AFFLELOU

Press release

Paris, October 7, 2016

Business review for the year ended July 31, 2016

Selected results for the year ended July 31, 2016

Selected results for the Afflelou Group (the "Group") for the year ended July 31, 2016 are presented below:

- Group network sales[1] were up 7.6% compared to the year ended July 31, 2015, amounting to €692.6 million. On a like-for-like basis[2], Group network sales were up 3.4% from the year ended July 31, 2015.

- During the same period, the Group's revenue totaled €345.7 million, an 11.1% increase from the year ended July 31, 2015.

- The Group's EBIT[3] was up €11.0 million, or 20.1% from the year ended July 31, 2015, to €65.8 million. The Group's EBIT as a percentage of revenue increased from 17.6% for the year ended July 31, 2015 to 19.0% for the year ended July 31, 2016.

Key figures for the year ended July 31, 2016

	For the year ended July 31		
	2016	2015	2014
Network information			
Network sales, excl. taxes (*in millions of euros)*	692.6	643.5	643.8
Store count at end of period[4]	1,395	1,272	1,175
Group financial information			
Revenue (*in millions of euros*)	**345.7**	**311.0**	**324.2**
EBIT (*in millions of euros*)	**65.8**	**54.8**	**68.0**
EBIT *(as a % of network sales)*	9.5%	8.5%	10.6%
EBIT *(as a % of revenue)*	19.0%	17.6%	21.0%

[1] Network sales comprise sales, excluding taxes, to end customers by all of the networks' distribution channels, including directly-owned stores. Sales of franchisees correspond to their monthly sales reports, resulting from obligations under their franchise agreements.

[2] Like-for-like network sales correspond to sales of stores which were open throughout the two periods under consideration, based on a full fiscal year, and which did not undergo any substantial changes during those periods (such as construction or refurbishment work with a duration of more than one month), so that sales performance in a period may be compared to that of the prior period. Like-for-like network sales are calculated at current exchange rates as a very small portion of network sales are currently exposed to currency risk.

3 EBIT is defined as income from ordinary activities before management fees, which amounted to €1.0 million, €1.1 million and €1.0 million in the years ended July 31, 2016, 2015 and 2014, respectively.

4 Store count as of July 31, 2016 reflects:

- the acquisition on July 31, 2016 of LSFA, the master franchisee for the Alain Afflelou Acousticien banner in France, comprising 46 dedicated hearing aid centers and 101 hearing aid corners in Alain Afflelou optical stores; and
- the acquisition on July 31, 2016 of Ursa Vision, the franchisor for the Optimil chain in Spain, comprising 54 stores.

Store networks consist of approximately 90% franchised stores, with the remainder being directly owned.

As of July 31, 2016, the Group had a total of 860 optical stores in France, 368 in Spain, as well as 130 optical stores with hearing aid corners and 45 hearing aid stores.

Highlights of the year ended July 31, 2016 and recent events

In July 2015, in France, the Group acquired the franchisor Optical Discount, which had 88 stores at July 31, 2015, to strengthen its presence in the discount segment. During the year ended July 31, 2016, the Group gradually transformed the Claro by Afflelou banner stores into Optical Discount banner points of sales. As of July 31, 2016, only 15 stores in the network continued to operate under the Claro by Afflelou banner in France (compared to 63 as of July 31, 2015), while the Optical Discount network comprised 135 stores. The acquisition impacted the Group's results from August 1, 2015.

- In July 2016, the Group acquired Ursa Vision, the company operating the franchisor Optimil, which is present in the discount segment of the optical products market and had 54 stores in Spain as of July 31, 2016. The acquisition will impact the Group's results as from August 1, 2016. Estimated Optimil sales for the year ended July 31, 2016 amounted to €7.6 million.

- In July 2016, the Group acquired LSFA, the company principally operating as a franchisor of the Alain Afflelou Acousticien banner as part of its hearing aid retail distribution activities in France, which had 147 points of sales as of July 31, 2016, including 46 dedicated centers and 101 corners within Alain Afflelou optical stores and which represented €21.9 million of network sales over the twelve-month period ended July 31, 2016. Prior to the acquisition, the Group had set up a master franchise agreement with LSFA under which the Group received a royalty fee on sales generated by this particular network. The acquisition will impact the Group's results as from August 1, 2016.

- During the year ended July 31, 2016, the Group also entered into franchise agreements to launch stores in Burkina Faso, China and Chile, which had not yet opened as of July 31, 2016. The Group believes that emerging markets present unique opportunities to position the Alain Afflelou trademark as a fast growing, high-end brand.

- Lastly, in September 30, 2016, the Group acquired two businesses operating in the online sale of optical products, Happyview.fr and Malentille.com. Both websites are pure players in online optical sales with total revenue of €3.9 million for the 2015 calendar year. The acquisition of Happyview.fr and Malentille.com is closely aligned with the Group's ongoing digital strategy.

Like-for-like network sales

During the year ended July 31, 2016, the Group's like-for-like network sales rose 3.4% compared to the previous fiscal year.

- In France, the 3.8% rise confirms the recovery prompted by the Group's expansion in care networks and a more aggressive advertising strategy.

- In Spain, network sales were up 1.0% on a like-for-like basis, compared with 3.9% in the previous year, against a backdrop of political uncertainty during the second half of the 2016 fiscal year.

- Lastly, like-for-like sales for the "Other countries" segment rose 4.5% thanks to solid business performances in Belgium (where the Group holds a market share of around 4%) and Switzerland (market share of around 1%).

Store network developments

During the year ended July 31, 2016, excluding the Integration of the 54 stores belonging to the Optimil entry-level banner in Spain and the 46 hearing aid distribution points of sale in France, 23 new stores were added to the network, mainly under the Alain Afflelou banner in Spain, and in other countries. The rapid transformation of Claro by Afflelou stores into Optical Discount stores also had a significant impact on the period. Lastly, the Group launched several store opening projects in new regions such as China and Chile.

Business review

Consolidated revenue for the year ended July 31, 2016 rose by €34.7 million or an increase of 11.1% compared to the previous fiscal year. This strong growth stems in part from an increase in network sales:

- in particular in France, due to both the Group's expansion in care networks and stepped-up communication efforts, which drove like-for-like growth of 3.8%, clearly outperforming the market;
- in Spain, due to a net 13 store openings, excluding the 54 Optimil stores integrated on July 31, 2016;
- in the "Other countries" segment, due to a net 12 store openings.

In addition, the increase also reflects:

- the integration of Optical Discount in the consolidated income statement as of August 1, 2015; for information purposes only, Optical Discount revenue for the 12 months ended July 31, 2015 was estimated, on a *pro forma* basis, at €15.2 million;
- an increase in sales of exclusive eyeglass frames and sunglasses generated by (i) changes in the logistical arrangements for trading activities resulting in the transfer of a significant portion of the Group's inventories to a manufacturing supplier's logistics platform and (ii) the launch of a barter system under which inventories of eyeglass frames are exchanged for advertising space.

The Group's EBIT amounted to €65.8 million for the year ended July 31, 2016, versus €54.8 million for the year ended July 31, 2015, representing an increase of €11.0 million or 20.1%. The Group's EBIT as a percentage of revenue increased from 17.6% for the year ended July 31, 2015 to 19.0% for the year ended July 31, 2016. This progression is the result of: (i) effective management of the operating and structural costs incurred by directly-owned stores against a backdrop of like-for-like sales growth; (ii) non-recurring sales of exclusive eyeglass frames, which had no impact on cash flows but a favorable impact on EBIT; and (iii) the exceptional impact of time lags in the commitment of communication expenses for the year ended July 31, 2014, with an impact on 2015 EBIT of approximately €5 million. At €65.8 million, EBIT represented 9.5% of total network sales.

Strategic development

Network expansion

The Group intends to pursue the expansion of its networks, firstly by leveraging the potential of the Alain Afflelou brand, its premium optical product banner in its domestic markets, having identified approximately potential 160 additional points of sales locations in France and approximately potential 90 additional points of sales locations in Spain.

The Group also intends to capitalize on growth in the discount segment of the optical products market in France, which according to its estimates will expand from around €1.6 billion in 2015 to approximately €2.3 billion in 2021, representing average annual growth of 6.0%. The Group estimates its potential, for the entry-level Optical Discount banner, at around 400 points of sales in France.

At the same time, the Group will continue to implement its strategy of expanding in other countries. It will begin in the three areas – Belgium (and Luxembourg), Switzerland, and Portugal – where it already has a significant presence, with a cumulative total of nearly 90 points of sales as of July 31, 2016 for a cumulative population and market of 30 million people and €2.1 billion, respectively. The Group also intends to expand in other regions that offer significant potential where it has already established a presence or is in the process of doing so.

Lastly, following the LSFA acquisition, the Group would like to pursue its rapid development in the hearing aid distribution market, which offers significant potential and a strong growth dynamic.

Network sales growth

Growth in network sales will also be supported by the continued promotion of the banners' brand image and their commercial offers, innovative communication campaigns, new services offered to the franchisees in the networks and, for France, the continued ramp-up in sales driven by the Group's entry into care networks during the 2015 and 2016 calendar years.

In addition, in September 2016, the Group acquired the business assets of Happyview.fr and Malentille.com, two well-established names in the online sale of optical products, with the aim of consolidating its Web presence and leveraging the expertise of these pure players to build a solid e-commerce platform. This will give the Group a comprehensive and strategically aligned e-commerce presence, with its premium Alain Afflelou banner (Afflelou.com) for the sale of Afflelou-brand products, the entry-level Optical Discount banner (opticaldiscount.com) for products from major brands at reduced prices, and lastly the two pure player websites, Happyview.fr and Malentille.com.

In light of the macroeconomic and market outlook and the Group's strategic vision, the Group estimates that network sales for the year ending July 31, 2017 will amount to between €745 million and €760 million. The Group is also targeting annual network sales growth of between 7% and 9% for the years ending July 31, 2018 and July 31, 2019.

Based on this network sales estimate, the Group expects to generate EBIT of around €70 million for the year ending July 31, 2017.

These estimates are based, in particular, on (i) the absence of any significant changes in accounting methods; (ii) the inclusion in the scope of consolidation of the full-year contributions of LSFA (Alain Afflelou Acousticien banner) and Ursa Vision (Optimil banner) and the business generated by Happyview.fr and Malentille.com, acquired in September 30, 2016; and (iii) the absence of any significant changes to the tax and regulatory environment in place on July 31, 2016.

As part of its development strategy and subject to favorable market conditions, the Group intends to carry out an initial public offering during its fiscal year ending July 31, 2017. Consequently, the Group may carry out a capital increase and a bank refinancing already signed by the Group with a drawing subject to the initial public offering, in order to aim at a target Adjusted Net Debt[5] ratio of less than three times EBITDA[6] as of July 31, 2017, versus a ratio of 5.7 times as of July 31, 2016.

About the Afflelou Group

Founded in Bordeaux in 1972 by Alain Afflelou, the Group is one of Europe’s leading franchisors of optical products and hearing aids. In 2015, the Group operated the largest franchise network of optical products (in terms of store numbers) and the Alain Afflelou banner ranked fourth in France with a 9% market share (in terms of store numbers), in a historically fragmented market that includes many independent retailers. The Group has a long-standing presence in France, but also a strong foothold in Spain, where it operates the third largest banner of optical products in terms of store numbers and the fourth largest in terms of revenue. The Group, which is continuing its global expansion, is present worldwide, with 1,395 stores in 13 countries as of July 31, 2016, including France and Spain – its main markets – as well as Belgium, Luxembourg, Portugal, Switzerland, Algeria, Andorra, Côte d’Ivoire, Lebanon, Morocco, Senegal and Tunisia.

[5] The Group's Adjusted Net Debt corresponds to external borrowings, adjusted for issuance costs and net of cash and cash equivalents (including security deposits).

[6] EBITDA is defined as income from ordinary activities as presented in the Group's consolidated financial statements, before (i) depreciation and amortization of property, plant and equipment, and intangible assets; (ii) changes in provisions for trade receivables and inventories; and (iii) management fees. EBITDA does not constitute an indicator of financial performance under IFRS and the definition applied by the Group may not be comparable to that used by other companies.

Financial results

	For the year ended July 31		
	2016	**2015**	**2014**
Network information			
Network sales, excl. taxes (*in millions of euros*)	**692.6**	**643.5**	**643.8**
of which France	*533.6*	*493.8*	*503.1*
of which Spain	*112.6*	*108.3*	*100.6*
of which Other countries	*46.3*	*41.5*	*40.0*
Store count at end of period[7]	**1,395**	**1,272**	**1,175**
of which France	*906*	*863*	*789*
of which Spain	*369*	*301*	*287*
of which Other countries[8]	*120*	*108*	*99*
Growth in like-for-like network sales *(as a %)*	**3.4%**	**(0.9)%**	**(2.6)%**
of which France	*3.8%*	*(1.9)%*	*(4.0)%*
of which Spain	*1.0%*	*3.9%*	*3.6%*
of which Other countries	*4.5%*	*(0.5)%*	*4.0%*
Group financial information			
Revenue (*in millions of euros)*	**345.7**	**311.0**	**324.2**
of which France	*256.0*	*227.2*	*247.4*
of which Spain	*80.0*	*75.2*	*68.8*
of which Other countries	*9.7*	*8.6*	*7.9*
EBIT (*in millions of euros)*	**65.8**	**54.8**	**68.0**
of which France	*55.3*	*47.5*	*60.6*
of which Spain	*8.6*	*6.0*	*5.9*
of which Other countries	*1.9*	*1.3*	*1.5*
EBITDA[9] (*in millions of euros*)	74.4	65.1	76.4
Net capital expenditure (*in millions of euros*)	(6.3)	(10.0)	(11.7)
EBITDA - Net capex (*in millions of euros*)	**68.1**	**55.1**	**64.7**
Available cash (*in millions of euros*)	**55.4**	**52.4**	**47.1**
Available cash/EBITDA = Conversion of available cash (as a %)	*74.5%*	*80.5%*	*61.6%*
EBITDA - Net capex/EBITDA = Conversion of available cash (as a %)	*91.5%*	*84.7%*	*84.6%*
Tax loss carryforwards	*214*		

[7] The number of stores as of July 31, 2016 takes into account:
- the acquisition at the end of the year of LSFA, the master franchisee for the Alain Afflelou Acousticien banner in France, comprising 46 dedicated centers and 101 corners in optical stores;
- the acquisition of Ursa Vision, the franchisor for the Optimil banner in Spain, comprising 54 stores.

[8] Apart from France and Spain (including Andorra), the Group has stores in Belgium (since 1998, with 39 stores as of July 31, 2016), Portugal (since 2008, with 29 stores as of July 31, 2016), Luxembourg (since 2002, with six stores as of July 31, 2016), Switzerland (since 2005, with 16 stores as of July 31, 2016), Morocco (since 2002, with 19 stores as of July 31, 2016), Lebanon (since 1999, with two stores as of July 31, 2016), Algeria (since 2013, with one store as of July 31, 2016), Tunisia (since 2002, with three stores as of July 31, 2016), Ivory Coast (since 2007, with four stores as of July 31, 2016) and Senegal (since 2016, with one store as of July 31, 2016).

[9] EBITDA is calculated as follows:

	For the year ended July 31		
(*in millions of euros*)	**2016**	**2015**	**2014**
Income from ordinary activities	**64.8**	**53.7**	**66.9**
Amortization of intangible assets	1.7	1.0	0.8
Depreciation of property, plant and equipment	6.0	6.1	5.8
Changes in provisions for trade receivables and inventories	0.8	3.2	1.9
Management fees[3]	1.0	1.1	1.0
EBITDA	**74.4**	**65.1**	**76.4**

Pro forma financial information

The pro forma financial information presented below is taken from the Group's consolidated financial statements for the years ended July 31, 2016, 2015 and 2014, prepared in accordance with International Financial Reporting Standards as adopted by the European Union. It illustrates the impact that the acquisition of LSFA (Alain Afflelou Acousticien banner) and Ursa Vision (Optimil banner in Spain) would have had on certain indicators in the Group's income statement if they had taken effect on August 1, 2015.

(*in thousands of euros*)	**Afflelou consolidated financial statements for the year ended July 31, 2016**	***LSFA information from August 1, 2015 to July 31, 2016***[(10)]	***Optimil information from August 1, 2015 to July 31, 2016***[(11)]	***Elimination of invoices between the Group and LSFA***[(12)]	**Pro forma financial information for the year ended July 31, 2016 (Unaudited)**
Network sales (excl. taxes)	**692.6**	*21.9*	*7.6*	-	**722.1**
Revenue	**345.7**	*4.3*	*1.4*	*(1.4)*	**350.0**
EBIT	**65.8**	*(1.8)*	*0.4*	-	**64.5**

[10] The LSFA data is taken from the management accounts.
[11] The Optimil data is taken from the management accounts.
[12] Primarily revenue from the master franchise agreement and income from services provided for €0.2 million and €0.8 million respectively, recorded in the Afflelou Group's accounts.

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Alternative performance indicators
This press release contains certain Group performance indicators whose publication is not required or which do not correspond to the definitions under International Financial Reporting Standards (IFRS), in particular: (i) EBIT, (ii) network sales, (iii) EBITDA and (iv) like-for-like network sales growth. These indicators are used for analytical purposes but due to their inherent limitations should not be considered to be adequate substitutes for indicators as defined under IFRS and may not be comparable to other indicators with the same names used by other companies.

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