

Grandvision

Price EUR26.03

FY15 results: Margin miss only caused by the dilutive impact from acquisitions

Fair Value EUR29,5 (+13%)

BUY

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 21.3
Market Cap (EUR)	6,622
Ev (BG Estimates) (EUR)	7,377
Avg. 6m daily volume (000)	107.5
3y EPS CAGR	16.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	2.7%	14.6%	-5.9%
Consumer Gds	3.5%	-2.8%	3.8%	-4.1%
DJ Stoxx 600	5.9%	-5.2%	-4.4%	-6.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,817	3,209	3,455	3,618
% change		13.9%	7.6%	4.7%
EBITDA	449	519	572	619
EBIT	288.6	361.6	402.6	442.0
% change		25.3%	11.4%	9.8%
Net income	161.2	222.1	250.8	280.0
% change		37.8%	13.0%	11.6%

	2014	2015e	2016e	2017e
Operating margin	10.2	11.3	11.7	12.2
Net margin	5.7	6.9	7.3	7.7
ROE	25.9	27.9	25.9	24.7
ROCE	17.6	21.0	23.1	25.3
Gearing	137.6	89.8	57.4	35.6

(EUR)	2014	2015e	2016e	2017e
EPS	0.70	0.89	0.99	1.10
% change	-	27.2%	11.1%	11.6%
P/E	37.3x	29.3x	26.4x	23.6x
FCF yield (%)	3.4%	3.7%	4.2%	4.6%
Dividends (EUR)	0.00	0.22	0.35	0.39
Div yield (%)	NM	0.8%	1.3%	1.5%
EV/Sales	2.7x	2.3x	2.1x	1.9x
EV/EBITDA	16.8x	14.2x	12.6x	11.4x
EV/EBIT	26.1x	20.4x	17.9x	15.9x

After reporting 2015 comparable growth of 4.1% on 21st January, FY 2015 results were released this morning: FY sales increased 13.8% to EUR3,205m (CS: EUR3,203m) while adj. EBITDA reached EUR512m, slightly below expectations (CS: EUR522m) only because of the dilutive impact from acquisitions as EBITDA grew 9.2% organically vs. 5.3% for the top line. As such, adj. EBITDA margin remained flat at 16% (BG: 16.2%e / CS: 16.3%). MT targets are reiterated (sales growth +5% excl. large acquisitions and adj. EBITDA to grow in the high single-digits). We recommend that investors take advantage of any price weakness as the growth model remains intact. Conference call today at 8am GMT/9am CET. Buy recommendation and FV of EUR29.5 confirmed.

ANALYSIS

- **FY revenue increased 13.8% to EUR3,205m (SSSG: +4.1%).** As announced in January, comparable growth slowed to 2.2% in Q4 (vs. +3.7% in Q3) given a challenging comparison base (Q4: +6.1% vs. +3.8% in Q3). As such, **organic growth** reflected the same trend (+3.4% vs. +4.9% in Q3) and the **perimeter impact** only amounted to 5.4% this quarter after +8.4% in Q3 as the US chain *For Eyes* (sales of ~USD100m) was consolidated since 1st December 2015.
- **Adj. EBITDA came in at EUR512m (+13.8% / +9.2% organically) vs. CS of EUR522m.** The margin remained flat at 16% (BG: 16.2%e / CS: 16.3%e) but **profitability would have amounted to 16.6% (+60pb) stripping out acquisitions that had a dilutive impact.** The stand-alone performance was driven by robust comparable growth (operating leverage) and ongoing efficiency gains thanks to the global platform. In Q4 alone, profitability narrowed 50bp to 14.2% after +10bp in 9M. Below the adj. EBITDA item, non-recurring charges of EUR5.5m for the FY were related to legal and regulatory provisions and pension arrangements in the Netherlands.

GrandVision Q4 and 2015 results:

EURm	Q4 15	2015
Net sales	786	3,205
Reported growth (%)	8.8	13.8
Comparable growth (%)	2.2	4.1
Adj. EBITDA *	111	512
Adj. EBITDA margin (%)	14.2% (-50bp)	16.0% (=)

* After "Other reconciling items"

Source: Company Data

- By region: FY sales in the **G4** segment rose by 8.6% to EUR1,976m, including a 4.9% organic growth and SSSG of 4.1%. In Q4, comparable growth accelerated to 3% (vs. 1.9% in Q3) despite a demanding comparison base (Q4 14: +5.9% vs. +3.7% in Q3 14) thanks to a broad-based performance in all markets. The margin expanded 30bp over 2015 and remained stable in Q4.

EURm – G4	Q4 15	2015
Net sales	485	1,976
Reported growth (%)	6.6	8.6
Comparable growth (%)	3.0	4.1
Adj. EBITDA	93	401
Adj. EBITDA margin (%)	19.2% (=)	20.3% (+30bp)

Source: Company Data

- Revenue in the **Other Europe** segment amounted to EUR875m, up 19.5% as reported and 4.3% organically, while comparable growth increased 3.2% following a 0.7% decline in Q4 due to soft activity in Italy and tough comps in Northern Europe last year. This soft top-line trend and the dilutive impact from the acquisitions (Italy and Turkey) caused a 20bp decrease in adj. EBITDA margin to 15.4% (-80bp in Q4).



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EURm – Other Europe	Q4 15	2015
Net sales	207	875
Reported growth (%)	14.1	19.5
Comparable growth (%)	-0.7	3.2
Adj. EBITDA	30	135
Adj. EBITDA margin (%)	14.5% (-80bp)	15.4% (-20bp)

Source: Company Data

- Sales in **Americas & Asia** increased 33.6% to EUR354m. SSSG amounted to 6.6% over the year following a 5.6% increase in Q4 only. GrandVision reported high-single-digit comparable growth in Latin America which offset the mid-single-digit decline in Russia. The gradual implementation of the global platform and the ongoing integration of the new chains contributed to the 40bp-improvement in the **adj. EBITDA margin** to 2.3% but again, **one-off costs (EUR3m) related to the acquisition of For Eyes hampered the profitability in Q4.**

EURm – Americas & Asia	Q4 15	2015
Net sales	94	354
Reported growth (%)	9.7	33.6
Comparable growth (%)	5.6	6.6
Adj. EBITDA	-3	8
Adj. EBITDA margin (%)	-2.9% (-390bp)	2.3% (+40bp)

Source: Company Data

- **Improving Financial Position.** FCF amounted to EUR220m (fairly stable vs. 2014) and following the dividend payment of EUR35m last September and the cash outflow related to acquisitions (EUR138m), net debt slightly increased to EUR941m from EUR922m but the leverage ratio declined to 1.8x vs. 2.1x the prior year.

VALUATION

- Given a quite resilient performance ytd (-6%) and in light of this margin miss, we expect the share price to come under pressure today. Since this stable profitability was only caused by a dilutive impact from acquisitions and the underlying trends (+60bp) prove that the business model is efficient, we recommend that investors take advantage of any weakness.
- GrandVision's 2016e PEG of 2.4x trades in line with Luxottica but with a slight discount relative to Essilor (2.5x) and offers a significant discount relative to its most direct peer, Fielmann (3.8x) despite more appealing growth prospects (2015-18e EPS CAGR of 11.3 vs. 7.8% for Fielmann).

NEXT CATALYSTS

- Analysts' Conference call today at 8am (GMT)/ 9am (CET) // Q1 Trading Update on 29th April.

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