

Luxottica

Price EUR42.62

Q3 sales in line with expectations, towards a more favourable momentum**Fair Value EUR52 (+22%)****NEUTRAL**

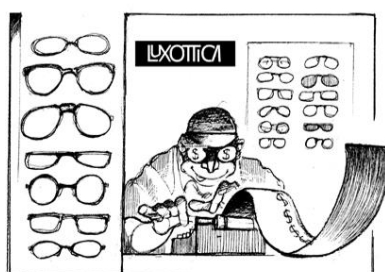
Bloomberg	LUX.IM
Reuters	LUX.MI
12-month High / Low (EUR)	65.6 / 40.6
Market Cap (EUR)	20,631
Ev (BG Estimates) (EUR)	21,398
Avg. 6m daily volume (000)	858.9
3y EPS CAGR	7.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	-4.5%	-11.6%	-29.4%
Consumer Gds	-2.1%	-1.6%	0.3%	-3.2%
DJ Stoxx 600	-0.3%	1.2%	-1.2%	-5.9%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	8,837	9,087	9,495	9,970
% change		2.8%	4.5%	5.0%
EBITDA	1,853	1,882	2,062	2,191
EBIT	1,376	1,376	1,534	1,637
% change		0.0%	11.5%	6.7%
Net income	804.1	819.1	935.8	1,008
% change		1.9%	14.3%	7.7%

	2015	2016e	2017e	2018e
Operating margin	15.6	15.1	16.2	16.4
Net margin	9.1	9.0	9.9	10.1
ROE	14.6	14.0	14.9	15.1
ROCE	12.0	11.9	13.3	14.4
Gearing	18.2	13.1	6.2	-1.9

(€)	2015	2016e	2017e	2018e
EPS	1.68	1.70	1.95	2.10
% change	-	1.7%	14.3%	7.7%
P/E	25.4x	25.0x	21.9x	20.3x
FCF yield (%)	3.6%	3.9%	4.8%	5.8%
Dividends (€)	0.89	0.95	1.07	1.15
Div yield (%)	2.1%	2.2%	2.5%	2.7%
EV/Sales	2.4x	2.4x	2.2x	2.1x
EV/EBITDA	11.7x	11.4x	10.2x	9.4x
EV/EBIT	15.7x	15.5x	13.6x	12.5x



Q3 sales reached EUR2,225m (+1.2%) with a FX-n growth of 1.4%, in line with CS expectations (1.3%). As expected, there was a dichotomy between Retail (+4.5% vs. 1.9% in H1) where trends have accelerated and Wholesale (-3.6% vs. +1.1%) which suffered from the MAP in the US and the distribution reorganization in China, but these headwinds should gradually ease. Hence LUX confirms FY16 outlook, implying a sharp acceleration in Q4 (+3.8%e). The Group's management was even comfortable with the current CS forecast for 2017 (mid-single-digit FX-n sales growth, op margin to improve by 20bp).

ANALYSIS

- Wholesale division impacted by three headwinds (Q3: -3.6% FX-n):** The first two issues are in the US, as highlighted by the 11.2% drop in US Wholesale sales: **1/** since the implementation of the "Minimum Advertised Price" (MAP) policy for Ray-Ban was completed in July, it had a higher negative impact in Q3 vs. Q2, but the Group may have experienced the tipping point in October (see above), **2/ Oakley Sport Channel** continued to struggle given the poor retail environment. Last but not least **3/ the change in the distribution model in Mainland China** with a direct go-to-market approach for its Wholesale business, also impacted by performance of Asia-Pacific (-0.2% FX-n).
- Retail Division: first signs of acceleration (+4.5% adj. FX-n).** The division started enjoying some levers in Q3: **(i)** more favourable weather conditions which were particularly positive for **SGH US** (+2.9% LFL vs. +0.5% in Q2), **(ii)** the US calendar realignment (+1 day in Q3) accounted for one third of the growth and **(iii) LensCrafters** opened 47 stores @ Macy's ytd and **Target Optical** added 54 stores in Q3 to a total of 444, representing a positive space growth when the Rx market was softer this quarter (LC: -1.6% LFL, licensed brands: -1.4% LFL). It is worth noting that **E-commerce sales** (Sunglasshut.com/Ray-ban.com/Oakley.com) were up 18 FX-n, o/w +30% for Sunglasshut.com.

Adj. FX-n by division:

%	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Wholesale	2.1	0.2	1.1	-3.6	-0.3
Retail	1.6	2.3	1.9	4.5	2.8
Total Luxottica	1.8	1.4	1.6	1.4	1.5

Source: Company Data

- Enforcement of MAP is painful, but initial results are promising!** Indeed, this MAP is a major headwind for the Wholesale Division, as highlighted by the 60% drop in sales with third-party websites in Q3, but it helped the brand to retain a **more selective distribution network** (thanks to "Authorized Retailers Agreements") and more importantly, **the average discount on Amazon marketplace was reduced to 6% vs. 37% in April.** Should this promising trend continue, it would confirm that Ray-Ban managed to clean most of the "grey market", which bodes well for the coming quarters.
- FY16 outlook confirmed...** In **Wholesale**, the Group's management confirmed that the MAP headwind is expected to be lower than in Q3. Trends in the **Retail Division** should accelerate further thanks to three main catalysts: **(i)** a higher contribution from optical store openings (LC @ Macy's, Target Optical), **(ii)** the US calendar realignment will play a more significant role in Q4 (+3 days vs. +1 in Q3) and **(iii)** easier comparison bases. Consequently, LUX reiterated its FY16 outlook: **1/ 2-3% FX-n sales growth**, implying at least, 3.8% growth in Q4 (BG: +3%e in Q4 / +1.8%e in FY16) and **2/ adj. EBIT and income** to grow in line with sales (BG: flat op margin at 16%).
- ... and Management is confident LUX can accelerate in 2017.** MM. Massimo Vian and Stefano Grassi were comfortable with the current CS expectations that had already anticipated more cautious targets than initial rules-of-thumb delivered in March: **1/ mid-single-digit FX-n sales growth (BG: +4.5%e)** vs. mid-to-high single-digit initially and **2/ an op margin improvement** of approx. 20bp (BG: +20bp to 16.2% => 1.3x FX-n top line growth) vs. >1.5x faster previously. In addition to the above-mentioned catalysts, LUX can count on the launch of the new **Valentino** license on January 1st, for which we estimate a sales potential of ~EUR40-50m at this stage.

VALUATION

- For the first time since Q3 15, sales matched CS (conservative) assumptions, but we believe that investors' attention will mainly focus on the improving trends and the long-awaited first positive results from the Group's painful initiatives, especially the MAP for Ray-Ban. Therefore, we expect a

positive reaction from the market today. *(continued next page)*

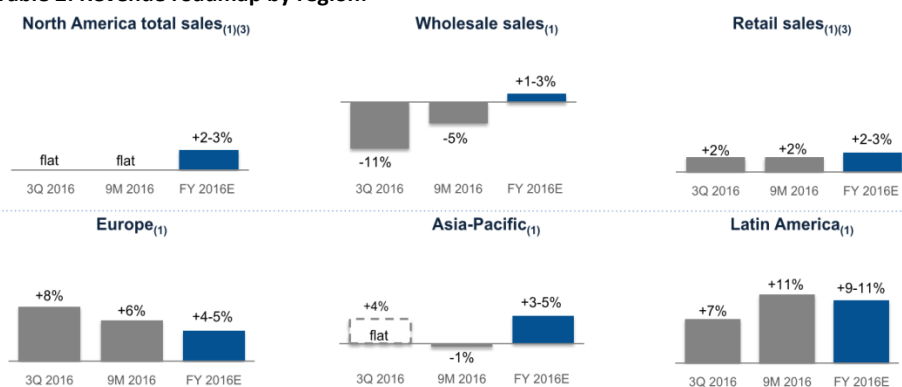
- At 13.6x 2017e EV/EBIT, the stock trades at 16% discount to its 2004-16 historical average.

Table 1: adj. FX-n by region:

EURm	Q3 16	FX-n growth (%)	9M 16	FX-n growth (%)
Wholesale	234	-11.2	788	-4.8
Retail	1,113	2.4	3,297	1.5
North America	1,347	-0.3	4,085	0.2
Europe	386	8.3	1,368	5.7
Asia-Pacific	283	-0.2	873	-0.6
Latin America	134	6.8	382	11.0
ROW	75	-5.0	237	-6.0
Total Luxottica	2,225	1.4	6,944	1.5

Source: Company Data

Table 2: Revenue roadmap by region:



Source: Company Data

NEXT CATALYSTS

- FY16 Sales to be released by the end of January 2017.

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