Grandvision

Price EUR24.11

Lower-than-expected Q3 results but FY outlook confirmed

Fair Value EUR28 (+16%) **BUY**

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 22.7
Market Cap (EURm)	6,133
Ev (BG Estimates) (EURm)	6,898
Avg. 6m daily volume (000)	72.20
3y EPS CAGR	9.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-0.6%	-1.2%	-12.9%
Consumer Gds	-2.4%	-2.3%	-0.4%	-3.5%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,205	3,387	3,544	3,708
% change		*5.7%*	*4.6%*	*4.6%*
EBITDA	512	548	588	629
EBIT	353.2	375.9	415.2	448.1
% change		*6.4%*	*10.4%*	*7.9%*
Net income	212.7	231.8	260.8	285.6
% change		*8.9%*	*12.5%*	*9.5%*

	2015	2016e	2017e	2018e
Operating margin	11.0	11.1	11.7	12.1
Net margin	6.6	6.8	7.4	7.7
ROE	27.3	24.2	23.6	22.6
ROCE	18.7	19.9	21.7	23.6
Gearing	112.9	75.8	53.6	34.1

(EUR)	2015	2016e	2017e	2018e
EPS	0.85	0.93	1.02	1.12
% change	-	*9.0%*	*10.5%*	*9.5%*
P/E	28.3x	26.0x	23.5x	21.5x
FCF yield (%)	3.8%	4.3%	4.7%	5.3%
Dividends (EUR)	0.14	0.35	0.39	0.45
Div yield (%)	0.6%	1.5%	1.6%	1.9%
EV/Sales	2.2x	2.0x	1.9x	1.8x
EV/EBITDA	13.8x	12.6x	11.5x	10.5x
EV/EBIT	20.0x	18.4x	16.3x	14.7x

This morning GrandVision released Q3 sales up 2.2% to EUR825m, shy of the CS at EUR853m, mostly because of a weaker-than-expected comparable growth (+0.4% vs. CS: +3.5%) after +2.3% in H1. Following this weak top line performance, the adj. EBITDA reached EUR139m (CS: EUR151m), representing a 70bp-margin decline to 16.8%. Despite this disappointing quarter, GrandVision is confident to achieve this year its MT targets ("at least +5% FX-n" and high single-digit adj. EBITDA growth).

ANALYSIS

- **Q3 revenue up 2.2% to EUR825m (+4.9% FX-n).** The organic growth of 2.9% slowed down vs. the Q2 performance (+5.3%) since **comparable growth** had suddenly decelerated to 0.4% vs. +3.6% in Q2. The **perimeter impact** amounted to 3.4% this quarter after +3.2% in Q2 mostly thanks to the consolidation of *For Eyes* (US).

- **Adj. EBITDA of EUR139m (-1.9% and 0.2% FX-n) short of CS at EUR151m.** This performance implied a margin contraction of 70bp to 16.8% (CS: 17.6%) as the Group faced an operating deleverage because of the lower level of comparable growth. The profitability only improved in the G4 segment whilst it declined in the other regions ("Other Europe and "Americas & Asia"). Below the adj. EBITDA item, non-recurring charges remained at approx. EUR6m related to integration costs (*Randazzo* chain in Italy) and adjustments of inventory and insurance income.

GrandVision Q3 16 and 9M 16 results:

EURm	Q3 16	9M 16
Net sales	**825**	**2,495**
Reported growth (%)	*2.2*	*3.2*
Comparable growth (%)	*0.4*	*1.7*
Adj. EBITDA *	**139**	**411**
Adj. EBITDA margin (%)	16.8 (-70bp)	16.5 (=)

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

- By region and in Q3 alone: sales in the **G4** segment declined by 2.2% to EUR479m given a significant FX impact (-3.5pp) following the fall of the GBP. The organic growth amounted to 1% and SSSG was only up 0.8%. This represents a deceleration vs. Q2 (+4.8%), explained by high comps in France the prior year. Despite this low comparable growth, the adj. **EBITDA margin** improved 40bp to 21.1%, driven by a higher share of exclusive brands within the sales mix.

EURm – G4	Q3 16	9M 16
Net sales	**479**	**1,492**
Reported growth (%)	*-2.2*	*0.3*
Comparable growth (%)	*0.8*	*1.5*
Adj. EBITDA	**101**	**321**
Adj. EBITDA margin (%)	21.1 (+40bp)	21.5 (+70bp)

Source: Company Data

- Revenue in the **Other Europe** was almost stable at EUR235m (-0.3%) with a slight decline in organic terms (-0.9%) offset by a positive growth from acquisitions of 0.9%. The comparable growth was -1.9%, due to the re-branding of the two Italian businesses (=> ST sales disruptions) and the longer-than-expected integration process that is still ongoing. GV had also to cope with a challenging comparison base in Finland. The adj. **EBITDA margin** decreased 20bp to 18%.

EURm – Other Europe	Q3 16	9M 16
Net sales	**235**	**677**
Reported growth (%)	*-0.3*	*0.8*
Comparable growth (%)	*-1.9*	*-0.1*
Adj. EBITDA	**42**	**104**
Adj. EBITDA margin (%)	18.0 (-20bp)	15.3 (=)

Source: Company Data

- Sales in **LatAm & Asia** came in at EUR111m, representing a 35.3% increase and 12.5% organic growth. SSSG was 4.9% with Turkey coming back to more normalised levels (high single-digit growth) after several quarters above 20%. Mexico and Chile grew at the same pace of growth whilst Brazil and Russia were in low single-digits. The **adj. EBITDA margin** contracted 220bp to 3.1% following dilutive effects from the integration of *For Eyes* in the US.

EURm – LatAm & Asia	Q3 16	9M 16
Net sales	**111**	**326**
Reported growth (%)	*35.3*	*25.6*
Comparable growth (%)	*4.9*	*7.8*
Adj. EBITDA	**3**	**12**
Adj. EBITDA margin (%)	3.1 (-220bp)	3.8 (-40bp)

Source: Company Data

- **Improving Financial Position.** Over the first 9M capex amounted to EUR104m (+6%), explained by store openings (344 ytd to 6,454) and refurbishments. The net debt declined by ~8% to EUR841m, consequently the 12-month rolling net debt/EBITDA ratio decreased to 1.6x from 1.7x at the end of June 2015.

VALUATION

- We expect the stock to be under pressure following these lower-than-expected Q3 results.
- Despite this weak Q3 performance, the Group should be able to reach again this year its MT guidance: **(i)** achieve a top line growth of "at least 5% FX-n" (9M: +6.1%) and **(ii)** an adj. EBITDA growth in the high single-digits (9M: +4.3% FX-n), implying an acceleration in the adj. EBITDA growth in Q4.
- GrandVision's 2017e PEG of (2.1x) offers a significant discount relative to its most direct peer, Fielmann (3.1x).

NEXT CATALYSTS

- FY16 Results will be reported on 20th February 2017.

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

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

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