Luxottica Profits Rise

MILAN — Boosted by growth in North America and emerging markets, Luxottica Group SpA continued to show increases in both profitability and revenues in the three months ended Sept. 30 and generated record free cash flow.

The Italian eyewear giant said Wednesday after the end of trading that net income in the quarter rose 10.1 percent to 162 million euros, or $213.8 million, compared with 148 million euros, or $195.3 million, in the same period last year. Sales increased 5.5 percent to 1.88 billion euros, or $2.48 billion, compared with 1.78 billion euros, or $2.34 billion.

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

“Another quarter has ended with revenue and profitability growth for our group,” said chairman Leonardo Del Vecchio, referring to the exit of longtime chief executive officer Andrea Guerra in September, followed by his successor Enrico Cavatorta a month later. “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.”

The founder of the company said he was “extremely satisfied that the group’s profitability increased hand in hand with revenues, as always, with the highest margin growth rates of the year. 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.”

The eyewear maker produces under license for names including the Giorgio Armani Group, Bulgari, Burberry, Chanel, Coach, Prada and Versace, and also has a number of owned brands, such as Ray-Ban, Oakley and Persol.

In the three months, operating income climbed 10.2 percent to 281 million euros, or $371 million, compared with 255 million euros, or $336.6 million.

In the period, strict working capital management enabled the firm to generate 316 million euros, or $417.1 million, in free cash flow, up from 295 million euros, or $389.4 million, in the same period of 2013. The group’s wholesale division further increased in the quarter, despite a sunless summer in Europe, gaining 9.3 percent and reaching 750 million euros, or $990 million.

The markets that contributed the most were North America and emerging markets, mainly Brazil, China, India and Eastern Europe, up by 11 percent and 28 percent, respectively. Sales in Western Europe fell by 3 percent and reflected unfavorable weather conditions during the summer. The retail division grew 3.1 percent at current exchange, reaching 1.13 billion euros, or $1.5 billion. In particular, LensCrafters gained 2.5 percent in North America in contrast to a 0.6 percent drop in the first six months of the year, and about 10 percent in China.

Sunglass Hut, the group’s sun specialty chain, continued to contribute significantly, reporting a 7.4 percent increase in comparable store sales.

During a conference call, the company presented 2015 highlights that included strong momentum for its brand portfolio; orders up double digits; the new Michael Kors license ready to start with already strong orders, and an expected positive contribution from currencies. Vian, who is entrusted on an interim basis with all executive responsibilities until Mehboob-Khan joins Luxottica as co-ceo in January, said priorities will remain to “stay focused on planning and that the overall strategic direction will not substantially change.” He also cited the Google Glass launch in the early part of 2015.

Asked to comment on Luxottica’s strategies following Kering’s decision to take back control of its eyewear business revealed in September, Vian said the group’s partnerships are “very strong,” and that its
vertically integrated chain and “big skills” have “no match in the industry,” also highlighting the strength of its network. “We are observing what is happening but we don't see a threat.”

Responding to an analyst’s question on M&A going forward, Luxottica is “not in a holding position, observing the market and opportunities to increment the market size,” said Vian.
The board also appointed Stefano Grassi as the chief financial officer of the group. “No further changes in senior management are planned,” said Vian, answering one analyst. As of Sept. 30, net debt stood 1.11 billion euros, or $1.46 billion, compared with 1.46 billion euros, or $1.92 billion, at the end of December 2013.

The company also said that Cavatorta will leave the company with a gross sum of 4 million euros, or $5.3 million, and an additional 985,000 euros, or $1.3 million.
In their report following the announcement of the results, Citi analysts Mauro Baragiola and Thomas Chauvet said that, “as expected, Luxottica reported strong Q3/14 while benefiting from both strong organic growth and — for the first time in a year — pretty neutral FX.” However, they said they believe “investors should focus their attention on corporate governance — rather than current trading.” And although Luxottica has been moving quickly, the transition phase might be more challenging than hinted by the company “(including our roles and responsibility will be split between the two ceo’s).” While reassured by the presence of “several top managers on the call,” Citi maintained their neutral rating.