EssilorLuxottica

EssilorLuxottica's second-quarter and first-half 2022 results

Transcript of the Management Call

Company Speakers:

Francesco Milleri, Chairman and Chief Executive Officer

Paul du Saillant, Deputy Chief Executive Officer

Stefano Grassi, Chief Financial Officer

Questions from:

Susy Tibaldi, UBS

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Cédric Lecasble, Stifel

Luca Solca, Bernstein

Julien Dormois, BNP Paribas Exane

Domenico Ghilotti, Equita

Key Highlights

Francesco Milleri, Chairman and Chief Executive Officer

Good morning all and thank you for joining us.

Before commenting on our first half results, let me spend some words to celebrate the memory of Leonardo Del Vecchio. It's already a month since he left us and we all miss his passion, his dedication and commitment to innovate our company and the whole industry. I am honored to have the responsibility to continue the journey he started and to grow EssilorLuxottica, inspired by his values, vision and strategy.

Leonardo would have been particularly proud of the results we're presenting today, with the achievements of the second quarter and the first half of the year. In a deteriorated macro environment, our open and flexible business model as well as our diversified footprint continued to drive the growth of our sales and margins.
We are the only player in the industry with a leading presence in all the geographies and all the business segments, which help us to mitigate the market headwinds and to capitalize on its positive trends. In addition, our fast and effective decision-making process greatly helps us to adapt quicker and better to the evolving customers' needs.
This is the kind of results we target, as a network company focused on the evolution of the industry and the upgrade of the category, driven by a sustainable and inclusive business platform, for the benefit of the Company and all its stakeholders.

At this stage, it's not easy to predict how the scenario is going to evolve in the second part of the year, but we remain confident about our positive performance for the full year.

In the first half, EssilorLuxottica posted revenue of Euro 12 billion, growing 15% in comparable terms, 9% excluding the currency tailwinds. We leveraged the business recovery in Europe and Latin America, up double digits in the quarter, as well as the resiliency of our business in North America, still positive despite weaker markets and challenging comparison to last year. In the second quarter, the Company's comparable revenue grew in all the countries worldwide, excluding China and Russia.

What we're especially proud of is our strong margin expansion. In the context of rising inflation - on energy, labor, transport and raw materials - we managed to deliver a 100-basis-point lift in the adjusted operating profit margin, up to 18.4%. Free cash flow delivery was also solid and continued to support our investments in the innovation of products and services.

We look forward to meeting you in September at our Capital Market Day, in our brand-new digital and design hub, where you will have an immersive experience into the future of our Company and industry.

And with that, I will leave the floor to Paul and Stefano.

Paul du Saillant, Deputy Chief Executive Officer

Thank you, Francesco, and good morning everyone, I'm happy to be with you today.

Before I share with you a few highlights from H1, I would like to echo Francesco's words and address a special thought for our Chairman Leonardo Del Vecchio. His unique vision and values will continue to guide us as we carry on his inspiring legacy with our teams.

Looking at our results today, you see a strong and unified company, effective, impactful and on a clear trajectory. This was made possible thanks to a few factors.

First, the unique commitment and talent of our 180,000 people worldwide. We have created a unified, efficient and focused organization, with highly skilled and experienced leaders across the company who are putting in place their integrated organizations while delivering on objectives. Together with Francesco, we thank our teams for the outstanding work done in H1 in a complex environment.

Second, our unique innovation and solutions capability. Since the beginning of the year, we have been seeing our innovation truly at work. Ray-Ban and Oakley continued their healthy growth, notably with Ray-Ban Stories, Oakley Prizm, which we continue to roll out. On the lens side, Varilux, Crizal, Transition and Eyezen continued to perform extremely well, while we continue to expand Stellest.

Third, our brand portfolio continued to deliver great results, benefiting from our omnichannel approach and the performance of our luxury eyewear brands, as well as Ray-Ban and Oakley. Stefano will tell you more about it. It was quite impressive to see our collections during the EssilorLuxottica Days held in our Tortona 35 new showroom in Milan throughout July. We had the pleasure to welcome hundreds of customers from all regions in the world.

Fourth, the progressive integration of GrandVision. The past months have further highlighted their complementary skills and know-how, which truly enrich the organization.

Fifth, I would like to highlight the power of our supply chain, from a manufacturing, logistics and lab standpoint. This unique, global network of plants, distribution centers and labs has once again proven its resilience and adaptability in a very complex environment and we continue to invest significantly to make this supply chain even stronger and support our growth.

And last but not least, Mission and Sustainability, where we celebrated some important milestones in H1. First, the launch of the OneSight EssilorLuxottica Foundation, which unites all of the Group's global advocacy and philanthropic actions to scale them up and accelerate them. The Foundation will play a key role in realizing the United Nations' resolution, "Vision for All".
And second, the first anniversary of our Sustainability program "Eyes on the Planet". Since its launch, we have been implementing projects to advance on each strategic pillar: Carbon, Circularity, World Sight, Inclusion and Ethics.

A key highlight in H1 was the completion of our first carbon footprint assessment globally, bringing a complete understanding of our direct and indirect CO_2 impacts at each stage of the value chain.

The collation of data not only improved our reporting capabilities, but also provided a clear overview of Scope 3 emissions. While progressing towards our 2025 carbon neutrality target for direct operations, we want to widen our efforts and prepare a more comprehensive and long-term roadmap covering Scope 1 to 3.

As you can see, we have solid fundamentals in place, which make us an effective and focused organization and supported our performance in H1. Looking ahead, we will keep this focus to deliver on H2 and prepare the ground for 2023 and the years to come.

With that, I hand over to Stefano. Thank you very much.

Stefano Grassi, Chief Financial Officer

Thank you, Paul and good morning everybody.

Let's take now a closer look at our results and then, afterwards, let's dig into our profit and loss and our financial position for the first half of 2022.
Our top line in the second quarter grew 36% on a reported basis, with GrandVision part of our results in 2022. While if we consider on a comparable basis, with GrandVision in both 2021 as well as 2022, our top line grew 14% at current FX and 7% at constant currency.
This result, if you think about it, is quite remarkable, because it comes on top of an 8% growth that the Group reported in 2021, second quarter, versus the second quarter of pre-pandemic 2019.
From a currency standpoint, as you can see, we are experiencing quite strong tailwinds in our results, with the US dollar that revaluated approximately 13% versus euro during the second quarter. As you can imagine if currency remains at those levels, we can expect those tailwinds to continue all the way until the end of 2022.

Let's take a closer look into our two operating segments. We are pleased to report growth in both of them, I would say a strong one in both, with Professional Solutions that posted a top line up 5.5% at constant currency on top of the 5% growth that we recorded in the second quarter of 2021 versus 2019. All the four regions posted solid growth, with Latin America leading the way at double-digit pace, while EMEA posted mid-single digit and North America and Asia-Pacific that posted a low-single-digit growth during the second quarter.
The Direct to Consumer segment posted top line up 8.5%, on top of 11% growth that we recorded in Q2 2021 versus 2019. That proves, once again, the strength of our omnichannel proposition with our e-commerce business that was flat on top of the 70% growth last year and our brick and mortar that grew approximately double digits with EMEA and Latin America driving those results with a double-digit pace.

As usual let's start getting into our four different regions and let's begin with the biggest one North America. North America posted a comparable revenue in the second quarter of 2.4% on top of 16% growth last year versus 2019.
Beginning with our Professional Solutions, both frames and lenses posted solid growth during the second quarter. I would say it was remarkable, particularly on the frame side of the business where in Q2 2021 we reported a growth of approximately 20% versus 2019. We believe that the market and the demand in the market is still there.
From a channel-mix standpoint, our key accounts, our department stores were leading the growth during the second quarter. While the independent ECP channel experienced a deceleration during the second quarter. And we see that price-mix on the positive side, continues to be solid for both lenses as well as for frames.
If we now look at our Direct to Consumer segment, we are now positive in the second quarter, despite a very tough comparison base- in Q2 last year we grew 22% versus 2019. Sunglass Hut comps were flat on top of 14% comps last year, and LensCrafters posted comps that were slightly negative on top of 11% comps sales that we recorded last year versus 2019.

A last touch on Oakley retail banner, that posted a double-digit growth during the course of the second quarter, proving once again the strength of the Oakley brand, in particular in North America.

Now let's go to our second largest region, EMEA that posted a remarkable 12.4% growth in the second quarter on a comparable basis. Both divisions reported solid results in Q2, with Professional Solutions at mid-single-digit growth and our Direct to Consumer segment at strong double digits.
In our Professional Solutions we are pleased to report that Spain was up double digits, the UK was up double digits, and Turkey was up double digits. We were in the high-single-digit territory for Germany and Eastern Europe.
While the only key country in Europe that was slightly negative during the second quarter was France. That was due to a deceleration of the optical frame business, while on the lens side of our business in France we are still holding up, driven by solid price-mix, in particular in branded lenses.
If we now move for a second to our Direct to Consumer segment. Our optical retail chains grew double digits during the course of the quarter. While sun retail banners grew in excess of 80% with several key locations in Europe that see now a strong rebound of touristic traffic inflows.
If we look a little bit more closely at our different optical banners, Salmoiraghi & Viganò was up double digits during the second quarter. GrandVision was up double digits during the course of Q2, supported by growth in France, Spain, Nordics, as well as in Eastern Europe. So, a very compelling story for EMEA.

Now let's have a look at east into Asia-Pacific. Asia-Pacific reported a growth of 1.7% on a comparable basis for the second quarter. This was another quarter of low-single-digit growth for this region, with Professional Solutions solid positive and our Direct to Consumer segment that was slightly negative during the course of Q2.
Clearly, when we talk about Asia-Pacific, you all understand that our results were impacted in a way by the severe lockdowns that were mandated in China during the course of the second quarter. With quite a few restrictions that were eased just a few days before the end of the second quarter. If we were to exclude Mainland China from the results of the Asia-Pacific region, you would have seen a growth in the range of 20% during the second quarter.
On the Professional Solutions side, I would highlight the strong delivery of India at triple-digit pace, very much driven by volume growth in both lenses and frames, but also Hong Kong, Korea, Japan and Southeast Asia, they all reported strong growth during the second quarter.
In China, our Professional Solutions segment was back to positive in the month of June, supported by growth in the lens branded portfolio. In particularly thanks to Stellest, that as we speak, now at the end of July, we have already sold more units with Stellest lenses in China than in the entire 2021. And we are now very excited as we're getting into the high season of the back-to-school period, because we believe that that volume growth is going to further accelerate.
On the retail side, we posted double-digit growth in the sun business, driven by Sunglass Hut in Australia, as well as in Southeast Asia. On the optical side, we observe a decline in China, due to the lockdowns that I just described to you before, but we were pleased to see a rebound in our OPSM business that overall was flat during the second quarter, with a double-digit pace in the month of June.

Now let's move to the last region that is Latin America. Latin America was for the third consecutive quarter the best performing region in EssilorLuxottica. Both Professional Solutions and Direct to Consumer were at double-digit pace.
In Professional Solutions, both Brazil and Latin America, both frames and lenses performed on a double-digit pace. On the lens side, our growth was primarily driven by price-mix, due to the branded lenses with our key branded lenses Varilux at a double-digit pace.
Let's touch on our critical asset in the region that is Óticas Carol that posted a second quarter of double-digit growth rate.

If we move for a second to our Direct to Consumer segment, both our optical retail banners and our sun banners delivered double-digit growth during the second quarter. With GMO that was up double digits, with GrandVision that was up double digits, with Sunglass Hut that did another double-digit growth in Andes, Mexico as well as in Brazil.
So, a very nice way to close the journey across the different regions.

As I anticipated before, let's now take a closer look at our profit and loss.
As we have always been talking about at EssilorLuxottica, we said that our storyline is a storyline of top line growth and margin expansion. What you can see on this page is a confirmation of that statement.
I won't spend too much time on the top line as we have already commented on before and, I think what we should focus on is our profitability.
As you can see, we were capable of expanding margin with top line growth, our operating profit on an adjusted basis for the first half of 2022 was 18.4%. That means 100-basis-point improvement at current FX rate and, excluding currency, you would be looking at 80-basis-point improvement on a constant FX basis.
The key areas of improvement in our profit and loss were the gross margin where you see a 30-basis-point improvement versus 2021 first half, both Professional Solutions and Direct to Consumer showed margin expansion during the first half of the year. And the main driver of that margin expansion for the first half was our price-mix.

In addition, it's important to mention that our profit and loss was capable of absorbing the headwinds deriving from the inflationary impact around the world. And if you ask me, how much do you estimate that? I would tell you that we were probably absorbing 100 to 150 basis points of headwind deriving from inflation.
If we look at below our operating profit, on a net profit basis you would be looking at a margin improvement of 110 basis points versus the first half of 2021, with a margin rate at 12.9% on net profit. If we exclude currency, you would be looking at 100-basis-point improvement on our net profit. So overall margin expansion is quite remarkable for the first six months of 2022.

The last chapter of our finance section is dedicated to our free cash flow generation. For the first six months of 2022 EssilorLuxottica generated in excess of Euro 900 million free cash flow. That free cash flow was achieved despite a quite material lift in capex investment. As a matter of fact, we invested Euro 350 million more than we did in 2021, investments were in supply chain, in strengthening and diversifying our manufacturing capacity, in renovating our store footprint, in converging progressively our IT infrastructure into a single platform.
All in all, we were capable of generating strong free cash flow and at the same time continuing to invest in the company.
Our overall net debt position is at Euro 10.4 billion and our net debt to EBITDA is below 2, at 1.8 for the first six months of the year.

With that, let me hand it over to the operator for the Q&A session.

Questions & Answers

Susy Tibaldi, UBS

Thank you and thanks for taking my questions. So, my first question would be on the top line trends that you're seeing, both in Europe and the US, because you mentioned several times that the macroconditions are a little bit deteriorating and especially at the lower end - the entry level point of the product portfolio, whereas it sounds like that higher end is still doing quite well.
So can you just give us some further comment, especially on those two very important regions. Also, in light of the second half of the year, because I know you don't comment on current trends usually, but your mid-term guidance for mid-single digit growth, is that something that you feel comfortable with for H2, or do you think a low-single-digit growth would more of a reasonable expectation?
Secondly, a question on the margins, you delivered a really excellent margin expansion, despite the inflationary pressures. And I know you don't really like to split operating leverage and synergies, but just to understand about this algorithm, and, when we think about the actual leverage, is there any price that you have also taken? Because previously you said that you have been doing some price actions selectively, but not across the whole product range. So, I was wondering if this is something you have been considering also when it comes to the lens portfolio?
And some color on the synergies, because there has to be already quite a decent amount of benefits from GrandVision coming through to deliver such strong profitability. If you could give us some color on that it would be very helpful? Thank you.

Stefano Grassi, Chief Financial Officer

Good morning Susy. I'll take your questions, both of them.
With respect to the trend that we see in North America and EMEA, just to give you a flavor of the evolution, especially during the month of July, we do see Europe continuing to be very solid on both channels, Professional Solutions, as well as Direct to Consumer. Through Europe, the only real country where we had a deceleration in recent months was France, and that was very much on a specific part of the business, because the remaining part remains pretty healthy. But Europe is trending well, we're solid and we continue to have solid growth in both channels.
With respect to North America, trends are pretty similar to the one that we've seen during the course of the second quarter. My expectation for the month of July is to see North America in positive territory overall.
With respect to the growth and the second half expectations, as you know we don't guide on half of the year. We have a guidance, that is a long term one, of mid-single digit top line growth, and there is an expectation to hit the 19% to 20% margin on an adjusted basis by 2026, and we are marching in that direction pretty well. We continue to believe in the strength of our platform and in our network company, as Francesco well described before. And we believe that we are very well in control of our business. If you remember at the beginning of the year, I shared a flavor of what could be an expectation for this year with respect to storyline of top line growth and margin expansion. And today we can confirm that.
With respect to the margin, the strong margin and operating leverage that you've seen during the first six months of the year, let me say a couple of things. We drove price-mix, thanks to the innovation, we drove price-mix thanks to the new product launches, thanks to the strength of our luxury portfolio in frames, thanks to the strength of our branded lens portfolio. And that very much helped us to lift progressively the mix effect. We haven't really taken material price adjustments around our portfolio.

We only took selective adjustments, whatever was needed to fill in the gap of currency discrepancies, but we haven't really taken any other adjustments in our pricing position.
The pillars of the margin expansion that you've seen in the first half is price-mix on the gross margin level and, on the opex side, I would mention a couple of things. On one hand, a very diligent cost control and, on the other hand, the realization of the synergistic workstreams that we are undertaking not only as EssilorLuxottica but also the early stage of the work that we are doing on GrandVision.
That combination allows us to keep the costs under control and to ease the investments, wherever we believe it is the right place to implement them and ultimately where we believe we have the proper return. This mix of factors allows us to absorb the headwinds deriving from the inflationary impact.

Graham Renwick, Berenberg

Good morning everyone and thanks for taking my questions. Just firstly on price-mix, how should we think about that going forwards, it's been a big driver of margin expansion in the first half as you said. I think your guidance initially was that most your growth would be volume driven and we shouldn't expect much price-mix. Do we expect price-mix to stabilize across H2, or maybe possibly reverse in a tougher macro backdrop? And is it reasonable to believe that gross margins can again be up or at least stable across the second half of the year?
And then the second one, can you remind us how much of your US sales base is to customers that are covered by vision insurance and to what extent do you think that would protect the US business in a downturn? And does that also explain perhaps the resilience at the higher end categories and the weakness at the lower end products which I guess would have had a higher mix of uninsured customers? Thank you.

Stefano Grassi, Chief Financial Officer

So good morning, Graham, with respect to your first question on price mix, let me put it this way. We are already seeing today, and I believe more so going forward, a fair balance between volume and price-mix on the frame side, which goes in the direction of your question, which is what we've been guiding for the longer term.
On the lens side we're probably more unbalanced on the price mix. Over the longer run, if you remember, we said we don't have expectations to materially lift our gross margin profile over the next five years, because I think we have pluses and minuses compensating each other. Clearly, we are pleased with what we're seeing in the first half of the year, but over the longer run I think we're going to see a rebalance also on the lens side of our business. But today that balance between volume and mix is more on the frame side.
With respect to North America, 40% to 50%, depending on the period, is what is the incidence of insurance coverage, broadly speaking, on our business. It is a part that is pretty resilient, despite competition in the market.
But I believe what has been more resilient in North America is the work that we have done with commercial programs that were customized for our independent ECPs. A perfect example of that is the EL 360 program, we have over 4,300 ECPs that are now part of the EL 360 program, which, as you know, encompasses a commercial proposition for frames and lenses together, but also the managed vision care asset that has made available for the ECPs that embrace the EL 360 program. That program and activities, they are done on a joint basis, frames, lenses, insurance all together, and are proving to be definitely more resilient in the North American market.

Cédric Lecasble, Stifel

Good morning, thank you for taking my questions. I have two actually on the US. The first one is about the availability of optometrists, as a competitor of yours, not in the same segment, pointed out some difficulties to retain optometrists. Do you have any pressure either on volume of optometrists and number of people, or a sharp increase in wages in this field? And what are your thoughts on this to secure the retail business in the US?
Number two, you mentioned some take down on some higher price competition at the lower end. What are your offset strategies going forward? You mentioned also more pressure on your independent ECPs which is your good business. Does it mean that the chain and value chains are gaining share currently, and how do you intend to react? Thank you very much.

Paul du Saillant, Deputy Chief Executive Officer

I can take the second point on the lower end of the market in the US. I think the competition, there has always been competition in the mid-tier part of the market. And I think EssilorLuxottica is well positioned in the lens with offering and with all our network of labs, partner labs and independent labs. And the acquisition of Walman Optical is reinforcing our cost competitivity and our offer competitivity including the Shamir lens and design.
I think it has always been a competitive market. Stefano mentioned that branded lenses are performing well, meaning Varilux, Transition, Crizal, with new offering in Crizal. This is a very good aspect of our position in the US, including vis-à-vis the EL360 program.
But you should consider that the platform that we have in place, and the structure of offering we have in place for lenses is very well set up to compete in the mid-tier part of the market, vis-à-vis the key account, the large retailers, or the more mid positioned independent practices. So, for me this is not a concern, the company is very well positioned in the two segments.

Francesco Milleri, Chairman and Chief Executive Officer

Good morning, I will answer to the first question on optometrists and doctors.
More than pressure on labor cost and availability, I believe that the issue is how to engage doctors and optometrists much more in the future to be a part of our mission and our business. We are working with two main projects.
One is tele-optometry, we just delivered a beta test in the US, tele-optometry is based on optometrists and doctors, on the central role that they have, but at the same time it is able to optimize the availability and the time schedules. That means that you have doctors staying in some rooms everywhere, and you can really connect to different stores and doctor offices and take the eye exam. This is supported with a really strong system of information, images etc. I believe that tele-optometry will be the way we can react to the pressure on availability of optometrists, and also really make their life a little bit better. They don’t have to travel too much, they stay home or in their office, they can connect through tele-optometry and provide a better service to our and their customers.
The second lever is Vision Source. You know that Vision Source is the biggest community of optometrists and independent opticians in the US. Really high-end positioning, focus on size, focus on quality and eye exams, and EssilorLuxottica is leading more than owning the association. We are just starting a really interesting program to better involve doctors and optometrists and all the store managers, to share information, to share understanding of the market and to share how to better manage customers and visits.

Therefore, I believe that these two projects, and that being open to a network, being a more open company, and listening to the needs of optometrists and doctors, will help us to guide the market to the next level. The combination of these two projects with many other initiatives that we have in place will improve the quality of our service and keep the prices under control.

Luca Solca, Bernstein

Thank you very much indeed, and good morning. Maybe I will start with a general question. You have a very complex business, exposed to many different fronts, manufacturing, brand marketing, licenses, retail, wholesale, insurance, lenses, frames, glasses, digital, physical, high end, low end. And also multiple geographies, each one with its own specificities. But I wonder what's your vision about these challenges. Do you feel that EssilorLuxottica's mission is to compete in all of these fronts, that they are more or less equally important? Or is there a hierarchy in your mind, so that some of these areas are going to be more relevant when it comes to dominating the category in the long term, and producing higher returns for shareholders?
My second question is more focused on the American market, not so much on the demand which you've already explained, but about the shifting ground when it comes to competition. We're seeing the consolidation especially in the lower end, value retail portion of the market, this is probably one of the most exposed markets to digital penetration. You have now new players in the high end as well, potentially building up their position, with Kering Eyewear for instance buying Maui Jim. I wonder how you see the competition in this market and how you are planning to confront it and win against it in the long term? Thank you very much indeed.

Francesco Milleri, Chairman and Chief Executive Officer

I'll try to take the first question. If I take your question and I change one word, I believe that everybody can understand our position. You ask about the mission to compete on all the fronts. I really want to say mission to help the market on all the fronts, that is the approach that we have. Because of our size, it's difficult to find the target to compete with, it's really difficult to think in this way. So, what we're doing now is really to approach the market in the way we can improve the quality of our service, the quality of our product and help all the markets to really grow.
With this in mind, the complexity that you underline on our company is really the key factor. We compete in all markets, all segments, all types of products, so we are the only company that I can define complete, that understands exactly at 360 degrees the market, and the needs of customers. We have to remember that when you are thinking about different channels, different types of stores, different countries and so on, you always refer to just one single customer, as the customer is one across all the business areas. Then we have a different way to approach customers depending on their age, disposable income, nationality and culture. And that is what we try to do through our digital platform and the capabilities to manage big data.
Big data is really a key factor behind everything we do right now. You know that we collect all the sales every day, every day at night we really know how much we sold, which SKU we sold in a certain country, what is the mood of our customer, whether they had a preference for round, oval, red, brown and whatever. And this is really the key factor that helps us to anticipate the future, the evolution of the customers' needs in retail and wholesale. That's how we serve more than 400,000 different stores and partners worldwide
So, I believe that in the long term, but also in the short term, that model can generate a good return for shareholders, as well as it can protect the market and the people who work in the market.

This is even more than just business strategy, this is how we connect the mission, related to the right to see, with the commitment to remunerate shareholders' investment. So, this is the way we see our mission, vision and strategy, for the present and the future. Thank you.

Paul du Saillant, Deputy Chief Executive Officer

Excuse me operator, I just wanted to address the second question of Luca on the US and the shifting competition.
I think you should look at the position of EssilorLuxottica in the North American market, and actually in many other markets, as the one of addressing the different segments of the market. I think Francesco touched on it, Stefano touched on it as well. We have always been serving the different segments, the independent channel, we have this position we referred to with the Vision Source, with all of our partner programs. We have a 360 degrees approach, we have always been at the same time serving the large retailers, from National Vision to Walmart, that are acting in the market with a different complete pair proposal, a different lens proposal, a different frame proposal, a different service proposal.
And then we have of course this whole ecosystem around managed vision care in which we are very well positioned, serving the existing provider like VSP or using our own platform Eye Med. Then you have the e-commerce, which is taking the additional segment we serve with our full-range platform Eye Buy Direct.
So, the approach we have is really to be well positioned in all the different segments and channels, in parallel to being present with our own retail platforms. And I think it's a very powerful and good position to grow the whole market, with different solutions to bring our innovation at the different price-points and brands, to prescription glasses and sunglasses. So, I would look at it that way Luca.
And then the market is dynamic, the competition is dynamic, but this is not something that just happens now, it has always been that way. And we keep reinforcing our position, I did mention earlier the Walman acquisition which I think is a very interesting move to strengthen our position in the mid-tier service area. Just a few highlights, back to you operator.

Julien Dormois, BNP Paribas

Yes hi, good morning everyone. Thanks for taking my questions, I have two. One relates to the seasonality of margin in your business, if you could just remind us of what are the main drivers of what is usually a much higher H1 margin across your business? And I think last year for instance you had a more than 300 basis point difference between H1 and H2 margin. Is it fair to assume that this year it will be about the same difference as we saw?
And the second question is a quick update on Stellest if possible, please. I think last year in fiscal year 2021 you had sales which were just shy of Euro 150 million, just off of Stellest in China. You indicated that you sold more units in the first half of this year than you did in the entire year 2021. So, is it fair to assume that you expect at least a doubling of that business for fiscal year 2022?

Stefano Grassi, Chief Financial Officer

So good morning, Julien. So, the first question with respect to seasonality on the margin between first half and second half as part of our business model. Yes, we do have anywhere between 250 to 300 basis points with a difference in the margin between H1 and H2. The main reason for that is very much

on the sun season that is stronger at the later stage of Q1 and obviously at full exploitation during the second quarter, and then it will progressively phase out during the remainder part of the year.
With respect to Stellest numbers, the Euro 150 million sales denominated in retail value, we continue to see price-mix holding up for Stellest in China. And clearly that number will be much stronger, hard to tell with the visibility that we have in China right now whether we're going to double the 2021 results. But I can tell you that as we speak really today, this week, we already passed 2021 level in terms of volume of Stellest lenses in China, and I would say around the rest of the world.

Domenico Ghilotti, Equita

Good morning. Two questions on my side. The first is on cost inflation, in particular. I wonder if you are expecting the wage inflation picking up in second half of 2022 and in 2023. And on the other hand, if you see cost inflation from other items, from freight rates to raw materials, already peaking in first half of the year, or are they close to peak level already this year?
The second question is a follow up on North America. Could you provide a bit more color because I'm not sure I catch your indication on the current slowdown? And as you did for Europe if you can give us some color on the two different performances in the two divisions?

Stefano Grassi, Chief Financial Officer

Buongiorno Domenico, I'll take both your questions. First of all on cost inflation. When we look at our cost inflation the primary driver of that is the wage inflation, that's the biggest part of the headwind we're feeling. I think it came in stronger in the second quarter more than in the first quarter, and I believe it will carry on throughout the third quarter and then we'll see how it's going to evolve in the latter part of this year. Hard to predict what we can expect in 2023, but again the work that we've been doing it's very much aimed at offsetting those inflationary trends and protecting our margins. Being the largest one, labor is not the only one, we're also exposed to freight rate cost as you rightly pointed out and obviously the energy cost.
Probably the least important exposure that we have from a profit and loss standpoint is materials (raw materials and consumables), as our business model is fully vertically integrated and then very much reduces the exposure to such cost. So labor, freight, energy and logistic costs are really the most important cost items, with personnel cost being by far the largest one.
With respect to North America, again I want to point out that we are relying this, we do expect North America's business in July to be on a positive territory and that is true for our Direct to Consumer part of the business as well as our Professional Solutions division. So that's the picture.

Francesco Milleri, Chairman and Chief Executive Officer

Thanks for staying with us and we hope to have some rest, at least a couple of weeks, and so see you after the summer break. Thank you.