



## Buy Pitch

Christopher Bortuzzo, Rebecca Sienko & Dylan Marsella

Consumer Staples Sector / International / Healthcare

30<sup>th</sup> September 2019

# The Backbone of the eyewear

## Table of Contents

---

Section I:	Recommendation
Section II:	Industry Overview
Section III.	Company Overview
Section IV.	Investment Thesis
Section V:	Risks and Catalyst
Section VI:	Valuation

ESSILOR

SEEING THE WORLD BETTER

The Luxottica logo is displayed in white, stylized capital letters on a dark blue rectangular background. The letters are bold and modern, with a registered trademark symbol (®) at the end of the word.

LUXOTTICA®



## Section I. Recommendation

# Recommendation

---

Recommendation		
<b>Total Shares</b>		<b>135</b>
TD #1 (Unrestricted) Shared		45
TD #2 (Endowment) Shared		90
Market Price		\$71.01
Price Target	\$	100.00
Potential Upside		40.83%
Cost Basis	\$	9,586.35
% of Portfolio		2.40%

## Section II. Industry Overview

# Industry Overview

## Fashion Industry

- Consolidation is the trend in fashion

▪ Kering, LVMH, Capri

▪ Limited space for big growth

▪ Asian market loves high fashion trends

▪ Size of the market



## Eyewear Sector

▪ Fashion Statement

▪ Few major competitors

▪ Strong networks and brand recognition



## Section III. Company Overview

**BURBERRY**  
LONDON ENGLAND

  
*Brooks Brothers*



**VARILUX®**

**Kodak** LENS

 **ESSILORLUXOTTICA**

*Ray-Ban*  
GENUINE SINCE 1937

  
essilor

 **SIMM**  
STUDENTS IN MONEY MANAGEMENT



# Company Overview (Guidelines)

Tagline here



## Management

- Hubert Sagnieres (chairman, CEO Essilor)
- Leonardo Del Vecchio (founder, chairman)
- Laurent Vacherot (CEO Essilor International)
- Francesco Milleri (CEO of Luxottica)
- Over 46,000 employees are shareholders
- Over 150,000 employees

## ESLOY Porfolio

- Lens Technologies
- Eyewear Brands
- Direct to Consumer

*Crizal*

RALPH LAUREN

LENSCRAFTERS' ♥

### Shareholder information

Flottant	62.60 %
Delfin	32.70 %
Employees	4.40 %
Group-owned stock	0.30 %



<https://www.essilorluxottica.com/sustainability>

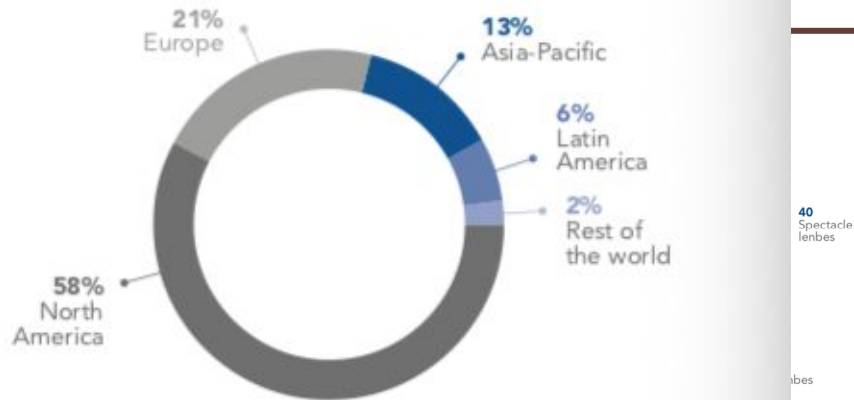
# Company Overview

Tagline here

## Summary

- Design, Make, Distribute: lenses, frames and sunglasses
- Merger of worlds largest lens maker and largest frame manufacturer
- “Improve Lives by Improving Sight”
- Over 9000 patents (glasses & lens)

## Net sales by geographical area



## Market Capitalization

EssilorLuxottica (Euro)		
<b>Current Price (EU/Share)</b>	€	131.50
Dividend Yield		1.60%
52-Week High	€	136.70
52-Week Low	€	95.50
Diluted Shares Outstanding (mm)	€	426,777
<b>Market Cap (mm)</b>	€	<b>56,121,176</b>
Add: Total Debt (mm)	€	7,637,000
Add: Value of Preferred Shares		-
Add: Minority Interest	€	3
Less: Cash & ST Investments (mm)	€	1,109
<b>Enterprise Value</b>	€	<b>63,757,070</b>

In million of Euros	1H 2019	1H 2018* Pro forma <sup>1</sup>	Change	Change at constant exchange rates <sup>2</sup>
Revenue	8,776	8,177	+7.3%	+3.9%
<b>Adjusted<sup>6</sup> gross profit</b>	<b>5,549</b>	<b>5,195</b>	<b>+6.8%</b>	<b>+3.1%</b>
% of revenue	63.2%	63.5%		
<b>Adjusted<sup>6</sup> operating profit</b>	<b>1,512</b>	<b>1,450</b>	<b>+4.3%</b>	<b>-0.4%</b>
% of revenue	17.2%	17.7%		
<b>Adjusted<sup>6</sup> net profit</b>	<b>1,099</b>	<b>1,029</b>	<b>+6.8%</b>	<b>+1.9%</b>
% of revenue	12.5%	12.6%		

\* 1H 2018 comparative information has been restated following the application of IFRS 16 Leases.

## Section IV. Investment Thesis

- **Attractive position given recent merger Essilor - Luxottica**
  - Vertically Integrating the eyewear business
  
- **Long term winner in the eyewear and eyecare space**
  - Monopoly like business
  
- **Ability to Generate Consistent Revenue Growth**
  - Dominant supply chain and inventory level
  - Growing e-commerce
  - Strong brand recognition and customer retention
  
- **Attractive Valuation**

# Risks and Catalysts

Essilor Luxottica



## Risks

- Competitive – very low
- Reputational – overplayed
- Foreign Exchange - only a benefit up to now
- Use of Contacts – worries overdone as Acuvue (J&J brand)

Risks are minimal and do not worry us going forward

## Catalysts

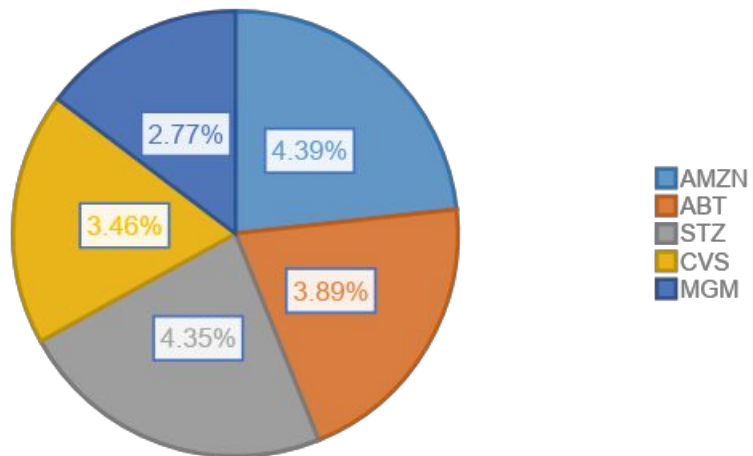
- Expansion into tech/vision
- Activist Hedge Fund: Starboard Value LP, who is pushing for the monetization of the real estate
- Faster than expected margin improvement from the merger

The financial strength and market dominance are set to continue and carry over to the stock price

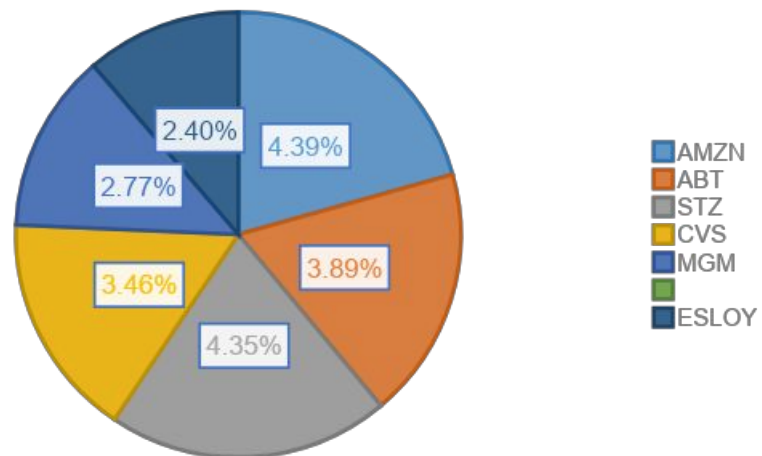
## Section V. Valuation

## Sector Holdings

### Current



### Recommended



# Valuation Market Share

Description	2018A	2017A	2016A	2015A	2014A	2013A	2012A	2011A
Eyewear	\$ 20,871	\$ 20,268	\$ 20,251	\$ 19,599	\$ 20,290	\$ 18,744	\$ 17,588	\$ 16,659
Market Growth	2.98%	0.09%	3.33%	-3.41%	8.25%	6.57%	5.58%	
Allison SpA	\$ 20	\$ 22	\$ 30	\$ 30	\$ 46	\$ 46	\$ 50	\$ 70
De Rigo SpA			\$ 414	\$ 403	\$ 499	\$ 485	\$ 225	\$ 245
Essilor International SA	\$ 8,599	\$ 8,158	\$ 7,875	\$ 7,455	\$ 7,533	\$ 6,728	\$ 6,415	\$ 5,833
Essilor Revenue Growth	5.40%	3.59%	5.64%	-1.03%	11.96%	4.88%	9.97%	
Luxottica Group SpA	\$ 10,546	\$ 10,376	\$ 10,056	\$ 9,809	\$ 10,166	\$ 9,713	\$ 9,112	\$ 8,664
Luxottica Revenue Growth	1.64%	3.17%	2.53%	-3.52%	4.66%	6.60%	5.17%	
Marcolin SpA	\$ 570	\$ 530	\$ 489	\$ 483	\$ 481	\$ 282	\$ 275	\$ 312
Safilo Group SpA	\$ 1,137	\$ 1,183	\$ 1,387	\$ 1,420	\$ 1,566	\$ 1,490	\$ 1,511	\$ 1,534
Luxottica Market Share	50.53%	51.19%	49.66%	50.05%	50.10%	51.82%	51.81%	52.01%
Essilor Market Share	41.20%	40.25%	38.89%	38.04%	37.12%	35.89%	36.47%	35.02%
Combined	91.73%	91.44%	88.55%	88.08%	87.23%	87.71%	88.28%	87.02%



# Valuation

## Discounted Cash Flow

EssilorLuxottica	Base	1	2	3	4	5	Terminal Year
Revenue	\$ 15,849	\$ 16,321	\$ 16,808	\$ 17,309	\$ 17,824	\$ 18,356	
Revenue Growth		2.98%	2.98%	2.98%	2.98%	2.98%	
Operating Income	\$ 1,821	\$ 1,985	\$ 2,164	\$ 2,360	\$ 2,572	\$ 2,804	\$ 2,889
Operating Margin	11.49%	12.16%	12.88%	13.63%	14.43%	15.28%	
Operating Growth		9.02%	9.02%	9.02%	9.02%	9.02%	Stable Reinvestment
Reinvestment		22.00%	22.00%	22.00%	22.00%	22.00%	7.32%
Return On Capital		41.00%	41.00%	41.00%	41.00%	41.00%	\$ 2,677
Tax Rate		21%	21%	21%	21%	21%	
NOPAT	\$ 1,568	\$ 1,710	\$ 1,864	\$ 2,032	\$ 2,215		
Reinvestment	345	376	410	447	487		
FCF	\$ 1,223	\$ 1,334	\$ 1,454	\$ 1,585	\$ 1,728		
WACC		6.30%	6.30%	6.30%	6.30%	6.30%	Terminal Value
DCF	\$ 1,151	\$ 1,180	\$ 1,210	\$ 1,241	\$ 1,273	\$ 81,126.71	

Sum Cash Flow	\$ 6,056
PV of Terminal Value	\$ 59,772
Cash	\$ 1,829
Debt	\$ 6,296
Market Value	\$ 70,295
Current Price	\$57,726.00
Shares	430
Stock Price Per Share	\$ 163.48
Upside	21.77%

# Valuation

## Comparable Company Analysis

Analyst Estimates		Weights
CURRENT	\$132.55	*****
HIGH	\$166.30	15.00%
LOW	\$110.00	15.00%
MEDIAN	\$137.50	30.00%
<u>AVERAGE</u>	<u>\$134.43</u>	<u>40.00%</u>
*****	\$136.47	100.00%
Analyst Estimates	\$136.47	15.00%
PE	\$154.70	17.50%
PB	\$263.53	10.00%
PS	\$121.29	17.50%
EV/EBITDA	\$135.57	40.00%
<u>TARGET</u>	<u>\$149.35</u>	<u>100.00%</u>
<b>Upside</b>	<b>\$16.80</b>	<b>12.67%</b>

## Recommendation

*"We want to initiate a 2.4% position in ESLOY at a price of \$72.13, and a 5 year holding period*

Reccommendation		
<b>Total Shares</b>		<b>135</b>
TD #1 (Unrestricted) Shared		45
TD #2 (Endowment) Shared		90
Market Price		\$71.01
Price Target	\$	100.00
Potential Upside		40.83%
Cost Basis	\$	9,586.35
% of Portfolio		2.40%