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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to BIC Full Year Results 2020 Call. My name is Rinku and I will be your coordinator for today's event. Please note this conference is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. [Operator Instructions]

I will now hand you over to your host, Sophie Palliez-Capian, to begin today's conference. Thank you.

Sophie Palliez-Capian
Vice President-Corporate Stakeholder Engagement, Société BIC SA

Thank you, Rinku. Good afternoon and good morning, everyone, and thanks for joining our full year results 2020 conference call for BIC. As usual the call will be hosted by our Chief Executive Officer, Gonzalve Bich; and our Chief Financial Officer, Chad Spooner. Then, we'll start by a short presentation of our results and it will be followed by Q&A session.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

Thank you, Sophie, and good day, everyone. Thank you for joining and attending this call. Before I start reviewing our 2020 performance in detail and how we foresee 2021, I'd like to share some insights we've gained as we look back at last year. There's no question that 2020 was a challenging year for BIC and the world. As I reflect on the obstacles we faced, and how we overcame them, I believe that we achieved a solid operating performance and perhaps even more importantly showed our resilience of the business. While we have more to overcome in 2021, I want to take a moment to thank the BIC team for focusing on what we were able to control in this environment and for their rigorous execution. Their teamwork resulted in our demonstrating strength and business continuity, commercial execution efficiency cost control and operating cash flow generation throughout the year. We've become proficient in our operating model stronger and more agile as a team and are fully on track to achieve our transformation.

While I'm pleased with these successes COVID-19 has and will continue to have a lasting impact on consumption patterns and shopping behaviors. These continued to affect our categories in a myriad of ways. I am confident that our Horizon plan positions us to meet these changes head on and puts us on a trajectory towards accelerated, innovative, and sustainable growth.

Let's take a closer look at our markets in 2020. In Stationery, the overall Writing Instruments segment was hit hard by the shift to e-learning and remote working and as people temporarily adapted to new rhythms and norms. A bright spot was the Coloring segment which grew mid-single digits across key markets as consumers leaned into more artistic and creative activities during lockdown period.

In Lighters foot traffic – lower foot traffic and outpaced demand for hygiene products and grocery products prompted convenience stores to adapt by reducing their inventory of products like pocket lighters. On the positive side utility lighters enjoyed growing popularity and usage during the pandemic due to increased home and outdoor cooking and the use of candles. This segment delivered a strong performance growing double digit in the US.

Turning to Shavers lockdowns and remote working changed men's and women's shaving habits, these resulted in market declines in our key geographies in both the one-piece and refillable segment. The pandemic did, however, accelerate the shift to e-commerce with online shaver market growing 50% in value in the US.

In this challenging context, we focused on what we can control. Thanks to strong teamwork and solid execution we increased or maintained market share in growing strategic product segments and in key markets. As you can see, we made noticeable gains in the coloring and permanent marker segments across key countries such as the US, Brazil, France, and the UK, a confirmation of consumer trust in our brand and our ability to succeed as we look to expand into the arts and crafts space.

We gained share in pocket lighters in all our key markets including Brazil, the US, Mexico, Germany and Russia. Utility lighters also delivered solid results gaining 4.3 points in market share in the US. And lastly in shaver, we outperformed most of our markets worldwide from the US to Brazil and Europe, as our teams worked relentlessly on effective promotional activities combined with our success in premium products like the Bic Flex Hybrid and Bic Soleil ranges.

The strong shift to online purchases during the pandemic resulted in an 18% increase in net sales in e-commerce with double-digit growth across key geographies like the US, Europe, Latin America and India. Our direct-to-consumer sales more than doubled, 118% growth rate. This went hand-in-hand with healthy conversions and favorable reviews on our D2C website bic.com in the US and France. In line with our goal of engaging with consumers directly as part of our transformation journey, we were rightfully invested behind our strategies and dedicated 83% of media investments to online channel.

Though we're pleased with our progress in e-commerce, this slide paints a picture of the pandemic's impact on our customers. Pure players with Amazon leading grew 85% through 2020 and their share of our overall e-commerce sales climbed by 14 points. At the same time, the pandemic lockdowns caused certain omni-channel retailer sales to plummet. The brunt of this came from the B2B business like office suppliers due to office closures. Sales to omni-retailers declined by 10% yearly with B2B channel down 20%.

Looking ahead, our overall e-commerce strategy is on track. We're building meaningful digital capabilities within the organization to accelerate online growth paving the way to become a genuine omni-channel company.

A central piece of our Horizon plan is harnessing innovation to accelerate growth, and in 2020, we demonstrated that we are on track to do just that with innovation contributing 7.6% to net sales up 1 point versus 2019. I'm excited to see the success of our new products like EZ-Reach lighter which in just six months has achieved 0.5% market share value in the US.

The launch of PrevaGuard, an anti-microbial pen is another excellent example of how quickly we're responding to what consumers want. In this case, we reacted to their understandable obsession with germs. In just a few short months, we were able to move this product from concept to shelf.

Also in 2020, we signed two exciting partnerships that move BIC's open innovation system forward. We teamed up with IProva to create our Invention Lab, using their machine learning based data driven approach to innovation to help us anticipate and respond effectively to consumer needs. This lab accounted for more than 10% of our total patent filings, only six months after opening.

Our collaboration with the Plug and Play platform, one of the world's largest startup incubators, gives us access to a diverse range of talent that can help us expand our innovation capabilities and support our journey towards more sustainable products. These are some of the latest steps in our ongoing commitment to nurturing an open ecosystem for discovering and integrating the latest technology internally as well as externally. And it's only the beginning of our transformation towards becoming more agile and innovative to better address consumer ever changing trends.

Looking forward to 2021, several new and innovative products will be added to our brand portfolio, all consistent with our Horizon plan to bring more value and sustainable offerings to consumers.

In Stationery, we will extend the BIC Cristal family with a BIC Cristal renew, a premium refillable version of our iconic Cristal made in metallic. In lighters, we will test launch the BIC Maxi Ecolutions which will offer consumers equal levels of quality and safety with an environmental impact reduced by 10% compared to the classic BIC Maxi Lighter. And in shaver, we will introduce our new sustainable development hybrid range with both male and female one piece razors that you can refill with a handle made from recycled materials and housed in 100% recyclable packaging.

I'd like to shift now to two key acquisitions in 2020 that position us to boost profitable growth effectively, in line with our Horizon plan. In July, we acquired Djeep, which consolidates our leadership position in lighters. The integration is well on track and will support our shift towards a value-driven model favoring premium and personalized designs.

In December, we acquired Rocketbook. This marks BIC's entrance into the fast-growing Digital Writing segment. Rocketbook provides simple, elegant and accessible solutions to digital writing which is very much in line with BIC's vision to bring simplicity and joy to everyday life.

I'm very excited about this next step for BIC, and the potential it brings as we leverage on their unique brand-building skills and expand our presence into the Human Expression space. We started to consolidate Rocketbook this quarter and I'm thrilled to share that they had an outstanding performance during the key holiday season at the end of 2020. Their sales on Amazon in the US grew by more than 80% versus fourth quarter of 2019 and their US direct-to-consumer business increased by 30%.

In November last year, we took our sustainability journey to the next level with our new commitments to reducing plastics dramatically in our products and packaging by 2030. These ambitious targets are a continuation of our historical pledge to sustainability embedded in our "Writing the Future" commitments. One of the most important is the fight against climate change. In 2020, we continued to reduce greenhouse gas emissions and we achieved our goal of 80% renewable electricity five years ahead of schedule.

Our teams' health and safety remains an utmost priority and I'm pleased to say that reportable accidents saw a 30% decrease compared to last year. With a significant focus on the health of our team members, we were able to keep them safe, and keep production up and running in most geographies despite the pandemic. I'm proud of the measures our team took to quickly ensure that we were meeting and in many cases, exceeding established local protocols to keep our team members healthy.

We continued our efforts to help children succeed in their education. In 2020, we reached more than 57 million children around the world, many through innovative digital programs. Since 2018, we have served 118 million children which is a tremendous source of pride for the team.

Before moving to shareholder returns, let's take a quick look at our financial performance in 2020, which Chad will take you through in more detail later during the call. Net sales for the full year was €1,627.9 million, down 12.6% on a comparative basis. Normalized IFO was at €229.1 million with a 14.1% margin in line with our guidance of above 13.5%. This was a solid performance achieved by prudent management of operating expenses and the savings generated by our transformation plan.

Normalized earnings per share was at €3.54, down 35.3% versus last year. Free cash flow was strong at €274.5 million thanks to a strong improvement in working capital. In line with our Horizon plan Capital Allocation policy 2021 shareholder returns is maintained versus 2020 levels at €121 million. It includes €81 million dividend payment for a €1.8 per share subject to approval at our next annual general meeting in May and a €40 million share buyback program. As announced in December, we will partner with Exane BNP Paribas to pioneer the first European Impact Share Buybacks and allocate part of the funds to J-PAL, the Global Research Center working to reduce poverty and to the BIC's Foundation for Education.

I'm thrilled that BIC is a pioneer in this space as we are historically committed to the education cause, notably through our comprehensive sustainability program "Writing the Future Together". Today, long-term sustainability and corporate purpose continues to be meaningful to companies and consumers, and this groundbreaking program will accelerate the path towards genuine long-term value creation for all our stakeholders.

As I mentioned earlier, Stationery was undoubtedly the category most negatively impacted by the worldwide school and office closures. Back-to-school seasons were delayed or canceled in both hemispheres, highly dependent on convenience and traditional trade channels, Latin America, Africa, and India accounted for almost 60% of the total category decline year-on-year. Nevertheless, our teams demonstrated strong operational execution and 2020 yielded several positives worth noting. We maintained share in Europe, thanks to great visibility in stores as a result of excellent partnership with our customers, and effective, and efficient merchandising and brand support. In the US, while the overall share market was down 12.2% year-on-year, we held share and outperformed in coloring and permanent markers thanks to the BodyMark and BIC Kids coloring ranges.

These solid execution results were visible in back-to-school replenishment orders which were around 10% higher than in 2019 in both France and the US. It was an incredibly challenging year in Latin America with a competitive environment that the COVID-19 pandemic exacerbated. In Mexico, schools have been closed since March, and as a result, more than 33 million students are still remote-learning.

India is another area where we face tremendous headwinds. Schools and office closures have taken a toll as have mobility restrictions limiting the sale of non-essential items. The result was a close to 40% market decline. BIC's historic ballpoint pen was the segment most affected, largely due to remote learning condition. We nonetheless remain number one reaching 25.1% market share in value.

Turning to lighters, as I mentioned already, the category was affected by lockdowns in all key markets, although there were regional differences. Europe, where traditional stores play a significant role saw relatively weak performance for the year, notably in France, Belgium, and the UK. However, we continued to grow in Russia and Germany due to new listings and effective promotional activities, two of our invest-to-grow markets.

In North America, despite a soft start to the year, full year lighter net sales were flat which is a great result given the current environment. Momentum in the second half was driven by a successful price adjustment implemented in June as well as solid promotional activities which offset the decline in volumes. BIC pocket lighter sales outperformed the flattish market gaining 0.8 points value share.

The utility lighter segment in which we've invested these last two years grew 27.1% in 2020 bolstered by shopping trends as consumers turn to home grilling and other lighting occasions. We gained 4.3 points of market share. At the end of 2020 utility lighter sales accounted for 15% of our sales, lighter sales in North America plus 6 points compared to 2019. Our overall market performance was boosted by introducing our new EZ-Reach lighter, which as I mentioned earlier has successfully grown to 0.5% market share in the first six months of this launch. EZ-Reach continues to outperform in 2021 reaching more than 3% value share in January. Latin America was a mixed bag with an essential – especially challenging situation in Mexico. At the same time Brazil made gains in market share, up 0.7 points.

Turning now to Shaver, evolving consumer habits were compounded by lockdown conditions that changed personal grooming routines and regimens in various ways. Underpinned by our historical value proposition and the success of our new products we outperformed in all regions in both female and male segments. We gained 0.6 points in the UK and continued to gain share in Russia and Poland. Overall, in Shaver we outperformed in the European market for the third consecutive year driven by both male and female products.

Both core and new products did well in the US especially amongst men. Thanks to a more aggressive promotional strategy and placement of gift sets we won one point value share of the one piece market which declined 6.4%. The Flex 5 Hybrid and Soleil Sensitive Advance range performed well, and Us, our gender neutral refillable razor continued to show positive results from its launch.

Brazil's sellout performance was also good. Our product trade at strategy continue to prove effective despite the pandemic. We picked up 0.7 points in value share largely thanks to outstanding performance in the women's segment and a strong promotional push on traditional business for an impressive high of 23% value market share in 2020. This ends the review of our operational performance and I'll now leave the floor to Chad to take you through our consolidated financial figures.

Chad J. Spooner
Chief Financial Officer, Société BIC SA

Thank you, Gonzalve. I'll begin by reviewing the net sales results for both the fourth quarter and the full year of 2020. On an as-reported basis, fourth quarter net sales were down 18.2% versus last year. On a comparative basis our net sales were down 10.7%. Currency fluctuations had a negative impact of minus 8.1 points. This was mainly due to the continuing sharp decline of the Brazilian real and the decline of the US dollar against the euro.

Net sales, for the full year 2020 totaled €1,627.9 million down 16.5% as reported down 12.6% on a comparative basis. Here again, the negative impact of currency fluctuations of minus 4.2 points was mainly attributable to the decline of the Brazilian real, and the decline of the US dollar against the euro. The COVID-19 impact on the decrease for 2020 net sales is estimated at around minus 10 points. The perimeter impact adjustment includes mainly the acquisitions of Djeep and Lucky Stationery in Nigeria. As a reminder due to Argentina's hyperinflation we are excluding Argentina from our net sales on a comparative basis.

On slide 15, you can see the key elements of the summarized P&L results. The gross profit margin for 2020 decreased 2.0 points to 48.1% compared to 50.1% in 2019. Normalized IFO for full year 2020 was €229.1 million compared to €331.8 million last year with a normalized IFO margin of 14.1% this year versus 17.0% for 2019. Let me now review the NIFO margin change for the full year 2020 versus 2019. As just mentioned, the gross profit margin decreased 2.0 points to 48.1% excluding under absorption of fixed costs due to the COVID-19 pandemic. The gross profit margin increased by 0.6 points. This was driven by favorable foreign exchange and a decrease in raw material costs.

This favorability was partially offset by unfavorable manufacturing cost absorption. A decrease in brand support had a favorable impact from 0.4 points on the NIFO margin. Operating expenses and other expenses were higher by 3.9 points resulting from the sharp decline in net sales. In addition to this, we also had a negative impact from the costs in implementing our new organization and higher incentive plan costs compared to last year. This total increase is partially offset by the other OpEx reductions across all geographies as we executed on the OpEx actions announced in May.

As we cover the year-to-date non-recurring items from left to right. We had €27.2 million of restructuring costs. The main drivers of these restructurings are the transformation plan. The closure of our Ecuador factory, and our recently announced Latin America and Asia commercial operations restructuring where we move to an indirect model in several countries.

As discussed in the second quarter, we had €41.7 million related to the Cello impairment on property, plant, and equipment, and trademark. This resulted from lower than anticipated sales due to India's lockdowns and as a result lower volume than initially anticipated, which have impacted our plant cost efficiencies. In the third quarter, we had €44.1 million of favorable pension adjustment in the United States.

Our year-to-date non-recurring items also include €41.8 million in cost of goods, of which €35.8 million is unfavorable manufacturing cost absorption resulting from plant closures and lower product demand due to COVID-19. There is also €6.0 million of direct expenses related to additional employee protection implemented to fight against the spread of the coronavirus. Items such as cleaning supplies, masks and sanitizers. We also have an impact of €3.6 million in operating expenses and other expenses mostly commercial force under activity due to COVID-19.

Let me now review the NIFO margin change versus the prior year for the fourth quarter of 2020. Excluding under absorption of fixed costs due to the COVID-19 pandemic, gross profit margin increased by 1.5 points. This was driven by favorable foreign exchange, a decrease in raw material costs, and the favorable impact of June price adjustments in US lighters. Brand support investments remain broadly stable. OpEx and other expenses were higher by 6.8 points, resulting from the sharp decline in net sales, the cost to implement our new organization and higher incentive plan costs compared to last year. This increase is partially offset by other OpEx reductions across all geographies.

Fourth quarter 2020 non-recurring items include €13.2 million of restructuring costs, of which the transformation plan, and Latin America, and Asia commercial operations restructuring are among the main drivers. And for the fourth quarter, we had €12.3 million in cost of goods, of which €10.8 million of unfavorable manufacturing costs absorption, resulting from plant closures and lower product demand due to COVID-19. The impact from direct expenses related to additional employee protection implemented to fight against the spread of COVID – the coronavirus is €1.5 million in the fourth quarter.

Slide 18 shows normalized IFO to net income for the full year 2020. Year-to-date income before tax was €155.3 million compared to €251.4 million in 2019. Net finance revenue was negative €1.4 million compared to a negative €1.3 million for the same period of 2019. Net income group share was €93.7 million as reported for 2020, compared to €176.1 million in 2019. Normalized net income group share was €159.4 million compared to €246.7 million last year.

The effective tax rate for 2020 was 39.7% versus 30.0% last year. EPS group share was €2.08 compared to €3.91 in 2019. Normalized EPS group share decreased 35% to €3.54 compared to €5.47 last year. In 2020, we invested €83.1 million in CapEx, the majority in lighters being at 44% of the total. The overall CapEx level was in line with what we communicated in March 2020 in the range of €80 million.

On slide 20, we see the main elements of working capital. Inventories ended the period at €379.0 million and accounts receivable at €409.6 million. Trade and other payables were €99.5 million at the end of the year. Accounts receivable had a favorable impact on cash versus December 2019, as we closely monitored and drove our collection efforts in this challenging COVID environment, where all companies are looking to conserve their cash outlays. The decrease in accounts receivable was also impacted by the lower net sales. We had particularly good cash collections in North America and also in Latin America and India despite challenges due to pressures in local markets.

The decrease in inventory days compared to the end of December 2019 was a result of management's focus on inventory reduction and the impact of declining net sales challenged the company to be even more vigilant with inventory production and management.

Consistent with Horizon and the focus on cash management, we generated €275 million free cash flow in 2020 driven by the improvement in working capital that I just described and lower CapEx. To drive operational cash flow generation we also reduced the amount of OpEx that were initially expected in 2020 by more than €28 million. This is more than the €15 million to €20 million objective announced in May of 2020.

This next slide summarizes the evolution of our net cash position between December 2019 and December of 2020. Net cash from operating activities was €357.6 million including €233.9 million in operating cash flow and €123.7 million of positive impact from the change in working capital and others. Among the drivers of the working capital were the benefits from accounts receivable of €100.7 million compared to December of 2019 as explained in the previous slide, an inventory which contributed €46.5 million.

We invested €72.5 million for acquisitions mostly Djeep and Rocketbook. Net cash was also impacted by investments in CapEx as we invested €83.1 million in 2020. Shareholder return was €117.6 million in 2020 of which €110.2 million, dividend payment and €7.4 million share buyback. The €47.3 million of others is mostly related to foreign exchange. Our net cash position at the end of December 2020 was a positive €183.9 million. This ends the review of our Q4 and full year 2020 consolidated results.

Now let me give the floor back to Gonzalve.

Gonzalve Marie Leon Bich

Chief Executive Officer & Director, Société BIC SA

Thanks, Chad. I'll now take you through our 2021 global market assumption, but based on Euromonitor and internal estimates at the end of last year, they do not integrate any major disruptions due to the potential acceleration of COVID-19 pandemic. In Europe, we expect markets to be flat to slightly increasing in our three core categories. In North America, the stationery market should rebound slowly after a low double-digit decline in 2020. The lighter market is expected to be flat with utility outperforming pocket lighters. In Shavers the one piece segment should continue to decrease though at a slower pace than last year. In Latin America, we anticipate a low to mid-single-digit increase in all categories including a high single-digit rebound in stationary in Mexico. Finally, we expect a strong recovery in the Indian stationery market.

Before I conclude with our 2021 financial outlook I'd like to share with you what will underpin our performance this year. Organic growth will be driven by an increase in volumes versus 2020 that we do not expect to recover to 2019 levels and buy new product launches and line extensions. We also expect to further gain market share in key markets. Commercial excellence and notably revenue growth management will be a key component of our growth with both selected price adjustments implemented locally or regionally, and efficient promotional activity. Total growth will be boosted by the addition of new businesses notably Rocketbook consolidated as of the 1st of January 2021.

Gross margin should be flat as positive higher sales volumes and price increases will be offset by an increase in raw material costs, adverse currency impacts, and negative mix due to India's rebound in sales. Consistent with Horizon normalized income from operations margin is expected to strengthen. Increases in brand support, research and development, and innovation will be more than offset by the decrease in operational expense – operating expenses as a percent of net sales driven by the benefit of the Invent the Future and further operating expense reduction. We will continue to focus on operating cash flow with tight controls of inventory. CapEx are expected to be around €100 million.

In summary, our 2021 outlook is as follows. While we expect the overall trading environment to remain uncertain and volatile particularly during the first half, our goal is to deliver plus 5% to plus 7% total net sales growth at constant currencies in 2021. To succeed, we will focus on increasing market share in key growing countries through new product launches, efficient promotional activities, and continued e-commerce growth. In line with our Horizon plan target we expect to generate above €200 million of free cash flow before acquisitions and disposals based on improved operating margins and strict control of CapEx and working capital.

To conclude, we are entering 2021 another unpredictable year with clear eyed optimism. Our transformation is underway and I'm confident that we have evolved into the right organization to face the challenges of tomorrow. This year, we will continue to focus on what we can control, operational excellence, proactive management of our business portfolio, and the execution of our new consumer focused business model. Through our Horizon plan, we have created the momentum needed to accelerate long term growth and create sustainable value for all our stakeholders.

Thank you. I'll now open the floor for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We have few questions submitted and the first question comes from the line of Nicolas from Exane BNP Paribas. Please go ahead.

Nicolas Langlet
Analyst, Exane SA

Q

Hello. Good afternoon everyone. I've got four questions please. The first one on the margin, so you mentioned improving margin in 2021 can you help us assess to what extent margin could improve this year and at least give us a range depending on the like for like self-development in 2021.

Secondly, can you tell us a bit more about the Blade Excellence initiative last November, you couldn't say much on that, can you tell more today what sort of sales it could represent in the mid-to long-term and do you expect there will be some contribution in 2021?

Three, according to IRI, the price mix effect on lighter in the US increased quite a lot in January and February this year 2021. Does that reflect additional price adjustments from you or it's related to something else. And finally, just on the perimeter impact in 2021 if we take Djeep and Rocketbook together what sort of sales you're expecting? Thanks.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

Hey, Nicolas, thanks for the questions. In regard to your first question around NIFO margin for 2021, our annual guidance is consistent with our Horizon plan targets. First is focused on accelerated growth and sustained free cash flow generation. But in regards to 2021 margin, we expect to grow our operation – operating margins as volume – we see volume growth, positive price impact, and lower OpEx as percent of net sales that will more than offset the increase in raw material costs, adverse effects, and increase of brand support that we're going to do to drive our net sales growth, and it's a position that we'll let people know that we do see growth, but we're not giving guidance on the ranges, on margin as you probably know.

And why don't I take question four since I'm talking, in regards to perimeter what we should think about is Rocketbook, Djeep, and dispositions from Haco, it's around 200 basis points is what we're looking at from a perimeter impact .

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

Afternoon, Nicolas. Thanks for the question. So on Blade Excellence, as I said in November a little bit early to give long-term target two months later, my answer really hasn't changed for you. We do have two existing customers and a robust pipeline that we're working through in 2021. The impact of the existing customers is not material for the total group results, but our goal is to generate the business through the pipeline that would make it so for 2022. So a lot of work for the teams yet to be done, but again robust pipeline, strong interest from potential projects on Blade Excellence.

For your question related to Jan, Feb 2021, no, we have not implemented any further price adjustments since the 1st January 2021 in the US. I think what you're seeing is a number of – you're first seeing the lapping effect versus last year, so it's the price adjustment of June of 2020 into the 2021 numbers as well as probably some mix effects owing to our gains of market share and the success of the launch of EZ-Reach, which will slowly start having that mix effect the impact that you're looking at in IRI.

Nicolas Langlet
Analyst, Exane SA

Q

Okay. Okay. And in terms of price adjustment beside US, have you planned anything in other region notably Europe or Latin America?

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

Yeah, as we say every year at this time of year, we have a robust price adjustment strategy and now with revenue growth management being an even stronger pillar within the commercial team, that's definitely something that we're looking at. We look at a tactical and strategic level adjusting for consumer prices at the retail level. We'll be announcing those changes to our customers first and then, we'll give you more visibility probably at our Q1 results.

Nicolas Langlet
Analyst, Exane SA

Q

Perfect. Thanks.

Operator: Thank you. We currently have one more question in the queue. [Operator Instructions] Our next question comes from the line of Charles Scotti from Kepler. Charles, your line is unmuted. Please go ahead.

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA

Q

Yes. Thank you very much for taking my questions. I have four questions. Actually, the first one on the COVID-19 impact in Q4, it was €13 million quite substantial on EBIT. I mean, can you break it down by business line, please? Still on the COVID-19 impact, just for modeling purposes, are you going to keep excluding this impact from your EBITDA adjusted in 2021 again? Third question on the proceed from the sale of the headquarter in Clichy, why have you decided to reinvest this proceeding to growth initiatives and not returning it to shareholder through special dividend, for example? And shall we expect just bigger M&A transaction. I mean beyond the €100 million yearly trajectory you guys have guided on. And my fourth question on the working capital requirements there was a substantial improvement obviously in 2020. Do you see room to further improve the working capital going forward? Thank you.

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

Thank you, Charles. I start and I'll handle one, two and four, and then I'll pass it on to Gonzalve for question number three. So first, in regards to the COVID impact. We do not split it out by business line. But as you can assume, stationery obviously has the majority of the impact given the nature of its impact from back-to-school. So that's what we'll say on the COVID impact for Q4. In regards to impact for 2021 we can't predict. I don't think is anyone can, what potential lockdowns are what may come of the next six months with COVID, I think as Gonzalve said, we're cautiously optimistic. We have a plan that is very reasonable, but we can't predict any type of COVID impact in advance of things happening is what we can say to that. And in regards to working capital, the way that I think of working capital is really more than a dollar perspective – more than a euro perspective, but it's on the days perspective because that shows real operational improvement. And as you can see, the improvement we made on inventory and receivables over the total year of 2020. We definitely think there is room to continue to prove those number of days on inventory and receivables going forward. So we'll look – we are doing a lot of work internally to drive those improvements going forward.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

Thanks, Chad. Good afternoon, Charles and thanks, for your question. On the proceeds of the sale of [indiscernible] (00:44:44) Clichy Headquarters will be moving sometime in 2022. Our strategy of reinvesting in growth is absolutely consistent with the capital allocation policy that we announced as part of the Horizon strategic plan, right. So, number one, we invest in the business, we invest in growth whether that be manufacturing CapEx or other types of CapEx related to commercial growth or those types of activities, which as I've mentioned before you should see increasing over time as we balance that for more growth.

The second is M&A. And when we talked about Horizon in November, it's on average €100 million a year. Of course, some transactions will be higher than €100 million. We did a few in 2020 that were lower than €100 million. These proceeds really are to invest in the business. Horizon is a growth story, that's what we're looking to do. We've reframed our three businesses, and in human expression there are number of different opportunities and avenues for us to go look at where we had growth, where the brand is relevant, the products make sense, consumers are hungry.

As we saw in 2020, with the lockdowns, people really wanted to be creative, use coloring, do things with their kids, and we need to tap into that, those higher growth segments that will bridge for tomorrow all while, and then that's what we're doing this year, having sustained shareholder return.

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA

Q

Okay. Thank you very much. I have a follow-up question. What is the right level of OpEx for you in a normal gear or basically to make it more simple, if revenues go back to 2019, how should OpEx as a percentage of sales look like?

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

Once the volumes go back to 2019, our OpEx as a percent of net sales should be much improved, right. The action that we've taken over 2020 to really reframe our operating structure should not grow back to those levels. These were changes that were permanent and structural basis for the most part, and have really reset the groundwork, so as we said before when we come out of this, we'll come out fighting because we're in a much better position then we're going into it. So there should be improved margins, improved OpEx expand our sales.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

I think just to ground this off is, Horizon was a few months ago, we announced that we've streamlined commercial operations which by definition reduce some operating expenses. But it's really about focus, and it's about us investing where we see the intersection of the opportunity between the brand, the product offering, the consumer need, the right level of profitability, and so that we can grow over the medium to long-term, and then continue to grow into those reframed categories.

To Chad's point, we'll have to reset once the volumes get to those levels. Now, by that time, we should have reached our growth trajectory that we're looking to have, and then we'll be reinvesting both in structural investments, CapEx, and then in OpEx where necessary.

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA
Q

Okay. Thank you. I'm sorry I have a follow up question another one, last one from my side. I have seen a couple of press articles stating that the sanitary situation in India was improving quite strongly. Do you see this on your business or is it too early?

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA
A

I think if you followed India closely during 2020, it was probably one of the most volatile and unpredictable sanitary and business environments, at least, that we had to work through at a global level. It's getting a little bit better. I think it's a little bit too early to cry victory although as I said our plan, the models that we've used to build our plan are based on a significant rebound of business and the stationery segment in India.

At Q1, we will be able to either confirm that positive trend or give you an update, but like everyone, first of all, we want the safety of our team members. We do have a lot of team members in India and we want to make sure that we're leaning into a positive rebound and not a volatile one.

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA
Q

Thank you very much. Very helpful. Thank you.

Operator: Thank you, Charles. We have a next question coming from the line of Marie Fort from Société Générale. Marie, please go ahead.

Marie-Line Fort
Analyst, Société Générale SA
Q

Yes. Good afternoon. I've got one question – many questions about stationery. The first question is to know what caused you to delay in back-to-school orders from South and East Africa during Q4 in percentage points of your sales?

Second question is to know what represents for you today the office specialist in your turnover? Also, I would like to know what represent the Coloring segment in terms of sales in 2020 compared to 2019 for instance? And also, it seems in your projections that the rebound for the Stationery division is quite modest despite the fact that in fact schools have remained open in most of the countries. Why are you keeping such modest approach and how do you set your production capacity? Would you be able to meet the demand if its rebounded more than you were expecting?

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA
A

Sure. [indiscernible] (00:51:00) and thank you for your questions. I'll let Chad give you the Q4 answer, and I'll deal with the other ones. So, office suppliers as a percentage of total sales, as you'll imagine it varies greatly from region to region. So in emerging markets, you're talking between 5% and 10% of our stationery sales, in North America it can be and it is 40%. So somewhere between that and depending on where you are in the world.

Coloring today – in 2020 represented 10% of our total sales in stationery, and the year before that it was 8%. So a two-point improvement in line with what we wanted to do or what we are doing as part of Horizon, leaning into that segment, driving into arts and crafts, connecting consumers in an even more stronger way with our Coloring offer, that's the different brands that we have in the coloring space in the markets in which we're strong. And then also entering into new markets.

The rebound, I know we're being cautious. I think that's totally fair on our assumptions for what stationery. We can't draw quite as direct link as in some countries schools are open and in some countries they're not. There's different levels. The teachers are still struggling to do planning for the children. The economy is frankly not where we would all hope it to be, and that weighs on impulse purchase, and how mom or dad during back-to-school shop the set, and then the repurchases.

Although, I did mention during my prepared remarks that we did see a 10% increase in replenishment orders from consumer – from customers in France and the US after the back-to-school and that's really down to commercial execution and ability to flex the supply chain.

So in summary, we're cautious. Of course, we'd love to see full rebound. I don't think it's going to happen in 2021. It's just not the way the governments and the school boards are setting themselves up. But to your very pointed question, which I think is a great one, about our capacity, a few years ago, we would have had trouble responding to significant increases in demand, but today, we have the capacity in our global footprint to respond to the demand increases that you're suggesting as well as the ones that we're planning for, importantly to do that in a thoughtful and structured way with customers to make sure that inventories in stores are in full when consumers are out there shopping.

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

And in regards to your question about the South Africa, what was the back-to-school delay for Q4 is approximately €4 million.

Marie-Line Fort
Analyst, Société Générale SA

Q

€4 million you said?

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

Yes.

Marie-Line Fort
Analyst, Société Générale SA

Q

Okay. Thank you.

Operator: Thank you, Marie. We have our next question coming from the line of Christophe from ODDO. Christophe, please go ahead.

Christophe Chaput
Analyst, ODDO BHF

Q

Yes, good afternoon, gentlemen. Two questions from me. The first one is regarding your mid-term target on operational efficiency. So you want to save €50 million. And previously, did you say that €80 million – 80% of that will be reached at the end of 2021, is it still valid and how much did you already book as a saving for 2020? So basically, how much do we consider as an incremental saving in 2021? And the second one is about the direct-to-consumer, so you've got a website in US and France represent 3% of your sales. Are you going to extend in other area direct-to-consumer websites? Thank you.

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

Nicolas, I'll start with the question about the €50 million. We're staying consistent with what we said at Capital Markets Day, what we've said all along is that we're very confident that we will hit the 80% or €50 million, so €40 million by the end of 2021, and as we said in the press release, we've already achieved €25 million of that savings so far. So achieving the other €50 million is not a concern at all of ours that way.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

Don't give it all away, Chad. So your question about direct-to-consumer. So we started with the two countries where it made the most sense for us to have the scale on the one side and the depth on the other to really drive a lot of learnings. I'm not going to say it's early days, because indeed it feels like a quarter is early days. It's going well. The platforms are strong. We will continue to roll out when and where appropriate probably in Europe in the near future. The one that I think you want to keep a close eye on is Rocketbook, right. This is completely new to us, they grew at 30% in direct-to-consumer in the fourth quarter. They're true omni-channel specialists and they're going to bring a lot of firepower to that team within BIC as well as us being able or the historic legacy big structure being able to help Rocketbook continue to go from strength to strength, and grow its business. So it's a really symbiotic relationship, and as we continue to look for other opportunities in the market I think you had seen more things from us not only in B2C, but also in – on the retailer and partnerships with large global retailers.

Christophe Chaput
Analyst, ODDO BHF

Q

Okay. Thank you.

Operator: Thank you, Christophe. We have one last question coming from the line of Nicolas. Please go ahead.

Nicolas Langlet
Analyst, Exane SA

Q

Again, two quick ones. First of all, do you have anything to share regarding the trend in Q1 for January and the first week of February. Have you seen any improvement and notably on stationery are we talking about mostly delays of back-to-school purchase or are you think you will actually lose some sales during that period? And second question on the restructuring and streamlining operation, you had some – you did corporate initiatives in 2020 should we expect another one in 2021? Thanks.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

Thanks, Nicolas. So, without getting into the details of January and the first week of February, so the first weeks have been positive. They do give us confidence, and to continue to work really hard through the first quarter to achieve the trajectory that we want to be on at the end of the day we're all living here, right. The different lockdowns, they come in the evening, the next day, and then they change two days later. So we continue to remain very agile, very vigilant, very focused on what we can control, the back-to-school periods in the key markets that I think you're referring to Brazil, South Africa, and Oceania, some of those were pushed by government orders a couple of weeks left, a couple of weeks right, so at the end of Q1 we'll be able to give you a better steer on what the impact was whether it was lost failed completely due to the market or whether it was just a shift in orders.

Chad J. Spooner
Chief Financial Officer, Société BIC SA

A

And in regard to your restructuring question, Nicolas, I kind of figure that as a non-recurring item, right, and how do those play out in 2021. And I think it's really hard to predict non-recurring items before they materialize. But if there's anything that we learned in 2020 was about agility, and how to focus on what we can control, right. And so we can't give any specific color on non-recurring items for 2021. But it's important to remember we'll continue to focus on efficiency everywhere throughout the business.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

Yeah. Whether in commercial or in our industrial footprint, and continue to make sure that we're responding to the market, the consumer, customer needs, and demand. And frankly, this difficulty of doing global business, even though we're a diversified global company with manufacturing in so many countries and operations in so many countries, it takes quite a bit to make all the pieces move throughout the year. And I think we've [indiscernible] (01:00:05) demonstrated that through our resilience of 2020.

Nicolas Langlet
Analyst, Exane SA

Q

Perfect. Thanks guys.

Operator: Thank you. We have a one follow up question coming from the line of Charles. Please go ahead.

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA

Q

Yes. Sorry, one last question from my side. Can you tell us what is the hedging rate you have on the US dollar? And also how much of your loan position in US dollar is hedged right now?

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

A

Yeah. We have our hedge rate for this year as quite a favorable rate we're hedged at $1.13. And so if we do retail there – I know how much we have hedged. We have a – let's put we have a very large portion, a good amount or full year of US dollars for 2021 hedged from a transactional standpoint. So we feel very comfortable [indiscernible] (01:01:06).

Charles-Louis Scotti
Analyst, Kepler Cheuvreux SA

Q

Okay. Very clear.

Operator: Thank you, Charles. There are no further questions, so I will hand it back to the host. Thank you.

Sophie Palliez-Capian
Vice President-Corporate Stakeholder Engagement, Société BIC SA

Hello. Yes. So thank you. Thank you for your questions. Maybe before ending the call, let me remind you that the Q1 results will be results released on 28th of April. In the meantime, we remain at your disposal for any follow-up questions and we wish you the best until the next quarter. Thank you very much.

Gonzalve Marie Leon Bich
Chief Executive Officer & Director, Société BIC SA

Thank you.

Chad J. Spooner
Chief Financial Officer, Société BIC SA

Thank you.

Operator: Thank you for joining today's call. You may now disconnect your lines. Host and speakers, please join the line and await for the instructions. Thank you.