EssilorLuxottica's third quarter 2021 revenue

Transcript of the Management Call

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Key Highlights

Stefano Grassi, Chief Financial Officer

Good morning and welcome to our Third Quarter Sales Release.

EssilorLuxottica posted another outstanding quarter, despite all the challenges related to COVID-19 that still remained in several countries around the world. Thanks to our balanced and diversified distribution, our very well integrated supply chain, and our continuous innovation with a strong pipeline of new products, like Ray-Ban Stories, that you see right at the front of our presentation today, we are now pleased to share that revenues on the third quarter were up 33% versus 2019, on a reported basis at constant FX. We also delivered revenues up 9.3%, versus 2019 on a comparable basis, still at constant FX.
If we now exclude the consolidation of GrandVision that entered into our books on July 1, our Q3 revenues were still up 9% versus 2019 at constant FX.
For the remaining part of this presentation, we thought it would be better to comment our results excluding the impact of GrandVision. Therefore, when we look at our Professional Solutions division, we are looking at a top line that grew by 7.3% in Q3, with all four regions globally contributing to the growth of the division.
The Direct to Consumer division posted a second consecutive quarter of growth at a double-digit pace, with e-commerce that grew slightly south of 50%, while our retail brick and mortar posted top line growth at a mid-single digit pace.

In light of this performance, we are now pleased to upgrade our 2021 outlook with respect to sales and operating profit. With respect to sales, we are now guiding for the full year 2021 for Group revenue to be up mid-to-high single digit, versus 2019, at constant exchange rates. With respect to profit, we now have an expectation for the full year 2021 to improve our operating profit by up to 100 basis points as a percentage of revenue, compared to 2019, still at constant exchange rates.

Now, in order for you to better understand what the rationale for our outlook upgrade is, I want to walk you through our journey across the different geographies and beginning on page 14 of the presentation with the largest one, North America.

In North America, our top line during the course of the third quarter, grew by 14%, and accelerated versus the trend of the first half of the year of 12% plus. Both Professional Solutions and Direct to Consumer divisions posted double-digit growth. The US market continues to be strong and vibrant, in particular on the B2B side, the growth was very much sustained by key accounts and independent ECPs.
In our Professional Solutions business, on the lens side, the growth was fueled by our branded lenses with Varilux, Transitions and Eyezen all in solid positive territory in Q3 and with the Crizal lens posting double-digit growth. On the frame side of our business, we were pleased and happy with our double-digit growth, very much driven by volume, while our price mix was a nice support to the overall picture for frames. Ray-Ban and Oakley were both on fire in Q3. Ray-Ban was up double digits in both prescription and sun. Oakley was also up double digits in both prescription and sun. The growth was very much supported by new product launches like the one of Ray-Ban Stories in September, or at Oakley, with the Xeus and Kato products gaining a lot of visibility during the Olympic Games that were held in Tokyo.
On the Direct to Consumer side, LensCrafters posted comparable sales up close to double digits, with price mix very much driving the growth, well supported by good volumes, with non-mall locations

outperforming mall locations. And when we look at the sun part of the business, Sunglass Hut, for the second consecutive quarter, posted top line up at a double-digit pace, led by non-international Sunglass Hut locations, as well as Bass Pro stores, while the international locations, as we have already seen for quite a few quarters were still lagging behind. We are hopeful now that with the reopening of the US borders to tourists, we are going to see an acceleration and good traction during the course of the fourth quarter for the Sunglass Hut international exposed locations. Last, but not least, our e-commerce business, has broadly continued the strong performance that we already experienced during the second quarter of the year.

Let us move over to the EMEA region where we have seen a very nice story of strong acceleration.
In EMEA in the first quarter of 2021, our revenues were down 7% versus 2019. In the second quarter, we were up 4%. And now in the third quarter, our revenues were up 7% versus 2019. A clear sequential improvement of our performance throughout the year. We are very pleased with this trajectory and to see that European consumers are reactivating their spending, with Italy, Germany and the UK performing mid-to-high single digit during Q3; and Turkey, Russia and Eastern Europe all growing at a double-digit pace.
Professional Solutions grew nicely at a mid-single digit pace in Q3, with good momentum in both frames and lenses. On the lens side of our business, our branded lenses well supported our strong price mix in the quarter as well as our profitability. While from a channel mix standpoint, our ECPs, our large key accounts and our e-commerce partners were very much the channels that drove our growth. Stellest is nicely ramping up in Italy, as well as in France, and we cannot wait to see the further rollout of the myopia management lens in other parts of Europe. On the frame side, we are very excited to report a strong sun business, with top line that was up high single digit, while the optical business continued to grow with a very strong and solid trajectory at a mid-single digit pace. The overall growth on the frame side of the business was fairly balanced between price mix and volume.
Moving to the Direct to Consumer side of the business, we are very pleased with Salmoiraghi & Viganò's performance during the course of the third quarter, with comps that were up mid-single digit and price mix that is continuously improving quarter after quarter. On the Sunglass Hut side, the overall performance was negative for Q3, but we have some encouraging signs of improvement. In particular, during the month of September during which comps were positive, and we were in positive territory in several countries. It is also worth noting that in France, in the Netherlands, in Turkey and in the United Kingdom, excluding airport locations, we actually posted double-digit growth rates. And that tells you that the demand for sun is still out there.

Now let us move into a more challenging area, let us move east to Asia-Pacific, where our sales remained in negative territory and were down 6.6% in the third quarter.
In the Asia-Pacific region, we observed a very challenging quarter. In Japan, we all watched the Olympic Games with no spectators. In China, we experienced the impact of major floods and cities like Beijing that were subject to severe restrictions. And then we had Australia, in Australia two of the major states, New South Wales and Victoria, were under a strict lockdown during the course of the third quarter. On the positive side, we are very pleased to report that India is on a recovery pace, with top line up mid-single digit. Greater China posted a double-digit growth rate and Hong Kong is slowly redefining the new normal. Also, the governments in Malaysia and Indonesia are progressively deconfining the population.
On the Professional Solutions side, we were pleased to see solid growth during the course of Q3, despite the challenging environment. Our price mix was solid, whilst volumes were still lagging behind, in light of the COVID outbreak. The Stellest brand continues to be a strong asset in China as well as in the rest of the world. In particular in China, we more than doubled the volumes of Stellest lenses that were sold in Q3 compared to the second quarter. And we see a further acceleration during the month of October. So, we are building up a new category from scratch at a very high pace. Today about 80% of the growth that we are experiencing in China in the lens business is driven by myopia solutions. So, we are very

proud of the achievement that the team has been able to make in that part of the world.
On the Direct to Consumer side, the performance was heavily impacted by the deceleration that we experienced in Australia. Just to give you an idea, during the course of the third quarter, we experienced anywhere between 150 to 200 stores closed during Q3. An additional 150 stores were subject to severe restrictions in terms of working operating hours. On the positive side, we have seen that in the states where there were no restrictions, we had Sunglass Hut growing at a double-digit pace and we had our optical retail business, OPSM, comping up at the mid-single digit pace. We are confident that we are going to face a good and solid fourth quarter in Australia, very much in light of the progress made on the vaccination campaign.

The last region is Latin America, that is another nice progression story. Q1 was up 1%, Q2 up 2%, and the third quarter up 12% back in double digits, with pretty much all the countries in the region contributing to the growth, with Brazil, the largest country that waived most of the COVID related restrictions and grew in the high-single digit during the course of the third quarter.
The Professional Solutions was up high-single digit, well supported by our branded lenses, with Varilux, growing double digits in Hispanic Latin America, as well as in Brazil. And in Brazil, we were very proud to see an acceleration of the synergies between lenses and frames. And we are very proud to share that during the third quarter we launched the EL 360 program in Brazil, piloting that program with about 400 ECPs and getting ready for the largest scale rollout on a national basis during the early part of 2022.
On the Direct to Consumer side, we were happy to see double digit growth rates. We had a very strong quarter in both brick and mortar, as well as e-commerce, that grew in excess of 70%. Our optical retail chain in Latin America, the biggest one, GMO, posted double digit growth. Our Óticas Carol business was up double digits. And on the sun side we had good numbers at Sunglass Hut, with Mexico and Brazil growing at double digit pace, making very much a nice and compelling story for our Direct to Consumer proposition in Latin America.

With that, I have concluded my journey across the different regions and now I will hand it over to the operator for the Q&A session.

Questions & Answers

Elena Mariani, Morgan Stanley
Hi. Good morning, Stefano and congratulations on the results. I will stick to two questions, of course.
My first question is on the US market. Clearly, your previous guidance was assuming that the trend would normalize in this market into year end, but it has not happened. So, what is your outlook right now for this region for the next few quarters? Is it fair to assume that you are continuing to see this abnormal growth into the fourth quarter, or even a stronger growth into the year end? And also, I just wanted to confirm that footfall is still down versus 2019 and so the double-digit sales growth is being achieved mainly through higher conversion rates.
And then my second question is on your new profitability guidance. Could you comment a bit more on the underlying drivers of the potential up-to-100 basis point improvement? Is it just pure operating leverage or are you also seeing a positive mix that is going to reach your gross margin meaningfully as well? So, in essence, I want to understand a bit more what we should expect in terms of costs of goods sold versus opex development in the second half of the year. Thank you.

Stefano Grassi, Chief Financial Officer
Good morning Elena, buongiorno. Let me start by taking your first question on the US market. Clearly, we see a market that is extremely strong. We see sound demand there in general across different channels, for B2B as well as DTC, for sun and well as the prescription side of the business. We expect that market to continue to be strong also during the course of the fourth quarter, again, assuming there are no changes in the pandemic conditions. We are getting ready for the holiday season that as you know is an extremely important period of time, together with the insurance week at the year end. With respect to traffic, the answer to your question is yes. We are still seeing a traffic decline, but the conversion rate keeps sequentially improving. That means that we have fewer consumers into the stores, but the ones who come in are very much coming in with a purchasing intention. Then as we develop more and more our omnichannel proposition, we need to look at the traffic overall in a broader way, not just the physical footfall but also the online audience.
With respect to profitability, we do guide for margin expansion, I would say quite material for the full year 2021. On one side, we do continue to see price mix as a nice support to our growth. We see volume coming back; we have seen it for example in the US pretty strongly, especially on the frame side of the business. And we believe that that price mix will continue throughout the remaining part of the year. So, that will obviously support our gross margin. From an opex point of view, if you remember a couple of quarters ago, I said that we were entering into 2021 with a very good control of our cost base. Let me say that this control of the cost base is still there. We started releasing certain investments in strategic areas to really get ready for some of the important events that we would be facing in the second half of the year, like the Tokyo Olympics, the launch of Ray-Ban Stories, the further rollout of the Stellest lens. But again, we have been virtuous in the way we have managed other discretionary expenses and that is why you can expect that margin progression all the way through the end of 2021.

Susy Tibaldi, UBS
Hello. Good morning. Thank you for taking my questions. So, the first one, just to wrap up what you were mentioning on the North American market, so it sounds like the trend, and correct me if I am wrong, but it sounds the trends that you saw in Q3 so far are being sustained also in the first two weeks of Q4? It sounds like Europe is also continuing on this trajectory of improvement. APAC, some of the restrictions in Australia are being lifted. LatAm, unless there is any major event, it sounds like it is also progressing well. So, does it mean that October so far, the first two weeks of Q4, are seeing trends in line with Q3 or maybe, potentially, even a little bit better given all these moving parts? So, it would be great to have

your confirmation of that.
And, secondly, just to go back on the margins, so, you have provided a 100-bps margin expansion, and you provide it as a ceiling rather than usually saying - at least a certain amount. So, given that high single-digit top line can be quite a wide range, I was wondering as to why are you putting a ceiling on expansion? Is it because you are managing the growth and so anything that is incremental you plan to reinvest it in those initiatives that you mentioned before, or how are you thinking about the margins? Thank you so much.

Stefano Grassi, Chief Financial Officer
Good morning, Susy. Let me take the first question, back to the trend that we are seeing so far in North America as well as for the remaining parts of the world. Yes, we do see an October that, so far, is coming with a nice trajectory, broadly speaking, the one that you have seen during the third quarter. So, we are very pleased with that. No reason to believe that this could divert for the time being.
With respect to the margin, I mean, it is a range that we are indicating with up to 100 basis points, and also the top line, we are guiding for between mid-to-high single digit, so we are sticking to that guidance. But, the underlying assumption that we have for that margin, it is margin expansion in H1, as you have seen, and it is margin expansion also for the second half of the year.

Graham Renwick, Berenberg
Hi. Good morning, everyone. Thanks for taking my questions. I just have the two.
Just, firstly, on the supply chain, are you seeing any disruption that could be impacting your product availability and constraining growth in Q4 or beyond? And also, as inflationary pressures are getting bigger into 2022, do you think that inflation could be more or less passed on the consumer through pricing or price mix given all the innovation you have coming through?
And then, secondly, on GrandVision, it is the first quarter of consolidation. They had a pretty solid update yesterday, particularly on margins. I was wondering if you had already started integrating that business and potentially realizing any synergies from that deal. I know there is some clear synergies around putting Essilor lenses in stores, consolidating supply chains, etc. I just wondered whether that had started in any way and, if not, is there any sort of timeframe on when we can expect those synergies to start coming through? Thank you.

Stefano Grassi, Chief Financial Officer
Good morning, Graham. Let me start with the supply chain. One of the things that you would normally hear when we talk about EssilorLuxottica is that we have a vertically integrated business model, which implies a vertically integrated supply chain. I would add on top of that a vertically and diversified supply chain. That is a major asset for us. That implies, first of all, that the reliance on external suppliers is probably more limited than for other industries or other business models. The second thing is that the diversification of our supply chain footprint allows us to respond quickly to any kind of challenge we may see at the macro level. We are making important investments as we speak to further diversify our manufacturing and distribution capacity from a logistics standpoint with major investments in Thailand as well as in Mexico. That gives us a broader footprint than what we had in the past and it definitely allows us to offset some of the headwinds that we are seeing. Clearly, there are those headwinds on the cost of logistics, and we feel it. But we have actions that have been able to compensate those impacts on our results, and one element is the diversification of the manufacturing footprint, but also further negotiation and diversification with our suppliers. Therefore, the strength of our supply chain is such that the headwinds that we are facing today, and also the ones that we are going to face in 2022, will be largely offset by the capacity of our supply chain. On top of that, as you mentioned, we have a strong pipeline of product innovation, implying strong brands behind it, and obviously we have the price leverage actionable whenever it makes sense. So, the combination of those two things really puts us in

a good situation, not just for this year, but also for 2022 and the years to come.
With respect to GrandVision, the consolidation into our financial statement is happening as of July 1. With respect to synergy execution, we are deferring that into 2022. So, it is not an item for 2021. With that said, you know that the items on the agenda, for us, are clear. There is work that needs to be done on the supply chain for lenses, there is work that needs to be done on the frame assortment, and there is the integration into EssilorLuxottica's platform, which, overall, I envision to be smoother and faster than the integration that we saw between Essilor and Luxottica in the past.

Luca Solca, Bernstein
Good morning and thank you for taking my questions. I was wondering about your thoughts on the operating model that you are implementing in emerging markets. It is quite clear that, in developed markets like the US and Europe, you are adhering to a greater implication in retail. You are working in many different markets globally, from South America to China, to India, and so on. I wonder if there is a sort of path that is emerging on how you crack these markets and turn them into growth engines for you. Is there a time when you want to push on wholesale, when you start to push on retail and so on?
Then, more a short-term question, I wonder if you could help us understand growth components in your Direct to Consumer reported top line growth, if you were to break it down roughly by space, like for like and digital, like for like within physical stores and digital. Thank you very much.

Stefano Grassi, Chief Financial Officer
Buongiorno, Luca. Let me start with the operating model in the fast-growing markets. We have a very diversified footprint in fast-growing markets. In several of those countries, we have a physical retail presence, we have a strong B2B in lenses and frames and we are also building up a strong online proposition, which is really converging into an omnichannel proposition with our physical presence. It is important for us to understand and monitor the areas that we believe are critical for the future of this Company in those markets. I will give you a good example for China: the Stellest lens and the myopia management category in China is a major item for us, when you have about half of the population that is affected by myopia. Therefore, myopia solutions are an important driver that we monitor constantly on the B2B side as well on the retail side. We action development on retail as well as B2B whenever it makes sense. Our retail presence in certain markets is probably still too low. For example, I think about India where we cannot have a direct presence, and, by law, we have certain limitations, but I believe there are opportunities there to become bigger. China could be a similar story in understanding the dynamics between the eye hospitals and the dispensing of the products. What role can physical retail play within the eye hospital channel? It is an open question for us. That is one of the areas where, with time progressing, we are going to be more explicit with you and with the rest of the audience.
With respect to the growth that we see on the Direct to Consumer side, there are two kinds of areas: on one side is the online business that continues to grow at an extremely strong pace, and on the other side there is a physical retail footprint that continues to be more productive as we evolve our stores and develop the omnichannel proposition. More and more, we are moving from a store productivity into an omnichannel productivity, from a physical footfall to a physical and digital footfall. That is the way we like to see it, and with the investments that we are making, not just in the sun part of the business but also in the optical side of the business, you will see that evolution coming through, especially at LensCrafters.

Anne-Laure Bismuth, HSBC
Yes, hi. Good morning. Thank you for taking my question. I was wondering about Stellest, how the rollout is progressing so far globally. What is the progression with the FDA in the US regarding Stellest? And, in terms of pricing, can you give us some details about the pricing of Stellest and if there is any

difference by country? Thank you very much.

Stefano Grassi, Chief Financial Officer
The Stellest rollout is progressing really well. As you know, we have already embarked on a successful story in China a bit more than a year now after the launch of the lens in that market. In the US, we are currently not present, and, in Europe actually, you are going to see a progressive rollout in other countries beyond Italy and France where we have actually got a pretty good acceptance by our independent ECPs, and you will see us becoming more and more visible in that continent. With respect to pricing, there are no major differences from a pricing standpoint in the way those lenses are currently being priced around the world.

Cédric Lecasble, Stifel
Yes, thank you. Good morning, Stefano and team. I have two questions also. The first one on the scope of the disposals of GrandVision. Maybe to help us to understand better, you know, your restatement and calculations, of comparable trends in particular to give a sense of what would be left in your scope. Maybe you can help us, you know, giving us some guidance or some indications on how much it represents in sales, and in EBIT. It would help us understand the mechanics, at least, on top line.
The second one is an update on your supply chain integration and what you are starting to do on IT following the investments in Italy, deploying your model, where do you stand? What is different today from where you stood a few months ago? What are you happier about and still on progress on some of those areas? Thank you.

Stefano Grassi, Chief Financial Officer
Good morning Cédric. With respect to the scope of businesses that are in the process of being disposed or that have been disposed. The impact of those businesses is slightly less than 1% of the overall consolidated revenue. We do not expect any material impact on the margin.
As for the update on the supply chain and infrastructure, the journey of harmonizing our platform to one single ERP system is progressing really well. We are making a lot of progress right now. Next year, we are going to have the full scope rollout in North America, which, from a materiality standpoint, is a major accomplishment, but we are also going through sequential rollouts in other parts of the world. So, all in all, it is progressing really well.

Domenico Ghilotti, Equita
Good morning. Two questions. The first is related to the FX situation. So, is it a fair assumption to assume that, in the second half, both on top line and also on profitability, you should be almost neutral? And the second is on the online business. I wanted to have, if possible, some granularity on the geographical contribution. So, if this online contribution now is starting to be a bit more or less skewed to the US and also extending to the other regions?

Stefano Grassi, Chief Financial Officer
Good morning, Domenico. With respect to the first question, from an FX standpoint, there are still some headwinds versus 2019 and I do expect those headwinds to continue in the fourth quarter. When we look at our results in 2022, I do see the trends reverting as we are going to compare ourselves versus 2021. If currencies stay at current levels, we are going to enter a tailwind territory, which is good for top line as well as for margins.
With respect to e-commerce, the business is still heavily skewed towards North America, and we do not mind that because the US market is extremely strong and that strength is not only on the B2B and physical retail side of the business, but it is also the case in on our online business.

Julien Dormois, Exane BNP Paribas
Hello, good morning Stefano. Thanks for taking my questions. The first one is, just coming back on Stellest, just to make sure I get the right number and then we all get a better grasp on the sales opportunity for this one. Just focusing on China, I think you have indicated that you have doubled the volume of lenses you delivered versus Q2. So, I think the last time you gave a number it was about 1,000 kids that were equipped per day. So, I was just trying to make a rough estimate because I think the wholesale contribution is about USD 100 to 150 per kid, basically. So, I was wondering at the current run rate, are we effectively talking about more than USD 100 million on a yearly basis for Stellest, just for China? Is that a fair calculation? And maybe as a quick follow up, what would be the limitation right now to a broader adoption of Stellest? Is it the opticians that you still need to train or is it the parents who are still to be convinced?
And my second question will relate to the margin into 2022. So, I know it is a bit early to talk about this but, because you have indicated that 2021 will be a good year from a margin perspective, I was just wondering, given all the headwinds and tailwinds you have mentioned for entering 2022, should we take the 2021 margin as a floor and think about you getting a better margin into 2022?

Stefano Grassi, Chief Financial Officer
Good morning, Julien. Stellest lens, yes, the volumes doubled in the course of the third quarter compared to the second quarter. We are further increasing that number as we enter the month of October, as we are finishing, actually, the month of October. So, the trajectory is a sequential improvement of daily dispensing of Stellest lens. And, as I said before, 80%, actually more than 80% of our growth in China in the lens business, is driven by myopia solutions, which obviously encompass Stellest, but not only Stellest.
With respect to 2022, I think it is a bit premature right now to look at 2022. We will have plenty of time to have discussions around that. I think we are going through our budget process as we speak, and so we will be more descriptive in the future.

Piral Dadhania, RBC Capital Markets
Morning. Hi, Stefano. So, my first question is just on pricing. As you think about your budgeting process for 2022, and in the face of raw materials input cost inflation for a lot of your inputs, could you just give us an idea of how much pricing you may take, absolute price increases for 2022? I appreciate you make comments around contributory price mix so far in 2021.
And then my second question is just on a more strategic update and when that might come for the business. Obviously, the profile of the business has changed with GrandVision in there now. When can we expect a more detailed run-through of your strategy for GrandVision and progress in terms of the EssilorLuxottica integration, perhaps in the form of a Capital Market Day? Thank you.

Stefano Grassi, Chief Financial Officer
So, with respect to the first question, Piral, good morning, when we look at our price mix that we see today, I would say, generally speaking, it is more driven by the continuous efforts in product innovation. So, the impact of the mix that we see in lenses, of the mix that we see in frames, is supporting our price mix. We take price adjustments whenever it makes sense from a currency standpoint, and a good example for that was Brazil where we made price adjustments. So, that is how we are also building up 2022. We are not necessarily into price adjustments, we are more looking at what is the pipeline of innovation that we have for 2022, that sustains our price mix. That is the way we look at it today, and that is going to be the story also for 2022.
With respect to the update on strategy, we cannot wait to do our Capital Markets Day. We have a lot of insights and updates on the strategy, now that GrandVision is going to be part of our family, but we have not set a date in stone yet. We are working on it.

Piral Dadhania, RBC Capital Markets
Okay. Understood. Thank you. Could I just come back to your point on price? So, if I maybe just rephrase, are you seeing any input cost inflation for raw materials going into next year? I imagine you have hedging in place for at least the next few months. So, if you are seeing input cost inflation, what sort of impact could that have at your unit margin level if you do not take pricing, if there is that inflation, or are you not seeing any inflation going into 2022?

Stefano Grassi, Chief Financial Officer
We do see it, especially on the logistics side, but it is under control. It is under control because of the effort that we are putting into the negotiations with suppliers, because of the sourcing diversification, because of the supply chain diversification. So, we do see it, we felt it, but it is largely offset by the actions that we are putting in place within our supply chain.

Veronika Dubajova, Goldman Sachs
Hi. Good morning Stefano and thanks for squeezing me in at the end. Two questions from me, please. Just looking at the third quarter, I was curious if you could comment a little bit on the growth progression that you saw month by month, and I appreciate there is very much volatility, but I was just curious in particular, in APAC, to what extent you have seen normalization in growth and how you are thinking about the fourth quarter. And also, I think in the US it looks like September was substantially better than the other two months of the quarter, and I am curious if you have seen that continue. That is my first question.
Then, my second question is, in terms of the confidence in the margin, clearly, you are seeing some benefits from operating leverage, but I am also curious how you are getting on with some of the integration work that you are doing on the Essilor and Luxottica side. So, maybe if you could give us a little bit of an update on how much that is a driver of your increased confidence in the margin for the full year. Thank you.

Stefano Grassi, Chief Financial Officer
Good morning. Buongiorno, Veronika. Let me take the first question. We do see Asia-Pacific getting better, for sure. Australia is instrumental there. The Australian situation is instrumental to improving our overall performance in Asia. India continues at a pretty good pace. So, broadly speaking, Q3 trajectory is where I would take my stand for the fourth quarter, assuming there is no deterioration on the pandemic situation, at least not in a material way.
On confidence of margin expansion, we have not talked about synergies, but the reason why we have not talked about synergies is because we are fully on track with our delivery and execution of synergies for 2021. Clearly, they support our margin expansion, we have a good pipeline of new initiatives. As I mentioned before, Brazil is going to be the next in line to see the commercial proposition of the EL 360, and the first reaction that we have seen in that market is a very positive one. No reason to believe that work will not be extended in other parts of the world, also in Asia, for example. So, overall, it is working really well. It is on time with respect to execution, and it is contributing to our margin expansion, first half as well as second half of the year.

Okay. So, that was the last question for today's call. I want to thank everybody and look forward to talking to you in the near future. Thanks again. Have a good day.