Luxottica Group "FY 2017 results presentation"
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Q&A

Welcome

Alessandra Senici

Good evening and thank you for joining us today. Here with me is 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 investor 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 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.

Let's start with a brief update on the proposed combination between Luxottica and Essilor. Since our last call we have received approval also in Canada, Chile and Mexico for a total of 13 countries. Last Friday the Brazilian Anti-Trust Authority published its decision to clear unconditionally the combination. This decision will become effective on March 12th, if there is no appeal in the meantime.

We continue to conduct an open and constructive dialogue with authorities that have not yet officially taken a decision on the combination and we expect the closing of the combination in the first half of this year.

Pending this approval, and in respect of the process we are not yet in a position to answer questions on the combination and future plans. We thank you in advance for your understanding on that.

Delivering record results for 2017

Let's now move on to 2017. We are celebrating another record year with all-time high results. Stefano will comment on the numbers in detail, but I would like to highlight the outstanding results for net income and free cash flow generation. For both we exceeded the threshold of €1 billion for the first time ever in our history. After many years we exceeded the 10% threshold for net margin. We are very proud of this milestone.

A new operating model: already successful in 2017, more to come

2017 was a year of profound transformation for the Group and our performance is a reflection of this. We built a new operating model aimed at promoting consistency and transparency in commercial policies, a more targeted and engaging relationship with consumers and an extensive digitalization of the business.

Those initiatives have been executed with the deliberate goal of deeply integrating our distribution channels, reducing discounts across businesses and redesigning our logistic footprint to ensure a flawless execution of our operating infrastructure.

As the result, today we are better equipped to seize every opportunity in wholesale, retail and e-commerce.

The initiatives and investments that we have made have resulted in a healthier profit and loss, thanks to favourable price mix and cost discipline, with an improving return on invested capital. And going forward we expect them to support the positive organic growth, restore operating leverage and consistently improve ROIC.

We continue to make visionary moves, not always easy ones, in order to shape the eyewear company of the future, a company that is committed to investing in innovation, keeping our brands relevant and fresh, supporting our customers, improving the quality of sales, and delighting consumers wherever they discover us.

On this note, I will turn it over to Stefano for a more detailed look at the past year’s performance.

FY 2017 results

Stefano Grassi

A year of healthy sales growth, improved momentum in 4Q

Thank you Alessandra. Good evening everybody, buonasera. I'll walk you through our top line results for 2017 first, then give a little more colour around our profit and loss, as well as the free cash flow generation for 2017, and then we'll guide you through numbers and initiatives for this year, 2018.

Let's start with our 2017 performance and let's look at Group results on a consolidated basis. If you look at the bottom left of the page, we grew 2.2% on a constant FX basis in the 12 months of 2017, +0.8% was our growth on a current FX for the 12 months.

When you look at the fourth quarter, we grew 4.3% [at constant FX], a very solid growth for the fourth quarter of 2017, actually the best quarter of the year, and negative 2.3% was the performance on a current FX basis.

From a currency standpoint you might remember that in the first half of the year we got helped from currencies versus the second half, where actually currencies play a little bit of a headwind in the third quarter and, I would say, a very strong headwind during the course of the fourth quarter. In particular, the US dollar, which devaluated approximately 8% versus the Euro during the course of the fourth quarter, had an impact on both our Wholesale as well as our Retail divisions.

If we now move to our Wholesale division in the middle of the page, we'll start with the full year numbers on a constant FX basis, positive 0.3%, and negative 0.6% on a current FX basis. We are very pleased with the way we closed the year in our Wholesale division, where we did post the best quarter of the year, with 4.7% growth on a constant FX basis, and we'll comment about that later on, especially North America, as that was really the driver of this strong performance in the fourth quarter of 2017.

If we now move to the retail on the right hand side of the page, a pretty solid pattern of growth in our Retail division throughout the year. We closed 2017 with a positive 3.4% performance on a constant FX basis; you see that on the bottom right of the page. +1.7% was our growth in retail on a current FX basis.

When you look at our fourth quarter numbers, we posted +4.1% at constant FX, comps were flattish and we have to highlight here that Sunglass Hut posted flat sales for the full year at constant FX, and +5% [at constant FX] in the fourth quarter. So we're very happy and excited about the performance of Sunglass Hut during the last quarter of the year.

Conversely, LensCrafters posted negative 5% comps in the fourth quarter, still an improvement versus the third quarter comp sales that, you remember, were -8%, but clearly not the place where we want to be with our leading optical retail chain.

If we now move to the next page we'll walk you through our different geographies.

Revenue roadmap by geography

We clearly begin with the most important one, North America, top left hand side of the page. We closed the year in North America, negative 1%, below our guidance between +1-2% [at constant FX], with a very promising +4% at constant FX in the fourth quarter.

The main driver of that is right in the next set of numbers [at constant FX]. You see wholesale North America, we posted 14% growth during the last quarter of the year, which leads to the total full year number in wholesale North America at +4%, over our guidance of +1-2% growth for the full year.

We can clearly see in North America a different velocity as we anniversary MAP, the Minimum Advertised Pricing policy. Wholesale North America was flattish in the first half of the year and was positive 7.5% in the second half of the year. And when we look at our last quarter, we were very positive throughout all our different channels: key accounts, top accounts, independents, department stores, all those channels largely offset the weakness that we still experience in the sport channel.

If we now move to retail on the right hand side of the slide, full year sales were negative 2%, but again the fourth quarter, which actually was the best for retail North America, the first one in which we've turned positive: +2% in the grey box.

Extremely happy about Sunglass Hut in North America, 5% sales growth, 6% comp sales growth. We had an outstanding holiday season, which started with Thanksgiving, which was actually the highest single day from a sales standpoint in Sunglass Hut history. And that happened despite the fact that we had a lower number of stores versus 2016.

If we now move to Europe on the bottom left, plus 13%, which comes on top of a plus 7% in 2016, which comes, by the way, on top of plus 7% in 2015. So over the three-year time period, you're looking at a region that grew approximately 30%, a pretty impressive number. A lot of the performance, mid to high single digits in several different countries in Europe, and even, excluding Salmoiraghi & Viganò, you will be looking at a number that is close to mid-single digit.

If we move to Asia-Pacific, in the middle of the page, sales were negative 2%, but again another fourth quarter in acceleration with a positive 4%. I'll give you a couple of readings on this number in Asia-Pacific, where in particular there were two areas that were challenging for us, the first one is China, as the result of our strategic repositioning in the country. You know we're getting stronger and more direct with our e-commerce and with our retail presence over there. And the other that was a particular challenge was Hong Kong, where the business environment is still challenging.

On the positive side, though, let me highlight the optical retail business in Australia which posted a 6% comp sales growth for the full year 2017. So we're very excited about the performance we were able to achieve in Australia.

If we now move to Latin America, 6% sales growth in the full year, with again the fourth quarter accelerating at plus 7%.

We were happy with Brazil, growing high single digit, and with Mexico, which was a touch less than double digit. And really the only deceleration we experienced in that part of the world was related to the reduction in business we had with our distributors in Chile and in Colombia in particular, as we develop a more direct presence in that part of the world.

But now let's turn the page and let's talk a little bit about profit and loss.

Consolidated income statement

I'm very happy to comment about those results, as Alessandra said, and as usual I will focus more on the adjusted numbers and then I'll give you a little bit more colour with respect to our adjusting items.

If we look at our adjusted gross profit, we were down 60 basis points versus 2016, on a constant FX basis. 70 basis points was our dilution on a current FX basis. And there were really two reasons for that: the first is the increase of our industrial costs due to the lower production volumes. And the second one is the reclassification of certain costs from G&A to costs of goods sold.

If we now move to the adjusted operating income, you're looking at 10 basis points improvement on a constant FX basis and flat on a current FX basis. I'm very pleased about our operating income results, and this is the result of our effort in simplifying the Luxottica operating machine. And this therefore gave a significant benefit to our 2017 results. And just to give you an example, our G&A cost structure was down 20% over the last two years, 2016 and 2017.

But we're not all about efficiency here, we are also keen to invest a portion of those efficiencies to further strengthen our operating infrastructure and also invest in our three critical distribution channels: retail, wholesale and e-commerce in a balancing effort that aims to improve our return on invested capital.

I'm very happy to report the divisional profit of both wholesale and retail. They have both improved the margin on a constant FX basis. Let's start with wholesale, which delivered an accretion of 10 basis points on a constant FX basis, flat on a current FX basis. The 10 basis points improvement was pretty remarkable because it was achieved with a top line that was slightly more than flat, +0.3%.

Moving to retail, the operating income was 50 basis points accretive on a constant FX basis, 40 basis points on a current FX basis. The winner here, from a profitability standpoint, is really the improvement we got in Optical Australia, Optical China, as well as Sunglass Hut in North America, which largely offset our LensCrafters and Oakley retail business.

Moving now to adjusted net income, you're looking at 100 basis points improvement on a constant FX basis, one percentage point. 90 basis points were our net income accretion on a current FX basis. And there are really two drivers for that, the first the lower cost of debt and the second one the improved tax rate. And just as a note, in our 2017 results we included the benefit of Patent Box for the year 2017, which amounts to approximately €50 million.

Let's now comment a little bit about adjusting items, but before we do that let me just point out one more number, which is the reported net income that, for the first time in Luxottica's history, exceeded the €1 billion, more precise it's €1,038 million that you see there in the middle of the page, or when you're looking on the margin percentage basis 11.3%.

Now back to the adjusting items, you're looking at the operating income level, a cost charge of about €142 million of adjusting items. Those adjusting items mainly relate to reorganization projects we undertook in the course of 2017.

On an after-tax basis you're looking at approximately €68 million of profit. And really the reason why you see a net cost charge at an operating income level and a net profit charge at a net income level is mainly due to the tax benefits derived from Patent Box for the years 2015 and 2016. And also the one-time tax adjustment that we've booked in relation with the tax reform in the United States. Both items have no impact at an operating income level, but clearly create a benefit at a net profit level.

If we now move to the next page, let's have a look at our financial position overview.

Financial position overview

Our balance sheet is stronger than ever and there is clearly one number to witness there, that is the number that you see in the middle of the page: €1,028 million in free cash flow generation, €364 million higher than in 2016.

In our free cash flow number you have the cash benefit deriving from Patent Box, for the three years, 2015, 2016 and 2017. But even excluding that, you would be looking at an all-time high free cash flow generation for Luxottica Group.

Our working capital days, at the bottom of the page, were up approximately two days, mainly in light of our reorganization effort to integrate the Salmoiraghi & Viganò chain in our inventory management process and to develop the showroom model throughout our retail locations. We're very excited about the results we were able to generate from a cash and balance sheet standpoint.

2017: solid foundation for future growth

But now let's wrap up 2017 and let's see where we were versus the guidance that we shared with you at the beginning of 2017.

For top line we guide you for low to mid-single digits and we delivered a 2.2% growth at constant FX. From an adjusted operating income growth, we had an expectation to grow 0.8 to 1 time our operating income with respect to sales, as a ratio, and we delivered 1.2 times sales growth in operating income. Our adjusted net income growth was expected to be 1:1 ratio with sales growth and it actually grew 5.5 times our top line growth. Even excluding the Patent Box benefit you will still be looking at 3 times sales growth for our adjusted net income in 2017.

Our net debt to EBITDA ratio, which we guided for 0.5 times, is actually 0.4 times, even here exceeding our original target.

Proposed dividend payment for 2017: €1.01 per share

Now let's move to our dividend proposal, for the year 2017 we are proposing a €1.01 dividend with an ordinary payout of 50%, which also represents a 10% increase versus 2016 dividend.

Now let's close out 2017 and let's talk a little bit about 2018 and let's guide you through our expectations for 2018.

Healthy outlook for 2018

We start with our top line first, our top line expectation at constant FX is to grow between 2% to 4%. And we can give you a little bit more colour around our expectation for top line: we expect to see developed countries, namely Europe and North America, grow in the low single digit range and developing countries grow and capture velocity in the high single digit range.

Our expectation for adjusted operating income is to be from 0.8 to 1 times top line sales growth.

And our adjusted net income expectation is to be from 1 to 2 times sales growth.

We'll continue to deleverage our balance sheet and that's why our expectation for net debt to EBITDA ratio is to be at 0.3 to 0.4 ratio for the year 2018.

Sticking to strategic priorities

But now that we've talked about the guidance and the expectation from a numbers standpoint, let's understand how we're going to get there, how we are going to achieve our goals in 2018.

Well in order to do that it's key that we pursue a further expansion of our brand portfolio and clearly Ray-Ban is going to play a critical role in both sun as well as prescription.

We have seen, for example, how successful the launch of the Ray-Ban brand in China has been with a compelling offer online and offline. And there is definitely more opportunity to further leverage that learning from China to other parts of the world.

Another important pillar is our relentless effort in fighting against counterfeit products as well as the parallel market and that effort will not pause in 2018 as the long term health of our brand is really the main pillar that we all in Luxottica stand for. And, just to give you an example, in 2017 we lost over 600,000 units in sales from non-compliant customers, 600,000, and I believe in 2018 that number will be even bigger.

Clearly we took a hit, but those were not quality sales and would have definitely been dilutive to the equity of our brands and that's why we didn't go after those sales.

Along the way we are continuing our strategy to get closer to our clients and we've been opening commercial subsidiaries in several different countries where before we used to leverage our relationship with the distributor. We recently did it in Southeast Asia and in Latin America. And this year we're going to do it in the Middle East area and we are confident that this is going to be another successful story for us.

Last but not least, I want to touch on our effort to digitize the retail experience and help our wholesale customers evolve their business. Our stand at MIDO, which has just closed, allowed our visitors to enjoy the digital experience thanks to the most sophisticated technologies, such as interactive holograms and touchscreens to highlight the collection, to explore a new product and leverage our amazing try-on tools. A lot of exciting things that we shared with our clients at the MIDO.

Ray-Ban is firing on all engines

But let's talk a little bit about our brand, Ray-Ban. Ray-Ban has seen such a spectacular growth story for us for many years, since the acquisition. For the first 15 years since the acquisition in 1999 the brand delivered revenue growth of 15% CAGR .

Then in 2016 after such a strong pattern of growth we decided to take a step back and focus more on preserving the Ray-Ban brand equity by implementing the MAP policy, the minimum advertised pricing policy in North America. We then coupled MAP with ARA, authorized retail agreements, and inserted RFID tags inside the frames. Both those initiatives worked really well as additional tools to defend the brand on a global scale against the grey market and the counterfeiting.

Those initiatives clearly created some disruption, but despite that disruption we are extremely satisfied with the performance of the brand in 2017.

These results were achieved thanks to the continuous effort in innovation, the success of our collections, the global marketing campaign and the omnichannel brand distribution. In this regard, the Ray-Ban e-commerce platform is now capable of offering a full brand experience to our consumers, including the very successful customization offer under Ray-Ban Remix.

Just to reinforce the fact that our strategy is moving in the right direction let me share with you that brand awareness data give us full confidence for the future fortune of the brand.

Finally, you’ll also hear us talking more and more about prescription lenses. The prescription lenses business will add a material upside to the growth story of the brand and, for instance, we’re getting very positive learnings from the penetration of Ray-Ban prescription offer in our own retail channel. So it's a very promising business for us and you're going to hear more and more us talking about it in the future.

LensCrafters: the turnaround continues

But now let's talk about LensCrafters, it's our leading optical retail brand and, as the title of the slide says, the turnaround continues. As we said earlier, the journey is not over yet but we do believe we are on the right path. We have clear in our minds the positioning of LensCrafters and we're implementing many changes to be 100% consistent with our strategy.

People have to be the first chapter to begin with. In 2017 the LensCrafters team worked really, really hard to improve the quality of the people leading the stores and therefore we hired new talented store market managers. So, just to give you an idea, approximately 20% of the store market managers were changed in LensCrafters as a result of that effort.

In parallel we worked on a well-rounded customer journey focusing more and more on in-store technology and storytelling around our amazing premium products. You know that LensCrafters is leading the technological evolution in the industry, we started years ago with AccuFit, we continued with Clarifye and now the journey is continuing with the 100% digital customized lenses.

Already during the course of the third quarter, you remember we talk about the shift of paradigm from “selling a discount” to “sell an excellent package, with an appealing price”, with a clear and transparent commercial offering. To achieve that, we also added new in-store and e-learning training modules for all our associates. Their focus is on frames, digital lenses and all the ingredients that are needed to transform the moment of sale into a powerfully emotional and rewarding ritual.

And this is not over. LensCrafters' high profitability allows us to make further investments into the business. We're focusing more and more on the enhancement of our store fleet, with a major remodeling program that should touch over 50 stores during 2018.

In terms of network expansion, we have recently renewed our agreement with Macy’s and now we're targeting a total of about 200 stores by early 2019.

In addition, the pipeline of our products continues to be strong with Ray-Ban branded Rx lenses like Chromance and the new Blue IQ Ray-Ban lenses that we'll launch shortly at LensCrafters.

With all that said we are cautiously optimistic about a trend improvement in the second half, also in light, and you'll remember that, of an easier comp base in the second half of the year versus the first half of the year.

Sunglass Hut: premium messaging and omnichannel strategy driving results

So let me close our journey this evening with Sunglass Hut. You know Sunglass Hut is a great success story. If we look at a little bit in the past, the chain posted mid-single digit growth in comps in the last five years, with the only exception of 2017.

No doubt that 2017 has been a tough year for Sunglass Hut. You remember we started our strategy of disciplined promotional approach and we coupled that with a focus on optimizing the store fleet. And that clearly penalized the performance of Sunglass Hut in the short term. But now that strategy is paying back with sales that have improved and, as we commented before, we are happy to see Sunglass Hut's sales turning positive during the last quarter of the year.

Clearly, we will continue to assess our portfolio of stores. We will continue to make sure that the stores that are not fitting with our strategy are closed, and at the same time we continue to heavily invest in new stores in Europe as well as in developing countries to make Sunglass Hut more and more a true global retail brand.

To meet our ambitious goal we clearly need to further boost our CRM investment so as to maintain a close relationship with our consumers and continue to attract them with new products and a stronger interaction between online and offline. And just to give you a bit of flavour, our expectation is that Sunglass Hut’s online sales will grow faster compared to the chain and we expect to reach between 8% to 10% of chain sales I would say by 2021.

And now I'm done and with that we open to the Q&A session. Thank you.

Q&A session

Cedric Lecasble (Raymond James): Good evening, thank you for taking my questions. I have two questions actually. One, the first one on LensCrafters and the second one on the operating leverage in 2018. On LensCrafters, one, can you be in a position to tell us if you succeeded or failed in the repositioning of the chain? On 2018 guidance, I understand you have a little more volume growth supposedly this year compared to last year and intuitively a little more operating leverage. So the question is why do you stick to this 80% to 100% of sales growth for the underlying EBIT? Thank you very much.

Stefano Grassi: Hi Cedric, good evening. I would say with respect to LensCrafters success, it is strictly linked to the operating leverage. We’re looking at the second half of this year as a period in which we do expect to see an improvement in the LensCrafters performance. There are several initiatives that we’re undertaking as we speak, more in fact from a CRM standpoint, as we are launching a massive CRM campaign. There is a new launch of Ray-Ban lenses throughout the month of March with effect in the second quarter. There is a new advertising campaign and it’s going to be on TV in the month of March. So I think a lot of those investments that we’re doing should create some traction, some positive traction, throughout the second part of 2Q and really mature during the second half of 2018. So I think 2H 2018 should be a good period to really judge the quality of our initiatives.

Then, the guidance for 2018, given that range of 0.8x to 1x, is a function of some of the variables that we have. We still expect price mix to play an important role in 2018. We’re definitely going to see volumes improve versus 2017 levels. But again we're giving a range and we're taking a cautious approach to that. We have to see how the year evolves. And obviously LensCrafters is a critical factor to confirm our guidance or even to exceed our guidance depending on the trajectory the retail chain is going to have throughout 2018.

Antoine Belge (HSBC): Yes hi, three questions. First of all you had a nice rebound in the US in the fourth quarter especially in wholesale, so can you maybe elaborate a little bit on that? And why are you not a bit more optimistic about the US in your guidance for 2018?

My second question is regarding China. I understand all the initiatives that you have taken in terms of distribution there, so when do you think that those will arrive so to say, is it going to be around midyear? And what type of expectations you've taken for this assumption in your guidance for China?

And finally on the tax rates is it possible to have guidance for the next two years, 2018 and 2019, in terms of tax rates with on the one hand the patent box and then the lower tax rate in the US? Thank you.

Stefano Grassi: So let me just talk about North America. Clearly we're happy about the fourth quarter in North America. I think we need to look at it in perspective with the third quarter number because that will probably allow us to get things in a better perspective. In the third quarter we were slightly positive, 0.5% in wholesale North America, and the fourth quarter was positive 14% [at constant FX]. But really we've got to look at 2H versus 1H and that is a very promising number for us.

We are taking, let me say, a cautious look in 2018 from a geography standpoint, also because we think wholesale is still going to grow. I don't think it will be the 14% that you've seen in the last quarter of the year but clearly our North American number has wholesale on one side and retail on the other side, and the retail number is still cautiously reflecting the trend of LensCrafters. And that's why you see us guiding on a low single digit for North America.

From a China standpoint, that's a good question. I would say we started our new repositioning strategy in China during the second quarter of last year, 2017, if you remember. So the first quarter is really not a like-for-like business, but beginning in the second quarter and definitely during the second half of the year, our expectation is to see China grow at a double digit pace.

From a tax rate standpoint, we do expect to see an improvement, I would say a couple of percentage points, in our tax rate for 2018. And that will come as a combination of improved mix as well as the on-going benefit of the Trump tax reform in the United States. For the year beyond that, it's probably too premature to guide you, but as the year evolves we'll definitely keep you updated.

Antoine Belge (HSBC): When you say a couple of percentage points, on what basis? Because I think the tax rate was 17% in 2017?

Stefano Grassi: I'm referring to the adjusted basis. So we're guiding on the adjusted basis, so we do expect the tax rate on an adjusted basis to improve a couple of percentage points give or take.

Antoine Belge (HSBC): And sorry, what was the adjusted basis for 2017?

Stefano Grassi: It's around 29.5%.

Antoine Belge (HSBC): Okay. A follow up also still on that question about the US. With regards to the Ray-Ban brand and you know after I would say two years and a lot of work behind the Ray-Ban brand, so what's your expectation for Ray-Ban in the US in 2018 in your guidance?

Stefano Grassi: Well, I think we're definitely going to grow positive. Remember that in North America, clearly we benefit from the MAP policy in the second half of the year. Now we're going through a more normalized trend. But it's definitely going to be a key driver of growth in North America. Remember we have a much leaner distribution channel now and I think we're going to benefit from that for Ray-Ban, but also let me say that we got a fourth quarter number that was extremely positive for Oakley as well. So Ray-Ban and Oakley will be instrumental to our growth in North America wholesale.

Francesca Di Pasquantonio (Deutsche Bank): Hi, good evening. I have a couple of questions too. The first is if you could complete your normal roadmap by geography for 2018, so maybe give a bit of color on your expectations on Europe, Latin America and the rest of Asia?

The second question is about LensCrafters again and I have two questions. The first would be how you see, I know I ask this every time, but how do you see your store footprint evolving? Have you made any changes? Have you considered maybe a more aggressive rationalization of your store network for LensCrafters because you are indeed instead mentioning the Macy's rollout on the presentation?

And the second question on LensCrafters is regarding what you said in the last conference calls with March being a critical time to assess whether your higher quality sales strategy is going to yield the expected results in LensCrafters?

And finally a question on volumes and gross margin. You mentioned that gross margin was diluted because of the lower volumes impact, if I understood correctly. As you are moving indeed towards a strategy which sees higher price mix and maybe lower volumes, do you have any considerations to share? Is the capacity looking towards the integration going to be better utilized going forward? Any thoughts on that? Thank you very much.

Stefano Grassi: Hi Francesca. So let me start with our roadmap here and give you a little bit more colour again. We decided to just add the qualitative comments on the different geographies but just to give you an idea, it's low single digit in the developed countries. And I would say probably Europe at a slightly higher velocity, because every time we guide in Europe, we beat that guidance so I would say Europe is probably going to be a slightly faster velocity than North America, especially thanks to our retail network over there. With respect to the developing countries, I would say Asia-Pacific is definitely going to have a faster pace. We have seen in the last couple of quarters a better performance from Asia-Pacific. Not where we need it to be, not where we want it to be, but I would say a high single digit for Asia-Pacific is something that we could achieve.

In Latin America, we're definitely going to display our assets in a very strong manner over there. I mean we completed the acquisition of Oticas Carol in the course of 2017 and we have a very strong belief that it's going to be another important asset for our growth in that region. And not to underestimate the performance that we've seen in other parts of Latin America. So the high single digit in that region is something that we could definitely achieve.

With respect to LensCrafters, we're not making any assessment of scale down or pricings actually. LensCrafters is a chain that is still very profitable for us and that is something that I think is important for all of us to mention. It is important because it still allowed us to make the proper and the right investments for the chain. It is a chain which again is going through a radical transformation, re-selling of the platform. It's a journey that we're undertaking, a journey that is limiting the amount of promotion activity which is paying a price from a top line standpoint, but that's not the only part we're doing. So there are several different activities that we believe are going to pay us back, the showroom model, the refurbishment of our stores which is something that we've never done on such a major scale as we're doing in 2018. And at the end of the day, we believe that is going to lead us to stores that are more productive and ultimately stores that are going to be even more profitable than it is already today at a high level of profitability, largely accredited to our retail margin.

Now on volumes and gross margin, let me say that we do expect volumes to improve versus 2017 level, where growth was made of negative volumes and strong price mix. We do expect that balance to come, probably volumes to be flattish let me say, and the price mix to help but not the magnitude that it helped in 2017. And to be honest with you I do expect the gross margin to improve throughout this year. So we do expect that to happen in the course of 2018.

Let's not underestimate the fact that there is a huge improvement in the quality and the richness of our product. So what we call "mix intra-brand", the value that we are delivering to our consumer is considerably higher within each of our brands. And that obviously is causing a little bit of an increase of our industrial costs. There is a little bit of a time between when we produce and when we sell our products but I think in 2018 you're definitely going to see that margin going up because of some of the things that I just shared with you.

Domenico Ghilotti (Equita): Good afternoon. My first question is on how do you see the space contribution to your guidance for 2018? Are you including or assuming any contribution from some more M&A or the kind of net contribution from store openings? The second question is still on the gross margin. Clearly your guidance is at currency neutral, but I wonder if you see big headwind there or if you can provide any sensitivity to your profitability to your margin at the current rates, particularly for wholesale?

And another question is on your capex. I want to understand if you are expecting any particular trend in the capex going into 2018?

And well the last one, I would be interested in your comments on the starting of 2018 compared to your guidance, how do you see the early months of '18?

Stefano Grassi: Hello Domenico. Let me answer your questions one by one. So let's start with our space contribution and let me tell you that generally speaking for 2018 from a retail perspective, we do expect half of the growth to come from like-for-like, and the other half of the growth in retail to come from space contribution.

From a gross margin level, our expectation to improve margin is obviously at constant FX. At current FX, we probably do expect a little bit of headwind, not just on the gross margin but also on the top line. So just to give you an idea, at current FX levels I do expect between three to four percentage points of dilution in our top line growth at current FX levels.

Regarding capex in 2018, well I can tell you that right now we do expect capex for 2018 to be pretty much at the same levels as it's been in 2017 which wasn't very different from 2016. Although let me say that the mix of our investments is going to be quite different. I do expect us focusing more in 2018 not just on opening new stores but also renewing our existing store network. We're going to have a pretty important programme of remodelling the existing store locations throughout the world in the optical as well in the sun retail chain.

And I would say that our investment in the overall infrastructure from an operations standpoint is probably going to be down versus 2017 levels. So more investments on renewing stores and opening new stores, which actually has proven to give us a better return in the short term and therefore I do expect an improvement, a lift in our return on invested capital because we're really changing the mix of our investments, which will ultimately give us a faster payback as we invest more in the stores and the innovation of those stores.

With respect to 2018, how did we start? Generally, from a wholesale perspective I would say that it's really a low month from an order intake standpoint. We have in the month of February the Luxottica Days which have just started, and the early days of that event are very, very promising for us. So we're happy about the way we started our Luxottica Days. From a retail perspective I would say not really much of a change versus the trend that we have seen during the course of the fourth quarter of last year. LensCrafters shows a similar trend, Sunglass Hut shows a very similar trend, that's where we are today.

Domenico Ghilotti (Equita): Okay thank you. And just a follow up on the space contribution, when you say the half, do you see this contribution coming from more acquisitions or just from new store openings and store footprint optimisation?

Stefano Grassi: No I would say this is just organic Domenico.

James Grzinic (Jefferies): Yes thank you, good evening, hi Stefano and Alessandra. I had two quick ones. The first one is perhaps to understand the dynamics that drove wholesale margins to be down quite a bit in the second half compared to the first half, there seems to have been a real change in trend there. And the second one, it would be helpful if Stefano perhaps you can point out what actions you took to really drive that G&A down, that expense down? You made really good progress in G&A but if you could highlight some of the major win areas that would be very helpful. Thank you.

Stefano Grassi: So on the wholesale margin, there's probably a little bit of timing between the first half and the second half in certain expenses but I would say there is definitely a margin improvement in the overall year for wholesale. Remember that again the overall top line performance was slightly more than flattish so a bit of timing between 1H and 2H on certain costs, but again I would look at our wholesale really on the twelve-month period.

The G&A number is really the result of a mix of initiatives that we undertook over the course of 2017. Couple that with initiatives that we undertook in the previous two years and in particular in 2016. A lot of the back-office simplification was started in the course of the year 2016. A lot of the legal entity simplification was done in the course of 2016 and continued throughout 2017. Just to give you an idea, we closed over 80, eight zero, legal entities in the course of the last two years in Luxottica. We simplified by about 40% our overall legal infrastructure of legal entities in Luxottica. And that clearly comes with a lot of simplification of the overall underlying processes throughout the different countries and that was very important. We clearly integrated Oakley as part of the Luxottica operating machine. We did a pretty good job throughout 2017 and integrated Salmoiraghi & Viganò as a part of our overall infrastructure from a back-office standpoint. At the end of the year, we had a pretty good integration of the overall back-office infrastructure into our shared service activity in Europe.

So we are now in a position to be able to integrate in a very smooth manner any kind of new company that comes on board with us because we already know the four or five critical things we should look after and we have a team that is ready to tackle and take the leadership and integrate the back-office infrastructure. That doesn't come by chance and I think it's the result of a team that has been doing the job for the last two to three years in a pretty intense manner. So half of the synergies is really a result of some of the investments that we've done in 2017, the other part of the synergies really comes from the investments we did in the previous year from a G&A perspective.

James Grzinic (Jefferies): Got it, thank you Stefano.

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: Okay thank you operator, thank you everyone for joining us in today's call. As usual the Investor Relations team is available later tonight or in the next few days for any follow up questions you may have. Have a great evening and talk to you soon. Bye-bye.