EssilorLuxottica

1H 2019 Results
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Speakers

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Q&A

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Mr. Laurent VACHEROT, Essilor International CEO

Good morning everyone. As you understood, I am in Paris here with Hilary, Stefano and Pierluigi.

Hilary and Stefano will comment a little bit later on the result of this first half, and with Pierluigi, we will walk you through this fantastic news about the announcement about the transaction with GrandVision. I will do some opening comments, so during this first half we have continued very actively to build EssilorLuxottica in all its dimensions: strategic vision with the acquisition of GrandVision, the acceleration of the integration, and the bolt-on acquisition. All of these driven by our mission to help people to “see more, be more and live life to its fullest”.

First let me give you a little bit of comment and colours about the results you have seen. We have just completed a solid H1 with revenue growth at 7.3% and net profit going in line with this revenue, and a very good cash flow at EUR748 million.

Most of the important areas of our business confirmed double-digit growth, including fast-growing markets and online. In Q2, sales growth accelerated for the full group at 4.1%, at constant exchange rate. This confirmed the strength of our underlying business despite a few headwinds like a mixed sun season, difficulties at Sears Optical that you know, and anticipated destocking of Transitions, preparing the launch of the GEN8 of this fantastic product.

At the same time, we managed to post robust growth in the lens division, led by China, Brazil and Europe. We saw a sharp rebound in the Sunglasses and Readers division driven by Bolon, and we accelerated in Wholesale. We grew nicely in Retail with 14% growth in e-commerce.

Operating margin at 17.2% is solid, and fully in line with the budget. It reflects the performance of the activities, but also a deliberate increase in sales and marketing to launch many new leading-edge lenses, like the Blue UV Capture and Eyezen Start, a new generation of instruments for optometrists. I think we already spoke about it, but it is happening now. A new in-store measurement device Visioffice X, and also a major effort to prepare the launch of the new generation of Transitions 8 that happened in the US in early July and will continue in North America and South America during the fall.

It reflects also the coming back of a media campaign for Sunglass Hut with Gigi Hadid as an ambassador and digital consumer experience, which we have presented to the recent Luxottica Days at Como Lake.

Also, the decision to invest for growth in several strategic projects around digitalisation of our business and solutions to address the myopia pandemia. We also resumed our bolt-on acquisition strategy with several key transactions like Brille24 in Germany, a leader in omni-channel retail, and also the acquisition of the laboratory of the important chain in Mexico, Devlin.

Finally, the decision to build EssilorLuxottica faster by accelerating our integration. I will come back to that in the conclusion.

As you have read also in today’s press release regarding a few very important events for the company, we have renewed the exclusive licence agreement with Bulgari, one of the key brands from the LVMH Group. We have also got the approval of Barberini, the leading manufacturer of high quality mineral lenses, which is a very important one for the next quarters.

As you can see, the business is doing well, and we enter into the second half full of confidence. With this now, I will hand over to Hilary and Stefano for more details on our results.

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

SUSTAINED MOMENTUM IN ESSILOR'S LENSES AND IN LUXOTTICA'S RETAIL

Thank you Laurent, and good morning everybody. Let's start commenting our first semester top line results, first of all by business unit, and then we will get into more details throughout the different geographies.

EssilorLuxottica overall top line, you see on the bottom-right of the page, was up 7.3% on a current effects basis in the first semester 2019. Our result at constant exchange rates [constant FX] was up 3.9%. We do see a material acceleration in our top line performance. As you might remember, in the first quarter EssilorLuxottica posted +3.7% growth rate on a constant FX basis. In the second quarter, our results were up 4.1%.

The tailwinds that you see from constant to current effects results are very much due to the strong revaluation of the US Dollar, that during the course of the first semester 2019 was around 7% versus the Euro. We do expect, if the US Dollar remains at current levels, to see those tailwinds continue during the third and the fourth quarters of this year.

Now, let's start looking at the different divisions, beginning from the biggest one, Lenses and Optical Instruments. The first semester saw the top line growing mid-single digits on a constant FX basis, +4.9%. We had solid growth in our fast-growing markets, namely China, Southeast Asia, Latin America, but also in some of our more mature geographies like Europe and Australia. We continue to experience a strong online business for lenses that is actually growing at a double-digit pace. The only country in which we have mixed results, and Laurent anticipated that, is the USA. That was very much largely expected as we are fading out from the previous generation of Transitions lenses and we are now all excited about the launch of Transitions Signature GEN 8 in the United States, that is happening as we speak during the third quarter.

Sunglasses and Readers, +8.4% for the first semester on a constant FX basis. The second quarter in strong acceleration, +14.1% thanks to a strong performance of Costa, the FGX business, as well as Bolon in China.

If we now move to our Wholesale division, +1.7% [on a constant FX basis]. Strong rebound in the second quarter compared to the first quarter trend, very much driven by North America, Latin America as well as Asia and Oceania, and we will get into more detail in the following page. The growth driver for our Wholesale division is very much volume, and that obviously is something that is very pleasant.

If we now move to Retail, +3.6% in the first semester on a constant FX basis. Comps were flattish in the first semester. Once we look at all the different regions, the leading one was really Europe with top line growing in excess of double-digit, and we will get into more details later on.

I would just close this out with a comment on our e-commerce business that is actually posting a growth rate for the first semester close to double-digit with a second quarter in acceleration, very much concentrated in North America, very much thanks to a strong delivery of our Ray-Ban.com website.

ESSILORLUXOTTICA REVENUE UP 3.9% AT CONSTANT EXCHANGE RATES

If we now move to the next page, this is just a quick summary on how we performed on the overall basis throughout the different geographies. Again, I will not spend too much time on this page because we will get into more details on the following ones, but I just want to convey a couple of messages here. First of all, all the geographies posted solid growth during the first semester on both constant and current effects basis.

The second thing that you have seen is that there are certain geographies where the vast majority of our fast-growing markets are concentrated that are actually growing faster than our more developed markets like Europe and North America. Therefore, we overall have a very balanced growth in absolute terms, but we will now dig into the different geographies.

Let's start from the biggest one, North America, so I hand it over to Hilary.

NORTH AMERICA: UP 1.9% AT CONSTANT EXCHANGE RATES

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

Perfect, thank you Stefano, and good morning everybody. Now, I will comment on North America which, as Stefano said, for the combined group was up 1.9% at constant exchange rates, and if I focus a little bit more on the Essilor performance in North America. Growth improved sequentially, in Q2, with our US lens business, e-commerce and sun and readers all performing well.

In the US we continued to expand our Essilor Experts programme to around 4 800 ECPs, and I think it is important to note here that we have added roughly 20% to the Essilor Experts programme since the end of 2018, so this is very strong progress.

As a reminder, Essilor Experts is a programme in which we provide an enhanced level of support to our ECP customers with a focus on innovative lens categories and proprietary systems and processes to support growth at a practice level. Therefore, it is quite an important programme for them, and for us.

E-commerce grew in the mid-teens, again mainly drive by EyeBuyDirect.com. On the sun side, Costa was supported by the ongoing rollout of the optical frame collection, which is quite strong.

Looking forward into H2, we remain quite confident with the Transitions GEN 8 launch, which we are all excited about, that kicked off in July, and the continued execution of our Go to Market strategy, including the Essilor Experts, which I just talked about a little bit, alliances and the onboarding of new key account business.

With that, I will hand it back to Stefano to go through the Luxottica for North America.

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

Thank you, Hilary. Let's look at Luxottica North America performance, which was very much in line with the overall EssilorLuxottica trend. Let's start from the wholesale. First of all, we are happy to see a strong acceleration in the second quarter compared to the first quarter trend. Very happy to see that growth coming from independent channels which, as you know, represent about 50% of our wholesale revenue base in North America. Very happy to see price mix driving that growth in North America. You might remember that, during the first quarter, price mix was a bit of a challenge in our wholesale in North America. We were expecting that improvement to happen during the course of the second quarter and here you go. We've got what we were thinking, and we do expect that price mix improvement to carry forward during the second half of the year.

If we now look at our retail, LensCrafters was flattish in comps and sales for the first semester. As you know, LensCrafters is very much playing in an arena that has very competitive, low-growth rate market that is the optical retail one in North America. A lot of large retail organised chains are out on the market with very aggressive price points, with very strong promotions. That is not what LensCrafters is doing. LensCrafters is very much focussed on the quality of the products, the quality of the lenses, the quality of the frames and the overall service level that we want to give to our consumer. We are strategically taking the decision to position LensCrafters in a different space, and obviously in an arena that is very competitive as the optical retail market.

The underlying performance of LensCrafters is extremely positive. We do see price mix improving. That is very much due to the lens side. We continue to see improvement in the penetration of Transitions lenses. We continue to see penetration of Blue IQ lenses and we continue to see improvement in the penetration of Oakley and Ray-Ban authentic lenses. Therefore, all the underlying KPIs for LensCrafters are moving toward the right direction.

Sunglass Hut, as Laurent mentioned, is back on TV after three years with a very strong campaign with a very important testimonial like Gigi Hadid. Unfortunately, at the same time we were on air with this new campaign, we were hit by bad weather, and that was very much true for North America as well as for Europe, between the months of May and June. It was not really a warm welcome to the summer season in a way, but we are confident that the impact of this campaign will be seen throughout the second half of this year.

Last but not least, talking about North America, EyeMed continued to grow at a very strong pace. We hit 55 million lives insured in North America, so a pretty remarkable result for our managed vision care business in North America. We do continue to see a double-digit growth rate in Target Optical, whereas regarding Sears, on the negative side, we do have a material dilution of our North American retail growth rate which is very much driven by a lower Sears Optical store base, and obviously, a challenging environment for our host.

EUROPE: UP 4.7% AT CONSTANT EXCHANGE RATES

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

Now, let's start looking at our second most important geography, Europe.

The overall EssilorLuxottica top line was up 4.7% on a constant FX rate in the first semester.

Once we look at Luxottica, we had our Wholesale division growing in a low single-digit territory, a pretty consistent pattern between first quarter and second quarter, but what we notice, in particular during the second quarter, is a different velocity between our prescription business, that was up double digit, and our sun business that was actually on the low single-digit growth rate. We believe that the vast majority of that is due to the weather conditions that we had in Europe.

The STARS programme, and this is on the positive side, is actually accelerating. During the second quarter, we posted 18% growth rate, and now the STARS programme represents over 20% of the overall wholesale business in Europe. So, a very successful programme that we want to continue to grow even going forward.

But the leading, shining stars of our retail in Europe are very much Sunglass Hut and Salmoiraghi & Viganò. Both chains posted solid growth. The overall retail in Europe was up in excess of double digits, a fairly balanced growth rate between comp sales and new space due to new store openings. Therefore, we continue to see a very strong rate. As a matter of fact, we were double digit in Spain, double digit in Turkey, in Germany as well as in Portugal. Therefore, we have a remarkable performance of our retail business in Europe.

With that, let me hand back to Hilary.

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

To continue on Europe from the Essilor side, we had mid-single-digit growth in Europe, which was really led on the Essilor side by France and Eastern Europe, and this is really a function of our overall Go to Market approach that includes everything from the lens brands that you are most familiar with, the Crizal, the Varilux, the Transitions, to our instruments offering, which includes Visioffice X for personalised lenses, and the new Vision R 800 phoropter. The VR800 is really reinventing refraction with greater accuracy and precision through the easier procedure for both the practitioner and it is a more comfortable experience also for the patient, so great on both sides.

We are also rolling out the new business model in Germany following the acquisition of Brille24, and its innovative drive to store model.

ESSILORLUXOTTICA

ASIA, OCEANIA, AFRICA: UP 5.8% AT CONSTANT EXCHANGE RATES

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

With that, we will close out on Europe, and we will move to Asia, Oceania and Africa, which on a combined company basis was up at 5.8% at constant exchange rates. On the Essilor side, in the Asia pack region, China showed really solid momentum throughout H1 with double-digit Q2 growth, supported by all business lines from lenses to e-commerce to optical frames.

South East Asian countries delivered outstanding growth with Thailand, Malaysia and the Philippines as really stand-out performers.

South Korea also delivered strong H1 with an acceleration in Q2, and Australia showed marked improvement over the second half of last year with robust growth in the ECP segment.

Stefano, over to you.

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

Thank you, Hilary. It was a good growth story for Luxottica as well in this part of the world. We continue to see solid growth in our key geographies, in Asia, Oceania and Africa. We were very strong in Japan, Korea, Southeast Asia and the Middle East.

Last but not least, in China, and particularly on the wholesale side we are very happy with our strategic reposition that we undertook a couple of years ago. We are now rebuilding a wholesale business in China that is stronger than before. We have a tighter partnership with our clients in China, and we are really better positioned, better than every I would say, positioned in this part of the world for future growth.

We continue the expansion of our retail footprint in Asia. In particular, we opened about 25 Ray-Ban stores, very much concentrated in China, because we believe that that format is a very successful one in that country. We continue to see positive growth, quarter after quarter, in our Australian optical retail business. Now we are on 12 consecutive quarters of solid growth in that part of the world. You will remember that, a few years back, Australia was one of the areas in which we had quite a few challenges I would say, and so I am very pleased to report a continuous steady growth pattern in this part of the world, from a retail perspective.

LATIN AMERICA: UP 12.3% AT CONSTANT EXCHANGE RATES

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

Now, let's start with the last geography, Latin America. You do see top line performance, +12.3% overall on a constant FX basis, a very remarkable performance.

I will give you a couple of readings about Luxottica. When I think about Latin America, I really think about our biggest geography there, and that geography is Brazil. When I think about Brazil, there are really two assets that we have over there that we continue to leverage more and more every quarter.

The first asset is Óticas Carol. It is an acquisition that we made a few years ago and is a very successful one. It is instrumental to our growth in that part of the world. We have added, in recent times, around 70 new doors in the Óticas Carol network, and we are very strong, we have a lot of partners that every day want to cooperate and work more with EssilorLuxottica, for the frames and for the lenses.

The other important asset that we have in Brazil is really the STARS programme. The STARS programme now accounts for more than 1,000 doors, more than 40% increase in STARS doors compared to the same period of last year, and we know that every time that we do have the STARS programme in place, that is always a successful story. Therefore, we are happy to see that.

Last but not least, outside Brazil, a double-digit growth story is Mexico. A very strong geography that had a strong rebound during the second quarter. But now let's hear some more about another successful story, the Essilor one in Latin America. Hilary.

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

Thank you, so yes, Latin America on our side was a star performer as well. It posted double-digit growth with consistently strong performance across the region in both the first and second quarters, so consistent performance.

Brazil was really led by Varilux and the regional chains that we have there. Then outside of Brazil, we saw strong performance in Argentina, Colombia and Mexico.

With that, we will wrap up the commentary on the top line performance from a geographical perspective and we will really continue now to take you through the EssilorLuxottica adjusted income statement and dive into more of the numbers here.

ESSILORLUXOTTICA ADJUSTED INCOME STATEMENT

Ms Hilary HALPER, Essilor CFO and EssilorLuxottica co-CFO

In terms of the P&L, where are we? For the first half, we reported revenues of EUR8.776 billion on a pro forma adjusted basis, as we said before, growing 7.3% over the prior year in reported in currency terms, and 3.9% at constant exchange rates.

On gross profit, we had gross profit of EUR5.549 billion, which grew at 6.8% at current exchange rates, and 3.1% at constant rates. Slower than our top line growth, on a 30 basis point decline in our gross margin. This was really driven by a variety of different factors, including margin leverage from the frame business, which is offset by portfolio mix effects in the lens business, mainly faster growth in lower gross margin businesses, including sun and readers, and online sales of contact lenses, as well as slower sales in Transitions ahead of what we anticipated in terms of the GEN 8 launch.

If we move on to adjusted operating profit, we had adjusted operating profit of EUR1.512 billion, which grew at 4.3% at current rates and declined slightly at minus 0.4% at constant rates. I would really like to highlight here that these figures have been adjusted for IFRS16, which leads to a rebasing of the figures reported in previous years.

In these terms, our margin was 50 basis points lower than prior year, and this was really due to a combination of factors. We have the additional holding company costs at the EssilorLuxottica level, and we have continued investments in growth initiatives. These investments are primarily on the lens business side, and they include investments in e-commerce, Sun and Readers, the Transitions GEN 8 launch, as well as activities to develop the myopia segment.

We also increased the support for the key frame brands and retail with Sunglass Hut TV media that restarted, as Stefano commented, and this was offset to some degree by strong cost management on the Luxottica side.

These OpEx items were offset to a large degree by a reduction in our financing costs, which we were really able to take advantage of more favourable rates as a combined company, and this is despite some exceptional cash flow items that increased our overall debt level, so very strong performance on the financial expenses side of things.

As you will recall, along with our annual H1 dividend payment, we had the MTO outlay, so very strong performance here. We also benefitted on the tax side as our effective tax rate was reduced to 23.8%, and this is really most driven by more favourable geographic mix.

Finally, if we look at our net income, our net income was EUR1.099 billion in adjusted terms, up 6.8% in reported currency terms, and 1.9% at constant currency.

ESSILORLUXOTTICA FREE CASH FLOW AT €748 MILLION

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

If I move now to the free cash flow statement, our group free cash flow amounted to EUR748 million for the first half, and this is when normalised for the IFRS16 effects, and this was comprised of EUR1.925 billion in operating cash flow. Then we make the adjustments, so less our working capital increase of EUR436 million. Then we have the cash payments of the lease liabilities of EUR303 million, and CapEx of EUR438 million, and the CapEx really equates to about 5% of group revenue.

If I move onto the net debt, on a financial net debt, let me comment that because we have the IFRS16 adjustments, amounted to EUR2.773 million as at the end of June, and this was an increase of EUR886 million, and influenced by a EUR925 million payment for the annual dividend. As we mentioned before, our EUR643 million for the cash portion of the mandatory tender offer, and all of this puts us with a net financial debt to EBITDA of well below one turn of EBITDA, and this really leaves us in a very strong position to move ahead with our acquisition of GrandVision on attractive terms a financing perspective, so we are really in good stead from a leverage perspective.

GRANDVISION TRANSACTION

Mr. Laurent VACHEROT, Essilor International CEO

Thank you Hilary and Stefano, so I think now we will move to the GrandVision announcement this morning. I do not think it is a surprise, as there have been some rumours and leakage in the press, and we confirmed the discussion two weeks ago.

Also, for you that are following EssilorLuxottica for a long time, you really know how it is quite a natural move. What is more remarkable is that we have been able to execute this move very fast, and we have been very quick to align all the parties. Obviously, the owner of GrandVision, GrandVision and internally, inside EssilorLuxottica, all the management and the board are fully supportive of this move. That is very important for the industry. I think this is a great achievement that we have been able, all together, to achieve in the very limited time.

It was part of the plan when we built this combination with EssilorLuxottica and now here it is, and in a few months from now we will have the opportunity to welcome all the GrandVision associates and I want to tell them how thrilled we are to welcome them, and so they can become part of this journey.

With this announcement, we will continue our journey to build a global leader in the eyecare industry that will be able to transform the industry with only one objective, to provide, alongside with all industry players, to every consumer in the world, a better experience with high-quality eyewear and high-quality branded frames.

What does that mean exactly? You know we want to develop this industry. In order to develop this industry we need to speak to the consumer in many different ways, and we want to have what we call a multi-channel strategy, country per country, where we want to ensure that every consumer will find, directly with us, or through our ECP customers, in store or digitally, or both, the best superior eye care and eye wear experience that they choose and deserve.

Obviously, it is a very natural fit, the combination between EssilorLuxottica and GrandVision. Over the last decade, GrandVision has built a state of the art retail network and highly respected management team. It is also a very strong footprint in EMEA region in Europe, basically where EssilorLuxottica retail is less developed. Therefore, this is an excellent fit for us from a geographical perspective, and in Europe, and compliments our emerging market retail presence.

Once it is done, the EssilorLuxottica plus GrandVision will be much more balanced in terms of geography, and we will be more or less 50/50 between North America and Europe in terms of sales and store footprint in retail. We will also be more balanced in terms of all selectivity, which will remain very important, and retail activity.

Finally, Pierluigi will cover the deal structure in more detail, but the acquisition of GrandVision is very financially attractive. It is a company which is running well, that with the combination with EssilorLuxottica will benefit from all the services and products that we can provide to them. It will improve, and grow, and accelerate growth by this combination.

Next, you have a high-level description of GrandVision. As you have seen, it is a growing company; in the last five years they grew by one million. In 40 countries they cover 37,000 employees, 7,000 stores across 30 successful leading banners locally. They have 700,000 visits per day in their stores, and e-commerce capability, which is quite impressive, and a customer base of 150 million consumers. Therefore, it gives you a sense of the size of this very successful company.

Next, you see how we are complementary in terms of balance of banners and regions. You can also see the e-commerce capability that will be added to the company, and we know that the management team of GrandVision recently has, in the last years, accelerated digitalisation and omni-channel strategy in their organisation.

Therefore, how will EssilorLuxottica look once the acquisition is complete? You see we will be a 20 billion company, almost 20 billion company. We will be half in the US, half in Europe. We will have 18,000 stores, and the weight of Europe will increase up to 35% in number of stores.

Also, at that moment, I would say EssilorLuxottica will be only 15% of 20% of these activities in emerging countries, which may be the next step of growth for EssilorLuxottica which is an increased retail footprint in those geographies which are fast-growing.

With that, I think we will pass the mic to Pierluigi who will explain in more detail the structure of the deal.

TRANSACTION SUMMARY

Mr. Pierluigi LONGO, EssilorLuxottica Group Head of M&A

Thank you, Laurent. Good morning to everybody. First of all, let me say that I am extremely happy to be here to comment on the key terms of the transaction which represents a new milestone in the history of EssilorLuxottica, and which is also the first significant acquisition since the creation of our new group.

As you read in the press release we issued today, the agreement we reached with HAL is to acquire the entire participation that they have in GrandVision. EssilorLuxottica, upon closing, will pay a purchase price of EUR28 per share, in cash, which represents a valuation of approximately EUR5.5 billion for the HAL stake.

The price might increase by 1.5% up to EUR28.42, in case the transaction does not close within 12 months from today. The purchase price represents a premium of 33% to the unaffected share price of GrandVision on July 16, before the information was leaked to the market. Upon completion, we are going to launch a mandatory cash public offer to all the minority shareholders with the objective of delisting GrandVision.

The transaction is going to be valued at EUR7.1 billion for 100% of the equity for a total transaction value of a little bit in excess of EUR8 billion, including the debt of the company as of today.

In the context of this transaction, we have also obtained bridge financing from primary financial institutions for approximately EUR8 billion, and we plan to refinance it in due course through debt and equity or equity-like instruments up to EUR2 billion.

We have discussed the transaction with our board. We had the full support of our Board of Directors and of our management team. We also discussed with the Supervisory Board and the management team of GrandVision, and we got full support from them. In the context of the transaction, HAL entered into an irrevocable commitment to sell their stake to us, even in case of superior offer from third parties.

We are confident to close the transaction in 12 to 24 months, once we have obtained all the antitrust approvals and we are going to satisfy all the customary closing conditions.

In the context of the deal, we have also set a long-stop date which will occur on 30th July 2021, so in two years' time. With this, I hand it over back to Laurent.

CONCLUSION

Mr. Laurent VACHEROT, Essilor International CEO

Yes, a final word before the Q&A session. Thank you Pierluigi, and congratulations because you have been very instrumental in leading this beautiful transaction, so thank you, and congratulations.

As you know, Francesco Milleri and I, we have been tasked by the chairman and vice-chairman to accelerate the integration and the simplification of the group. This was back in May, if you remember, three months ago. This is exactly what we have started to do together. The chemistry between both of us is good, and it has already translated in some key decisions.

As you know, all of this integration process is organised around the Integration Committee that meets every two weeks and provides us with a solid process to make sure everything is on track. At the moment, we have 22 workstreams which are up and running which we review every two weeks. It is working pretty well.

Also, as you know, in March, we confirmed a range of synergies from EUR420 million to EUR600 million, net impact, on adjusted operating profit within the next three to five years.

Therefore, we expect the first tangible results in the next month, and the bulk of the impact will start from 2020, and will accelerate after.

Obviously, as you know, we have set up a Capital Market Day on 25th September in London, and this will be the moment where we will be in a position to provide you with more information on the nature of those synergies and the phasing in the next coming years.

Now, how do the second half of this year? What we should see is an acceleration of growth and an acceleration of profitability on top of the good H1 momentum Stefano and Hilary described.

Here is what we will see: in the lens division, as you understand, there is a lot of new product coming in and accelerating growth. The biggest impact we expect is coming from the new generation of Transitions. Again, you that have followed us for a long period of time, this is the number 8 generation, and you know that with each new generation there is a big leap for the category and for the Transitions brand. There is also other products that are ramping up at the moment.

We also rely on the number of Essilor expert outlets that we have in North America, that increased 30%, and as Stefano mentioned, the number of STARS customers that provide more proximity and intimacy and efficiency to deliver new products and new collections.

We will also take advantage of the accelerated development of extra thin lenses, branded Nikon and manufactured in Japan. That is a big push for growth and profitability.

Our digital acceleration investment, both in Luxottica and Essilor will increase a little on customer surfing on the website for information to active omni-channel buyers. We will also benefit from an easier comparison base on sales and margin in countries like India and Brazil.

I did mention, Sunglass Hut North America should benefit from the positive effect of the advertising campaign that started in Q2, as well LensCrafters activity will be supported by a Back-to-School TV campaign, which has actually started at the moment. Also, Target Optical and EyeMed will continue to be very strong, and we expect the total online business, to continue to accelerate and grow double-digit in H2.

Finally, we should also benefit from the restructuring and the lab optimisation that happened especially in North America and Europe at Essilor. That job has been done in H1 and we should benefit from it in H2.

We will also see the first positive impact on sales and costs, even if they are small, from the synergies and the integration processes I mentioned just earlier.

The second half will also be helped, the acceleration will be helped by the few acquisitions we have made at the end of H1 or beginning of H2. I already mentioned the Barberini acquisition. That should be closed in the coming days, and the positive impact of providing lens to this retail chain in Mexico that we signed late in June.

With basically all of that, we have enough confidence to confirm our financial objective for 2019, and it is now time to move to the Q&A session.

QUESTIONS AND ANSWERS

Ms. Elena MARIANI, Morgan Stanley

Hi, good morning everybody, and congratulations on your deal announcement this morning. May I start asking a few questions on this transaction?

First of all, on the synergies, GrandVision said earlier today in their conference call that they expect synergies to be more on the revenue side rather than on the cost side. Could you confirm this, and perhaps give us a little bit more detail on the potential value you think you could extract from this asset? I am particularly interested in understanding how much further lenses and frames penetration you could achieve in their retail network, given how different the price positioning is versus your product base? Also, whether you think you could manage the asset in a better way? As you know, GrandVision is a pretty complex organisation, and they have been struggling recently to deliver earnings growth, margin expansion. How do you think you could change this trajectory within your group's structure?

The second question, how do you expect your wholesale customers to react in Europe? I guess there might be a scenario where you could see some disruption over the next 12 months in your wholesale business before you close the transaction and you start to get any benefits from the deal.

Finally, I think that the timing has surprised several investors. Why are you pursuing this deal now given that you are probably the only potential buyer out there? You have a lot on your plate, so could you explain to us how you plan to prioritise all the different workstreams and why investors should feel comfortable with the execution? Thank you.

Mr. Pierluigi LONGO, EssilorLuxottica Group Head of M&A

Thank you, Elena. It is Pierluigi. I am going to try to answer your questions, thank you very much for them.

On the synergies side, it is premature to comment on what we can do. We learned that the analysis of the synergy potential is very hard work; we are working together with the team to extract value in synergies out of the combination of EssilorLuxottica. And right now, we are focussed on those activities.

We see opportunities, so there are a lot of opportunities coming from the integration of GrandVision and EssilorLuxottica, but that will take a bit of time to get it done. In the meantime, we are going to focus on the antitrust process and on the satisfaction of all the condition precedents.

With respect to the lenses and frames, it is important to stress that GrandVision is already one of our key customers, especially on the Luxottica side, and is already a customer of Essilor on the lenses side. Therefore, there is already a number of products which are sold through the GrandVision network throughout the world.

We have a significant expertise in retail. We have learned to integrate retail networks over the years. All the retail banners and networks that we have, have been the results of M&A activities. The last one is Salmoiraghi & Viganò. And Stefano already commented on the great performance that we've been achieving after the completion of the acquisition of Salmoiraghi & Viganò. We are confident that we are going to achieve similar results after the integration of GrandVision, which is properly managed. We have a lot of confidence and respect for the work that is being done by the current management team, and we believe that combining strengths and expertise, we are going to be able to do more.

With respect to the wholesale customers, it is difficult to comment. As I said, we have a significant expertise in buying retailers, and if we look at all the countries where we have a retail network operating, such as the United States, such as Italy, we did not suffer a significant pushback from wholesale customers. We are relying and leveraging on an open platform model. All our products are going to be available to all our customers. All our innovations and services are going to be made available to them. Our retail business is going to service a showcase of what can be done in whatever store, or whatever eyecare and eyewear store in the world.

With respect to timing, when good opportunities arise, you know, you need to catch them and make sure that you leverage on that window. This is something that we have been looking at for years. On our side, on the Luxottica side, on the Essilor Luxottica side, and we believe that this is the right time to do it, and we have the proper management team, the expertise and resources in terms of capital, human capital and expertise, in order to integrate this as soon as we are going to get to the closing date.

Laurent, I do not know if you want to comment?

Mr. Laurent VACHEROT, Essilor International CEO

Yes, just a little bit to complement. Timing, it was part of the plan when we decided to have the combination between Essilor and Luxottica. This is probably one of the initiatives that we started right away after 1st October. Therefore, it is happening, and we found some interest in GrandVision and HAL - the owner of GrandVision. And we hope the acquisition will happen in one year, maybe a little bit more.

Therefore, as Pierluigi said, we have a lot of time to pursue the integration of Essilor and Luxottica, and then to welcome GrandVision.

On the potential retaliation or reaction from customers, obviously it is too early to say anything on this. It is not obvious it will happen, or not obvious it will happen on a big scale but it could. We have a plan to mitigate if it is happening. We have a plan to be close to our customer at the moment, and when it will be back to school, there is a plan to support our customers in what they want to do, all customers. They also know that EssilorLuxottica, is the one providing the industry with innovation, new solutions, frames, lenses, frames and lenses together. They know that, and they respect that. If it is happening, it is only a short-term situation, like we have seen one year ago, or two years ago when we announced the EssilorLuxottica combination.

Therefore, we are confident that we can mitigate and go over that situation quite simply.

Ms. Elena MARIANI, Morgan Stanley

Okay, thank you. Maybe just two small follow-ups. I know that you already have a good relationship with GrandVision and you are already offering, particularly on the frame side, a good portion of products, maybe a little bit less on the lenses side. I just wanted to better understand how you plan to further increase the penetration, given that your price positioning is very different. I mean GrandVision is a value player. You have always very proudly been more premium, so, are you planning to embrace lower price points, to slightly premiumise the chains? You know, how should we expect you to manage these assets?

Secondly, going back to the performance of GrandVision, they have been struggling with margins, delivering earnings growth. How do you think you can make it better? Do you think that you can improve the performance of the overall asset within your group structure, and why are you confident on this? Thank you.

Mr. Laurent VACHEROT, Essilor International CEO

Pierluigi, I will take the question, and you may complement if needed.

Number one, you know we, Essilor, at that time, we were the provider of GrandVision for a long, long period of time, until the last few years. Therefore, we have the knowledge together with GrandVision on how to develop categories, how to integrate the supply chain for lenses and frames, and we will do even better as we are EssilorLuxottica now, with frames and lenses together.

Today, we are delivering a very small number of lenses to GrandVision, so it is a great opportunity, frame and lenses, to grow with them.

As far as positioning of GrandVision, when you want to develop a market, you need to cover every price point, and improve customer satisfaction, service, quality of product at every price point. I think that what we will aim for, once GrandVision is on board, is to cover the market with a multi-channel strategy, maybe different positioning. I guess in every country there will be a Ray-Ban store, there will be an Oakley store, there will be a GrandVision store, there will be, at every level, a store that will provide better solutions moving forward to the consumer. I think that is what we have to do in the next coming years as soon as GrandVision is part of the family.

Ms. Elena MARIANI, Morgan Stanley

Okay, thank you very much to all of you.

Mr. Antoine BELGE, HSBC

Yes, hi, it is Antoine Belge at HSBC. Three questions. First of all, regarding the financing, as you mentioned, it will be mostly through debt. What sort of interest rate should we be using on the EUR8 billion to try to estimate the cost of financing the acquisition?

The second question, I think everyone takes on board the fact that GrandVision is quite complementary, especially from a geographic perspective, but I think you admitted that in the US for instance, the optical retail market is very competitive and there are new distribution models arising. In that aspect, I mean how is Europe different, and if I want to play a bit the devil's advocate, it has been difficult for you to turn around LensCrafters, so how confident are you that you can improve the performance of GrandVision and create value on the price that you paid?

Finally, regarding the Capital Market Day in London on the 25th of September, it will be a Capital Market Day without a new CEO, so it will obviously be on the synergies that you will disclose, confirm or raise and that will have a significant impact on margins. Will you also be giving an indication of the amount of reinvestment that is needed to be done? Again, it is around the discussion around growth synergies: is this net synergies once you have maybe relocated some of the gains to finance future growth? Thank you.

Mr. Laurent VACHEROT, Essilor International CEO

Well, Antoine, thank you for your question. On the financing, obviously it is too early to say. We have secure financing. Because we want to keep the great rating that we have, we will finance it partly debt and equity, but the rate and so on, it is too early. We will know more in a few months from now.

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

I think obviously we plan to take advantage of the favourable finance rates that are out there, and you can make the assumption that in terms of the cost of debt, it will be in line with our current cost of financing.

Mr. Laurent VACHEROT, Essilor International CEO

Now, your question on retail, and evolution of retail. As with every business, there is evolution at every moment, and we want to be part of driving this retail improvement and proposing more and better solutions to consumers at every price point. I think Antoine, we need retail, and we need access to consumers, and for a long time to propose to consumers, educate consumers, provide consumers with the best solution to see well and protect their eyes. Europe, was especially for both companies a gap we had so far. Therefore, when GrandVision will be part of the family, this gap will be filled and we will do our job, which is to improve solutions and the presentation of those solutions, eye exam, frame, lenses, frame and lenses together, consumer experience, in store, online, and omni-channel, and we expect to be the one driving the evolution of retail for the good of consumers, and for the good of our other customers, what we call the wholesale customers, that would like to take partly advantage of the innovating solutions we will put on the market and we will create on the market.

Honestly, the question on the CMD, I do not know exactly what is behind it. No, the new CEO will not be there. At the moment, we have four CEOs and it is working very well. Mr Del Vecchio is active, Hubert is there, Francesco is there, I am here, and we are making decisions, as you can see. The proof is in the pudding, if I may say so. Therefore, will have a great CMD, no question. Synergy and integration will be accelerating, so let us work and build this fantastic combination, and be prepared to welcome GrandVision in one year or more from now.

Mr. Antoine BELGE, HSBC

Maybe just a follow up, so I think Hilary said, to use the current cost of financing. And the financial results are sometimes polluted by various elements, so, is it possible to have the sort of best guess for the full year 2019, cost of financing as a percentage?

Mr. Laurent VACHEROT, Essilor International CEO

The cost of financing for 2019?

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

For the assumption purposes, I mean it is around 2.5%.

Mr. Antoine BELGE, HSBC

Thank you.

Mr. Julien DORMOIS, Exane BNP Paribas

Yes, hi, good morning all, thanks for taking my questions. I have three. The first one relates to the GrandVision deal. We know that the antitrust review for EssilorLuxottica was quite lengthy, so what would be your best guess on that side?

Secondly, you had called it right in the first place that the antitrust authorities would ask for very limited remedies for giving the green light. Would you expect the same kind of outcome for GrandVision?

Question number two is that I am just curious if you could provide us with the adjusted pro forma margin for the full year 2018, because you have obviously restated your accounts for the implementation of IFRS16, so if you could provide us that number as a percentage of sales for full year 2018, the underlying question obviously would be on the basis to come up with the full year 2019 margin? Also, whether H2 should be stronger than H1 from a margin perspective?

The last question is a housekeeping one, which relates to the contribution of Barberini. Could you give us a ballpark estimate of how much it should contribute to sales, because my understanding is that it should nicely contribute to the acceleration in sales that you expect in H2, so a number here would be particularly helpful. Thank you.

Mr. Laurent VACHEROT, Essilor International CEO

Thank you Julien, I will take the first one about antitrust, and I think Stefano will take the number two about the margin 2018 and H2, and for Barberini, Pierluigi or Stefano will provide the information.

Well, on antitrust, we hope one year will be a good timing based on the fact that number one, the EU, where we will need to file, they did a very in-depth understanding and knowledge of the industry when we presented the EssilorLuxottica combination. Therefore, I think they start from a better understanding of the industry. Our presence at the moment in retail in Europe is very limited. We think it is more simple work for them.

Remedies, we do not expect a lot of them. The deal has been built in such a way, but now antitrust parties are the only one to decide, and we will see. That is what we can say, and we are confident, not confident, we really expect to do, to be, in one year, one year and a few months, up and running.

Stefano?

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

Yes, so on the profitability for 2018, on a pro forma basis adjusted, you are looking at about 16% profitability after the restatement as per IFRS16. So, you will remember that we will expose a year-on-year on a full retrospective basis, so we are restating 2018 as per IFRS16 impact. Therefore, you are looking at about 16% on operating profit, and on a net income basis, for the full year, you are looking at about 11.5% on net income.

Now, the other question was regarding the Barberini contribution. We disclosed the overall revenues of Barberini on a full year basis is about EUR85 million. Of that number, I would say half of that is captive, so you can do the math, depending on the exact time of closing. Probably the last remark on this is that it is a business that is margin accretive to the overall EssilorLuxottica profitability. Thank you.

Mr. Julien DORMOIS, Exane BNP Paribas

Yes, sorry, if I may just have a follow up here, because there is something that is not clear to me. If for full year 2018, the adjusted pro forma margin was 16%, how come you are reporting 17.7% for H1? That would mean a very low number in H2, or am I getting something wrong here?

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

There is a material seasonality between the first half and the second half of the year in terms of profitability. It is structural to the group. Remember that the second quarter has a material ramp up in terms of profitability, also in consideration of the sun season. So it is structural that the marginality at the operating profit level for EssilorLuxottica, in 2018 as well as in 2019, is expected to be lower in H2 compared to H1. This is structural. It is the way the business model works.

Mr. Julien DORMOIS, Exane BNP Paribas

Okay, interesting. Thank you.

Ms. Francesca DI PASQUANTONIO, Deutsche Bank

Yes, hi, good morning. I have a couple of follow-up questions. The first on GrandVision, I know it is very early to say, but just in terms of your rationale, the way you are thinking about GrandVision integration, how are you thinking about the banners and the opportunity to rationalise? How are you thinking about the offering and the penetration of Luxottica product as a total of the offering for GrandVision?

The second question is on synergies. Sorry to go back to Antoine's question, but I find it may be useful to understand what the costs of growth are going to be out of the EUR420 to EUR600 million EBIT synergies, and whether this a number which is already net from this cost of growth, or whether some of these EUR420 to EUR600 million will be used to fuel further improvements.

Thirdly, can you maybe give us some key highlights of some of the major projects within the 22 that you are mentioning, being now under action?

Two final quick ones, can you give some visibility of comps in the second quarter for LensCrafters and Sunglass Hut, some granularity? And finally, what would be your full-year tax rate guidance? Thank you.

Mr. Laurent VACHEROT, Essilor International CEO

A lot of questions. Maybe I can take the first one on GrandVision banners, and then maybe more clarity on the third one which is about the major projects, and maybe on LensCrafters and synergies, maybe you could answer, Stefano? Are you okay with that?

On GrandVision, as you have seen, GrandVision has been built mainly by acquisition over the last decades, and each banner has its own personality and reputation in each country. Again, I think it is too early to say exactly what we will do with those banners. Some of them, maybe they will go to premiumisation. Some of them may go more with the vision care, health care dimension, some of them will be more access and fast fashion, that is what we see in other markets happening at the segmentation of the retail. However, honestly, starting today, we are focussed on this antitrust initiative that we need to drive, make it faster and the most successful possible. We will come back to that dimension on how to search a different channel and different banner later.

On the key project for the future that we are implementing at the moment, and they are more on the vision care part for what I mentioned earlier. As you know, myopia is a pandemia. As you know, half of the population will be myopic in 10, 20 years from now. As you know, not only does myopia prevent you from seeing well, but part of those myopic people have a high risk of becoming blind. Therefore, this is a huge opportunity for EssilorLuxottica to invent a solution so all those myopic people 20 years from now will see well, be protected, and will be prevented from becoming myopic.

It obviously includes lens technology, it includes frame and lenses that are our R&D in Essilor and Luxottica are working on, and it also includes some fashion aspects because myopic people have a white ring on their lens when associated with dark frames, that is a thing we could launch pretty soon in the market.

The other big dimension we are investing in both companies heavily at the moment is digitalisation. The whole idea is to drive hundreds of millions of consumers who are looking for solutions on vision and protection every year to the proper solution in one of our EssilorLuxottica assets or with one of our customers that are part of the network and to transform them from active searcher on the internet to active consumer benefitting from solutions, frame and lenses provided by the Group in our stores or partner stores.

Synergies?

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

Yes, synergies, thank you Laurent, and good morning Francesca. With respect to synergies, we do expect to be more explicit on the synergy numbers and the cost for growth in the Capital Market Day.

That is part of the purpose of our upcoming Capital Market Day. What I can tell you is that for this year, the synergies that are being executed do not carry one-off cost, by any sense of materiality.

The other question was with respect to the tax rate. The tax rate on a full-year basis is expected to be 23%, and we do expect that tax rate to be about a percentage point lower than the 2018 tax rate for EssilorLuxottica.

The other question you had was with respect to Sunglass Hut and LensCrafters comps during the second quarter. Both of them are slightly negative, in particular the comps in North America I was referring to was for Sunglass Hut.

Ms. Francesca DI PASQUANTONIO, Deutsche Bank

Okay, thank you.

Mr. Domenico GHILOTTI, Equita

Good morning. Two questions still on the GrandVision transaction. I am curious about the timing, so when you started to negotiate about this transaction with HAL. Secondly, on the equity financing, if I understood properly, you are expecting to confirm the current rating thanks to this part of equity funding the transaction?

Two questions on the current business, the current perimeter, I am wondering, on the weak spots, about retail North America you were mentioning negative comps. I am trying to understand how confident you are in being able to recover, or if you are confident to recover positive comps in the second half? How do you see the market evolving in Q3, and what are the reasons behind, is there a structural reason behind the weakness in Q2, apart from the bad weather?

Lastly, on the free cash flow, could you give us an indication, a ballpark indication for the full year, because there are some elements that are maybe a bit seasonal, like working capital?

Mr. Laurent VACHEROT, Essilor International CEO

Okay, Domenico, so I think on the timing, we will not disclose how exactly it happened. As I said, it has been part of the plan for both companies to stand alone for a long time, and when we came together it became obvious that if we can achieve it, it was one of the first moves we should do.

The equity financing, and free Cash flow maybe Hilary, you could take this question, and then the North American, maybe Stefano.

On the equity financing, maybe Hilary, you could take this question, and then on North America, maybe Stefano, and on free cash flow Hilary. Therefore, Hilary, equity and free cash flow.

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

In terms of the rating, yes, we are able to reiterate our current rating with respect to how we are going to be financing this deal. It is still too early to say on the equity component.

With respect to the free cash flow, obviously, we expect there is a seasonality impact to our business. We always have more of a waiting in terms of the free cash flow, in terms of the second half of the year, so we see acceleration is expected for the second half of the year with respect to our cash flow; there is a rebalancing aspect that takes place.

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

With respect to retail performance, a couple of readings. One is definitely the North America retail optical market, that is very competitive. I mean you do see complete pair packages at the very low price point in the market, a very heavily discounted promotion. The quality that we are offering with LensCrafters, the investment that we are doing to enhance and improve and make it better every day the service level for our consumer, the velocity at which we can dispense our lenses, and the quality of the lenses in itself is something that really makes incomparable LensCrafters with the vast majority of the largest retail organised chains in North America.

I think the strategy that we are pursuing, even stronger now with the partnership with Essilor in ensuring that we have a bigger and stronger penetration of premium lenses into our stores, is there, and we are not going to divert that, as I mentioned.

Clearly, there is a market out there that is tougher than probably it used to be. There is much more consolidation in the market. We do see a little bit of deceleration in some of the insured customers that are shopping in LensCrafters that are out of network, and that also has an impact.

The other thing is that, the comp base in LensCrafters in the second quarter, compared to the first quarter, is materially different. Last year, comp sales were approximately 5% negative in the first quarter. In the second quarter, they were negative 1%. Therefore, we also have a tougher comparable base for LensCrafters.

Then when we talk about retail North America, I think Sunglass Hut will improve throughout the second half of the year. The Gigi Hadid campaign is an important one, it is a visible one. The early readings of that campaign show increased brand awareness of Sunglass Hut, increased intention to purchase from our consumer, and I do have confidence that we will see an improvement in our Sunglass Hut North America performance throughout the second half of the year.

Still sticking to retail North America, let me just mention one more thing, probably important to mention, is Sears. I mean Sears Optical has a material impact on our retail North America number. We have about 170 stores less than what we used to have in the second quarter of 2018. Now, probably your next question will be ”Okay, but when do you expect that to anniversary?”. Let’s say that things do not change from where we are today, we do expect to anniversary that store comp base on a really comparable base, year over year, during the first quarter of 2020, because really, Sears’ massive closure plan was undertaken during the second half of 2018 and the first quarter of 2019. Therefore, if now the network is stabilised, we do expect to anniversary that closing period in the first quarter of 2020.

Mr. Laurent VACHEROT, Essilor International CEO

Maybe we can also say that Target Optical is doing very well. In addition, part of the workstream in the integration process will support the strategy of LensCrafters after 2020, to provide consumers with a higher-end experience in eye exams, products and combined frames and lenses. That is all coming for next year as part of the integration work we are doing together and led by Pierluigi [Longo] and Eric Leonard. We have not yet seen the benefits of that for LensCrafters, but I think it is very positive in the future for retail in North America.

Ms. Delphine LE LOUET, Societe Generale

Thank you very much for taking my question. I have one comment, Stefano, just to follow Julien’s question regarding the EBIT margin. We had a lot of costs taken into consideration in H1 2018, due to the merger and I would be very interested to know the figure as well as what seasonality might be between H1 and H2? Laurent, during the call you mentioned that you had done a lot of restructuring between the labs regarding the Essilor network. Can you be more specific about what sort of restructuring, closure, reorganization you have been putting in place?

The second question is regarding the debt. Can we get any idea about the phasing of the deleveraging and what we ideal net debt to EBIT or EBITDA target in the future?

Third, regarding the GrandVision deal, where do you think the greatest risks are from an antitrust perspective from its operations in G4 countries?

Finally, when I look back at the longstanding divergence of performance between Essilor and Luxottica. We are talking about 200 basis point in terms of growth, 200 or 300 according to the quarters. Is this GrandVision deal effectively necessary to have more consistent growth in the retail space for the two divisions in the future, whatever the timeframe?

Mr. Laurent VACHEROT, Essilor International CEO

The first question was about how we really improved the efficiency of the lab in North America and Europe. Maybe Paul, who is in the room, can give you exactly the right description of what is happening.

Mr. Paul DU SAILLANT, Essilor International Deputy CEO

Good morning, everybody. We have an ongoing programme in the labs deploying the latest Satisloh technology in terms of surfacing, polishing, edging, coating. This is an ongoing programme, so we have a very homogeneous platform in our labs in the US, as well as Europe, Asia and Latin America. In parallel to that we are carrying out optimisation work in the US on the lab footprint, which is a job we have already done in some other geographies, namely Europe. As we make those investments, that is providing cost optimisation, and improvements in quality and service, as well as making our supply chain infrastructure very robust and able to support the growth. This is being accelerated by the team in the US and it should provide some improvements to the cost base in the second half.

Mr. Laurent VACHEROT, Essilor International CEO

Hilary, for the question on the net debt.

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

I think we commented earlier that our net financial debt to EBITDA is well below one time at the moment. I am not sure I fully understood your question, if it was in terms of where we expect to be in the context of the GrandVision transaction. Obviously, it is too early to say there; it will depend on the timing of when we close the deal. Obviously, from now until we close to deal, we will continue to generate cash flows, so it has a little bit of a timing aspect there.

Mr. Laurent VACHEROT, Essilor International CEO

There was a question, Pierluigi, on the key four countries for GrandVision and if we foresee specific issues from the antitrust perspective in those countries?

Mr. Pierluigi LONGO, EssilorLuxottica Group Head of M&A

We do not see a specific risk in the G4 countries considering the limited exposure we have to the optical business. We only have a few optical stores in the UK, which is a highly fragmented market, but there is nothing to be worried about besides that.

Mr. Laurent VACHEROT, Essilor International CEO

On your strategy question, whether the deal was necessary? I think the short answer is that as you know, for many reasons there is a huge gap between what the industry is delivering to consumers and the real needs of consumers, including in Europe. I always say that the huge frustration, at least on the Essilor side was that we developed so many innovations and so many that made sense to the consumer. In the old world before EssilorLuxottica, we had a very hard time to go to consumers and convince them individually that it was the right thing to do. By developing the appropriate share of retail in each and every country, we will provide EssilorLuxottica with an efficient channel to talk to consumers. Combining physical and digital we will accelerate the development in the industry and have better protected consumers seeing better. It is really a strategic move that should accelerate the development of the industry and close that huge gap between the industry as it serves customers today and the needs of the consumer. Obviously, when we are the driving force in a given market, Luxotica retail or EssilorLuxottica retail, then obviously the other providers to consumers will follow and take advantage of those innovations.

Mr. Ed RIDLEY-DAY, Redburn

Hi, good morning. Firstly on revenue synergies, clearly, we all remember what happened with GrandVision and HOYA. Given the business loss there, would that be an indication of potential revenue synergies, if I can ask it that way? Secondly, just on equity, to confirm, obviously you have highlighted your capital structure as a potential reason for using equity EBIT. Was that a condition of the deal in terms of the HAL investors wanting equity in the deal? Thirdly, regarding the US, which we have talked about quite a bit, regarding Sears Optical and also potentially Pearle Vision, could we potentially see an acceleration to exit some of these businesses?

Mr. Laurent VACHEROT, Essilor International CEO

We did not understand exactly understand your second question about the conditions for Hal and so on. Could you repeat it?

Mr. Ed RIDLEY-DAY, Redburn

I was just really asking about the reasons behind using equity, given the strength of your balance sheet and wondering if they had requested that?

Mr. Laurent VACHEROT, Essilor International CEO

It is not on the table. There are no discussions on the table of that kind. As I said, GrandVision and Essilor was a long story of collaboration, and with ups and downs and we will not go back to that. We will certainly find ways, products and services to serve GrandVision as soon as the antitrust will be cleared. If GrandVision as a company finds that the offer from Essilor and EssilorLuxottica, lenses and frame and lenses, optometric equipment and omnichannel solutions, fit their strategy, we will certainly take advantage of that.

Your question on the US again, on Sears and Pearle.

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

There is no plan to change our retail footprint in terms of disposition. We continue to manage both Sears Optical and I would say, Pearle Vision, it is an instrumental part of our business, especially for the franchising business model development. Even in light of the acquisition of GrandVision, we do see strengths in our franchising business in North America, in Europe, in Southern America with Óticas

Carol. It is a business model that we are pursuing, even in Asia, and I think it is a successful one, so there are no plans for disposition.

Mr. Laurent VACHEROT, Essilor International CEO

If I can just add, in the US we also have a buying group, as you now, Vision Source, we have the Essilor EXPERTS, we have STARS, we have the wholesale customers. This is the way to build this network that will provide more efficiency to the industry, so the consumers will, at different positioning and different price positioning, find the solutions they need and request.

Mr. Julien DORMOIS, Exane BNP Paribas

I have two more questions. The first one relates to the ups and downs you mentioned in your relationship with GrandVision from an Essilor perspective. I just wondered if you could indicate what share of the wallet of GrandVision procurement is currently served by Essilor? Is it safe to assume it is close to zero? The second question relates to the bolt-on deals. During the EssilorLuxottica merger, we saw that the amount of bolt-on deals was significantly reduced because the M&A teams were obviously focused on the antitrust process and the integration. Should we expect more or less the same kind of phenomenon to happen over the next 12 or 18 months until you close the GrandVision deal?

Mr. Laurent VACHEROT, Essilor International CEO

There is a lot of room for GrandVision and Essilor and EssilorLuxottica to work in order to integrate better lenses and frame and frame and lenses solutions. At the moment we provide a minimal amount to GrandVision. On the bolt-on, I will ask Hilary to answer that.

Ms. Hilary HARPER, Essilor CFO and EssilorLuxottica co-CFO

Yes, we did see a slowdown in the bolt-on M&A over the course of the antitrust period we went through as EssilorLuxottica. I do not think you will see anywhere near that magnitude, with respect to this transaction. The world is big, we still have a lot of opportunities in our pipeline, and we will continue to pursue those.

Ms. Francesca di PASQUANTONIO, Deutsche Bank

Two follow-up questions. The first is regarding the retail footprint in the US, especially Sunglass Hut. Do you think you still have room to further rationalize the number of stores, especially as the online is developing so well? Another clarification of something that has been asked twice, just to confirm you said EBIT margin for the year 2018 adjusted is 16%. That means that according to your guidance the full year 2019 margin should come at around this 16%, can you confirm? It is just to avoid any misunderstanding.

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

With respect to the profitability, yes, I can confirm that is the expectation and is very much our target. On the other side, going back to the question on the retail footprint in North America with respect to Sunglass Hut, there are a couple of things. First of all, Sunglass Hut is a profitable, accretive business to EssilorLuxottica retail. It is a business that has a very low number of unprofitable stores, so out of a network that widespread in North America, I would say that the vast majority of our stores are profitable. From a profitability standpoint there is really no rationale for evaluating. Every quarter we are going through a reassessment of our portfolio in Sunglass Hut, and looking at our different distribution channels for Sunglass Hut, the presence between platinum, gold and silver stores. Every time we see stores that do not make sense because of the density, because of proximity, we close them down. However, again it is a highly profitable retail chain and we really have a handful of unprofitable stores and obviously, where it makes sense from an economic standpoint, we won't be reluctant in closing them.

Going back to your questions, we do see that shift in digital happening and as a matter of fact the growth rate of our sunglasshut.com is materially higher than Sunglass Hut bricks and mortar stores. It is something that we continue to see, and we obviously do not mind, because our online business is very profitable, and we want to continue with it. Let me just mention one more thing that is important. Now we have the anniversary of the investment in Bass Pro and Cabela's in North America, I can tell you that this is an extremely fast-growing profitable channel for Sunglass Hut. We are proving that every time we enter a new space and have access to a new consumer-base, Sunglass Hut is a successful business model. Again, we believe that the work we are doing over there is definitely the right one, we are vigilant on what is happening in the overall market. The dynamic of the shift from physical to digital is there and we welcome that shift because we have a very and highly profitable online business. But we have also been enriching the digital content in our Sunglass Hut locations during the course of recent months. Today, if you step into any of the 800+ core Sunglass Hut locations, we do have a digital smart shopper interface, either through iPads or sales walls, that very much complement the physical assortment that you have in our Sunglass Hut locations. We like to see that penetration of digital sales happening within a physical bricks and mortar environment and it is increasing time after time. Again, the digital challenge is there, and we acknowledge that, but the way we are doing it is to enrich the content of our digital in-store, and to obviously create a stronger omnichannel relationship between online and offline.

Mr. Laurent VACHEROT, Essilor International CEO

Thank you, Stefano. Again, as part of the integration innovation to come, obviously Sunglass Hut will benefit from products that do not exist today. It will take a bit of time to put that in motion, but we want and need stores and will not give up on those ones.

I think there are no more questions, so it is time to wish you, I hope, a little bit of vacation. The team on our side will also have a few weeks' vacation, after this quite exciting and exceptional first half, in many different ways. As you have seen, the company is up and running and I hope to see you face-to-face on 25th September in London for the Capital Market Day.