3rd March 2016

Luxury & Consumer Goods

Luxottica

Price EUR51.25

Investor Day Feedback: today’s investments are tomorrow’s robust sales and profit growth

Fair Value EUR65 (+27%) **BUY**

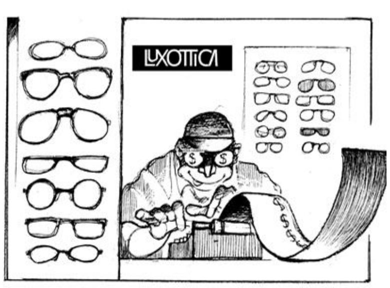
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.1
Market Cap (EUR)	24,788
Ev (BG Estimates) (EUR)	25,842
Avg. 6m daily volume (000)	801.4
3y EPS CAGR	14.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.9%	-20.6%	-14.0%	-15.1%
Consumer Gds	-0.2%	-8.4%	5.8%	-4.1%
DJ Stoxx 600	1.9%	-11.2%	-3.6%	-6.8%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,837	9,366	10,013
% change		*15.5%*	*6.0%*	*6.9%*
EBITDA	1,542	1,853	2,040	2,224
EBIT (reported)	1,158	1,376	1,536	1,685
% change		*18.9%*	*11.6%*	*9.7%*
Net income	642.6	804.1	928.9	1,040
% change		*25.1%*	*15.5%*	*11.9%*

	2014	2015e	2016e	2017e
Operating margin	15.1	15.6	16.4	16.8
Net margin	8.4	9.1	9.9	10.4
ROE	13.1	16.1	17.1	17.7
ROCE	10.4	12.6	14.2	15.6
Gearing	20.6	21.0	11.7	3.5

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.68	1.94	2.17
% change	-	*16.1%*	*15.5%*	*11.9%*
P/E	35.5x	30.6x	26.5x	23.6x
FCF yield (%)	2.9%	3.2%	4.0%	4.4%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.4%	1.8%	2.0%	2.3%
EV/Sales	3.4x	2.9x	2.7x	2.5x
EV/EBITDA	16.7x	13.9x	12.5x	11.2x
EV/EBIT	22.3x	18.8x	16.6x	14.8x



The market is sometimes demanding. Yesterday’s negative reaction was possibly due to cautious current trading in Q1 2016 and profit guidance, which seemed to have disappointed some investors. Admittedly, the new 2016-18 earnings target (to grow at 1.5x sales) is lower than the historical “rule-of-thumb” (2x sales) but was no surprise to us since management stated several times in 2015 that the historical “rule-of-thumb” could hardly be reiterated for a seventh year in a row. Achieving this targeted operating leverage in a context of significant investments is also reassuring in our view, especially since the group also expects to increase ROIC. Buy recommendation and FV of EUR65 confirmed.

ANALYSIS

- **Yes, LUX will invest more than EUR1.5bn over the next three years…** Following recent interviews with Mr Del Vecchio, the group confirmed a significant investment plan of EUR1.5bn over 2016-18, or ~6% of sales, broken down as follows: **(i)** 1/3 dedicated to **IT** and **digitalisation** (*see below*), **(ii)** 1/3 dedicated to **manufacturing** (increased capacity and automation lines) and **(iii)** 1/3 dedicated to **retail** (store openings and remodellings, digitalising POS, etc.). These significant investments might explain the relative cautiousness regarding operating income guidance, which again, did not surprise us as LUX often repeated last year that the historical “rule-of-thumb” could hardly be reiterated for a seventh consecutive year.

- **… But these capex investments will drive earnings and ROIC over the MT.** Indeed initiatives in both divisions will contribute to this improvement. In **Retail:** the roll out of shop-in-shops in host stores like LensCrafters @ Macy’s (500 s-i-s by 2018) or Sunglass Hut @ Galeries Lafayette (57 s-i-s in 2016) is a good illustration: these POS require less capex and opex but generate very high sales per sqm, meaning a very profitabile business model (+high ROIC) which could be scalable in other countries in our view. In **Wholesale**: STARS (inventory management and automatic resplenishments) covered 6,300 doors globally and LUX will roll it out in the US and LATAM in 2016. STARS enables LUX to control and run the inventory of wholesale partners, which is a new form of retail without capex or real estate, hence accretive for margins and FCF. **The group aims for STARS to account for 15% of Wholesale sales by 2018 vs. 9% currently**.

- **Digitalising Luxottica is one of the key priorities for top management. E-commerce** accounts for ~4% of total sales, a 50/50 split between its own e-commerce platforms (i.e. RayBan.com, Oakley.com and SunglassHut.com) and third parties. LUX it targetting **a share of 7% of total sales by 2018**. Besides expanding these e-commerce platforms, the digital transformation will impact the entire group: IT/supply chain (CRM, data collection, MyLuxottica) but also Retail (Clarifye digital eye exam, lens simulator, etc.) to digitalise the customer experience in POS. Over the LT, management is convinced that digitalisation will release efficiencies and increase speed throughout the group, enhancing margins and FCF generation.

- **Cautious current trading but 2016 guidance in line with our expectations.** Although the months of January and February “were good”, management reminded that Q1 is facing a challenging comparison base at the top-line level (launch of Michael Kors contributed ~2.5p.p to Wholesale growth of ~EUR20m) and on profitability which increased 110bp (adjusted) and 150bp (reported). However the 2016 outlook implies a gradual acceleration throughout the year, explaining why we have made no changes to our assumptions.

- **A few words about governance and M&A.** In an introductory message, Mr Del Vecchio confirmed that he wanted to leave the executive functions “in a few years” and return to his previous position of non-executive Chairman and shareholder. He could hand over the reins to internal managers
- four of them led the ID: Massimo Vian (CEO Product and Operations), Stefano Grassi (CFO), Paolo Alberti (Executive VP Wholesale) and Nicola Brandolese (President of Retail) - backed by a "strong and independent BoD as it is now".

- As for **M&A**, **management has clearly ruled out any strategic acquisition** (i.e. Essilor or Carl Zeiss), which confirms our belief that a large transaction was a priority for LUX in light of a group-wide simplification plan (not really compatible with a big acquisition…) and a huge capex investment plan to fuel MT/LT organic growth. The group’s expansion into the lens category will be carried on “internally and organically”.

(To be continued next page)

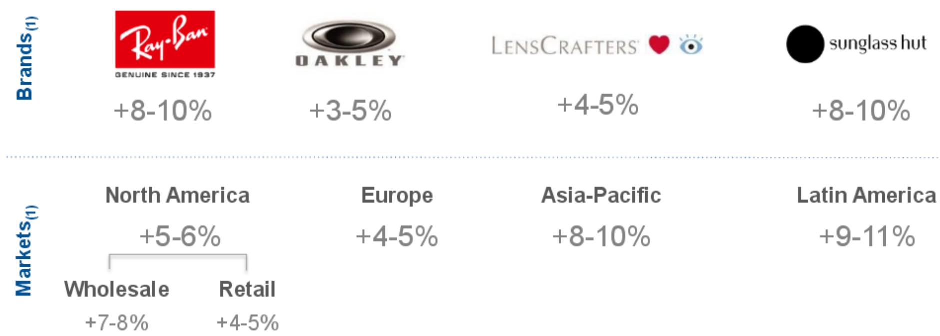
VALUATION

- In our view, the share price decline yesterday could be explained by the prudent current trading statement for Q1 and profit guidance ,which seemed to have disappointed some investors. Concerning governance, it will be interesting to see the precise responsabilities and tasks given to Francesco Milleri, a long-time advisor for Mr Del Vecchio who was appointed as a Group Director to assist the Executive Chairman.
- Interestingly, Essilor also faced the same negative market reaction a few days ago after some investors were disappointed by fairly conservative margin guidance, which was justified by incremental marketing expenses and an ambitious capex investment plan to fuel future topline growth.
- However, since Essilor's growth strategy is to always favour top-line growth ahead of margin expansion, it is worth highlighting that operating leverage would be higher for Luxottica. Buy recommendation and FV of EUR65 confirmed.

NEXT CATALYSTS

- Luxottica is due to report Q1 results on 29th April 2016.

2016 Roadmap by brands and markets (FX-n growth):



Source: Company Data

Table 2: Outlook for 2016-18:

EURm	2016	2017-18
Sales growth (FX-n)	+5-6%	Mid to high single-digit
Operating income and net income	At least 1.5x sales	At least 1.5x sales

Source: Company Data

Click here to download document

Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL — Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL — Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 63,4% NEUTRAL ratings 29,1% SELL ratings 7,5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062