



Luxottica Group “1Q 2017 sales”
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Q&A

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Welcome

Alessandra Senici

Thank you, operator. 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 “Investors/Presentation” section. This presentation includes certain non-IFRS financial measures.

Today’s call may include forward-looking statements. These statements may be made regarding the announced combination with Essilor, Luxottica Group’s future financial performance or future events that, by their nature, are uncertain and outside the Group’s control. The Group’s actual performance may differ possibly materially from what is indicated in any forward-looking statements. Please see the Group’s filing with the SEC and Italian security authorities for the additional information and a discussion of certain risks that could impact Group results.

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Before I hand it over to Massimo Vian, I would like to confirm that we have successfully completed certain key milestones in the proposed combination of Luxottica and Essilor, which is progressing according to plan. Given that this transaction is still at an early stage, we will not be in a position to comment further in the Q&A section. Thank you in advance for respecting this comment that when asking your questions. Massimo, please?

Welcome and CEO's remarks

Massimo Vian

Good evening, everyone, and thank you for joining today's call.

1Q 2017: healthy start to the year

Q1 has been overall a good quarter for Luxottica. Sales were up to €2.4 billion, 5.2% total growth, close to 2% growth at constant exchange rates. We stuck to the bold commercial approach we laid out last year, which makes the 5.2% growth even more satisfying.

Deep diving into our Wholesale division, we're very pleased with the results in Europe, and we will add more color in the following slides. In North America, performance is overall in line with what we expected, a softer first half and a better second semester. We're still working hard to elevate the quality of our sales, cleaning distribution, and here as well I will provide more details in the following slides.

Let's look at our Retail division. In North America, we continue to invest in renewing, closing and opening new stores with a bigger focus on productivity versus density, particularly for LensCrafters, with our lighter store model. Over the last 12 months in North America, we added almost 100 stores on a net basis to our optical retail network between LensCrafters and Target Optical. Clearly, these stores are not comping yet, but they are accelerating to reach optimal cruising speed. Intense activities in Sunglass Hut North America as well, where we optimized the store footprint. We've closed over 150 Sunglass Hut locations between corner shops and small stores in the quarter. We also remained very coherent with what we said in our March FY16 results call. Throughout Q1, we confirmed the brave decision to eliminate promotional activities, both from our retail brick-and-mortar and from our online channels, including Oakley.com and SunglassHut.com. You cannot find today any discounted promotional products on those websites. Of course, while the immediate impact was a reduction in traffic, it forced us to focus even more on conversion and in the first days of April we started seeing consumers coming back to buy. Obviously, AUR is benefiting from this reduction in discounts. In Europe, very happy with the consolidation of Salmoiraghi & Viganò. The transition was smooth and we are already looking at ways to incorporate best practices from their turnaround in the past four years. We are sharing learnings and resources between Salmoiraghi & Viganò and our other optical retail chains across the globe. In Australia, we are very, very happy with the performance of OPSM and we're talking of almost 400 stores, after the overall implementation of the new model in Q1 last year. We are seeing very solid growth month after month, quarter after quarter.

The only negative unexpected surprise has been South Africa with our fleet of 140ish stores not trending well, and this is mainly due to the political and economic crisis over there.

Shaping the Group's long-term future

Moving to the next slide. We're continuing to invest in strengthening our business model. We're investing in product innovation and clearly in brands. We widely discussed about our brands and how much they matter, in our March FY16 results call, and even more, we are investing in those brands with quality-driven distribution and superior service levels. And this is where we are in wholesale and retail and also in our e-commerce channels. We are staying closer and closer to

our consumers, cutting time out of our go-to-market processes and with a very, very reactive supply chain.

Some of the initiatives we presented to you in the past few months are now reality.

Ray-Ban stores are more and more successful in China, comping double digit. Only 12 months ago, we were testing the very first format of these stores. We now have between 60 and 70 Ray-Ban stores in China, growing every day, and that has given us even more energy to accelerate the openings of this new retail model.

The three big logistic hubs in China, in the US and in Europe, are now finished and fully operational. And in those distribution centers we have fully operational prescription lens central labs, which are the base of our hub approach, the new supply chain model for optical products. In those distribution centers and labs we are now producing the complete pair and we are successfully launching in Europe and in China the Ray-Ban experience of the complete pair. I said, particularly China and Europe, because the launch in the US was delayed by about a month compared to Europe as planned, and we will be launching the Ray-Ban complete pair with a big media campaign in July and August, and that's our plan.

Moving forward, we are confident that we will see an acceleration in sales performance over the next quarters even with the decrease of promotional activities in both our divisions.

Our new collections are strong. We have a very rich portfolio of orders for our Ray-Ban sun new collection, that were presented at Luxottica Days. And as usual, we are entering now, and I would say in May and June, into our peak season. We're doing that with optimism and we are confirming our full year outlook.

I pass it to Stefano for more comments on our numbers.

1Q 2017 sales

Stefano Grassi

1Q 2017 net sales performance vs. 2016

Thank you, Massimo, and good evening, everybody. Buonasera. Let's start with a little bit more detailed journey into our top line results. We'll begin with our Group results and then dig into the Wholesale and Retail divisions.

From a top line perspective, as Massimo mentioned, we delivered, from a Group perspective, plus 1.9% growth on a constant FX basis, 5.2% at current FX. That's for the first quarter 2017. Currencies, similarly to what we've seen in the last quarter of last year, created some tailwinds in our results, especially the US. dollar, which revaluated 3.5% versus the first quarter of last year. We now move to our two divisions.

Let's begin with Wholesale. You see in the upper part middle of the page, we're substantially unchanged year-over-year on a constant FX basis, positive 2.5% on a current FX basis. In Wholesale, we continue to experience the impact of the MAP policy in North America, which will reach its first anniversary during the second half of 2017, as we already mentioned a few times during our previous call.

We now move to Retail, on the right-hand side: plus 3.3% growth on a constant FX basis, plus 7.1% growth on a current FX basis. Here, the lift from constant to current FX is greater than in Wholesale, because, as you know, we have a larger base of revenues denominated in US dollars, as 70% of Retail revenues are denominated in US dollars and that created the nice lift that you see over there.

From a comparable store sales perspective, Q1 was a challenging quarter as the Retail division posted negative 3.5% comps, well spotted in LensCrafters that posted negative 2.9% comp sales. And Sunglass Hut and Oakley, both in North America, were both negative. The key difference when you look at our top line growth on a constant FX basis and our comparable store sales numbers are based on the following two primary drivers: first, the newly acquired Salmoiraghi & Viganò, that is now part of our top line growth; secondly, new store openings that are now sustaining our top line and compensating for the drop in the like-for-like business. So as we are reshaping our store portfolio, we see a nice contribution from the stores we opened throughout the last year in sustaining our top line. In addition, let me say that we are very pleased with our optical retail chains' performance across the world. Australia continued the strong comps progression we have seen in recent times, quarter after quarter. Mainland China was up double digit and GMO in Latin America was positive. So overall, I'd say we're very pleased with our optical retail performance outside the United States.

Revenue roadmap by geography

But now walk with me through a journey in our different geographies on the next page.

And we'll start obviously with the biggest geography, North America. In Q1, sales were negative 3% on a constant FX basis, as you see on the top left-hand side of the page, below our full year target of 1% to 2% sales growth in North America. But we're aligned, as Massimo mentioned before, with our expectation of a lower start in the first half versus the second half of the year.

If we look at our Wholesale sales performance in North America, we posted minus 3% at constant FX. And as said before, that minus 3% is primarily driven by two factors: the first one, the MAP policy implementation, which has not come to anniversary yet during the first quarter of 2017; secondly, the Oakley sports channel, which continues to be a quite challenging channel for us in North America. But if you exclude those two effects, you will be looking at Wholesale North America solid, positive in the quarter with independent optician and retail chains that were strong, and this is clearly giving us an indication that the hard work that the Wholesale team is doing in North America is definitely the right one. So we're happy with that.

Sales posted by Retail North America were minus 2%. The work in LensCrafters, I would say, proceeds at full speed. A new leadership is in place and they're really working hard to ensure that we're not leaving any detail behind us: labor incentives, field management, supply chain, lens offering, everything to rebuild store excellence in LensCrafters is under complete scrutiny and we'll see the tangible benefits of this during the second part of this year. Sunglass Hut was soft, I would say, mainly due to two factors. The first one, as Massimo mentioned, the strong reduction in promotional activity on the front doors of our stores, as well as in our online business, which is clearly reducing the traffic of people that are shopping either online or coming into our brick-and-mortar stores; secondly, the closure of over 160 stores in North America as result of our strong portfolio assessments that we're doing periodically in our overall retail base.

Let's talk about Europe. On the bottom left of the slide, you see sales up 17% [at constant FX], an outstanding number. We're used to seeing Europe growing quarter after quarter in recent years, but here the velocity is quite impressive. The magnitude of that growth, I would say, is quite impressive. We grew pretty much everywhere in Europe, some widespread positive trends that we see in Europe, and clearly, a portion of that growth is due to the Salmoiraghi & Viganò inclusion in our retail business in Europe. But even if you exclude Salmoiraghi & Viganò, you would still be looking at Europe growing mid- to high single digit. So we're very excited about the fact that we're largely beating our full year guidance in this region, and you know how important Europe is for us.

Sales in Asia-Pacific were plus 1% [at constant FX]. You remember last year in Q4 2016 we posted a minus 6%, so we see a nice progression in Asia-Pacific after minus 6% to plus 1%. So we are happy with the trajectory and the journey we've taken over there. We're pleased to see some tangible progress in our strategy in China, where we posted double-digit growth in comps in optical retail supported by the success of our Ray-Ban stores, and more and more, we can expand our retail footprint in China, thanks to the success of our Ray-Ban stores. Hong Kong is still soft, but it's improving versus the fourth quarter trend, even though we remain quite cautious with our full year outlook for this specific country. In addition, let me reemphasize, because I think it's a pretty good success for us, another quarter of solid growth in Australia, driven by our optical retail business over there.

Last, but not least, Latin America. You see it in the bottom right-hand side left box over there. Sales grew by 5% [at constant FX] on top of plus 13% last year, so over a 2-year basis, you're looking at Latin America growing about 18%, which I think is a quite remarkable result for us. Mexico continues to be strong with double-digit growth in Retail and Wholesale, so we are happy with that. Brazil is a touch negative, but we feel it's going to rebound during the second half of this year. And therefore, we keep, I would say, a high degree of confidence in the possibility to achieve our full year guidance for Latin America as well. With that, I hand it over to Massimo, who will give us a little bit more color around our main regions. Massimo?

CEO's commentary on 1Q 2017 sales

Massimo Vian

North America: trending better heading into 2Q

Thanks, Stefano. So Stefano has been quite detailed in explaining about the performance in North America, so I'll try not to repeat what he already underlined. The MAP policy is hurting, as I said before, that was sort of expected. But the market now is much cleaner. Our B2B e-commerce customers are reducing the orders, which was expected, and actually, that's why we implemented MAP policy. And we constantly see AUR in the digital channel improving and going up. On the positive side, the portfolio of orders of our independent clients, the ECPs in North America is quite rich.

So we are quite optimistic for April and we see the results now and in May as well. So I think I'm not adding anything more for North America.

We're struggling a little bit with the Oakley sports channel, that has to be said. We still have to identify probably the right way but it is not specifically related to eyewear. We sell eyewear in the

sport channel, but the big sport retailers are struggling in North America, they are not doing particularly well.

Moving to Retail, we already said, we opened almost 100 optical stores on a net basis in North America [compared to Q1 2016]. We're focused on accelerating their growth but we're happy with what we're doing and actually, we continue our expansion plans both for Target Optical and LensCrafters this year.

And let me just add a few things on Sunglass Hut. The negative comps, we already said, were driven by a slowdown in traffic due to the cut of promotional activities. Even though we were able to offset part of that with improved price-mix, as we invested a lot on training activities starting at the beginning of the year, have been around all our associates to focus on effective selling of products rather than being helped by promotional activities.

In addition to that, let me remind you that Easter last year came earlier compared to this '17. And there's a bit of that shift of sales from March into April, and clearly we will see improving comps in the next quarter.

Europe: nine consecutive quarters of robust growth

A few more words on Europe. This is the very, very good news. Once again, outstanding quarter for our Wholesale division in Europe. Four geographies from North to South of Europe, Italy, France, UK, Germany, Eastern Europe, really everywhere, in Greece, Portugal, even the small Netherlands and Switzerland, all posted double-digit growth. Clearly, a widespread positive trend.

The integration of Salmoiraghi & Viganò with our retail network started very well. And the Italian chain will be the showcase for our great products. We are completely changing the assortment of Salmoiraghi & Viganò frames, introducing and exposing more brands such as Ray-Ban and Oakley and we're already seeing very positive results. We expect the same for the peak season of sun because 20-ish percent of what we sell in Salmoiraghi & Viganò is sun as well.

Let me also add that for Wholesale in Europe, we are going through a realignment of our commercial policy that is causing some timing effects in light of some orders that were anticipated in Q1. So again, we're talking about timing, which will not jeopardize our ability to deliver the full year guidance in the region. So very, very happy with Europe in general and Europe Wholesale.

Ready for a sunny season

We're getting ready for the sun season. We're getting there with optimism, with enthusiasm. We're pleased with our consumers' response to our new collections, and this is very encouraging.

Already said, solid portfolio for Ray-Ban, very big success for Chromance lenses that we introduced and we showed you last year. And Ray-Ban prescription lenses made a strong debut in Europe, and we are expecting this to grow. And let me add that 50% of the Ray-Ban prescription lenses we are selling are sun prescription. And this is, again, a brand-new segment for Luxottica Group and it's telling us a lot about this trend of our brand. Sun prescription will be a driver for the peak season now, so we are expecting even better news going forward in June and July.

The Oakley Youth Collection started well and this is opening up a brand-new segment for the Oakley brand. It will help us push along our goal of reducing the average age of the Oakley consumer and getting the loyalty of our consumers since they are in their teens.

Luxottica's vision of sustainability

I think we're done. Before leaving it to Q&A, I would just underline the fact that our Luxottica.com website has been improved and we added a section dedicated to sustainability and this is something we're very proud of.

We're focusing on four pillars: commitment to excellence, visual well-being, social equity and protecting the environment. Clearly, we've been a socially responsible Company since starting from the very first facility in the heart of the Alps, Dolomite mountains that are now UNESCO heritage, protecting the environment and taking care of the people that are working with the Group.

So I invite you to visit the Sustainability section, it is interesting. And it will be populated more and more with stories about activities we're doing and more and more also with numbers as you will see, improving quarter-by-quarter. And we'll be witnessing the fact that we are a really good company, also taking care about our people and about the environment.

With that fact, I leave it to you for the Q& A session. Thank you very much.

Q&A session

Elena Mariani (Morgan Stanley): I'm going to start with the like-for-like, because I was somehow disappointed to see a minus 3.5%. Is this something that you were factoring in at the beginning of the year when you thought about your guidance or so? Were you planning already these initiatives? And should we assume that we're going to see this weakness for the rest of the year because I presume that these initiatives will continue also in the coming quarters? And just on the like-for-like, can you confirm the composition of that volume versus pricing versus price mix? You've mentioned that at Sunglass Hut, you've observed a slowdown in traffic as well. How do you explain that? And have you seen that also across your optical retail network? And I have also a second question, which is more strategic. There have been some strategic transactions -- very interesting strategic transactions in the premium eyewear space over the past few months, particularly among the large luxury conglomerates. They seem to be more willing to internalize most of the eyewear value chain. Can I ask you what your opinion is on these transactions? And do you feel that competitive environment is changing? And how do you think that this could affect Luxottica?

Stefano Grassi: It's Stefano. I'll probably take your first two questions. With respect to comps, yes, we had soft comps in the first quarter. But really, the way we now look at our Retail is really in a more holistic manner. So yes, we had a negative underlying like-for-like business, but we also had very positive nice lift from the stores that we opened. And when we look into the stores, when we look at the performance of the stores, I'd say that we were able, first of all, to compensate for the negative trend that we've seen in the first quarter for our like-for-like business. Negative trend, that was driven in most of the cases by basically a reduction of our promotional activities. And as we reshape our store portfolio, remember last year, we opened over 600 stores throughout 2016 and we closed about 350. So there was about 1,000 stores in our store portfolio that have been touched somehow between openings and closing, and we are happy to see that despite the like-for-like business decline, we have nice support from the new stores that we opened last year and that are very successful. That means that we will continue to reassess our store portfolio and

understand whether we have stores that need to be closed because of profitability, because of their proximity with other stores, and we will open new stores whenever it makes sense. So that is exactly the way we were expecting, that's why our performance in Retail is positive and we were obviously getting that nice lift from Salmoiraghi & Viganò. But also, don't underestimate the importance of the support that the stores we opened last year are giving to our core business.

Now if we talk about the performance from a volume versus price-mix perspective, and I'll probably talk about it from a like-for-like perspective, volume was negative and price-mix was positive. And volume was negative because traffic actually declined in our stores as we actually got rid of any promotional activity in our front doors and online. Today, if you go online on any of our websites, you won't find a single pair of eyewear that is discounted. That clearly had an impact, which is kind of a self-inflicted impact, but again, let me say that this is for the long-term health of our brands and for the long-term health of Luxottica, I would say. So negative traffic, negative volume, but price-mix that is evolving positively in the first quarter as we expected. Now with that, I hand it over to Massimo for the strategic question regarding the transactions that happened in recent times.

Massimo Vian: We touched I think many times on this point, clearly and related to Kering and LVMH as well. Interesting, that's probably more the one, the second one then the first one. Since we see these as tests and we wish the best possible future for these companies, their approach is very different from the one that we have. Clearly those tests focus on maintaining very high the equity of the category while Luxottica business is more targeting scale with global brands. I just want to remind you that between Wholesale and Retail, we serve an excess of 120,000 doors globally. So if Kering and LVMH want to serve their own boutiques with their own products, that way could even help us to maintain high the equity of the eyewear category, as I said. So we don't see them necessarily competing with us. Clearly, it will be a niche business. Fashion houses that want to invest at scale in the category I think should partner with a player that already has distribution and can give them volume and global presence in a matter of quarters. We can design, produce, distribute frames globally in a matter of 3 to 6 months.

Chiara Battistini (JP Morgan Chase & Co): A couple of questions for me, please. First on the like-for-like, again, and to come back to Elena's question as well. On your press release, you've noted that your like-for-like in Q1 was impacted by commercial decisions aimed at enhancing brand equity. But these have a less significant impact than initially planned, so were you planning for actually like-for-like that was more negative than 3.5%? And also how should we think about the like-for-like evolution in 2017? Shall we actually expect the comps to have a rebound back to positive already in Q2? Or is it really a negative story? And then, if I can ask you for some more color on the like-for-like for Sunglass Hut, maybe if you could tell us what was or, I mean, an indication on the US versus the rest of the world, please?

Stefano Grassi: So I will take the question on comps. So, yes, the main impact that we talked about is the commercial decision to preserve the long-term health of our retail brands and our eyewear brands. And that has an impact on our business. But let me say that the impact of those commercial decisions actually was lower than what we probably originally expected, when we said we would completely pull back from promotional activity on the front door. You know when we said a few times LensCrafters is going through a complete reset of the platform over there, and that obviously has an impact and you've seen it from the negative like-for-like performance of LensCrafters. So there is definitely an expectation of improvement in our like-for-like business

throughout the remainder of the year, but again, let me say that when we look at our commercial decisions, and the impact that those decisions had was definitely less severe than what we originally expected.

Massimo Vian: Clearly the approach and the appetite for promotion in the US is traditionally bigger and more relevant vs. Europe. So this decision had a stronger impact on our US network of course. But in Europe, for example, or particularly in the UK, we saw actually a reverse trend with Sunglass Hut during Q1. So definitely more impact on Sunglass Hut US. Approaching the peak season, then again, Q1 is less relevant for Sunglass Hut as you well know. Approaching the peak season, we will be at speed with training our associates on conversion, we'll be ready, the new collection will be in the stores starting this month. Window campaigns are very strong. And in any case, we will maintain at the end of summer a small window for a promotional campaign but not as strong as we had last year because we want to stay clean. So for Sunglass Hut North America, I think we are now equipped to manage summertime.

Chiara Battistini (JP Morgan Chase & Co): And if I can have another question, sorry, just to double check on my calculations. Am I right thinking that the contribution from Salmoiraghi & Viganò in Q1 was around €40 million to €50 million consolidation?

Stefano Grassi: That's correct, Chiara. You have right numbers.

Luca Solca (Exane BNP Paribas): Another question on like-for-like. I was wondering what do you see as a probable impact on the return on invested capital as you're rounding invested capital through new space and the acquisition of Salmoiraghi & Viganò and like-for-like typically correlates with return on invested capital trends. So I wonder what your perspective on that would be. On the decision to reduce promotions, what this entailed down the road, the prospect of opening more factory outlets and thus off-price activity, as a physical or online? Then I would be very interested in understanding the status of your lens manufacturing development. If you could get us a bit more detail on that front in the various regions where you're having this activity off the ground? And last, but not least, if you could refresh our memory on the senior management team? And if you could say who's going to lead in the effort to merge with Essilor, without getting into that of course as was requested?

Stefano Grassi: Luca, I'll probably take your first question with respect to comps. It's a very well taken question. I think, I would have probably mentioned it even if you hadn't asked that question. But yes, the reshaping of our store portfolio, let me say, it is instrumental in opening stores that are more productive. Stores that are more productive, it really means higher revenue per square meter, higher profit per square meter, more efficient investments from a CapEx standpoint because, remember, we are targeting to get more productive stores, especially in the optical space. They are going to be over the long term smaller than what they used to be in the past. So we're going exactly in that direction. The return on invested capital improvements won't happen day to night, but we can definitely see that. First of all, if I look at the average spending for a LensCrafters store today, today, it's running lower than what it used to be. If I look at the average space, for example for a LensCrafters store today, that is smaller than what it used to be and with all the stores that we're opening, as you probably already know, are without the lab. So we're going into that direction that ultimately is going to lead us to better return on invested capital. Now with the second question regarding promotion, probably, Massimo?

Massimo Vian: Luca, about promotions, cutting promotions, I would say absolutely not. So we are not going to open more outlets. We embraced I think a brave journey to keep accelerating our go-to-market approach and keep simplifying our assortments. So the idea is to be more and more premium but to be very virtuous and to be more premium because we're going to have the right product in the right store at the right time. I want also to remind all of you that our outlet fleet of Sunglass Hut stores is selling 70% of the assortment of full-priced sunglasses. Actually, many of them are located in touristic shopping villages and are very profitable stores, and not really so keen on promotion. Even more so, we are more disciplined in outlets as well. The intent is overall to increase the equity of the whole category. We have on our shoulders the weight to represent the industry and the category. So we want to stay premium and not to find any shortcuts. On online, this will help us a lot. Because staying virtuous with full price in brick-and-mortar, it will sustain our wholesale business because our wholesale customers will see us saying -- thinking to our stores and in our website already, everybody can see the retail price that Luxottica has and, let me say, indirectly suggests all the categories to maintain. So I think it's tough, but it's the strategy we embrace and we keep going.

On lenses, you know we have our central lab locations in North America. They keep running and on top of those locations we built, and it's running now, probably one of the biggest lens labs in North America. The other big ones that I know are in Thailand by Essilor and HOYA but our Atlanta facility is really large with great capacity. We are now running at probably 10% of what will be the total capacity of the site once it will be run at full capacity. Super happy and we are implementing there already the strategy of delivery with very short lead-time to all our stores because we pick the frame, we machine the lenses, we assemble the complete pair and we deliver it straight to the store. This is what we presented to you and it's reality now in Atlanta.

China is the same. Ray-Ban stores across China and Hong Kong are served by our lab in Dongguan, in which we have stored the lenses. We can reach any place in China in less than three days, including Hong Kong in 0.5 day. So it's a very lean system. In our Ray-Ban store, we have only a showroom and if the customer wants a frame, the model that sits in the store stays in the store so there's no replenishment, there's no re-assortment and the consumer receives a brand-new frame, never worn before with the prescription lens fitted at the source and guaranteed by Ray-Ban. That is our reality for all the Ray-Ban stores and we're launching this business model with all the other LensCrafters stores in China.

Europe is devoting the capacity of the Sedico lab to our Ray-Ban test in Salmoiraghi & Viganò, the Ray-Ban lens offer. This is really the first step. We started two months ago. And now we are opening the same service to our wholesale customers in Europe. And as I told you, not really surprised, but it is a confirmation of an ambitious, let me say forecast, 50% of the volumes are now sun prescriptions. This is 100% incremental business for us. Because we're selling a sun frame and we're selling then a pair of prescription lenses.

Regarding the management team which is going to lead the integration with Essilor, now the team is restricted. We want to concentrate all the voices in a group of less than 10 people talking to antitrust authorities et cetera. Once we will have the okay to go, of course the team will be expanded on a project basis and as you all know, the synergies and the integration projects will be decided one by one by the Chairman from Luxottica and by the CEO and Chairman in Essilor. But as we go on, of course, we will be happy to work more and more together.

Antoine Belge (HSBC): Three questions. First of all, regarding LensCrafters. I think you mentioned some management changes, but what is actually changing underground? Are you still committed to the 24-hour offer to your customer? And shouldn't you be trying to maybe move to something else and maybe that would lead some cost saving especially in terms of having in lab stores? The second question, you're mentioning the reshaping of retail. How confident are you that the negative lag coupled with strong contribution from new store isn't the sign of actually cannibalization from having maybe opened too many stores in the past? And are we going to see a positive sign in terms of margin already this year in the Retail division. And finally, regarding China, how many Ray-Ban stores do you think you can open every year? And what's the sort of potential there longer term?

Massimo Vian: Antoine, about LensCrafters. So yes, we went through management changes and the leader of Salmoiraghi & Viganò was appointed as the leader of LensCrafters in early January. I am spending, myself, 50% of my time in the US, so two weeks Europe, in Milan, two weeks in Cincinnati, working closely with Giorgio Candido, reshaping the, let me say, business model of LensCrafters. Let me spend a few words here because I want to be as clear as possible for you and for everybody on the phone. What we're going to do in LensCrafters, the change in terms of having a lighter business model, clearly will improve our return on investment ratio. But it's more like something that we must do in order to stay a leader for the next, I would say, 10 years, 20 years, 30 years. The prescription lens manufacturing business is moving towards digital machines. So it's really going towards a super-customized service level for each individual consumer need. And those types of technologies and those types of procedures can only be applied by very expensive equipment. The one, for example, that Essilor has in its Satisloh division that can only be run with efficiency and with professional results in central facilities. So yes, we are working on service levels to try to speed up the service from our central lab to the consumer. Moreover, we are investing in the excellence of the eye-care solution we are providing to consumers. Because those lenses simply, as we go into the future, it will not be possible to make those lenses inside a retail store. They need a different generation of technology. So what we're doing for LensCrafters is to stay at the top of the category for the next decade. Not necessarily to save costs. I think then our ability is to see the future, find the way to get there and do that with more efficiency as well. But the main reason is that LensCrafters has to provide the best possible solutions to our consumers. You know that we've invested in digital eye exams deeply, super precise through the 1/10th of a millimeter, we cannot not take that opportunity with a traditionally machined lens. Our processes have to capitalize on the precision of our digital eye exam in our stores and this is why we are centralizing our know-how in the central labs. We will be ready with videos to promote activities of our digital operations shortly, I would say in the next couple of months. We want to market our ability, internally and externally, to provide superior quality lenses, not only in prescription but also in surface treatments, anti-blue light, 400 UV cut on clear lenses as well and all of that will be even more clear to all of you in maybe a couple of months when you will see the result of our internal promotional activities.

Stefano Grassi: So Antoine, I'll take the second question, you asked about the retail portfolio reshaping, this is obviously a very important exercise for us. Back to your question regarding cannibalization, no, we haven't seen necessarily a cannibalization or strong cannibalization between the new stores and the old stores. We've a few examples in Macy's where we do have approximately 90 stores and a lot of these consist – we do have LensCrafters stores in the proximity of the Macy's LensCrafters that we opened. And we necessarily didn't see a strong

cannibalization. But the real way the dynamic is working in retail is made of two factors. You have the negative comps that are driven by a self-inflicted decision to cut promotions across the globe. And that clearly has an impact. And also resetting the LensCrafters platform in North America, as Massimo well explained. So you have those two drivers that impacted our first quarter from a comps standpoint, but then on the positive side, we have a very nice lift from the new stores, right locations, and even comparing some of those stores, the pro forma performance with the actual results, we already see that those stores are good ones. We already see that the traffic is there. We already see that we are selling more units per day than what we originally expected. So the traction is right, the locations are right, the productivity is there and that's why you see a net positive balance as you look at our top line performance in retail.

The third question regarding China, I'll probably take even this one. How many stores? Well, we would probably love to have hundreds of Ray-Ban stores in China. And I think, we'll be above 100 by the end of this year. You remember we were around 50 at the end of last year, we're going to be around 100 at the end of this year. And I think we still have the potential to grow and probably further double that size after 2017. It's a very promising store format. It's very well received from Chinese consumers, it seems to be very well accepted single brand proposition from a retail perspective. So we're very excited, very happy and there is going to be more to come even considering the omnichannel interaction and all the hard work that we're also doing online to allow more and more interaction between the Ray-Ban brand proposition online and the brick-and-mortar offers that we have in our stores.

Antoine Belge (HSBC): Okay, secondly just maybe a follow-up or a confirmation. So, in terms of retail margins, are they going to be increasing this year? Because like-for-like am I negative in believing that they have to go down?

Stefano Grassi: We can't give such disclosure since it is just the first quarter but we can say that the margins are on track with our expectations. But I mean, I think we're going to see an improvement in margin in retail versus what you saw in 2016, that's for sure.

Cedric Lecasble (Raymond James): I have a few follow-ups. Could you help us in Wholesale US understand how the split between your independent clients and online evolved? What would be the split between the two now and how does it compare to the split before MAP? That would be helpful. And if you could help us with the trends? And, by curiosity, do you work anymore with Amazon in the US? So the second question relates to this traffic issue driven by less promotion. When do you think traffic can pick up again especially in the US in your stores? And do you think traffic will materialize first on brick-and-mortar or online? And then last one is about China. Your Ray-Ban stores seem to be working pretty well. What would be the critical scale you need on brick-and-mortar to be able to leverage the Ray-Ban brand online?

Stefano Grassi: So I would probably take the first question regarding the wholesale US. I would say in wholesale US, the independents represent about 50% of our business and, by the way, during the first quarter that part of the business grew solid positive in Wholesale North America. The online business is about 10% of Wholesale North America and decreased with the impact of MAP of about 60% in recent quarters. So you can do the math and that's where we are today. Now the second part of the question is with respect to Amazon, and probably I'll let Massimo answer that.

Massimo Vian: Basically we're not doing business with Amazon now, but we are maintaining a close relationship because hopefully for both companies this is only an investment in order to have better business in the future, once we will be able to have discipline in whole channels and we will be able together in not having, let me say, unwanted online sellers with the wrong price or even more with non-original products. With Amazon, we are working a lot to intensify our activities of spotting eventual fake products in their digital stores. They have been pleased, maybe positively shocked about our RFID technology. We were there in the US to present them what we are capable of doing and they immediately partnered with us because it is in their first interest to have only original products in their digital stores. So the business basically is zero today and that's why our US wholesale performance is also, let me say, struggling a bit. That was planned and hopefully, when we will be able to reopen the channel it will be with a different retail price and of course profitable for both of us.

About the critical scale for Ray-Ban stores in China. Actually, month after month, we are happy and I'd say positively surprised about the performances. So we are discussing these days really on how much to leverage on B2C direct in China versus a controlled B2B. So more and more, we think that we have the strength of the brand. We want to talk directly to consumers and there will be a strong synergy between brick-and-mortar and digital Ray-Ban stores in China. You are aware that we have our virtual mirror online in our website in Europe and in US. Two weeks ago we started in China and it's very, very early to say but China Ray-Ban stores could be the first ones to also have the virtual mirror in stores this year at the end of the summer. We could create the super strong connection with service levels and the virtual Ray-Ban infinite assortment that we could have digitally available in our stores in China. So clearly, we are expanding. Stay tuned because we are quite flexible and we will decide more to scale in the quarters to come.

Cedric Lecasble (Raymond James): On the US traffic issue in stores, what do you expect in the next quarters? How long do you think it can take to go from a promotional where you're doing things to a non-promotional?

Massimo Vian: We cut all promotion in those five days. Because I remember very well, there were three days between Christmas and New Year's Eve. So starting the very first days of '17, all promotions, both in retail channels and in digital channels, were off. So today, if you visit our Sunglass Hut stores in the US and I will say across the globe and if you go now on our website stores, you will not find promotions. I hope this answered your questions.

Cedric Lecasble (Raymond James): Well, it was more actually about the traffic issue. I understood that you cut all promotion. But the question was more on how long do you think it would take for consumers to get used to this new situation and to come back to your stores?

Massimo Vian: It's a journey. I mean, it is going down in volumes and dollars. And of course, with higher AUR, it will be a journey of transitioning, as I told you, and really educating the workforce, our associates to convert to full price with product story rather than with attractive low price points. Summer, as I said, is the peak season, and it will tell us whether all the efforts we're doing with our activities in the field are paying off. As I've said before, we're confident, we're optimistic and waiting for the sun, really.

Piral Dadhania (RBC Capital Markets): I'm just curious as to the optimal size of your US retail network in both prescription and sun given these structural changes that we're seeing. I

appreciate that you're evolving the LensCrafters network to move to smaller stores and better traffic locations. But could you just give us an indication as to what the medium-term number of stores you expect to have for LensCrafters in North America and then also, of the Sunglass Hut in that market? And then, just on LensCrafters as well, in North America, what proportion of the overall network is now in the new format? Obviously, you showcased this to us last March, so it's been just over a year that this has been, I guess, the stores have been renovated. So I just wanted to understand how much of this is already done and how much is still to go. And then just moving on to the gross margin and the premiumization strategy. I'm just thinking through, I'm following one from another question, if you're premiumizing the brand, the Ray-Ban brand, and you're not allowing discount or a very limited discount now, what is the strategy to dispose of excess product in the market, both a product that you have and then also a product that your partners have, for example, independent retailers? Obviously, moving to MAP, the intention is to remove the gray market product in the market. So I'm just trying to understand how that excess product will be removed. Will you be buying back more inventory, unsold inventory from your partners at a negative gross margin effect? Or is there any other you see there?

Stefano Grassi: All right, Piral. I'll probably take your first question, and then I'll hand it over to Massimo for the second one. So, I mean, it's hard in a way to kind of make a statement and objective, right, on the optimal size of store footprint in the United States for both our optical and sun retail chains. So if we just step back for a second, we have over 2,500 stores from an optical perspective in North America and over 1,700 with Sunglass Hut. We take quite a severe look at our Sunglass Hut portfolio, and that's why we took the decision to close about 160 stores during the first quarter. Probably, we are not going through another massive closure in Sunglass Hut in North America. But let me say, longer term, I don't necessarily see the density of Sunglass Hut stores growing in North America. From an optical point of view, we have two streams of growth from a retail standpoint: one is in LensCrafters in Macy's, and that will continue; and the other one is the Target expansion. That will continue as well. So those are really the kind of key trends that we see, not an expansion from a Sunglass Hut footprint standpoint over the long term. And again, let me reemphasize the importance of our store portfolio reassessment, that is very deep into our portfolio, across all the geographies, and we're undertaking that severe effort every single quarter. So, further closures as a result of that portfolio reassessment may occur. Massimo, the second question?

Massimo Vian: The second question, I think this is the point of strength of Luxottica business model. So yes, we are premiumizing the Ray-Ban brand. We're not increasing the average retail suggested price, but we are very disciplined on discounts. This will not create, in our view, an excess of returns, and it's actually what we've been working on for probably years and years, to keep shortening the supply chain and being faster and faster in servicing our stores. Our Sunglass Hut stores, for more than 50% of the phasing, they have a single unit in the stores. So no backdoor inventory. So it's already a pretty lean systems. If we sell one frame, we replace that frame with a different SKU in more than 50% of the situations. The other 50% is represented by Ray-Ban icons, iconic models of Oakley iconic models or high-volumes type of SKUs, depending on whether it's a platinum, gold or silver stores. So our supply chain would be so efficient that we'll be able to compensate, and have been able to compensate so far, the fact that we want to do less and less promotions. I told you, we have outlets.

We have 200-ish outlets in North America out of 2,000-ish stores of Sunglass Hut, now less after the closures. The ratio might seem high, but our outlets are not proper outlets. They sell more than 70% premium full-priced products. So again, we've been through a journey until today emptying the proper Sunglass Hut stores and elevating the quality of our so-called outlet stores, that's been telling us today that we will be able to take this to the next level. Virtually, we envision our retail brick-and-mortar to behave more and more like a website page in which in a matter of 24, 48 hours, we can make appear or disappear the frames. Once we will have implemented it, the virtual mirror in those omnichannel experiences, clearly, that will be the moment in which our brick-and-mortar stores will become very, very close to a virtual website page. That is the vision we have. And what I want really you to bear in mind is that only Luxottica's vertically integrated model can allow that sort of speed and that sort of wide assortment available for consumers. They're happy, they go home with the product; they can select from an infinite assortment what they want, and we can deliver it at home. This is a reality partially today, and more and more will be relevant in the future. If you think about what we're doing with the complete pair, we are envisioning the same vision we had for sun into ophthalmic frames. So, our future optical stores will have samples in the stores, no need for re-assortments, no need of logistics, virtually, no need of disposal of returns. Consumers will receive new products from the distribution center. I think this is the real power of what we are building for the future. More and more in supply chain that manages brick-and-mortar like via online web pages, and new technologies allow us to do so. It's unbelievable how fast they go.

Piral Dadhania (RBC Capital Markets): Okay, cool. And just in terms of the percentage of the LensCrafters network that's in the new format then?

Stefano Grassi: It's a fairly marginal number still. But what I can tell you is that we keep opening new stores with the new format, I would say, today, around 10%, roughly speaking.

Piral Dadhania (RBC Capital Markets): Understand. Okay, cool. And if I could just follow up on some of the comments that were made by Massimo. Do you have any indication of the level of the volumes that the central lab in the US sees that is not from LensCrafters? I think third-party lens is coming through or third-party frames from independents. I mean, I'm just trying to understand what the mix looks like between your own retail network and you servicing.

Massimo Vian: Easy. We serve 100% of our stores with our labs, with lenses coming from our labs. We rely on external labs only for few weeks in March, when it's peak season, and few weeks at the end of August when it's "back to school", because those during those peak seasons, we cannot cope within our own labs. Even more with Atlanta we're building capacity there that could allow us to even faster accelerate to a new vision of how to manage optical retail in North America. We have the luxury to take some time to decide how far to go there.

Domenico Ghilotti (Equita SIM): My first question is, if you can provide some color on the profitability we should expect in the first part of the year because there are so many moving parts, so things like sales down, selling price up, new stores contributing, investments. So if you can give us the sense or the path towards your guidance in terms of profit. And second question is a follow-up on this rollout of the lighter LensCrafters model, very small today. But what is the pace of the rollout? And when should we see really a more massive conversion of the new stores? And the third question is on the European performance. I'm trying to understand if the lower

promotions or the less promotional activities are also towards your wholesale clients. And why, in this case, we are not seeing really a big impact on the European wholesale trend?

Stefano Grassi: Okay. Buongiorno Domenico, it's Stefano. I'll probably take the first question; hand it over for the second to Massimo; and I'll probably answer the third one. So margin expectation for full year, well, let me say, as simple as it might sound, we have guidance, and we're confirming our guidance and that is the...

Domenico Ghilotti (Equita SIM): No, it's more of the process towards, as I said, if I have to look at the first and second half, looking at the same-store sales trend. Should I...

Stefano Grassi: Well, I would say that probably the second half will look more promising. But again, yes, there are definitely a lot of moving parts, as you well said, and I think you appreciate the fact that we're keeping the highest level of rigor for cost control and CapEx optimization throughout the Luxottica platform. So yes, probably, I'd say, probably execution of a better second half versus first half also from a profitability standpoint. But overall, that will give us coherence with the outlook and guidance shared a few weeks ago. Now with LensCrafters, Massimo?

Massimo Vian: Domenico, for the LensCrafters speed of rolling out the new store model, what I can say is that two weeks ago, we shut down the labs in 20 stores in North America, in the area of Dallas and Houston, leveraging on our Dallas center lab. We've been able to do that in one week. And this Sunday, it's already planned, we're going to shut down labs in 30 stores in the Atlanta region, and we're serving as well those stores with our new Atlanta facility. So these two, let me say, tests will tell us a lot on how fast we can go towards the new model, and we'll make plans once there are meaningful results from these two early, early plans.

Stefano Grassi: Last question, Domenico, on Europe and promotions, I think you skew that question towards wholesale more, right, if I'm not mistaken, Domenico?

Domenico Ghilotti (Equita SIM): Yes. I mean, yes, on wholesale, the European wholesale, so I would expect also some impact of lower promotion towards your wholesale clients.

Stefano Grassi: Yes, that's absolutely your question. I think what we're doing in Europe, Domenico, is really going through an act of realigning our commercial strategy in our wholesale in that region. So what is the impact of that? Generally speaking, you're going to see a reduction of discounting in the wholesale Europe as well. There's probably some timing impact of certain orders that have been accelerated there because of a change in the commercial policy for certain client. But nonetheless, none of this will diminish our ability to deliver the full year guidance in Europe. And you saw in the first quarter how supportive it was for us. But that's really what we're doing in Europe from a wholesale perspective.

Domenico Ghilotti (Equita SIM): Okay. Just as a follow-up on a more general note, on your vision of the future customer experience, and you saw it well, hearing your comment. I wonder if you still need physical stores because you're really comparing the customer experience with the online purchase. And so the point is, how can you manage the physical stores?

Massimo Vian: We need, Domenico, the physical stores for sure because we want to create the experience. And we have the virtual mirror. It can compensate the way the frame will look on your

face, but there's no way it can compensate for the touch and feel experience. So the enlarged assortment could be for extra color, for extra models, but we always want to engage through our associates the consumer and being able to explain live the beauty of our frames and how premium they are. Think about Chromance lenses, think about Prizm lenses for Oakley, think about any new collection or new product of top luxury categories. We went a big step forward on whether we do need physical presence of frames in the stores in the future, so why not replace them with a huge digital wall showing the frames there instead of having lot of those in-store. That again, it could help us further decrease store inventory. But our stores are needed to create the experience for sun, even more so needed, never forget, for optical, because we have the doctors, we have the exams and we care about the eyes and the sight of our consumers. So when it's about eye-care, it's super, super essential to have physical space, smaller, leaner.

Katie Tillson (Credit Suisse): Two quick questions, one of which links to Luca's question. Just wondering what rough margin impact can we expect from reducing store sizes in the US. I understand LensCrafters stores are likely to be around 40% to 50% smaller as you remove the tech on lens labs, so wondering if you had any guidance there. And then secondly, can you quickly quantify the impact of Easter? You mentioned it briefly in the presentation.

Stefano Grassi: Hi, Katie, it's Stefano. I'll take both of your questions. For the margin, I would say, directionally, I can tell you what you're going to see, right? You're going to see a smaller store. You're going to see LensCrafters stores with no lab going forward, which means no CapEx invested for machinery, no depreciation, no lab technicians, smaller retail footprint, which means lower rental costs. That's definitely going to come to the bottom line from a productivity standpoint. We will be more deliberate after some of the pilots that we are undertaking in the United States. We'll deliver more flavor regarding the outcome. But we feel very confident that this is the right direction for the future in our retail business.

Then the second question is around the Easter shift impact. I would say, Easter shift is always there. Sometimes you really need to take March and April together. This year, probably March was a little bit jeopardized from Easter, and April got a little bit of help. But I would say from a retail perspective, really, when I look at the retail trend in April, I'd say that I can see already an improvement versus the first quarter trend. And that is very promising for us.

Alessandra Senici: Okay. Apparently, there are no other questions. So as usual, we thank you for the interest you have in Luxottica, and we wish you all a good evening and a good long weekend. Bye-bye.