the commentary about the Q3 financials, Del Vecchio said, “Another quarter has ended with revenue and profitability growth for our Group. Even during this period of management transition, the commitment and determination shown by all and the strength of our brands allowed Luxottica to achieve excellent results, of which we are all proud. Growth was driven by the North American market, with an increase in wholesale sales in U.S. dollars of more than 11 percent, as well as with retail comparable store sales of 4.3 percent, with LensCrafters accelerating compared to the first part of the year.

"Luxottica also continued to grow stronger in emerging markets, reporting increases in sales of more than 30 percent in China, Brazil, India and the Middle East. Despite the lack of sun that had a significant adverse impact on our summer sales, Europe's performance was stable, with slightly positive revenues. Finally, we are extremely satisfied that the Group's profitability increased hand-in-hand with revenues, as always, with the highest margin growth rates of the year.”

He continued, "We are now preparing to conclude another year of important milestones and to face 2015 with the same determination and passion as always. The Group will be led by two new vibrant managers with complementary experience and skill sets: Massimo Vian and Adil Mehboob-Khan. It is with confidence that the Group’s future is entrusted to them and to all the people who work at Luxottica.”
Citing sustained growth in net sales and profits as well as record free cash flows, Luxottica noted that the more favorable exchange rate environment also helped the results in the third quarter, improving from the first half of the year.

The Group’s total net sales rose by 5.5 percent, compared to the prior period, reaching €1.9 billion. Adjusted net sales growth increased by 6.8 percent, before taking into account a change in the presentation of an EyeMed net sales item, from gross to net terms, due to a change in the contractual terms of an insurance underwriting agreement which occurred in the third quarter of 2014. As a consequence, Luxottica Group sales in the third quarter period were reduced by approximately $31 million or approximately €23 million.

In the first nine months of the year, the Group’s total net sales rose by 2.1 percent on a year-over-year basis, reaching €5.8 billion. The Group’s adjusted net sales increased by 2.5 percent. The Group’s adjusted net income for the third quarter of 2014 increased to €173 million, up 17.5 percent from €148 million in the same period of 2013.

Luxottica’s wholesale division delivered strong sales growth and profitability reflecting sales gains of 9.3 percent, on a year-over-year basis, reaching €750 million. In the first nine months of 2014, sales rose 9.2 percent with net sales reaching €2,490 million. Wholesale sales in North America were up 11 percent for the three-month period, while emerging markets (mainly Brazil, China, India and Eastern Europe) rose 28 percent. Net sales in Western Europe fell by 3 percent and reflected unfavorable weather conditions during the summer. Net sales for the sun segment decreased in what is typically a key season for sun, while optical sales were positive. The wholesale division’s operating income amounted to €159 million during the third quarter of 2014, marking an increase of 19.1 percent from €134 million in the third quarter of 2013. In the first nine months of 2014, the wholesale’s operating income was €615 million, an increase of 9.1 percent from an €564 million in the first nine months of 2013.

Overall, net sales for Luxottica’s retail division grew by 3.1 percent in the third quarter, to €1,133 million. LensCrafters’ results were particularly noteworthy, the company said, noting a 2.5 percent increase in comparable store sales, driven by a focus on eye exams, which rose 5.5 percent for the period, and other operational approaches. Comp sales at the Licensed Brands retail division were up by 11.3 percent the company reported. A soft spot in retail was Australia/New Zealand, the company said, showing a slight decline in comp sales, citing a more “competitive and promotional environment.”

Sunglass Hut, the Group’s sun specialty chain, continued to contribute significantly, reporting a 7.4 percent increase in comparable store sales in the third quarter of 2014 on a global basis, after growing by 8.3 percent in the first half of the year. Contributions came from all geographic areas in which Sunglass Hut is located, including Australia and New Zealand.

The retail division’s operating income amounted to €181 million during the third quarter of 2014, marking an increase of 9.6 percent from €165 million in the third quarter of 2013.