

Luxottica

Price EUR52.80

New license agreement with Valentino to consolidate its leadership in high-end eyewear

Fair Value EUR65 (+23%)

BUY

Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.1
Market Cap (EURm)	25,537
Ev (BG Estimates) (EURm)	26,560
Avg. 6m daily volume (000)	818.6
3y EPS CAGR	15.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.2%	-16.7%	-11.7%	-12.6%
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	7,652	8,837	9,550	10,209
% change		15.5%	8.1%	6.9%
EBITDA	1,542	1,891	2,113	2,303
EBIT	1,158	1,421	1,580	1,734
% change		22.7%	11.2%	9.7%
Net income	642.6	843.7	967.9	1,078
% change		31.3%	14.7%	11.4%

	2014	2015e	2016e	2017e
Operating margin	15.1	16.1	16.5	17.0
Net margin	8.4	9.5	10.1	10.6
ROE	13.1	16.7	17.6	18.0
ROCE	10.4	13.1	14.7	16.1
Gearing	20.6	20.2	10.4	1.6

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.76	2.02	2.25
% change	-	21.7%	14.7%	11.4%
P/E	36.6x	30.0x	26.2x	23.5x
FCF yield (%)	2.8%	3.2%	4.1%	4.5%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.4%	1.7%	2.0%	2.3%
EV/Sales	3.5x	3.0x	2.7x	2.5x
EV/EBITDA	17.2x	14.0x	12.4x	11.1x
EV/EBIT	22.9x	18.7x	16.5x	14.8x

Yesterday Luxottica announced a 10-year license agreement with the Italian fashion and luxury brand to take effect from January 2017. At this stage, considering Valentino's high-end positioning and a probable selective distribution network, we estimate sales potential of approx. EUR50m. Following the partnership between Sunglass Hut and Galeries Lafayette announced earlier this month, this new agreement again proves that the top management team is firmly holding the helm despite the third management "shake-up".

ANALYSIS

- **Valentino was one of the fastest-growing luxury brands in 2015.** Although the Italian group has yet to release 2015 results, its H1 figures showed that the brand is benefiting from robust momentum. Sales jumped 59% to EUR478m including 30% growth in China (exposure to this market is relatively low so far), while EBITDA reached EUR87.5m vs. EUR46.7m the previous year. CEO Stefano Sassi believes the brand is headed for the EUR1bn mark in 2015 sales, driven by the retail channel (SSSG: +22% in H1) and accessories, which now account for 55% of total sales, thereby explaining why the eyewear category is becoming increasingly strategic for Valentino. The group was acquired by Mayhoola for Investments (Qatari Fund) for EUR700m in 2012.
- **A 10-year license agreement to take effect from January 2017.** Valentino eyewear has been under license with Marchon Eyewear since 2012. The first collection designed and manufactured by Luxottica should be launched in Q1 2017 and will complete the high-end brand portfolio (retail price: EUR200+) alongside Chanel and Bulgari. As such, we see little risk of cannibalisation with the other Italian fashion brands (e.g. Prada, Dolce & Gabbana, Giorgio Armani and Versace), which are positioned a bit below. We believe that Valentino eyewear will only be distributed through a selective distribution network and **could generate sales of around EUR50m over the MT** (around 1.2% of 2017e wholesale sales or 0.5% of group sales).
- **Good MT/LT visibility on the licence brand portfolio.** As shown in the table below, LUX has secured virtually all of its biggest licences except **Ralph Lauren**, which expires during 2017. However we are quite confident that this licence will be renewed given the brand's attractiveness among US and international consumers and its unique brand positioning. As for the other licences, **Donna Karan** and **Tiffany** are due to expire in 2016 and 2017 respectively. Although we believe that Tiffany will be renewed, Luxottica may not want to renew Donna Karan as it overlaps with other US fashion brands (Michael Kors, Coach, Tory Burch) and would free up production capacity. Last but not least, LVMH seems to be regrouping its licences (Safilo already has Dior, Céline, Fendi, Givenchy and Marc Jacobs).

Luxottica's four main licence agreements:

Brand	Expiry Date	Sales (EURm)	As % of total sales (%)
Prada	2025	~310	~4.0
Giorgio Armani	2022	~165	~2.2
Dolce & Gabbana	2025	~150	~2.0
Ralph Lauren	2017	~150	~2.0

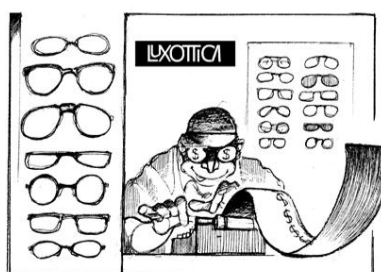
Source: Company Data, Bryan, Garnier & Co ests

VALUATION

- Since the departure of co-CEO for Markets, Adil Khan, announced on 29th January, Luxottica has completed two new partnerships ([Sunglass Hut & Galeries Lafayette](#) and this license agreement with Valentino), which reinforces our belief that these governance changes would not affect the operating performance of the group, although issues about the future governance structure and succession plan remain but first explanations should be provided at the Investor Day.

NEXT CATALYSTS

- FY15 Results on 1st March (evening) // Investor Day in Turin on 2nd March 2016.

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