17th March 2016

Luxury & Consumer Goods

Grandvision

Price EUR24.81

Sounds fundamentals but in the optical industry acquisitions often cause dilution

Fair Value EUR29 vs. EUR29,5 (+17%) **BUY**

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 21.3
Market Cap (EUR)	6,311
Ev (BG Estimates) (EUR)	7,261
Avg. 6m daily volume (000)	109.1
3y EPS CAGR	14.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.6%	-3.4%	9.4%	-10.3%
Consumer Gds	4.0%	-2.9%	0.9%	-3.9%
DJ Stoxx 600	6.4%	-5.4%	-5.8%	-6.8%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,817	3,205	3,444	3,605
% change		*13.8%*	*7.5%*	*4.7%*
EBITDA (adjusted)	449	512	557	599
EBIT (reported)	288.6	353.3	388.5	423.1
% change		*22.4%*	*10.0%*	*8.9%*
Net income	161.2	213.3	238.0	263.9
% change		*32.3%*	*11.6%*	*10.9%*

	2014	2015e	2016e	2017e
Operating margin	10.2	11.0	11.3	11.7
Net margin	5.7	6.7	6.9	7.3
ROE	25.9	37.4	33.7	32.6
ROCE	17.6	20.8	22.6	24.6
Gearing	137.6	154.3	108.7	84.0

(EUR)	2014	2015e	2016e	2017e
EPS	0.70	0.85	0.94	1.04
% change	*-*	*22.2%*	*9.6%*	*10.9%*
P/E	35.5x	29.1x	26.5x	23.9x
FCF yield (%)	3.5%	4.3%	4.3%	4.6%
Dividends (EUR)	0.00	0.14	0.35	0.39
Div yield (%)	NM	0.6%	1.4%	1.6%
EV/Sales	2.6x	2.3x	2.1x	1.9x
EV/EBITDA	16.1x	14.2x	12.8x	11.7x
EV/EBIT	25.1x	20.6x	18.3x	16.6x

At the conference call yesterday, management discussed GrandVision's key pillars (to deploy global capabilities, drive comparable growth, global expansion, etc.), which will remain the growth catalyst for 2016 onwards. Most analysts' questions concerned the newly-consolidated US chain For Eyes, the ramp-up of the group's TechCenters (Rx labs) and the capex budget. In light of a higher-than-expected dilutive impact from acquisitions, we have fine-tuned our 2016-17 assumptions (-2%) but the underlying margin performance (adj. EBITDA: +60bp in 2015) clearly confirms that the business model, which relies on scale, is efficient. FV adjusted to EUR29 vs. EUR29.5 but Buy recommendation confirmed.

ANALYSIS

- **For Eyes: successful integration is a priority for 2016.** Management admitted that revenue declined to EUR83m in 2015 and that this could suggest a higher-than-expected dilutive impact on profitability. GVNV has already implemented several initiatives to turn around the business: **(i)** new experienced leadership team that has a proven track-record in integrating new chains, **(ii)** supply chain integration and **(iii)** a revamped commercial proposition with the roll-out of the group's global in-house brands (*see picture overleaf*). The EUR3m in one-off charges booked in Q4 were due to inventory and other balance sheet item write-offs, no other costs are expected this year. Last but not least, management expected the integration to be completed within 12-18 months, which is the traditional deadline for large acquisitions.

- **The US optical market harbours significant MT/LT growth opportunities for GVNV.** Indeed the world's largest optical market grew 6.3% to USD39.4bn for the 12 months ending September 2015 and industry experts were expecting a similar pace of growth for 2016. Moreover the market environment offers opportunities for GVNV: **(i)** the value and mass segments account for 76% of the US market which fits perfectly with the group's value positioning and **(ii)** it is very fragmented since independent opticians/optometrists own 53% of the market, which enables GVNV to make the most of its critical size to improve competitiveness and win market share, probably vs. other small chains as optometrists enjoy strong customer loyalty thanks to their high level of expertise.

- **TechCenters (TC) now assemble 60% of global lenses sold by GVNV.** These TCs are an illustration of the aim to involve critical mass in the assembly phase by pooling volumes to release productivity and efficiency gains, as well as shorter lead times. New countries are now covered by these TCs and this share will further increase in the coming years, implying an accretive impact to the group's profitability.

- **Solaris is accelerating its global expansion** as the group is under-exposed to the sun-wear category (~10-12% of sales vs. ~15% of global optical market). Last year Solaris opened 390 new POS to a total of 1,201), including 60 stores in Mexico (Sunglass Island banner was rebranded Solaris). As a reminder, Solaris expansion mainly relies on the opening of shop-in-shops within existing optical stores in order to favour cross-selling by addressing customers who initially visited the store to buy Rx glasses or contact lenses. Main advantages: low capex intensive strategy and accretive to margins as it increases sales/store.

- **Capex should remain in the region of 5-5.5% of sales.** The management does not anticipate a major inflation in capex despite the integration of *For Eyes* and investments should grow in line with the FCF generation. The share of non-store capex might increase as the group continues to invest in IT, supply chain and omni-channel. Hence the leverage ratio should continue to improve to give more firepower for acquisitions.

- **G4 segment (62% of group sales): watch out for the challenging comparison base and update on the French market.** While the comparable growth achieved in Q1 (+5.6%) was slightly lower than in Q4 2014 (+6.1%), we draw attention to the tough comps in the G4 segment (Q1 15: +6.8% vs. +5.9% in Q4 14) given successful promotional campaigns. Management also delivered an interesting update about **France** (~20% of sales): the new reimbursement conditions that came into force in April 2015 did not hamper the **group's business that remained well-oriented throughout 2015.** The CEO even reminded that any deregulation of this market would be a growth opportunity to gain market share vs. independent opticians and small chains unable to benefit from their critical mass.

(Continued on next page)

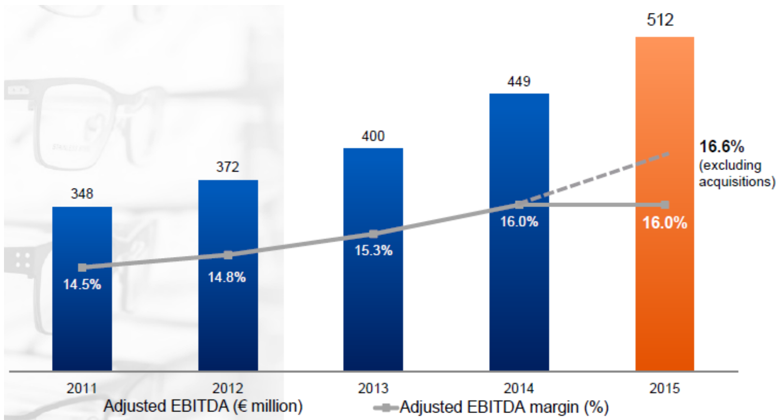
VALUATION

- We maintain our top-line assumptions. However we have nudged down our FY16-17 margin assumptions by 2% on average to reflect the higher-than-expected dilutive impact from acquisitions (Italy, the US) which might last in H1, pending the turnaround in Italy and the integration of For Eyes in the US. Hence our FV is adjusted to EUR29 vs. EUR29.5 previously.
- We still have a positive stance on GrandVision to play both structural catalysts in the optical market and the group's ability to make the most of its critical mass to win market share, consolidate the very fragmented optical distribution market (M&A, despite the possible dilutive impacts) and generate substantial leverage to operating expenses.
- GrandVision's 2016e PEG of 2.2x, the stock trades below Luxottica and Essilor (2.4x and 2.5x respectively) and offers a significant discount relative to its most direct peer, Fielmann (3.7x) despite more appealing growth prospects (2015-18e EPS CAGR of ~10% vs. 7.8% for Fielmann).

NEXT CATALYSTS

- GrandVision will report its Q1 Trading Update on 29th April.

The solid improvement in the adj. EBITDA margin (excl. dilutive impact from acquisitions) illustrates how efficient the business model is:



Source: Company Data

Some of GrandVision's global in-house brands are already displayed on *For Eyes'* website

Source: foreyes.com

Click here to download document

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