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Q&A

Welcome and agenda

Alessandra Senici

Good morning everyone and welcome to our annual "Investor and analyst presentation". I want to thank you for joining us in this beautiful location, a royal palace dating back to the 17th Century. All the things that inspire us at Luxottica can be found here – heritage, history, art, beauty, design – so we felt this was the right place to talk about our business.

Today our management team, led by Massimo Vian, our CEO for Product and Operations, will share with us a lot of interesting information: a comment on 2015 results, outlook for the next three years, long-term growth opportunities and investments which are going to support this growth. We will conclude the day with a visit to the Luxottica Days to have the opportunity to preview our latest collection.

In recent weeks, many of you have asked to have the opportunity to meet our Chairman and today he is not here with us because he had an already-planned trip in Asia but in coming weeks he will be available. In any case, he left us a message.

Video message from the Chairman

Good morning everyone.

I am pleased to send this message since I cannot be with you today.

Right now I'm in Asia for business and it's a trip that I preferred not to postpone. As many of you know, I still prefer doing things rather than talking about them.

First of all, I would like to thank Adil Khan for his contributions over the past year with us and for the professionalism and fairness with which we parted.

My dream, as an entrepreneur, has always been to make the best eyewear in the world and see everyone wearing them.

I have personally experienced, for over forty years, the passionate adventure of turning this vision into a reality with a strong and dynamic company like Luxottica.

Since I returned to an operating role in the company, I realized that in many areas we must do more, not only to achieve desired short term results, but also to solidify and sustain our global leadership in the long term.

I want everything we do as a company to set the highest standard and to be designed to last.

In a few years, my plan is to return to my previous role of non-executive Chairman and shareholder, handing over to Luxottica's management the company that I dreamed of, made of excellence, innovation and tradition.

I have started, together with Massimo Vian and the entire management team, a new phase with an innovative strategic vision, speed of execution and organizational simplicity.

I have made a personal commitment to our 80,000 employees, the market and our shareholders to bring the Company back to its entrepreneurial roots.

I'm not back to solve critical issues but to fully seize new opportunities in retail, emerging markets, e-commerce and in our key brands such as Oakley and Ray-Ban.

The pillars of our strategy have not changed in 50 years and will not change now: product quality, strong brands, efficient factories, widespread distribution and growing our direct relationship with the end consumer through retail, franchising and e-commerce.

Still, the organization and business model themselves need to change and adapt to the times. They have been at a standstill for too long.

Although today we are strong, life has taught me that you should never think of having arrived; I believe that you should always have the courage to reinvent yourself and innovate.

Our first changes will be in the retail business, where we will unify all our retail chains, with shared centralized systems and services. At the store level, we will shorten the chain of leadership and elevate the role of the store manager, who will evolve from employee to entrepreneur, owning his or her own business results.

These changes will foster new ideas and keep us running simple and fast, two of our founding qualities.

Another project, very dear to me, is digitizing communications in our 7,000 stores and in more than 150,000 wholesale locations worldwide.

My dream, which I can assure you will be achieved at least partially this year, is for our stores and our wholesale customers to have digital access to product images in real time anywhere in the world.

I envision communications conceived at our headquarters in Milan, targeting millions of consumers around the world, adapted to demographic, time of day, country and location – from digital messaging in optical store windows to the screens of consumers' mobile phones.

What is surprising is that all this will cost us less than what we annually invest in traditional marketing.

To complete the Group's digital strategies, we will steadily grow e-commerce, supported by significant investments in technology and communications. It will be a truly global e-commerce effort anchored by the digital platforms of Ray-Ban, Oakley and Sunglass Hut, and enhanced by the reach of major digital retailers such as Amazon and Alibaba.

Electronic traceability of frames and price harmonization are the preconditions, already met, that will make this new model possible.

Another area that has our attention is the lens world, which is worth as much as the frame market and delivers very high margins. This is a tremendous opportunity for our retail chains and e-commerce. We will address it in the style of Luxottica, based on outstanding quality, perfection of service and strength of brands.

To conclude, I assure you that the governance and future of this amazing company is in good hands. It will be led by talented managers, who are accomplished and passionate leaders inside the Group and backed by a strong and independent Board of Directors, as it is now, carrying out their respective roles for the benefit of all shareholders.

Thank you all for your time. I wish you good work.

Welcome and CEO's remarks

Massimo Vian

So, once again from my side, good morning to all of you and welcome to today's presentation in this fantastic location. So, the themes of today's presentation will be the coherent evolution of our business model, sticking to our commitments and delivering results.

First of all, let me open my speech with a big thanks to Adil Khan, even from my side. We intensively worked very well together. We have said it many times: we complemented each other and that was definitely true. We are all sure he will do great in his next professional assignment.

As you have seen from the video message, we will have from now on the opportunity to work even closer with our Founder. His entrepreneurial spirit, his vision, the speed of execution will even more penetrate all of our organizations. He definitely keeps on pushing all the management to challenge the status quo of the organization, to go faster towards evolution, to test, to experiment new business models, from Retail and Wholesale to Operations and that will definitely be a further boost effect to the way we will do business in the next couple of years.

We do not forget, though, that we have to invest in the organization, to continually grow the talent pipeline and consolidate our succession plans. I think today in front of you, you have more than 30 years of experience between myself, Stefano, Nicola and Paolo. Even in this situation and in this configuration we are solid. Their organizations, the organization I lead, are all full of talents. Senior managers, every time we globally travel to conventions, events, every time we appoint new leaders in our organization, they are great leaders. We have the proof that our organization is full of passion and enthusiasm and we will be very solid in the future.

2015 achievements

Back to the business, before entering into the details of the presentation. The overall situation we see is that, thanks also the new technologies, mobile especially, markets and consumer tastes are changing very fast. The time lapse between the moment our consumers see the product, they feel the need and they want to possess a good is getting shorter and shorter. And that goes from product operations, distribution to the time they appreciate our products in our store windows. Our business model is ideal to capture any opportunity from this acceleration. We can extract value from every link of our supply chain and this, I think, is a beautiful kind of self-sufficiency in terms of business model if we look ahead in the coming years.

Before going into the future, let me spend at least a minute to celebrate another record year. We reached, in 2015, €9 billion in revenues, no compromise between top and bottom line. Even last year, for the sixth year in a row, we stuck to our rule of thumb. So we grew operating income and net income twice as that of the top line and we had also a very strong free cash flow generation, almost €770 million last year.

Resilient in a more challenging environment

2015 for many fashion and luxury companies has been definitely quite volatile; not for us. We relied on our pillars of excellence. For sure, the diversity of our brand portfolio played a very important role. One remark is that, once again, the Ray-Ban performance in the lifestyle segment definitely helped a lot last year. For sure, our footprint in terms of distribution network, Wholesale, Retail were present everywhere. It helped us – we will see in a minute – [to deal with] different macroeconomic effects in different geographies, different countries, and for sure especially in North America. Our eye care business proved its reliability and solidity last year as well; I am referring specifically to LensCrafters in North America led by Nicola [Brandolese]. He will deep-dive into that later on.

So, we were saying, a volatile year; how did we achieve our performances? North America, you know that our position is specifically vested in North America and Europe, as 75% of our business is there and that, in 2015, was probably sort of a little bit of a surprise, if we go back two years ago but that was really the foundation of our results.

In North America, specifically, Wholesale did an astonishing performance, with +6.3% [at constant forex] in sales. I referred to that before. Our Retail in North America was extremely solid; a record year for LensCrafters: +4.3% comps.

In Europe, despite a slow consumption rate, we had a very, very solid performance, better than our forecast, achieving almost 7% growth [at constant forex].

China and Brazil were our positive surprises as well. We have, you know, manufacturing sites in those countries; we are sort of naturally hedged in terms of currency effect. Having said that, China is a relatively small business for us; it accounts for only 3% of our total sales but in mainland China, contrary to what our – let me say – competitors did, we grew 15% [at constant forex] in China. And an astonishing performance in Brazil as well.

Further building on pillars of excellence

Evolving our strategy sits on our vertically-integrated model and this is our DNA. We are not changing it, we are evolving it, as the Chairman also said. Vertical integration helped us a lot. Our end-to-end approach: we go from sketches to product design, manufacturing and distribution. I want to remind you that last year, 1st January, we already had ready in our distribution centers almost 500,000 Michael Kors products that we started distributing the following day. On 1st January we were ready.

Scale and efficiency: all our projects, all along the supply chain – I am not talking of distribution – are targeted to more than compensate all inflation rates. When we have the scales, all the absorption effect is on top of that and helps our journey of profitability and net margin acceleration. Very important.

Innovation is in everything we do. Product-wise, you have a fantastic opportunity [to preview our latest eyewear collections] this afternoon as well, but I will deep-dive later on product innovation. It is not only about product, it is about business model. Nicola will tell us how state-of-the-art technology will reach LensCrafters for diagnosis in our eye care businesses. It is really impressive.

Smarter go to market approach. What does it mean? We have been better in selecting the right collections that have to reach the right geographies at the right time. It does not mean at all to reduce the portfolio of brands available; it means that we are going straight to the target, every month for every brand, in every geography. I would add: model by model, SKU by SKU, color by color, when we make those products available in the geographies, there is a specific strategic plan for that.

Strong e-commerce platforms: 2015 was also the year of boosting e-com. We grew 50% in sales. I am sure Paolo [Alberti] and again probably Stefano will give you more details later on.

Winning the eyewear game

Relying on these pillars we are happy to confirm the commitment we shared with you last year. We said we are going to double the size of the Company in ten years. Good news, we are well on track for that. So we can confirm that by 2024 we will be a €15 billion company. In the next two years, our e-commerce business, very profitable, will grow to 7% of total Group sales. Our net margins will be above 10% by 2017.

Very recent news, the addition of Valentino, another jewel to the crown. Our scouting activities for new brands to be added to our portfolio continues, so we are very dynamic and definitely – you will have a sense of it through the presentation of today – we are bringing the culture of excellence in every corner of our organisation.

So, with that, I leave it to Stefano for financial details of 2015. I will see you later on, to review the going-forward strategy. Thank you very much.

Full-Year 2015 Results and 2016–2018 Outlook

Stefano Grassi

Results overview

Good morning everybody, *buongiorno tutti* and I am very pleased today to introduce our 2015 results, which have been outstanding, from both a top-line perspective as well as a profitability point of view.

Our sales grew 17% on a current-adjusted basis for the full year 2015. Our growth, on a constant forex basis, was 5.5% and we hit record high revenues for the full year of €9 billion in sales.

North America and Europe are two major regions which account for approximately 75% of the total Luxottica business; they grew solidly across all the channels, in Retail and Wholesale. Our emerging markets did grow double-digits. Our LensCrafters business did deliver an outstanding year, with 4.3% comparable store sales for the full year. We have to go back to 2011 to find better comps in LensCrafters.

The journey of growth for Sunglass Hut continues; 25% was the top-line growth in 2015 for the Sunglass Hut business, 10% on a constant forex, 6.4% comp sales. Our e-commerce business continued to boom in 2015 and that is growth year after year, plus 50% for our directly-operated websites with ray-ban.com +80% and sunglasshut.com +60%. So we are very happy with the trajectory but I can assure you we are just at the beginning of our journey in the e-commerce business.

Our profitability was nothing less than our top-line growth. Our profit grew, on the full year 2015, 23% pre-tax, to a 16% operating margin rate. Our balance sheet was strong, our net debt to EBITDA ratio was 0.5 and our free cash flow generation was solid: almost €770 million and we will dig into more detail in a few pages.

FY 2015 sales

But now, during the next couple of pages, let’s understand a little bit more our top-line dynamics for the full year 2015. Beginning from left to right, full year first and then a quick chat on 4Q. Top line, as I said, was in excess of €9 billion, 17% growth, 5.5% on a constant forex basis. When we look at our fourth quarter, we are looking at 9% growth year on year, +2.7% on a constant forex.

Fourth quarter was impacted by a couple of adverse events, I would say, from a comparability standpoint, that impacted our Retail division and I will comment on that in a few seconds as we go there.

If we look at our Wholesale division, the part in the middle of the chart, you can see a top-line growth of 12.5%: 25% growth in North America, 20% in Asia-Pacific; we are very solid in the growth that we were able to achieve across our different regions. 7% was our growth rate in Wholesale at constant forex. When we look at our fourth quarter, the top line grew 8%, on a constant forex basis +7%, very consistently with the full-year growth that we were able to achieve in the Wholesale division.

If you now move to the right-hand side of the page, Retail delivered 20% growth on a current forex basis. Here, clearly, the tailwinds from the US dollar revaluation are stronger in our Retail division. As you know, probably 75% of our Retail business is denominated in US dollars and therefore there are major tailwinds in our result. If you look on a constant forex basis, the Retail division did deliver 4.5% growth year on year, with approximately 4% comp sales.

In 4Q the Retail division grew 10% and was flat on a constant forex basis. And as I said before, there were a couple of events that played against in the quarter. The first one in Retail was the fifty-third week we had in 4Q 2014. The second one was our deliberate choice to align the financial closing calendar of our Retail division to the Wholesale and Operations one that currently runs on a Gregorian basis. The combination of the two effects, just to give you an idea, looking at the numbers on the same number of trading days, the Retail sales growth in the fourth quarter 2015, on a constant forex, would have been 8%, actually the best quarter for Luxottica in Retail. If we look at the total year growth, we look at 6.5% growth on a constant forex basis.

Just to give you a flavor: on a full-year basis, the adjustment for the same number of days would add approximately 1 percentage point at constant forex to the total growth of the Group.

Revenue by geography

But now, let us look at little bit more in detail our geographic performance and let us really compare those performances to the target that we shared on 3rd March 2015, during last year's Investor and analyst presentation. You can see there our blue box on each one of those bar graphs really represents our target shared with you last year. And let us begin from the top, our largest region, our North America business.

We grew 4% at constant forex for the full year 2015. Our target was 4%–6%, so we were right on target with our North American business. But let us break it down a little bit more between North America Wholesale and Retail. Wholesale, that you see on the center-upper part of the page, grew 6% at constant forex on a full-year basis, below our target and our expectation, which was 9%–11%. The main reading here is really related to the challenging performance of our Oakley business in 2015 as a result of the integration activity that, you may remember, we put in place beginning 2Q 2015 and carried on throughout all last year. If you strip out that effect, our North America Wholesale business would have delivered a top-line growth very much aligned with our expectation.

If we now move to our Retail side, 4% growth in comparable store sales year on year, with LensCrafters up by 4.3% and Sunglass Hut North America up by 4.7%. Strong growth on both, Optical as well as Sunglass Hut, so we feel pretty good on our Retail business.

Moving now to the bottom, there is a pleasant surprise. I do not think that many people would have bet a 7% growth in Europe. We made it and it is pretty outstanding; we were double-digits in Spain. We were double-digits in the UK. We were high single-digits in Germany, mid-single-digits in Italy. An outstanding performance, no matter how you look at Europe, across many different countries.

In Asia-Pacific we delivered 6% growth at constant forex year on year. You see kind of a dotted line there, it says +10%. If we strip out the Australian performance – and you know optical retail in Australia was pretty challenging for us in the full year 2015 – you would be talking about meeting our target, between 10–14%.

Our Mainland China business was extremely strong, we did double-digit growth there. Southeast Asia did grow double-digits and Japan did deliver outstanding double-digit growth. So, many different reasons for outstanding results in 2015.

Last but not least, Latin America was up 15% at constant forex. We are happy with Brazil, up double-digits; we are happy with Mexico and those are really the two major countries we have in that region, double-digits as well. So, overall, pretty pleased with the consistent delivery of our results across all the different regions.

Adjusting items

But now let us dig into our operating results, and before we do that let us comment on a couple of adjusting items that impacted our 2015 results.

Consistently with what we have since 3Q 2014, we have been adjusting our top line by a reclassification of an insurance underwriting agreement which pertains to the EyeMed business, so that sales are now reported on a net instead of a gross basis. That adjustment accounts for about €174 million on a full-year basis. No impact on operating income, no impact on net income.

The second item relates to the Oakley integration project and a few other reorganization activities, which account, pre-tax, €66 million. After tax, we are looking at approximately €50 million charge to the profit and loss.

Operating profitability

Now, let us dig into our operating results a little bit more in detail and I will focus more on full-year results. Looking at the Group results, as I mentioned before, we grew our operating income 23%, an outstanding result. When you look at our performance on a constant forex basis, our operating income did grow 11%, year on year, plus 80 basis points.

Our Wholesale division, which you can see on the upper-part, right-hand side of the page, did improve the margin over 120 basis points on a current forex basis, and when you look at the number on a constant forex basis we improved our margin in the Wholesale division by 200 basis points.

A couple of comments on that performance: the first one is the continuous improvement, quarter after quarter, I would say month after month, of our manufacturing efficiency. Our total landed costs, our fully-loaded industrial costs, excluding currency fluctuation, did improve 2% year on year. The second key driver of Wholesale profitability was the early stage of benefits of the Oakley integration project, which you know was mainly focused on our Wholesale division.

Now let us move to Retail. Retail did improve margins 60 basis points, year over year, at current forex. If you exclude the currency impact, Retail was flat but, as I mentioned before, the fact that we do not have an equal calendar would probably give it a flat number. If we exclude the impact of these events in top line also in the profitability, we will be looking, on a full-year basis, at Retail being slightly accretive versus prior year.

Net income

Net income did couple the outstanding performance we had in our operating income. Our net income grew 24%, year on year, on an adjusted basis at current forex. When we look at our number, on a constant forex basis, you are looking at 12% growth, more than twice our top-line growth for the full year 2015, and you are looking at 60 basis points improvement year over year.

Debt overview and free cash flow generation

Now, before we wrap up 2015, let me just share with you another important aspect for us, which is our debt position, as well as free cash flow generation. That was an outstanding year for Luxottica once again. We delivered 0.5 in net debt to EBITDA ratio, which was the lowest in the last 20 years of Luxottica's history. We delivered approximately €770 million free cash flow, which would have been the record high, if we exclude the €90 million extraordinary tax payment that we paid in Q1 and Q2 2015. And one of the things that makes me more proud of delivering this cash flow result was the fact that we delivered that cash flow continuing to invest in the Company, increasing our Capex by 23% year over year, increasing our inventory level by seven days to ensure that our Wholesale and Retail divisions had the best possible service in each region, in each channel, in each country. So, that is again something very important for us for which we feel very happy and proud about it.

2015: delivering once again on the "Rule of Thumb"

Let us really wrap up 2015 and let us really look at our "rule of thumb". Massimo mentioned it, we are happy. You see here the full commitment we took with the entire financial community last year. Our top-line growth, mid-to-high single digit, we are up by 5.5% [at constant forex], right on target. We committed to grow our operating income and our net income twice our sales growth. Well, you see there, 11% growth in operating income, 12% growth in our net income [at constant forex]. Last but not least, our net debt to EBITDA ratio, which actually was at 0.5 times versus the 0.6 times commitment we took last year. Clearly, very happy to be able to meet all the four commitments.

A bright outlook for 2016-2018

But now let us close 2015 and let us really look to our bright outlook. And what we thought we would do today is not just sharing our guidance for 2016 but also give you an expectation for the two years after: 2017 and 2018. Our expectation for this year is to grow our top line between 5 and 6% [at constant forex]. On the longer term, our expectation is mid-to-high single digit [at constant forex], in acceleration, versus the 2016 expectation.

As we move to operating income and net income, our expectation is to grow our profit 1.5-times equal, or greater, than our top-line growth for 2016. On the longer term, our expectation is to grow faster than 1.5 times, greater than 1.5 times, our top-line growth, clearly in acceleration, same as the top line. Our net debt to EBITDA expectation for this year is to land at 0.5–0.4 times for the full year 2016.

2016: leveraging growth engines and global presence

But now let us understand a little bit more in detail how we are going to get to the top-line growth for 2016. And really, for us, it is the expectation to manage the two pillars of our growth. From one side, our brands, our strong brands, our eyewear brands, our retail brands and the other side, our region, our channel, our Wholesale and Retail division. So let us go through our first part of the business: our brands.

Ray-Ban. Our expectation is to grow our Ray-Ban brand sales globally 8–10% for the full year 2016 [at constant forex]. We have it in our DNA. We look back into our history: last ten years of growth is double-digits. So we have it in our DNA, our products are great, our sales organization is very focused and we have outstanding products ready to be launched in 2016.

Oakley: 3–5% sales growth [at constant forex] rebounding from a challenging 2015. LensCrafters, 4–5% top-line growth [at constant forex] and I would say probably 1–2 percentage points will come from the new initiatives that Nicola will describe you in a short amount of time. We continue our journey of growth in Sunglass Hut, expected up by 8–10% [at constant forex]. A third of that will come from new initiatives, from the expansion of the Sunglass Hut business in new geographies and from the growth in the existing geographies, with new stores.

When we look at our markets, when we look at our geographies, North America expected up by 5–6% [at constant forex], strong in Wholesale [+7-8%], strong in Retail [+4-5%]. Europe expected to grow 4–5% but if I have to make a bet here, Europe is probably going to be one of the regions which, once again, we are going to be surprised from at the end of 2016. If we look at our emerging markets, Asia-Pacific and Latin America, they do what we know how to do: double-digit growth in Asia-Pacific [+8-10%], double-digit growth in Latin America [+9-11%], so nothing new there. It is in our DNA; we can do it.

Sizing investments with focus on margins and returns

But before we wrap up the financials, let me just say that our growth is important and our growth is fuelled by the investment that we are putting every single year. We have been commenting in 2015 on how important our pipeline of investments is and for 2016 we are not doing anything less than what we have done in the past; actually, we are doing even more, from an investment point of view.

Our Capex will grow to over 6% of our top line this year. How are we going to spend this money? A third of our investments are actually going to go into our Retail network. We are going to open and remodel more than 500 stores across the globe, in Optical and in Sun. We are going to leverage a new capability [NeXtore] of store construction that will provide better products at lower cost in a very timely manner.

A third of our investments is going to enhance our manufacturing capability, to make more efficient our supply chain, our logistics, our distribution, to again ensure that our products are delivered at the right time for the customer.

And a third of our investments is going to enhance our IT infrastructure, to double our digitalization effort because, more and more, that is going to become a critical part of our investments.

Our expectation is that for the next few years, we are not going to do anything less than what we are going to do in 2016, so our Capex ratio is going to stay around that percentage. And my ambition is to improve our return on total invested capital by 2–3 percentage points versus the current level by the end of 2018.

2016 so far

And before I hand it over to Massimo, let me just give you a quick flavor on how we start 2016. January and February we are on track, we are on plan. The entire organization is focused on preparing the initiatives we are going to launch this year, or continuing working on the critical initiatives that we have been working last year. We are going to open more than 500 STARS doors in 1Q. We are going to be ready for the launch of LensCrafters in Macy's. We are going to be ready for the launch of Sunglass Hut in Galeries Lafayette. The entire organization is focused. We know 1Q of last year was a good quarter; a great quarter, actually. We know it was the quarter in which we launched Michael Kors; we know it was the quarter in which our profitability was very strong and we know we probably have some headwinds from the calendar realignment that we spoke about before. With that said, I would say we are very focused; we know March is critical but the entire organization is focused on delivering a strong quarter.

With that said, I hand it over to Massimo, who will tell us more about our going-forward strategy. Thank you.

The go-forward strategy

Massimo Vian

Before deep-diving into our strategy I will attempt to anticipate some of your questions. Let me stress again the context we are operating in: a very volatile economy, very uncertain macro-economy, but we are strong and solid to confirm again acceleration of profitability and net income. So I stress again our new “rule of thumb”, which is a rule of thumb of getting more profitable: 1.5 times growth of profitability compared to top line, for this year, in which, basically, we are investing a lot in all our distribution channels and growing faster, we can commit today for 2017 and 2018, very important.

The future of eyewear

It is very important to remind you that we are building this performance on our own strengths, our own model, but we also live in a structurally-growing industry. We foresee a CAGR growth of people needing vision care and in general of the eyewear business of 3% in the next years, and we are building our performance on top of this natural growth. We see 500 million more people needing eye correction and wanting to see better in the next five years.

The journey of premiumization continues in developed markets. We commented on our astonishing performances in North America and Europe in 2015 and we are relying on that as well. And the last point I want to remind you, as we go through the next slides, is that being Luxottica a vertically-integrated company, in every portion of business we are present and in case of an unpredictable evolution of the industry, eventual expansion of perimeters, or consolidation, there is nobody in the field that is better positioned than we are to take advantage of any eventual further opportunities.

Building on strengths, adapting to the future

Having said that, how are we going to evolve our business model and what are the strategies for the next period? For sure, we keep on evolving our infrastructure, which is not made of operations or hardware only. More and more, please, bear in mind that when we talk about a vertically-integrated business model it is not about a physical world, it is about a world of data, analytics, infrastructure. You already tested our screens, actually, that we have here in Luxottica. There is the moment you push on an image, your fingers in the screens there, the signals arrive to our supply chain office in our factories, so that is pretty astonishing. When I was talking before about acceleration, this is the acceleration that we will see in the next years as well and the advantage we will take out of that: efficiency throughout all the supply chain.

This efficiency will push us through the management of the assortment, the inventories of our stores, and then again I am referring also to the words of the Chairman in his opening speech. We will more and more centralize the control, the management of our assortment in our retail network and only we can, in our industry, activate an eventual reversed logistics process to keep “fresh flowers” in approximately 7,300 stores, our own stores. That is super important because we can redirect, eventually, in any other geographies, in any other challenge, the “fresh flowers”, the product that still will be appreciated, if not in our stores. This possibility of redirecting is only coming through a vertically-integrated system.

We will accelerate through our logistics hub the service of the complete pair, frames and lenses – I am talking about optical lenses – to serve our optical retail and growing platform of e-commerce, RX and frames businesses as well.

The scale, of course, I mentioned that before: we served 93 million consumers last year. We are planning to be closer to 100 million frames produced this year and consumers and hopefully happy customers, that will also help us a lot. Product innovation we will deep-dive later on.

On brand portfolio, we have the luxury, I would say, to sit on our two brands: Ray-Ban and Oakley. Together they account for 40% of our business and they gave us the possibility to play with all the levers we want to create our bright own future.

Speed and simplicity have been in our DNA for 55 years, since the Company was born. I talked to you briefly about central assortment that will enable us a different way to go to the consumers. Definitely, also, managing life cycle in a proper way is giving us and will keep giving us enormous advantage to keep the market clean, to tremendously reduce the amount of obsolescence all around the chain and consequently, in the next years, to further reduce DSI and of course that translates directly into free cash flow generation.

Evolving distribution is, if I have to say, the single-biggest opportunity which we have. We are optimally positioned today but with stores that will be smaller, with stores that will be lighter in terms of fixed assets and costs, with opportunity through the omni channel, our model will be faster and will deliver more profitability. Plenty of synergies we see with B2B digitalization processes and, of course, with the growth we already commented of our owned B2C platforms: ray-ban.com, oakley.com, sunglasshut.com.

Further investing in the distribution model

This chart is giving you some high-level ideas on where we want to invest in the next 2–3 years in terms of distribution channels. First of all, let me comment on the first line. Our traditional Wholesale channel is, as we confidently say, state-of-the-art. In the past years, Paolo's organization has become as lean as possible. He has streamlined all possible costs. As Stefano commented before, today we are extracting values out of the efficiencies from that channel. It does not mean that we are not investing; the first line means: “Thanks Paolo. Fantastic job”. This is really the main pillar we still rely on for our growth.

The journey is not over because STARS, in Paolo's organization, represents the biggest opportunity ahead. Do you know about the STARS model? It is basically bringing similar efficiencies we have in our own Retail into the Wholesale business channel. We can manage our Wholesale customers' inventories. We can make their store lean. They give us access to their sell-out data, which is crucial for us. Through their wholesale data we can plan our assortment better: for us, for them, for the consumers. And we are ready this year, specifically – Paolo will expand on that – to take further opportunities with wholesale online retailers as well.

We presented in the past Luxottica Days new technologies that enable us to track our product through the channels. It is not a secret; we are placing microchips inside our Ray-Ban items, purely for tracking, and this year we will be able to take advantage of that tracking system with some policies that Paolo will tell us about in a minute.

Franchising models have not been strongly based in our DNA, up to a few years ago. We are expanding our platform of franchising models in North America and we are testing models in Australia as well. We will expand it like never before in the history of Luxottica.

And Nicola will tell you about our retail platform in the next few years. You know about Macy's, LensCrafters into Macy's; you know about our commitment in Target. So we will leverage on hosts and that will allow us to be more lean with costs and create synergies with those big players.

On e-commerce I’ve already commented the ambition we have for the next three years. It is a bit more than 4% of our total sales today and we’re planning to reach 7% in two years, as I said in the opening, through our e-commerce platform. E-commerce platform will need speed, and in the last part of my presentation I will talk about how our vertically-integrated business model will allow that speed to achieve this performance.

Digital transformation

Acceleration coming from technologies has to be in line with the digital transformation of our businesses and this is another key pillar of our go-forward strategy: customer centricity first. Owning stores and owning direct-to-consumer websites is pushing us to have more and more intelligence, more and more data analytics about our customers around the world. Again, later on you will know more about how we invested €50 million in data analytics software and in the US, in only North America, we have records of 40 million consumers. And when I say records I do not mean emails only; we are targeting to have very precise analytics, specifically for the eye care business, almost 400 records per person: age, purchases, recipe, the left eye, the right eye; you have kids, which kind of problem they might have at which age. This is the way we want to serve our consumer: anticipating their needs, getting in touch with them and being able to provide them, in the right store, at home, with the right frame, the right prescription, the right brands. It could be suitable for them, for the wife or for the kids.

Regarding the digitalization of point-of-sale we are well, well ahead on that. Sunglass Hut just finished last year the journey of a brand-new IT infrastructure in their stores, €30 million already invested in Sunglass Hut. This year we are investing €20 million in IT infrastructure for LensCrafters, bringing into LensCrafters the same point-of-sale system we have tested and experimented with in Sunglass Hut. Up to today, 25% of LensCrafters stores already have the system and the roll-out is planned to be finished by the end of this year.

On EyeMed I am happy to say that on 1st February we went live with our new IT platform for EyeMed, we call it “Eye Transform”, which is a very innovative system that is helping us to extract value out of the operations of processing the claims, putting in touch our wholesale customers and our consumers, the big insurance players and all the related mechanics in a matter of seconds. A big, big innovation. We started 1st February and we are planning to finish the roll-out by the end of 2016. Big investment in 2016.

STARS and My Luxottica, I leave it to Paolo. 25% of our wholesale customers’ reorders of previous collections are done through iPads directly by our wholesale customers. No sales agents, it’s all digital with similar mechanics to the one we have here at Luxottica Days. It is impressive; 25% is already coming through digitally, overnight, through the weekends, when their shop is closed, and it goes directly into our SAP and into our supply-chain demand planning system.

On e-commerce, I think I said that already, the chart is just repeating our ambition for the future: almost doubling our sales of e-commerce in the next two years to reach 7% of Group sales.

So these are the building blocks; these are the pillars of our going-forward strategy. Now I leave it to Paolo, then I think we have a coffee break, then we will be back with Nicola for Retail.

Thank you very much and I will see you at the end of the presentation. Thanks.

Grow through effective execution: Wholesale

Paolo Alberti

Yes I am the only thing standing between you and the coffee break, so I will try to be as telling as I can. I know you can read the charts. And for those of you who know me, I have always talked about me being half from Rome and half from San Francisco. And the San Francisco part has helped me in many presentations because of my surfing past – waves and things like that in the past.

However, today I think I am going to rely on the fact that I am from Rome and without being blasphemous – and I will promise I will not pray for the results – but boy this is very, very beautiful and I will try to be as sombre as possible.

Powerful brands, higher penetration, better service

Solid sales. I mean, there are some things the charts do not say, but I will, and that is that 12.5%, which actually at constant forex is about 7% and comes with the integration of Oakley. And honestly, Oakley in the United States, notwithstanding the integration into our Wholesale business, the optical part of it, was kind of flat but accelerated very quickly in the last months. And I can tell you that now I am very happy that Oakley is part of my organization, at least in the United States, because the acceleration there is very strong and I am telling you honestly it is enjoying double-digit growth.

So I am more than proud of that 12.5% in sales growth. And that comes also with the expansion of STARS. And STARS, I will talk to you about it a little bit more in a minute, but STARS, with the addition of over 2,000 doors, up to a total of 6,300 doors, is actually one of those business generators that goes beyond just helping clients out and getting to know their information and helping also the company understand which assortments are moving better. If we think about Italy, approximately 1,000 of those 6,300 doors were in Italy. Now, I think we all know – and you are more expert than me in this – that the Italian economy has not really got that much better in the last year, but those doors, the fact that they are doing better and are comparable doors without STARS has made our business in Italy grow mid-single digit last year and it has continued to grow right now. It is mostly due to STARS. Not only; there is some light at the end of the tunnel, probably, for the Italian economy. But more so than that, it is STARS, and we will talk about that in a minute.

Then, another thing that the chart does not say about the profitability – and actually Massimo did mention it – is we are working really hard, not only thanks to what has been done on the cost-of-goods area but also because we are working very hard on our selling expenses and our G&As year after year and we have been delivering extra basis points in profitability in the last, I would say, six years, so I am very proud of that too.

Long-term growth drivers

We now talk about some of the long-term growth drivers, then we will talk a little bit about the brands and then about the markets. I think that, again, our brands are very, very strong and I am going to connect that with Ray-Ban in a minute because Ray-Ban needs to be continuously strong. And many of you have asked me, “What happens if Ray-Ban has a hiccup?”. Well, if Ray-Ban has a hiccup we are in trouble. But we are doing, actually, three things together to keep the equity of Ray-Ban up and I am sure you will be interested in hearing what we are going to do, and I will talk about that in a minute.

Massimo mentioned the fact that we are giving our clients unsurpassed technology to help them order, to help them understand what is available to be ordered, and then again we are also asking them to give us some information in our CRM, which is not a business-to-consumer but it is rather a business-to-business CRM. We will be able to give them even better service knowing exactly who they are, how many windows they have, what kind of neighborhood they are in and so on and so forth, because STARS then can give them a service that actually can go as close as understanding the population of that neighbourhood and giving them the best assortment. We are not quite there yet but we are getting there.

STARS is now about 8-9% of our Wholesale turnover. We expect it to be 15% in the next couple of years. Some of you may remember the previous goal was 20% but my perimeter has got a bit bigger [following the Oakley integration], so the 15% is equal to the 20% that I talked about a few years ago and I am very, very upbeat about STARS.

And STARS is one of those things that keeps on evolving and somehow it looks like the limit to its evolution is nowhere to be seen yet. So what STARS is going to do, it is going to give us that retail arm into a wholesale client. And what we do not do yet in STARS is we do not yet send them advertising, for example; we do not do promotions with STARS yet. But that is coming and as of next week, let us say two weeks from now, we are starting a pilot project with four or five clients. And it is as if they had all the positivity of being a Sunglass Hut store, with the “fresh flowers” and everything like that, without being a Sunglass Hut store and being a Wholesale client and letting them run their own business.

Again, we also have geographic expansion. We are starting in Brazil. I have meetings tomorrow with a big chain to talk about their possibility into STARS and it is looking very, very good. And we are also gaining STARS in North America.

In North America entrepreneurs are kind of tough sometimes and I convinced one of them last year to put his 35 stores into STARS and he told me, “I cannot believe it. My business is doing better and I am spending more time at home and my wife thanks you for that”. Actually, I got an email from her, saying, “Can you get him out of the house please?”. But we will not talk about that. That is part of the STARS business.

Ray-Ban: authentic icon in eyewear

Let us talk about Ray-Ban very quickly. And Ray-Ban is innovating from a design standpoint but not only, it is also from a lenses standpoint. Now, I do not know how to pronounce it very well but Chromance, if you try them and you look at the person next to you they will actually look better, and I am not joking to you. Because of the light technology it uses, it is – honestly, you look out and you feel better and I am being very honest. It is just about beauty; it is about protecting your eyes.

And this is where I want to talk about Ray-Ban. I want to talk about some things being put together to protect the equity of that brand, which is so important to us. So, we know that we have a chip technology inside the glasses, so we can trace where the glasses go; I mean not to the consumer point of view but to the trade point of view.

So I know the factory where the product is made; obviously I know if that product is real or fake. I know where I am sending it to and who is the client that receives it. At the same time, that client that receives it will have, at least in Europe, a selective distribution agreement. So he agrees to a certain amount of things and I agree to supply him. This is done on a qualitative basis and many other luxury companies have things like this, and we do with Chanel eyewear, for example. And this retailer, though, makes a commitment not to sell outside of a selective distribution deal. So he cannot sell, for example, to an e-commerce client that does not have a selective distribution agreement. If he does he gets one letter and a second letter, then we do not supply him anymore. And it is absolutely legal in Europe to do that.

Now, one thing that is not legal in Europe but that is legal in the United States is the Minimum Advertised Price. I can decide that Ray-Ban in the United States should not be advertised, I'm not saying "not sold", but "not advertised" at less than, let's say $100; I am just saying a number to say it. So no one can advertise at $99. That no one means: our clients, ourselves, sunglasshut.com, ray-ban.com. No one can. You will ask me: "But what if you go into a store and the guy gives you a discount?". The store manager, store owner, can sell them to you at $99 if he wants to; he can do that. He cannot put a big sign outside the door, though, saying, "Come in and I will sell them to you for $80".

So that is an incredible thing. Now, how does that work? Well, because once somebody does do that, we can stop that, or once we find Ray-Ban in a website, where, even if it is at the right price but we buy the products and we see if they are coming from an Italian client that has a selective distribution agreement, we cut that down. And what does that do? It cuts down the amount of product that is in the wrong place and that helps the equity of the brand. We have taken into account some softness in the Ray-Ban results because some people are not going to get it, but this is more than compensated by the fact that once you do this, automatically, after a while, prices go back up. So all of this to protect the brand, all of this to work in synergy.

The e-commerce expansion is also part of that. This is not ray-ban.com we are talking about here: it is the expansion of Ray-Ban distribution and e-commerce. Well, these e-commerce players are not going to be able to buy things on the grey market anymore, in the United States they are not going to be advertising low prices, so all of these things work in synergy in order to make Ray-Ban still a stronger brand and get that 8–10% growth in sales that we talked about before and we want in the future.

Another thing that is happening, it is just an experiment for now but I am not personally managing it. However, I thought it would be fun to see our first Ray-Ban flagship store in Soho.

We talked about ray-ban.com and ray-ban.com is doing a lot of things in order to grow. The growth was 80% last year. I believe we can grow another 50% this year. I will just give you some examples. For example, our technology in our factories is getting so good that we will be able to make specific products just for our ray-ban.com, or we can continue to do Remix. I think you have all seen what Remix can do. It is to make the glasses that you want when you want them so to make them for you. Oakley is already doing that.

Oakley: extracting additional value from eyewear integration

I talked to you a little bit about Oakley, about how the integration is really, really doing well. I am telling you, I was just in New Orleans yesterday and I was at our Wholesale convention. It is the first Wholesale convention that we have done with Oakley and Luxottica. I do not want to call them differently anymore. We are all one Group. The cultures you could feel are still a little different but that is good because Oakley has to be a bit different. However, there was a family spirit and I can tell you that I know what is going to happen at Oakley in the next couple of weeks too. Very, very strong results and they are helping my North American results. That is also something that makes us an even stronger family because results talk for themselves many times. That is what the benefits of revenues is all about. We are feeling it already and the true integration was at the end of last year because of systems integration. Already in a few months we can feel that the Oakley business is increasing. We have some distribution increases, about 1,000 plus doors, so that is helping. However it is not just about sell-in. It is also about sell-out.

North America and Europe

Again, when we talk about the geographies I am going to say that North America and Europe were both very, very strong this year. It will continue to be one of those areas where we will be investing for the near future. I am not going to spend too much time now. I think you know what I think about North America. North America has always given us double-digit growth and North America is to me still today the place where we have got the biggest growth potential outside of the emerging markets. However, let us remember, we are doing about 14 million units in North America which is quite a bit in Wholesale only. That growth has been outstanding and continues to do so right now.

Europe with STARS, still one of the reasons why we continue to grow even in mature markets. Of course e-commerce is going to be taking new positions there. Then of course there is our own e-commerce. There again we saw with Italy before, that Europe even if it is mature, can grow with STARS.

Fuelling growth in Asia-Pacific

Well, we had a little bit of a problem in China. We know that. But granted that our bases are quite small and in Wholesale we can still continue to grow in China. We are starting STARS in China also and the first stores went on-line about a month ago. They are doing quite well. We are also doing something else. We have a salesforce of about 100 people right now in China and we are going to take an area of China and we are going to strongly ramp up the salesforce to see and experiment whether a stronger salesforce can help us get results in a more direct way, rather than rely on distributors where you are giving part of the margin to a distributor.

Again, South-East Asia, STARS has been phenomenal also there. I am sorry to continue talking about STARS but it is really one of those growth-generators and honestly we are the only ones that have it. We are the only ones that are not sitting on something that will stay static but rather continues to evolve.

Consolidating local presence in Latin America

Finally Latin America, and a lot of the clients that we have today at Luxottica Days are from Latin America. We have opened up in Colombia and we have opened up in Chile, and now we are looking at other countries. But the other things that I think is a very positive note in a very negative world unfortunately is that we have reopened up Argentina. We had a business of about 200,000-300,000 units in Argentina. We had an office there. We had to unfortunately close that office and now though we have a smaller office, it is only about four people, we have reopened up Argentina and we are able to ship products there, sell them there. There is such a hunger, a real hunger, for our products there and for all Western products right now. We are actually able to get our money back out of Argentina, so it is working very well there. We started very small now, 20,000 units, but let us remember we were doing 300,000 there.

I will take no more time. I thank you for your attention and now there is a coffee break. Thanks again to all of you.

Grow through effective execution: Retail

Nicola Brandolese

Unmatched retail platform

Good morning again. I am going to talk about Retail as I have been leading most of our Optical Retail brands for the last couple of years. I am going to talk to you today about our Optical Retail brands and Sunglass Hut as well. We have got approximately 7,300 stores worldwide, 48,000 associates excited to deliver an amazing consumer experience everyday across many, many brands. We have got many, many synergies across all our brands and we are going to exploit those synergies in the years to come.

We are centralizing here in Milan a new buying team for all stores globally. We are building digital platforms and operational systems across the board, across geographies, brands and banners. We are rolling out a new unique point-of-sale system for all retail brands, investing $60 million over five years' timeframe. We have already rolled out Sunglass Hut. LensCrafters is in the middle of the journey. Next year we will be rolling out the same POS to the other brands. We have launched a company [NeXtore] for store construction globally to take advantage of speed efficiencies to build those many stores that Massimo was talking about. Many synergies across brands that we will leverage to fuel our profitable growth in the years to come.

Customer centricity & omni-channel: transforming Luxottica Retail

Let me start from customer-centricity. Customer-centricity has been one of our core pillars for our last couple of years. We started heavily with LensCrafters and the Optical brands and now we are extending the learning that we have received at LensCrafters to all the other brands. We have been investing a lot in technology, in platforms, in tools, spending probably $50 million over five years. We are in the middle of the journey, completed I would say most of that journey for Optical Retail and then extending that to the other brands. We are leveraging a data infrastructure of about 40 million records that is the core of our one-to-one marketing efforts.

A lot of thousands of predictive models to understand what is the behavior of our consumers, to understand when she will be back to the stores, what she will be buying, what is the perfect pair for her and for the kids in their household, and tools to empower our store managers to better tackle the consumer challenges that we face every day. A lot of investments there, 200 million points of contact per year to our consumers just in Optical Retail in North America. This is driving a very significant chunk of our sales growth this year. Over 10% of our sales in Optical Retail today are driven by one-to-one marketing effort, driven by all these investments and initiatives that I was referring to.

This is big and as I was mentioning last year we have rolled out a Net Promoter Score platform across the brands. Most of you are for sure familiar with NPS and Net Promoter Score is a KPI that tells how likely your customers are to recommend your brand to friends and family and why. For us it is much more than a piece of research. For us it is really an operational platform to manage consumer feedback, manage recoveries, empower our store managers and store associates to get back to our customers and drive customer satisfaction. Here is how it works.

[Video showing]

This is a platform to really drive a cultural transformation for all our retail brands. As I said, we started heavily from Optical and we are extending this to the entire store fleet of Luxottica. We have got today already 30,000 associates working on this platform every day. We receive thousands of consumer messages every single day. We run this service and are able to raise performance by understanding where the issues are by store, by associate.

LensCrafters, thanks to all these investments and thanks to a realigned incentives and performance system, has raised Net Promoter Scores by 700 basis points. The retention rate improved 20% over the last two years and NPS is now on par with companies like Amazon or Southwest, consumer-centric companies. It is well-beyond specialty retailers. We were no one in this space probably two or three years ago. We are probably one of the best players in this space today. We plan to roll it out to the entire store fleet of Luxottica by mid-2017. Today it is in 4,500 stores, around 8,000 by mid-next year. A big investment there, very pleased with the results.

LensCrafters in North America

LensCrafters had a very good year. 4.3% comparable store sales, entirely driven by happier customers. As I said, NPS is very high, we saw a 7% increase in eye exams. We grew eye exams twice as fast as the market. We made eye care a core pillar of LensCrafters and results are flowing through as expected.

The relationship with our doctors has never been as healthy as it is today, and growth is really driven not by more spending per customer but by more customers coming back to our stores and driving their friends and house members to our stores as well. It is super-healthy growth.

Great improvement in productivity, 4.4% increase in labor productivity, represented by number of customers served per labor hour. That nicely flowed through the bottom line with nice improvement in profitability. Very significant growth there. That was also a consequence of the massive labor rebalancing that we did last year across stores. We rebalanced labor hours across stores leveraging our new segmentation that is up and running. It is live and it is working very well.

As I said, we made many investments. We are in the middle of the journey to roll out the new POS platform that will be mobile, will enable a full omni channel experience and will improve the interaction between consumers and associates. Already 110 stores refreshed, we started last year with a significant program of investments to touch, remodel, and relocate our stores. This is a multi-year project that will go ahead when by 2020 we will have renewed most of our store fleet.

2016: Transforming the patient experience at LensCrafters

Eye care, as I said last year and as I am going to repeat this year and I am going to repeat next year, is a core pillar of LensCrafters. As I said, strong relationship with our doctors. Patient retention improved 17% year over year. We want to make LensCrafters the best player in the industry in terms of quality of vision care by changing the perception that consumers have got. We were talking over the last few years about AccuExam that we started rolling out at the end of 2012. We have got today 200 locations with AccuExam. AccuExam is a digital platform to perform digital eye exams with unprecedented accuracy. We are taking very bold and aggressive moves to step up and this is the new version of AccuExam.

AccuExam is going to be rebranded Clarifye. It is a new technology. It is the evolution of AccuExam. It is even more powerful, more advanced. It is the best technology in the market. We are rolling it out together with Zeiss. It has been designed by doctors and for doctors. It drives 50% less errors in the eye exams compared to traditional eye exam. 18% faster turnaround time, 500 basis points improvement in Net Promoter Score as we observed over the last couple of years. We have been monitoring those stores very closely and we see higher retention rate after one year, higher retention rate after two years. This is really boosting sales through word of mouth and sales through customers coming back. It is faster, as I said, not to turn around customers faster which we do not care very much, but to allow more time for the doctors, for the optometrists, to engage with the customers and let them understand what is going on with their eyes, which means the customer will be less frustrated, will be happier to understand what it is and will be happy to come back to our stores.

We are excited to undertake these investments. We are sharing the investment with our doctors which is another way to cement the relationship between us and them. By the end of the year we will have rolled out 70% of our stores with Clarifye which will become the new standard for LensCrafters. So exciting.

Digital will not be limited to the doctor's office, obviously. We are rolling out a number of digital tools and technology across the board. 15,000 iPads rolled out in LensCrafters. We are just rolling out the new version of it. New apps, new tools available. I have already talked about the POS system. We have a new lens simulator system that allows consumers to understand what the differences between lenses are and how the different shape or type of lens can be deployed to the frame the customer has chosen. New tools to select the best look for our shopper. New tool just rolled out to track the order and automatically notify the consumer when the order is ready or when the order, for whatever reason, has been delayed. This is a true omni channel journey that starts from the website and the mobile.

Just imagine, 23% year-to-date of our eye exams have been booked on a mobile device or on our website. It will go well beyond that. We are integrating already the online insurance adjudication capability with glasses.com, so today on glasses.com you can take advantage of your insurance benefit. That capability will be rolled out to the remaining retail brands over the next 18 months.

A lot of exciting advancements. The virtual try-on technology of glasses.com will be rolled out as well over the next 18 months to the other brands. Huge investments on digital.

Transforming the entire LensCrafters store network

As I said before, huge investment on the LensCrafters stores. We talked last year about the new prototype, a new design that is going to go live this year. We are happy with this new prototype. It is up and running in a suburb of Detroit, Michigan. It has been performing beautifully since the launch last November and this is how it looks.

[Video]

It is a brand new design. We love it. Performance has been stellar. I am not going to tell you the number but it is a good result. We are very happy. We are rolling out this design to the new stores. We are rolling out this design or a simplified version of this to our Macy's stores. We will be building over 80 stores for Macy's this year, up to 500 over three years' period. This design is pretty innovative. It changes the way consumers interact with our associates. It brings associates and consumers much closer. Associates are no longer tethered to a traditional dispensing desk as in approximately 90% of optical retailers.

There is much better flow of activity in the store, much more personal contact between associates and consumers. There is more privacy to take the measurements. There is an AccuFit salon that allows consumers to feel much more engaged. Customer flows are faster, product assortment has been revised completely. Doctors love it, associates love it, and consumers love it. We are excited. 300 more stores being touched or renewed over the next three years and on top of that obviously we have got these 500 stores for Macy's.

I already talked about NeXtore. NeXtore, our company to leverage store construction at scale and drive speed and costs down, both for remodels and new stores. Exciting, exciting moment in LensCrafters. The team has probably never been as engaged as it is today.

Accelerating momentum at Target Optical

Target Optical, another amazing story. We delivered in 2015 the sixth consecutive year of double-digit comps, double-digit sales. We opened the highest number of stores ever, over 40 stores this year. However, the relationship is going so well that we are doubling up for 2016 so we are expanding Target Optical to another 80 new stores in 2016 and we are doubling up as well on e-commerce for Target Optical. The relationship is going great, profitability is going great, sales are going great and satisfaction is over the roof. We enjoy the highest Net Promoter Score for this simpler, faster, enjoyable optical retail experience. Very excited about what the team is doing and the good news is that by the end of 2016 with approximately 500 stores we will just be in 25% of the host locations. Still amazing headroom for growth. Excited.

Investing in multi-brand Optical Retail platform

Just a few words on the many other brands we have got. Pearle Vision is on a trajectory to become the first and best franchise retail operator in the US. We see opportunity to triple the number of franchisees over the next five to ten years. We did not have, I think, a very clear strategy probably a few years ago. Today I think we have a very clear strategy. We want to make Pearle Vision the best franchise solution for great independent doctors who can keep their entrepreneurial spirit but leveraging all the infrastructures, processes, systems and skill-set of the Pearle Vision team.

Pearle Vision is currently standing up. It is a supply chain solution. It is a brand new one. We are transforming 31 different point of sale systems that we had in Pearle Vision in just one state-of-the-art point of sale system. We will have a supply chain that manages both inventory of lenses and frames. We will have better marketing, better training, better traffic, thanks to the in-network status with most of the insurance players starting from VSP. Exciting moment at Pearle Vision as well.

On OPSM in Australia, we have been complaining and you have been complaining about the performance of Australian retail over the last many, many quarters. I am pleased to tell you that we have completely changed the leadership team. We are turning around the business and since the beginning of 2015 we have been seeing a slight and continuous improvement of performance. The team there is doing an amazing job with great passion. We have been seeing very significant positive results. I think OPSM is back which is great, great news. But it’s too early to celebrate. I tend to be quite an optimistic guy but I think we will do great results there.

We have changed completely our assortment. Overnight we changed more than 50% of the store with new pricing, new assortment, more aggressive positioning but more volumes, more sales, more and happier customers coming back to our stores finally after many years of decline.

Just a note about emerging markets. We have got LensCrafters in China and GMO in South America. I do not think we have ever talked a lot about GMO. GMO, approximately 480 stores across four countries: Peru, Chile, Ecuador and Colombia. Double-digit comps, double-digit sales, by far the best return on capital employed for every single store that gets opened there, amazing growth opportunity. These are truly under-developed countries in our category. There is still an enormous, gigantic opportunity for growth in lenses, in frames and in brands. We are excited to have these 480 stores. We are opening a number of stores in Chile, in Colombia in particular. Colombia is amazing. We are growing beautifully there and we see generally a big opportunity for organic growth. There are M&A opportunities that we will obviously watch. However, the growth that we can drive organically is great.

Over 280 LensCrafters stores in China. And we are going to open more and more stores in China. Obviously there is huge opportunity for growth there as well.

This was a bit of an overview for Optical. Let me switch gears to Sunglass Hut with a video about the London Fashion Week.

Sunglass Hut always on trend and in style

Fantastic story about Sunglass Hut. The Sunglass Hut brand has never been as healthy as it is today. All brands' KPIs are growing: awareness, consideration, satisfaction. Around the world engagement and staff motivation is on the roof. Sunglass Hut is delivering amazing results. 2015 was an amazing year. 2016 will be another great year. We were the title sponsor of London Fashion Week as in the previous year but we are doing the same in many other big cities around the world for the same events: Sydney, Johannesburg, Mexico City, New York. In many areas of the world we are bringing the same spirit, the same energy, the same fashion, the same touch of Sunglass Hut with great results.

125 new styles or SKUs launched per store per month, so our "Fresh Flower" strategy has been going on and is delivering amazing results. Very excited about the trajectory of the brand worldwide in emerging countries where it is growing very fast, and also in mature countries we are seeing amazing results, particularly in Europe.

Sunglass Hut global expansion

Sunglass Hut was operating just in eight countries in 2010. It is now operating in 22 countries. More than 35% of Sunglass Hut sales are outside the US. It was just 10% or less just six years ago. It had a big expansion globally, today there are approximately 3,300 Sunglass Hut stores with huge growth in Latin America, huge growth in Europe, as I said, and huge growth in South East Asia. Exciting journey.

2015: Another year of double-digit sales growth

As Stefano already shared, Sunglass Hut posted 25% sales growth in 2015. On a comparable store sales basis we are talking 6.4% growth driven more or less by old countries, emerging countries, all double-digits. And in North America it was a solid year with 4.7% comps growth. As Stefano mentioned, we started seeing some significant headwinds in a few areas of Sunglass Hut in North America. I am talking about touristic areas in North America, so Florida, Hawaii, New York City and California. 15% of Sunglass Hut sales are done there. In those locations we saw a very significant drop in traffic and a very significant drop in sales on a local currency basis. You see what happens when you convert to euros.

However, we are taking a little more prudent and realistic approach for Sunglass Hut in North America considering the current trend in those touristic areas. All the rest of the US, 85% of our sales, did deliver 7.7% comps so amazing results. We just had these headwinds in the last quarter of the year and in the early two months of 2016. January was ugly overall. February was very good, very strong. I think we have started with a good overall number and we will see how it goes. Overall 4Q was 2.4% sales comps for Sunglass Hut in North America, so positive and pleased overall although we saw this bit of headwind.

In Europe Sunglass Hut posted 25% in sales growth. Amazing result, double-digit comps in Continental Europe, 50 more openings. We now operate 400 Sunglass Hut stores in Europe. We still see amazing opportunity for growth. As you have probably read, we are going to open in the next six months 57 new stores in Galeries Lafayette in France where we are seeing solid growth already. We saw solid growth in 2015 across many European countries. Spain, first of all. We saw growth in Turkey. We saw growth in Netherlands. We saw growth in Germany.

Australia did an amazing year. South America did an amazing double-digit comps year. Very happy with these results.

Stellar performance of e-commerce, up by 60%. It is already in six geographies.

We had a promising entry in Thailand with 13 openings. We will have more in years to come and we consolidated our presence in Malaysia as was planned.

2016-2018: Sunny forecast ahead

300 or more openings also planned for 2016 and we see probably another 300 openings for the years to come in Sunglass Hut. Outside of the US approximately 900 new store openings in the next three years. We expect 8-10% sales growth in 2016, probably half driven by comps and the rest driven by new openings. E-commerce, a great opportunity for growth, new openings, new opportunities in new countries. We target 4,000 stores by 2018.

Very, very pleased with the results of Sunglass Hut. We still see a lot of opportunities in countries where we are still not present. We are planning openings in Korea, in Japan. The headroom for growth is really very significant and far away from us, so exciting.

I would like to leave you here with the last summer campaign of Sunglass Hut. It is called “Shades of You” and it is aimed at positioning Sunglass Hut as the destination for fashion forward females who will explore the many shades and styles at Sunglass Hut. Please, this is the last video.

Grow through effective execution: Product & Operations

Massimo Vian

Operational improvements making the group better and faster

Last session of the speech and then opening up for the Q&A. Let me talk about infrastructure, I would say, about the backbone of the company, which is not really industrial operations only. Our journey on scale continues and I think you have a very good understanding of the ambition we have on expanding our Retail footprint as Nicola just said. New stores, Optical, North America, accelerating like never before. Sunglass Hut, a record high number of new stores we will open this year: 350 new stores this year. The scale will give us the benefit, but the omni channel type of evolution will have to be sustained by the speed of our infrastructure.

Our journey of speed continues all across our model. Our time-to-market for new product introduction is getting faster and faster. We’re now in almost every geography, in every hub, we can prototype overnight from sketches, using 3D printing and the following day have new models available to try, to fit, to paint, to try and fit the lenses. Our time-to-market from the prototype in our hands to reach our stores can be as fast as 20 weeks.

We continue to develop almost 2,000 new styles every year. It translates into almost 10,000 new SKUs that we launch in the market, and if we launch 10,000 we kill 10,000. Our pipeline of new

SKUs in the market, alive SKUs, is 20,000 SKUs. In two years on average we renew completely the product assortment we have in our stores, in the windows of our wholesale customers. This is an average figure. Of course we will benefit from longer life cycles of Ray-Ban, of Oakley, but just keeping the average means the high, luxury-end products rotates even faster with very high demand of premium features, premium materials in what we do.

On IT infrastructure, I think you have heard about our IT infrastructure probably every minute in our speeches. It goes from Wholesale digitalization, from CRM. The investment in the upgrade of our SAP platform is well over. We finished our five-year SAP journey, I might say, long time ago. Now we are upgrading to state-of-the-art technology. Point-of-sales, insurance, digitalization of our channel of distribution and the link between our own websites and our hard supply chain. In Luxottica days, in ray-ban.com, in Oakley.com, you can design your own product, assemble in Ray-Ban Remix, in Oakley Custom and get your own product, your color, your initial, your stamps and get it delivered at home in three days on average globally. This is pretty amazing.

In order to do that we planned years ago a journey of evolution of our logistic distribution. I am talking about hardware and software. For those of you that were with us four years ago [at our Investor Day on Operations, October 2012] we were already talking about the evolution of our Chinese distribution center. We were on our blocks ready for the start. The bang happened a few months ago and we are now building the new distribution center in China. It will serve all Asia and South East Asia and will be finished by end of this year. It will be the highest traffic distribution center of the Group in the next three years, distributing tens of millions of frames in those geographies.

At the same time we are concentrating our logistics hubs in North America and we are starting now the new hub in Atlanta on a parallel timing plan with the Chinese hub. We are tripling the size of our distribution center in Atlanta. The site will be delivered before the end of this year and we will close Ontario, the California-based distribution center of Oakley, and we will transfer all the operations into Atlanta, and Atlanta will be the only distribution hub for North America and Mexico. A huge investment there as well.

We are expanding our Italian logistic hub as well, so this is the year of logistics and distribution, and we are well ahead on the expansion I told you about.

On the dotcom increase to sales, I will stress again, 7% of Group in three years. Those frames will be distributed a lot faster than today. Our infrastructure will be operational, starting in January 2017. It is a huge investment, it is for the future, and it is for the speed and efficiency of our chains.

Champion in process automation

It is not only about labs, our investment, it is about the technology that is happening inside our manufacturing sites. It enables us an unbelievably greater level of reliability on quality, and as I am sure you will appreciate from the video that is coming up, unbelievable margins in terms of productivity. We are lucky enough today to have here with us the brilliant executives, the beautiful minds that designed this system. They are the protagonists of what is happening in our engineering departments and in our factories.

I think maybe this is not completely new for those that are in the industry or in the high technology industry, but this is really an image of the future. The first robot line that we mentioned to you a year ago is now operational in our Rovereto manufacturing plant here in Italy and assemblies the family of Ray-Ban Aviator, absolutely with full automation, no need for even a single second of human labor for that. We are scaling that up with three lines like the one you saw in the video. We will be able to fulfil the 100% of the demand of Ray-Ban Aviator within the Group. Ray-Ban Aviator is not one model, it is a family and accounts for approximately 4% of our total manufacturing volumes, so a pretty astonishing increase of productivity.

You saw in the video that line building modules, the modules that fit the lines, the module that fits the temple tip, the modules that fit the logos. Those modules have been designed to be independent one from the other, and eventually in the future to be useful to fit lenses, temple tip logos, or other types of frames, and so you have to envision our assembly line specifically in a journey of half-automated, half-human, up to the near future, in which you will see more and more collaborative robots, like the last portion of the video, that will sit alongside human beings. They are designed to work close to human beings without protection. They can stop, they are intelligent. They see, you do not have to program them, they have a very highly defined algorithm. They are definitely a reality now for replacing high intensity human labor operations.

Having said that, we are not saying that we are decreasing our footprint. We are saying that the future of our volumes will be far more efficient, in terms of growth, than we are today. Partly it is the 2% decrease in total landed cost that Stefano mentioned to you before. Not only scale, but compensating inflations with high level automation.

Product innovation

Innovation is not just about processes, it is definitely about product, and if you talk about high tech product innovation, this summer I am sure we will be reaching the highest peak that Luxottica Group ever reached. Happy to talk to you about Radar Pace, it is our brand new product, state of the art, wearable technology device. It is a voice controlled coaching system that you have in front of your eyes. It can speak into your ears. Three microphones, completely voice activated, volumes controlled with a touch pad, a tremendous app we are developing with Intel that works with Android and iOS. It is an unbelievable piece of technology. We took the decision not to project images through the lenses yet. This is a performance tool for an athlete. We presented this at CES Las Vegas. We are proud that Intel's CEO presented this, because there is Intel technology inside, there is Intel technology and software capabilities inside the application that will control the device.

Radar Pace, for us, is an experiment, is a test becoming a reality. It is not a product; it is a platform. Based on this software and hardware platform we could eventually build our future of a wearable electronics device. It is more than a test, as I said. So far, we do not have any other plans to launch further devices, but I repeat, we stay flexible, we will be faster, because the platform is solidly in our hands.

Another piece of news for you, that you definitely do not know, is that starting with our partnership with Google, with other giant players of Silicon Valley, we decided six months ago to start our own R&D office in San Francisco. That office started operations three years ago. It is a small office, it is a space, it is a co-working space, a small group of software engineers, R&D engineers, perfectly located to grasp opportunities out of the very lively environment of Silicon Valley, start-ups, managing relationships with Apple, Google, Intel, the other players there. Investing a lot, our next real challenge is our virtual try-on software tool that today we are using on glasses.com application, and it will be the platform that we will expand into other websites of ours, ray-ban.com, Ray-Ban Remix, in the future, lenscrafters.com, so then again, leveraging scales and diversity through our supply and through our diverse distribution.

Our presidium in San Francisco will also act as a collector of business leads from different areas of the world, in Luxottica end-geographies, so they will coordinate and align future works on apps development worldwide. Whether they will come from Shanghai, Beijing, from our local network, from North America, it is an important step in the evolution of the digitalization journey that we embraced.

Innovation: Oakley Prizm

Back to a real product, I would love to launch now a video that will present probably the single biggest piece of news apart from Radar Pace, which is really a niche that we will see in the Olympic Games this summer.

You simply have to test those lenses whilst doing dynamic activities. They are unbelievable. They are actually a tool for performance. They really highlight the colors you need to while practicing the sports you like. We all test them. Once every athlete tries those lenses they become part of their performance gear, and when it is sunny, when it is rainy, athletes cannot perform their jobs without those lenses. You have to try them personally to understand how your experience will change. You go mountain biking, you simply go faster. You go downhill, you need the green and you need the red edge to identify your track. You simply go faster. You go skiing, you see the bumps, you go faster. They are really a performance tool. Unbelievable. The nanotechnology is present in those lenses, it is exclusive. We have a patent in using those nanotechnologies and today the only polycarbonate lenses we make can use that technology.

Innovation: Ray-Ban Chromance

This is an example of scale, example of innovation transfer. How could Luxottica leverage on that kind of innovation? Relatively simple to say, but believe me, it has not been simple, and partially we are still in the journey to transfer that kind of active sports technology into lifestyle products. We launched, in January, Ray-Ban Chromance with an exclusive collection in Sunglass Hut, so, selective distribution. Brand new styles, three colors so far. We have to get away from the very, to some degree, violent color enhancement of Prizm lenses for sports performers and identify a nice spectrum of light that could be used in day by day life, starting from 8am in the morning until late night.

Three colors are there in our stores; two more we are developing for our May collection. So Ray-Ban will have five colors of Ray-Ban Chromance lenses to hit summer with, if I am right, seven exclusive selected new styles that will 100% fit Ray Ban Chromance lenses. Three of those styles are here at Luxottica Days today. With these innovations, of course, we keep our fingers crossed for a very hot and a very sunny summer.

Before leaving for the Q&A session, I just want to say that we are very confident that we have assured you on the richness of our portfolio of initiatives. Our vision as a company is very, very clear on what we have to do for 2016, and for the next three years we go from wholesale, retail, I call it operations when in reality it is the company infrastructure backbone, path of digitalization. In itself, the richness of our portfolio has, to give you the idea, that solidly we confirm all the goals that we described to you today for the next year and three years plan.

Thank you very much. I will leave it to the Q&A and then lunch together. Thanks.

Q&A session

Massimo Vian: I think I am going to take the questions and then I am going to divert traffic to Paolo, Nicola and Stefano. Please.

Question (from the audience): Probably a question for Paolo. Particularly in the US, we see Costco becoming an increasingly important brand outlet for non-foods, whether it is apparel or electronics, and also more recently in audio aid, with the hearing aids that they do; obviously they have opticians in there. Can you comment on your relationship or lack thereof with Costco?

Paolo Alberti: Currently we do not serve Costco. The reason why we do not serve Costco is that in the past the promotions at Costco executed with our brand, namely Ray-Ban, was a pallet promotion. Basically, you have got all the glasses inside a pallet, and we did not want to do this any longer, I think because we have realized every year more and more how important Ray-Ban is to us and its equity.

Without making a long story too long, because this has been years of negotiations, to be honest with you, every once in a while Costco does buy some of our products on the grey market and does that same pallet promotion. With great honesty, they are getting better, and Costco is not, per se, a client that I would not serve. I am a Costco client. What I am saying is that – people have a very bad image of Costco. However, a lot of people shop in Costco that you probably would not think. It is much, much better than what people think, and the brand is quite big.

I can even tell you, we were doing millions and millions of dollars with them. If we can agree, and every year we try to agree, and so far, in the last three or four years, we have not agreed, but if we were able to agree, both sides, on a promotion that is good for the brand and is good for Costco and good for us, I do not see why we should not work with them, but it cannot be the kind of promotion that they did in the past. Thank you.

Anne-Laure Bismuth (HSBC): I just wanted to come back on the margins. So why was the adjusted EBIT margin down in Q4, and especially in Retail? It this only explained by the calendar effect? What is the explanation, and why have the elimination line increased that much in Q4? My other question is on the sales split by region of Sunglass Hut. Please, if you can come back on this. Thank you.

Stefano Grassi: I understood the first question, so I will go through that one and maybe you can ask again the second and third one. The first question is with respect to the retail margin. So when we look at our retail margin, in the fourth quarter, we have the margin diluted on a constant forex basis, but when we look at the numbers, the main driver of that is really the fact that we do not have the same number of trading days. If we normalize the number of trading days, you will be looking at retail Q4 margins that are flat, very consistent with the full year number.

The second question you had, could you just repeat it again, please?

Anne-Laure Bismuth (HSBC): The elimination line, why it has increased that much?

Stefano Grassi: On the inter-company, for retail?

Anne-Laure Bismuth (HSBC): No, in Q4.

Stefano Grassi: It is because some of the inter-company transactions take place between intra-segments.

Anne-Laure Bismuth (HSBC): Thank you. My other question was about the sales split by region for Sunglass Hut. Please can you come back on this?

Massimo Vian: Current sales split or 2015 sales split?

Anne-Laure Bismuth (HSBC): 2015.

Nicola Brandolese: 2015. As I said, double digit sales and comps in Europe, mid-single digit comps for North America, 4.7%, double digit sales and comps in all emerging countries, so combined, total sales were up by 10% or 25% at current forex.

Chiara Battistini (JP Morgan): First on Oakley, I have noticed that last year you were guiding to 8-10% growth in Oakley and now you are guiding for 3-5%, so why is that? The second question on M&A, and what priorities do you have in M&A, is that still a priority and something you are considering? I have noticed on Mr Del Vecchio's video, he mentioned the lenses could be a great opportunity, so would that be an area of interest for M&A, please? Thank you.

Stefano Grassi: I will take the first one, and I will probably let Massimo handle the second one. Up 3-5% versus 2015, and clearly 3-5% for us is rebounding. The signals that we are getting from the first few months, January and February, are encouraging, especially on the optical channel. We still have some challenges on the Oakley sports division. For us, 3-5% is still a rebound versus the 2015 performance. As for the M&A?

Massimo Vian: For M&A, clearly we grew inorganically, by history, by DNA, we are very, very active. Our strong cash position continues to put us in a nice spot to eventually grasp opportunity. Both the Chairman in his speech and in my presentation, we mentioned opportunities on RX lenses business. For sure, the beauty of our business model allows us to take those opportunities with organic growth, and you have to pair those comments together with the expansion of our retail and e-commerce RX optical platform. We are now serving ten million consumers in North America with frames and lenses together. With what Nicola told us, implicitly we have to grow our infrastructure internally to further serve the new consumers that are coming into the Luxottica family.

Having said that, for sure we are developing further capabilities in-house, and we are understanding more and more the vast perimeter of the eye care industry, and I think that it is a very deep know-how that we continue to develop, and put us in a very nice position. I would have no further comment on that. Thank you.

Julian Easthope (Barclays): Three questions, if I may. Coming back to the digital e-commerce side of things, my understanding so far is that most of the sales through the dotcom businesses have basically been sunglasses of iconic brands, because they are repeat business that people can understand. I just wondered whether that has developed over the last year, and how do you expect that to develop? Additionally, if you could give us some idea of what percentage prescription is of the total and the whole omni channel initiative, whether you have changed your view as to whether or not glasses.com and the whole of the prescription side of things can build strongly into the future?

The second question is really coming back to lenses. It was quite an interesting comment that Mr Del Vecchio made. Can you say what percentage of your lenses you finish in your own labs within Retail, and whether you actually would want to go into, ultimately, as opposed to buying pucks from others, to actually developing your own pucks for the finishing?

Lastly, you seem to be gaining more control over your inventory, effectively, through STARS and through your own Retail, and we see this generally within the whole luxury sector, where it has gone up to 78%, even 100% in some cases, of own control. Do you think in ten years' time you will have control over all your inventory? Thank you.

Massimo Vian: I will go for a couple of points and maybe I'll leave one to Nicola – who today is managing Optical Retail, coming from his previous position as business development responsible for the Group. So the sun business today is the vast majority of what we sell through our dotcom websites. I can say that we have ambitious plans to start launching optical frames in our ray-ban.com website this year. Today, you are right, this is a minimum portion of that, but we plan to increase our overall portion between sun and optical. This is 50/50 in our overall business, we are far away from that portion in our e-commerce channel. So clearly we see that as a further opportunity.

Your questions on lenses: today 99% of the lenses we sell through our stores are made by our own operations. Whether they are the in-store labs or the central labs, we rely on our partners in North America, specifically two times a year, during March, when there is a big season for optical sales, and between August and September for the back to school. RX business is a mass customization type of business. You cannot plan for inventory; consumers want their frames and they want to be delivered in three days. When you have spikes, you have to rely on a higher degree of flexibility in terms of capacity. You cannot invest in capacity for spikes. However, those spikes are very well identified within the year. A few weeks in March, a few weeks in August.

STARS, let me say, more than controlling the inventory is being able to manage the inventory and to see what will happen to future demands, so this is what STARS has given us. As a very positive side effect, there are advantages in cash flow, but the main effect is being able to transfer to our wholesale customers the trends, with CRM data we see from our Retail, and create for them an advantage.

Where we will be in five to ten years, I think if you go back to the chart I presented to you, there is not any more a B2B traditional channel and a B2C. With STARS, franchising and digitalization of processes, I think in probably five years we will be able to have sell-out data. This is my guess, at least about 50% of the demand of the wholesale.

Nicola Brandolese: I will take the optical e-commerce question. You were asking for prescription glasses, I think, what is our estimate for the market and what are our next steps. Percentage-wise I think we are talking about 3.5%, more or less, of prescription glasses sold online. There has been some acceleration, not that strong or not that impressive. We are making very deliberate and strong investments in this space. A lot of those are still in the R&D phase; we are learning a lot. Consumer experience overall is not that great across channels. You still have strong need for high quality measurements. You have a strong need for a good eye exam, and we stand for very quality eye care, so that is a very important piece. There is a lot of technology that is maturing, but we are investing and doing a lot of research there.

We are doing a lot of experiments around the world, including glasses.com. We will be disrupting the industry when the time will be ready. We are not going to stand still and be disrupted by other players, but the other market is not as mature as you could imagine today. It will come, but we will be ready.

Paolo Alberti: Maybe just one other addition to that, though I am not an expert. There is obviously the fact that eyeglasses are the most intimate thing you have, so it is the first thing you put on in the morning and the last thing you take off at night, and it has to work, it has to perform, and that sometimes you are always a bit weary. That is why he was talking about the technology. However, then there is one other barrier sometimes, and that is in some countries you need to have it dispensed by a doctor. So the pure internet B2C just does not work. You still have to go through a doctor. And for example, Germany in Europe is one of those cases, where to pick up your glasses you have to go to a doctor.

Jamie Bajwa (Goldman Sachs): You have talked about e-commerce in quite a considerable way. You have the 7% target in terms of percentage of sales. I was wondering if you could give us more color in terms of what you expect the mix to be in terms of your own e-commerce platforms and third parties, and ultimately what you see as the end goal in terms of stores versus online mix for your retail business?

The next question is on the Capex plans that you have put into place. The €1.5 billion, I do not know if we can get some more color in terms of how that would be split going forward. Will 2017/2018 follow a similar pattern to what you are planning for 2016?

Then, you also talked about A&P and the cost of digital marketing versus traditional marketing. Will the digital marketing be in place of traditional or will it be an incremental spend for you as you look to digitalize the business?

Nicola Brandolese: I think Ray-Ban, Oakley and sunglasshut.com are really going to be the three major ones. Right now I think Ray-Ban and Oakley are pretty aligned in terms of size. Ray-Ban longer term is probably going to be outperforming Oakley in terms of dotcom. That is the overall target, I think, for the longer term. Those are really going to be the three ones. Obviously optical is going to increase in terms of penetration, but you are going to see optical also within the ray-ban.com website as we develop the optical application. I think that is going to increase the weight, overall, of the optical business that is going to make a good balance with the sun part, which is still going to be the largest part of our sales in ray-ban.com.

Paolo Alberti: Yes, just one thing from a Wholesale perspective and then I will let Nicola give a Retail perspective in terms of the digitalization. Let us split the clients into three different types of clients: large, medium, small, just for the sake of making it simple. There are large clients that have these digital windows, let us say, but will need more than that. I do not know if you live in Milano, but if you do, if you go to Salmoiraghi & Viganò, if you go to a larger store, you see sometimes in windows, Dolce Gabbana, whoever they may be, that just absolutely take the whole window and have a lot going on. I mean, there are trees. So there are digital parts and very physical parts. Those you will always need.

There is a middle part that we today do not have, these large windows. What we do is simply more often send things made of cardboard or plastic or wood, whatever they may be, we send it to them. Sometimes they use it, sometimes they throw them. That part will be substituted by the digital screens that we talk about and that part is something that we will have to negotiate with our clients, we obviously just cannot send it to them and think that they will keep them forever, but there is certainly a way to enhance and use these windows to make their stores look better and to create traffic for them. So these are the ones that will be, again, substituted by and not on top of. Technology today has got to the point where if you buy a certain amount of these, call them television, call them digital assets, if you like, to be more precise, if you buy 30,000 of them that is cheaper than to keep sending people this stuff.

Then there are the small stores. The smaller stores with maybe one window, probably we will not be able to take 90% of their window for the whole year, so we will still continue to serve them probably in the traditional way. So that is what I can see for our Wholesale clients. Now, we have 150,000 Wholesale clients. So it is obvious that we are not going to putting in these screens at 150,000 but if you ask me today I would say that at least 50 to 60 to 70,000 could be served in that way, alternative to. So not on top of, alternative to.

Nicola Brandolese: Retail-wise, digital marketing goes well beyond windows, obviously, so we will have some windows. We will have a lot of windows but our marketing mix is already heavily skewed towards digital with base ROI across all digital media channels. We spent a lot in digital. Probably, across everything, even more in the digital space. We measure everything pretty accurately. So I would say it is a normal journey that every company is going through to move money where the ROI is higher and digital, in many cases, is one of those cases.

Massimo Vian: And your question about the split between owned e-comms and through third parties, today, our approximately 4% nicely sits on a balanced proportion, 50 with our own websites and 50 through third parties. It is a nice kind of competition going forward because, of course, we want to develop more our own B2C platform, ray-ban.com, oakley.com. We will do that with exclusive product offer. Paolo briefly touched that point in his speech. And if you go today on ray-ban.com already there are exclusive collections that we keep for our own channel.

Having said that, big online retailers are our beloved customers. So the beauty of that is that there is no way we are going to lose the game, whether we go unbalanced one way or we keep a balance 50/50.

I will leave it to Stefano for details on Capex spending.

Stefano Grassi: Sure. Look, I do not think the mix in the next three years, right, when we are talking about the €1.5 billion outlook, it is really going to change dramatically. We have been saying one-third operations, one-third retail and let us say one-third digital/IT in terms of investment and other activities. What I think it is really going to change is the mix between what we call maintenance Capex versus the growth Capex. I mean, we look at that ratio and back to 2010 we were talking about spending over 55% of our Capex in maintenance. Well that mix this year, actually in 2015 has shifted so that the vast majority of investment is really dedicated to growth, meaning new stores, meaning enhancement of our POS systems, no matter how you look at it.

For longer term, so I think the 60%+ of our Capex is going to be distributed to our growth and 40% or less is going to be towards maintenance. So percentage-wise that is going to make a big difference in the way we spend our money, which is obviously going to create higher return because the investment is going to really create a higher ROIC on the longer term.

Elena Mariani (Morgan Stanley): A couple of questions from me. The first one is about current trading. So you mentioned that January and February are actually on track but overall the message sounded a little bit cautious. You have talked about a tough comparison basis versus last year. Can you help us understand a little bit better what you are seeing right now?

Also, can you clarify a little bit the number of days adjustment, because my understanding was that from 2016 you were going to look like on an apple to apple basis rather than to continue adjust?

The second question is going back to Oakley. Can you help us a little bit to understand what went wrong in 2015, so your target was actually almost double digit, 8-10%, but clearly you have seen something different during the year, so what have you done wrong and what makes you confident that 2016 can be better, even if it is not going back to like the 8-10% growth that were seeing last year or expecting last year. Thanks a lot.

Massimo Vian: So I will start on that on Oakley, to give you some more color, and maybe I will leave to Stefano to comment on the number of days, January February performances.

So Oakley. Nothing went wrong in 2015, and to execute some of the project it took us longer than planned. Integration, specifically our Wholesale division both in North America and Europe, was probably the area most on track, and we started to see very positive signals before end of 2015, and we look with extreme confidence, as Paolo said, at 2016.

Areas of, let me say, difficulties in which it took us longer are more related to our Sport division, concentrated in North America and some of the integration in our Retail footprint. These are the comments.

Stefano Grassi: With respect to the challenge in Q1 and then we go to the current trading of Retail. Q1 last year was actually the best quarter in terms of growth. So you are looking at over 7% growth at constant FX last year. So that is really the base which we are comparing ourselves against.

With respect to current trading on Retail, I think Optical has started well. We are happy about it across geographies. I will say that our Sun business, generally speaking, has been starting well. However, I mean we still see some headwinds in terms of tourists' traffic in certain areas as Nicola has mentioned. However, as you know, Q1 is still low seasonality for Sunglass Hut business model.

With respect to the calendar alignment, clearly now we have one calendar in terms of trading days, which is going to be the Gregorian. So 1st January, 31st March, we are still comparing ourselves with the prior year that had the fiscal calendar for financial closing in Retail. That said, Q1 is really apples to apples, same number of trading days. I would say that the quality of trading days, because of the calendar differentiation, are better in Q1 last year than Q1 this year. So I think you are going to get a back in Q2 more than in Q1. So it is really a matter of timing.

Massimo Vian: Further comments to close with. The answers about confidence going forward, if there is a white elephant around let us clear it out. We are very confident on what we have to do going forward. We are aware though that the macroeconomic environment could be still volatile. What we saw, especially in the Christmas season last year with tourist traffic of course was a signal, not really related to our own trends but to what is happening around the world. We had an awful summer two years ago, we had fantastic summer last year. So we know the comps we have to achieve in the further months but really the initiatives are all there, are all there. So what is in our hands will go the way we planned. We are confident, we are aware that the world is more volatile.

Andrea Bonfà (Banca Aletti): Two questions. One is related to the forex environment. If you have an estimate for forex, what is the impact in terms of negative sales because, my rough calculations, you have 2 billion sales impacted by negative forex this year in the current forex environment.

The second question is related to the harmonization of prices across the globe. What is the stage of that process, and what is the impact or was the impact on your guidance for this year?

Stefano Grassi: I think the impact of foreign exchange is not going to be that material in our view. I think the US dollar is still going to create a slight favourability in our numbers. So I do not think there is going to be that gap between constant and current FX in 2016.

With respect to price harmonization, I think price harmonization is an exercise that did not necessarily change a lot in terms of financial numbers, and I will let Paolo describe more in terms of the business side of that. But in terms of financial impact it was really taken to align price lists across the globe. It did not create necessarily a massive change in our financial results, and I would say it was mainly predominately one part of the world, which is China, where we have that 10-15% price adjustment. And Paolo maybe you can add more from a business point of view?

Paolo Alberti: Yes. The impact on a wholesale business, when you lower prices, obviously is immediate because you lower the prices and it is immediate. The reality is you then get a rebound in terms of volumes. As our clients that have purchased from us at a higher price get rid of their inventory, their prices will come down also. What happens at that point is the volume impact that you get – you are taking a bet, but obviously we have seen it in more than one country. Right after the Tecnol acquisition, in Brazil we saw that we lowered prices by about 30% and we grew volumes by about 60%. So obviously, if that happens then the pricing effect and the harmonization are good because you avoid parallel imports, and then it is also good for the consumer because they are getting more volumes. They are buying something at a better price.

Imagine this: in Singapore right now we lowered prices by about 20%. We have a campaign going on that says, 'Listen Singaporeans' – by the way they are travelling less anyhow because they are undergoing, unfortunately, somewhat of an economic downturn and with Hong Kong it is the same – 'you do not have to travel anymore abroad to buy your glasses. You can buy them here at home.' And they are getting very aware of the price, and the trade is following us. So in that respect we are seeing spikes in volumes happening now in Singapore. Honestly, in Hong Kong it has not happened yet, but I think that mid-term this price harmonization we are not even going to be talking about it anymore. And it is only going to have the positive effects that usually it should have.

James Grzinic (Jefferies): Three quick questions. The first one I guess for Stefano, in terms of the Capex guide: is the 1.5 a minimum, essentially, over the next three years because you talked about 6% of sales at least this year and the next two years to be in line with that sort of trend?

Stefano Grassi: I think it is going to be. We are probably going to be slightly over. I think the peek, it is going to be 2016/2017, especially on our Retail side. I think the ramp up of our Macy's expansion, it is going to be between 2016/2017. I think we are probably going to be over that number, but again for us it is very important to make sure the longer term we stay around that percentage.

James Grzinic: Then more widely in terms of strategy, as you look to really push the e-commerce side of the business, how are you thinking about the real estate plans over the longer term? Because there are a lot of doors that are going down, and as you are shifting more of the business mix-wise online, to what extent is that reflected in what you are saying you have put down over the next three to five years?

Nicola Brandolese: As I said and as you have seen, we are going to invest lots in real estate, and there are very different things and approaches across brands and geographies. Optical has still got a lot of huge opportunities all through North America. So we are expanding Macy's, we are expanding LensCrafters, we are expanding Target. Just think, we did single digit positive comps in Sears Optical in a host environment that is dropping very significantly. So Optical still has huge opportunity for real estate investment going into areas that are well underpenetrated. Sunglass Hut has huge opportunities in all the emerging countries and there are so many countries who are not either present or not really significant. So we still see very significant retail expansion on one side. Maybe a bit more balance between corporate stores and franchising, so we will see more growth of franchising together with very significant expansion obviously in digital and e-comm.

James Grzinic: That's for the longer term?

Stefano Grassi: Yes, and obviously you grow with less or no Capex, so that drives you a lot of flexibility and speed to attract, for example in Optical, the best doctors and secure distribution for your products.

James Grzinic: And then, sorry, I had one last question for Paolo. Why do you not do more STARS? What is the constraint there? Why do you not move more rapidly? I would if I were you.

Paolo Alberti: Well first of all, until last year, basically there was a constraint in terms of where SAP had been expanded. So that was the case of China, for example. Then there was a problem with systems in the US too. Let us say now I do not have that excuse anymore, okay. There is one thing that we are getting better at but we are still not really perfect, and that is convincing our clients. There is a belief on the part of the client that even though he sees some of the positive aspects, he kind of loses his ability to be an entrepreneur. Then, once they do it and once they can prove to themselves, they go for it.

I will give you an example. The person I am seeing tomorrow has hundreds of stores, and I am not going to ask him to do it all at once. I am going to ask him to start with some stores. The reason why I do that is usually just to give you 300 stores for a client who is an entrepreneur who has some private equity in there, they sort of have the jitters to do that. Once they see how it works, once they see how their working capital goes down, once they see how their share goes up, they still will have lost just a little bit of that entrepreneurship, and I cannot do anything about that. We are trying to find ways to get around that but we choose his assortment because we know better in a certain sense.

So that is the only real limit, besides human possibility of doing it, upside is thousands and thousands of doors, there is no real limit there and it is just a matter of who we can convince and to build relationships with our clients that are win-win. That is it.

James Grzinic: Thank you.

Paolo Alberti: You are welcome.

Piral Dadhania (RBC Capital Markets): If we could just focus on China for a second, I appreciate it is only 3% of sales today, but relative to the wider luxury opportunity it does remain a long term structural white space for you guys. If you could just talk a little bit around the level of brand recognition for Ray-Ban in that market with the local consumer. We understand one of your competitors generates very high levels of recognition with a lower price point brand in that market with the consumers there.

Then just in terms of your Sunglass Hut expansion plans, I think you said 350 new stores. You currently have around 35 or so in China. How many of those new stores are you planning to open in China and what kind of acceleration in terms of store openings should we expect there in the medium term?

And then finally on LensCrafters, again, in China, I think you have between 300 and 400 stores in that market. I think you said at the third quarter results that you are finally breaking even with your LensCrafters business there. My understanding that the average price point for prescription glasses in that market is significantly lower than, say, your North American LensCrafters business. So I am just curious as to what the long term profitability opportunity is in that market given you guys have a premium brand portfolio. Thank you.

Massimo Vian: Okay, so I think you spot quite relevant points. Yes we are only 3% our total sales in China, and definitely China represents probably country-wise – although it is not really a country, it is almost a continent – by far still our biggest opportunity of growth.

In terms of Ray-Ban, Paolo will expand on Ray-Ban awareness in China. Ray-Ban accounts for really the majority of what we are in China today. It is a very, very popular brand. We are of course aware of other lower segment brands, let me say, being pushed heavily in China. Within the equity, Ray-Ban is untouchable from that point of view. However, we are aware of the journey we have to make in China. That is why we decided to open Ray-Ban branded stores over there. So that will be something you will see growing together with our flagship. In New York we have a Ray-Ban flagship store, definitely the best way to advertise the iconic nature of Ray-Ban as a brand. I will let Paolo expand.

Paolo Alberti: I will expand slightly on that. So Ray-Ban is opening up its own stores. So Ray-Ban has, obviously, an advertising spend that helps the Retail business. We opened up direct Wholesale business in China some years ago. The objective at the time was to become profitable within a year and a half. We did so a year later. So the advertising spend behind the Wholesale part of the business, which has a slightly different P&L than the Retail part, has been growing over and above what the sales have been growing. However, it is still quite low.

And I know who you are talking about, the other competitor. The other competitor was sold after they spent all that money and they are not spending that money any more. So if we were to spend as much as that competitor spent – obviously, I am not going to criticize any competitor – in a lower price point, we would have a hard time making a profit. Having said that, what we do spend – and we spend more every year – we are in there for the long term. Ray-Ban is not for sale, obviously, so we are going to do our utmost and work better with our retail partners, meaning our retail cousins, to work together to do things more closely even than we do in other countries because we need that Ray-Ban and that awareness of Ray-Ban to grow.

Nicola Brandolese: I will maybe take China for you there. So as you pointed out, 30-ish stores open today, most of them through distributors. We see opportunities for 70-ish new stores in 2016, two-thirds through franchising, a third directly operated by ourselves for Sunglass Hut. So, we are growing. Obviously, this is an early start. We have just started the first store last year, directly operated, and we are going to grow. LensCrafters, yes we have 290 stores today. We obviously need to tackle Hong Kong with all the issues and opportunities that Hong Kong has and for mainland China we still obviously see a big significant opportunity, and maybe Stefano wants to comment on profitability.

Stefano Grassi: Yes, I mean longer term profitability for China, right, has to be where Retail is. I mean, our longer term target for our Retail chain, it is going to be that 15% threshold that we currently have today – and obviously in the longer term we will improve the margin there – but that has to be there at the bar that is going to be the target for everybody.

Piral Dadhania (RBC Capital Markets): Just in terms of sales density for your Sunglass Hut stores in China, I appreciate that a lot of them have only been open for one year, but would you expect the steady sales density to be similar to your global portfolio? So revenue per store or per square meter.

Nicola Brandolese: Yes, but again we started yesterday, so obviously we see huge opportunity. Obviously we start with investments. There is no reason why we should not see the same kind of performance in the main cities, and then while we spread our distribution obviously we will see different things. Sunglass Hut has very good performance by geographies, by region, by area, but the same kind of profitability in long term should be the case for China as well.

Stefano Grassi: Yes, I will say in terms of units in the medium term we probably have an average per store that is going to be, China and US, a third in terms of units sold per day per store, roughly speaking.

Mario Ortelli (Bernstein): You showed us a new store concept from LensCrafters that is very beautiful. The cost per square meter of the new store concept in comparison to the previous one is higher or lower? And going forward, in your real estate plan, you plan to increase or decrease the cost per square meter of the new stores?

The second question is about your brand portfolio. You have added a new gem to your portfolio, that is Valentino. We have seen some luxury groups that are going in a different direction; they are in-sourcing their business and I am talking about Kering. Do you think that other groups will follow the example of Kering? And in the future, will you consider distributing the products of these luxury groups within your wide retail network of LensCrafters and Sunglass Hut or not? Thank you.

Nicola Brandolese: I will start from the first one. That store, that was a prototype store, so a one-off, so that does not make a lot of sense, but we are industrializing that. The cost per square foot will go down. Also, because we are taking a very synergistic approach across stores by putting together, as I said, and launching NeXtore, which will drive huge efficiencies and speed and cost reduction, and we are already seeing very significant cost reductions in the build-out of stores across North America first and then Europe and then globally. Cost per square foot will go down, first.

Second, we are going to deploy a number of much smaller formats for Optical, starting from Macy's in the 1,000-ish range, so much more than the standard LensCrafters, and we are also going to test a number of smaller formats for self-standing LensCrafters stores. We will learn a lot. This is a brand-new model; we will drive a higher return on capital employed.

Massimo Vian: In relation to brand portfolio, for sure, our spaces in terms of facings in our stores will not increase in terms of absolute numbers, but every new gem we add to our portfolio has to find the right space in the right geography more than in every store that we own. Yes, there is plenty of space still for brands like Valentino or others that will arrive. It means that they will not distribute exactly everywhere we have stores.

I was mentioning before, with a centralized and more precise assortment planning, we will know exactly where we can extract more value from a brand, from which geography, and from which channel. We are segmenting in each of our retail brands, as usual, segments of stores, and even within Sunglass Hut and LensCrafters, we have different assortments by type of stores, and within the type of stores, we have different assortments by geographic area. It is more a question of being precise with assortments rather than being bigger and just increasing in absolute terms the offer. There is space and, of course, we have to add the right brand.

Your other comments on house brands getting more vertically integrated; we are manufacturing and eventually distributing frames. A couple of years ago, we saw the initiative of Kering Group coming to life. We are curious to see how that will go, so best of luck to them. But I think if you connect all the dots of today's speech, you understand that the synergies we can get from every portion of the business model we manage, can create enormous value to any brand that wants to rely on Luxottica to create, innovate and distribute their products. We are curious when it is about others' initiatives, but we are very confident that the right business model to expand brands on eyewear is Luxottica's one.

Francesca Di Pasquantonio (Deutsche Bank): I have two questions, please. The first is, as you are rolling out more globally and more aggressively your e-commerce platform, how are you managing your relationship with your wholesale clients? Do they feel threatened by your increased efforts in e-commerce? Do you think this is going to cannibalize your wholesale business in some ways? How are you involving them? Can you please elaborate on that?

The second question is for Mr Vian, I presume. It may be a very naïve question, but if you could please explain how the chain of command works, how the management is accountable, and how the responsibilities are shared, whether this new course sees management gaining more responsibilities or less responsibilities. In other words, your 3-year plan is very ambitious, your guidance is very appealing, but what about the execution? Thank you.

Paolo Alberti: I think I will take the first question, and that is about the disruption of the Wholesale business due to the e-commerce. Regardless of the fact that, today, it is quite small, because we have to look forward, and today it is about 4% of our business, that means roughly 2% of that is ours and 2% of that is our third-party clients. Our clients are moving with us. Our wholesale clients, many of them have e-commerce, and there is no major conflict with them at all. On ray-ban.com, we sell certain products, and we sell better other products on other e-commerce. This is especially true with some of the promotional things they do. What we do, what they do in their e-commerce platforms, besides map policy, we do not do on ray-ban.com. So I think there is space for everybody, as there was before, when there were different Wholesale clients, and Retail. Let us face it; we are all competing in a market that is growing. We are all competing in a market that may change its face, but some of the best e-commerce players we have, if you can imagine, they are Italians, but not the traditional store Italians; they still have their store, but they are expanding the globe with their e-commerce. So it is quite surprising what younger generations can do.

For me, they are both wholesale clients, as long as they are buying from me, they are not doing grey market, they are not buying fakes. If they do, if they play the game – and we have an authorised retailer agreement that we put in place, just like we do with the bricks and mortar. And on top of that, if you want to use STARS, I am very happy to go into STARS with my e-commerce players, and we already have two that are already like that: one in the Far East and one here in Italy. To me, they are clients like anybody else, and that is not an issue for me, going forward, even though I speak easily about it, because it is still quite small. And again, I told you already about all the issues there may be with the prescription glasses on e-commerce. You are always going to need bricks and mortar there.

Massimo Vian: On governance and on how responsibility and delegation of authorities are now in Luxottica, I think again I want to take you back to the portfolio of initiatives we described to you today, and they are very, very coherent with the path that this company went through during the last decade. You have seen nothing but coherent acceleration, digital integration, the evolution of the infrastructure, capitalizing on our IT-modernised platform.

Nothing is really changing for me; for two years, my delegation of authority has stayed the same as it was at the beginning of my new journey, let me say. Honestly, my vision is really completely overlapped with the Chairman's vision, and I think it is not really now my own vision or it is not really now the Chairman's vision: it is Luxottica's vision. 54 years of evolution of this company is a story of vertical integration and creating a natural, streamlined line of connection between a guy who 54 years ago was a toolmaker and the owners of the frames that are today our consumers'. The difference is that now there are millions new consumers every year and that streamlined connection has to work very well. Those initiatives in the speech of our Chairman are exactly aligned to what we already did.

In terms of responsibility, all responsibilities are in the guys that are here in front of you today. I was mentioning before, there are 30 years of service in Luxottica between the four of us. Between myself, Stefano, Nicola, Paolo, there is nothing less on our shoulders compared to what was on our shoulders few months ago.

Yes, we do live more with the Chairman. Now without Adil, he is more present. If there are two words that I would add here, two adjectives I love to use when talking about our Chairman is his vision of simplicity, he is amazing and his bravery is amazing. If you combine the two, he is really challenging us with simple ideas and be brave to be more long term sighted, even more long term, and not to be so that focussed on the next two, three, four weeks of performance. I think this is good for us, this is good for shareholders, for investors and is making our company more solid.

For Nicola and Paolo and for the other market business leaders, the fact that Adil is not with us anymore, it means more direct contact with the Chairman, but of course within their own responsibility and their own chain of command is their duty and you see them today talking to you and committed to you for the results of the next three years. Overall, we are stronger than before.

The day-by-day execution can be interesting, I can assure you, in the Italian tradition, and it is challenging. I think part of the bravery of our Chairman is even more now transferred into the leadership team of this company, which is good.

Domenico Ghilotti (Equita): A broad question on your three-year targets. If I look at your Capex plan, and you were mentioning that you are pushing more and more on growth Capex, but at the end of the day if I look at the three-year EPS growth, it is more or less in the low-teens, so it is nothing different or probably even lower with the three-year past historical performance in the group. Is it a matter of tougher comps – tougher markets, tougher market condition or competition or do you have to catch up on your Capex plan because you had some investments that had to be done in the past? This is the first question.

The second is a follow-up on this one. Are you including a potential small acquisition? I am not talking about transformational deal but small acquisition in your Capex plan that could accelerate also the execution?

Last, just a follow-up on the retail margin on a previous question. If I look at the full year performance of 2015, so not just Q4, overall, I was a bit surprised to see that you have been performing extremely well on Sunglass Hut and LensCrafters same-store sales but the operating leverage was quite modest, and so if you can elaborate.

Stefano Grassi: I will probably take all three, Domenico. In longer term growth, I mean if we look back and we say, okay, we are going to do what we have done in recent years, I mean I would be pretty happy in terms of growth top line and growth of profits. I think you do see an acceleration in our guidance between 2016 and 2017, 2018. I mentioned a few times in the past that if we want to maximize our short term profitability we will just start investing less: we will have lower Capex, lower depreciation and we will get our margin boosted.

Retail growth comes at a price. As you know, you open a store and maybe during the first few months of trading your results are obviously not going to be accretive, so you need the time to ramp up your retail network. You know that retail is an important pillar of our growth. 2016 by itself is a year when we purposely decided to make specific investment to re-boost our retail machine, not just in terms of refurbishment, but also in terms of new store openings. You are going to see that acceleration happening in our store network and that obviously is going to pay a slight price in 2016 but it is going to get an acceleration in the future years.

By the way, we have the possibility and the choice to do something like this because we know on the other side of the business, wholesale, we are going to benefit from the synergies out of the investment and the restructuring that we have been taking in 2015. It is really a balance between Nicola and Paolo both supporting the same overall results but obviously making sure that the two of them come together in a profit that is growing faster than our sales. That is going to happen in 2016 as well as in the future years.

To answer the second question regarding small acquisition, no, in our Capex plan there are no bolt-on acquisitions built up into our numbers so that it is pure organic growth in terms of opening of new stores as well as expansion in new markets or channels.

Retail margins. As I said, I think Q4 is really the calendarization, this is the adverse event for retail. Really, when you back them out, you are pretty much getting a flattish retail in Q4. We know margins have been challenging last year in Optical in Australia and Hong Kong, but if you look at our performance on a like-for-like basis, same number of trading days in Retail, Q4 is nothing different from the overall full year performance in 2015, so it is very consistent when you normalize the number. If you normalize numbers for LensCrafters as well, the performance was significant and very strong.

Flavio Cereda (Bank of America Merrill Lynch): I have four questions but they are really, really quick ones. The first one is we talked a lot, quite rightly, today about Ray-Ban and we talked a lot about e-commerce. If I go online now, I find a lot of aggressively discounted Ray-Ban products; it is everywhere. Now, I do not even know if it is fake, I have no idea, so I was wondering, clearly it is not great for the brand profile; is that something you are doing something about or is there a strategy there?

Secondly, again, to follow up on an earlier question on brands, you guys have a lot of brands in your portfolio at the moment: some very good ones, some not so very good ones. I was wondering, five years down the road, are you likely to have more or less licensed brands?

Thirdly, I had a quick question on trade payables. I thought it was a significant spike in your account at year-end, so I was wondering whether that is a strategy or that is just a combination of currencies, timing, markets?

Lastly, and this is the final question on Mr Del Vecchio, can you tell us how many senior managers report directly into Leonardo Del Vecchio at this time? Thank you.

Massimo Vian: I will start with Ray-Ban and then I leave it to Paolo and I think we might ask you to repeat your third question. Ray-Ban clearly is the biggest asset of Luxottica Group. That is why we started, that was two years ago, an idea of try and fit. Chips – radiofrequency chips mainly to our iconic models – on Aviator they accounts for 25%-ish of total sales. You have now the Ray-Ban Aviator Classic, the Wayfarer and the Clubmasters. Happily, we say now that all those models, close to 10 million pieces per year, they are fitted with radiofrequency, and first things, it allow us also far from distance to spot in every moment of the supply chain whether they are fake or not without disassembling, without analyzing frames. It is the first warranty we can give to our distributor and our customers that we can clearly distinguish what is fake or not.

I will let then Paolo expand on that policy and what we are doing to avoid in the future situations involving fakes and to clean up the channels.

Paolo Alberti: In terms of what you are talking about, you just saw it on your phone, the best one, do not buy that one because they are fakes. The second best one may not be. Okay, the best one I know is a fake because I bought it. The second one is not a fake most probably but there are three things happening at the same time. In the United States, that means if your internet is trading in the United States, you can sell it in the United States. It is not happening right now, but it is going to happen. It is going to start with 20% – no discounts more than 20%. It will start in June. By September it will be no discounts whatsoever unless there is a promotional period that is agreed by us.

In other words, it is obvious that we are going to do discounts on Black Friday, okay, but there are windows where there are possibilities and there are going to be minimum possibilities there too, okay?

On the other days of the year, that will not be possible to do. In other words, if you do that, in theory I can get the authorities to close your site down. That is one thing. Second of all, let us say you do not close your site down, but I am able to purchase some of your products, I will know who gave you those products, where you bought them from. If you bought them from an Italian client that has a selective distribution agreement, maybe it is more difficult that I close you down, but I can close your source down, okay?

It is obvious it does not happen overnight. In my previous life in Bulgari Perfumes, we did that, and we did lose a little bit of our business right away. Then right after that, when that market gets cleaned up, it is actually beneficial both to the equity of the brand, which is so important for us, and secondly, prices naturally go up because there is less product available. The product that is available is much more “managed”, so that it is not possible to do all those games that allow people to have the fake products, we cannot do anything about except identify them, and obviously we are doing a lot of that, again, to protect the equity of the brand.

Flavio, I hope that a year from now you might see some things that are still promoted. I hope to be here and we can talk about this and I hope that you do not see those kind of offers anymore, unless they are fake products that I cannot do anything about.

Massimo Vian: In terms of portfolio brands, yes, it is very rich today. I think there is room to accelerate some of those brands in some specific geographies. Your comment was that some of them are great brands, some are not actually. We feel all our brands are great in the specific mission that we assign them.

There are not really high, high volume brands available, not that many. The mission we gave to some of the brands are missions to play key role in key markets. I might refer to Persol. I might refer to Oliver Peoples, Alain Mikli, definitely not hundreds of millions of turnover in sales, but they do fill gaps that specifically we wanted to be filled.

If we are talking about high volume brands, for sure, if we will see further opportunity for some, it could well be that some other will have to exit our portfolio. We are in a good position today because we can select offers of fashion brands, fashion houses that want to work with us because they know about the power of our distribution and then they know about our sense of excellence and innovation, so we are well positioned.

The other question?

Stefano Grassi: Yeah, the question was around accounts payable growth, right, year-on-year. I mean we usually look at that from that a DPO perspective. To that extent, our DPO year-on-year is flat. The growth that you see on our balance sheet, a portion of that is really currency fluctuation. Our DPO management has been pretty consistent. I think if we look at our last five years, our DPO actually did improve about seven days for the group. This year was flat, but again currency fluctuation played a big role in that number.

Massimo Vian: How many executives report into the Chairman? The function that I co-manage are unchanged to those that were co-managed by myself and Adil: so Finance, HR, Legal mainly, those are the reporting line. The Chairman is working to streamline the number of reports. The ideal situation for him will be between four and five. Paolo, Nicola, Oakley business leader. China, with his business leader, reports into Mr Del Vecchio. At the moment also, our insurance business reports into Mr Del Vecchio as well. The ideal situation will be between four and five. Of course, we are constantly evolving the organization and the executives that are reporting to me. That is the scenario.