



## ***Luxottica Group “1H 2018 results presentation”***

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### **CORPORATE PARTICIPANTS**

Alessandra Senici, Group Investor Relations and Corporate Communications Director

Stefano Grassi, Group CFO

Q&A

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### **Welcome**

Alessandra Senici

Good evening, good afternoon to everyone. I am here with our CFO Stefano Grassi and the Investor Relations team.

Before we begin, as usual, we 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 Relations section.

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 also available via audio webcast on our Corporate website.

Let's start with a brief update on the proposed combination between Luxottica and Essilor.

The two companies are finalizing discussions with the Chinese antitrust authority and remain confident to obtain its approval by the end of the month. In parallel, the two companies are also finalizing their discussions with the Turkish antitrust authority and evaluating the timing for the closing of the transaction.

Pending final antitrust 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.

### **1H 2018: solid profitability results**

Moving to results, sales in the second quarter, as expected, were back to positive at constant forex and improving month after month, driven by robust retail and e-commerce growth. While still negative, wholesale improved versus the first quarter.

As summer gets underway, we are pleased with the trends we continue to see globally. In our Wholesale division all key markets, with the exception of Europe, showed positive results in the second quarter. Retail was strong across the board versus the best quarter in 2017. Comps have been back to positive since May.

I would like to share a few highlights on the quarter.

First of all, Sunglass Hut globally and optical retail in Australia and China continued to post robust growth.

Our wholesale business in China is back to growth one year after we reorganized our go-to-market approach.

LensCrafters in North America is showing improvement. In June, comps were flattish and we expect positive comps in 3Q.

We're seeing mixed performance in Europe: solid retail and e-commerce growth on one hand, but negative wholesale on the other. We are experiencing a somewhat cautious approach to order intake from our customers, as a result of the standardization of commercial policies and some delay in the sun season.

Our e-commerce continues its journey of double-digit profitable growth thanks to the strengths of our directly operated websites and Stefano will share with you more colour later.

We are pleased with profitability performance driven by the solid growth of our Retail division. The division is reaping the benefits of the transformed operating model with improved store execution and quality of the consumer experience.

In recent years, we invested in new stores, as well as in a more compelling omnichannel experience. Strategic initiatives and the recent repositioning were instrumental to the healthy growth we are experiencing.

Other key factors include managing our retail platform in a smarter, more effective way thanks to a fully integrated supply chain and major investments in new lens capabilities for the optical business.

Furthermore, the new stores opened in the past couple of years are supporting the growth and most of them already contribute to the division's profitability.

We set higher and higher standards for branded eyewear and the results are there.

In the quarter, we continued to work on partnerships and acquisitions. Our agreement to roll out the Sunglass Hut retail concept in approximately 170 Bass Pro Shops and Cabela's stores gave us a new avenue of exposure for our proprietary brands. By the way, all the shop-in-shops were successfully opened during the second quarter.

In addition, we continuously invest in know-how and production capabilities in frames and sun lenses. We continued our upstream integration with the acquisition of Barberini, a long-time lens supplier of our premium and luxury portfolio.

### **Ray-Ban Studios**

Before turning the call over to Stefano for an in depth look at results, I want to say a few words about a new Ray-Ban initiative that really speaks to the authenticity and cultural relevance of the brand today.

This summer, Ray-Ban will reconnect with its deep musical roots with the launch of Ray-Ban Studios. Ray-Ban Studios is a creative think tank for artists to share their stories and celebrate individuality and self-expression.

Bronx-raised DJs, The Martinez Brothers, are the first artists chosen by Ray-Ban Studios to launch a limited edition capsule collection of 500 pieces available on Ray-Ban.com and in select Ray-Ban stores. A video and print campaign titled "Feel Your Beat" is giving life to the project, which will draw new and unique artists into the Ray-Ban fold.

Now, I will hand it over to Stefano to more in depth comments on results.

## **1H 2018 results**

Stefano Grassi

### **2Q and 1H 2018 net sales performance**

Grazie Alessandra. Good evening everybody, welcome to our call tonight.

We will start our journey by talking a little bit about our top line performance. We will then give you a little bit more colour around our profit and loss and free cash flow generation and then we'll have together a journey through our different geographies. We will then open up for the Q&A.

Let's start now with our top line perspective. On the left hand side of the slide the Group recorded, for the second quarter, positive growth of 1.4% on a constant FX basis. For the first six months of the year you're looking at Group results slightly positive at +0.3% on a constant FX basis.

If we look at our numbers on a current FX basis we recorded sales down 5% and 8% respectively for the second quarter and the first half of the year.

Now, from a currency standpoint the US dollar devaluation created a little bit of headwind in our results, but to a lower extent than in the first quarter. You might remember that in 1Q the US dollar devaluated approximately 13% versus the Euro and in the second quarter the US dollar devaluation was about 7.5%. If the US dollar stays at the current level, we do expect the gap between constant and current FX to significantly diminish during the second half of the year and really get the two numbers close to each other.

So, let's start looking at the two divisions and let's begin with wholesale, in the middle of the page.

Wholesale was negative 3% on a constant FX basis in the second quarter, negative 3.6% (at constant FX) in the first six months of the year. On a current FX basis wholesale posted -8% and -10% respectively in the second quarter and in the first half of the year.

Talking about wholesale, I would say that, despite the fact that the overall figures for the second quarter look pretty close to those that we posted in 1Q, the underlying trend in our Wholesale division is quite different. More specifically, we experienced pretty healthy growth in North America and in Asia-Pacific, where China was finally back to double-digit growth in the quarter. As you might remember, we now annualize our strategic repositioning in the area and I would say we are ready to start a new exciting journey with our wholesale, retail and e-commerce channels over there.

The soft spot for the quarter was our wholesale performance in Europe, that was high-single digit negative and I will give a little bit more colour later on as we go through our different geographies.

But now let's turn to retail on the right hand side of the slide. Retail posted +4.3% growth at constant FX in the second quarter, an acceleration versus the first quarter trend. So, for the first six months of the year you're looking at +2.8% growth at constant FX. On a current FX basis you're looking at -3% and -6.5%, respectively, in 2Q and in the first half of the year.

Comp sales in retail were positive by 1.3% and were the best comps recorded by the Retail division in the last eight quarters, so very happy about that. We have to go back to 1Q 2016 to find better comps than those.

LensCrafters, as Alessandra mentioned, significantly improved throughout the course of the second quarter, comps were slightly negative and the overall sales were in positive territory. And you remember that the journey we undertook in LensCrafters was quite challenging: in 3Q 2017 comp sales were -8%, in the fourth quarter of 2017 and in the first quarter of 2018 comps were down 5% and now we have a remarkable improvement in the LensCrafters' performance.

Sunglass Hut was positive, with 5.5% total sales growth at constant FX. The growth story continued during the second quarter. We're happy to report solid growth in Sunglass Hut North America, despite the Easter shift creating a little bit of headwind in the second quarter and a tailwind during the first quarter. We're happy to see Sunglass Hut growing high-single digit in Europe and double-digit in Australia and in China. I would say this is a very compelling picture for our global sun specialist retail chain Sunglass Hut.

Before we turn the page let me just give you a quick touch on e-commerce, that was up 16% at constant FX in the second quarter. All our directly operated websites, namely ray-ban.com, oakley.com, sunglasshut.com, posted positive growth during the course of the quarter, with Ray-Ban leading the way also thanks to the new Ray-Ban Studio's campaign that Alessandra mentioned to you and that is creating incredible visibility with almost 290 million impressions on social media. And I can tell you we saw the plan for 3Q and 4Q and there will be more exciting news to share with all of you.

### **Consolidated income statement**

But now let's have a look at our profit and loss. We are pretty happy with our profit and loss results for the first half of 2018, with a top line that was essentially flat on a constant FX basis, at +0.3%. We were able to improve our margins at operating income and net income levels on both an adjusted and a reported basis at constant FX. So, we are pretty happy about that.

Let me give you a little bit more colour around the key drivers of this performance. First of all, the gross margin, an area where, as you have seen in the last couple of years, we were a little bit challenged and the gross margin was quite dilutive. The gross margin is back to accretive, up by

20 basis points on an adjusted basis at constant FX. The main driver of that gross margin improvement is price mix and improved efficiency in our industrial cost.

The other area, and this is nothing new, where we generated efficiencies is G&A, general and administrative costs. Adjusted G&A costs were down once again over 2% on a constant FX basis and down 7% at current FX. This reduction comes on top of a 13% reduction last year versus the year before, still on an adjusted basis at constant FX. And if we go even further into history we have an about 8% reduction versus the year before. So over a three-year time period our G&A cost infrastructure was down about 25%. Indeed, we made the organisation leaner, more efficient and we also freed up some funds for further investments in other critical areas for the Group.

From an operating margin perspective, the natural summary of that is 10 basis points margin accretion, despite a flat top line. And this is very important because you might remember we always talk about the fact that we need about 3% top line growth to hold our margin and we have actually been able to improve our margin despite a flat top line.

Let's now look at our two divisions, starting from wholesale. Wholesale was slightly dilutive, despite a top line performance of -3.6% at constant FX. So I would define the wholesale margin as resilient. And just to put in perspective the Wholesale division, we're talking about a division that between 2012 and 2017 improved the operating margin by 350 basis points on a constant FX and adjusted basis, becoming probably one of the most profitable Wholesale divisions that have been seen around; so a high base of comparability and a very resilient business for our Wholesale division.

Let's now move to retail: 60 basis points is the improvement in the retail operating margin, extremely exciting results over here. The margin improvement was driven by solid price mix and improved store labour management I would say across all our major retail chains. That helped a lot. And this was achieved despite the fact that in the first half of the year we opened about 400 stores. And as you know, as we open stores there is a natural dilution in the margin at the early stages of the new stores.

If we look at our different chains, I'm very happy about the profitability of Sunglass Hut in North America, especially during the second quarter. And let me share with you that even LensCrafters showed material progress in improving profitability between the first and the second quarter versus last year's performance. So, you know how important it is to get LensCrafters on track and I think we are definitely in the right direction for that.

In addition, we continue to experience solid results in our optical chains and in Sunglass Hut in Australia, so the work done over there is continuing to pay back and giving us very solid results. We're very happy about it.

From a net income standpoint, you see the number down there: 130 basis points of improvement on a constant FX basis, 12% growth on an adjusted basis at constant FX, whereas 50 basis points was the net income accretion on a current FX basis in the first semester.

The two major drivers of this performance from a net income perspective were: first, the reduction of our interest expenses; second, the improvement of our tax rate and when we talk about the tax rate I think it's important to mention the fact that in 2018 we are accounting for the Patent Box benefit, which you might remember in 2017 was booked at the end of the year. So, for the first half of 2018 you really have a kind of apples to oranges comparison. But even if you exclude the benefit of the Patent Box, you would be looking at adjusted net income growing about 7% on a constant FX basis.

With respect to the adjusting items, just to give you an idea, we are booking approximately €16 million after tax of adjusting items at constant FX, €20 million pre-tax for the first six months of the year. Those adjusting items really pertain to fees related to the Essilor-Luxottica business combination, as well as a few other reorganizational projects that we undertook in the course of the first semester.

### **Financial position overview**

But now let's take a look at our free cash flow generation. I would turn your attention to the number in the middle of the page, €400 million, that is the free cash flow generation for the first semester, €135 million below last year's record levels. But again, this number is impacted by the FX rate, so if you exclude that, you would be looking at underlying free cash flow generation that is very much aligned with last year's record number of €535 million.

In terms of operating working capital days, we are down 12 days with all the critical metrics, DSI, DSO and DPO all trending on an improved territory versus 2017 levels.

### **Confirming outlook for 2018, positioning sales in the low end of the range**

Now let's switch gears and let's have a sanity check: where are we with respect to the guidance that we shared with all of you at the beginning of the year? If we look at the blue boxes that you see on the page that is the guidance I shared with all of you from a top line and profitability and net debt to adjusted EBITDA ratio standpoint.

From a top line perspective, we guided you between 2% to 4% growth at constant FX and for the first half of the year we're reporting 0.3% top line growth at constant FX. We are clearly behind our full year target, but we believe that we are going to achieve our target, probably positioning on the lower end of the range. And let me give you a couple of key items that should reassure you about the trend that we're going to see in the second half of the year, which is going to be an accelerated trend versus the one you have seen in the first half.

First of all, in the second half of the year you're going to have an easier comparison base for our Retail division, where I'm sure you remember LensCrafters had a very soft base in 3Q, with comp sales at -8%, and in 4Q, with comps sales at -5%.

Secondly, we're talking about a softer base also in the second half of the year for our Wholesale division in Europe, especially during the fourth quarter where we experienced a deceleration of the Wholesale division.

Thirdly, we do have a true like-for-like comparison in China. We have already seen in the second quarter our top line growing after we passed our strategic repositioning in the area and now we're ready to go at a very high pace over there.

Last, but not least, the contribution of our Bass Pro shops that Alessandra mentioned will give us further more help lifting our top line during the second half of the year.

From a profitability standpoint, the adjusted operating income is 1.4 times our top line growth [at constant FX], versus the guidance of 0.8% to 1%, so we are exceeding our expectations so far.

And from an adjusted net income perspective we are exponentially higher than the target of 1 to 2 times sales growth [at constant FX]. Even excluding the benefit of Patent Box, you are still looking

at a number that is exponentially higher than our top line growth from an adjusted net income standpoint, at constant FX.

In terms of net debt to adjusted EBITDA ratio we are 0.5 times. That number was expected to be higher than the 0.3 to 0.4 due to the higher disbursements in 2018 for dividends, but we will be able to get to the 0.3 to 0.4 target by the end of the year.

### **North America: accelerating results in 2Q**

But now let's start our journey through our different geographies and, as usual, let's start with the most important one: North America.

In North America we have a top line growth of 3.4% on a constant FX basis in the second quarter, with both our Retail and Wholesale divisions accelerating versus the first quarter trend, we're very excited about it.

Let's start with our Wholesale division, that posted sales up mid-single digit in the second quarter, driven by volume and a nice price mix lift. Pretty much all the channels in our Wholesale North America division were trending in positive territory. Independent, department stores, key accounts, e-commerce channels were all extremely positive. And this is once again proving the benefit of the MAP policy we implemented a couple of years ago; since its anniversary we've seen a very different trend in our Wholesale North America division. As a matter of fact, in the second half of last year wholesale sales grew high-single digit and during the first half of this year we have very solid growth as well in Wholesale North America, very good news.

Before I move to retail, let me just remind you and share with you that during the second quarter we have seen positive growth in a channel that traditionally has been pretty challenging for us in terms of top line growth, that is the Oakley Sports channel. We have been able to report and record positive growth in the channel and we have a pretty high hopes that this trend is going to continue throughout the second half of the year, but fingers crossed and stay tuned for more news.

Moving to our Retail division now, it's very pleasing to see progress here as well. Sunglass Hut continues its journey with sales growing mid-single digit [at constant FX], comps around 2.5% driven by healthy volumes, despite the Easter shift created a little bit of headwind during 2Q.

Before we move to optical I just want to reemphasise what Alessandra shared with you before. We have proudly completed the rollout of Sunglass Hut shops in Bass Pro and Cabela's stores and now we're offering our full suite of products in approximately 170 new locations.

Now on to LensCrafters, good progress has been made here, the top line is 2% positive on a constant FX basis [in the second quarter]. I said before that comps are slightly negative. We continue to benefit from a nice price mix, while volumes are still in the negative territory but to a lower extent than what we've seen in the previous quarter, so the trajectory is definitely the right one. The July trend is very promising, so we are happy with the trajectory of LensCrafters.

Let me also add just a further note on LensCrafters. The locations that we have in Macy's are performing really well, with comps that are in the double-digit territory. And this is very important because it's proving to us, after a couple of years, that the overall format of LensCrafters development in Macy's is proving to be successful.

Before we switch gears and we move to Europe let me just give you a little bit more colour on brand strength, especially in North America. If we look at our house brands in North America, from a wholesale perspective Ray-Ban is up double-digit and Oakley is up high-single digit. So, we're very happy with the performance.

If we then look at our e-commerce business, Ray-Ban was very strong and posted actually double-digit growth. Our brands are extremely healthy, they live and breathe thanks to the success of our new collections that all our customers have appreciated during the Luxottica Days in Cernobbio, so extremely happy with that.

In addition, we launched in the month of June the loyalty program for Ray-Ban that is creating a lot of excitement among the Ray-Ban fans that are enrolling this loyalty program, as it allows them to see brand premieres and novelties. So we're extremely excited about the shape of our brands in North America and I would say in the rest of the world.

### **Mixed results in Europe**

But now let's move to Europe. I think the best way to describe our performance there is really the title: mixed results. Our overall top line was up 4.5% on constant FX basis in 2Q, but we really saw two different trends between the Retail and the Wholesale divisions.

First of all, retail was up high-single digits in Europe and wholesale conversely was down high-single digits. But before we dig into the performance of those two divisions let me just put Europe in perspective. We are talking about a region that in the last three years grew approximately 25 to 30%, so you're looking at region that grew a little bit less than 10% each year.

And if you remember every time we were making a bet at the beginning of the year: what would be the region that was going to be exceeding our expectations at the beginning of the year? And if I had to bet a euro, that euro would have gone over to Europe. And actually every single time Europe met our expectations, we have a high base, just to put it into perspective when we talk about Europe.

I'm sure you want to understand more about what's going on with the wholesale side in the region. And I'll start exactly from there, sharing with you three well spotted reasons for wholesale's performance in Europe.

First of all, we had a late start to the warm and sunny season, especially in the Southern part of Europe, which we would normally identify as Mediterranean Europe. The inclement weather that we experienced and we shared with you during the first quarter sales call, actually lasted throughout the month of April and probably led the client to take a little bit more of a cautious approach in the reordering process during the second quarter.

The second aspect that I think is important to be considered is the harmonisation of our commercial policies around the different markets that are aimed at aligning our discounting practices across the different countries.

The third aspect that is important to remember and it is not new to you is the continued and relentless effort to clean up the market from the actions of clients that are not adhering with our brand protection guidelines. And you know how strict and diligent we have been in implementing policies like this in [various parts] of the world.

Those three effects are pretty clear to us and I would say some of them should mitigate the overall impact during the second half of the year. And just to add a few more statistics to the Wholesale



division's performance, if we excluded those three effects from wholesale Europe's performance in the second quarter, you would look at a number around low single digits positive for the second quarter in wholesale in Europe.

Now let's talk a little bit about retail in Europe, a very exciting story, very happy with that. Retail comps are in the positive territory with both Sunglass Hut and Salmoiraghi & Viganò. Our store expansion program was executed as planned with over 30 new Sunglass Huts opened in the UK, Turkey, Spain and Germany. And we are planning to have about 30 to 50 additional stores opened in Europe during the second half of 2018. So here we are extremely happy with the execution of the store development plan that we have as well as with the comp sales that we are achieving. Good job of the Retail team there.

### **Asia-Pacific: return to strong growth**

So now let's move to Asia-Pacific. Asia-Pacific is an exciting story I would say. The second quarter sales growth accelerated, +7.5% at constant FX. I'm very happy to start our description of Asia-Pacific performance beginning with Mainland China.

As you might remember, during the first quarter we wanted to reassure you about the overall performance of Mainland China. If you remember we said that 1Q was going to be the last quarter where we'd be challenged in Mainland China and that during the second quarter, as our initiatives were coming to anniversary, you'd see a very different trajectory in China. And here we are. We are double-digit in wholesale, we are double-digit in retail, we are double-digit in e-commerce. So, we are now ready to start a new exciting journey of strong growth in Mainland China.

And let me tackle that with another area that has been quite challenging in the past like Hong Kong. We are now happy to report strong growth, high single digit growth in Hong Kong, and I have a pretty good degree of confidence that that strong growth is going to continue throughout the second half of the year.

Last but not least, Australia, that posted high single digit sales growth in the second quarter. This is no news but we're happy to see good performance in Sunglass Hut as well as in our optical retail. In particular, here we continue to experience positive volume growth thanks to the performance of our Ray-Ban and Oakley brands. So, there I can say a very compelling performance in Asia-Pacific and happy to report progress over here as well.

### **Latin America: resilience in a challenging macro environment**

Latin America posted 2.3% growth on a constant FX basis in the second quarter. I would say Latin America is always in the news because of political turmoil, because of challenges, because of strikes. But despite that we still continue to grow.

In Brazil we posted high single digit growth thanks to a strong Óticas Carol performance and again you hear about the news on the President, you hear about the strike and its impact on the Brazilian infrastructure during the course of the second quarter and in particular in the latter part of the second quarter. But despite all of that we continue to be in a growing position in Brazil.

In addition in Brazil we continue to pursue our successful strategy of developing the franchising business model thanks to Óticas Carol. We opened 80 new locations through the first half of the year and we will continue our expansion plan of the franchising business in Brazil throughout the second half of the year as well.

And with that I will hand it over to the operator and open for the Q&A. Thank you.

## Q&A session

**Cedric Lecasble (Raymond James):** good evening Stefano and team. I have three questions if I may. So, the first one on LensCrafters. You used to have some traffic issues in the stores and the commercial repositioning seems to be starting to work a little better. You seem very confident about H2. Could you maybe help us, give us some metrics, maybe some traffic metrics and explain to us what makes you so confident for H2?

The second question relates to Europe. How would you compare the situations in repositioning discounts in particular, aligning discounts? Are you strengthening the commercial policy between the European situation and the US situation? It took more or less a year in the US to solve the issue; you came back to growth, what would be the timing in Europe? Is it comparable to US?

And last one in China you've changed the kind of organization there. Could you maybe help us understand what is the mix of operations now between wholesale, retail and e-commerce? Thank you very much.

**Stefano Grassi:** Okay, so I will start with the LensCrafters trend and what we see here. I would say traffic is still in negative territory and I have to be honest with you, we're expecting that negative trend to continue also in the second half, just to play it on the safe side, in a way. But what we're doing is an incredible job in improving conversion. It's an incredible job of keeping price mix in the positive territory. So yeah, I think you're going to see definitely a continuously improved trend in LensCrafters. And again if I look at July performance so far, we're already trending in that direction.

So again it's a lot of work on conversion. There's a lot of work on the marketing campaign. We're actually going to be on air throughout the back-to-school period and this is obviously a very important time period for LensCrafters. We have a TV campaign ready to be on air and we've also got other important indicators that are proving our strategy to be successful. We see a double-digit increase in eye visits booked online which you know is a very important metric to really understand the consumer behaviour. And that is definitely helping our underlying performance in LensCrafters.

Europe versus the US, to me it's obviously the effort that we're doing here in Europe to clean up the market, aligning discounting practises across the different markets. And I think what you're talking about, you're clearly referring to MAP in the US. I mean it is a different concept here. Europe in a way is a cleaner market. The magnitude of the exercise that we're going through is definitely lower than the MAP so we're not talking about the MAP impact over there. And I do expect to see Europe have an improved trend during the second half of the year. And again it is important that we all understand that really it's not MAP. It's not MAP because MAP first of all cannot be executed in Europe. Secondly, it's not MAP because of the magnitude of the impact that we've seen here versus the MAP that we experienced in North America.

The third point is around Chinese sales. Well, I would say that the vast majority of our top line growth right now is supported by retail which is nicely coupled with e-commerce. When I say nicely coupled it means that really day after day we continue to see higher sales in our e-commerce business, which makes us very happy. You know that we are developing our business in China throughout our platforms available on JD, VIP and Tmall, and that is trending really positive. So e-commerce and bricks and mortar are the two main constituents. But now we're finally back into

positive territory for our wholesale business as well which is going to be definitely a third leg of growth for China.

**Anne-Laure Bismuth (HSBC):** Hi. Just to come back on Europe, when do you plan to have completed the clean-up of the channel and should we expect a positive performance in 2H at constant FX for Europe? And my second question is about the tax rate. So it was 27.7% in 1H. Is it a good proxy for full year? Thank you.

**Stefano Grassi:** So I will start with the overall clean-up in Europe that we've seen over here. Let me tell you first of all, the work that we're doing is continuous and it's relentless, I mean as I described it before. I would say we're doing it to the extent that it's necessary. We're not going to diminish these efforts. If we want to keep it more on the conservative side, I would say we will continue to add this year, but again let me re-emphasise that we do expect an improvement in our performance in wholesale in Europe.

The other question around tax rate, the answer is yes. We do expect the first half rate that you see of 27.7% to be a good proxy for the full year from a tax rate perspective.

**Anne-Laure Bismuth (HSBC):** Thank you very much. And just regarding the guidance for the full year, so I know that you have commented on the positive and the acceleration that you have seen in July and so on. But the low end of the guidance really implied an acceleration to 4% organic growth in H2. Is this something you are confident with? Thank you.

**Stefano Grassi:** Yes, that is the implied growth rate for 2H, that's correct. And I would say higher velocity in retail and low single digit on the wholesale side, correct, just to qualify a little bit more.

**Domenico Ghilotti (Equita):** Hello. I have a question on the FX transaction impact because clearly it's a big impact if we compare particularly profitability. So you are moving from 10 bps up at constant FX to more than around 100 bps down at current. Could you elaborate a little bit more and do you expect this will continue in the second half, at the current rates? Do you see the same gap in the second half? Also, I'm a bit surprised to see the transaction impacting also on retail where I was expecting a more natural hedge.

**Stefano Grassi:** Hi Domenico. From a currency perspective, if we look at it historically, the difference between constant and current FX, at sales and operating income levels, the trend and the ratio between the two is not very different to what we got. I mean that has been the case. One of the factors that we need to take into account is also the US dollar devaluation which clearly creates some heavy headwinds versus the devaluation of the renminbi. And remember the dollar devaluated in the first half of the year about 10.5%, while the renminbi only devaluated about 3.4%. So that has an impact on our margins and not just wholesale but also the retail one. Again, I think throughout the second half of the year, as we're going to realign the marginality and the top line, I think you're going to see also marginality that is going to be much closer between constant and current FX.

**Domenico Ghilotti (Equita):** Sorry, a follow up. Is it not mainly related to emerging market currencies that are still heavily down, like Brazil, Turkey, India?

**Stefano Grassi:** Yeah there is a little bit of that. I mean Turkish lira and Australian dollar and also the Brazilian real, those are the other currencies. But again, for the second half of the year as we're

going to realign the currency I do expect that gap to be bridged and to have the two numbers much closer.

**Domenico Ghilotti (Equita):** Are you also raising prices in these emerging markets?

**Stefano Grassi:** No, not for the time being, not even in countries like Brazil. Because obviously we have the possibility to take actions but at this stage we're not planning to increase prices in emerging markets.

**Domenico Ghilotti (Equita):** Okay thank you. My last question is on the capex level. If I'm not wrong your retail capex was below last year's level, but you are saying that you are accelerating well. Clearly thanks to sales but probably there is also a growing contribution from new openings. Are we going to see a pickup in capex for retail in 2H?

**Stefano Grassi:** Yes, you're right Domenico. The retail capex is down year over year. First of all, there is a little bit of FX, that probably explains half of the gap versus last year. If we look at capex in 2017, there was a pretty heavy investment in our lens manufacturing capacity in North America, as we completed the setup of our new capacity in North America. Obviously, there is not any longer capital absorption over there. We are now concentrating all our capex to either open new stores or refurbish the existing stores, as we have seen that has been very, very promising every time we refurbish stores. So right now, the priority for retail is very much around new stores and the refurbishment program, and that's why you see for each one of the retail brands pretty much an increase in capex because we give this as a priority.

**Domenico Ghilotti (Equita):** Thank you.

**Francesca Di Pasquantonio (Deutsche Bank):** Hi, good evening. I have two questions, please. One is about LensCrafters and what is to date the turnover of your store portfolio, if you can update us on where you stand?

And secondly going back to your comment on China e-commerce and the strong growth that you are experiencing, how much is your e-commerce in China let's say a like-for-like growth and how much is it the opening of new store-in-stores on the platforms of Chinese e-commerce players? Thank you.

**Stefano Grassi:** Thanks Francesca. In terms of the expansion of our store portfolio we are looking at about 20 stores net for LensCrafters in the last twelve months, that's the magnitude that you're looking at. We've got about 36 openings and about 14 closures, 22 net.

As for the China e-commerce business, I would say it's for the vast majority like-for-like. I mean, the only platform that probably opened a little bit later was VIP, but the vast majority of our e-commerce business is very much like-for-like because the biggest constituents of that are really T-mall and JD.

**Francesca Di Pasquantonio (Deutsche Bank):** And so also the retail growth is mostly like-for-like?

**Stefano Grassi:** Oh yeah, we have very solid like-for-like, strong comp growth, absolutely.

**Francesca Di Pasquantonio (Deutsche Bank):** Thank you.

**Domenico Ghilotti (Equita):** I have another question on the gross margin side. If I am not wrong, you were mentioning that currency neutral was up 20 bps in the first half. I wanted to check if it is basically coming from mix or if you are really having some contribution from price increases.

**Stefano Grassi:** Domenico it's both, actually. We've got a nice mix obviously from frames but also mix from lenses. And we got a little bit of help from certain selected price increases that we took. So, it's really a combination of both.

**Domenico Ghilotti (Equita):** Okay, while if I understood properly you are not expecting to raise prices or I don't know if your answer was focused only on emerging markets?

**Stefano Grassi:** No, exactly. We're not expecting to raise price so we're probably going to see more of a contribution from mix. And I would say during the second half of the year the price mix contribution will probably diminish, but it will not disappear. And we're probably going to see volumes trending and improved through in the second half of the year generally speaking.

**Domenico Ghilotti (Equita):** Okay thank you.

**Francesca Di Pasquantonio (Deutsche Bank):** A follow up on European wholesale, please. So, you reminded us that Europe has seen a very significant growth over the last few years and so did North America over the previous several years. My question regards the reset that you're having in the wholesale distribution in Europe which looks a little bit like an unwinding of this growth and what is going to be the direction between more organic wholesale distribution reflecting demand as compared to what looks in retrospect as being a bit of an inflated market size? So what kind of gap are we looking at, let's say is it 10%, 15% or 5%?

**Stefano Grassi:** I think Europe is definitely not going to be a high-single digit growth going forward on a sustainable basis. I mean, this is a market in which you really have to consider a couple of things. On one side we're going through the clean-up of the channel and first of all it's important that we all understand that this is not as severe as the MAP in the US. So, the marketplace is much cleaner than it is in the US, so the impact of that is much lower.

The other important thing is the commercial realignment of discounted practices across the different countries. I mean we've got certain countries where discounting was really a weight to the business in a way, and one country that would be an excellent example is Spain. And we got to very much a realignment of our commercial discounting policy, discounting practice in Spain to align that to the rest of Europe. And we're getting a little bit of disruption there. But again, the potential in this country is high. In the past we've been able to prove that we could grow in retail and wholesale at the same time. And that's what we are expecting to see. So again it is a place where we do believe we can continue to grow. The portion of independents is still a relevant one and we want to have a tighter partnership with them going forward.

**Francesca Di Pasquantonio (Deutsche Bank):** Thank you.

**Piral Dadhania (RBC Capital Markets):** Hi Stefano and team. Just following up on China, as you accelerate your growth in that market across different distribution channels how confident are you that the market is clean from a grey market and counterfeit perspective? There are some examples of other companies who are seeing significant grey market activity in China so I just want to get an

understanding of that. And could you just remind us how big your price gaps are for Ray-Ban in China versus Europe?

And then secondly do you have any update in terms of any work that's been done in terms of potential impact from any trade war escalation in terms of US versus China? How big is the exposure? Any update there from a numbers or quantitative perspective would be helpful. Thank you.

**Stefano Grassi:** Hi Piral. Let me start with China. You say how clean is the market? I think if you had asked me this question one year, 18 months ago I would have probably given you a very different answer than now. I think the market is much cleaner now. We've done a lot of work with our asset protection team to go after not just sellers of fake products, but also to go after the manufacturers. So it has been a lot of work. With that said, China is China and I mean that you can't say we're 100% clean in the marketplace there. But I can tell you, because we look at it and we measure it, that we're much cleaner now than we used to be 12-18 months ago.

From a price gap standpoint, there is not much of a gap between Ray-Ban pricing in Europe and in China. So again we went through the price harmonization a few years ago and now that we've very much aligned our discounting practices there's not much of a gap.

With respect to the impact of the tariffs on the import between the US and China, again it's a bit hard because there are a lot of intercompany flows between the different legal entities. But let me make sure that we put it in perspective. This is not the automotive industry. This is an industry in which we have the capability, as we do and as we have done in the past, to switch capacity from one location to the other as is necessary. And it might be required because of specific operational requirements, so we do have the possibility to switch production over to the US, where you know we already have manufacturing capacity in Foothill Ranch. We do already have manufacturing capacity of lenses in several different locations. So, to the extent that we need it, we are ready to make that happen in a relatively short amount of time. Obviously there hasn't been any specific indication on what could be the impact of this tariff, but if that happens we are ready to react.

**Piral Dadhania (RBC Capital Markets):** Okay great, thanks. And maybe just a follow up on the European wholesale question that's been asked a few times. Could you just give us an indication of what direction the number of doors that you're selling into is doing in European wholesale? Is it declining and by what magnitude if so?

**Stefano Grassi:** So, the number of doors that we have is probably slightly declining because we are going through the selection process of making sure that our clients adhere with our commercial policies. So whenever there isn't that compliance, we go through a decline of our doors over there. So the numbers there are slightly declining.

**Alessandra Senici:** Yes, and maybe just to add a bit of information, earlier this year in Europe we launched a new Authorized Retailer Agreement not just for Ray-Ban and Oakley but for all our brands. So this could also bring to a likely reduction in numbers.

**Stefano Grassi:** Absolutely.

**Piral Dadhania (RBC Capital Markets):** Thanks a lot.

**Alessandra Senici:** Given that there are no other questions we thank you very much for your attention, for listening to our call and as usual the Investor Relations team is available for any follow up questions. We wish you all a good evening and of course also a great summer. Bye-bye.