29th April 2016

Luxury & Consumer Goods

Grandvision

Price EUR24.45

Q1 publication below expectations mainly due to technical factors

Fair Value EUR28 (+15%) **BUY**

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 21.5
Market Cap (EURm)	6,221
Ev (BG Estimates) (EURm)	6,978
Avg. 6m daily volume (000)	105.9
3y EPS CAGR	10.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.6%	-1.8%	-2.4%	-11.6%
Consumer Gds	2.3%	3.0%	-4.1%	-2.7%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,205	3,444	3,605	3,775
% change		*7.5%*	*4.7%*	*4.7%*
EBITDA	512	557	599	641
EBIT	353.2	387.8	422.3	456.0
% change		*9.8%*	*8.9%*	*8.0%*
Net income	212.7	237.3	263.1	288.5
% change		*11.5%*	*10.9%*	*9.7%*

	2015	2016e	2017e	2018e
Operating margin	11.0	11.3	11.7	12.1
Net margin	6.6	6.9	7.3	7.6
ROE	27.3	24.6	23.6	22.6
ROCE	18.7	20.3	22.0	24.0
Gearing	112.9	74.4	52.0	32.4

(EUR)	2015	2016e	2017e	2018e
EPS	0.85	0.93	1.03	1.13
% change	-	*9.6%*	*10.9%*	*9.7%*
P/E	28.7x	26.2x	23.6x	21.6x
FCF yield (%)	3.8%	4.3%	4.7%	5.3%
Dividends (EUR)	0.14	0.35	0.39	0.45
Div yield (%)	0.6%	1.4%	1.6%	1.8%
EV/Sales	2.2x	2.0x	1.9x	1.8x
EV/EBITDA	14.0x	12.5x	11.4x	10.4x
EV/EBIT	20.3x	18.0x	16.2x	14.6x

Q1 16 revenue increased 2.5% to EUR803m, or 2% below CS (EUR821m). The deviation is caused by technical effects which weighed on the comparable growth (0.9% vs. CS at +2.2%), justified by the most demanding comparison base of the year. Like in Q4 15, the CS has underestimated the dilutive impact from acquisitions which costed 40bp this quarter. Consequently the adj. EBITDA decreased 30bp to 15.3% (+10pb to 15.7% excl. M&A) vs. CS at 15.9% and BG at 15.5%.

ANALYSIS

- **Q1 revenue of EUR803m (+4.9% FX-n).** The **comparable growth** only amounted to 0.9% and fell short of expectations (CS: +2.2%e), resulting from the tougher comparison base in G4 (*see below*). The **organic growth** was 1.7% and **acquisitions** provided 3.2%, mainly thanks to the consolidation of the US chain *For Eyes*. Last but not least, GrandVision registered a negative **FX impact** of 2.4%.

- **Adj. EBITDA reached EUR123m (+0.3% and +0.8 FX-n) vs. CS of EUR130m.** Like in Q4, the CS seemed to have underestimated the dilutive impact from acquisitions, weighed on the group's profitability by 40bp this quarter. Hence the adj. EBITDA margin decreased 30bp to 15.3% (CS: 15.9%e / BG: 15.5%e) but it improved 10bp to 15.7% excluding this negative impact.

GrandVision Q1 16 results:

EURm	Q1 15	Q1 16
Net revenue	**784**	**803**
Reported growth (%)	*16.9*	*2.5*
Comparable growth (%)	*5.6*	*0.9*
Adj. EBITDA *	**122**	**123**
Adj. EBITDA margin (%)	15.6	15.3 / 15.7 Adj.

** After "Other reconciling items"* *Source: Company Data*

- By region: sales in the **G4** segment only increased 0.7% to EUR494m, including a SSSG almost stable (+0.3%). Whilst the challenging comparison base (Q1 15: +6.8%) was flagged by investors, its impact was eventually higher-than-expected (CS: +1.9%e): the group faced a LSD decline in Germany and Austria where the promotional campaigns took place in Q1. On the positive side, sales in Belgium, France and the UK increased LSD. This weak top line development has therefore led to slight 20bp-decrease to 20.5% in the adj. EBITDA margin.

EURm – G4	Q1 15	Q1 16
Net sales	**491**	**494**
Comparable growth (%)	*6.7*	*0.3*
Adj. EBITDA	**101**	**100**
Adj. EBITDA margin (%)	20.5	20.3

Source: Company Data

- Revenue in the **Other Europe** segment remained flat at EUR208m, up 1% FX-n. Comparable growth was still down 0.5% (vs. -0.7% in Q4) due to a lingering weakness in the Nordics. Even if the the Randazzo acquisition (Italy) seems to continue to weigh on profitability, the adj. **EBITDA margin** increased 10bp to 12.6% after -80bp in Q4.

EURm – Other Europe	Q1 15	Q1 16
Net sales	**208**	**208**
Comparable growth (%)	*1.8*	*-0.5*
Adj. EBITDA	**26**	**26**
Adj. EBITDA margin (%)	12.5	12.6

Source: Company Data

(To be continued next page)

- Sales in **Americas & Asia** reached EUR101m, representing a 19.2% increase and 35.5% in organic terms. SSSG was up 8.5% and accelerated vs. Q4 (+5.6%), driven by healthy trends Chile, Mexico and Turkey whilst the comps were still down in Russia. This robust comparable growth enabled the adj. EBITDA margin to increase by 90bp to 3.2%.

EURm – Americas & Asia	**Q1 15**	**Q1 16**
Net sales	**85**	**101**
Comparable growth (%)	*8.8*	*8.5*
Adj. EBITDA	**2.0**	**3**
Adj. EBITDA margin (%)	2.3	3.2

Source: Company Data

VALUATION

- At this stage we maintain our top-line assumptions over 2016 since this first quarter was mostly affected by technical effects and a challenging comparison base in G4. We believe these headwinds will gradually ease off throughout the balance of the year.
- **Over the past two quarters, CS has underestimated the dilutive impact from acquisitions, which mostly explain the margin miss in Q1 (15.3% vs. CS of 15.9%). In light of CS' FY16 estimates, this assessment is still valid as the Street expects an adj. EBITDA margin of 16.5% (+50bp) whilst we anticipate only a 20bp-increase to 16.2%.**
- 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 Essilor (2.4x) and offers a significant discount relative to its most direct peer, Fielmann (2.7x) despite more appealing growth prospects (2015-18e EPS CAGR of ~10% vs. 7.8% for Fielmann).

NEXT CATALYSTS

- H1 16 results on 5th August 2016.

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