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Q&A

Alessandra Senici
Thank you, operator. Good evening and thank you for joining us today. Here with me are our CEOs Adil Khan and Massimo Vian and our CFO Stefano Grassi. 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 Presentation section. This presentation includes certain non-IFRS financial data and information which are further explained and reconciled in second quarter results for 2015 press release available under the Investors press release section of our website. 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 expectation 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 2 of the slide presentation.
We also refer you to our filings with the SEC and Italian Security Authorities. These filings contain additional information concerning factors that could cause actual results to differ materially from those contained in management projection or forward-looking statements.

We will begin the review of the second quarter results with Adil Khan. Please Adil.

Adil Khan

Thank you, Alessandra. Good evening and thank you for joining. I am going to go relatively quickly through the set piece, so that we leave sometime for questions. I am glad to report that the second quarter of 2015 was a record quarter for us. We had a very robust quarter confirming the momentum that we saw at the end of the first quarter.

Our overall revenues grew by 21.4% adjusted leading to our best ever quarter in terms of Group [adjusted] sales of €2.5 billion, which at constant forex is a 6.6% growth. Both our main divisions contributed to this result. On retail sales, we were up 27.3% [on an adjusted basis] and we saw good comps in retail, +3.9%. I am going to call out LensCrafters North America that has comps of 6.4%, and at constant forex Sunglass Hut continued its double-digit drive with global sales up by 12.7% at constant forex.

On the wholesale side, sales were up 14%, really growing evenly nicely across all regions. We continued to roll out our STARS program, added an additional 1,280 doors to the 4,000 that we already have in our bag. And on the e-com side we continued to see good growth on e-com and increasing role of e-com in our sales. E-com sales were up 57%.

We had excellent results from the bottom line as well. The adjusted operating margin was up 160 basis points leading to a record 20.8% margin. The wholesale margin expanded 190 basis points and the retail margin expanded 140 basis points. So, we saw profitable growth both in wholesale and retail. Our adjusted net income was €314 million, with net margin at 12.6%, and our net debt on adjusted EBITDA ratio was 0.8x after a dividend payment of €690 million.
Cash flow came in strong: €261 million additional. The contribution, a great contribution to these bottom line results beyond the top line growth came from our efficiencies. And I'll hand over to Massimo to tell us a little bit about that.

Massimo Vian

Taken from the industrial operations point of view everything went really well in this quarter, and all our structures performed better than planned, from the industrial engineering to the manufacturing and logistics distributions, with all the regions delivering astonishing performances. The new summer product launch we presented in March went better than expected in terms of sales results. Manufacturing volume growth was steady and consistent across all the quarter and I would say specifically in logistic and in distribution activities we delivered great results in June.

As a result of this, the total landed cost was down 3.5% [at constant forex] supported by volume growth, but out of this 3.5%, 1% was pure gain in efficiencies and productivity. Again as a result of this, we had the highest service level in Q2, I would say specifically the last weeks of June in which we were able to deliver more than 90% within five days on-time delivery for the new products of March and our overall level of backorders was 10% down compared to last year. So all in all, a great performance in Q2 from all the industrial compartments.

Moving then to our Oakley integration project, we are proceeding with this project as planned as well. We are projecting additional annual revenues that are expecting to yield €50 million of incremental operating income by 2017 with an annualized projected cost that we are confirming of €50 million within the year.

At the same time, we do our integrating, but we are investing as well in Oakley on the brand and on the site. We are increasing the investment in research and development. We are increasing the investment in the Foothill Ranch headquarters and creating a revolution on the industrial processes and we are ready for the acceleration of the brand with all the infrastructure leaner and stronger than ever before.

Now, I'll pass it to Stefano that as usual will take us through the detail of the financial results of the quarter.

Stefano Grassi

Thank you, Massimo. As you said, we are delighted by the way we closed the first six months of the year and we closed the second quarter with a 21.4% growth in top line on an adjusted basis at current forex which means a 21.8% growth increase in the [adjusted] top line for the first semester. On a constant forex basis, you are looking at +6.6% in the second quarter and +6.9% was our growth in the first semester.

As you can see, our Q2 growth was substantially in line with the growth we achieved in the first quarter, although let me say that we faced a much tougher comparison. In fact, as you may remember, last year we grew our top line by 4.2% [at constant forex] in the first quarter versus a second quarter growth that was in the range of 7% [at constant forex]. Once again, in this quarter foreign exchange was a help with the US dollar revaluating approximately 24% during the course of the second quarter versus the second quarter of last year. The weakening of the euro against the US dollar and other currencies generated approximately 15 percentage points of difference between current and constant forex growth, pretty consistent with what we've discussed during the course of Q1.

For the future, we continue to expect a positive contribution from currency in the coming quarters, but at a lower pace due to the US revaluation that you may remember occurred during the second half of last year.

Now, let me talk about the two divisions. Wholesale grew in excess of 6% [at constant forex] against the best quarter of last year. In the first six months you are looking at a growth of approximately 7% on a constant forex basis. We had a double-digit growth in emerging markets and a solid growth in North America and Europe which clearly pleased us a lot. And this is very consistent with the growth that we've seen in the first quarter of 2015. The retail growth was outstanding: +7.1% adjusted top line growth at constant forex in the second quarter versus a 6.6% [adjusted] growth in Q1. So clearly in acceleration, despite let me say a tougher comparison last year. As you may remember last year [at constant forex] Q1 growth for retail was 1.6%, the second quarter growth was 4.3%, so tougher comparison, stronger growth in the second quarter this year. The improvement in retail was driven by double-digit growth at Sunglass Hut, in China, in optical and Latam Optical retail that more than offset the weakness that we continue to experience in optical Australia.

Retail comps were +3.9% for this quarter. The biggest driver for our comp growth was LensCrafters, which delivered again another outstanding quarter at +6.4% comparable store sales in acceleration versus the first quarter of 2015 where you might remember our comparable store sales were +5.9%.

Now before we dig into our operating results, let me share with you a couple of adjusting items that impacted the second quarter results. Same as in Q1, as well as in the last two quarters of 2014, our sales results have been adjusted by the change in the sales presentation for an EyeMed insurance underwriting agreement. So that sales are now reported on a net basis and the impact for Q2 is approximately €44 million. The other item is approximately €20 million pre-tax charge, related to a restructuring charge we have taken in Q2 and that is mainly related to the Oakley reorganization that Massimo before described to you, as well as some minor reorganization activities that we took across the Group.

But now, let's look at our operating results. We are here to comment another quarter where top line growth, outstanding top line growth was coupled with an outstanding operating leverage. We were able to grow our margin on both our retail and wholesale divisions and hit our record high operating income.

The operating leverage is here again in the second quarter. The Group adjusted operating income grew approximately 31% or 160 basis points in the quarter breaking the 20% operating margin, more precisely 20.8% on a current forex basis. Let me also remind you that if we go back to 2009, Luxottica profitability has grown approximately 6.3 percentage points since 2009 which I think is a pretty impressive result that witnesses once again the fact that "profitable growth" continues to be one of our important pillars.

The result on a constant forex basis was still a remarkable 130 basis points improvement highlighting the fact that Luxottica's underlying business performance is very solid. Looking at the first six months of the year, we are looking at 32% growth in our adjusted operating income or a 140 basis points increase which means approximately 100 basis points on a constant forex basis.

Now, let's look a little bit at the two divisions on the right hand side of the page. Wholesale, 190 basis points growth in adjusted margin hitting the record 30% margin in at least a decade. The wholesale margin improvement was actually even stronger if we look at our results on a constant forex basis as we hit the 220 basis points improvement for the quarter. Let me remind you that this result came on top of an already strong profit and loss leverage in wholesale last year when we delivered a 110 basis points improvement on a constant forex basis. So now you are looking at about 3.3 percentage points of gain in profitability in wholesale over two years, thanks to the fact that we continue to see a gain in efficiency of our manufacturing infrastructure.

Retail, we continue to see an improvement in the operating margin. If you remember 110 basis points was the gain in profitability during the first quarter of 2015, 140 basis points is the gain in Q2 with a remarkable 38% growth year-over-year. For the semester, you are looking at 130 basis points improvement and again 38% growth year-over-year. Clearly, the US dollar revaluation helped the result in retail specifically. As you know, about 80% of retail's business is generated in North America. When you look at our results on a constant forex basis, you are looking at approximately 20 basis points improvement in Q2, very consistent with the 20 basis points improvement that we have in the first semester.

I would say that the reason why the retail margin did not improve as strongly as wholesale's, on a constant forex basis, is essentially the negative performance in our Australian optical retail which diluted the retail margin by approximately 40 basis points for the quarter.

Our net income in the second quarter hit another year on top of another year of rapid net income number in 2014: €314 million in adjusted net income on a current forex basis or 12.6% margin which means approximately a 34% improvement versus last year and a gain of 120 basis points. The gain on a constant forex basis was 90 basis points for the quarter. For the semester, you are looking at a very consistent growth, so that our net income grew approximately 34% or 90 basis points on adjusted basis at current forex with 70 basis points of growth on a constant forex basis.

Now let's recap where we are, and let's do what I call our health check. As you can see from the page, this is a summary of our commitment that we shared with all of you during the Investor Day at the beginning of March. Our commitment, if you remember, was to grow our top line mid-to-high single-digit at constant forex, to grow our operating income two times our sales and to grow our net income two times our sales growth. Here we are, 7% our top line growth at constant forex, clearly for the first six months we are in the high end of our commitment, 14% is our growth in adjusted operating income, 14% is our adjusted net income growth. So, as you can clearly see, we are six more months ahead of us, but clearly we are confident to deliver our commitment for the full year 2015.

Now let's talk a little bit about debt and free cash flow generation. Overall, looking at our net debt, let me say that our position is pretty solid, a 0.8 Net debt on adjusted EBITDA ratio despite the fact that we paid a record high dividend for Luxottica of approximately €690 million during the course of this quarter. The expectation for the year end is to bring our net debt/EBITDA ratio at 0.6x, fully in line with the commitment given at the beginning of the year, and also I want to remind you all, that we did repay in the month of July over a $100 million of US private placement and by the year-end we will repay our €500 million Eurobond.

Talking about cash flow, we are commenting another quarter of outstanding free cash flow generation. Our quarterly free cash flow was around €260 million. This number includes approximately €60 million for the second and last tranche of the extraordinary payment related to the tax audit on transfer pricing. If you exclude that item, our free cash flow generation is matching the record high free cash flow we hit last year in the second quarter.

Commenting on the free cash flow performance, we can say that clearly there is help from currency, but it also includes a strategic decision to invest in our inventory position with the goal of improving our service level to our retail and wholesale channels and ensure that we have the product ready when the customer needed it. In addition, let me say that if you look at our last year's inventory level, you'll notice that the inventory level was probably at the lowest in a decade resulting in a 17 days reduction versus Q2, 2013. So, a strategic decision to invest compared to a very low inventory level last year.

In addition, our CAPEX grew in the second quarter approximately 32% with a continued effort in enhancing our manufacturing capability and expanding our retail and wholesale distribution channels. Overall, let me say that we are very pleased with the way we closed the first six months of the year and confident to achieve our full year goal. And now let me hand it over to Adil to give us a bit more color around our top line performance in our different geographies.

Adil Khan

Thanks Stefano. So, let me start with commenting on the North American performance. At the beginning of the year we had an expectation of growth in the 4% to 6% range [at constant forex, on an adjusted basis] and the first semester has come in at 6% growth. So we are on the high end of the bracket. What's helping us there is the excellent performance of LensCrafters I mentioned earlier, with comps up 6.4%. Sunglass Hut had total sales of 7% at constant forex, with comps of 2.5% and our e-com sales grew by 45%. So we are firing on all cylinders there, and in North America, which is approximately 50% of our business, we are performing at the high end of the bracket.

In Europe, and when I add North America and Europe, I get 75% of our business, we had given an estimate of 5% to 7% growth [at constant forex] for the year that seemed very aggressive at the beginning of the year and I am happy to report that we came in at plus 6% [at constant forex] in the first semester. So bang on guidance. And to some extent given that we had a relatively high base in Europe, we feel good about that number. We were certainly helped by strong weather and strong sales, particularly in June that have continued in July.

As for the rest of the world, I'll quick comment on Latin America, where we grew 16% [at constant forex] which is on target versus the range we communicated [+16%-20% at constant forex for FY 2015].

And in Asia-Pacific, where we estimate growth between 10% and 14% [at constant forex], we grew 6% [at constant forex] in the first half. But I like to make a comment there because often when we talk about our emphasis on emerging markets, and when we look at Asia-Pacific, we look at those two numbers, but the Asia-Pacific number includes a developed market, a big one which is Australia where our performance was low single digit. If we look at China, India, Southeast Asia and exclude Australia we are growing 14% at constant forex in both Q2 and the first half and straight out we are growing 48% in China. So, we haven't felt the pinch in China. Our China business in particular continues to perform very strongly indeed.

We are closing the second quarter with some momentum.

The agenda going forward is to conclude the Oakley integration, which is the hard work and now look forward to the ideas that can drive the business forward. And particularly, we have a big event coming up which is the 2016 Olympics. So the team is all focused on making that a really big event for Oakley.

In China, as I mentioned previously, we've set up a new organization that is focused on growth and we have single-point leadership across all our businesses, so that we can speculatively decide where to invest for maximum growth potential across wholesale, optical retail, Oakley and Sunglass Hut.

The recent progress in LensCrafters is encouraging us a lot on being able to declare a winning model for the top line on LensCrafters. We've had very good performances historically on LensCrafters on the bottom line. For us to be able to post comps above 6% is encouraging us that also the top line model is robust, and that encourages us to do further expansion.

And lastly, we've made some interventions on pricing. In the past four or five months, we've seen a lot of currency swings and that has somewhat altered our pricing levels in local currencies across the world. We've made the decision also to use the favourable moment to make adjustments to be able to have a more uniform pricing across the world, which has allowed us in the past month to take some pricing initiatives, particularly in China where our pricing is going to be more competitive in the second half of the fiscal year and some slight adjustments in the US. But we are aiming for a global price list and we will be looking at our pricing every six months and make sure that if the currency environment is volatile, we are able to react to that and give consumers good value across the world.

Of course, we continue to have the best eyewear ever and I'll hand it over to Massimo to tell us a little bit about some of the new products coming up.

Massimo Vian

Before talking about the new products coming up, let me say that we successfully launched products in March that helped us with the performances of this quarter and what we saw with some of you in February really delivered great results and we are very, very, I say that again, very happy with what we obtained from April through May and June with the new product releases. And basically in all sectors with the majority of the brands I would say almost all of the brands gave us the results that we saw in numbers with Stefano and Adil.

Back on the new styles, we just finished the Luxottica Days where we presented more or less 700 new styles, I mean great performances of these products as well, say in all compartments. Ray-Ban is back on round shapes and we're investing even more on iconic designs from the Aviator families, Wayfarer et cetera with new products, with new styles, new finishing, new materials. Back to Oakley, more and more iconic Oakley DNA styles are coming out, you see one in the pictures, but more others are really on the market starting in September, and then on luxury more decorations, more crazy solutions with lenses, with new finishing, metal finishing.
We see already from Luxottica Days, first coarse metal back on track more than what we saw in the last collections and this is good news for us. Still strong with the acetate, but we see some new energy on metal shades. So we are ready. We are ready with all the collections that we will see in our stores starting from September, October, a special edition in November. We're ready to launch some Christmas edition for Thanksgiving special weekend.

So I would say that we are well positioned for our fantastic Q3 and end of the year performances. So, coming from a very sunny July, the investment that Stefano mentioned to you before in our inventory works perfectly in the super-fast reordering cycle I would say week after week but day after day of our best-seller of March, and we are ready for our Q3.

So opening up for Q&A, so we leave it to you and we are ready.

Q&A session

Cedric Lecasble (Raymond James): Good evening to all of you. I have two questions actually. The first one on the wholesale margin evolution and the negative forex impact, I just wanted to double-check the figure I heard: plus 220 basis points at constant currency. And the second one on drivers for the strong acceleration in margins. You mentioned some production efficiency, but could you help us understand the big boost in the wholesale margin in Q2? And the third question is on the pricing strategy. Could you be a little more specific per region and per brand? Did your comments apply to all regions and all brands, or is it more specific per region or per brand? Could you help us a little bit understand what you are doing on pricing? Thank you.

Stefano Grassi: Okay. So I'll answer to the first question and then I'll probably hand it over to Adil for the answer to the second one. So yes, the wholesale margin grew in the second quarter 220 basis points on a constant forex basis. So that gain in profitability was really the result of efficiency in our manufacturing network across the Board. And that obviously have a very large impact on our wholesale division. The impact on our current forex basis is an improvement of 190 basis points. So we have a lower improvement on our margin due to the fact that certain currencies like CNY play against us when you convert the number at current forex. So you see that impact happening over there. Adil?

Adil Khan: Yes, on the pricing front, as the marketplace gets increasingly global and particularly as e-commerce increases in weight, it's important for us to be able to have our eyewear live within a pricing corridor within the world that has reasonable differences, sometimes guided by duties and logistics, but not dramatic differences in prices across regions because the marketplace is indeed global. Following the sort of currency storms that began seven, eight months ago relative to the euro, which is our base currency. We had significant appreciation on the dollar and particularly on the Chinese Renminbi. So, as common practice, every six months we look at our pricing and see if there is any adjustment to be made for currency purposes. Of course, it's always easy to go up, but it takes a little courage to go down. And given that we do have a favorable situation - you've seen our results are strong, our cash is strong, the exchange rate is favoring us - we wanted to make sure that we use this moment and didn't waste it to make even pricing adjustment downwards if that made us more uniform and more global. So, you ask me for the specific country effect, I would say to keep it simple: in our portfolio the high-end luxury items, which typically had some of the biggest differences versus the euro, are the ones that are the most impacted. And numerically, China and a little bit the US are the other countries that will see some readjustments downwards in the next six months, particularly on the higher end items of the portfolio.

Cedric Lecasble (Raymond James): That's clear. Thank you.

Elena Mariani (Morgan Stanley): Hi, good evening. Congratulations on the results and thanks for taking my questions. I actually have three questions. The first one is on the like-for-like, I just wanted to understand whether you could give us a bit more of flavor around volume versus pricing across the different regions and also for the different segments. And then related to this and in terms of price harmonization, are you planning to do anything in Brazil given that it's an important region? How did you see the currency movement there impacting your volumes and why did you think of keeping prices as they are? And then the third question is around China. Could you give us a bit more of a flavor of what you are doing there across retail and wholesale? I think that the like-for-like is up only 1% and I understand that in the past you had double-digit growth, but if you could comment on that. And also on the Chinese consumer in general, how do you see the Chinese consumer evolving and how are you reacting to that from a strategic perspective? Thanks very much.

Adil Khan: Okay. So, on the volume versus pricing apart from stating the obvious that when we take pricing down, we expect to see some volume build, I think that this will not be a significant topic for us, in terms of total revenue effect, because as I mentioned earlier, the country where we are taking the most action is China and at the moment, our China business is up 48%. So, I think if there is any negative effect, it will get lost. If there is any positive effect, I think you might see it, but in the grand scheme of things we are talking about adjusting particularly the top end of our portfolio and this within the context of countries that are growing significantly. To some extent that also applies to Brazil, which continues for us to be a very strong country. So, you know, I don't want to sound like we are ignoring the fact that the Brazilian economy is softening to some extent, but our business continues to be robust and we continue to see double-digit growth there. We have a very good portfolio in Brazil. It's one of the countries where we have wholesale, we have retail. Oakley is a big brand, and we have an optical channel that is also growing. So I think the ability to have both a strong sun business, which is an impulse business, a strong optical business, which is more of a loyalty business, and production facilities that are local, has made us a little bit less sensitive maybe on some of our peers on an economic factor. So, our business in Brazil continues to be strong too.

On your third question, our wholesale business is very strong in China. And it's very strong because really it's a still a game for us of conquering territories. So we have a business that grows 30%-40% month after month, a lot of it is increased distribution coverage. We are still, at the end of the day, despite it's a €200 million business for us, we're still in the coastal areas, we're in the five, six big cities. So we have a lot of China to conquer and that will tend to mask and compensate for any of the temporary issues that there might be anywhere else in China. So we've had slightly soft sales in Hong Kong and Macau in the past six months. But in the context of total China, the wholesale business really continues to be the driver and is behind the double-digit growth that we are seeing there.

Elena Mariani (Morgan Stanley): Okay. Thank you very much. One final follow-up question, this is for Stefano. I was looking at the gross profit evolution and I've seen quite a big jump similar to Q1. And my understanding from Q1 was that it was sort of like an exceptional jump. Can you comment on that one as well? Thank you very much.

Stefano Grassi: Yes. The gross profit obviously is a big plus for this quarter and helps a lot our profitability. I would say, in Q1 we commented a price impact coupled with manufacturing efficiency, if you remember. I think now we're probably putting more emphasis on the manufacturing efficiency gain that we got in Q2. So I would really say that, that is the reason why we got such a significant margin improvement, especially in the wholesale side.

Elena Mariani (Morgan Stanley): Great. Thank you very much.

Anne-Laure Jamain (HSBC): Good evening. Can you repeat the evolution at constant forex of the retail margins, please? Regarding LensCrafters, will you start a refreshment of the store network in Q3 or more in Q4? Did you already find the right store format that you will implement? And my final question is on M&A. You mentioned during the Q1 conference call that you were engaged in some conversations and you may have some news in the next six to 12 months. So can you give us more color on that or an update regarding that? Thank you very much.

Adil Khan: So maybe I'll start with your second question on LensCrafters, and then I'll hand it over to Stefano for the glide path on retail margins. So, if I've understood it right, on your question on LensCrafters, our plan has two phases. Phase number one is to focus on comps within the stores and it's really a service story. It's about improving our associates, it's about improving the conversion rates, it's about improving the doctor recommendations and working on the quality of the experience in the store. We were expecting from this phase our comps to reach 4%, which for us was a good number. And then we have a second phase which instead is focused on traffic and for traffic we need and we want and we are funded to renew our stores. Now, we have got more from our first phase than we expected because as you saw our comps for LensCrafters in the US went over 6%. So, we are kind of encouraged in discovering that the component that we can get from service is even bigger than we thought and we are going to focus certainly on that for the whole rest of this year. We are testing different store models, because we want to renew our fleet. We will have the first couple of stores, which I would still call "test stores", in place in the second semester of this year. And then, we will measure the results and compare designs and then in 2016 we'll start the roll-out of these designs. We haven't lost any commitment on the redesign phase. But I must say that seeing such healthy comps come from the service element has made us keen to focus on expanding that service drive and the service know-how across our whole fleet at the moment. But you will see fleet renewal starting in Q4 I would call it on a test basis and in 2016 as operating practice.

Stefano Grassi: Now, back to the question on retail margin at constant forex. We are looking at a 20 basis points improvement at constant forex in the retail margin in Q2 that is pretty consistent with the retail margin expansion we got in the first six months. I think it's important to mention, as I said before, that the dilution we got from Australian optical operations accounts for about 40 basis points of dilution in the retail margin. If you exclude that, you would look at around 60 basis points at constant forex improvement in the retail margin for the quarter.

Adil Khan: There was one more question on M&A. I don't think we have anything new to share. Of course, M&A, you talk about it when you've done it rather than before. As a strategy we are continuing to engage and look at opportunities, particularly in a couple of areas. One, emerging markets, where acquisitions of either retail chains or distributors accelerate our path to gaining a footprint. And then we also look at smaller acquisitions of particularly new technology areas where we think we have something to learn that we can then expand to the rest of the company. So, we are active all the time. We have, as you've seen, significant cash to be able to do acquisitions. So we protected that. I do also, as a balancing item, want to say that any acquisition we do have to compete with the current pace of organic growth, which is good. And we can reach all of our objectives, particularly the objective of doubling the company in the next decade, which is one of the objectives that we stated, organically. We continue to chase acquisitions, we have the cash for acquisitions, but we don't have a gun at our head, the need to do acquisitions to be able to post the right revenue numbers.

Anne-Laure Jamain (HSBC): Thank you very much.

Daniel Hofkin (William Blair): Hello. I just wanted to follow-up quickly on the gross margin question. Obviously, almost 300 basis points increase on a reported basis. Can you just say directionally or if you can quantify how much currency affected just the gross margin overall? I assume it was an important factor, but it sounds like without the manufacturing efficiencies your gross margin still would have been up solidly? That's my first question.

Stefano Grassi: Yes, I think when we look at the second quarter I think you would be looking, excluding the forex impact so excluding currency fluctuations, to over a percentage point improvement in margin in the second quarter versus the second quarter last year. So it's a solid underlying business performance excluding any currency fluctuation.

Daniel Hofkin (William Blair): Okay. And I assume it sounds like manufacturing is carrying more than a share of that. With the retail business have you seen an increase as well?

Stefano Grassi: Yes. That's correct. Obviously, wholesale gets the bigger benefit of that, because of the higher amount of volume flowing through our wholesale division versus the retail one, but clearly there is an impact on both sides of Luxottica.

Daniel Hofkin (William Blair): Okay. And then on Sunglass Hut North America, in the second quarter it sounds like comps were up 2.5%, but then July comps are up high single digits. If you were to look at this, you know, the sunglasses season overall how would you say it increased? Was it up 4% to 5% in aggregate? What's the reasonable estimate?

Adil Khan: Yeah, that, that's a reasonable ballpark. On Sunglass Hut, in the first part of the year we had a little bit of a slowdown in the tourist areas. We divide North America in 60 sales areas and the 10,15 that we label "tourist areas" were a little bit softer than the rest. And then when the sun came out everything fixed. So in the past three, four weeks even in the tourist areas, the Orlando's, the Miami's, the New York's we were getting good comps. So Sunglass Hut comps for the quarter are 2.5%, but comps for the past three, four weeks are 2 to 3 times that, and that has allowed us actually to start July pretty strong. So overall sales numbers, as I said earlier, are pretty good and the comps are coming up and when we have the two together, we look optimistically at the next months. But, you know, for us this is a business which is dependent also on the weather. And I must say the weather has been our friend in the past three, four weeks both in North America and in Europe.

Daniel Hofkin (William Blair): Okay, I guess lastly, as it relates to Australia basically, any thoughts about the competitive landscape and the strategy around focusing or redefining OPSM if you think that's appropriate or anything that you guys feel like you want to do to further differentiate your offering there?

Adil Khan: We have a lot focus on Australia. We have a new team in Australia. We have an Australian team in Australia. Australia has been the story of a great Sunglass Hut business, double-digit growth there, a great Oakley business and a flat retail optical business. We are focusing on two things at the moment. One is making sure we have the right value equation and the other is to make sure that we celebrate our brand, because when you walk into an OPSM, really our competitive edge is that we have the best frames and the best brands. So we want to make sure that we do offer the right value, but also that we are not dragged out of what is our strength which is brands. Those are the two areas. We have seen some encouraging very early signs, but it would be irresponsible for me to say that we have it right. It's just been a few weeks that we have the new team there. They have the backing of everyone in the company, they know it and they are using it well and I think we can say more about that later in the year.

Massimo Vian: I can add to that, we're testing new models of assortments, specifically this August and the next months. It's early to say but all the focus is there from the all the team of the Group.

Daniel Hofkin (William Blair): Great, thank you. And if I could just ask one housekeeping question, if you look at the like-for-like sales in the second quarter versus the first quarter, obviously they were a little slower against the harder comparison, but the total retail sales growth accelerated a little bit. I was just curious, is there something in the new store contribution or something else that accounts for that aspect?

Stefano Grassi: Yes, I think the impact is really due to a couple of things we have. One is we have a higher number of stores. And the second thing is that the new stores that we opened actually got a really good and promising performance in the geographies where we opened them and especially North America sounds very promising. That's why you have a significant acceleration in our sales number in retail.

Daniel Hofkin (William Blair): Very helpful. Best of luck.

Domenico Ghilotti (Equita): Good afternoon. I have a question on the wholesale margin. In particular, coming from a very strong [first] quarter you were mentioning strong reorders. You have an easier comparison at least in Europe in the second half and we had no evidence of really strong forex headwinds looking at your Q2 numbers. So I wonder what is that preventing you to replicate the performance that you had in the first semester.

Stefano Grassi: Well, I think you know, looking ahead we clearly have in wholesale all the constituents for a solid second half of the year. You might remember that last year, especially in the fourth quarter, wholesale had a bit of a slowdown. So, I think from a top line as well as from a profitability perspective you still have constituents to grow and to improve the margin. There is no reason why we shouldn't be doing that and I don't know if that's going to be on especially the profitability at the same strong pace you've seen in the first half, but again I think the top line is going to be there and I think it's probably going to be even stronger due to the comparison with last year. Profitability is still going to improve throughout the second half of this year.

Domenico Ghilotti (Equita): Okay. And regarding price harmonization, is it something that could really affect your profitability in wholesale already in the second half or is it more a strategic decision, but with a limited impact on the profitability? Because you were mentioning China as a relevant market, but not so big that you are really hitting on your overall performance.

Adil Khan: No, we don't expect a significant impact, actually any impact in the second semester. A lot of our harmonization is carried by new models and new portfolio. So the models that Massimo was mentioning earlier that we presented at the Luxottica Days in July, you'll see those on sale in October and November. And so any impact that is carried by that is assumed in 2016. So the second semester is plain sailing.

Domenico Ghilotti (Equita): Okay, thank you.

Julian Easthope (Barclays): Hi good evening everyone. Just three questions as well from me, but I'm starting with price harmonization. You said that you are really adjusting the top end brands, is that actually top end brand-driven? I know Chanel was obviously very vocal about the fact they wanted to harmonize prices globally and I guess it will be much more difficult to sort of not have the best sunglasses that you do with them within that sort of mix. So, I just wondered whether it was them that were driving this. And presumably when they actually did this, they also put European prices up, so actually net-net there actually is a small global price increase I think, overall, at least that's what the industry probably did.

So the second question really comes back to sunshine. Just how important is it? I noticed in the fourth quarter you alluded to that, you saw a decline in the European business last year. I understand some of that at least was down to the fact you had returns from some of your third-party retailers which could well have been down for the fact that sun wasn't so great, but they didn't quite sell as many. So I just wondered if you had a view on third-party retailers and how important the sun within that.

And lastly, in terms of margins, you've got fantastic margins in your wholesale businesses this year. That presumably means your factory utilization is probably about as high as it's ever been, do you have much capacity left within your factories and your logistics operations or are you going to have to continue to make further investments in expanding the facilities? Thank you.

Adil Khan: So let me take the first couple of questions, then I'll hand it to Massimo for capacity utilization. On your Chanel question, no it's not specifically driven by our partners and friends at Chanel, but they and several luxury players have been adjusting their prices, have been adjusting their prices in China, starting with that. We have not done the double effect. So we have not taken our prices down in some places and up in others. Really, we've mostly focused on harmonizing to the Euro price and that's meant for the way that our portfolio was priced. Price decreases are on really our most expensive items, and that's what I meant by calling them luxury items, our most expensive items, particularly in China where the Renminbi-Euro and the previous pricing strategy had driven a very significant disadvantage to buying in China for somebody that could buy internationally. So, that's one of the moves that you will see with our new assortment that launches between Q3 and Q4.

The situation that you described last year, if I may slightly reframe it, what happened last year was that, with a relatively dark summer, our clients but not just third party, our clients across particularly Europe found themselves with very high stock at the end of the season and what was going to be the peak season, and that led to relatively lower repurchases in Q3, so there was a time delay and a reduction in consumption that may be driven by the weather patterns and the effect on selling. So, this year we are having a sunny summer, and I think we put a lot more attention to our levels of back orders, our levels of inventory which are really under control. So we expect and are starting Q3 with things right there and we don't expect to have any issue in Q4 of overstocking in the market. Massimo will comment on capacity.

Massimo Vian: On capacity, clearly, we planned the first semester of aggressive ramp-up in volumes also because we were confident in a different summer than last year, I mean worse than last year it was only 100 years before so it was not a bet, it was not a guess, it was a plan. We reviewed the stock model of all our retailers, specifically Sunglass Hut in North America, and that's why we increased the volumes as we did. It has proven to be successful, but of course they utilize a lot of our capacity. You highlight a very relevant point in terms of difference between the manufacturing capacity, that is growing, but luckily for us not as fast as our automation level. So thanks to the increase of the productivity, we gain physical spaces in our factories.

It's a different matter for our DCs and actually our distribution centers are where we see the first bottleneck for our future development. This is why we already planned and are executing the new distribution center in China and as we will move in 2017, we will free up space in the factories in China. And this is a piece of news for you: we are launching the doubling of our distribution, more than doubling the distribution center in Atlanta. The real next challenge will be the distribution in Italy because the more we will go direct with direct shipments from the source, the more the "made in Italy" products will be important and we are planning to increase our first level DC inventories in Italy. So after doubling, more than doubling China and basically trebling our Atlanta DC, it will be the time for our Italian distribution centers.

Julian Easthope (Barclays): Okay. Thank you very much.

Andrea Bonfà (Banca Aletti): Good evening to everybody. I have two questions. One, if you can elaborate, let's say, between your guidance about order portfolio, you said the wholesale orders up were double-digit or up high-teens at the end of the first quarter, with your 6% wholesale sales growth [at constant forex] in the second quarter, if I'm correct. And the second one is if you can quantify your investments in the price adjustment, particularly if you want to invest part of your Oakley savings into this approach? Thank you very much.

Adil Khan: I'll start with the second. We don't really disclose the number for our total investment in price adjustments. We do see it as from now on standard operating practice whenever we see significant swings. There is no relationship between the Oakley savings and the price adjustments neither mechanically nor even in spirit. So the Oakley savings will be reinvested in Oakley to make Oakley bigger, international and a hit over the Olympics and it's important for us to underline that because Oakley is on the "we want to invest list" not on the "we want to extract savings list". So we extract savings because it's sensible to do so. We will reinvest them in Oakley, we will more than reinvest them in Oakley. I'm not sure I understand frankly your question on orders on wholesale.

Andrea Bonfà (Banca Aletti): I was referring to your first quarter presentation, in particular to the fact that you entered Q2 with asset portfolio orders up mid teens and the second quarter the volume growth in wholesale was around 6% if I'm correct. I just want to understand and interpret your guidance for the next quarter.

Massimo Vian: I can comment on that. The acceleration on Q2 has benefited, especially in the last four weeks, of the great level of service level compared to last year. So we made the difference in Q2 really in the last four weeks of the quarter and this is not expected to erode the portfolio of Q3, but actually benefiting from a higher service level. And this is what exactly I was referring to before: a specifically planned strategy of inventory in Q2 and a specific new coverage for new product releases. Besides, during Q2 we opened approximately 1,280 new STARS doors that helped us in accelerating orders and renewing the stock and the inventories in the stores of our clients, so really it has been a magic momentum for the cycles of reordering and service level that helped performances through the month of June specifically, without at all compromising what we are seeing in July, this bright sunshine in July. So and we say this, we're smiling, of course.

Andrea Bonfà: Thank you very much.

Flavio Cereda (Merrill Lynch): Hi, good evening. Just one question, I won't keep it long it's quite late and I think you've pretty much covered all the key things. My question is about spending €50 million on Oakley in nine months. Can you help us understand what you are actually spending this money on please? I mean what you call the integration related charges of €50 million in nine months in 2015? Just curiosity, thank you.

Massimo Vian: Okay. I can give you some of the details of the integration process we are going through. I would divide those details in four milestones that went through in this very busy month. So, the first one has been eliminating key positions in Oakley's structure from the CEO position to the global sales channel's position, global wholesale, global retail, global product development for Oakley. So that was the first step. The second step has been the announcement of the Zurich headquarters closure that has been effective July 1st for the integration of personnel at the Oakley European headquarter into our existing Luxottica infrastructure. Those people now are working in Milan, in London, and at the back offices in the Belluno area in Northern Italy. Third milestone has been the communication of the bulk part of the integration in Foothill Ranch that happened two weeks ago with 400 positions being made redundant over there. And all the back offices and infrastructure of North America, and this is the fourth step of the process, will be fully integrated starting October 1st in the existing North American structure and this is in relation to IT, administrations, sales operations and order cycle management with all the processes that will go through our infrastructure mainly of Luxottica wholesale in New York and all the processes that will go through our Atlanta distribution center. So huge operation that I will say is, 80% through. Of course, lot of activities between Q3 and Q4, and this is why we are planning costs for the second semester. We cannot exactly give you the split of what will be Q3 and Q4 because those two weeks will be crucial, but everything is planned and the Oakley team is driving this integration, so very proud of that.

We already see the excitement coming more from the reinvestments rather than the savings activities as I said before. So, focus on Olympic Games, new collections, and the new footprint of the manufacturing plant in California that will be deeply expanded through the next months.

Flavio Cereda (Merrill Lynch): Okay. Thank you for the clarification. Thank you.

Elena Mariani (Morgan Stanley): I apologize. One final question from my side. There has been a bit of speculation regarding some management changes internally in your line management teams. Could you perhaps comment around that and should we expect any additional changes in your line managers? Thanks very much.

Adil Khan: Yes, I'll take this. Firstly, we don't expect any significant management changes going forward. So we are in a steady state. We had a management change two weeks ago where Mr. d'Angelantonio, who was our CMO and leader of Sunglass Hut combined, left the company. This had been in the working for many months and it was a consensual separation. I think Mr. d'Angelantonio leaves us with his head high after having had really a great run on Sunglass Hut and on creating the marketing structure. We have announced a new CMO that will be starting in the company next week. His name is Stefano Volpetti and he comes from Procter & Gamble where he was Vice President in the Beauty Care division and is a very high profile signing for us at

Luxottica. So we look forward to having him in the team in the next weeks. No other changes planned that I know of in the next months.

Elena Mariani (Morgan Stanley): Thank you.

Adil Khan: Thank you very much. Thank you for listening and we look forward to catching up at the next earnings call in three months time. Thank you very much. Good night.