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EssilorLuxottica Q3 2020 Results

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Operator: Hello, and welcome to the Q3 results call of EssilorLuxottica. I will now hand you over to your host, Paul du Saillant, CEO of Essilor International, to begin today's conference. Thank you.

Paul du Saillant: Good morning. I'm delighted to welcome you to our Q3 conference call together with our co-CFOs, Stefano Grassi and David Wielemans, as well as our IR team. Today, we published solid numbers, which were made possible by the commitment of our teams. So first I would really like to start with a word of gratitude to them on behalf of Francesco Milleri, our management teams and I.

During COVID, and again today with its reacceleration in Europe, our priority is to keep a high team spirit and everybody safe. All our employees have responded with great resilience, commitment and adaptability. Thanks to that, we have got many good news to share today, while fully realising the complexity of the world around us. They are :

A clear mission and purpose to address the need for good vision, particularly well suited to the current well-being needs of billions of people, "see more, be more"; the structural resilience of vision needs; the enhanced consumer awareness for eyecare since people spend more and more time on screens; and our new product services well suited to the new environment.

More than 95% of our stores, Stefano will say more about this, are open. An amazing entrepreneurial spirit of our 400,000 ECP customers, who have been managing this crisis and the reopening of the store with great agility. A very strong acceleration of our digitalisation.

So COVID has been a clear catalyst and it has been a clear catalyst for our market, but also for us, at EssilorLuxottica, to deepen our integration, simplify our organisation and accelerate decision process. All this while controlling strictly cost and preserving cash. So as a first introductory comment, I really wanted to lay out some of those key ideas.

Now a few highlights before Stefano goes in more detail on the business review. Our Q3 revenue was down very slightly at constant currency, only 1.1% negative. Most important is to flag that most activities were back to growth. And this, with a positive mix in terms of product, channels and countries.

If you look by division, the Lens & Instrument was up year-on-year, driven by increased consumer awareness for eyewear, appetite for branded product and some pent-up demand. Wholesale bounced back very nicely, thanks to the independent channel and the timing of new models. And Retail significantly narrowed its decline, thanks to optical models and lenses, which were all up during the quarter. So overall you see an interesting dynamic when you look at our performance by division.

By channel, E-commerce up 40% year-to-date to a record close to €900 million of sales, driven by the proprietary brand platforms like Ray-Ban.com, Oakley.com, SunglassHut.com, but also by multi-brand sites like EyeBuyDirect.com, which performed very strongly. Another channel driving the growth has been the independent ECPs, leading the recovery through their entrepreneurship, accessibility and product assortment. So a very important and interesting dynamic in our various channels.

If now you look by country, developed markets have been back to growth, with North America and Europe showing very positive performance, while emerging markets are improving and have been improving month-by-month through the quarter, with some of them like China clearly being back to solid growth in the quarter.

And last but not least, if you look by product, we saw strong demand for our value-added solutions, Ray-Ban, Oakley, Varilux, Crizal, Transitions GEN 8, Eyezen, the new precision instrument, the VR800, and our new consumer experience, with AVA lenses. So the product mix has been a very interesting and positive one.

And as this product mix was at work, we also had strong activity in new launches like the Ray-Ban Authentic, that was launched in Italy, or the new myopia management lens, Stellest, which was launched in July in China.

All of this supported by increased partnership programmes for independent ECP. Some of you might have noticed that we launched this EssilorLuxottica 360 programme in the US back in July. So a very important dynamic in between the divisions, the channels, the products and the geographies, which show the full breadth of presence and deployment of EssilorLuxottica worldwide.

As we were managing this rebound, I want to insist on the importance of the way the integration work has been progressing. And I will come back to that after Stefano. So we have been able to manage this V-shape rebound and the integration work while controlling cost and preserving cash. You see that through our strong free cash flow in the quarter that led to a cash position of €8.8 billion at the end of September.

These were a few highlights I wanted to share with you. And I will now hand over to Stefano, who is going to give you more colour on these good trends.

Stefano Grassi: And good morning, everybody. Before we start our journey across our division, across our region, there are two highlights that I want to share with you today.

First of all, our revenue trend, as Paul mentioned, clearly outline a V-shape in our recovery curve on the first wave of the pandemic outbreak. You all might remember that our sales started to decline in the month of March when we posted a negative 33%, at constant FX basis, deepen down in the month of April at negative 70%, and after that we had a progressive impact pace of rebound. May was negative 52%. The month of June was negative 19%. And the first quarter was just a touch below 2019 level at negative 1% on a constant FX basis.

So clearly, we proved that the resiliency of our business model was very much instrumental to this fast pace of recovery that we observed in the recent months.

The second highlight that I have for you is regarding currencies. Our performance was negative 1.1% on a constant FX basis while in the current FX, our revenues declined 5.2%. So we had about 4 percentage point of currency swing. Those currency headwinds very much derived from the devaluation of the US dollar, that was about 5% during the course of the third quarter, as well as the devaluation of the Brazilian real, that during the course of the third quarter devaluated approximately 30% against euro.

At current FX level, we do expect those headwinds to continue during the course of the fourth quarter as well as during the first half of 2021.

We now start looking at our different divisions. I'll begin with the biggest and best performer one, that is the Lens & Optical Instruments. The Lens & Optical Instruments posted revenue up 2.7% during the course of the third quarter on a constant FX basis. While on the first half of the year, you might remember, the Lens & Optical Instruments sales declined 23%. We're very happy with the solid growth that we saw in Europe as well as in North America from this division. We experience solid product mix, thanks to the anti-fatigue, the blue-cut lenses as more and more people in the population worldwide get exposed to electronic device during the pandemic outbreak.

And we also got pretty good support for the more recent launch of product. One perfect example is the Transitions GEN 8. And you might remember it was rolled out last year, and whenever it was launched, it was a very successful story worldwide.

Sunglasses & Readers, negative 4% on a constant FX basis for the third quarter. We note from the first half of the year, where sales declined 29% on a constant FX on the Sunglasses & Readers. We are very pleased that with the Bolon back to double-digit growth on both optical as well as sun, the FGX business showed some remarkable improvement during the course of the third quarter, but we're still trending here on the negative territory.

But basically to highlight, first of all, that the e-commerce was up on the double-digit territory during Q3 and we observed very positive sell-out data on readers in North America. And this is obviously a very promising indication as we get into the fourth quarter. Overall, I would say that both Bolon and FGX show again their complementarity in the EssilorLuxottica brand portfolio.

And now let's look to Wholesale. Wholesale was negative 1% on a constant FX basis. I think it's important here to remind you where do we come from. The first half of the year for the Wholesale division was negative 43%. In particular, during the second quarter, Wholesale was negative 64%. So we're observing a very material rebound in our Wholesale performance from negative 64% to negative 1% on a constant FX during the course of the third quarter.

Happy to report double-digit growth in North America, very much led by independent channels. Happy to see Europe solid positive. And Asia and Latin America still on the negative sales trend.

The last division is our Retail division. Retail was negative 5% on a constant FX basis, while on a current FX – while the first half of the year, we reported negative 28% for our Retail division. As Paul mentioned, over 95% of our store base was open as of the end of the third quarter. Comp sales just for the stores that were open during the period were down 6%. And within that number, we really observed two different velocity.

On one side, our optical stores that were flat, while the reminder part of our store network was down on the negative territory, on negative sales. The last touch is on our direct brands under eyewear e-commerce. It grew, during the course of the third quarter, over 60%, proving once again a very strong track record of growth throughout 2020.

But now let's have a quick snapshot of our performance across the different region. And what you're seeing here, I won't spend too much time on this page, but I just want to share a couple of things. First of all, the first two regions that you see on this page, namely North America and Europe, that during the third quarter represent 80% of our total revenue are the two region that posted positive sales growth on a constant FX basis, while Asia and more so Latin America

are the regions that are still lagging behind from positive trend clearly as a consequence over COVID outbreak.

But now I will skip the first nine months trend and I will go directly into the region journey and I would start with the biggest and actually the best-performer region, that is North America. You see on the headline, 2.5% at constant FX rate for our North America performance. Our B2B channel lens and frames was very much supported by a strong demand of independent channel.

If we look at our sales division, sales to independent on the lens side was up mid-single-digit, also thanks to our partnership programmes that Paul described before. Partnership programmes like Vision Source, like EL 360, like Essilor Experts that everyday engage more than 8,000 ECPs across the United States.

From a product standpoint, happy to report solid growth on Transitions, Varilux and Crizal lenses, but also pleased to share with you this innovation never really stopped on the lens business. As a matter of fact, during the course of the third quarter, we introduced Varilux Comfort Max in the United States. And in the month of September, we launched Crizal Rock in Canada. So two important launches, and which I'm sure will be a very successful story in the months to come.

On the Wholesale side, we're very excited about the double-digit growth that we've seen in our Wholesale. That double-digit growth was very much led by a strong revenue in independent channel, but also in the key account and in our third-party e-commerce websites, while the department stores remained still on the negative sales trends.

Retail now. Retail sales were overall stable in Q3 with optical retail comps that were flat in the quarter and that was also supported by solid price mix, in particular, thanks to the lens. And that obviously is worth to be highlighted because we very much witnessed the tighter partnership that is happening between Essilor and Luxottica ensuring high degree of penetration within optical retail store network.

Sunglass Hut was negative in Q3, very much challenged by the lack of touristic traffic. The best performer channel in North America for Sunglass Hut was Bass Pro 160 stores. And that was very much due to the booming that we observed in North America of the outdoor activity.

Last but not least, our branded eyewear e-commerce. Sales in North America were up 70% approximately with RayBan.com up 85%, SunglassHut.com up 100%. We doubled the business on the Sunglass Hut division and that was very much leading the way for our branded eyewear.com in North America.

And now let's switch gear and let's look at another region that has been delivering a positive growth rate on constant exchange rate. That region is Europe. Europe was up 1%. You remember Europe accounts from first half of the year, where sales were negative 32% still on a constant FX. France, Italy, Germany and Turkey were all on the positive territory, while UK and Spain were still lagging behind on negative sales trend.

The lens business posted a positive high single-digit growth rate in Europe, thanks to a solid growth of branded lenses and very much thanks to a solid support by online business, very much driven by the prescription glasses that had a very strong delivery in Europe during the course of the third quarter. Wholesale was solid positive with sales up around 4% on a constant

FX basis. And we have a very solid support from both, prescription frames as well as sun. And this is very good indication.

Retail in the third quarter posted negative sales, very much driven by the Sunglass Hut business, the STARS programme in Europe, the lack of touristic traffic flows, especially in several capital across the European region.

Salmoiraghi, the Italian retail chain, was still under negative territory from a sales perspective. But I want to highlight here that the prescription part of Salmoiraghi was up mid-single-digit during the course of the third quarter, proven again the resiliency of the business model on the prescription side of our business.

But now let's move to the east part of the world. Let's look at Asia, Oceania and Africa. Our overall picture here is negative. Sales declined 8% on a constant FX basis during the course of the third quarter. But I want to share with you a couple of good things that we observed during the third quarter.

First of all, China overall was flat during the course of Q3. And mainland China in particular was up mid-single-digit on a constant FX during Q3. The other good news that we want to share is Australia. Australia delivered a positive 7% performance during the course of the third quarter. Conversely, Korea, India, Southeast Asia and Hong Kong reported negative sales results during the course of Q3.

I want to draw your attention in China for a second, because in China the lens business posted double-digit sales growth. And this is obviously very important for our presence in our development in this key part of the world. We have a shooting in this page. You see that on the right-hand side of this page, a shooting that very much celebrates the launch of the new Stellest lens. The myopia management lens that was piloted in July in one region in China, we started there, but we've seen very good success. And now we're progressively rolling that out to the remainder part of this country.

You'll hear us more and more Paul and the rest of the team talking about Stellest. And we observe positive orders intake on a sequential improvement week after week in China. So very promising for the remainder part of the year and 2021.

On the Retail side, very pleased to report that Optical Australia retail sales were up on the double-digit territory despite the shutdown of Victoria State, which we are very pleased and reasons there have been lifted. All the fundamental in Optical Australia retail were very positive, conversion, multiples and price mix. And this was also thanks to the launch of the new Eyezen and Varilux lenses in the Optical Australia retail network at the end of the first quarter.

Now let me close our journey across the different regions with the region that was really the most challenging one, Latin America, negative 22%. The overall picture here shows a very challenging environment due to the COVID outbreak. Brazil and Mexico were negative double-digit. But happy to report that, in September, Brazil reported an encouraging positive growth on the lens business.

The other positive signal that I want to write here is the positive order intake and sales that we posted and we observed on the Wholesale B2B side of EssilorLuxottica. So a pretty good indication. Despite a challenging Q3 in Brazil, pretty good indication as we get into the fourth quarter for Brazil.

Argentina was up double-digit. Our GMO, our optical retail chain in Latin America, reported negative comp sales just for the stores that were open, but again a positive signal here in the month of September our trend show positive comp sales for the stores that were open.

A last note before I hand it over to Paul, is a quick snapshot of our Retail footprint in Latin America. We enter into the third quarter with about 60% of our stores that were open in the region. At the end of September, we have over 93% of our store base that is open in Latin America.

With that, we concluded our journey across the different region. And I'm obviously passing back to Paul that will give us more colour around the integration process and then will share with you some closing remarks. Paul, please?

Paul du Saillant: Thank you, Stefano. And thank you, Stefano, because I think you gave us a great illustration of the amazing growth dynamic that is at work in between the different divisions, the different geographies, the different activities, products, categories, and brands. And I think it's a great illustration of the breadth and the reach of EssilorLuxottica and the combination of product, brand, go-to market, local presence that we have. And that our teams are deploying with great agility in so many countries and geographies.

So I wanted to share a few words on the integration, which is, of course, a key topic of work in the construction of EssilorLuxottica. First, we are fully on track to deliver our synergies of €420 million to €600 million by 2023. And we wanted to start by laying that in front of us.

Francesco Milleri and I are taking more and more decisions together, sharing many points of view and working efficiently with each other with our integration team that Pierluigi Longo and Éric Léonard are animating with key executives and full commitment of hundreds of people in our teams around the world.

The COVID-19 pandemic has proved to be a catalyst to accelerate our decision making, to simplify our organisation and deepen our unification. We now have 28 integration work streams against the 20 that we had at the beginning of our journey. So we have increased the number of topics whether they are top line or cost or project related.

The new environment supported cost synergies with key achievements in the field of procurement, back office, lab unification and IT. Actually on IT, we just went live with the key financial module that was rolled out in Italy in October, a key milestone. So many activities in the area of cost.

But also on the revenue synergy side, which saw some temporary delays as a consequence of the various lockdowns. But we saw them recovering nicely in the last five months, including in October with great momentum. We reached an important milestone on the complete pair with the Ray-Ban Authentic launch in June in Italy. The new joint ECP programme, first of its kind, EssilorLuxottica 360, as I mentioned before, was put in place by our leaders and teams in the US in August, and many more cross-selling activities.

Such as the development of Varilux at Salmoiraghi & Viganò, OPSM, David Clulow, LensCrafters; the deployment of Transitions across all our banners; as well as the increased penetration of Ray-Ban, Oakley and many Luxottica frame brands at Essilor Experts and Vision Source members.

So plenty of momentum, both on the cost side in the building of EssilorLuxottica and the revenue side with top line synergies. This is a big credit to the team, because despite the complex situation that we are facing operationally, the level of activity has not slowed down. On the contrary, it has increased. So this is a few key thoughts I wanted to share with you.

A few thoughts before we go to the Q&A. I would like you to take away these few key points. First, and we have said it but it's very important, is the resilience of our industry, which addresses fundamental needs. And vis-à-vis these fundamental needs, we have a company which has a full set of global assets and benefits from a very granular local presence, which is key in the current environment.

This gives us agility to mitigate the volatility of the near-term business environment. Of course we are prudent about the second wave of COVID in Europe. And at the same time, we remain confident about the structural need for optical products and solutions and the fast recovery post outbreak.

I think you got from Stefano's explanation the profile that we have witnessed with the first wave of COVID and the V-shape recovery that we witnessed in so many countries. This is really what we saw over the last six months.

And remember that optical activities represent 70% of EssilorLuxottica's revenue. And this COVID pandemic has confirmed the need for good vision and has increased the consumer awareness about the need of having good vision solutions.

Second, we have powerful assets to lead the transformation of the eyecare and eyewear industry and outperform this industry, a vertical open business model, a unique portfolio of brands, strong innovation capabilities and a global local supply chain and distribution. I want also you to keep in mind that M&A remains a key pillar of our growth.

So Francesco Milleri and I are taking decisions to build a strong combined Group during this crisis by deepening this integration, accelerating our digitalisation, continuing to innovate and leveraging our global supply chain, all of this while controlling our cost and preserving the cash.

To conclude, I would like to remind you of how important our strong human values are for all of us at EssilorLuxottica. This has kept a great team spirit in the company in this difficult and uncertain environment. And I really want to recognise this great attitude of our teams.

We will continue all our initiatives around our mission, including new business models, very promising, and deploying employee shareholding. They form a strong foundation on which to build EssilorLuxottica and enable us to embark teams, customers and consumers.

So with this, I would like to open the Q&A session with Stefano and David. Thank you very much.

Questions and Answers

Operator: If you would like to ask a question, please press star one on your telephone keypad. Please ensure your line remains unmuted locally. Our first question is coming from the line of Graham Renwick from Berenberg. Please go ahead.

Graham Renwick (Berenberg): Good morning, everyone. Thank you for taking my questions. I just have three please, if that's okay. Just firstly on trading, assuming that there was sort of sequentially improvement through Q3, was your constant currency growth positive at the end of Q3 in September? Are you able to give us a little bit of colour on how that has developed through October or Q4 to-date? Secondly on cash flow. You've seen very strong free cash flow generation there in Q3. Can you talk us through the moving parts of that? Is it actually fair to assume that you've grown profits in the quarter or is there any sort of big working capital issue for you or CapEx savings in there that help that? And finally, just on GrandVision. Are you possible – is it possible for you to sort of provide an update there? Can you remind us of where we are in the EC approval process? I think you previously said that you are hoping for a decision in Q4. So is that still the case? Thank you.

Paul du Saillant: Thank you very much, Graham. I propose Stefano that you take question one and two, and I will take the third one.

Stefano Grassi: Absolutely, Paul. Absolutely. So Graham, the trend during the course of the third quarter was pretty homogenous if we look at the overall performance. I mean, we got the marginal difference across the month, but I think the overall trend was fairly consistent throughout the quarter.

With respect to what we observed in the month of October. We observed an acceleration, further acceleration in our trend. And we are now solid positive for the month of October in terms of business results. Clearly, going beyond that, there is obviously a bit more of a question-mark because we need to observe and understand that the evolution of the pandemic outbreak, in particular, in Europe. But this is something that we obviously will better understand and deep dive into the problem base.

But again, no major difference across the month. October moving to solid positive and again close look into what's happening in the month of November and December.

With respect to cash flow, I would say the primary driver of the free cash flow generation was very much a very solid and strong management of working capital. Paul, with respect to the third question on the GV?

Paul du Saillant: Yes. Thank you, Stefano. Well, on GV, like we have told you and always confirmed, the strategic rationale for the GrandVision acquisition is confirmed and makes sense for EssilorLuxottica and we have always confirmed that the interest of this and the complementarity of this asset.

On the antitrust process, it's progressing. We are actively working on the three remaining antitrust authorities in Europe, Chile and Turkey, and are making good progress. The legal proceedings are also ongoing and you will understand that I will not make any further comments on those, but we are confident at EssilorLuxottica that there will be a favourable outcome on those legal and arbitration proceedings.

So we are confident. It makes strategic sense and the antitrust process is progressing as expected.

Graham Renwick: That's great. Thank you very much.

Operator: The next question is coming from the line of Julien Dormois from Exane BNP Paribas. Please go ahead. Julien Dormois, you can unmute your line.

Julien Dormois (Exane BNP Paribas): Sorry guys. Can you hear me now? I guess you can. Sorry, I was on mute. Sorry. Thanks for taking my questions. I have three. The first one will relate to the sales trends into Q4. So Stefano, thanks for giving us the October trend that you saw. I just have one question here about what's happening now in Europe in terms of the lockdown. I just want to make sure that opticians across the countries which are under renewed lockdown can remain open. And I think that makes a difference compared to the spring impact. So first of all, can you confirm that the optician shops can remain open there? Second question is actually a focus on Stelvest that is myopia lens that you launched in China I think in July. I'm just interested to get your thoughts on whether that could become a major sales driver anytime soon and typically what are the key hurdles you will need to overcome there to convince patients? Is there the pushback from the parents, is that the training of opticians, to sort of really keen to get your thoughts here. And also what is a reasonable timeframe for it for launching ex-China? And the last question relates to the dividend. I can see in the press release you are delaying the decision on this – on dividend distribution to early December. I'm just curious whether this can still be paid by the end of the year – by the end of the calendar year, because my understand is you need shareholder approval and possibly an EGM and that probably takes a bit of time to reorganise. So I'm just wondering there is still a chance of the dividend being paid before the end of calendar year? Thank you.

Paul du Saillant: Thank you very much, Julien. So I propose to take the two first ones, and Stefano, if you're fine, you take the third.

So on for Europe, like Stefano told you, first, we are pleased with the trend in October which is solid growth in Europe and the US, all the way to the end of the month. Now you are right Julien that the way the lockdown is being implemented and we are monitoring the situation on both a day-by-day and a country-by-country basis; of course, this includes France, which is in lockdown mode but where opticians are considered and rightly so as providers of an essential need.

So it means that they have the right to stay open. And as I pointed earlier in our comment, the optician is a very proactive dynamic individual. And in the restart back in May, June, July, they were very dynamic and finding many different ways to serve the consumer. But now they can clearly stay open. So it's more a question of how traffic will be impacted.

And I think we have to observe how will the customer meetings will be booked by opticians. I think they will try to plan to welcome consumers. They maybe more proactive and see how they can provide more service remotely. But I am quite sure that, we're going to see a lower trade level than what we have seen in recent weeks and months, which was very strong.

Now how much of a slowdown and for how long will we see? We will observe. But clearly it is likely to be less drastic than what we saw in April, May, June.

Now I think you have, Julien, anyhow to look at it in a different angle, which is it's a structural need and anyhow we have learned from the first lockdown, the V-shape recovery and the very strong restart where in which actually the stores were extremely active to serve the customers. So, of course, we have to see how much the traffic has slowed down with the stores staying open or partially open, but what is important is that we have demonstrated in the recent months, in the last five months, the robustness of the need.

Stellest. So Stellest is an innovation. Norbert Gorny, our Head of Innovation and R&D at Essilor, believes it's a totally disruptive innovation because of the unique concept of the lens – and we don't have enough time to go through it in detail. But it's to create this bifocal effect in front of the retina, a peripheral bifocal effect in front of the retina with a very complex design on the surface of the lens with micro lenses that are positioned in front of the retina.

We believe this innovation is likely to be as disruptive as our invention of the progressive lens 60 years ago by Bernard Maitenaz. So we are creating a full new platform of design and solution like a new category that is addressing a problem that is not solved, which is this myopia management, myopia development in between the age of four to 12.

So to make – to establish that category, you have to create the awareness. You have to work with eye doctors and cohorts of children to see the effect. You have to organise the training in the store, the dispensing to work with the parents. So it's a fully holistic approach that we have, of course, started to do a few years back in China, where the myopia management issue is the biggest. We launched it in July. Initial results are extremely promising.

We are now working with other key geographies for example, key countries in Europe to, in 2021, start to deploy – the deployment of this solution, work with the key opinion leaders, with the ophthalmologists, the eye doctors, the opticians. So it's a journey starting with extremely promising results that we have witnessed after 12 months of wearing those new lenses and we will have the confirmation after two years of trials in a very short period of time.

So this is what we could say in a few minutes on Stellest. But it is a disruptive innovation to create a totally new technology platform and category for children. Stefano, on dividend?

Stefano Grassi: On dividend, all I would say is the decision again will be taken in the course of the month of December and is technical doable.

Julien Dormois: Okay. Thank you very much guys.

Stefano Grassi: Thank you.

Operator: The next question is coming from the line of Veronika Dubajova from Goldman Sachs. Please go ahead.

Veronika Dubajova (Goldman Sachs): Good morning, and thank you for taking my questions. I also have three, please. I appreciate we're kind of fairly early on in the – my first one is around the lockdowns and how you were thinking about sort of the drop off in demand. And I know we're very early on. But I'm just curious maybe from your own retail experience, what you have seen in the last couple of days? Are you seeing customers working at following appointments? Is there a drop-off in forward bookings? If you can give us any indication. Obviously, it's very hard for us to know given that the opticians are staying open and this is a very different lockdown to what we had seen earlier in the year. Just would be great to get your thoughts and how you were thinking about the potential downside in places like France

and Germany? That's my first question. My second question is just an update on the CEO search and wondering what you can share with us. And my third question is a bit of a financial one looking at the second half of the year. Obviously, very nice rebound in revenues but also you have mentioned throughout the press release in your prepared remarks today positive mix in terms of the types of products that you're selling and also geographically. Just curious kind of how you're thinking about the implications of that on the gross margin and overall levels of profitability in the second half of the year? Thank you.

Paul du Saillant: Stefano, would you like to take a few remarks on our own retail, very early signs or observation? I can make a few more comments on France. I will take the second one and maybe you take the third one. Stefano?

Stefano Grassi: Yeah, Paul. Absolutely. Just a quick touch on Retail. As you know Veronica, on the Retail side, the vast majority of our process in Europe is very much on the sun side. So there isn't much of the dynamic with respect to optician at least on the direct operated stores. We do see challenges in optical retail in Italy, where we do have a certain kind of restriction, for example, in some regions in the northern part of Italy, where we have restriction for accessing in shopping malls during weekends.

But then we see probably consumer shopping during weekdays. So we need a little bit more time to see how that kind of restriction are impacting the stores. But again, I think it is important to highlight that no matter what and where we are. In the vast majority of the country, our optical retail stores are considering dispenser of essential eyecare needs. And therefore the store can be open.

But I'll be honest with you, we are used to live in 2020 with traffic decline on a double-digit territory. I think the consumer profile that we see shopping in our optical retail store is probably different from the one that we used to see in the past, meaning that we have a consumer that is much more convinced that by getting into the store, he wants really purchase something that represents an eyecare need.

So the reason why you do see pretty much consistently across the different region conversion improvement, we very much witnessed what I was just saying. Consumer much more convinced to come into our stores.

Therefore, again, we don't see any kind of deviation in the trajectory in recent weeks, recent days. But I also think that what we're observing in Europe needs to be thoroughly understood in the next few days and weeks.

Paul, I don't know if you have a reading on your side and probably more on the optician side.

Paul du Saillant: So I think, Veronika, it's really early early days. I think the – nevertheless the optician and our teams have learnt a lot in the period of March to June. So I think the way they will manage the lockdown, as I said, the optician, the store can remain open and the way they interact leveraging new technologies, remote booking just to name that one and the way they have organised their store is going to, I think, make the impact lesser than what we saw in the second quarter in France. But it's honestly, Veronika, just a bit too early.

I just feel a lot of entrepreneurship and eagerness of the small stores in France, you were pointing to France, to stay open and to continue to do business. There is a lot of determination

to keep the economy going. So I think that's the mindset and solutions exist. But we have to see on a day-by-day basis and our teams are extremely close to their customers as we talk.

You might want to take the question on the gross margin, Stefano. And so we talk about the business and then I'll say just a word on the CEO question.

Stefano Grassi: Yes. Absolutely, Paul. With respect to gross margin, Veronika, yes, you're right. I mean, we talk about positive price mix on Wholesale within positive product mix support, especially on the more mature markets on the lens side. So we do have those constituents. They are definitely playing in our favour.

We still have, on the negative side, a bit of a headwinds driven by the under-absorption of fixed cost due to the volume. But what I can tell you without necessarily disclosing details on Q3 P&L because this is really a sales call. But we do see a marginal improvement in our gross margin position compared to what you've seen in the first half of the year. Paul, not sure you want to comment on the CEO search?

Paul du Saillant: Well, this is a sales call, so it's really not the topic of the day. But Veronika I think what we can say is that there is a clear governance in place until the general assembly of May 2021. And in that governance, Francesco Milleri and I are working closely together, are leading together the company and managing each of us Luxottica and Essilor. And I think it's a very strong and solid setup to navigate through the pandemic and through this complex year. And we have around us a top quality group of executives and teams that we're working with.

So we have a clear operational governance in place. It's focused and it is serving its purpose very well.

Second, there will be, as you know, a new Board which be elected in May 2021 at the end of the combination agreement and at the end of the equal power setup. And that new Board will decide about the organisation of the top of the house with its CNR and Board members. So that's what we can say today. And I'm certainly not in a capacity to comment on this topic any further. It's a broad topic with very clear future dates

Veronika Dubajova: Thank you, Paul. Stefano, can you just clarify quickly comment you made earlier. You said October was positive CR growth for the Group as a whole or for Europe and the US? I was a little confused and I just want to make sure I got it right, and then I'll jump back into the queue.

Stefano Grassi: Absolutely. It was a solid positive for the Group.

Veronika Dubajova: Fantastic. Thank you guys so much and stay safe.

Stefano Grassi: Thank you. You too.

Paul du Saillant: You too. To complement Stefano, we are pleased to announce this important piece of information that we are in positive solid growth territory in October.

Operator: The next question is coming from the line of Antoine Belge from HSBC. Please go ahead.

Antoine Belge (HSBC): Yes. Hi. It's Antoine Belge at HSBC. Three questions. Actually, I'd like to come back on the question of the CEO search because I think officially that was a search which was supposed to end before the end of 2020. But listening to you and mentioning the May 2021 AGM and how on the process that you describe, I mean, isn't it fair to say that now

the news about the new CEO might be more aligned with that AGM date? Second question relates to the incoming US election and regarding the different outcomes, what could be the impact on the health policy in the US and do you think that it could be different outcomes in terms of how the eyewear industry could be impacted? And thirdly coming back to Stelless and thanks for the update. What is the competitive landscape for Stelless first of all in terms of other lenses launched by your competitors but also in terms of competition from other product than just lenses? Thank you.

Paul du Saillant: On the first question, Antoine, I'm not going to go any further. There is a very clear agenda. And I'm not here to comment on the CEO search. It's a sales call and you will understand that I'm not here to comment on this matter. I told you the facts. They are very clear. And I think they are very important data points for you on this matter.

On the US election, that is certainly not a matter we can comment. But what we can say, and Stefano you will complement. What we can say is the need, the optical market in the US, the need for good vision is something that for decades has been a very important matter in the US and it's a market that has developed itself well. It's the largest market worldwide. It's a growing market. And the need for good vision is well known. There are many vision care providers. There is a full set of stores of all kinds. There is an internet offering. There is a lab network to serve the industry. There is all the brands that you want to have frame brands, sunglass brands.

So it's a well-developed market, under-addressed, that is the key. The key categories are not so well penetrated. So I think that's the way we look at this market. And actually throughout the year 2020, we have seen, like it was explained by Stefano, a very solid rebound from the months of May and a nice third quarter and month of October.

So I think the fundamentals of the market are good and in whichever scenario, this need for good vision, this need for brands is there. And the go-to market strategy across all the channels is largely and well deployed. But maybe Stefano you can give some colour also on this matter. Stefano?

Stefano Grassi: Yeah. Sorry, Paul. I know that we have some variables that determine a pretty good level of uncertainty. If I have to judge what we're seeing in the US compared to the behaviour that we've seen so far in Europe, obviously in the US we probably see a level of restriction that is, call it, to a lower magnitude than the one that we're experiencing in Europe right now.

We do see, on the prescription side, a pretty consistent trend, as Paul mentioned, of positive growth. I think that that demand is going to be there no matter what, no matter who is going to win the election. We have planned, for the fourth quarter, a pretty good amount of activities around our optical retail stores, in particular, in LensCrafters. We're going to go on TV campaign in – for two times between October and November four weeks to wait. And this is something that we haven't done last year.

We have a pretty solid CRM campaign that will very much encourage people to anticipate some of the issuance benefit not at the very end of the quarter but to probably widespread that throughout the quarter in order to avoid massive queue of people at the year-end. So we're doing a lot of work to also address consumer behaviour, address what the customer is looking for in light of the pandemic outbreak.

I don't think those trends on the optical side will change where there is going to be one or the other contender that is going to win the election. As we mentioned before, the trend for October was positive. It was positive enough to get Retail in North America, in particular, in LensCrafters. So those are pretty good indication. We continue to observe what's happening. We will obviously continue to monitor the results of our TV campaign in our CRM efforts. But again we're confident of the exercise and the investment that we're putting in place.

Paul du Saillant: Thank you, Stefano. So Antoine, some complementary information on Stellest. So first, I think you have to start by acknowledging the magnitude of the myopia topic. Today, 2.6 billion people on earth are myopic. We estimate, and we shared that with you at the Capital Markets Day, that by 2050, 4.7 billion people on earth will be myopic. And among those 2.6 billion people today, 400 million people are high myops. And if I just go to China, around 40% of the population is currently suffering from myopia.

So the question is that there are a few solutions at work here. There is atropine which is drops, eye drops. You have contact lens solutions and then you have eyeglasses. We think that this new lens concept is bringing a new kind of a solution to slow down the development of myopia in between the ages of four to the age of 12, 13.

Yes, the industry is very active at trying to crack this through different approaches and technologies. But I think the matter is really how do we deploy those solution fast enough and with the proper awareness, the proper explanation to the eye doctor, to the optician with the proper ramp up market by market. So it's an industry challenge. And the more solutions there are, the better because it is a massive issue. It is an industry issue that for us as the industry leader we need to tackle head on through the delivery of powerful and efficient solutions. That's the way I look at it, Antoine.

Antoine Belge: Thank you very much.

Operator: The next question is coming from the line of Luca Solca from Bernstein. Please go ahead.

Luca Solca (Bernstein): Yes. Good morning. I have a question on LensCrafters. It seems to me that on the one hand COVID-19 is pushing digital, as you say, also reporting about your business. And on the other, your continuing innovation is shifting your mix towards more complex and more sophisticated lenses that cannot be produced or cut or serviced at the point-of-sale. I wonder about your progress in rightsizing the average store footprint at LensCrafters and how far advanced you are at this stage in shaping LensCrafters and making it ready for the future, if you are in the initial steps of this process, or if you see that you have accomplished much as you said about post-merger integration? The second question is about STARS. You report continuing growth of this business and importantly significantly better organic growth in comparison to the average of the Wholesale and Retail businesses, yet the penetration of STARS is still below 20%. How do you anticipate that this will proceed? Going forward, do you expect an acceleration in this development? And how is your desire to move further into Retail, especially in Europe, going to change the background for the development of STARS? And last but not least, you said that you're progressing well on GrandVision and on the antitrust investigation in the European Union and in other parts of the world. I wonder how you're looking at this acquisition today after COVID-19 after seeing digital grow so much? Is this still a strategic move for you, and is it still was the same or is by contrast the recent template

between LVMH and Tiffany a good template to try and anticipate what is going to happen between you and GrandVision? Thank you.

Paul du Saillant: Stefano, are you – can you take the two first ones?

Stefano Grassi: Yeah. Absolutely, Paul, and good morning, Luca. Let me start with LensCrafters. There's no doubt that there is a digital journey, a digital transformation that we need to do in LensCrafters. I would say not take a retail, generally speaking. And we need to leverage our own retail store to very much represent the benchmark for optical retail stores evolution into a more digital era.

We started this journey outside the United States. So we started this journey in two countries, where I think now we're pretty much completed there. One is Australia. The other one is Italy. And the two retail chain in there we decided to begin with, OPSM as well as Salmoiraghi & Viganò, are the one which we experimented, we worked a lot very hard to launch new digital innovation whether it's appointment booking, digital eye examination and really take that to the next level.

For LensCrafters, we've done some work in the last couple of years, no doubt, but the journey hasn't been completed. Now if you ask me where are you on that trajectory, whether you are – it's hard to make a percentage in a way, but we still have way to go. In the next probably couple of years, we still need to invest. But we know the direction. We know exactly what we need to do. We know some of the fundamental pillars that which we believe are still going to be there.

LensCrafters we completed for example from a product assortment standpoint, the evolution of our lens assortment. Now we have pretty much completed. Our LensCrafters lens assortment of branded and unbranded lens is very much supplied by Essilor and this is an important accomplishment. You might remember that we started this journey a few years back in – when we were about 50%. Now we're pretty much completed with that.

We need to renovate still a good amount of stores because we believe that some of those stores will require an upgrade to make it more up to speed with the recent technologies. The frame advisory is one perfect example, the leverage of the artificial intelligence on one side, the leverage of the Virtual Mirror technology on the other side will allow some of our consumers the shopping to LensCrafters to preselect some of the frames even the one that they don't necessarily have in the stores.

The telemedicine is the other evolution that we're having right now. And we're piloting this in those months. And in 2021, you will see a rollout and the investment for telemedicine, which is in the early stage of rollout in LensCrafters in North America.

Some of the stores are still big. Some of them no doubt. I think some of them have opportunity to be probably right-size, meaning to become a little bit smaller than what they are. But remember all the new stores do not have in-store lab any longer. And this obviously creates a difference in terms of store size. Clearly, the investment is an important one but the return that we see from the LensCrafters store of those investments are pretty promising.

With respect to STARS. I think STARS, it's really a good story but a story that is still to me very much Europe-centric in the vast majority. And then what we need to do now is take the remainder part of the world, in particular, South America, Central America, United States to the

next level in terms of STARS evolution. I think some of the partnership programme that we launched have been very successful.

STARS can take farther tailwinds from the launch of those programmes, in particular, in the outside Europe. In the region outside Europe. And I would say North America and South America should be our priority. That's very much for LensCrafters, STARS. Paul, you want to comment on the third question on GV process?

Paul du Saillant: Yeah. I will. Luca, I will just confirm to you, to your question is that, as I said and as it has been said by the Group, the strategic rationale of the GrandVision acquisition is unchanged. We confirm that it makes sense to make this acquisition for EssilorLuxottica.

One thing I bounced on this question because you pointed – you sort of opposed a bit the digital growth or the online growth and the offline growth. I think one of the aspects, and I'm looking out of GrandVision question that we could illustrate by our third quarter is that we have been able to grow online and offline nicely in the third quarter and in the whole post-COVID restart, of course, we had very strong online performance, e-commerce performance in the second quarter. The market was down in the store. But then in the third quarter, the physical market restarted strongly as we have been explaining for the last hour. And at the same time, we continued to experience a strong online performance.

And I think that this is a key takeaway for today is that the Group is increasingly able, with its open model, with its go-to market strategy to stimulate, to support the growth dynamic of the industry both with the independent, with the key retailers, with our own retail and with our online platform in an omni-channel approach. And what is good is that all the channels have the proper dynamic leveraging our brand, our product, our assortment, our categories. So I think it's a very important lesson from this year to keep in mind.

Luca Solca: Thank you.

Operator: The next question is coming from the line of Susy Tibaldi from UBS. Please go ahead.

Susy Tibaldi (UBS): Hi. Thank you for taking my questions. So the first one, I wanted to ask a little bit more about the sun category. Clearly, it's a smaller part of your business but 30% is still quite significant. And I think the reasons for the weaker performance are very well understood. But I was wondering if you can give a little bit more detail on how much of a drag it really is and what do you expect there in terms of shape of recovery and whether in recent months you have seen any change in trend for the category? One question on synergies. Are you able to quantify the level of synergies that you have delivered year-to-date? And you have mentioned that you have clearly changed some of the priorities internally when it comes to reprioritising some of the cost synergies versus the revenue synergies. Are you seeing a direct cost benefit from these initiatives, or do you think it's still too early, i.e., I'm trying to understand the cost of implementation currently is offsetting the benefit or you are already seeing some less benefit? And just if you could just a few words on this Ray-Ban initiative, this complete pair since you have launched in Italy in June, how has the take-up been from customers and also what are the plans for the other markets? Thank you very much.

Paul du Saillant: Stefano, are you okay to take the two first ones?

Stefano Grassi: Sure. Yeah. The question on sun, absolutely. I mean, we were dealing with traffic drops that it's quite material on the Sunglass Hut location, which is really the major constituent on the sun for Retail. We have been challenged quite particularly in touristic location in theme parks, which is creating a challenging situation more so in Europe than in the United States. In Europe, we have about 50% to 60% of our Sunglass Hut banner that is more exposure to that touristic traffic across the main capital in Europe.

In the US, we have more of a core part of business that is still more resilient than the one exposed to touristic traffic that is pulling to be, again, probably stronger than the touristic traffic part of Sunglass Hut. We now have an important period that is the holiday season, in particular, in the United States. From a timing perspective, we probably have a slightly longer holiday season than we had last year, couple of days more, and we need to observe how things are developing.

But again, I think our investments should be very much around the towards – in order for them to serve more and more local needs rather than international traffic flows because we don't think that is going to come in the near future. Again, we continue to observe that booming activity in the outdoor due to the Bass Pro. Then for what pertains to the B2B channel on the wholesale side, I got to tell you we had a good summer season. I mean, in particular in the month of August and in particular, in Europe, it was a pretty good sun season.

So in that respect, we believe that as soon as there is a restored confidence in the consumer to take some activities outside their own home or apartments, I think, they will naturally come as a counteract. We have the assets ready. The stores are ready to host new clients. We have right product launches in the stores. So we feel good about it.

In terms of synergies, I think the progression is coming pretty well. We have been challenged during the course of the second quarter due to the outbreak. The challenge was probably more on the sales side than on the cost side. But during the third quarter, we accelerated some of the initiatives on the cost side as well as on the commercial side like the EL 360 to confirm the synergies that the synergy targets that we have. And I think you will see already some benefits to our profits and loss very much driving by the course of those initiatives.

So targets aren't changed at this stage. We clearly follow very closely the evolution of the following months, but again there is no reason for us to change target at this stage.

Paul du Saillant: Thank you, Stefano. So a few word on Ray-Ban Authentic that we launched in June in Italy. First, on the the concept. The concept is a great one which is to have the same experience with a prescription Ray-Ban than you have with the sunglass Ray-Ban in sun and in clear, with the lens being optimised optically and cosmetically with the frame. So it's a great consumer offering.

We see very good interest in Italy, where we are in our own stores at Salmoiraghi & Vigano and in the wholesale activity with opticians launching the product. After launching it in Italy, we will launch it in the US next year, which will be another exciting milestone. And we are also studying with the European teams, which will be the next countries in Europe after Italy. So this is where we are. And I want to remind you that we believe this is a powerful and new concept.

Susy Tibaldi: Thank you very much.

Operator: The next question is coming from the line of Domenico Ghilotti from Equita. Please go ahead.

Domenico Ghilotti (Equita): Good morning. I have four very quick questions. The first is on the synergies. You said you are on track for the 2023 synergies. What about the confidence on the 2021 targets you gave initially so the €300 million, €350 million? And second on the free cash flow generation. Stefano, you were mentioning that the working capital was a strong contributor, but is also less predictable for us. So I understand. Could you provide a sense of what is the trend that you expect or the levels you expect at year-end in terms of free cash flow or net debt, as you like? And the third question is on the – a follow-up on the second wave risk. So if I understand properly your comments on the US market, you are, say, less concerned on the reaction on the trend, current trend in the US because we have clearly lower restriction despite having second wave that is relevant as well. So if I – if you can comment. And the last question is on the dividend. So trying to understand first of all if you – what are the KPIs that you will consider to propose a dividend payment? And if the payment will be just, say, the payment of the dividend that has been suspended initially so the full-year '19 or if you can expect a totally new proposal, so a new amount?

Paul du Saillant: Stefano, are you okay to take one, two, possibly four, and I can take the third one, if that's okay with you?

Stefano Grassi: Yeah. So with respect to synergy, Domenico, no reason to change your target at this stage. This is really where we are. Clearly, the mix between cost and revenues changed. The mix of contribution between different work stream has changed, but as we said no reason to change our course at this stage. I mean, the medium term or the longer term one at this stage.

With respect to working capital and the free cash flow in general for trend into Q4, I mean, there are two things, right, that I can tell you. Cash flow generation is for many obvious reason concentrated during the month of December as we're going to have the ramp up of our retail for holiday season for insurance period. And the second thing that I can share with you is that the month of October from a cash flow standpoint has been positive and we're good to go on that respect.

So these are the two things that I can share at this stage. Then obviously we need to observe how the evolution is going to go, especially in the month of December.

With respect to dividend, I mean, the first thing that we look at very much so is the solidity of our balance sheet. And you look at our net financial position, you look at it and I'm sure many of you have made a comparison what we've always seen in the first half of the year and you could do the math directionally of where are we. So we had strong cash flow generation during Q3. And this is an important KPI. The solidity of our balance sheet that is there.

Clearly, look at also our P&L performance and then obviously we have discussion within the Board of Directors to really take the proper decision. Paul, do you want take question number three on second wave concerning US?

Paul du Saillant: Well, I think currently the US stays quite dynamic, but we have to observe if there is a partial lockdown, what is the form of this lockdown. Through the months of October, we saw, up to days like yesterday, very good dynamic in all of the lens related activity. I think

wholesale frame also, sunglasses was good. But Stefano, maybe you have more recent and positive data than me. But the dynamic of the business at this point is robust, Domenico. So we will see if this changes, but the situation is drastically different from what we see in Europe in terms of the way the governments are acting in Europe.

And those decision in the US, I remind you, are very local and made by the federal structure of the country. So to be followed closely but so far so good.

Domenico Ghilotti: Okay. Thank you.

Operator: The next question will be the last one and that's coming from the line of Delphine Le Louët from Société Générale. Please go ahead.

Delphine Le Louët (Société Générale): Thank you very much. I hope everybody is fine and safe. If we stick in the US, probably Stefano, can we get the breakdown in terms of revenue regarding department stores and ECPs? Second question would deal with the Essilor 360 programme. I try to understand is it going to be the new backbone of the commercial marketing activity dedicated to ECPs or shall we see that as an umbrella where we're going to have the Essilor Experts, the STARS programme? How would that fit? Is it part of the new synergy and one of the 26 ongoing strategic programmes? And finally, can you ensure us when we look in the next six months and is going to be very different throughout the next semester with the end of the combination agreement, can you assure us that we can have a smooth transition from where we are now regarding the management. And I'm talking about the – all the managers of EssilorLuxottica to the new company. And if I hear you well, Paul, I'm just seeing myself that you already had the selection of your CEO and it's definitely internal one. So I want to be sure that we will not have to wait for six, 12 months with the new CEO to get a new plan for a new company. Thank you very much.

Paul du Saillant: So Stefano, do you want to take the first one? I can make some comment on EL 360?

Stefano Grassi: Yes, absolutely. Good morning, Delphine. We're all fine. Thank you. And I hope the same for you. Just on the breakdown of revenues around the ECP. I mean, given or take you're looking at anywhere between 40% to 50% on the B2B side of EssLux on a combined base. So it's definitely the biggest channel that we have.

While if you look at the department stores, that is primarily on the Wholesale side, we're looking at a single-digit presence from a department store standpoint on a B2B side, then obviously we have presence as part of our retail network but that's different. So I think you were more referring on the B2B side. Paul, you want to give more colour on the EL 360?

Paul du Saillant: Yes, I'm happy to do so, Delphine. The EL 360 is a key programme with our ECPs. And we have often talked to you about the Essilor Experts programme, for example, on the Essilor side. There is STARS programme and other programmes on the Luxottica side. If I just cover the Essilor Experts in the US, it's comprises of around 7,000 Essilor Experts. Some of them are in our doctor alliance company, some other are purely independent ECP.

So the EssilorLuxottica 360 programme is an extension of this Essilor Experts. And actually many of the first Essilor 360 partners are coming from Essilor Experts and it's bringing offers, programmes coming both from Luxottica and from Essilor as a common programme. And it is managed as a common programme at EssilorLuxottica level. So I don't think you should look

at it as an umbrella programme on top of Essilor Experts. It's an extension in which there are more features, more commitment on both parts, business commitment, product commitment and access to the product service capabilities of our Group.

The start of the programme is very encouraging when we talk with Fabrizio Uguzzoni and regarding the US, it is impressive what they have been able to achieve in just the last two months.

Now on your last question, as you have sensed in the last months with Francesco, we really are managing together with the real objective of steering the company and the team in this very complex time successfully and in a smooth way, but also in a decisive way taking decisions and not waiting for any magic date in 2021. Just managing the company, taking decisions, accelerating the integration, connecting our teams, delivering on our various projects, current and future ones.

Then just to reiterate what I said earlier. . I will not make any further comment on the CEO search. It's not appropriate for me to do so. There is an AGM in 2021 and it is the Board's responsibility to deal with such matters. But for sure, together with Francesco, we are very pleased to work together and more than work together to take decisions and build EssilorLuxottica, for the years and decades to come. Thank you, Delphine.

So I think that was the last question. So I think we will wrap it up here. Stefano, except if you have one more comment, otherwise I think we're just going to conclude.

Thank you very much for attending our call. We really appreciate all of your questions and interest. We look forward to seeing you again next year on March 12th when we will release our full year results. Until then, stay safe and thanks again for being with us this morning.

[END OF TRANSCRIPT]