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Riding the crest


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Estimate update: moving FX to €/\$1.25, PO to €21.60

We are updating our estimates to reflect both a stronger US\$ forecast (1.25 vs € vs 1.35 previously) and recent developments YTD which we believe to be material. The FX impact is, of course, a positive one (albeit mitigated by the debt tranche in \$) and more than offsets more cautious assumptions vs our last note. The net effect on our projections is revenue increases of around 4% for this year and next and EPS up around 2c in both years. Note that we were already well ahead of the basic guidance offered by management earlier in the year.

News flow to remain strong in both areas

Wholesale should continue to deliver a marked improvement (driven by R-B/OO which may exceed 30% of total LUX revenues, but licensed brands to a degree too) given easy LFLs: we are looking now for a rise of 10%+ in revenues, 100-120bps in EBIT margin. Retail has easy LFLs in Q2, then less so, but should still show an 11-12% topline increase given FX. In particular, we are looking for 5% c/s at LensCrafters, and fewer promotions, improving mix and traffic conversion, as well as momentum on cost cutting, should lift EBIT 100-150bps close to 13%.

Business model is resilient, valuation is fair though

We believe LUX should be judged over the 2009-10 period. This showed a remarkable resilience in the face of extreme volatility along with a steely determination in pursuing remedial action, and its proven unique competitive advantage justifies, in our view, a return to full historical multiples, which has been our view for some time. The 5% increase in PO to €21.60 is purely a function of estimate adjustments rolled over to 12M forward valuation. At our PO LUX trades on 20x 2011E earnings, 10x EBITDA, 5.5% FCF yield, which we believe to be fair.

Estimates (Dec)

(EUR)	2008A	2009A	2010E	2011E	2012E
EPS (Reported Diluted)	0.83	0.68	0.90	1.09	1.28
EPS Change (YoY)	-22.7%	-17.5%	31.1%	21.6%	16.9%
Dividend / Share	0.22	0.34	0.45	0.51	0.51
ADR EPS (Reported Diluted - US\$)	1.21	0.95	1.10	1.34	1.57
ADR Dividend / Share (US\$)	0.32	0.48	0.55	0.63	0.63

Valuation (Dec)

	2008A	2009A	2010E	2011E	2012E
P/E	25.8x	31.3x	23.9x	19.6x	16.8x
Dividend Yield	1.03%	1.60%	2.10%	2.38%	2.38%
EV / EBITDA*	12.5x	14.6x	12.6x	11.1x	9.89x
Free Cash Flow Yield*	2.77%	5.91%	4.98%	5.70%	6.55%

* For full definitions of *iQmethod*SM measures, see page 9.

Stock Data

Price (Common / ADR)	EUR21.40 / US\$26.30
Price Objective	EUR21.60 / US\$27.00
Date Established	17-Jun-2010 / 17-Jun-2010
Investment Opinion	A-2-7 / A-2-7
Volatility Risk	LOW / LOW
52-Week Range	EUR13.56-EUR22.27
Market Value (mn)	EUR9,844
Shares Outstanding (mn)	460.0 / 460.0
Average Daily Volume	1,306,348
BofAML Ticker / Exchange	LUXGF / MIL
BofAML Ticker / Exchange	LUX / NYS
Bloomberg / Reuters	LUX IM / LUX.MI
ROE (2010E)	14.2%
Net Dbt to Eqty (Dec-2009A)	68.5%
Est. 5-Yr EPS / DPS Growth	6.0% / 4.0%
Free Float	25.0%

Key Changes

(EUR)	Previous	Current
Price Obj.	20.60	21.60
2010E Rev (m)	5,537.0	5,772.8
2011E Rev (m)	5,966.8	6,203.5
2012E Rev (m)	6,412.0	6,661.4
2010E EBITDA (m)	1,003.5	1,013.5
2011E EBITDA (m)	1,146.0	1,148.7
2012E EBITDA (m)	1,278.1	1,286.6
2010E DPS	0.44	0.45

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Refer to important disclosures on page 10 to 13. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8. 10947537

17 June 2010

iQprofileSM Luxottica Group

Key Income Statement Data (Dec)	2008A	2009A	2010E	2011E	2012E
(EUR Millions)					
Sales	5,202	5,094	5,773	6,204	6,661
EBITDA Adjusted	1,015	869	1,013	1,149	1,287
Depreciation & Amortization	(265)	(286)	(292)	(303)	(319)
EBIT Adjusted	750	583	721	846	968
Net Interest & Other Income	(160)	(88.9)	(78.0)	(67.0)	(59.0)
Tax Expense / Benefit	(195)	(167)	(219)	(265)	(309)
Net Income (Adjusted)	380	315	413	502	587
Average Fully Diluted Shares Outstanding	458	460	460	460	460

Key Cash Flow Statement Data

Net Income (Reported)	380	315	413	502	587
Depreciation & Amortization	265	286	292	303	319
Change in Working Capital	(77.0)	182	5.80	16.0	19.0
Deferred Taxation Charge	0	0	0	0	0
Other CFO	0	0	0	0	0
Cash Flow from Operations	568	782	710	821	925
Capital Expenditure	(296)	(200)	(220)	(260)	(280)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other CFI	0	0	0	0	0
Cash Flow from Investing	(296)	(200)	(220)	(260)	(280)
Share Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(224)	(160)	(188)	(251)	(293)
Increase (decrease) debt	45.4	(578)	(153)	(310)	(351)
Other CFF	(48.8)	510	99.5	320	404
Cash Flow from Financing	(227)	(228)	(241)	(241)	(241)
Total Cash Flow (CFO + CFI + CFF)	44.2	354	249	320	404
FX and other changes to cash	(58.6)	(262)	(156)	(9.98)	(52.3)
Change in Cash	(14.4)	91.5	93.5	310	351
Change in Net Debt	59.8	(669)	(246)	(620)	(703)
Net Debt	2,629	1,959	1,713	1,093	390

Key Balance Sheet Data

Property, Plant & Equipment	1,171	1,149	970	970	970
Goodwill	4,194	4,163	4,380	4,345	4,290
Other Intangibles	0	0	0	0	0
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	630	619	660	690	725
Cash & Equivalents	289	380	473	783	1,135
Other Current Assets	1,022	826	810	865	950
Total Assets	7,305	7,137	7,293	7,653	8,070
Long-Term Debt	2,451	1,839	1,737	1,427	1,075
Other Non-Current Liabilities	321	380	473	783	1,135
Short-Term Debt	466	500	450	450	450
Other Current Liabilities	1,513	1,557	1,560	1,669	1,792
Total Liabilities	4,751	4,276	4,220	4,329	4,452
Total Equity	2,554	2,860	3,074	3,324	3,618
Total Equity & Liabilities	7,305	7,137	7,293	7,653	8,070

Business Performance*

Return On Capital Employed	8.89%	6.86%	8.50%	9.61%	10.5%
Return On Equity	15.2%	11.9%	14.2%	15.9%	17.1%
Operating Margin	14.4%	11.4%	12.5%	13.6%	14.5%
Free Cash Flow (MM)	271	582	490	561	645

Quality of Earnings*

Cash Realization Ratio	1.49x	2.48x	1.72x	1.64x	1.58x
Asset Replacement Ratio	1.21x	0.75x	0.81x	0.92x	0.94x
Tax Rate	33.0%	33.9%	34.0%	34.0%	34.0%
Net Debt/Equity	103%	68.5%	55.7%	32.9%	10.8%
Interest Cover	5.54x	6.37x	8.59x	11.4x	14.7x

* For full definitions of iQmethodSM measures, see page 9.

Company Description

Luxottica Group are the world's leading eyewear manufacturer. It is a vertically integrated network of manufacturing plants (Italy, China) and retail outlets (over 6400 worldwide with a focus in the Americas and Asia-Pacific) including LensCrafters, Sunglass Hut International, OPSM and Pearle Vision. Luxottica also own the Ray-Ban and Oakley eyewear brands as well as holding the licence for Chanel, Prada and Dolce e Gabbana.

Investment Thesis

Lux benefits greatly from its position as global market leader and its high degree of vertical integration in North America and Asia-Pac. As well as a strong licensed portfolio, its proprietary brands (Ray-Ban, Oakley, Sunglass Hut, LensCrafters) give it a significant edge vs competitors across the board. High sales exposure to the US makes LUX a US\$ play to a point. We expect news flow to continue to improve in coming quarters as LFLs remain undemanding.

Stock Data

Shares / ADR	1.00
Price to Book Value	3.3x

Key Changes (ADR)

(US\$)	Previous	Current
Price Obj.	29.00	27.00
2010E DPS	0.54	0.55

Table 1: LUX: key change in estimates

	2010E			2011E			2012E		
	old	new	Delta	old	new	Delta	old	new	Delta
Retail	3418	3614	5.7%	3675	3876	5.5%	3952	4166	5.4%
Wholesale	2119	2159	1.9%	2292	2327	1.5%	2460	2495	1.4%
Total Sales	5537	5773	4.3%	5967	6204	4.0%	6412	6661	3.9%
Gross Profit	3673	3754	2.2%	3992	4054	1.6%	4302	4372	1.6%
gross mg %	66.3%	65.0%		66.9%	65.3%		67.1%	65.6%	
EBITDA	1003	1014	1.1%	1146	1149	0.3%	1278	1287	0.7%
mg %	18.1%	17.6%		19.2%	18.5%		19.9%	19.3%	
EPS	0.88	0.90	2.3%	1.08	1.10	1.9%	1.25	1.28	2.4%
Trade working capital	715	755	5.6%	745	789	5.9%	780	820	5.1%
as % sales	12.9%	13.1%		12.5%	12.7%		12.2%	12.3%	
FCF	519	490	-5.4%	568	561	-1.2%	660	645	-2.3%
Net Debt, ave.	2194	2263	3.2%	1887	2032	7.6%	1541	1701	10.3%
Shareholders Funds	3005	3029	0.8%	3253	3279	0.8%	3541	3573	0.9%

Source: BofA Merrill Lynch Global Research

Key changes/updates to our estimates

FX

We are now using €/\$1.25 average 2010-12 including for y/e: this compares to 1.35 previously. We understand that although the FX mix in debt will shift away from the \$ (around 60% of total at present), this should be a gradual process and thus we have adjusted our estimates to reflect this.

Wholesale

We believe 2010 should be interpreted in the context of events in 2009: as a reminder, a smart move by management, in our view, focused on curtailing production and distribution to avoid a sell-in/sell-out imbalance at retailers. Following action taken in its Italian plants, output dropped 24% in Q1, 14% in Q2 and was flat YoY only in Q3 (by far the least relevant quarter): the impact on inventories was powerful, peaking at -24% in the summer. As a result, we expect sustained high single-digit growth throughout 2010 (remember 10%+ in Q1-10): our forecast is now a 10.5% FY inclusive of beneficial FX for about 1/3 of its sales. We also now expect a 100-120bps improvement in EBIT margin or a €70mn (+18%) accretion. Given the degree of deterioration of price/mix in 2009, we consider this low hanging fruit and brand-specific initiatives for its more luxury licensed brands (as well as more aggressive minimum purchase requirements) are expected to kick in. We still think NAM will outperform Europe for the remainder of the year.

We also expect to see the first signs of impact from Ray-Ban branded lenses and expect developments on the 3D front specifically for Oakley.

LUX have reiterated their target of Oakley overtaking Ray-Ban in terms of profitability by the end of 2012 which implies, in our view, an average 200-250bps YoY improvement in the MT. As a reminder, we forecast TOTAL R-B+OO revenues for LUX to increase from 26% of total all-in in 2008, to 29% last year to 30% in 2010 (as we expect a recovery in sales of licensed brands after a 15-20% drop in 2009).

Q2: easy LFLs + a possible 9% beneficial FX impact should result in a very strong quarter here with a marked improvement in profitability.

Retail

As ever, our focus is on LensCrafters and LFLs are on LUX's side after comps of -6.5% and -6.3% in 2008/09 for the NAM prescription business. LUX is now releasing LC-only data at +6.6% in Q1: we now think that a FY figure between 4.5 and 5% is likely (undemanding H2-09 comparables so this could be better if NAM spending mix continues to improve) accompanied by a 100-150bps margin increase, which is aided by the decision to run one fewer promotion week per quarter vs 2009. FX should lift the top line rather more (11-12% for LUX Retail given exposure to NAM).

As a reminder, the Sunglass Hut roll-out at Macy's will see 250 or so opening this year, 150+ next, and these will represent essentially the bulk of all NAM net new doors with the LC opening schedule to be revisited in the autumn (we assume no new openings in our model).

We are not factoring in any new acquisition of note in our model to 2012 (also because, to be honest, there really aren't any left unless LUX decides to move into non-core areas).

Q2: we are looking for mid-single digit positive css at LC (c.5%) with much better numbers from Pearle (Q1 at -12% compared with a very aggressive promotion in 2009) and ongoing improvement at the Hut. Q209 was very poor, thus ensuring easy LFLs.

China/India

LUX has reiterated its objective to 2x store numbers in China to 500+, most of which would be LensCrafters (the sunglass market here remains a potential upside, in our view, rather than a ST opportunity) and with some 120 cities with a population in excess of 1 million people we believe this should not be too difficult to achieve: this would reinforce LUX's role as n.1 optical retailer with 241 stores at 31/3. It should be noted that China was flagged by LUX as a key area of growth in 2006 but the % of revenues from the Asia-Pacific region has not really progressed given areas of regional weakness (eg Japan): we now expect this to change over the next 5 years. We understand all stores are now profitable pre-SG+A and that the network should turn a profit overall in 2011 as volumes sold continue to increase (ASP is 1/3 below NAM's): this is 12M ahead of our original estimates.

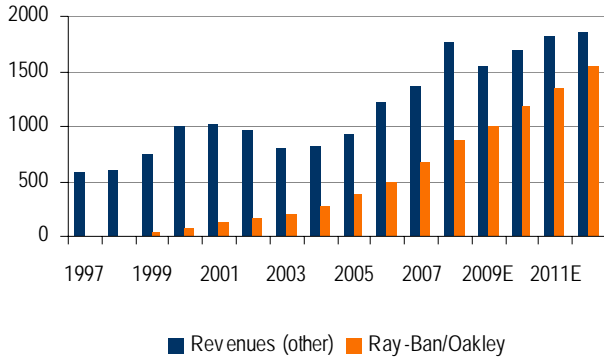
India, now under the control of the China division (fiscally advantageous), continues to experience very strong growth with a doubling of its small production facility focused on Ray-Ban for the local market.

Conclusion

Unlike 2009, there is very limited official guidance from LUX, which is related to the uncertainty over the normalisation of the business dynamics after the volatility of 2008-9. As a reminder, LUX is looking for, currency neutral, mid-single digit revenue growth (BofAMLe: +13% at €/\$1.25), EBIT at 2x sales growth (BofAMLe +24%) and net income at 3x sales growth (BofAMLe +31%) along with ND/EBITDA at near-2x (BofAMLe 2.2x). Our fundamental view is unchanged: trends in 2009-10 will underpin just how resilient and structurally strong the LUX business model is. That said, looking at 2011 estimates (i.e. beyond the bounce back of 2010) on LFL FX, we see that LUX is trading on 20x earnings and over 10x EBITDA: this is perilously close to its average historical multiples and although ST news flow is likely to be positive, we find it difficult to make an argument for the stock to be trading at a premium at this time.

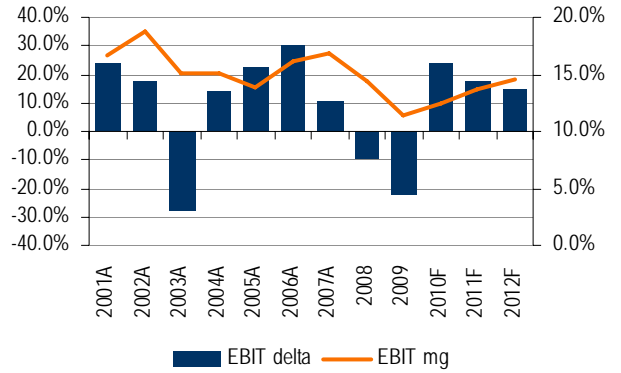
17 June 2010

Chart 1: LUX Wholesale: RB+OO vs Others



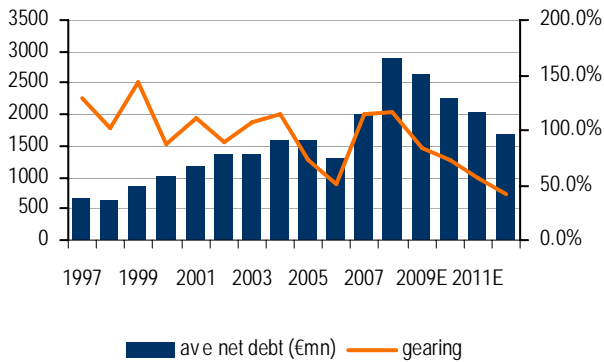
Source: BofA Merrill Lynch Global Research

Chart 2: LUX EBIT trends



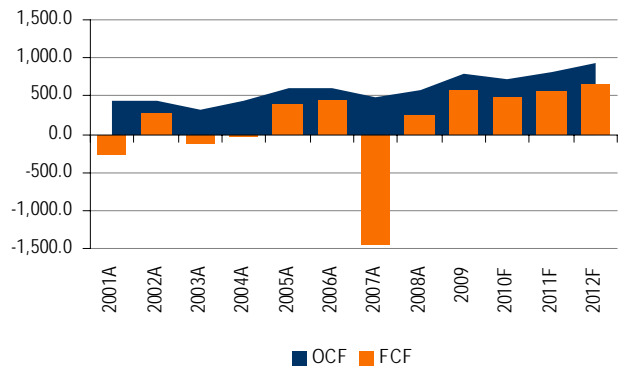
Source: BofA Merrill Lynch Global Research

Chart 3: LUX Debt recovery



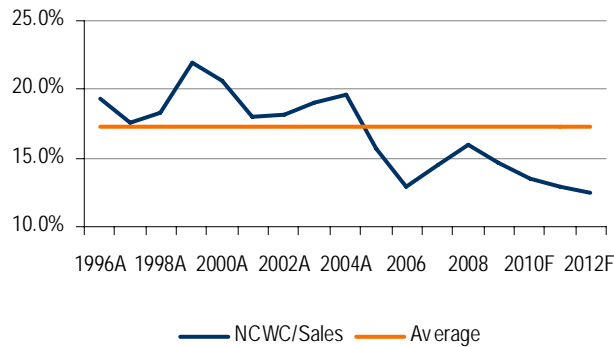
Source: BofA Merrill Lynch Global Research

Chart 4: LUX CF momentum



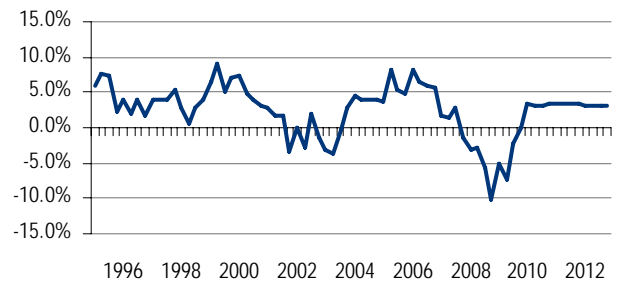
Source: BofA Merrill Lynch Global Research

Chart 5: LUX Trade Working Capital trends



Source: BofA Merrill Lynch Global Research

Chart 6: LUX NAM Optical retail css



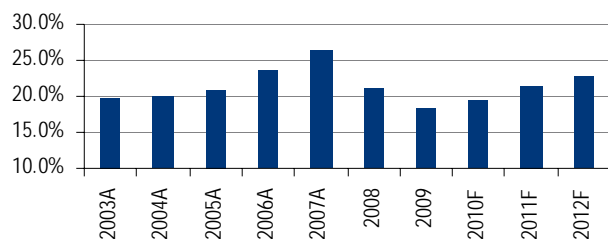
Source: BofA Merrill Lynch Global Research

Table 2: LUX Share Profile

SHARE PROFILE	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008	2009	2010F	2011F	2012F
€															
Share price, high	8.7	10.1	18.5	20.6	22.95	14.82	15.51	21.94	24.50	28.80	20.60	18.56			
Share price, low	3.4	4.6	8.6	13.4	11.75	12.21	12.43	15.11	19.30	20.00	12.70	9.45			
Share price, ave/current	6.2	7.1	14.0	17.1	17.38	13.58	13.90	18.15	22.50	23.60	16.30	15.20	21.40	21.40	21.40
Share number (avg.)	450.7	451.1	450.0	451	453.2	448.7	448.3	450.1	453.0	457.0	460.0	460.0	460.0	460.0	460.0
VALUATION PROFILE	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008	2009	2010F	2011F	2012F
€															
EPS	0.30	0.34	0.57	0.70	0.82	0.60	0.64	0.76	0.94	1.09	0.83	0.68	0.90	1.09	1.28
EPS adjusted	0.30	0.35	0.57	0.70	0.82	0.60	0.64	0.76	0.94	1.05	0.83	0.68	0.90	1.09	1.28
P/E, high	29.6	28.5	32.7	29.4	28.0	24.9	24.2	28.9	26.2	27.4	24.8	27.1	0.0	0.0	0.0
P/E, low	11.4	13.0	15.2	19.1	14.3	20.5	19.4	19.9	20.6	19.0	15.3	13.8	0.0	0.0	0.0
P/E (average)	21.1	20.3	24.8	24.4	21.2	22.8	21.7	23.9	24.0	22.5	19.6	22.2	23.9	19.6	16.8
Dividend	0.08	0.11	0.14	0.17	0.21	0.21	0.23	0.30	0.42	0.49	0.22	0.34	0.45	0.55	0.64
Dividend yield (average)	1.3%	1.5%	1.0%	1.0%	1.2%	1.5%	1.7%	1.7%	1.9%	2.1%	1.3%	2.3%	2.1%	2.5%	3.0%
Pay-out ratio	28.0%	31.4%	24.7%	24.2%	25.6%	35.2%	35.9%	39.5%	44.8%	45.0%	26.5%	50.0%	50.0%	50.0%	50.0%
Book value per share	1.32	1.74	2.33	2.98	3.13	3.06	3.34	4.34	4.95	5.46	5.48	6.09	6.58	7.13	7.77
P/BV (average)	4.7	4.1	6.0	5.7	5.6	4.4	4.2	4.2	4.5	4.3	3.0	2.5	3.3	3.0	2.8
CEPS	0.54	0.64	0.95	1.15	1.14	0.94	1.09	1.27	1.42	1.56	1.41	1.31	1.53	1.75	1.97
P/CE (average)	11.5	11.1	14.7	14.9	15.3	14.4	12.8	14.3	15.8	15.1	11.6	11.6	14.0	12.2	10.9
FCFPS	0.14	-1.01	0.54	-0.57	0.63	-0.27	-0.08	0.89	0.69	-3.17	0.56	1.26	1.07	1.22	1.40
P/FCF (average)	45.3	-7.1	25.9	-30.0	27.7	-49.5	-179.6	20.5	32.8		29.1	12.0	20.1	17.5	15.3
Enterprise value/share	7.64	9.07	16.30	19.73	20.39	16.61	17.45	21.30	26.45	28.00	22.63	27.11	26.32	25.82	25.10
EBIT per share	0.50	0.53	0.92	1.13	1.33	0.96	1.10	1.34	1.67	1.82	1.64	1.27	1.57	1.84	2.10
EBIT multiple (average)	15.2	17.1	17.8	17.4	15.4	17.3	15.9	15.9	15.9	15.4	13.8	21.4	16.8	14.0	11.9
EBITDA per share	0.75	0.84	1.31	1.60	1.65	1.26	1.44	1.76	2.16	2.33	2.22	1.89	2.20	2.50	2.80
EBITDA multiple (average)	10.2	10.8	12.5	12.3	12.4	13.2	12.1	12.1	12.3	12.0	10.2	14.4	11.9	10.3	9.0
MOMENTUM PROFILE	1998A	1999A	2000A	2001A	2002F	2003A	2004A	2005A	2006A	2007A	2008	2009	2010F	2011F	2012F
% change															
Revenues	7.5%	21.8%	29.0%	26.8%	2.2%	-10.9%	14.1%	34.3%	13.1%	6.2%	6.6%	-2.1%	13.3%	7.5%	7.4%
EBITDA	3.0%	11.3%	56.1%	22.9%	3.5%	-24.2%	14.0%	22.6%	28.4%	9.1%	-4.4%	-14.3%	16.6%	13.3%	12.0%
EBIT	1.4%	5.2%	73.0%	23.8%	17.7%	-28.2%	14.2%	22.2%	30.0%	10.2%	-9.6%	-22.2%	23.7%	17.2%	14.4%
Pre-tax income	5.4%	17.3%	64.2%	21.9%	22.2%	-27.7%	17.3%	22.0%	25.7%	15.1%	-25.0%	-16.2%	30.2%	21.0%	16.7%
Net Income	2.8%	14.6%	67.4%	23.9%	17.6%	-28.1%	7.3%	19.3%	24.0%	16.0%	-23.8%	-17.1%	31.1%	21.6%	16.9%
EPS	2.6%	19.1%	60.7%	23.9%	17.0%	-27.4%	7.4%	18.8%	23.2%	12.1%	-20.9%	-17.6%	31.1%	21.6%	16.9%
CEPS	4.5%	18.8%	48.1%	20.4%	-0.9%	-17.3%	15.4%	16.9%	12.2%	9.4%	-9.5%	-7.4%	17.3%	14.2%	12.5%
FCPS	-33.3%	-833.8%	-153.8%	-205.2%	-209.9%	-143.8%	-71.8%	-1245.8%	-22.7%	-562.1%	-117.7%	125.6%	-15.7%	14.4%	14.9%
DPS	-3.6%	31.7%	28.6%	31.7%	21.4%	23.5%	0.0%	9.5%	30.4%	40.0%	16.7%	-55.1%			
Net Debt (Cash) PS	-9.6%	87.4%	-19.7%	48.8%	-14.6%	0.6%	17.1%	-1.5%	-18.6%	54.3%	44.0%	-9.8%	-13.9%	-10.2%	-16.3%

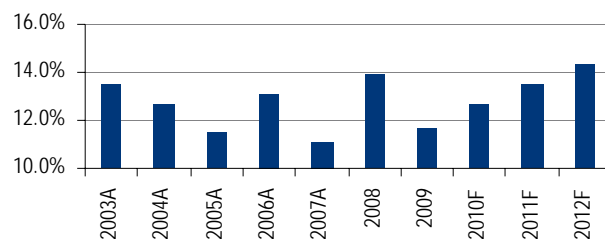
Source: BofA Merrill Lynch Global Research

Chart 7: LUX Wholesale EBIT mg



Source: BofA Merrill Lynch Global Research

Chart 8: LUX Retail EBIT mg



Source: BofA Merrill Lynch Global Research

Table 3: LUX Financial Summary

INCOME STATEMENT (€ mn)	1996A	1997A	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008	2009	2010F	2011F	2012F
Net sales	1,225.7	1,430.7	1,538.3	1,874.4	2,439.2	3,105.5	3,201.8	2,852.2	3,255.3	4,370.8	4,676.2	4,966.0	5,201.6	5,094.2	5,772.8	6,203.5	6,661.4
EBITDA	273.6	328.6	338.6	376.9	587.3	721.0	747.6	566.6	645.7	791.7	976.8	1,066.1	1,014.7	869.1	1,013.5	1,148.7	1,286.6
Depreciation (+ amort)	-94.0	-104.9	-111.7	-138.2	-175.3	-211.5	-146.0	-134.8	-152.8	-189.2	-220.8	232.8	264.9	285.9	292.0	303.0	319.0
EBIT	179.6	223.8	227.0	238.7	412.0	509.5	601.6	431.8	492.9	602.5	756.0	833.3	749.8	583.2	721.5	845.7	967.6
Net financial items	-49.9	-46.0	-35.0	-39.2	-56.0	-76.8	-60.9	-41.2	-49.5	-60.6	-60.8	-72.4	-122.0	-84.7	-77.0	-67.0	-59.0
Other items	13.9	0.6	-4.0	28.5	5.1	6.9	-1.3	-0.8	13.8	15.7	-17.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.8	-37.9	-4.2	-1.0	0.0	0.0
Reported pre-tax profit	143.6	178.4	188.0	220.4	362.0	441.3	539.4	389.8	457.2	557.6	678.2	780.7	589.9	494.3	643.5	778.7	908.6
Minorities	-2.6	-2.6	-1.8	-3.9	-5.3	-1.5	-4.8	-5.1	-8.6	-9.3	-8.7	-15.0	-15.5	-12.1	-12.0	-12.0	-13.0
Tax	-34.7	-46.3	-53.2	-64.2	-101.5	-123.4	-162.6	-117.3	-161.7	-206.0	-238.8	273.5	194.7	167.4	218.8	264.8	308.9
Net profit	106.3	129.4	133.1	152.5	255.3	316.4	372.0	267.4	286.9	342.3	424.3	492.2	379.7	314.8	412.7	502.0	586.7
Adj. net profit	106.3	129.4	133.1	152.5	255.3	316.4	372.0	267.4	286.9	342.3	424.3	479.2	379.7	314.8	412.7	502.0	586.7
EBIT margin (%)	14.7%	15.6%	14.8%	12.7%	17.1%	16.7%	18.8%	15.1%	15.1%	13.8%	16.2%	16.8%	14.4%	11.4%	12.5%	13.6%	14.5%
Pre-tax margin (%)	11.7%	12.5%	12.2%	11.8%	15.0%	14.4%	16.8%	13.7%	14.0%	12.8%	14.5%	15.7%	11.3%	9.7%	11.1%	12.6%	13.6%
Tax rate (%)	24.2%	26.0%	28.3%	29.1%	28.0%	28.0%	30.1%	30.1%	35.4%	36.9%	-35.2%	35.0%	33.0%	33.9%	34.0%	34.0%	34.0%
Return on equity (%)	23.8%	23.4%	19.3%	16.6%	21.6%	22.9%	26.6%	18.6%	16.6%	16.4%	18.0%	19.2%	14.3%	10.8%	13.1%	14.5%	14.5%
CASH FLOW (€ mn)	1996A	1997A	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006	2007	2008	2009	2010F	2011F	2012F
Reported profit after tax	106.3	129.4	133.1	152.5	255.3	316.4	372.0	267.4	286.9	342.3	424.3	492.2	379.7	314.8	412.7	502.0	586.7
Non-cash items	109.3	106.2	103.3	138.2	152.7	200.5	147.6	155.1	200.2	229.2	220.8	232.8	264.9	285.9	292.0	303.0	319.0
Working capital	-6.5	-38.3	-46.0	19.7	-8.4	-82.4	-83.4	-95.2	-40.9	28.7	-34.5	-231.9	-77.0	181.5	5.8	16.0	19.0
Operating cash flow	209.0	197.3	190.4	310.4	399.6	434.5	436.2	327.3	446.2	600.2	610.6	493.1	567.6	782.2	710.5	821.0	924.7
Capital expenditures	-58.3	-100.7	-79.5	-94.7	-155.0	-115.7	-168.7	-77.4	-117.2	-170.0	-240.0	-177.8	-296.4	-200.4	-220.0	-260.0	-280.0
Other investments	5.3	-3.7	-48.9	-670.5	0.0	-595.4	-6.4	-373.1	-363.7	-31.0	65.0	-1,763.0	-15.0	0.0	0.0	0.0	0.0
Free cash flow	156.1	92.9	62.0	-454.8	244.6	-276.6	261.1	-123.2	-34.7	399.2	435.6	-1,447.7	256.2	581.8	490.5	561.0	644.7
Other	3.6	-87.3	25.2	-39.5	12.2	-241.1	33.6	46.3	-123.8	-18.8	-15.0	-35.0	-78.0	156.0	-150.0	0.0	0.0
Dividend paid	-23.2	-29.4	-24.4	-33.3	-38.4	-63.3	-77.2	-95.4	-94.1	-103.5	-135.9	-192.8	-223.6	-160.0	-187.6	-251.0	-293.3
Share issue	0.0	0.0	0.0	0.0	4.4	11.5	-1.8	-43.7	6.8	4.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net debt	136.5	-23.9	62.8	-527.6	222.8	-569.5	215.7	-216.0	-245.8	280.9	287.7	-1,675.5	-45.4	577.8	152.9	310.0	351.3
Oper. CF/capex (%)	358.8%	195.9%	239.5%	327.8%	257.8%	375.5%	258.6%	422.9%	380.7%	353.0%	254.4%	277.3%	191.5%	390.3%	323.0%	315.8%	330.2%
Capex/sales (%)	4.8%	7.0%	5.2%	5.1%	0.0%	22.9%	5.5%	15.8%	14.8%	4.6%	3.7%	39.1%	6.0%	3.9%	3.8%	4.2%	4.2%
Capex/deprec. (%)	62.0%	96.1%	71.2%	68.5%	88.4%	336.3%	119.9%	334.2%	314.7%	106.2%	79.3%	-833.7%	-117.6%	-70.1%	-75.3%	-85.8%	-87.8%
BALANCE SHEET (€ mn)	1996A	1997A	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008	2009	2010F	2011F	2012F
Cash and liquid assets	23.2	31.0	35.5	59.9	330.4	412.7	151.4	300.0	257.3	372.3	339.1	302.9	288.5	380.0	473.5	783.5	1,134.8
Trade receivables	150.8	174.1	183.6	283.2	323.2	381.3	370.2	353.5	406.4	460.7	533.8	665.2	630.0	618.9	660.0	690.0	725.0
Other	120.4	117.8	118.5	172.2	193.6	262.0	212.9	209.4	350.4	242.5	211.1	367.5	451.1	299.3	265.0	300.0	365.0
Inventory	149.3	183.4	203.2	293.1	255.9	371.4	406.0	404.2	433.2	404.3	400.7	575.0	571.0	526.5	545.0	565.0	585.0
Current assets	443.7	506.2	540.9	808.4	1,103.1	1,427.4	1,140.5	1,267.1	1,447.3	1,479.8	1,484.7	1,910.6	1,940.6	1,824.7	1,943.5	2,338.5	2,809.8
Intangibles + Inv	746.9	809.4	767.2	1,350.3	1,482.3	2,019.6	1,939.7	2,148.1	2,509.5	2,760.1	2,642.5	4,188.9	4,193.9	4,163.2	4,380.0	4,345.0	4,290.0
Other fixed assets	256.2	318.2	318.3	410.0	383.2	501.3	506.6	497.4	599.2	735.1	787.2	1,057.8	1,170.7	1,148.9	970.0	970.0	970.0
Fixed assets	1,003.1	1,127.6	1,085.5	1,760.3	1,865.5	2,520.9	2,446.3	2,645.5	3,108.7	3,495.2	3,429.7	5,246.7	5,364.6	5,312.1	5,350.0	5,315.0	5,260.0
Total assets	1,446.8	1,633.8	1,626.3	2,568.7	2,968.6	3,948.3	3,586.8	3,912.6	4,556.0	4,975.0	4,914.4	7,157.3	7,305.2	7,136.8	7,293.5	7,653.5	8,069.8
Interest bearing	668.4	697.3	639.2	1,191.0	1,238.7	1,883.0	1,405.7	1,770.3	1,973.4	1,807.5	1,487.6	3,174.7	3,238.0	2,719.4	2,660.0	2,660.0	2,660.0
Trade payables	88.8	101.8	97.4	116.5	149.3	183.4	202.9	178.6	222.6	291.7	349.6	423.4	398.0	434.6	450.0	466.0	490.0
Other	304.8	315.1	288.5	467.8	521.0	533.6	550.6	569.3	840.6	907.1	831.7	1,022.9	1,115.3	1,122.4	1,110.0	1,203.0	1,302.0
Total liabilities	1,062.0	1,114.2	1,025.1	1,775.3	1,909.0	2,600.0	2,159.2	2,518.2	3,036.6	3,006.3	2,668.9	4,621.0	4,751.3	4,276.4	4,220.0	4,329.0	4,452.0
Minority	6.2	6.7	7.0	7.0	10.3	5.4	9.7	19.9	23.8	14.0	30.4	41.1	47.3	57.0	45.0	45.0	45.0
Shareholders' equity	378.6	512.9	594.3	786.4	1,049.3	1,343.0	1,417.9	1,374.5	1,495.6	1,954.7	2,215.1	2,495.2	2,506.6	2,803.4	3,028.5	3,279.5	3,572.8
Balance sheet total	1,446.8	1,633.8	1,626.3	2,568.7	2,968.6	3,948.4	3,586.8	3,912.6	4,556.0	4,975.0	4,914.4	7,157.3	7,305.2	7,136.8	7,293.5	7,653.5	8,069.8
Net Fin Pos(€ m)	-642.5	-666.3	-603.6	-1,131.1	-908.4	-1,477.9	-1,254.3	-1,470.3	-1,716.1	-1,435.2	-1,147.6	-2,871.8	-2,917.2	-2,339.4	-2,186.5	-1,876.5	-1,525.2
Net gearing (%)	-169.7%	-129.9%	-101.6%	-143.8%	-86.6%	-110.0%		-107.0%	-114.7%	-73.4%	-51.8%	-115.1%	-116.4%	-83.4%	-72.2%	-57.2%	-42.7%
Interest cover (x)	3.6	4.9	6.5	6.1	7.4	6.6	9.9	10.5	10.0	9.9	12.4	11.5	6.1	6.9	9.4	12.6	16.4
Sales/total assets (%)	84.7%	87.6%	94.6%	73.0%	81.4%	78.7%	89.3%	72.9%	71.5%	87.9%	95.2%	69.4%	71.2%	71.4%	79.1%	81.1%	82.5%
Inventory/sales (%)	12.2%	12.8%	13.2%	15.6%	10.6%	12.0%	12.7%	14.2%	13.3%	9.3%	8.6%	11.6%	11.0%	10.3%	9.4%	9.1%	8.8%
D Working cap./sales (%)	-0.5%	-2.7%	-3.0%	1.1%	-0.3%	-2.7%	-2.6%	-3.3%	-1.3%	0.7%	-0.7%	-4.7%	-1.5%	3.6%	0.1%	0.3%	0.3%
Avg share nos	450	450	450.7	451.1	450	451	453.2	448.7	448.3	450.1	453.0	457.0	457.0	460.0	460.0	460.0	460.0
NFP average	-710.7	-654.4	-634.9	-867.4	-1019.8	-1193.1	-1366.1										

Price objective basis & risk

Luxottica Group (LUXGF / LUX)

Our 12-month price objective of EUR 21.6 is based on an average of three methodologies: the implied forward multiples relative to historical averages and forward estimated growth trends (yields EUR22.0) and a sum-of-the parts (which values Retail at EUR 5.2bn, wholesale at EUR5.1bn and intra-Group sales valued at EUR 2.1bn enterprise value) which yields EUR20.8, and finally a DCF on a WACC of 7.5% and a 0% tgr yielding EUR 22.

The risks to our price objective are a more prolonged slowdown in US retail spend (LUX has 4700+ doors in NAM), a more marked consumer spending contraction than forecast in Europe and Asia-Pac, a significant weakening of the US\$ and a slower than expected China-based revenue increase. We are looking for a more pronounced risk profile in sunglasses such that a sharp drop in prescription products would impact margins disproportionately.

Link to Definitions

Consumer & Retail

Click [here](#) for definitions of commonly used terms.

Analyst Certification

I, Flavio Cereda, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Small Caps Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY	Bauer	BRAGF	B5A GR	Gerhard Orgonas
	Bechtle AG	XBACF	BC8 GR	Claus Roller
	BIC SA	BICEF	BB FP	Caroline Cohen
	Brembo SPA	BRBOF	BRE IM	Unai Franco
	CAF	CAUXF	CAF SM	Unai Franco
	Centrotherm Photo	CPHVF	CTN GR	Claus Roller
	Chantiers Beneteau	BTEAF	BEN FP	Caroline Cohen
	CTS Eventim AG	CEVMF	EVD GR	Claus Roller
	Ebro Puleva	EBRPF	EVA SM	Unai Franco
	Fielmann	FLMNF	FIE GR	Flavio Cereda
	Gemalto	GTOFF	GTO FP	Caroline Cohen
	GFK	GFKAF	GFK GR	Claus Roller
	Indesit Company SPA	IDTCF	IND IM	Unai Franco
	Ingenico	INGIF	ING FP	Caroline Cohen
	Landi Renzo SPA	LDRZF	LR IM	Unai Franco
	L'Espresso	GPEDF	ES IM	Flavio Cereda
	MARR Spa	MRRFF	MARR IM	Flavio Cereda
	Natuzzi	NTZ	NTZ US	Flavio Cereda
	Nexans	NXPRF	NEX FP	Caroline Cohen
	Orpea	ORPEF	ORP FP	Caroline Cohen
	PFEIFFER	PFFVF	PFV GR	Gerhard Orgonas
	Poltrona Frau	PFAUF	PFG IM	Flavio Cereda
	Praktiker	PKKRF	PRA GR	Gerhard Orgonas
	Prysmian	PRYMF	PRY IM	Caroline Cohen
	Safilo	SAFLF	SFL IM	Flavio Cereda
	SAFT	SGPEF	SAFT FP	Caroline Cohen
	SEB	SEBYF	SK FP	Caroline Cohen

EMEA - Small Caps Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
	SeLogger	SELOF	SLG FP	Caroline Cohen
	SMA Solar	SMTGF	S92 GR	Claus Roller
	Takkt	TAKKF	TTK GR	Claus Roller
	Tognum	TGNMF	TGM GR	Claus Roller
	Trevi-Finanziaria Industriale SPA	TVFZF	TFI IM	Unai Franco
	Vossloh	VOSSF	VOS GR	Claus Roller
NEUTRAL				
	A. Mondadori Editore SPA	MDEPF	MN IM	Flavio Cereda
	GEA	GEAGF	G1A GR	Claus Roller
	Grenke Leasing	ZGKRF	GLJ GR	Gerhard Orgonas
	Krones	KRNMF	KRN GR	Claus Roller
	Luxottica Group	LUX	LUX US	Flavio Cereda
	Luxottica Group	LUXGF	LUX IM	Flavio Cereda
	Neopost SA	NPACF	NEO FP	Caroline Cohen
	Rheinmetall AG	RNMBF	RHM GR	Gerhard Orgonas
	Trigano SA	TGNOF	TRI FP	Caroline Cohen
UNDERPERFORM				
	Aeffe	XEAFF	AEF IM	Unai Franco
	Benetton Group Spa	BNTOF	BEN IM	Flavio Cereda
	Heidelberg	HBGRF	HDD GR	Claus Roller
	Mersen	CBLNF	MRN FP	Caroline Cohen
	Nice SPA	NIESF	NICE IM	Flavio Cereda
	PUMA	PMMAF	PUM GR	Claus Roller
	Rational AG	RTLLF	RAA GR	Claus Roller
	Roth & Rau	RRAUF	R8R GR	Gerhard Orgonas
	Wacker Neuson	WKRCF	WAC GR	Gerhard Orgonas
	Wincor	WNXDF	WIN GR	Claus Roller
	Zignago Vetro SPA	XZNGF	ZV IM	Flavio Cereda
RVW				
	Il Sole 24 Ore	XIILF	S24 IM	Flavio Cereda
	Meyer Burger	MYBUF	MBTN SW	Claus Roller

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

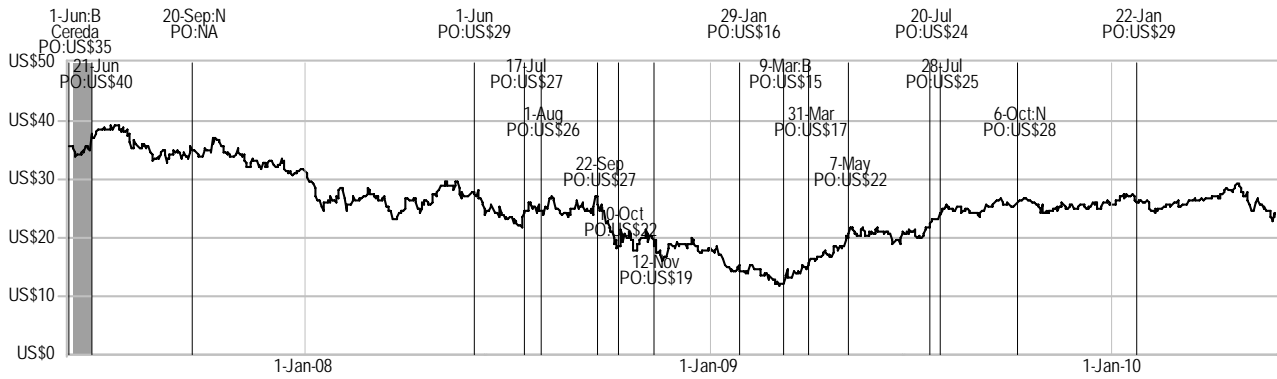
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iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

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Important Disclosures

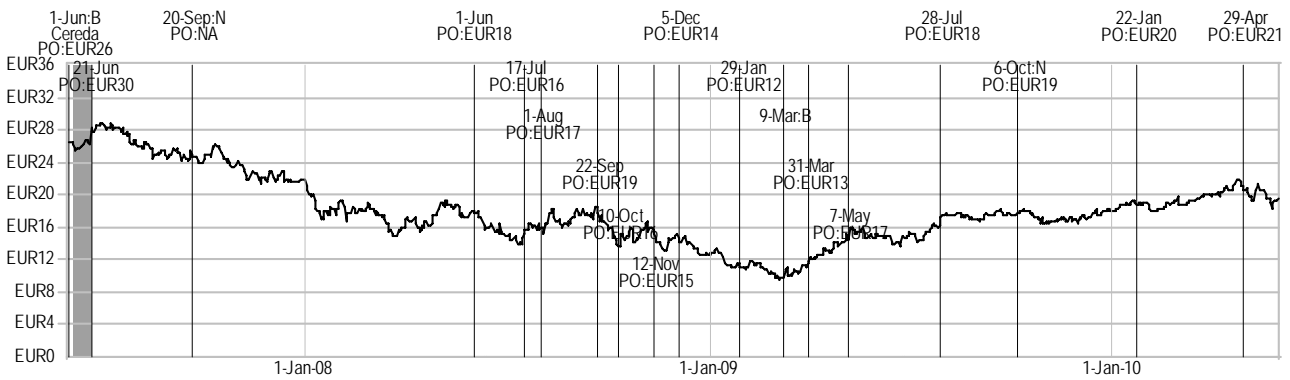
LUX Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of May 31, 2010 or such later date as indicated. BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

LUXGF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of May 31, 2010 or such later date as indicated. BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Consumer Products Group (as of 01 Apr 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	29	45.31%	Buy	16	55.17%
Neutral	17	26.56%	Neutral	8	57.14%
Sell	18	28.13%	Sell	7	41.18%

Investment Rating Distribution: Global Group (as of 01 Apr 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1818	52.41%	Buy	952	58.01%
Neutral	873	25.17%	Neutral	490	61.95%
Sell	778	22.43%	Sell	355	49.72%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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