Luxottica Group "1Q 2016 net sales"
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CORPORATE PARTICIPANTS
Alessandra Senici, Group Investor Relations and Corporate Communications Director
Massimo Vian, CEO for Product and Operations
Stefano Grassi, Group CFO
Q&A

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Welcome

Alessandra Senici

Good evening and thank you for joining us today. Here with me are our CEO Massimo Vian, and our CFO Stefano Grassi. Before we begin, first, I have a couple of quick items to cover. As a reminder, a slide presentation which we will informally follow during this call is available for download from our website under the Investor Relation section. This presentation includes certain non-IFRS financial data and information which are further explained and reconciled in the first quarter net sales results for 2016 press release available under the "Investors press release" section of our website.

This conference call is being recorded and is also available via video webcast from our website. During the course of today's call, certain projection or other forward-looking statement may be made regarding Luxottica Group's future financial performance or future event. We wish to caution you that such projection or statement are based upon current information and expectation and actual results may differ materially from those projected in the forward-looking statements. You can read more about our forward-looking statement on page 2 of the slide presentation.

We also refer you to our filings with the SEC and Italian Security Authorities. These filings contain additional information concerning factors that could cause actual results to differ materially from those contained in management projection or forward-looking statements.

As previously announced Luxottica will no longer publish its first quarter and third quarter earnings release and management statement, but we continue to report half year and full year consolidated results. This change in the Group reporting calendar allows it to better represent the evolution and health of its business. We will begin our review of Q1 sales results with Massimo Vian.

Welcome and CEO's remarks

Massimo Vian

Good evening everyone. Happy to be here with you again.

1Q 2016: sales continued to grow across key markets

In our first quarter of 2016, Group sales were up 1.8% on an adjusted basis at constant exchange rates growing across all divisions and key markets. This is actually a quarter where our business results are better than the numbers that Stefano will share in few minutes. Many factors contributed to the sales performance in Q1, which might look softer than it really was. I want to give you some more insights and hopefully a clear picture of the overall performance and trends.

We're looking first of all at a tough comparison: the first quarter of last year was the strongest quarter of 2015, with up by 7%, so a tough comparison. It was the last quarter of positive impact from price increases that took place in the first part of 2014, while this year we are still slightly impacted by the recent price harmonization we implemented mainly in Greater China in July 2015. This benchmark effect will end in the third quarter and we still see some lag in Q2.

Our optical business generated solid results across all the geographies. Here I refer to frames for the ophthalmic business and, as you know, the sun segment in Q1 experiences the weakest quarter, on average, of the year. We are now approaching the big season for sun.

So Sunglass Hut in the first quarter in North America was slightly below our expectations. Again, in this case, comps were very strong last year: plus 7.4% for Sunglass Hut. We experienced a further slowdown in some tourist regions in North America, whilst the non-tourist regions had positive comps and were aligned with our expectations. Overall, Sunglass Hut total sales grew by approximately 4% worldwide.

Another point I want to highlight is the situation in Hong Kong and some areas of the Middle East. Definitely these areas are more challenging due to the overall macroeconomic environment.

But all in all, if we have to summarize like in the slide, our optical business is stronger than our sun business. Wholesale sales were +2.1% at constant exchange rates. Retail sales were +1.6% [at constant exchange rates], Sunglass Hut, as I already said, was close to 4% growth [at constant exchange rates] and LensCrafters, good news, in North America aligned with our budget expectation, that is, +2% in comparable store sales. In Q1 e-commerce grew 16%.

Focused on initiatives aimed at healthy growth

We are now concentrating on execution in this second quarter. Our intense portfolio of initiatives is in action and we feel positive about the remaining part of the year.

Our supply chain is as always very solid. We have strong product collections approaching our stores and we are ready for the peak season. We have record service level for our stores and an optimal inventory position approaching the peak season. I remember that May and, even more, June are the highest sales months of the year, in which we serve more units than those we produce, so it's quite crucial to have an optimal supply chain situation and definitely better than last year, that was also very positive.

Our distribution, as we already said last month at the Investor and analyst presentation, continues to evolve. The minimum advertised price policy has been implemented in the US and we are experiencing the first effects.

We are now launching and executing our store expansion plan and, specifically on LensCrafters, we will see at the end of May the opening of the first LensCrafters in Macy's. And that's another reason why we are planning for a stronger second half, because 80 of the LensCrafters new stores [in Macy's] will be opened basically in Q3 and in Q4.

What makes us even more positive about the remaining part of the year is that we started with a new retail global organization. We appointed Nicola Brandolese as the single leader for both sun and optical Retail. So we have fresh energy. We also have in Sunglass Hut, specifically in North America, a new leadership team ready to deliver results in this quarter and in the remaining part of the year.

Now I leave it to Stefano for some more insight and the details of Q1 numbers. We will talk again at the end of the presentation and in the Q&A session.

1Q 2016 net sales

Stefano Grassi

1Q 2016 net sales performance vs. 2015 adjusted figures

Thank you Massimo and good evening everybody. Let me walk you through our top line results in the next few pages, beginning with an overview and then digging into a bit more the details of our different geographies.

In Q1, our top line grew 1.8% at constant forex, positive 0.6% when you look at our growth on a current forex basis. Many times today you will hear us saying that our base was very tough and, in fact, as already anticipated by Massimo, if we look at our 2015 results, you'll remember that Q1 was our best quarter on both a constant as well as a current forex basis.

Wholesale did post 2.1% growth on a constant forex basis with a negative 0.6% at current forex. The difference between constant and current performance was mainly due to the weakening of the Brazilian Real that in Q1 devaluated approximately 25% versus a year ago. You might have noticed looking at the bottom of the page that wholesale had a very tough comparison last year with the best quarter in 2015 which was up 8% year-over-year.

Moving to the right part of the page, in retail, we did post 1.6% growth at constant forex, 1.5% was our growth at current forex, and 1.6% were our comparable store sales. Same as in wholesale, we are comparing ourselves against a strong Q1 last year with the best comp sales in 2015.

Very happy with LensCrafters: 2% comp sales growth in the first quarter compared to 6% comp sales last year. And solid was the performance of Sunglass Hut with approximately 4% total sales growth [at constant forex], where a more challenging quarter in a low seasonality period in North America was offset by double-digit growth in several geographies.

Unsurprising start to the year, 2Q expected to accelerate

Moving to the next page, we know we started the year below our full year expectation. But, in a way, we expected this, because we knew we were up against a tough comparison year-over-year. We also knew the 2016 trend would have been easier in the second half of the year versus the first half for a couple of reasons. Last year in H1, our performance was positively impacted by the price adjustments we took in 2014 that had anniversary in Q1, 2015. In addition, this year our retail financial closing calendar runs on a Gregorian basis versus a fiscal basis last year and that give us a different quality of days year-over-year by gaining few early days of January with low seasonality and losing few high seasonality days in July.

In addition, let me say that the overall macroeconomic environment today looks probably more uncertain and volatile than before, especially in certain parts of the world. Second half is going to have an easier base for comparability. If you remember Oakley's performance was weaker in H2 of 2015 due to the integration.

In addition, I think three other things should help our second half performance in 2016. The first one, the annualization of the price adjustments we took in the second half last year to realign our pricing worldwide with a major impact in Asia and to a lower extent in the United States. Secondly, the boost from new stores openings will be stronger as we enter into Q3 and Q4: think about LensCrafters' at Macy's, Target Optical network developments and obviously the Sunglass Hut expansion. Those will all become material to our numbers in the second half of 2016.

Last but not least, a higher number of retail trading days versus the second half of 2015 because of the calendar change. My last comment talking about retail nicely leads me to the next page, where we show you a bit more colour are on the calendar realignment.

Calendar realignment

We talked about it when we wrapped up 2015 during our Investor and analyst presentation in Turin [March 2, 2016], but we thought it was helpful for you to see it. There are two messages on this page.

First, as we align our financial closing calendar of our Retail division to the Wholesale one, that runs on a Gregorian basis, we clearly have an year in which we compare retail on a Gregorian basis versus retail on a fiscal basis in 2015. And that naturally creates some difference in the number of trading days year-over-year, which will create some favorability in the second half of this year with four more trading days between third quarter and fourth quarter.

In addition, you may have noticed that by starting the year on January 1, 2016 versus January 4, 2015 and finishing the quarter on March 31, 2016 versus April 4, 2015 creates a difference in terms of quality of trading days as we gain a few low seasonality days in Q1, 2016 and lose a few high seasonality ones in April. And in Q2 we will experience a similar situation by gaining days in April and losing days in July which are even higher seasonality days as they occur during the summer season.

Revenue roadmap by geography

But now let's run through our different geographies to better understand our first quarter performance.

Beginning from the top of the page from left to right, let's start with our biggest region, North America. Total sales grew +1% at constant forex, not an outstanding number. But in a way we expected it to be this way since last year Q1 in North America was the best quarter by far with wholesale sales up by 10% and retail sales up by 6% [at constant forex].
With respect to wholesale sales in North America, we did post +3% in Q1 [at constant forex], which means on a two-year basis +13% for the Wholesale division, which I think is still a pretty remarkable result. In addition, if you exclude the Oakley Sport division, which is crossing a particular challenging period, you are looking at +4% growth [at constant forex] for Q1, 2016.

Moving to the right hand side of the page to retail, sales at constant forex were up by 1% on top of +6% last year: solid LensCrafters with 2% growth in comparable store sales, slightly negative comps at Sunglass Hut that was up against a very tough comparison last year when it posted 7.4% comps growth.

In Europe sales grew 4% [at constant forex] and we're very happy with that result. Double-digit growth in Italy, in Spain, in a country like Turkey, where the macroeconomic environment is not easy, and in Eastern Europe.

Now moving to the middle of the page, Asia-Pacific was down 2% [at constant forex], which is disappointing in a way, but very much localized in two geographies: Hong Kong, where the trend is deteriorating and we don't think it is going to improve in the short-term, and South Korea, in light of some timing effect in shipping due to the implementation of SAP last year. Besides those two situations, the region is healthy. Sales in Mainland China and Japan grew double-digit and we are pleased with the increasing volume and market share gains as a result of the price harmonization done in the second half of last year.

Let me also add and this I think is pretty important and remarkable for us, that our optical retail business in Australia finally posted strong results with approximately 3% comp sales growth.

Last but not least Latin America, plus 13% sales growth [at constant forex], clearly very happy ahead of our full year target of 9 to 11% growth. We had a high single-digit growth in Brazil that continues the trend that we have seen in 2015 and the Olympics are coming, and an outstanding Mexico with strong double-digit growth in both divisions.

But now let's touch a little bit more in detail our two largest geographies, North America and Europe.

North America: tough comparison with 1Q 2015

Let's start with North America, our feeling for this region is positive. Clearly there are things to watch out like the Sunglass Hut performance, but overall we have several reasons to be optimistic for the year.

Wholesale sales were up by 2.7% at constant forex, very happy with our performance with independents and optical retail chains. We are pleased with the prescription part of the business. The Oakley integration is paying back with a strong growth in the optical channel.
Clearly, we had a few headwinds in the quarter. The launch of the MAP policy, the Minimum Advertised Price policy which by the way we are strongly convinced is the right move for our brand equity. And we also had the debut of Michael Kors last year, but again we planned for both of them.

Moving to retail, we are satisfied with 2% comps growth in LensCrafters which was achieved on top of a very strong comp base in Q1 last year and let's not forget that Easter didn't help March.

In terms of operating performance for LensCrafters, I would say that conversion was the key driver so thanks to the hard work that our LensCrafters associates are doing everyday in our stores to serve our customers in the best possible way.

With respect to Sunglass Hut, I think the weakness of tourist traffic was really the main driver of the -1% comps rate. We can see it. We have approximately 100 stores generating approximately 15% of the chain sales that are clearly exposed to tourist traffic in North America and those stores posted double-digit negative traffic and close to double-digit negative comps. Then we have stores that are located in states where there is no exposure to tourist traffic and those stores, which are slightly less than 1000, showed positive comps. The US consumer by our measures still enjoys shopping at Sunglass Hut.

Europe: good momentum continues

Now moving to Europe a lot of work has been done here and it's paying back. STARS continues to be instrumental to our success in this region and the first reaction to the new collections has been quite positive. Now we're looking forward to a sunny summer. In addition, we're starting a project aimed at making our organization leaner and more efficient and we are getting ready for the ramp-up of Sunglass Hut at Galeries Lafayette.

With that, I hand it over to Massimo, who will share with you a bit more color around our outlook.

Final remarks

Massimo Vian

Optimism ahead but more uncertain environment

Thank you, Stefano. So, just to finish up before the Q&A session, you know, we understood even more that the overall macroeconomic environment is not easy to read. It might seem more volatile, but April so far is on track and May, as I told you before, even more June are the strongest months of the year. And, of course, they will be the best indicators on how the year will develop. We'll be watching them closely. Our machine is ready to deliver great performances in the next weeks.

As an organization we're concentrating on delivering all our projects and we remain optimistic about the plans ahead. The strength of our business model and our clear growth trajectory makes us confident about our objectives for 2016. So here we are confirming our outlook for 2016.

This is all and we are now ready to take your questions. Thank you.

Q&A session

Chiara Battistini (JPMorgan): Hello. Thank you for taking my questions. I have three questions if I may. The first one on the space growth in the quarter because from the number of stores you have opened over the last year I calculate a 2.5% space contribution year-on-year, while the actual space contribution to sales was flat in the quarter. So, I was wondering if you could elaborate on that and how we should be thinking about the space contribution to sales for the full year please?

Then I read about the project of the three new laboratories for the production of lenses. Can I just ask where will these be located, when they will be up and running and what will the cost be for these expansions?

And then finally, in the press release I also read that you have made some sacrifices in terms of harmonization of prices and cleanup of some of your client inventories. So, could you please elaborate further on this measures and how we should be thinking about the gross margin implications following these actions please? Thank you.

Stefano Grassi: Okay. I'll probably take the first one regarding sales and comps. I think, you have to consider that a portion of the openings were franchises. So, you do have an impact of the franchised business that clearly means sales at wholesale price versus the retail price. The second impact is the retail calendar year-over-year. So that had an impact on our retail sales performance versus comp sales. With respect to the other question…

Massimo Vian: Yes, we are expanding our footprint for lens manufacturing, but that is aligned with our strategy of, you know, putting more order in our actual lab footprint in North America. And at the same time, we anticipate the request of more than 400 future LensCrafters inside Macy stores that will have no in-store lab. We mentioned the lighter store model, lighter in fixed assets, and that's why we are accelerating our growth in North America for lens manufacturing.

For the same reason in China we are expanding our capacity to produce lenses. We already have a state-of–the-art lab with brand new equipment and we are expanding that to serve our retail expansion in Hong Kong, more optical, and even more in Mainland China.

Regarding your third question about inventory, let me say recovery and sort of cleaning of our client situation in China. We went through a process of new assortment in China. We planned to have higher level of returns to be refurbished and eventually redirected in Asia. That process also finished and to some degree impacted our inventory position. In some other respect it is making us confident it will have a boost effect in the next coming months with a totally a clean situation in the field.

Chiara Battistini (JPMorgan): Thank you. If I can just follow up on a couple of things on the lens laboratory, would you be able to quantify an initial investment that is required to roll out those laboratories?

Massimo Vian: It's a solid investment, but overall is in line with what we invested in the past years. What maybe I can share is that the extra investment is actually for the facility, but is not serving at all only the lab. In Atlanta we already declared that we are building I would say a huge brand new distribution centre next door to the existing one, and inside that distribution centre we will host technologies for lenses. So it is an overall last mile distribution investment in logistics, labs and lenses.

Chiara Battistini (JPMorgan): Perfect, thank you. And then finally, I see a headline on Bloomberg saying that you remain active in scouting M&A opportunities and I have read an article on Reuters earlier today saying that Essilor and Zeiss are not considered. Where will be your priorities at the moment in terms of M&A opportunities, please?

Massimo Vian: I confirm we're always curious, always active, always scouting possibilities and always presenting a tough benchmark, which is ourselves, our journey to the 10% net income you know we aim to reach in two years. Clearly, strategically we are targeting distribution. We are more interested to see if eventually in any geography we might see a way to further accelerate our ability to reach consumers, but nothing specifically to mention.

Chiara Battistini (JPMorgan): Right, thank you very much.

Massimo Vian: You are welcome.

Luca Solca (Exane BNP Paribas): Good evening. One question, please, on how you see your online competition especially in sunglasses. This is a question that is often asked by investors and brought forward as a potential threat for Luxottica in the long-term given its very strong physical retail presence. The mirror image of that would be how you plan to use digital in order to enhance your ability to serve customers both in store and online and what specific initiatives you hand away that could potentially help you to get most from this front. Lastly, how the STARS program implementation is proceeding and whether you anticipate any acceleration in the number of independent opticians that you plan to recruit? Thank you.

Massimo Vian: Thank you Luca for your questions. I'll take the first one, on the sun business. Definitely is an emotional process the one that see us involving consumers to conclude the purchase of a pair of sunglasses and definitely we have to - I always say that on sun specifically - we are driving a car with two accelerators and we have to go full speed with both of them. One is brick & mortar, very simple retail business model, small stores, light fixed assets, relatively standardized assortment and we keep expanding that model which is Sunglass Hut across the globe. We have no doubt that is, you know, a super powerful machine. At the same time you are very right, an emotional purchase happens online and that's why together with brick

& mortar we are investing a lot in sunglasshut.com, which is growing fast, at more than double-digit pace. Sunglasshut.com is growing faster than the absolute growth of Sunglass Hut, starting from a smaller basis of course. And we have also the omni channel experience in which you can go into a Sunglass Hut and experience a digital expansion of the assortment, so that, if you don't find the right color you are searching for in the store, through the associate iPad you can look for it, order and eventually get it delivered at home. But the most I think powerful tool we are going to have online for specifically our sun businesses is the virtual try-on application that today is only available on glasses.com. We're very, very active with our Silicon Valley R&D team that we mentioned to you about a month ago [ref. Investor and analyst presentation, March 2, 2016]. It is actually together with Oakley the second priority, that is, transferring the virtual try-on from glasses.com mobile app into web application, that you will see live and available on rayban.com and on sunglasshut.com shortly. So you can take a picture of yourself and you can virtually and digitally, from home, on your iPhone, iPad or any tablet, try and test different frames exactly how they fit on your face. This will be really a fantastic tool available shortly on our websites.

Stefano Grassi: And I'll probably take the second question. Luca, regarding STARS, the STARS program is performing really well. We are happy with that. We opened about 400 new doors for STARS, but half of those are in the EMEA region. We are growing double-digit with STARS. So everything is going on plan and on track to achieve 8000 doors by the end of 2016. So we are happy with that.

Luca Solca (Exane BNP Paribas): Thank you very much indeed.

Stefano Grassi: You are welcome.

Elena Mariani (Morgan Stanley): Hi, good evening, Massimo and Stefano, thanks for taking my questions. The first one is on Asia-Pacific, I am finding the underlying results quite hard to read because you are saying that overall comparable store sales in Australia were up 4.2%, Mainland China and Japan were up double-digit and Hong Kong I mean it's probably a very very small fraction of that businesses. So I am just trying to see what's the different contribution of the different geographies here and what's causing the big slowdown that you are seeing in this geography. And then linked to that, what's exactly your strategy in China. I understand that you are trying to realign prices, but is there a problem of realigning them versus Europe or are you still trying to find out what's the right price positioning for that specific country?

And then secondly on wholesale, similarly to Asia, I'd like to understand a little bit more what's the contribution of the different geographies given that it's a big slowdown versus the high single-digit numbers that you've been posting recently in Brazil, which is one of your biggest countries and is up double-digit, so what's exactly causing the slowdown and what makes you confident the rest of the year can be reaccelerating to just get to your guidance? Thanks very much.

Stefano Grassi: Okay, I'll try to answer your questions here. So for Asia-Pacific we have two countries, South Korea and Hong Kong, that were in a negative spot line for Q1. If you exclude those two locations, our Q1 growth would be aligned with our full year target. The good thing besides this one is the fact that Korea was really a timing effect. When we look at our April performance in Korea, we are back on track and we are expecting high single-digit growth in this country. So we are clearly happy with that.

With respect to our strategy in China, I would say things in China are working pretty well for us. In Mainland China we are growing at double-digit pace. We have been doing price alignments. We keep opening doors and we keep growing our expansion in Tier 2, Tier 3 cities. So our strategy is, firstly, to further develop our wholesale. Secondly, to capture additional consumers by stretching down prices for certain brands. Thirdly, the alignment of pricing in China with the rest of the world is working pretty well. Our growth is healthy as a matter of fact and is all volume driven and we are happy with that. With respect to the third question, you meant to better understand our dynamics in wholesale Asia, I think?

Elena Mariani (Morgan Stanley): Broadly speaking, how much was the contributions from like the tough comparison base with Michael Kors? And what was the development across the main geographies in wholesale and what makes you confident about the rest of the year?

Stefano Grassi: You might remember last year Michael Kors contribution was about 2% for the wholesale division.

Elena Mariani (Morgan Stanley): Okay, so we should expect that to disappear for the rest of the year?

Stefano Grassi: I mean, as you are going to go year-over-year, I mean we're still going to grow. I mean, you have a Q1 timing effect, especially I would say more in the United States than the rest of the world with Michael Kors. And obviously it was a sell in impact so...

Elena Mariani (Morgan Stanley): Okay. Thank you.

Stefano Grassi: Sure.

Daniel Hofkin (William Blair): Good evening. Just a couple of questions following up a little bit on the comparison issue with Michael Kors, I understand that your sales growth decelerated over the course of last year, but are you expecting the underlying environment to improve as we go through 2016 or is more of your expectation of acceleration based just on prior year comparisons? That's my first question.

My second question is to the degree that you do expect the top line to accelerate, what would you expect the comparable store sales to look like for the full year? And where would you expect to see acceleration within the various portions of your comparable store base? And what parts of your margins should be benefiting the most: gross margin or operating leverage? Thank you.

Massimo Vian: Thanks Daniel. I'll start and then maybe I'll hand it over to Stefano for some more detail. I think an important aspect that you have to read with the numbers is also the fact that, in units, our sales are growing faster than in dollars, in euro and that is a very healthy planned strategy that we put in place in Q1. So regarding your question, what we are expecting for the remaining part of the year is not at all that we only have benchmark against easier quarters, but definitely the underlying situation as you said will improve and we are sitting anyway volume-wise on a positive solution.

Regarding the sun business, please, remember that Q1 is the weakest quarter of the year as of course seasonality is very, very low. So we're approaching the peak season with the Olympic games, with Oakley very active, with the innovation that we are bringing to the market, we talked about the new technology lenses, they will be protagonists of our marketing campaigns. So, our expectation is definitely positive and we plan to rollout a number of stores in the second half and so overall we have the right ingredients, I think in a very realistic way to be and remain optimistic about the quarters ahead.

Stefano Grassi: Yeah and the other thing is that since we are looking at the numbers, I give you an example: LensCrafters comps in the first half of last year were +6%. If you look at the second half of last year, comp sales were +2.6 so there is a natural easier base of comparability year-over-year for certain business units and LensCrafters is one example. In addition, I would say that we are not just relying on the easier base for our view here. There are a lot of activities in the store openings for LensCrafters. We are starting the new LensCrafters in Macy's. So the contribution that we estimated to be around 1 or 2 percentage points from the new initiatives as we shared in Turin [ref. Investor and analyst presentation, March 2, 2016], it's going to come and it's obviously going to be heavier during the second half of this year. So you really have a combination of easier base of comparability with enjoying the fruits of the investments and the activities that the retail team is putting in place as we speak in the first quarter and in the second quarter.

Daniel Hofkin (William Blair): Okay, thanks. And just again as regarding the overall comps expectation for the year, given where you are starting out?

Stefano Grassi: Well, it's going to improve. I mean our expectation is that our retail comp sales are going to improve for example on the optical side and obviously we are observing closely Sunglass Hut, but we think things are going to improve in the latter part of the year.

Daniel Hofkin (William Blair): All right, thanks. Thank you very much.

Stefano Grassi: Sure. Thanks Daniel.

Julian Easthope (Barclays): Hi, good evening. There are a few questions for me as well. First of all is it possible to sort of split out Ray-Ban and Oakley and their performance in the first quarter? I know you have some targets for the year, it would be interesting to see how on track they are.

And the second thing is on prices, you've obviously aligned China or Asia down, you haven't really had a price increase in more or less than two years, I just wonder whether there was any sort of likelihood of price increases coming through over the next few months.

And coming through to the lens labs, I think you said at the Investor and analyst presentation that lenses were an area where you can capture most of the value chain, there was an opportunity. Do you think that these labs that you are now building can be offered out to other independent parties or whether these are the kind of basis for actually expanding into a bigger lens operation? I'll leave it that now, maybe I'll have a couple of follow-ups.

Stefano Grassi: Okay, Julian. I'm probably going to take the first two questions, right. We don't disclose our brands performance, but I can tell you that Ray-Ban was positive and Oakley was slightly negative. Let's not forget that especially in the United States the MAP policy already did have an impact in the first quarter. So we readily stopped shipping to certain customers we didn't want to work with, and that has an impact in some of our results.

With respect to prices, I think you are still going to see a price impact, a negative price mix impact probably throughout the first half of this year. Instead, in the second half, as we are going into the anniversary of the price adjustments that we took last year to realign our pricing globally, I think you are going to see a neutral to slightly positive price mix impact.

And for the last question I turn it over to Massimo.

Massimo Vian: Good evening Julian. Definitely, on lenses we said, during the Investor and analyst presentation, that it is an opportunity. Short-term there are no doubts that it is something that we do have to do because we want to expand our optical retail footprint So, we have no choice in investing on that and we do that happily in a centralized manner with a very, very high level of automation and technology. So overall it's going to cost us less and less to produce ophthalmic lenses for our retail stores, which is positive. Definitely with Ray-Ban Remix we experienced and, maybe it sounds disconnected, but I am sure you will be able to get the global picture, we understood how important it is to have in our hands the last part of the customization of a project, of a product and be superfast in delivering something that is unique to the consumer. The same concept applies more and more to lenses, so the decision to locate more and more the labs close to our distribution centers we are confident that will make us stronger. We will reach consumers overall with a fully customized product in a very, very short amount of time, we measure that in terms of hours and that might give us further opportunities. But short and medium-term the opportunity is today in our hands to serve our own retail, the growth of our own retail, with lighter costs, better service and state-of-the-art lens technology.

Julian Easthope (Barclays): I think you mentioned that at peak times you have to use third-party for the lens processing. Does this stay, it's all in-house, where you have a 100%?

Massimo Vian: Yes.

Julian Easthope (Barclays): Okay, that makes sense.

Massimo Vian: Yes, we use third parties for eight weeks, maybe less, of the year: in March, peak season in the US where our capacity is not enough to fulfil our stores, and in August-September for the back to school peak season. But it is a very minor portion, single-digit percentage of the lenses we produce. So our today's installed capacity is serving our retail for 46 weeks a year.

Julian Easthope (Barclays): All right. Just a couple of things as a matter of interest referring to your wholesale order book, how much visibility do you get in terms of number of weeks for orders? How much visibility do you have for the second quarter? How far in advance people actually place their orders?

Massimo Vian: I mean, definitely visibility is there and is positive. We're weeks into Q2 and our trajectory is of course week-by-week arrived at the end of Q2, so that's another reason why we are relatively relaxed, let's say, definitely confident knowing how the weeks go and what happen. Then you know, the speed of our supply chain creates a very positive effect and an easy habit for our wholesale customers because they wait weather forecasts, if there is a sunny weekend they order on Wednesday because they know that in 48 hours in Europe and in US they get the order delivered. So we have visibility on orders, but we've created this business practice of ordering last minute, because they know that we can deliver in 48 hours. It's a level of risk depending specifically on weather conditions.

Julian Easthope (Barclays): And just as a sort of final thing, both Fielmann and GrandVision have had relatively weak prescription sales in the last quarter. I just wondered whether is that something you've seen generally as well, that you will also slowdown from a prescription perspective?

Massimo Vian: No, we don't see weakness here in prescription, I would say at all. Actually as I commented at the beginning of the call, prescription is where our sales are strong, I'd say stronger than our forecast, partially compensating the weaknesses on sun in the first quarter. So we don't see that in our data.

Julian Easthope (Barclays): Okay, thank you so much. Have a good evening and good weekend.

Massimo Vian: You are very welcome Julian, have a nice weekend too.

Domenico Ghilotti (Equita): Good afternoon. I have two questions. The first is related to Oakley, if you can elaborate a little bit more on the challenges that you are facing in the sport channel and when will you see the recovery also from these challenges? The second question is a follow up on the M&A opportunities. First of all, you mentioned or Bloomberg mentioned a few names, you have already addressed this question, but I wonder if your investment in lenses will be fully organic as you are commenting now or if you are also looking at opportunities outside of the two names that were mentioned before? And still on M&A opportunities, how do you consider investing in optical retail in particular in Europe? If I am not wrong you have also a minority stake in Salmoiraghi & Viganò and I wonder if you have already taken any decision on this asset and more in general if you are looking also at this opportunity in terms of M&A?

Stefano Grassi: Domenico I will take the first question. So for Oakley, clearly it's a challenging time for Oakley's sport division because the optical one performed really well, we are happy with that as it's where the integration effort has been concentrating our hearts and mind. With respect to the sport division, we first of all have an easier comparability, I mean if you think about the Oakley integration, this period is on the roadmap from last year in the second half. So, we naturally have an easier journey in the second half versus the first half and as we said few times already, we are doing our homework in Oakley. We are doing our homework in understanding the assortments of the products, eyewear as well as AFA [Apparel Footwear Accessories], especially AFA I would say, and we are doing our homework to make sure that we are more effective from a retail standpoint. So I think it's still going to be challenging for the next few months, but, again, we are actively and intensively working to turn the sport channel around. On M&A, Massimo?

Massimo Vian: Domenico good evening from my side as well. Definitely, what you understood, the growth that we have projected in our lens manufacturing business is organic and it is organic the growth we've projected in selling those lenses to our own expanded retail. I would like to underline that the partnership with our friends, the three major players in the lens industry has never been so healthy as it is these days. To sustain our growth we need the help and support of lens, So, we are not going into the manufacturing of raw lenses. So, working with Essilor, Hoya, Zeiss is essential for us and we are really in a good situation there.

On M&A opportunities, we do have a minority presence in Salmoiraghi & Viganò. You are well aware that the option is valid until the end of this year and we are working with them to understand now which would be the best way to go forward. It is under evaluation both from our side and their side.

Domenico Ghilotti (Equita): And in general on optical retail in Europe would you consider apart from this specific target additional investments?

Massimo Vian: Not more today than in the past. So, still active, still always careful to what's going on, but no specific new interest compared to what we always had in the past.

Domenico Ghilotti (Equita): Okay, thank you.

Massimo Vian: *Grazie* Domenico.

Cedric Lecasble (Raymond James): Good evening gentlemen. Two follow up questions for me. The first one on Asia, a follow up on the question which was asked on the weight of the different countries: you had some very positive performance in certain countries and the whole region nevertheless is negative because of South Korea which was a one-off and because of Hong Kong and because of Macau. Could you help us understand the weight of Hong Kong, Macau, eventually South Korea in this region just to understand the dynamics? What do you think is the problem in Hong Kong? Is it still a problem of traffic, of tourism more than an issue of price? So isn't there any possibility to maybe do the same things done in Mainland China with lower prices to gain some volume elasticity? And how long do you think Hong Kong might remain weak? That's the first one. And the second question relates to Europe, you mentioned terrorist attacks and probably a soft start to the year; do you see still improvement in the countries which were the weakest in Europe in your wholesale order book? Thank you very much.

Stefano Grassi: Hi, Cedric. With respect to Asia and with respect to Hong Kong, Macau we are slowing down, we are seeing a slowdown in trend. But, it's not a Luxottica challenge; I think it's everybody's challenge when they operate and do business in that part of the world. We are looking at our size over there to really understand if we are oversized in that region and in that specific city actually, like Hong Kong. But again, we don't need to adjust prices just to, you know, move people around. What's lacking today in Hong Kong, it's besides the traffic, it's the local consumption. So at the time the local consumption is going to start again, we probably think things are going to improve. But in the short-term again we don't see it.

I think in Europe, yes the answer is yes, I think we have the positive start of the year and I think in certain parts of Europe, when you just look at Q1, there has been a few timing effects in certain countries, I would say Germany is one example. Now, among the countries that I think are more challenging is France. We probably experienced a bit more the impact of the recent terrorist attacks that had an impact in cities like Paris that represents approximately 30% of our business [in France]. So, just to give you an idea.

Cedric Lecasble (Raymond James): Thank you.

Piral Dadhania (RBC): Hi, good evening Stefano, good evening Massimo. Thanks for taking my questions. I was just curious in terms of the North American market if we look at the LensCrafters like for like obviously there was an acceleration versus the fourth quarter last year. But, the underlying consumer environment remains tough there especially in the malls where most of your stores are located. I know you mentioned the good performance of your sales staff there. Could you just talk about footfall into LensCrafters store and the evolution of the conversion rates in those? Is the strong performance largely down to conversion in a lower footfall environment? And then, just focusing on your Minimum Advertised Policy, which you started implementing now in the first quarter, should we expect any structural closure of wholesale doors in the North American market as a result of that and if so could you quantify broadly how many? Thank you.

Massimo Vian: I'll start and then I'll leave it to Stefano for further comments. So first of all I am happy you noticed the acceleration of the North American business compared to Q4 last year. LensCrafters keeps benefitting from enormous efforts that we put in our CRM activities. Please, always remember that inside malls wherein traffic might decline, LensCrafters is a traffic destination. You don't enter a LensCrafters store by chance. You book a visit with the doctor days before and you plan your trip to the mall because you go to LensCrafters to get your eye check and then, you are in the store and it's our ability to convert that eye exam into sales. We are confident in the next future plans of LensCrafters because this strategy has been proven very, very effective so far. We will see the rollout of the new digital eye exam we mentioned to you [ref. Investor and analyst presentation, March 2, 2016], it's starting in Q2, it'll be more and more live in Q3 and Q4 in almost 400 locations of LensCrafters North America. Doctors are excited, patients will receive a very strong communication about that and even more we think we will be able to drive traffic to the mall ourselves because consumers will be excited and happy to get their spectacles done at LensCrafters.

Stefano Grassi: In respect to the MAP, so your second question, the answer is yes, we do expect to have some of our doors, some of our wholesale customers we used to work with that are probably not going to work with us in the future. Again those are choices, it's a bold choice that the Company made that in the short-term obviously does not create a maximization of our top line, but longer term it's the right thing for the brand equity. And we already saw the impact in Q1 and we do expect to see it in the following months. But again I think we're going to have at the end of this journey with the MAP policy stronger brands, healthier brands in a cleaner market especially from a wholesale standpoint.

Massimo Vian: Maybe on LensCrafters I missed one of your questions and I don't want to miss that. So, the traffic in LensCrafters is almost flat in malls in which it's down and that is very good. As I told you, traffic is generated by doctor visits and our conversion rate is up because once consumers are in and we are able to attract them we are more effective in conversions. So conversion is positive compared to last year. All very healthy signals.

Piral Dadhania (RBC): Absolutely, if I could just follow-up on the MAP program, could you just give us an indication of how long the process might take? Will it be for the remainder of 2016 or perhaps even further? And secondly just to clarify, it sounds like a lot of that rationalization is mainly in the online channel, are you able to confirm that please? Thank you very much.

Stefano Grassi: Yes, to the last question. I think it is going to be probably a rationalization mainly in the online channel, but obviously also in brick & mortar doors. Secondly, with respect to the process, I think that's going to be a 2016 process.

Piral Dadhania (RBC): Thank you.

Stefano Grassi: Sure.

Jamie Bajwa (Goldman Sachs): Thank you for taking my questions. The first one is actually just returning to this point on the wholesale rationalization. Have you got any kind of numbers in mind in terms of the number of points of sale that you'd like to get to? I know you know, visibility is still quite important in this category. Second one, you touched upon tourism and slower tourism impacting your business. I just wondered if you could give us a breakdown in terms of how much of your European business is related to kind of tourist spend and also how are you defining tourist spend, is this kind of similar to luxury brands which is kind of Chinese coming over into Europe and posting sunglasses or is it you know, inter-country or even you know, intra country in terms of tourists within the UK say coming to London? And the third question is just on e-commerce and particularly sunglasshut.com: you said that are growing double-digit, are you seeing that the sunglasshut.com business is now materially outperforming the stores?

Stefano Grassi: Okay, Jamie I'll take the first two questions. With respect to the wholesale rationalization, it's hard to kind of make a target in terms of doors to close, I mean it depends on the brand, it depends on the kind of delayed violation. What I can tell you, we planned a bit of business disruption especially in the wholesale side because of this, so it's well planned for it.

With respect to Europe, I mean it's difficult to really say that the traffic flows through different parts of Europe. For example, we've seen a shift between people in the UK going to shop in the summer season in other parts of Europe, especially Spain, but we also think and see that the underlying business in Europe is solid, because of our performance, because we are gaining market share in countries like Italy that is a market growing low single-digit. So we are happy and I think this is not just a market that is growing because we are relying on tourism traffic, it's the market that is growing because of the work we are doing and because the product that we have and because of the retail network presence that we have in Europe. With respect to e-commerce Massimo maybe you want to take it.

Massimo Vian: On e-commerce, Sunglass Hut percentage wise is growing double-digit. The percentage growth rate is faster in digital than in brick & mortar. So, we do not see one day, in the future that e-commerce will outperform in absolute value sales in retail. Like all the retailers, of course, we are very actively imagining the experience, the retail experience of the future. And that's another target our Silicon Valley R&D office is trying to imagine, the experience of a consumer in a store and more and more it will be a mix between physical - I test, I try - and then digital - I order and I get it delivered home or anywhere I need. So, I confirm, sunglasshut.com will accelerate, I think all of us will ask ourselves a different question probably in five years, because it will be more and more difficult to distinguish a true brick & mortar experience from digital one.

Jamie Bajwa (Goldman Sachs): Thank you. And just a follow-up and you touched upon kind of in North America, Sunglass Hut slow because of the tourism. I presume that you are not saying that kind of translate into your e-commerce business on Sunglass Hut?

Massimo Vian: No, we don't. Sunglass Hut is mainly US or sunglasshut.com is US. And of course its sales are driven by locals in the US.

Jamie Bajwa (Goldman Sachs): Brilliant, thank you.

Massimo Vian: You are welcome.

Antoine Belge (HSBC): Good evening, it's Antoine Belge with HSBC. I've got two quick questions, first of all I think you mentioned that volumes were growing faster than sales. Can you quantify the negative price mix? I thought it's around minus 2%. My second question relates to Sunglass Hut in the US, I mean I think you mentioned that 15% of your business was slowing at around 10% negative comps so that explains the 1.3% negative impact. So, is it fair to say that we saw your local business slowdown a bit like what we've seen with most luxury players? And finally I understand all your comments about the tough comps which are actual facts and so the fact that there are also calendar issues as well, but is it fair to say that compared to two months ago at your Investor and analyst presentation there is a bit less visibility on your guidance than two months ago? Thank you.

Stefano Grassi: All right. I'll start taking the question on sun. So, volumes yes are growing faster than sales. Price mix negative, I think the impact was around 1%. I would say that probably the vast majority of the impact was the price alignment and the other piece was probably a mix more related to the faster pace of optical versus sun sales in terms of frames.

With respect to Sunglass Hut North America, clearly regarding, the tourism destinations, there are about 100 stores slowing down and we've seen double digit negativetraffic. Apart from this no, I mean we see growth in our Sunglass Hut locations that are in states, in locations, in cities, that are not affected by tourist traffic, so we don't really see that. Obviously, we are in a low seasonality here, and we have to wait and see and observe very closely what's going on in the second quarter.

With respect to the calendar and the outlook for retail, I mean the calendar is a transition period, we like to think about it like a transition period. It's the first year in which we have some growth bands because you are clearly comparing one year which reported the numbers using the Gregorian view versus last year, that was using the fiscal view. The gain in days that we planned for in the second half of 2016 was all planned for, and, obviously, it's one critical component, one key component of our optimism for the second half of this year in retail.

Massimo Vian: I think this was the last question and had a positive comment, it's going to be the last year in which we are going to talk about calendar alignment because starting with 2017 we will have exactly day-to-day benchmark with the previous year which is this one. So I hope you are going to appreciate also our energy in order to simplify the way you are going to view our numbers and to analyze our business. Be patient still for three quarters and then it's over.

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

Alessandra Senici: Okay, thank you operator. So it's Friday, it's late, we thank you all for listening to our call tonight and we wish you a great weekend. Bye-bye.