Luxottica Group "3Q 2017 net sales results"
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Q&A

Welcome

Alessandra Senici

Good evening and thank you for joining us today. Here with me are our CEO for Product and Operations, Massimo Vian, and our CFO, Stefano Grassi.

Before we begin, first I have a couple of quick items to cover. As a reminder the 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 statement. Please see the Group's filings with the Italian securities authorities for additional information and discussion of certain risks that could impact the Group's results.

This conference call is being recorded and is also available via audio webcast from our website.

Before I hand it over to Massimo, I would like to recap on the proposed combination between Luxottica and Essilor; confirming that it continues to progress, with the anti-trust process advancing in all jurisdictions.

Luxottica and Essilor have jointly filed with the anti-trust authorities in the five jurisdictions whose approval are a condition precedent to the closing of the transaction, namely, Europe, US, Canada, China, and Brazil.

In the US, Canada and Europe the investigation has entered the second phase as expected for such a sizable deal.

We believe that the proposed combination will be highly beneficial for consumers and all stakeholders. And we are conducting an open and constructive dialogue with all the relevant antitrust authorities.

The success of Luxottica and Essilor is based on a trusting and collaborative relationship with business factors and open business models. Moreover, Luxottica and Essilor’s activities are highly complementary with limited overlap. Our combination will allow us to offer to our customers a wider range of products, supported by more efficient and innovative services.

The transaction has been unconditionally cleared so far in Russia, India, Colombia, Japan, Morocco, New Zealand, South Africa and South Korea.

With this update we will not be in a position to comment further in the Q&A section. Thank you in advance for respecting this point when asking your questions. Let's now comment on the third quarter results with Massimo.

Welcome and CEO's remarks

Massimo Vian

Hello everyone and, as usual, thank you for joining the call.

3Q 2017: solid July and August, September hit by the perfect storm

I'll give a brief overview of Q3 performance before handing it over to Stefano for a financial deep-dive.

It has been a quarter with a clearly different performance by month. Overall sales were up 0.8% at constant exchange rates, with wholesale almost flat and retail at +1.3%.

Let's start though with positive news: July and August were overall in line with all of our expectations and commitments. We saw during those two months a slight acceleration versus the first half and this was - I want to remind you - on top of a quite strong sun season in 2016, that started late in June, but carried on through July and August last year. These summer months saw a strong performance, specifically in Europe both for wholesale and retail, specifically sun retail. Optical retail did very well in Australia and the Group did well in Latin America.

Further good news is that price mix grew significantly during the months of Q3. It's a sign that the new richer products presented at Luxottica Days in July were very well received and we see the benefit as a consequence also of our very disciplined promotional activity.

In September, instead, we had a perfect storm of extraordinary events that pushed our quarterly sales results below our expectations. Both retail and wholesale revenues suffered because of unprecedented weather. We had also an issue with a labour strike in GMO in Chile and a temporary data blackout accident.

Let's start with weather conditions: three hurricanes severely damaged Texas, Florida and Puerto Rico, which are important markets for us. We had thousands also of our wholesale customers in these regions impacted by the hurricanes. We provided support to them with special commercial terms to ease the impact where possible.

Back to our stores, approximately 15% of the fleet in North America was impacted, a total of 570 stores were forced to close in these markets, the majority of them for at least one week. The Group lost approximately, during September, 4,000 store days. As of today more or less 30 of our stores are still closed.

We're happy and grateful that all our employees were safe, but these events clearly had a major impact on our September performance.

Furthermore, Mexico, which is driving our growth in Latin America was impacted by earthquakes and these clearly hurt our results as well.

In Chile, as I was mentioning to you before, we experienced a strike for labour contract renewal, the strike went on for a couple of days more than expected. Negotiations ended well over there with a three year commitment which is quite favorable, but we had over 100 stores closed for four days.

Last, but certainly not least, on September 25th, we experienced a temporary data loss due to a hardware failure at our external partner that is storing and processing our data in North America. The disaster recovery procedure was definitely immediate, it started really in a matter of minutes, but the re-upload of the system took longer than planned.

The retail systems were fully operational in 48 hours and the Atlanta distribution center that was affected as well, re-started shipping after 72 hours. The fact that this happened in the last week of the quarter prevented us from recovery, we had a partial recovery but it has been accounted in the first couple of days of October, so into Q4.

To be fully transparent, excluding all the above impacts, LensCrafters during Q3 and specifically in the last months did not perform within expectations. And this affected the overall retail performance in Q3.

There are specific reasons why and we will expand on them later in the call. But we remain confident that the evolution journey we are going through with LensCrafters is the right one. We continue to lead the industry and we are focused on execution. The fine-tuning of timing of events for the future activities will be crucial. In the first three weeks of October, LensCrafters immediately showed much better results and this is clearly encouraging.

With that said, two months away from year end we confirm our 2017 outlook.

Behind 3Q 2017 performance

Before concluding the intro, there are two main points I want to mention during this Q3. First I'd love to underline the performance of our supply chain in general. Industrial and logistical infrastructure in these months, once again, reacted very well to unexpected situations. We delivered efficiencies on overall costs and we reached record service levels and this has been proven flexible once again in inventory management.

In our factories the journey towards automation continues with relevant investments in all geographies. And the network in North America is getting also more integrated, in fact at the end of this quarter we shut down the prescription lab in Memphis and we consolidated all those prescription volumes in the state-of-the-art lab of Atlanta. The Memphis lab was running on conventional technology and all those jobs now are generated through the latest digital technology.

The second aspect we want to mention in this quarter is definitely the performance of Ray-Ban, specifically in North America. Sun sales in wholesale North America were up double digit, once annualized MAP policy. Ray-Ban overall is in excellent shape and confirmed to be the strongest and most iconic eyewear brand globally.

A tip for you, for those of you who are planning on being in New York in the coming months, you might see that the Museum of Modern Art have displayed a pair of Ray-Ban Aviator glasses as part of its exhibit, celebrating the most influential fashion items in modern history. We are proud to be there with our Ray-Ban.

Another thing to mention about Ray-Ban is that the store fleet globally continued to expand. In China we have now approximately 90 stores and we keep the expansion plan for year end, expecting to have close to 120 stores over there before December.

With that said I'll pass to Stefano for further comment on financials.

3Q 2017 net sales results

Stefano Grassi

3Q and 9M 2017 net sales performance vs. 2016

Thank you Massimo and good evening everybody, welcome to our net sales release for the third quarter.

Let's talk about our top line results at a Group consolidated level and then we'll dig a little bit more into the details of our wholesale and retail divisions.

At Group level we posted 0.8% growth on a constant forex basis in the third quarter. Negative 3.5% was our growth in the third quarter on a current forex basis. After three consecutive quarters of currency tailwinds, during the course of the third quarter we experienced some currency headwinds, mainly due to the US dollar, which devaluated approximately 5% during the course of the quarter.

Now if the dollar remains at this level we do expect further dilution to come during the course of the fourth quarter between constant and current forex results.

If you now look at the performance in the first nine months of the year, the Group posted 1.5% growth on a constant forex basis positive. And thanks to the currency tailwinds that we had during the first and the second quarter of this year our current forex results were actually better than at constant forex at +1.7% for the first nine months of the year.

Before we dig into the two divisions let me just reemphasise the message that Massimo said. In July and August the velocity that we took was actually faster than in the first half of the year. We went a little bit off track through the month of September in light of the events that we described before. But the good news is that we're off to a good start in the month of October.

If we now look at the wholesale division, right in the middle of the page, we are essentially flat on a constant forex basis, recovering from a second quarter where you'll remember we posted negative 2.4% at constant forex. Price-mix is still helped from a wholesale perspective; actually it's better in the third quarter versus the first half of the year in wholesale. We're happy to see growth in Europe, in North America, as well as in Latin America. So, a pretty compelling and improving picture from a wholesale perspective.

If we now move to retail, on the right hand side of the page, the division posted positive growth of 1.3% at constant forex during the quarter. And again, our journey of growth from a retail perspective continues, despite a few road bumps that we faced during the quarter in LensCrafters, Oakley retail, as well as the events that Massimo described before that took place in North America, especially in the month of September.

On a current forex basis negative 3.3%, that's the performance of retail during the course of the third quarter. Retail comps were negative 5%, with LensCrafters that posted negative 8% due to a combination of adverse events. I would mention the lack of promotional activity in our front doors during the back-to-school period. I would say the different timing in the launch of our marketing campaign versus last year and, very important, the transformation of the LensCrafters business model which is still in progress. Last but not least, the hurricane season that hit North America in quite a severe way.

Moving to Sunglass Hut, Sunglass Hut posted negative 3% sales on a constant forex basis in the third quarter. In North America we continue to work and reset our communication message in the front doors of our stores, where you remember last year we had a much more promotional-oriented message versus the brand equity-oriented one that we're pushing for this year.

In addition let me remind you that we have a dilutive impact from the Sunglass Hut stores that we closed in North America during the course of 2017, especially during the first quarter. In the first nine months of the year we are looking at approximately 200 Sunglass Hut stores closed in North America.

The picture outside North America for Sunglass Hut is pretty compelling. We were actually up double digit in Andes, up double digit in Southeast Asia and in Continental Europe, high single digit in Brazil. So I would say a fairly compelling picture for Sunglass Hut outside North America.

Revenue roadmap by geography

Now let's look at our performance throughout the different geographies. And we'll begin with the most important one, North America, and then go into the other geographies.

North America was negative 4% on a constant forex basis during the third quarter. For the first nine months of the year you are looking at negative 2%. The main driver of that was retail, but before we get into the retail performance, let me just make a few comments regarding wholesale North America performance.

As you can see in the middle of the page, we posted a positive 1% growth [at constant forex] during the third quarter in wholesale, very much aligned with the performance we're getting through the first nine months. And therefore in the nine months we are still looking at plus 1% in wholesale [at constant forex].

The MAP (Minimum Advertised Price) policy reached its full anniversary now. We can see it by looking at Ray-Ban Sun, the product, the brand that more than anything was impacted by MAP. During the course of the first six months of the year MAP actually led to Ray-Ban’s negative performance in the first six months of the year. And now that we're looking at the third quarter performance, in Ray-Ban we're looking at double-digit growth over there. So full anniversary and we're now running at a higher speed then before.

Sure, there is a little bit of a timing effect between third quarter and fourth quarter and you'll remember we saw that also last year in wholesale North America between the third and the fourth quarter performance. So we do expect an acceleration of our performance in wholesale North America during the course of the last quarter of the year.

And last but not least I would say that the underlying improvement and positive trend in wholesale performance has been partially offset by the weakness that we continue to see and experience in the Oakley Sport channel.

Now let's move to retail, negative 5% [at constant forex] in the third quarter, negative 3% [at constant forex] for the first nine months of the year. No doubt that we missed the opportunity during the back-to-school period in LensCrafters and Massimo said it as well. And I would say that we clearly didn't do a good job in making the consumer understand our complete pair commercial offer, a transparent one, versus last year's 50%-off lenses promise, you'll remember, that LensCrafters had been running that offer for quite a while.

Even the marketing campaign that was launched slightly later than last year hit our consumer a little bit later than what we normally would do. If we then add the adverse events that affected North America in the month of September I think you get the clear picture of the perfect storm that Massimo described to you before.

But as I mentioned before, Q4 is off to a good start and that is not true just for LensCrafters but it's also true for Sunglass Hut in North America. And I think we are fairly confident for the last quarter of the year.

Now if we move to Europe, plus 16% [at constant forex] during the third quarter, plus 8% [at constant forex] on the third quarter of last year, so over the two periods here, between 2015 and 2017 you're looking at Europe plus 24%.

Wipe that positive impact across several different countries that posted a high-single digit, double-digit growth in the continent and we continue to be happy about the performance in Europe. I would say that if you exclude the Salmoiraghi & Viganò impact from the numbers you will be looking at Europe around mid-single digits for the first nine months of the year.

Asia-Pacific was negative 1% [at constant forex] in the quarter. You remember that Asia-Pacific posted negative 11% [at constant forex] in the second quarter, so definitely a recovery and an improvement in the performance in the region.

China is up double-digit in retail and that is partially, notwithstanding the weakness we have seen in wholesale, in light of the strategic repositioning of our commercial network in that part of the world. As you know from a wholesale perspective we're going to continue to work with a few selected and trusted wholesale customers and we're going to push more and more our investments in two strategic pillars, the retail network on one side with an astonishing Ray-Ban stores performance, and our e-commerce on the other side .

In this region it's important to report the positive performance of our optical Australia retail, where we're actually close to double digit comp sales growth and we're happy to see solid growth in Japan and India as well.

If we now move to Latin America, the bottom right of the page, you see there plus 8% [at constant forex] during the third quarter. For the first nine months of the year you see plus 6% [at constant forex] in Latin America. We were happy to see high-single digit growth in Mexico, despite the terrible earthquake that hit the country during the month of September. And we were up double-digit in Brazil. And I can tell you we have a team that is very much committed to bridge the gap between the first nine months' performance and the full year target that we set over there of between 8 to 9% [at constant forex].

Now before I hand it over to Massimo let me say that despite sales being down, as we have mentioned, in the month of September, we are off to a good start in the month of October and we do see a good operating leverage in our profit and loss and we see a strong free cash flow generation. That makes us confirm the full year outlook for 2017.

With that I'll hand it over to Massimo who will give us a little more colour around the North America performance, Massimo.

CEO's commentary on 3Q 2017 net sales results

Massimo Vian

North America: shaky performance in 3Q

Thanks Stefano. So we talked extensively about what happened in North America, but apart from weather and accidents, in the third quarter our retail was primarily impacted by LensCrafters. And during the back-to-school period we underperformed.

We planned and we did replace the traditional promotion of 50%-off lenses with a more transparent and highly competitive offer, a complete pair starting at US$299, anti-reflective coating included. Definitely a shift of paradigm indeed, from “selling a discount” we pushed and trained our associates to sell an “excellent package with an appealing price”.

It didn't produce the results we expected, the delay of the media campaign didn't help either, and traffic in LensCrafters in the back-to-school period was the main point.

Furthermore, as you know we have new personnel in the stores, we are accelerating the refresh of product assortment and these activities slightly distracted from conversion. But despite this back-to-school season, as I said earlier, we stay focused and we confirm our confidence in the evolution strategy we designed for LensCrafters. We are definitely heading in the right direction and the fourth quarter started with a strong signal of improvement.

To anticipate some of your questions, let’s have a quick recap of what we're doing with LensCrafters. First of all, as we told you last time, it's about people. The LensCrafters community is going through an important cultural evolution and change management process that we have never seen since its foundation. We have new leadership at many levels, in the last three to four months we had 100 new store managers employed and in place and we are renewing our investment to partner with our doctors.

Equally important for LensCrafters is to continue to lead the technology evolution in the industry. We started years ago with AccuFit, the digital imaging measurement. We then continued a couple of years ago with Clarifye Exam, the digitally controlled doctor equipment. And now the journey is proceeding towards 100% of digital customised lenses. This is to guarantee the optical precision from the first digital image to the delivery of the best possible vision solution.

Digital lenses are now manufactured in the same place where our frames are, mainly in our Atlanta facility. And this is allowing us to ship a completely customised complete pair to the stores only within a few days from the order. And this is including a brand new frame, never worn before by anybody. With that we can open smaller stores without labs, or with minimal labs and of course with leaner costs structures.

Let me say the collateral positive effect of this is also the fact that delivering a complete job solution allows LensCrafters to operate without back stock in the stores. And in this way we can always display the latest eyewear collections with basically no obsolescence risk, again, light in inventory and light in cash.

The further we go through this strategy, which is clearly well designed in each of the aspects and in the timing of the execution, the more it makes sense. And the feedback that we get from the stores starts supporting this brave journey. It is not easy to abandon a business model that has been so successful until today, but we strongly believe it is the right move to confirm our leadership for the next decades.

Heading into 2018 with a clear vision for future growth

In order to allow more space for the Q&A session I'd like to jump to the last slide.

Heading towards 2018 we confirm all our strategic initiatives. Nine-month sales excluding the adverse events would have recorded a growth in line with the first half. After the slowdown during September, October was off to a good start and even if it is a month of low seasonality for us, we are not seeing deterioration in trends overall.

We confirm the outlook for the full year as we continue to see good leverage in operating profitability and very strong free cash flow generation.

Thanks for listening and I think we have enough time for the Q&A session.

Q&A session

Elena Mariani (Morgan Stanley): Hi, good evening Massimo and Stefano and thanks very much for taking my questions. I'm going to start with the one offs that you've just mentioned in Q3. If I understood correctly and let me know if I'm wrong, but if we exclude the effects from the hurricanes, the earthquake, the strike, and the other one offs, growth for the third quarter would have been approximately 1.8% on a constant currency basis, so basically more than double what you've reported. Could you confirm is this is the case? And could you also provide a quantification of these effects also on like-for-like please?

The second question is unsurprisingly about LensCrafters. So there seems to be something going on you know beyond the effect of the reduced discounting and the effect of the hurricanes. What do you think is the major issue of the chain? Do you think that there is a problem with pricing, so perhaps you need to go through a bit of a reduction of the overall pricing architecture? Or is it more that maybe the chain is not well managed right now? I'm really trying to go down to the core cause of your underperformance. And also, could you remind us how far you are in the rationalization process of the chain and in the centralization of the labs? I remember that you started to close down some of the labs across your network, how far are you and how long do you think it will take?

Also in terms of recovery, I mean do you think that we could see some positive signs already in the first quarter of 2018 or is this more like a medium term plan?

And the final question is around profitability in the second half. You have shown quite good control over costs in H1, despite lower growth and negative like for like, what should we expect in the second half in terms of margin development? Thank you.

Stefano Grassi: Hi Elena, it's Stefano, buonasera. I'll take the question regarding the one-off and the margins.

Let's start with the one-offs. Yes, I think the assumption you're making is fairly aligned with what we've seen in terms of growth for the third quarter. We would expect a similar impact on a like-for-like basis for the retail portion of the business which obviously was more impacted by the hurricanes and the other events that occurred in the month of September.

Now in terms of margins, yes you can see still pretty tight cost control processes during the third quarter, I would say even through the remaining part of the year. So we're pretty happy with the operating leverage that we're getting from a P&L perspective. Massimo you might want to take the retail questions.

Massimo Vian: About LensCrafters, to add, and to be very firm with my feedback, there is not an issue of leadership or organization. There is a deliberate, brave project of re-launching the chain because what is happening with technology and with, in general, consumer experience, is telling us that this is the right time to invest in LensCrafters and take it to the next level.

In order to do that we have to go through a change management process through the chain. Technology on one side is helping us and I would say that we are leading the technological, let me say evolution, clearly this has an impact on the one-hour service proposition for LensCrafters. And when before I was referring to the fine tuning of the calendar of events I was also referring to how we are planning to simplify labs in our stores or remove the labs from our stores.

Now we have a little bit less than 50% of LensCrafters stores without labs out of the total fleet, including Macy’s. But we are diverting more and more volumes, even of the stores with labs, to the central labs. And I want to provide an example: we launched very, very successfully the anti-blue light lens, starting from virtually 0% of the mix, in only four months of sales we drove that lens to be roughly 20% of the total demand of lenses at LensCrafters. Those 20% of the lenses can only be done in central lab facilities.

So that is an example of how, even if we still have in-store labs, we are diverting mix towards central labs, without in those stores compromising the one-hour lab solution. It will take time to educate consumers to a new journey and through the necessity of waiting a few days in order to have a superior solution.

Back to pricing, I was hopefully quite transparent in telling you about our US$299 offer, that is starting from US$299 with a superior lens package. In our LensCrafters stores, you might not know but we do have US$99 complete pair offers now, running with specific frames, not clearly fashion items or luxury items, with very basic finished single vision lenses.

So before seeing a customer walking out of our stores because there is no pricing point that is attractive to them we have the possibility to offer a US$99 package. But this is not what we want to do, it is not the right thing as we want to offer a superior vision solution to our consumers. So we might fine tune the up charge on some options, anti-reflective, anti-blue light, polar with some RX, but we think we are heading in the right direction.

Elena Mariani (Morgan Stanley): Thank you. Just to be slightly more precise, so on question number one would have been your like-for-like excluding the extraordinary events? Question number two, so what you're saying on margins is that we should expect flat margins year–on-year in the second half of the year as well? And question number three, what does that mean in terms of recovery on LensCrafters, are you targeting to have a positive like-for-like at the beginning of next year? Thank you.

Stefano Grassi: In terms of comp sales, the performance you would expect to get if you excluded the events in September, it would probably be around -4% from a like-for-like perspective in retail.

Yes, we continue to be able to hold margins, despite a top line that is below our ideal threshold levels that we've talked about a few times already, that is 3% the level at which we would be able to hold margins and above that level obviously to improve that. But we've been pretty strong in light of the efficiency and the different processes that we undertook in recent times to be able to keep margin, even with lower growth from a top line perspective.

About a like-for-like projection for next year, you know we're off to a good start in Q4 right and obviously we'll have to see how the year is going to finish in terms of LensCrafters. But obviously we're confident that the work that we're doing it is the right one, the direction is definitely the one that is going to pay back. And remember a lot of initiatives that we undertook at the beginning of this year are going to anniversary as we start 2018.

Massimo Vian: And if I can finish and with that I hope to anticipate some of the questions, when I referred to the back-to-school underperformance and lessons learned, I think a better way to show the financial community that we learned these lessons is to plan very well the execution of the February and March period which is the second biggest peak, together with back-to-school. And the entire team is designing with LensCrafters a very, very effective marketing campaign, probably to start a couple of weeks before the usual date, instead of later, and a quite aggressive promo offer that will be centered around premium packages and superior lens solutions.

Elena Mariani (Morgan Stanley): Okay, grazie.

Cedric Lecasble (Raymond James): Good evening, thank you for taking my questions. I would have a follow up on LensCrafters and a question on Ray-Ban. The follow up on LensCrafters is about your store space, square meters: if you take off the labs in most of your stores going forward, don't you think your existing stores might be kind of over spaced? And what can you do to rationalize this? How can you use this space efficiently now that the lab is centralized? That's question number one.

The second question is your rebound at Ray-Ban, especially in wholesale North America because of the MAP policy. Could you help us understand the dynamics between units and price? In the United States you have double-digit growth, could you help us split it between volume and price? Thank you.

Massimo Vian: On LensCrafters square footage, definitely there is a possibility and we already see the reduction of space in the new stores that we are opening. Clearly we have to wait for contracts to expire, but in the next two years there will be, sorry one year, there will be many hundreds of store contracts that will expire for LensCrafters. Until then of course either we relocate or there is no possibility to reuse that space.

In some situations, but I have to admit that it is definitely not the majority of the situations, we are evaluating to add a second, or a third, or a fourth doctor's room that would help us drive traffic with extra eye exams. But that is in the minority of the situations.

Clearly, as we refresh the chain the advantage of square footage will be there. As I told you before we are also considering reducing the amount of facings and back stock inventory, so definitely with a more modern supply chain model that is closer to a more omnichannel type of management for LensCrafters we will need less space also for frames and lenses in our stores. So this will come to our advantage.

Stefano Grassi: And the second question Cedric regarding Ray-Ban in North America. For Ray-Ban Sun the growth is actually coming from both units and price-mix, probably price-mix being a little bit heavier but we do have units on a positive territory as well.

Cedric Lecasble (Raymond James): Thank you.

Antoine Belge (HSBC): Yes good evening. Three questions please. The first one on LensCrafters: over the last ten years or so that I've been covering your Company I've seen different directions in terms of the positioning of that chain, sometimes towards the more premium end of the market and then realising that promotion is part of the business in the US, so I'm a bit confused by what you said about this, it is a deliberate project but at the same time you seem to be admitting that it didn't really work. So for instance in the next back–to-school season are you going to reinstall that type of promotion? I mean it's not really crystal clear what you intend to do there.

Secondly, I think you were quoted on Reuters saying that for this year it would be the lower end of the sales guidance. Is it still going to be the same for margins, so a slight dilution of margins this year? And when you look at 2018 especially, Essilor has been mentioning some disruption due to the on-going combination of your two companies, so are you experiencing also that type of disruption, i.e. competitive offers from maybe your competitors to try to gain market share?

In light of that or the fact that also part of your management will be focusing on that combination is it fair to say that it would be hard to be back to mid-single digit growth in 2018 or do you think that could be achieved?

And third question relating to Ray-Ban. I think you mentioned Ray-Ban Sun in the US, what about the brand outside of the US? Thank you.

Massimo Vian: Antoine thank you for your question, it gives me the possibility to be even clearer on LensCrafters' direction in terms of promotion and positioning. So it took us a while to determine our back-to-school US$299 starting point promo offer we communicated with special anti-reflective coating. And we designed that because it offered a complete pack solution, so very, very transparent rather than leveraging on only 50%-off lenses but with the consumer not being sure of the out of pocket net amount of money after the purchase.

So it's the sort of transparency that we want to stay and stick to and within the transparency approach of the full cost of a complete solution we want to design also the next big March season campaign. We're not going on and backwards on promotions. Clearly the US market is driven by promotions and we have to take full advantage of that, but promotions can be on superior products and solutions as well. And this is what we're saying LensCrafters is about.

In other retail chains and mainly at Target Optical we are choosing different strategies. They are paying off and doing well at Target Optical but this is not going for LensCrafters. And our investment in technology and superior lenses for sure will pay back and will give us enormous efficiencies at the operating level. So we will not restore back–to-school promos of 50%-off lenses. We will play around with our complete pair solution model.

One of your questions was around Essilor. We don't see any disruption in our performances due to the combination. I think we're being quite clear in picturing what happened in Q3. The first two months of the quarter were bright, were positive, with a slight acceleration versus the first half so I think in September we segmented clearly the reason why the performance was not in line with guidance. And these first three weeks of October are putting a smile on our faces. Too early to say, October is low seasonality for us, but definitely we do not see any downside due to the announced combination with Essilor.

Stefano Grassi: The third question is regarding Ray-Ban, Ray-Ban Sun. Well, I would say Ray-Ban in general has been pretty positive, pretty strong during the course of the third quarter so we're very happy about the performance that we got from our leading brand. I would say probably that, generally, outside the United States the growth was more due to price-mix than volume and that is probably different from what we're seeing in the United States. But again very happy with the Ray-Ban performance in general during the course of our third quarter, accelerating versus the first half of the year trend.

Antoine Belge (HSBC): Thank you maybe just a follow up on 2018. So I understood no disruption from the combination. So do you think that mid-single digit growth at constant currency could be achieved or are you more likely to start maybe the year with a lower guidance, more like the one we had in 2017, i.e. low-to-mid single digit?

Stefano Grassi: We're going through the budgeting process right now so it is really the focus of the entire organisation at this stage. As we said we do expect an acceleration of our growth pattern, our growth trajectory as a consequence of the several initiatives that we undertook in recent months. Let us be more deliberate in early 2018 as we get the finalisation of our budgeting process.

Antoine Belge (HSBC): Thank you.

Luca Solca (Exane BNP Paribas): Thank you very much. One question more in detail on lens manufacturing centralisation in the US. Do you already have a clear roadmap on the extent of lens manufacturing centralisation and the exact stores where you're going to be removing laboratories, or is this being fine-tuned as a function of market reaction and consumer reaction to the new business model that you're implementing within LensCrafters?

Maybe then one question connected to how the responsibility in the US is now organised as Nicola Brandolese is no longer there. I understand you have a new responsibility setup for retail. Is all of retail falling under the same head and is the lens manufacturing activity reporting regionally or centrally if we may ask?

And then a lot of concern about your physical retail exposure but I would like to talk about the complement of that. How is your digital development progressing? Could you tell us how important digital sales are today for Luxottica and how is the integration of digital within physical stores moving forward? Thank you very much.

Massimo Vian: Thanks Luca, interesting questions. You are taking a risk here because I can talk for hours on the first topic, it's my passion. So lens manufacturing centralisation goes on for premium lenses in North America, Columbus, Atlanta and Dallas. Clearly there's a roadmap covering each single store of LensCrafters going in priority. And – as you I think highlighted well – the fine tune of the timing of the execution comes with the results that we are achieving and how different communities around those urban areas are reacting to the closure of the one hour service.

We started with urban areas close to our centralised labs Atlanta, Chicago not too far from Columbus and Dallas and Houston areas to shut the labs. Over there we shut a total of more than 100 labs in our stores. And then we followed on with New York central areas because we wanted to serve with the specific next day delivery from Atlanta, there's dense traffic over there, and Chicago as well. So we go scientifically store by store, urban area by urban area, deciding how to transition to central manufacturing.

On top of what you have to imagine like a matrix we have the global digital lens trend. I talked to you before about the anti-blue light, that is 20% across all stores, all North America for LensCrafters. So 20% of the demand anti-blue is centrally produced. Very recently but too early to see results in Q3, the launch in LensCrafters whole fleet of the Ray-Ban digital lens, talking about the clear lens, offered in a package with Ray-Ban frames. The launch in LensCrafters happened in the last ten days of September and now we see here in October positive results of that campaign.

It is offered at the same $299 price point but with ultra anti-reflective coating, anti-fingerprint and oleophobic treatment. So it's again another superior lens compared to the normal package that you can afford at $299.

Responsibilities in North America are clearly now divided into retail brands, so Giorgio Candido leading LensCrafters, Alexis McLaughlin leading Target Optical and Sears Optical and Alexis for years leading with positive results both Pearle Vision's owned stores and franchised stores. Sun is another different responsibility by another different leader. RX operations, we call it that, the manufacture of lens, is global reporting directly to me because part of the demand in North America is served by our labs in Asia, in China.

So Sears is served by those labs so it can take longer. But the overall synergies from the RX facilities are global. So just imagine like a network of neurons of labs, we're asking one another since this is a more customisation type of job and we have to play with capacity basically every single day managing volumes between those labs around the world.

Digital development in the stores, I'd say that is accelerating in our stores but even more in our wholesale customers' stores with a B2B view of how to manage the business. So more and more you will see interactive digital kind of showing up in our stores through which you will be able to select specific customised frames, ordering your lenses and you get the complete job delivered either at the store or at your home. Acceleration will happen in the Oakley stores so you're able to see tens of our stores between December and January populated with these touch pads, digital windows. Through those you will be able also to customize colors and how to mix up frames with all the custom programs.

So you will have this vision more and more of how our traditional retail gets closer to our e-commerce website in this mix of experience helped by our associates. The LensCrafters evolution is a very important step in that direction.

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

Francesca Di Pasquantonio (Deutsche Bank): Yes hi good evening. I have some quick questions. The first is regarding July and August. Can I just understand what was trending positively in July, August, i.e. was everything positive except for like for like at LensCrafters? Secondly on October: what is trending positive in October? Is everything positive except like for like at LensCrafters?

Thirdly can you please quantify the online sales or sales developed through e-commerce? How the growth rate is developing?

And finally can I please understand what the retail space contribution has been on your retail growth for North America and globally? Thank you.

Massimo Vian: Francesca I'll command the first two and Stefano will add further details. What went well in July, August? I'd say first of all Europe. Europe was really a surprise for us across all kinds of business for optical and sun.

Francesca Di Pasquantonio (Deutsche Bank): Sorry Massimo my question was actually more specifically related to North America in July, August, September and October. So just to single out whether it was only LensCrafters like for like which was impacting the overall performance?

Massimo Vian: So wholesale and Ray-Ban, those were the main - let me say - drivers of wholesale performance. As we said we started with MAP policy anniversary and so that was the big news in July and August, and we are seeing that trend carry on in October as well. And we are I'd say very confident and positive for Q4 in wholesale North America.

With Sunglass Hut we had an improvement for some of the months of the first half, but still Sunglass Hut retail North America has been affected by our discipline in promo reduction and that was the main impact that we had in that geography for our sun retail business.

And after that we talked about LensCrafters. Other retail optical brands such as Target Optical is not irrelevant for us now with us having 450 stores. It was close to double digit growth in those two months so did very, very well.

Stefano Grassi: I'll take the other two questions regarding e-commerce and then retail space. So I think regarding online sales, I mean our e-commerce business is about 5% of our total revenues. Well we talked about the performance I would probably give you just a flavour. I think Ray-Ban is super happy, I mean double digit growth, it is the place where consumers love to come to shop, understand the newness around the brand. It is the only place where you can have Ray-Ban Remix customization and we're truly happy about the performance we're getting on Ray-Ban.com.

I would say a little bit more challenging on Oakley.com. That is because of the overall transformation that the Oakley brand itself is going through. And I would say Sunglass Hut is really going through a restyling of the dotcom platform. As you remember last year we were promotional not just on the brick-and-mortar environment but also on online proposition. So when you look at sunglasshut.com and we believe that that is a transition period and we're going to see an acceleration in the growth of Sunglass Hut in 2018 for sure.

Now the other question regarding the retail space, I would say this gave a 5 percentage point contribution to the overall performance of the division and the vast majority comes from Salmoiraghi & Viganò.

Francesca Di Pasquantonio (Deutsche Bank): Okay. So the impact of new space in North America, how much would that be?

Stefano Grassi: In North America the contribution is much lower, about neutral, because you remember we had a few new openings on the optical side with LensCrafters at Macy's and Sunglass Hut closures in the first half.

Francesca Di Pasquantonio (Deutsche Bank): Okay, thank you.

Amelia Hamer (Bank of America Merrill Lynch): Hi guys, thank you for taking my question. You've reiterated your Group guidance but I'd just like a bit more color on how comfortable exactly you are with the full year guidance for the Group retail business? So in North America retail you've guided plus 1% to 2% but for the first nine months you were down 3%. And then also on the North America business again you're guiding plus 1% to 2%. You've got minus 2% for the first nine months. Just wondering where that incremental acceleration is going to come from and how comfortable you are that that's going to materialize?

My second question is just a little bit more color on the one-offs. Firstly just to quantify the impact from the acquisitions in Latin America?

And then lastly on North American wholesale we were just wondering what happened in wholesale North America with that plus 0.5% in the third quarter? You said you had that double-digit positive impact from Ray-Ban Sun; you've annualized the weak comp. Is that all coming from Oakley and can you quantify that weakness in the Oakley business? You've just mentioned before that the business is in a stage of transformation, I think it's been like that for a long while, and when can we expect that to improve?

And then, lastly, on Ray-Ban Sun up double digit. Thinking about the impact from the hurricanes and what that's had on the retail business, I mean given it was September we probably wouldn't expect that to impact the wholesale business yet, but would you expect to see an impact on the wholesale business, especially that Ray-Ban business in the fourth quarter from the inventory build-up thanks to the hurricanes? Thanks.

Stefano Grassi: Okay. How confident are we with respect to the guidance? I mean we do have confidence in our full year guidance. Clearly there are certain regions in which we are playing this whole, but we do see an improvement in acceleration in our performance, Asia-Pacific was one example, where probably the full year guidance is going to be a little bit more challenging.

I think retail sales is definitely another area of challenge in North America but I would tell you that obviously we need to make the final call after the holiday season and the insurance week which are very important for both Sunglass Hut and LensCrafters, which again are off to a good start and both improved their performance versus the third quarter results.

Conversely we do see an acceleration in wholesale North America during the fourth quarter and we're going to get there because we've got an underlying strength of the wholesale that is there. We saw it even in the third quarter. So we have a fairly good degree of confidence that we're going to rebound there pretty strongly. And again if you look at what happened last year between third quarter and fourth quarter you get an understanding of what I mean by that.

With respect to one-offs, I mean the overall impact of Óticas Carol is fairly marginal to the Group results.

And the other question, on wholesale North America, again Ray-Ban is going to be a big asset for wholesale in North America. And I think, again, when we look at the performance of Ray-Ban and when we break down the channel performance and we see for example the rebound of our e-commerce business in North America, that I remind you was the channel that was heavily impacted by the MAP implementation, that is giving us a good confidence that we are moving towards the right direction.

Now for the last question I think Massimo you can handle it.

Massimo Vian: Maybe I would sound even extra confident but I do not worry about inventory being up for Ray-Ban. We digest orders and we deliver finished goods in a matter of days and both if we have a slowdown or accelerate we have in our pipe lines enough flexibility to react week by week to our evaluation. So do not expect any build-up of inventories after the hurricanes. And I would say not even before the year end. We manage global inventory every month and even within the end of October everything will be according to plan.

Going back to the level of confidence of our retail, so the first feedback that Stefano gave you, it's high if it clearly depends on us, on our assets. You have to imagine our organization planning day by day from now until December 31st and clearly also how we will approach Thanksgiving with Sun and the level of discounts over there online and bricks and mortar. And as Stefano anticipated all the logistics around the last ten days of the year for the optical and the insurance packages that will expire will tell us a lot whether we will be able to meet the guidance.

Now we can confirm that we are doing everything that is in our power to meet that guidance and the level of confidence is there.

Amelia Hamer (Bank of America Merrill Lynch): And then can I just ask on Oakley? I was just wondering what the growth was like in the Oakley business and whether that was having a big impact on your wholesale growth?

Massimo Vian: That is having an impact clearly and that's why we have to compensate with other possible solutions. It's having an impact of course in North America and that is true both for retail and wholesale. If it's about retail I have to say much stronger on Vaults, that are Oakley outlet stores, whereas the "O" stores are giving signs of clear improvement with the new collection and selected distribution of newness. Vaults, that are the outlets of Oakley retail, 80 stores in North America clearly are struggling more.

If it's about wholesale we have two velocities, one for independents and with them the optical collection is doing very well. Through there we are opening some doors but even excluding the new openings of wholesale North America the comps of Oakley optical business are up and positive. And it's not irrelevant, as one third of the total Oakley sales now are optical frames rather than sun so it's a relevant portion of Oakley.

What is struggling is the sports channel in wholesale North America because in general the sport channel is struggling. And this is true for eyewear in big sporting goods stores and it's true for AFA as well. Saying that we are presenting now the new collection of AFA and all the pre-booked orders are up double-digit compared to the past season. So even there we see signs of improvement but definitely yes the sports channel and Oakley retail are affecting North America performance.

Amelia Hamer (Bank of America Merrill Lynch): Thank you very much, that's super helpful.

Julian Easthope (Barclays): Thank you. Just coming back to the space contribution. Does that mean that we'll have one more quarter where we lap the summer increases from last year and then from the first quarter of next year we basically go back to virtually zero space growth?

Second question is: can you sort of just confirm how these stores are actually going at the moment and whether or not you can actually now roll-out the idea that you can get rid of a large number of the labs in stores? Does that give you confidence that you can actually do that?

And lastly in terms of China. China, I think from memory, used to be two thirds wholesale and one third retail. Is it basically just back to retail now and does that mean that two thirds of the business has effectively disappeared due to the things you've taken in place? Thank you.

Stefano Grassi: Hi Julian, good evening. I'll take the first question and then I'll hand over to Massimo the last question. I think, well you could definitely expect to see a lower contribution from new space beginning in the first quarter or, let's say, the first half of 2018 because clearly some of the benefits that are coming from Salmoiraghi & Viganò are obviously going to be like-for-like on the next year, yes for sure.

Massimo Vian: On that if I heard your question right, Julian, on our store lab closure process, as I said before, we are fine tuning timing and also, in some situations, execution because we are testing in fewer stores the shutdown of all the operations related to the generation of the progressive lenses and leaving minimum equipment for urgent care needs. So single vision lenses processed in one hour, that might be around 5% of the total demand with probably a lot less of 1% of the total cost for managing the store lab because we are eliminating all the machines. And if we're talking about two, maybe three jobs a day they can be processed in 30 minutes each by a retail associate trained for the edge and mounting process only, so very, very simple execution.

So thanks to this fine tuning of our strategy we are even more confident to retain those few percentage of sales that we might lose because people might have urgent needs, especially in touristic areas or just, for example, in New York close to the United Nations offices where they do have traffic of individuals planning trips in a matter of days and they do come to our LensCrafter store in a hurry. Those individuals that come for a meeting at the United Nations need to get the job done within, if not one hour, within the same day. And we are evaluating case by case those situations.

There are in-store labs to evaluate, as I told you before a little bit more than 50% of the fleet, and I start to know the specific address of the specific stores. It means that all the people reporting to us are working heavily in North America and are doing very detailed plans for that, to keep growing and moreover to give our consumers the best possible vision solution.

Stefano Grassi: Julian I think the third question you had is regarding China. I mean it's a little bit hard, let me say, to make a percentage of contribution of one or the other in a moment in which we're really reshaping our network. But really what you have to think about is that our growth strategy in China is going be skewed towards retail bricks and mortar, and mainly Ray-Ban stores and digital e-commerce platforms, mainly our shop–in-shop platforms. And that is a strategy that we want to pursue going forward.

From a wholesale perspective what you can expect to see is that wholesale obviously is going to be reduced, significantly reduced I would say, versus the wholesale that we've seen traditionally. And it goes back to your original percentage question. But on a going forward basis it's going to be a relationship that is going to be most likely via STARS. It's going to be a relationship where payment terms are going to be extremely tight and is going to be a relationship with a few selected customers. So I would say retail and e-commerce are going to be really the business, the vast majority of our business in China going forward.

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

Domenico Ghilotti (Equita): Good afternoon. Just two questions because it's quite late. The first one is on Latin America. I am trying to understand, I saw an improvement in the business in Q3 compared to the first half. Clearly there is also the Óticas Carol contribution, so I can't understand if you see some kind of underlying organic improvement in this area?

And the second question is on LensCrafters. You were also mentioning a quite heavy training effort for your people and a significant number of new store managers. I'm trying to understand if you see this process of training all your employees and workforce lasting for several quarters, so how long will it take? And if you see also the need for a refurbishment of the stores? So if you see also an issue on this side apart from the issue that you were mentioning before?

Stefano Grassi: Hi Domenico, it's Stefano, I'll take the first question. In Latin America yes there is definitely an improvement in performance because of Óticas Carol. If you look at our performance excluding Óticas Carol, it would be slightly less than mid-single digit in Latin America. Obviously when we planned the guidance we did include a contribution coming from Óticas Carol as part of the guidance.

Massimo Vian: Domenico thanks for the question on LensCrafters. Definitely, heavy training for people and I would call it in some situations more than training. It's really helping all our associates and store managers and in some situations doctors as well to change the way they think about the customer journey in LensCrafters. We had waves of hundreds of people visiting our Atlanta facility in the course of the summer and I'm including doctors as well, so there were doctors, line managers, district managers, store managers. Clearly that is an effort that will be on-going.

As I told you before, we have more than 100 new store managers in LensCrafters and when we hire a new store manager, for the first roughly 30 days the person does not sit in the store he is assigned to, he goes touring what we call central training stores, which are excellent locations to learn the job. And clearly again this has an effect on how fast they can ramp up. So it's a big investment at the beginning but we do think it's the best and will give us more speed in the medium term.

About the refurbishment of LensCrafters, very, very relevant point. 2016 and 2017 have been the years of investment on logistic excellence and centralised manufacturing. We can say now that 2018, for what is related to LensCrafters, is the year of investment in refurbishment of retail.

We do need that especially in gateway cities and the way our stores look today does not make us happy. The average age of our fleet is not where we would like it to be but I think the right sequence of events was to invest on the backbone first, so as to be sure that we can deliver the solution and the service for the new business model. And now, as you rightly pointed out, we're investing in our windows because clearly some of the stores definitely need that kind of investment.

Domenico Ghilotti (Equita): You said 2018 as a main focus.

Massimo Vian: 2018 yes. Next year will be less about investment in industrial infrastructure. I would say we have the right capacity we need for mainly the full year 2018, so do not expect us to have more investment in Atlanta, but definitely in store refurbishment.

Domenico Ghilotti (Equita): Okay thank you.

Telephone operator: There are no further questions so I'll hand you back to your host Alessandra Senici to conclude this conference. Thank you.

Alessandra Senici: So thank you very much for all your questions and your interest in our results. I wish all of you a very great evening. Bye-bye.