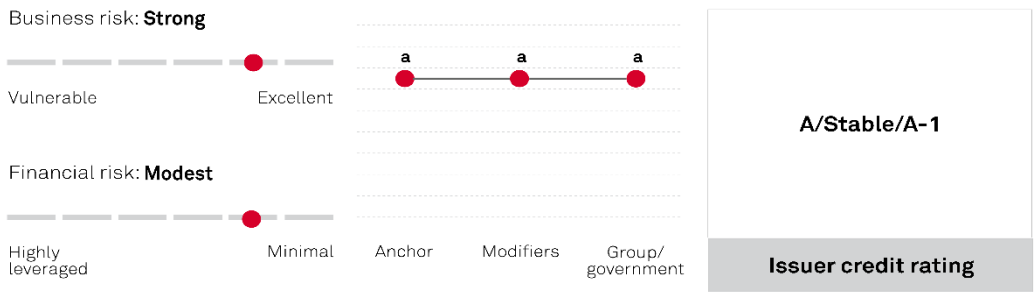
EssilorLuxottica

August 5, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Global industry leader in lenses and eyewear, with an estimated 20% market share.	Concentration in the fragmented eyewear and eyecare industry and some degree of execution risk involved in diversifying toward adjacent product categories such as hearing solutions.
Well-known brand portfolio including proprietary brands such as Ray-Ban, Oakley, and Persol and licenses brands such as Burberry, Chanel, and Ralph Lauren. Sizable innovation and marketing resources, supporting premium price.	The product offering is subject to discretionary spending and weather conditions, which can lead to some sales volatility
Positive market growth prospects supported by over 2.7 billion people with uncorrected poor vision worldwide.	Less than 20% of sales in higher-growth emerging markets.
Ability to generate continued, sizable, and positive free operating cash flow (FOCF) of at least €2.5 billion after lease payments.	A debt-funded acquisition could put pressure on the headroom the company has built on its S&P Global Ratings-adjusted debt to EBITDA, expected at 1.6x-1.8x over 2024-2025.

EssilorLuxottica (EL) has adequate leverage headroom to manage the agreement to acquire Supreme since leverage will remain at 1.6x-1.8x over 2024-2025. EL has track record of growing through acquisitions, supporting its current large scale and industry leadership position. S&P Global Ratings thinks the group remains particularly interested in expanding its

retail operations outside its main market of North America, with a focus on emerging markets. The group has recently added 70 points of sales in Japan through the acquisition of Washin Optical Co. and it also developed a joint venture in 2023 to establish retail operations in the Gulf Cooperation Council (GCC) countries. The announced agreement to acquire Supreme brand from VF Corp. supports EL's expansion of its owned brand portfolio thanks to Supreme's established global market position in the branded lifestyle apparel, footwear, and accessories market. The proposed acquisition is expected to close by the end of 2024 with EL paying approximately $1.5 billion. That said, we believe EL has enough headroom under its credit metrics to finance the acquisition since we anticipate S&P Global Ratings-adjusted debt to EBITDA will remain comfortably within the 1.5x-2x range at transaction closing and in 2025. Our base case includes the recent announcement to purchase up to 4 million EssilorLuxottica's own shares from July 29, 2024, until Oct. 29, 2025 ,for a total consideration of around €850 million, depending on market conditions, according to our calculation.

We anticipate EL to post organic growth of about 5% in 2024, in line with its medium term target. In first-half 2024 ended June 30, EL's revenues increased 5.3% at constant exchange rates, or 3.4% at current foreign exchange (FX), well balanced between professional solutions and direct-to-consumer sales, thanks to a material 8.2% increase in revenues in EMEA (at constant FX rates)and solid recovery in Asia-Pacific (9% year on year growth). Performance in North America remains below the group's average, with 1.5% growth at constant exchange rates year on year, primarily because of soft performance in the sunglasses category in department stores. The group's revenues in the 12 months ended June, 2024 , stood at about €25.8 billion, in line with EL's ambition to post €27 billion-€28 billion in revenues by 2026. We therefore expect the company is on track to deliver annual mid-single-digit growth over the next few years until 2026 and we anticipate sales in 2024 to expand 2%-3% including some negative FX effects. This is supported by smooth integration of Grandvision, solid price mix in lenses in Europe thanks to new product launches and selected price adjustments in a few countries such as France. We also embed in our forecasts the contribution from new licensed collections signed in 2023, such as Moncler, Jimmy Choo, as well as the ongoing ramp up of other relatively new licenses such as Brunello Cucinelli, Ferrari, and Swaroski signed in 2023. In our calculation, we assume Supreme will be consolidated starting from 2025 but it will account for less than 3% of the group's sales ($538 million revenues in the fiscal year ended March 31, 2024) and post higher profitability than EL. EL is also leveraging its solid e-commerce penetration in North America through its Ray-Ban – Meta product. The newly announced license agreement with Diesel will contribute to EL's sales from 2025 when the group expects to launch the first collection.

Global leading position across the value chain in the eyewear and eyecare industry with no comparable peers. EL enjoys vertically integrated and large manufacturing and retailing operations. The latter have been substantially enhanced by the acquisition of Grandvision (Netherlands-based optical retailer) in 2021. As of today, the group counts roughly 17,600 point of sales. The group's large retail operations enable it to access consumers directly and better control the selling environment through its own brands such as Ray-Ban, Oakley, and Persol and licensed brands including Prada, Burberry, Chanel, and Ralph Lauren. That said, higher exposure to physical retail stores also means finding an adequate product offering and price mix to respond to high price pressure from online retailers while managing lease obligations. EL retains a solid position in its market supported by track record of innovation capabilities as well as retail operations. Also, the group's professional solutions division is a main differentiation factor as the group leverages its innovation capabilities to expand into new product categories such as Stellest and Varilux XR. Therefore EL's product offering remains diversified compared with other eyewear products despite the growing interest in the market from luxury players such as LVMH and Kering which have developed their in-house eyewear capabilities.

Outlook

The stable outlook reflects our expectation that EL's adjusted debt-to-EBITDA ratio will remain comfortably within the 1.5x-2.0x range over 2024-2025. This is notably thanks to a prudent financial policy regarding acquisitions and shareholder remuneration. We anticipate EL will continue to grow, leveraging its world-leading position in a market with supportive growth prospects.

Downside scenario

A more aggressive financial policy than we anticipate, which would lead to the group's leverage increasing above 2x, would pressure the current rating. In our view a major new acquisition would be a likely trigger behind such a scenario.

Upside scenario

We could consider a higher rating if the company demonstrates substantial organic growth through the cycle, as well as expanding profitability. Under this scenario, S&P Global Ratings-adjusted debt to EBITDA would likely fall to 1.5x or below. In this case, a higher rating would be contingent on solid commitment from the group to maintain such a level of leverage. We believe the group's current financial policy is more aligned with a 'A' rating, keeping the leverage ratio within the 1.5x-2.0x range.

Our Base-Case Scenario

Assumptions
• CPI inflation to moderate, globally. The eurozone should post CPI of 2.4% in 2024 from 5.5% in 2023 and the U.S. 3% in 2024 from 4.1% in 2023. Real GDP should expand 0.7% in the eurozone and 2.5% in U.S. in 2024.
• Revenue increases about 2%-3% in 2024 via a solid price mix in lenses in Europe, thanks to new product launches and selected price adjustments in a few countries. Our forecasts do not include any contribution from the launch of the hearing care product offering by the end of 2024 or beginning of 2025in the U.S. Our base case includes the pro forma consolidation of Supreme starting from 2025. Organic growth (excluding FX effects) should be around 5%, in line with the group's medium-term target.
• S&P Global Ratings-adjusted EBITDA margins to stabilize at around 25% in 2024 at same level as 2023, supported by product mix and operating leverage, a less challenging input cost environment offset by still high wage inflation, negative FX effects and soft performance in the highly profitable sunglass store network in the U.S.
• FOCF after lease payments of about €2.6 billion in 2024, from €2.4 billion in 2023. We assume negative working capital outflows in line with 2023 and capital expenditure (capex) of about 6% of revenue.
• Cash dividends of about €1.2 billion in 2024, a significant rise from 2023 due to a reduction in the share of scrip dividends.
• Share buyback of about €400 million in 2024 and €450 million in 2025 in line with the group's announcement to repurchase up to 4 million shares over the period July 29, 2024 – October 29, 2025
• Adjusted leverage remains comfortably in the 1.5x-2.0x range in 2024 and 2025 assuming annual bolt-on acquisitions of €1.5 billion-€2 billion in 2024 and about €1.5 billion from 2025.

Key metrics

EssilorLuxottica-Key metrics*

(Mil. EUR)	2022a	2023a	2024e	2025f	2026f
Revenue	24,494	25,395	26,000-26,500	27,500-28,000	29,000-29,500
EBITDA	6,317	6,341	~6,500	~7,000	~7,300
Capital expenditure (capex)	1,572	1,531	1,550	1,550	1,550
Free operating cash flow (FOCF) – after leases	2,326	2,394	2,700	3,350	3,550
Dividends	594	598	1,200	1,200	1,200
Share repurchases (reported)	431	271	400	450	450
Debt	11,589	10,543	11,500	11,500	11,200
Adjusted ratios					
Debt/EBITDA (x)	1.8	1.7	1.8	1.6	1.5
Annual revenue growth (%)	23.6	3.7	2.0-3.0	5.5-6.5	4.0-5.0
EBITDA margin (%)	25.8	25.0	25.0	25-25.5	25-25.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

EL is a global manufacturer of lenses and eyewear, generating €25.4 billion of revenue and about €6.3 billon of adjusted EBITDA for the fiscal year ended Dec. 31, 2023. The group was created on Oct. 1, 2018, from the combination of France-based ophthalmic lens manufacturer Essilor and Italy-based eyewear manufacturer Luxottica. In 2021, EL acquired Grandvision, a large optical retail business, which has increased the group's position in Europe.

At end-2023, the revenue breakdown by geography was:

- North America (46%);
- Europe (36%);
- Asia-Oceania and Africa (12%); and
- Latin America (6%).

And, by business segment:

- Professional solutions (48%); and
- Direct to consumers (52%).

EssilorLuxottica S.A. is listed on Euronext Paris. As of Dec. 31, 2023, the shareholding structure was as follows:

- Public (mostly institutional investors): 62.8% of shares (64.1% voting rights);
- Delfin (Del Vecchio family holding): 32.5% of shares (31.5% voting rights);
- Employees and partners: 4.3% of shares (4.4%) voting rights; and
- Treasury stock: 0.4%

Peer Comparison

Our peer comparison focuses on Alcon, Koninklijke Philips N.V., Kering, and LVMH.

Switzerland-based Alcon (BBB+/Stable/--) is a leading eyecare devices company with strong market positions in ophthalmic products and vision care. Alcon also has a large presence in the U.S. (45% of revenue). The majority of products are paid for either by patients or by surgeons' practices, limiting exposure to reimbursement policies. Its earnings base is much smaller (with annual revenue of close to €8.5 billion) than EL's but it is protected by unique and very sophisticated expertise. We expect that Alcon will maintain its S&P Global Ratings' adjusted debt leverage well within 2.0x-2.5x, whereas EL will keep it below 2.0x.

Philips (BBB+/Stable/A-2) is a diversified health technology and consumer products group. Philips has global scale with a wider product offering and exposure to emerging markets at about 30% of its sales. It is smaller in size by revenue compared with EL and it has significantly lower profitability (EBITDA margin slumped to about 7% in 2022 and recovered to 8.9% by 2023). Adjusted debt leverage was 3.9x in 2023 but we expect it will return to below 3.0x at year-end 2024.

Kering (A-/Stable/A-2) is a leading global manufacturer of personal luxury goods. The company has a multi-brand approach within the different categories of personal luxury, including soft luxury (apparel, leather goods, fragrances, and accessories) and hard luxury (watches and jewelry). Kering benefits from a large portfolio of well-known brands, which enables very strong price premiums but with a concentration on the Gucci brand (about 70% of the group's recurring operating income). After strong recovery from the pandemic, Kering's revenue declined 3.9% in 2023 and we estimate stable or slightly negative comparable revenue growth for 2024, mainly driven by subdued performance at Gucci. Due to weaker operating performance, we estimate Kering's leverage will remain in the range of 2.0x-2.5x over 2024-2025, higher than EL.

LVMH (AA-/Stable/A-1) is the largest and most diversified luxury goods company in the world, with about 70 brands in its portfolio. In 2023, the company reported total revenue of €86.1 billion. Compared with its peers, LVMH enjoys superior profitability, unparalleled cash flow, and relatively low leverage of only about 1.0x in 2023, despite the sizable acquisitions in recent years.

EssilorLuxottica--Peer Comparisons

	EssilorLuxottica	LVMH Moet Hennessy Louis Vuitton S.E.	Kering S.A.	Alcon Inc.	Koninklijke Philips N.V.
Foreign currency issuer credit rating	A/Stable/A-1	AA-/Stable/A-1+	A-/Stable/A-2	BBB+/Stable/--	BBB+/Stable/A-2
Local currency issuer credit rating	A/Stable/A-1	AA-/Stable/A-1+	A-/Stable/A-2	BBB+/Stable/--	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	25,395	86,153	19,566	8,554	18,169
EBITDA	6,341	28,930	6,467	2,177	1,615
Funds from operations (FFO)	5,289	22,387	4,656	1,787	1,213
Interest	214	996	365	186	278

EssilorLuxottica--Peer Comparisons					
Cash interest paid	136	813	377	159	250
Operating cash flow (OCF)	4,880	18,405	4,158	1,256	1,922
Capital expenditure	1,531	7,478	1,230	770	430
Free operating cash flow (FOCF)	3,349	10,927	2,928	486	1,492
Discretionary cash flow (DCF)	2,480	2,184	1,164	381	825
Cash and short-term investments	2,258	11,264	3,922	990	1,869
Gross available cash	2,258	11,264	3,922	990	1,869
Debt	10,543	30,297	14,305	4,025	6,318
Equity	38,892	62,701	16,010	18,658	12,061
EBITDA margin (%)	25.0	33.6	33.1	25.4	8.9
Return on capital (%)	6.6	25.9	17.5	4.4	1.9
EBITDA interest coverage (x)	29.6	29.0	17.7	11.7	5.8
FFO cash interest coverage (x)	39.9	28.5	13.4	12.2	5.9
Debt/EBITDA (x)	1.7	1.0	2.2	1.8	3.9
FFO/debt (%)	50.2	73.9	32.5	44.4	19.2
OCF/debt (%)	46.3	60.7	29.1	31.2	30.4
FOCF/debt (%)	31.8	36.1	20.5	12.1	23.6
DCF/debt (%)	23.5	7.2	8.1	9.5	13.1

Business Risk

EL operates in the attractive global eyewear market which will grow at 4% on average over 2024-2028 according to Statista. The global eyewear market expansion is driven by different underlying socio-demographic factors such as aging populations, rising disposable incomes, and changing consumer preferences. Also, consumers have become more health-conscious, both with regard to protection from UV rays and vision correction. This is particularly relevant as changing lifestyles, coupled with increasing time spent using screens, has increased prevalence of eye disorders, such as myopia. Consumers are also looking for products that have high advanced technology content as well as fashion content, with a focus on quality and durability. This should support increasing penetration for advanced technology embedded in products, driving demand for smart glasses.

EL is the market leader in the eyewear market with an estimated 20% market share, according to management. EL generated about €25.4 billion in revenues in 2023 well split between professional solutions and direct to consumer. In the eyewear and eyecare solution industry, EL has no sizable global or regional competitor. EL has solid innovation and marketing capabilities with annual spending in R&D in the range of €300 million-€350 million per year (about 1.5% of its annual revenues). This results in approximately 13,000 patents and a robust pipeline of new eyewear models exceeding 3,500 per year. The group has a solid portfolio of more than 150 well-known brands allowing for premium prices. The largest proprietary brands in terms of revenues are Ray-Ban (12% of EL's sales in 2023) and Oakley (5%), while some of the licensed brands are Burberry, Chanel, D&G, and Michael Kors, among others.

EL enjoys a vertically integrated business model and a strong direct to consumer sales channel strategy. EL has a very large manufacturing footprint as well as an omnichannel distribution strategy including brick and mortar, wholesale, and online. This allows the group keeping strong proximity to consumers, and high brand awareness. At the end of 2023, the group had approximately 18,000 point of sales including well-known retail chains such as Sunglass Hut, LensCrafters, Grandvision, and Salmoiraghi e Vigano. The unprecedented shift to e-commerce, driven by the pandemic, has slowed-with share from this channel now accounting for about 8% of global industry value (as per EL's estimates). While many consumers still prefer to try on frames and sunglasses in-store, we see positive growth prospects for this channel as it has potential to attract younger customers and generate retail store traffic. We estimate EL has slightly lower than industry average e-commerce penetration as the channel accounts for roughly 7% of the group's sales at the end of 2023. The group's target is around 10% by 2026. EL's vertically integrated business model also means a higher proportion of fixed costs and exposure to staff shortages and salary inflation as happened recently. Also, heavy lease payments of close to €1 billion per year weigh on FOCF, which is close to €2.7 billion after leases in 2024 according to our estimates.

EL's business remains concentrated around eyecare, despite recent expansion in adjacent categories. EL primarily operates in the eyewear and eyecare market, although recent expansion in hearing care provides improved diversity. There is some execution risk due to the new business and industry, however we also believe this is mitigated by EL's cautious approach in rolling-out the hearing care franchise. It started with the acquisition of Nuance Audio, which will support the group's product pipeline to enter the U.S. market by the end of 2024 or beginning of 2025 in the relatively new over the counter (OTC)category before rolling out to other countries. Also, we believe the company will leverage its established retail network and solid innovation capabilities to make the business successful. We currently have limited information in relation to the strategic implications of the recent agreement to acquire Supreme, since the brand generates a material portion of sales from lifestyle apparel and footwear products, which are not core categories for EL. However, we understand the brand provides opportunities for EL to expand its consumer base toward younger generations and represent a good addition to the portfolio of owned brands, given Supreme's global appeal.

Luxury frames and sunglasses are subject to discretionary spending and weather conditions, which can lead to sales volatility. We also believe that prescription glasses growth may slow in mature markets as some consumers delay purchases due to lower reimbursements from public authorities and private health care providers. This means that macroeconomic pressure could negatively affect consumers' purchasing power, resulting from the continuing inflationary environment and tighter consumer behavior. However, so far we acknowledge that the product replacement cycle for prescription glasses is stable, which provides good revenue visibility.

EL has a limited, but expanding presence in emerging markets, accounting for less than 20% of its sales in 2023, according to our estimates. We expect the eyewear market in Asia-Pacific will experience high-single-digit growth over 2024-2028, the highest growth rate globally. This growth is primarily driven by an increasing number of people requiring vision correction due to aging populations. EL is also witnessing high expansion in the region, due to successful roll-out of Stellest in Greater China and the post pandemic rebound. In other emerging markets, EL's solid growth in Latin America has recently been supported by both the frame and lens businesses.

Financial Risk

EL has a track record of keeping leverage below 2.0x with some exceptions, primarily because of the group's acquisitive nature. Following the Grandvision acquisition completed in 2021, EL has reduced leverage to 1.5x-2.0x over 2022-2023 from 2.2x in 2021. EL's shareholder remuneration resulted in roughly €600 million annual dividend payments both in 2022 and 2023 and we expect this to increase close to €1.2 billion from 2024 due to a reduction of dividends paid in shares. The group is also conducting share buybacks, but these programs are small in size, below €500 million per year.

EL's capex requirements have recently increased to 6.0%-6.5% of revenues and we expect them to remain at a similar level in 2024 mainly spending on production capacities, digital investments, supply chain, and retail stores. EL's business model integrated in the retail channel means it has annual lease commitment of roughly €1 billion, translating into €2.7 billion FOCF after leases in 2024. Overall, we see EL's adjusted FOCF to debt within 30%-40% over 2024-2025, consistent with the rating.

EL's integration of Grandvision and regained financial flexibility means it has capacity to resume more sizable acquisitions, notably to expand its presence in underpenetrated but well-populated emerging markets like China, India, and Brazil. Also, we believe the group could further expand into adjacent product categories as happened with the Nuance Hearing acquisition leading the group to enter the hearing care market with a product designed for consumers with mild to moderate hearing loss, available in the U.S. from end of 2024 or beginning of 2025. The recent announcements of an agreement to acquire the Supreme brand for a total cash consideration of $1.5 billion and the agreement to acquire an 80% stake in Heidelberg Engineering, a Germany-based company specializing in diagnostic solutions, digital surgical technologies, and healthcare IT for clinical ophthalmology (purchase price not disclosed) remain commensurate with the group's leverage headroom built in recent years.

Debt maturities

As of Dec. 31, 2023:

- 2024: €1,858 million
- 2025: €1,500 million
- 2026: €1,247 million
- 2027: €1,579 million
- 2028: €1,245 million
- After: €989 million

EssilorLuxottica--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	10,833	17,390	14,429	19,820	24,494	25,395
EBITDA	2,694	3,968	2,773	4,951	6,317	6,341
Funds from operations (FFO)	2,218	3,350	2,305	4,208	5,252	5,289

EssilorLuxottica--Financial Summary

Interest expense	124	184	143	113	162	214
Cash interest paid	124	116	112	125	125	136
Operating cash flow (OCF)	2,359	3,299	2,953	4,545	4,471	4,880
Capital expenditure	710	903	650	1,030	1,572	1,531
Free operating cash flow (FOCF)	1,649	2,396	2,303	3,515	2,899	3,349
Discretionary cash flow (DCF)	1,158	1,437	1,582	2,955	1,874	2,480
Cash and short-term investments	1,829	5,336	8,683	3,093	1,710	2,258
Gross available cash	1,829	5,336	8,683	3,093	1,710	2,258
Debt	6,408	5,052	3,847	10,766	11,590	10,543
Common equity	33,402	35,332	32,798	35,996	38,147	38,892
Adjusted ratios						
EBITDA margin (%)	24.9	22.8	19.2	25.0	25.8	25.0
Return on capital (%)	5.9	4.3	1.3	5.6	6.6	6.6
EBITDA interest coverage (x)	21.7	21.6	19.4	43.8	39.0	29.6
FFO cash interest coverage (x)	18.9	29.9	21.6	34.7	43.0	39.9
Debt/EBITDA (x)	2.4	1.3	1.4	2.2	1.8	1.7
FFO/debt (%)	34.6	66.3	59.9	39.1	45.3	50.2
OCF/debt (%)	36.8	65.3	76.8	42.2	38.6	46.3
FOCF/debt (%)	25.7	47.4	59.9	32.6	25.0	31.8
DCF/debt (%)	18.1	28.4	41.1	27.4	16.2	23.5

Reconciliation Of EssilorLuxottica Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	8,417	38,239	25,395	6,148	3,176	198	6,341	4,861	598	1,531
Cash taxes paid	-	-	-	-	-	-	(916)	-	-	-
Cash interest paid	-	-	-	-	-	-	(136)	-	-	-
Lease liabilities	3,240	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	331	-	-	(4)	(4)	16	-	-	-	-
Accessible cash and liquid investments	(2,258)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	195	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	83	-	-	-	-	-

Reconciliation Of EssilorLuxottica Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Noncontrolling/ minority interest	-	653	-	-	-	-	-	-	-	-
Debt: Litigation	144	-	-	-	-	-	-	-	-	-
Debt: Put options on minority stakes	376	-	-	-	-	-	-	-	-	-
Debt: Debt serviced by third parties	293	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	2	2	-	-	-	-	-
OCF: Asset disposals	-	-	-	-	-	-	-	19	-	-
Total adjustments	2,126	653	-	193	81	16	(1,052)	19	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	10,543	38,892	25,395	6,341	3,257	214	5,289	4,880	598	1,531

Liquidity

We assess liquidity as strong because we project that EL's sources of liquidity will likely cover uses by more than 1.5x over the next 12 months and this will remain the case if EBITDA decreases 30%. EL maintains diverse debt sources, strong banking relationships, and easy access to capital markets.

Principal liquidity sources

We estimate that EL's main liquidity sources for the 12 months from June 30, 2024, include:

- Cash balances of €2.16 billion on June 30, 2024.
- Undrawn committed credit lines of about €2.2 billion maturing in more than one year.
- Our projection of cash FFO of about €4.8 billion-€4.9 billion.

Principal liquidity uses

Over the same period, we estimate that EL's main liquidity uses include:

- About €2.5 billion of debt due within one year and about €0.8 billion due in 12-24 months as of March 31, 2024.
- Negative working capital movements of €200 million-€ 300 million
- Our estimate of about €1.5 billion of capex.
- Cash dividends of about €1.2 billion.

Covenant Analysis

Requirements

There are financial covenants attached mostly to the U.S. private placements (€88 million on Dec. 31, 2023). The main financial covenants were EBITDA to financial expenses and priority debt to total consolidated assets.

Compliance expectations

On Dec. 31, 2023, the group was in compliance with its covenants, and we expect it to maintain significant headroom.

Environmental, Social, And Governance

EL is pursuing ambitious environmental and social goals. Beyond environmental protection goals, which include carbon neutrality across direct operations by 2025, as well as a shift from fossil-based materials to bio-based materials and to embed eco-design in all product developments by 2025, EL is poised to play a key social role as it is committed to help eliminate uncorrected poor vision by 2050. With this aim, it has opened vision centers in countries including China, Zambia, and Liberia.

Positively, the group is actively involved in a number of philanthropic projects to improve global awareness and affordability of vision correction, especially in low-income countries. We note that EL's business strategy includes the goal to deliver eyewear at all price points.

We believe that the group's governance has improved over the past few years. In May 2021, EL's annual shareholders' meeting adopted all resolutions proposed by the board of directors, ending its three-year governance disagreement by confirming Francesco Milleri as the new CEO. Its mandate has been renewed again in 2024 for another three years, ensuring board of directors' continuity. The balance of power within the company is ensured by the composition of the board of directors, which comprises a high proportion of independent directors (7 out of 14 board members)

Issue Ratings--Subordination Risk Analysis

Capital structure

The majority of the outstanding debt is now held at the group holding level (EssilorLuxottica S.A.). We see limited structural subordination given low levels of secured debt at operating companies relative to total debt.

Analytical conclusions

We rate EL's long-term senior unsecured debt 'A', in line with the issuer credit rating.

Rating Component Scores	
Foreign currency issuer credit rating	**A/Stable/A-1**
Local currency issuer credit rating	**A/Stable/A-1**
Business risk	**Strong**
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Modest**
Cash flow/leverage	Modest
Anchor	**a**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**a**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings Detail (as of August 05, 2024)*	
EssilorLuxottica	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1

Ratings Detail (as of August 05, 2024)*	
Senior Unsecured	A
Short-Term Debt	A-1
Issuer Credit Ratings History	
02-Oct-2018	A/Stable/A-1
26-Feb-2014	--/--/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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