EssilorLuxottica

2018 Full Year Results
8th March 2019

Speakers

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Q&A

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Domenico Ghilotti, Equita

Conference coordinator

Good morning ladies and gentlemen and welcome to the EssilorLuxottica 2018 results conference call. During the presentation all participants will be in a listen only mode. Later there will be a question and answer session. If you require any assistance from an operator, please press star zero on your telephone keypad. I will now hand over the call to the speakers.

Ms. Véronique GILLET, Senior Vice President, Investor Relations

Thank you. Good morning everyone and thank you for joining the first EssilorLuxottica conference call. Today's conference call is dedicated to the 2018 financials of EssilorLuxottica, which were communicated to the market this morning. We will comment and answer questions on consolidated results for the combined Group and both Essilor and Luxottica. We will not comment on governance-related matters, as there are no significant updates at present. As indicated in today's press release, strategic business integration and governance matters are being considered and worked upon by the management teams of Essilor and Luxottica, to ensure a seamless execution of the synergy plan and growth strategy of EssilorLuxottica.

On this call, Laurent VACHEROT CEO of Essilor and Paolo ALBERTI, President Wholesale for Luxottica will talk about the strategic initiatives of both Essilor and Luxottica. Our CFOs, Hilary HALPER and Stefano GRASSI will comment on EssilorLuxottica results as well as the 2018 performance for Essilor and Luxottica. Let us now start with Laurent.

2018 KEY HIGHLIGHTS

Mr. Laurent VACHEROT, Essilor International CEO

Thank you, Véronique. Good morning everyone. I am really happy to open this first communication after the 29 November AGM, last year and just five months after this new, unique company was born. EssilorLuxottica has worked hard for the past five months, driven by a powerful mission. Our mission is for everyone on the planet to see more, be more and live life to the fullest and we have one dream, which is that because we are stronger together, we will eradicate poor vision in one generation. How will we do that? By increasing awareness about vision and poor vision; increasing access at every price point everywhere in the world; and innovating and providing solutions and products at every price everywhere.

The demand is huge. Today, EssilorLuxottica is a 16 billion company in a 100 billion industry. In fact, the demand for better vision and protection is much more than that. You probably remember and we have mentioned it many times in presentations that the demand is 300 billion, so we have a huge challenge at EssilorLuxottica, which is to lead the whole industry to close that gap. We will be successful because we have the best brands in the world, from Ray-Ban to c, to some mid-class and entry-level brands. We are the most innovative company in this industry. We can provide the best access to vision care and protection and sunglasses in the world. We have 150 000 employees engaged on this mission and this goal, many of whom are shareholders in the company. We are also the ones who can bring efficiency, by combining our assets and building a more efficient industry with our customers and all the partners in the industry.

EssilorLuxottica is a solid, growing company, the combination of two strong operating companies. You have seen the results this morning and the business is solid, growth is back, and we have a very important acquisition pipeline. The MTO has been very successful, thanks to all the efforts of all the financial and legal teams round the world. That is why, the Board decided yesterday to propose a dividend of EUR 2.04 to the Shareholder Meeting in May, an increase of 33% on last year.

That is the brief introduction I wanted to make, and I think I will pass the microphone to Stefano and Hilary, starting with Stefano, to comment on the first financials for EssilorLuxottica

2018 PRO FORMA RESULTS

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Thank you, Laurent, and good morning, everybody.

We'll start looking at our pro forma results for 2018. I'll start from the top line and then I'll hand it over to Hilary. Then, we'll give you a little bit more colour around the profits and loss.

High level on our top line, the consolidated results at constant FX rates, were up 3.2%. Pretty strong results. On a current FX basis, you're looking at the number -1.2%. So, clearly, we experienced some headwinds due to currencies in the course of 2018. Now, we'll get into more details later on. But the good thing when you look at this picture is that pretty much all our geographies are trending on the positive territory. We are low single digit in Europe, solid growth I would say in North America, and the two developing markets, Latin America and Asia, Oceania and Africa, they are all trending very strong with the mid to high single digit growth. So, our assets are all on the positive territory, and are trending exactly in the direction we wanted them to be.

So, Hilary, won't you give it a little bit more colour on the profit and loss?

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

Thank you, Stefano. The new P&L for the combined EssilorLuxottica Group will now be focusing on operating profit as a KPI going forward. I would also like to call your attention to a few items with respect to our reclassification. On the Luxottica side, R&D has been reclassified to opex, as have share-based payments and other items on the Essilor side. Some margins will be slightly different than you may have been used to seeing in the past. On constant currency we had growth of 3.2% and we had a -4.4% currency impact, leaving us with a -1.2% change in revenue in reported terms. This currency headwind is mainly driven by US dollar exposure. We ended with gross profit of EUR 10.172 billion and a gross margin of 62.9%, which is down 20 basis points, again largely to US dollar exposure. We will review this in more detail later in the presentation when we speak about each of the respective companies.

As we talked about opex, which again we will revisit later, it has been impacted mostly by a mix of strategic investments that have been made behind our company mission and future growth. Our adjusted operating profit therefore came in at EUR 2.57 billion, a 15.9% margin, versus 16.5% in the prior year. This led to 1.2% growth on a constant currency basis.

We also had some notable improvements below the line in terms of the cost of debt and a 220 basis points improvement in our tax rate. This leads us to a net income of EUR 1.871 billion on a fully consolidated basis and before minorities, a 1.7% decline versus the prior year in reported currency terms. Again, we will go through both divisions a bit later in the presentation, to provide a bit more colour on the numbers.

Before moving on, I would like to make a few technical comments on the pro forma numbers just to keep in mind. For inter-company eliminations, you will note a significant difference with the figures provided in our prospectus. As a reminder, the prospectus figures were estimated numbers based on our reporting basis at the time. The main change since then has been IFRS 15 implementation, which affected revenue-related accounting for certain inter-company relationships. Apart from that item, we are more or less consistent with the information originally provided in the consensus.

You will also note that we have not provided our minority interests. I would like to give you a bit of quick context around that. This is due to the impact of the EssilorLuxottica transaction-related PPA on our minority interests on a reported basis. At this point, we expect a level of minority interests to be slightly above last year for Essilor on a standalone basis, with a further increase anticipated for 2019. Just a note on this, that growth on our minorities actually represents growth from our partner companies around the world, so these are strategic growth investments that boost our access to key markets and segments.

Lastly, I would like to call your attention to our updated share count following the completion of our mandatory tender offer and the delisting of the Luxottica shares. As of March 5th, we had 434.9 million basic shares and on a fully-diluted basis, 442 million shares.

Following-up on all the technical notes, we just wanted to provide a recap of the MTO, which as you will have seen culminated in the delisting of Luxottica shares on March 5th. As you will recall, we started with the Delfin contribution on October 1st of last year, which was exchanged for 139.7 million EssilorLuxottica shares. We then had the first round of the MTO, with a goal of reaching 90%; we achieved well over this with 93.3% of the Luxottica share capital exchanged for EssilorLuxottica shares. This then allowed us to progress to the sell-out phase with the goal of reaching 95% in order to be able to go to the squeeze-out. We achieved 97.5% of the Luxottica share capital, issuing 6.6 million new shares and purchasing the remainder for EUR 322.7 million. The squeeze-out was subsequently launched and in this phase, we issued 2.2 million shares in exchange and purchased 318.5 million shares. Summing it all up, EssilorLuxottica issued 214.8 million shares and took on additional debt of EUR 641 million in order to purchase the remaining Luxottica shares. Overall, we feel that this is a really great outcome and provides us with significant balance sheet flexibility in the future.

With this, I will hand it back over to Stefano.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Thank you, Hilary. And, as Laurent anticipated, we are now on the dividend page. We have very strong fundamentals. You know, as Hilary described to you before, we have a solid top line growth and you're going to see an acceleration as we're going to guide you through 2019. So, looking at the fundamentals as they are, the combined free cash flow generation is around €1.8bn. We have a strong balance sheet. Our net debt to EBITDA ratio is well below 1, actually around 0.6. And, therefore, we are proposing a dividend per share of €2.04, which represents 50% pay out on the pro forma adjusted net profits for 2018.

But now let me have the Essilor team walk you through the fundamental of the success story for 2018. Hilary.

ESSILOR: 2018 RESULTS AND 2019 DRIVERS

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

Thank you. I will now comment on the Essilor standalone financials and I will then hand it over to Laurent, who will comment on the underlying business performance. Turning to Essilor, if we review the Essilor underlying business performance on a full-year basis, we will be giving the performance breakdowns on a constant currency basis, as we now have a number of inter-company items that affect the comparability of the legacy like-for-like metric. However, I will try to give you a sense of the like-for-like and the scope effect.

Overall, constant currency growth was 5.1% for the full-year, with a very strong finish at 6.4% in Q4. Putting this in the legacy perspective, we did see an acceleration in like-for-like terms from the 3% level reported in 2017, to the 4% to 5% range in 2018. That included a 13% increase in our e-commerce business.

As we have talked about in the past, M&A was relatively moderated in 2018 at 0.5%. However, we have taken steps to reaccelerate this going forward and you will probably have already seen in our 2019 announcement on the acquisitions of BRILLE24 in Germany and UNION OPTIC in Greece

From a divisional basis in constant currency terms, on a full-year basis, Lenses & Optical Instruments grew 4.7% and within that we have had pretty solid performance across the board, with North America up 4%, Europe up 2.6%, our AMERA region growing at 8.1% and Latin America at 9.9%. For Q4, the 5.9% Lenses & Optical Instruments was composed of 2.3% growth in North America, where we face challenging comp base as you know. On a comp adjusted basis we are well-satisfied with this performance and we have a positive outlook for 2019. Our other regions more than compensated for this with Europe up 6.8% driven by the ongoing success of new products, as well as the e-commerce business, which is now a material part of the Lens Division in Europe. AMERA grew 8.2% driven by over 10% in fast-growing markets, China in double-digits for high-end and mid-tier lenses, online and the Varilux® and Eyezen™ brands. We also made significant gains in Turkey, South East Asia and South Korea. Sun & Readers grew 9% thanks to the recovery of Bolon™ and continued growth at both MJS in China and Costa® in the US. Q4 performance was consistent at 7.5%. On the equipment side, the business ended the year with 4.5% growth, with Q4 accelerating to 12.1%. In sum, a pretty strong year in 2018, with acceleration into Q4 for most of the businesses in the region.

If I move on to Essilor standalone P&L and changing over to a reported currency basis to review the P&L, sales were up 0.8% after taking currency headwinds into account. Gross margin was up 40 basis points to 58.6%, thanks to a combination of efficiency gains, product mix improvement from our key lens brand, including Varilux®, Crizal®, Transitions®, and new innovative products. Our strong top line and gross margin progression really allowed us to boost our long-term strategic investments and reinforce our organization, all with the effort to continue to support future growth. In terms of strategic investments, we put resources behind a number of programs, including 2.5 New Vision Generation™, where we aim to provide better vision for the next generation of consumers, mainly in fast-growing markets. For example, the Eye Mitra™ program in Indonesia, one of the world's largest and under-served populations in vision care. In myopia management, which we know is one of the largest and fastest growing vision needs in our market, we are taking the necessary steps to ensure we can meet our long-term goals. As mentioned, we also reinforced the organization, including our e-commerce business to support the 13% growth rate that we had, with eyeglasses and sun RX remaining particularly strong. We want to ensure that our teams are well-positioned to really continue this momentum.

Please keep in mind a few reclassifications in operating profit, namely share-based payments along with the usual restructuring and related expenses, which we will display in the operating profit line going forward. Taking all these items together, we reported adjusted operating profit of EUR 1.233 billion, a 16.5% margin. Below the line items particularly offset our strategic investments, including financial items where we have a positive EUR 4 million favorable swing and tax, where we had 20 million of favorability, which was largely a change in dividend tax, that positively impacted our tax rate this year, along with other tax optimization measures. This leaves us with net income of 923 million on a fully consolidated basis, before minority interests, which is a change of -1.9%. With that and our strong financial performance of the year, I would like to hand over to Laurent who will comment on the business.

Mr. Laurent VACHEROT, Essilor International CEO

Thank you, Hilary. Impressive how you get an understanding of the business and how we create value. I will just add maybe a few comments, especially on 2018 and Q4 specifically. You have seen that we almost reached 6% organic growth in Q4 and some of you may remember it was an objective we gave ourselves back in 2014. Obviously, this performance was not the result of chance, it was because we had really clear priorities on which all our teams were really focused. Let me highlight on top of what Hilary said, what I consider to be a few successes the team has achieved in the last year.

Absolutely in fast-growing markets, especially Brazil and China, which Hilary mentioned, we had outstanding performance. More specifically, our key lens brands, Varilux® and Transitions®, are growing quite fast and faster than the market, which is very good. We have also continued to expand our network of preferred ECP, eyecare professionals, in the US and Europe. In the US we now have 4 000 Essilor experts, who are doctors focused on vision care, with whom we are aligned so that they can provide the best solutions for consumers, in the most efficient way and at a reasonable price. Obviously, online is growing quite fast and improving profitability, because of a mix of business moving more and more to eyeglasses. It was basically a great season for the Sunwear division, with Costa® and Bolon™ doing a great job.

The main message on top of what was said is that we have started to see better value-creation measured by gross margin improvement in ratio. We see acceleration of growth and better gross margin as a measure of value-creation. In the course of year especially in the second half, we deliberately stopped to invest more in some key programs for future growth, some of which I will comment on more for 2019.

Some of you may remember in London in June 2014, we provided you with a vision of what 2018 might be for Essilor, which at that time was a standalone without the combination with Luxottica on the agenda or foreseen. Some of what we wanted to do has changed a bit in the course of the year, especially acquisition, where we have done much less than anticipated, especially in 2017 and 2018. Overall, I think we have achieved quite clear results regarding this strategy. The objective was to continue to provide a sound financial profile with low debt, quite leveraged, etc., while accelerating growth and positioning Essilor in faster growing segments by building platforms in most of the fast-growing markets, which we have done, in mid-tier, middle-class sunwear brands especially in fast-growing markets, which we have also done. We have started to build these online platforms, which have started to provide great results and on top of that have taken us into the digital world, on which we will comment later. I think that the team is quite proud of what has been achieved in the last four years and this is what we bring to the combination with Luxottica, a lot of dynamism in new segments with a growth profile and sound financial results.

Obviously, there is no result without a great and powerful organization. We have 75 000 people behind the management team, 65% of whom are shareholders, but we made a few changes to reinforce the management team and Essilor's abilities to manage all those new dimensions, new markets and growth. You may remember that during the summer we added Grita LOEBSACK, the CMO, as well as Norbert GORNY, Essilor's Chief Innovation Officer, to the Management Committee, to provide an additional resource and focus on innovation at the top of the House. More recently, at the beginning of this year, we named Paul du SAILLANT as the company's Deputy CEO and we have asked Eric THOREUX to become the company co-COO, so as we enter the combination with Luxottica, we have reinforced the top of the House. Obviously, we also rely on three very specific focuses on the Business Committee, so we now have 31 members in the top management of Essilor with a lot of diversity. It has also been an opportunity to provide visibility and exposure at the top of the House for younger talent. All the results you see are also because of that bright team and talent, who we should thank today.

Entering 2019, I just want to highlight three or four main initiatives and priorities that we are executing at the moment. Number one is obviously that we want to reinforce the core business, which I remind you is based on innovation. We have increased our capability in research and development, in particular by opening an innovation center in China, as well as focusing our science and R&D teams on five key categories to develop and create value for the future:

- Presbyopia
- Myopia
- Light Management, which is all about protection and comfort
- Digital solutions, because we are now in a digital world and this industry has to make a lot of progress in that world
- Smart eyewear, which may be longer-term, but is important that Essilor and EssilorLuxottica are part of that new dimension

In addition, we simplified our branding architecture for high-end and sophisticated lenses to make it more powerful, which will all be promoted against the Essilor brand, each with their specificity, like Varilux® and Crizal® and Xperio®. We have also started to develop a reference brand at the entry level of the market, with the 2.5 NVG™ brand, which is growing very fast providing a simple solution to new consumers, especially in fast-growing markets.

As you know, the tradition is that every year we need new products to feed the market, our salesforce and customers, so that they can continue to propose better solutions. This year, we will have three very interesting innovations: the eight generation of Transitions®, after four years without a new one and we have big expectations for this launch in the US media. There will be six or seven colors right at the beginning, to also make the brand attractive for younger populations. The Eyezen™ Start new product for connected, younger myopes, which if I may say, provide greater comfort and protection when you spend a lot of time on smartphones and tablets; we also have something a bit different which we do not talk about much, which is a division that provides optometry equipment, the device used in the optometry office or ophthalmology office depending on the country, where they measure the requirement's for consumer's eyes. The team have developed a very innovative solution, called Vision-R 800; I do not know why the name is so complex. Basically, it will provide consumers and professionals with a much faster and simpler solution that is less dependent on human errors, to get a more precise prescription, so that we can also deliver more precise lenses and so provide better vision. It is faster and simpler, so there is more access and more precise, so better performance for the lenses that we design in the future.

That is basically the main message of reinforcing the core business, because this is what we rely on and then there are two initiatives that we have been accelerating for a year in the course of 2018. They really address the huge world pandemic of myopia. By 2050, 5 billion people, that is half of the population will be myopes and I think it is just under 2 billion, at the moment. Most of them are in fast-growing markets or emerging countries. It is not only a huge need that must be fed by better vision and protection, but also for eye myopic people there is a higher risk of becoming blind when they reach 30 to 35 years old. There are two dimensions there, one of which is the science that we need to invest more to invent better solutions, service and package solutions. There is awareness, because most of those people do not know that they are myopes. You have all seen kids at school who do not perform well, just because they do not see properly, and nobody has noticed. There is also the question of how we go to the market with those solutions, which is creating a specific divisions and solutions including eyecare professionals, so that we can provide those solutions. It started in China last year and we plan to develop the specific business needed in the US and maybe other Asian countries this year. It is a very promising and demanding new dimension to what we are doing.

The last priority I would like to comment on for 2019 and further, is consumer-facing digitalization, which is really not a surprise. As we said and as you know, we have invested a lot in the last four years to build this platform for e-commerce and we learned a lot from new talent, new expertise, which we have a bit of everywhere in the world. This division is growing fast, improving profitability, reinvesting to attract new consumers in their world. Based on that, we have two new initiatives we are executing at the moment. One is what we call a lead generation system, meaning that today we have 200 million consumers who go to our websites, either for information or e-commerce and so far, we have not done a lot with them. In the end, some of them buy a pair of eyeglasses or contact lenses, but 96% of them do not do anything with us. We have built a whole platform to interest them, understand their needs and centers of interest and to try to address them again and solicit them, to finally drive them to a good solution and eventually to be customers in partner stores, or our colleagues from Luxottica. We have also developed a new initiative in Germany, following the acquisition of BILLE24, which is an e-commerce platform in Germany selling mainly eyeglasses. We will we will build an omnichannel with them, meaning we will invite eyecare professionals to be part of this new digital world, with innovative solutions.

Both of those are investments in the future, with nice value-creation and I think the story continues and will be even better combined with Luxottica, because obviously part of the priority for 2019 is also to allocate part of our best resources to drive those synergy and integration plans, which we will speak a bit about at the end of the presentation.

LUXOTTICA: 2018 RESULTS AND 2019 DRIVERS

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Thank you Laurent. I'll now walk through the Luxottica story. We will start with a little bit of an overview on our top line for 2018. So I will focus on consolidated growth first and then I'll give you a little bit more colour around the two divisions, Wholesale and Retail.

Start from the Group, on the bottom left of the page. Luxottica grew 1.5% in the course of 2018 on a constant FX basis. When we look at that number on a current FX basis, the 12 months of 2018 were negative 2.8%. Clearly currency created some headwinds in our numbers, especially during the first half of the year. The US dollar overall, devaluated approximately 4% versus euro during 2018. And as I said that devaluation was very much concentrated during the first half of the year, where the US dollar devaluated over 10% versus the euro and during the second half of the year we got a little bit of tailwind. And you can see, the fourth quarter number on the top left hand side of the page, 2.2% was our growth on a constant FX basis, 3% was our growth at a Group level on a current FX basis.

But now let's look at our two divisions and let's start with the Wholesale at the bottom middle of the page. Negative 1.1% was our Wholesale performance on a constant FX basis. Negative 5.2% was the Wholesale number on a current FX basis. I would say, when I look at the Wholesale performance, very different speed between the first half and the second half of the year. In the first half of the year the Wholesale posted negative performance, negative 3.6%, but had a very strong rebound during the second half of the year, positive 2.2%. And actually if you look at the last period of the year that you see upward, 3.4% on a constant FX represents the best quarter of 2018 for Wholesale. So a very strong way to close 2018 and leading into 2019.

If we now move to Retail, on the right of the page, 3% growth on a constant FX basis, down 1.4% on a current FX basis in 2018. Retail growth is pretty solid, and this comes on top of a 2017 versus 2016 growth on a constant FX basis of +3.4%. And even taking the growth the year before, just for statistics, Retail grew around 7% in 2016 versus 2015. So in the period between 2015 and 2018, you're really looking at a remarkable growth in our Retail division. Comp sales for the full year were up 0.5%, slightly positive. We've seen a strong rebound in LensCrafters during the second half of the year with comps in the positive territory. We do have Sunglass Hut sales at plus 6% at constant FX, with all the major geographies on the positive territory, in particular China, Hong Kong, South East Asia and Brazil, all delivering double digit growth. And in North America Sunglass Hut posted a solid 3% sales growth on constant FX despite a slight deceleration during the last quarter of the year.

I can't finish my page here without talking about our ecommerce platform. It's an important asset for us, our ecommerce delivered another solid year of double-digit growth. All the platforms directly operated, SunglassHut.com, Oakley.com, Ray-Ban.com, all in the positive territory. And in particular Ray-Ban.com delivered a growth in excess of 20%, excluding currency fluctuations, proving once again that the Ray-Ban and all our directly operated websites are the place to be for consumer branded eyewear.

But now let's walk through our profit and loss results on the next slide. And as usual I will concentrate more on a constant FX basis. This is a slide that you're used to seeing and as usual I will start with our adjusted operated income. Our adjusted operating income on a constant FX basis was flat versus 2017 level and I would define this as a remarkable result. If you think about it, we would normally set the threshold level of our top line growth at 3% in order to have margins at least at the previous year level.

So our top line should grow normally at 3% in order to hold the margins. Here you have a top line growing 1.5% on a constant FX basis and despite that, we've been able to hold margin versus 2017 level. Thanks to a very solid cost control and I would say a favourable price mix.

When we look at our two divisions, both of them are trending on a positive territory from the margin accretion standpoint. Wholesale first, with 40 basis points accretion on a constant adjusted basis versus 2017 level. That was very much driven by a couple of things. First of all a very favourable price mix especially in the first half of the year. And the second thing are the continuous results of the reorganisation and efficiency project that we undertook in the last couple of years. So very nice to have Paolo and the Wholesale team deliver another good year of profitability growth.

When we look at our retail operating margin, plus 20 basis points. A couple of headlines here, very nice profitability lift in some of our Retail chains, Salmoiraghi & Viganò well integrated within our Retail network now. Good profitability lift in Australia, as well as in Latin America, which largely offset the margin dilution that we experienced in our Oakley retail business.

From a net income adjusted perspective, another great story here, 50 basis points accretion on our net income adjusted on a constant FX basis with a growth of 6.7% versus 2017 level. That was very much achieved through an improvement in our tax rate, also thanks to the reduction of the Federal tax rate in the United States and through a lower cost of debt. So very happy with the way we deliver our bottom line results.

There's one more number on which I want to draw your attention, it's in the middle of the page, and that is the free cash flow generation. Strong for another year, €923m, that number is still about €100m lower than last year. But remember we experienced pretty strong currency headwinds. In our free cash flow number we have €170m of currency headwinds, so if you excluded the currency impact you would be looking a free cash flow generation a touch less than the €1.1bn at constant FX, which clearly would be a record high for Luxottica.

But now let me wrap up 2018 and see what we deliver compared to our guidance that we shared at the beginning of 2018. Let's start from the top line; our top line on a constant FX was up 1.5% versus a guidance of 2 to 4% growth, so we are slightly below our guidance but still with a solid growth. Our adjusted operating income grew 0.8 times our top line growth and 1.2% on a constant FX basis. And if we look at the adjusted net income, we grew actually 4.5 times our top line growth, plus 6.7% on a constant FX basis. But we also generated strong free cash flow and you can see that, we've furthermore deleveraged our balance sheet, with our net debt to EBITDA ratio at 0.2, clearly beating our guidance provided at the beginning of 2018.

Now that we wrapped up 2018, I kind of want to do with you a step back of the journey that we undertook during the last four years. A journey that has been definitely very intense, a journey that the team has taken with the highest level of professionalism and with the highest level of dedication. It's a journey that started back in 2015 that is probably not over, but I think it's remarkable in many aspects. And if I had to think about it, what's the best way to describe that journey? I have five words. And you see those five words listed on the left-hand side of the page. The first three are all about sizing the organisation properly: simplification, centralization and integration. The last two are taking that organisation to the next level. So when we look at our organisation and I look at the journey that we did, we definitely have a Luxottica company that is now much leaner, that is now faster in the decision making process. And I give you a very simple example: look at the number of legal entities that we used to have four years ago and look at that number today after four years, it's about half of that. Reducing the number of legal entities really meant for us taking the organisation together, simplifying the IT infrastructure system, creating shared service pools around the world and ultimately making a more effective organisation. But it was not just about back office, it was also about our supply chain. We streamlined our logistics and infrastructure. We created common pools of inventory management so that now our inventory is not just Paolo's inventory, it's not just a Retail inventory, it's not just an ecommerce inventory, but it's the common pool inventory that effectively serves a certain region in the world. But as I said the last two words are all about taking that organisation to the next level. Retail refresh, we launched the showroom model during the last couple of years, now it's pretty much effective throughout all our retail locations worldwide. We developed furthermore our Ray-Ban store format, developing that beginning from Asia and that has been a very successful story in China. And we continue our digitalisation journey by enhancing the customer experience in the stores and also in our online business. But all this great work has to have a double check on the numbers and you can see the results of our achievements, if we compare the four years between 2015 and 2018 with the previous period of between 2010 and 2013. And you're looking at great, great results there, cumulative top line growing in excess of 40% in comparison of the two periods. Operating income and net income on an adjusted basis growing faster than our top line. You see numbers that show clearly a strong free cash flow generation, that furthermore de-leveraged the balance sheet. And you see that the dividends that overall for the period were actually two times higher than the previous period. All that again was achieved thanks to the strong commitment of the team and the strong dedication of all the organisation in Luxottica.

With that I will hand it over to Paolo who will give you a little bit more colour on the initiatives that were undertaken.

Mr. Paolo ALBERTI, Luxottica Wholesale President

Thank you very much Stefano. So the backbone of my presentation will be about breaking paradigms. And I think what's interesting is that some of the things I will say are worth for the Wholesale but also for the Retail. In other words there's a backbone that's all the same. Let me tell you something very, very interesting and that is that lately there's been a conflict between ecommerce and retail, retail and wholesale. And I think that we're the first in the industry, and there have been others in other industries, that are breaking that paradigm. In other words, there is not going to be any more conflict between wholesale and retail and especially no conflict with ecommerce. How are we doing this? And this is the interesting part, we're basically bringing e-commerce into our wholesale and retail stores. So both our customers, in terms of ECPs and also our retail, will use our digital tools that we've been working on for the past years.

So let me tell you a few of the advantages these tools have. The first is we will be able, consumers will be able, to customise their Oakley's or Ray-Ban's for now, with what they like, colours, lenses, temples. And they will be able to make their own products that will then in one case be delivered at home, in the retail case. And in the wholesale case the products will be then delivered to the ECP which means creating extra traffic for him because consumers will have to go back to see him.

More than often, because this will take a little time, about five days, they may even buy another pair of glasses for the meantime. So this is helping our customers. This was only available actually in e-commerce and now all of a sudden e-commerce is coming and helping our retail and wholesale businesses. On top of that, you've got to bear with me and I can't see you so I can't use my hands to tell you what I was trying to, but imagine a store that's 300 sq m. And then all of a sudden thanks to a digital tool that gives you the ability to make the store into a store that's 600 sq m, 1,000 sq m because the assortment that you can see thanks to this platform is much larger than what our customer has in store. It's incredible because both our retail and our ECPs won't have to buy all the stock that they need but that's not a problem because they couldn't before either, their store wouldn't be able to fit it. So actually making stores bigger virtually and helping our customers not make mistakes in buying too much and I think that's amazing. And then again we'll talk about STARS in just a minute.

What else does this technology do? Well, there are things that are very interesting and that is very easily you can say, well I can try a pair of glasses or frames that are in the store but how am I going to do this if this is just a picture on a screen? Well we're using virtual mirroring technologies both in our wholesale and our retail division that are simply amazing. We just saw them being used at our Luxottica Days that we held in Milan where we had about 400 clients and people were very excited. I mean, before you kind of looked like a robot in these virtual mirroring technologies, now it is truly amazing, it can be used with the full mirror or it can be used even with an iPad and a telephone too. So this is something that makes me very, very excited and we're breaking that paradigm, it's not one against but it's one for the other.

A few things on wholesale that are specific to wholesale and a few things on the retail business. I think that again STARS, which is the retail arm into our wholesale business, allows us to give our customers the knowledge of what the best sellers are. It also allows our customers, after three months should they not sell out, to get a refresh. In other words we take out what doesn't work and we give them what does work. And so this is something that we have in about 10,000 doors now, raise that by about another 4,000 doors by the end of this year.

And in this, we call it LEGO, but I mean obviously try to make the visual of a lego where you can take different modules. And the real objective of this is just to become more focused on, let's say you have a store, in a certain neighborhood in a certain city or certain country, we can give you the assortment that is best for you. And before it was much more difficult to do, we could do on a country basis, but now we can actually do neighbourhoods, so that's going to be very, very interesting.

I guess the other important thing is that we're continuing also our taking over some of the businesses that are important. In the Middle East we took over Dubai direct business and Taiwan has just shipped their last pair of glasses last Saturday, so these are going to be the most exciting things that we're going to be looking at. And that is not the end, I mean we're looking at other evolving countries in the near future, both in South America and in the Far East.

The retail story, I just want to say two things there also, over and beyond what I said about the digital windows and the digital story. I think one important thing is we remodelled over 1,000 stores last year with all the investments that takes. And we know very well from our retail business that once you remodel a store, you can get between, I won't exaggerate, between 10 and 20% better sales in the short term. So there again I think the investment in store remodelling is money very well spent.

The other part is e-commerce which is part of the retail business, obviously we're still making it better and better. Because the customer experience in store is easily seen, but then again when we go through the e-commerce platforms we need to make sure that we keep excitement because they do run out of steam quicker than in the store. So, the other important thing is that with Persol, Vogue and Oliver Peoples we're actually evolving in e-commerce platforms and new features will be available soon on the web. I'm not going to talk specifically about it but we're still looking, as we always have had, in the M&A. And you know because I said this before, and I say that there is no competition between retail and wholesale, it is obvious that every chain we buy, we lose a client on the wholesale side. But we are actually actively working to help the retail business to make these acquisitions and the companies to make these acquisitions.

Finally, I think that one other paradigm has broken and that is, I think you probably know as most of you know me, I'm not a millennial, although I do still feel like one most of the time. The idea though is that I wasn't born in the age of digital savviness, in fact I'm an engineer and I never even had a PC when I was at university because we had perforated cards and a big Honeywell. So anyhow, I don't want to make a sad story of myself, but the idea is that I didn't know a lot of the things that I'm doing today. And I think the really interesting thing is that the paradigm that older people teach younger ones is another one we broke. We have a lot of younger people in the company today that are actually teaching us older people and it's like saying, I can still teach them how to read a P&L, but they can definitely teach me a lot of the skills that even today I'm talking about. So that give and take between the younger teams and the older teams is a beautiful sensation and one that keeps me really wanting to work with great pleasure over and beyond all the other reasons why I go to work.

So that really concludes my charts but again I thank you for listening and I pass to Laurent, thank you.

2019 OUTLOOK AND INTEGRATION UPDATE

Mr. Laurent VACHEROT, Essilor International CEO

Thank you, Paolo, for this very enlightening and passionate presentation about the inside of Luxottica. It is time to finalise and conclude this presentation with the outlook for 2019. Based on these presentations, I suppose you understand, firstly, that the businesses are solid and growing, secondly, that there is a clear priority to continue doing so in each of the operative companies, and thirdly, we obviously expect a lot of value from the integration.

Based on the state of the art of where we are, we anticipate growing the company faster than last year, from 3.5% to 5.5%. We will continue to deliver sound financials, and we will continue on our journey to bring on board consumers for better vision, a better look and more protection.

That is basically what we propose to you at the moment. We will speak to you about the integration. Where are we on the integration? What have we done in the last few months? Firstly, we organised the process. It is not so simple for two companies to start working together and to identify the key value creation initiatives that we can drive for the short, medium and long term. We organised the process around the team that has been built, with two key talents from both companies, Eric LEONARD and Pierluigi LONGO, and they have a team around them. We decided to support the Essilor and Luxottica teams with the well-recognised consulting firm to help us build and maintain the momentum, all of that under the guidance of the integration committee, which is led by our Chairman Mr DEL VECCHIO and Vice-Chairman M. SAGNIERES, as you know.

What has the output been so far? We have identified 20 work streams, most of which are activated at the moment, and based on those first 20 work streams, we are totally confident to confirm this level of synergy we proposed over two years ago, EUR 320 to 400 million in EBIT, roughly half-and-half of synergy from revenue and development and cost synergy, with 20 work streams active at the moment. Obviously, we can do a lot on top of those 20 work streams, and as time goes on, synergy will accelerate as soon as we can activate more and more initiatives, which are probably more for the medium and long term.

Therefore, we see those EUR 420 and 600 million in synergy measured as EBIT happening in three to five years, depending on the speed at which we can activate them. That is where we are on that topic at the moment. It is a very promising start.

QUESTIONS AND ANSWERS

Ms. Elena MARIANI, Morgan Stanley

I have a few questions. My first one is on synergies. Could you help us understand how you see the phasing of these synergies over the next five years? What will be the low-hanging fruit and what could be achieved in the next 12 to 18 months? Could you help us understand how much of these synergies are embedded in your full-year 2019 guidance, both for cost and for revenues? My second question is on the margin progression. I found your operating profit margin on an adjusted basis a bit below expectations for full-year 2018, and also on your full-year 2019 guidance, your expected progression implied limited or no operating leverage. I was surprised, because this in theory includes your synergies and excludes all your operating costs. Could you help us understand all the moving parts and why you will be unable to achieve a meaningful operating leverage in full-year 2019?

Thirdly, on your management structure, I appreciate that you will not talk about governance, but there has been a lot of talk around this. My first sub-question is whether you have started the search for a new CEO that could be appointed at the end of 2020 and this will be an external candidate, if you can answer this question. Still on this topic, could you help us understand how the decision making process currently works within the organisation. You have a longer list of co-managers, co-CFOs, co-heads of integration which might be received as a suboptimal structure when decisions need to be made. Finally, could you highlight what difficulties you have encountered since you have started to work together, as at the beginning I imagine not everything might be seamless and straightforward?

Mr. Laurent VACHEROT, Essilor International CEO

Maybe I will start by providing some light on the last part of your question, and Stefano or Hilary could comment on the margin progression for this year. I could also give a bit more colour on the synergies, the phasing and so on. We are a learning company, both companies are learning, and we are inventing a way to successfully combine Essilor and Luxottica in EssilorLuxottica. Therefore, it is a journey, we learn a lot, and yes, we can state that our choice of CEO is confirmed in the timeline you gave. Will it be internal or external? We are looking outside. The remuneration and nomination committee of the board is also investigating inside the organisation as to the key talents that will contribute to the future of EssilorLuxottica, and this process is confirmed to be ongoing.

There is a lot of great talent in both companies. Regarding the best way to start this journey, you said that there are a lot of co-managers. We have a financial team that is working together and has been able to deliver the financial results. Let me tell you that they were not obvious things to deliver in three or four months, and there have been a lot of team building efforts over nights and weekends to make it happen. We should recognise that they have been very successful at making it happen, and because they cooperate it has been successful. Therefore, the cooperation between the top talent of both companies is a way to start, and we are still moving forward in learning how to improve and be better.

We are building a really immense and unique company, and you need to give us time to do it properly, not rushing for easy and fast solutions but really to build a solid, strong and sound company with the growth and value creation we have in perspective, growing this industry and building strong momentum. This is not just for you but for everyone – give us the time to do it right.

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

We continue as a combined company to focus on top line growth, and on the Essilor side, we had a strong improvement in gross margin in 2018, and have made a conscious decision to take that improvement in gross margin and focus on investing behind mid- and long-term growth initiatives. We are investing behind digitalisation and myopia, the mission amongst other strategic projects, and so that might be why you do not see the margin increasing as much as you thought, but it is a conscious decision in terms of investing behind growth.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

And it's a similar story on the Luxottica side. You're going to see an acceleration in our top line growth versus 2018 numbers. We have some tailwinds and some headwinds from some of the initiatives that we undertook last year, especially during the first half of the year in Europe, for example Wholesale, you might remember that we harmonised our commercial conditions. Paolo did it in Europe. And we still haven't anniversaried that yet during the first of the year, so we have a little bit of headwind there.

China, it's going through the repositioning of the channels over there. We now have assets that are much cleaner than they used to be. But clearly the size needs to ramp up and that's exactly what we're looking for. But we're also investing; I mean the Luxottica story has never been around cost cutting. You've seen it before, and we are always taking a portion of our synergies and reinvesting it into the business in order to make us stronger, better and faster. We have a pretty ambitious innovation programme, with important investment in the stores to make newer and more digitally connected. And therefore that is a required investment.

So again, we get that leverage on the gross margin, I think you're going toa see a better gross margin through 2019. The units, the volume is going to get into the positive territory and that will definitely be a help from a gross margin perspective. Price mix is probably going to come but to a lower extent than what we have seen in 2018. But we are also going to invest, because it is very important, it's paramount for an organisation like this, especially now that we're coming together with Essilor to continue to invest. And that is really the story for 2019.

Ms. Elena MARIANI, Morgan Stanley

In light of these additional investments required to sustain your top line, we are used to having your little equation telling us that you need at least 2% to 3% to keep margins flat. What does this equation look like for the future? Do you need mid-single digit growth to see operating leverage?

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Elena, you really got see that on a combined basis and I think this is honestly going to evolve. So the rule of thumb on a standalone basis doesn't really make sense any longer. The more we evolve through this journey together I think you have to look at them combined. You see a first effort of getting there for 2019 on a combined basis. Then if your question becomes - can we do better as we progress in the following years? I would say, yes. I would say yes because we are going to scale up on activities and on initiatives and things will get better. But again I think we need to look at that much more on a combined basis than just the standalone businesses.

Mr. Laurent VACHEROT, Essilor International CEO

Regarding your first question on the synergy and phasing, it is too early for us to have a solid phasing we could propose to you. I expect that will be in position in September for the capital market day in order to explain much more about synergy, phasing and also initiatives the company wants to drive for the mid- and long term.

You spoke about low-hanging fruit. We started to do some simple and obvious things, like purchasing and supply, joint negotiations in some key categories of purchasing, which has started already. That could produce results in the second part of the year and in the future.

Regarding the business side, there is all that we could buy from each other, more than we did in the past – Essilor buying more beautiful frames from Luxottica and Luxottica retail buying more lenses from Essilor every year in every category, and that has also started in Essilor retail. How do we, as a combined company, accelerate the development of key categories in the market? This market, as you know, is under-developed everywhere in the world, especially in fast-growing markets, but even in developed markets, people still wear eyeglasses which have been invented 250 years ago, when we speak about bifocals, and 50 years ago when we speak about simple plastic lenses.

How can we do this, together with our online capability and fantastic brands like Ray-Ban, Oakley and so on, with our stores, etc.? Paolo explained how those stores will be more and more powerful. How can we develop categories so that our consumers will find better and more efficient solutions for protection and vision? For example, the photochromic category started to accelerate in Luxottica retail with the Transitions® brand, and it is quite successful. That is what we call low-hanging fruit.

It takes time. It is a long time in preparation. It is obvious to do, but if you want to do it well, it is a lot of work for both teams to make it happen. Looking a little further, there are a lot of interesting ideas from both teams, and it is too early to open the book about innovation. Guess what? This is the first time a leader in frame design and production and a leader in lenses have come together to create a product that when you buy it you do not buy a lens and a frame – you buy the full equipment. This is the first time that both teams can design products for specific needs of key categories of consumer, together right at the beginning. Therefore, if you think about kids, they have specific needs, and today they are not all well served by the frame business on one side and the lens business on the other. What about Ray-Ban Kids? That is the kind of thing we are looking at and working on for the medium term.

Mr. Paolo Alberti, Luxottica Wholesale President

Yeah, I think one interesting low hanging fruit is, and this is something that's already started and has been approved, is our distribution in Indonesia. In Indonesia we have been trying to open up a company in the last two years. And because of a lot of the current legislation that has changed we've had a bit of a difficulty, and somehow this has been a blessing in disguise. Because now that we're together I don't have to fight the authorities any more, I just have to convince Essilor and they obviously have accepted us with open arms and they will be distributing and helping us distribute in Indonesia. So that is something that is going on right now.

Another thing that I can talk about is - I won't give you the specifics yet because these have not been approved, but we are looking at how can we help and we sell 60 million frames in the Wholesale, and how can we help Bolon™ in some areas where we're stronger than them, or Costa® in the same way. So that's another thing that we can look at quite easily without major investments. And so these are the kinds of things we're looking at even as we speak.

Ms. Elena MARIANI, Morgan Stanley

Is any of this included in your full-year 2019 guidance, from both a revenue and a cost perspective?

Mr. Paolo Alberti, Luxottica Wholesale President

I can only speak for the Wholesale, there is hardly anything put in there, because basically we want to make sure - the timing is not yet determined. So, anything that we see, if it's successful, would be somewhat on top. They are not huge numbers for us at the beginning, but no, they haven't really been included in 2019, as far as the Wholesale is concerned, I'm not speaking about any other initiatives.

Ms. Elena MARIANI, Morgan Stanley

I am speaking more generally, in terms of the full-year combined guidance basis. Are you excluding all of the synergies for now, or is any of this included in the guidance?

Mr. Laurent VACHEROT, Essilor International CEO

We have an assumption, and now we have to make it happen. You may have noticed that the range of the guidance is quite large in some cases, and maybe we will have good news and be in the middle or the top of that range, because the integration process is moving as fast as we would like. There are synergies, and we also need to build the two companies, and there are costs associated with that. Therefore, as I said, it is really too early, so let the business people work, and let us see where we are in July when we comment on the first half results, and obviously more precisely and globally at the capital market day in September. Let us work; we will do the work.

Mr. Cedric LECASBLE, MainFirst Bank AG

Hello to the enlarged team. You can imagine that I will try to follow up on these questions which are very important for us. Firstly, you seem to have very precise plans, when we listen to both companies explain what they want to do in 2019. We cannot imagine your different teams are not working together, so maybe you can tell us which teams or which subjects are more advanced than others. It would be very helpful to know where you stand today.

The second is for a little more granularity on timing. You are holding your AGM in May. Can we expect a little more granularity in the answers on the combination at the May AGM? The last one is a follow-up on the 2019 guidance. Should we understand that you might have some specific investments to prepare for a powerful combination that you would not necessarily have had on a separate basis? Should we understand the limited operating leverage, despite some synergies kicking in, by some incremental costs or investments offsetting the benefits from the synergies in year one? Is this the way we should understand it?

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

Regarding potential additional costs we might have, obviously we have a new headquarters and are building a new team, so you can expect some additional incremental costs with respect to a headquarters and building the new infrastructure and teams around that.

Mr. Cedric LECASBLE, MainFirst Bank AG

Therefore, the costs will be included and will not be considered as one-off costs. It will be part of your adjusted EBIT.

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

Regarding the headquarter costs, we are all sitting in a new office today, so those are ongoing costs that are incremental costs associated with the combination.

Mr. Laurent VACHEROT, Essilor International CEO

Regarding your first question about what teams are working together at the moment, I would say that all the teams are working together, and all the senior executives and top executives of both companies are meeting on a regular basis, either in the field, in China, in the US, in Milan or in Paris, and basically procurement are working very hard together, the lens and frame businesses, the R&D and innovation teams, and the operations teams are working together as well. All the marketing teams in different dimensions are working together in order to push categories, especially of lenses, as well as retail in both ways. Retail in Luxottica is working with our lens division everywhere and with managed care in the US.

Therefore, I do not have the precise number, but I do not see any of our top managers in both companies not being involved in working, executing or planning some of those integration workflows, of which we said there are 20 active.

Mr. Cedric LECASBLE, MainFirst Bank AG

Therefore, these individual teams are not yet coming to precise phasing or precise numbers, and that is what you want to compile for September.

Mr. Laurent VACHEROT, Essilor International CEO
Yes. Let us work. Let us sell some lenses and some beautiful frames. Let us build those plans and execute them in the proper manner, and we have many occasions in the next few months to talk to you – the first quarter, July, the AGM and the capital market day – so we will be together almost every month starting from now, and we will be able to update you on the work project.

Ms. Veronica DUBAJOVA, Goldman Sachs

I have two questions. My first one is on the revenue guidance that you have given for the year. Given the strong momentum with which you exited 2018, is there anything that worries you as you look at 2019? I would have thought the guidance would be a little more aggressive, with more expected M&A activity. The business looks very healthy as you look at the second half of the year, so we are a little surprised by the range there. Maybe you can comment on that.

Secondly, you have committed to this 50% dividend payout ratio. Is that the policy of the combined entity going forward, not just for 2018 but also in the medium term? That is a slight change, if so, from how Essilor had thought about it in the past; it is not necessarily a change for Luxottica. Is this a signal from you that there is a little less M&A potential that you see and opportunity therefore to return cash to shareholders?

Mr. Laurent VACHEROT, Essilor International CEO

Regarding the dividend, it is a new company. We have explained that we are happy to increase dividends this year to 50% based on the solid financials of the company, based on the growth, based on the value creation, based also on the fact that we have done fewer acquisitions in the last two years, also based on the success of the MTO. That means that most of the shareholders trust and commit to support us, from Delfin, from independent shareholders, to build that story and that company, so we thought it was a good number.

Let us let the Board work on future strategies. Let us go to the capital market day to see exactly what we want for the future, for the long term, to allocate cash flow to growth, dividends and shareholders.

Regarding revenue, the message is that we want to grow faster than this year; that is the first message. The second message is that, based on the speed of implementation of synergy, the speed of reactivating acquisitions on both sides and on the Essilor side, as you know, and also based on the result that those new plans and priorities will deliver, we hope to accelerate more and go to 5%. That is the simple way we looked at it.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Yeah and you know within the number there is definitely a step change in the velocity of our top line growth, from the Luxottica side I think those step change will come from Paolo Alberti from the Wholesale division. You have seen that already - that change took place in 2018, if you really compare first half with second half, and look at the fourth quarter numbers, the way Paolo and the team closed the year it is very promising.

So there is a difference pace that we expect to see in 2019. Volumes are going to trend on the positive territory, that is going to be different versus what we've seen in the last year. And so there is a lot of promising claims to really kind of picture and imagine 2019.

The other thing, just to add to Laurent's comments on the dividend policy, I mean let's not forget that this is a company that has a net debt to EBITDA ratio at 0.6, so it's a company that is very, very solid, it has a strong balance sheet, and has a very strong free cash flow generation. So we can afford dividend distribution and continue to grow and invest in the company for the future.

Ms. Veronica DUBAJOVA, Goldman Sachs

That is very clear, but we should not take the 50% as necessarily ongoing dividend policy beyond 2018. Have I interpreted what you said correctly?

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

There is no policy, I mean we can distribute up to 50% dividends as per a combination agreement, that's where we are.

Mr. Luca SOLCA, Sanford Bernstein & Co

I have one question on how you plan to evolve the senior management organisation. You look, from the outside looking in, like two excellent distinct companies. When do you see a reasonable expectation for a combined senior management organisation with single function heads? Are you planning to come to the capital market day in September with that organisation, or would that be too soon?

My second question is on the work streams. You talked a lot about 20 work streams. I wonder how they are progressing and what their status is. I imagine that they are not at the same milestone. I imagine that some of them are probably already provided with actionable schedules with actions that need to be taken, while others are still looking to assess potential and so on. Could you clarify a little more how the process milestones for these will be reached and what calendar you see for them going forward? I understand that you said, a number of times, that we should let you work, but I am afraid that the market is impatient by nature.

Regarding that, I was wondering whether you have in mind a return on invested capital target that you would see as the overarching goal for this post-merger integration process, and the improvement of return on invested capital would be conducive to shoulder value creation. I am very keen to get a sense of that.
Lastly, we talked for a number of years about the opportunity in rationalising and streamlining lens cutting and lens manufacturing operations worldwide. Both Essilor and Luxottica made significant investments in this area. I wonder if this is one of the work streams and where it stands.

Mr. Laurent VACHEROT, Essilor International CEO

I will take the first question on how we anticipate the organisation evolving. We have no answer to the third one – it is too sophisticated – on the return of capital target. We want to grow, to continue generating cash, to invest, and maybe the financing will be more specific on it, but as far as I know, we want to drive the company on cash flow generation, growth, growing faster than the industry, and ensuring that value creation will be there if we do well and create good products and efficiency.

I will finish with lens casting and whether we are efficient or need to do better. Regarding the first one, I will remind you of how we are building this company. We are not building this company to solve a problem. Two years ago, each company was doing well, and each could be more successful and progress. We are building this company because we have a vision that this industry needs a clear leader to grow the industry, create value, be more efficient, to bring more innovation to the market, to have everyone see better and eradicate poor vision. Therefore, we are not solving problems; we are building a better company step by step, and again, give us some time to do it. We are not solving problems. We opened the door for a few synergies that we confirmed – that was what we proposed to shareholders in 2017 – and this is where we are. Therefore, there is no due date for when the organisation should be finalised or not. We are a working and learning company; we learn by working, and we ensure that we take the best decisions at each step in the interests of the company and the shareholders.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

And just expanding a little bit more on the work stream velocity, Luca, good morning. I mean they are at different velocity, clearly. I mean Laurent talked about low hanging fruit, I think there are certain areas in which, you know, it's easy to come after on certain things. Lens insourcing, indirect procurement and frames assortment are the ones which - the teams have already done some work together. When we look at those streams, again they have different velocity, but the work has started.

Now, once we look at the return on invested capital, I will tell you that is a metric that is going to become very important, even more probably than in the past. Because clearly you've seen our balance sheet, we have quite a good amount of intangibles there and so it's going to become very important for us to provide return on the capital that we have invested. And that will come as a natural consequence of all the things that Laurent, Hilary, Paolo and the team have explained to you. So we don't have a number now, but I can tell you that will be an important KPI for the overall management.

Mr. Laurent VACHEROT, Essilor International CEO

You had a question on lens casters, manufacturers and so on and whether or not we are efficient. The industry is very fragmented, as you know; it is a young industry, producing and inventing lenses. It is a localised industry, with many players everywhere in the world, big, small and mid-sized. We have consolidated piece by piece over the last 10 years, as you have seen, with the partnership, and we built a stronger industry, for example in China, where we have seven or eight partners; we had zero 10 years ago.

The whole organisation inside Essilor is more efficient year after year, adjusting site sizes and combining some of them, but at the same time we have new technology coming in which we want to be part of, so there are new initiatives that pop up and make the company richer in terms of its offer.
You touched on a very good point regarding the long term, because now we are together, and in the future we will be able to connect consumers with R&D and the design of frames and lens R&D. The kind of efficiency we can extract from that in the long term is one of the topics that Essilor-Luxottica has to embrace and make plans so that we are more efficient together and build a more efficient industry.

Mr. Antoine BELGE, HSBC

I have three questions. First of all, with regard to the top line guidance for 2019, is it possible to have some of the underlying assumptions for each of the companies on a standalone basis? What is the amount of acquisitions that has been included in that guidance? I am thinking, for instance, that Barberini will have an impact at Luxottica. We have a rough estimate of 1.5% impact in acquisitions for the combined group. Is that a fair assumption?

And also, will you communicate a true like-for-like when you report Q1 sales for the first time? Luxottica did not have that notion of true like-for-like. Is that something you will provide, or not?

My second question is on the synergies. I understand that they have been confirmed. Two years ago, the 420 to 600 million was supposed to be amount that was net of reinvestment, at least for 2019, so at least something will be reinvested. Could you confirm that this 420 to 600 million is really a net number or separate?

Finally, in the press release you mention that there will be more synergies once the group is operating as a fully integrated structure. Is that after the five years of synergies, or can this happen a little earlier, especially once the group's CEO is hired?

Mr. Laurent VACHEROT, Essilor International CEO

I will take the last one. Building on the last example you mentioned of how we will make this industry much more efficient by connecting the consumer with the innovation, design and technology part of the company, including digital capabilities and so on, being more integrated means, in order to achieve the dream that the consumer could have a much better product with much better design, eventually designed to order in an efficient way as far as quality, timing and cost goes, obviously we will need a more integrated organisation as far as R&D to consumer is concerned. We have no plan at the moment to make this happen, but this is part of what we mentioned.

This is one example of what I want to highlight, that when we have integrated there is more to come. When we are integrated, we will not need millions of SKU in the Essilor inventory and manufacturing, because when you can drive the proposal to consumers when you are integrated, then you reduce the number of SKUs and the number of proposals. That is my illustration of what could happen when we are more integrated.

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

Regarding standalone growth, on the Essilor side we expect, on an organic basis, to be at similar levels to last year, and obviously our M&A growth was moderated over the last couple of years with respect to the transaction, because we did not want to do anything to interfere with the antitrust process, so we expect that to accelerate this year. Regarding whether we expect that to break out organically versus bolt-on growth, we will be able to provide some colour on that, but probably not specifically break it out in the same way you are used to in the past.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

And for Luxottica I think once you look at our 2019 number, Antoine, I already touch on that before. I think we do expect an acceleration in our top line growth, excluding currency fluctuation. I believe that that acceleration is going to come from the Wholesale side. I believe that the primary driver of that acceleration is going to come from volume. And I think back to your other question with respect to Barberini, the answer is no, Barberini, right now is not part of our 2019 number. But let me just remind you that Barberini is not a top line play here; it's more an integration that it makes sense from an integration point of view. And therefore, it's not going to be transformational from a top line perspective for 2019.

Mr. Antoine BELGE, HSBC

I have a follow-up on Barberini. The AGM confirmed the sales figures that were around in the markets – 90 million – which would still be a 1% contribution to your growth in 2019. That is 1% at the Luxottica level, which translates to 0.5% at the combined level is in the guidance.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

First of all, the numbers that you're looking at were on the standalone basis, and again there is a portion of business that is clearly intercompany business for us, it's pretty clear. And it is part of also the rationale for the acquisition. With respect to the overall process, I mean we are going through an anti-trust process, which you know is very important, very delicate, and we've got to be very respectful for that process and we're not going to comment any further on that.

Mr. Laurent VACHEROT, Essilor International CEO

Your last question was to clarify whether the cost of implementing the synergy part of what we commented on in the press release, and the answer is yes. The synergies, we confirmed, are net on cost on a five-year basis.

Mr Antoine BELGE, HSBC

That is why I will come back to a question my colleague already asked. You provided an EBIT guidance for 2019 specifically. What is the amount of synergy growth net of cost that you embedded in the guidance?

Mr. Laurent VACHEROT, Essilor International CEO

It is combined. Going back to the first question, allow us the time to clarify everything. A reasonable target will be to provide more information in July and obviously much more at the capital market day in September.

Mr Antoine BELGE, HSBC

Hilary remarked that the level of true like-for-like at the Essilor standalone level should be pretty similar to 2018 at 4.6%. You had a tough basis of comparison in the US from a regional viewpoint in Q4, but it seems that the fast-growing markets accelerated. What is the outlook for 2019, at least qualitatively? Is it moderation in the US but acceleration in fast-growing markets?

Mr. Laurent VACHEROT, Essilor International CEO

Speaking about Essilor as a standalone, if still say so, all the markets will continue to grow at their pace. We will see acceleration coming from fast-growing markets, obviously, such as Brazil and China. We know that India has been a little slow this year, so they are geared to accelerate. Europe and the US will be at their nominal level of growth, like we said, and we see some acceleration in the e-commerce business. Therefore, that is what we envisage on the Essilor side.

Mr. Julien DORMOIS, Exane BNP Paribas

I have three questions. The first relates to the M&A policy for the new group. Will both companies continue to run their own plants in the early days of the merger, which means Essilor and Luxottica focusing on their home turf? More specifically, when it comes to Luxottica, is there any kind of indication as to whether it will focus more on retail acquisition or on brands and licence acquisition going forward?

The second question relates to the online business, because it is obviously the fastest growing segment for both of you. I am just curious to see what kind of integration work has started already, because there are quite powerful tools in both companies, like Sunglasses.com, Ray-Ban.com, Coastal.com etc. How much of an integration should we expect for the online business going forward in the new entity?

Finally, in terms of the FX effect on the margin, Luxottica seems to have quite a bit of exposure to FX moves. Could you provide an estimate of the sensitivity of the margin to FX for the new group?

Mr. Laurent VACHEROT, Essilor International CEO

I will start by answering on the online business. Regarding the so-called low-hanging fruit we spoke about, we can benefit in terms of online from each other's product. The Essilor online capability could sell more frames from the Luxottica group, and with the Luxottica online capability for selling eyeglasses, we will obviously provide more service and products from Essilor.

Looking to the more medium or long term, both companies are really willing to digitalise their processes from A to Z. We are trying to build those platforms, capturing data on consumers and so on, so obviously there will be an opportunity that has not yet been studied as part of the 21st work stream to see how we could combine and leverage what we know about consumers, addressing our e-commerce and brand side. There is 200 million on the Essilor side – I do not know the number on the Luxottica side – but it will be quite powerful when we are able to combine those strengths.

Regarding M&A policy, do we have a policy for the combined group? I do not think so yet. Both companies have always been active in both fields in terms of acquisition. We would like to continue increasing the number of access points and points of sale to consumers. Essilor has done it, especially in the fast-growing markets, and Luxottica has done it successfully in Latin America. Therefore, I think we will continue for the moment, and the good news is that we have cash. We have cash, and there are a lot of good players in every segment of our industry who are willing to join the pack, if I may say so, and be part of the family. Therefore, let us be practical, and step by step we will see the best way to make those acquisitions.

Ms. Hilary HALPER, Essilor International CFO and EssilorLuxottica co-CFO

While we do not have an official policy in place, we are very well coordinated and working together on M&A, and we are looking at opportunities across the board. We are open for business with our strong balance sheet flexibility, but we continue to look at M&A, and we are working as one company now.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

With respect to the currency impact on the combined, I mean what I can tell you is that we do expect the impact on the combined Group from currency to diminish versus what you've seen for example in

Luxottica. So you're going to see a diminished impact of that because you're probably going to have more natural hedged situations, especially on the Essilor side.

Mr. Julien DORMOIS, Exane BNP Paribas

Does that mean that you will still have a little bit of a tailwind in 2019 for the new entity?

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Do you mean a tailwind deriving from currency?

Mr. Julien DORMOIS, Exane BNP Paribas

Yes.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Yes, that's correct, that is true for the first couple of months of the year.

Mr. James GRZINIC, Jefferies

I just have a very quick question, and perhaps a more philosophical one. I was surprised at the timing of the CMD, because I presumed that a lot of bottom-up work would have started in 2016, well ahead of the announcement in January 2017. Could you provide more context as to what the sticking points are in terms of what you want to clarify over the next six months that you would not have done in preparing for the deal and immediately after completion that requires you to take that longer time?

Mr. Laurent VACHEROT, Essilor International CEO

Yes, we know – we suffer from that in both companies, but for the last two years it was not possible to work in detail on all those plans and synergies in the short, medium and long term and all those strategic topics we also need to tackle, because of the lawyers, because of the antitrust process. Nobody expected, when we started this journey on 17 January 2017, that it would take so long to take care of antitrust in all 27 jurisdictions, meaning many more countries, because Europe is one. I am always a positive guy, and I see it as very positive that almost all the antitrust bodies in the world gave us clearance with very limited remedies. That means that the industries and the authorities trust that we will do a great job in helping the planet to see better. Therefore, the shareholders went through the MTO big time, and the authorities like what we do, so it is great news.

More seriously, you do not build a leader like that, a EUR 50 billion leader, a EUR 17 billion company, in one day, and there are many opportunities we have to tackle and to get organised. We explained that we are working on the first 20 work streams, and there are more to come. September is almost six months from now, so it is relatively short term vis-à-vis all we have to do and the ambition we have.

Mr. James GRZINIC, Jefferies

Can you perhaps remind us of the deadline for the CEO appointment? Are we thinking about January 2020?

Mr. Laurent VACHEROT, Essilor International CEO

We launched the search at the beginning of this year, with a target date of the end of 2020. That has been confirmed on many occasions since we took this action.

Mr. Dominico GHILOTTI, Equita

I have just one question on the retaining of American business. Could you elaborate a little more, as it was one of the few areas that was lower in Q4? I would like some colour on the start of the season as well.

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Good morning Domenico, I'll take that question. Yes we experienced a slight deceleration in the fourth quarter in North America. I can tell you a couple of things here; the first one is related to Sears. I mean you've seen that Sears has been going through a Chapter 11 process, now things are getting better, but they are definitely downsizing their operations. And that had an impact on our fourth quarter numbers. Also, the holiday season for Sunglass Hut was the other driver of deceleration in the fourth quarter. Again, the holiday season in North America, beginning from Black Friday was quite heavy promotional. And as you know we're taking a deliberate position to invest more in the equity of our brands than in the promotion in the front doors of our stores. So, we deliberately kept our stores in a very low profile during holiday season. And those are really the two factors that impacted the fourth quarter in Retail North America.

Mr. Dominico GHILOTTI, Equita

And are you happy with LensCrafters going back to say zero, almost zero or 0.5, some store sales growth?

Mr. Stefano GRASSI, Luxottica CFO and EssilorLuxottica co-CFO

Yes, we are happy, we have seen, as I said different velocities, H2 versus H1, and we have a very promising start of the year, that is definitely better, even than the second half of 2018. So very promising. We're happy, you know how important it is, LensCrafters, as an asset for EssilorLuxottica and it's something which we keep our eyes very, very close on.

Mr. Laurent VACHEROT, Essilor International CEO

Thank you for your interest in what the teams are doing and in what we are building. I hope we gave you a sense of where we are, a sense that demand, the industry and the business are growing, a sense that we are starting to build a plan together with both teams in order to create short, medium and long-term synergy, and obviously we will have many occasions in the next few months. It will start on 7 May with the Q1 sales, 16 May for the shareholder meeting in Paris, 31 July for the H1 results, 18 September for the capital market day, and finally the Q3 conference on 30 October. Therefore, we will have many occasions on which to show the progress and the results of EssilorLuxottica in the making.