

Essilor

Price EUR108.45

Essilor reinforces its presence in online optical retail with the acquisition of Vision Direct

Fair Value EUR132 (+22%)

BUY-Top Picks

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.4
Market Cap (EURm)	23,475
Ev (BG Estimates) (EURm)	25,479
Avg. 6m daily volume (000)	584.6
3y EPS CAGR	12.9%

Yesterday Essilor announced the acquisition of Vision Direct, one of Europe's leading online contact lens retailers which generated sales of GBP33m (~EUR45m) 2015. This acquisition complements Coastal's European footprint (mostly in Nordic countries) and strengthens Essilor's leading position in online optical retail. Following this new acquisition Essilor has closed 5 deals since the beginning of the year, representing combined annual sales of EUR83m (scope effect of ~1.2pp). FV of EUR132 and Buy recommendation confirmed.

ANALYSIS

- **Vision Direct is the UK's leading contact lens retailer.** Vision Direct was founded in 1998 and achieved revenue of approx. GBP33m (or ~EUR45m) in 2015. This e-retailer mostly operates in the UK and Ireland, but also in some other European countries. Unlike Coastal, Vision Direct is only selling contact lenses and contact lens care products.
- **Complementary acquisition to Coastal.** At the time of its acquisition by Essilor in 2014, Coastal was generating ~30% of its sales in the Nordic countries. In terms of segment, contact lenses accounted for ~70% of sales whilst the remainder was derived from eyeglasses. In 2015, Essilor turned around Coastal by closing some stores and introducing the sunglass category to rebalance the product offering. Consequently, the acquisition of Vision Direct complements Coastal in terms of categories and geographical scope.
- **Thanks to Vision Direct, Essilor muscled up its presence in online optical retailing...** Besides Coastal, Essilor's online presence is made of: (i) websites from the sun & readers brands (e.g. Bolon, Costa, FGX, etc.), (ii) FramesDirect (premium/high-end frames), (iii) EyeBuyDirect (unbranded frames) and (iv) MyOnlineOptical platform, which offers a turnkey virtual store to optometrists/opticians. At the end-2015, Essilor also took over two Brazil's leading online players: 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). **In 2015, the online business grew by 12% FX-n to EUR220m (~3.3% of total sales) and Essilor owns ~5% market share of a market value over EUR4bn.**
- **... and in the contact lenses segment which significant growth prospects.** This segment amounted to EUR11.6bn in 2014 retail value (or ~12-13% of total optical industry) and according to Euromonitor, contact lenses should accelerate with a CAGR of 5.8% over 2014-19e vs. +5% between 2009-14, driven by an increasing penetration rate in both mature and emerging countries. Since it is very convenient for customers to order/reorder contact lenses online, we believe this category will outperform the online optical retail growth (+14%e over 2013-18, see *lhs graph*). It is worth noting that **GrandVision** owns Lenstore since 2013, one of the largest UK ecommerce contact lens players which generated sales over GBP10m in 2013.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.5%	-11.3%	4.0%	-5.7%
Consumer Gds	-0.6%	-9.5%	1.1%	-6.5%
DJ Stoxx 600	-3.1%	-13.8%	-9.3%	-10.4%

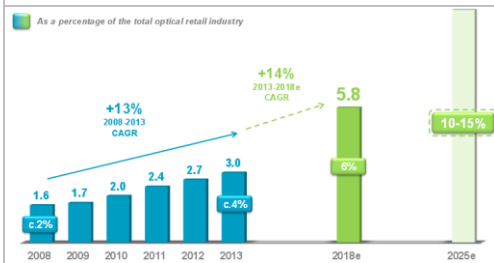
YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	5,670	6,716	7,186	7,683
% change		18.4%	7.0%	6.9%
Contr. From Op.	1,043	1,263	1,358	1,460
EBIT	1,222	1,183	1,288	1,390
% change		-3.2%	8.9%	7.9%
Net income	929.3	756.6	843.8	930.9
% change		-18.6%	11.5%	10.3%

	2014	2015e	2016e	2017e
EBIT margin	21.6	17.6	17.9	18.1
Net margin	16.4	11.3	11.7	12.1
ROE	18.9	15.1	14.9	15.1
ROCE	16.9	20.8	21.2	21.7
Gearing	34.6	37.4	27.6	21.5

(€)	2014	2015e	2016e	2017e
EPS	3.05	3.57	3.98	4.39
% change	-	16.9%	11.5%	10.3%
P/E	35.6x	30.4x	27.3x	24.7x
FCF yield (%)	3.4%	2.6%	3.6%	4.1%
Dividends (€)	1.05	1.15	2.15	3.15
Div yield (%)	1.0%	1.1%	2.0%	2.9%
EV/Sales	4.5x	3.8x	3.5x	3.2x
EV/EBITDA	24.2x	20.2x	18.5x	17.0x
EV/EBIT	20.7x	21.5x	19.5x	17.9x



Online optical retail is significant:



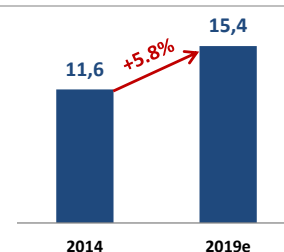
Source: Company Data, Euromonitor, BG ests

NEXT CATALYSTS

- Essilor will report its Q1 16 Sales on 21st April 2016.

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Change in contact lenses category (EURbn):



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