EssilorLuxottica Full Year 2020 Results

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Operator: Hello, and welcome to the EssilorLuxottica's Full Year 2020 Results Call. My name is Patrick, and I will be your coordinator for today's event. For the duration of the call, you will be on listen-only. However, towards the end of the call, you will have the opportunity to ask questions. This can be done by pressing star one to register your question at any time. If at any point you require assistance, please press star zero on your telephone keypad and you will be connected to an operator. I am now handing you over to your host, Paul du Saillant, Deputy CEO of EssilorLuxottica, to begin today's conference. Thank you.

Paul du Saillant: Thank you, Patrick. Good morning everyone. I am delighted to welcome you to our 2020 earnings conf call, together with our Co-CFO's, Stefano Grassi, and David Wielemans, as well as our IR team.

I'd like to start by paying a tribute to Bernard Maitenaz, the former Chairman and CEO of Essilor, an inventor of the Varilux progressive lens, who recently passed away at the age of 94. He was an inventor, a true pioneer and always curious. His achievements are a great symbol of the youth and potential of our industry. And this is what I would like you to keep as a symbol of Bernard.

So let us talk about our topic of today: the year 2020. 2020 was a pivotal year for EssilorLuxottica, during which we showed our resilience, our fighting spirit, the relevance of our combination and our ability to build a strong Group. Of course, we had to manage COVID-19. Francesco Milleri and I are extremely grateful to our employees and customers for their outstanding adaptability during this period.

In H1, they displayed their resilience and agility. And in H2, they quickly moved back to reinvestment mode with a significant growth in revenue and results. Ultimately, COVID-19 has proven to be a clear catalyst for EssilorLuxottica in terms of customer intimacy, supply chain flexibility, new consumer habits and strict financial discipline.

Our solid results and cash generation, especially in the second semester, demonstrate the strength of our company and business model. 2020 was a pivotal year in which we accelerated the building of EssilorLuxottica.

I would like for you to remember five key achievements. We outperformed our industry in lenses, optometry, optical frames, retail and e-commerce. We delivered a great performance in strategic countries like the US, China, Australia and France. And despite the environment, products well aligned with consumer needs managed to grow. This is the case, for instance, of Eyezen for Connected life and Blue Cut protection, which both grew double-digit in 2020.

Second, we have a solid pipeline of innovation and series of launches in major categories – complete pairs with Ray-Ban Authentic; myopia management with Stellest; precision optometry with the VR800 measuring instrument and the AVA lens; smart glasses with our Facebook collaboration.

Third, we accelerated our digitalisation in all aspects of our business. The most visible one being our 40% increase in e-commerce, which represents now €1.2 billion and 8% of total Group revenues in 2020. We deepened our integration and delivered the planned synergies. So we can confirm cumulative synergies of €300 million to €350 million by the end of 2021. And €420 million to €600 million by end of 2023.

And finally, we did all this in full respect of our mission of sustainability and of our strong human values. For example, I can mention the success of our recent employee shareholding campaign. 44% of our employees worldwide are now shareholders.

With all these achievements, EssilorLuxottica is coming out of the crisis stronger and well-positioned to outperform and transform the eyecare and eyewear industry. I will come back to this later.

But first, I would like to hand over the call to Stefano and David for more details on our results.

Stefano Grassi: Thank you, Paul, and good morning, everybody. Welcome to our earnings call. Let's start with a recap of our 2020 financial results that you see listed in this page, beginning with our top line.

Our revenue for the full year 2020 declined 17% on a current FX basis. On a constant FX, you're looking at revenue down approximately 15%. But we had very different speed, as you all know, between the first and the second half of the year. The company in the first half for the year show revenue declining on a constant FX basis at 29%. While on the second part of the year, our revenue were substantially flat to 2019 level.

From a profitability standpoint, our adjusted operating profit is 9.5% from a margin rate standpoint, but again very different speed between the first and the second half of the year, where despite revenue declining 5% on a current FX basis, we were able to be margin accretive. We're leveraging a strong balance sheet.

Our net debt to EBITDA ratio is just above 1 and our free cash flow generation has been €1.8 billion for the full year 2020, just above 2019 levels despite currency headwinds. So overall, we are pleased with the recovery pace that we have seen in the second half of the year, as well as our sound profitability and our strong free cash flow generation.

But now let's start our journey. Beginning with our top line. And I would jump into page four of the presentation, focusing on the fourth quarter revenue, broken down by segment. And I would draw your attention on the bottom of the page, where you can see our top line growing 1.7% on a constant FX basis for the fourth quarter.

If you look at our results on a current FX basis, you look at a negative 4.4% for the fourth quarter. From a currency standpoint, clearly, you remember that during the first half of the year, currency fluctuation were substantially neutral in our top line. While we experienced a quite heavy currency headwinds, I would say, probably stronger in the fourth quarter where the US dollar is evaluated against euro, approximately 7%. If currency stays at those levels, we do expect those headwinds to continue throughout the vast majority of 2021.

But now let's look at our different segments, beginning to the biggest one, Lens and Optical Instruments, where revenue were up on the mid-single-digit territory, 5.3%. All the regions posted positive sales growth during the course of the fourth quarter. North America and Latin America posted high single-digit growth rate in Q4 for the Lens and Optical Instruments.

The Sunglasses and Readers division were negative 9%. The sunglasses part decelerated in FGX, as well as the Bolon business. The reader business in FGX further improved compared to the third quarter one, although still on a negative territory. While the Bolon business, on the optical side, posted the best quarter of the year in the fourth quarter with a double-digit pace.

Moving to Wholesale. Our revenues were down on a constant FX basis for Q4, 4%. We were positive in North America. And you remember, we were very pleased with the third quarter results, and now we are still positive in the fourth quarter for North America. While in Europe, we felt the results of the – and the confinement of the second wave of pandemic outbreak. From a price mix perspective, we were positive. And from the product mix standpoint, our prescription business was positive, while our Sun business was on a negative territory.

Retail number was up on a 3% during the course of the fourth quarter. All the regions, with except of Europe, were positive. On the Retail division, we experienced a strong growth, driven by our e-commerce division that grew in excess of 55% on a constant FX basis during the course of the fourth, while the Retail brick-and-mortar was just slightly negative with two different underlying trends, positive solid sales on the optical retail business, thanks to optical retail in North America, in Australia, as well as in Latin America. While on the other side, our Sunglass business was more on a negative territory, very much due to the lack of touristic traffic in several locations.

But now I will start our journey across the different geographies. And I will begin with the biggest one, ramping – jumping up directly on page eight of the presentation that you – so I'm on page eight of the presentation.

Okay. North America revenue were up 4% during the fourth quarter. We are very pleased with this result, is an accelerated result compared to the third quarter trend of 2.5%. Our Lens and Optical Instruments division posted high-single digits growth rate in Q4. The ECP channel was very much the driver of the growth in the fourth quarter for North America. Also thanks to the Essilor Experts programme, the programme that saw at the end of 2020 a roll out of approximately 7,800 doors, which represents over 30% increase compared to the number of doors we had at the end of 2019.

From a branded lens standpoint, all the key branded lenses were positive in North America, Transitions, Crizal and Varilux. We are on track with our synergy deliver. And one important pillar for that synergy deliver is represented by the first commercial offer that we undertook in North America, the programme called EL 360. EL 360 represents very much the combination of the offer from Essilor and Luxottica coming together for our ECP. And just to give you an idea, that programme, that commercial programme saw a rollout of already approximately 1,000 doors at the end of 2020.

From an e-commerce perspective, on the lens side, we were very pleased with the double-digit delivery of our EyeBuyDirect.com business in North America, also thanks to enhanced assortment of products like Ray-Ban and Oakley.

Our Wholesale division was solid positive during the course of the fourth quarter. The key drivers for that growth were the independent channel, the sports channel, as well as our third-party e-commerce partners. The optical part of the business was up on the double-digit play, while we experienced very favourable price mix on the course of the fourth quarter. And from a branding standpoint, I want to draw your attention on the picture that you see on the right-hand side of this page.

That picture very much celebrates the outstanding results that the Oakley brand delivered during the course of the fourth quarter with double-digit pace and positive double digit on both Optical as well as Sun.

Our Retail business now. Retail was up on the mid-single-digit territory. Optical sales were positive on the high single-digit territory in Q4 with all our optical retail chain, LensCrafters, Pearle Vision, Target Optical, all strong positive during the fourth quarter. In particular, in LensCrafters, we are pleased to see comp sales on the positive territory despite the luck or, let's say, the heavily reduced traffic in shopping mall location, despite the confinement and the restriction that we experienced in Canada as well as in California, but thanks to a stronger price mix, thanks to a strong conversion and thanks to the performance of LensCrafters location in non-shopping mall, we were able to deliver positive comp sales for fourth quarter.

The Sunglass Hut division was still on the challenging territory, very much due to challenged situation on international Sunglass Hut locations, while the Bass Pro location experienced a nice double-digit growth rate during the course of the fourth quarter.

Let's touch on e-commerce. E-commerce was up in excess of 50% during the fourth quarter, with all our branded eyewear proposition, Ray-Ban, Oakley and Sunglass Hut, all double-digit during the course of Q4.

But now let's switch continents. Let's get into, I would say, more challenging territory, Europe. Clearly, the restriction that many of us experienced in the month of November and December had an impact in the region, in particular, on our Retail business. From a country mix standpoint France, that is the biggest country in Europe, who is slightly positive, and this is obviously very pleasing for us. While Spain, Turkey and Russia were on the negative double-digit territory.

From a branded lens standpoint, we were happy to see some of our branded lens like Eyezen up double digit, the Transitions business up on the mid-single-digit territory, both sustaining a very good profit mix for the lens business.

So our Wholesale division was negative and very much impacted by the Sun business, that was down double-digit, while the optical parts of the business proved to be more resilient once again and sales were slightly positive. From a channel mix standpoint, the independent channel was very much the channel sustaining top line on our Wholesale division, in particular, in France as well as in the Dutch region.

From a Retail perspective, we do see top line declining in Retail, but with the underlying trend that is very different between the brick-and-mortar that was negative and the e-commerce business that was solid positive. So just to give you an idea about the challenge that we have to face in Europe from a retail perspective, I will share with you a couple of data points. The Retail footprint in Sunglass Hut ran on about 95% of stores opened at the end of the third quarter in September. If we look at our store footprint between November and December, we were running at about 70% of store opened during that period. Another data point to share with you is the number of trading hours. Sunglass Hut was operating in the month of November as well as December, with a decrease of 30% of the trading hours. Salmoiraghi & Viganò, our optical retail chain with 25% decrease in trading hours during, again, the month of November and December, where there was a larger impact of those restrictions.

But now let's move to another continent. Let's move East, and let's touch Asia, Oceania and Africa. Our top line here was negative 1%. And I would say I'm clearly pleased with that performance because you might remember, in the third quarter, Asia was negative 8%, so we had a pretty solid and strong rebound during the fourth quarter. Mainland China as well as

Australia were double-digit base, while Hong Kong, India, Southeast Asia were more on the challenging territory due to the restriction for the COVID-19 outbreak.

The lens business in Asia with solid positive, close to mid-single digits, thanks to the Stellest lens, the myopia management lens after initial rollout is – in test is now progressively rolling out through the ECP through our retail partners and also in our own retail network with very encouraging results.

The Sunglasses & Readers division is a solid positive during the course of the fourth quarter. The Bolon brand was up double-digit on the optical side of the business in both retail as well as wholesale, more challenging, probably on the Sun side, also due to a different timing of collection shipment between this year and last year due to a different timing of the Chinese New Year in 2021 versus 2020.

From a Wholesale perspective, we see and observed a widespread and negative trend due to the COVID restrictions. But on the positive side, our Mainland China was up double-digit on both Optical as well as Sun.

From a Retail perspective, our revenue in Asia were a solid positive, and I have a great story to share here today. That story is optical retail Australia, where our revenue were up on the double-digit territory during the course of the fourth quarter. I would say that very much all the stars were aligned here. We have positive traffic trends. We experienced favourable price mix. We improved our conversion, thanks to enhanced training of our associates in the stores, thanks to enhanced assortment of lenses in partnership with Essilor, and thanks to the favourable volume, this very much provided an outstanding results during the course of the fourth quarter. Our Optical business in Mainland China was slightly positive, while we were still challenged on our Hong Kong side due to the COVID restriction.

And honestly, I couldn't finish in a better way our journey throughout the different geographies without closing with Latin America. And I'm very pleased about this number, you see on the top of the page, 7% top line increase on the fourth quarter. But I'm even more pleased, remembering where we came from. In the third quarter, you might remember, we commented revenue decline approximately 22% in Q3. And now we have a strong rebound on the high-single-digit territory. All the divisions improved versus the third quarter trend in Latin America. From a country standpoint, Brazil as well as Argentina stood out with double-digit growth rates.

Our lens business was solid positive on the high single-digit territory. Pretty much all the key countries were positive here – Brazil, Chile, Mexico, Argentina. They were also supported by a limited amount of foreclosure very much helped the business to get traction. From a branded lens standpoint, we are happy to see good results, thanks to the solid Transitions business that was solid positive in the fourth quarter. The Varilux business was solid on the high single-digit territory. And both Crizal and Eyezen lenses were both double-digit in Q4.

From a Wholesale perspective, our performance was slightly negative in Q4, but with a strong rebound from a double-digit negative that we had in the third quarter. The key driver for the recovery in the Wholesale division in Latin America was Brazil, that is actually the biggest country in the region. Brazil was up on the high single-digit, while Mexico was actually decelerating due to the further restriction that we experienced during the course of the fourth quarter.

Let's touch on Retail. Retail solid positive in Q4 with GMO that was up double-digit. Despite a severe traffic decline in our Retail division, we were able to sustain solid growth, thanks to a solid conversion, as well as solid price mix.

Now, let me hand it over to David that will give us more colour on our consolidated results. David, please.

David Wielemans: Thank you, Stefano, and good morning, everyone. So from a P&L and free cash flow perspective, 2020 has been a year with two very different halves. As we know, H1 was heavily impacted by the COVID; and followed by a very solid H2, as we will see on the next slide.

Overall, on the full year, the gross profit decreased from 62.6% to 58.9%. This was driven mostly by a lower level of fixed cost absorption due to the lower volumes we had, especially in H1. It is also due to two negative mix effects. One is the Sun category underperforming the Optical category, as well as the Wholesale channel overperforming the Retail channel. Those two headwinds have been partially compensated by a good product mix on value-added lenses, by manufacturing efficiencies and by procurement synergies.

The Company's OpEx (Operating Expenses) were €771 million below 2019 at constant FX, thanks to a combination of COVID-related measures, as well as structural integration and restructuring activities. COVID-related actions, as we know, were, for instance, the furlough measures implemented starting in Q2; the salary negotiations, and the reduction of discretionary costs like consulting, travel, etc.

Non-essential marketing expenses were cancelled or postponed in H1 during the peak of the crisis. However, in H2, they were almost back to 2019 levels and marketing spend on key product launches and key customer programmes was maintained. In terms of structural measures, we have executed several organisational and transformational projects in the fields of distribution, customer service and sales force organisation. We have also actively worked on G&A rationalisation and procurement initiatives.

All this led to an adjusted operating profit of almost €1.4 billion, or 9.5% of Group revenue, negatively impacted by a foreign currency translation effect of €74 million. The cost of debt increased by €10 million compared to 2019, and this is directly due to the two bonds we issued in November 2019 and in May 2020.

Then the income tax decrease of €258 million is logically driven by the lower profit and the ETR (effective tax rate) increase is due to the geographical mix of the earnings of the Group. All that gives us an adjusted net profit landing at €788 million, or 5.5% of Group revenue, which also includes a €46 million negative FX impact.

If we move to the next slide, just to illustrate what we mentioned, as I previously said, H2 P&L has been very solid. Sales and adjusted operating profit were above last year at constant FX. The gap on gross profit narrowed in H2 at 60.4% compared to 62% in 2019. Even if it was in a lower extent, H2 was still affected by the volume and mix effect I previously covered.

OpEx stayed very low, €237 million below 2019 at current FX and about €150 million down at constant FX. This, thanks again to the containment and the efficiency measures put in place, and most importantly, without compromising the investment needed to fuel the rebound.

In percentage of revenue, adjusted operating profit landed at 15.2% or 15.4% at constant exchange rates compared to 15.1% in H2 2019, so respectively, 10 basis points and 30 basis points above last year's level. The adjusted net profit decrease of 6.5% at constant exchange rates is caused by the income tax rate increase versus 2019, as mentioned on the previous slide.

If we move to the next slide, looking at liquidity and debt. So as mentioned, the free cash flow generation has been very high in H2, leading to a full year free cash flow at the same level as 2019. This good result is due to three main factors: a good profitability in H2 that we just described; a prioritisation of CapEx (capital expenditure) throughout the year; and a material decrease of the working capital, driven on the one side by a tight management of inventory levels, accounts receivables and payables; but also driven by some increase of bad debt and inventory reserve, as well as a translation FX impact.

The net debt landed at €3 billion, which is €1 billion lower than at the end of 2019. The financial capability of the company stays strong with €8.9 billion of cash in short-term investments and €5.1 billion of undrawn credit facilities at the end of 2020.

A dividend of €1.08 per share will be proposed at the AGM in May. It will come on top of the interim dividend paid in December 2020, leading to a total dividend of €2.23 per share. This dividend will be a scrip dividend, so could be served in cash or in company's share to the shareholders.

I'm handing over to Paul.

Paul du Saillant: Thank you, David. Thank you, Stefano. I would like now to take you through our momentum in terms of integration, innovation, digitalisation and sustainability.

Francesco Milleri and I, with a strong management team around us, lead and decide together with clear goals. First, we are building EssilorLuxottica. The integration of the two operating companies has accelerated during the year 2020. Today, 28 work streams are active, generating both revenue and cost synergies.

Revenue synergies first. We launched Ray-Ban Authentic, our complete pair combining Ray-Ban frames and Essilor lens. First in Italy in July and now in North America. We deployed the new EssilorLuxottica 360 programme. Our new ECP partnership programme covering all the products of the Group. And we leverage cross-selling opportunities with increased penetration of Essilor lens in Luxottica retail and the increased penetration of Luxottica frames at Vision Source members and on Essilor's FrameDream platform.

We are also structuring our supply chain with new labs in Columbus and Dallas, the deployment of the key technology of the Group in Luxottica labs, creating an integrated network and the implementation of complete pair integrated manufacturing capabilities and more in-sourcing. And last, we are building our infrastructure by starting the deployment of the single IT platform under SAP throughout the Group and progressively integrating our back office and our procurement capabilities.

Innovation. Innovation is at the heart of EssilorLuxottica's DNA, and continues decisively in several key areas. Disrupting innovation in new categories such as myopia management, where we are building a portfolio of very promising technologies with Stellest and SightGlass Vision. This is a segment with significant potential, particularly among children. We successfully launched in China in July. And as of February, our Chinese teams changed the lives of 1,000 children per day with Stellest lens.

We also are embarking electronic capabilities into our products with the upcoming Facebook/Ray-Ban smart glasses or the exciting electrochromic capability.

Second, improved eye exam with tele-optometry and the deployment of 1,400 high-precision VR800 measuring instrument already. Third, we continue to launch new generation of products in our flagship brands, for instance; Varilux Comfort Max, launched in China in Q1, in Brazil later in this year; Crizal Rock in the US and China in Q2; the new Transitions XTRActive in North America in Q3 and the whole Eyezen platform, Eyezen Start, Eyezen Kids in LATAM in Q1. So a very rich portfolio of products going to market.

Digitalisation. We accelerated our digitalisation of the business in significant ways, as you understood. First, our e-commerce revenues grew 40%, as we said, to €1.2 billion and is margin accretive. This was driven by brands.com platforms and prescription eye glasses. In parallel, we enhanced the digitalisation of our entire business from consumer to production.

Starting with the consumer journey. It leverages in-store digital tools like Smart Shopper and Frame Advisor, as well as strong omnichannel and CRM with appointment booking systems and drive to store models. The patient journey benefits from tele-optometry and digital measurements. In B2B, we are adding, selling digital platform like Red Carpet and the One Sales Suite, as well as digital services like virtual try-ons, smart, digital windows.

And in operations, we digitalised our supply chain with our platform, STARS and FrameDream and with digital product brand rendering.

Finally, we digitalised the way our company functions, both internally (with digital processes throughout the Group) which now operates as a 140,000 people organisation. And even more importantly, externally, for instance, at Transitions Pulse meeting last month, we had 10,000 customers connected worldwide. So this totally transformed our way of interacting with our consumer and customers.

Social impact and sustainability. With Francesco, we are building EssilorLuxottica with a deep culture of responsibility and a clear commitment to sustainability. We are very proud to have a natural intrinsic and inspiring mission, which is to help people see more, be more and live life to its fullest.

It gives everyone, at EssilorLuxottica, a solid sense of purpose. It drives all the dimension of our business and organisation. It strengthened the ties within our Group and with our stakeholders, giving vision a voice. For example, what we did with the FIA, with the United Nation, or Tencent in China. Despite COVID, the company has created sustainable access to vision care for 420 million people in developing communities since 2013.

Second, I want to say a word about sustainability. Both Essilor and Luxottica has deep sustainability anchorings. So we are now combining them in a common sustainability road map on compacting key topics: Climate change-related initiative, environmental impacts, sustainable offering and a simplified, efficient and responsible supply chain.

Last, we have strong human values, covering topics ranging from human rights to diversity. And a strong employee shareholding culture with now, as I said earlier, 44% of our employees being shareholders in 80 countries of the Group. This creates a strong alignment of all stakeholders.

To conclude, as a result of all these initiatives, the company's ambition is to generate a performance comparable to pre-pandemic levels at constant exchange rates. This takes into account the uncertainties around COVID-19, the momentum already visible in Asia Pacific and the hopes that vaccination campaign will gradually normalise the business environment in other regions to – from the second quarter onwards.

EssilorLuxottica is well positioned to outperform and transform the eyecare and eyewear industry, as you understood. Our integrated model has proven to be resilient and a great asset in the face of an unprecedented sanitary and economic crisis. So we look at 2021 and the years ahead with great confidence. Thanks a lot for your attention.

And with this, I am happy that Stefano, David and I will take now your questions. Operator, back to you.

Questions and Answers

Operator: Hi. This is your operator. If you would like to ask a question, please press star one on your telephone keypad. Please ensure that your line remains unmuted locally. You will then be prompted when to ask your question. And our first question comes from the line of Cedric Lecasble from Stifel. Cedric, you are now unmuted. Please go ahead.

Cedric Lecasble (Stifel): Thank you, operator. Thank you for taking my questions. Good morning, Paul, Stefano and David. I have three, if I may. The first one on your '21 outlook. Just to be sure, should we understand that you consider 2019 sales level, you deflate for negative FX impact and you consider a similar operating margin. Is it the way we should read it? The second question is on the synergies reached. You are mentioning adjusted amounts of synergies. What are the adjustments? And what was the associated cost to reach these synergies. And the last one is a typical one. It's about current trading in January and February. Thank you very much.

Paul du Saillant: So, Stefano, if you're okay, you want to take the one and two?

Stefano Grassi: Yes, sure. Absolutely, Paul. So from an outlook standpoint, again, we clearly stated that the company's ambition is to deliver a performance that is comparable to pre-pandemic 2019 level with the hope, and this is an important variable that the vaccination campaign that we've seen accelerating and hope to accelerate in the second quarter will normalise the business environment around the world.

So, if we take 2019 as a reference point, broadly speaking, as – from a top line perspective, and if we get there on a constant FX basis, this implies that from a profitability standpoint, as a base case, we do expect a broadly similar profitability to 2019 on an adjusted basis, obviously, on a constant FX.

The other question with respect to synergies. Well, our synergies are very much the one that we deliver on our adjusted operating and net results.

With respect to January, February trends, I don't know, Paul, do you want to take it and then I can –

Paul du Saillant: No, no. Stefano, you keep going.

Stefano Grassi: Yeah. So January and February started on track. I mean, we've seen certain trends to continue. So, an optical business more resilient than some business. We see a strong delivery of our e-commerce. Clearly, we were also impacted by further restrictions that we've seen in Europe. And we're obviously observing very closely monitoring the performance of our Latin American business as well. But again, overall, January and February are very much on track with our expectations.

Cedric Lecasble: If I may, just a precision on your synergies. Would it be possible to have the landing point at the end of 2020, probably COVID on some revenue synergies put some headwind. So maybe a little below plan end 2020, but you maintained the '21 target. What are the main drivers to meet these targets, if I may?

Stefano Grassi: Yeah. I mean, let me say, the synergies for 2020 were where we expected them to be, and they were very much in line with our trajectory to deliver the first milestone of our synergy delivery. You might remember what we shared at the Capital Markets Day with €350 million of net synergies delivered on the adjusted EBIT by 2021. So we are exactly on track with that.

The mix has slightly changed here. We accelerated certain initiatives, which we believe we have more track and like, for example, the EL 360, was very much a joint decision between Paul, Francesco and the rest of the team in North America to very much accelerate on the synergy delivery offered commercial proposition.

Certain other activities from a cost point of view were accelerated. We further boosted our procurement activity on the lens side. As a matter of fact, we have pretty much all the lens assortment provided today in LensCrafters, that is a lens assortment from Essilor. You've seen as a further penetration of Luxottica frames with the dot-com proposition in some of the Essilor websites, for example. EyeBuyDirect.com is a perfect example. And those are some of the things which we give a further acceleration with very encouraging results, I would say.

Cedric Lecasble: Very useful. Thank you.

Operator: Our next question comes from the line of Anne-Laure Bismuth from HSBC. Anne-Laure, you are now unmuted. Please go ahead.

Anne-Laure Bismuth (HSBC): Yes. Hi. Good morning. It's Anne-Laure Bismuth from HSBC. And many thanks for taking my question. Actually, most of my questions are on Stellest. I'm just wondering if you can give us an indication of how fast do you plan to rollout Stellest in China? And will it be – and how do you plan to roll it up to second-tier cities, so cities three or four tier cities? Because I assume that, in the first phase, it would be mostly to first tier cities.

And my last question is about the rollout of this product that slowed down the progression of myopia in Europe and in the US. When do you plan to do that? Thank you very much.

Paul du Saillant: Thank you, Anne-Laure. So maybe – this is Paul. Maybe I will take that one. So Stellest – so the myopia management is, as we already talked in some of those calls, is a major pandemia that we are addressing, and with a totally new approach with new kind of lens technology. But this is a journey that started – we pioneered in the 80s already with some first myopia control lenses. So we have been learning and progressively going to one generation, two generation, three generation. And Stellest is the fourth generation. Very disruptive approach, as you understood.

In China, the myopes – today, you have 700 million myopes, of which kids of five to 19 years old, myopic kids are 120 million. So we have started by China, as you pointed, to launch this new technology in July, and we have started with hospitals and added to that optical store.

And you have to see that this is a journey where you really have a totally new way of dispensing or following the children as they wear this kind of lenses, which are very easy to adapt too. But that the children are going to wear from the age of three, four years old until being a teenager. And it does slow drastically the myopia. We have seen 67% slowdown of myopia progression by the wearing of those lenses through our children that we follow in China.

So today, we have been rolling out very rapidly to 1,000 hospitals growing inland progressively and a few thousand optical stores. But what is very important is to do the proper training, the proper dispensing and the proper follow-up with the children. As we do that, we are learning a lot. We are launching in other countries like Singapore currently. And we will progressively launch in the metro market. We are working on that.

As you have seen, we have also decided to JV with CooperVision to acquire another technology platform providing similar effect of myopia slowdown, which is called SightGlass Vision. So we have now a complementary technology portfolio that we will rollout progressively in 2021-'22. In the US, of course, a key milestone will be the FDA approval, which we are already working on.

So that's in a few minutes, a few words on the whole myopia topic, which is one of the very big opportunities that we have to address this myopia phenomenon that will be concerning 50% of the population by 2050. So four billion to five billion people on earth will be myopes, major challenge. Thank you, Anne-Laure.

Anne-Laure Bismuth: Thank you very much.

Operator: Our next question comes from the line of Veronika Dubajova from Goldman Sachs. Veronika. You are now unmuted. Please go ahead.

Veronika Dubajova (Goldman Sachs): Hi. Good morning, Paul, Stefano, David. Thank you for taking my questions. I have three please, if that's okay. One, I just want to follow-up on the guidance comments that you have made. If I'm understanding you correctly, it sounds like January and February are already largely trending in line with 2019. And so I'm just kind of curious what concerns you have looking through to the rest of the year that explain the relative degree of cautiousness that's embedded within the guidance? And is this just you taking a view today, given the amount of uncertainty that is out there, but fundamentally you feel pretty confident that the market will recover and return back to growth at some point in time this year? If you can talk to that, that would be very helpful. And sort of related to that, clearly, the margin will achieve a fairly sizable number this year. I appreciate there's a lot of reinvestment into the business. But also in that context, if you can give some colour around the margin being the same as 2019 in spite of the big step-up in synergies? So that's my first question.

My second question is just on comp growth in LensCrafters. Big acceleration and congratulations on that. It's great to see. Do you think this is sustainable? And are you now happy with how the franchise and the banner is positioned and looking forward, feeling more confident about your ability to maintain this outperformance versus the market?

And then my third question is, if you can share an update on where we are with GrandVision and your commitment to the transaction, that would be very helpful. Thank you guys.

Paul du Saillant: Thank you, Veronika. So, Stefano, maybe you can take the guidance one. Maybe – and the LensCrafters one. Maybe David, margin. And Pierluigi, if you are connected, the GrandVision.

Stefano Grassi: Sure. Absolutely.

Paul du Saillant: Would you like to take it, Stefano?

Stefano Grassi: Absolutely. Perfect. Paul, well, I'll go ahead. So with respect to LensCrafters, we are pleased to see this trend, that is underlying trend despite some quite big challenges that we faced in the United States during the course of the fourth quarter. Is that sustainable? I think that some of the work that we have done in recent times in LensCrafters going into the direction and not necessarily get better in one single quarter.

But to really elevate the quality and the consumer experience in LensCrafters. One example that I mentioned before is the further announcement of the lens assortment. Another important example is the renovation of our LensCrafters store footprint. But in particular, in 2021, is going to go through an impressment effort, and very much elevate the quality of the store that we have in North America.

So some of those investments are very much structural to ensure the sustainability of that trend. And obviously, it's going to go beyond deceleration due to, call it, restriction and other things. So this is something of which I believe we have a degree of confidence. The market environment is very competitive in North America, I must say that. There is a strong competition, especially on pricing. But what we're trying to do with LensCrafters is kind of stand separately from that kind of competition and focusing more on the things that we believe make us stronger compared to the rest of the competition.

With respect to Jan-Feb trend, what could derail – I mean, you can clearly see that there is an independent variable here that is the virus situation. So we clearly need to look at very closely the rollout of the vaccination campaign across the different countries.

And obviously, we see that wherever there are, let me say, safe pockets, countries where there is people that are de-confined, there are very limited amount of cases, our business is solid. Our business is doing well, like Optical Australia. It's a perfect example. We see that every now and then, we suffer some local closure. But then as soon as the – there is a deconfinement of the population, business starts up again and with very positive results.

So we have that as an independent variable, obviously, that we observe very closely. But again, we have a high degree of confidence in the initiatives that we undertake, including the synergies one. So I pass it over to Pierluigi for the GVI question.

Pierluigi Longo: Thank you, Stefano. On the GVI, there is not much we can add on top of what we already disclosed in our press release. We are actively working in order to obtain all the relevant authorisation from the antitrust authorities, which are still pending. So we are working with Chilean and European authority. As you know, the European authority is planned, is expected to release an opinion by mid of April, so in one month from now. On the other side, we are also working on the legal proceedings, which are ongoing.

Veronika Dubajova: And sorry, just as a follow-up on the synergy side, just want to make sure that doesn't get lost. How the synergies flow through to the margin? And why the margin is the same as 2019 in spite of the synergy step up?

David Wielemans: Yes, Veronika, maybe – David here speaking. I can try to answer your question. Yes, you have seen the H2 '20 was very solid in terms of margin above 2019. The question is, should we expect that to continue and to have '21 above '19 as well? I would say, yes, with two caveats here. One is the FX. So when we took comparability to 2019, we have also to keep in mind that at constant FX, the performance is good, but we are still having headwinds with the currency effect. And for the time being, we should expect that to continue in 2021.

But at constant FX, we have put in place – H2 was driven, as I explained, by one-off, I would say, measures that we put in place for the COVID, but also by all the structural initiatives we have taken on integration, on procurement. And that, we should obviously expect that to continue to annualise and even to increase as we just discussed on the '21. So there is no reason not to reach the level of 2019 in profitability once the business normalise.

And when I say the business normalise, it's very important because we know, for instance, that on the Sun activity, the Sun activity will get back to the normal level once the COVID situation will normalise. The Sun activity is very much leading to the travel, etc., as Stefano already covered. So the normalisation of the business is key, but once that done, we should be confident on the margin that the company is able to deliver.

Veronika Dubajova: Understood. Thank you, guys.

Operator: Our next question comes from the line of Graham Renwick from Berenberg. Graham, you are now unmuted. Please go ahead.

Graham Renwick (Berenberg): Good morning, all. Thanks for taking my questions. I just have two please. Just firstly on the strong ASP-driven growth. You're saying it's something you're also seeing across the industry more broadly. To what extent do you think that's being driven by consumers trading up for higher-value products because they do have more money to spend. They're not spending on holidays, leisure and things like that. Is there a risk that some of our ASP-driven growth to reverse a little bit into 2021? Or do you think the ASP growth is largely structural and something you can build on in 2021?

And then secondly, just as we emerge from the pandemic, is there anything in your 2019 CMD strategy that you think now needs to change or be realigned in this post pandemic world, whether that'd be sort of areas you're focusing on more or any new opportunities that have emerged? And could we actually expect another strategic update after the new Board is confirmed? Thank you.

Paul du Saillant: Okay. Thank you, Graham. Maybe I will take the first one. On the CMD, we will see if we plan well, we have to discuss that with Francesco and our IR team, because at some point, we would certainly want to do an update and give you the way forward. But nothing planned at this point.

And if I stand the CMD of September '19, I think some of the key levers that we walked you through at that time, which were innovation, which was digitalisation, which were the whole integration synergies, the whole integration of the supply chain leveraging both company supply chain. I think everything that we walked you through at that time and the ambition in terms of growth and profitability that actually, Stefano, at the time, shared with you are still the right ones.

Now I think 2020 has accelerated some of those trends, namely digitalisation, the need for good vision and all the innovation that we put forward for addressing this need for good vision has been reinforced. I'll come back to it on your question on the mix. And the work on integration and synergies, if anything, in 2020 has been accelerated and depend like we have been sharing with you, despite the very, very complex environment in which we had to operate these programmes.

Actually, the teams have doing an amazing job at working on the work streams, opening new work streams and delivering on them. Of course, the more top line related one in the first half were less impacting. But then in the second half, the top line synergies got to work.

So now I go to your question on the mix and the consumer up-trading. Some of the key learnings of the second half is the way the need for good vision has been strong at the consumer level and that some of our key categories, like we – I talked about earlier, the Blue Cut protection, the Eyezen, despite the pandemia, those categories, those products have been growing throughout the entire year, delivering double-digit growth.

So there is a real consciousness at the consumer level everywhere in the world, that has increased, because we are all living completely through a connected life. So the strain on the eye, the solicitation on the eye is very strong.

Second, our customers, optician chains or our own stores have been extremely reactive to adapt the consumer experience in the store and to provide them with better products, more adaptive products. So actually, we have seen a good behaviour of the mix but clearly in the second half in the rebound in the restart.

So I think that these trends are strongly anchored in the sales channel and in the consumer being more aware. So we should – and the product portfolio of innovation that we are putting to market is clearly well aligned with that. So this would be my few comments on the mix. I don't know if Stefano or David, you want to add some colour on it?

Stefano Grassi: No, that's all, Paul.

Graham Renwick: That's very helpful. Thank you very much.

Operator: Our next question comes from the line of Susy Tibaldi from UBS. Susy, you are now unmuted. Please go ahead.

Susy Tibaldi (UBS): Hi. Thanks for taking my questions. I'll ask three, please. So one follow-up on the synergies. When you discussed about the benefit from the synergies, you're often also talking about how, at the same time, there is a strong need to reinvest and to continue to develop the industry. So from – let's say, practical point of view when we think about it, does it mean that, thanks to the synergies, these synergies will enable you to continue to invest and reinvest more, and therefore, keeping your level of profitability or also slightly increasing it. But if these synergies were not there, then the underlying margins would be a little bit under pressure. Is this the right way to think about it?

Second question on the store footprint. You state that you expect the online growth trajectory to remain strong. So I would like to ask you if this is making you rethink your store footprint? And if so, if there is any specific region that you are looking at? And then thirdly, on the lenses side. More specifically, if you look historically, Essilor has been quite acquisitive in nature. And now we know that the bolt-on acquisitions have slowed down given other priorities. But if we think longer term, should we expect this bolt-on again to contribute 3-4% per annum on the Essilor side? Thank you.

Paul du Saillant: Thank you, Susy. So David, do you want to take the question on the synergies? Maybe Stefano on the store footprint? And I would say a word on the M&A Essilor side bolt-on.

David Wielemans: Yes, sure. Good morning, Susy. David, here. I will answer. So on the – on your question on the synergy, yes, of course. Yes, the synergies are enabling the Group to invest and to invest in the future and invest on the building of Essilor and Luxottica, what we have done in 2020 already in a large extent. So yes, it does. We have many fronts here, investments on our brands. We have IT also, quite robust IT roadmap. So that we work at the EssilorLuxottica level on the convergence systems. We have many things around the operation and the supply chain that Paul already mentioned on the introduction. So yes, there are a lot of things that are already ongoing and in the pipe to build the company and the synergies are helping on that.

Would we be able to do those investment if we don't achieve the synergies? We strongly believe we will achieve the synergies, but that's not a question we have so far discussed on the management. We are achieving, and we will strongly believe that we'll continue to do to reach our target. So we don't see any, I would say, problem ahead here.

Paul du Saillant: Stefano?

Stefano Grassi: On the store footprint. I mean, we believe that good stores very much have a reason for existing and very much have a reason to support our business, our products, frames and lenses and our initiatives. We have a process that is very well-structured to reassess continuously our store portfolio, understanding profitability, reviewing store by store the performance. And that is a very diligent process that we undertake periodically.

As a result of that, we closed certain stores in 2020. And we will be closing stores when we believe that it is appropriate to do so. But we also believe, at the same time, that it's important to invest in stores, to make it up to the latest and greatest technology, and that's exactly what we're doing in LensCrafters. That's what we've done in optical retail in Australia. And you have seen the great results coming from that investment. And that's what we have done in Sunglass Hut as well.

I mean, in recent times, we – just to give you an example, invested quite heavily to rollout across all the Sunglass Hut locations in North America. The frame advisory technology. Now it's available in more than 1,000 Sunglass Hut location in North America. So we believe that those further digital enhancements in our retail footprint will really allow us to elevate the consumer experience throughout the future months and years.

Paul du Saillant: Thank you, Stefano. So, on the M&A, you are right to remind us that, Susy, that it has been a core element of the bolt-on so-called M&A acquisition at Essilor. There is still, and there is always – we are, don't forget, in a fragmented industry in all of its different components, whether it's the labs, whether it's the retail, whether it is the online, whether it is some technology companies. There is – it's a very fragmented industry.

And so the company, or EssilorLuxottica, is well positioned vis-à-vis these M&A opportunities, and actually Pierluigi, who is connected and who will lead the M&A programme for the Group is constantly monitoring the pipeline of opportunities. That's what I can say on it. It's part of our business model.

Susy Tibaldi: Thank you. That's helpful.

Operator: Our next question comes from the line of Piral Dadhania from RBC Capital Markets. Piral, you are now unmuted. Please go ahead.

Piral Dadhania (RBC Capital Markets): Thank you. Good morning, everybody. Two from me, please. If I could perhaps just start with the 2021 guidance in relation to gross margins. Do you see any reasons why your gross margin can't return to 2019 levels or even slightly higher, given some of the positive mix effects that are helping the business, particularly in relation to channel mix?

And then the second one is just around – it's around sort of the synergies, again, I'm sorry. But I still don't feel like I've got a clear answer as to why you wouldn't have a higher margin in 2021 on a similar revenue number to 2019 with the benefit of synergies? To Susy's earlier question, is there underlying pressure in the operational business that is partly offsetting that? Or is the synergy delivery of €300 million to €350 million that you're guiding for to the end of '21, mostly being reinvested into the business, because if we look at the synergy targets or expectations, at the time there was struck, you guided the market to €300 million to €350 million of adjusted EBIT synergies between 2019 and 2021. When we're looking at 2021 numbers, the 2021 EBIT number is pretty much in line with '19, which means that none of it is actually visible. But any further clarification there would be very helpful. Thank you.

Paul du Saillant: Thank you, Piral. So David, you take the questions?

David Wielemans: Yes, I can start to answer, Piral. And Stefano, just you can step in and complete. But on the gross margin question, there are a few things. Yes, again, to my previous comment, we should expect to have the gross margin to come back at the 2019 level. We are still having some headwinds in terms of mix effect. I mentioned already that Retail activity is still below the wholesale activity. And we know that the Retail activity is relative to the gross margin rate.

And same effect with the mix of the business line. The Sunglass activity is still not back at the level. So today, it's underperforming the Optical segment. And we have higher-margin on the Sunglass activity. So we should expect those to, I would say, to normalise and go away once the COVID will normalise, I would say. And those mix effects should disappear. But right now, it's impossible for us to – I mean, to have certainty on the timing of the way the COVID will be solved. So that's really the point.

I would add maybe one thing that right now we see an increase of the distribution cost on all markets that all the industries are impacting by that. Though that also may be the price and the distribution cost freight-in and freight-out will normalise as well when the COVID will stop. But for the time being, that also have a slight impact on the gross profit.

To your second point, again, why should we not target 2021 to be higher with the equivalent number of sales because we have some investment that I was touching on the previous question. So at this point, the synergies which are long-term benefit for the company, are also used for the Group to invest. And on the short-term, things we need to execute in order to build Luxottica and to put in place our efficiency programmes.

So 2021 will continue to be a year of investment from that perspective on several activities that I quickly comment with Susy's questions. So that's why I think we should not over-target the '21 gross margin objective.

Piral Dadhania: Okay. Thank you. That's very clear. If I can maybe just follow-up and ask in a slightly different context. By the end of '21, do you think that the balance between revenue and cost synergies, relative to what you've guided, will be similar? Or do you expect sort of an overproportion contribution from perhaps cost relative to revenue, given the difficult or challenging trading environment that we're all facing?

Paul du Saillant: I think on that question, Piral, we always said that the synergies will be pretty balanced between the top line and the cost synergies. And so I think that is still, overall, the ambition that we have. And actually, I'm pretty pleased to see the results that we have had despite the COVID on some of our top line synergies. So it's good news because cost synergies are more easy to clearly identify.

Top line synergies often have more potential. And I think our teams are doing a very good job, for example, I mentioned earlier, the cross-selling that's quite impressive. The new programmes like EL 360 have been deployed very fast. So we have some good programmes that will progressively accelerate, amplify themselves, while we work on the cost programmes, the back office, the integration, the lab, the IT, the simplification of the overall structure of the EssilorLuxottica company around the strength of Essilor and Luxottica.

So I think, overall, it's a balanced synergy programme that is on track, where the teams have, despite COVID, work very efficiently together. And so for Francesco and I, it's very encouraging to see that going on despite the complex environment.

Piral Dadhania: Okay. Perfect. Thank you, Paul. Thank you everyone.

Operator: Our next question comes from the line of Julien Dormois from Exane. Julien, you are now unmuted. Please go ahead.

Julien Dormois (Exane BNP Paribas): Hi. Good morning, Paul, Stefano and David. Thanks for taking my questions. I have three. One relates to the guidance, but just trying to extend the scope to the next few years. You had indicated at the Capital Markets Day in September '19 that you were expecting the margin to grow, let's say, probably to the tune of 10-30 bps per annum, that was what was implied in your financial guidance. So does that target – is that target is still valid despite the more complex environment that you just alluded to? So that would be question number one.

Question number two, this time coming back on GrandVision. It seems that you could get the antitrust approval from the European Commission in the coming days. So I'm just wondering what the next key milestones are when it comes to closing the transaction, and more specifically, in case you get an unfavourable ruling on the appeal in early April, could that lead you not to close the transaction before the deadline of 31st July?

And then the last one is a follow-up on myopia management. I'm just trying to understand how this SightGlass activity is complementary to Stellest. So I'm not quite sure I understand why it is a complement and not competition to Stellest. And your friends at Cooper have indicated that their myopia management contact lens is meant to generate sales of approximately $50 million in 2022. And this is outgrowing to several hundreds of millions beyond 2025. So do you believe there is any chance that Stellest or maybe SightGlass could reach similar levels of sales, which are obviously pretty impressive in an nascent field like this?

Paul du Saillant: Thank you, Julien. So maybe, Stefano, do you want to take the Capital Markets Day related?

Stefano Grassi: Yes, absolutely.

Paul du Saillant: Obviously, I'll take myopia one, and Pierluigi can make one or two comments on GrandVision. Stefano over to you.

Stefano Grassi: Okay. So for the guidance, we're confirming our outlook from the top line, mid-single-digit as well as from our profitability impact that you might remember, it's anywhere between 1 to 1.4 times top line growth. Pier, do you want to take at the GVI?

Pierluigi Longo: Yes. On GVI, as we said earlier on, we have three outstanding authorisation in the pipe, one from the European authority in mid-April and then in Turkey and in Chile, on which timeline is less clear, but we are working hard in order to get those approvals by the long stop date.

With respect to the appeal, it is early to say what's going to happen next, but we are waiting for the court of Amsterdam to rule on our appeal. And then there is obviously the outcome of the arbitration proceedings.

Paul du Saillant: Thank you, Pierluigi. So on myopia, just to try to make it simple. What is very important is to make sure that we have the key solution to successfully slow down the myopia development for children. And the two technologies of SightGlass and the one of Stellest are two different approaches to create that effect, one which is through a de-focus and one which is through contrast reduction.

And the way you put those two effects and you create them are two different approach on the lens. And with those and Norbert Gorny, who heads all of our R&D and innovation as – so that this is very key that we have a portfolio of solutions. And that is what we do through SightGlass with CooperVision. The lens approach, the contact lens approach, and we – clearly to slow down myopia, the whole platform of wearing eyeglasses for children has a very large potential and is already quite developed actually in China.

So we have not yet given any outside number on the potential that we see for it. But, of course, we have – it's a way to characterise it's as important of a breakthrough as progressive lens, where 60 years ago when it was invented. It's creating a totally new category platform and way to address myopia on, as you saw, hundreds of millions of people starting by children that are concerned with it. So I will not give you, Julien, any number there yet.

Julien Dormois: All right. Thank you for that. I had to try. Thank you very much. You guys have a good day.

Operator: Our next question comes from the line of Luca Solca from Bernstein. Luca, you are now unmuted. Please go ahead.

Luca Solca (Bernstein): Yes. Good morning. I have a question on your breakeven point. If we look at the second half numbers, we see that while – if I look at the constant exchange rates, while the revenue was flat, operating expenses were down 4%, more or less. Is that a sign that you have implemented structural actions to reduce your operating expenses and that, therefore, you would be looking at operating profit margin expansion going forward? And do I understand correctly from what Stefano was saying before that that is indeed the new guidance looking forward three or five years, never mind the synergies, which may be relevant for you internally, but when we look at the things from the outside, we would just be interested in the dynamic of this EBIT margin performance metric.

I would also wonder if the LensCrafters retail network rationalisation and the removal of in-store laboratories, for example, as well as the rationalisation of the laboratories network are already included in the synergies that you exposed or whether they would come on top as they would take significantly longer time, I would expect to achieve?

And then a third question about some of the technologies that you were explaining and that would potentially open the opportunity to diagnose eyesight remotely. Could that open the door to fiercer competition from digital players? And would you have a strong enough innovation pipeline within the company for the next three to five years to stand out and differentiate against the price focused competitors? Thank you very much indeed.

Maybe just a last one, if I may. When would you pay €400 million to HAL relating to the contract that you have signed in relation to the potential acquisition of GrandVision? Thank you very much indeed. And what would be the deadline?

Paul du Saillant: Thank you. Do you want, Stefano, to take the first two?

Stefano Grassi: Yeah.

Paul du Saillant: I'll take one on technology and solvency on HAL.

Stefano Grassi: Yes. Let me say – Luca, good morning. We had reacted from 2020 with several lessons learned and I believe with few certainties. One of them is that we have a pretty good cost control in place across the organisation. So our exiting velocity implies a very good control of our cost base for the months to come. And we'll – obviously, we can resume investment as needed and as we believe are necessary to sustain our growth in top line, not only in the short-term but more on in a structural way.

So from a longer term, what we can expect to see is still what we share with you at the Capital Markets Day. So the leverage and an improvement of the operating margin with the top line that is in the mid-single-digit territory. That is our goal. That is our guidance over the longer run. And I don't think we have a reason for now to change that.

Paul du Saillant: For the other question.

Pierluigi Longo: Yeah. On the €400 million, it's related to the closing by the long stop date. So the long stop date is at the end of July '21, so two years from the signing of the contract. If we're not going to be able to sign – to close by that day, there is the payment of the obligation to pay the €400 million. Obviously, there are a number of events which might delay that. But for the time being, we do not have any visibility. So the contractual obligation is due on July – end of July.

Paul du Saillant: Thank you, Pierluigi. There was a question, Stefano, on whether or not the lab – the in-store lab rationalisation at LensCrafters was included in the synergies. And the answer is no, it's not included. It's not a work stream.

Stefano Grassi: That's correct, Paul.

Paul du Saillant: Yes. No, just to provide that. So on your technology question on remote refraction. I think to help you get a bit the differentiation or the way we are approaching it, it's not just a matter of having the instrument or the tele-optometry capabilities. So definitely, EssilorLuxottica has an instrument suite with some very innovative instrument as part of it. I mentioned one was the VR800 that we are deploying in our own store and outside.

Then you have to have the full digital suite to, in the store, interconnect all the instruments with the practice and then to remotely operate them, so you can have this tele medicine or tele-optometry capability. And we have our own software platforms and integrating platform to do so. Then you need third to have, and that's a great asset. You need to be able to do that for your own store, in our case, which gives us a great platform to take the pilot, to operate and also for our customers, independent practices, our Essilor expert partners. We give them access progressively to those technologies.

So I think the Group is uniquely positioned to have the instrument, the software capability in an open model, so we can offer them through our customers and deploy them into our own stores or for some of those capabilities in our online channel. And I think that is differentiating us in this problematic, which is quite complicated to manage. I think the size of the Group, our omnichannel positioning and the fact that we have internal capabilities does give us a very good position to address this new tele-optometry and transformation of the eye exam that is going on. Hope I clarified the matter for you.

Luca Solca: Yes, indeed. Thank you very much, indeed, Paul. Thank you all.

Operator: Our next question comes from the line of Domenico Ghilotti from Equita. Domenico, you are now unmuted. Please go ahead.

Domenico Ghilotti (Equita): Hi. Good afternoon. Three very quick questions. The first is on the current trading. I'm trying to understand if – how do you see Q1 compared to Q4. So overall, from your speech, the feeling is that it's a bit more impacted by the pandemic compared to Q4, but I wanted to have your colour on this topic. Second question, very briefly on the level of CapEx, as we should expect the key drivers for the CapEx. And, well, the last question is on the Facebook partnership. When should we expect to have some update in terms of timing and product?

Paul du Saillant: So, Stefano, do you want to take the – I think the Q4 one?

Stefano Grassi: Yeah, absolutely. So with respect to first quarter trading, a couple of, Domenico, sort of a concerns represented by, for example, Europe, right? We operated January and February with our Sunglass Hut footprint at 50% of stores they were operating. And some of them with a reduced number of trading hours. So that's clearly something that it's probably more deteriorated than what we've seen at the end of last year.

The other item – the other region, that is a sort of concern at this stage is Brazil. We're observing the situation of the biggest country for us in Latin America, and obviously, the news that we get there are quite concerning. Conversely, on the positive side, we continue to see e-commerce being very strong. Australia, it's continuing that trend. And obviously, we are observing very closely the evolution of vaccination campaign that has been started by the new US President, and obviously we very much look forward to see the results of that campaign. But as we stated before, this is kind of an independent variable that we're closely looking at.

From a capital expenditure standpoint, we are looking at carefully resuming CapEx to what we had in the past as a percentage of revenues. We know that we're going to undertake important investment on manufacturing and lab manufacturing to very much rationalise our footprint there. We know that we are taking an important investment on the retail side to further enhance our retail footprint, in particular, in LensCrafters, with over 100 stores that are going to be remodelled just in the course of 2021. So we could expect, if we exit progressively from the pandemic outbreak, to resume furthermore our investment than what we've seen in 2020, for example.

Paul, do you want to take the third one?

Paul du Saillant: Well, you can take it as you prefer.

Stefano Grassi: Yeah. We're not at the stage resuming dates for the Facebook. We are actively working on the partnership. And obviously, as soon as we are in a position to share a timeline on launch in the market, we'll definitely do so.

Domenico Ghilotti: Okay. Thank you.

Operator: Our next question comes from the line of James Grzinic from Jefferies. James, you are now unmuted. Please go ahead.

James Grzinic (Jefferies): Yeah. Thank you. Good morning, everybody, and thanks for taking my questions. I had two. The first one is, so you've completed your SAP rollout in Italy. Can you perhaps illustrate how that will be rolled out globally, what the timetable for that looks like, because I presume it's a big underpin to a chunk of the future synergies?

And secondly, Paul, you talked to market share growth pretty much across platforms and categories, product categories. Can you perhaps give us more details on that? I'm particularly interested in perhaps market share performance by regions and products, where performance has been strongest and weakest? Thank you.

Paul du Saillant: So on the SAP, David, you take it?

David Wielemans: Yes, of course, I can answer. Good morning, James. On SAP, so we have, as you know, started the SAP rollout with Italy successfully this year. Then we have a global road map in place, putting in front of the road map, I would say, the key entities of the Group in US and in Europe to start with, but after rolling out, I would say, on the next couple or three years, the overall company. But already a very, I would say, intense roadmap to start with on the key region of the Group and the team, as we speak, actively working on it, everywhere. So that is really definitely at the top priority list of the Group for this year and the next.

James Grzinic: Thank you, David. Can I just follow-up on that? So basically, a three-year programme front-end load in the US. And the US rollout itself will be how long, two years?

David Wielemans: We expect it to be shorter than two years. We look at also – I won't go into details here, but we are implementing also in different steps, so that we can move already very quickly all the transactional and P2P functionalities and then take a bit more time for the controlling and the more business-related functions. But overall, it should be a maximum of two years. We expect to do better as some implementation has already started this year.

James Grzinic: Thank you.

Paul du Saillant: Then your question, James, on market share gains is one that you have to look at the way the Group is positioned. We are acting in a given market with many different channels, product categories, capabilities. So when we say, together with Stefano and David today to you, for example, that we have a strong performance in the US, it means that we have, through the different channels, we consider that we are overall gaining market share with independents and with our position in the online, where we have some very powerful platforms, whether they are SunglassHut.com or Ray-Ban.com or EyeBuyDirect.com.

So we act in the market at many different levels. If I take you to China, we have a very strong performance in our lens activity, but at the same time, our brand, Bolon, which is active in optical frame and sunglasses is now the largest sunglass and optical frame actor in China, doing very well with its mid-tier positioning.

Australia, you heard from Stefano, the very good performance of our retail activity. If I take you to France, in 2020, we had a very good performance of our lens business with the different entities that we have in France that have been extremely well addressing the French market in the recovery. So it is a broad question.

And what we look at with Francesco and our team, when we look at a given country, is how do we develop the market in all of its different channels, product categories and how we are gaining market share, whether it is in lens, in frame, in optical frame, in retail, partnering with independents or in the online, if there is an online channel already developed. So it's a multi-dimensional thing, and that is what is so unique about Essilor and Luxottica. If you look at us in this industry, we are positioned in a totally unique way with unique assets.

James Grzinic: Right. Thank you, Paul.

Operator: I can now confirm that the Q&A session has ended. And I will pass the call back to your hosts.

Paul du Saillant: Okay. Thank you, Patrick. Well, thank you very much for being on the call today with us. Always a pleasure. I hope we gave you some good colour on the results of 2020 and on our confidence looking forward. We look forward to see you for the Q1 call, which is on 6th May and where we will update you further on how the business is doing. Thanks a lot, and see you soon. Have a good day. Bye-bye.

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

[END OF TRANSCRIPT]