

## Consumer, Brands &amp; Retail

17th May 2019

## ESSILORLUXOTTICA

| Consumer, Brands & Retail  
| Optical & Eyewear

## BUY

Fair Value EUR128(+18%)  
Share price EUR108.55  
EPS 3Y Cagr 8.1%

## AGM Feedback: Fresh Start?

## An ultimate end of the governance crisis? Only time will tell

At the AGM, top management made a show of unity and spent some time explaining that the truce signed last week end was the only way out from that governance crisis and to now focus on the execution of the MT roadmap now that MM. Laurent Vacherot and Francesco Milleri were empowered with more operational responsibilities.

Is this settlement agreement enough to calm investors' anxiety? Probably not in the near-term in light of the last two crisis (Nov' 18 and Mar '19) and some investors may still fear future strategic disagreements. As an illustration, the resolutions of appointing two independent board directors Wendy Lane and Jesper Brandgaard endorsed by some shareholders, and initially by the employee shareholder group Valoptec before signing that truce, were only rejected by a majority of 56.2% and 65.7% respectively.

EL's answer to this investors' scepticism is to accelerate the integration process, show tangible progress on synergies and post sound operational performance, all of this should take a bit of time of course

## Integration Committee leads by example

As already commented at the Q1 publication, we were reassured by the launch of the first wave of 20 workstreams part of the synergy roadmap (see Fig. 1 next page), confirming that the governance crisis only had little impact on that key MT catalyst. This positive feeling was reinforced by yesterday's brief presentation made by MM. Eric Leonard and Pierluigi Longo who head the Integration Committee and explained its organization (see Fig. 2). With regard to examples of cross-selling opportunities: it was already mentioned during the Q1 call that LensCrafters that would push the new Transitions GEN 8 photochromic lens during the back-to-school period, they also announced that Varilux would increase its penetration at Salmoiraghi & Vigano, the leading optical retailer in Italy owned by LUX. Hence, it bodes well for the CMD (18th Sep) where the Group's synergy roadmap will be presented more in details.

## CEO search: Mr Del Vecchio seems to prefer internal candidates

Whilst the Nomination & Compensation Committee and the two executive search firms have started to review internal and external candidates, Mr Del Vecchio expressed his concern over the CEO search process, as he doubted EL could find a new CEO by the end of 2020. Hence the internal solution, which could be faster, seems to have his preference "no one can do the job better than our employees". Admittedly, cultural differences between EI and LUX partly explain the past governance crisis so hiring an external candidate would imply a higher integration risk since he would not know both corporate cultures.

The reassuring Q1 publication, combined with easing tensions, should gradually provide some relief to investors pending the next key milestones, as shown by the 13.5% rebound since 10th April.

## Market Data

Bloomberg / Reuters	EF FP/ESSI.PA
Market Cap.	EUR47,332m
E.V.	EUR49.270m
Free Float	63,7%
Avg. Daily volume (6m)	970.3
12m high / low	EUR129.0 / EUR96.0
Ytd Perf.	-1.7%

EURM	12/18	12/19e	12/20e	12/21e
Sales	16,160	17,138	18,080	19,337
% Change		6.1%	5.5%	7.0%
EBITDA	3,517	3,689	3,918	4,234
% Change		4.9%	6.2%	8.1%
EBIT	2,572	2,724	2,905	3,169
% Change		5.9%	6.6%	9.1%
Net Income	1,778	1,883	2,032	2,244
% Change		5.9%	7.9%	10.5%
ROE	0.05	0.05	0.06	0.06

	12/18	12/19e	12/20e	12/21e
EV/Sales	3.0x	2.8x	2.7x	2.5x
EV/EBITDA	14.0x	13.2x	12.3x	11.2x
EV/EBIT	19.2x	17.9x	16.6x	15.0x
EPS	4.09	4.33	4.67	5.16
% change		5.9%	7.9%	10.5%
P/E	26.6x	25.1x	23.2x	21.0x
Div Yield	1.9%	2.0%	2.2%	2.4%

**Next Catalyst:** H1 2019 Results on 31st July / CMD on 18th September.

**Last FV Change:**

[2019-3-11. A little bit more patience until September...](#)

**Last Reports:**

[2019-5-8. Management confirms accelerating top line trends as the US will pick up in Q2](#)

Cédric Rossi

33(0) 1 70 36 57 25  
crossi@bryangarnier.com

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**Fig. 1: 20+ priority integration workstreams are centred around six strategic areas:**



Source: EssilorLuxottica

**Fig. 2: How EssilorLuxottica is organized to execute the integration process:**

Layers	Mission / Objective	Cadence
Integration Committee	- Provide strategic guidelines - Identify new workstreams	Bi-monthly
Integration Management Office	- Drive overall integration - Define priorities and track progress - Prepare IC	Weekly
Workstream Owners	- Drive & execute operational initiatives - Review workstream progress - Elaborate recommendations for the IMO and IC	Continuous

Source: EssilorLuxottica

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# BRYAN, GARNIER & CO

## London

Bryan, Garnier & Co Ltd  
Beaufort House  
15 St. Botolph Street  
London EC3A 7BB  
United Kingdom  
+44 207 332 2500

## Paris

Bryan, Garnier & Co Ltd  
26 Avenue des Champs-  
Elysées  
75008 Paris  
France  
+33 1 56 68 75 20

## Munich

Bryan, Garnier & Co. GmbH  
Widenmayerstrasse 29  
80538 Munich  
Germany  
+49 89 2422 62 11

## Zurich

Bryan, Garnier & Co  
Theaterstrasse 4  
8001 Zurich  
Switzerland  
+41 44 991 3300

## New York

Bryan Garnier Securities  
750 Lexington Avenue  
16th floor  
New York, NY 10022  
United States  
+1 212 337 7000

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