

Essilor

Price EUR116.75

US Field Trip Day 1: Unlocking US market potential

Fair Value EUR130 (+11%)

BUY

Bloomberg	EF FP
Reuters	ESSI.PA
12-month High / Low (EUR)	123.6 / 103.0
Market Cap (EURm)	25,463
Ev (BG Estimates) (EURm)	27,132
Avg. 6m daily volume (000)	446.6
3y EPS CAGR	10.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.4%	0.5%	10.6%	1.5%
Consumer Gds	-0.2%	6.7%	3.9%	-1.1%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

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	32.7x	29.5x	27.0x	24.5x
FCF yield (%)	3.4%	3.7%	4.0%	4.2%
Dividends (€)	1.15	1.30	3.15	4.15
Div yield (%)	1.0%	1.1%	2.7%	3.6%
EV/Sales	4.1x	3.8x	3.5x	3.3x
EV/EBITDA	21.8x	20.2x	18.4x	17.0x
EV/EBIT	23.3x	21.4x	19.3x	17.7x



Essilor hosted the first day of its US Field Trip in Dallas (TX) to present its strategy for North America. Although this region already accounts for 48% of total sales, it harbours growth potential of “an emerging market” according to CEO Hubert Sagnières. In terms of LFL growth, the group intends to outperform the market by at least 1.5x thanks to: (i) an increasing engagement with consumers, (ii) deepened relationships with independent ECPs and optical chains and (iii) fast-growing segments such as online and sunglasses, the latter being presented more in detail on Friday.

- **The US remains the world’s largest optical market.** As highlighted in our [comment](#) ahead of the Field Trip, the US vision care market is worth ~USD40bn (or ~EUR36bn), representing approx. 40% of the global market. All categories included, Essilor has a market share of 8% (USD3.2bn) but even in the lens business (~40% market share), the group has significant growth potential thanks to: (i) favourable demographics (growing and ageing population), (ii) evolving consumer needs (i.e. protection vs. harmful blue light as consumers spend more and more time in front of digital devices) and (iii) under-penetration of value added categories such as progressive lenses (~60% vs. ~78% in Canada or ~90-95% in France and China) or anti-reflective lenses (39% of US wearers vs. 65% in Canada and 83% in Germany).
- **Essilor can leverage this growth potential and outperform market growth by at least 1.5x.** Except for an unusually soft Q2 (+1.5% LFL) marked by temporary issues at Transitions, the US growth strategy relies on three key pillars: (i) innovation deployment in all price points, (ii) consumer focus through media push and education and (iii) leverage opportunities in all channels thanks to tight relationships with independent ECPs and optical chains, but also helping them to promote in-store education and increase the customer experience, leading to higher revenues.
- **All channels harbour growth opportunities.** Following Essilor’s three acquisitions in the independent ECP channel, the group now covers over 8,000 doctors (or ~30% of the 25,000 independent ECPs). This channel has gained market share (2015: ~53% vs. 50% in 2005) thanks to a high level of expertise and service. Yet, Essilor is also developing turn-key solutions for optical chains (supply chain, IT, commercial proposition) and it is interesting to note that value players such as Walmart or Costco are partnering with Essilor to bring added-value to their offering (i.e. NikonEyes for WM, Transitions and antireflective lenses at Costco).
- **Online business: a small but fast-growing channel.** Last year this channel generated sales of USD96m (+11%), or ~EUR86m, representing approx. 39% of global online sales (EUR220). **Online retail only has a penetration rate of 5% in the US (4% worldwide)**, o/w 18% for contact lenses, 6% for sunglasses and 4% for Rx lenses. Two of the group’s main platforms experienced a double-digit growth: **EyeBuyDirect** (~29% of US online sales; value Rx eyeglasses and frames) and **FramesDirect** (~28%, premium eyeglasses and sunglasses), whilst it took one year longer-than-expected for **Coastal** (~29% of sales) to find its new customer proposition, which is now well in place. In our opinion the 2018 profitability target of 10-12% might now appear difficult to reach given the painful integration and relaunch of Coastal
- **Supply chain: maintaining this best-in-class execution to capture growth potential.** Management’s presentation and the visit to Essilor’s largest US Rx lab (Omega Dallas) gave us a good overview of the group’s key competitive advantages in terms of supply chain and level of service to address all the channels (independent ECPs, optical chains, online). Whilst Essilor has currently 125 Rx labs in the US, we understood that this network might be streamlined further given the increasing importance of the four export labs that serve the US market (~15-20% of total volumes) and efficiency gains released from the consolidation of this Rx lab network.

VALUATION

- In spite of the temporary “air bumps” possible in the ST, this first day provided a good overview of Essilor’s strategy to conquer further market share in the US market, which would remain a key driver for the group in the MT-LT. Buy recommendation and FV of EUR130 confirmed.

NEXT CATALYSTS

- Essilor will release its Q3 results on 21st October.



Analyst :
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Sector Team :
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
				Regulated by the FINMA

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