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*Q&A*

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**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 "Investors/Presentation" section. 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 first quarter of 2014, which may be found on our website, under the "Investors/Press releases" section. This conference call is being recorded and is also available via audio webcast from our website.

During the course of today's call, certain projection or other forward-looking statement may be made regarding Luxottica Group future financial performance or future events. We wish to caution you that such projection or statement are based upon current information and expectation and actual results may differ materially from those projected in the forward-looking statement. You can read more about such forward-looking statement 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 projection or forward-looking statements.

We will begin with our CEO, Andrea Guerra.

## **Andrea Guerra**

Good afternoon, Alessandra. Welcome to our Q1, 2014 business review. It's one of those quarters where underlying results, performances, behaviors, motivations, feelings are better than reported numbers. Fortunately, if we needed to have a challenging quarter, I really appreciate the fact that it happened in Q1. Currencies have been tough, US weather – yes, I talk about US weather – has been tough, and some shift in the calendar changed some performances and results between March and April. And having said this, we have been able to grow like-for-like 4.2%. I really think that this is an outstanding result and like-for-like growth in operating profitability level recorded another 60 bps of improvement. And this is normally a quarter where our generation of cash normally has been flattish as this is one of those quarters where we create inventory for the season.

We have really done great work and generated €60 million of free cash flow this quarter. So, 4.2% like-for-like growth (currency neutral) plus 60 bps operating profitability (currency neutral) and €60 million of free cash flow.

Looking at two business divisions, Wholesale delivered another great quarter growing by almost 8% like-for-like with Europe above expectations, and I would say all the rest of the regions at the level we expected. Order taking in some of our emerging markets has been great, but in the quarter we shipped a little bit less because at the end of 2013, I would say December, probably in some of these countries we shipped a little bit more than needed.

Ray-Ban has been in great shape and the same thing we could say about Oakley, which is really successful with the heritage collection celebrating and marking 30 years of history of Oakley. So, Ray-Ban and Oakley always leading the pack.

In terms of Retail, let's start from LensCrafters. Q1 has slightly negative comps with two US regions out of five really hit by freezing temperatures. The Eastern region in the US finished minus 3%, North and Central finished minus 4% and with the segment of more mature consumers remaining at home for entire weeks. As weather changed and as we are progressing with our job and projects, like-for-like growth in April has been +2%.

We began updating you about LensCrafters' journey in October in Cincinnati. Many different things have been completed and now we are ready to execute. We have a totally new store segmentation, in a more clear way based on consumer profile with a new product allocation and new supply chain with different price points and some absolutely more convenient. Again our less performing consumer segments are those asking for more convenience in Q1, such as households with income of less than \$70,000, I think that we are approaching this topic pretty well and I am pretty optimistic looking forward.

Optical retail in the rest of the world did a great job. LensCrafters in China grew double-digits like-for-like for the third year in a row, we had a great performance in Latin America and a good performance in Asia-Pacific.

Sunglass Hut never stops! Another quarter of double digit growth in total sales at constant currency and comps in the US at +3.3%, moving to an average of 6% including April, therefore having Easter neutral between March and April. So, like-for-like year-to-date Sunglass Hut at the end of April is +6% in the US, very positive in Europe, Asia and Latin America.

So all in all, we are happy. We have to work harder and are ready for the season now.

I would love now to turn to Enrico, who'll give you some more numbers, some more color and then I will come back.

### **Enrico Cavatorta**

Thank you, Andrea. So let's have a quick look at our key numbers. As Andrea said, we had like-for-like total Group sales growth of 4.2% at constant ForEx, on a reported basis, a negative result. So, more than 5 percentage points has been the negative effect of ForEx and we will see the details in a minute.

Strong performance in Wholesale, close to double-digit, and overall +2% Retail comps like-for-like. Going a little bit more in detail by division, we had Optical North America slightly negative, Australia positive on a low single digit and then outstanding performance for our emerging markets, with China double-digit and Latin America close to double-digit and Sunglass Hut overall worldwide in the high single digit.

If I look at the currency, you see here the impact of our main five currencies: US dollar, Australian dollar, Brazilian Real, Chinese Renminbi and Japanese Yen. I'm showing you, for clarity, the impact of the devaluation of those currencies during 2013 first and second half and during this first quarter of 2014. As you can see, the size of the devaluation of those currencies in this first quarter has been very much in line with what we had experienced during the second half of 2013. It has been worse than in the first half.

Now, if I look forward for the balance of the year and I compare today's average exchange rate of those currencies to what it was a year ago, so in order to prepare to project the impact of those currencies in the second quarter, I see more or less the same impact that we have experienced in the first quarter. So, I would expect a second quarter broadly in line with the first one, while the headwind should diminish quite substantially in the second half of 2014. So, I hope that by June this strong headwind will diminish.

So, not surprisingly, the impact on our sales and the impact on our EBIT/operating margin in the first quarter of 2014 has been pretty much in line with what we have seen in the second half of 2013. So, as we said, we have lost 5.5 percentage points of sales and we have lost 60 bps of EBIT/operating margin, better than 90 bps that we lost in the second half. So, the situation is slightly improving but probably will continue to be negative in the next quarter.

If I look at our operating performance, considering our profitability with that currency impact, I think we are satisfied with the numbers. We were flat on a reported basis at a Group level: 14% of operating margin. But as we said, excluding the headwind of the currency, we have grown by 60 bps, that is a satisfactory performance given our 4% sales increase like-for-like.

Looking by divisions, we posted outstanding results in Wholesale: 90 bps of like-for-like improvement, so again flat on a reported basis, but 90 bps has been the currency impact. This is a very good result, I would say in line with our 8% growth on a like-for-like basis and this has been also helped by a reduction in manufacturing costs. And in that particular area, clearly, the devaluation of the Chinese Renminbi for once has helped.

Looking at Retail, it is a more mixed situation. Overall, on a reported basis, our profitability declined by 20 bps, but it is exactly the other way round if I look on a like-for-like basis, 20 bps up; the currency headwind in this division has been 40 bps in total.

If I look at our profitability on a like-for-like basis by division, again, it is more or less in line with our sales results. So, in North America, where our comps have been slightly negative, our like-for-like profitability has been in line with last year. Thus, we have been able to preserve our profit margin in our key region for the Retail division also with slightly declining comps.

All other regions in the Retail division have seen their profitability growing, quite substantially in the emerging markets: China and Latin America have grown in the 200+ bps range versus a year ago and our more established mature Retail division contributors, like Sunglass Hut or Australia Optical retail, they have grown in the region of 0.5 percentage point each.

So, moving to net income. Again, we have been flat on a reported basis, but had an improvement of 50 bps on a like-for-like basis. But I would say that the most outstanding result for this quarter, as Andrea mentioned, has been our cash flow performance. You might recall that for seasonality our first quarter is one of the weakest quarters of the year, sometimes it has been a cash negative quarter or flattish in the best cases, so I see this €60 million free cash flow generation in the first quarter as one of the best results for the Group. We had to go back more than five years to see a first quarter bigger than €60 million, it was in Q1 2009, but that was due to extraordinary measures that we put in place five years ago, because of the financial crisis, whereas this €60 million has been a kind of organic or normal performance. We are extremely satisfied.

One of the key contributors has been inventory reduction. We have decreased our days of inventory by 17 days versus a year ago. It is clearly an exceptional result, quite outstanding, I would say that part of it is explained by the fact that, as some of you might recall, one year ago our DSI increased versus 2012 by 8 days and that was due to the Armani pickup and the SAP introduction in our factories. So, now we have done 17 days, if you want we fully recovered that build-up and we have factored another 9 days of reduction. Again, I think this has been quite a very good performance and is a performance that was expected to a certain extent. You might recall that inventory is one of the components of working capital where we expect a large contribution this year.

I would like to finish just refreshing the rule of thumb. As we said, we think the rule of thumb will be valid also in 2014 and these results in Q1 are fully in line with the rule of thumb. On a like-for-like basis, our sales grew 4%, our operating income 8%, and our net income 10%. So, even if the sales growth has not been in the high single-digit region but is more in the mid single-digit region, still we are able to leverage our operating profitability in order to preserve our targets.

## **Andrea Guerra**

Thank you Enrico. Q1 has also been pretty intense in terms of building our future, shaping our future and helping the industry to really engage with new things happening in the world.

Three things happened in Q1. On one side, we accomplished and finished the acquisition of glasses.com. We had a number of events in which we have been talking about it, it's a great asset for our future, great people, great culture and a very good e-commerce platform and great piece of technology. I have to tell you that our Q1 in terms of e-commerce has been another quarter in the region of +30% average growth between our three different platforms.

The agreement with Google to develop together the new Glass platform with the introduction of our great brands Ray-Ban and Oakley. I am not ready here to give you much more color than what we have been able to give in the last four to six weeks. The project is really important to us and we are dedicating to it great energy, great heart and great talents.

And then, the last in terms of when it happened, the agreement with Michael Kors, a great brand, great success, very hot, it's a new agreement for the next 10 years. It's another very successful American luxury brand with an opportunity to reach more than \$100 million in sales in the next three years.

Now we are in Q2. April is over, it's been a great month, we are happy. We were really waiting to see if really it was a matter of weather or other factors and we are happy to see everyone performing well: LensCrafters is positive at +2% like-for-like, Sunglass Hut North America positive with double-digit comps, great reception of our new sun collection and order book of +10% in our Wholesale division. We are really working hard and really we are looking at the remaining part of the year with optimism.

Now we need to see May and June, which are, as usual, the two most significant months to really understand how the year will develop. We are ready to do a great job in May and June, hopefully the weather will assist us.

Thank you very much for listening and ready to answer to any question you may have. Alessandra, we get back to the operator, correct? So back to you, operator. Thank you very much.

## Q&A session

OPERATOR: We will now begin the question and answer session. The first question is from Bassel Choughari of Berenberg. Please go ahead.

BASSEL CHOUGHARI: So two question for me please. The first one is, I remember it was either at the FY13 results or the quarter before, you were talking about making acquisitions and given that you will have Michael Kors for next year and the Google Glass, do you think you have enough on your plate or are you still looking for acquisitions? And I'm specifically thinking about brands here, that's my first question. And my second question is: could you please give us a hint on how volume versus value has been evolving because I remember that you've been increasing prices for some of your products? Thank you.

ANDREA GUERRA: in terms of other acquisitions, as usual we are out in the world talking to different partners and people and obviously we are not always the people that define moments and the periods where certain things may come available. I don't see anything coming tomorrow morning. Sometimes in a quarter we close three transactions, sometimes in a quarter we close zero. So I don't see major things happening in the next two-three months. We are working on some other things that will happen in the mid-term and that plate is heavy, but I think we also have the talent and the energy to fill it up.

In terms of volumes and mix in our Wholesale division, obviously currency neutral, I would say again that we were 75%-80% volumes and 20%-25% mix and price where price was more than mix.

BASSEL CHOUGHARI: Okay, thank you very much.

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

ANTOINE BELGE: Yes, hi it's Antoine Belge from HSBC. I have three questions. First of all in Q1, can you comment on your performance in Wholesale between your house brands on the one hand and more of the license brands on the other hand, and maybe mentioning quantitatively which one had done better than the average and the one which has done less? And the second question is I think you mentioned that your Wholesale orders are +10%, is it possible to have a comment maybe by region? And finally on the Michael Kors new license, is it possible to explain how you will position the brand within the brand portfolio and in particular compared to Coach? And also in terms of leverage, do you know how many people you need to hire for that brand and to what extent you will leverage the existing resources you already have? Thank you.

ANDREA GUERRA: Thank you, Antoine. In terms of licenses, I would say that all our premium and luxury brand portfolio performed well. So starting from Armani, it's moving towards our €160-165 million objective and Q1 was right in line with it. We had a good Q1 with Prada, Dolce & Gabbana, Chanel, Burberry. So I wouldn't say that we had any specific below average, but we had a solid portfolio in this first quarter in terms of luxury.

In terms of orders, I would say that the peak is in the emerging markets now. We really have a solid book and we are in the average range and a little bit above in the US and

Europe moving between 4% and 6%. Always keep in mind that our order book is not long-term and we will make the performance of Q2 with sun between mid-May and June.

In terms of Michael Kors and Michael Kors positioning vis-à-vis Coach, I think this is pretty big in the marketplace not in the eyewear. One is more traditional American, the other is more contemporary global and I think the difference of the consumers is there. There are some overlaps and we will be a little bit more fashion-driven, a little bit more colorful, a little bit more contemporary with Michael Kors.

In terms of portfolio and leverage, as I always repeat, we do not increase the number of licenses. We are dropping one license at the end of the year and we have communicated that we are not renewing the contract. It is not Chanel obviously, it is a minor license that in any case has people behind it, in terms of sales, in terms of manufacturing, in terms of style and design. So, at the end in terms of costs it is basically the same, in terms of revenue it should be something around €10 million against what we will be able to perform with Michael Kors in 2015.

ANTOINE BELGE: Okay, thank you. And just since you'd mentioned Chanel, when do you think you will be in a position to make an announcement regarding the renewal of the license?

ANDREA GUERRA: At the beginning of summer.

ANTOINE BELGE: Thank you very much.

OPERATOR: The next question is from Cedric Lecasble of Raymond James. Please go ahead.

CEDRIC LECASBLE: Yes, good evening. Some of my questions have been already answered, but I would like to have a phasing in retail North America for LensCrafters and Sunglass Hut, so like-for-like between January, February and March. If I remember well you said at some point that Sunglass Hut was at just five and LensCrafters was basically flat despite weather that was at the annual results presentation, if I am not wrong. So what happened in March? March seemed to be a little weak, am I correct or is it wrong?

ANDREA GUERRA: You are perfectly correct with regards to Sunglass Hut. This is why I was giving you April as well. We were up to mid-April at +6% in North America and we got the two up to mid-March, then we had two Easter weeks of 2013 that we lost and we regained in April 2014 and at the end of April we are in the +6% like-for-like in Sunglass Hut, US. In terms of LensCrafters let me give you the exact performance. So, we finished January in the positive region, February was a dark night, so it was a -4 point something, and in March we began the recovery in the second, third week. Then again Easter was a little bit negative and then April came back to +2%. So this is how we gave you some figures when we were announcing our results at the end of January, so February has been tough for LensCrafters, instead for Sunglass Hut it's pure calendar shift of Easter from March to April.

CEDRIC LECASBLE: Okay. Thank you.

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

DOMENICO GHILOTTI: Good afternoon. A couple of questions; the first is on Australia retail optical that was quite beyond your target for the full year. So if you can give us some color on the situation there. And the second question is on the emerging markets slowdown in Wholesale. You were mentioning that some markets were delaying shipments. Can you elaborate a little bit more on what these markets are suffering more and if you see the risk of a more structural overstocking?

ANDREA GUERRA: No, no, no. So let me be very clear on the emerging markets: we began our shipments more in February and March and April is moving on as fantastically as we can imagine. January was slow, but January was slow because some of our markets wanted to reach 1 million units in China, 2 million units in South East Asia. So we had a number of record breakings in December that we paid a little bit in January. If you look on a 12-month rolling basis, we are still pretty high in the sky with our percentages. So, it's purely the way we have shipped between December and quarters and things like that. No worry at all for this.

In terms of Australia, I mean it was a +2% in comps and it was against the best quarter of last year.

DOMENICO GHILOTTI: Okay. Thank you.

OPERATOR: The next question is from Daniel Hofkin of William Blair & Co. Please go ahead.

DANIEL HOFKIN: Yes, good afternoon. Can you hear me okay? Sorry about that, my line got dropped and I apologize if this question was already asked. I just kind of wanted to understand, so I see what you are describing between the March quarter and then I guess January through April. If you put all of that together, are you kind of fully year-to-date where you would have expected to be starting the year and, if not, what are some of the things that you expect can help in terms of making kind of the full year rule of thumb if you will. That's my question. Thank you.

ANDREA GUERRA: This is regarding US retail or globally?

DANIEL HOFKIN: I'd say starting more globally but if you know if it's appropriate to zero-in on US retail that's fine.

ANDREA GUERRA: I would say that our velocity and cruise velocity have no issues across the world. I would say that US was tough, as I was saying before. April has been a much better month for I would say LensCrafters from a weather point of view and putting January through April for Sunglass Hut it has been another fantastic four months in a row after the three years [2010-2012] at +10%, and a fourth year [2013] at +6%. So we are in line, wholesale has been delivering another +7%. So we are always trailing and recovering our fair share. So I would say that especially February was tough for LensCrafters, the second part of March because of the Easter shift impacted on Sunglass Hut and in April

we are back where we have to be. And now, let's move to May and June, which are very significant for Sunglass Hut and a little bit less significant for LensCrafters.

DANIEL HOFKIN: Okay. My other question was just related to Michael Kors and again this may have been already asked, but the question was given that the brand Michael Kors has probably more of a diversified geographic strengths than you know certain other brands. Can you talk about where you see some of the greatest opportunities to grow their eyewear presence?

ANDREA GUERRA: So the biggest opportunity is in the United States. Obviously it has a good international appeal. I think Europe will be another market where we will do a good job, and as a third I would include Asia, but US will be the region where we will put most of our efforts in year one.

DANIEL HOFKIN: Okay, thanks. Best of luck.

OPERATOR: The next question is from Julian Easthope of Barclays. Please go ahead.

JULIAN EASTHOPE: Hi, good evening. Just one question for me actually, in terms of LensCrafters, you are going through the stores and the store network with different segmentations and assortments, is it possible to sort of give some indication as to how many were done at the end of the first quarter and how long it will take to complete that segmentation and if it's possible to sort of give some indication as to the uplift you get once that's actually put into place? Thank you.

ANDREA GUERRA: I would love to give you some more details, but I was asked thoroughly not to do it, because we got a few stores already changed in the new scenarios that are doing pretty well, but they are a few stores. The segmentation has been done in three parts and it is linked to: consumer profile, geographical differentiations and size of the different stores. So linking it to more a digital journey of eye exams and down on the floor retail. This is also driving some of our luxury brands. And moving downwards, I think that there are 180-200 stores in the let's call it "lower segment", I think that that is the focus we have, that is where we have lost a little bit traction, as I always repeat, in our entry price points and I think that this is where we need to dedicate a lot of attention to a little bit less wealthy consumer, but still pretty affluent to LensCrafters through managed vision care, through entry prices, through the display of a little bit more of some brands and some more work done on service and really attention to certain consumers and we will finish up by July, August.

JULIAN EASTHOPE: Okay. So just to sort of clarify that there is very little of this 2% you are seeing improvement in April that has come through because of this, so that this is on top. That's good to know.

ANDREA GUERRA: I can tell you that and this has been our best performance in our last 6, 7 months. I can tell you that there is one part which is always gratefully important and this is the link today we've got between stores, field management and LensCrafters corporate headquarters in Cincinnati, motivation, hearts, people really willing to go the

extra mile. I think that we are in a different world today, but we need still some months to go by.

JULIAN EASTHOPE:Excellent. Thank you very much.

OPERATOR: Ladies and gentlemen, there are no more questions registered at this time.

ALESSANDRA SENICI: Thank you very much. There are no other questions. Thank you for following today's call and we will be available either tonight or in the next few days for follow up information. Thank you and have a good evening. Bye-bye.