ELEVATION CAPITAL MANAGEMENT LIMITED

LUXOTTICA GROUP SPA [LUX:IM]

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Mail: PO Box 911145, Victoria Street West, Auckland 1142, New Zealand;
Email: info@elevationcapital.co.nz
Phone: +64 9 379 6493

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INVESTMENT SUMMARY

THE WORLD'S LARGEST EYEWEAR COMPANY
Luxottica (LUX.MI, Market Capitalisation €25.10B) is the world's largest eyewear company. It is also Italy's largest fashion company. Its products are distributed across more than 150 countries, with 95 million prescription frames and sunglasses produced annually worldwide.

A GROWING GLOBAL EYEWEAR MARKET
The global eyewear market is currently estimated to be worth US$120B and is forecast to grow at a 2.4% Compound Annual Growth Rate (CAGR) to 2021. Core segments within the industry are vision correction and sunglasses - both of which remain largely underpenetrated. It is currently estimated that over 2.5bln people require vision correction solutions but do not have access to it, while a further 5.8bln people are unequipped within the sunglass segment. Strong structural growth drivers and attractive socio-demographic factors are expected to support growth over the long term. Main drivers of growth within the eyewear market include:

- increased market penetration;
- a growing and aging global population;
- a widening middle class;
- increasing prevalence of poor eyesight;
- heightened consumer awareness toward the importance of UV and blue light protection;
- shifting perceptions toward eyewear as a fashion statement; and,
- a trend of premiumisation where branded eyewear is outgrowing non-branded eyewear.

DOMINANT POSITION IN BRANDED EYEWEAR MARKET
Luxottica has the dominant proprietary and licensed brand portfolio in the industry. Its key proprietary brands are Ray-Ban and Oakley, which account for 40% of its sales. Its licensed brands include: Giorgio Armani, Burberry, Bulgari, Chanel, Dolce & Gabbana, Michael Kors, Prada, Ralph Lauren, Tiffany & Co., Versace and Valentino.

RETAIL DISTRIBUTION NETWORK
Luxottica owns and operates several leading retail brands which hold dominant positions in their respective markets including global market leaders: Sunglass Hut and LensCrafters. The retail brands include: Sunglass Hut, LensCrafters, Pearle Vision, Sears Optical, Target Optical, OPSM, ILORI, EyeMed Vision Care, Optical Shop of Aspen, Laubman & Pank, GMO, Oliver Peoples, Alain Mikli, Oakley, David Clulow, Glasses.com and Econópticas.

STRONG MOAT - VERTICAL INTEGRATED BUSINESS MODEL
Under the leadership of its founder, Leonardo Del Vecchio, the past few decades have seen the Company relentlessly pursue the integration of its entire value chain, from sketches to product design, manufacturing and distribution. The Company describes it as a "world of data, analytics, and infrastructure".

We believe this unparalleled vertically integrated business model is Luxottica's most important moat. Its presence across all stages of the value chain provide Luxottica with an extremely strong competitive advantage, and enables them to maximise efficiencies and extract value throughout their business, at the same time creating an enormous barrier to entry for competitors in the branded eyewear market.

GOVERNANCE ISSUES
Mr. Del Vecchio owns 66.5% of Luxottica. He has been praised in the past for stepping back and hiring outside management. However, since 2014 there has been a high level of disruption as Luxottica has lost three CEO/Co-CEOs and other senior managers. These seemingly regular changes in senior management resulted in investor concern toward succession plans and ultimately the future of the Company.

M&A OPPORTUNITIES
We take our cue from the Chairman when he stated earlier in the year that "another area that has our attention is the lens world, which is worth as much as the frame market and delivers very high margins". We believe the Company may revive the abandoned merger discussions between Luxottica and the world's largest lens manufacturer Essilor (ESSI.PA) in 2013. Other M&A opportunities are also possible such as expansion of their retail channel or continued consolidation within the frames business.

RECENT STOCK PRICE WEAKNESS PRESENTS A LONG-TERM OPPORTUNITY
Since August 2015, Luxottica stock has faced significant pressure following a broad correction in the Italian stock market, earnings revisions across several key markets and ongoing management concerns. This has resulted in the stock declining some 41% to a recent low of €39.92 October 2016, from an all-time high of €67.45 recorded in August 2015.

The Elevation Capital Value Fund established a position in Luxottica in October 2016, at an average cost of €40.65 per share – equal to 1.2% of the portfolio as at 30 November, 2016.

INVESTMENT THESIS - SUMMARY
Luxottica is the undisputed leader in a structurally growing industry. There exist significant opportunities to increase market penetration, while socio-economic drivers favour long-term growth. Qualitative factors such as the ongoing optimisation of the Group's vertical integration strategy and execution of current growth initiatives provide substantial headroom in this regard.

We acknowledge that softness within the eyewear market may create volatile trading conditions in near term. However, we consider the quality of Luxottica's business to remain intact and believe the Company will transcend short-term uncertainty to survive and thrive in the long run. In contrast to popular belief, it is our view that the active involvement and leadership of Mr. Del Vecchio since 2014 is a plus for the Company and the other 33.5% of shareholders - we maintain that concerns toward succession planning should be viewed as short-term "noise".

Luxottica currently trades at €50.30 per share (as at 12 December, 2016), with an EV/EBITDA multiple of 13.5x. We currently value Luxottica in normal trading conditions with an Intrinsic Value Estimate range of €50.96 - €65.90. From the Elevation Capital Value Fund's cost basis of US€40.65 per share, our valuation/s represent upside potential between +25.4% to +62.1%.

IN BRIEF

#1

Italy's largest fashion company (based on revenue).

#1

Eyewear Company in the world (based on revenue).

150

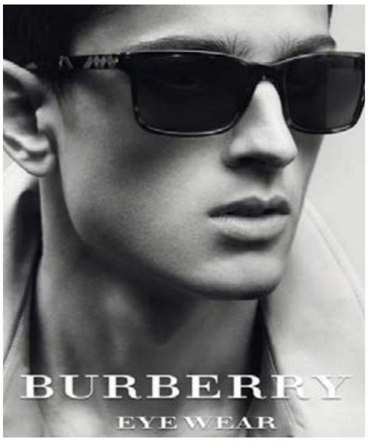
Countries distribute Luxottica Products.

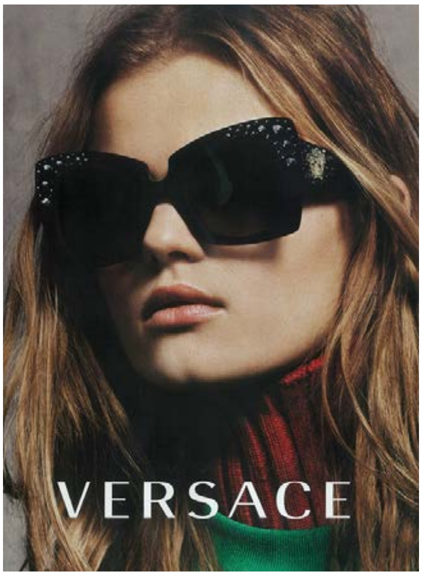
95

Million prescription frames and sunglasses are produced annually.

DOMINANT POSITION IN THE BRANDED EYEWEAR MARKET

- Luxottica has one of the dominant proprietary and licensed brand portfolios in the industry.

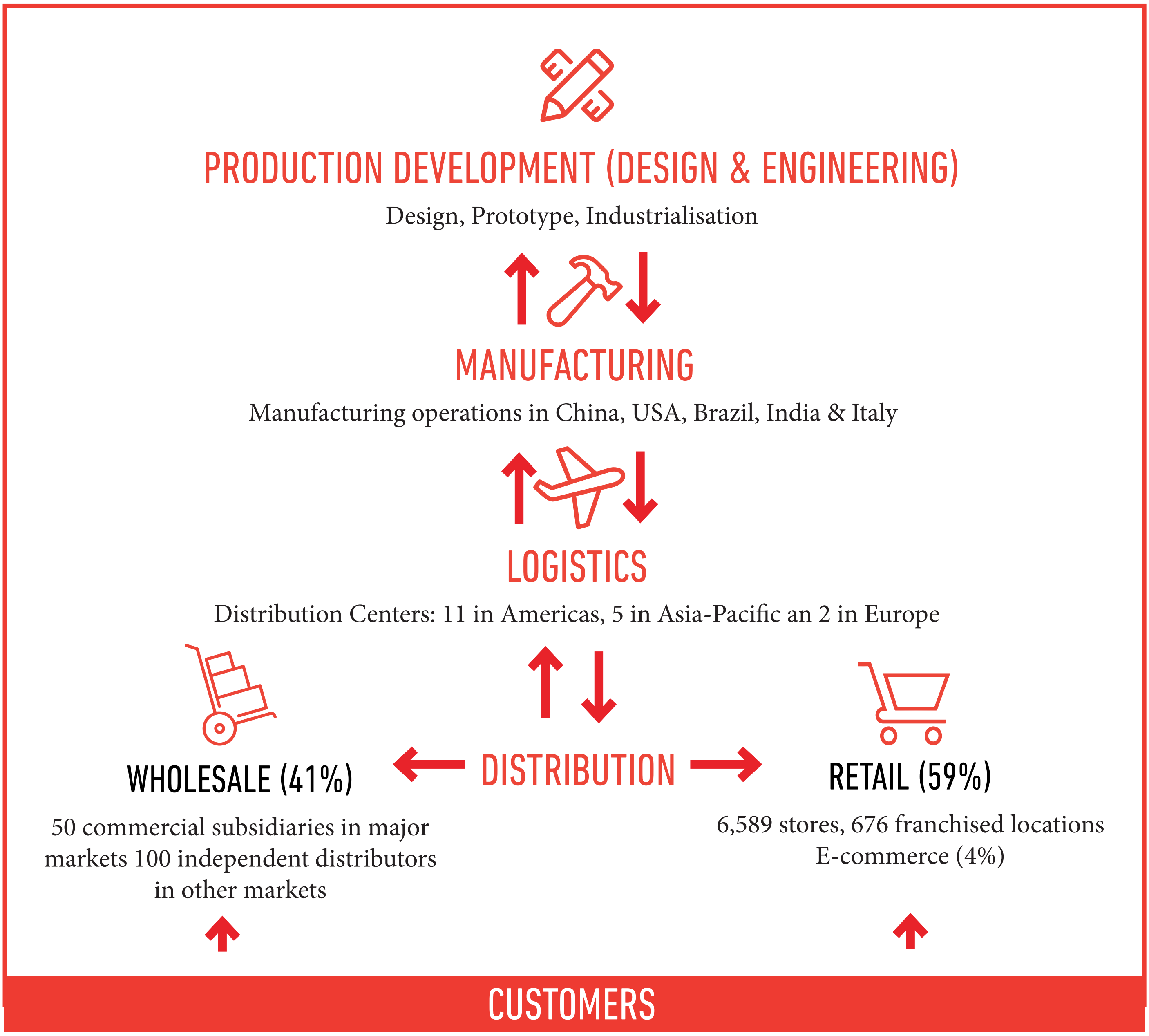




Above: Some of Luxottica's iconic proprietary and licensed brands

Willow Smith wears Chanel

STRONG MOAT - VERTICALLY INTEGRATED BUSINESS MODEL



- Under the leadership of its founder, Leonardo Del Vecchio, the past few decades have seen the Company relentlessly pursue the integration of its entire value chain, from sketches to product design, manufacturing and distribution. The Company describes it as a "world of data, analytics, and infrastructure".

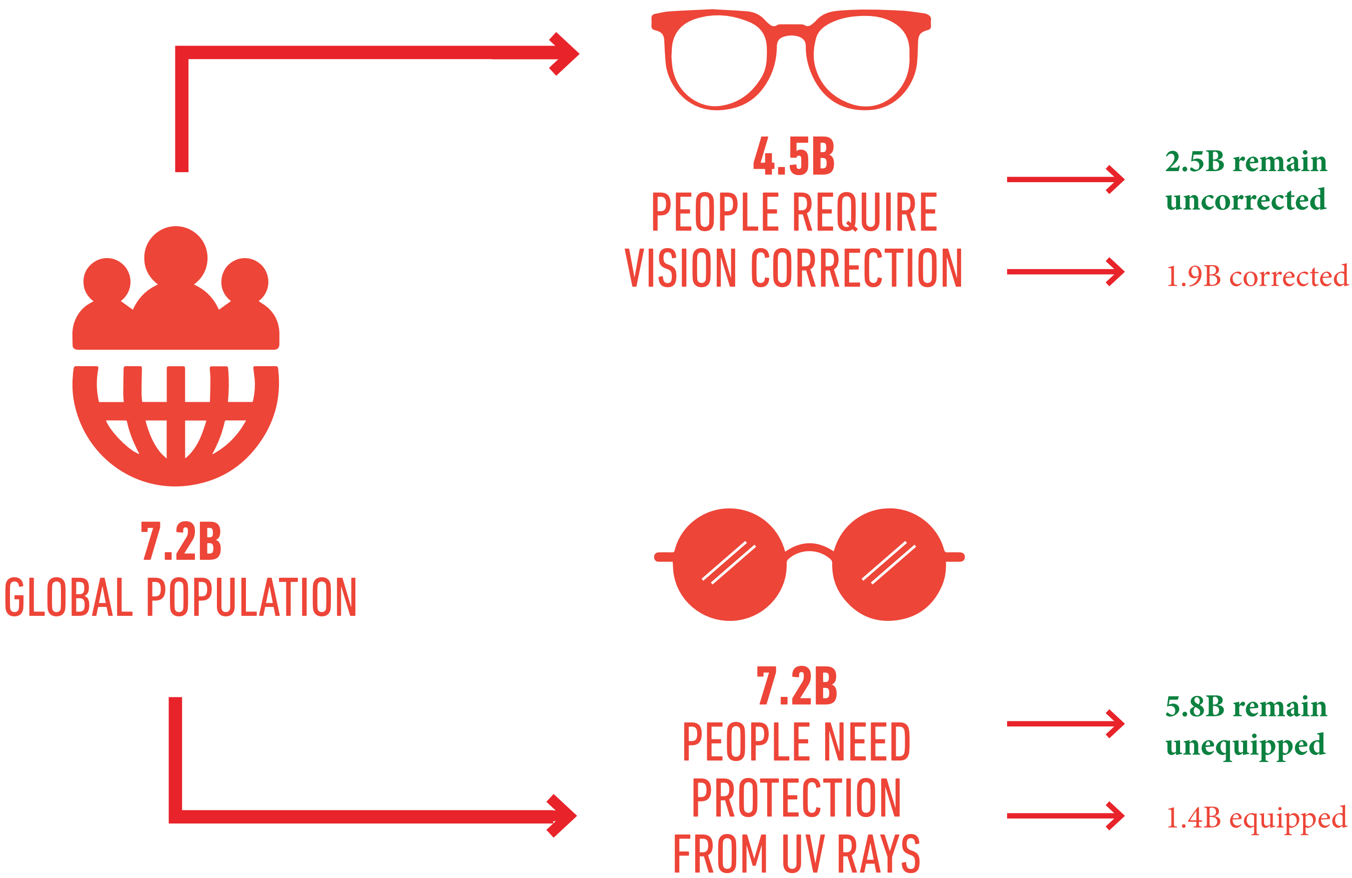
- We believe this unparalleled vertically integrated business model is Luxottica's most important moat. Its presence across all stages of the value chain provides Luxottica with an extremely strong competitive advantage, and enables them to maximise efficiencies and extract value throughout their business. at the same time creating an enormous barrier to entry for competitors in the branded eyewear market.

STILL A LONG RUNWAY OF GROWTH

- *The global eyewear market is currently estimated to be worth US$120B. It is a structurally-growing industry, with "500 million more people needing eye correction and wanting to see better in the next five years"*.*

- Core segments within the industry are vision correction and sunglasses - both of which remain largely underpenetrated.

- The two segments both benefit from strong structural growth drivers and attractive socio-demographic factors such as a growing and aging global population, a widening middle class, increasing prevalence of poor eyesight, heightened consumer awareness toward the importance of UV and blue light protection, and shifting perceptions toward eyewear as a fashion statement and a trend of premiumisation where the branded eyewear is outgrowing non-branded eyewear.



** Luxottica 2016 Investor and Analyst Presentation*

GOVERNANCE UNCERTAINTY

- Mr. Del Vecchio owns 66.5% of Luxottica. He has been praised in the past for stepping back and hiring an outside manager – Mr. Andrea Guerra in 2004 to run his company.
- However, Luxottica has lost three CEO/Co-CEOs and other senior managers since 2014. It all started when Mr. Guerra resigned in 2014 in a power struggle between himself and Mr. Del Vecchio.
- These significant changes in senior management has heightened investor concerns toward succession plans/planning and ultimately the future of the Company.
- Our observation is that Mr. Del Vecchio felt that some of the senior management had become content with status quo and past success, and had become risk-averse to making changes that are required to propel the Company into the future.
- We note that Mr. Del Vecchio has already allocated his 66.5% Luxottica stake to his wife and six children. However, the issue of who is going to lead the Company after Mr. Del Vecchio is harder to ascertain.
- In this situation, we recall Warren Buffett's saying that "I try to buy stock in businesses that are so wonderful that an idiot can run them because sooner or later, one will". We believe that this business that Mr. Del Vecchio has built over the last few decades is so strong that it can withstand a bit of mis-management and still survive and thrive until the issue is more fully dealt with. In the meantime, we are afforded the opportunity to acquire a fractional interest in this business at an attractive valuation.

LEONARDO DEL VECCHIO
Founder/Executive Chairman

ANDREA GUERRA
CEO 2004-2014

ENRICO CAVATORTA
Co-CEO six-weeks

ADIL MEHBOOB-KHAN
Co-CEO 2014-2016

MASSIMO VIAN
Co-CEO 2015 - today

RECENT UNDERPERFORMANCE PRESENTS OPPORTUNITY

- Since August 2015, Luxottica's stock price has been under significant pressure following a broad correction in the Italian stock market, earnings revisions across several key markets and ongoing management concerns. This has resulted in the stock declining some 41% to the recent low of €39.92 (7/10/16), off an all-time high of €67.45 recorded in August 2015.
- We initiated our position in the Elevation Capital Value Fund in October 2016, at a current average cost of €40.65*.
- Current share price** = €50.30 (Market Capitalisation = €25.1B)

*Elevation Capital Value Fund cost basis as at 21/11/2016
** As at 12 December 2016


BURBERRY

HISTORY AND FOUNDER

LUXOTTICA: HISTORY – GROWTH FROM ACQUISITIONS & INTEGRATION

1961 Luxottica is founded by Del Vecchio and two financial partners, starting out with the production of frame components.

1971 Luxottica launches their first branded frames which are introduced at the international Optics, Optometry and Ophthalmology Exhibition.

1974 The Company acquires Scarrone, an Italian distributor, in what is the first move to become a vertically integrated business. AQUISITION

1981 Luxottica acquires Avant Garde Optics Inc, one of the largest commercial companies in the world operating within the optics industry. AQUISITION

1982 The Company acquires a U.S. distributor to begin sales operations in the United States. AQUISITION

1984 The Company launches subsidiaries in England, France, and Canada.

1988 Luxottica secures licensing agreement with Giorgio Armani marking the beginning of the Company’s long held affiliation with the fashion industry.

1990 Luxottica IPO sees the Company listed on the New York Stock Exchange.

1995 Luxottica acquires LensCrafters, the largest optical retailer in North America. Acquisition of Persol brand.. AQUISITION

1999 Luxottica acquires the sunglasses division of Bausch & Lomb, which includes Ray-Ban and other brands. The Company launches the managed vision care subsidiary EyeMed Vision Care. AQUISITION

2000 Luxottica lists on the Italian Stock Exchange (Milan).

2001 Luxottica acquires Sunglass Hut International for US$462M and becomes the world's leading eyewear retailer. AQUISITION

2003 Acquisition of OPSM Group, a leading optical retailer in Australia and New Zealand, with an equity value of AU$550M. AQUISITION

2005 Luxottica consolidates its position in the emerging Chinese market with the acquisition of Ming Long Optical and Xueliang Optical. AQUISITION

2007 Acquisition of Oakley Inc. a global leading sports, technology and lifestyle brand for US$2.1B. AQUISITION

2011 Luxottica strengthens its position in Latin America with the acquisition of the Opticas GMO, Econopticas e Sun Planet retail brands. AQUISITION

2012 Acquisition of leading Brazilian eyewear player Grupo Tecnol. Luxottica expands its sunglass specialty retailer Sunglass Hut by rebranding more than 125 Sun Planet stores in Spain and Portugal. AQUISITION

2013 Acquisition of French luxury and contemporary eyewear player Alain Milki International. AQUISITION

2014 Luxottica partners with Google in the development of Google Glass. Acquisition of Glasses.com. AQUISITION

2015 Luxottica and Macy's announce a deal that will bring LensCrafters to 500 Macy department stores. Sunglass Hut expansion into mainland China and Southeast East Asia.

2016 Luxottica acquires the remaining 63% of Salmoiraghi & Vigano, Italy's largest eyewear retailer. AQUISITION

LEONARDO DEL VECCHIO – FOUNDER – STILL IN CHARGE

- Leonardo Del Vecchio was born in Milan in 1935. He founded Luxottica Group in 1961 when he was 25, and has been chairman of the Company since – Current age 81.
- He is the second richest person in Italy (after Michele Ferrero), and 37th in the world.
- Even in Luxottica's early years, Mr. Del Vecchio already had the vision to move the Company from being a components/accessories manufacturer for the optical industry to a vertically integrated manufacturer for the entire frames. Later he pushed the Company into distribution, first wholesale, and then, from 1995 retail.
- We have noted in the governance issues slide the markets unease with the governance issues surrounding Mr. Del Vecchio's control/ownership over the Company. However, Elevation Capital is comfortable with Mr. Del Vecchio taking a more active role in the company that he founded fifty-five years ago.

"… we will have from now on the opportunity to work even closer with our Founder. His entrepreneurial spirit, his vision, the speed of execution will even more penetrate all of our organizations. He definitely keeps on pushing all the management to challenge the status quo of the organization, to go faster towards evolution, to test, to experiment new business models, from Retail and Wholesale to Operations and that will definitely be a further boost effect to the way we will do business in the next couple of years."

– Luxottica CEO Massimo Vian

"The pillars of our strategy have not changed in 50 years and will not change now: product quality, strong brands, efficient factories, widespread distribution and growing our direct relationship with the end consumer through retail, franchising and e-commerce"

- Founder and Chairman, Leonardo Del Vecchio

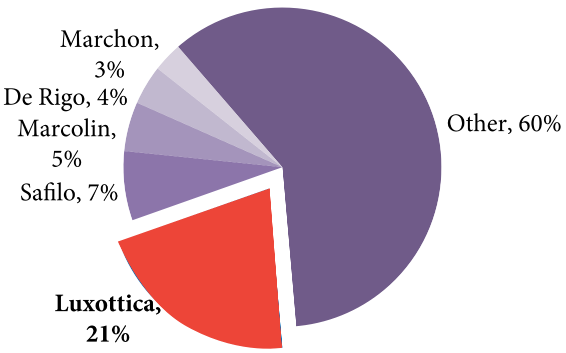
Source: http://www.forbes.com/profile/leonardo-del-vecchio

MARKET POSITION & BRAND PORTFOLIO

STRONG POSITION IN FRAGMENTED MARKET

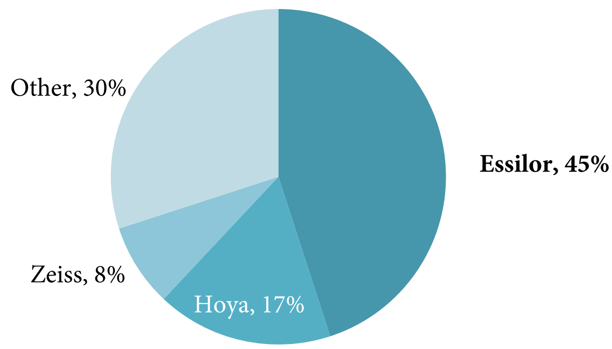
- Luxottica holds the title of the world's largest frame manufacturer, while Essilor focuses almost entirely on lenses. Retail continues to be highly fragmented globally.

Frames wholesale market share 2015



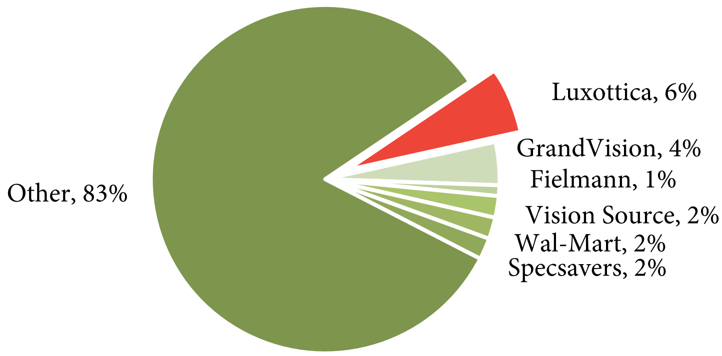
#1 IN THE WORLD

Lens manufacturers market share 2015



OPPORTUNITY!

Retail distribution market share 2015



#1 IN THE WORLD

Source: Luxottica

KEY BRANDS – PROPRIETARY BRANDS

- Luxottica's proprietary brand portfolio includes two of the largest eyewear brands in the world; Ray-Ban and Oakley. These two brands account for ~40% of the business today.
- Proprietary brands particularly aid bottom line growth as profit margins can be captured across all segments of the business.
- Deutsche Bank estimates proprietary brands to be on average 6%-8% more profitable than licensed brands*.

40% OF LUXOTTICA BUSINESS

Ray-Ban GENUINE SINCE 1937
OAKLEY
VOGUE eyewear
Persol
OLIVER PEOPLES
alain mikli paris
arnette EYEWEAR
ESS
Sferoflex

** Source: Deutsche Bank Markets Research – Luxottica Report - 13 September 2016*

KEY BRANDS – LICENSED BRANDS

- Luxottica holds a slate of licenses for some of the world's most prestigious luxury eyewear brands including Armani, Chanel and Prada resulting in what has become one of the largest brand portfolios in the industry.

A|X ARMANI EXCHANGE
Brooks Brothers
BURBERRY London, England
BVLGARI
CHANEL
COACH NEW YORK
DKNY
DOLCE & GABBANA
EMPORIO ARMANI
GIORGIO ARMANI
MICHAEL KORS
miu miu EYEWEAR
Paul Smith SPECTACLES
POLO RALPH LAUREN
PRADA EYEWEAR
RALPH LAUREN
STARCK® EYES
TIFFANY & Co. NEW YORK SINCE 1837
TORY BURCH
VERSACE

Source: http://www.luxottica.com/en/eyewear-brands

STRONG/FAVOURABLE POSITION IN LICENSE NEGOTIATION

- We believe Luxottica is in a strong and favourable position when negotiating licensing agreements with premier luxury brand owners. Its vast and unmatched distribution networks and economies of scales mean it can offer the best deal to potential licensors than its smaller competitors.
- We suggest this allows Luxottica to be more selective when putting together its portfolio of licensed brands.

EXAMPLE #1 – PRADA

- In 1999, Prada decided to leave Luxottica and entered into a JV with De Rigo.
- The JV was short lived. In 2003 Prada returned to Luxottica. The licensing agreement has been renewed twice through 2025.

EXAMPLE #2 – VALENTINO

- Valentino worked with Safilo from 1998 to 2011 for its eyewear, then in 2012 switched to Marchon.
- In early 2016, Valentino signed a 10-year licensing agreement with Luxottica which will initiate in 2017.

EXAMPLE #3 – MICHAEL KORS

- In 2005, Michael Kors eyewear collection was launched by Marchon.
- Marchon was not able to renew the license in 2014 and lost it to Luxottica.

KEY BRANDS – RETAIL BRANDS

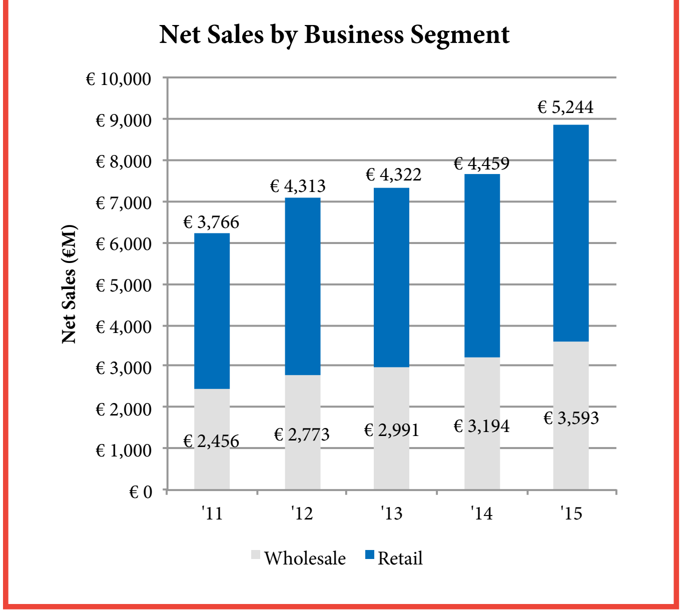
- Luxottica owns and operates several leading retail brands which hold dominant positions in their respective markets including global market leaders: Sunglass Hut and LensCrafters.
- The retail brands include Sunglass Hut, LensCrafters, Pearle Vision, Sears Optical, Target Optical, OPSM, ILORI, EyeMed Vision Care, Optical Shop of Aspen, Laubman & Pank, GMO, Oliver Peoples, Alain Mikli, Oakley, David Clulow, Glasses.com and Econópticas.

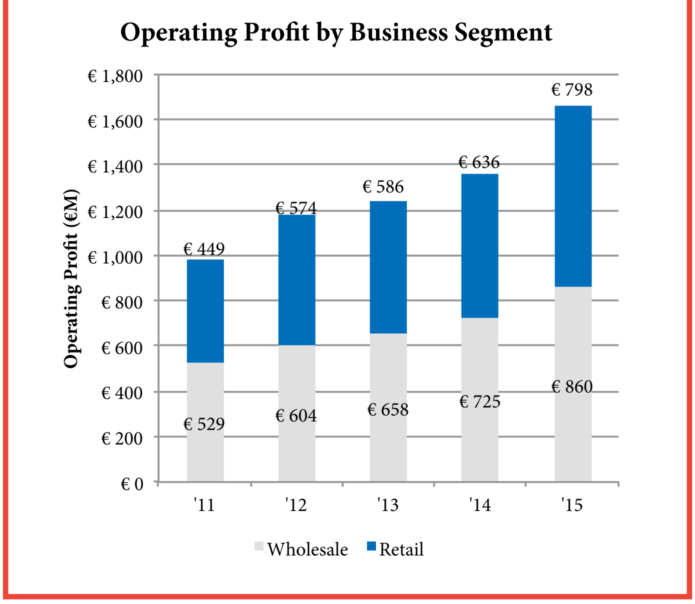
Source: http://www.luxottica.com/en/retail-brands

BUSINESS SEGMENTS

BUSINESS SEGMENTS BY REVENUE & OPERATING PROFITS

- Luxottica has an extremely strong distribution network which has been integral in generating consistent top line growth. The business can be categorised into two segments. In 2015:
    - Wholesale represented 41% of net sales, and 52% of operating profit.
    - Retail accounted for 59% of net sales, and 48% of operating profit.
- There is a steady growth of net sales and operating profit in both segments, with retail growing at a faster rate.
- Interestingly, both segments have been contributing similarly to the Company's operating profit in recent years.





Lily-Rose Depp wears Chanel

* *Source: Luxottica Annual Reports*

WHOLESALE – 41% OF REVENUE, 52% OF OPERATING PROFIT

- The wholesale business segment involves the design, manufacturing, wholesale distribution and marketing of the Company's proprietary and licensed eyewear brands.
- The wholesale distribution network covers more than 150 countries with more than 50 commercial subsidiaries operating within key markets.
- Luxottica's wholesale customers are mostly retailers of mid to premium-priced eyewear, such as independent retail chains, opticians, department stores and duty-free shops.

STARS - SUPERIOR TURN AUTOMATIC REPLENISHMENT SYSTEM

- In 2002, Luxottica launched a programme called STARS (Superior Turn Automatic Replenishment System) across the wholesale segment as an alternate to direct participation in the retail business.
- Using their expertise in retail and infrastructure, STARS seeks to provide the same efficiencies evident in Luxottica's retail network to the wholesale market.
- The program itself offers inventory management, promotion management, new product introductions and IT services for third party retailers.
- By the end of 2015, STARS served approximately 6,300 stores and remains on target to reach 8,000 retailers by year end, 2016. As at March 2016, STARS represented 8-9% of wholesale turnover and is expected to reach 15% in the next couple of years.
- **The STARS program has been instrumental in driving incremental growth within mature markets and enables Luxottica to drive market share across the wholesale segment.**

RETAIL – 59% OF REVENUE, 48% OF OPERATING PROFIT

- The retail business segment is comprised of Luxottica's owned retail brands which sells products manufactured by both the Company and other companies. Luxottica's retail distribution network is roughly evenly divided between optical and sunglass retailers.
- Luxottica is the largest optical retailer globally, with 7,300 stores worldwide and 48,000 associates.
- However, the Company's predominant exposure remains within North America accounting for 78% of sales in 2015. Approximately 90% of retail sales were from its own proprietary and licensed brands.

Ray-Ban SOHO, New York Store

EXTENSIVE WHOLESALE/RETAIL DISTRIBUTION NETWORK

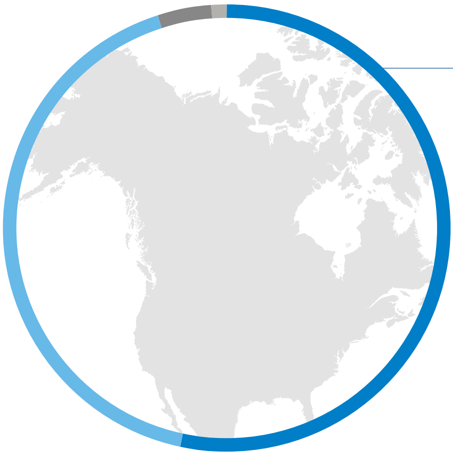
Distributive network

Retail
7,265
STORES
(of which 676 franchises)

Wholesale
>50
SUBSIDIARIES

The main listed:

AFRICA & MIDDLE EAST	AMERICAS	ASIA-PACIFIC	EUROPE	
Israel	Argentina	Australia	Italy	Netherlands
South Africa	Brazil	China	Austria	Norway
United Arab Emirates	Canada	Japan	Belgium	Poland
	Mexico	Hong Kong	Croatia	Portugal
	United States	India	Finland	Russia
		Malaysia	France	Spain
		Singapore	Germany	Sweden
		South Korea	Greece	Switzerland
		Thailand	Hungary	Turkey
		Taiwan	Ireland	United Kingdom



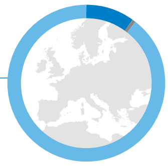
4,628
NORTH AMERICA

933 LensCrafters
541 Pearle Vision
(of which 423 are franchises)
623 Sears Optical
390 Target Optical

1,923 Sunglass Hut

178 Oakley stores

10 Oliver Peoples
(of which 1 is franchise)
2 Alain Mikli
11 The Optical Shop of Aspen
17 ILORI



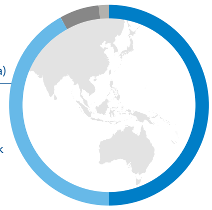
490
EUROPE

43 David Clulow
(of which 1 is franchise)

358 Sunglass Hut
73 David Clulow

12 Oakley stores
(of which 3 are franchises)

4 Alain Mikli
(of which 2 are franchises)



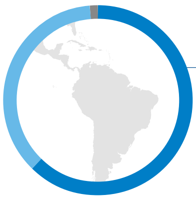
854
ASIA-PACIFIC
(excl. Greater China)

380 OPSM
(of which 71 are franchises)
47 Laubman & Pank
(of which 23 are franchises)

359 Sunglass Hut
(of which 61 are franchises)

55 Oakley stores
(of which 23 are franchises)

4 Oliver Peoples
(all franchises)
9 Alain Mikli

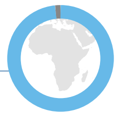


764
CENTRAL & SOUTH AMERICA

476 GMO
(including Econópticas)

279 Sunglass Hut

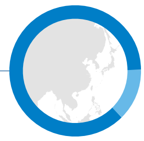
9 Oakley stores
(all are franchises)



195
AFRICA & MIDDLE EAST

192 Sunglass Hut
(of which 52 are franchises)

3 Oakley stores
(all franchises)



334
GREATER CHINA

289 LensCrafters

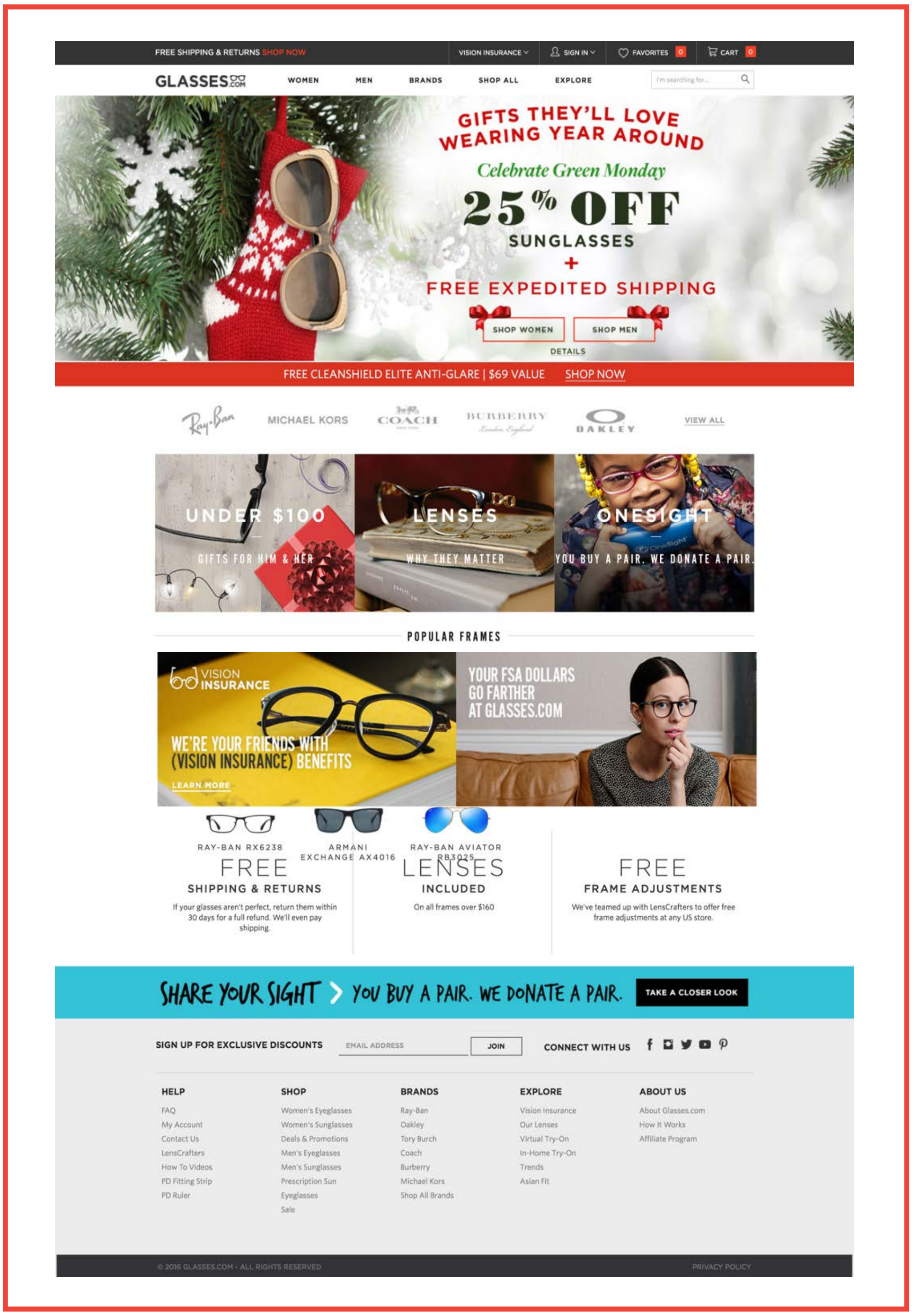
42 Sunglass Hut

3 Alain Mikli

Source: Luxottica 2015 Annual Report p34-35

E-COMMERCE

- Currently, E-Commerce generates 4% of total sales. 50% of this sales generation is from Luxottica's own websites (Ray-Ban, Oakley, Sunglass Hut, Glasses.com etc.), and the rest is from third parties (Amazon, Alibaba etc.).
- Management is targeting E-Commerce to be 7% of total sales in two years.
- The key asset of Luxottica's digital retail strategy is its database of 40 million consumers in North America.
- Ray-Ban.com had a 80% growth in 2015. Overall E-Commerce was up by 60%, in six geographies.



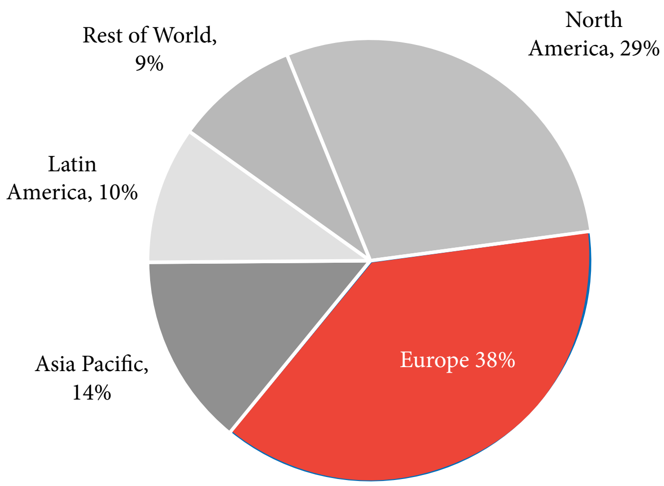
NEW PRESCRIPTION - LENS INFRASTRUCTURE

- Luxottica's new prescription-lens infrastructure in the US, Italy and China is particularly promising and offers attractive long-term growth potential with the ability to unlock new markets and enlarging the size of the industry that Luxottica competes in.
- Luxottica's lens infrastructure is currently directed toward serving the Company's retail business (such as supporting Luxottica introduction of prescription lenses into Ray-Ban with the launch of branded high-end prescription lenses). However, long-term growth could see expansion into wholesale channels and B2B services.
- We note, Luxottica appears to have made a conscious decision to focus on organic growth in this area, developing its own properties as opposed to M&A, granting Luxottica increased flexibility over the strategic direction of this category. This is in line with a broader strategic move to build scale and internalise competencies in the sun and optical lens categories.

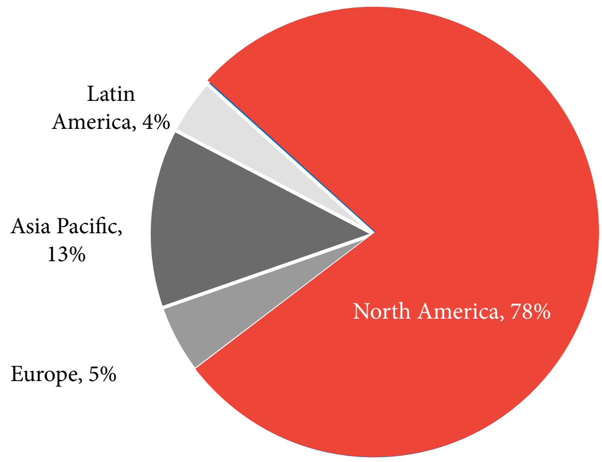
GEOGRAPHIC SEGMENTS

- Luxottica generates the majority of its retail business (78%) from the North American market, and surprisingly only 5% from Europe.
- The wholesale business is much more balanced, with Europe generating 38% of the wholesale revenues, followed by North America at 29%.
- We suggest the Company is actively working on expanding its retail presence in Europe, as evidenced by the Company exercising the option in November 2016 to acquire the remaining 63% of Salmoiraghi & Vigano that it didn't own (it is Italy's largest eyewear retailer).

Wholesale - Net Sales by Geography*

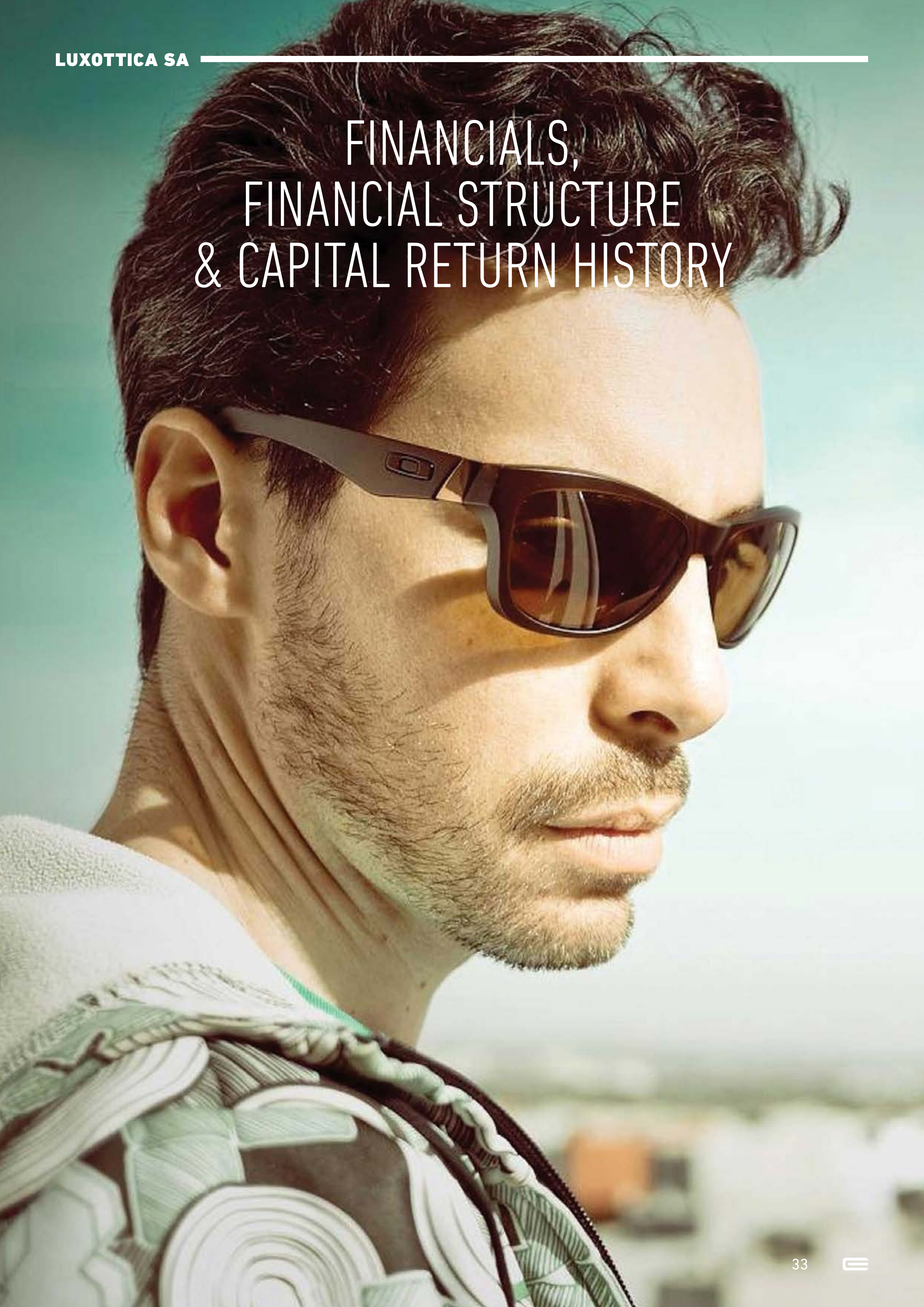


Retail - Net Sales by Geography*



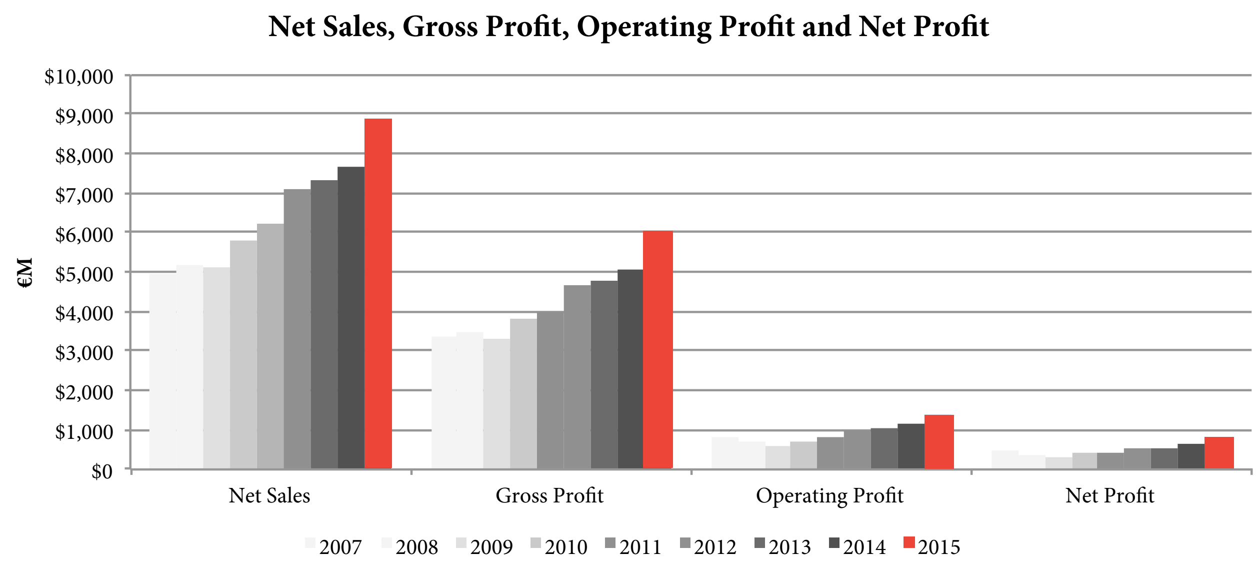
Source: Luxottica 2015 Annual Report

FINANCIALS, FINANCIAL STRUCTURE & CAPITAL RETURN HISTORY



STRONG POSITION TRANSLATED TO CONSISTENT GROWTH

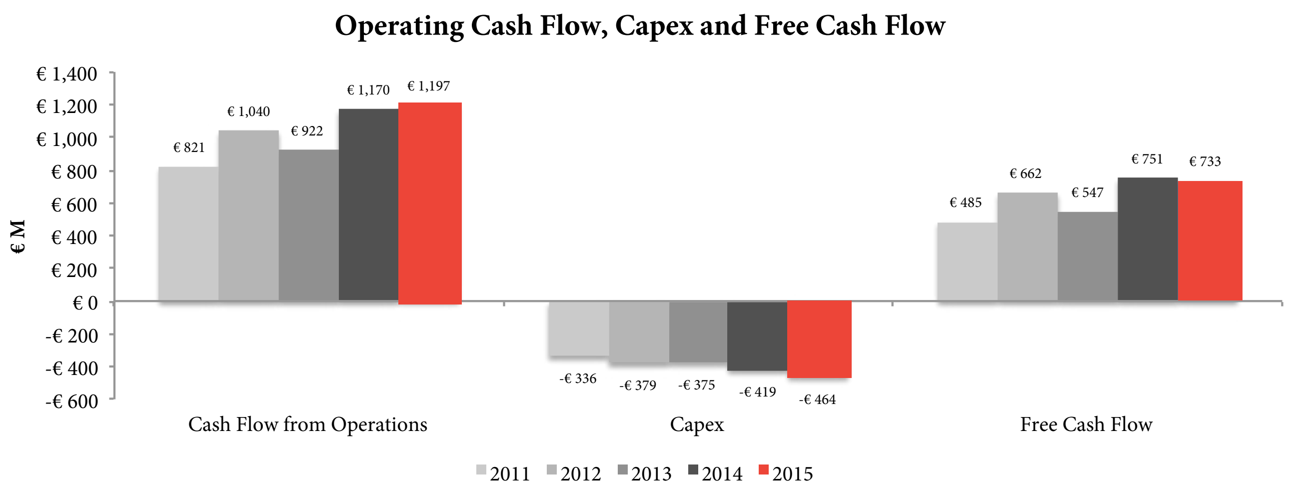
- Luxottica's strong market position and economics of scale has allowed it to grow consistently (10yr revenue CAGR of +7.9%) in an under-penetrated/fragmented global eyewear market in recent years.
- In 2015, the Company committed to double itself in size in ten years time. i.e., to become a €15B (Net Sales) company by 2024. The Company also expects to grow its top line between 5-6% (at constant forex) for 2016, and mid-to-high single digit for the longer term. The Company expects to grow its profit 1.5x equal, or greater, than its top line growth for 2016 and for the longer term.
- We believe this is achievable through a combination of organic growth and M&A opportunities to further strengthen or expand its vertically integrated business model (e.g., lens manufacturing capacity).



Source: *Luxottica Annual Reports, 2016 Investor and Analyst Presentation*

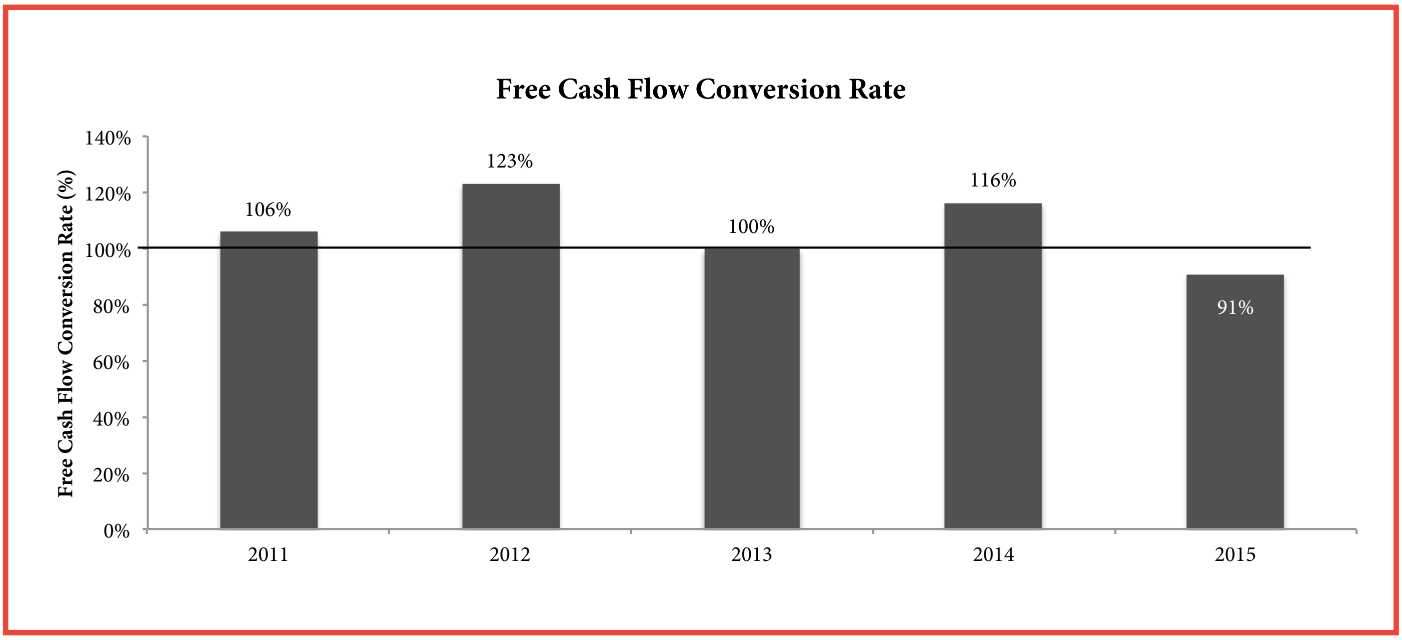
CAPITAL EXPENDITURE & FREE CASH FLOW GENERATION

- Luxottica generates substantial free cash flow which over the past five years has collectively totalled nearly €3.2B (12.7% of current market capitalisation).
- In H1-2016, Luxottica achieved record high free cash flow of €400M, this is despite a 30% increase in capital expenditure YOY.
- Looking forward, Luxottica's strong cash flow position will allow the Company to explore external growth opportunities (both organic or M&A) and return capital to shareholders through dividend payments and/or share repurchases.
- In recent years, Luxottica has invested in areas of the business in response to industry dynamics and the importance of being able to target and serve customers. E.g., Luxottica has invested in optimising distribution centres, expanding digital services and exploring new lens manufacturing capabilities.



FREE CASH FLOW CONVERSION RATE

- It is important to understand a company's ability to generate cash without external financings. We look at measures such as Free Cash Flow (FCF) Conversion Rate* to help gauge the resources available for strategic opportunities such as undertaking acquisitions, investing in the business, strengthening the balance sheet, and to assess the robustness of a company's earnings performance.
- For the past few years, the Company has been able to achieve 100%+ FCF Conversion Rate, with the exception of 2015 when an approximate ~€95M increase in capital expenditure resulted in a 91% conversion rate. The average conversion rate for the past five years is 107%.
- We believe in the long run, the Company should be able to continue to deliver on average a +100% FCF conversion rate.



** Free Cash Flow Conversion Rate (Efficiency) is defined as Free Cash Flow / Net Income.*
This measure illustrates how efficient the business is at generating free cash flow versus its reported / accounting net income.

FINANCIAL POSITION

BALANCE SHEET

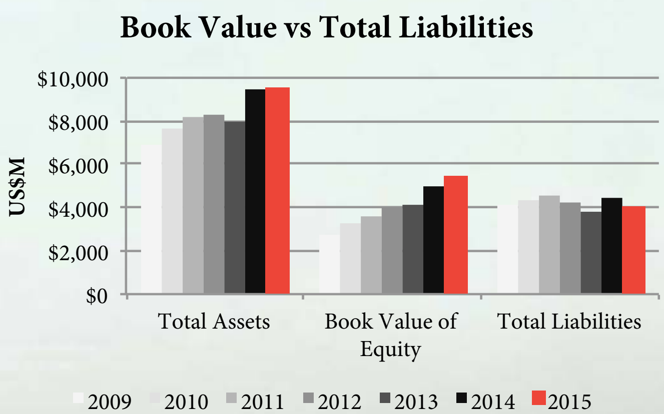
- The Company has continued to grow its Book Value in recent years while reducing its overall liabilities.

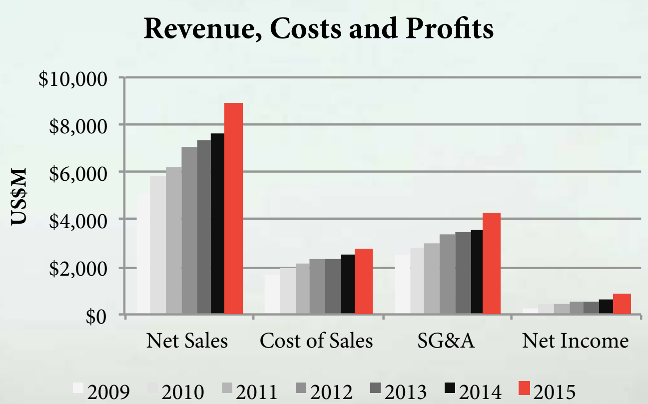
INCOME STATEMENT

- The benefit of Luxottica's unparalleled vertically integrated business model and economies of scale is such the Company has been able to grow its profit faster than its revenue:

  - Cost of Sales as a % of Net Sales reduced from 33.5% in 2009 to 30.9% in 2015.
  - SG&A as a % of Net Sales reduced from 49.7% in 2009 to 47.3% in 2015.
  - Net Margin increased from 5.9% in 2009 to 9.1% in 2015.

- As mentioned, the Company expects to grow its profit 1.5x equal, or greater, than its top line growth for 2016 and for the longer term*.





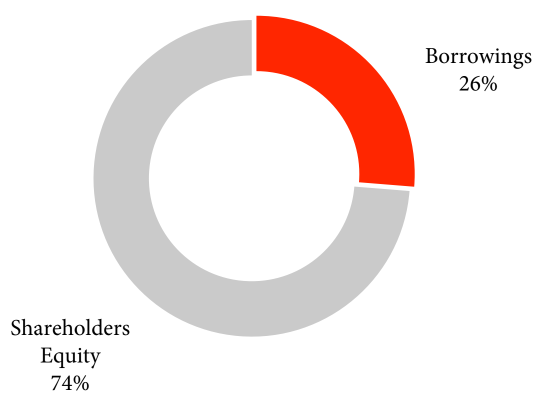
Luxottica 2016 Investor and Analyst Presentation
Data Source: Thomson Reuters Eikon as at 7 December 2016

DEBT & TERM STRUCTURE

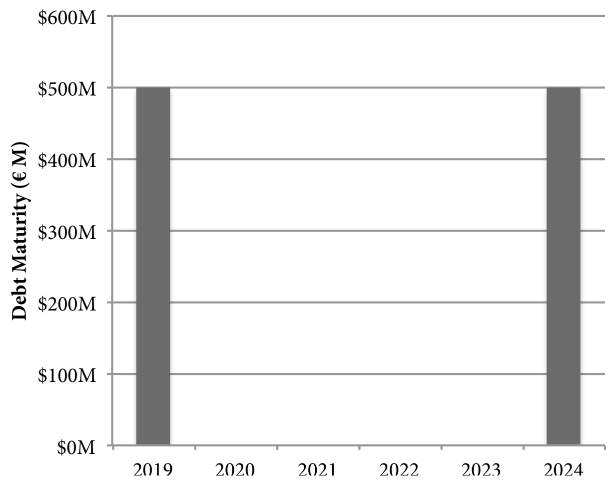
DEBT

- Historically, Luxottica was highly leveraged due to making several large strategic acquisitions. Total long-term debt peaked in 2008 at €2.51B. However, the Company has since reduced this position by approximately -34% bringing total long-term debt to €1.66B*. Over the same period Luxottica's debt/equity ratio improved from 132% to 35%.
- Net Debt to EBITDA ratio = 0.5x, lowest in the last 20 years (Financial covenants: Net Debt/EBITDA < 3.5x).
- The next bond matures (€500M) on 19 March 2019.
- Luxottica has a S&P Long-term Credit Rating of A- for the Company and its bonds.

Total Equity vs Borrowings



Debt Maturity Profile**



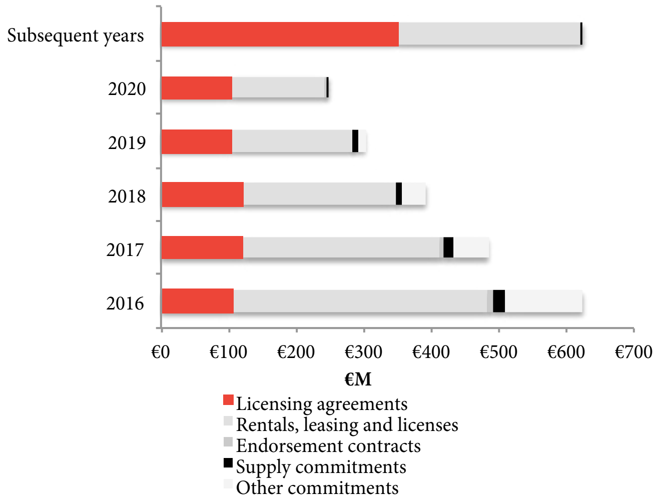
As at 30 June 2016

*** Data Source: Thomson Reuters Eikon as at 7 December 2016*

CONTRACTUAL OBLIGATIONS

- Luxottica enters into licensing agreements with luxury brand owners for the production, design and distribution of sunglasses and prescription frames. These typically have terms ranging from 4 to 10 years, and royalty fees generally 6% to 14% of net sales.
- The majority of the Company's contractual obligations are leases for the various retail stores, plants, warehouses, office facilities and equipment, also the occupancy cost for the operation of stores within the major retail chains in the US (e.g. Macy's), licensing agreements with the various luxury brands and endorsements.
- We have also listed Luxottica's maturity profile of the various liabilities. As noted earlier, the Company has significantly reduced its debt levels in recent years.

Contractual Obligations



Maturity of Liabilities

As at 31 December 2015	**<1yr**	**1-3yrs**	**3-5yrs**	**5yrs+**
Debt	€50.4M	€50M	€550M	€500M
Finance lease	€1.1M	€0.9M		
Derivative financial instruments	€2.1M			
Accounts payable	€407.5M			
Other current liabilities	€664.9M			
Total:	**€1,126M**	**€50.9M**	**€550M**	**€500M**

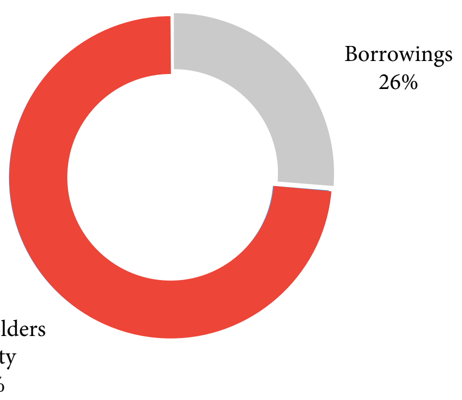
Source: Luxottica Annual Reports

EQUITY OWNERSHIP

EQUITY

- Number of Shares Outstanding = 479,771,821*
- Total Equity = 5.28B**
- Market Capitalisation = €25.10B*
- Owner and Executive Chairman Mr. Del Vecchio is the principal stockholder and controls 66.49% of the voting power through his company Delfin S.a.r.l. Thus, Mr. Del Vicchio has significant influence over the direction of the company. Giorgio Armani is the second largest shareholder and collectively holds 4.95% of the total outstanding shares either directly or indirectly through Giorgio Armani S.p.A. The remaining shareholders are relatively diverse and hold only nominal positions in percentage terms.

Total Equity vs Borrowings



Top 10 Shareholders*	%*
Leonardo Del Vecchio	66.49%
Giorgio Armani	4.95%
Jupiter Asset Management	1.06%
Norges Bank Investment Management	0.84%
The Vanguard Group	0.74%
Allianz Global Investors	0.48%
Capital World Investors	0.47%
RBC Global Asset Management (UK)	0.44%
BlackRock Institutional Trust Company	0.42%
MFS Investment Management	0.35%
	76.24%

** Data Source: Thomson Reuters Eikon as at 12 December 2016*
*** As at 30 June 2016*

INSIDER BUYING

- In July/August 2016, founder, controlling share and executive chairman Mr. Del Vecchio (through Delfin Sarl) acquired a total of 908,000 shares in Luxottica at an average cost of €43.14 representing a €39.2M investment in the Company.
- While this amount is minor when compared to Mr. Del Vecchio's overall holdings in the Company, it is significant as there is no reason for Mr. Del Vecchio to increase his stake in the Company other than if he believes the market is currently undervaluing the Company. As the old Wall Street adage suggests: *"There are many reasons insiders sell, but only one reason they buy".*

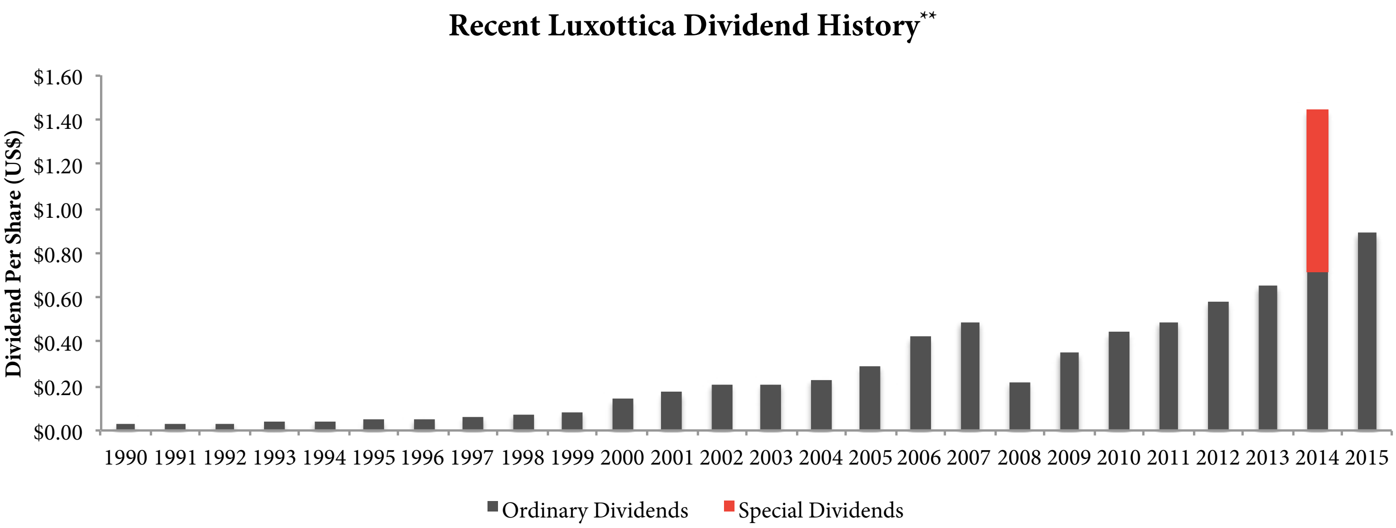
CAPITAL RETURN POLICY

DIVIDENDS

- The Company does not have a published dividend policy. However, it states on its website that *"The Luxottica Group has always pursued the creation of shareholder value, as testified by its history to distribute a steady portion of the Group's earnings in the form of dividends"*.
- The Company has distributed 50% of its net income as ordinary dividends for the last seven years, and we expect this to continue into the future. Current Gross Dividend Yield = 1.77%*

SHARE BUYBACK PROGRAM

- The Company currently does not have an active share buyback program, as it has just terminated its share buyback program announced on 24 May 2016, where the Company repurchased 5M shares equal to 1.033% of the issued share capital.



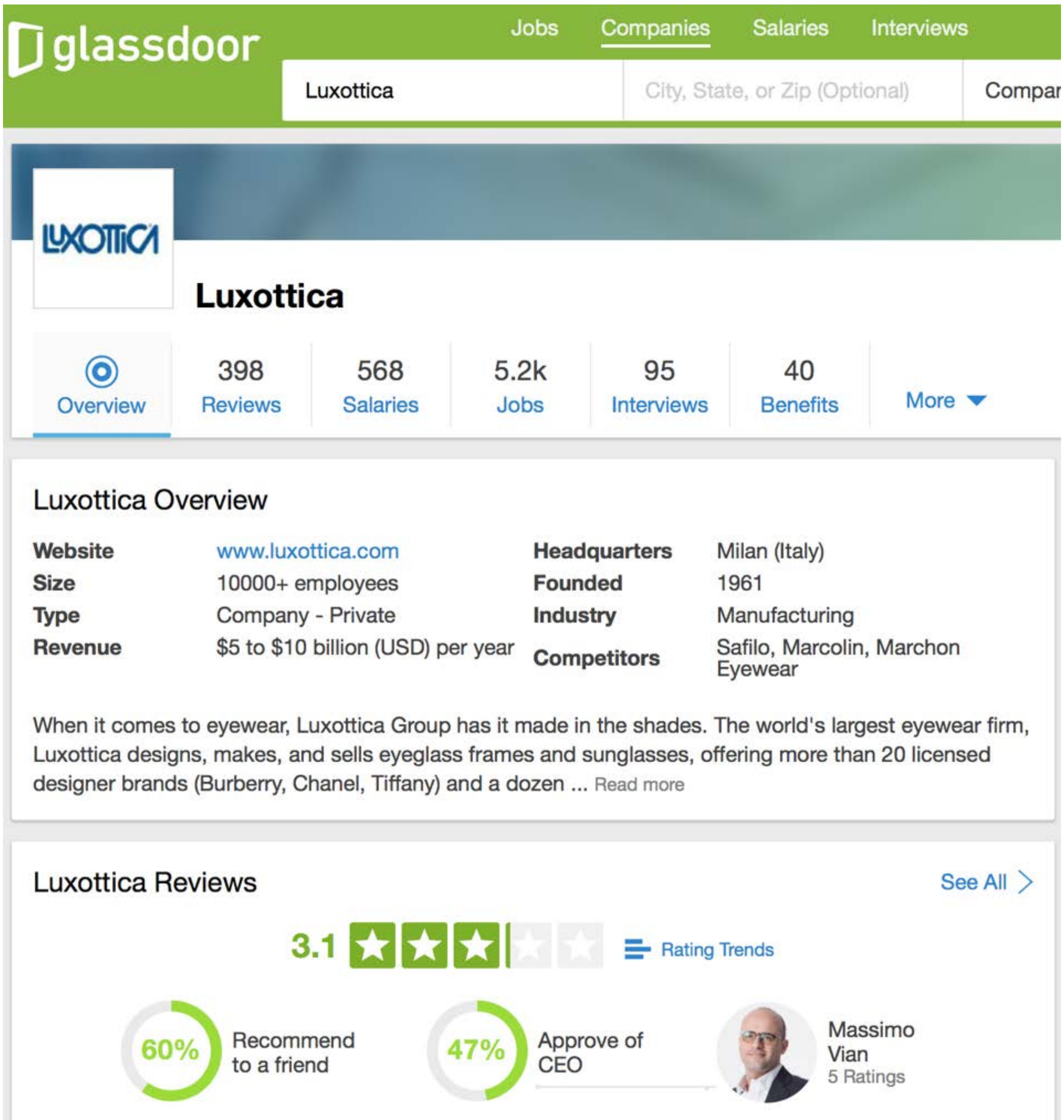
* Based on a share price of €50.30 as at 6 December 2016

** www.luxottica.com/en/investors/dividends

COMPANY CULTURE & EMPLOYEE EFFICIENCY

COMPANY CULTURE / WORKPLACE

- We investigated Glassdoor (www.glassdoor.com) where employees and former employees anonymously review companies and their management.
- We attribute Luxottica's less stellar scores to the fact that the majority (61%) of its employees work in retail distribution. We also suggest the uncertainty as a result of recent management turnover is the primary reason for the low approval rating of the CEO (47%).

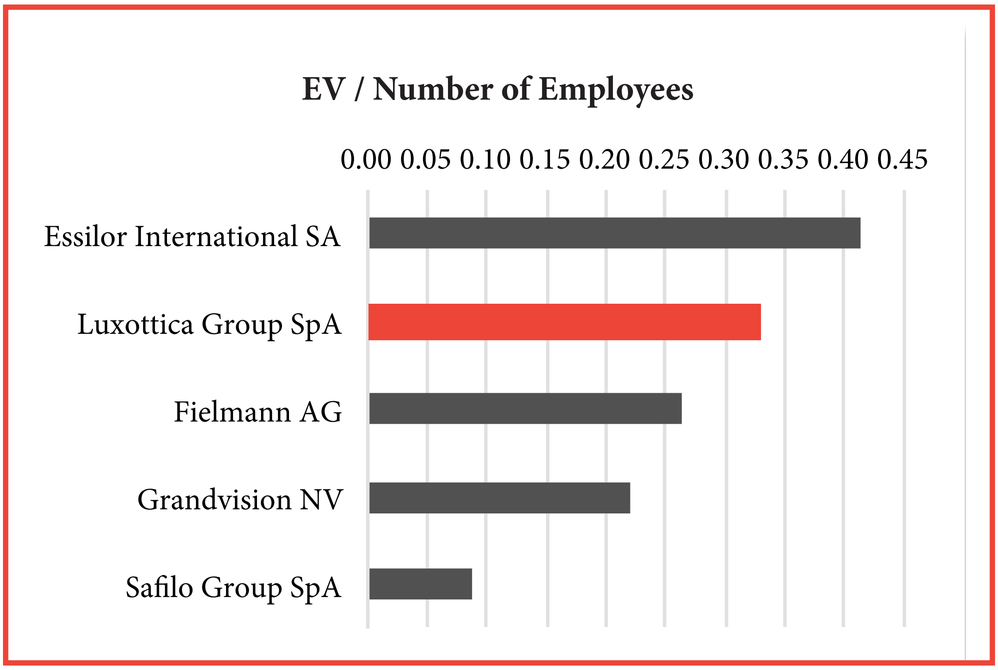


Source: https://www.glassdoor.com/Overview/Working-at-Luxottica-EI_IE4573.11,20.htm

EMPLOYEE EFFICIENCY

- We utilise the Enterprise Value to Employee Ratio to measure how worker-intensive a business or an industry is. We also use this metric to compare businesses within the same industry to rank their relative efficiency.
- With the largest retail eyewear distribution network in the world, Luxottica employs the most employees among its peers. However, due to its superior business model and economies of scale, it is still able to achieve the second highest efficiency ranking.
- We also acknowledge Essilor's impressive achievement, with the highest employee efficiency among its peers.

Company Name	Current EV (€M)	Number of Employees	EV / Number of Employees
Essilor International SA	€ 25,148	61,000	0.41
Luxottica Group SpA	€ 25,942	79,000	0.33
Fielmann AG	€ 4,721	17,928	0.26
Grandvision NV	€ 6,172	27,991	0.22
Safilo Group SpA	€ 627	7,072	0.09
Median			0.26
Mean			0.26

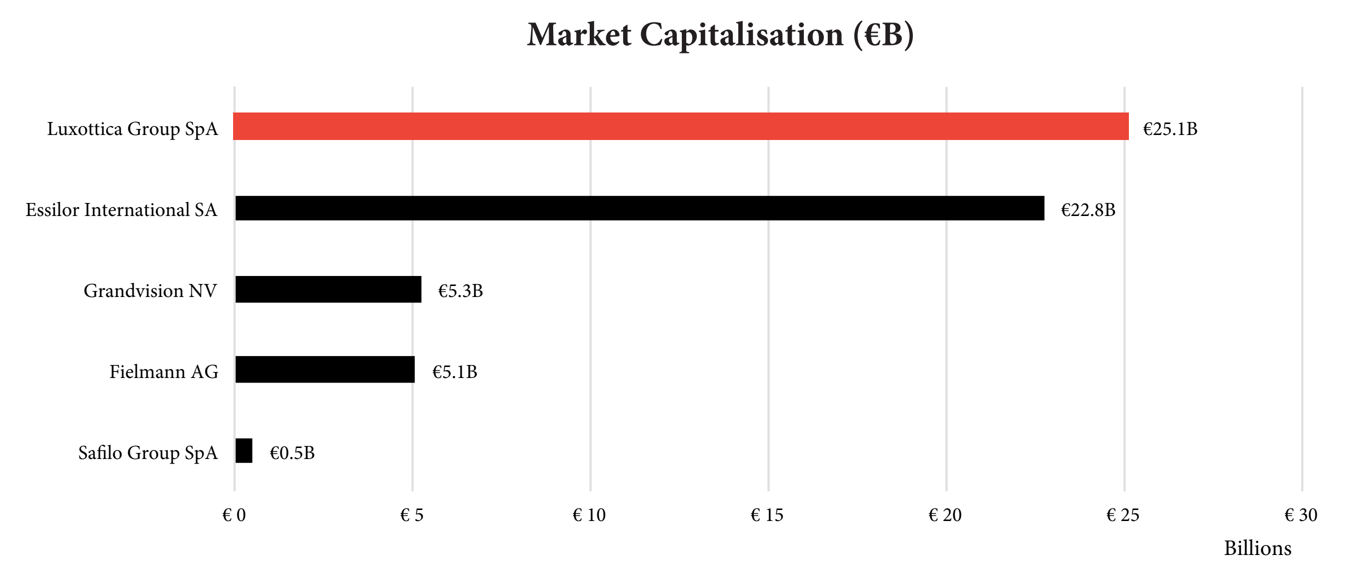


Data Source: Thomson Reuters Eikon as at 12 December 2016

COMPARABLE COMPANIES

MARKET CAPITALISATION

- Luxottica is currently the largest listed eyewear company in the world - Market Capitalisation = €25.1B*.
- Essilor is a close second, with a market capitalisation of €22.8B.
- It is interesting to note that Safilo, which generated a revenue of €1.28B in 2015 only has a market capitalisation of €527M. In the meanwhile, Luxottica which generated ~7 times revenue (€8.8B) of Safilo has a market capitalisation that is ~48 times that of Safilo.
- This is implicit evidence of the quality of the business that Mr. Del Vecchio has built over the past decades, and the tremendous value he has created for shareholders.



DKNY
DONNA KARAN NEW YORK

** As at 12 December 2016*
Data Source: Thomson Reuters Eikon as at 12 December 2016

MARGINS AND RETURNS (1)

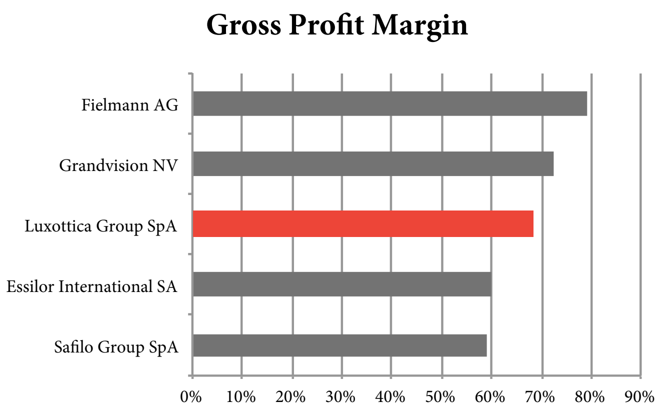
- Luxottica was instrumental in transitioning eyewear as a category toward high end fashion and integral in driving the attractive industry-wide margins.
- Through the establishment of a strong brand portfolio and focusing on efficiency and optimisation initiatives across all stages of the value chain, Luxottica has held its gross margin above 65% for the past 20 years.
- On a relative basis, Luxottica's margins are in line with the industry peer group. However, with its significantly larger scale, it has become a very profitable business.

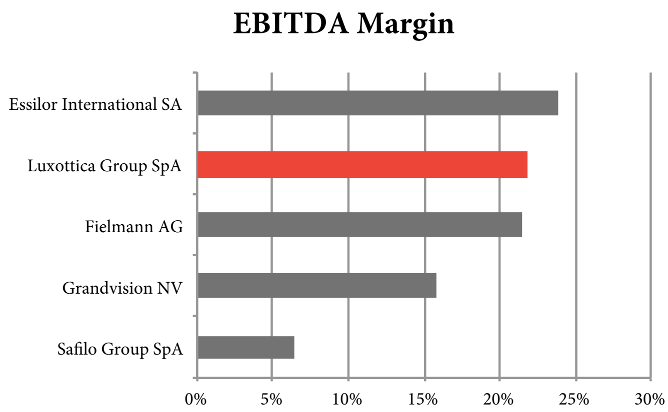
Company Name	Net Profit Margin	Gross Profit Margin	EBITDA Margin	EBIT Margin	ROE	ROA
Essilor International SA	11.3%	59.7%	23.9%	17.9%	13.8%	7.1%
Fielmann AG	12.7%	79.2%	21.5%	18.5%	25.3%	19.7%
Grandvision NV	6.6%	72.7%	15.8%	11.2%	28.3%	8.6%
Safilo Group SpA	-4.1%	59.2%	6.4%	3.2%	-4.4%	-3.3%
Luxottica Group SpA	9.1%	67.9%	21.7%	16.3%	14.9%	8.4%
Median	9.1%	67.9%	21.5%	16.3%	14.9%	8.4%
Mean	7.1%	67.7%	17.9%	13.4%	15.6%	8.1%

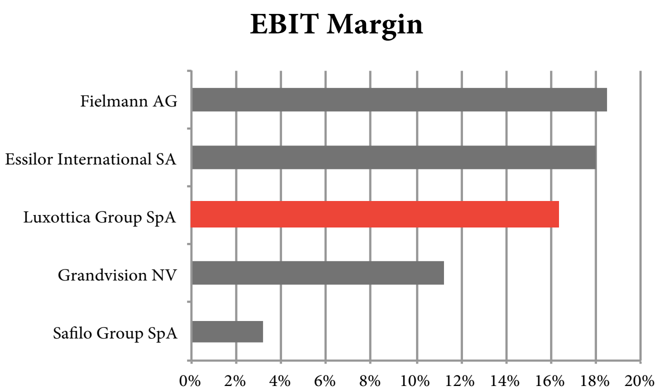
Data Source: Thomson Reuters Eikon as at 12 December 2016 (Data = Last Fiscal Year)

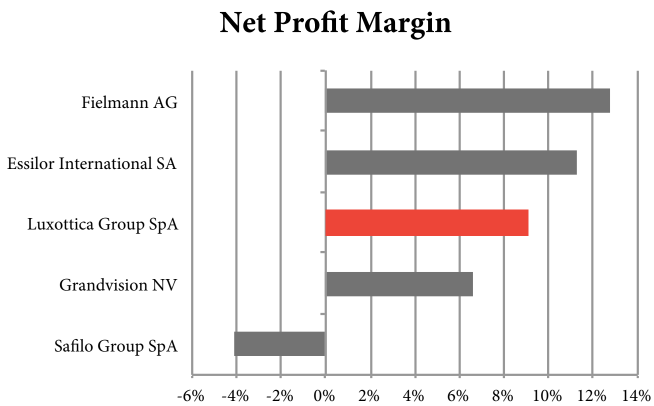
Giorgio Armani glasses

MARGINS AND RETURNS (2)









Data Source: Thomson Reuters Eikon as at 12 December 2016 (Data = Last Fiscal Year)

FINANCIAL LEVERAGE

- Luxottica has one of the most conservative and robust balance sheet among its peers. Coupled with Luxottica's superior earnings power makes it one of the least leveraged listed eyewear companies in the world.
- This allows the Company to move fast strategically when needed.

Company Name	Net Debt To EV	Net Debt To EBITDA	Total Debt to Total Equity	Quick Ratio
Essilor International SA	8.7%	132.4%	45.2%	0.76
Fielmann AG	0.0%	0.0%	0.2%	2.03
Grandvision NV	14.6%	175.5%	146.1%	0.49
Safilo Group SpA	16.5%	123.5%	17.7%	1.07
Luxottica Group SpA	**4.2%**	**56.2%**	**34.6%**	**1.05**
Median	**8.7%**	**123.5%**	**34.6%**	**1.05**
Mean	8.8%	97.5%	48.8%	1.08

Data Source: Thomson Reuters Eikon as at 12 December 2016 (Data = Last Fiscal Year)

LUXOTTICA SA COMPARABLE COMPANIES

VALUATION/S

- As at the time of this report, Luxottica's stock price has moved up +29% from its recent low of €39.92, which was around the time when Elevation Capital established its position in Luxottica.
- Note: When Elevation Capital acquired its position in Luxottica the P/E multiples are as follows:

  - 7 October 2016 at 25.3x P/E (21.1x Forward 12M P/E)

  - 13 October 2016 at 25.6x P/E (21.3x Forward 12M P/E)

- On a relative basis, the stock is trading at a slight premium to its peer group average. However, it is our view that Luxottica should trade at a even higher premium to its peer group average due to its superior business model, and also the potential catalysts (e.g., a mega merger with Essilor).

Company Name	P/E	Forward P/E	Price / Sales	EV / EBITDA	Price / Book	Gross Dividend Yield
Essilor International SA	32.9	27.9	3.3	15.7	3.8	1.1%
Fielmann AG	34.6	31.1	3.8	16.9	7.9	2.9%
Grandvision NV	32.8	22.4	1.6	12.2	6.4	0.6%
Safilo Group SpA		18.3	0.4	7.7	0.5	0.0%
Luxottica Group SpA	**36.2**	**28.9**	**2.8**	**13.5**	**4.7**	**1.7%**
Median	**33.8**	**27.9**	**2.8**	**13.5**	**4.7**	**1.1%**
Mean	34.1	25.7	2.4	13.2	4.6	1.3%

Data Source: Thomson Reuters Eikon as at 12 December 2016 (Consensus Earnings Forecasts and Last Fiscal Year)
B = Book Value, S = Sales, Div = Dividend

KEY COMPETITORS, RISKS & OPPORTUNITIES

KEY COMPETITORS - FRAMES

Safilo (Listed: Italian Stock Exchange)
Safilo is a fully integrated Italian eyewear manufacturer and distributor and is Luxottica's closest direct competitor. Like Luxottica, Safilo's predominant exposure is within the luxury goods sector holding premium brands across the sunglasses, optical frames and sports eyewear segments. Proprietary brands include Carrera, Polaroid, Smith, Safilo and Oxydo while licensed brands include Dior, Fendi, Gucci, Banana Republic, Bobbi Brown, BOSS, Céline, Fossil, Givenchy, J.Lo by Jennifer Lopez, Jack Spade, Jimmy Choo, Juicy Couture, Kate Spade, Liz Claiborne, Marc Jacobs, Marc by Marc Jacobs, Max Mara, Max&Co., Pierre Cardin, Saks Fifth Avenue and Tommy Hilfiger. Safilo's products are sold through 31 owned subsidiaries and local distributors across Europe, America and Asia. In 2015, Safilo generated €1.28B in sales.

Marchon Eyewear (Unlisted)
Marchon is one of the world's largest manufacturers and distributors of quality eyewear and sunwear. The company is headquartered in New York City, with manufacturing facilities in Italy, Japan, and China. The US based company markets its products under prestigious brand names including: Calvin Klein, Chloé, Columbia Sportswear, Diane von Furstenberg, Dragon, Etro, Flexon, G-Star RAW, Karl Lagerfeld, Lacoste, Liu Jo, Marchon NYC, Marni, MCM, Nautica, Nike, Nine West, Salvatore Ferragamo, Sean John, Skaga, and Valentino. Marchon distributes its products through numerous local sales offices in more than 100 countries. In 2014 Marchon recorded worldwide eyewear and sunwear sales of approximately US$1B .

Marcolin (Unlisted)
Marcolin SpA is an Italian-based company which designs, manufactures and distributes eyewear products. Marcolin has a balanced brand portfolio between luxury and mainstream products. The luxury segment includes fashion brands such as Tom Ford, Tod's, Balenciaga, Roberto Cavalli, Montblanc, Zegna, Pucci and from 2016 Moncler and Omega. The mainstream segment includes brands such as Diesel, Swarovski, DSquared2, Just Cavalli, Timberland, Cover Girl, Kenneth Cole New York and Kenneth Cole Reaction. In addition, Marcolin owns its traditional house brand "Marcolin" as well as National and Web. In 2015, the Marcolin sold an estimated 15M pairs of eyeglasses and sunglasses worldwide, with sales of approximately €435M .

De Rigo (Unlisted)
Di Rigo was founded in 1978 and is an Italian eyewear designer, manufacturer and distributor. Proprietary brands include Lozza, Police, Sting and Lozza Sartoriale, which are complimented by licensed brands Blumarine, Blugirl, Carolina Herrera New York, CH Carolina Herrera, Chopard, dunhill, Escada, Fila, Furla, Lanvin, Loewe, Nina Ricci, Tous,Trussardi, Zadig&Voltaire. The group's products are distributed in approximately 80 countries, mainly in Europe, Asia and the Americas. De Rigo is also active across optical retail (especially in Europe) with owned chains including General Optica (Spain), Mais Optica(Portugal), Opmar Optik (Turkey) and its subsidiaries Boots Opticians (UK) and Sewon (Corea). In 2015, De Rigo achieved sales of approximately €403M .

KEY COMPETITORS – LENS

Essilor International (Listed: Paris Stock Exchange)
Essilor is an ophthalmic optics company. The company designs, manufactures and markets a range of lenses to improve and protect eyesight. It also develops and markets equipment for prescription laboratories, and instruments and services for eye care professionals whilst it has a growing exposure to the sunglass business and the online optical retail. It operates through three segments: Lenses and Optical Instruments, Equipment, and Sunglasses & Readers. Essilor operates approximately 32 plants, over 490 prescription laboratories, edging facilities and local distribution centres, and over five research and development centres across the world. Essilor's flagship brands include: Varilux, Crizal, Optifog, Xperio, Definity, Kodak and Foster Grant. In 2015, Essilor generated revenues of approximately €6.7B.

Carl Zeiss Meditec (Listed: German Stock Exchange)
Carl Zeiss Meditec "Zeiss" is a German-based medical technology solutions supplier. Operating ten sites around the world, Zeiss maintains two core business segments. The Ophthalmology business is subdivided into a systems unit which covers a range of laser and diagnostic systems, and a surgical unit which combines the company's activities in ophthalmic implants and disposables (lenses). The Microsurgery business offers surgical microscopes and visualisation solutions for ear, nose and throat surgery, or neurosurgery. Its microsurgery products are mainly used as supporting equipment for the removal of tumours, as well as the treatment of vascular diseases and functional disorders. The portfolio is rounded off by investments in future technologies such as intraoperative radiotherapy. In January 2014, it acquired Optronik Optik ve Elektronik Cihazlar Ticaret ve Sanayi AS, a wholesaler of ophthalmology products, as well as a 100% stake in Aaren Scientific Inc, a producer of intraocular lenses. In 2015, Zeiss generated revenues of approximate €1B.

Hoya Corporation (Listed: Tokyo Stock Exchange)
Hoya Corporation "Hoya" is a diversified, multinational company and supplier of innovative and indispensable high-tech and healthcare products. Based in Japan, the company operates through two core business segments Hoya's Life Care segment focuses on health care areas such as eyeglass lenses and the operation of contact lens retail stores, as well as medical related areas such as intraocular lenses for cataract surgery, medical endoscopes, surgical equipment and artificial bones and implants. Hoya's Information Technology segment focuses on electronics products for the semiconductor industry and LCD panels, glass disks for HDDs and optical lenses for digital cameras and smartphones. The group comprises over 100 subsidiaries and affiliates and employs over 34,000 people worldwide. In 2015, Hoya generated total revenues of approximately ¥506B (€3.8B).

Note: Due to Zeiss and Hoya's heavy exposure to the medi-tech industry we do not include them in peer review comparisons.
B = Book Value, S = Sales, Div = Dividend

KEY COMPETITORS – RETAIL DISTRIBUTION

GrandVision (Listed: Amsterdam Stock Exchange)
GrandVision is an optical retail company based in the Netherlands which operates c.6,200 stores in 44 countries under 34 local banners. Through their retail outlets, GrandVision provides eyesight examination and prescription services delivered by optometrists or opticians in addition to in-house branded and third party branded prescription frames, lenses, contact lenses and sunglasses. Well-known retail banners include: Apollo-Optik (Germany), Generale d'Optique and GrandOptical (France), Pearle (Netherlands, Belgium and Austria) Eye Wish Opticiens (Netherlands), Vision Express (UK, Ireland, Poland, Hungary, the Middle East and India), and Solaris (International). In 2015, GrandVision generated €3.2B in revenue.

Fielmann (Listed: German Stock Exchange)
Fielmann is a German-based optical company that manufactures and sells a range of various spectacles, including bifocal and varifocal optical glasses, sunglasses, spectacle frames and contact lenses. Fielmann is Europe's largest optician providing consumers 'fashion eyewear at a fair price'. The company estimates that 23M people wear Fielmann glasses. The company is also involved in the investment in and operation of hearing aid companies. In 2015, Fielmann generates total revenues of €1.3B.

Vision Source
Founded in 1991, Vision Source is a North American optometric service network of independent optometrists consisting of c.3,500 eye care industry influencers. Vision Source operates under a franchise model where member franchisees pay Vision Source a fee based on a percentage of their gross income. In return, Vision Source provides optometrists access to new innovative technologies, practice management tools, marketing assistance and supply chain programs (where franchisees benefit from the enhanced purchasing power). In 2015, Vision Source members reported a combined US$2.51B in retail sales, professional services, and managed vision benefits, making them the second largest optical retailer in the U.S. behind Luxottica . In July 2015, the Essilor of America Inc (the U.S. subsidiary of Essilor International) announced the acquisition of Vision Source from Brazos Equity Partners LLC for an undisclosed amount.

Wal-Mart
Wal-Mart's first vision centre was opened in 1990. It has since expanded it vision care services through retail banner Walmart Vision Center (c. 3,000 company owned units), and Sam's Club Optical (c.582 units). Independent optometrist rent space within Walmart's retail outlet and are granted access to the groups wide customer base in addition to access to latest technology and state-of-the-art instrumentation. A Review of Optometry article (2009) cited a typical contract as being based on a three-year term and 20% gross fee income (which can be negotiated depending on Walmart's level of involvement in the business such staffing). In 2015, Walmart optical stores generated an estimated US$1.71B in revenues making it the third largest retailer in the US behind Luxottica and Vision Source.

KEY RISKS (1)

MACROECONOMIC SLOWDOWN

If macroeconomic conditions were to deteriorate, demand for Luxottica's products would decline adversely affecting the business performance. This is particularly true given Luxottica's exposure to the luxury goods sector (through their premium eyewear brands) and their reliance on discretionary spending and GDP growth.

SPECIFIC MARKET RISK

As a global Company, Luxottica is exposed to specific market risks, each defined by their own local economic and political environment, governing rules and regulations, and cultural influences, which must be considered given Luxottica's global footprint. It is worth noting Luxottica continues to be highly dependent on the North American market which represents approximately ~60% of sales. Any weakening within this market will have a significant impact on Luxottica's business.

SUBSTITUTION RISK

Should consumer preferences shift away from the use of traditional eyeglasses as a means of vision correction, and adopt alternatives such as contact lenses and laser eye surgery, Luxottica's business will be adversely impacted. The development of new technologies within the eyecare industry will be the driving force behind substitution risk, so far as it can increase accessibility, reduce price points and alter public perceptions of surgical alternatives through increased quality.

KEY RISKS (2)

CURRENCY/FX

Primary revenue exposures are within the U.S. and Australian markets and as such a weakening in these currencies versus the Euro would decrease revenues and negatively impact Luxottica's bottom line. Similarly, Luxottica's principal manufacturing costs are incurred in Chinese Yuan and Euro, where a strengthening in the Chinese Yuan would increase Luxottica cost basis and negatively impact profitability.

INCREASED COMPETITION - MARGIN PLAYERS

Luxottica's business model has traditionally enabled the Company to have substantial influence over industry pricing operating as a near monopoly. The existence of this business model within frame manufacturing/retailing is unusual as barriers to entry are relatively low with low technical know-how/intellectual property required while there is no government regulation that usually facilitates a monopolistic structure of this kind. Recently, competition has been increasing within the industry with the entrance of new (discount) players, the development of the digital distribution channel, and diversification of existing players seeking to consolidate or establish vertically integrated business models. This threatens Luxottica's pricing power, challenging their market position - should Luxottica be unable to defend its position, margin erosion will follow with a decline in bottom line performance. The preservation of Luxottica's brands is of upmost importance. The strength of Luxottica's brands, alongside their vertical integration strategy, have been critical pillars in defending their strong market position.

KEY RISKS (3)

BRAND RELATED RISKS

One of Luxottica's primary competitive advantages is the strength of its brands. Thus, any deterioration in brand equity will cause significant harm to Luxottica's business. Brand equity can be influenced by any number of factors such as counterfeiting, discounting, poor marketing, a decline in product quality or simply an inability to adapt to shifting consumer tastes. This is especially true for Luxottica's leading proprietary brands Ray-Ban and Oakley which represent c50% of wholesale revenues and approximately 40% of total revenues. A slowing of these two growth engines will significantly impact Luxottica's business.

GREY MARKET AND COUNTERFEITING

Grey market products (unintended distribution) and counterfeiting can severely affect sales and profits. These practices have the potential to cause significant long term harm to Luxottica and their brands because of discounting practices and quality implications. The threat of counterfeit is especially prevalent within the eyewear industry due to the relative ease with which product can be produced.

DEFENDING ITS BRANDS (1)

RAY-BAN

Ray-Ban is Luxottica's leading brand accounting for c27% of Company revenues and has been a reliable source of growth for Luxottica with a c16% CAGR between 2005 to 2015. However, new low priced competitors, undisciplined discounting and grey market/counterfeit sales have raised questions as to the growth trajectory of the brand with Management forecasting lower growth of 8%-10% for FY2016 - most of which is expected to come from volume growth versus price increases.

In response, Luxottica has introduced defensive strategies such as zero discounts, Minimum Advertised Price (MAP) policies and exclusive distribution/retail agreements across all brands. MAP was introduced to Luxottica's North American market in April 2016 and prohibits wholesale clients, including bricks-and-mortar and online, to advertise products at a discount unless previously agreed upon by both parties. This only applies to advertising and does not relate to actual sale price. Where MAP is not possible, such as in the Europe where it is deemed illegal, Luxottica has introduced exclusive distribution agreements for local partners which provides greater control over product distribution.

Unsurprisingly, the implementation of such policies can have adverse performance impacts in the short term. In Q3-2016, MAP was the dominant factor in a declining North American wholesale market where revenues declined 11.6% on a constant currency basis. and sales to North American online retailers declined by approximately 60%. Management has stated that the short-term implications of MAP were greater than anticipated. However, early sales trends in October 2016 suggest a potential recovery within the channel is underway. Over the long term, these initiatives are expected to improve sales quality, drive unit price expansion and preserve brand equity allowing for enduring growth across all platforms. Already positive effects are being realised, using Amazon as market indicator, Luxottica's average discount was down from 37% in April 2016 to just 6% in September 2016.

DEFENDING ITS BRANDS (2)

Coinciding with efforts to secure distribution channels, Luxottica continues to improve its ability to combat combat grey-market and counterfeit goods. To achieve this Luxottica works closely with customs organisations and law enforcement agencies, overseas suppliers and performs analysis of suppliers and stock, and maintains an open dialog with consumers who report concerns over fake or counterfeit product. More recently, Luxottica has implemented a traceability system, using RFID technology to intensify controls throughout the supply chain. The passive device is embedded in the frame and contains key information to uniquely identify each pair of glasses, from production to sales destination. Approximately 25% of Ray-Ban frames are now fitted with this technology with Luxottica intending to roll the product across Oakley in the near future. In 2015, Luxottica aided local law enforcement and custom officials in the seizure of 4.8M units of counterfeit Ray-Bans. It also closed 17,000 websites and removed 375,000 marketplace listings selling counterfeit products.

OAKLEY

Luxottica's second most important brand is Oakley which was acquired in 2007 prior to the GFC. Oakley has struggled to transition the brand into current operations where prior to the acquisition, the two companies directly competed in terms of production and distribution. Oakley has suffered from mixed results, facing many of the similar pressures as Ray-Ban, mentioned above. Luxottica has sought to combat this by aligning Oakley's operation with Luxottica's core business, integrating the brand into the Company's respective division. This process began in Q2 2015 and was completed in during the same financial year with a second wave of integration announced in FY16. Oakley's challenges were reflected in management revising FY16 growth targets down to 3%-5% from 8%-10% during an investor presentation in March 2016. Re-igniting growth and gaining traction with the younger consumers continues to challenge Oakley – during the Q3-16 earnings call, management cited Oakley's second round of integration as partially responsible for the 11.6% decline North American wholesale revenues due to the adverse impact within Oakley's sports channel. As with Luxottica's MAP policy, Oakley's repositioning affirms management preference to undertake short-term pain to reap long-term benefits – we expect this will provide further volatility in the Luxottica stock price in the near term.

In addition to these defensive strategies, Luxottica continues push the boundaries with R&D and product innovation to move brands forward and further generate brand equity. Recent examples include frame and lens technologies (Oakleys, Pryzm and Ray-Ban, Chromance) and digital diagnostic eye care services (Lenscrafters, Clarifye).

KEY RISKS (4)

LICENSE RENEWALS

Luxottica operates a large number of accessible and premium luxury brand licenses. An inability to renew these licenses or negotiate them on the same or similar terms would adversely impact Luxottica's business. Brand license terms vary between 4 to 10 years, some with renewal provisions. In 2015 and 2014, no license represented more than 5% of Luxottica's sales.

In September 2014, Kering terminated its license agreement with Safilo to unlock the value within its smaller brands - this has raised the question as to whether other brands will consider in-house solutions as an alternative to licensing (Refer Appendix #3 for more details).

As an industry, eyewear is an important product category for luxury brands. Luxury eyewear has relatively low entry level price points and the ability to act as a recruitment product category across younger consumers with lower purchasing power. Thus, there are significant benefits to having full control over the strategic direction of a brand within the category - autonomy over product design, quality and distribution can build brand equity facilitating long-term growth. Yet we do not see Kering's manoeuvre as a threat to licensing and believe its position is unique to itself - the company benefits from owning a diverse portfolio of brands (as opposed to a single brand) and has the prerequisite scale through which it can extract cost synergies – qualities not present in most licensed brands today.

UNSUCCESSFUL M&A

Historically, Luxottica has been an active participant in M&A and with management seeking deal opportunities, the potential for transaction risk increases. Considerations which could adversely affect deal environment include disruptive behaviour from competitors, governmental regulation and rapid developments within the eyewear industry. Additionally, should Luxottica be unable to integrate future acquisitions into their business, or fail to extract intended synergies, value creation and earnings accretion would be compromised adversely impacting business performance.

KEY OPPORTUNITIES (1)

OPTIMISING BUSINESSES

Over the past few years, Luxottica has targeted the expansion of its global footprint directing cash flow towards entering new markets/geographies. With these operations in place, Luxottica is shifting focus toward optimising and streamlining business services and infrastructure management. For example, moving toward leaner inventories, and increasing the speed with which it can serve its retail network customers. Additionally, Luxottica is investing in areas of the business in response to industry dynamics and the importance of being able to target and serve customers. In this end, Luxottica has invested in optimising distribution centres, expanding digital services and exploring new lens capabilities.

AUTOMATION

The Company has invested, and continues to invest in process automation in its production facilities. This improves the reliability of quality and margins based on productivity. We quote the following from Management*:

> *"The first robot line that we mentioned to you a year ago is now operational in our Rovereto manufacturing plant here in Italy and assemblies the family of Ray-Ban Aviator, absolutely with full automation, no need for even a single second of human labor for that. We are scaling that up with three lines ... We will be able to fulfil 100% of the demand of Ray-Ban Aviator within the Group. Ray-Ban Aviator is not one model, it is a family and accounts for approximately 4% of our total manufacturing volumes, so a pretty astonishing increase of productivity."*

** Luxottica 2016 Investor and Analyst Presentation*

KEY OPPORTUNITIES (2)

WEARABLE ELECTRONICS DEVICE

It is estimated by IDTechEx that the market for smart eyewear is forecast to reach almost US$45B by 2026. With Ray-Ban and Oakley, Luxottica has over ten years of experience in wearable technology that has evolved from MP3 to HUD devices.

In recent years, Luxottica has been involved with some of the biggest names in technology in wearable technology. From the ill-fated Google Glass that was announced in 2014 to the recently announced partnership with Intel for Radar Pace, a smart eyewear platform featuring a real-time voice activated coaching system.

The Company has recently setup its R&D office in San Francisco, to work and manage relationships with the giants of Silicon Valley, such as Apple, Google, Intel and others.

CHINA

Currently, China is only 3% of Luxottica's total sales, mostly Ray-Ban. Management believes China is Luxottica's biggest opportunity for future growth. The Company established its first Ray-Ban store in China in 2015, and is expecting to have 100 Ray-Ban stores in China by the end of 2016. LensCrafters entered the Chinese market in 2006, and now has over 290 LensCrafters in the Greater China region.

It is interesting to note that the Company has decided to build its China business with its own 100 strong salesforce in China, instead of relying on local distributors.

KEY OPPORTUNITIES (3)

M&A

Management stated (and we believe) that it is in Luxottica's DNA to actively pursue M&A opportunities.

We take our cue from the Chairman when he stated earlier in the year that "another area that has our attention is the lens world, which is worth as much as the frame market and delivers very high margins".

We believe the Company may revive the abandoned merger discussions (2013) between Luxottica and the world's largest lens manufacturer Essilor (ESSI.PA).

Other M&A opportunities are also possible such as expansion of the retail channel or continued consolidation within the frames business.

2000	Luxottica lists on the Italian Stock Exchange (Milan).	
2001	Luxottica acquires Sunglass Hut International and becomes the world's leading eyewear retailer.	Acquisition
2003	Acquisition of OPSM Group, a leading optical retailer in Australia and New Zealand.	Acquisition
2005	Luxottica consolidates its position in the emerging Chinese market with the acquisition of Ming Long Optical and Xueliang Optical.	Acquisition
2007	Acquisition of Oakley Inc. a global leading sports, technology and lifestyle brand.	Acquisition
2011	Luxottica strengthens its position in Latin America with the acquisition of the Opticas GMO, Econopticas e Sun Planet retail brands.	Acquisition
2012	Acquisition of leading Brazilian eyewear player Grupo Tecnol. Luxottica expands its sunglass specialty retailer Sunglass Hut by rebranding more than 125 Sun Planet stores in Spain and Portugal.	Acquisition
2013	Acquisition of French luxury and contemporary eyewear player Alain Milki International.	Acquisition
2014	Luxottica partners with Google in the development of Google Glass. Acquisition of Glasses.com.	Acquisition
2015	Luxottica and Macy's announce a deal [...] department stores. Sunglass Hut expansio[...] Asia.	
2016	Luxottica acquires the remaining 63% of Sa[...] retailer.	

1961	Luxottica is founded by Del Vecchio and two financial partners, starting out with the production of frame components.	
1971	Luxottica launches their first branded frames which are introduced at the international Optics, Optometry and Ophthalmology Exhibition.	
1974	The Company acquires Scarrone, an Italian distributor, in what is the first move to become a vertically integrated business.	Acquisition
1981	Luxottica acquires Avant Garde Optics Inc. one of the largest commercial companies in the world operating within the optics industry.	Acquisition
1982	The Company acquires a U.S. distributor to begin sales operations in the United States.	Acquisition
1984	The Company launches subsidiaries in England, France, and Canada.	
1988	Luxottica secures licensing agreement with Giorgio Armani marking the beginning of the Company's long held affiliation with the fashion industry.	
1990	Luxottica IPO see the Company listed on the New York Stock Exchange.	
	[...] optical retailer in North America.	Acquisition
	[...] of Bausch & Lomb, which includes Ray-Ban [...] the managed vision care subsidiary EyeMed	Acquisition

Essilor and Luxottica end secret 18-months-long merger talks

Thursday, October 30, 2014

France's Essilor International and Italy's Luxottica Group, the two largest optical companies in the world, have ended merger talks that took place in secret over the past 18 months. The reasons for ending the merger talks have not been revealed, however press reports from Europe indicate it was Luxottica more than Essilor that called off the talks. And a major contributing factor could have been the turmoil Luxottica faces following the departure of its chief executive officer six weeks prior to cessation of the talks, followed by his successor departing six weeks later (see page 4), with the Milan, Italy, share market dropping the price of Luxottica shares by as much as 11 per cent in one day, but later raising it almost back to where it was beforehand.

Had the 18 months of talks led to a merger of the two companies – and that cannot be ruled out for the future – it would have created a giant organisation, with Essilor bringing to the table a huge range of facilities for ophthalmic and sunglass lens research, development and manufacturing (including recent acquisition Transitions), the same for instruments and equipment, and prescription laboratories and distribution facilities around the world, as well as a huge number of patents.

For its part, Luxottica would have brought to the table a vast collection of owned or licensed frame and sunglass brand names, including Ray-Ban, Giorgio Armani, Persol, Vogue, Oakley, Bvlgari, Brooks Brothers, Burberry, Dolce & Gabbana, Chanel, Coach, Polo Ralph Lauren, Stella McCartney, Tiffany & Co and Versace.

Also, frame and lens manufacturing capacity and supplier contacts, wholesale outlets and its prized retail outlets worldwide, including OPSM here and in New Zealand, Sunglass Hut worldwide, David Clulow in the United Kingdom, and United States retail companies Lenscrafters, Pearle Vision, Sears Optical, and Target Optical.

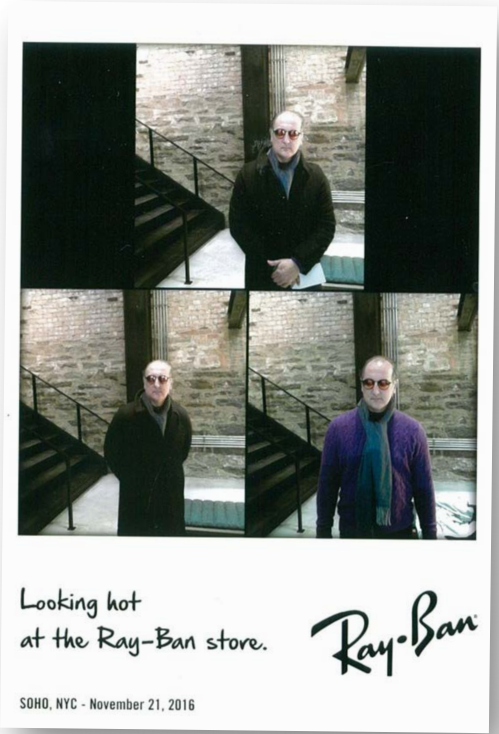
KEY OPPORTUNITIES (4)

CUSTOMISATION/PERSONALISATION

Luxury brands have started to offer customisation and personalisation to make the customers feel connected and integrated with the brand experience.

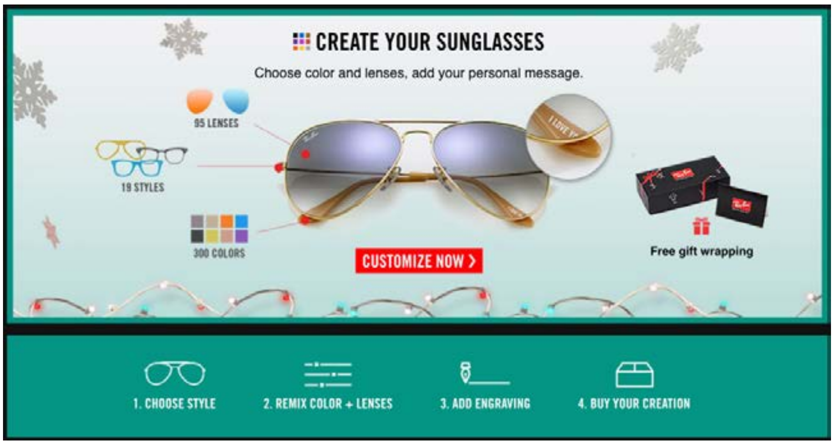
Impressively, "Ray-Ban Remix" and "Oakley Custom" allow the customer to build and customise their own sunglasses, and have it delivered to their home in three days on average globally.

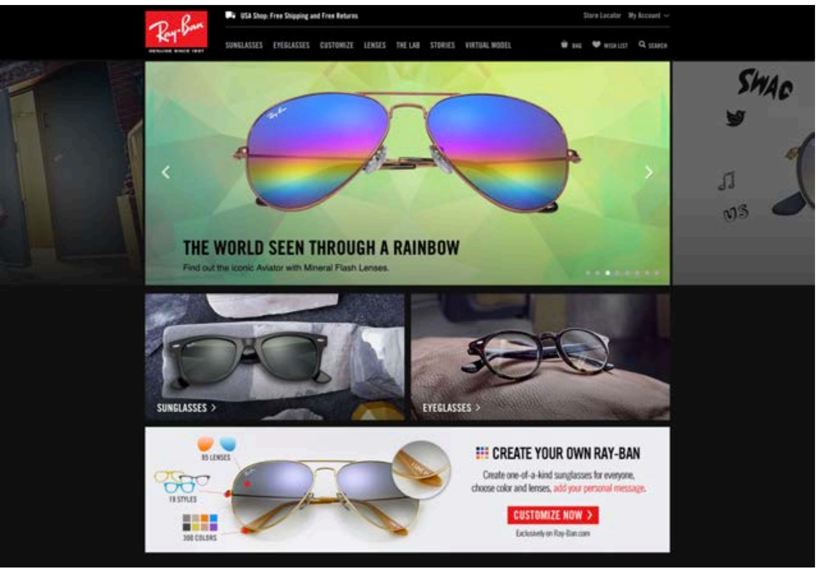
This should be a growth area for the Company in terms of revenue and margins.

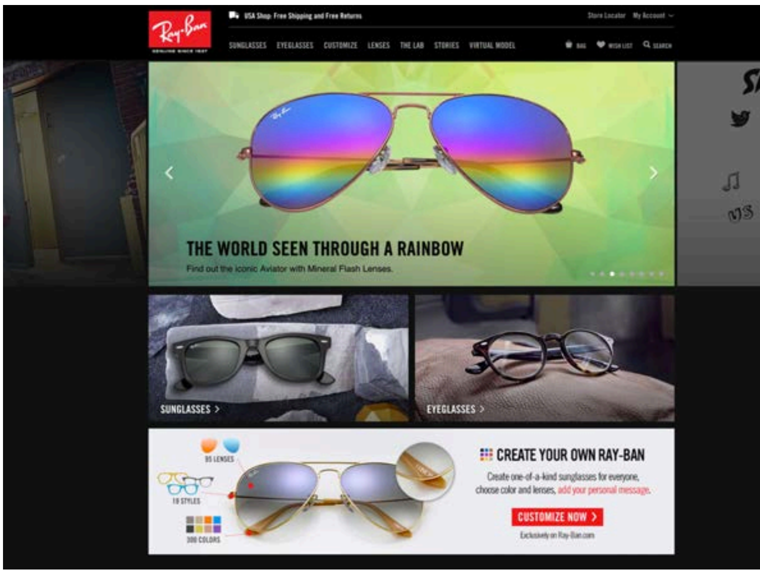


E-COMMERCE

As noted before, Management is targeting to almost double its E-Commerce sales from 4% of total sales to be 7% in two years. We believe this is not only achievable, but could be exceeded with little incremental cost.







CONCLUSION, ESTIMATED VALUE RANGE & LIQUIDITY

ELEVATION CAPITAL – CONCLUSION

INVESTMENT THESIS SUMMARISED

Luxottica is the undisputed leader in a structurally growing industry. There exists significant opportunities to increase market penetration while socio-economic drivers favour long-term growth. Qualitative factors such as the ongoing optimisation of the Company's vertical integration strategy and execution of current growth initiatives provide substantial headroom in this regard.

The high quality of the business, and its strong market position in a structurally growing industry are demonstrated in the Management's new "rule of thumb" for the next few years whereby it aims to achieve 1.5 times growth rate of profitability compared to top line growth.

We acknowledge that softness within the eyewear market may create volatile trading conditions in near term. However, ultimately the quality of the business has been established such that it can endure short-term uncertainty and still thrive in the long run. In contrast to popular belief, it is our view that the active involvement and leadership of Mr. Del Vecchio since 2014 is a positive for the Company and the other 33.5% of shareholders - we maintain that concerns towards succession planning should be viewed as "noise".

Luxottica currently trades at €50.30 per share*, with an EV/EBITDA multiple of 13.5x. We currently value Luxottica in normal trading conditions with an Intrinsic Value Estimate range of €50.96 - €65.90. From the Elevation Capital Value Fund's cost basis of US€40.65 per share, our valuation/s represent upside potential between +25.4% to +62.1%.


Luxottica, Agordo, Italy

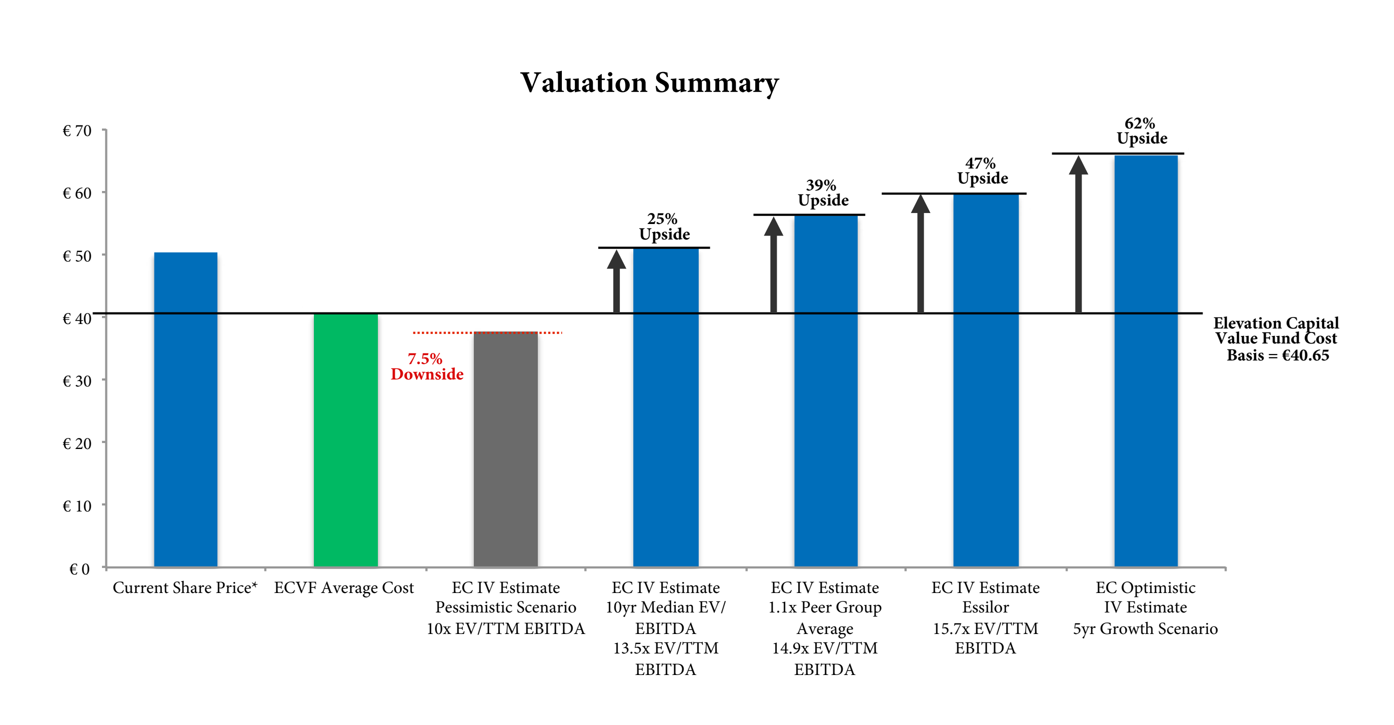
** Based on 12 December 2016 Share Price*

ELEVATION CAPITAL – ESTIMATED INTRINSIC VALUE RANGE

€37.62 – €65.90 PER SHARE

Downside/Upside Potential Range: (vs Elevation Capital Cost Basis)

-7.5% – +62.1%



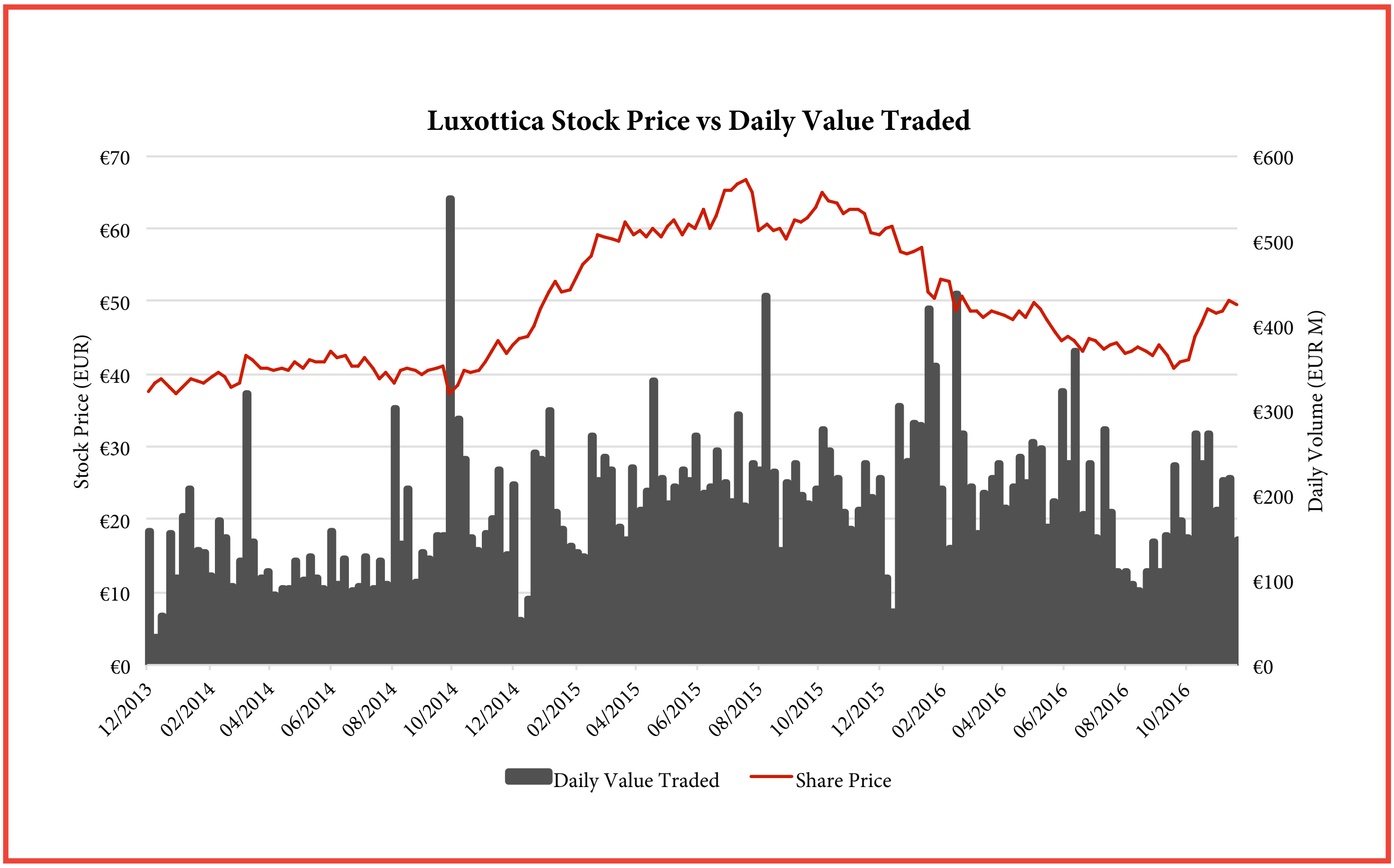
** Current Share Price = €50.30 (as at 12 December 2016)*
*** Elevation Capital Value Fund ("ECVF") Average Cost = €40.65*

ASSUMPTIONS FOR THE ESTIMATED INTRINSIC VALUES

Scenario	Assumptions
Pessimistic Scenario	We applied an EV/EBITDA multiple of 10x as the Company has not traded below 10x in the past ten years except during the GFC. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
10yr Median EV/EBITDA	This is one of the "neutral" scenarios where we used Luxottica's median EV/EBITDA multiple of 13.5x for the past ten years. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
1.1x Peer Group Average	This is also one of the "neutral" scenarios where we believe Luxottica should at least trade at a 10% premium to its peer group. Currently, the peer group is trading at an average EV/EBITDA multiple of 13.5x, suggesting a 14.9x EV/EBITDA multiple for Luxottica. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
Essilor	This is a merger scenario where we believe the value of Luxottica's shares could be trading at if Luxottica merged with Essilor. We apply Essilor's current EV/EBITDA multiple of 15.7x to suggest the potential significant benefits/synergy from the merger. Trailing-Twelve Months EBITDA of €1,890M is used in the calculation.
Optimistic/Growth Scenario	We applied a 5% growth rate to TTM EBITDA to produce a forecast FY2021 EBITDA estimate of €2,421M. We then applied Luxottica's 10yr Median EV/EBITDA Multiple of 13.5x to generate our optimistic scenario valuation. *We would note our growth rate assumption is conservative, as the Company expects to grow its top line between 5%-6% (at constant forex) for 2016, and mid-to-high single digit for the longer term. It also expects to grow its profit 1.5x equal, or greater, than its top line growth for 2016 and for the longer term. Based on Company assumptions, the lower bound for FY2021 EBITDA estimate (at constant forex) is €2,713M, which currently is 12% above our estimate.*

LIQUIDITY

- The 3 year average daily trading volume in Luxottica totals €191M (~0.8% of current market cap of €25.1B*).



* *Based on 12 December 2016 Share Price*

APPENDIX #1: VIDEOS ON LUXOTTICA

LUXOTTICA KEY FACTS (2015)

https://www.youtube.com/watch?v=jYazrUxmYj4

60 MINUTES ON LUXOTTICA

https://www.youtube.com/watch?v=voUiWOGv8ec

APPENDIX #2: SAFILO GROUP SPA

- Safilo Group SpA (SFL:IM) is an Italian-based manufacturer of sunglasses and prescription eyewear and is the second largest player in the global premium eyewear industry. The Company manages a unique selection of proprietary and licenced brands (detailed below).
- It is undoubtedly clear that Safilo is fundamentally cheap. However, it is important to consider the Company's size, position within the market, and profitability. Safilo is the weaker of the two major players in the global eyewear market and is structurally inferior to the Company's largest competitor Luxottica, who is nearly 50 times the size based on market capitalisation.
- The valuation gap may seem unfounded based on sales where Safilo achieved total annual sales of €1.3B in 2015 compared to LUX's €8.8B. However, the economies of scale that Luxottica has successfully exploited are clearly evident when looking at the Company's bottom line. In 2015, Safilo reported a headline loss of €25.6M vs Luxottica's profit of €1.3B.
- Also, there are clearly areas of concern, with deeply rooted issues from 2009 that continue to plague Safilo. We undoubtedly prefer Luxottica who have established clear competitive advantages which we believe mitigate many of the risks prevalent in Safilo.
- An investment thesis in Safilo marks a clear value play (potential M&A catalyst). However, it is reliant on continued turnaround efforts to bear fruit – something management has been unable to prove with a measured degree of consistency.
- The recent renewal of the Dior license (on 12 December 2016) until 2020 has mitigated a sizeable risk in Safilo. Accordingly, we plan to undertake further research into Safilo, as we believe it maybe an interesting M&A target for the likes of Essilor, but remain sidelined at the time of writing.

APPENDIX #3: KERING ENTERING EYEWEAR INDUSTRY

- In September 2014, Kering terminated its license agreement with Safilo to start building its in-house eyewear capacity.
- This has raised the question as to whether other brands will consider in-house solutions as an alternative to licensing.
- Kering took control of its Alexander McQueen and Bottega Veneta brands in 2015 with Gucci to be transferred in 2017; product design/development, marketing, sales, admin and HR components are now conducted in-house with manufacturing and logistics continuing to be outsourced.
- As stated in Kering's 2014 announcement, its brands' eyewear business placed it as one of the top five players in the industry.
- The key difference between Kering and other luxury players is that Kering has eleven brands that are active in the Eyewear category. This means that Kering is starting this process of partial insourcing with economies of scale and is more likely to be successful than smaller luxury players who have fewer brands in their portfolios, such as Prada.

KERING

02 September 2014

KERING PLANS TO TAKE BACK CONTROL OF ITS EYEWEAR BUSINESS VALUE CHAIN

After assessing the growth prospects of the Eyewear market and the business potential of its brands in this category, Kering has initiated a strategic move aiming at building in-house eyewear expertise for its Luxury and Sport & Lifestyle brands.

The global eyewear market for frames and sunglasses is significant and growing double-digit in the premium high-end segment. The current size of the Kering brands' business is roughly 350 million euros and makes Kering one of the top five players in this industry. The 11 Kering brands that are active in the Eyewear category, of which nine are managed through license agreements with five different partners, generate consolidated royalties of approximately 50 million euros. In order to maximize the extraordinary potential of its brand portfolio, the Group is setting up a new business model through which, together with its brands, Kering will fully control the Eyewear value chain, from design to product development and supply chain, and from branding and marketing to sales.

Kering's objective is to better support its brands in accelerating their development in the Eyewear category, leveraging on the unique appeal of each of them, in full alignment with each brand's strategy, positioning and potential. All brands will of course continue to control separately their creative process under the leadership of their respective Creative Director.

** As at 19 December 2016*

APPENDIX #4: THINGS TO LOOK FOR IN 2017

KEY FOCUS POINTS FOR 2017

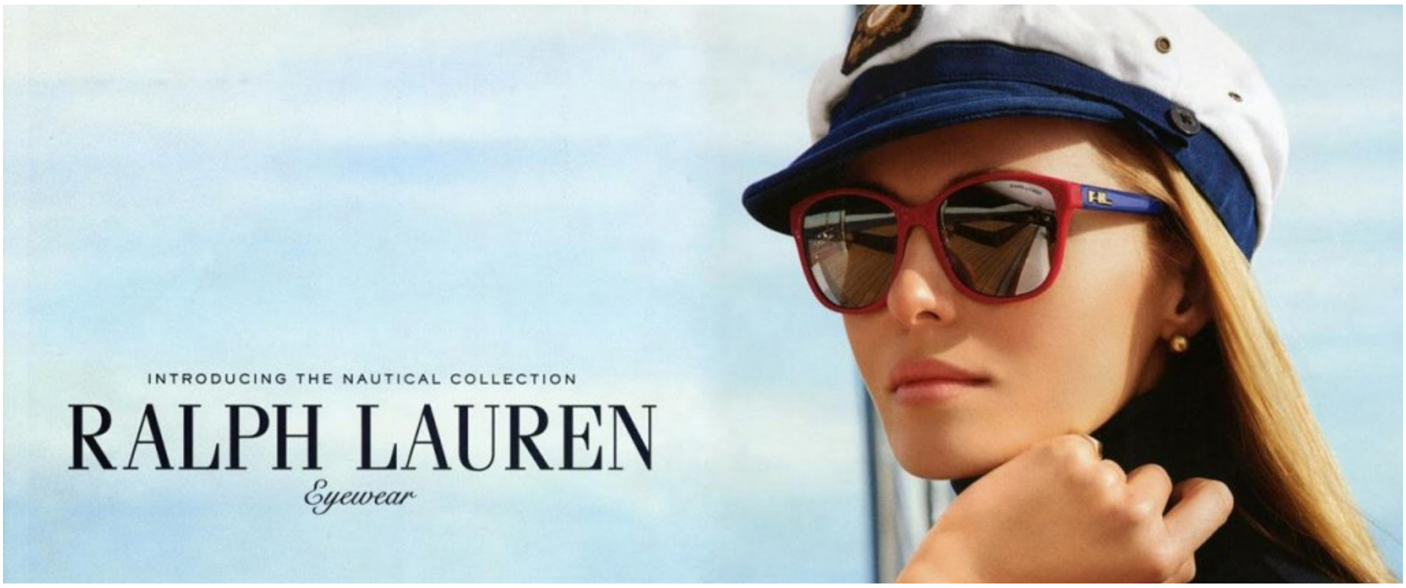
- Expansion of the supply chain footprint
- Strengthening of brand portfolio:
  - Prescription lens offering for Ray-Ban
  - New chapter for Oakley
  - Valentino launch on 1st January 2017
- Setting foundation for healthier and cleaner wholesale distribution
- Elevating the customer experience in retail
  - Evolving LensCrafters' footprint, from Macy's to the roll-out of the new design while enhancing omnichannel
  - Sunglass Hut's global journey takes shape in new markets
- E-Commerce: Deploying a new virtual try-on experience to be available via mobile in the US and Europe

2017 TIMETABLE

Date	Event
30 January 2017	Consolidated net sales for the 12M period ended 31 December 2016
1 March 2017	Consolidated results for Q4 2016; statutory and consolidated financial statements for fiscal year 2016
28 April 2017	Consolidated results for the three-month period ended 31 March 2017
24 July 2017	Consolidated results for the six-month period ended 30 June 2017
23 October 2017	Consolidated results for the nine-month period ended 30 September 2017

APPENDIX #5: RALPH LAUREN RENEWAL DEMONSTRATES STRENGTH

- Luxottica announced on 22 December 2016 the renewal of its exclusive license agreement with Ralph Lauren for another ten years – until 31 March 2027.
- In contrast, Safilo announced on 12 December 2016 the renewal of its licensing agreement with Christian Dior Couture to the end of 2020. ie., a four year extension.
- In our view, the different lengths of these extensions demonstrate the strength of Luxottica's moat and Safilo's weaker position.



LUXOTTICA®

Luxottica Group and Ralph Lauren renew eyewear license agreement

Milan (Italy), December 22, 2016 - Luxottica Group (MTA: LUX; NYSE: LUX) today announced the renewal of an exclusive license agreement with Ralph Lauren Corporation (NYSE: RL) for the development, production and worldwide distribution of sunglasses and prescription frames under certain Ralph Lauren brands, including Polo and Ralph Lauren. The ten-year agreement will extend to March 31, 2027, subject to the terms and conditions therein.

‘INDEPENDENT THINKING – DISCIPLINED INVESTING’

INDEPENDENT THINKING

[In-de-pend-ent Think-ing] **ində’pendənt THiNkiNG** *verb*
Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you’re several thousand miles away from Wall Street in a different nation, it’s easier to be independent and buy the things that other people are selling, and sell the things that other people are buying. We also believe that cash is sometimes the most attractive investment.

DISCIPLINED INVESTING

[Dis-ci-plined In-vest-ing] **disciplinəd inves’ting** *verb*
The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. Our investments are premised on the concept of “Margin of Safety” which we believe reduces risk.

37B George Street, Newmarket
Auckland 1023, New Zealand

Phone: + 64 9 379 6493

Website: www.elevationcapital.co.nz
Email: info@elevationcapital.co.nz
Twitter: ElevationNZ

ELEVATION CAPITAL