Luxottica to Grow in Emerging Markets and Plans to Invest €1 Billion in Retail Over 5 Years

MILAN—During a board of directors meeting, held today, Luxottica Group S.p.A. (MTA: LUX; NYSE: LUX) announced the strategic priorities at the top of the group’s agenda, including growing share in emerging markets, developing and expanding the brand portfolio and strengthening retail and e-commerce channels, resulting in the announcement of an accelerated plan to invest approximately €1 billion over the next five years into retail operations in order to open or remodel stores and roll out a new LensCrafters format to be launched in North America before year-end.

“We have just closed an exceptional quarter, our first as a team, reaching some important financial and organizational milestones,” said Massimo Vian and Adil Khan, CEOs of Luxottica. “From an organizational standpoint, we implemented several changes, which we believe will accelerate growth and profitability. We initiated the integration of Oakley’s salesforce into Luxottica’s organization, creating a single market-facing team that will give the brand more firepower in strategic markets such as North America and Europe. And we introduced a new country leadership in China, responsible for the performance of the wholesale, retail and e-commerce businesses, allowing the group to pursue accelerated expansion with a more holistic approach in the important Chinese market.”

At retail, the excellent performance of Sunglass Hut, coupled with the recent significant improvements of LensCrafters in North America, have accelerated the plan to invest approximately €200 million per year for the next five years, totaling approximately €1 billion, to open or remodel stores. Before year-end, a new LensCrafters format will be launched in North America, with the plan of progressively rolling it out in 2016.

“The last time we had a genuinely new design was eight or nine years ago, so it’s time to make a new design statement that move us forward. We are testing models throughout the works and want to have a radical new design selected in the next month or so,” the CEOs told analysts during a conference call today.

The integration of Oakley has begun with a focus on production systems and sales channels along with the reorganization of the business in order to provide the Oakley brand with the same organizational structure and operating efficiency implemented throughout the rest of the Luxottica Group. This is expected to generate significant synergies in the range of €100 million once fully deployed. The Oakley Retail and Apparel business is also changing with new leadership and the goal of doubling both revenues and the number of “O” stores over the next three years, the company said.

According to the company, the group remains focused on the expansion of new distribution channels, particularly e-commerce. The excellent results of Ray-Ban.com, Oakley.com and SunglassHut.com have inspired a reflection on what is the best strategic and organizational formula to transform e-commerce into a structural growth driver with the ambition of becoming a relevant part of the group’s revenues in the mid-term.

Additionally, emerging markets represent a great opportunity and is a top priority for the group. Following on the successful strategy implemented in Brazil, a new leadership structure based on a country general manager has been put in place in China which is aimed at achieving fast growth and generating synergies among all the business areas. As such, the CEOs told analysts during the call that “acquisitions help affirm our place in emerging markets and those that add capabilities to our portfolio, like Glasses.com.”

In terms of results, in the first quarter of the year ended March 31, 2015, Luxottica delivered outstanding results providing the foundation for another year of strong growth in sales and profitability, the company said. Group adjusted sales rose by 22 percent to €2.2 billion, a record level for a single quarter. This
performance was driven by acceleration in both divisions from 2014 as evidenced by net sales increasing by 16.8 percent in wholesale and, on an adjusted basis by 26.4 percent in retail. Net income reached €210 million, recording 34 percent growth over the prior period. Net debt at the end of the quarter was €1,005 million, versus €1,013 million at Dec. 31, 2014.

The wholesale division performed well across brands and in all geographies, particularly in North America and emerging markets, boosted by the group’s first Michael Kors collection, which made an impressive debut around the world, the company said. The Retail Division also had a solid performance for the quarter, especially in North America where LensCrafters reinforced its recent sales improvements and Sunglass Hut continued double-digit growth worldwide. Retail sales were up by over 20 percent, driven by Sunglass Hut comps which were up 5.4 percent in North America and 7.8 percent globally, and LensCrafters in North America comps up 5.9 percent.

“We’re pleased with our results for the first four months of the year and a solid order book bodes well for expected growth over the next few quarters,” the CEOs concluded.