

## Essilor

Price EUR114.35

Essilor is shaping the European online retail with the acquisition of MyOptique Group

Fair Value EUR130 (+14%)

BUY

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 100.4
Market Cap (EUR)	24,939
Ev (BG Estimates) (EUR)	26,608
Avg. 6m daily volume (000)	484.9
3y EPS CAGR	10.1%

Yesterday Essilor announced the future acquisition of MyOptique Group, Europe's leading online optical retailer that operates six online retail brands and generated sales of GBP57m (~EUR65m) in the FY ended April 30th, 2016. This new acquisition completes Essilor's existing online platforms in Europe (Coastal, Vision Direct and Lensway) when multi-channel players such as Mister Spex or Brillen.de are also expanding their operations in Europe. Earlier this month, GrandVision has also announced the opening of its first European omni-channel platform in Germany.

## ANALYSIS

- **MyOptique Group is a leading online optical retailer in Europe...** The UK-based Group was founded in 2004 when **Glasses Direct** was set up, with a value-for-money positioning on prescription lenses/sunglasses even on premium brands (e.g.: Ray-Ban, Dolce & Gabbana). Then **Sunglasses Shop** (non-prescription sunglasses) was acquired in 2011, followed by **LensOn** in 2012, which mostly sells contact lenses in the Nordics. The last three online platforms were all acquired last year: **LensBest** (contact lenses in Germany), **NetzOpitker** (full optical service in Germany) and **Eyewearbrands** (premium & luxury eyewear brands). Thanks to these six online retail brands, (see graph 1 next page) MyOptique Group achieved sales of GBP57m (~EUR65m) in the year ended April 30th, 2016 and serves around 1m customers.

- **... with key differentiating factors:** **1/** This is the only online player to have this **multi-category** (Rx, sunglasses, contact lenses) and multi-brand strategy, **2/** The Group's **own brands** represent 80% of eyewear sales, driven by *London Retro* and *Scout*, **3/** the supply chain is supported by a central infrastructure and more importantly, by an **in-house Rx lab**, enabling orders to be shipped in three days. In light of the high share owned by its house brands (more profitable) and the positive contribution from having an in-house lab (economies of scale, efficiency gains), this is not surprising that MyOptique Group is profitable at the EBITDA level since FY 2012/13.

- **Essilor clearly leads the European online optical retail.** In February Essilor acquired **Vision Direct**, one of Europe's leading online contact lens retailers which generated sales of GBP33m (~EUR45m) in 2015. This e-retailer, which only sells contact lenses and contact lens care products, operates in the UK/Ireland, but also in some other European countries. Hence Vision Direct is complimentary to **Coastal (+Lensway)** that are mainly present in the Nordic countries (~30% of total sales). With the addition of MyOptique, we estimate that all Essilor's online platforms in Europe should generate sales of approx. EUR150m on a full-year basis, or ~8% of total Group's sales in Europe.

- **European optical retail taking shape.** While Essilor continues to consolidate the online retail industry in this region (~4% of total optical distribution), other major players chose a multi-channel approach to overcome the consumers' reluctance to buy prescription glasses online: **Mister Spex** (2015 revenue of ~EUR100m) was a pure online retailer but the strategy changed in 2011 when it partnered with independent opticians in Germany-Austria-Switzerland (550+ today) and has even opened its first eyewear shop in Berlin in February 2016. Its German competitor **Brillen.de** (2015 sales over EUR30m, EBITDA of ~EUR2m) has adopted this hybrid system since its launch in 2012 (see graphs 2 & 3 next page) and it is now working with over 700 affiliated opticians across Germany, Austria, England and Spain. It is worth noting that the fast-growing U.S. brand **Warby Parker** (2015 revenue >USD100m vs. USD35m in 2013) also went from pure online to multi-channel with the opening of its retail location in 2013. It now runs 35 stores in the U.S. and one in Canada.

**GrandVision introduces its first European omni-channel platform in Germany.** The new online store for the German Apollo Optik retail banner will provide value-added services such as the "Click-and-collect" service, online booking eye tests, etc. The aim is to drive in-store traffic and improve the customer experience. Hence this online platform should become an interesting competitive advantage vs. Fielmann that does not want to expand online and an interesting reaction to deal with Brillen.de. GV also confirmed that it would replicate this omni-channel approach in other European countries, particularly in the UK where it owns a leading online contact lens retailer (Lenstore), which could become a possible omni-channel platform for Vision Express.

## VALUATION

- This acquisition is consistent with Essilor's strategy to expand its online operations globally, as it aims to reach sales of EUR400-500m by 2018 (vs. ~EUR220m in 2015). The integration of MyOptique Group should have a 90bp scope effect on a full-year basis and a slight dilutive impact

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.1%	1.1%	5.3%	-0.6%
Consumer Gds	1.8%	4.2%	7.9%	-0.3%
DJ Stoxx 600	1.6%	2.6%	7.2%	-6.1%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	6,716	7,132	7,625	8,157
% change		6.2%	6.9%	7.0%
EBITDA	1,263	1,341	1,449	1,566
EBIT	1,183	1,271	1,379	1,501
% change		7.5%	8.5%	8.9%
Net income	757.1	846.6	923.3	1,017
% change		11.8%	9.1%	10.1%

	2015	2016e	2017e	2018e
Operating margin	17.6	17.8	18.1	18.4
Net margin	11.3	11.9	12.1	12.5
ROE	13.3	13.2	12.9	13.4
ROCE	20.0	20.1	20.9	21.5
Gearing	34.7	24.5	15.9	13.7

(€)	2015	2016e	2017e	2018e
EPS	3.57	3.96	4.32	4.76
% change	-	11.0%	9.1%	10.1%
P/E	32.1x	28.9x	26.5x	24.0x
FCF yield (%)	3.5%	3.8%	4.1%	4.3%
Dividends (€)	1.15	1.30	3.15	4.15
Div yield (%)	1.0%	1.1%	2.8%	3.6%
EV/Sales	4.0x	3.7x	3.4x	3.2x
EV/EBITDA	21.4x	19.8x	18.0x	16.6x
EV/EBIT	22.9x	20.9x	19.0x	17.3x



on the contribution margin, like with most of bolt-on acquisitions made by Essilor.

**(To be continued next page).**

**NEXT CATALYSTS**

- U.S. Field Trip: 28-30th September // Q3 2016 Sales on 21st October 2016.

*Click here to download document*

**Graph 1: The Six International Brand Portfolio of MyOptique Group:**

<p><b>GLASSES DIRECT</b></p> <p><b>Glasses Direct</b></p> <p>Glasses Direct is revolutionising the £20bn European optical industry by cutting out the high street middleman – and providing its customers with a superior service and significant savings. It has saved the glasses wearing public £45 million since it was set up in 2004 by offering an alternative to the huge markup on glasses sold on the high street. It has consistently led the marketing in innovation, with the first home trial to allow customers to try glasses on at home for free, the first augmented reality enabled 3D virtual mirror, and an in-house laboratory which enables over 80% of glasses to be shipped within 3 days. Glasses Direct offers a wide range of both house brands and designer brands at a significant savings to the high street, and delivered directly to your door.</p> <p><a href="http://www.glassesdirect.co.uk">www.glassesdirect.co.uk</a></p>	<p><b>LENSON</b></p> <p><b>Lenson</b></p> <p>Since it was founded in Sweden in 2004 as a contact lens business, Lenson has grown into one of Europe's leading full service online optical retailers. Customers are served through local websites and customer service from logistics centers in Stockholm and Salsidan, UK. Lenson is the largest independent online optical retailer in the Nordics and also enjoys a strong presence in the UK, Germany and the Netherlands. Lenson proves daily that low prices can be combined with fast delivery and first class service (shipping most orders same day). It joined the MyOptique Group family in 2012.</p> <p><a href="http://www.lenson.se">www.lenson.se</a></p>	<p><b>SUNGLASSES SHOP</b></p> <p><b>Sunglasses Shop</b></p> <p>Driven by unrivalled selection, keen pricing and high quality content, Sunglasses Shop quickly grew after its foundation in 2003 to become the largest independent sunglasses retailer in Europe. Then in 2011 it joined forces with Glasses Direct to form Europe's leading eyewear group. In the four years since then it has experienced 100 per cent growth. Today Sunglasses Shop is a truly international business, with 50 per cent of sales coming from beyond the UK.</p> <p><a href="http://www.sunglassesshop.co.uk">www.sunglassesshop.co.uk</a></p>
<p><b>eyewearbrands</b></p> <p><b>Eyewearbrands</b></p> <p>With quality, design and fashion at the heart of absolutely everything it does, Eyewearbrands provides the very best in designer style by working with the leading and most coveted eyewear brands in the world, among them Colson, Dior, Dolce &amp; Gabbana, Mis.Mis, Oliver Peoples, Persol, Prada, Tom Ford and Saint Laurent. This means the company is always one step ahead with new collections and bestselling styles. The website also offers the best in lifestyle and sports brands, including Carrera, Ray-Ban, Oakley and Prada Sport. Smith Optics. Customers looking for additional inspiration can shop by face shape or lifestyle. Set up in 2008, the website now attracts over 4 million unique visitors a year from around the world. It joined the MyOptique Group in summer 2015.</p> <p><a href="http://www.eyewearbrands.com">www.eyewearbrands.com</a></p>	<p><b>net)optiker</b></p> <p><b>Netzoptiker</b></p> <p>Netzoptiker.de joined the MyOptique Group in 2015 as part of the Group's European expansion strategy. Netzoptiker was founded in Germany in 2008 and offers a full optical service including prescription eyewear – its biggest category – and contact lenses and sunglasses. Its reputation has been built on its high standards of service – it has the highest customer review rating in its sector 98% of its 7,950 reviews give it a maximum five stars.</p> <p><a href="http://www.netzoptiker.de">www.netzoptiker.de</a></p>	<p><b>LENSBEST</b></p> <p><b>LensBest</b></p> <p>Lensbest sells direct via the website Lensbest.de, but also runs the wholesale operation Acumed and produces the popular brands Lensecare and Lenses Eyewear. The business has a long history of innovation in the German optical market. Established in Germany in 1905, it was the first German company to offer contact lenses by mail order, the first business to distribute contact lenses via pharmacies and retailers (including Aldi, Metro and Rossmann), the first to sell own brand contacts as a fully certified medical producer and the first online eyewear player to move to a fully responsive website design. Today it is Germany's largest mail order contact lens supplier, and also boasts a substantial prescription eyewear and sunglasses business. Its wholesale business, Acumed now also includes eyewear in its offer which consumers can find in Metro and Rossmann and many other leading chains. It carries leading international brands for contact lenses, glasses and sunglasses, including Alcon, Bausch &amp; Lomb, Johnson &amp; Johnson, Ray-Ban, Persol, Michael Kors, Tommy Hilfer and Superdry. However, 50 per cent of business is private label, delivering strong margins. Lensbest joined the MyOptique Group in summer 2015.</p>

Source: Company Data

**Graph 2: Brillen.de: strategic partnership with independent opticians:**



Source: Company Data

**Graph 3: Brillen.de's multi-channel approach:**



Source: Company Data



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