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Q&A

Alessandra Senici
Thank you, operator. Good afternoon and thank you for joining us today. Here with me are Andrea Guerra and Enrico Cavatorta.

Before we begin, first, I have a couple of quick items to cover. As a reminder, a slide presentation which we will informally follow during this call is available for download from our website under the heading "Investor Relations -- Presentation." This presentation includes certain non-IFRS financial information within the meaning of Regulation G under the US Securities Exchange Act. Further information, including additional information required by Regulation G, is also available in Luxottica Group's press release relating to its results for the third quarter of 2013, which may be found on our website, under the heading "Investor Relations -- Press Releases." This conference call is being recorded and is also available via audio webcast from our website.

During the course of today's call, certain projections or other forward-looking statements may be made regarding Luxottica Group's future financial performance or future events. We wish to caution you that such projections or statements are based upon current information and expectations and actual results may differ materially from those projected in the forward-looking statements. You can read more about such forward-looking statements on page two of the slide presentation. We also refer you to our filings with the SEC and Italian securities authorities. These filings contain additional information concerning factors that could cause actual results to differ materially from those contained in management's projections or forward-looking statements.

We will begin with our CEO, Andrea Guerra.

Andrea Guerra
Thank you, Alessandra. Welcome to all of you to our third quarter business and results review. With many of you, this is the third time in the last four weeks that we have talked, so I excuse myself because at the end, probably many of the things that we will say are a repetition of topics and subjects that we have already highlighted in the last four weeks.
So let's start with a general comment about our 3Q. We are really happy about our performance. We have grown "organic" at constant exchange rates over 7% YoY. It's worth noting that 3Q 2012 was one of our best quarters ever. We have grown across geographies, across business units, across brands and across sun and prescription.

As you know, the world today is different. The world is today offering us great opportunities through new geographies, new consumers and new technologies. At the same time, this world is also more unstable, more volatile. So the rule of the game is our ability and the ability of everyone to constantly adapt or readapt to the new rules of the game, and this is what we are trying to do. I think that it's important that I am underlining some areas and some business that have had really great results and I would list three plus one. The three are:
1) wholesale performance in the nine months, not just confirming the wonderful performance of the first semester, but accelerating: +13% 3Q13 sales at constant Forex.
2) Europe, well above our expectations. We are doing great things around the world, but what happened in Europe in the last three months has been great. In Eastern Europe, Continental Europe and Mediterranean Europe, all countries positive in the three months, almost all countries positive in the nine months and most probably again, all countries positive at the end of the 12 months. We remain cautious, but positive about the future: +19% 3Q13 sales in Europe at constant Forex.
3) Sunglass Hut moving fast through key countries during the key season and really delivering wonderful profitability, on top of developing well in new geographies, new concepts and in on-line. +11% sales of Sunglass Hut across the world at constant Forex.
The plus one is the usual one: our emerging markets, they are our fast growing markets and I'm not re-listing them again, we will give some color later, but again was another wonderful quarter, above the 20% 3Q13 sales at constant Forex.

Now again as usual, not everything can be perfect, we always have something to be highlighted, which were not exactly up to our expectations. LensCrafters in the States, we've been talking about it during our Investors Day in Mason. So LensCrafters profitability improves significantly, great work done especially on gross profit. We are not cutting expenses, but we focused on lab efficiencies, mix of lenses, quality, service levels and customer satisfaction. Really happy with how we have been able to manage quarter-after-quarter our gross profit. We are not happy yet today about top-line.
This year overall mall traffic in the States has been down, no doubt about it, but we could have done a better job. We for sure focused on conversion and we really achieved high degrees of conversion much better than the years before. We know what we have to do, we are working on it and we will be successful with it.

In the quarter, profitability has been great, I'm very happy and Enrico will discuss it. And at the end, there is always one item which tells all about the story: record free cash flow. We never were able to basically reach nearly €300 million in a quarter and basically we did, thanks to great EBITDA plus another super quarter of working capital management. So as you all know, we pay a lot of attention to this indicator, but it allows us to really understand how we are using all the different levers of the business.

2013 is almost over. October was in line with the other nine months, therefore good. Unfortunately, it's not a very significant month. Now, we only have to be focused on December, a couple of "watch-outs" on December. So as you all know, Christmas season is not so critical for us, but in any case we pay attention to the December month. And always keep in mind this December in the United States is pretty short. Thanksgiving is postponed by one week. On one side, therefore, there are much fewer days in the shopping months in the US and on the other side: insurance week, which is the last week and very critical for optical retail, is very short this year, two days less. Why is that? Because next year we are adding the 53rd week. So basically, our year is over. And now I will allow Enrico to give you some more color and some more numbers about our quarter, and then we'll begin talking about 2014.

Enrico Cavatorta

Thank you, Andrea. I thought this quarter, I should start with a little bit more analysis on the currency impact on our P&L because is a quarter when the difference in sales growth between the current Forex and the constant Forex is in excess of 7 percentage points, so clearly we need to be a little more analytical and a little bit more precise.

So on slide 6 and 7 of the presentation you see a fluctuation of the main currencies for our results versus the Euro in the third quarter as compared to the first half, as well as the impact of those fluctuations on our sales numbers. So clearly in the third quarter not only the gap of the US dollar has been wider as compared to the first half, but in particular, the Australian Dollar, the Brazilian Reais and the Japanese Yen are clearly offering a much worse situation in the third quarter as compared to a year ago or as compared to the first half. On slide 7, clearly you see the impact of the main currencies negative fluctuations in our P&L; and this explains why our sales growth of 7.4% at constant Forex translates into basically flat sales growth at current Forex. Half of it is due to the deterioration of the US dollar versus the Euro, and the other half is basically fragmented among the other currencies that I've just mentioned. And clearly, you can see the difference in the third quarter as compared to the first half. If I look at the last quarter of the year, given today's trading levels of these main currencies, I can anticipate that, unfortunately, I'm expecting fourth quarter to be more or less in line with the third. If I compare the current trading level of these currencies, as compared to average exchange rates of a year ago during the fourth quarter, I can see similar gaps to those that we have experienced during the third quarter.

I think enough said with the currency. Overall, if I exclude those effects as Andrea mentioned, the third quarter was a very good one with our sales growth fully in line with first half, and fully in line with our expectations at the beginning of the year. So we are still in the high-single digit sales growth, pretty consistent in the nine months, with wholesale slightly better than our expectations, +13%, now in the last quarter, and retail a little bit softer than our expectation +2.5% comps, +4% total sales growth in the third quarter, so slightly worse than the first half and our expectations at the beginning of the year, and this is mainly due to North America as Andrea mentioned.

If I look at profitability instead, all good news; not only we have been able to grow at current Forex by basically 50 basis points, despite flat sales at current Forex. But if I

exclude the negative effect of the currencies, our profitability margin would have increased at least three times: +140 basis points and that is the real performance that we would have achieved in the third quarter, excluding the headwinds from the currencies. And this was true for wholesale, +20 bps at current, but would have been +140 bps at constant. This is a division that is mostly negatively affected by currency fluctuations. And clearly, this growth comes on top of the growth that we have been able to achieve in the past year. So this is pretty consistent and coherent with the performance that we have achieved in the last three to four years.
If I look at retail; as you know at current Forex, the retail division had negative sales, down 3%. Despite that, we have been able to increase our margin by 40 basis points at current Forex, and I think this is a quite remarkable performance, and this has been possible, thanks to the cost control and the gross margin improvement particularly in North America. With flat comps in our optical retail North American division, we have been able to increase our profitability in that region by almost 100 basis points. So overall, our current Forex is 40 basis points up with negative sales, at constant Forex with only +2.5% comps, we've been able to grow approximately 90 basis points. This is not just North America, also Australia is recovering profitability, and even China delivered positive profits during the quarter, and this is quite remarkable for that division.
Net income clearly is reflecting this profitability. We grew 8% at current Forex but would have been 24%, so quite a strong quarter if I exclude currency headwinds.

Free cash flow is a clear record for the quarter, €295 million generated. As Andrea mentioned, we've never achieved such a level in any quarter in the past; not just the third quarter, but in any quarter. So we have substantially deleveraged our balance sheet. Net debt is less than €1.6 billion and it's approximately 1.1x with our rolling 12 month EBITDA, so fully in line to achieve our year-end target of below 1.0x net debt to EBITDA.
Clearly, the control of working capital is the key pillar of this performance. I want to mention also that our CAPEX was basically in line with a year ago, so there was a kind of favorable timing effect on CAPEX, I would expect CAPEX to catch-up in the last quarter of the year, but in any case the impact has been quite marginal.

I'd like to close, by just saying, that clearly we are fully in line with our so-called Rule of Thumb, regardless of the fact, that I look at current Forex or constant Forex, we are anyhow fully in line with those conditions. So I am expecting to close the year again fully in line with the original projection. Thank you.

Andrea Guerra
Thank you, Enrico. Moving to the roadmap, the only couple of things I wanted to signal here is something that really is not giving the proper success to our North American region in wholesale, where we are doing an unbelievable job, plus 12% on plus 18%, but unfortunately what is called the US sequestration is really penalizing our military division in Oakley. I mean, we cannot do much about it. But all the rest is running really profitably and doing great. So that plus 7% in reality is in line with our expectation except the budget sequestration. All the rest is doing well. Just to flag again, emerging markets posted a plus 21% on a plus 19% in wholesale and a plus 10% on a plus 14% in retail. So we can move on from speaking about the US. I think we've gone over wholesale, Sunglass Hut again excellent and LensCrafters as we've commented at the beginning.

Now, moving to Europe; as I said at the beginning, this has been over the roof for us, especially in Mediterranean Europe, plus 13%. Sun has been shining pretty heavily. I

would make two very different comments about Italy and Spain. Italy has been four months of continuous and constant growth, I am a little bit more cautious and skeptical looking forward. But again, as I said before 2013, we will finish positive in Italy.
Spain is a constant and continuous acceleration since April. We can see this through Sunglass Hut and we can see through our wholesale in Spain, so April/May up to-date at constant and continuous growth; so very happy about Europe and congratulations to our guys in Europe.

In emerging markets, I think that year-on-year China doubled sales. As Enrico was saying, we are finally finishing up the first year with profitability at LensCrafters in China. We started direct wholesale distribution in Thailand and Brazil, as we already said in July, this is a very normal market today, so moving on. Ray-Ban and Oakley are finishing up the year in a very solid way, probably both of them will be very close to a double-digits, one over and one just below it and very happy.

So now we are looking at 2014, we are entering the budget season, we are entering the operational planning season. How do we look at 2014? Our normal recipe, our normal headline, we reiterated, is really to look at 2014 as a natural evolution of 2013. So, the assets on which to leverage are always the same. Our fantastic brand portfolio with Ray-Ban, Oakley on one side and there are great opportunities, high single-digit on one. Again, we would love to repeat another double-digit growth on Oakley across the world.
Armani moving to €160 million and, as you all know, this is also very effective on our bottom line. So, we're moving and pretty sure of our brand portfolio, we are working on a new license for January 2015, so we're constantly reshaping our brand portfolio, trying to add one and probably not confirming a couple of other small and marginal brands.

In terms of our wholesale activities, I think that we really had a constant and continuous new way of looking at the relationship with our customers in the last 15 months, apart from SAP. My.Luxottica.com, the new portal we added a year ago, is really allowing information to flow from us to retailer partners and vice versa in a very smooth way. Information, inventories, training, new data on new collections and really allowing us not to spend time on interaction, but spending time together on consumers.

If we had a great summer, [to explain it] I would signal this page. And the way we interact with our customers today is completely different from a year ago, and I think that this will really help us going forward.

2014 has to be the year for top line growth of LensCrafters, apart from managing profitability and gross profit. And Sunglass Hut is moving on. We expect another year of solid growth and we expect another year where we will enter at least another couple of countries.

We are today looking at a couple of acquisitions, which could be very important for us. We hope that both of them can happen in the first six months of 2014. We're really looking forward to the end of the year and to frame 2013 as one of our best years ever and to enter 2014 again with a lot of good plans, a lot of motivated people and a lot of good stuff in our brand portfolio.

So here we are, as I said, when we finish Q3, we basically finish the year. So here we are and if you have comments and questions, here we are to answer them. Thank you and back to the operator.

Q&A Session

OPERATOR: We will now begin the question and answer session. The first question is from Daniel Hofkin of William Blair. Please go ahead.
DANIEL HOFKIN: Good evening. My first question is regarding the retail segment margin and particularly given the lower sales performance at LensCrafters, it looks like you did very well on the profitability that you described. What do you think going forward as the approximate leverage points or, you know, as a range where, if same stores like-for-like are up a certain amount, you can leverage your operating margin within retail? That would be my first question.

ANDREA GUERRA: Okay. So what I know is that first of all, we want to go back to top line growth of LensCrafters. So this is the news number one. The news number two is that when we look at gross profit, I think that there is at least another 50 basis points to 100 basis points that we can recover next year and the year after.

DANIEL HOFKIN: And what do you think would drive that gross margin improvement further?

ANDREA GUERRA: As I said during my speech, it is basically our labs, central lab efficiencies, our local lab efficiencies, the mix of lenses that we are selling, the quality and the service level that we have been able to reach, I think, all these four factors are what's allowed me to think that we can reach somewhere between 50 basis points to 100 basis points.

DANIEL HOFKIN: And that's even with the layering perhaps of some additional opening price point products as I think you described at the investor day?

ANDREA GUERRA: That is a different story, more linked to our need to come back on being able to service all our fans in North America and related to the convenience topic, so it has nothing to do with gross margin.

DANIEL HOFKIN: Okay. Finally, as it relates to Europe, and you talked about maybe Italy not growing quite as fast going forward, but I'd be interested just on a consolidated basis for Western Europe. What do you think is a reasonable growth expectation over the next year?

ANDREA GUERRA: So, we have given a growth range between 4% and 7% for the last two, three years regarding Western Europe. In the nine months of 2012, we were at plus 2%, now we are at plus 8%. Average is again between 4% and 7% and that is the average I would give you for next year, which is quite a big range and allows me not to be exact, sure of our markets...

DANIEL HOFKIN: That's fine.

ANDREA GUERRA: …in Western Europe next year.

DANIEL HOFKIN: Understood. Thanks, best of luck in the fourth quarter.

OPERATOR: The next question is from Bassel Choughari of Berenberg. Please go ahead.

BASSEL CHOUGHARI: Hello, I have a couple of questions please. The first one is on Armani, maybe you can help us to understand the sales you believe you can achieve for this year.
The other one is maybe you can give some comments on OPSM because the growth seems to have slowed down from a quarter to another and I would like to understand a bit what's happening here.
And the last one is on the Atelier Division. Could you give us some color on how it's performing and if the potential two acquisitions you are talking of are additions to the Atelier Division or to another division? Thank you.

ANDREA GUERRA: Regarding OPSM, really no issue, if you look back to last year, I mean we had a spectacular quarter, so in the two years average, we are exactly at the same rate as the quarters before. In terms of the brands or any kind of acquisitions that we have in mind, I would like to keep it more general today. And the third one which was your first, I missed…

BASSEL CHOUGHARI: Armani.

ANDREA GUERRA: So, Armani sales, we've given you a guideline of €130 million, probably we are at €125 million, so we could reach €130 million, but maybe it's more to say €125 million this year and €160 million next year.

BASSEL CHOUGHARI: Thank you.

OPERATOR: The next question is from Antoine Belge of HSBC. Please go ahead.

ANTOINE BELGE: Hi. Three questions, actually. The first one is a follow up on Armani. I think the reason why the sales sort of being only €125 million or €130 million this year I think is because of a bit of the cleaning of distribution. And I think, then your €200 million being a fall for the share. So is it because you are more selective in terms of distribution, or is there any particular question or reason for that?
My second question is on a license, this time on Coach. And given the current sort of repositioning of the brand, are you seeing this as an opportunity or, you know, more like a threat? I think this really should be more an opportunity if Coach is allowing more a sort of going outside of handbags, and I'd like to hear your view on this.
And finally, on acquisitions, why opposing in 2013? Was it because it was more difficult to agree on a price, or you know, what were the reasons for not doing much in terms of acquisitions, even though the net debt to EBITDA ratio was really going down?

ANDREA GUERRA: So regarding Armani, €200 million still remains our objective, and moving to…so €125 million within nine months, so €160 million is more than reachable, always consider the fact that in year two you don't have the initial sell-in, so €160 million is absolutely a very comfortable number for Armani next year, and €200 million is still our objective.
In terms of Coach, it is living with us a different moment, we are still penetrating the market. So, we felt nothing positive or negative during 2012 and 2013; for sure we have grown

faster than the overall Coach, and I am sure that the reorganization and the repositioning of Coach will help us moving away from one single category to a more lifestyle brand.

In terms of M&A; it waves. In 2012, we had probably five or six; in 2013, one, and for 2014, I think that there is a number of them that will be ready in the first semester of 2014.

ANTOINE BELGE: Okay. Thank you very much.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is from Domenico Ghilotti of Equita. Please go ahead.

DOMENICO GHILOTTI: Good afternoon. I have two questions; the first is on the Forex impact on your sales. So in Q3 the impact was around 120 basis points, and thank you for providing this indication. Should we expect a similar impact in Q4 or did you have any hedging impact that was helping Q3?
And the second question is on the Oakley military business; so, if you can help me in understanding how much is the contribution and if it is back to normal already in Q4, or Q1 next year?

ANDREA GUERRA: Enrico will give you the answer on wholesale profitability. Regarding Oakley, Q4 is exactly in line. What is good when you have got a negative performance in the year is that you are comping against the negative number next year. I am not expecting a revamping of that. I mean, it’s a one-off in a year, and we will continue our expansion and growth from here-on. In Q4, I do not expect anything positive from that.

ENRICO CAVATORTA: In terms of Forex what we know is that, based on the current trading level of the main currencies, as compared to their level a year ago in Q4, we are expecting similar gaps to those that we have seen in Q3. So, I would say that probably the impact on wholesale profitability can be on a gross estimate base, similar to the one that we have seen in Q3. But clearly, every quarter is different from the other, and we conduct hedging activity all across, and the actual results might differ, but I would expect a similar impact in Q4.

DOMENICO GHILOTTI: Okay. Thank you.

OPERATOR: The next question is from Julian Easthope of Barclays. Please go ahead.
JULIAN EASTHOPE: Hi there, good evening, and just a couple of questions from me. First of all, on Europe, it was an incredible figure that you had in Europe. I mean, quite a lot of it would be due to your own activities and what you have been doing there. But do you think there have been some signs of recovery, particularly across the Mediterranean parts of Europe? And the second question sort of applies to the same thing, I guess, which is on Sun Planet, you’ve budgeted in the acquisition for a year or so now. I just wonder what you thought about the acquisition, having headed it for a while, how well this is progressing at Sunglass Hut, and whether it gives you confidence in terms of rolling out Sunglass Hut across the rest of Mediterranean Europe? Thanks.

ANDREA GUERRA: I would start from Sun Planet. Basically, we are celebrating the first year of management, so we started off with something negative double-digit in Q4 2012, negative double-digit in Q1 2013, plus 9% in Q2 2013, plus 19% in Q3 2013, somewhere around there, and obviously Q4 will be pretty easy. I think that the Spanish market improved, no doubt. And I think that we are reaping the benefit of that. And on the other side, Sunglass Hut started as a pretty different animal from Sun Planet. And we are working on the experience, we are working on the brand [Sunglass Hut], we are working on the brands. And we're happy, and whoever goes to Spain can feel the difference between a Sun Planet experience and a Sunglass Hut today. And we are also starting a first test on a concession basis on Sunglass Hut in some Corte Ingles locations, and I think this is a pretty important step for us.

The second thing you asked was about Mediterranean Europe. As I said, Spain improved, I really think that in Italy we over performed. And let me say that Ray-Ban and Oakley were the leaders of this growth. It was visible around Italy, the amount of new sunglasses from Oakley and Ray-Ban on people's faces. And on the other side, what we have done all across sun or prescription and what we have done on prescription has been really a great new asset on which to work.

JULIAN EASTHOPE: Okay, thank you so much.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is from Luca Solca of Exane. Please go ahead.
LUCA SOLCA: Yes, good evening, thank you very much. Andrea, you were saying that you look forward to European demand with more prudence and caution, I was just wondering if you could help us understand how you see current trading and give us more color about demand in different regions; especially focusing on Europe, Southern Europe and America potentially.

ANDREA GUERRA: I want to be very clear here, I said, I was cautious about Italy.
Not Europe, not America. I was just more cautious about Italy and I added we would finish the year positive, so we are cautious but still very, very positive in Italy. So that was my word.

LUCA SOLCA: Okay, fair enough. I was just wondering, whether you could give us a bit more color about that, and what makes you cautious about Italy for example and where…

ANDREA GUERRA: In the newspapers. So I really don't think that Italy has changed dramatically, I think that the spring and summer have been pretty good. So now we enter into a completely different season. Let's wait and see.

LUCA SOLCA: Second question on M&A; and you addressed the opportunity for M&A down the road, and you sort of pointed out that you want to not to give too much detail. I was just wondering, if you could explain to us and help us understand the logic and criteria for you to focus on potential targets. You know in terms of size, in terms of location, in terms of…

ANDREA GUERRA: You know, my usual answer is pretty consistent. We are looking for, on one side, global brands, on the other side brands that fit well with the Atelier division. When we look to retail Sunglass Hut, we looked globally. When we look optical retail, we look at Latin America and Southeast Asia and this is what we have been doing and this is what we are doing now.

LUCA SOLCA: Okay, thank you.

ANDREA GUERRA: Thank you.

OPERATOR: The next question is a follow-up from Bassel Choughari of Berenberg. Please go ahead.

BASSEL CHOUGHARI: Hi sorry, just one last one question, if I may. I was wondering, this year was clearly a year for Armani. How should we think of next year, is it going to be about making acquisitions and focusing on them or will Armani be digested and you might start looking for other licenses? Thank you.

ANDREA GUERRA: So in terms of wholesale, as I said at the beginning Ray-Ban, Oakley, emerging markets, and really the new way we interact with all our customers around the world through My.Luxottica.com. These are the great assets; Armani to the second year is crucial and very important and, as I said at the beginning of my speech, there is an opportunity for us to constantly work on our license brand portfolio and we are working on a new license in January 2015.

BASSEL CHOUGHARI: Thank you.

OPERATOR: Gentlemen, there are no more questions registered at this time.

ALESSANDRA SENICI: Okay. thank you, operator. Thank you all for listening to today's call and if you have any other questions, please feel free to contact the Investor Relations team. Thank you and have a good evening. Bye-bye.