EssilorLuxottica's second quarter and first half 2021 results

Transcript of the Management Call

Speakers:

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Stefano Grassi, Chief Financial Officer

Paul du Saillant, Deputy Chief Executive Officer

Questions from:

Graham Renwick, Berenberg

Elena Mariani, Morgan Stanley

Luca Solca, Bernstein

Susy Tibaldi, UBS

Cédric Lecasble, Stifel

James Grzinic, Jefferies

Introduction & Key Highlights

Francesco Milleri, Chief Executive Officer

Good morning to everybody, thanks for joining us today and thanks for the interest you continue to show in EssilorLuxottica. I'm happy to join you for my first earnings call as the Group's CEO.
We are pleased to present today strong results, with a sharp acceleration of the Group performance in the second quarter of the year, leading to a nice growth of revenue and margins in the first half overall.
The new governance, based on a high-profile Board of Directors and supported by the management team, is promoting a faster and better execution of our strategic vision and integration programs.
This allows us to upgrade our outlook for the full year 2021, now pointing to mid-single digit revenue growth and some margin expansion versus 2019 at constant currency.
Backed by an improving business environment in most of the areas worldwide, starting from North America, and leveraging its best-in-class proposition, EssilorLuxottica grew 9.2% in revenue in the second quarter versus the same period of 2019 at constant currency, which is a substantial acceleration compared to the plus 1.9% of the first quarter.
Our business grew in all the business areas, in both optical and sun as well as in wholesale and retail. Optical was driven by value-added lens brands and our optical retail banners, in particular in North America and Australia.
Sunglasses strongly bounced back in the quarter, in Sunglass Hut stores and on e-commerce platforms, driven by Ray-Ban and Oakley as well as luxury brands.
This proves once again that brands matter in our business and underpins the Group strategic focus and investment effort on branded top-quality offerings.
Both the new divisions we introduce today – Professional Solutions and Direct to Consumer, representing the Wholesale and the Retail business of the Group – grew and accelerated.
E-commerce continued to grow fast, up by 66% in the quarter and reaching 9% of the Group's total business.
Our balanced focus on both the wholesale and retail channels reflects the strategic ideas of network company and open model presented at our first Capital Market Day, with the goal to elevate the standards of the entire eyecare and eyewear industry to the benefit of all its stakeholders.
The acquisition of GrandVision, closed one month ago, perfectly fits into such a strategic framework. Aimed at replicating in Europe the successful multichannel model we have adopted in North America since the acquisition of LensCrafters in 1995.
We are happy with the transaction and ready to make the most of it, like we have been pleased to see the merit of our position fully acknowledged by the arbitration court.
EssilorLuxottica is rebuilding its foundations and reshaping the industry, going through such a transformational phase with energy and enthusiasm. Vertical integration, global footprint, clear leadership, as well as strategic vision and execution capabilities are the key strengths of our Group, which make us look at the future with great confidence.
With that, I hand over to our CFO, Stefano Grassi, for a quick review of the Group's revenue drivers and our Deputy CEO, Paul du Saillant, to talk about the key areas of Mission and Sustainability.

Financial Review

Stefano Grassi, Chief Financial Officer

Thank you, Francesco, good morning everybody and welcome to our first half 2021 earnings release.
As we're starting now a new journey for EssilorLuxottica, we decided to move away from the old heritage of EssilorLuxottica, moving into a new structure that includes two divisions for the Group.

On one side we have Professional Solutions division that represents our wholesale business. On the other side we have the Direct to Consumer division that represents our brick and mortar division, as well as our e-commerce commercial proposition.
I believe this structure truly enhances our vertically integrated business model and will allow you, all of you, to better understand the underlying business strengths of the Group.
In the appendix you will also find an extended disclosure of our new revenue base by quarter for 2019 as well as for 2020.
But now let's start our journey around the different geographies as usual, using and leveraging the new structure that we just announced.

Let's begin with the biggest geography, North America, that in the second quarter posted top line up 16% compared to the 2019 level. As you can see this number is something that we didn't see in the past, it is actually the best quarter that we have recorded in North America for EssilorLuxottica.
The market in North America is pretty healthy, our top line performance was supported by a strong delivery from both divisions, Professional Solutions as well as Direct to Consumer.
The Professional Solutions division was up in the high-single digit territory during the second quarter. The lens business in North America delivered a strong growth, well supported by ECPs, as well as our strong branded portfolio.
The EL 360 programme, the joint effort between the lenses, the frames and the insurance arms of EssilorLuxottica in North America, is now rolling out in about 2,100 at the end of June.
The frame business in North America posted top line up about 20% during the course of the second quarter, with independents, key accounts, e-commerce and sport accounts all on the double-digit pace.
From a brand standpoint, we’re very happy to report that Ray-Ban and Oakley posted double digit growth in prescription as well as on their sun part. In particular the Oakley brand was very well supported by the launch of the Kato product, that thanks to its disruptive design and innovation already represents an icon for thebrand that is gaining a lot of visibility during the Olympic Games that are in due course in Tokyo, Japan.
Our Direct to Consumer division was up double digit during the course of the second quarter. LensCrafters was up double digit in comparable-store sales in April, double digit in May, double digit in June. And that happened despite our traffic materially declined compared to the pre-COVID level, we are talking about a traffic decline that is in the 20% range during the course of the second quarter. But thanks to a strong retail execution, thanks to a strong lens mix, we were able to deliver such a strong result.
Sunglass Hut was up double digit, likewise LensCrafters in every single month of the second quarter, supported by a strong rebound of the local demand.
Last, but not least, e-commerce. E-commerce was close to double the size of the business compared to 2019, with Oakley.com, SunglassHut.com, Ray-ban.com and EyeBuyDirect.com, all of them in the triple digit territory.

But now let's move ahead and let's go back into EMEA. EMEA recorded the top line up approximately 4% during the course of the second quarter. It's a remarkable rebound of our performance in Europe, where you might remember during the course of the first quarter we recorded a negative 7%. So we moved from negative 7% to plus 4% in the second quarter, with a strong acceleration during the second part of the second quarter in the region
Professional Solutions was a solid positive in the second quarter. France, the largest country in the region, was up in the mid-single digit territory, but also Italy, the UK, Scandinavia, Russia, Eastern Europe, as well as South Africa, all posted solid growth during the course of the second quarter.
On the frame side, we were very pleased to report that the sun business was finally flat versus 2019. That was one of our challenging areas if you remember in Europe. And the month of June actually recorded a promising high-single digit growth compared to 2019.

A solid response continued to come from the optical business, that was positive once again and posted top line up in the mid-single digit territory for the second quarter.
A brief touch on the Direct to Consumer side, that was up mid-single digit, driven by a strong e-commerce performance, that is not something new for us, as we have already seen it in the past.
A brief touch on retail brick and mortar, that was still negative in the second quarter. Just to give you an idea, we were operating during the second quarter with 10 to 20% less operating hours compared to pre-COVID levels. But we saw some encouraging signs of recovery during the second quarter, in particular in Italy, wherewe were solid positive in May as well as in June. Sunglass Hut recorded flat sales in the UK in June, and we were double digit up in Turkey, again during the month of June. So some encouraging signs of recovery that we've started seeing in Europe.

Now let's move to the Eastern part of the world and let's touch Asia-Pacific. As you can see in Asia-Pacific our revenue declined 3.5% at constant forex. The Professional Solutions division was just slightly negative during the course of the second quarter. We were very pleased with the performance in Greater China, where top line was close to +30% in the second quarter. And Australia, that posted another solid quarter of double-digit growth.
On the other side, we have to report that India, South-East Asia, Korea and Japan, continued to be on the negative trend, very much due to the COVID restrictions that impacted this part of the world.
In China, I would probably mention the remarkable performance, the impressive track record of the Stellest lenses, that continued to post solid increases week after week in lens delivery. And I've got to tell you, just to give an idea of the importance that myopia management has in China, during the course of the second quarter in the lens business about half of the growth was achieved through myopia solutions.
On the Direct to Consumer side our sales were negative in the region. But we saw very different trends within the region. On one side, our optical Australian business posted comparable-store sales in the high-single digit territory, despite local lockdowns that impacted Australia.
Just to give you an idea, we had approximately 560 stores that were impacted by local lockdowns in Australia, for a total of 40 days of closure in different time periods, for different clusters of stores, but again a massive impact on our business. And we continue to see that happening, unfortunately, in the month of July, with lockdowns impacting the New South Wales region and Sydney in particular.
In China, our Direct to Consumer business was still on the double digit negative in Hong Kong, while Mainland China showed encouraging signs of recovery in April, as well as in the month of May, but then the restrictions that impacted the Southern part of China in the month of June created a deceleration of our trend.
For the rest of South-East Asia we continued to see negative trends here, very much due to the strong limitations in place on the travel retail side.

Now let's touch our last region, which is Latin America where you see our top line up 2% on a constant forex basis. The Professional Solutions delivered low-single digit growth during the second quarter. We were positive on both lenses andframes, despite still a challenging situation for the vast majority of the Latin American countries during the course of the second quarter.
In Brazil, April and the vast majority of the month of May, the population was impacted by severe restrictions, in particular in shopping malls, and we saw that impacting our business. But then in the month of June we started seeing a good recovery in particular on the ECP channel, as well as in our sport channel in Brazil.
From a lens mix standpoint we're very pleased to see favourable price mix, thanks and well supported by our Varilux and Eyezen lenses in Brazil.
From a country mix standpoint, happy to report that Mexico, as well as Argentina, both solid grew during the course of the second quarter, while Colombia was still in the challenging territory, due to the political turmoil and the impact of the COVID restrictions.

On the Direct to Consumer side, sales in the quarter landed just slightly negative with April that was double digit negative, while May and June were both positive side, led through a strong recovery in our Chile operations. And this positive is also continuing through the month of July.
With that let me hand it over to Paul who will give us more colour around the great initiatives that we're building up with respect to our Mission and Sustainability.

Mission & Sustainability

Paul du Saillant, Deputy Chief Executive Officer

Thank you, Stefano. Good morning to you all. It's great to be here and together with Francesco to be able to share such great results and momentum.
Now, I would like to focus on a topic that is very important to EssilorLuxottica and to us all, Mission and Sustainability.
Sustainability is deeply rooted in EssilorLuxottica’s DNA. And both companies have a long history of corporate responsibility. It is very much part of who we are.
Today, we are proud to announce that building on our past momentum our teams have defined a single, companywide, sustainability approach that ties into our Mission. It is a wonderful milestone for us, and I would like to thank our team for their outstanding effort in combining their expertise and delivering a clear and unified roadmap.
This is a great example of the progress that we have made in our integration, another proof point on how we are working as one company.
The approach, named, Eyes on the Planet, structures our new sustainability roadmap around five pillars: carbon, circularity, world sight, inclusion and ethics. Each of these topics are deeply rooted in our organisation. You can find more information on the new sustainability section on the company’s website.
I would like to touch on three of these pillars today. Starting with carbon, our contribution to fighting climate change. Together with Francesco, I am pleased to announce that EssilorLuxottica has set the target for itself to achieve carbon neutrality at its facilities by 2025. Starting in Europe by 2023 for Scope 1 and 2.
A lot of progress has already been made in reducing our carbon footprint in recent years. And with this pillar we will continue to do so by focusing on key areas such as producing and procuring renewable energy wherever we can. We will invest in new processes that reflect our commitment and continue to update our equipment and technologies with energy usage in mind, in addition to investing in initiatives to protect and restore natural ecosystems, to name a few examples.
The second pillar I would like to highlight is circularity, with our strong intention to improve product design and function, waste management and materials we use. We will continue to make bold moves across the entire production cycle, including a shift from fossil-based materials to bio-based materials which produce fewer emissions and are easier to recycle. This is also reflected in the recent investment we made in Mazzucchelli to develop and produce a highly sustainable type of acetate.
And I would like to conclude with our world sight pillar, which in line with our Mission, aims to bring good vision to everyone everywhere. We remain committed to our goal of eliminating uncorrected poor vision by 2050. It is frankly an anchor for the industry, and we have some of the best philanthropic partners and NGOs around the world partnering with us to achieve this goal.
I would like to take this opportunity to highlight the news announced last Friday. All 193 member states of the United Nations have unanimously passed a resolution committing to making eyecare accessible for the billions of people living with preventable vision impairment by 2030. This inclusion of eyecare in the Sustainable Development Goals supports EssilorLuxottica's own ambition and roadmap, launched during the UN General Assembly in 2019, to eliminate uncorrected poor vision in a generation.
As we celebrate this milestone, I would like to thank all our teams for their contribution over the past

decade in elevating good vision onto the world health agenda.

So as you can see EssilorLuxottica today not only has a fantastic and clear mission, which is now officially supported by the UN. We also have a clear sustainability approach through which we plan to contribute to some of the key societal issues of our time and continue to make a positive impact for everyone around us.

From all you have heard us share this morning, I am confident you can see the momentum which we have been able to create for us and for the industry.

And with that I would like to hand over to the operator for the Q&A. Thank you.

Questions & Answers

Graham Renwick, Berenberg
Good morning, everyone. Thank you very much for taking my questions. Just, firstly, on the first half margin, which was 130 bps ahead of the 2019 base, how much of that was boosted by the one-off cost measures, which you expect to roll off, and therefore, how much of that was a real underlying improvement in margin versus 2019? So, in other words, what would a normalised margin look like without those temporary measures?
And then, secondly, on GrandVision, now that's been successfully completed, are you able to expand a little bit more on the opportunities you're seeing there, and are you able to give us a sense of the size of the revenue and cost synergies you think you can derive from that deal? And also, are there any, sort of, up front integration costs or any phasing of synergies we should be aware of there? Thank you.

Stefano Grassi, Chief Financial Officer
Hello. Good morning, Graham. Let me take the first answer here. With respect to our first half margin, you remember, last time that we spoke we said we were entering into 2021 with a very good control of our cost base. That control of our cost base has been very much put in place throughout the first half of the year. So, we have that very much under control. And in the second quarter, we released certain investments in particular to get ready for the sun season. But overall, I would say that this is a good underlying trend, not too much impacted by one-off activities.

Francesco Milleri, Chief Executive Officer
I would like just to tell something more general on GVI maybe to prevent some other questions. GVI, as you know, is a way to complete our footprint worldwide. It was something missed in our organisation. Let me say, maybe it was a mistake that we have done many years ago and so now we have the opportunity to fix that mistake.
Now, we have a new footprint. It's almost the same around the world. We have something left on Asia and we are looking to fix also that part. And GrandVision is merely more than just an improvement for our revenues and margin and so on, it really is a big opportunity to deploy the model that we have in mind, the omnichannel approach, everywhere in the world and also in Europe.
This is the main sense of our acquisition. That is the reason why the price was important, but not the only thing that mattered on that operation. So, now I'll leave it to our CFO to answer on cost and synergies.

Stefano Grassi, Chief Financial Officer
Yes. It is too early to have a full comprehensive picture on revenue and cost synergies. Some of the work streams that we are going to undertake are the ones that we have been through with the disclosure, and we have been pretty open to talk about them. And we will, but in due course of our journey of converging with GrandVision, provide more colour on that. But, at this stage, it is a bit too early to say.

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Elena Mariani, Morgan Stanley
Hi. Thank you, and good morning and congratulations on your results. So, I will stick to the two questions. The first one is on your outlook. So, your top line guidance assumes a slight deceleration into the second half of the year versus the growth you recorded in Q2. I just wanted to understand if this is a function of you being relatively cautious, due to the uncertain macro picture or do you actually expect the pace of top line growth to sequentially decelerate? I'm asking this because you sounded as if the exit rate was quite good given that June has seen a further acceleration in many areas.

And the third part of this question is just a clarification on the back of the previous question. So, is it fair to assume that EBIT margin in the second half should expand as much as in H1 given that you're expecting another half year with sales growing at a mid-single digit pace?
And then my second question is more a strategic one, probably for Francesco and Paul. You've talked about GrandVision as being a key transformational deal that allows you to have a new footprint. And, actually, now, you know, you're certainly unbalanced if you compare Europe and the US versus Asia. I know it's very early, and I know you have a lot on your plate, but what would be your strategy to further expand your footprint in Asia? Do you potentially envision acquisitions there of retail chains? Do you expect to grow more organically? So, if you could share your very long-term view on this part of the world that would be great. Thank you very much.

Stefano Grassi, Chief Financial Officer
Thank you, Elena. Good morning. I'll take the first question on the outlook. I would say that the top line assumption here it's pretty consistent with the trend that you've seen in the first half of the year. I mean, if you look at our top line, it's around 6% in the first half, and we are landing in a full year guidance of mid-single digit. So, we are there.
With respect to the EBIT margin, let me put it in a kind of different angle. Our basic guidance clearly indicates that we have a margin expansion for the full year. That guidance implies a margin expansion for the first half of the year as well as for the second half of the year. In particular, for the second half of the year, we wanted to keep some flexibility to release investments that we believe are strategic for the Company when we do see that we have the proper market conditions to do so. And that is the reason why we issued the guidance as we did. We have some important strategic investments, the Olympic Games in Tokyo, as well as a major and important media boost plan on the lens side. We have the back to school season coming up, and, obviously, in the fourth quarter, there is going to be the holiday season with the Black Friday. We want to have the flexibility to release our investments when we have the proper market conditions to do so. But, again, there will be margin expansion in the full year. There was margin expansion in H1, and there will be margin expansion in the second half of the year as well.

Francesco Milleri, Chief Executive Officer
To Asia expansion, so the question is really complex because we divide Asia in different parts, and we have different strategies. Saying that, we are already the biggest operator in that area in retail and wholesale, lenses and frames. So, we are not as big as in the other areas of the planet but, at the same time, we are there, and we know very well that market.
We are approaching in a different way China, India and the rest of Asia. In China, you know we have an articulated footprint, we have plants, we have strong wholesale, we have retail also in the premium space. And now we are really focusing on the expansion of our presence on the clinical and hospital segment, with the Stellest launch supported by this strong relationship that we have with the doctors there. And that will represent the main driver for our growth in the next one or two years, and that means also a different approach to retail strategy. You know that one of the biggest retail organisations in China is really represented by stores that are inside hospitals. They are fully connected with the clinical part, with the eye exam and measurements and so on. So, that is the part where we are focusing on in China and, at the same time, we are integrating our strategy with an e-commerce approach and new interactions with the final consumer.
For India, we are planning to have a really strong strategy to be present there. You know that there are some constraints to run a multi-brand retail in India. So we are talking with many partners, and we are pretty sure to be able to find the right one and start really to have a stronger strategy in India.
For the rest of Asia, we have some good presence. We are looking at some really small, mid-size acquisitions to reinforce our footprint. We have to await the evolution of those countries and we have to start our operations when also these countries and the channels will be ready to manage our products and lenses. That is the view that we have.

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Luca Solca, Bernstein
Yes. Hello. Good morning. I would like to focus my questions on the Direct to Consumer portion of the business. I wonder how satisfied you are with space productivity, with sales per square metre in the retail chains, and if you could give us, maybe, your perspective on the different parts of the retail business. I imagine that LensCrafters in the US might be benefiting from the very strong resurgence in demand, but I wonder about Sunglass Hut and other retail activities you have worldwide.
Secondly, you have achieved virtually an almost 10% digital sales this year. What is your ambition then, and how do you see this business proceeding, going forward? Is it fair to expect that it could be significantly more material considering your activity in sunglasses? Thank you.

Stefano Grassi, Chief Financial Officer
Buongiorno, Luca. I'll take the first question and then Francesco will comment on the question on the online business.
We're quite happy in respect to the productivity that we're seeing in our stores. Clearly, it's a journey, it's a journey of continuous improvement, it's a journey of continuous investment in our store footprint, which is not only, let me say, a matter of size of the store.
With the material and important growth that online is playing, with the role of omnichannel that Francesco very much described before, it's going to be very important, and in a way fascinating, also to understand how our store productivity, which now encompasses a physical element as well as a digital element, will come into play in an omnichannel relationship and how that can be effectively measured. And this is something that we probably didn't face that strongly a few years back.
I think what is very important is that we continue to invest to make our stores up to the latest and greatest technology but, more importantly, that we continue investing to converge and create that omnichannel proposition that's very much the quintessence of our growth, in physical as well as digital. That is very important.And I think this will imply also a different way of looking and measuring productivity within the physical retail environment.
Francesco, on the online?

Francesco Milleri, Chief Executive Officer
Yeah, online. It's a big question, but I believe we have to better understand the strategy and understand how our strategy will impact our online business. So, I don't care how big online will be, but how relevant it will be in our complete omnichannel strategy.
As for online sales, of course we are happy with the growth, we are happy with the profitability, and online is the way to push branded lenses and frames around the world. But this is not the point of our online. Really, we are focusing more on a full integration between online and physical footprints, and that is not just for our stores but for the stores of our clients, wholesale clients,such as small ECPs or large retailers. So, this is the view that we have.
And now we are really focusing more on the optical business than on the sun business. The sun business is already quite big, profitable. It's what we, as the Luxottica part, know better to manage and we always had good results. But really, the challenge now for omnichannel is in the optical part.
And, when we manage the online and the many banners that we have, and when we integrate fully, and we already started, then the question is how big will be the number of customers that start their journey online and end it in a physical store . And, if that number is big, that is why we are increasing the brick and mortar footprint, because, at the end, to have an omnichannel approach that is effective you need to be almost everywhere. And the challenge for the future, for us, is to use our network as a single one network.
So, no matter the brand, no matter the assortment that you have in the store, what matters is that our customers will find there someone that can take care of them. And so we leverage this capability.

And when we think at the future, the ones that can take care physically of our online customers could be also an ECP or one of our wholesale client and it does not just have to be our own network. And this is also where our philosophy and strategy to be more a network company than just a producer is coming out.
So, I believe that, in the future, you will see big changes on the market. And also the meaning of segmentation will change completely, because the segmentation starts online and the stores become a place where you have to deliver something or to fix or to assist. Really, if you deeply think about that, then you understand that the concept of the store and the assortment in the store change completely in meaning. And that is the big news that will arrive on the market. It will deeply change the way we look at the market and the way we take care of our consumers.

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Susy Tibaldi, UBS
Thank you and good morning. My first question, it will be on the top line. We have been hearing on the various geographies how the trends were during the various months of the quarter. Could you just please clarify at Group level, when it comes to June, was the June exit rate actually including compared to the overall quarter that you delivered and then also are these trends continuing into July?
Secondly, on the EBIT margin, which saw a significant improvement it would be helpful to understand how much you think this is due to operating leverage, which is something that you clearly state in the release, and how much is this helped by the integration, by the synergies?
And related to this, do you see much risk of, when it comes to inflation in the market, especially in North America, could that be a risk for the second half of the year? Thanks a lot.

Stefano Grassi, Chief Financial Officer
Good morning, Susy. I'll take your questions here. Let me say, as for top line, in the second part of Q2 we've definitely seen an acceleration. Clearly, the acceleration of the vaccination campaign in North America as well Europe created safer conditions for deconfining the population.
We see that trend continuing in the month of July, in particular in North America. In Europe we see further progress and improvement, although the pace is slower than what we see in North America.
With respect to Asia, it's still a very challenging environment, probably with the only exception of China, Mainland China, compared to more challenging Southern parts of the region. Australia is in a very challenging situation at this stage with the lockdowns that will impact the New South Wales region for the next four weeks.
And then Latin America, we see some encouraging signs which come at a good time because we know that the second half of the year is the high season in Latin America.
So you know, we're looking at the second half obviously with careful attention. But we have some trends that we've seen in particular in the month of June that will continue in the month of July.
With respect to the operating leverage, clearly when you do have a solid top line, when you do have a good, controlled cost base and you see synergies realization coming through and you also made the proper investments, the result that you see is what we've got. So that's something that obviously, we're continuing to see.
But, again, as I said before, we will continue to keep that flexibility, understanding when market conditions will allow us to release strategic investment for the Group.
So all in all, in North America, we have a pretty optimistic view. I think we see that some of our key channels like the sport channel, the independent ECPs are very vibrant. But the overall market in North America is pretty healthy, so, so far, so good.

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Cédric Lecasble, Stifel

Yes, good morning and thank you for taking my questions, I have two actually. So the first one is linked to the change in governance since the AGM and the implementation of this new organisation in terms of people, in terms of organisation. Can you tell us what it has changed internally and if you have seen any flexibility to improve the speed of integration and of synergies?

And the second one is on the achievements. Could you maybe update us on your best integration achievement between, excluding GrandVision for the time being, between Essilor and Luxottica, both on the supply chain side and on the product side?

And if you could also confirm your target of Euro 300 million synergies by end 2021, and what kind of cost it implies, if we should understand it as gross or net synergies? Thank you very much.

Francesco Milleri, Chief Executive Officer

Governance, it seems to be back to two years ago, but that is fine.

Integration. We don't have to change the speed of integration. Integration is already done. We decided who's leading the Group. I'm here with Paul on my side and we really integrated all the fundamental decisions making processes needed for our future.

Now there is a little bit of execution. That is the part left. We are really in a good position. We believe that before the end of the year we will unify many managerial positions in the countries. We are really moving toward the new idea of complete pair also in a sales organisation, that means to have wholesale lenses and frames under the same responsibilities.

Then we already started with all the technical integration, all the IT systems are really in the execution phase. We believe we will have one common system before the end the next year, and many countries, the most relevant ones, will be ready at the end of this year. So, this is the view that we have on integration.

And governance, we believe and know that the governance now is totally fixed. We are a normal company with a normal management team, and I believe part of the results that we had are coming from that decision. The Board is voting any time, mostly unanimously and this has shown that we really are just one single company.

GrandVision is the next step: it is much easier, it's not a merger of equal, it is an acquisition. So it will go through the normal process of acquisition and integration at really maximum speed, and it will be completed, I hope, in the middle of the next year, since we had to wait the end of the year for the mandatory public tender offer. That is what I can exchange on that.

Stefano Grassi, Chief Financial Officer

With respect to the synergy and integration activities, the pace is really good, I would say, fully aligned with our expectations.

With respect to some of the major achievements, one of them is very much what Francesco just described on the IT infrastructure system. I mean, we are progressing at a very high pace with a progressive rollout of one ERP platform around the Group.

From a front-end perspective, the experiences that we're getting with the Ray-Ban Authentic lenses, that very much complements our frame assortment, is a successful rollout story in the US and in Europe.

And as for some of the relationships that we now have been able to establish on a joint effort basis in North America, we're now planning to roll them out also in other regions.

Some of the learnings from the EL 360 program in North America for example, is something that, with some adjustments, we might think about leveraging in other parts of the world, especially in some of developing countries.

So, this is something very important for us, but I think even more important for us is the fact that we're very much on track with our synergy delivery.

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James Grzinic, Jefferies
Hi, yes. Good morning Francesco, Paul and Stefano. I've two very quick ones. I guess the first one's for Francesco. Can you perhaps clarify is the SAP rollout in the US already in place, so is that something that you see before the end of this year? Is that one of the key markets you were talking to? I'd be curious to see if you've got any insights to share in that process.
And to Stefano, that half two swing factor from a margin perspective, is that entirely coming from your options on reinvestment into the business? Is there anything else going on perhaps in terms of what you see on supply chain costs, raw material costs or wage costs - or is that, given what you've spent on top line, not much of a consideration for you?

Francesco Milleri, Chief Executive Officer
So, SAP rollout in North America is proceeding quite well. We believe that the financial part will be in place for the end of the year, and then we will move to logistics, that is the one that is more relevant for our full functioning in the market. But at that time financial numbers and sales will be already unified, so we will have a faster understanding of the market and we will align also the Essilor side to the same model of control that we already have in the Luxottica part.
So, it's not just North America, we are trying to integrate some big businesses that now are a little bit more isolated in the Essilor side, and we are trying to integrate big markets in Europe, like France and Italy. And those projects are the most difficult because we are building a prototype.
Then, after that, the pace will improve and we believe next year we will close all the integration. And in the meantime, we are already planning how to integrate the 7,000 stores of GrandVision.

Stefano Grassi, Chief Financial Officer
And with respect to the second question, good morning, James. I'm not sure I would talk about margin swings between H2 and H1. If anything, I would say margin expansion in H1, margin expansion in H2.
If we're going to have a difference between the first half and the second half margin expansion, the reason for that could be some of that flexibility that I was describing before.
With respect to the cost inflation pressure on our margin, we do not see it. I mean, that it is very marginal and it is very well managed by the business. So, no impact from that standpoint.

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Telephone Operator
So this does conclude the end of our Q&A sessions. I will hand it back to our speaker team to close.

Francesco Milleri, Chief Executive Officer
Okay, so thanks very much to everybody. I understood that you are more than 100, and that is amazing, at the end of July and on a Friday.
So, we appreciate a lot the passion there you put in your job and how you are interested in our Company. Thanks a lot, and happy holidays to everybody.