Kering Investor Day dedicated to Kering Eyewear

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- *Jean François Palus, Group Managing Director of Kering*
- *Jean-Marc Duplaix, CFO of Kering*
- *Roberto Vedovotto, CEO & Chairman of Kering Eyewear*

Jean François Palus: Hello again. So I hope you enjoyed the food more than Jean-Marc and I could, because we had to answer questions. And I barely could eat, but Jean-Marc couldn't eat at all. And he's very nervous when he doesn't eat.

So okay. Now we are going to elaborate on Kering Eyewear, which we created, ex nihilo. And this creation is another illustration of Kering's imagination, creativity and boldness as we turned the established licensing model on its head. With the traditional licensing model, we left a lot of value on the table, but that was not even the worst part of it. This former licensing model was also an obstacle to brand alignment and also to brand coherence, also, knowing that this product category is particularly key for some customers, the aspirational ones. So that's why we sought a new approach that would close this gap, and we are on our way, you will see that, to success.

We were able to see the value of this new paradigm and act on it rapidly and effectively. And in fact, what I'm particularly proud of is that we did not let anybody distract from our route. We were not afraid by all the challenges and obstructions. And Roberto and the team here were very brave into facing those challenges. Indeed, there were many doubters at the start, no longer. I don't know why. You will see. But in fact, this initiative is, in my view, completely revolutionizing this industry.

From day 1, we brought to the party the resources to make the project get off, the licenses and negotiation with former license holders and the support functions as well as the access to talent. But above all, we daresay that we brought to Kering Eyewear, and to the team, Kering credibility and Kering's name. So this is what Kering did, and those guys, Roberto, the team here and all over the world, did the rest with our continued support. They are the right persons for this transformation, and we are very proud and very confident in our success.

So now, prior to giving the floor to Roberto, I will give the floor to Jean-Marc, who will address you for some [warning] comments and then Roberto and the team. Thank you.

Jean-Marc Duplaix: Thank you. if it's not about warning comment it's just about some organizational. I know that some of you are actually quite early to take a plane. So just to give you an indication, the presentation of Roberto should last between 1 hour and 1 hour and 10 minutes. It would depend on how Roberto is today, because it can be 2 hours or 3 hours.

So I will be grateful if you have to leave before so that you can do it discreetly because we will have a Q&A session. And if you want to leave just after the presentation of Roberto, you can, of course. Otherwise, if you want to stay a little bit during the Q&A session, please, when you leave, do discreetly so that the other can ask the question and we have the time, and also, we can answer comprehensively to all the questions. So thank you for respecting this. Thank you.

I'll pass the floor now to Roberto.

Roberto Vedovotto: Thank you. So thank you very much, Jean-François, to -- your introduction, your kind introduction, to the continued support. And, Jean-Marc, thank you.

I am very pleased and honored and proud to be here in front of you to take you through quickly what we have done in a little bit longer period of 3 years from the start of Kering Eyewear.

Before doing that, I would like to introduce my team. I'm lucky enough to have the most representative part of the team here with me. So I'm here with Anna Zurlo, who is our CFO; Roberto Risi, who is our Chief Operating Officer; and then, again, I had the opportunity to have Omar Hagi, who is Head of Centralized Channels; Simone Benetazzo, Head of Marketing and Go-to-Market; and finally, last but not least, Davide Righetto, who is Head of Asia Pacific.

Now I'll try to take you through our story, and I'll start by saying that most of you must have asked themselves, why did you do this? What is the strategic rationale for Kering, for Jean François Palus, Jean-Marc Duplaix, the senior management team of Kering to decide to do an adventure like this? There are 3 main reasons. This is a big market, this is a relevant category, and it is very profitable.

So let's start with the market for a second. I think that you know that eyewear is a big market. It is above EUR 100 billion retail. It is supposed to be growing steadily, substantially, supposed to be above EUR 130 billion in 2020. Of course, Kering Eyewear, within the eyewear market, plays in the segment of the market, which is frames and sunglasses, which is about EUR 40 billion. And within frames and sunglasses, we are focused on premium frames or sunglasses, which is about EUR 30 billion retail value, 13, 1-3 billion at wholesale.

So if we go a little bit deeper into that, within those EUR 13 billion wholesale, as you know, we are a wholesaler, so we do not have any retail pricings as in Kering Eyewear, then our focus is on the high end, which is still very relevant, EUR 3 billion. And we are playing in a quite crowded and competitive arena. But in about 3 years, we have been able to become very relevant, second to Luxottica only, thanks to the portfolio of brands that Kering has given us from the very beginning.

Now I said before, this is a relevant category for Luxury brand. Why is that? It is aspirational. It is the category which has the highest conversion rate into other product categories. Of course, it does attract new customers, new final consumer for the other brands, and it is affordable. Not only that, but this is, and you know it better than I do, a profitable business.

The typical standard P&L structure of the eyewear industry is as follows: so 60% gross margin; and when we go down to EBIT is in the region of 10%, 11%. So a profitable business.

So with that in mind, François-Henri Pinault, the senior management team of Kering, said, "Okay, this is something that is interesting for us. So let's discuss it." And it was clear that we wanted to do something different. So we did not want to do just another eyewear company. We wanted to do the first luxury company in eyewear. I remember discussing with François-Henri, he told me, "Roberto, I have 3 issues with the current business model, the licensing business model. The first issue that I have is on product. I would like the product to be closer to each brand DNA. The second issue I have is with quality. For us, at Kering, the goal is to stay true to our final consumer. And I think that here, things can be done much better than currently what we do with our licensee, because if you buy a pair of Gucci sunglasses for EUR 350, then the quality has to be perfect. And the third issue I have," he told me, "is with distribution. Why? I travel a lot, for business, for pleasure," he told me, "Roberto, honestly, I see our products in places where I don't want to see the product. So can you do it?" And it took me a few seconds to say, this is a dream becoming true. Because I have a team of people which is expert in the category. They have huge experience. They -- our dream would be to work for a luxury group and to make a difference and to do something completely new. So off we went and we started to do a feasibility study, but we had clear in mind our mission. Our mission was to become the world leader in luxury eye and eyewear, making sure that we were giving the opportunity to our brands to empower their imagination and is fully exploiting the opportunity in this very important category. And, of course, you see it here, we had a very well-balanced portfolio of brands. We're going to be adding Balenciaga starting January next year, January 2019. So with this portfolio of brand, we felt in a position that we could deliver on what François-Henri Pinault was asking us to do.

So November 2013, 3 people, together with myself, we are here in this room, we started to do a feasibility study in that feasibility study, and I wanted to take you through very briefly, please be patient, I have a few videos where I show you the milestones of our journey up until the end of last year. So this is where it all started from.

Roberto Vedovotto: So the point here was if we wanted to do something different in eyewear, we needed to have the eye of the tiger. That was pretty clear. And this is where we're based. This is the beautiful villa where our headquarter is. Of course, I remember going to see Jean-François and explaining to him that this was a new opportunity. The villa was completely abandoned. It was supposed to be for weddings and stuff. So we approached the owners and we said, "We could do something nice." And to Jean-François point before, when they heard that we were Kering, they said, "Okay. We understand." We started to negotiate, and we got a good price precisely for the reason that we are backed by Kering.

Then what happened was that in January, we were already 30 people with a very important expertise from the industry. As I always say, 600 years of experience because these 30 people had, on average, 20 years of experience each, and that put us in a position to be able, in 6 months, to officially launch Kering Eyewear in Venice, June 30, 2014 -- 2015, sorry, at Palazzo Grassi, again, the strong support of our shareholder, and this is what we did.

Roberto Vedovotto: So thank you, Jean-François, because back then, and it was June 2015, you said you knew it was going to be successful. So we felt strongly your support.

And at that point, we launched 8 brands into the market. Our customers were very supportive. They all like the different approach we had. They really enjoy what we were doing. They were really, really satisfied with the product offering that we went into the market, and that gave us, and you will see later, already the possibility to start making revenues immediately. All of that was in preparation of the big launch of Gucci. As you know, Gucci is the category killer within the eyewear industry. And so, off we went, and this is what Gucci did for us to support us on the launch of Gucci October 2016.

Roberto Vedovotto: As you've seen, Marco and team, Alessandro and team embraced immediately this project, and they were extremely supportive. They did all of this to make us in a position to have a very successful launch of Gucci eyewear.

From October to December 2016, so last quarter 2016, we were able to get enough orders to cover the first half of 2017 in terms of revenues. So we said, "We did it well. Why don't we do it again with Cartier October 2017?" In the meantime, we had reached this agreement with Richemont. Most of you know and cover and probably are invested into Richemont. Richemont really liked what we were doing. They felt in a position to entrust us to give one of the most important categories for Cartier, very relevant in the industry already, to Kering Eyewear because of the way we were executing on our brands. And this is what we did in Paris, at “Petit Palais” for Cartier.

Roberto Vedovotto: So the first point was let's do it. The second point, let's do it differently. Luxury company in the eyewear industry, we wanted to do it through an innovative business model. We were not starting from an easy position because, as you know, this is quite a complex category. Why is it so complex? First of all, the product. The product is not an easy product to make. Many components, many things that needs to be done in order to get to the completion of the product, the number of producer getting involved, then long lead time production, a fragmented distribution, 7 channels that needed to be covered properly and luxury as a niche. But we said we wanted to have a luxury approach all the way through. So luxury in the product means uncompromised quality. Luxury in production means we have only the best manufacturers to cover the best clients and, certainly, to get the teams together to work in different perspective with an integrated approach.

Now if we look at the different components of the value chain, we thought, if we want to be innovative coming from a background where we have this relationship licensee, licensor, we need, first of all, to make our brands happy. In order to make our brands happy, we needed to have a different approach in getting to the market and, particularly, to the boutique -- to the brand or the boutiques with the product.

I still remember my meeting in Paris with Francesca Bellettini telling me, "Roberto, super happy you came on board, super supportive of the project. Please make sure that the approach is an approach where we get eyewear together with the other category when we are in store with the collections."

So in order to do that, design needed to be at the center stage of everything that we were doing. So marketing and communication, certainly, supply chain and operations and sales and distribution were all going around design.

To be innovative, we needed to have multiple people working as a team in different directions. So first, we were able to get Alessandro to give us an office in Rome, to get very, very close to them, to their creative team. So our team doing Gucci Eyewear is basically inside the house, and they work very closely with Alessandro. Same goes for Anthony Vaccarello, that we have people in Paris working every day with Anthony and the team there. Then we established a team of designer in London to stay close to the U.K. brands: Alexander McQueen, Stella McCartney, Christopher Kane.

It was paramount to have a design team to do Asian fitting in order to be able to get out with the proper style for that market. And last but not least, we wanted to have in-house prototyping CAD facilities. So off we went, and through those efforts, we are able now today to have a 360-degree fully integrated process, which starts with the market needs, marketing, brand management, , those needs, in order to be able to get out with the correct collections in terms of size and depth, then inspiration, creativity and, finally, being able to implement what is at the center of our activities.

Now in terms of lead time, it was key to shorter the lead time to production. We're now down to 10 weeks, and we are the only company that -- in eyewear that is able to get to the market with the collections, together with the other products categories for the brands. So we changed the model. Instead of having the typical 3 collection, which are usually in the eyewear industry, we do Spring/Summer. We do Fall/Winter. So Spring/Summer when our brands, they do cruise in Spring/Summer. We do Fall/Winter when they do pre-Fall, Fall/Winter. And we have a specific effort for the fashion show. I'm sure you've seen what Alessandro and Gucci put together in Arles last week. 90 exit on a runway, 87 of them had frames or sunglasses. If you didn't have the opportunity to see it, please take a look.

Now that allow us to be in the market with what we need. In other words, we are able to develop specific product for specific market needs, which is very important. And we do that in such a way where we develop, for example, optical collection for U.S. consumer. We translate Asian styles into international styles, particularly Korean styles. We see that they are very successful. We do dedicate the collection for travel retail. But very importantly, this is where design gets us to. I wanted to show you for Bottega Veneta.

Roberto Vedovotto: Okay. So design is what we've seen. Now supply chain.

Most of you must have asked the question, how can these guys possibly do it without having manufacturing facilities? Actually, this is what we really wanted to do to be innovative. I mean, we have had previous experience, factories, issues with capacity utilization, costs, overheads, fixed costs and all of that. But the point for us was what we want to invest is into product. In order to invest to product, we wanted to add the maximum possible flexibility. So the keyword for our supply chain is flexibility. So not owning the manufacturing gives us the flexibility to invest into the product to make sure that we get into the market with the product, which is, in terms of creativity, boundary-free, which gives us the possibility to exploit all the potential in terms of innovation, product development that we got proposed, which gives us the possibility to align lead time.

I remember it was around Christmas 2013 when we were doing the feasibility study. I must have seen 80 factories in the Cadore region. And these guys, they were waiting for something like this to happen. For them, it was a dream come true because they had a lot of capacity, they've done a lot of investment in machineries, and they didn't have enough to do. Why? Because the big companies in the recent years were externalizing production to Asia. So they said, "Guys, we'll do anything for you. Product, price, quality. We're here to do this for you. If you do this project, please consider us at your service." And the result of that is that we have a very selected, super qualitative network of 42 suppliers. Italy is the main manufacturing hub, as you can imagine, which it does represent 65% of our production facilities. In terms of where we are located in Italy, clearly, in the Veneto region, which is the historical district of eyewear, particularly Valdobbiadene and Cadore region. And again, what we can get from that is craftsmanship, manufacturing expertise, quality and innovation, of course, reaction to our needs, flexibility, again, and reduced investment in fixed asset.

Take a look again in Bottega Veneta, what these guys are able to do for us.

Roberto Vedovotto: And believe me, to reproduce intrecciato in a pair frames is not easy at all. This guy was not an actor. He's that one guy that actually does the stuff for us.

To complete the manufacturing footprint, as you know, we enter into a strategic product partnership agreement with Safilo, which is an agreement where we have set volumes decreasing over the years. At the beginning, it was a little bit difficult in terms of quality and service, a little bit of delays in deliveries. But working together with a huge effort on both side, things have improved substantially. So we are satisfied with the agreement. We are satisfied with what we are doing. We want to be very pragmatic. So our point is, as long as we do well 3 things, quality, price, service and price, we're happy to keep working with Safilo, and this is going to be, in the future, an important partnership for us.

And then we were lucky enough, through the partnership with Richemont, to get MCL. Manufacture Cartier Lunettes, is a state-of-the-art facility, 45 minutes from Paris, Sucy-en-Brie, and I speak under the control of Jean-François, Jean-Marc and Claire, but we're happy to invite you to see it.

As I said, I've seen many factories, I've never seen anything like this. To be honest, I think that it is certainly the best, the cleanest, the best organized factory I have seen in eyewear. The machinery, the galvanic treatment cabin, I mean, I've never seen it. Of course, we need to do things to try to improve the performance of the factory. And for sure, we need to make it possible where we will have possibly better, higher saturation. We need to get efficiencies. But our point is that we want to make MCL best-in-class metal production facility in all of the eyewear industry, and I think we will be able to make it.

Now in terms of marketing and communication. As you probably have already seen from the video that I showed you on Gucci, our point here is that we went from external partners to colleagues. This is the part of our brands where people know what is going to happen in the future, the product that will be launched, the campaign that will be done. So when you are a licensee, licensor, you don't have access to this information correctly so, because(inaudible) partners so people will not tell you, really, transparently, what they think they're going to be doing because then you work for other brands and all of that stuff. So they're not so sure. Here, we're colleagues. As Jean-Marc will say, the success of Kering Eyewear is based on the genuine cooperation, he always tells us that and to see all the brands, between the brands and Kering Eyewear. So we're able, through the fact that we are colleagues, to have a fully integrated approach, completely aligned with our brands.

Now that allows us to have everything around what we wanted to develop in terms of marketing and communication with our brands. So we start from the product, and around the product, we build the communication. Within communication, we're going to digital, clearly capitalizing on the skills and the capabilities of our brands. We go and execute in-store visibility, and we do PR and events based on their guidelines. And, of course, we get a lot of support so that in all touch points, we define a consumer we are completely aligned.

Now this also is entailing Kering Eyewear to have a tailor-made approach to the market and to the customers, because we are able to put together, based on customer needs, custom-made trade marketing tools, dedicated campaign, go and work with celebrities, be in all of the digital activation that the brands have. So in one word, we are together.

Now in terms of distribution. The way we then go-to-market, also here, we wanted to be innovative. The old business model was agent, commission, you go out, you sell. You sell as much as possible, you get this much of a nice commission as possible. We didn't want to do any of that. Sorry, but we were not in that business. So we decided to have brand ambassador, which were representing the values of the brands, were aligned with the image of the brand, and we were in control of the distribution. So what we did was we put together a lean structure, which was able to get to the point where we wanted to do -- to be, particularly in terms of quality of the doors. The quality of the doors that we cover needs -- has -- must be aligned with the values of the brands that we sell. So the selection of the retailer that we have is done through an in-depth questionnaire, which has objective criteria. And they have to do with the position of the store, the brands they carry, the service they offer to the customer when they sell the product, the after-sale service. So it is done in such a way where we're able to establish the criteria, and we're able to decide the customers that will be able to work with us. Of course, those agreement also imply a minimum order quantity.

Then in terms of distribution, what we did was we were very clear from the very beginning, we needed to do a full segmentation of the market. And we decided that we wanted to approach the market based on the segmentation with different product, trade marketing tools and advertising campaign. So what I mean by that is that -- and you know the case of Gucci is very relevant. Selective distribution and qualitative distribution, to make sure that the guys that were in the segment Supreme were getting products that the guy that are in the best doors of -- within the segment of Glam were not getting. So fashion show collection, they can only get it if they are part of the Supreme segment of the market. As well as the in-store activation as well as trade marketing material, they cannot get the guys that have Gucci, and they are in Glam, they will never get the Made in Japan Gucci. They will never get gold, titanium. So this gives us the possibility to have a differentiated approach after having segmented the market, taking to consideration the quality of the doors.

Price positioning. This is a little bit of the same in the sense that thanks to the portfolio of brands that we have, which is very well balanced, we're able to cover all segments. So we start with Puma at around EUR 100 retail, and we go off to Cartier, about EUR 650.

Now in terms of the team that we have on field, we have a very lean organizational structure. We have direct subsidiaries. And then, of course, the direct subsidiaries are leveraging on the presence of Kering around the world -- Kering group around the world. We have a highly selective network of distributors that are helping us to reach those places where we're not directly involved. Strong focus from the very beginning on centralized channels. What are the centralized channels for us? The centralized channels for us, and this is also the reason why Omar is here with us, are those channels where we can extrapolate synergies with our brands for their other categories, so department stores. So if you go to Harrods, of course, Gucci, Saint Laurent, Alexander McQueen are very important for Harrods. So we get there with our products in a different position. So department stores, we're seeing travel retail when we go and talk to these guys, Duty Free, DFS. Again, we extrapolate synergies as well as multibrand fashion stores. Of course, these centralized channels, we have the brand, boutiques, which are key and where it was evident from the beginning that we could have improved the performance.

And, of course, international key account, which are relevant to our category like Luxottica or GrandVision BV.

In terms of new channel, we prefer to have, in approach, where expertise comes more than geography. So, for example, in e-commerce, we have a central team that covers e-commerce through the biggest partnership that we have, YNAP, Mytheresa, MatchesFashion.

Now in terms of what we have been able to put together, we have clearly a fully dedicated team. And as I said before, we have a unique and dedicated approach for each of the brands that we represent. Of course, we are able to deliver best-in-class service in terms of our presence in the market. And particularly, when we talk about the brand boutique, as we were never able to do before, we are able to be in store together with, as I said a few times already, the other categories, not only with dedicated product to the boutique, with dedicated focus on the material that we have, with a dedicated team, original expert, that look after training of the salespeople, look after optimization of the space, optimization of the production. So a huge effort in trying to extrapolate as many synergies as possible on our brand boutique.

Now this is the way we thought we could have done it. So innovative in all the part of the value chain. We talk a little bit briefly about the key achievement. Let's start with sales.

Sales in 2017, 3 years from start, so from 0 to EUR 352 million, which contributed in terms of consolidated revenues to the group for 217 -- EUR 272 million, taking out royalties and intercompany. We were able to get a profitability in the region of about 5%. And we launched 7 collections, more than 3,000 styles, which translate into 14,000 SKUs. And last year, we added 500 people to our company with no disruption for the business. And people is the key asset that we have. As I always say, our real luxury is that we built this company from 0, so we were able to select the people we wanted to work with, each and every one of them.

So talking about people, this is the picture. This is the ramp-up that we had. So we were, at the end of 2015, about 198 people. And then end of last year, we were about 1,000 people. Most of our team is women, 60% international. And average age is 36 years. What do we look in the people that we hire? First of all, entrepreneurial spirit. Second, resilience. As I always say, this is not for everybody. We work 24/7. We need people that are fully committed to the project, they believe into the project, and they want to make it to change the history of the eyewear industry. And, of course, skill and competencies.

Then if we go and take a look at the progression of the revenues, as I said, thanks to the successful launch, we were able to generate a little bit of revenues in the first year, EUR 74 million in the second year and EUR 352 million on last year. We cover more than 100 countries, 20 through the 10 subsidiaries that we had at the end of 2017 and the rest through distributors. We have on -- in the field more than 200 brand ambassador.

Now if we look a little bit at the split of our revenues by area, centralized channel are -- is the most important part of our revenues. We said from the very beginning, we wanted to be focused there. And then EMEA is about 25% of our revenues; with Americas, which include Canada and North America together, is about 20% of the revenues; and Asia Pacific, 15% of our revenues.

Now looking at the split of the revenue, three Os, you might be familiar with the definition, so optician, ophthalmologist, optometrist, is the bulk of our business, about 50%. And global travel retail, international key account, again, people like Luxottica, GrandVision those -- Fielmann, those guys are, together with the boutique, DOS and department stores, had about 35% of our revenues.

Then if we look at the category, 70% of our revenues are in sunglasses and 30% are in optical frames.

And then if we look at gender, the majority of our finer consumer are women. Unisex, which include men and women and gender fluid, are very important as well. So men represent 30% of our business.

Now if we look at the result of the internalization versus the previous business model in licensing, you can see that it doesn't really matter, the brand, but all in all, the performance is much better than before. So if you take Bottega Veneta, plus 200%. If you take Stella McCartney, plus 350%; or Saint Laurent, plus 250%. Gucci, first year, we did internalize model compared to the previous year under the licensing model, plus 15% on a number, which is, as you can imagine, extremely relevant.

Now in terms of achievement for -- based on the different part of the value chain, let's start with design and product development. As you can see here, our offering has increased substantially as we grew the brand and as we grow our presence in the market. Spring/Summer 2018, 650 styles; Fall/Winter 2018, 450 styles. Then if we move on into supply chain and operations, volumes increased substantially in terms of production. Acetate is still the most important material that we use.

In terms of what we have implemented for marketing and communication, I'd like to give you an example of a 360-degree project that we did with Cartier, where the eyewear presence is in all of the brand communication platforms. So be it Instagram, Facebook, Twitter. And these allow us also to implement a number of extra outdoor activities. Take a look at what we did.

Roberto Vedovotto: Okay. In terms of where we are in the market, we have end of 2017 13,000 customers, and we cover a total of 30,000 doors. Then we have -- as I said, what we are working on is additional direct subsidiaries in the world. So we finished 2017 with 10 direct subsidiaries. We now have 13 direct subsidiaries. And of course, we have a strong presence in department stores, and we have been able to develop a specific project for specific customers. So Gucci Europe for travel retail, the project with Z Tao in -- for Saint Laurent in Asia, and the special collection for Boucheron in the Middle East.

In terms of luxury approach. As I said from the very beginning, this is not another eyewear company. This is a luxury company within a luxury group in the eyewear category. So the approach has to be consistent all the way through, and specifically on the way we go to the market. So amazing venues, impeccable execution and, of course, obsession for details.

I want to take a quick look at the way we go to Mido, which is the most important fair in the industry in Milan.

Roberto Vedovotto: Okay. I remember when we discussed with Jean-François about the different approach to go to Mido, to be honest with you, was mainly because we had a slim P&L. And so we wanted to try to maximize. So the request of the Mido organization was huge. And we said, "Let's do it differently." So Mr. Marcolin, the Chairman of Mido, came to see us. And he said, "Guys, we want you at Mido." Again, that's a prized position. It always made us a little bit sad. So we said, "Let's go for the full approach." Now as you might have seen, some product people are following us. So we're very proud of the choice we made.

In terms of sales, also here, the reason why I've asked Davide and Omar to be here is that they do represent the best practices. In APAC, through product marketing approach and go-to-market strategy, we are really making it different from before. In terms of product, we have styles and product fully dedicated to the Asian market. They do represent more than 80% of our revenues. So they're very successful. In terms of marketing approach, we are able, in coordination with our brands, to have a brand ambassador that are typical to the Asian market, Ni Ni for Gucci, Z Tao for Saint Laurent. And of course, we are present in all the different communication tools of the brands. And also, very importantly, as Davide, if you have a question later, he can explain to you, we are able to add a tailor-made approach to customers. I don't know if you're familiar with Hong Kong. I see some of you coming from Asia. PUYI in Hong Kong is one of our best client. We were able to do dedicated windows, dedicated collection. When we went to discuss with Alexander McQueen the possibility to do a collection of Alexander McQueen for PUYI, they were immediately listening to us because they know who it is. And they appreciate the fact that in order to it make successful, we need to work together. And same goes for Omar and the centralized channels. Because they are, thanks to the strong effort in terms, again, of product marketing and go-to-market, we have been able to become the leader in eyewear, in particularly the travel retail where, again, we were able to put together product dedicated to certain customers, avant-première for certain customers. You probably have been traveling here through planes. In the airports, at the moment, there is a full campaign on a special product that we did for Gucci, which is also -- which is being very successful. And it was developed for the travel retail environment only.

Of course, we did a huge Cartier domination in the Middle East. We did a big project for Gucci hero for other environment. And we do exclusive agreements with the biggest players. And also very important, we do cooperative planning in order to maximize the sellout.

Okay. So now we want to talk to you a little bit about our ambition. Sales. We want to get to a level of sales, which is above EUR 750 million. Of course, as you can imagine, we're here to make money. So we needed to improve the profitability, and the goal is to get to a profitability for Kering Eyewear above 10%.

Then in order to get to this point, clearly, we need to strengthen and expand our core business. In order to strengthen and expand our core business, first of all, we need to have a tighter control of the value chain overall. Second, we need to consolidate our worldwide presence in those markets, where, at the moment, we're not direct. We are through distributors. So we want to be there directly. We need to enhance the distribution in new channels, particularly in those channels that are becoming more and more successful, e-commerce namely. We wanted to improve our product offering, and we know that we can do that.

And finally -- sorry, something very important, sustainability and innovation. As you know, sustainability is a core value of Kering Group, and it is also a core value of Kering Eyewear. So that is one area in which we will need to keep improving and progressing. As I was saying, improving of the product offering and, finally, improving of the profitability.

Let's go into a little more details on how we are thinking about these possibilities of future growth. Let's start with the fact that we have decided to have a fully integrated, automated logistic center. This will be completely up and running from January 2019. It will represent for us end-to-end control of logistics and distribution. It will be extremely efficient to compare to the externalization model to outsource model, and it will be certainly in line with Kering Eyewear quality standard. Not only that, it will give us the flexibility to serve at best the needs of our customers. So the point here is that we're going to be able to have a smart automation in order to overall improve our operation.

Now in terms of presence in the market. We cover directly the most important places, countries, markets in the world already. But there is certainly room to improve and to have a better performance, particularly I would say in Southeast Asia and in the Middle East. With a group of brands that we have for different reasons, we think that we want to further expand our distribution footprint going direct in those areas.

Now if we look at digital, this is very important. We do realize that this is going to be becoming even more relevant in the future. We already work very well with some of the biggest players. We develop for them specific absolute collections, special colors avant-première. But, and this is what I wanted to show you, we think that we have a huge opportunity there specifically and particularly in China. Why? Because China is huge. And if we wanted to get to Tier 3 and Tier 4 city, this is the way to do it. That's the reason why we did this partnership with JD.com. I don't need to tell you who JD.com is. But certainly, they reach more than 290 million. And this is what we did with JD.com. We wanted to show you the way it actually looks. You can see that this is very qualitative. We only recently started March 12 very successfully, already more than 650,000 unique visitors, and we sell more than 300 units a week. So again, for those of you that have access to JD.com, I see some of you coming from Asia, but this is the way our online store looks. JD is the only authorized distributor online of Kering Eyewear products.

Now the other thing that we wanted to expand is our shop-in-shop. We developed a store concept. Let me be very clear, there is no intention to go retail here. We will keep -- remain a wholesale company. But for the best client, we are proposing this concept for store-in-store, as you can see is very qualitative. It's different from anything else you've probably seen because it's not a crowded place with many brands, many sunglasses, many frames. This is a way to give importance to each of the style and of the brand. So again, under the control of Jean-François, Jean-Marc and Claire. If you happen to be in Milan, you are invited to our offices in Milan. And you can see in real this concept store that we have developed for our customers.

Now in terms of sustainability, as I said before, core value for the group and for Kering Eyewear. So you might have seen, we have developed a partnership with Bio-on . The goal of that is that we wanted to be able to develop an acetate, which is 100% sustainable. So we are investing into this research and development effort, and we want to come up with something tangible for our company, for our industry. Of course, we are working with our suppliers in order to reduce the environmental impact, and also with our employees, so that into their day-to-day activities, sustainability is in the DNA of what they do every day.

Categories. We think we have potential in prescription frames. The market is about 50-50. At the moment, we do 70% sunglasses. We want to focus. We want to be able to get there with our brands. We think that the market is there. The market is waiting for us. So of course, we are doing many things, but this is a focus that we want to add, and we're going to be able to certainly get additional market share in prescription frames.

Then gender. Gender fluid is becoming more and more important for our brands. So being fully aligned means to be able to exploit farther this opportunity, and this is precisely what we want to do. So we have potential to do more unisex, and to expand into that segment of the market.

We will be adding Balenciaga, as mentioned before, at the beginning of 2019. Again, timing is everything in life. So we are launching Balenciaga in a moment where the brand is super hot and has an extremely good momentum. We have developed a collection, which is precisely in line with the Balenciaga brand DNA. I'm really curious to see what you think when you will see it in the stores.

And profitability. As I said before, the key words here are scalability, which is the most important one, and efficiency. What I mean by that is that we need to exploit the full revenue potential that we have, capitalizing on the current structure. And two, we need to make sure that we optimize the supply chain, be into the agreement with Safilo, MCL and the supply chain overall, in order to be able to be more efficient, and to get to our ambition of having an EBIT above 10%.

So this is what I wanted to say. One last thing. I said before that we started from a position where this was a very consolidated and somehow sleeping industry. And this is the way we saw it from the very beginning.

Roberto Vedovotto: So thank you very much for your patience, and we're here now for Q&A. Before I get to that, I wanted to say a special thanks to the team that has been working here. So particularly to Federica, Head of Trade Marketing; and to Celeste, Benedetta and Massimo that have helped us to put together all of these for you.

I hope you enjoy. Thank you very much.

Questions and answers

Erik Karlsson: CIO of Industrial Equity Partners. What's your plans for Gucci post-2020 when the agreement expires?

Unidentified Company Representative : Roberto, do you want to answer? The agreement with Safilo, the supply agreement, yes.

Unidentified Company Representative : So basically, as Roberto already mentioned, we consider Safilo a good industrial partner. We are discussing with them the condition to continue the agreement, provided that they will be top-notch in the 3 elements that we value in the supply chain, which meaning time we'll deliver and discussable quality and the competitive price.

Luca Solca: from Exane BNP Paribas. Roberto, I was wondering what kind of implications do you see on the business, mid and long term, from the proposed merger of Luxottica and Essilor? And what areas start to potentially going to impact your business? And maybe a second question, more financial. When do you anticipate that the Kering Eyewear activity, which is growing so strongly, is going to be above the return on invested capital hurdle rate of the group?

Roberto Vedovotto: Okay. So maybe I'll take the first one. I think that the merger between Essilor and Luxottica makes a lot of sense. We work extremely well with Luxottica. As I said, Luca, it is one of our best customers within key accounts. We have our brands represented in the best quality point of sales that they own around the world. And we're very happy with the relationship. So I think that in terms of relationship with distribution, nothing will change. Essilor, we work well with them as well because they are one of our suppliers of lenses. Not only that, but they distribute some of our products in certain areas. So they put together a specific sales force for Puma, for example, in Iberia. So Spain and Portugal are covered by a sales force of Essilor. Not only that, but in places where we are not direct, like in the Philippines, our brands are distributed by Essilor. So once again, given that the brands that we have, have very little competition with what Luxottica has, I don't think it will be an issue. So if anything, the company would become stronger. And therefore, we have good relationship with both. So we think that we will benefit and enjoy from -- enjoy some additional value from the merge between the 2. Then I give it to probably Jean-Marc or Anna for the second part of the question.

Jean-Marc Duplaix: Yes. Maybe it's a group level that we should answer. Thank you, Roberto, for passing me the floor. Just as a -- to remind the situation, we paid EUR 90 million to Safilo. We had some compensation to Cartier as a sum. Cartier contributed also. In fact, after that, you see that it's just not so much capital-intensive, but it's more a question of financing the inventories. And considering the expectations that have been shown by -- or the animation shown by Roberto, which are on a stand-alone basis -- so the -- above 10% EBIT margin is at Kering Eyewear level. So you should add also the royalties earned by the brand to have a full picture of the situation. You can imagine that with more than 10% of EBIT margin on EUR 750 million of sales, the payback is quite rapid. You know that we have decided to depreciate the indemnification to Safilo over 3, 4 years. So we can assume that after this period of depreciation, concerning the capital employed, that should be quite limited. The return on capital employed should be on par with our expectations and in line with the average of the group or even above.

Luca Giuseppe Solca, Exane: I just forgot to ask, the net working capital requirement of this activity as a percent of sales, is that possible to know?

Anna Zurlo: I mean, we don't disclose the percentage -- the exact percentage on total sales. But we can say that due to the fact -- but we are still increasing a lot on our top line. The requirement in terms of working capital is still there mainly receivable and inventory, due to the fact that we are a wholesale business.

Roberto Vedovotto: Maybe what we can have there is that the customers really appreciated the different approach. So we were using our past life to be in a situation where we had less control of customers in terms of payment terms and all of that as well as on the other side, suppliers. So I think we've done a strong improvement on both, thanks to the different approach.

Antoine Belge : Antoine Belge from HSBC. 3 questions. Honestly, I don't really get the calculation that was made by Jean-Marc because -- is the profitability at group level that counts? And so 10% is not really impressive compared to what you -- would that get from a licensor, which is usually you've got the royalty, but also the contribution from advertising? So considering investing -- you're investing as it will take a while for that to get some decent returns. So in other words, does it -- would it work only if you can get other brands from the other group than Kering? And then from a quality standpoint, I think you mentioned that, from a product standpoint, I mean, you could have your own designer. But I'm sure that's Luxottica, provided I would've been happy for you to have your own designer and collaborating with them. On same, in terms of distribution, usually, it's the brand that set up the number of point-of-sale. So I'm a bit surprised that it's sort of revolutionary.

Jean-Marc Duplaix: Sorry, Antoine. Maybe I was not clear enough because when I said 10%, it's after the payment of royalties to the brand. So if you compare now the contribution of the eyewear activity as a whole, if you add the total sales in stores, plus the wholesale sales, and you combine the above 10% of Kering Eyewear, plus the royalties in the brand, we are above 20% of -- and almost at 25% if we consider more specifically Gucci. So 25% of EBIT margin, I think, is quite relevant. And I'm not sure that we would have got this profitability in the previous model, or I'm sure it wasn't the case. So just to be -- to clarify totally that, above 10%. And you know that Roberto is quite cautious when he say above 10%. So it's after payment of royalties to the brand. So it means that you need to combine the P&L of the brand, plus the P&L of Kering Eyewear. So sorry if I was not clear.

Roberto Vedovotto: Yes. And if I may add that we've been in this market, as I said, 600 years or 20 years each. There is no contract in the previous business model that we have at this level. So it is actually all addition of value, if that makes sense to you. I hope it's clear. Second question was if we're thinking to get brands from other brands. No, the answer is that we want to stay true to what we said, which is that we're going to be doing the brands of our shareholders. We have received a number of requests. I always discuss them with Jean-François and François-Henri. But again, we want to be nice to everybody, but we want to do the brands of our shareholders. That's it. Third, I think probably, I wasn't clear enough. It's interesting that you say there is nothing innovative on the way you approach the market because at the end of the day, the brands are deciding the doors. It's actually not true. We have been doing this in a different position, being a licensee or licensor. And trust me, if you give me your brand, and they use it, and they pay royalties, you're not going to decide the doors. I'm going to be because I need to make money. So it is a discussion. There is some guidelines, but it is completely different. So being internalized means that because of the fact that we work together, we want to be fully consistent with the brand image. So if I am a licensee, I need to try to get to the minimum royalty guaranteed that I give to you. Therefore, I need to sell as many glasses as possible to get the money to pay what I have promised you here. I don't have this problem. The problem I have here is that I need to have the right distribution based on what the brand wants me to do. So this is a completely different approach. It's very much focused on preserving brand equity for each of the brand that we work with. Does that make sense? Does it clarify? Okay.

Flavio Cereda: from Jefferies. Just 3 quick questions. firstly, I noticed 14,000 skus is quite a lot. I noticed them in terms of the number of styles, the last Fall/Winter has contracted a bit. So I was wondering, in terms of complexity, what level are you comfortable managing? And secondly, if I can go back on the issue of Safilo, I'm afraid. If -- when Safilo is no longer going to be able to deliver the product, how flexible are you in terms of replacing them without impairing your ability to deliver the product? What do you actually manufacture in China? Because I noticed you use manufacturers in China. And lastly, in order to to go to a 50-50, more or less, some prescription -- obviously, prescription requires rather more complex distribution. Are you in a position to do that now in terms of the client base that you work with? Or is it just a question of fine-tuning production? Or is there more that you need to do to get there?

Roberto Vedovotto: Okay. So maybe I start from the last one. In order to get there, we need to fully display the potential of the current customer base and to expand the customer base in certain markets. So for example, in the U.S., where the market, other than department stores or multi-brand stores, is mostly prescription frames. And as you know, these stores are not in the street. They are on the second level, and they have doctors that's suggesting what to do. They do the visit. They propose to you, we need to further expand our customer base and to improve productivity in the customers that we serve already. In terms of the rest of the production, none of that is not an issue at all. So I don't think that is complicated. As you can imagine, we've done all of these in 3 years. So we focus on what was really -- what was the focus also of our brands, which are much more into sunglasses in terms of image communication and all of that. The frames are a medical device somehow. So it takes a little bit of time to get the brands there, but we have the full support. And little by little, we're going to be able to get to 55-45. I would say that's the idea compared to now. Then in terms -- the second question was, what happens if Safilo doesn't deliver, right, if Safilo has problems to deliver? Again, maybe you want to take this and those complexity in terms of number of styles and SKUs.

Jean-Marc Duplaix: Yes, the rest of the questions. So with regards to Safilo, as I explained before, there is the willingness to continue cooperating. That said, clearly, in case this scenario will not be feasible, we don't see any risk of capacity shortage. We are working with 42 different suppliers across the world. There is capacity in Italy available to replace Safilo. As you may know, the SPPA with Safilo is stating decreasing volumes. So the most critical years are over with 2018. We have '19 and '20 with decreasing volumes commitment with Safilo. So this is to say we are already arranging some partial substitution of Safilo volumes. That said, we are working. And this is the strategy to keep our flexibility, which we believe strongly is very added value to serve better our customer being flexible in the time-to-market. We are developing a network of suppliers. And with the most, I would say, important, we will work in a very deep partnership. That means reserving the capacity, which will enable us not to have any shortage, when and if Safilo will decide or will not be able anymore to provide the decreasing volume that we are counting on so far. When we come to China, as was shown by Roberto in the presentation, today, China represents 5% of our purchase volumes. Mainly, it's Puma and McQ, and mainly is injection. So it's this technology, injection frames. And as far as the brands are concerned, it's the entry-level brands, Puma and McQ. When we come to the complexity, you were mentioning the 14,000 SKUs. Clearly, this is a feature of our business to be complex. We believe that the number of SKU will be basically coming from the maturity of each brands. Now we are coming there. At the beginning, we were growing fast the number of SKU. And now, of course, with Balenciaga, we will add something on top. But for some brands, we are already at the maturity level, meaning that a certain number of new SKU will come in and a certain number of SKU, basically, this is the moment that we go out of collection. So we shouldn't see in the next years increasing -- dramatically increasing the number of SKUs. But there would be more substitution of SKUs that's slow-moving with the new collections, except for the new brands, where we have to build the maturity on the market.

Melanie Flouquet: at JPMorgan. I have 3 questions, please. I wonder, from an eyewear total market perspective, whether you could share with us whether trading up is still going on or whether we're starting to see disruption from the Warby Parker, whether we are actually seeing trading down in this industry and I apologize because I'm not an expert in eyewear. And number two is on the P&L structure, I was quite surprised by how high other G&A are 19% to 20% of sales. So I was wondering whether there is some leverage that we could get out of that, and whether your 10% target is actually pretty low, given that the industry is in reality over spending on the specific line like quite some distance on other industries from what I can gather. And my third question is on Gucci. The growth in 2017 undershot the growth of the Gucci brand. Clearly, this was a year of transition. So I imagine you changed some of the points of sales. There was quite a lot of work. Can you now converge in growth rate of the Gucci brand stand-alone in Gucci eyewear? Thank you.

Roberto Vedovotto: Okay. So the first question was on these players, these new players in the arena, if they're challenging our business model, right, the luxuries?

Melanie Anne Flouquet: something going on.

Roberto Vedovotto: Sorry?

Melanie Anne Flouquet: (inaudible) still going on (inaudible)

Roberto Vedovotto: Yes, yes, absolutely. I think, first of all, nothing to apologize. I hope that we gave you a little bit of sense of the eyewear industry. So thank you for asking the question. Warby Parker, specifically, is a very successful company. They have done very well. They have disrupted a little bit the industry, but they have, with all due respect, very little to do with luxury. As you know, their business model is to go for bestsellers, produce them in China, send 5 to the final consumer, and then make them try. And then you can send back all of them or you keep one. And then they do a huge work, very successful on service. So it's a different perspective. It's for a different consumer target that is not where we play. Plus, being connected with our brands in terms of style, in terms of what we propose to the market, we will never be into a situation to get towards those sort of potential competitors. Then as I said before, we do realize the importance of e-commerce. Maybe, Davide, do you want to spend a few words here that you've done the agreement with JD.com very successful? And then we go into the other...

Davide Righetto: Well, when it comes to e-commerce, for us, it's clearly a very important segment or channel because it's growing fast. We approach it in 2 different ways. So we use e-tailers. Success in that forte, for example, mytheresa. And there we have the same approach that we have with customers successful. We, for example, capsule collection, avant-première, et cetera. But then your market like China, which is, today, the first e-commerce market in the world, we go direct. Meaning that our retail base does not allow us to cover China's entirety. We cover valley Tier 1 and Tier 2 cities. So we decided to use JD platform, but we manage directly the flagship store to cover the rest of China. And it was -- it went above our expectation. I'll just give you a couple of indicators. We already serve on a regular basis. And bear in mind, we only started 2 months ago. All of the 31 provinces in China, all of them are covered already. We sell to all of the 31 provinces every week. In the past 4 weeks, we covered Tier 3, 4 and even 5 cities. Tier 5 cities in China, I've never been to one of those. And trust me i lived in APAC for 7 years now. Because there is customer advantage. There's consumer demand that we can now satisfy to the normal channels. They're simply -- I don't have a single point of sales in a Tier 5 city, right? So basically, we're seeing business develop there that is above our expectation, and we see that as a huge opportunity for growth in the future. Of course, this has nothing to do with the Warby Parker model, as Roberto was saying, because they play on a different -- they play a different game actually. Well, they don't even play in China, to be honest right now, but they play a different game to what I'm telling you now. We use the e-commerce to reach consumers that otherwise we would find very difficult to reach.

Roberto Vedovotto: Anna, do you want to go G&A?

Anna Zurlo: Concerning the other G&A line of the P&L, maybe it's a little bit misleading the way we call it. But in reality, in that line, we are considering our total personnel costs because in sales force, you have only people on the field. So maybe it's a little bit misleading the way we call it at the end. And Gucci?

Roberto Vedovotto: Yes.

Anna Zurlo: We've referenced with -- with regards to Gucci, of course, that brand is our strongest brand, is the -- in 2017. What we can say is that we -- if we consider Gucci, Saint Laurent, Bottega Veneta, Puma, which are the big pillars brand in our portfolio. The total amount of it stays really to that brand is 70%. Of course, this percentage, we've decreased in 2018 due to the fact that we have Cartier. So also the weight of Gucci will be lower in 2018.

Roberto Vedovotto: Did we answer the question, Melanie?

Melanie Anne Flouquet: yes thank you

Lara Pellini: Capital World Investors. I was wondering whether you could just share with us what is the behavior among millennials in terms of replacement cycle and prescription, but also in sun? I mean, you target the millennials more than others, and I wonder whether you could share that?

Roberto Vedovotto: Yes. You want to take that?

Davide Righetto: Actually, millennials in China were, for us, a huge surprise. Because Gucci got a lot of traction on millennials in China, and are really looking forward to get Balenciaga, too. What's happening is that they have completely different trends. So that's why we do dedicated campaigns in Asia with local celebrities, local Asia design product for Asia. And what is happening is that these are customers that they don't buy just a pair of sunglasses a year. That's the point. They -- we have like the shop-in-shop. They're about we're showing you is in Beijing. So we're selling to one of the hip neighborhood in Beijing. And the average ticket is now one. So people -- there's a millennial, right? People come in and buy -- I think we've got a 1.4 last time we checked. So more than one pair at a time. So -- which is completely different from what I was used to that you go inside, you buy your one pair of sunglasses. And now we have people coming in and buying 2.. So that the average goes up. So I think this is happening a lot to other categories right now in the luxury industry. You may have your customers buying 2 pairs of Triple S. For sure, we know one guy that is doing that. So in that perspective, going back to the cycle that you were mentioning, is pretty disruptive compared to what we're used to. That the frames, it was -- you buy a pair every 2.5 years. Not happening anymore. A Chinese millennial, which is 70% of my sale, will not buy -- will not keep the same frame on his face for 2.5 years. I can guarantee you this. They're difficult to track because they change their -- they change fast. They really -- they are into something, then they can change their mind. But if you get to them successfully, then it's a very interesting market. And this is why, for Saint Laurent, we use Huang Zitao, which is a millennial. He is a millennial. He's a rapper, and we use him as a celebrity to promote the brand. And just to give you an idea, once we introduced that, sales in China tripled for the brand, okay? So you get that segment right. It's going to be happy days. Right now, this is how it works for our business as well.

Roberto Vedovotto: Yes. And the same applies to the rest of the world. Because the thing is that this is an affordable product that gets you into the brand. And we're lucky because it goes into your face. And so in those social networks, as you know, most of the pictures talk about your face, the way you look, but from here up and not from here down. So I got the question, and they told me, "Who's going to give to those millennials the money to buy a pair of EUR 350 sunglasses or EUR 500 or EUR 600?" The answer is the same people that are giving them the money to buy Triple S Speed. So you have it there. We're very lucky that we're working on this category, which is enjoying a lot of success with millennials.

Jean François Palus: Okay. Thank you, Roberto. Thank you to the team. I also want to express my gratitude to everyone at Gucci, Kering Eyewear and also Kering, who worked tirelessly in the past 2 or 3 weeks, to make this day possible.

Also a very big thank you to Claire, to the Kering Investor Relations team to Bernard also. And of course, they will continue to be available for questions. You might still have after this day of a very insightful day. Thank you to you for your interest in Kering, Gucci and Kering Eyewear. Your support is a very significant part of our journey, and also a part of a support to our transformation. We are deemed to become the purest and fastest growing luxury group in the world, and we'll assure that to you in the near future.

So now it's the end of this day. Safe travels back home, and we'll talk to you on the 26th of July. Thank you.

Roberto Vedovotto: Thank you.