EssilorLuxottica 4Q/FY 2019 Results

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Operator: Hello, and welcome to EssilorLuxottica Full Year '19 Results. My name is Mollie, and I'll be your coordinator for today's event. Please note that this call is being recorded. And for the duration, your lines will be on listen-only. However, you will have the opportunity to ask questions. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Laurent Vacherot, CEO of Essilor, to begin today's conference. Thank you.

Laurent Vacherot: Thank you, Mollie. Good morning everyone. Today, we are in a special configuration to lead this call because of the current travel ban and all that is happening in Europe; the Italian team is in Milan and the French team is in Paris.

So to report on the 2019 figures, we will have, in Milan, Stefano Grassi, Co-CFO of EssilorLuxottica, Pierluigi Longo, Giorgio Striano, and obviously supported by the IR team, led by Giorgio Iannella. And in Paris, I will be supported by Paul du Saillant; Ariel Bauer, which is our new named Co-IR at EssilorLuxottica. Also present is David Wielemans, which has recently been named Co-CFO of the Group.

So as you have seen, the results are quite solid, and I will comment the figure in a few minutes. Let's go to the first slide. I think I have a few key messages on why those results are so good. Number one, it confirmed the strategic rationale of combining the two great leaders in this industry. Number two, the structural decisions that we are taking and have presented at the Capital Markets Day last September in London are making good progress. And also, the two operating companies are performing well and both of them contribute to those numbers.

All of that, as they continue to invest in the future, especially in innovation, product innovation, frame and lenses combined and so on, but also digitalisation of the company and store remodelling to name just a few of them. Also, we continued our acquisition strategy with some bolt-on acquisitions. Just to name a few, Barberini in the summer, and more recently we entered the Ukraine with the acquisition of Optical House.

At this stage, what we can also say is that 2020 looks very promising, and I will comment this a little bit more at the end of this presentation. But we see, obviously, aside from the pandemia of coronavirus that affects us at the moment, we see growth and we see synergy delivery and we see profitability at a good level.

My last opening comment will be on our company mission through which we have delivered vision solutions to 33 million new consumers in total to date. It is important to put this number in perspective – we are now reaching 10s of millions of new consumers annually, the equivalent of adding an entire country to our global market each year. And these 33 million new consumers to give you some perspective, represent roughly the population of Canada. So over the last few years, we, together with one sight and the mission of Essilor, have created a new consumer base that now see better and will be buyers of our fantastic products in the future.

So if we now go to the next slide. The figures here you have seen in our press release this morning. Strong growth with an acceleration in 2019 versus 2018, and an acceleration in the second half of the year versus the first half. A high level of operational profitability, a net profit growing and a solid free cash flow.

On the next slide, you see that we delivered the guidance on all the objectives that we had set ourselves at the beginning of the year. And with that, I now give the floor to Stefano first, and then to Paul who will give you some comments on our results from an operational standpoint.

Stefano Grassi: Thank you, Laurent, and good morning, everybody. Let's go to page 6 of the presentation, where you do have a snapshot of our full year 2019 performance for EssilorLuxottica.

As Laurent reminded, our top line grew for the 12 months of 2019, 7.4% on a current FX basis. Our growth on a constant FX was positive 4.4%. What I would highlight over here is the different velocity between the first and the second half of 2019. In the first half, the Group grew top line on a constant FX basis 4%, while in the second half of the year, our velocity was actually up 5%. So a remarkable acceleration, an improvement of our performance between H2 and H1.

Foreign exchange created some nice tailwinds in our results. In the first half of the year, the difference between constant and current FX was 3.4 percentage points, while in the second half of the year, that tailwind was a little bit slower, 2.6 percentage points. On the overall result for the 12 months, you can see down there on the page, we do benefit 3 percentage point from the 4.4% to the 7.4%. And that is very much due to the strengthening of the US dollar against euro, which in the course of 2019, was about 5.5%.

Now let's get directly into our different geographies, beginning from the most important one, the North America, which I remind you, account for more than 50% of our total revenue. North America grew on a full year basis 3.1% on a constant FX. The nice thing here is that the growth between Essilor and Luxottica was fairly balanced. Both of them grew at the same velocity in our main geographies. And the other nice thing is that if we look at our fourth quarter, we do see an acceleration in our performance at plus 4.3%.

If we now dig into more details of Luxottica, and then I hand it over to Paul for more colour on the Essilor side. There are lot of things to be happy with on the Luxottica side. North America posted, in 2019, the best quarter – the best year actually since 2015. The fourth quarter in North America was actually the best for Retail. The fourth quarter in 2019 was actually the best for Wholesale.

The Wholesale division posted high single-digit growth rate in the fourth quarter. Very much all the channels that we have in North America, whether the independent channel, which you know, accounts for slightly less than 50% of our customer base, or a top of key accounts, our department stores, our e-commerce website partners, were all solid positive in North America during the fourth quarter. So a nice way to close out the year in 2019 for our Wholesale in North America. And the growth in itself was very much driven by volume.

If we now move to Retail. Retail was mid-single digit on the fourth quarter. LensCrafters, our optical leading brands were actually on the best quarter of the year during Q4. We had a very solid insurance week, which is really the last week of the year. And the growth in itself was very much driven by price mix, in particular, on the lens side of the business. And that is very much the result of the lens penetration that very much are due to the partnership and the synergetic work that is done between Essilor and Luxottica to really enhance the quality of the product that we sell every day in LensCrafters.

We do continue to see higher penetration of photochromic lens. We do continue to see a higher penetration of progressive lenses. The Blue IQ coating lenses now represents about a third of the total lenses that we sell in LensCrafters.

Last but not least, the continued penetration of Oakley and Ray-Ban authentic lenses. It's an improvement that we continue to see month-after-month, quarter-after-quarter. Last two sentence on North America. E-commerce, you see down on the page, plus 27% growth rate on a constant FX basis, a remarkable performance of our e-commerce division. Q4 was the best quarter of the year. We were double digits in ray-ban.com. We were double-digit in oakley.com. We were double digit in sunglasshut.com. So a really nice way to really close out the year for our dot-com business.

Before I hand it over to Paul, just a last remark on the Oakley brand. Our iconic brand that leaves a very important year in 2019. To remember, in the month of August, we announced the partnership between Oakley and the NFL, the National Football League in North America. Since the announcement, we see a lot of momentum in North America, a lot of the enthusiasts of – around the Oakley brand, and we also identified a testimonial for the Oakley brands. And that is the guy that you see on the front page of our presentation, that guy is Patrick Mahomes. He's the Kansas City Chief quarterback.

And the Kansas City Chief is actually the team that won the Super Bowl few weeks ago in Florida. And guess what? Patrick Mahomes, the Oakley testimonial, has been named MVP player for the league. So we got a lot of visibility of our Oakley brand, and we're truly happy for the success that Oakley and Patrick were able to achieve in 2019 and 2020.

With that, let me hand it over to Paul for more colour around the Essilor performance in North America.

Paul du Saillant: Thank you very much, Stefano. So a bit of colour on the Essilor activity. And before talking about North America, let me take two minutes to talk you through the business performance of Essilor overall in 2019.

You saw a constant FX growth rate of 5.8% for the full year. But like it was pointed rightly by Stefano, I want to insist that we had an acceleration of more than 100 basis points from the first half to the second half. And that acceleration, that growth came from all our regions and all our division businesses.

So the organic growth that is underlying this dynamic is built on a few very clear and important pillars, as you know. First, the product innovation, and 2019 was a very active year on that front with Transitions GEN 8, Eyezen Start, the Blue Capture category, just to name a few. We had very strong volume growth in Eyezen, and of course, in the instruments, the new Vision-R 800.

The second pillar is the category development through a large product offering covering all consumer needs. Third, our partnership with independent ECPs and key accounts through programmes, like in the US, Essilor Experts, covering now close to 6,000 practice. Digital initiatives, including our e-commerce platforms and supporting the growth for demand, a network of interconnected plant and lab at the heart of each markets.

So now, over to North America and slide 6. Looking at the fourth quarter, it was a solid growth for all activities, and including specifically the lens. Only a few months after the launch of Transitions GEN 8, we achieved a conversion from the GEN – 7 generation to GEN 8 across all the markets in the US, close to 90%. Great execution by our teams.

We expanded the Essilor Experts and Doctor Alliance Programme, finishing with over 5,000 practice in this programme, targeting to deliver the best eyecare and vision correction to consumer.

Another key area in the US or focus of our team was on the digital side, which is more than just e-commerce and digital marketing. As we shared on 25th September in London at the CMD, our goal is to connect our 100 million unique visitors on our web properties to our leading retail ecosystem made of over 10,000 stores and e-commerce capability in order to improve the consumer awareness and access to a good eyecare solution.

Finally, in the US, we had a good solid performance from our Sun & Readers activity, including in the fourth quarter, driven by Costa, which now, as you know, has been integrated in the grand portfolio of Luxottica Wholesale, following the Integration Committee decision.

So Stefano, I hand it back to you for Europe.

Stefano Grassi: Thank you. Thank you, Paul. And just a quick touch on Europe. The overall performance for the full year is on the mid-single digit territory for EssilorLuxottica.

On the Luxottica side, we are on the low single-digit territory on the fourth quarter. A couple of things to highlight on the Wholesale side of the business. We had solid growth in some of the countries that are actually located in the Southern part of Europe, namely Spain, Portugal, Greece. But we also experienced solid growth in United Kingdom and double-digit growth in Turkey and Eastern Europe.

So there are a couple of important assets that we have in Europe and we continue to leverage, one, it's very well-known, is the STARS programme that continue to boom in this part of the world. We exceeded the 10,000 doors recently, and more than 20% of our total revenue in the Wholesale in Europe are generated through the STARS programme.

Now if we look at our Sun business. In the fourth quarter, we continue to see a strong growth in the business there, and that is very much instrumental to our performance in Europe. The other important growth driver in Europe is very much Retail. Retail is positioning on another quarter of growth. And if you just look at our history here, we are in the 24th consecutive quarter of growth in Europe.

Sunglass Hut business, very solid across all the countries, double-digit growth rate for Sunglass Hut. Last but not least, our Salmoiraghi & Viganò country, which delivered another year of growth, and in particular on the fourth quarter, was solid positive.

With that, let me hand it over to Paul.

Paul du Saillant: Thank you, Stefano. So Europe on the Essilor side, very good year, strong fourth quarter. All activities performing well, lens and instruments in particular, leveraging the new product innovation. I named some of them in my introductory words, so I won't repeat them.

But, clearly, Europe is best-in-class at taking the innovation of the Group, the brand of the Group and driving them into the market with our independent practice partners and key accounts.

For Lens, this was in the progressive lens territory, in the blue light category with the Eyezen, contributing to the double-digit global volume growth for this brand. We had Eyezen global volume of plus 30%. It's a new category, very promising. In Instruments, the beginning of the deployment of the new phoropter VR800, which is going to revolutionalise the eye exam.

From a country standpoint, as always in Europe, some contrast. Growth driven by very good performance in key markets such as France, Northern Europe, Southern Europe and Eastern countries, a bit more flat in the centre of Europe. And solid growth, including the fourth quarter in the e-commerce activity, driven by VisionDirect.

Moving to Asia, Oceania, Africa and slide 9. Revenue for the quarter was up 5% for EssilorLuxottica.

On the Essilor side, strong growth in the Lens and Instrument division, China being the major contributor of that growth with branded lenses, but also strong growth in the mid-tier offers, close to 15% growth for our lens activity in China in 2019.

And part of this activity is focused on investing in myopia control, and we are starting to see the benefit of this focus as we prepare the ground for a major launch in the second quarter of 2020 in China with a very disruptive innovation in lens design.

Bolon had a great year, including the last quarter. And we are pleased to report double-digit growth for the business. Other markets in the region did well, including Southeast Asia, South Korea and Japan. So these are a few comments on Essilor side.

Stefano, I hand it back to you.

Stefano Grassi: Sure. Thank you, Paul. And so moving to the Luxottica side. Well, I got to tell you, in this part of the world, we did have a couple of challenges in 2019.

First of all, we experienced a slowdown on our traffic on our Travel Retail, and that was very much true for this part of the world, in particular. The second thing that we observed is especially during the second half of the year, we had severe protests that impacted Hong Kong, all of you know the political turmoil that took place over there, and that caused kind of a slowdown in our performance, especially in the B2C side of Hong Kong where our core footprint experienced double-digit negative traffic for several days. And this trend, unfortunately, is still continuing on 2020.

On the positive side, when we look at our Wholesale division, we had a very solid performance in Mainland China. And this is something which we need to feel very proud of. As you may remember a couple of years ago, we undertook an important repositioning of our business. And now, couple of years after, we continue to benefit from that strategic repositioning in Mainland China.

We also opened a new subsidiary in the Middle East, and we can already benefit the successful results of that direct presence in the Middle East. We had a solid performance in India and Southeast Asia, in Israel as well as in South Africa.

If we now quickly touch our Retail performance. There's a couple of things on which I think is important to highlight and kind of give you a flavour for two robust assets for us. One of them is our performance in Mainland China for the largest store footprint that we have over there, Ray-Ban. We have about 140 stores over there. And if we look at their performance during the last quarter of the year, our comp sales were actually up 6%. And that growth was very much balanced between volume and price mix, so something that which we're very pleased about it.

Last but not least, it's something that you already know. Our optical retail performance in Australia was solid positive once again, and quarter-after-quarter, we continue to see growth in volume, growth in AUR, growth in doctor appointments, growth in multiples. So the overall underlying KPIs continue to trend on the positive territory.

But now let's go to another, what I would define a fast-growing region, that is Latin America before I hand it over to Paul.

Latin America delivered a year very close to double digits, 9.5% top line growth on a constant FX basis for EssilorLuxottica. If you look at the fourth quarter, we do see a deceleration in that trend. We were around 4% still on a constant FX. If we talk about Luxottica, that's where the deceleration comes from. And we have a couple of challenges in this part of the world.

On one side, we experienced the protests that took place in Ecuador and Chile during the course of the fourth quarter. We had several days on which our stores were closed and that clearly created some disruption during our fourth quarter. The good news is that as we approach 2020, that trend is now reverted. So we are in a positive territory on GMO. We are in the positive territory in Chile and in Ecuador. And we are on track to be back where we need to be from a GMO standpoint from an optical and sun Retail standpoint in that part of the world.

The other challenge that we experienced is the Mexico business. We did see a deceleration of our trend during the second half of the year compared to the first half. We saw Retail being more promotional than ever in Mexico, and the overall economy is a bit slowing down in that part of the world.

But on the positive side, we continue to see strong performance in Brazil. The overall performance in Brazil for Luxottica was in the high single-digit territory, with solid results during the last quarter. We look at our Óticas Carol business model, and we report that approximately 200 new franchisees joined Óticas Carol business model, witnessing the fact that we have a very successful business model.

The other important assets are Retail in Brazil. We look at our Sunglass Hut on the fourth quarter, we comped at a high single-digit territory. We look at Oakley, we were solid positive. And all of that, it really makes a compelling story for our Retail footprint in Brazil.

But now let me hand it over to Paul that will give us a little colour on this part of the world. Paul, please?

Paul du Saillant: Yes. Thanks, Stefano. So Latin America, a great year, a great quarter, which follows a very strong 2018, that is two years in a row where we have a very good dynamic.

On the Essilor side, half of our Latin American business is in Brazil and half outside of Brazil. And solid performance was across the region in lenses with a little bit, Stefano, like you said, of a slowdown in the Q4 in Brazil because of the preparation of the launch of GEN 8, Transitions

GEN 8, which is happening in the first quarter of 2020. But that was a small and rational deceleration, but actually as we see the year starting on the Essilor side, we also have a very good start in 2020 in LATAM, including Brazil. So solid performance across the region in lenses.

Of course, we have punctually been through some difficult time in Chile, but that is now behind us. In Mexico, a new partnership, a very important partnership with Devlyn, the leading optical chain in Mexico, has been bearing fruit. We created a lab for them to support the growth of their retail activity. And this is driving double-digit growth in Mexico.

In e-commerce, which is a small base in LATAM for Essilor, mainly in Brazil, we have now a strong growth and acceleration in this capability. But this is the beginning. So a great year for LATAM. A very good start of 2020 for our activity there.

Stefano, I hand it back to you for the consolidated profit and loss statement.

Stefano Grassi: Absolutely. Thank you very much, Paul. And let's have a look at our profit and loss results on Page 12 of the presentation.

What you're seeing here is our 2019 results compared to our 2018 full year pro forma restated as per IFRS 16. I won't comment our top line, as we already discussed that in the previous page, but I will focus here more on our profitability profile for 2019 compared to 2018.

On a gross profit basis, you're looking at 40 basis points dilution on a current FX, while if you exclude currency fluctuations, you're looking at about 50 basis points dilution on our gross profit. Couple of readings here. On one side, we do experience some slight dilution due to our insurance business in North America. While on the Essilor side, we kind of have a mixed effect.

On one side, we have the positive impact of the profitable launch of Transitions GEN 8 lens that was more than offset by the fast growth of our online contact lens business, as well as the growth that we experienced in our Sunglass & Readers business.

If we look at our operating expenses, I would say pretty good results here. The OpEx are down 40 basis points compared to 2018 level on a constant FX basis. That is very much due to our strong cost control. Our G&A was slightly more than flat on a full year basis, still on a constant FX basis. And our selling expenses were slightly reduced (as a percentage of sales) very much in line with the progressive reduction of our store footprint in Sears Optical in North America.

And just as a reminder, we took the decision to exit from the Sears Optical business as of 1st February 2020. So overall, our operating profit, it's flat on a current FX basis, 20 basis points dilutive on a constant FX.

If we look at below that, on a net profit basis, you're looking at 10 basis points accretion of our net margin at 11.1%, and we are flat on a constant FX basis. Couple of readings here. On one side, we continue to see a lower cost of debt throughout 2019. We have the repayment of outstanding debt at a high interest rate, which has been replaced with lower – with new debt at lower cost of funding. And the other one, as we largely expected at the beginning of the year, we deliver an improved tax rate, which was actually down about 100 basis points compared to the 2019 level.

But now on the next page, you just see a recap of where are we on a free cash flow basis and our proposal for dividend. Those bullets are very much commented on the press release.

So in the interest of time, I will hand it over to Pierluigi that will give us a little bit more colour with respect to the integration process. Pierluigi?

Pierluigi Longo: Thank you very much, Stefano, and good morning to everyone. I'm very pleased to be here today to give you an update on the results of the integration process, which started almost 12 months ago and that, in its first year, has generated very good results. This is thanks to the hard work of the integration team, which is, as you know, is led by Eric Leonard and myself and the support of the entire organisation, which put a lot of efforts in delivering the synergies.

So that today, I'm happy to confirm that the initial range, which was announced in the Capital Markets Day over €300 million – between €300 million and €350 million to be achieved by '21 is confirmed. And similarly, we can confirm also our commitment to reach between €420 million and €600 million by '23.

2019 results are also in line with our expectation. This is due to a number of activities which have been started in '19 despite the soft start. There are a number of initiatives and workstream which have already generated strong and solid economic results and others which are still undergoing, which will generate results in 2020 but have built the foundation for acceleration of the integration exercise in the following years.

If we focus our attention on the ones which are more relevant in '19, for sure, as Stefano mentioned before, the penetration, the expansion of Essilor lens assortment in our Retail network has been very productive. As of today, all our Retail banners across the geographies have Essilor lenses in their assortment.

There is an increased penetration of high-value and advanced technology lenses in our Retail banners. So photochromic, progressive and all the other, let's say, the key brands of Essilor are very well received by our customer base. We have also launched a number of initiatives on cost control in order to optimise the way we interact with our suppliers, so in direct procurement and indirect procurement, we have renegotiated most of our contracts with the key suppliers in order to leverage on best practices and making sure that we're able to align best terms and save money.

So this has had very well results in the direct procurement. Indirect procurement is accelerating, and we're going to see more in 2020. We have also started our activities to unify our prescription laboratories. As you know, before the combination, Luxottica had its own footprint, Essilor had as its own, but we are now working in order to make sure that we can leverage on both, making sure that we can serve our customer in a better way.

Also in the in-sourcing, we made a lot of efforts and we see good results. So we tried as much as possible to move services and products which were outsourced to third parties into our own business. For example, we made very good results with the integration of Costa, which was previously produced by third parties and now it's completely managed by the Luxottica organisation.

Obviously, these are the key ones which generated economic results in '19, but a lot of other initiatives have been started, which are, let's say, not necessarily linked to the financial opportunities but are very much important in order to build as a single organisation and to create the foundations for the future.

So we are working on a single IT platform, which would be rolled out across the company. There is a pilot in Italy. And as soon as this is going to be up and running, we're going to replicate a mirror data in other key countries. We keep working on the creation of a single network of prescription laboratories in order to optimise and make more efficient our integrated supply chain.

As we discussed at our Capital Markets Day, there are a lot of efforts and a lot of work on the creation of a single platform for complete pair of branded glasses, leveraging on Ray-Ban – first of all, Ray-Ban and Oakley, as Stefano mentioned before, this is an initiative, which is up and running very successful in our Retail network, but we want to make it broader and expand it and make it a success also in Wholesale.

We started the integration of Costa in the Luxottica brand portfolio, and we launched a common employee shareholding plan in order to make sure that all our employees across the world are part of the new Group.

Now let me move on the GrandVision opportunity, which was announced in July '19, which is another important project of our Group. As of today, we have received unconditional clearance in the US, Russia and Colombia. We started very soon, immediately after the announcement, to work on antitrust procedures. So this is a very good result.

In EU, we are in phase two, which is the similar process that we experienced during the combination of Essilor and Luxottica. And the transaction is still under review in Brazil, Chile, Mexico and Turkey. On the basis of the conversation that we're having with the authorities, we are pretty confident to be able to close the transaction in the time line that was announced at the time of the GrandVision announcement. And we're very pleased also to hear about the good results that the company posted in '19, which confirmed the solid strategic rationale of the transaction and we look forward to closing the deal as soon as possible in order to start to work together.

And with this, I hand it over back to Laurent for – to conclude the presentation.

Laurent Vacherot: Yes. Thank you Pierluigi, Stefano and Paul for all your comments. So as you have seen, the Group is performing very well, and the prospects are very good for 2020. Pierluigi explained how the integration team and synergy delivery are in progress and how we are building together the solid foundation for this wonderful Group.

We expect the GrandVision transaction to close in the future. The pandemia of coronavirus pushed us to build a guidance, which is larger than usual, because of the current uncertainty. What we can say, at this point in time, is that in China, we see a recovery of our plant production which is now almost back to normal.

Obviously, the market is not yet there. We don't see major effect outside of China at the moment, except in South Asia. So this is why we have put this – assuming that this pandemia resumes in the next few months, we have projected sales growth between 3% and 5%, adjusted operating profit between 0.7x and 1.2x sales and adjusted net profit between 0.7 and 1.2 of sales.

So having said that, I think we will open the Q&A.

Questions and Answers

Operator: If you would like to ask a question, please press star one on your telephone keypad and ensure that your telephone line is unmuted locally. You will then be advised when to ask your question. The first question comes from the line of Elena Mariani calling from Morgan Stanley. Please go ahead.

Elena Mariani (Morgan Stanley): Hi. Good morning gentlemen. Thanks for taking my question. I'm going to start with your guidance and the moving parts underneath the top line and profit outlook. First of all, on the synergies. I understand you're still committing to €300 million to €350 million by 2021. But how much should we assume specifically for 2020? Is it half of this amount, less than half? And how much are you reinvesting, because your profit guidance, in my opinion, assumes quite a big chunk of reinvestment of these net synergies? And still on the guidance. Could you isolate the effect of the coronavirus, which specific assumptions you're taking on the first half of the year versus the second half for China, Asia, Europe, Travel Retail? Is there a sort of quantitative effect that you could share with us, please? And just in essence, for the guidance, is it reasonable to say that without the virus, your guidance could have been in line with the medium-term one you provided at the Capital Markets Day? Second small question is about the fourth quarter. Could you share with us the like-for-like of your business, specifically for Luxottica Retail, LensCrafters, Sunglass Hut? I haven't seen it in the release. And maybe clarify what was organic growth for the Lens business as well because it has slowed down a little bit versus Q3? I guess it's because of the comp base getting more difficult, but maybe you could clarify? And then the final question is on GrandVision. I just take the chance to have Pierluigi on the line. And I wanted to better understand your level of confidence on the closure of the transaction. There has been quite a lot of chatting and we read a statement from the antitrust regulator. I understand you cannot comment in detail, but I think you have been quoted in saying that you would not accept any potential behavioural remedies that could compromise the implementation of your strategy. So could you clarify your positioning, and, in general, comment on the level of confidence on the deal closure? Thank you.

Laurent Vacherot: A lot of questions. So on the last quarter, I will let maybe Stefano cover that. On GrandVision, maybe Pierluigi, you will cover that. On the guidance – and yes, we are reinvesting. We are reinvesting both in Essilor and both in Luxottica. And the impact of the coronavirus, I guess, without coronavirus, I guess, the guidance would have been in line with the long-term guidance we gave at the CMD. So having said that, Stefano, maybe there is a question on the like-for-like performance, specific for Luxottica Retail.

Elena Mariani: Maybe just before moving on that one, what is the synergies that you're assuming for fiscal year '20 out of the €300 million to €350 million that you are committing to deliver by 2021?

Laurent Vacherot: So that, Pierluigi, you may have a little bit more colour on that question. So Pierluigi and then Stefano, right?

Stefano Grassi: Yeah. I will probably just step in, Laurent, and just give a little bit clarification and colour on top of what you just clarified on the guidance, which will obviously encompass also a touch on synergies. So once we look at our synergy number for 2020, we do have a plan to double those synergies compared to the 2019 level. That growth of synergies is very much in line with our expectation that was portrayed at the Capital Markets Day, the €420 million to €600 million over the medium term, of which 60% of those synergies will be delivered by 2021.

So Elena, the path and the trajectory of our synergy delivery, it's very much on line with what we were expecting at the CMD, and it's very much confirmed as we speak. In 2020, you have an important dynamic that is going to happen on a profitability basis. You have a vast majority of those synergies that are reinvested into the business. And I'll give you a couple of examples that really help you to put things in perspective and to really better understand the profitability dynamics that will impact 2020.

On one side, we will continue to invest in marketing more and more in 2020. We're going to take the NFL investment partnership with Oakley to the next phase. And we've already seen how successful and how important are the returns for the Oakley brand with that partnership. We're going to take that to the next level. We're going to have a major investment on the Tokyo Olympics under the assumption that obviously the Olympics will be held in 2020.

And Oakley would be a brand that will get a lot of visibility over the Olympics. We know how to do the job, and this is something that is going to be very important for our brands. You have already seen the partnership announced with Millie Bobby Brown for Vogue Eyewear. We're going to support the launch of new lenses and new product introduction on the Essilor side.

So we're going to boost further our marketing investments. Again, we're investing some of the synergies that we just discussed before. Additional investment is going to be made in the diversification of our manufacturing footprint.

A third area of important investment for us, which is primarily CapEx but also OpEx, is the continuous and widespread renovation of our store footprint in the different regions. And just to give you one simple example, we're going to undertake a major renovation on our LensCrafters stores, many of them needs to be now up-to-date with the latest and greatest technology. And we're going to undertake that renovation plan, which is unprecedented for LensCrafters brand in 2020, and will be carried forward in the next couple of years.

So the dynamic that you're going to see, Elena, it's really going to be a balance between the synergy delivery, right on track with our expectation, and reinvesting the vast majority of those synergies to further nurture our brands, to further nurture our future growth.

Now with respect to the comp sales on the fourth quarter, you're looking at flattish number overall for Retail Luxottica.

With the question on GrandVision, I hand it over to Pierluigi.

Pierluigi Longo: So Elena, with respect to the antitrust process, there is nothing new. We are working very well with all the authorities. We are responding to all their questions. There are solid analyses which have been put together and submitted to all the relevant authorities.

Obviously, this is a complex process, which requires a lot of interaction, a lot of questions and answer back and forth. So this is very similar in an event of what we experienced during the combination with EssilorLuxottica. So with respect to your specific question on the closing, we do not have any reasons to believe that the closing will not occur in the way we are envisaging it. And we do not see any reason for remedies, which could deviate, which could change the economic and strategic rationale of the transaction.

Elena Mariani: Okay. Thank you very much. Just two more follow-ups. The number one is on the Lens business in Q4 and about the slowdown, whether that was just related to the more difficult comp base? And then going back to the like-for-like of Luxottica Retail, is there any effect from like less retail days in the quarter, or is that just like an apples-to-apples like-for-like? Thank you.

Laurent Vacherot: Yes. So Paul, maybe on the like-for-like Q4 for the lens business?

Paul du Saillant: Yes. Behind the little slowdown that you see in the Lens business, the Q4 versus the full year, it's actually linked. It's not a like-for-like deceleration. Actually, the like-for-like is constant or slightly growing. But it's actually the perimeter effect, the bolt-on effect that's linked to the GrandVision acquisition. We slowed down the pace of acquisitions, the M&A activity in the second half, which means the perimeter effect in the Q4 is lesser than it was in the quarter before. So this is the main driving factor on the total growth deceleration that you referred to. So like-for-like actually was robust despite a little slowdown in Europe, which had a base effect from the year before, which was quite tough to compare to. That's what is behind it.

Elena Mariani: Thank you. Very clear.

Stefano Grassi: To answer the second part of your question, Elena, with respect to the Retail business. Yes, we did have a bit of a calendar shift which impacted optical Retail, in particular, in North America. We have, from a comp sales perspective, one less insurance day to be accounted for in the fourth quarter. That last insurance day is going to be recovered – it's actually recovered already in the first quarter of 2020.

But again, it's pure for our comp sales calculation, which, as you know, run on a fiscal calendar. While from a sales growth standpoint, there is no really change as we run on a Gregorian basis. So the good thing, as I said, is that if you look at the overall underlying performance, especially on LensCrafters, it's very positive at the end of the year. And on a normalised basis, it's very positive on the first quarter 2020. The impact of that calendar shift accounts for about 0.5 percentage point on the fourth quarter, and I would say, fairly marginal on a full year basis comps.

Elena Mariani: Great. Thank you very much to all of you.

Laurent Vacherot: Thank you. Next question?

Operator: The next question comes from the line of Julien Dormois calling from Exane BNP Paribas. Please go ahead.

Julien Dormois (Exane BNP Paribas): Hi. Good morning all. Thanks for taking my questions. One is – and I'm sorry, I'm not going to be very original here. But it comes back to the coronavirus impact. I think that the guidance you presented this morning is quite solid given the circumstances. Would you be able to, maybe, discriminate between when you expect from – coming from M&A, because if my math is right, you would probably be getting about a 1 percentage point from M&A into 2020 based on the acquisition you have already announced. So is that fair to say that your organic growth guidance would be to the tune of, let's say, 2% to 4%? So is that a fair statement? Secondly, I'm also interested in the discrepancy between what I see as a pretty solid top line guidance. Maybe there's a slightly disappointing bottom line guidance, which, if we take the midpoint implies a slight margin dilution. Does that come from coronavirus? And the same question then before about – without the coronavirus, could we have seen a flat to slightly up margin in line with the mid-term guidance? And the last question is on – is a housekeeping one, back to the question on like-for-like growth. Would you be kind enough to provide us the numbers for the Wholesale division of Luxottica, because I think Barberini has an impact here. And it would be extremely helpful if you could give us that comparable number also for the three divisions of Essilor in Q4.

Laurent Vacherot: Thank you, Julien. So I think at this point, it may be important or interesting that maybe Paul and Giorgio Striano, make a comment about what is exactly happening and what we see at the moment as far as the coronavirus is concerned.

Giorgio Striano: Thank you. So from Luxottica investor footprint, I will say that we're running at a good pace. In this moment, the Chinese factory are going in towards 90% of their capacity. We had just at the beginning of February, just a few days of stoppage because of the instructions from the local government. But I will say thanks to the strong local and expert management team in China, we were able to guarantee the safest condition for our people. And therefore, we were in the position to restart the factories.

We restarted around 50% in the – by the end of the first week of February, and now we are going into the – over the 90%. And it's stable, and we have good confidence to continue to grow and overachieving the 100% in the next two weeks. At the same time, the Italian plant are running at full speed. We moved production from China to Italy in order to recover quickly. We moved production from China to Brazil in order to recover quickly. And all the logistics network is running, no issue, no trouble. And also all the lab in the Luxottica perimeters are running very well at this moment.

Paul du Saillant: Well, on the Essilor lens manufacturing and prescription lab situation, it's very much the same tone as the one that you heard from Giorgio, meaning that we had in the beginning – end of January, beginning of February, a clear, a strong slowdown of our manufacturing, certainly during the Chinese New Year extended period.

And then as from the second half of February, we have been ramping up the production in our mass manufacturing and the lens production, as well as our lab in China. And we are very much in the same range as the one commented by Giorgio, meaning in the 80% to 90% plant utilisation, plant loading in China.

Now during the whole month of February, we did leverage the network of plants that we have in Americas, in Europe, in Thailand, in Philippines. We were able to leverage those plants for the lens and both for finished and semi-finished lens supply. And our large labs that we have in Mexico, in Poland, in India, in Thailand were running at full capacity, and we were able to leverage the full interconnectivity of our labs, including the interconnectivity with Luxottica labs.

And so we have been able to manage our way in term of supply, but so far with no issue because of this global footprint and interconnectivity. So this is where we are. I should also mention that we have been extremely rigorous on both sides, on the safety aspect, on the people safety aspects, anticipating both in China and outside of China all of the right policy and to protect our people and make sure that we don't have issues. So that had been also extremely carefully managed on both sides.

Laurent Vacherot: Thank you, Paul. What we can add as well is that we, obviously, EssilorLuxottica supported the Chinese population by many means, donations to charities as well as donations in kind, like protective goggles for doctors, police men and women and also providing masks because the key challenge at the moment in China is providing masks to protect the population.

Going back to the question, Stefano, on the organic and acquisition and on the Luxottica, and then I will elaborate a bit further on the reinvestments that we are making on both sides of the company.

Stefano Grassi: So from an M&A perspective, there is no material impact on our growth rate profile that has been disclosed.

With respect to the expected growth rate that we do have for our Wholesale division in 2020, first of all, let me say that the Barberini impact, it's very much immaterial with respect to our Wholesale business. Remember that more than 50% of the Barberini revenues are very much intercompany revenue, so the true contribution is fairly immaterial. We do expect, in that respect, our Wholesale business to grow on a low single-digit territory for the full year 2020.

Laurent Vacherot: Yes. And on the Essilor side, there is 0.5 point, maybe the impact on growth for EssilorLuxottica for M&A will be 0.5 point.

On reinvestments. That's an interesting question because there is, on the Essilor side, at least three major programmes where in the last few years we have invested, and these will start to deliver in 2020. There is the topic of myopia and myopia management where, as mentioned by Paul, there will be a great innovation that will be developed and implemented in China. This is more likely to take place in Q3 now, as hospitals in China are either closed or dealing with the coronavirus at the moment.

But it's a very promising solution with eyecare to help myopic people to see well and to slow down the evolution of myopia. There is the whole digitalisation program that Paul mentioned as well, where we will see, in 2020, the first implementation in a few hundred stores.

This might be new to you, but we have developed, at Essilor, a competitive solution with equipment, optometric equipment and lenses to deliver a much more precise prescription, the measurement of the eyes and lenses in order to improve the vision of consumers all over the world. This will be implemented in an initial 1,000 stores in 2020.

These initiatives require significant investments, which we make from the synergies to develop the business for the mid-term. There are also a few headwinds, like the implementation of new trade tariffs, as a result of the relationship between China and the US that we will have to support. And these elements on top of the uncertainty because of the business itself in China that, at the moment, is not performing as usual. This led us to have such a wide range for our operating profit guidance.

Julien Dormois: Okay. Sorry, just a quick follow-up then on the profit guidance. Here again, would you say that without the uncertainties on coronavirus, then your 2020 guidance for profit growth would have been broadly in line with your mid-term expectations?

Laurent Vacherot: Close to.

Julien Dormois: Okay. Thank you guys.

Laurent Vacherot: If you put coronavirus on the side, the company is doing what we said we would do. As Pierluigi mentioned, on the pace of the integration, the synergy generation and the acquisition strategy. Obviously, it is quite difficult to estimate the impact of the coronavirus. So far, the impact in terms of overall sales exposure is limited to China, which represents only 5% of group revenue, clearly much lower than some other companies that often generate 30%, 35% or more of their sales from China. Anyways, this is where we are now, and we will be able to give you an update on the situation in two months when we do our investor call for the first quarter.

Julien Dormois: Okay. Makes sense. Thank you.

Operator: The next question comes from the line of Francesca DiPasquantonio calling from Deutsche Bank. Please go ahead.

Francesca DiPasquantonio (Deutsche Bank): Yes. Hi. Good morning. I have a couple of follow-up questions. The first one is still regarding synergies. I struggle to understand what the shape of net versus gross synergies is therefore likely to be over the next years to 2023 as you are reinvesting, probably more in the short-term for the benefit of the medium-term. Is it correct to assume that your net synergies will be growing much more sizably over the next few years and this year and the next might be still delivering on a net margin expansion level, a lower benefit? I don't know if my question is clear, but I think this is quite important for me to understand. The second question back on coronavirus. Are you seeing – or what kind of impact – we've spoken about China. Are you seeing any major impact in other geographies as well? As it started filtering through, are you expecting a delayed Wholesale business dynamic? And how are you going to manage that from an assortment and inventories positioning? And that's it for now. Thank you.

Laurent Vacherot: Stefano, on the synergy, are you able to answer?

Pierluigi Longo: Laurent, it's Pierluigi. I'm going to take it. I mean, the profile of synergies are pretty much the one illustrated in our presentation and in the Capital Market Day. So obviously, there is an acceleration. We expect an acceleration of the synergies as the time flies by because we're going to – we are going to learn, and we're going to do things in a better way.

As we discussed in the past, there are some limitations in the interim period as such until at the end of '21 due to the governance in place, which might slow down certain initiatives, which we see them – which we see accelerating after that.

But with respect to the investment, which were mentioned by Stefano, those are not necessarily related to the synergy. Those are new available resources that we decided to reinvest in the business in order to fuel the growth of the business in the future. So the synergy pattern will go ahead in any event as we planned.

Francesca DiPasquantonio: So sorry if I am quite direct here. Does it mean we actually don't see anything in 2019 and anything in 2020 in terms of synergies from your guidance?

Pierluigi Longo: No. We didn't say that. I mean, we said that we see an acceleration in 2020. We see twice as much. We expect it to generate at least twice as much what we generated in '19 in terms of net synergy.

Francesca DiPasquantonio: But will we see it on the margin? That's my question. I understand that. But will we see it on margin – on the profit margin?

Pierluigi Longo: In '19 and in '20, we – this is connected with the synergy numbers. There are some investments in the existing businesses and in the future business, which might dilute the effect of the synergies on the profitability.

Francesca DiPasquantonio: Okay. Thank you.

Laurent Vacherot: Paul, maybe on the coronavirus effect? Do we see something in other geography than China?

Paul du Saillant: So I will – Laurent, I will comment for Essilor. And maybe, Stefano, if you want to give some colour on the Luxottica side for the coronavirus impact.

On Essilor side, at this point, meaning early March, the main business impact have been localised in China, where clearly the traffic in the store, in the shopping malls, were way down in February. Outside of China, so far, we have seen a little bit of impact in Asia, namely Singapore, and a little impact in South Korea. And so far, in Europe, we don't see any impact.

So we'll have to monitor and we monitor daily, weekly the dynamic of the market. But so far, on the business impact, it's mainly in China. And we will see in March if the traffic in the store will build progressively. And as Laurent said on the call for the first quarter, we will have a good view on where we are. But that's where we are on 6th March.

Francesca DiPasquantonio: Okay. Thank you.

Laurent Vacherot: Then on the impact in other geographies?

Stefano Grassi: Yeah. I would probably add a little bit more colour on the B2C side of the business. We do continue to see traffic deceleration on a double-digit territory clearly in the Asian part, Mainland China, Hong Kong, and some of our Retail footprint, as Paul explained, is actually trending on the double-digit negative.

Where do we see slowdown? We do see slowdown in some of our Retail operations in Europe, the one that at least more affected by the coronavirus, whether because there is a lack of touristic traffic in certain parts of Europe or because there are specific restriction to mall and therefore that is impacting our Retail store footprint performance.

But just to put in perspective our guidance. As Laurent explained before, the way we portrayed this guidance is to have a low start of the year, first quarter and the first part of 2020 and then progressively improve our performance month-after-month, quarter-after-quarter. That is what behind our performance assumption that we have from a top line perspective.

Francesca DiPasquantonio: Thank you. Thank you very much. Can I actually have a follow-up question, please? And it's regarding the one-offs, and whether with the exception of the goodwill and the intangible adjustments, we should probably see the one-offs reducing over time or the timeframe of the guidance?

Laurent Vacherot: So Stefano, I think this is a question for you about the one-off in goodwill and amortisation and so on.

Stefano Grassi: Well, the – with respect to the goodwill amortisation, you know the number. It's pretty much there.

Francesca DiPasquantonio: Yeah.

Stefano Grassi: I mean it's not going to materially change in years to come. With respect to the other adjustments, if you look at our amount of adjustments in 2019, the biggest one is very much represented by the impact of the fraud in Thailand, which over the €400 million of pre-tax adjustment that you see there represent slightly less than 50%. And obviously, that is not going to be recurring for the years to come obviously.

Francesca DiPasquantonio: Thank you.

Laurent Vacherot: Next question?

Operator: The next question comes from the line of Antoine Belge calling from HSBC. Please go ahead.

Antoine Belge (HSBC): Yes, hi. Good morning. It's Antoine Belge, HSBC. I've got three questions. First of all, I'm sorry about coming back to the synergies, but please understand, this is just reflecting the conversation we have with investors. And there's been already a lot of discussion about the gross versus net. But even on the gross, my understanding is, you said that in 2020, the amount of gross synergies will be twice the amount of 2019. And I don't recall that number. I think maybe in one conference call, it was said that it would be a bit below €50 million. So I don't know. I mean, is it – so if the number was €50 million cost synergy in 2019 and you doubled that in 2020, so that's €100 million. So that it's a big step to get to 2021 at between €300 million and €350 million. So maybe a sort of simple table with the three numbers for the three years would've been helpful. And also maybe dividing what's coming from the top line and what is coming from the bottom line. My second question is about gross margin, because when I look at 2019 actually you did – in spite of zero investment, you did quite a good job in terms of OpEx. But the – there were quite a lot of pressure leading to the 60 or 50 basis point gross margin deterioration. I think you mentioned a few of the drivers. So are there like sort of one-off? What are the – actually, what's the outlook for gross margin in 2020? And my third question is about maybe the search for the new CEO. What's the latest on that? And also in terms of management changes, I mean, we – it's just the fact that we will see more people from the Essilor side leaving then on the Luxottica side. So what's the – how could look the transition phase between now and when the full matter takes place in 2021? Thank you.

Laurent Vacherot: So we have three questions. So Pierluigi, maybe you can continue to explain the synergy profile. And then the gross margin maybe on the Essilor side, Paul will take it. And maybe Stefano on the Luxottica side. And we'll see for the third question.

Pierluigi Longo: On the synergy front, I think that what you described is exactly that how we see that. I mean, there is an acceleration in 2020 on the basis of the good results achieved in '19. As you know, we had a soft start in '19 because the process started later in the year.

There are a number of activities which started immediately other, which were initiated in the first half or in the second half. So in the second half in the 2020, we're going to see, first of all, the full impact – the full annual impact of those initiatives starting in '19. We're going to see the results, economic results on a number of other initiatives, which haven't produced a significant result in '19 yet but are going to be live in 2020.

So in 2020, we believe and see a synergy, very solid synergy patterns with ability of generate more than 50%, between 50% and 60% of the synergies targeted for '21 with, as I said, an acceleration in '21.

Paul du Saillant: Stefano, do you want me to comment on the gross margin on the Essilor side?

Stefano Grassi: Yeah. Why don't you get started from the Essilor side, Paul. And then I'll give some more colour on that.

Paul du Saillant: Yeah. I would say it's the combination of three elements. The tariff element toward the last four months of the year. The second one is the business mix, the profile of our growth. We had strong growth in our Sun & Readers and Online businesses, which are a bit dilutive to the overall gross margin of Essilor.

Also we did support our customers in the period post GrandVision announcement to maintain the good dynamic in Europe. There was some support given to manage the effect of the announcement that came through on 31st July, and that was to be managed during the last months of the year. So these are the elements. And as you pointed out, Antoine and rightly so, we tightly managed the OpEx at that same time managed to protect the contribution margin.

Stefano Grassi: On the Luxottica side, I would say we do expect gross margin broadly unchanged. There's a capital dynamics in there. The insurance dilution that I described for 2019 is going to be carried out through 2020 as well. We're going to experience the full year impact of duties due to the trade war between China and United States.

But this will be largely offset by our price mix, first of all, because of the price mix that we see on lenses and we described before, the benefit of the impact of the synergetic work at Luxottica and Essilor are doing together in our retail floor on the optical side to really enhance the quality and the value of the lens that we offer to our consumer.

And on the other side, we decided to take a price increase, a progressive price increase on a global basis within the next two to three months. The value of that price increase in – it's anywhere between 1 percentage point to 2 percentage points, and that will allow us to kind of hold the margin in that respect.

Laurent Vacherot: So on your last part of your question, the third one, on the CEO search, I mean, not much to say more than what is in the communique, which is that the search is ongoing and we are also considering internal candidates; and the good news is we have a large talent pool inside the company. As an example, the nomination of David Wielemans as a Co-CFO on the side of Stefano, we have an agreement, and both parties respect those agreements.

Antoine Belge: Maybe just to – so if I understand correctly for 2020, in terms of gross synergies, I think you mentioned 50% to 60% of the 2021 number. So if I take the lower end, which is €300 million and if I take 50%, that gets me to a minimum of €150 million worth of synergies in 2020. Is that correct? And then so I understand on Luxottica side, so flattish gross margin in 2021. So is it pretty much also the outlook for the Essilor side, so on the combined level, gross margins and outlook is sort of flattish at this stage?

Stefano Grassi: On synergies, I can confirm that directionally that we're right.

Laurent Vacherot: Okay. So next question I guess.

Operator: The next question comes from the line of Domenico Ghilotti calling from Equita. Please go ahead.

Domenico Ghilotti (Equita): Good morning. Three questions. The first is a follow-up on the coronavirus, in particular. So looking at what's going on here in Italy, I'm trying to understand what kind of assumption you have made on the Retail part of the business. So you were mentioning some double-digit decline in the traffic. I'm trying to understand if you are assuming probably not any kind of similar impact moving to the US? And if you can be maybe can provide some more colour on this double digit, and together with this, also maybe your exposure to Travel Retail? That is another very affected area. Second question is on the free cash flow and CapEx. I'm trying to understand if the reinvestment that you are talking about are, in some way, diluting the free cash flow and CapEx compared to the – so say changing the free cash flow and CapEx compared to the 2019 level. So we should expect more CapEx or similar and lower free cash flow or similar? And third is on the – an update on the retaliation situation. So if you have – you were mentioning in the call that Central Europe was a bit softer compared to the rest of Europe in terms of performance of the Group. Is it related to any kind of retaliation? How do you see the situation evolving? Thanks.

Laurent Vacherot: So on the last part of the question, maybe Paul you can elaborate on that. And then on the impact of coronavirus in Italy, Stefano will take it, maybe also the CapEx discussion for 2020. So Paul, maybe –

Paul du Saillant: Okay. Yes. As we said previously, following the GrandVision announcement, we have been extremely close to our customers during the second part of the year – in the period from September to the end of the year with road shows in Europe, namely animating the market with our innovation, with our brands. That is the first part of my answer.

I commented on the Europe performance earlier, which was quite fair in the end of the year, and which is starting 2020 in a good way. So we don't see too much retaliation effect.

What is most important is the activity that we have with our key customers around new products, with the launch of a Transitions GEN 8 in Europe, which is just starting, and with the new progressive lens Varilux Comfort Max. We also have new tools, the new instrument, Vision-R 800.

So I think that is the best answer to be animating the market, giving good tools to our customers and also reinforcing the partnership programmes. So far, as I said, Europe has had an okay start to the year. LATAM is very strong and the rest of the geography have less exposure to the GrandVision acquisition.

Stefano Grassi: Yeah. To the coronavirus impact that we talked before. Domenico, good morning. There are a couple of effects that we see here. One is the most obvious locations that are more exposed to touristic traffic inflow are the ones that are feeling the highest impact, and that is true for some of our location in Europe.

On the other side, our retail footprint in Italy is obviously challenged by the recent events that we all eat and breathe on a day-to-day basis. Then if we move on the other side of the ocean, in North America, I got to tell you, I mean if I look at our year-to-date performance, I'm very satisfied with what we've been able to achieve so far.

The LensCrafters trend is very much in continuation with the positive trends that we've seen at the end of 2019 of the fourth quarter. Sunglass Hut is trending on the positive territory too. So far no reason to raise concern in North America. Clearly, it's a situation that we all have to look at on a day-to-day basis, but that's really where we are.

From a Travel Retail standpoint, yes, that is the other area which we were challenging. That, to be honest with you, has been a challenge in 2019 as well. And so the severity of that deceleration on a business that, just to put in perspective, represent slightly less than 1 percentage point of total revenue only on Luxottica business. So it's a relatively small part of the business. But it's still feeling a bit of a deceleration in light of the lower touristic traffic, especially in airports.

Domenico Ghilotti: And are you assuming any kind of slowdown in the US or you're seeing no impact so far and so we are putting the guidance that it will continue like that?

Stefano Grassi: You mean on the travel retail, Domenico?

Domenico Ghilotti: No, no. In the Retail in general, so US Retail. What are you assuming?

Stefano Grassi: Not so far, Domenico.

Laurent Vacherot: There was a question – part of the question on CapEx as well.

Stefano Grassi: Yeah. Exactly. So the other question with respect to our free cash flow generation, we do expect our free cash flow to further improve in 2020. That improvement will come with an additional boost in capital investment, and that very much relates to the vast majority to our left in capital investment that pertain to our renovation of our store footprint in North America as well as outside North America. So we do expect a lift, in particular on the Luxottica side of our capital investment profile, and that is very much concentrated on our Retail side.

Domenico Ghilotti: So just to be sure I understood properly. So you say, okay, you are expecting an improvement in free cash flow, and on the CapEx side, a bit less of investment on the renovation.

Stefano Grassi: We are expecting an improvement on the cash flow despite a higher investment.

Domenico Ghilotti: Okay. Very clear. Okay. Thanks.

Laurent Vacherot: Okay, thank you. Next question?

Operator: The next question comes from the line of Piral Dadhania calling from RBC.

Piral Dadhania (RBC Capital Markets): Hi. Good morning. Thanks for taking my questions. Firstly, if I could maybe ask the coronavirus impact question in a different way. Could you perhaps let us know what percentage of your sales are driven by tourism in total, so Travel Retail plus tourist flows in downtown locations, that would be really helpful. And then my second question is just around – well, it's an accounting one actually. There's been a release of provisions in the magnitude of about €350 million off the balance sheet. Just wanted to understand what that relates to and whether that positively affected the P&L in the year 2019? Thank you very much.

Laurent Vacherot: Okay. So on the first question, I guess, it's back to the Luxottica team. And then the second one, I don't know if we have the full answer, but maybe we could take it. The IR could take it separately if we don't have it real-time. So on the first part, Stefano?

Stefano Grassi: Yes. So with respect to the coronavirus, I mean, it's hard to tell, honestly. I mean, there are certain location, which clearly, the touristic traffic is permanent. We think about it some of the locations that we have in Europe, in main cities, in downtown, and some other is not that relevant. So it really may vary.

For example, in North America, our Sunglass Hut location exposed to touristic traffic are about 10% of the total, and that's really where we are. But it really depends by geography and is not very consistent anyway. But again, so far, in North America, nothing to report with that respect. It's more affected Asia mainly and obviously partially Europe.

Laurent Vacherot: Okay. So on the second part of the question.

Stefano Grassi: Yes. The second part of the question was with respect to a reclassification on the balance sheet, which pertain to IFRIC 23, which is an accounting principle that require reclassification of our tax provisions into our tax payable. That is very much the explanation of the reclass on the balance sheet.

Laurent Vacherot: Well done.

Piral Dadhania: Very nice. Thank you.

Laurent Vacherot: Next question?

Operator: The next question comes from the line of Cédric Lecasble calling from MainFirst. Please go ahead.

Cédric Lecasble (MainFirst Bank): Yes. Hi guys. Thank you for taking my questions. I have two follow-ups. The first one on Italy. Would it be correct to assume that Italy is roughly 4%, let's say, 4% of the total sales? Is it too much? And are you 100% secure on the made in Italy for your luxury frames? I would imagine that remedies in case of tougher situation in Italy would be challenging for the luxury side, your luxury brands that need to be made in Italy? That's my first question. And the second one, I heard in the comments that in terms of acceleration of gross synergies as per 2020, so starting in 2021, a change in governance could help. Could you maybe update us on the governance on potential changes beyond the AGM of 2021 and how it could impact the deployment of the expected synergies? Thank you very much.

Laurent Vacherot: So there is a question on made in Italy and for luxury. So I guess it's Giorgio Striano that will give the answer.

Giorgio Striano: Yes. Laurent, thank you. So I will take that. So for sure, Italy – made in Italy accounted for the 100% of the luxury products. Let me say, to be honest, 98% and the 2% is made in Japan. The high-end that we do with our new plant in Japan in Fukui. So all the entire plant, as I said, are up running. In this moment, to be honest, the service level on luxury products is better than last year.

We have a good stock that we preferred. We introduced just few days ago the new collection, which is, in this moment, in distribution into our stores and also into the Wholesale. We are secured in terms of raw material and components. There were some parts that were in production in our Chinese factory that we quickly moved to the Italian plants. We increased the level of production into the Italian plants in the recent couple of weeks. And therefore, there is no – absolutely no disruption in terms of supplying for the made in Italy and for the luxury product.

Stefano Grassi: And with respect to the weight of Italian business in the overall scheme of EssilorLuxottica, we're talking about 4% of the weight of the Italian business on the total EssilorLuxottica.

Giorgio Striano: Just a last comment on the logistic distribution. So since the – for a few days, as I said before, the distribution centre in China was down because of the government indication. We were able to serve our customers, starting from our Retails, e-commerce and then immediately after on the Wholesale in the APAC region from our Italian distribution centre. So the Retail stores and e-commerce absolutely zero impact and the store in stock is a good level. The supplier product is at a good level. For the Wholesale side, on the APAC region, literally few days of just increasing lead time and then back to normal situation after mid of February.

Laurent Vacherot: There was a second part to the question, Cédric, on the synergy and what could accelerate or not the synergy, correct?

Cédric Lecasble: Yeah. Absolutely. On growth synergies, because I understand the cost would be more in 2019-'20. But growth synergies will accelerate possibly in '21?

Laurent Vacherot: Well, I think what we may concur that the synergy coming from sales and development will probably accelerate in '21, '22 and '23, because that is the most important part. Maybe, Pierluigi, you have something to add.

Pierluigi Longo: No. That is correct. I mean, there is an evolution of those initiatives, which are going to accelerate over time with the kick-off of other workstream that for the time being are under valuation or they haven't produced any economic effect but they are in the, let's say, evaluation phase. So that's why we see an acceleration in 2020 and then '21 and '22.

Cédric Lecasble: Just to be clear about the organisation, do you still see a dual organisation with this holding company on the top beyond 2021?

Pierluigi Longo: We do not have any visibility on what the organisation would be in the future.

Cédric Lecasble: Okay. Thank you.

Laurent Vacherot: Good. Next and last question. We have this long session of call.

Operator: Thank you. The final question comes from the line of James Griznic calling from Jefferies. Please go ahead.

James Grzinic (Jefferies): Yes. Good morning everybody. I had two quick questions, both for Pierluigi. First one is, Pierluigi, can you first tell us and clarify what the rate of penetration of Essilor lenses through the Luxottica distribution channels were at the start of the process and where they were currently, I guess, at the end of 2019, that would be very helpful. And the second one was – I was listening with interest to your comments around the IT integration road map. Could you give us a little bit more details, please? I'd particularly be interested to understand when you expect the Italian trial to end and when you would expect to deploy that platform, particularly in the US?

Pierluigi Longo: Okay. I'm not sure I got the second question. But with respect to the first one, when we started – so before, let's say, the initiative or the cooperation between the two companies started, I think the penetration of Essilor lenses in our Retail network was about one-third, and now we are above 80%, 90%. Then obviously, this is – the percentage might vary in certain countries.

But the most important part of the assortment strategy is to elevate the quality of the lenses, is to elevate the interaction and the communication that we had with our final customer and consumer. So that they could really appreciate how to satisfy their visual needs with the best product possible.

So also the introduction of Generation 8 of Transitions and the introduction of blue light and the way we present this new lens technology really makes a difference. So we saw a significant increase also on the satisfaction of our customers, and we're fully committed to continue on this pattern in all our, let's say, Retail network.

On the second question, I think, it was on the development of the IT platform in the US. Is that right?

James Grzinic: Yeah. It was specifically when you think the trial in Italy will end so that how – when you start then moving on to the deployment across major markets, I presume the US will take precedence there. So I'd be particularly interested as to when you expect that implementation to happen in the US because I presume that's an important piece for the synergy delivery.

Pierluigi Longo: I think – I mean, the implementation, as you said, will start after the pilot and the results of IT – sorry, of the Italian initiative. So we expect that to happen second half '20 and sometime between '21. We always said that one of the most important objective that we have is to integrate the companies without significant disruptions.

So we really want to make sure that all our integration activities will result in a win-win proposition. So we improve without disrupting. We improve without suffering or without creating issues in our – in the way we operate and in the way we serve our customers.

As you said that the US is our key market. So we are going to put a lot of focus in making sure that the IT platform will be integrated there because we really need and want to make sure that the two companies will operate as a single entity. On the other side, we're going to do it carefully and thoroughly in order to make sure to make it happen without disruption and very smoothly.

James Grzinic: That's very clear. Thank you very much.

Laurent Vacherot: Thank you. That was the last question. So thanks all of you for your time and interest in EssilorLuxottica. And our next rendezvous is on May 5th for the sales of the first quarter. Thank you very much.

Operator: Thank you for joining today's call. You may now disconnect your lines.

[END OF TRANSCRIPT]