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Q&A

Alessandra Senici

Good evening and thank you for joining us today. Here with me are:

- Massimo Vian, our new co-CEO for Product and Operations and interim CEO until Adil Khan joins the Group in January
- Nicola Brandolese, the Head of Optical Retail Americas
- Fabio d'Angelantonio, Head of Sunglass Hut and Chief Marketing Officer
- Paolo Alberti, Head of Wholesale.

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 "Investor presentations" section.

This presentation includes certain non-IFRS financial data and information which are further explained and reconciled in Luxottica Group's third quarter 2014 press release available under the "Investor press releases" section of our website.

During the course of today's call, certain projections and 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, expectations and actual results that 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.

Let me now hand over the call to Massimo Vian to say a few words and we will then take you through the results presentation.

Massimo Vian

Thank you, Alessandra and welcome everyone. Thank you for joining us today. I'd like to start by saying that we understand that the past few weeks have been an unsettling period following the transition from a long-term manager to a new governance structure. When it came to implementing this structure there was a disagreement that ultimately led to the resignation of Enrico Cavatorta. Enrico made an important contribution over his 15 years with Luxottica and we would like to thank him for all he achieved.

On today's call, we will not have anything more to add to what has been already said on this matter. Despite recent events, we are not being distracted from an operational point of view. Our focus is now on the future and on what's most important for Luxottica, delivering great products, investing in growth, creating value for our shareholders. We are reporting today very positive results. October is looking good and we are currently all focused on better preparation for 2015.

We have a fantastic team here ready to drive the business forward. The trends that have made us such a successful company remain unchanged. We are growing consistently and we see highly attractive opportunities ahead. Our brands are very strong, consumers love them. Our customers and our stores are everywhere, innovation is part of our DNA and it will continue to be a core part of what we do.

And finally, we are over 70,000 engaged employees, their energy, their skills and their enthusiasm are our key strengths. Our new co-CEO model is structured in a different way to what was announced in September. Adil Mehboob-Khan will be responsible for Markets, while I will be in charge of Product and Operations. Responsibility for corporate functions will now be shared between the two of us.

This structure perfectly complements both my and Adil's expertise across the value chain and it allows us to better leverage our vertically integrated model. We are confident this is a logical system. It neatly shares responsibility for the two main strategic pillars of the business: product operations and markets.

Today, we are also happy to announce the appointment of our new CFO, Stefano Grassi. He is a natural successor to Enrico Cavatorta having worked side by side with him for the past five years. He is very highly regarded within the Company and for those of you who have not met him yet, I am sure you will have the chance to do so in the coming months.

I've had the opportunity to speak with many of you in my role as Chief Operations Officer. During my nine years within the Group, I have led product innovation and developed Luxottica's accelerated supply chain system. Our expertise in this area is something that sets us apart from the competition and is a very significant contributor to our free cash flow generation as a business.

I have also had the opportunity to spend some time with Adil Khan and it's clear that we share the same passion, same enthusiasm for what we can achieve here. He is a great appointment for Luxottica. He has managed global consumer brands across multiple markets over his 27-year career at Procter & Gamble. We will complement each other very well when he joins in January, but today we are here to discuss our positive results and I would like to hand it back to Alessandra to take you through the Group's performance over the last quarter and then we will take your questions. Thank you.

Alessandra Senici

Thank you, Massimo. So let's look at our results. I want to start by saying that we are extremely pleased with the third quarter results which were achieved in a generally more uncertain global environment. Nevertheless, we reported solid sales growth for the Group close to 7% before the change in presentation of some EyeMed sales. On a reported basis sales were up 5.5%.

It should be also noted that forex was finally not negative. After six quarters of currency headwinds, the US dollar was virtually unchanged versus last year and both divisions contributed to this growth.

Wholesale confirmed its strong momentum with sales exceeding 9% growth at both current and constant currency, despite a challenging comparison with an exceptional third quarter of last year where sales were up 13% at constant currency. North America and emerging markets led this growth. In Europe, a positive business environment persisted, but lack of sun and a tough comparison impacted third quarter results. Paolo will comment later on this.

Retail comps were a sound plus 4.4% driven by Sunglass Hut, with all regions positively contributing, and [in North America] LensCrafters gaining traction with comps up 2.5% following a 0.6% decline in the first half of this year. The only real disappointment was optical retail in Australia which was below expectations mainly due to a more competitive and promotional environment.

That said, we anticipate for Q4 a better trend than Q3.

In line with several previous quarters, the operating profitability for both divisions, and therefore for the Group, grew faster compared to sales, showing a continued improvement in efficiency and greater focus on cost control.

Last but not least, free cash flow generation was again very strong with more than €300 million in the quarter. And it is worth highlighting that in the nine months we have already generated more cash than for the full 2013.

Let's now look at the numbers in more detail and I will start by explaining the difference between reported and adjusted sales. This refers only to our retail division and is related to a change in the sales presentation for an EyeMed insurance agreement. Starting from Q3, sales are reported on a net basis due to a change in the contractual terms of a significant insurance underwriting agreement. In this quarter, the impact on Group sales is €22.7 million.

In the third quarter, there was a non-recurring item impacting operating income and net income for €15 million and €10.9 million respectively. These were related to the redundancy incentive payment in conjunction with the departure of Andrea Guerra.

Consequently on profitability, we're providing adjusted numbers.

The Group experienced another remarkable performance in profitability. Operating income for the quarter reached almost €300 million, best ever results for Q3, up by 16.1% with operating margin growing by 120 basis points to 15.5%, which is the best margin since 2008. Margin growth showed an acceleration versus the first six months and it was on top of the growth registered in past years.
Excellent performance for the Wholesale division, where margin progressed by 170 basis points from last year, to 21.2%. Besides efficiency gains, margin expansion was also helped by positive price/mix, which explains approximately one-third of the top line growth.
Solid growth also for Retail with margin up by 70 basis points. All regions except Australia posted a progression in margin with North America and LensCrafters remaining the main drivers.

The excellent growth in profitability is reflected in net income which grew by 17% versus last year.

I would like to mention that, in terms of absolute net income, we reached an all-time high record for the third quarter and that for the nine months we exceed reported net income for the full 2013.

Moving now to cash, we are very happy to report another quarter of excellent free cash flow: €316 million. Such quarterly performance was once again obtained through a tight control of working capital, while capex continued to gradually expand to fuel the sustained revenue growth.

I think it's also important to highlight that in the past six quarters working capital management has consistently been the main driver for cash generation. In fact we were able to reduce the working capital days this quarter by another 15 days.

Going forward, we still have room for improvement in inventory management on top of the great improvement already achieved since Q4 of last year.

As a result of the strong cash generation, net debt at the end of September stood at €1.1 billion, which translates to a 0.7x adjusted EBITDA for the last 12 months. A sharp improvement compared to 1x at the end of June this year. And by the way, as of the end of September, we have achieved, ahead of schedule, our end of year target.

Finally, year-to-date, we are in line with our rule of thumb. Growth in operating and net income is twice the increase in sales. This confirms that the Group is continuing to execute well and remains focused on profitable growth.

Moving to our revenue roadmap, we are happy with the growth registered in most of the regions in the nine months. I will ask Fabio, Nicola and Paolo to comment on North America, Western Europe and emerging markets. But I would like to make a comment on optical retail in Australia where we are, as I was saying previously, below full year expectations.

The general retail environment in Australia has been weak in the past few years. We are experiencing a dual speed performance in retail.
On one side, Sunglass Hut is continuing to post a solid growth in comps in the high…sorry we had some technical issue. So, I was saying that Sunglass Hut is continuing to post a solid growth in comps in the high single-digit region, aligned with previous quarters and the strong performance is also confirmed in October which is the beginning of the strong sun season. On the other side, optical retail is showing volatility on the back of an increasingly promotional and competitive environment. October started with positive sales and now we expect to deliver a comps growth between 2% and 3% for the full year 2014.

Now I would like to handover the call to Nicola to comment on LensCrafters results.

Nicola Brandolese

Thank you Alessandra and good afternoon everyone. My name is Nicola Brandolese. I lead Luxottica's optical retail in North and South America since last January.

So to start, as Alessandra shared, this was a much better quarter for LensCrafters and our North American optical retail brands. LensCrafters delivered 2.5% same-store-sales growth. So, a good, continued progression after a difficult first quarter at -1.8% comps and a second quarter at +0.9% comps. And LensCrafters, as you know, is a fairly complex organization, a brand with a long heritage and culture and turning it around will require time, but I am very happy to see the first results of our hard work. To accomplish this, we are going back to the essence of the LensCrafters brand which stands for superior Eyecare, customer service and great product offering.

Now, there are three main reasons for this quarter’s performance. One, huge focus on Eyecare. Two, strong improvement in customer service and conversion rates. And three, operational effectiveness.

So first, rallying the entire organization behind our doctors and building our marketing around the quality of our eye exams over the last three, four, five months. So, eye exam growth for the quarter was 5.5%, which is very encouraging and has been accelerating through the last three months.

Second, customer service and customer satisfaction have been a major focus area for the last six to nine months and the great news is that we are seeing a significant and continuous improvement of our “net promoter score”, with more and more promoters and less and less detractors. Now this journey has just started, we are still mid-way, but we are very clear about the areas where we need to focus on to delight our customers and address still significant opportunities in customer service. So overall customer count is growing: +4.2% in the third quarter. And this, driven by eye exams and conversion rates, has been the primary catalyst for our sales growth in the quarter.

Third, I mentioned performance management. The team has been working hard on strengthening performance management this past semester, really reducing the gap between lower and top performing stores. We are elevating labor planning sophistication a lot. And over the last quarter we have identified dozens of stores where we can profitably add labor hours, substantially improving conversion rate. Again, it’s a long journey that will continue throughout Q4 and 2015, but we anticipate we will completely change the tools and the approach and all the techniques behind labor management and labor scheduling for next year.

As anticipated in previous calls, we are focused on CRM and store segmentation. I can now say we have significantly increased our sophistication on both CRM and digital marketing with several new predictive models, not just to sell, but also to thank and reward our customers creating more value around our products and our services. Store segmentation and management, as talked about it in the recent calls, has allowed us to sell more units at a lower average spend per customer in about 200 stores, while raising the average spend per customer in 200 to 300 stores that target a more affluent clientele. So our segmentation is up and running and we are very happy with that.

Finally, profitability obviously remains an area of focus. We are now investing in store equipment and routing systems to increase store labs’ saturation, so critical to drive LensCrafters gross margin. Shrink and waste have been a focus area to further improve gross margin as well. So, LensCrafters obviously has very positively contributed to the 70 basis points operating income improvement recorded by our retail division in the quarter.

So all in all, I think there is great momentum and energy at LensCrafters. We are in the middle of a turnaround which will take time, focus and obviously investments. October comps look good and confirm we are on the right track for another positive Q4 in both top line and operating profitability.

I think this is it. Let me thank you all and hand the call over to Fabio d'Angelantonio to present another great story, Sunglass Hut.

Fabio d'Angelantonio

Good evening everybody. For Sunglass Hut the third quarter has been very solid in all geographies on top of an already strong third quarter last year, proving that our brand and our business model are everyday more relevant to consumers of every continent.

In North America we had quite a good summer and an overall very positive Q3 with a 6.7% comp. Overall, we are seeing sound growth in all channels with platinum department stores and outlets driving the growth, which is quite balanced between units and huge revenue growth which we believe is sound.

The main recipe behind this growth is simply that Sunglass Hut is building momentum through two main actions. First, we're building Sunglass Hut's reputation as a fashion brand. Second, we are continuing on our digital journey.

A key factor worth mentioning for the first point, which is our effort to build Sunglass Hut's reputation as a fashion brand, is that we had the biggest global summer campaign ever including television for the first time in the US. This drove high single-digit sales growth in our largest markets. The brand reached new levels of awareness and relevancy with consumers in the major markets of United States and Australia and we believe the luxury and fashion penetration in our mix of sales is still a great opportunity for our business and keeps growing in all geographies.

Related to our digital journey, we are everyday more focused on enhancing the one-to-one conversation with our consumers, as well as the experience in the stores with very material steps in the third quarter this year. We launched a new mobile site in July with 30% revenue growth versus last year. And we developed and launched a new desktop site in September and these have fantastic new features to make the "Product the Hero", to improve storytelling, to improve consumers' interactivity. We are happy with that.

At the same time, our relentless global journey keeps ahead, entering new geographies and constantly acquiring more relevance in regions in which we exist already.

I am happy to celebrate the signing of a very strategic airport deal in Mexico thanks to which we opened in the past months 13 new airport locations in Mexico, 40 in total including the super touristic location of Cancun. Also, in Mexico we opened our biggest store in the best mall of Mexico which is Perisur Mall. Also, we planned Sunglass Hut flagships in two new Southeast Asia countries. We are glad to communicate that Sunglass Hut opened the first three stores in Indonesia in a franchising partnership with the retail leader MAP and also we are proud to announce that we signed last week a joint venture with Thai Group Central with first stores opening in Thailand in Q1, 2015.

I will close saying the last five weeks have been very good, even if October is certainly not a key month for Sunglass Hut business, and that we did prepare a very detailed execution for Black Friday in North America and also for the Christmas period in all the geographies, so that we confidently expect Q4 to be in line with the entire year result.

Thank you and now I'll pass over to my colleague and friend Paolo Alberti.

Paolo Alberti

Good afternoon, thank you Fabio. What can I say? I am very, very proud and happy to report a 9.3% growth in sales in Q3 for wholesale and I think it's important to look at the last year at the same time, as it was plus 13%. So we had quite a strong comp and we did this without any new launches and we did this with, I would say, a weak sun season in Europe, I'll talk about it in a second. I think even more importantly than this is a 19% growth in operating profit which again makes me very proud and it came from the sales growth and obviously it also came from some price increases that helped our margins. And then obviously it came also from some cost control in our business that helped us in all this 19% growth as I said in profit and a 9.3% growth in sales.

And again if we look at this we have to look at two stars, and then we will talk about Europe. And again I don't want to speak badly about Europe, and I'll turn it around a bit, but definitely North America with its 11.3% growth continues to be a star of our business and we've got to think that in this business, and I am not saying anything against anyone else, because it's already been announced, I mean Coach was quite poor in its results and really for us it was flat I would say and so we were able to counter any Coach softness with sales and again be really resilient in our business. So I am very happy to say +11.3% even without much help from Coach as we saw in the previous year.

And then emerging markets. Emerging markets, whether we look east or west, are just a pleasure to look at and I will take two examples. The first is Brazil.

In Brazil you know the purchase of Tecnol, you know that we are doing fantastically. I can tell you that in the last four weeks sales in Brazil, by the way when the peak season is coming, are between 20 and 30% growth and I can announce that we are starting to hire people in the factory after months of let's say efficiencies. So, we are hiring people again and obviously it makes me very happy and proud and Ray-Ban is doing fantastic. Ray-Ban "made in Brazil" and even our luxury products shipped directly from Italy is more than doubling its growth, so Brazil fantastic.

Thailand, well even though we know the political problems that Thailand had as a country, obviously was a bit difficult, but we are doing very well there and I am very proud to announce the opening up of Malaysia. And I say that with a smile because this week we actually have an office, because we were running our Malaysian operations out of two hotel rooms until last week so very, very happy about our new offices there.

So, let me talk about Europe quickly and I think that I should not shy away from there. If we look at Western Europe in particular we had a hard sun season, I mean we did -1.7% in Europe. If we look at the optical sales, we did about +5% and then if we look at Western Europe, wholesale sales, we did -3%. The comparison of all of Europe in the third quarter of last year was +15%, so the comparison was strong and for those of you who live in Western Europe, I think we can all say that we were a bit disappointed by the sun season, that by the way was over +20% last year in terms of comps and again this year was -3%.

If we look at the sun sales, even though admittedly September and October aren't the strongest sun months of the year, we see that things are getting much better and therefore turning again north after a bit of difficulty. Eastern Europe is still doing very well at +14% and obviously though Eastern Europe is not as affected by sun sales as some of the Western and Mediterranean countries obviously are. So Europe was a bit difficult this third quarter, but there again after 15% growth last year and strong sun sales of +20% in Western Europe, we feel very confident that we did well and that we are still resilient and strong in Europe.

Now I am on the phone, you can't really see me, but maybe you can hear it from my voice I am actually smiling when I look towards the future, and I am smiling basically because I see two things that you may not be able to see right now. The first is that I see my orders portfolio doing very well. I am looking towards in 15 days approximately the Luxottica days in Florence where we will have a record number of customers coming and I think beautiful products. And again, I hope maybe we will be able to see each other there.

And finally, last July in Cernobbio we showed the first collection of Michael Kors, but we are not selling it yet and we will be selling it as of January 2015 and the reaction from our customers was absolutely fantastic. So with that smile, I pass the word to Alessandra, and I thank you very much for your attention. Thank you.

Alessandra Senici

Thank you, Paolo. I would like to make a final comment before opening the call for questions. And this is that Q4 will be the first quarter since the beginning of 2013 with an expected positive impact coming from currency. Having said that we are available to answer your questions, so operator, please, open the call.

Q&A session

OPERATOR: We will now begin the question and answer session. The first question is from Mr. Daniel Hofkin of William Blair. Please go ahead, sir.

DANIEL HOFKIN: Hi, good evening. Very nice results first of all. Could you comment first of all, broadly, on the price mix versus unit volume trends? And, let's say, breaking it down to Sunglass Hut, LensCrafters and then Wholesale in total, if you could? That's my first question.

NICOLA BRANDOLESE: I can start from LensCrafters. So, we had pretty much flat traffic, a significant increase in conversion rate, customer count up by approximately 4% and slightly lower average spending per customer, marginally lower with good overall profitability. We gained traction in retaining these customers as well as driving new customers. This is for LensCrafters.

FABIO D'ANGELANTONIO: For what concerns Sunglass Hut, we had a result which is pretty balanced: a slight increase in traffic, a slight increase in conversion and good increase in average unit revenue. So overall, a quite balanced growth between units and price.

PAOLO ALBERTI: If I may talk about Wholesale, I can report that in this quarter we had about a plus 2% average unit price increase. This will be carried forward at least till the first quarter of 2015, maybe not to the same extent. However, we will have a positive price difference until the first quarter of next year.

DANIEL HOFKIN: Thanks very much. And then, Alessandra, you stated it before but audio was a little bit hard to hear, so what was the reason for the reclassification of the EyeMed revenues?

ALESSANDRA SENICI: I'll ask Nicola to answer this question.

NICOLA BRANDOLESE: Sure. Regarding the agreement Alessandra was mentioning, this underwriter - FSL (Fidelity Security Life) - basically assumes the risks of loss for the contracts that it underwrites. While EyeMed is responsible for losses within a given limit, which is technically called "loss corridor", FSL will be assuming losses exceeding that limit, that corridor. Now, the reason why this is safer risk protection, just taking lower risk, there is no profit in fact, no cost to Luxottica. It's just a better situation for us going forward.

DANIEL HOFKIN: Okay. So, in other words there is a pass-through effect on your expenses as well, so that the profit impact is zero. There is no impact on the bottom line.

ALESSANDRA SENICI: Correct.

DANIEL HOFKIN: Okay. And then, lastly just for Massimo and maybe more broadly, what are your priorities before January? Or once Adil joins, what would be your key priorities?

MASSIMO VIAN: I mean, let's try to divide it into timeframes. Our immediate priority is to stay focused on planning a great 2015. We are daily focused on our preparation. As Paolo anticipated, Michael Kors will be available from January, but I mean our factories and our supply chain are super active now because we are planning to arrive December 31st with all the right quantities and mix of products to be available for launch on January 1st. In the first part of 2015 we will all be busy from a technical and go-to-market point of view to coordinate the Google Glass launch and that will be, you know, a very important event that will keep us busy in the early part of the year. And in terms of overall strategic direction, I mean we are not planning to make any substantial changes for 2015. Of course we're waiting for Adil with confidence, so as to hand over to Adil a very positive situation to start from and then it will be up to Adil and myself to plan the strategy going forward.

DANIEL HOFKIN: Okay, thanks very much. Best of luck in the fourth quarter.

MASSIMO VIAN: You are very welcome.

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

ANTOINE BELGE: Yes, good evening. I've got three questions. First of all, even though you said you wouldn't say much about the departure of Enrico Cavatorta, but you know the press release was pretty short on that. And so, we really would like your comment on what may have happened in those two or three weeks after Enrico in a conference call [September 1st] explained how the company will be run differently with him, you know having a very important role, every bit that you could tell would be helpful, especially since we've read a lot of rumors in the Italian press and also about, you know, consultants having a very high important role knowing the business et cetera. So, the reason you could say would be again welcome.

Then my second question relates to your new CFO, you mentioned he had been working with Enrico Cavatorta in the last five years. Could you maybe explain a bit more what was his exact role in finance and also in which particular project he was involved. And, finally, coming back on this change of accounting at EyeMed: sales were impacted by minus 23 million and EBIT was stable, should we assume that the impact on the EBIT margin as a percentage of sales was actually positive? Thank you.

MASSIMO VIAN: Okay. Let me take the first two questions and then I'll hand it over to Alessandra for your third one.

About Mr. Cavatorta leaving. Mr. Cavatorta had been one of the designers of the co-CEO model structure, he had a disagreement on the implementation of the model, as I said earlier on in the call. So, we're not denying the past weeks were unsettling, but really I'd rather not further comment on it. This is where we are now, we have a new CFO and we are ready to start from here.

About Stefano Grassi, he has been, as we already said, the person working on the numbers side-by-side to Enrico. He is our super trusted guy. Regarding his previous role within the Company, I mean, up until yesterday he has been the business controller of all the numbers for Retail, Wholesale and has been working very closely with the Operations and the accounting departments as well. So, he is the man that, better than anybody else, now can take the job.

I'll hand it over now to Alessandra for your third question.

ALESSANDRA SENICI: As Nicola was saying previously, the change in the presentation of some EyeMed sales is that we netted some sales with the claims and so basically there is no impact on the absolute operating profit for the Retail division.

ANTOINE BELGE: Okay, so but on the margin side it's actually positive because you are dividing by a lower number?

ALESSANDRA SENICI: Yes, that's correct and this impact is approximately between 20 to 30 basis points.

ANTOINE BELGE: Okay, thank you. Maybe a follow up actually on the Armani license. When you announced you won back the license, I think a figure of €200 million as a potential target was mentioned. Do you think it will be very far from reach in 2014, and if that is the case, when do you think the €200 million target could be achieved? Thank you.

ALESSANDRA SENICI: Yes, so for this year our target, as we said at the beginning of the year, is approximately €160 million in sales and we are absolutely on track with this. The €200 million is more a target for next year.

ANTOINE BELGE: Thank you.

ALESSANDRA SENICI: You are welcome.

OPERATOR:The next question is from Luca Solca of Exane BNP Paribas. Please go ahead sir.

LUCA SOLCA: Yes, thank you very much. I have a couple of questions. One is again, I am afraid, on the organization setup, I am not really clear who the CFO is going to report to, if he's going to report to both co-CEOs and is going to be the servant of two masters in a way and what's potentially the difference? And how to implement the co-CEO model related to having two co-CEOs or three co-CEOs, I wonder?

On the business and on the potential strategic challenges and opportunities ahead, one of the mega brands out there – Gucci – has announced that they are going to go for an independent eyewear activity. I don't ask you to comment on that, but I wonder whether you are considering and what would be your objections and defenses against other megabrands that you currently have in your portfolio and that could potentially think along the same lines. What difficulties do you see for them to implement a model like that? And do you think that this is a serious threat or in contrast a negligible and irrelevant threat?

Thirdly, I would like to ask you about the return on invested capital focus that was announced a few weeks ago at the time when you communicated the CEO change. Do you expect this to be part of your agenda going forward? And if so, what could be the priorities in order to enhance return on invested capital going forward?

I may also have a fourth question about the quality and the nature of the wholesale growth: is this happening primarily by opening new doors or is it happening rather by penetrating existing customers deeper? Thank you.

MASSIMO VIAN: You are welcome. So, let me take the first three questions and then I'll hand it over to Paolo for the wholesale question. So, some clarification about the actual co-CEO structure that, as I anticipated, is different from the one that we presented in September. Adil and I will concentrate on the top two main pillars of our vertically integrated business model. The corporate function areas that were presented around the persona of Enrico Cavatorta as dedicated CEO were crucial and remain crucial, they are now mainly in the hands of Stefano Grassi and the related responsibility will be shared between Adil and myself. So there will be a dual solid line between the CFO and the two co-CEOs.

The second question is related to Gucci, I mean the future scenario within Kering. We do not consider it as a threat, we do know that our partnerships with our brands and licenses are very strong and, please, never underestimate the power of our vertically integrated supply chain. So our scale is big and our speed from product design to the market, I think, we have no match in the industry. Furthermore, our strength is our network and the fact that through our channels we can really arrive everywhere. So, we are observing what's happening, but we do not consider it as a threat.

The third point, on our renewed focus on efficiencies and ROI, this is true, I mean this will be definitely one of the activities which we are planning with our budget exercise and definitely on which Adil and I will be focusing starting from January. We have ideas. We have initiatives that I cannot disclose at the moment, but we have big ambitions on that. So, it is true, return on investment will be one of the key metrics we will concentrate on in 2015. In terms of quality of wholesale growth I hand it over to Paolo for his comments.

PAOLO ALBERTI: Hello Luca. In terms of wholesale growth basically I would say that the growth is both organic and very comparable. There are some slight differences between emerging and mature countries. Let me try to specify those without going into the detail of numbers, but if I look at my Italian or French wholesale doors in terms of numbers, they are slightly going down and that is because sometimes some of the smaller doors, unfortunately, I say unfortunately, are closing and/or because we are working on the quality of our doors. Still very comparable, but definitely not an increase in matured countries. There is somewhat of an increase in some of the emerging markets also because doors are opening up and quality doors are opening up. Let me give you just a slight number, usually we don't give all these numbers out, but we are in 4,000 doors in

China and obviously if you think about the size of the business in China there is obviously much to be done in the future there. And there are Chinese and other foreign investors, for example, very prominent, Thai or Indonesian or Hong Kong companies and groups that are starting to invest in China with very, very good doors. So in that case we will go towards those doors that are opening up and that are qualitatively very prominent and that have a future good potential. So, my answer, to go back and recap, is organic and comparable growth in terms of the number of doors. Thank you, Luca.

LUCA SOLCA: Thank you very much indeed. Thank you both.

PAOLO ALBERTI: You are welcome.

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

JULIAN EASTHOPE: Good evening everyone, almost good night everyone, I should say at this time. I've got three questions actually regarding some things you said at the previous Investor Day. If we start with Sunglass Hut, I think the plan was originally to reach €2 billion of sales by 2016 with a 300 basis point improvement in the margin, so I am just wondering how you've actually performed towards getting towards that objective. I think also at the same Investor Day in terms of the retail operations North America, the plan was to go from €2.5 to 3 billion of sales with a 200 basis point improvement in the margin. And again, it would be interesting to hear the progress that you are making towards that.

And lastly, this one is directed to Massimo from a previous Investor Day, I think the idea was to move from 75 million frames to 100 million frames of total production by moving a fair amount outside, but with the growth being predominantly in China and Brazil. And again wondering just how in terms of your long-term strategic objectives as to how far you've actually achieved on those. Thank you.

FABIO D'ANGELANTONIO: I'll take the first for Sunglass Hut and the answer is pretty easy, pretty direct to your question. Yes, it is still the target we have in our plan, we're working to build both 2015 and an ambitious start to 2015. And we are now working on the next year's budget.

LUCA BRANDOLESE: As far as Retail Optical North America, yes, we obviously see significant growth in the next years. We are well above $2.5 billion today and we are progressing toward that target both on top line and bottom line.

MASSIMO VIAN: About our journey towards 100 million units to be manufactured, definitely, I mean we'd rather focus on 100 million units to be sold and we are there. And on the other side, we are reducing inventory so quickly that we are benefiting from that, that is, our manufacturing units are lower than planned although sustaining the sales. Our journey to that still will be focused on our Italian footprint manufacturing. So now fully made-in-Italy products are more than 45% of the overall production, of course growing solidly in China, in Brazil, as Paolo said before, and in the US as well. So, the journey towards 100 million frames will be split between different geographies and the balance between the made-in-Italy and the made-in-the rest of the world will not change.

You might notice in the future that the numbers of employees in Italy will not grow as much as in the other geographies, but this is only to represent the results and the effort that we are doing to increase productivity in our facilities in Italy, that will stay at the centre of our investments in technology. Again, the journey is there, the balance won't change. We are investing in productivity.

JULIAN EASTHOPE: Okay, thank you very much. A similar thing in terms of your medium-term objectives with all the sort of changes you see both in currency and within the management. Basically everything is still on track for all of your major divisions?

MASSIMO VIAN: Absolutely yes.

JULIAN EASTHOPE: Thank you.

MASSIMO VIAN: Absolutely yes. And actually, if possible, our ambitions are even higher.

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

DOMENICO GHILOTTI: Good evening. I have three questions. The first is a general comment or a preliminary comment on 2015. So, I wonder if the rule of thumb for Luxottica's growth in the last few years is a preliminary reasonable assumption also for 2015. So the high single-digit, mid-to-high single-digit top line growth and two times faster bottom line performance.

Second question is on M&A. Should we assume that for the time being, for the next three to nine months M&A is basically on hold and standby?

And the third question regards free cash flow generation. I saw that part of the strong free cash flow generation was due to very low cash taxes in the first nine months. Could you help us understand how much is just a matter of postponement to Q4 and how much is sustainable for the full year?

MASSIMO VIAN: Okay. I'd rather start with question #2, so about M&A. So, we are observing the market and opportunities for the brand portfolio and definitely channels or opportunities for our market size. So I would say no, we are not in a holding position. We are observing, I mean, clearly, we wait until Adil will be joining us in January, but it's only two months in time, so the observation is carried on and actually I would say we are active on that. So don't think we are holding our position.

ALESSANDRA SENICI: Yes, as far as free cash flow is concerned, there are no items which will be postponed to Q4. So, basically this is ordinary free cash flow. Probably what you've seen in the last slide of the presentation is that this quarter we paid approximately €20 million less in taxes compared to last year, but this was because last year we had a different phasing between Q2 and Q3.

DOMENICO GHILOTTI: Okay, so we should expect Q4 free cash flow generation as usual.

ALESSANDRA SENICI: Yes, that's right.

DOMENICO GHILOTTI: Okay.

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

BASSEL CHOUGHARI: Hello, I have three questions please. The first one is on Brazil, where you often talked about the ramp up of the local production, can you please give us an indication of where you are in terms of local production?

The second point is on Michael Kors you are talking about products available in Q1. I guess what I am trying to understand is, on the retail standpoint is quite easy, but on the wholesale front, are we likely to see any sales of Michael Kors products in Q4?

And then the last question is on wholesale. You did post in emerging markets a quite strong number. If I remember in Q4 last year we had also a very strong number and that was due to more shipments in Q4 versus Q1. So are we likely to see a phasing issue here as well? Thank you.

MASSIMO VIAN: Okay. Let me take the first two questions and then I'll hand it over to Paolo. So local production in Brazil, as Paolo anticipated, there we are seeing a robust ramp up compared to the past, let me have two words on the manufacturing of this operations unit. We completely renovated the plant there. In this renovation process we moved over there the manufacturing of our key assets, our key brands. So we do now have Oakley "made in Brazil", Ray-Ban "made in Brazil" and Vogue "made in Brazil". So the production of our brands over there now represents approximately 50% of the overall volumes that come out of Tecnol and are sold in Brazil. Very solid, very happy and the future is looking very bright. Of course this proportion will be different going forward and we want to invest more and more in our brands in that plant.

On Michael Kors we are preparing the launch for Q1, that means we are not planning to ship out of our DCs any piece neither for retail nor for wholesale before January 1st, but as anticipated to you, taking the benefit of, you know, Christmas period, in China we are planning to have all the necessary stock ready by December 31st. So our shipments will start January 2nd, 2015 both for retail and wholesale. I don't know if we answered all your questions.

BASSEL CHOUGHARI: Yeah, sorry. And just on the wholesale and emerging markets?

MASSIMO VIAN: Wholesale and emerging markets. Sorry can you please repeat the question?

BASSEL CHOUGHARI: Yes. in Q4 last year you had a pretty high growth rate in wholesale in emerging markets and that was due to more product shipped in Q4 and this is why we've seen a slower Q1 in emerging markets. Do you think it will be similar here or maybe you can help me understand why have we seen that acceleration here?

PAOLO ALBERTI: You will see that acceleration and you will see strong sales in Q4 in emerging markets, but not because of any forward shipments, just because that's what is planned and that's what they are ordering. So absolutely no forward shipments in emerging markets for a number of reasons nor any forward shipments on Michael Kors until 1st of January, that's it.

BASSEL CHOUGHARI: Thank you very much.

PAOLO ALBERTI: You're welcome.

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

DOMENICO GHILOTTI: Well, a follow up, as I was previously asking on your commitment to the rule of thumb. So if you can maybe answer to this question then I would have an additional two questions.

First, we had a lot of speculation in the press about changes in the senior management. So, I take the chance to have just a clarification if Luxottica had any changes in the senior management positions so far this year?

And the last question is on Ray-Ban, I would like to understand if you are satisfied with the performance of Ray-Ban. In particular in Europe, you were commenting about a weak market, but let's say compared to the market, Ray-Ban was say above or below trend?

ALESSANDRA SENICI: Yes, Domenico sorry we lost your first question. So in terms of rule of thumb we feel confident, as already said in the past, that we can continue to deliver on it because as you have seen previously, we continue to have a big focus on sales growth and we continue to have a big focus on profitability growth. And so, we expect to be able to continue to deliver the rule of thumb in the longer-term.

MASSIMO VIAN: In terms of executives, the reason why we are here altogether and united is because there are no further changes planned and this is the team that will drive the business forward. For your Ray-Ban question I'll hand it over to Fabio.

FABIO D'ANGELANTONIO: I take the Chief Marketing Officer hat for your question on Ray-Ban. Ray-Ban is growing year-to-date globally double-digit with an excellent performance in the optical business and we are happy about the performance in all geographies including Europe. Thank you.

DOMENICO GHILOTTI: Okay, thank you.

OPERATOR:The next question is from Mr. Paul Swinand of Morningstar. Please go ahead sir.

PAUL SWINAND: Good evening, Paul Swinand from Morningstar in Chicago. Thanks for taking all the questions and the patience. I just wanted to follow up on Luca's question about return on invested capital as you look longer term and I know there are a number of different levers you can pull. Will your strategy be to focus more on growth, on operational profitability? I know you didn't want to reveal too much, but can you give us a little more strategic detail on how you will improve the return on invested capital?

MASSIMO VIAN: Okay. So, definitely our strategy going forward will be focused on growth as usual. In terms of ROI, what I can say is that the journey on efficiencies, and I will be focusing on operational activities, will continue, I mean the results that you saw on inventory production do reflect positively on free cash flow generation. But you have to consider that they are the outcome of the investment we made on the rollout of SAP over the last years and they will be translated into further efficiencies along our vertically integrated business model. So, part of the return on investment and better performances we do expect to come from our improved, further improved supply chain model.

PAUL SWINAND: Okay, thank you. And do you think this strategy will change the way you look at acquisitions? And any impact on the capital structure?

MASSIMO VIAN: Absolutely not. As I said before, we continue to scout in the market and look for opportunities. And we have ambitions on that. Part of the DNA of the company is M&A and there is no reason to change that. And there is no reason to be more or less cautious compared to the past.

PAUL SWINAND: Thank you very much for that, and best of luck in coming years.

MASSIMO VIAN: Thank you very much.

OPERATOR:The next question is from Ms. Francesca Di Pasquantonio of Deutsche Bank. Please go ahead madam.

FRANCESCA DI PASQUANTONIO: Hi, good evening. I wanted to ask about the dividend, an update following the comments made at the beginning of September regarding your intention for the next dividend distribution. Thanks.

ALESSANDRA SENICI: Yes, you have seen our great deleverage and, in fact, already in the nine months we were able to be below one at 0.7 times [adjusted EBITDA] in line with our end of year target. What we already said in the past is that it is likely that the Board would consider the opportunity to increase the dividend payment and we think this is something that can happen in the Board called to approve FY 2014 results, so basically next year.

FRANCESCA DI PASQUANTONIO: And is a Board decision that you are anticipating?

ALESSANDRA SENICI: No, today the Board has not taken any decision on that, regarding the dividend.

FRANCESCA DI PASQUANTONIO: Thank you.

OPERATOR: Ms. Senici, gentlemen there are no questions registered at this time.

ALESSANDRA SENICI: Okay. Thank you all for listening to today's call. Me and the Investor Relations team will be available later tonight and in the next few days for any follow-up questions you may have. Have a good night. Bye-bye.