2nd Quarter and 1st Half 2018 Results

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Operator: Ladies and gentlemen, welcome to the Second Quarter and First Half 2018 Results of BIC Conference. I know hand over to Madame Sophie Palliez. Madame, please go ahead.

Sophie Palliez: Thank you. Good afternoon or good morning for those listening from the US. Welcome to this Q2 H1 conference call. We will present very shortly kind of – a very short presentation on our results and then, Gonzalve Bich, Chief Executive Officer, and Jim DiPietro, Chief Financial Officer, will be able to answer to your questions. Let me now give the floor to Gonzalve Bich for a short presentation on these results.

Gonzalve Bich: Thank you, Sophie. Good morning and good afternoon everyone. I'll begin today with a summary of our first half 2018 results; I'll then hand it over to Jim to take you through our financials; and finally, I'll conclude by going through our second half trends and full year outlook.

Let me start by giving you a brief overview of the trading environment BIC has been operating in since the beginning of 2018. From a macro perspective, it's fair to say our business has been exposed to a volatile global context. Our teams had to navigate through Mexico's recent presidential elections, the ten-day transportation strike in Brazil, in addition to import bans in selected Middle East and African countries.

In the US, the economy continues to be strong with Q2 GDP up 4% and consumer spending growth at +2.2%. Yet, Brazil, one of our major markets, sees its GDP forecast revised downwards on a regular basis, leading our markets to trend below initial projections. For example, year to date May, the Brazilian wet shave market declined 3.2% in value versus 3.2% growth initially forecasted. Our businesses have been exposed to significant currency volatility and have been impacted by raw material price increases in all our categories, as we expected.

Last but not least, global trade is now subject to uncertainties with the risk of increased import duties. As a multi-local manufacturer, we are less exposed than some others of our direct competitors. While we may face local contemporary challenges, such as in Brazil in May, overall our integrated production model gives us a competitive advantage.

From a geographical standpoint, as we'll detail later, these macro trends affected mostly North America and developing markets' net sales, which declined 0.5% and 6.3% respectively. Europe grew slightly, up 0.8%.

If we now look from an industry perspective, our three categories operate in a fast moving retail environment. The surge in ecommerce leads our customers to constantly review their business models and the way they engage end consumers. This is not only pointing to disruption in the US wet shave market; in recent years, ecommerce pure players have grown into market leaders, squeezing out mass retailers. Furthermore, consumer preferences have evolved at an unprecedented rate and we continue to see consumer habits shifting towards product personalisation. Doing business in this context requires our teams to be more agile and innovative than ever before. We're aggressively expanding in ecommerce, strengthening our relationships with online specialists and developing winning direct-to-consumer strategy. We also continue to work closely with our core retail partners who remain key in our growth.

In this overall context, our first half of this year was challenging for BIC. European and North American stationery markets were down, low-single digits on a year-to-date basis. The US

shaver market decreased 3.9% in value year to date. Western Europe was soft as well, down 1.1% in value. As mentioned before, our performance in Brazil was challenged by the strike in May. Despite these headwinds, we managed to seize growth opportunities in most of our markets. We delivered strong performance in stationery in the US, gaining 0.7 points market share on a year-to-date basis and growing ecommerce sales by more than 50% in the first half. We continue to gain traction in Eastern Europe with high double-digit growth in sales and distribution gains, notably in Russia for shavers.

Globally, our teams continue to be focused on paving the way for future delivery of growth. Our first half results demonstrate our commitment to invest in our business and operations. In line with our goals, we pursued planned investments in CAPEX and targeted brand support.

We are an industrial company, a leader in each of our categories and a worldwide and acknowledged brand. We can rely on a historical strength, a state-of-the-art mass production model, delivering the highest possible quality at the lowest unit cost. Yet, this is no longer enough. Given the industrial nature of our businesses, we must make decisions with the long term at the top of our minds. If we want to remain leaders in our three categories, we must move quicker. We believe we can accomplish this by investing in ground-breaking innovation to propel growth in stationery and shavers, while addressing more proactively regulation enforcement issues in lighters in Europe. We must be more focused on increasing investments' return, strengthening our industrial excellence worldwide and driving cost effectiveness more proactively. Going forward, we will rely on our strong balance sheet and solid cash flow generation. For the balance of the year, we remain dedicated to achieving our outlook for the full year 2018.

A few comments now on our first half financial performance. Net sales were down 1.9% on a comparative basis, at €959.3 million. Normalised IFO margin was 19.6%, down 70 basis points versus prior year, while normalised EPS group share decreased 5% to €3.05. Our net cash position at the end of June was €55.1 million.

Later, Jim will discuss our consolidated figures in further detail. Let me, however, explain the rationale behind the €68.7 million of goodwill impairment for Cello. This goodwill impairment is due to a lower growth outlook. We continue to face headwinds in the export business with a double-digit decline in net sales, as competition remains tough and in some cases unfair. Domestic sales growth performance is expected to be slightly lower than initial plans, yet we plan to grow faster than the market. Since we acquired the full control of the company in December 2015, we have launched an ambitious plan aimed at setting a new growth trajectory for a company that has been under-invested in by its former owners. We have taken many initiatives, such as building a new management team, strengthening innovation, increasing brand support and we've launched a CAPEX plan that included the construction of a modern, new manufacturing facility. We expect Cello pens to be a solid growth driver for the group. It is the number one Indian writing instruments manufacturer and the number one brand, with nationwide distribution. Domestic sales are starting to regain momentum and we have a robust pipeline of new products. All this leads us to remain fully confident in our future sales growth in India.

Let me now take you into more detail in each of our categories. Our stationery net sales were flat in H1. Looking first at Europe, the performance was driven by healthy growth in Southern Europe, notably in traditional distribution channels in Spain and Turkey. As it is of high interest,

let me also emphasize our strength in ecommerce. However, this was offset by some customers' Back to School order postponement versus last year in France. North American sales increased to mid-single digit with, once again, a strong performance in ecommerce where our sales grew more than 50% versus the same period last year. New products, such as BIC Gelocity Quick-Dry pen continued to outperform. We also benefited from a positive Back to School phasing as some orders were shipped in June versus July last year. It's important to note that we outperformed a declining US stationery market year to date, gaining 0.7 points market share in value with Gel driving the growth.

Moving now to Latin America, we saw low single digit decreases, with sales growth challenges in Brazil due to customers' ongoing inventory adjustments and the impact of the ten-day transportation strike in May. Mexico was impacted by negative Back to School phasing, but underlying trends remained solid with good performance in colouring and growth in traditional channels. Finally, in India, Cello Pens domestic sales were flat on a comparable basis as Cello continues its product trade-up strategy and portfolio streamline. First half 2018 normalised IFO margin for stationery was impacted by favourable sales mix and cost efficiency, both offsetting increases in raw material cost.

Let me move to lighters, where H1 net sales decreased 2.6% on a comparative basis. Net sales were flat in Europe. In spite of unchanged market conditions and distribution channels for BIC, Western Europe performance was impacted by the decision to adjust part of our route to market in traditional networks to improve sales efficiency and drive future profitable growth. In France, we reinforced our partnership with the best performing wholesalers in order to secure our long-term presence and visibility at key tobacconists. This adjustment led to a lower performance in other wholesalers. In Italy, we increased the number of stores served directly, while focussing on retailers with the highest growth potential. In Spain, an acceleration plan in traditional trade has been launched to strengthen our sales force selling directly to the best points of sale. We continue to grow market share in Eastern Europe.

North American second quarter lighters net sales were impacted by the pre-orders from retailers back in the first quarter, due to the successful implementation of the 1st April price increase in the US. Overall, we outperformed a slightly declining market. In Latin America, net sales decrease high single digits due to an ongoing inventory adjustment by customers in Brazil and the negative impact of the ten-day transportation strike. However, Mexico grew net sales attributable to enlarged distribution in traditional trade.

H1 2018 normalised IFO margin for lighters reflects an increase in raw materials and brand support as well as unfavourable fixed cost absorption.

Turning now to shavers, H1 net sales declined 3.1% on a comparative basis. Performance was solid in Europe with net sales increasing mid-single digits. We continue to grow in Eastern Europe, notably Russia, where we gained distribution and increased market share, driven by BIC Flex 3 Hybrid. We delivered flat net sales in Western Europe in a declining market, down 1.1%in value on a year-to-date 2018 basis for the one piece segment. In North America, where the market continues to be testing, down 3.9% in value, we underperformed the US one-piece market, losing 0.5 points share, resulting in 26.4% market share in value on a year-to-date basis June.

On the other hand, we saw continued success in our new products, BIC Flex 3 Hybrid, BIC Soleil Bella Click and BIC Soleil Balance, the number one new product on the female one-piece market. In Latin America, the impact of the ten-day transportation strike in Brazil was more than offset by our distribution expansion and market share momentum. We outperformed the declining Brazilian market, down 2.7% in value at the end of May, with gains of 2.5 points to reach 21.2% share in value. This was especially driven by the success of our new product, BIC Flex 3 and BIC Soleil Sensitive. Finally, the Middle East and Africa net sales decreased double digit, negatively impacted by a decrease in promotional activities and current unfavourable importation legislation in North Africa.

H1 2018 normalised IFO margin for shavers was driven by low volumes, unfavourable product mix, increase in raw material costs, partially offset by lower brand support compared to last year.

I'll now hand it over to Jim for the consolidated results.

Jim DiPietro: Thank you, Gonzalve. I'll begin by reviewing the net sales evolution for both the second quarter and the first half of 2018. On an as-reported basis, second quarter net sales were down 9.2% versus last year. On a comparative basis, our net sales were down 2.3%. There was an unfavourable impact of currency fluctuations of 6.1%, mainly due to the changes in the US dollar and the Brazilian real. For the first half, net sales totalled €959.3 million, down 10.5% as reported and down 1.9% on a comparative basis. Here again, the unfavourable impact of currency fluctuations of 7.4% was mainly due to the US dollar and Brazilian real.

On Slide 8, you can see the key elements of the summarised P&L. First half 2018 gross profit margin was 52.9% compared to 52.3% in the first half of last year. First half 2018 normalised IFO was €188.2 million compared to €218.2 million in the first half of 2017, with normalised IFO margin of 19.6% versus 20.3% last year.

I will now review the key elements of the change of normalised IFO margin versus last year for both the second quarter and first half. Starting with the second quarter 2018, cost of production was favourable, 0.5 points versus last year. While cost of production was negatively impacted by raw material costs, absorption and depreciation, it was offset by favourable year-to-year changes in manufacturing cost and variances. Brand support was lower by 0.2 points in the second quarter, and that includes consumer business development support and advertising. OPEX and other expenses were higher by 1.8 points versus the second quarter of 2017.

In the first half 2018, cost of production was favourable one point versus last year. The first half 2018 cost of production was impacted in a similar way as the second quarter. We've benefited from changes in manufacturing costs and variances versus last year, which offset our higher raw material absorption and depreciation cost. Total brand support investments were slightly higher by 0.1 points, and also, as planned, we increased operating expenses and other expenses in the first half 2018. This was an impact of 1.6 points versus last year. It is important to note for the balance of the year, we still expect the negative impacts of raw material costs, absorption and depreciation with much less of a favourable offset.

Slide 10 shows normalised IFO to net income for the first half of 2018. Income before tax was €125.3 million compared to €193.6 million in the first half of 2017. Net finance revenue was €5.8 million in the first half of 2018. The first half of this year was positively impacted in the

second quarter by fair value adjustments to financial assets denominated in US dollar when compared to December 2017. First half 2018 net income group share was €70.8 million, 45% drop as reported, and was €139.5 million, increasing 8.4%, excluding the Cello goodwill impairment. The effective tax rate was 43.5%, and 28.1% excluding the impact of Cello goodwill impairment. EPS group share was €1.55 compared to €2.76 in the first half of last year, down 43.8%. Normalised EPS group share decreased 5% to €3.05 compared to €3.21 in the first half of 2017.

On Slide 11, we see the main elements in working capital, of which inventories increased to €470.2 million. Trade and other receivables also increased to €574 million. Trade and other payables were €130.7 million. The majority of our inventory is in the stationery category, finishing with €215.9 million at the end of June.

Now we look at the net cash position between December 2017 and June 2018. Net cash from operating activities was €83.1 million with €197.7 million in operating cash flow. A negative €114.6 million was a change in working capital, mainly driven by account receivables and the increase in inventory compared to December 2017, both mainly due to seasonality. Net cash was also impacted by investments in CAPEX as we invested €51.6 million in the first half of 2018. The dividend payment was €157.8 million and we bought back €23.9 million of shares in the first half of 2018. Our net cash position at the end of June 2018 was €55.1 million.

This ends the review of our second quarter and first half 2018 consolidated results, and now I'll give the floor back to Gonzalve.

Gonzalve Bich: Thank you, Jim. As mentioned in my introduction and based on our current trading environment assumptions, our 2018 outlook remains unchanged. Looking at our forecast for the balance of the year, we expect net sales to recover across all categories.

In stationery, we anticipate Back to School to drive second half performance in key regions such as Europe and the US, thanks to solid sell-in figures in the first half. We will continue to deliver growth in ecommerce in the US. Cello domestic sales are projected to grow double digits, driven by the launch of Cello One, a new product in the sub INR10 segment in India. In Latin America, Mexico should deliver strong performance as well, while we believe Brazil will stabilise.

Lighters' H2 growth will be driven by developing markets, notably Latin America with distribution gains and volume increases in Mexico. We also expect strong growth in MEA with a good performance in Saudi Arabia. In the US, we should see the full impact of the price increase.

Turning to shavers, we foresee continued growth in Eastern Europe, primarily driven by distribution gains in Russia, which grew more than 40% in net sales just in the first half of this year. We will also benefit from the positive impact of new product launches. In Europe, BIC Flex 5 will be launched in Italy and Iberia, and Hybrid 5 in the Nordic regions, Austria, France and Russia. In the US, we'll benefit from the pipe fill of 2019 new product launches such as BIC Flex 2 Hybrid and Soleil Click 5. Finally, Latin America will be driven by a strong momentum in Mexico thanks to targeted promotions and increasing volumes. In Brazil, we expect the market to rebound as we continue to grow market share. In addition, we expect to partially recover the losses from the strike in Brazil, subject to macroeconomic uncertainty.

As in the first half, our gross profit and margins will be impacted by an increase in raw material cost and higher depreciation. Yet, as we do not expect benefits from the positive cost of production while we continue to invest in targeted brand support and operations. Around the world, our teams will concentrate on delivering on our goals and leveraging our brand in line with our values as we continue to engage effectively with our consumers.

This ends our presentation. We're now ready to answer your questions.

Operator: Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad. The first question comes from Charles Louis Scotti from Kepler Cheuvreux. Sir, please go ahead.

Charles Louis Scotti (Kepler Cheuvreux): Yes, hello. Good morning. Thanks for taking my questions. Four questions, please. The first question is on the change in cost of production on which you saved €42 million of EBIT in H1. What does it cover exactly and what should we expect in H2 in 2019? And the same question on the OPEX and other expenses please.

The second question on your margin guidance, which suggests 430 basis points margin contraction in the lower end and 230 basis points in the upper end. Why did you expect such deterioration in Q2? Is it due to a stock effect on your raw materials?

Third question, can you remind us the amount of the price increase in lighters in the US in April this year? And can you give us the breakdown between volumes and prices in H1, basically what would have been the organic growth at constant prices?

And then my last question is on CAPEX. You have scaled back your CAPEX a little bit in H1. Is there a particular reason for that and which division is concerned by this cut? Thank you very much.

Jim DiPietro: Okay. Let me – this is Jim. I'll address the first question talking about the cost of production, brand support and OPEX, first half versus second half. As we had said in the first half, we did experience the unfavourable impact of raw material, unfavourable absorption and depreciation. That was offset by variances and lower cost in some cases coming into the year. As you have noticed in the first quarter, we had the favourability and some of that continued in the second quarter. The cost of production for the balance of the year, as we had mentioned during the presentation, we still expect the negative impact of raw material, unfavourable absorption and depreciation with less of the favourable impacts. So, while in the first half we had seen the cost of production being favourable a point, we don't expect that favourability on an offset to material cost appreciation and absorption to exist in the second half. So therefore the second half cost of production will be unfavourable compared to what we realised in the first half.

Brand support, we would see probably the similar type of trend of investments in the second half and to the first half, and similar with operating expenses. As we come into the year, we had guided higher material cost, impact of unfavourable absorption and depreciation, as well as higher OPEX, as we continue to invest in the structure within the organisation – ecommerce is an example – as well as the ability to gain further distributions Gonzalve mentioned earlier in the presentation. So OPEX and brand support trends will continue as we've seen in the first half.

Second – can you just repeat your second question? I just want to make sure I've gotten the full question.

Charles Louis Scotti: Well, I'm just a little bit surprised by your comment. So –

Jim DiPietro: I think it's very consistent to what we said coming into the year. Again, coming into the year we said we were going to be between 17% and 18% of margin, again driven because of the unfavourable impact of raw material, unfavourable impact of absorption, unfavourable impact of depreciation, brand support and the continued investment on OPEX. As I just mentioned, and we just went through in the presentation, we've experienced all that in the first half. First half, we did benefit from some of the manufacturing cost variances coming into this year from last, as well as some other one-time variance versus a year ago. That favourability won't exist in the second half. So that's why the second half margin will be lower than the first, but in total, still very much consistent with what we've guided the impacts would be coming in to 2018.

Gonzalve Bich: The answer to your question on 1st April this year, we put through an around 4% price increase on the US market in lighters. It differs by channels, so that's an average.

Jim DiPietro: And CAPEX was the last question. As you've said, we've invested €51 million in the first half. We said coming into the year and we confirm the full year is €150 million, which puts us roughly €100 million for the balance of the year, compared to the second half of last year, which was around €110-111 million. So again, we're down from €185 million last year to €150 million this year, which was again the view coming into the year, so we still are committed and feel comfortable with the full year outlook of €150 million of CAPEX investments.

Charles Louis Scotti: Okay. Thank you very much. Very clear.

Operator: The next question comes from Nicolas Langlet from Exane. Sir, please go ahead.

Nicolas Langlet (Exane): Hello, good afternoon everyone. I've got four quick questions, please. The first one on the cost of production; can you tell us, what was specifically the impact of the several product production variance in H1?

Second question on Brazil, can you tell us what was the like-for-like in the country in Q2, and how you are able to quantify the impact of the strike on your like-for-like for this quarter? And then you mentioned in press release for some quarters the inventory adjustment at retailers' level. Do you think now the inventory level has normalised and this process is close to an end, or not?

Third question on lighters. So quite a lot of non-recurring element in Q2. If you strip out the pre-buys in the US, the change in the route-to-market in Europe and the strike in Brazil, what would have been the underlying trend for lighters? And on this change of route-of-market in Europe, was it only a one time impact or should we expect further impact in the coming quarters?

And the last question is more a medium-term view. So we saw the dilution in the like-for-like in past years from 6% to the single digit today. Do you think this low-single digit is now the new norm for the company or do you see evidences that you could return to a mid-single digit in the coming years? And when do you expect that if that's the case?

Jim DiPietro: Nicolas, this is Jim. Let me address the first question of cost of production in the first half, the favourability that we experienced. If you remember in the first quarter, we also experienced quite favourability. Obviously, some of that was deferred variances. Again, some of the variances coming in last year that were favourable in the production cost and obviously that ends up impacting the P&L when that inventory gets old. So there was a favourable impact of variances coming in. Lower cost, if you will, on the production coming in on product that was made last year but sold this year. So that was one.

Two, we had some favourability this year, some lower spending in certain cases in second quarter versus a year ago. Also in some of the manufacturing locations in Latin America, there was also some favourability on currency versus a year ago. Those was roughly the three bigger drivers of what we experience in the first quarter, second quarter, totalling favourability for the first half. And as I mentioned, and I repeat just so it's clear, for the second half, we don't expect that favourability. So what we do expect is still the continued impact of high material cost on absorption, on the manufacturing side, as well as higher depreciation cost.

Nicolas Langlet: Okay, but if we try to look at the magnitude of the headwind and these favourable production variances, was the favourable production variance up 300 basis points and the headwind negative 200, for each one? Do you think it's a fair assumption?

Jim DiPietro: I think that is a very fair assumption for the first half. And then for the second half you could almost assume that the group cost of production side would be negative 100 or slightly more than 100 basis points.

Nicolas Langlet: Okay.

Gonzalve Bich: Nicolas, this is Gonzalve. The negative impact of the ten-day transportation strike in Brazil was estimated on an impact basis to be between €6-7 million affecting all three categories. It's been offset in part by distribution expansion and market share gains in shaver. On a full-year basis, we expect to partially recover losses from the strike, subject to macro-economic uncertainties in Brazil.

As to your question about inventory levels, we talked about this at the end of last year, we talked about it earlier in this year; it's work that we do on an ongoing basis with all of our customers in Brazil. And Brazil is a fairly sophisticated and complicated market, not only through its size but also through its trade structures. So we've been working through – with partners all year. As expected and announced – the one thing that wasn't announced was the ten-day strike. And as you can imagine, the retailers also had to revaluate some of their inventory assumptions and will continue to do so, working with us on a full-year basis.

The Brazilian situation remains challenging and I think that's both from a macro and a micro perspective. But what's important is, one, the products continue to gain share, have solid consumer appeal and we're launching innovative new products, like I told you, in shaver where we're gaining share. So those are the three things that I think are really important when we think about Brazil.

European route-to-market, we made a change in line with our existing strategy all over the world, which is to work with the best partners for win-win situations. We're adjusting. I don't think you can look at it from a one-time effect but on an ongoing basis, I'm hoping that it helps

– as I mentioned in my introduction, it should help us improve our visibility, improve our availability in the markets so that we can continue to grow share on the key French markets.

Nicolas Langlet: Okay.

Gonzalve Bich: Thinking past 2018, you know that we'll comment next year once we've finished this year and the teams are focused on achieving our full-year outlook. But when I think about 2019, I think about a number of things. The first one is the consumer and one of the things that we've always had at the heart of BIC, and that I'm re-emphasising, is to put the consumer at the heart of everything that we do. Whether that's the sales plans, the marketing plans, our community outreach efforts, whatever it is, the consumer is the one who makes the choice to buy our products every day.

Second, of course, is the brand. Brand support continues to be a key part of our strategy. We need to have effective support. Two, our consumers but also our clients, and as consumption patterns around the world change, sometimes that diverges, sometimes that re-converges with ecommerce. And so digital media expertise, for one, is something that we're heavily focused on.

Of course, distribution, ecommerce, finding innovative ways to reach consumers around the world in whichever way they wish and choose to do so. Want to make sure they're buying BIC products. So it's BIC seen, BIC sold in-store, onscreen or other. And finally, innovation, both from a product perspective with products like the ones we've talked to you about in stationery and shaver, but other types of innovation, be they commercial or operational to find efficiencies or to do new things and allow us to continue to grow the business.

Nicolas Langlet: Okay, and do you think all these initiatives, all this focus will permit you to return to a more normative growth rate in the medium term? And not only looking at 2019, I'm meaning, in the next three to four years.

Gonzalve Bich: Like I said, those are the things that we're focused on and we'll tell you about 2019 in our outlook for 2019 when we've closed 2018, as has always been our past practice.

Nicolas Langlet: Okay, thank you.

Operator: The next question comes from Hermine De Bentzmann from Raymond James. Madame, please go ahead.

Hermine De Bentzmann **(Raymond James):** Hello, good afternoon. Lots of questions have been asked already but looking at H2, you've described quite precisely where you expect areas of improvement. And I was wondering if you already see the improvement in all divisions since July. Particularly in the US, I have a question specifically there, as you mentioned, anticipated shipments for the Back to School. And I was wondering if you already expect reorders in Q3.

My second question is on Cello. Can you be a bit more precise on the streamlining you are currently doing, the timing of it? And you seem pretty optimistic about Cello in H2 and I was wondering what the driver behind that was.

I have a question as well on shavers, your strategy there, how do you expect to gain in this market. I understand you have several innovations but in a market that is getting more competitive on the one-piece segment, I was wondering if you have any particular plan to regain market share and could it be possible as soon as H2. Thank you.

Gonzalve Bich: Good afternoon, Hermine, thank you. So we don't comment July specifically but the reorder in the US, I would say – first, I think maybe just from a general perspective, reordering in the US is different than from the French "réassorts" that we have here. It's not as strong because we ship in different formats. But the order patterns that we have and have commented on lead us to our full-year outlook and give us confidence that we're going to reach our plans.

Hermine De Bentzmann**:** Okay.

Gonzalve Bich: Cello – I'm sorry, did you have a follow-on question?

Hermine De Bentzmann**:** No, no, but on the other divisions as well, do you already see an improvement as of Q3? Because you seem optimistic

Gonzalve Bich: My answer would be fairly similar, which is I can't comment on July any more in the other two categories than I can in the first.

Hermine De Bentzmann**:** Okay.

Gonzalve Bich: In India, we've been on an optimisation path for a while. I've talked to you about it since I've been doing these calls. It was first rationalising the products, the portfolio of the products, the way in which we operate and we streamlined the factories. All that – all this leads to an ability to operate more effectively but also to work more effectively with our partners. So if you remember, I talked at the end of last year about the Cello seen, Cello sold initiative where we're campaigning across India to rebrand stationery stores red, the Cello colour. And we've seen really good momentum at the end of last year, the first half of this year, and I think the team has got what it takes to pull ahead in H2 and meet the goals that we've set for yourself.

In shaver, how do you gain share? Well, by working effectively with partners. And from an H2 perspective, in addition to the new product launches that I talked about in my introduction, it also has to do with just promotion and visibility and display support with key retailers in the US. And that's what the teams are focused on in H2.

Hermine De Bentzmann**:** Okay. And can I ask you a follow up on the stationery again, on the delayed shipment you had in Q2 versus Q3? Are you able to approximately quantify what could be the impact?

Gonzalve Bich: No, because there's a lot of puts and takes and I wouldn't want to give you a misleading number.

Hermine De Bentzmann**:** Okay. And lastly on the tax rate guidance for the year.

Jim DiPietro: Yeah, the tax rate for the full year, if you look at it with the impact of Cello impairment would be around 35%. If you exclude that Cello impairment, we're at the estimated 28% that we talked about coming into the year. So 28% without the impact with Cello impairment, with the impairment it's closer to 35%.

Hermine De Bentzmann**:** Okay, thank you very much.

Jim DiPietro: You're welcome.

Operator: The next question comes from Christophe Chaput from Oddo. Sir, please go ahead.

Christophe: Yes, good afternoon everyone. Two questions for me. First, I would like to come back on stationery. So you had a positive Back to School saving in North America. Could you just help us to quantify this positive impact on top line? I mean, excluding this positive effect, would you have gained market share or would it have been flat? And the second one is could you give us the impact of BIC Shave Club on your P&L for H1 2018, if there is one? Thank you.

Gonzalve Bich: So we'll get to that first part in a second, but from BIC Shave Club, we only communicate specific numbers at the full year. We did that in February and we'll do it again at the end of the year. But the programme continues and we've launched new shave preps in June, increasing the basket of what's available from BIC Shave Club and another way to connect with consumers.

I think one of the things that's really important with BIC Shave Club, because it's only in France and the UK – and I'll remind you, we're present in 160 countries in the world. What's important with BIC shave Club is the capability build. It's our availability to do a number of things that 18 months ago, we just didn't know how to do. And that's replicable, so that makes us a faster, more agile organisation over time to seize opportunities. And when we think about Design My BIC and how we're rolling that out in the US, where you can order fully personalised lighters that will ship to you at your home, those are capabilities, again, that we have to build. And as we become an omni-channel organisation through and through, that's where BIC Shave Club is really interesting. So I'm really excited to be able to give you more results when we get to the full year.

Jim DiPietro: Yeah. On your first question regarding the Back to School shipments in North America, it's important to note that the phasing of Back to School as we've seen over the years and even this year can vary between the month of June, July, etc. So in the US with some of these shipments we've seen and the second quarter, it's, again, sell-in, so it's important to note that the sell-out and the importance of the market share gains related to Back to School will be known, you know, much later. So we don't have that visibility of the Back to School gains yet because that's still under way and that will be something we can talk more about at the end of the third quarter when we have the third quarter release.

Christophe: Okay, now that – I mean, there's a +0.5 points in North America is taking some measure that are very specific to BIC. I mean, it doesn't really reflect the market trend, which are -0.9%. So my guess is to, let's say, try to understand if we are at the end of month of September, if you are, let's say, slightly below or slightly ahead of the market in US or close to the market. You know what I mean?

Jim DiPietro: Yeah, I think, to your point, as Gonzalve mentioned during his discussions in the presentation, I think the US stationery, BIC US stationery did better than the market. What we're seeing here is Back to School sell-in – and if we're understanding your question correctly, the Back to School selling which occurred in the second quarter, the market share impact of that won't be released until the sell-out. And then we'll be able to see that as we come through the months of August and September and we'll be able to communicate that to you in October.

Christophe: Okay. Understood. Just a follow up on BIC Shave Club. I fully understand that you cannot communicate any figure but regarding the feedback of the consumer, do you see a huge, let's say, variance between France and UK consumers?

Gonzalve Bich: I think that – we choose to make the feedback public, so you can go and read the feedback of consumers yourself, and please do. But the feedback of consumers in both countries is positive. In the UK, it's even more positive than in France.

Christophe: Okay. Thank you.

Operator: The next question comes from **Andrea Abouchacra** from One Investment.

Andrea Abouchacra (One Investment): Yes, hi, thank you for taking the question. Concerning the lighter business, in particular looking at the destocking effect in US and Brazil that you are going to analyse, what evidence do we have of sales returning to growth? Thanks. And I have further two questions.

Gonzalve Bich: Can you repeat the end, after the destocking part?

Andrea Abouchacra: Yeah. I mean, you are going to analyse this impact of the destocking. What is the evidence do you have of sales returning to growth going forward?

Gonzalve Bich: So if I understand your question correctly, I think the first thing I would point you to is market share gain. And as I said, we're gaining share in a slightly – very slightly declining market in the US. In Brazil, it's really you're working with trade partners to make sure that they have the appropriate level of inventory, given a lot of other things. So it's an ongoing effort and we're giving you the best visibility that we have on our future outlook in those two key markets.

Andrea Abouchacra: Okay. Then on shavers, where new launches in North America have not stabilised and sales on market share, what is your strategy in order to stabilise the business there? And regarding Western Europe, where the market is now declining, are there any signs that the issues from US are arriving in Europe? And what are your steps there to mitigate the impact of this decline?

Gonzalve Bich: So in the US in shaver, as I said, there's those new product launches in H2. From a more macro perspective, it's all about making sure that we're continuing to make the highest quality product at an affordable price for consumers, whatever the level of performance that they may see. So some people might want the best five blade female product and today we've put out BIC Soleil Balance. And as I said, that product is doing particularly well and continues to complement our female portfolio in the US.

From a male perspective, it's all about distribution and promotion and we continue to fight back to gain share over time.

Europe, as I think I mentioned in an earlier call, has always been one of the most challenging markets. And we don't see the level of disruption coming to Europe that already had very low prices historically, the same way that we've seen value disruption brought on by the competitive set in the US market.

Andrea Abouchacra: Okay, thank you. And just last one on brand support, which improved margin by 30 bps, 30 basis points in the quarter. Can you breakdown this market to – the market and the brand support increasing in lighters versus decrease as well.

Jim DiPietro: You're referring to second quarter?

Andrea Abouchacra: Yes.

Jim DiPietro : In the second quarter, what we've seen is a mix between some of the categories. We had timing, which was planned, so for example, in shaver, less the brand support in the second quarter, we see more of that in the second half of the year, third quarter and the balance of the year. And lighter was a category where we have seen some more investments in the second quarter. So while the total was a little bit lower spending a year ago, it was a mix between categories. But we see in total an increase going into the second half of the year.

Christophe: Okay, thank you.

Operator: We have no further questions for the moment. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please press 0 and 1 on your telephone keypad? We have new questions from Nicolas Langlet from Exane. Sir, please go ahead.

Nicolas Langlet: Hi again. Just one question. So, in the presentation at the beginning, you mention the change the way you want to lobby in Europe to enforce the regulations on lighters. Can you tell us a bit more about that, and what can you do differently versus what you did in pasts years. Thank you.

Gonzalve Bich: I would be thrilled to, Nicolas, thank you. I think as we've talked about for not quarters but years now, Europe has lagged its peer group in its ability not to pass regulation but to enforce it. And today, over – and as it has been for ever since we've been doing the research and actually Europe themselves has been doing the research, over two-thirds of the lighter models that you can find all across the European perimeter do not meet the different safety regulations in force. And that means that under the responsibility of those regulatory authorities is the safety of consumers across Europe. We continue to actively sell BIC lighters and grow distribution and grow market shares, as I told you about, and I'm especially happy and proud of the work that's been done all across Europe, but specifically in Eastern Europe as well.

We've grown tired of those discussions with certain regulatory authorities and maybe we haven't been quite as vociferous as we could have been with them in past years about the risk that they're taking. So, what I've asked the teams to do is spend more time and be more forceful in their arguments and explanations on why consumer safety is so important. And this is something that I personally will spend some time on.

Nicolas Langlet: Okay. Thank you, Gonzalve.

Gonzalve Bich: You're welcome.

Operator: We have new questions from Charles Louis Scotti. Sir, please go ahead.

Charles Louis Scotti: Yes. Two more questions, please. Can you remind us your exposure to the brick-and-mortar retailers at the group level? And is it fair to say that your market share offline is much higher than online, and what about the profitability gaps between offline and online?

And the second question on the US lighters market. What's your view on the US market going forward? Do you see deterioration of the market, due to the pickup in e-cigarettes such as the Juul, which is quite successful? And how much do you think you can still further increase prices in the US? Do you think you have reached a maximum price for your lighter? Thank you.

Gonzalve Bich: Okay. So brick-and-mortar share of our global business, yeah, we don't disclose that. But we've been building with brick-and-mortar retailers for well north of 40 years, so it's an important part of our business and it's an important part of our future growth strategy. I think it's really important to highlight it's not – we're not signalling a shift to ecommerce, we're saying that we continue to want to make sure that our excellence of distribution and visibility be as good online as it is offline. Giving you splits of on and offline would honestly – if we were going to disclose them, would take forever because it would be a by market, by category effort. But I think that the numbers that I talked about in my introduction in growth both in Europe and the US should speak for themselves and is something that we'll continue to invest on, both from a people and capability perspective and also just from a marketing perspective.

The US lighter market is, like I said, very, very slightly declining and we gained share. You mentioned Juul. Juul has – I don't comment on their performance but I would point you to some recent litigation that they're facing and that's something that we're all watching.

Price increases, our policy on price stays the same, which is we want to make sure that our products are offered at a fair price to consumers all over the world. That having been said, we take price when possible and with the cooperation of our trade partners, as we did earlier this year in the US.

Charles Louis Scotti: Thank you very much.

Operator: We have new questions from Hermine De Bentzmann. Madame, please go ahead.

Hermine: Thank you for taking my last question, please. Just please, Jim, can you tell us – maybe can you help us estimate the financial results by the end of this year? Q2 was particularly good and strong. What can we see for H2? Thank you.

Jim DiPietro: You said financial results for the second half?

Hermine: Yeah.

Jim DiPietro: Yeah. I think as we've talked about earlier, the cost of production, obviously, will have less of a favourable offset. So we expect the unfavourable impact of material absorption depreciation to be with us for the balance of this year. We see the continued investments in brand support, as well as operating expenses, to be similar in the second half versus the first half. So right now, we are still within the guidance that we've said, between 17% and 18%. The second half, obviously without having some of the favourability of cost-of-production benefits that we had experienced in the first half, would be less favourable in the second half, so therefore margins would be lower in the second half versus the first half. In total, we still are, obviously, comfortable with the guidance between 17% and 18%.

Hermine: No, but I was just asking a question on the financial cost.

Jim DiPietro: Oh, the financial cost, I'm sorry.

Hermine: You had 5.8 in H1 and I was wondering what do you expect for H2.

Jim DiPietro : Well, the financial cost, as we mentioned in the second quarter, which was quite favourable, was obviously the revaluation of US denominated assets. A lot of that's going to depend on currency rates that at the spot rate of both third quarter and end of the year. So that, quite honestly, will be difficult to forecast today without knowing what the spot rates are.

Hermine: Okay.

Operator: I have no further questions for the moment.

Sophie Palliez: Okay. If no further questions, we may end the call. We would like to thank you for the time and the interest. A short reminder, our third quarter results will be released on 24th October. And in the meantime, as usual, we remain at your disposal for any additional questions, and maybe we can wish you a good summer. Thank you.

Gonzalve Bich: Thank you.

Jim DiPietro: Thank you.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation, you may now disconnect.

[END OF TRANSCRIPT]