

EssilorLuxottica

3Q 2019 Revenue

October 30, 2019

Speakers

Laurent Vacherot, Essilor International CEO

Stefano Grassi, Luxottica CFO and EssilorLuxottica co-CFO

Hilary Halper, Essilor International CFO and EssilorLuxottica co-CFO

Paul du Saillant, Essilor International Deputy CEO

Giorgio Iannella, EssilorLuxottica co-Head of Investor Relations

Q&A

Elena Mariani, Morgan Stanley

Cédric Lescable, Mainfirst

Antoine Belge, HSBC

Julien Dormois, Exane BNP Paribas

Delphine Le Louët, Société Générale

Ben Lacaille, Bank of America

Domenico Ghilotti, Equita

James Grzinic, Jefferies

Mr. Laurent Vacherot, Essilor International CEO

Thank you and good morning everyone. Welcome to your Q3 conference call. I am here with Hilary, Stefano, Paul and the full IR team. It is a month since we met most of you at the Capital Markets Day in London and in the meantime, we have been very active in deploying our strategic vision and integration plan. This call will focus on the Q3 sales.

3Q REVENUE HIGHLIGHTS: BEST QUARTER YEAR-TO-DATE**Mr. Laurent Vacherot, Essilor International CEO**

In July I told you that there would be an acceleration in the second half of the year, so here we go. Q3 was very strong for EssilorLuxottica with revenue growth of 5.2% at constant exchange rate. This quarterly performance has been driven by Luxottica improving growth at 3.4% and Essilor accelerating to 7.5%. Having said that, we confirm our guidance for the full-year 2019.

What underpins this growth? We see four main drivers, which Hilary and Stefano will comment on in more detail in a few minutes.

New products, with the star of the moment, which is the launch of Transitions 8 in the US, impacting positively sales to eye care professionals, key accounts, as well as through Luxottica Retail.

Second, good dynamic in Retail, both offline and online, mainly in the US and Europe. Direct online sales especially, were up 18% in Q3, driven by all branded frames at +24%, Ray-Ban, Oakley, Sunglass Hut, but also Bolon, Foster Grant and MGS and continued double digit growth in eyeglasses.

Third, good momentum in sun for all brands and retail.

Finally steady growth of around 10% in fast-growing markets, which now represent close to 20% of our total revenue. As a result, you can see that our full growth is balanced between mature and fast-growing markets.

In terms of countries, the main accelerations are the US with Retail, direct e-commerce and Transitions GEN 8; the whole of Europe with Retail, e-commerce and also the VR 800, the new instrument to do prescriptions; and mainland China, close to 20% growth, which validates our investment in the last few quarters in myopia, digital and branded frames. Actually, I came back from China yesterday and I can confirm how dynamic the country is in our industry. We hear about a slowdown in the economy, etc., but I can tell you it is not the case in our industry, with more consumers asking for quality vision care and branded products at every price point. It is very encouraging for the coming quarters.

Finally, on September 24, alongside the UN General Assembly, ESSILOR published a new report called, 'Eliminating Poor Vision in a Generation: What it takes to eliminate uncorrected refractive errors by 2050'. If you have not already done so, I would encourage you all to go to www.Essilorseechange.com to download this report. This report assesses the magnitude of the level of uncorrected poor vision in the world and outlines solutions to eliminate this largest disability in one generation. Finally, the total investment of USD 14 billion over the next 30 years, would achieve this goal. As the major player in the eye care and eyewear industry, EssilorLuxottica is committed to playing a leading role and mobilising the world to reach that objective.

In the meantime, we continue to build our contribution to that objective and we are very proud to have brought good vision to more than six million new wearers through different exclusive program, as well as through ESSILOR Vision Foundation and OneSight, an independent non-profit organisation of which LUXOTTICA is a founding sponsor. We have also great news about the first country that will eliminate poor vision. The first country is Bhutan and by 2021 every citizen of that country will see well; we started this year with the kids, and we will continue with the adults.

Having said that and building on this great quarter, how do we see the next few quarters? On the acquisition front, while the anti-trust process is ongoing for the Grandvision acquisition, we refocus our bolt-on acquisition strategy on countries where there is no interference, mainly fast-growing markets and Asia. Second, as explained at the Capital Markets Day, we continue to drive integration and to

deliver synergies. For those who did not participate, I will just remind you that these synergies should have a net positive impact of EUR 300 million to EUR 350 million on the adjusted operating profit by 2021, representing over 60% of the total objective of EUR 420 million to EUR 600 million by 2023.

As we mentioned at the Capital Markets Day, the first steps include creation of a simple, single supply chain and prescription lab network, a single IT platform, the integration of the Costa brand in the Luxottica brand portfolio and co-location of teams at local regional level. Third, we will continue to deploy innovation and new products. After the renewal of the Bulgari license we are very proud to confirm the renewal of the exclusive license with Chanel for eight years, starting from January 1, 2020.

Transitions GEN 8 will continue to be launched in LATAM in Q4, Europe in Q1 and Asia in Q2 next year. We will also launch Eyezen Start in LATAM in Q4 and in the US and China in Q1 next year. This lens specifically addresses the needs of children and young adults, who use digital devices intensively, often switching between them. This lens will protect their eyes and reduce eye fatigue. We will also upgrade Varilux Comfort in all regions through 2020, which today is still our largest volume as far as designs of Varilux. This conversion maximises the quality of intermediate vision, no matter the gaze direction and therefore, allows for more instinctive adaptation of the posture. It will act as an entry point for a new era of progressive lenses and of the Varilux brand. As you can see, we continue to innovate at all price points.

In 2020 we will also see the first launch of products co-developed by Essilor and Luxottica. We presented some of them at the Capital Markets Day, branded frames and lenses complete pair for kids and young adults among others.

We will have new product launches in all our regions in Q1 next year, which is very powerful. Generally speaking, innovation is a powerful way to connect all the types of clients and to deliver on our strategic vision of a network company. With this, I am pleased to handover to Hilary.

REVENUE BY DIVISION IN THE THIRD QUARTER

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

Thank you, Laurent and good morning everybody. As Laurent said, we are very pleased with our third-quarter results of 2019, as it really showed further acceleration versus Q1 and Q2. At constant exchange rates revenue were up 5.2%, which is a touch above our top-end guidance for our annual sales. This acceleration is really a function of a strong lens business, up 7% at constant exchange rates, compared to 4.9% in the first-half and it is essentially comprised of pure organic growth. The Retail division also contributed to the acceleration as it grew at 4.2% at constant exchange rates, versus 3.6% in the first six months, while the performance of Wholesale and Sun & Readers divisions were more consistent from one period to another. With that, I will hand it over to Stefano to go through the revenue by geography.

REVENUE BY REGION IN THE THIRD QUARTER

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

Thank you, Hilary and good morning everybody. I will run quickly through the revenue by region for the third quarter, since we will go into more detail in a moment. There are just a couple of touch points here. As mentioned, the top line was positive 5.2% on a constant FX basis, sequential improvement throughout first, second and the third-quarters, which was the best in the year so far from a growth rate standpoint. The other highlight relates to currency, where we even benefitted in the third quarter from currency tailwinds in a measure of about three percentage points. That is very much due to the revaluation of the US dollar against the euro, which in the course of the third-quarter was about 4.6%. We do expect that if the dollar remains at current levels, those tailwinds, which I would say we had experience through pretty much the whole nine months, will continue throughout the fourth-quarter, but to a smaller extent. Moving through the different geographies, starting our journey through our four regions beginning from the biggest and most important, North America.

NORTH AMERICA: 3Q UP 4.2% AT CONSTANT EXCHANGE RATES

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

In North America on the third-quarter we posted as EssilorLuxottica a 4.2% growth on a constant FX basis. This was clearly an acceleration compared to the performance of the first half of the year, where you might remember we delivered 1.9%. I will comment on the Luxottica side, before handing over to Hilary to comment on Essilor's performance.

On the Luxottica side I would say we were pretty happy about the way and the growth we were able to achieve on the third quarter for a couple of reasons. First, the third-quarter was the best quarter for Luxottica in North America so far and it comes on top of the best quarter that we delivered last year in 2018. Second, the growth was fairly balanced between our Wholesale and our Retail, which is obviously something that we are pleased with.

Looking at our Wholesale performance in North America, the growth was very much driven by our independent channel, which as you know, represents about 50% of our revenue base, as well from our department stores and our third-party website partners in which we do have a critical partnership.

Moving on to Retail, the Retail division had solid growth during the third-quarter, despite the dilution we continue to experience in Sears Optical. That is very much driven by the challenging whole situation on which Sears Optical continues to operate. Despite that, we have quite a lot of good news. For example, Sunglass Hut delivered solid, positive comps sales in the US during the third quarter, after three consecutive quarters in which we were in negative comps sales territory. There were a couple of key things driving those positive comps sales. First, strong Retail execution in our stores and the second was the continuous relentless effort to innovate and make our stores up to today from a technological standpoint. We talk about digitalisation of our retail footprint; this is what is happening, and it is today. For example, during the course of the third-quarter, we rolled-out BOSS, buy online ship to store, in over 800 Sunglass Hut locations in North America. During the course of the third-quarter, we were able to allow our online consumers to check our store inventory for all the SUNGLASS HUT locations, so that each consumer can find out where he or she can purchase a specific frame instore at the closest Sunglass Hut location.

I will move on to talk a bit about LensCrafters. The third quarter for LensCrafters started soft in the month of July, but then we had a pretty sound back to school period. This was very much down to a 360-degree approach to that critical back to school period of the year. That 360 degrees started from training and engagement of our store associates instore and our store market managers. It continued with the launch of new products, and Laurent mentioned the successful launch of Transitions GEN 8, that clearly also creates momentum in LensCrafters. There was also the launch of the progressive XVP lens for LensCrafters. We capitalised on all of that with a strong marketing and CRM campaign that really delivered a sound back to school period for LensCrafters.

Just another couple of touch points before I hand it over to Hilary. The first one is direct e-commerce, which was at 26% in the course of the third quarter: sunglasshut.com was double digits; oakley.com double digits; ray-ban.com double digits. We had a very compelling story and very compelling growth rates for all our three major websites on e-commerce in North America.

The last point is an important partnership between I would say two iconic brands, Oakley and the NFL. We started and announced this agreement at the end of August and it effectively allows NFL players to wear Oakley visors to leverage the PRIZM technology. On top of that, we are also launching a product story that associates Oakley products with NFL teams. So far, I can tell you that we are off to a very promising start. With that, let me handover to Hilary to give us more colour on the Essilor side.

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

Thank you, Stefano. For Essilor in North America we have heard a lot about Transitions 8 and we have been anticipating a solid Transitions Signature 8 launch and we are pleased to see that flow through into our numbers for the quarter. The launch has really produced a step-change on a number of fronts, with a strong GEN 8 uptake and also a solid response to what we believe is a robust consumer marketing program to support this launch. In Q3, volumes of Transitions lenses sold through our networks in the US have tripled compared to H1 at high single digits and this acceleration is very specific to the US. It is quite promising when you think about all the other regions where we still have to implement the roll-out of Transitions 8, so we are quite encouraged by this. As in the past quarters, the main drivers are the independent ECP segment, particularly our alliances and Essilor Experts, whose total headcount is projected to reach 6 000 by year-end. In the third-quarter, business with members of our alliances grew twice as fast as the average of the independent channels we serve.

The high growth we have seen in Q3 in North America was also driven by our online business, with noticeable acceleration in the eyeglass category, which was growing close to 30%. In this segment, our eyebuydirect.com continues to be our standout performer.

Lastly, turning to Sun & Readers, the business performed well with both FGX and Costa. The latter continued to benefit from a robust expansion within the ECP channel, which more than offset the lack of dynamism that we have seen in most of the sports retailers.

EUROPE: 3Q UP 6.0% AT CONSTANT EXCHANGE RATES**Ms. Hilary Halper, Essilor International CFO and EssilorLuxottica co-CFO**

I will now go to Europe, which was up 6% at constant exchange rate for the combined Group for Q3. I will start with the Essilor side. We had another what we believe was a satisfying quarter in Europe and the acceleration of the growth pattern versus H1 was mainly driven by the Instruments business. Laurent alluded to a number of our new products and as expected, Europe benefitted from the massive roll-out of two key innovations with a strong order book. First, we have the new Vision R-800 phoropter, which encountered huge success and is now in active delivery phase. As we have shared in the past, this 2.0 optometry device offers a much more precise refraction, that enhances the consumer experience and opens the way to an increased product mix. Eventually, it should help us promote a more advanced optical solution under the AVA offer, which stands for Advanced Visual Accuracy, a much more precise lens that is starting to be commercialised. It is definitely boosting sales in the short-term, but we believe the long-term potential of this instrument is strong globally for both sales and profitability. Second, we have Visio-office X, which is the latest generation of optical measurement system, which encompasses new functionalities and gives the optician more options to promote personalisation of the lens to the wearer.

The traditional lens business itself also contributed to the good performance. As in H1, France, the eastern countries, Russia and Turkey, continued to deliver very sound growth. In France, the group continues to take advantage of its multi-network strategy and its ability to adapt its offer to all types of clients and price points. Beyond the flagship brands such as Varilux and Crizal, promoted by our first Essilor network, brands like Nikon and Leica, promoted by our second and third networks, are key assets as well. For example, Nikon has been successfully leveraged into the ability to win a new tender and LEICA actually received the Silmo d'Or award at the latest Silmo trade fair at the end of September, for its new Variovid Volterra, a progressive lens that greatly reduces optical aberrations. As you can see, the appetite for our brands in optics is increasing and Essilor is very well-positioned in this arena. I will now turn it back to Stefano.

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

Thank you, Hilary. Let us start with Wholesale in Europe. The growth we got in the third-quarter followed the pace from the first half of the year, so there was a consistent trend between the first half

of the year and the third quarter. Countries like Italy, the Netherlands, Austria are trending on the mid-single digit territory, while Switzerland and Scandinavia are more in double digit territory. We often talk about STARS as important and it continued to grow at double digit pace in Europe and we are very happy with that. We are approaching 10 000 STARS doors in Europe, 50% more than we had a year ago and now the STARS program, in Europe represents about a fourth of our Wholesale revenue for the region.

We are happy and thrilled about the Retail performance in Europe. The performance for Retail in Europe in itself was in the high-single digits territory on a constant FX basis. Very nice growth came from both Sunglass Hut across all the different countries, as well as a leading optical retail chain in Italy, Salmoiraghi & Vigano. Now that we have had such a good performance, we looked at our history with Giorgio here and we realised that in the last five years, that is 23 consecutive quarters, our Retail business delivered positive growth on a constant FX basis. That is a very remarkable result from our retail business in Europe.

ASIA, OCEANIA, AFRICA: 3Q UP 5.1% AT CONSTANT EXCHANGE RATES

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

Moving on to the fast-growing markets, I will start with Asia, Oceania and Africa, where our top line grew 5.1% on a constant FX basis during the third quarter. I will start with Luxottica and just share with you that we experienced a bit of a deceleration in our trend during the course of the third quarter. There are a couple of readings for that. First of all, the political turmoil we experience in Hong Kong, which you have seen on the news and is still there and obviously that had an impact on our business. In addition, we know there is a general deceleration of the touristic flows of Chinese across Asia. Thirdly, we also faced unseasonal summer weather in Japan, although I should say that on a year-to-date basis our Japanese business is still in positive territory.

On the good news, I should certainly mention mainland China. You know the work we have been doing there to reposition our commercial offer and we delivered another quarter of double digit growth, sound growth in both Wholesale and Retail. We are clearly very happy with that. Our other important asset in this region is our optical Australian business, that delivered another sound positive comp sales. We are talking about 13 positive quarters of positive comps sales for our retail optical business, which I would say was another remarkable result as well.

If we look behind those numbers, certainly there is a strong retail execution, growth very much driven by volume, but all the fundamental retail KPIs are there and are trending in positive territory. That is the conversion rates, the doctors' appointments are all improving compared to the performance we got last year. We are very confident that this trend will also continue in the last quarter of the year. With that I will hand it back to Hilary.

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

On the Essilor side we have seen another very robust quarter in greater Asia, while the comparables were more difficult than in H1. This very robust momentum is really owed to China first. The sales here were driven by an improved product mix, made up of higher index lenses and blue cut lenses, which account for one in three of all the lenses we sell in China and we are also adding more progressive lenses. On top of this very sound business we have the surge of the myopia management solutions in which we continue our investments. This is a clear acceleration factor for us. In this segment we are very excited about the forthcoming launch in the first part of 2020 of a brand-new lens that will aim to slowdown the evolution of myopia, leveraging a new and disruptive optical technology. This is an amazing product and we are very excited about this. Our business in China is also lifted further by the steady expansion of the Bolon brand. Despite a relatively disappointing sun season at the market level, the brand is maintaining its fast-growth journey thanks to strong share gains in the adjacent optical frames segment, which now represents almost 40% of our Bolon volumes.



The performance of the other regional clusters is good. We have started to experience some improvements with the independent channel in India with effective media campaigns focused on the Crizal brand. We registered a big upswing in the Middle East countries, while Korea maintained its double digit growth trend. Lastly, Japan had its best quarter of the year driven by strong demand for high-index and branded lenses. The performance of the other regional clusters is good. We have started to experience some improvements with the independent channel in India with effective media campaigns focused on the Crizal brand. We registered a big upswing in the Middle East countries, while Korea maintained its double digit growth trend. Lastly, Japan had its best quarter of the year driven by strong demand for high-index and branded lenses.

LATIN AMERICA: 3Q UP 10.9% AT CONSTANT EXCHANGE RATES

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

We will now move on to Latin America which had the strongest performance of the quarter, up on a combined level at 10.9% at constant exchange rates. On the Essilor side we posted growth in the mid-teens in LATAM, driven by strength across the region as we saw double digit growth in both and ex-Brazil. We are really firing on all cylinders here. The performance also includes the benefits of the new partnership formed in Mexico with Devlin Optics, which is one of the leading domestic retail chains. The overall drivers are really market expansion and ongoing execution with our branded lens portfolio, as we grew at this rate despite a more mixed macroeconomic background. This supported the continuation of Q2 trends in Brazil through most of the quarter. One thing to highlight here is the upcoming Transitions Gen 8 launch in Q1 next year and taking into account some pre-launch inventory and wind-down over the next few months. In Spanish-speaking countries, Colombia posted stellar growth supported by Transitions and Varilux through a very high attachment rate. Overall, we are very pleased with our performance in LATAM, which for Essilor is the best performer so far in 2019.

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

There was positive growth in Latin America for Luxottica as well. We are very happy with our growth rate over there. The constituent part of our growth trajectory in Latin America is Brazil, which is not new to you. We have already talked about the strength of our Brazilian business and we continue to grow very much thanks to our two key assets in that part of the world. Close to 110 franchisees joined Oticas Carol during 2019, proving once again the strength and compelling story Oticas Carol has to offer the market. The second important and critical asset we have in Brazil is the STARS program. We have over 1 200 doors that are now part of the STARS program in Brazil, growing in high single digit territory. We are very happy with those two assets and I can tell you that they will continue to be instrumental in our successful story in Latin America.

With that, I close the session on our journey through the different regions and hand it back to Laurent for some remarks.

Mr. Laurent Vacherot, Essilor International CEO

Thank you, Stefano and Hilary. As you can see, the company has quite high momentum and we enter Q4 and probably the beginning of next year with positive energy and a lot of initiatives that are starting to bear fruit. With that, I think we will start the Q&A session.

QUESTIONS AND ANSWERS

Ms. Elena Mariani, Morgan Stanley

Hi, good morning everybody and congratulations on your very good quarter. I have three questions for you please. The first one is on the very strong performance of Essilor. 6.2% like-for-like in lenses was very impressive and from what I understood, the strength of your performance was broad-based but there was a significant contribution from the Transitions Gen 8 launch in the US. Could you help us understand how much you think this launch contributed to your growth? What the implications are on how we should think about your like-for-like growth in the coming quarters, specifically in Q4 where you have a particularly difficult comps base? I just want to understand whether we should expect your organic growth to move back to a level that is more in line with your guided range or if you see the basis for continued growth at a mid to high single digit rate? Maybe you could also comment on to the extent your performance has been enhanced by usage of the Luxottica retail network, which technically, could be seen as a revenue synergy?

My second question is on the Luxottica segment. Stefano, Luxottica is making visible progress but at the same time it has been under-performing the Essilor part of the business for several quarters now. Would you expect the growth of your business to progressively converge with Essilor's performance? How would you explain this gap? I am particularly interested in two areas. The first is Asia or China, where your gap is particularly visible. Two, I would like to understand where you stand on the optical retail business in the US, because LensCrafters is struggling and while this quarter might have been better and might have showed a bit of an acceleration, one could argue that this business keeps under-performing and is definitely performing way below its potential.

My final question for both of you, could you comment on the implications of this growth re-acceleration on your full-year 2019 profitability outlook? We are approaching the end of the year and you might have a bit more visibility now. Do you think it would be feasible to target the top end of your operating profit guidance range? Or would you expect to reinvest 100% of your extra growth, so maybe we should think more of the middle or lower end of your range?

Mr. Laurent Vacherot, Essilor International CEO

I will take the first question on Essilor and Stefano the one on Luxottica and I will explain about the outlook. Yes, Transitions Gen 8 in the US has been a driver for growth, but not the only one. The whole program we have connected with Essilor experts, as was just mentioned, has continued to grow. We also see growth in other regions. It may be a bit early to quantify the exact contribution of Transitions, but it is probably one point of additional growth in Q3 and we expect it to continue in Q4 with the other regions contributing and helping to accelerate growth at the beginning of Q1.

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

Thank you, Laurent. *Buongiorno*, Elena. On the Luxottica side, obviously we are not chasing Luxottica versus Essilor growth rates. As long as the combination grows nicely, we are happy about it. I tend to see our glass half full. If you look at our growth rate in the last three years, it has actually been the best growth rate for Luxottica by far. The velocity we are getting here is much faster than we have had in the last three years. It is not where Essilor is but again, I think our business model is structurally different. We are probably much more balanced between B2B and B2C, while Essilor is probably more on the B2B side, so I think there is a structural difference in the business model.

Having said that, you had specific questions with respect to the Asia and China performance. I think we need to distinguish two things. On one side, the work we have been doing in China, for example, where we have truly and completely repositioned our commercial offer, especially on the Wholesale side. However, we did not rest at all on the retail side. We repositioned our retail commercial offer with the launch of Ray-Ban retail stores in China and you know that the largest representation retail stores we have are in China. It is work that requires a bit of time to pay-back and having said that, we continue to deliver double digit growth in mainland China. Then, there are episodes like those that

unfortunately occurred in Hong Kong, which are unpredictable and out of our control. For the rest, I would say that we are seeing the growth we expected in the countries where we focus and do the proper work. China will become bigger and return all the investment we have made, and we are already seeing the early stages of those results.

The other part of your question was about LensCrafters. I think LensCrafters has done a lot of work to really turn the business upside down. In the last couple of years, we have talked a lot about work that has been done on assortment and the people who are actually on the floor of LensCrafters stores every day; more than 40% of our store market managers have changed recently. We have also talked about the showroom model we launched. I think that we proved in the back to school period that we deliver the results we expect when we have a compelling 360-degree proposition to offer to our consumers, marketing, CRM, products, training, engagement of our associates. The market has changed, and it is clearly a more competitive optical market today than it used to be. Clearly, we have newcomers in the industry and strong competition on the insurance side of the market, which makes the overall market more competitive than it used to be four or five years ago. That is something that is coming into play but, again, the strategy LensCrafters is undertaking is to position the brand at a different point and space compared to many other retail chains in the market proposing promotions and very much bidding on price offerings.

Mr. Laurent Vacherot, Essilor International CEO

Thank you, Stefano. What can I say on your third question, Elena? We confirmed the outlook. Those first nine months make us very confident that the engines of growth are active and as you said, if there are extra resources, we can invest wisely in the first part of next year, that is what we will do. That is what we can say at the moment.

Ms. Elena Mariani, Morgan Stanley

I have two very small follow-ups, Laurent. Is my interpretation correct that you would expect the fourth quarter to remain on a very good level of growth despite the comps base? Then I just wanted to go back to the point of the usage of the Luxottica Retail network. Maybe that helped you in the quarter and if so, could you comment on that?

Secondly, Stefano, based on your comments what do you think would be a satisfactory or let us say, feasible level of like-for-like for LensCrafters in the context of a more difficult operating environment?

Mr. Laurent Vacherot, Essilor International CEO

On your follow-up questions, yes, I expect all the engines for growth to continue to be active in Q4. Yes, we have a high comp on the Essilor side in Q4. As Hilary and Stefano mentioned, there are a few headwinds, Hong Kong, Chile, Sears, that will probably continue through the quarter. Overall, I hope those engines for growth will continue to deliver decent mid-single digit growth in Q4, if we do not see more headwinds growing.

Yes, Luxottica Retail is helpful in promoting innovation. That is one of the beautiful things we can do together as part of this combination. That includes some of the R&D together, joint programs and co-development that we showed you at the Capital Markets Day, which I think are quite fantastic and disruptive for some of them. Then there is the go-to-market where by proposing new solutions the right way in Luxottica and other retail, we certainly expect to accelerate the growth of the market and in the process to move in our direction of transforming the industry to be more appealing from the consumer perspective.

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

Just to cap what Laurent said, because I know that you will ask me, our expectations on a comps sales perspective. I would say that we would be happy and satisfied with a comp in low single digit territory. Remember that this is a market that is not growing, so low single digit for the leading optical retail chain, which has a specific price positioning in the market, is something that I would define as

satisfactory for us. In addition, just to back-up with a bit more colour what Laurent said, we talked about the launch of Transitions Gen 8 during the course of the third quarter. The tangible result we saw from that in LensCrafters was that the penetration of Transitions lenses in the course of the third quarter was up three percentage points compared to the same period of last year. Today, the blue IQ lenses represent about a fourth of our total lens offer in LensCrafters. The progressive lenses have increased one percentage point compared to where we were last year, not to mention the Ray-Ban and Oakley Authentic lenses. From a price mix standpoint, the partnership with Essilor is really helping and creating benefits that we continue to see tangibly in LensCrafters today. I hope that answers your question.

Ms. Elena Mariani, Morgan Stanley

Yes, absolutely. Thank you very much. I will leave space for the others. Have a good day.

Mr. Cédric Lescable, Mainfirst

Good morning, Laurent, Hilary and Stefano. I have three follow-up questions if I may. The first one is on the IT integration you mentioned. Could you give us some colour on the compatibility of the different systems? Is it easy to put the systems together? Is it tough? Where do you stand? Which company is moving in the direction of the other?

Second, could you tell us what you are targeting on your Italian pilot? Where you are today and what it can bring? That is still on the IT integration theme.

Third, on the brand integration, Costa is integrated into Luxottica's brand portfolio. Can you do the same thing with Ray-Ban in China, integrate it into Essilor's portfolio and strong imprint on the country and maybe long experience curve in China? What can you do, and do you expect Ray-Ban to sharply accelerate in the next quarters?

Mr. Laurent Vacherot, Essilor International CEO

I think I will start to answer the three questions. IT unified systems and integrations, we are in a situation where in the last four or five years Luxottica has done a tremendous job to unify their system based on a unified platform I will not name. At the same time, it was not the priority for Essilor in the last four or five years, because of acquisitions, the strategy of bolt-on acquisitions and the situations we had to manage in every country. Now we are facing a situation where we also want to unify the organisation of Essilorluxottica at the same time, meaning that at some point there will no longer be Essilor on one side and Luxottica on the other, just EssilorLuxottica. Obviously, one of the key drivers for that unification to work well would be to have a more unified system. I would say the job to be done is to see the gap between the platform Luxottica has built vis-à-vis the needs of prescription lenses, which are manufactured and different for every order, and how it can be enhanced to cope with that new situation. In a sense, as far as systems, the system will be evolved and become a new one. As far as whether it is easy or not, no, it is not easy. If it was, we would have done it before inside Essilor. I think we first need to define very clearly what that unified system should be and that is one of the objectives of the Italian pilot, really to see in real-life what exactly we have to do and how long or how short a time we need to make it happen. Once we have done that, we will have a plan to roll-out that new solution in the rest of the world. It has to be understood that there is a specific part of the technology, like the calculation system for the design and things like that, that remain proprietary to the Lens Vision Care business and I do not know yet whether that will be integrated into the unified platform.

On Costa, it makes sense to have the fantastic growing, emerging Costa brand managed worldwide by Luxottica. Costa has a fantastic future of growth with Luxottica global and regional organisation promoting it. We still have to discuss whether we will do the same with Ray-Ban in China and it is not yet on the agenda. I think both companies are growing very well in mainland China at the moment. Essilor has certainly built a very strong investment strategy in China in the last 10 years and it is a little bigger than Luxottica. We will have to see whether or not integration would create value.

Mr. Antoine Belge, HSBC

I have three questions. First of all, coming back to the roll-out of Transitions Generation 8, would you say that there would be more in Q4 or in Q1 next year? Could you elaborate a bit on the regions where it will be happening in Q4 and Q1 next year?

The second question relates to Wholesale at Luxottica. I think you gave the short-term headwinds as the reason why that part of the business did not accelerate in Q3. Are there any structural reasons why that business might not go back to mid-single digit growth on a worldwide basis? What would be the timeframe and what would need to be fixed? Maybe in particular, could you give the trend on the Ray-Ban brand over the first nine months and what you think about the health of the brand?

Finally, you mentioned that the Chanel and Bulgari licenses had been renewed. Could you comment on the royalties? Usually, you have two types of royalty, regular and contribution in terms of advertising. Would you say that going for the new contract implied higher royalty rates and that on the whole, these brands have fewer points of sales in the future?

Mr. Laurent Vacherot, Essilor International CEO

Okay, Antoine, on Transitions launch, I think we should first congratulate the team for taking a year to launch a new generation of lenses worldwide. Yes, we started with the US in Q3 as we mentioned. It started in September in LATAM except Brazil and in October it will be in Canada. In Q1 next year it will be Europe plus Brazil and then in Q2, China and AMERA. For those that have been following us for a long time, you know it is not that easy to launch a generation of Transitions worldwide, with the out of Group and inside Group, etc. I think it is a pretty good performance to launch this new generation in a year.

Stefano, on the Wholesale Luxottica.

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

On the Luxottica Wholesale side, I think we have to look at a couple of things again. First, there is the work that has been done to really clean-up our distribution in recent years. I think that the MAP work we have done in North America, the continuous roll-out of our authorised retail agreements, so the relentless efforts against counterfeit products continues to be there. As I said, we continue to be very tough on this, probably much tougher than in the past. That is obviously creating some headwinds in our numbers from a wholesale perspective.

When we look at the regions, the three major regions for wholesale are Europe, North America, Brazil, and they are all in positive territory. Those are really the core part of our Luxottica Wholesale business.

We have got some challenges on Hong Kong, where had a quite material impact, down on double digit territory there. We had an impact on the travel retail part of the business, especially in the eastern part of the world, since a lot of travel, especially Chinese, slowed down in recent months. Thirdly, we got a bit of a headwind in Japan, because Japan had a very challenging summer season. However, those are very well-known impacts of what we see, because the underlying constituent parts of our Wholesale business there is solid and the three constituent parts, Brazil, Europe and North America all grew throughout the third-quarter. It is hard to bet on where we will be on our growth from a Wholesale perspective and whether or not we can get to the 5%. I can tell you that it is a reasonably healthy part of our business that continued to grow and the growth itself is very much driven by volume, which is something we are clearly pleased with.

The other question you had, Antoine, was regarding the royalties and marketing contribution. We do not disclose those details, but generally speaking the mix of the two on our overall portfolio of licensed brands range from 11% to 24%.

Mr. Julien Dormois, Exane BNP Paribas

Good morning, Hilary, Laurent and Stefano. Thanks for taking my questions. I have three. The first relates to Q4 trends at Luxottica. You will be facing easier comps on that side this quarter, so I was wondering if we should expect a potential acceleration compared to the trends you have shown so far this year.

The second question also relates to Q4 as well as the following quarters and it comes back to the potential retaliation from customers to the announcement of the GrandVision deal. I wondered if you had started to see this in your relationships with your major customers. More specifically, I could not find anything on Germany in your release; is that because the market is not particularly exciting at the moment or because you are facing some concerns with the biggest customers in the space?

The third question also relates to GrandVision again and it is based on what you can do in the following quarters to ensure business continuity. We saw that GrandVision is continuing to deliver good growth, but they have slightly tweaked their profitability guidance. I wondered what you can do and if you intend to do something just to ensure that business continuity is on the agenda for them?

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

I do not know if I would say easy, because when I look at the second half of last year, you might remember we had an acceleration in our trend compared to the first half. Remember, even Q1 last year was on negative territory, so again, I think we have a tougher base on the second half than we had in the first half. Probably Q4 is a bit easier in a way than Q3, but I would say that if your question is what we expect to see in the last-quarter, I would probably see a continuation of the trend you have seen so far from the Luxottica side.

Mr. Laurent Vacherot, Essilor International CEO

Actually when you see the third-quarter figures, we cannot say that we have suffered major retaliation. So far, we do not see it happening and maybe we should come back to the bigger picture. We explained what happened when we announced the EssilorLuxottica deal two or three years ago and there was a lot of initial negative reactions from our customers. Then we had a plan to get closer to those customers and in Europe in the next two quarters, Q4 and Q1. We will actually have 200 roadshows in every big city in Europe, where we will meet 1 500 customers overall to explain what we want to do and that it is good for the industry and the consumers.

As you know from the Capital Markets Day, on top of what I described, which is sort of short-term innovation, next year and in the coming years very strong and totally disruptive innovations are coming. Hilary mentioned AVA, this new, more precise lens combination, with a more precise prescription, lens and frame fitting, as well as more precise technology to surface and produce the lens. We are the only ones. It is a unique proposal that we will start to pilot in Q4 in Europe and that we will deploy next year. We also mentioned management of the evolution of myopia at the Capital Markets day, which will probably be deployed in the second part of 2020 starting with China. For those two breakthrough innovations you need eye care professionals, qualified optometrists either in Luxottica retail but also certainly among independent and other retailers who want to go through the quality eye care and vision care journey.

That is what we can say on this topic today. On business continuity, for the moment we are not interfering with what GrandVision is doing, managing, etc. I have not seen the details of the announcement because I was preparing our current discussion but obviously, we cannot judge a company on one quarter or even one year. I think that the overall big picture about why GrandVision will fit into EssilorLuxottica's ambitions pretty well, remains intact.

Mr. Julien Dormois, Exane BNP Paribas

Okay. Thank you very much.

Ms. Delphine Le Louët, Société Générale

Yes, good morning, everybody. Just to follow-up with possibly more precision. Going back to the GEN 8 and Transitions, can we get any idea about the percentage of Transitions in lenses sold in Q3 in the US versus Q3 last year, to see if there is a clear ramp-up in terms of package offer?

The second question is for Stefano, to have more details on the Wholesale situation at Luxottica, mainly in APAC. Is it a good guess to say that the APAC region has a negative impact in the region of 50 bps to 1% in terms of growth?

A second question on the Retail position and specifically the LensCrafters situation. As you mentioned earlier, you have worked very hard over the past two or three years to fix and relaunch the business. I know that there has been a pretty thorough diagnosis and now the question is when do you plan to probably reallocate capex differently from the past in LensCrafters? In the context of Oakley take-up, can we expect a reallocation of the stores with new brands or even as a collection point for online sales?

Finally, can you confirm the level of shares that Delfin already has? I saw that Delfin bought a lot of shares in August as well as September. Can you give final figures for Delfin's holding in EssilorLuxottica?

Mr. Laurent Vacherot, Essilor International CEO

Thank you for your questions, Delphine. On GEN 8, Paul will give you more details than we have in the past. I do not think we have precise numbers for the Delfin shares. We do not have the information here in the room, but it is public on the AMF website. Stefano, you have the bulk of Delphine's questions on APAC.

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

With respect to APAC I think that the dilution and deceleration that we have seen on the third quarter has less than a half percentage point impact on the overall growth rate than. Remember, we do see a deceleration in APAC, but we are still on a positive growth rate for the third quarter, so it is smaller than that.

Mr. Paul du Saillant, Essilor International Deputy CEO

Good morning, everybody. Laurent said quite a lot about GEN 8, but I think the takeaway four months after the launch are that we accelerated from a soft H1, where we had a de-loading of G7, the previous generation. On the launch in the third-quarter we saw a very good acceleration in the US with high single digit growth, versus a year ago, which was very good news. It comes from both the independent ECP endorsement of the product and its performance, a very quick switch from the old generation to the new one and has already been said, very good traction in the key accounts and specifically in Luxottica Retail North America. That is what we can say four months into the launch and then you have the calendar of all the launches that are going on worldwide. That should contribute to the continued good growth of the Transitions brand in Essilor and in EssilorLuxottica

Mr. Laurent Vacherot, Essilor International CEO

Does that answer your question, Delphine?

Ms. Delphine Le Louët, Société Générale

Yes. Just to follow-up on all the information regarding the shares on the AMF website, which is very badly designed. One of the reasons for my question is that it does not confirm those for DELFIN, so I just wanted to see if you have a final validated number on your side, because the AMF does not yet confirm anything.

Mr. Giorgio Iannella, EssilorLuxottica co-Head of Investor Relations

You can actually see the recent stake building by DELFIN on the AMF website. It is a small amount and we confirm that the cap at 31% of the voting rights is in place. I do not think this is a material change in the overall picture.

Ms. Delphine Le Louët, Société Générale

Could you also confirm the meeting with Dan LOEB?

Mr. Giorgio Iannella, EssilorLuxottica co-Head of Investor Relations

Yes. We can confirm that there have been a number of interactions at different levels of the organisation. It is absolutely standard activity at the moment.

Mr. Ben Lacaille, Bank of America

Good morning. Thank you very much for taking my questions. Just a few questions mainly focused on the Retail side of the business, so we can understand better. In terms of the LensCrafters comp in Q3, could we just have an idea of how much of that was made-up of price versus volume and how you see that evolving going forward?

The second question is on Sunglass Hut. You were quite kind in giving us the idea of low single digit comps going forward for LensCrafters. I just wonder what your view is over the medium term about Sunglass Hut and if you could give us some similar visibility?

The third question is on e-commerce. Obviously, the growth is quite impressive, I am just wondering how large e-commerce is today as a proportion of Sunglass Hut and Ray-Ban respectively. Also, how much did e-commerce contribute to sales growth at Retail level?

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

Let us start with the LensCrafters question with respect to the total contributions of price mix versus volume. Right now, the driver of the performance of LensCrafters is very much price mix and we can see pretty clearly that result of the work we have done on the lens side of the business is the result of what the consumers ultimately demand. They want more premium lenses, more lenses with Transitions coating, more lenses with a blue IQ. The work we have done in partnership with ESSILOR has been very instrumental in making sure that the price mix was an important constituent of our story for LensCrafters. We are where we needed to be. If your question is where we expect to be in the longer run for LensCrafters, for example, I think that price mix will continue to be a constituent part of our growth rate. I expect that volume will help further than we have seen so far for LensCrafters.

I will say a couple of things with respect to Sunglass Hut. One thing is that the market itself in North America has been a bit back and forth, with a couple of quarters that were quite challenging on Sunglass Hut, but we are now back on track with what we thought we could do. It is worth remembering a couple of things. The Sunglass Hut proposition is increasingly omnichannel, so it is physical and digital. When we enable our Sunglass Hut locations we more than 800 smart shoppers instore, where effectively you search, shop and choose where to get your products, it is a physical experience because you are in the brick and mortar environment, but at the same time you are in a digital world. Sometimes, it is actually difficult to define whether certain sales are e-commerce or Retail

revenues. The evolution of that will continue to be increasingly omnichannel and the evolution of our stores will encompass more digital content. We do see that nice growth in e-commerce channels, certainly some of our consumers might shop online, but we believe that there is also a need for a strong Sunglass Hut presence in North America. The vast majority of our retail Sunglass Hut locations in North America are profitable, very profitable. We have good e-commerce, which represents about 5% of our total revenue, but at the end of the day we like to see stronger and more continuous interaction between physical and digital, especially on the Sunglass Hut side of the business.

In terms of growth rate, again, I think over the longer run we continue to expect to see something more aligned to what you have seen on the third-quarter, rather than what you have seen in the last three quarters for Sunglass Hut. A lot of the work recently on the assortment and store innovation is going in exactly that direction. I am pretty positive about what we can expect to see for Sunglass Hut, especially in the United States.

Mr. Laurent Vacherot, Essilor International CEO

If I may add, Stefano, one of the directions for creating value and growth at EssilorLuxottica is to develop the sun prescription category, which is totally underdeveloped today. For that category, being in a store like Sunglass Hut will be a key element to really expose consumers to the benefits of that technology. The market will be increasingly segmented and as with any growing market and any market that is becoming more mature, store and omnichannel and e-commerce are both part of that growth in the industry.

Mr. Ben Lacaille, Bank of America

If I could just have one follow-up on LensCrafters. With low single digit comp going forward, where do you see opex inflation? How would you see that trending over time? Is it reasonable to expect flat margins, or how would you think about that?

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

I would expect that we can hold the margins at that growth rate, because remember, a lot of the work has been done to make the overall operating machine at LensCrafters more efficient. The progressive reduction of the instore lab has been going in that direction, with leaner stores, smaller spaces, more efficient productivity and lower capital investment. Now, we are going to undertake an important renovation program for LensCrafters in the coming months; we talked about that at the Capital Markets Day. We actually have a pretty ambitious plan to really take a large part of our LensCrafters store base in North America up to the latest technology. That will create a natural lift in our performance, that we have already seen every time we go through a renovation program in our LENSRAFTER locations in North America. The low single digit territory for comp sales will allow us to hold the margin, because of all the improvements we are doing on operations and store outlook, to really make it better and up to the latest technology.

Mr. Domenico Ghilotti, Equita

Good afternoon. I have two quick questions. One is still on the APAC side, in particular in Luxottica, which was probably the only weak spot in these Q3 results. You explained the reasons and the headwinds, but it is not clear to me if you expect these headwinds to continue into Q4? How much of this is really structural and how much was I would say contingent?

The second question is on bolt-on M&A. If I understood your comments about GrandVision properly, you are still clearly refocusing on the M&A pipeline outside of Europe.

Mr. Laurent Vacherot, Essilor International CEO

Yes, for the second part of your question, yes that is clearly what we are doing at the moment.

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

On the APAC side I think some of the things we have seen and observed in the third-quarter are still there. The situation in Hong Kong has not improved; we have to be fully transparent on that. The situation on travel retail, especially on Chinese consumers, I think there is nothing different to report on the fourth quarter right now, but we are taking a closer look. The situation in Japan is probably much better again and on a nine-month basis we are still in positive territory there, so I am not worried about it. We are probably going to see in the fourth quarter the weakness in Hong Kong and probably a tail of the slowdown on touristic traffic.

Mr. James Grzinic, Jefferies

Good morning everybody. I have a very quick question. Laurent, could you perhaps confirm what the increase in ASP is for GEN 8 lenses versus GEN 7?

Mr. Laurent Vacherot, Essilor International CEO

At the consumer level it is a few tenths of a dollar or a euro, a few percent. At the wholesale level it is a few dollars more per lens.

Mr. James Grzinic, Jefferies

Could you express that in percentage terms from your perspective?

Mr. Laurent Vacherot, Essilor International CEO

I am sorry. Maybe you could follow-up with the IR and they will give you more precise information.

Mr. Julien Dormois, Exane BNP Paribas

Sorry, me again, but I promise to be brief. First is just housekeeping on the growth in Wholesale for Luxottica in Q3. You provided the constant currency growth of 1.6% but I assume that the closing of Barberini has helped the month of September slightly. Could you provide the like-for-like number for Wholesale in Q3 please?

The second question relates to SEARS. I believe that the number of stores has been halved recently, should that now be small enough not to matter in 2020 or could we see more headwinds then?

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

I will take both questions. The Barberini impact on our numbers for Wholesale is negligible, very marginal. With respect to Sears, that is a good question. I think today, just looking back at the dynamics of our closures, we are seeing two plays really in the last few quarters. The bulk of the closures really happened between the fourth-quarter 2018 and the first-quarter 2019. We had the largest part of the closures for Sears Optical during that semester. We expect to reach a more normalised situation if things stand as they are today, obviously.



Mr. Julien Dormois, Exane BNP Paribas

Very helpful, thank you very much.

Mr. Laurent Vacherot, Essilor International CEO

There are no other questions, so thank you for your time and interest in EssilorLuxottica. As you can see, we are very active in building EssilorLuxottica and I think that our next rendezvous is 6 March 2020, for the full-year 2019 results. Thank you and have a great day.