

Essilor

Price EUR111.10

Q3 LFL growth miss mainly due to North America

Fair Value EUR130 (+17%)

BUY

Q3 sales came in at EUR1,723m (+6.4%), just 1% shy of CS expectations at EUR1,738m. This was due to another miss by LFL growth at only 3.2% (CS: 4.4%) caused by a weaker-than-expected performance in North America and softness in some markets (Brazil, Turkey). These headwinds partly overshadowed the rebound in R&S (+6.9% vs. -5.8% in Q2). However, Essilor confirmed its objective to be as close as possible to FY targets ("around +4.5% LFL" / "above 8% FX-n") implying a sharp acceleration in Q4. Conference call today at 10.00am (CET).

ANALYSIS

- **Q3 sales grew 6.4% in reported terms (H1: +8.1%).** LFL growth of 3.2% was bang in line with Q2, which was already marked by a weak performance in North America. The scope effect amounted to 4% (H1: +4%) and should remain high in Q4, especially with the consolidation of [MyOptique](#) Group that was acquired in August. FX had a less negative impact than in H1 (-0.9pp vs. -3pp).
- **Normalisation in Europe, several headwinds weighed on North America.** Trends in Europe moderated to 3% after strong 4.6% growth in H1. This performance was driven by innovation (*EyeZen*) and the Instruments division, offsetting the slowdown in the UK and Central Europe. The modest sales increase in **North America** (1.5%) was again due to Transitions ("TOI") that was affected by a cancelled order from one of its customers (~1-1.5pp impact on NA LFL growth) and some government supply programmes, but also by the slow relaunch of Coastal (online).
- **LatAm growth hampered by Brazil.** Indeed, activity in **Brazil** decreased slightly in Q3 (vs. mid single-digit growth in H1) while momentum remained strong in **Mexico** (>30%), **Colombia** and **Central America**. Sales in the **AMEA** region increased by 6.6% (H1: +8.7%) driven by India, S-K and China, partly offset by weak trends in the Middle-East and Turkey.
- **Recovery in the Sunwear division: +6.9% vs. -3.9% in H1,** on top of a demanding comparison base (Q3 15: +9.9%). After a weak Q2 (-5.8%), weather conditions across Europe and the US were clearly more favourable in Q3 than over the previous quarter, while Bolon (China) is rebounding gradually after a difficult start to the year because of the implementation of the new ARTEMIS dealer fulfilment system at Bolon (China).

LFL Quarterly Sales (%):

% change	Q1 15	Q2 15	Q3 15	Q1 16	Q2 16	Q3 16	CS *
North America	4.5	3.7	4.4	4.7	1.5	1.3	2.5
Europe	2.5	5.0	4.0	4.7	4.5	3.0	3.7
Asia-Pacific & MEA	5.6	5.2	5.9	8.9	8.5	6.6	8.6
Latin America	10.0	10.5	7.4	9.0	11.4	4.5	10.0
Lenses & Optical Instruments	4.4	4.9	4.8	5.7	4.4	2.9	4.5
Equipment	-2.1	-7.1	-6.4	3.5	4.3	5.4	3.0
Readers & Sun	1.8	3.2	9.9	-1.5	-5.8	6.9	2.8
Total group	4.0	4.4	4.8	5.0	3.2	3.2	4.4

* Consensus median

Source: Company Data

- **What to expect by the end of the year?** Despite this new LFL growth miss, EI confirmed its ambition to be as close as possible to its FY guidance ("around +4.5%") thanks to several initiatives in Q4. Prior to this publication we believe the CS had already anticipated that 2016 LFL growth (4.2-4.3%e / BG: +4.2%) would be slightly below the guidance of "around 4.5%", but these forecasts now imply at least 5% growth in Q4. We assume that the CS would now adjust to 3.8-3.9%, representing a 4% LFL growth in Q4, which is a less challenging performance given the mixed macro environment and ongoing headwinds in North America.

VALUATION

- Despite the recent share price correction, we expect the share to be under pressure today in light of a prospective downward revision to consensus figures as mentioned above. As is often the case for Essilor, any weakness represents an attractive entry point to play the group's structural drivers and improving momentum in Q4. At 18.5x 2017e EV/EBIT, the stock trades at a 10% premium to its 2004-16 average.

NEXT CATALYSTS: Conference call today at 10.00am (CET). [Click here to download document](#)

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