



Consumer, Brands & Retail

1st August 2019

GRANDVISION

- Consumer, Brands & Retail
- Optical & Eyewear

BUY

Fair Value	EUR26(-4.3%)
Share price	EUR27.16
EPS 3Y Cagr	7.3%

Alignment of strategy ahead of the future deal with EssilorLuxottica

As expected, management was not very talkative on the deal

During the conf call, management stressed the opportunity to offer the best omnichannel customer experience, thanks to the combination of both store networks which are highly complementary from a geographical and positioning point of view. Unsurprisingly, many questions were on the synergy potential that could be released from the merger with EL, but obviously management refused to quantify it (likewise from EL side), especially as GNVV only joined the discussions early July. Moreover, management did not elaborate on the share of revenue generated by EL (close to zero) and LUX (GNVV being of its largest customer), especially ahead of the antitrust review process.

Digitalization strategy goes full steam...

Since the appointment of CEO Stephan Borchert and the last CMD in 2018, GNVV has accelerated the implementation of its digital strategy, as highlighted by its 2023 target (digital sales to increase fivefold to ~10% of total revenue). In H1 2019, the omnichannel platform was introduced in four markets (Italy, Portugal, Sweden and Denmark) and rolled out online websites in new countries (e.g. Lenstore in Italy), leading to a 60% jump in eCommerce sales this semester. Another illustration of that digitalization strategy was the acquisition of the Dutch DNVB Charlie Temple (Jan '19). Naturally, we expect this journey to continue ahead of the merger since the omnichannel approach is already a priority for EL.

... but weighs on margins

Robust 3.8% comparable growth achieved in H1 could have contributed to a margin uplift thanks to a positive operating leverage, but the latter was more than offset by temporary headwinds (i.e. management transition in the Benelux) but others are more structural such as the dilutive impact from M&A (Tesco Opticians and Charlie Temple) and digital investments, as shown by higher central costs (+59% vs. H1 2018). On a positive note, management guided on a more positive margin development after the 70bp-margin erosion in H1, as some of those headwinds will ease off over the second half (Benelux, opex investments to normalize), whilst the operating leverage will continue to play positively over the period.

Minor adjustments to our FY forecasts

Since H1 sales and margins were fairly in line with CS expectations, we leave our FY assumptions broadly unchanged. Obviously, the significant positive market reaction yesterday was triggered by the announcements on the deal with EL, especially as the transaction cannot be terminated because of a potential superior third-party offer. Consequently, the stock price is now close to the proposed purchase prices (EUR28 and EUR28.42 in case the deal is not closed within 12 months).

Market Data

Bloomberg / Reuters	GNVV NA/GNVV AS
Market Cap.	EUR6,911m
E.V.	EUR7.651m
Free Float	37,4%
Avg. Daily volume (6m)	187.6
12m high / low	EUR27.2 / EUR18.4
Ytd Perf.	42.0%

EURM	12/18	12/19e	12/20e	12/21e
Sales	3,721	3,958	4,155	4,349
% Change		6.4%	5.0%	4.6%
EBITDA adj.	576.4	611.8	651.2	693.4
% Change		6.1%	6.4%	6.5%
EBIT rep.	337.3	365.6	393.5	424.4
% Change		8.4%	7.6%	7.9%
Net Income	216.3	230.6	251.9	275.0
% Change		6.6%	9.3%	9.1%
ROE	0.19	0.19	0.19	0.19

	12/18	12/19e	12/20e	12/21e
EV/Sales	2.1x	1.9x	1.8x	1.7x
EV/EBITDA	13.3x	12.4x	11.4x	10.5x
EV/EBIT	22.7x	20.7x	18.8x	17.1x
EPS	0.91	0.95	1.03	1.12
% change		4.5%	8.9%	8.8%
P/E	29.9x	28.6x	26.3x	24.2x
Div Yield	1.2%	1.2%	1.3%	1.4%

Next Catalyst: Q3 2019 Results on 30th October

Last FV Change:

[2018-1-25, Heading for a better year in 2018](#)

Last Reports:

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Fiscal year end 31/12	2017	2018	2019e	2020e	2021e
Financial Summary					
EPS	0.90	0.85	0.91	0.99	1.08
Restated EPS	0.95	0.91	0.95	1.03	1.12
% change	-1.2%	-4.3%	4.5%	8.9%	8.8%
BVPS	4.10	4.57	4.84	5.32	5.84
Operating cash flows	002	002	002	002	002
FCF	001	001	001	001	001
Net dividend	0.32	0.33	0.34	0.36	0.39
Average yearly Price	22.39	19.95	-	-	-
Avg. Number of shares, diluted (m)	253.29	254.28	-	-	-
Historical Enterprise value (EURm)	6.497	5.807	-	-	-
Valuation (x)					
EV/Sales	1.9x	1.6x	1.75x	1.66x	1.59x
EV/EBITDA	11.8x	10.1x	11.30x	10.61x	9.97x
EV/EBIT	18.9x	16.3x	18.90x	17.56x	16.28x
P/E	23.6x	21.9x	28.61x	26.29x	24.17x
FCF yield (%)	2.6%	5.0%	4.03%	4.62%	4.96%
Net dividend yield (%)	1.4%	1.7%	1.2%	1.3%	1.4%
Profit & Loss Account (EURm)					
Revenue	3,450	3,721	3,958	4,155	4,349
Change (%)	4.0%	7.9%	6.4%	5.0%	4.6%
Gross Profit	2,526	2,717	2,891	3,035	3,177
Adjusted EBITDA	552	576	612	651	693
Adjusted EBIT	344	357	381	409	439
EBIT	327	337	366	394	424
Change (%)	-8.8%	3.2%	8.4%	7.6%	7.9%
Financial results	23	-18	-14	-11	-8
Pre-Tax profits	350	319	351	383	416
Tax	-101	-82	-98	-107	-116
Minority interests	-21	-21	-22	-23	-25
Net profit	228	216	231	252	275
Change (%)	-1.5%	-5.1%	6.6%	9.3%	9.1%
Cash Flow Statement (EURm)					
Operating cash flows	433	475	498	529	562
Change in working capital	87	-16	3	2	2
Capex, net	197	236	218	208	217
Free Cash flow	148	254	278	319	342
Financial investments, net	132	14	99	62	65
Dividends	90	97	100	102	109
Other	2	58	0	0	0
Net debt (+)/cash (-)	825	740	661	507	339
Balance Sheet (EURm)					
Tangible fixed assets	489	517	503	468	432
Intangible assets	1,654	1,616	1,616	1,616	1,616
Cash & liquid assets	165	138	217	371	540
Other current assets	686	647	684	715	745
Other assets	63	97	97	97	97
Total assets	3,056	3,014	3,117	3,267	3,429
LT & ST debt	990	878	878	878	878
Other liabilities	708	682	717	745	774
Shareholders' funds	1,039	1,162	1,230	1,352	1,486
Total liabilities	3,056	3,014	3,117	3,267	3,429
Ratios					
Gross Margin (% of sales)	73.2%	73.0%	73.0%	73.0%	73.1%
Adjusted EBITDA margin (% of sales)	16.0%	15.5%	15.5%	15.7%	15.9%
EBIT margin (% of sales)	9.5%	9.1%	9.2%	9.5%	9.8%
Tax rate	28.9%	25.6%	28.0%	28.0%	28.0%
Net Margin	6.6%	5.8%	5.8%	6.1%	6.3%
ROE (after tax)	21.9%	18.6%	18.7%	18.6%	18.5%
ROCE (after tax)	15.4%	16.2%	17.4%	19.0%	20.8%
Gearing	74%	59%	50%	35%	21%
Pay out ratio	36%	39%	37%	36%	36%

Source: Company Data; Bryan, Garnier & Co ests.



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BUY ratings 48,8%

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