MOODY'S INVESTORS SERVICE

CREDIT OPINION
27 September 2023

Update

Send Your Feedback

RATINGS

EssilorLuxottica

Domicile	France
Long Term Rating	A2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Lorenzo Re +39.02.9148.1123
VP-Senior Analyst
lorenzo.re@moodys.com

Massimo Campi +39.02.9148.1143
Associate Analyst
massimo.campi@moodys.com

Ivan Palacios +34.91.768.8229
Associate Managing Director
ivan.palacios@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

EssilorLuxottica

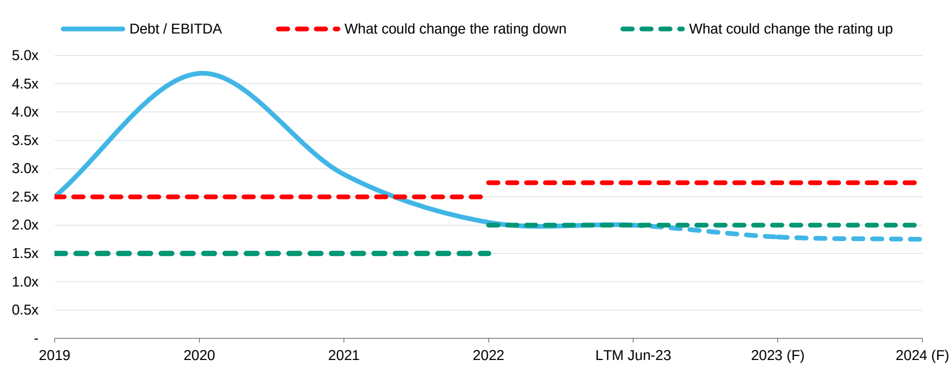
Update to credit analysis

Summary

EssilorLuxottica's A2 rating reflects its position as the global leader in the corrective lens and eyewear market, significantly ahead of its competitors, supported by strong brands and innovation capabilities, as well as its wide range of product offerings and vertical integration. The group's sales concentration in the eye care and eyewear business is mitigated by the favourable long-term dynamics in the industry.

Notwithstanding deteriorating macroeconomic conditions, including high inflation and low consumer confidence, we expect the company's operating profit and cash generation to remain solid, backed by the materialisation of synergies from the integration of GrandVision. Therefore, we expect the company's leverage to fall below 2.0x over the next 12-18 months, which positions the rating strongly at the current A2 level.

Exhibit 1
We expect EssilorLuxottica's leverage to fall below 2.0x over the next 12-18 months
Moody's-adjusted leverage



The forecasts (F) are our opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Credit strengths

» Large scale and leading global positions in the corrective lens and eyewear sectors

» Vertical integration, covering all segments in the eye care and eyewear sectors

» Strong innovation capabilities

» Strengthened European retail network and more balanced geographical diversification following the GrandVision acquisition

» Track record of solid operational performance and cash flow generation

Credit challenges

» Some exposure to macroeconomic conditions and consumer sentiment because of the discretionary nature of some of its products

» Cost inflation, which may strain margins

» Active acquisition strategy, which could weaken the group's financial profile

Rating outlook

The stable outlook on the rating reflects our expectation that EssilorLuxottica's leverage, measured as Moody's-adjusted debt/EBITDA, will fall below 2.0x over the next one to two years, on the back of continued solid operating performance and the successful integration of EssilorLuxottica and GrandVision.

The company is committed to a prudent financial policy but does not have a public leverage target or dividend policy. Therefore, in the event of large acquisitions or cash dividend distributions, the company's leverage reduction could be hampered, limiting upward pressure on the rating.

Factors that could lead to an upgrade

Upward pressure on the A2 rating could develop if EssilorLuxottica:

» successfully executes its integration plan, including GrandVision

» commits to a higher rating and lower leverage, such that its Moody's-adjusted gross debt/EBITDA declines comfortably below 2.0x on a sustained basis

» improves its retained cash flow (RCF)/net debt above 35%

Factors that could lead to a downgrade

Downward rating pressure could develop if EssilorLuxottica's:

» performance weakens sharply

» RCF/net debt declines below 25%

» Moody's-adjusted gross debt/EBITDA remains above 2.75x for a prolonged period

Key indicators

Exhibit 2
EssilorLuxottica

	Dec-19	Dec-20	Dec-21	Dec-22	LTM Jun-23	2023 (F)	2024 (F)
Revenue (€ million)	17,390	14,429	19,820	24,494	25,351	25,973	27,079
EBIT Margin %	11.5%	3.9%	12.6%	13.0%	13.0%	13.4%	13.8%
Debt / EBITDA	2.5x	4.7x	2.8x	2.0x	2.0x	1.8x	1.7x
RCF / Net Debt	40.6%	44.2%	34.4%	42.9%	44.7%	49.8%	40.7%
EBIT / Interest Expense	10.7x	3.7x	16.4x	17.8x	17.2x	18.5x	18.5x

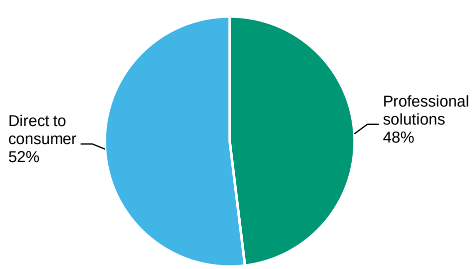
The forecasts (F) are our opinion and do not represent the views of the issuer. All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for nonfinancial corporations.
Source: Moody's Financial Metrics™

Profile

Headquartered in France, EssilorLuxottica is a global leader in the design, manufacturing and distribution of ophthalmic lenses, frames and eyewear. The group was created as a result of the integration of Essilor and Luxottica in 2018. EssilorLuxottica designs, manufactures and markets a wide range of lenses to improve and protect eyesight, as well as sunglasses and optical frames. It also develops and markets equipment, instruments and services for eye care professionals, and has leading positions in the eye care and eyewear retail market. EssilorLuxottica sells its products in more than 150 countries and has a network of 50 production facilities and more than 600 prescription lens laboratories and edging-mounting facilities.

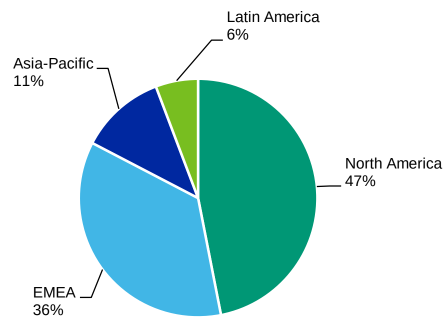
EssilorLuxottica is a publicly traded company listed on the Euronext Paris market. Its main shareholder is Delfin — the holding company of the Del Vecchio family — with a 32.3% share as of year-end 2022. In 2022, EssilorLuxottica generated around €24.5 billion in revenue and close to €6.2 billion in EBITDA (Moody's-adjusted), and had more than 190,000 employees.

Exhibit 3
EssilorLuxottica is diversified across different distribution channels
Revenue breakdown by operating segment, 2022



Source: EssilorLuxottica's 2022 annual report

Exhibit 4
EssilorLuxottica has a global presence
Revenue breakdown by geography, 2022



Source: EssilorLuxottica's 2022 annual report

Detailed credit considerations

Global leader in corrective lenses, frames and eyewear, with a strong distribution network

EssilorLuxottica benefits from its long-standing position as the global leader in the corrective lens and eyewear sectors, as well as its status as the most integrated group in the optical market. Its leading position and geographical spread give it an unparalleled scale within the corrective lenses and eyewear markets. The company significantly outpaces its main competitors in the optical lens and instruments market, namely Hoya Corporation and Carl Zeiss Vision, as well as Safilo S.p.A., Marcolin S.p.A. (B3 stable) and De Rigo S.p.A. in the eyewear and prescription frames market.

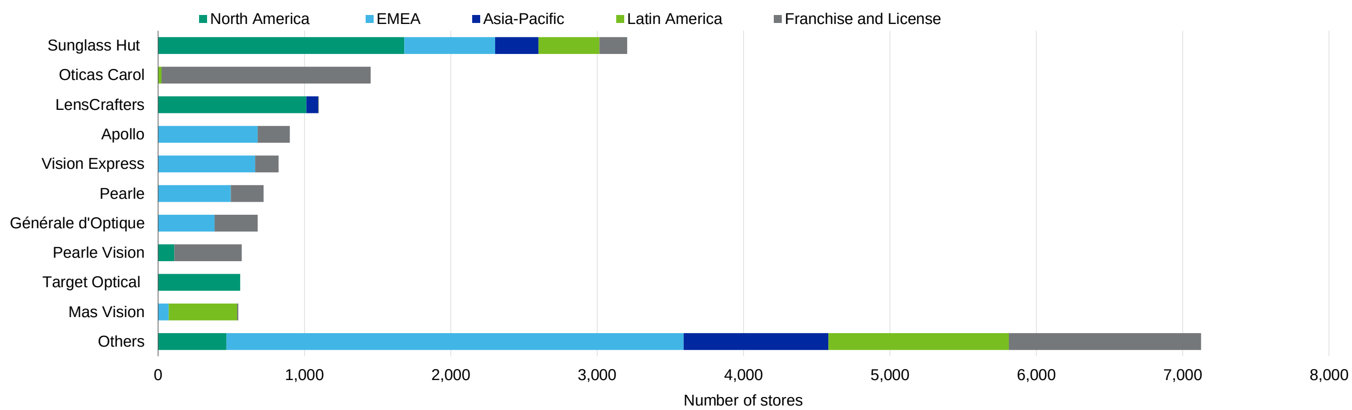
EssilorLuxottica holds strong positions in the value-added lens segments, such as photochromic and progressive lenses, with its leading brands, Transitions and Varilux. Its leadership position is intricately related to the group's strategic focus on R&D, which has historically represented 1.5%-2.0% of its sales. In the eyewear segment, EssilorLuxottica has a large portfolio of brands spanning the medium range to the premium end of the market, and comprising both proprietary brands, such as Ray-Ban, Oakley and Persol, as well as more than 20 licensed brands, including Prada, Armani, Chanel, Burberry and Ralph Lauren.

In addition to selling its products through the wholesale channel, the group is vertically integrated into retail distribution. The group comprised a network of around 13,400 directly owned stores and 4,300 franchised stores globally as of year-end 2022, operating under different international brands, such as LensCrafters and Sunglass Hut, or local banners, such as GMO and Salmoiraghi & Viganò. The retail division distributes both EssilorLuxottica's products and third-party eyewear, lenses and other ophthalmic products. In addition, the group operates e-commerce websites, which complement its retail and wholesale network sales.

Exhibit 5

Strong portfolio of retail brands with a large geographical presence

Number of retail stores



Sources: EssilorLuxottica's 2022 annual report and Moody's Investors Service

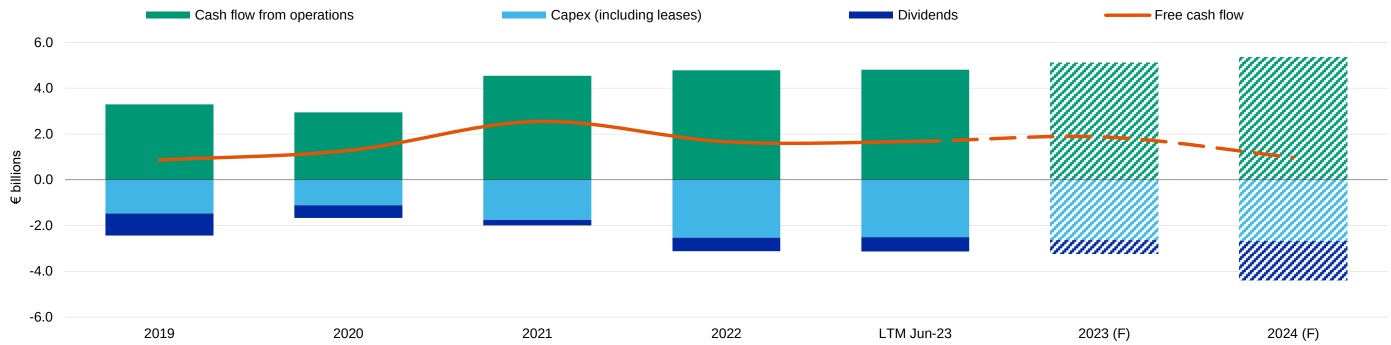
Cash flow generation to remain solid despite increasing challenges

The group has a solid track record of sound operating performance even during economic downturns, supported by its well-diversified geographical footprint and innovation capabilities. During 2022, the company's sales grew by 7.5% on a pro forma basis at constant currency, with adjusted operating profit margin reaching 16.8%, from 16.1% in the previous year. Positive momentum continued into the first half of 2023, with sales growing by 8.2% and an adjusted operating profit margin of 18.3%.

The company's outlook guidance includes annual revenue growth in the mid-single-digit percentages over 2022-26 and an improvement in its adjusted operating profit margin to around 19%-20% over 2026. We expect the company's operating performance to remain solid over the next one to two years, supported by the materialisation of both revenue and cost synergies from the integration of EssilorLuxottica and GrandVision. In particular, GrandVision's sales should benefit from improved price mix. In addition, continued efficiency gains in the industrial operations will offset the effect of cost inflation, especially on wages. As a result, we forecast that EssilorLuxottica's Moody's-adjusted EBITDA will exceed €6.5 billion annually and its annual cash flow from operations (CFO) will be in the €5.1 billion-€5.4 billion range through 2024. This solid cash generation should provide the group with sufficient financial capacity to continue to invest in organic growth and bolt-on acquisitions.

Risks arising from the current macroeconomic environment, with deteriorated consumer sentiment and persistently high inflation, could slow the improvements in EssilorLuxottica's performance. However, we expect the company to be able to withstand such challenges because of its strong cost management capabilities and the essential nature of a large portion of its sold products (i.e., 75% of revenue is derived from vision care products), which supports demand.

Exhibit 6
We expect EssilorLuxottica's cash flow generation to remain solid through 2024
Moody's-adjusted free cash flow



The forecasts (F) are our opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™

Credit metrics will continue to improve

EssilorLuxottica has reduced leverage since the acquisition of GrandVision in 2020, supported by a solid operating performance in recent years. In particular, EssilorLuxottica's Moody's-adjusted debt/EBITDA reached 2.0x in June 2023 (from the peak of 4.7x in 2020) and we forecast the company's leverage will fall below 2.0x over the next one to two years, which strongly positions the rating at the current A2 level.

Despite the absence of a public leverage target or dividend policy, the company is committed to a prudent financial policy, as demonstrated by its decision to postpone dividend payments during the coronavirus pandemic and to pay a scrip dividend over 2020-21 as a cash preservation measure. The group has a track record of supplementing organic growth with acquisitions. Following the acquisition of GrandVision, we deem the likelihood of large, transformative deals to be low. However, we expect the group to maintain its strategy of pursuing bolt-on acquisitions, which, in our base case assumption, is equivalent to annual spending of around €350 million. The company's very sound operating cash flow generation would leave capacity to finance larger acquisitions, up to €500 million-€600 million per year, or pay larger cash dividends. However, larger acquisitions could strain credit metrics.

Revenue concentrated in the eyewear market, despite wide customer and geographical diversification

EssilorLuxottica's revenue remains concentrated in the eyewear market, although this is mitigated by the favourable long-term market trend. The company expects the eye care and eyewear industry to grow at a low-to-mid-single-digit percentage annually over the cycle for the foreseeable future. This growth is driven by favourable underlying demographics, including the ageing population in mature markets, increasing population and improving personal spending power in emerging markets; and premiumisation, for example, because of the increasing penetration of value-added lenses, such as photochromic or progressive lenses. However, the company remains exposed to the softening economic environment because of the discretionary nature of some its products, namely sunglasses; the potential shift in consumer preferences away from more expensive glasses during economic downturns; and the deferral of replacement of some products.

The underpenetration of retail chains as opposed to independent optical stores in a number of markets also offers consolidation opportunities. However, the market remains fragmented, and competitive pressure may increase over time if EssilorLuxottica's competitors make breakthrough innovations, although this risk is mitigated by the group's strong innovation track record.

The company's product concentration is mitigated by its wide customer and geographical diversification. Following the acquisition of GrandVision, EssilorLuxottica's geographical footprint is more balanced because of the reduced exposure to North America, which accounted for 47% of its revenue in 2022. Moreover, EssilorLuxottica is less exposed to licence renewal risk than other eyewear manufacturers because the sales of eyewear are generated mainly by proprietary brands, with the largest licencee agreement (with the Prada group) representing approximately 2% of the company's consolidated revenue.

The risks related to product substitution are limited in the foreseeable future. Contact lenses are increasingly able to address more complex vision impairments. However, the prevailing share of prescription glasses in the developing world, the fact that a portion of the population still finds it difficult to wear contact lenses and the fact that contact lens wearers normally also have at least one pair of glasses mitigate substitution risks. Similarly, the high cost of refractive surgery and intraocular lenses makes them marginal competitors to EssilorLuxottica's lens business.

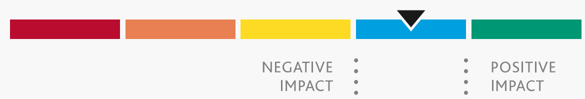
In 2023, the company announced the expansion into the hearing aids market through the acquisition of the Israeli start-up Nuance and in-house R&D technologies, with the first products likely to be launched in H2 2024. Although we expect this to have a small impact on the company's performance initially, the expansion into a new segment will offer additional growth potential and business diversification.

ESG considerations

EssilorLuxottica's ESG Credit Impact Score is CIS-2

Exhibit 7
ESG Credit Impact Score

CIS-2
Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

EssilorLuxottica's **CIS-2** indicates that ESG considerations are not material to the rating. The company faces moderate environmental risk, related to the carbon footprint of the logistics of its retail business, as well as some social risks because some of its products have features similar to health products. These risks are mitigated by the company's solid market position and pricing power. The company has a prudent financial policy and adopted best governance practices.

Exhibit 8
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental

E-3. EssilorLuxottica has some exposure to carbon transition risk, reflecting the environmental footprint related to the logistic of its large retail activities, as well as of its manufacturing activities. However, the company's solid market position allows it to pass higher costs stemming from potentially more stringent regulations (for example, carbon taxes) to consumers.

Social

S-3. EssilorLuxottica is exposed to health and safety and customer relations risks, because the ophthalmic lens sector has some features similar to other health products and could therefore be exposed to changes in regulation concerning prices and the reimbursement system. The company also faces some the risks related to privacy and legal issues linked to the use of customer data in its retail business. EssilorLuxottica's exposure to demographic and societal trends reflects on the one hand the challenges for its retail business stemming from changes in customer behavior, notably the shift to online. On the other hand, this is offset by the secular growth in demand for optical lenses because of aging population with an increased need for visual impairment corrections.

Governance

G-2. EssilorLuxottica has a solid track record of prudent financial policy. The company has always restored its leverage after large acquisitions, also by adjusting its dividend policy. For example, it decided to pay a scrip dividend in 2020-21 as a cash preservation measure. The company adopted some best governance practices, including the presence of independent directors on the board, which mitigates the risks stemming from the company's concentrated ownership, with Delfin (the holding company of Luxottica's founder, Del Vecchio) holding roughly 32% of the capital. Some exposure to compliance and reporting risks reflects the fact that the company is exposed to high scrutiny from local regulators because of its dominant position in some markets, which creates the risk of potential legal proceedings and fines.

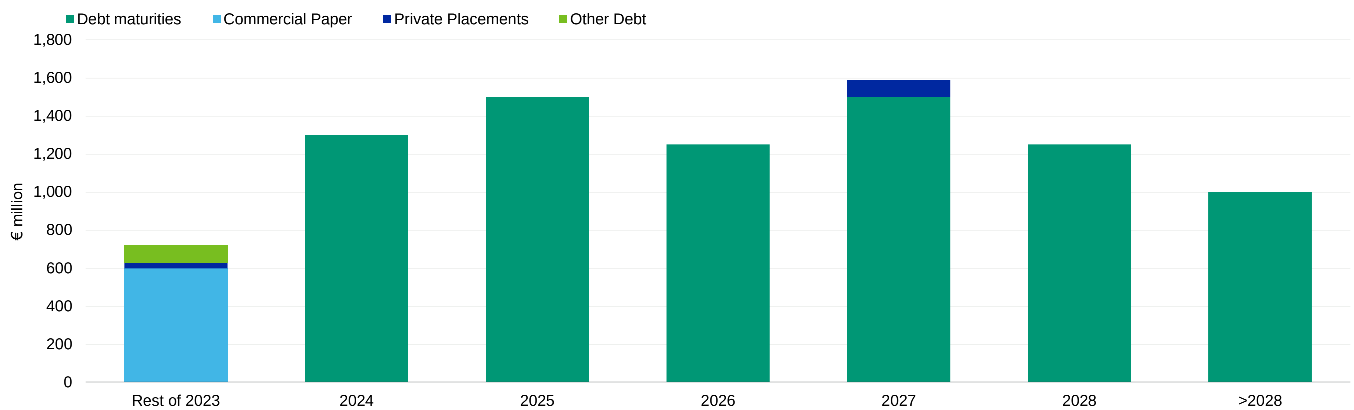
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

EssilorLuxottica continues to have excellent liquidity, supported by €1.7 billion of cash as of 30 June 2023, with access to €2.3 billion worth of undrawn bank facilities (€1.75 billion under a syndicated revolving credit facility with maturity in 2026, extendible by two years, and the rest under several bilateral facilities). None of these facilities have a financial covenant.

We expect the existing sources of liquidity, together with our expectation of €5.1 billion-€5.4 billion of CFO annually through 2024, to be sufficient to cover the capital spending of around €2.6 billion per year (including leases), dividend payments of €1.5 billion in 2024 and debt maturity of €1.3 billion through year-end 2024.

Exhibit 9
EssilorLuxottica's debt maturity profile



Sources: Company's 2023 interim report and Moody's Investors Service

Methodology and scorecard

The principal methodology used in rating EssilorLuxottica was our Consumer Durables rating methodology, published in September 2021.

The scorecard-indicated outcome based on our 12-18-month forward view is A1, one notch above the current rating. The current rating reflects some M&A risk and the absence of a public target financial policy.

Exhibit 10

Rating factors

EssilorLuxottica

Consumer Durables Industry Scorecard [1][2]	Current LTM June 2023		Moody's 12-18 Month Forward View As of September 2023 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Total Sales (USD Billion)	$26.5	Aa	$27.6 - $28.8	Aa
Factor 2 : Business Profile (25%)				
a) Competitive Position	Aa	Aa	Aa	Aa
b) Brand Strength	A	A	A	A
Factor 3 : Profitability (5%)				
a) EBIT Margin	13.0%	Baa	13.4% - 13.8%	Baa
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.0x	A	1.7x - 1.8x	A
b) RCF / Net Debt	44.7%	A	40.7% - 49.8%	A
c) EBIT / Interest Expense	17.2x	Aa	18.5x	Aaa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	A	A	A	A
Rating:				
a) Scorecard-Indicated Outcome		A1		A1
b) Actual Rating Assigned				A2

(1) All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations. (2) As of 30 June 2023. (3) This represents Moody's forward view, not the view of the issuer and, unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 11

Peer comparison

EssilorLuxottica

	EssilorLuxottica A2 Stable			Abbott Laboratories Aa3 Stable			LVMH Moet Hennessy Louis Vuitton SE A1 Positive			Estee Lauder Companies Inc. (The) A1 Negative			Ralph Lauren Corporation A3 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	FYE	FYE	FYE	LTM
(in USD million)	Dec-21	Dec-22	Jun-23	Dec-21	Dec-22	Jun-23	Dec-21	Dec-22	Jun-23	Jun-21	Jun-22	Jun-23	Apr-22	Apr-23	Jul-23
Revenue	23,450	25,815	26,548	43,075	43,653	40,226	75,976	83,455	88,695	16,215	17,737	15,910	6,219	6,444	6,450
EBITDA	5,879	6,499	6,605	12,666	12,589	10,247	26,221	27,707	29,036	4,108	4,743	3,165	1,382	1,290	1,318
Total Debt	15,997	13,485	13,641	21,620	19,679	19,752	55,594	51,353	56,023	8,639	7,863	10,424	3,505	2,981	2,939
Cash & Cash Equivalents	3,745	2,092	1,842	9,799	9,882	7,835	9,122	7,791	6,704	4,958	3,957	4,029	1,864	1,529	1,607
EBIT margin %	12.6%	13.0%	13.0%	20.4%	20.6%	16.7%	26.4%	25.9%	25.9%	18.9%	20.5%	12.9%	14.1%	12.6%	13.0%
EBIT / Interest Expense	16.4x	17.8x	17.2x	14.5x	13.7x	9.6x	65.8x	50.0x	32.2x	12.9x	15.9x	6.4x	10.9x	10.7x	11.3x
Debt / EBITDA	2.8x	2.0x	2.0x	1.7x	1.6x	1.9x	2.2x	1.8x	1.9x	2.1x	1.7x	3.3x	2.5x	2.3x	2.2x
RCF / Net Debt	35.5%	42.9%	44.7%	71.2%	82.2%	51.1%	32.8%	35.5%	34.5%	74.1%	80.7%	24.0%	61.5%	61.7%	66.3%
FFO / Debt	28.9%	41.0%	43.7%	53.7%	57.8%	48.2%	35.4%	43.5%	43.1%	40.4%	50.9%	23.6%	33.1%	36.7%	36.8%

All figures and ratios are calculated using our estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 12
Moody's-adjusted debt breakdown
EssilorLuxottica

(in EUR million)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Jun-23
As Reported Total Debt	9,415	11,895	13,016	12,204	11,747
Pensions	555	484	537	431	431
Non-Standard Adjustments	392	347	514	0	325
Moody's Adjusted Total Debt	10,362	12,726	14,067	12,635	12,503

All figures and ratios are calculated using our standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 13
Moody's-adjusted EBITDA breakdown
EssilorLuxottica

(in EUR million)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Jun-23
As Reported EBITDA	3,853	2,609	4,803	6,158	6,299
Unusual Items - Income Statement	286	103	186	0	0
Pensions	1	6	(20)	8	8
Moody's Adjusted EBITDA	4,140	2,718	4,969	6,166	6,307

All figures and ratios are calculated using our standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 14

Select historical and projected Moody's-adjusted financial data

EssilorLuxottica

(in EUR million)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-23 (F)	FYE Dec-24 (F)
INCOME STATEMENT							
Revenue	17,390	14,429	19,820	24,494	25,351	25,973	27,079
EBITDA	4,142	2,718	4,968	6,166	6,307	6,546	6,926
EBIT	1,994	563	2,488	3,196	3,307	3,481	3,731
Interest Expense	186	154	152	179	192	189	202
BALANCE SHEET							
Cash & Cash Equivalents	4,836	8,683	3,293	1,960	1,688	1,706	1,810
Total Debt	10,362	12,726	14,067	12,635	12,503	11,635	12,035
CASH FLOW							
Capital Expenditures	(1,474)	(1,111)	(1,752)	(2,527)	(2,512)	(2,649)	(2,708)
Dividends	(959)	(562)	(243)	(594)	(626)	(600)	(1,690)
Retained Cash Flow (RCF)	2,243	1,789	3,822	4,582	4,836	4,945	4,163
RCF / Debt	21.6%	14.1%	27.2%	36.3%	38.7%	42.5%	34.6%
Free Cash Flow (FCF)	866	1,280	2,550	1,662	1,677	1,896	1,005
FCF / Debt	8.4%	10.1%	18.1%	13.2%	13.4%	16.3%	8.3%
PROFITABILITY							
% Change in Sales (YoY)	60.5%	-17.0%	37.4%	23.6%	10.0%	6.0%	4.3%
EBIT margin %	11.5%	3.9%	12.6%	13.0%	13.0%	13.4%	13.8%
EBITA margin %	17.5%	11.0%	18.3%	18.5%	18.3%	18.8%	19.2%
EBITDA margin %	23.8%	18.8%	25.1%	25.2%	24.9%	25.2%	25.6%
INTEREST COVERAGE							
EBITA / Interest Expense	16.3x	10.3x	23.9x	25.4x	24.2x	25.9x	25.7x
EBITDA / Interest Expense	22.2x	17.7x	32.7x	34.6x	32.8x	34.7x	34.3x
LEVERAGE							
Debt / EBITDA	2.5x	4.7x	2.8x	2.0x	2.0x	1.8x	1.7x
Net Debt / EBITDA	1.3x	1.5x	2.2x	1.7x	1.7x	1.5x	1.5x
Debt / (EBITDA - CAPEX)	3.9x	7.9x	4.5x	3.5x	3.3x	3.0x	2.9x

The forecasts (F) are our opinion and do not represent the views of the issuer. All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for nonfinancial corporations.

Source: Moody's Financial Metrics™

Ratings

Exhibit 15

Category	Moody's Rating
ESSILORLUXOTTICA	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Commercial Paper	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

REPORT NUMBER 1378594

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454