Luxottica Boosted by Currency, U.S.

MILAN — Currency tailwinds and a strong performance in the U.S. and Europe sustained Italian eyewear giant Luxottica Group SpA in the first quarter, leading to record sales and operating profits as well as double-digit gains in net income.

After the close of trading Monday in Milan, where Luxottica is listed, the company said that in the first three months of 2015 net profit surged 32.4 percent in the period, to 210.4 million euros, or $237.8 million. Sales reached 2.25 billion euros, or $2.54 billion, a new record and up 22.2 percent on the year-earlier period. Operating income jumped 32.6 percent, a 120 basis-point increase on the year-earlier period, to 358 million euros, or $404.5 million.

Net of the exchange rate effects, the group — in its first full quarter after the departure of former chief executive officer Andrea Guerra — said revenues increased 7.2 percent with “well-balanced sales growth, driven by all businesses and regions.”

The results provide “the foundation for another year of strong growth in sales and profitability,” the company said.

Dollar figures were converted from the euro at average exchange rates for the periods to which they refer.

During a conference call with analysts, co-ceo Adil Mehboob-Khan highlighted factors including a “strengthened portfolio with the launch of Michael Kors and Sunglass Hut, which boosted retail sales for the fifth year in a row” as strong business drivers in the quarter.

“Michael Kors has had a very strong start,” Mehboob-Khan said, referring to the January launch of the new collection.

The Michael Kors license is expected to generate 70 million euros, or $76 million at current exchange, for the full year. It accounted for about 2.5 percent of total wholesale revenues in the first quarter, chief financial officer Stefano Grassi said on the call.

The company also carried out organizational changes. “We’ve strengthened the organization across geographies, including setting up a single leadership in China across all distributions channels, following the general manager model in Brazil,” which has streamlined operations and made them more efficient in that country, Mehboob-Khan explained on the call.

The co-ceo also highlighted the merging of the Oakley wholesale sales force into Luxottica’s wholesale operations in the U.S. and Europe, “the first step in a further integration process for Oakley in the coming months.”

Luxottica — which produces own brands Ray Ban and Oakley as well as licensed brands Giorgio Armani, Chanel and Prada, among others — is continuing to develop its wholesale network, Mehboob-Khan said. “We have good momentum in our relationship with department stores and will announce new relationships in coming months.”

With an operating margin of 15.9 percent of sales, the first three months of the year represented “the best quarter…in terms of profitability of the past eight years,” Grassi said.
Margins were boosted by, among other factors, an improved price mix as well as “solid efficiency gains in frames production in China, which helped offset the Chinese yuan revaluation,” Grassi explained.

“As we enter the second quarter, our portfolio of orders is very robust,” Mehboob-Khan said. “We expect momentum to continue and are gearing up for the peak sun season,” the co-ceo added.

He said that, among other important developments for the company, Ray-Ban was in the final stages of preparations for the July opening of its new flagship in New York’s SoHo district.

Returning to group financials, performance in the first quarter of the year was driven by gains in the U.S., which represents around 50 percent of group sales, Mehboob-Khan said. First quarter revenues were up 7 percent in the market, at constant exchange rates, above the previously announced full-year guidance target of 4 to 6 percent sales growth. Mehboob-Khan said Luxottica started having “good momentum in [wholesale] comps” in the U.S. last September, “driven by quality of conversions and eye exams.” He added that Sunglass Hut “[is] an impressive machine that keeps growing comps.”

In Europe, which accounts for about 20 percent of total turnover, sales were up 6 percent in the first quarter, in line with the company’s 5 to 7 percent full-year growth target, driven by strong performance in Italy, Spain, France, the U.K. and Turkey. Referring to Europe, Mehboob-Khan said Luxottica was happy with “retail double-digit sales growth at Sunglass Hut” and he revealed “high-profile marketing support” for the chain. For example, the co-ceo pointed out, in the U.K., Sunglass Hut will now be a principal sponsor of London Fashion Week, from September 2015 through February 2018. “We continue to feel strongly about the achievability of our guidance for Europe for the full year,” he said.

In Latin America sales jumped 17 percent in the quarter, within Luxottica’s 16 to 20 percent guidance for the full year, boosted by Brazil and Mexico, where revenues were up 33 percent in the first quarter — “a record”, said the co-ceo. In Brazil the company is making market share gains in the luxury segment, according to a presentation distributed for the conference call. Mehboob-Khan said the company was also making plans for breaking into Colombia and Chile, with a wholesale presence at first.

In Asia-Pacific, revenues grew 6 percent in the quarter, underperforming Luxottica’s own full-year 10 to 14 percent growth target. In China, the company is pushing deeper into Tier 2 and Tier 3 cities with wholesale distribution. Plans for wholesale entrance into Indonesia “are underway as we speak,” Mehboob-Khan said.