

COMPANY PROFILE

Essilor International S.A.

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COMPANY OVERVIEW

Essilor International S.A. (Essilor or 'the company') is a France-based ophthalmic optics company. It offers lenses for various types of visual disorders, including myopia, hyperopia, presbyopia and astigmatism. The company's operations are spread across North America, Europe, Latin America, Asia Pacific, the Middle East, and Africa. Essilor is headquartered in Charenton-le-Pont, France.

The company reported revenues of (Euro) EUR7,490 million for the fiscal year ended December 2017 (FY2017), an increase of 5.3% over FY2016. In FY2017, the company's operating margin was 14.3%, compared to an operating margin of 17.3% in FY2016. In FY2017, the company recorded a net margin of 10.5%, compared to a net margin of 11.4% in FY2016.

KEY FACTS

Head Office	Essilor International S.A. 147 rue de Paris Charenton-le-Pont Ile-de-France Charenton-le-Pont Ile-de-France FRA
Phone	33 1 49774224
Fax	33 1 49774420
Web Address	www.essilor.com
Revenue / turnover (EUR Mn)	7,490.0
Revenue (USD Mn)	8,444.2
Financial Year End	December
Employees	66,918
Euronext Paris Ticker	EI

SWOT ANALYSIS

Essilor is a France-based ophthalmic optics company. The company conducts business in every category of lenses under globally recognized brands including Varilux, Crizal, Xperio and others. A portfolio of strong brands helps the company in attracting and retaining customers which, in turn, enhances its brand image. However, intense competition and rising labor wages could negatively impact the company's market share.

<p>Strength</p> <p>Strong R&D capabilities Strong portfolio of brands Financial performance</p>	<p>Weakness</p> <p>Low revenues from emerging markets</p>
<p>Opportunity</p> <p>Growth through acquisitions Strengthening presence in online business Increasing global vision care market</p>	<p>Threat</p> <p>Intense competition Increasing labor wages in the company's key markets</p>

Strength

Strong R&D capabilities

Essilor focuses on research activities to continuously develop advanced products. The company's R&D department is organized into three branches: optics, physics and chemistry. Its R&D teams offer innovative technological solutions, products, processes and services to meet individual vision correction needs. Essilor invests a significant percentage of revenue each year in R&D. In FY2017, the company invested EUR217 million on R&D. Further, 143 new patent applications were filed by Essilor. Essilor performs its research and development activities through four of its R&D centers across the world, of which three are Centers for Innovation and Technologies which are located across Asia, Europe and the US, and one is a Transitions R&D Center in Ireland that is dedicated to photochromic. Through its R&D centers, the company launches new products. Essilor's strong and expanding R&D capabilities provide it with a competitive advantage. The introduction of new products enables the company to attract new customers and expand its customer base.

Strong portfolio of brands

Essilor conducts business in every category of lenses under various globally recognized brands. The company serves every segment of the ophthalmic lens market with brands such as Varilux, Crizal, Transitions, Shamir, Wanxin and Xperio. Essilor offers progressive lenses under the Varilux brand; anti-reflective, anti-smudge and antistatic lenses under the Crizal brand; and polarized lenses under the Xperio brand. The company's sunglasses and readers business, which offers non-prescription reading

glasses and non-prescription sunglasses, is well positioned with its strong brand portfolio. Some of the well-known brands of the company in this business include Foster Grant, Gargoyles, Magnivision, Anarchy, Corinne McCormack, SolarShield and SolarComfort. In addition, Essilor has licenses for brands such as Ironman, Rawlings, Body Glove and Field & Stream. The company also offers products under Costa, Bolon, Merve, Osse, Optelli and Mustang brands. Therefore, a portfolio of strong brands provides the company with a competitive advantage in attracting and retaining customers, which, in turn, enhances its brand image.

Financial performance

Essilor exhibited an increase in the financial performance during the review year. Strong financial performance enables the company's ability to provide higher returns to its shareholders and also increases its ability to allocate adequate funds for future growth initiatives. In FY2017, the company generated revenues of EUR7,490 million as compared to EUR7,115 million in FY2016, with an annual growth of 5% over FY2016. The increase in annual revenue was primarily due to increase in the sales of Lenses and Optical Instruments by 4.5%, Sunglasses & Readers by 12% and Equipment by 6.4%. The growth in Lenses and Optical Instruments segment sales was due to increase in the sales of North American region by 3.6%, Europe by 5.7%, Asia/Pacific/Middle East/Africa by 4.7% and Latin America by 4% in FY2017.

Weakness

Low revenues from emerging markets

Essilor has a weak presence in the emerging markets. North America, the company's largest market accounted for 45.6% of the total revenues in FY2017, whereas, Europe, the company's second largest market, accounted for a significant 28.3%. This makes the company highly vulnerable to any economic, political, or social changes taking place in these geographic regions. The consumer spending in these markets is low compared to the developing markets like Asia and Latin America. Any economic turmoil and reduced consumer wealth in the European and North American markets may result in consumers becoming unwilling or unable to purchase the company's products, with clear implications for turnover and profitability. Hence, the company's high exposure to these markets makes it susceptible to the downturn in these regions. This puts Essilor at a competitive disadvantage compared with its competitors.

Opportunity

Growth through acquisitions

Essilor has been expanding its business through strategic acquisitions over the years. In FY2017, the company completed nine partnerships and acquisitions. For instance, in September 2017, it acquired CFE Optique. In May 2017, Essilor completed the acquisition of Partners In Vision, Inc. and Vision Associates, Inc. In April 2017, the company acquired Opticas Exclusivas. In March 2017, the company completed the acquisition of Topcon Visioncare Japan (TVJ). In February 2017, Essilor acquired Visolab Produtos Opticos Ltda, Mangalsons Optics PTE Ltd and Optitrade Logistics Center (OLC). In January

2017, the company completed the acquisition of Sun Optical Technologies. By these acquisitions, Essilor intends to expand its business operations through geographical presence across the US, France, the Netherlands, Ethiopia, India, Japan, Brazil and Guatemala. The acquisition enables the company to enhance its online footprint to Central Europe. Acquisitions such as these will strengthen the company's presence across various categories and, in turn, enhance its top-line and bottom line growth.

Strengthening presence in online business

In order to serve a fast growing retail channel, the company is developing solutions for the online sale of contact lenses, prescription eyewear and sunglasses and other optical products through a number of local websites. Currently, Essilor has online presence in Australia, Brazil, Canada, the US, China, Europe, Japan, and New Zealand. In FY2017, Essilor reported a like-for-like sales growth of around 13%. Interactive online shopping is increasingly being preferred over traditional shopping by consumers worldwide, who have become more vigilant about spending money. For instance, According to the report published by the Census Bureau of the Department of Commerce in February 2018, the estimated retail e-commerce sales in the US for the fourth quarter of 2017 was US\$119 billion, which shows an increase of 3.2% over that in the third quarter of 2017. The retail e-commerce sales in the US for the fourth quarter of 2017 reportedly increased 16.9% over that in the fourth quarter of 2016. E-commerce sales in the fourth quarter of 2017 accounted for 9.1% of the total sales. Growth trend in online retailing and the company's investments to strengthen its presence in the market can leverage it to widen customer base and promote greater brand awareness.

Increasing global vision care market

The company intends to expand its business operations through vision care market. In FY2017, Essilor launched 540 million prescription lenses and 30 million non-prescription sun lenses. The company could benefit from the rapidly growing ophthalmic devices market. According to in-house research report, the global ophthalmic devices market is expected to reach US\$65,770.7 million by 2022. Vision care, refractive surgery devices, ophthalmic diagnostic equipment, and intraocular lens are the major growth segments within the market. The global vision care devices market is expected to reach US\$57,605.2 million by 2022. The vision care revenue is expected to reach US\$24,261.7 million in Asia Pacific; US\$ 12,468.0 million in Europe; and US\$ 18,535.0 million in North America. The company offers a wide range of corrective lenses for correcting visual disorders such as myopia, hypermetropia and astigmatism.

Threat

Intense competition

Essilor is constantly exposed to intense competition in the ophthalmic products sector. Some of the company's competitors include Carl Zeiss Meditec, Hoya Corporation, Marcolin and Bausch & Lomb. Most of its competitors have much larger scale of operations and have more diversified geographic presence. Some of these companies have strong presence in the emerging markets. The company's high dependence on few geographic markets for revenue generation will expose it to competitive disadvantages with respect to factors such as pricing control. In addition, in case customers shift loyalty due to cost pressures, the business results and financial condition of Essilor might be affected. Also,

intense competition could negatively impact the company's market share as well as its revenue growth potential.

Increasing labor wages in the company's key markets

Labor wages have been rising in the US, Canada and Europe. The federal minimum wage rate in the US reached US\$7.25 per hour in January 2018. Nearly, 18 states and 20 cities, including New York City, Washington, D.C., and California cities increased their minimum wage to US\$12 and above. Arizona and California increased their minimum wage by US\$0.5 per hour to US\$9.80 and US\$11 per hour, respectively; and Alaska increased their minimum wage by 0.04 to US\$9.84. Colorado, Florida, Hawaii, Maine and Michigan increased their minimum wages to US\$10.2, US\$8.25, US\$10.10, US\$10 and US\$9.25, respectively. Moreover, New Jersey, Ohio, Washington and Rhode Island increased their minimum wages to US\$8.6, US\$8.3, US\$11.5 and US\$10.1, respectively. Rising labor wages in the company's key geographic markets could impact the margin expansion adversely and affect the company's profitability.

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