

EssilorLuxottica's third-quarter 2022 revenue

Transcript of the Management Call

Company Speakers:

Stefano Grassi, Chief Financial Officer

Questions from:

Susy Tibaldi, UBS

Louise Singlehurst, Goldman Sachs

Cedric Lecasble, Stifel

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Key Highlights

Stefano Grassi, Chief Financial Officer

Welcome to our third quarter trading update. EssilorLuxottica posted another quarter of strong growth with top line in acceleration despite a tougher comparison base.

During this period, where revenue was up 17% at current exchange rates while, if you look at our results at constant FX rate, you're looking at 8.2% growth. The main driver of the difference between constant and current FX results is very much the US dollar that, during the third quarter, revaluated approximately 17% against the euro.

In Q3, pretty much all the regions posted solid growth. Asia-Pacific and Latin America were at double-digit pace, Europe was at a high-single-digit pace, and North America performed in the low-single-digit territory but with a very tough comparison base, as you remember, in the third quarter of last year, our North America grew 14% versus 2019.

But before we start our journey across the different geographies, let me just give you a last touch on e-commerce. Our e-commerce division is contributing to 7% of our revenue base with a top line growth in the mid-single-digit territory.

And now, let's start our journey on page 12 of the presentation with North America. North America posted a third-quarter top line growth at 3.4% at constant currency. I'll remind you that our second quarter revenue was up 2.4% versus 2021. Both Professional Solutions and Direct to Consumer divisions posted solid growth.

If we look a little bit closer at our Professional Solutions division, both categories, lenses and frames, were in the positive territory.

From a channel-mix standpoint, our key accounts, our department stores, our e-commerce partners were all positive while the ECPs, our independent ECPs, decelerated in the negative territory during the third quarter.

When we look at our brands, the licensed luxury portfolio that we have was the key growth driver of our frames business while, on the lens side, our branded lens portfolio outpaces consistently the unbranded part of our portfolio.

On the Direct to Consumer side, we're very pleased to report that our Sunglass Hut business, Oakley retail, Pearle Vision and Target Optical, they all posted positive growth during the third quarter, while LensCrafters was slightly negative but against a very tough comparison base. As you remember, in the third quarter of 2021, LensCrafters reported 9% comp sales versus 2019.

Let's touch on e-commerce that posted a top line growth at a mid-single-digit territory in the third quarter, driven by Sunglass Hut, Oakley and EyeBuyDirect.com – this last one grew in a double-digit territory.

But now, let's move to Europe and let's look at a very outstanding growth for the third quarter. Our EMEA region grew 9% on top of a 9% in 2021 versus 2019. Our Professional Solutions was in the high-single-digit territory, and our Direct to Consumer division was in a double-digit pace.

Professional Solutions, most of the countries delivered a strong growth with Spain, Turkey, the Middle East at a double-digit pace, while France, the UK, Italy, they all performed in the mid-single-digit territory. The only major country that experienced a deceleration during the third quarter was Germany in light of a deceleration on the optical side of our business.

If we now look into our two categories, lenses and frames, the lens side of the business delivered a mid-single-digit growth with price-mix that continued to be very strong, while on the frames side the growth is more balanced between volume and price mix with a double-digit delivery led by a strong sun season during the third quarter.

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Let's touch on the Direct to Consumer now – I would say and define an outstanding delivery of the results that we've seen in the third quarter. We delivered a double-digit top line growth on top of a double-digit top line growth in 2021 compared to 2019.

We have strong results pretty much across all the banners in the region. Sunglass Hut top line was approximately 60% in Q3, Salmoiraghi & Viganò delivered a double-digit growth, and GrandVision delivered a mid-single-digit growth in top line during the third quarter.

Now, let's move east and let's touch Asia-Pac. In Asia-Pac, we have experienced a strong acceleration of our results where our top line was up 23% at constant currency, and I remind you, in the first half of 2022, our top line was up 2% in Asia-Pac. Let me walk you through what's driving that acceleration in the region.

From a country standpoint, China was in the double-digit territory, driven by our Professional Solutions division, with our Stelless lens, and that is not news, that continued to record exponential growth with a third quarter volume that doubled the one that we recorded in the second quarter.

On the other countries, we reported top line in acceleration, with a double-digit pace in India, in Southwest Asia, in Australia, while Korea was the last in line, still with a high-single-digit growth.

On the lens category, we grew a top line at double-digit pace, with a strong ramp up of our branded lens portfolio with Varilux and Eyezen growing respectively at double-digit and high-single-digit pace.

Moving to brick and mortar now, our top line grew in excess of 35% during the course of the third quarter. That top line growth was very much driven by a strong delivery of our optical and sun partners in Australia. This result was also helped by an easier base of comparability in Q3. As you might remember that last year, Australia experienced a quite severe lockdown that, clearly, created a softer base for us. But now, let's touch on the last region of the four, and that is Latin America. As you remember, Latin America was the best performing region during the last three consecutive quarters. During this quarter, they thought they would pass the lead to another region, namely Asia-Pacific, but they still delivered an outstanding 12.6% growth at constant currency.

Brazil was in the high-single-digit territory, we were double-digit in Mexico, in Argentina, and in pretty much all the other Hispanic countries.

In Latin America, our growth was driven by our Professional Solutions division that posted a double-digit base with both categories, lenses and frames, in a double-digit territory.

On the lens side, we continue to see a strong double-digit growth with our Varilux brand, while, on the frames side, our growth was double-digit when you look at our sun and also our optical frames portfolio, but also, when you look at Ray-Ban, Oakley and our luxury brand portfolio, you will see double-digit growth.

Once we move on to the retail side, our brick and mortar revenues were in the high-single-digit territory for the course of the third quarter. That performance was very much driven by our sun retail business across all the regions while, on the optical side, we observed a deceleration, very much driven by GMO, that was up against some very tough comparison base in 2021 versus 2019.

Now, let me hand it over back to the operator for the Q&A session.

Questions & Answers

Susy Tibaldi, UBS

Thank you. Good morning, everyone. So, my first question is focusing more on the top line. You delivered a 130bps quarter-on-quarter acceleration, and I think, if you'd asked a few months ago to anyone in the market, they would have said it was almost impossible, so that's an excellent result. It

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seems that you had a very strong sun season which, obviously, comes from relatively easy comps last year when we still had some COVID impact. So, can you comment a little bit on how much of the growth was driven by sun and, now that the sun season is pretty much over, what sort of normalized growth rate should we expect, and what trends did you see in September and October?

Secondly, in H1 your EBIT margin grew 100bps year-on-year and at the same time you were absorbing 100 to 150bps inflation without any major price increase. When we think about the H2 margin, the fact that the sun category performed so strongly must have some pretty positive implication for your margin, so can we expect an expansion in H2 at least in line with what we saw in H1? Thank you.

Stefano Grassi, Chief Financial Officer

Good morning, Susy. Let me take your questions. First of all, with the third quarter performance, clearly there was help and support from a top line perspective from sun. We've seen it pretty much across the geographies, across the different channels, it is true. But I remind you that from a revenue-based standpoint, sun accounts for about one fourth of our total revenue base. So, the remaining parts of the business are also at a pretty high pace. That is very important to remember because I think it's an important driver of our growth, for sure, but it's not the only one.

When we look at the impact on the margins. Clearly our ability to manage inflationary headwinds is really the result of two things: on one side our growth and therefore our leverage on the P&L and on the other side the impacts of the efficiency, the efficiencies that we're undertaking across the business units, the efficiencies that derive from the integration of GrandVision within EssilorLuxottica.

As I mentioned already a few times, this year is going to be a story of growth and margin expansion and that is going to be still valid for 2022 for the Group.

Louise Singlehurst, Goldman Sachs

Hi. Good morning, everyone. Thank you, Stefano, for taking my questions. Two from me, too. Firstly, when we first read the statement, if I think back to July, we had quite a cautious set of comments with regards to the US slowing and obviously today's statement reads a lot more in terms of stability I would say, there's no real mention in terms of any changes during the period. Is that fair to assume that there is a lower growth but it's stable during the period? I wonder if you can just provide some color there for us, Stefano?

And then, secondly, just in terms of the cohort mix and structure, is there anything that you can tell us that struck you in terms of change at the entry level, the higher end spending as we think about that more aspirational consumer and a few concerns about a slow down at the lower price points? Thank you.

Stefano Grassi, Chief Financial Officer

Good morning, Louise. Let me take your two questions, the first one on North America. The North American story, it's a North American story of growth, it's a story of acceleration, as you heard, on the third quarter compared to what you've seen in the course of the second quarter despite a tougher comparison base in several parts of North America.

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Just to give you an idea, we still continue to see growth on the frame business while, last year, our frame business was up in excess of 30% compared to 2019. So, we're posting growth on top of exponential growth last year and that's obviously very reassuring for us.

With respect to price trend we don't see any consumer down-trade, at all. We continue to see solid price mix on frames, optical and sun frames. We continue to see a strong luxury portfolio. We continue to see our branded lenses outperforming the unbranded ones. We clearly drive a price mix which witnessed the fact that consumers do understand the value that we propose with our premium lenses in pretty much all the geographies.

Cedric Lecasble, Stifel

Thank you very much for taking my questions. Good morning, team. I have two. So, the first one is on your general comments about growth led by volume or operating leverage and by price-mix. Just wanted to know if, what's going on this year with the strong cost inflation, has led to any change in perception of the mix between price-mix and volume knowing that you said that, over the medium term, we'd be more on the operating leverage side than on price mix with a slight inflection versus some past years? That's the first question.

And the second question is on Stellest. You have the huge momentum there. Can you maybe tell us about your pricing strategy for these lenses, maybe tell us at what price, on average, they sell and what's your general pricing strategy as penetration seems to skyrocket? Thank you very much.

Stefano Grassi, Chief Financial Officer

Good morning, Cedric. Let me take your two questions here. First of all, with respect to the balance between volume and price-mix, I can confirm that the direction that, over the medium and longer run, we want to take is exactly the one that you described, so volume being predominant over price-mix.

To a certain extent, if I look at where we are today on the frame side, for example, we already have that happening. So, we have volume being stronger than our price-mix. On the lens side, it's probably still price-mix being heavier than our volume-mix, but again the direction over the longer run hasn't changed despite the inflationary trend that we clearly see today.

With respect to Stellest, I mean Stellest is, in a way, the revolutionary technology that we believe is going to create a major change in the eyewear market. It's a revolution that we've seen being very successful in China and we're now progressively rolling that out in other different countries.

As we mentioned, Stellest is not the only product that we have, that's why we like to talk more and more, in the longer run, of myopia solutions because we have the products that come from the joint venture with CooperVision. We have a variety of different solutions that are lenses, contact lenses, and our goal, our intent, is to make those products accessible to our own retail network, to independent ECPs, to really make sure that our efforts to eliminate poor vision around the world is obviously completed successfully.

So, the price that we see right now for the Stellest lenses in China is around €400 for a pair of Stellest lenses. We obviously consider pricing depending on the markets where we are, but again the reception from the market that we've seen in China, and I would say not only in China, so far has been extremely positive.

Julien Dormois, BNP Paribas Exane

Good morning, Stefano. Thanks for taking my questions. A follow up from the previous question on myopia management in general. Just curious whether you could tell us more about the revenue contribution from Stellest? Last year, I think you generated about Euro 150 million in retail sales from Stellest. Is it on track to be possibly a doubling of that number in fiscal year 2022 despite the lockdowns that China experienced in the second quarter?

And the second question, relates to acquisitions. Could you provide us with an organic growth number for the third quarter, stripping out the contribution from bolt-on M&A? Also wondering whether the currently higher cost of financing makes you a bit more prudent in terms of future M&A or whether it doesn't change anything in your strategy?

Stefano Grassi, Chief Financial Officer

Bonjour, Julien. Let me answer to your first question on myopia management. Just to provide you with perspective, we talk about the growth that we have in China being double-digit, which is obviously very reassuring, and which has been instrumental to our material step-up in the region of Asia-Pacific. As part of that growth in China, myopia solutions are obviously an important asset, and those solutions represent more than 10% of our revenue in China and we're talking about something that two years ago didn't even exist. Myopia management is an important building block of our strategy in China, and we're very pleased with the result we've been able to accomplish so far.

With respect to M&A, the impact of M&A is slightly more than one percentage point. This is broadly in line with the expectation that we shared with you and the rest of the financial community at the Capital Market Day when we said that, over the longer run, we expect the contribution from bolt-on acquisitions to be around 1% of our top line.

Domenico Ghilotti, Equita

Good morning to everybody. I have a question on your comments referring to Germany, so it was the only exception in a very positive comment on European retail performance, and I wonder if you can elaborate a bit more, and is there a risk of seeing all the other countries, now that the sun season is over, moving in the same direction? So, if you have any comment on that would be relevant for us.

Stefano Grassi, Chief Financial Officer

I would say that we are looking at a single quarter. If I look at the performance in Germany, so far, it has been reassuring, we are trending on the mid-single-digit territory. It is a growth story, but it's very strong and solid for us, therefore a single quarter shouldn't create any concern. We have seen a deceleration on the optical part of the business, lenses and frames, but, if I look at the first nine months of the year, our growth in Germany is in the positive territory, on the mid-single-digit, hence nothing to be concerned about.

James Grzinic, Jefferies

Thank you very much. Buongiorno, Stefano and team. I just have two quick questions, Stefano. The first one was around that point you made on sun. Can you perhaps help us with how well that 25% of sun-related revenue grew for the Group in Q3?

And, secondly, to your point around margins, you seem to be positive, very constructive on margins. I think during the first half conference call you mentioned an unhelpful seasonality for margins in the second half relative to the first half. Do you think that is still a valid comment at this point?

Stefano Grassi, Chief Financial Officer

Good morning. Buongiorno, James. Let me take your two questions on sun and margin. On sun, the category grew double digits whether you are looking at Direct to Consumer, or you are looking at Professional Solutions side. It is a very good story. The luxury part, especially on the Professional Solutions side, has been an important growth driver, which is very pleasing. As you know, we recently renewed our partnership with Armani over the longer run, and we announced a partnership with Diesel brand. There are a lot of vibrant results on the sun part of our business.

With respect to margin, the seasonality between second half and first half of the year is true. We usually have a second half of the year with lower margin, but that is structural. Having said that, I want to remind you the qualitative comment on top line growth and margin expansion, because that is still valid for the full year 2022.

This was the last question, and I want to thank you all and look forward to talking to you for the full year 2022 results. Thank you and have a good rest of the day.