EssilorLuxottica

EssilorLuxottica's fourth-quarter and full-year 2021 results

Transcript of the Management Call

Company Speakers:

Francesco Milleri, Chief Executive Officer

Paul du Saillant, Deputy Chief Executive Officer

Stefano Grassi, Chief Financial Officer

Giorgio Iannella, Head of Investor Relations

Questions from:

Elena Mariani, Morgan Stanley

Susy Tibaldi, UBS

Graham Renwick, Berenberg

Veronika Dubajova, Goldman Sachs

Julien Dormois, BNP Paribas Exane

Cédric Lecasble, Stifel

Domenico Ghilotti, Equita

James Grzinic, Jefferies

Introduction

Giorgio Iannella, Head of Investor Relations

Good morning, everybody. I'd like to share with you the company's statement that we published yesterday on social media.

We have been deeply saddened by the tragedy unfolding in Ukraine and we stand in solidarity alongside all those impacted. At this difficult time the safety of our people remains our priority and we are providing all the support possible to our affected teams in the region.
Due to uncertainties and significant disruptions, we are temporarily restricting our operations in Russia. In line with our Mission, we are committed to continuing providing essential medical vision care services. We will monitor the situation and adapt our response accordingly.

With that, I will leave the floor to our CEO, Francesco Milleri.

Key Highlights

Francesco Milleri, Chief Executive Officer

Good morning all and thank you for joining us.

Today, we are proud to share with you EssilorLuxottica's results for 2021, an extraordinary year in which we achieved a lot. We succeeded not only from a financial perspective, but we also completed some of the most strategic projects of the last few years, that will shape the future of the company and all the industry for the years to come.

Despite a still challenging environment, EssilorLuxottica embarked on a remarkable recovery journey in 2021, growing sales and profits compared to pre-pandemic levels. The company met the guidance on sales and beat its twice-upgraded targets on the operating margin. North America was the key driver, thanks to our excellent execution in both Professional Solutions and the Direct to Consumer segments. On top of that, all the other regions accelerated in the fourth quarter, closing the year on a positive note. Our ability to translate the business growth into operating margin expansion drove up our profits and generated an all-time record amount of cash flow. Stefano will further elaborate on all these trends later.

If we look behind the pure financial results, 2021 was also an outstanding year in terms of transformation.

With the interim period now behind us, we kicked off the next stage of the integration. Company structures were merged and leaders for each of the business segments worldwide were appointed. This has given way to an experienced and talented top management team, able to fulfill and execute our vision.

We have finally completed the acquisition of GrandVision which, after the successful Mandatory Tender Offer and the consequent delisting, is now fully consolidated in EssilorLuxottica's accounts. We are now a Euro 21.5 billion company, with an adjusted operating margin of 16.1% and net profit of Euro 2.3 billion. A dream has come true.

On the product side, we brought to the market yet another groundbreaking innovation, Ray-Ban Stories, the next generation of smart glasses, in partnership with Meta, and rolled out to new markets Stellest, our lens innovation that slows the progression of myopia.

The Group is at the start of a new era. We are now richer in resources, faster in taking decisions, and ready to lead the evolution of the industry for higher standards of vision for people worldwide. You have heard us talk about the concept of a “network company”. While we continue to compete in our market, we also keep building a network connecting to many other players, to share with all the best we have and accomplish our Mission of promoting good vision everywhere. At the same time, we deliver strong results to our shareholders and stakeholders.

With that in mind, I would like to underline the great progress we have made reaching our Mission, as well as our commitment to Sustainability, thanks to the “Eyes on the Planet” program. The improved ESG rankings of the Group reflect all the hard work done so far and Paul will tell you more about our initiatives as a key pillar of our identity.

Last, we are updating our long-term guidance for the next five years. Until 2026, we are targeting to achieve mid-single-digit annual revenue growth and an adjusted operating margin in the range of 19-20% at the end of the period.

And with that, I will leave the floor to Stefano and Paul.

Financial Review

Stefano Grassi, Chief Financial Officer

Thank you, Francesco, and good morning everybody.

As you remarked, 2021 has been an outstanding year for EssilorLuxottica and the results on this page very much confirm that. On the upper part of the slide, you have a summary of our 2021 results, including the impact of GrandVision, while at the bottom of the page, you have the results reported excluding the impact of GrandVision. On a full year basis, our top line grew on a high-single digit territory at constant currency, with a strong acceleration in the fourth quarter, where our top line accelerated at a double-digit pace, 11% on a *pro forma* basis, including GrandVision, 11.8% excluding the impact of GrandVision. Actually, Q4 has been the best quarter for the Group, with and without the impact of GrandVision. Let's comment on our operating profit, where you can see that we accounted for a marginal dilution of approximately 90 basis points by including GrandVision into the EssilorLuxottica result. And therefore on a *pro forma* basis you're looking at an adjusted operating profit at 16.1% for the full year 2021.

Now, let's look at our results for 2021, comparing those results with the target provided at the beginning of the year, in March, and upgraded twice throughout the year. On a full year basis, we guided for a top line growth at mid-to-high-single digit and we actually delivered 8% growth rate for the full year 2021.
From a profitability standpoint, we actually guided for an adjusted operating profit versus 2019 as a percentage of revenue that would improve up to 100 basis points. We actually delivered 130 basis points of margin improvement compared to 2019. Therefore, our two KPIs were either fully met or exceeded our targets with respect to 2021.

Now let's leave behind 2021, and let's look at the future, a bright future for EssilorLuxottica, and share with you a revised long-term outlook for the Group. An outlook that is a story of top line growth, as well as margin expansion. You can see here that our top line growth expectation for the period 2022 to 2026 is to grow our sales in the mid-single-digit territory. From a profitability standpoint, we have an expectation of an adjusted operating profit to land at between 19-20% by the year 2026. And just to qualify a little bit more our outlook for the period, I want to share with you that the figures provided today are at constant currency. They will include bolt-on acquisition as part of our top line growth and from a profitability standpoint, our operating profit is fully loaded with synergies, as well as investment activities that the Group will undertake during the next five years.

But now let's start looking a little more closely at our two different segments before we start our journey across the four regions.

On page 8 of the presentation, you have the fourth quarter results for Professional Solutions and Direct to Consumer.
And you can clearly see that the Professional Solutions segment reported a top line growth of approximately 7% at constant currency, with EMEA, North America and Asia-Pacific around mid-single-digit territory, while Latin America posted a double-digit growth during Q4. From a channel mix standpoint our growth was very much driven by key accounts, online partners and by a tighter relationship with our ECPs around the world, thanks to specific programs like EL 360 that we are now deploying in different parts of the world.
On the Direct to Consumer side, very pleased to see our Brick & Mortar division on a double-digit pace, while our e-commerce grew in excess of 60% during the course of the fourth quarter, with all the four regions at double-digit pace.

Now let's start our journey across the different regions, beginning as usual, on page 11, from the biggest one, North America.

In North America, we posted another outstanding quarter of top line growth. 14% was our growth, very much in line with what we've seen during the course of the third quarter. With both Professional Solutions at mid-single digit and our Direct to Consumer at the double-digit pace.
If we look closely at our Professional Solutions' performance during the course of the fourth quarter, we are very pleased to report that the Ray-Ban and the Oakley brand delivered double-digit growth, while our branded lens portfolio grew on a mid-single-digit territory with Transition, Varilux and Eyezen that all delivered positive growth during Q4.
If we now move to the Direct to Consumer segment, our Brick & Mortar part was up double digits. LensCrafters and Target Optical were at high-single digit, very much supported by a strong lens mix.
We are pleased to report that Sunglass Hut posted a third consecutive quarter at double-digit comps, finally supported by international locations, as the US border reopened to international tourists.
Let's touch on e-commerce. E-commerce was up 75% versus 2019, after a strong holiday season with Oakley, Sunglass Hut, LensCrafters, EyeBuyDirect, that all doubled the size of the business during the course of the fourth quarter.

Now let's move to Europe and we're very, very happy with the 8% top line growth on the fourth quarter. Again, another performance in continuation with the delivery that we saw in Q3.
On the Professional Solutions side of Europe, Italy, Scandinavia, Turkey, Eastern Europe were all up double digits. The United Kingdom was up in the mid-single-digit territory, while France was slightly negative, very much due to a deceleration that we experienced in our frame business, while our lens business was actually up in the high-single territory for Q4.

From a channel mix standpoint, our growth was strongly driven by key accounts, buying groups, ECP, while our travel retail business was in the negative territory, due to the restrictions that we still experienced due to COVID-19.
Moving to our retail Brick & Mortar now. We're pleased to see the top line accelerating close to the double-digit pace, after the first nine months of the year, where we were flat on a *pro forma* basis. Salmoiraghi & Viganò our optical retail chain in Italy, performed on a double-digit pace with October, November and December, all of them in the double-digit territory. The UK business of GrandVision posted a top line growth up 20% in Q4. And finally, Sunglass Hut delivered comps in the positive territory for the last quarter of the year.

But now it's time to move east. Let's touch on Asia-Pacific where we're very pleased to see our top line in the positive territory on constant currency, after two consecutive quarters of sales decline. Our growth in the region was very much driven by the Professional Solutions segment, while our Direct to Consumer segment was slightly negative.
In Professional Solutions, our two key countries, India and China, delivered both double digit growth. In particular, in China, we sold approximately 350,000 pairs of Stellest lenses and Stellest lenses today represent approximately 50% of the revenue growth in our lens business. In the fourth quarter, we have also seen a strong delivery of our frame business, also thanks to a strong double-digit pace of our Bolon brand in China.
If we now move to Direct to Consumer, I want to begin with the Australian retail business. You'll remember that Australia suffered a strong lockdown and restrictions during Q3 and the earlier part of the fourth quarter. And as we exited in the fourth quarter from the restrictions, we actually experienced an acceleration and restart and had a strong pace in our business. OPSM, our leading retail chain in Australia, delivered double-digit comps in Q4, very much reassuring that the demand in the market is still there. While conversely, if we look at China, we're still in the negative territory, due to localized lockdowns that impacted Mainland China, as well as Hong Kong.

And now let's complete our journey around the different geographies with the last one in line, Latin America. We see and observe in Latin America, a very different pace between the first half of the year, where our top line was up 1.6% versus 2019, still on a *pro forma* basis, and the second half of the year, where we delivered a plus 18% top line growth, with the fourth quarter in further acceleration at plus 25%. With both segments, Direct to Consumer and Professional Solutions on a double-digit pace.
On the Professional Solutions side in Brazil, the biggest country, we've posted a strong growth in the prescription business, both lenses and frames. With our ECPs, which accounts for about 50% of our business, that very much led the growth in the country. In Brazil we also experienced a successful pilot of the EL 360 program, where we had, at the end of 2021, about 1,000 doors enrolled into the program and there will be more in 2022 as we are going to go on a larger scale in Brazil with this initiative. With respect to the other geographies, Mexico was up in the high-single digits, thanks to independent channels, as well as department stores. Argentina was up triple digits, thanks to a strong price mix, but also supported by volume.
If we move now to the Direct to Consumer segment, our GMO was up double digits, thanks to a strong lens mix and volume growth. And last, but not least, our Sunglass Hut business in the region posted double-digit comps in Andes, as well as in Mexico, and a high-single digit growth rate in the Brazilian Sunglass Hut business.

Now, let me close our chapter on the financials and let me close with cash. In 2021, the Group delivered Euro 2.8 billion of free cash flow generation, approximately Euro 1 billion more than the free cash flow that we generated in 2019 and in 2020. And that is despite a currency headwind that we experienced in 2021. And that is despite the higher capital investment profile that we had this year with a capex that was slightly over Euro 1 billion for the full year. Excluding the impact of GrandVision, our free cash flow generation would be approximately Euro 800 million higher than the one we recorded in the last two years. So, very pleased to get into 2022 with a very strong balance sheet position.

But now let me hand it over to Paul, who will walk us through our support to the EssilorLuxottica Mission.

Sustainability Update

Paul du Saillant, Deputy Chief Executive Officer

Thank you, Stefano, and good morning to you all.

You have just heard from Francesco and Stefano about all the great things we have accomplished and the strength of our performance in 2021. I believe it was made possible thanks to three things: first, the incredible passion and engagement of our 180,000 people around the world, second, the continued trust of our customers and consumers, and third, our commitment to our Mission and Sustainability, which are strongly intertwined with our business strategy at EssilorLuxottica.

Sustainability has always been deeply rooted in both founding companies. So, one of the first things we did in the construction of EssilorLuxottica as one company was to embed sustainability at the core, through our “Eyes on the Planet” program. Since launching it in July last year, we have made good progress in each of the five key pillars.

On the first pillar, “Eyes on Carbon”, we announced today that we have become carbon neutral across our direct operation in France and in Italy, our two historic home countries. This is an important milestone on our journey to reducing and neutralizing the carbon footprint of our direct operation worldwide by 2025, starting with Europe from 2023. We did this through a constant monitoring of our energy consumption and investments in renewable energy, with a focus on self-production close to our facilities. Residual emissions are compensated by two important reforestation projects, one in Italy near our site in Agordo and the other one in the rural region of Le'an in China. In addition to protecting and restoring natural ecosystems, these projects support the well-being of local communities.

The second pillar, “Eyes on Circularity”, aims to reduce our impact on the planet through the 4R approach, “Research-Reduce-Reuse-Recycle”. In particular, we are stepping up our investments to create circular products from the very start of the innovation process, using eco-design principles. A great example is the collaboration with Mazzucchelli for the joint production of more sustainable acetate to be used in the production of frames. Focusing on waste and directing our efforts on reducing waste generation and valorizing it with circular closed loops. Another initiative is the recent partnership with ESSEC Business School, outside of Paris, joining L'Oréal and Bouygues, we have launched the first international chair devoted to the circular economy.

As we build a sustainable future for all, last year we made a lot of progress on our journey towards eliminating poor vision by 2050, in line with our Mission. This is what the third pillar, “Eyes on World Sight” is about. Despite the ongoing challenges relating to COVID-19, we provided 50 million people in developing communities with access to vision care thanks to our inclusive business and philanthropic efforts. In total, we created 7 million new wearers in 2021. We also trained more than 1,600 new vision care entrepreneurs in the year, providing them with a livelihood. In addition, last year, OneSight successfully opened 18 vision centres in China, Liberia and Zambia.

As we are building one company, we are also working on consolidating all our philanthropic and advocacy actions globally.

The fourth pillar, “Eyes on Ethics”, is at the heart of everything that we do. Our vertically integrated model makes us quite unique as it gives us full visibility over our whole business, from raw materials to end consumers. As a result, we have greater control over our standards. For instance, in 2021 we continued to leverage, unify and extend our suppliers sustainability standards and initiatives, ensuring they adhere to our commitments in the areas of ethics, labour, health, safety and environment.

And finally, “Eyes on Inclusion”, the fifth pillar. EssilorLuxottica is a diverse and inclusive company by nature, as we are the combination of Essilor, Luxottica and now GrandVision. We want to provide our community of over 180,000 talented people of every nationality, gender, age and ability with an environment in which everyone can thrive, be valued and respected and constantly learn.
This commitment extends to the communities in which we operate, eyecare professionals, customers and suppliers. A tangible, practical advancement in this respect has been the launch of Leonardo, our innovative learning platform open to employees, but also to the vision care industry as a whole, offering a wide selection of state-of-the-art content in over already 15 languages.

In recognition of our efforts around diversity and inclusion in recent years, we recently earned a spot on the Financial Times “Diversity Leaders” list. We are determined to continue to develop in this area.
On International Women's Day, like any day of the year, we honor and celebrate the strength, intelligence, heart and tenacity of our women colleagues – and all women around the world. Even more so in the difficult moments we are living in. We are honored to have some great women leaders at the helm of some key geographies and functions, like for example Chrystel Barranger, leading Wholesale in EMEA, one of the two largest regions of the Group.

Last but not least, employee shareholding is another key way for us to promote inclusion, as it fosters a sense of belonging and ownership among employees. It has been present in our culture for decades.
Following the success of our latest Employee Shareholding Plan in 2021, 67,000 of the Group's employees in 85 countries now hold a financial stake in the company.

You can see, sustainability is at the heart of the construction of EssilorLuxottica, part of our new culture and fully embraced by our teams. I hope that what we have shared with you this morning gives you a sense of the momentum that is carrying us forward.

With that I would like to hand over to the operator for the Q&A. Thank you very much.

Questions & Answers

Elena Mariani, Morgan Stanley
Hi, good morning gentlemen, congratulations on your results. I'm delighted to kick off this Q&A session, so I will stick to two questions.
The first one is on your new long-term outlook. Your mid-single-digit growth target is in line with what you had communicated before, but your adjusted operating profit outlook looks positive and ambitious. Can you help us bridge the starting point, which is the *pro forma* 16.1% margin, with this 19-20% target? How much of this improvement in profitability is due to the synergies coming from the GrandVision deal, how much from the remaining EssilorLuxottica synergies? What are, quantitatively, the moving parts so that we can understand the progression, perhaps it is the gross margin, or it is more on the Opex line? Anything that you can give us to bridge this target would be very helpful.
My second question is on 2022. You have not provided any outlook or guidance, I appreciate it is a tough year with a lot of volatility. If we think about how the year is going to shape up, I suspect you have had a pretty good start of the year, but then the comp base starts to get very difficult, particularly in the US market. Is it fair to assume that, for this specific year, you are going to be perhaps below these mid-single-digit targets that you have for the medium term, and it is going to be also more difficult to see some margin progression? Or given that you are continuing to gain market share, you have more synergies coming through, FX tailwinds, perhaps also this year is going to be in line with these medium-term growth ambitions and you could see also some further margin expansion? Thank you.

Stefano Grassi, Chief Financial Officer
Elena, good morning. Let me answer your two questions. First of all, with respect to our long-term outlook for the next five years, this is an outlook that includes an important part of synergy deliveries.
As you remember, in our journey of delivering synergies we have a first check point, at the end of 2021, where we expected our synergies delivered to be in the Euro 300 million to 350 million range on an EBIT adjusted basis. We exceeded that target for 2021. So, there will be a portion, incremental to that, that will derive and lead us to the Euro 400 million to 600 million. On top of that, there will be a synergetic contribution from the inclusion of GrandVision into the EssilorLuxottica platform, and that will contribute to the progressive margin expansion that I am sure you have seen, moving from the 16% through to the 19-20% range. At the same time, there will be an important reinvestment profile to ensure support and evolution in fast growing markets, to ensure further investments in increasing awareness of our brands, to further increase the support to myopia management and the investment for Ray-Ban Stories around the world. Those are critical initiatives of product innovation and market expansions that we will obviously support, and they are fully loaded in the target that we have seen over here.
From a gross margin perspective, we do not expect material lift in our margin. In that respect we might see a contribution from price mix, although the primary driver of our growth is going to be volume and price mix would be helping the gross margin but, at the same time, we have to take into account the dilution that will derive from the insurance business, in particular in North America.
So, the net of the two will land on a gross margin that will not have material lift versus the number that you see today.
For 2022 you are correct, we are not guiding for this year. What you can expect to see is a story of top line growth and margin expansion. That story will be aligned with our journey to hit the 19-20% operating profit, and the mid-single-digit growth rate.

Susy Tibaldi, UBS
Hi, thank you for taking my question. I would like to follow up on your last comment. You decided not to guide for the full year 2022, but you mentioned that there is going to be top line growth and margin

expansion. We are clearly in quite a volatile environment but would you say overall that you more uncertain about your top line progression or margin progression for 2022? That also links to the fact that we are seeing an environment with high inflation, so is that perhaps a factor that prevented you from providing guidance for 2022?
And then, another clarification on your comments for 2022. How has the start of the year been, because we saw quite a nice acceleration to the end of last year, should we assume that these trends have continued to be quite resilient also in the first couple of months of the year? Because your tough comps really start from Q2. So, it would be very helpful if you can help us understand how to think about the progression this year, thanks a lot.

Francesco Milleri, Chief Executive Officer
I start then I will leave the floor to Stefano Grassi. As you can understand, we feel quite uncomfortable right now commenting results and commenting forecast, while a war is going on not far from here. This is the kind of situation that I experience now, so we try to respond to all your questions, we are confident, quite bold on the future of this company. We really set the car in the last three years, and from now we start driving, and we like to accelerate. Having said that, the situation is not as usual, war is not something that we have faced in the past and we really cannot forecast what it will be in the near future. So, all our estimations, all our forecasts are under this condition. With that, Stefano Grassi can tell you a little bit more. Thank you.

Stefano Grassi, Chief Financial Officer
Thank you, Francesco. Susy, good morning, when we say growth and margin expansion, our assumption is that there is no material deterioration to the current situation, geopolitical wise and inflation wise. Clearly, we are a large company, we play in different countries and regions, but obviously we have an assumption of the situation that is the one that you see today, and we do not get further deterioration to that.
With respect to the start of the year, the year started pretty well. The trajectory is in line with how we closed the fourth quarter last year, with a good traction on both Professional Solutions and the Direct to Consumer side of the business that is running at a double-digit pace, with e-commerce, that is double digit, and we have all the different regions on the positive territory. We have got some good momentum, conscious of the fact that there is a war and a very tense situation in a specific part of the world.

Graham Renwick, Berenberg
Hello, good morning everyone, thanks very much for taking my questions. I just have two. On the mid-term guidance, I think you said that the revenue growth guidance did include bolt-on M&A. So, I was just wondering if you could give us the rough building blocks of that mid-single-digit growth rate and how much market growth, we'd be assuming each year? How much does bolt-on M&A roughly contribute per year and therefore how much are you assuming synergies and market share?
And then over the last few years your ASP growth has been a big driver for the sales and margins in the pandemic. I just wondered how confident you are that the consumer will continue to trade up in a period where there is sharply rising inflation or even worse case, a recession this year. And do you see any risks that the consumers could actually start trading down again? Thank you.

Stefano Grassi, Chief Financial Officer
Good morning, Graham. With respect to our top line growth, the underlying business growth is going to be the primary driver of our top line expansion, and the bolt-on will be a nice add on to our growth. In certain markets we still have a long way to go, which is where we see the opportunity in countries like China, India and even Brazil where we have a fairly marginal footprint.

With respect to price mix, we continue to see support from price mix, but I do not foresee price mix to be the primary driver of our growth in the future. Obviously, that is in a way a change in certain parts of the world compared to the trend that we have seen before, but again, volume will be the primary driver. With respect to the consumers trading down, we see North America being still a very competitive market but for example LensCrafters continues to stand out for service level, for the value proposition that we offer to consumers, and for the quality of the product. I think we have all the assets that allow us to play even in markets where there is a higher degree of competition.

Veronika Dubajova, Goldman Sachs
Hi, good morning, and thank you for taking my questions, I have two please. The first one is that I would love to understand the bridge stepping out from the 16.1% margin to 19-20%, not necessarily by components within the P&L but the timing of that. Would you expect that that margin progression is pretty even, is it more front-end loaded, is it more back-end loaded, if you could help us understand the shape of that, it would be really helpful?
Then my second question is just a follow on to some of the inflationary questions that have been asked and consumer behavior. I would love to know how do you think about just how defensive the business is if we do see a slightly tighter consumer? You have been running optical for a long time and I just would love to get your sense on what are you watching the most closely as risks to consumer behavior and demand?

Stefano Grassi, Chief Financial Officer
Veronika, with respect to the top line growth. The operating leverage, with a top line in mid-single-digit territory, is going to be the primary driver of the margin expansion. There will be years in which the margin expansion will be higher, and years in which that margin expansion will be lower. It also depends on the velocity of two variables, one, the synergy realization, the other, the investment that we are taking on some of the initiatives that we have been talking about for quite a while, investments in our supply chain, in our lab network infrastructure, investments to become more visible in certain countries, investment in new brands, in product innovation and new initiatives that we are launching around the world. So, the velocity on how we unlock certain investments will guide the operating leverage and ultimately the margin expansion.
With respect to inflation and the impact on sales growth, we have not seen material changes in that respect. Nothing major to report at this stage.

Julien Dormois, BNP Paribas Exane
Hi, good morning gentlemen, thanks for taking my two questions. The first one relates to an update on myopia management. You guys have been deploying quite a lot of effort on that side, either internally with the launch of Stellest, but also by doing some external deals with Cooper. So, I would like to understand where you stand, particularly in China where I think you have started to rollout the partnership with Cooper? I am interested to know how you are going to sell at the same time, Stellest, SightGlass and MiSight, as distributors, so I am just curious about how you see the situation going forward in that category? And maybe if you could also update us on the timeline that we should see in the US for all those products to be approved, that would be particularly helpful?
And my second question relates to GrandVision, so it has now been nearly nine months of integration of GrandVision. How do you see right now, having had the business in house for several months, how do you see the main opportunities and challenges for successful integration let’s say in the next two to three years, more operationally than financially maybe?

Francesco Milleri, Chief Executive Officer

I will try to give you some color about myopia management that is really a new category that we are adding to our portfolio. Its results are very good, they are really in line with our expectation. We focus on China, that is what we planned more than three years ago, just we are executing. But what we see is that we are repositioning our portfolio towards doctors. That is the big change with myopia management.

First, we were a company more talking to opticians and final consumers. Now we are giving something in the hands of doctors that can really fight myopia. That is a big change. I believe that in the future we will deliver more products on that area, and it will be one of the main parts of our results.

We are very happy with that. We feel that we are helping people, especially in this case we are helping kids to improve their life. That is fully in line with our Mission. Maybe Stefano Grassi can give you some numbers or maybe more details on that.

Regarding GrandVision, we just delisted the company, and we are now starting reorganization of the different branches and integrating the company in our operation. We see opportunity of course. We paid Euro 8 billion because we saw opportunities. Now we confirm that our decision was very good, almost indispensable.

GrandVision more than just adds business, adds the footprint in Europe for our omnichannel strategy. Our strategy around the world is pretty clear. We announced more than two years ago we will become a network company, sharing our capability with all the players in the market. To do that you need digital infrastructure, you need e-commerce, you need your wholesale, but also you need a physical footprint with your retails that can show and drive consumers, ECPs and other partners in the way we want.

So that is why we are more than happy to close that deal. In the next two years, you will see how important it is, we are trying to change the shape and the perception of the eyecare market in Europe. To do that, stores on the ground will be absolutely indispensable. Stefano.

Stefano Grassi, Chief Financial Officer

Thank you, Francesco. On the myopia, just to give you a couple of data points here. We built in 2021 a business that is worth a retail value south of Euro 150 million just in China. And that business did not exist up to a couple of years ago.

Just to give you further magnitude on how well we are performing with the Stellest lenses. You have to bear in mind that just in the first eight weeks of 2022, we sold more Stellest lenses than what we did last year during the first and the second quarter of 2021. We have a very rapid progression and expansion, meaning that there is a high degree of acceptance in respect of the Stellest lenses.

Clearly in the future we would love to talk more about Myopia Solutions and obviously in that respect we have new assets that are coming on board. We have the new contact lenses that are starting to be distributed. Obviously, we will give more disclosure in the following touchpoints. Clearly, we have a family of products and solutions that will become material for our growth in China but not only there.

Cédric Lecasble, Stifel

Good morning. Most of my questions have been answered. But I have a follow up maybe on the positives and negatives and the one-offs in 2022 versus 2021. Could you please tell us what kind of one-offs you still have in your EBIT margin in 2021, in terms of integration costs and kind of costs coming from the consequences of the merger and GrandVision acquisition that will disappear in 2022?

And could you maybe help us a little bit on one-off costs that could be linked to the current situation in Russia and Ukraine, assuming no progress - if things did not improve rapidly from here. Just to have the kind of trade-off between the positives and negatives here?

And the second one a follow up on Stellest, on your more recent launches there was a rollout of this outside of China. Can you comment on your first results? Are you happy? How fast is it growing in the other countries, you mentioned in another question there was a mention of the US? Maybe you can, beyond China, tell us where you have the greatest hopes for the myopia management? Thank you very much.

Francesco Milleri, Chief Executive Officer
I just comment on the second question, Russia and Ukraine. We are not concerned about business as you can understand. Business is materially irrelevant for us. It is below Euro 200 million less than 1% of our revenues.
Right now, our concern is for our colleagues, as you know we have almost 1,700 people in Ukraine, and we are trying to protect as much as we can, as we have colleagues in Russia. And we still have concerns how we can help and support.
We cannot comment much more than that. We have some information on our institutional social media because as you know since we have colleagues in danger right now any words can change our results. Stefano can comment on the other two.

Stefano Grassi, Chief Financial Officer
Thank you, Francesco. With respect to the one-off, figures are provided on an adjusted basis, therefore adjusting items are excluded from our guidance and outlook in that respect.
With respect to the Stellest lenses, Paul, if you want to give some color with respect to the launch in Italy and in France and the US potential.

Paul du Saillant, Deputy Chief Executive Officer
Yes sure, thank you. We have been launching in Europe progressively Stellest, starting in France, Italy, last year - middle of the year. We are now expanding progressively also to UK, Germany, and Spain. We are also launching in Brazil, starting in Latin America.
As you can see, we are expanding progressively the Stellest rollout. But like it was explained by Francesco it is extremely important to establish well this myopia management capability, to work with the eye doctors and of course the opticians before launching. There is solid work done by our team with the doctors in each of those countries ahead of the launch.
So far if we take France for example, we are having very good results. Of course, it is not of the magnitude of China because in China the population of young myopia sufferers, as you know is by 100 million. But it is an important new capability that we are setting up with very positive results.
As we do that, we are working also on the SightGlass Vision, the new product through the JV with Cooper and there we are piloting the market in Canada, in the Netherlands and starting to prepare also for the launch in China.
As it was said it is a suite of different solutions that we are progressively rolling out in each geography.
In the US, we are in the FDA approval process, both for the SightGlass Vision technology and for the Stellest technology.

Domenico Ghilotti, Equita
Good morning, two questions. The first is a follow up on the situation, maybe expanding a little bit more away from Russia and Ukraine. But just to say how much is your exposure to Eastern Europe and have you seen an impact on the sentiment and the business in markets that are closer to the situation?
And the second question is on the Ray-Ban Stories. If you can give us an update on how it has been with the commercial launch and what is the rollout, and in general what is the opportunity there over the medium term?

Stefano Grassi, Chief Financial Officer
Good morning, Domenico. With respect to our exposure to the area we are looking at around 1% of our total revenue, so it is fairly marginal. And right now we do not report any material deterioration, obviously with the exception of the two countries involved in the conflict.
With respect to Ray-Ban Stories?

Francesco Milleri, Chief Executive Officer
Ray-Ban Stories, we are really happy about the launch, the positioning, the perception that the public demonstrates to those products. I would like to underline one thing - the positioning that the company took in the launch. We had two chances, bring the optical business in the electronic market, using all the strength that we had and leveraging the high connection of Facebook and Meta Group, to push our sales.
But our decision has been slightly different. We bring electronic into the optical store. That shows our approach, we are here to reshape the market, to improve the optical market and let the optical market evolve. And electronics, it will be a big part of the future for the store and for products sold in the store.
That is how we see the start of Ray-Ban Stories' first edition. It is, first of all, a pair of wonderful sunglasses, now we are trying to position it much better also as eye glasses with correction optical lenses. In the next two or three years we will start to evolve, first with a new solution and evolution of the capability that Ray-Ban Stories already have. And then as you know, we will launch in the future something more based on VR, and that will be really the gate for a totally new future. So far very happy and one number that I saw is that one of three Wayfarer are Ray-Ban Stories. Thank you.

James Grzinic, Jefferies
Thank you, good morning, everybody. I just have two quick questions. Firstly, should we essentially takeaway that you are not seeing a change in consumer behavior in the US from what you are saying today?
And second, Stefano, I understand the ebbs and flows of investments to develop new markets against timing of synergies. From what you were saying I would normally expect a front-end loading of course to the synergy benefit. Are you essentially suggesting that there is a front-end loading on the investment to develop new markets as well, what is the net offset against that? Thank you.

Francesco Milleri, Chief Executive Officer
US, we do not see big changes, US is a big market, we have demand for high end, for the lower end, for almost all types and segments of products. We are leading the market and we are guiding the market to better solutions and better products. That does not mean that we are guiding the market to higher prices.
So far, we cover all the segmentations of the market, all segments are very well covered by our products and portfolio, since we are the biggest organization there, we are one of the biggest insurers there and you know that insurance covers more than 50% of the market.
So far, we are working very well in US, it is still one of our best markets and we have a lot of space to take. We are now reinforcing our reps on the ground, we are bringing and pushing new products. Just to mention two, Vogue eyewear and Arnette brand, new for the market. Now they can deliver a strong sales network, and they can count on strong communication.
But we still have space for improving revenues on Ray-Ban and we are experiencing amazing results on Oakley.
Same for lenses, branded lenses are very big space to gain in US, Transition, Varilux, Eyezen, Crizal, any brand is still underpenetrated in the market. So, we see big opportunity in that market. At the same

time, we know that now we have two big parts of the world that are consistent, Europe and US and the focus is to develop also all the other parts, Asia and South America.

Stefano Grassi, Chief Financial Officer

With respect to the first question, James good morning. Sorry the second question actually, with respect to the front-end loaded and back-end loaded investment profile. Let me tell you, yes, we are in the hardcore part of our integration journey. No doubt that from an investment perspective, just to give you an idea, there are three critical areas that are important for us. IT infrastructure is clearly an important one. The other important part is the investment in our supply chain, the diversification of our manufacturing footprint clearly requires quite a bit of investment. Last but not least, is our continuing investment in digital. Digital in the stores, for the store innovation, investment in digital for our online platform. This is obviously very important for us to continue that journey of the omnichannel proposition, the progressive convergence of physical and online.

At the same time, we also have the first year of integration of GrandVision into the EssilorLuxottica platform. We also have the last mile let me say - calling it that way - of the synergies that we will derive from the combination of Essilor and Luxottica. The additional synergies that we are going to get out of that integration will come very much between this year and next year. We have a lot of good constituents to be, let me say, optimistic, also in terms of margin expansion.

Telephone Operator

This now concludes our Q&A session.