

**Luxottica**

Price EUR53.75

FY15 adj. op income 1.5% short of our expectations but a reassuring FY16-18 outlook!

Fair Value EUR65 (+21%)

BUY

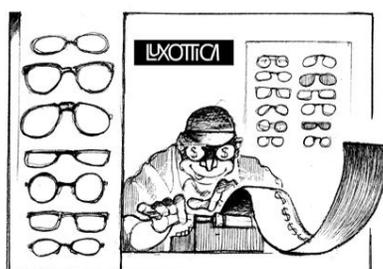
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.1
Market Cap (EURm)	25,997
Ev (BG Estimates) (EURm)	27,051
Avg. 6m daily volume (000)	779.5
3y EPS CAGR	15.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	-15.5%	-8.5%	-11.0%
Consumer Gds	-0.8%	-8.0%	6.3%	-3.9%
DJ Stoxx 600	-0.8%	-11.8%	-4.0%	-7.4%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,837	9,550	10,209
% change		15.5%	8.1%	6.9%
EBITDA	1,542	1,853	2,078	2,265
EBIT	1,158	1,376	1,564	1,716
% change		18.9%	13.7%	9.7%
Net income	642.6	804.1	957.7	1,066
% change		25.1%	19.1%	11.3%

	2014	2015e	2016e	2017e
Operating margin	15.1	15.6	16.4	16.8
Net margin	8.4	9.1	10.0	10.4
ROE	13.1	16.1	17.6	18.0
ROCE	10.4	12.6	14.5	15.9
Gearing	20.6	21.0	11.6	3.2

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.68	2.00	2.22
% change	-	16.1%	19.1%	11.3%
P/E	37.2x	32.1x	26.9x	24.2x
FCF yield (%)	2.8%	3.0%	3.9%	4.3%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.3%	1.7%	2.0%	2.2%
EV/Sales	3.5x	3.1x	2.8x	2.6x
EV/EBITDA	17.5x	14.6x	12.8x	11.6x
EV/EBIT	23.3x	19.7x	17.0x	15.3x



Luxottica announced its 2015 results yesterday evening after releasing 2015 sales on 29th January (adj.: EUR9.011bn, +5.5% FX-n adjusted). 2015 adj. EBIT rose 22.5% to EUR1.443bn, 1.5% short of our EUR1.465bn forecast (no CS) and representing a 70bp-margin improvement to 16%. Ahead of today's Investor Day, the 2016-18 outlook is quite reassuring and consistent with our assumptions: sales are expected to grow 5-6% FX-n in 2016 (BG: +6%e) and mid to high single-digit over 2017-18. The op income target is a bit better than we expected as the group is guiding for a rise of "at least 1.5x sales" over 2016-18 vs. the previous rule-of-thumb of 2x sales, which has been reiterated for six consecutive years. Naturally, all eyes will be on the ID today as we hope LUX will provide more details about this "multi-year plan" and on the future governance structure (+ succession plan). Buy recommendation and FV of EUR65 confirmed.

## ANALYSIS

- FY15 sales, released on 29th January, rose 5.5% adj. FX-n and +6.8% stripping out negative calendar effects in Q4. While FX-n growth seemed disappointing at first glance, the US retail calendar was nine days shorter than in Q4 2014 (53<sup>rd</sup> week), representing a negative sales impact of ~EUR90m (US retail: +7.7% FX-n excl. this calendar effect instead of -2.7% in Q4). By region, we highlight the good performance of Europe (+6.8% FX-n / Q4: +6.4%) and the robust momentum of Latin America (+15.1% FX-n / Q4: +15%).

## Adjusted FX-n growth by division (%):

Adj. FX-neutral growth *	Q3 15	9M 15	Q4 15	2015
Wholesale division (~42% of sales)	6.8	6.9	7.1	6.9
Retail division (~58% of sales)	4.7	6.1	0.1 / 8.1 **	4.5 / 6.6 **
<b>Group total</b>	<b>5.5</b>	<b>6.4</b>	<b>2.7 / 7.7 **</b>	<b>5.5 / 6.8 **</b>

\* Before the change in accounting method at EyeMed (FY15: -EUR174m)

Source: Company Data

\*\* FX-n growth excluding the retail calendar effect

- 2015 adj. EBIT grew 22.5% to EUR1,443m, 1.5% short of our expectations due to Retail (calendar adjustments) and higher-than-expected intra-group restatements. By division: Wholesale's impressive adj. op. margin improvement (+120bp to 23.9%), driven by the positive volume effect and productivity gains, more than offset the price adjustments implemented in China in Q3. In Retail, adj. operating margin was up "just" 60bp to 14.7% (BG: 15%e) thanks to a good performance in US retail in addition to ongoing efficiency gains in the main retail banners but the FY performance showed a negative impact from calendar adjustments (see above) as profitability narrowed 100bp in Q4 after +90bp over the first 9M. Last but not least, intra-group restatements were also higher than our forecast (adj.: ~EUR215m vs. BG ests at ~EUR203m).
- Reassuring 2016-18 outlook, especially for earnings. Management repeated several times that the historical op. income rule-of-thumb ("to increase it 2x faster than top line") would hardly be repeated for a seventh year in a row, especially since 2016 will be marked by significant investments (e.g. a new retail concept in all LensCrafters' US stores + roll-out of corners @ Macy's, increase in manufacturing/distribution capacity, etc.). As such, Luxottica's guidance is for "operating income and net income to grow at 1.5x sales", which is slightly ahead of our forecasts. However we leave the pace of margin improvement unchanged at this stage (2016e: +40bp vs. 2015 adj. to 16.4% and +40bp to 16.8% in 2017e).
- We are pretty much in line with the sales growth guidance: LUX anticipates 5-6% FX-n revenue increase for 2016e (BG: +6%e) while top line growth is set to run at a mid to high single-digit rate over 2017-18 (BG: +7%e).

## VALUATION

- Although the 2015 operating income was 1.5% shy of our expectations, we expect a limited market reaction as investors will certainly focus on: (i) the reassuring 2016-18 outlook which shows that momentum is still favourable for LUX and (ii) the Investor Day (today 9.30-1pm CET), at which we expect management to provide more details concerning the project for the new governance structure (+ succession plan).
- Following our comment of 16th February, note that the BoD appointed Mr Francesco Milleri, a close adviser to Mr Del Vecchio, as a Group Director to assist the Executive Chairman.

(To be continued next page)

- Following the slight operating income miss in 2015, we have nudged down our 2016-17 earnings forecasts by 1%, but maintain our pace of margin improvement over the period. Buy recommendation and FV of EUR65 reiterated.

#### NEXT CATALYSTS

- Investor Day today in Turin // Q1 Results on 29th April 2016.

[Click here to download document](#)

**Table1: Luxottica 2015 Adjusted results:**

EURm	2014	2015
<b>Wholesale Division</b>		
<b>Net sales</b>	<b>3,194</b>	<b>3,593</b>
<i>FX-neutral change (%)</i>	8.6	6.9
<i>Reported change (%)</i>	6.8	12.5
<b>Adj. operating income **</b>	<b>724.5</b>	<b>859.8</b>
% of sales	22.7	23.9
<b>Retail Division</b>		
<b>Adjusted Net sales *</b>	<b>4,505</b>	<b>5,418</b>
<i>FX-neutral change (%)</i>	5.4	4.5
<i>Reported change (%)</i>	4.3	20.3
<b>Adj. operating income</b>	<b>636.3</b>	<b>797.8</b>
% of sales	14.1	14.7
<b>Adj. intra-group EBIT restat. **</b>	<b>-183.2</b>	<b>-214.9</b>
<b>Group total</b>		
<b>Adjusted Net sales *</b>	<b>7,699</b>	<b>9,011</b>
<i>FX-neutral change (%)</i>	6.7	5.5
<i>Reported change (%)</i>	5.3	17.0
<b>Adj. operating income **</b>	<b>1,177.6</b>	<b>1,442.8</b>
% of sales	15.3	16.0

\* Change in the contractual terms of an insurance underwriting agreement at EyeMed (Net sales vs. gross sales previously => EUR174m negative impact in 2015)

\*\* One-off charges related to Oakley integration project + other minor reorganisation activities across the group (total negative impact on EBIT: EUR66.4m in 2015)

**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



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