

8th January 2016

Luxury & Consumer Goods

Essilor

Price EUR111.85

Nine additional acquisitions signed over past months

Fair Value EUR134 (+20%)

BUY-Top Picks

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 91.5
Market Cap (EURm)	24,206
Ev (BG Estimates) (EURm)	25,805
Avg. 6m daily volume (000)	570.9
3y EPS CAGR	14.2%

This morning Essilor has announced the signing of nine transactions over past months, representing a combined annual revenue of approx. EUR60m. Three of them are in mature countries whilst the remainder is located in fast-growing markets (i.e. Brazil, Russia and Kuwait). Consequently, Essilor realised a total of 19 acquisitions throughout 2015 for total additional sales of EUR214m on a full-year basis. The scope effect will certainly be higher in Q4 15 (~+3%e vs. +1.7% in Q3).

ANALYSIS

- **PERC/IVA is Essilor's second operation in the US ECP alliance sector.** As announced in our comment dated [12 November](#), Essilor has acquired PERC/IVA (BG ests: revenue of ~EUR10m) right after Vision Source (*see below*), giving the French group an active role in consolidating this independent optometrist channel that accounts for ~45% of the US optical market. PERC/IVA was founded in 2008 and encompasses 2,400 practices (1,700 in PERC and 700 in IVA) and 4,000 doctors.

Why is the ECP alliance sector so attractive? Firstly, like VS or PERC/IVA, these networks are expanding rapidly in North America as more and more independent optometrists and ECPs want to take advantage of a centralised platform to benefit from superior purchasing power and practice services. Secondly, the independent optometrist channel is more premium than the market average as the doctors have greater expertise of practices and state-of-the-art technology to offer the latest lens technologies, which fits well with Essilor's high value brands (Varilux, Crizal, Transitions, Xperio, etc.).

- **Two operations in Europe.** Interestingly, Essilor also bought a majority stake in **ECP** (Spain), which is the distribution platform of CECOP, a purchasing organisation comprising ~800 optical stores in Spain as well as operations in Italy, Portugal and the UK. ECP posted revenue of ~EUR3m in 2015 and will develop the Kodak brand in Spain and Portugal. In Poland, Essilor also enhanced its mid-range ophthalmic lens offering with the acquisition of **Jai Kudo** (sales of ~EUR5m), which is also present in the Czech Republic and Slovakia.
- **Four acquisitions in Brazil (~4% of total sales).** The first two acquisitions are traditional bolt-on acquisitions (i.e. Rx labs): **(i) Prime Optical** (sales of BRL49m or ~EUR11m) based in Rio de Janeiro and **(ii) RX** (sales of BRL8m or ~EUR2m) which is located in Recife (northern part of Brazil). Essilor also took over two leading online players: **(i) eOtica** (sales of BRL15m or ~EUR3.5m) that sells a large choice of optical products (contact lens, sunglasses and Rx) whilst **(ii) e-lens** only operates in the contact lens category (sales of BRL12m or ~EUR2.8m). Although we admit that the domestic market is currently affected by adverse macro conditions, the Brazilian optical market clearly harbours significant growth opportunities over the long run.
- **One transaction in Russia and first entry in Kuwait.** The group has acquired **Optic Club** which is a major distributor in the Russian contact lens market, with sales of ~EUR20m. Last but not least, Essilor has acquired a majority stake in **Nikon Optical Middle-east** (NOME) which is the exclusive distributor of Nikon brand lenses in the Gulf region. It generates sales of EUR3.5m and this operation marks Essilor's first entry in Kuwait.

VALUATION

- These additional acquisitions confirm that Essilor has accelerated the closing of bolt-on acquisitions in Q4 15, in line with Laurent Vacherot's statement during the Q3 sales conference call. Consequently, the scope effect would amount ~3% in Q4 15 vs. +1.7% in Q3. Given the market's correction, the share has come back to attractive levels, Buy recommendation and FV of EUR134 reiterated.

NEXT CATALYSTS

- Essilor will release its FY15 Annual Results on 19 February 2016.

[Click here to download document](#)

	1 M	3 M	6 M	31/12/14
Absolute perf.	-6.4%	4.2%	8.1%	20.7%
Consumer Gds	-7.6%	-0.8%	-2.1%	10.2%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,670	6,730	7,199	7,700
% change		18.7%	7.0%	7.0%
EBITDA	1,043	1,275	1,382	1,501
EBIT	1,222	1,215	1,322	1,436
% change		-0.6%	8.8%	8.6%
Net income	929.3	775.3	865.6	963.3
% change		-16.6%	11.7%	11.3%

	2014	2015e	2016e	2017e
Operating margin	21.6	18.1	18.4	18.7
Net margin	16.4	11.5	12.0	12.5
ROE	18.9	14.5	14.3	14.6
ROCE	16.9	21.2	21.8	22.4
Gearing	34.6	28.0	18.5	12.5

(€)	2014	2015e	2016e	2017e
EPS	3.05	3.66	4.08	4.54
% change		19.9%	11.7%	11.3%
P/E	36.7x	30.6x	27.4x	24.6x
FCF yield (%)	3.3%	2.8%	3.8%	4.3%
Dividends (€)	1.05	1.15	2.15	3.15
Div yield (%)	0.9%	1.0%	1.9%	2.8%
EV/Sales	4.6x	3.8x	3.5x	3.3x
EV/EBITDA	24.9x	20.2x	18.4x	16.7x
EV/EBIT	21.3x	21.2x	19.2x	17.5x



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NEUTRAL ratings 0%

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