Event: First Quarter 2018 Results BIC Conference Call

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Speakers: Sophie Palliez, Bruno Bich, Gonzalve Bich and Jim Dipietro

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Operator: Ladies and gentlemen, welcome to the First Quarter 2018 Results BIC's Conference Call. I now hand over to Ms Sophie Palliez, please go ahead.

Sophie Palliez: Well, thank you. Good afternoon and good morning for those in the US, and welcome to our Q1 results presentation. As usual, the call will be hosted by Bruno Bich, Chairman and Chief Executive Officer; Jim Dipietro, Chief Financial Officer; and Gonzalve Bich, Chief Operating Officer. We will start by a short presentation of our results, including the main highlights, and then we will go through the usual Q&A session. Let me give the floor to Bruno.

Bruno Bich: Thank you Sophie, welcome everybody, thank you for joining in. Let me start with the first quarter key figures, so sales reached €415.4 million, a 1.5% decrease on a year-to-year comparative basis. Europe decreased by 0.4%. North America, a slight decline is due mainly to Shavers. Developing market decreased 3.8% with a soft-performance in Brazil. We will go into more detail in the next slides.

Normalised IFO was €69.6 million compared to €81.1 million last year due to increase in raw material cost, as well as continued investments in human resources and brand support. Normalised IFO was 16.7%, compared to 17.1% last year.

Our EPS was €1.06 flat with last year. Our net cash position at the end of March was €184.6 million compared to €204.9 million at the end of December 2017. Jim will go into more detail regarding the evolution of our net cash position.

Let me now give the floor to Gonzalve who will comment in more details on our performance by category.

Gonzalve Bich: Thank you Bruno. Good morning and good afternoon. We'll start with a brief overview of the Stationery markets. If we look at overall Stationery market performance, we continue to win and outperform the market, as we hone activity during key promotional events, build distribution, optimise product mix, and capture incremental e-commerce opportunity. In Europe for example, the total Stationery market declined by 1.5% in value, year-to-date February. We remain the market leader with 17.9 value market share, gaining 0.4 points. The strongest increase was in the UK where we gained 1.7 points, reaching 17.6 value share, particularly, thanks to a good performance in e-commerce and additional distribution. In France, we gained 0.6 points, reaching 37% value market share. In the US, total market was down 2.4% in value, year to date March, in which BIC outperformed, growing 4% in value.

Our Stationery net sales were up in the first quarter by 2% on a comparative basis. If we first look at North America, net sales increased low single digits with a healthy back-to-office promotional period at the beginning of the year, which included a strong performance in our core segments. As it's a high interest area, we will also mention the very solid growth momentum is continuing within e-commerce as we take steps to drive increased brand presence, availability, and convenience online. Our e-commerce sales in general continue to be strong, up nearly 40% year to date.

In Europe, net sales in the quarter were flat, coming off a strong close in 2017, particularly in France and the UK, with expected softness in the quarter. Growth in Eastern Europe is consistent, with Poland and Turkey driving distribution and sales with consumer promotional activity.

Looking now at Latin America, we see low single-digit increases, despite some sales growth challenges in Brazil, for example, with retailer inventory adjustments. The anticipated softening of the Brazilian market, however, was offset by a strong performance in Mexico ahead of the Back-to-School season.

In India, domestic net sales at Cello were flat versus prior year. With a more efficient and streamlined portfolio now in place to ease and encourage consumer trade up, focus has been placed on gaining awareness with impactful brand support. A digital video campaign released this March, for example, based on consumer insight into the relationship between students and their parents, entitled ‘Surprise Test,’ received 13 million views in its first month alone.

Q1 2018 Stationery normalised IFO margin was 6.3% compared to 3.6% in Q1 2017, with manufacturing efficiency improvements offsetting the unfavourable effect of raw material.

Let me now move to Lighters where net sales were slightly down by 0.5% on a comparative basis. In Europe, net sales increased mid single digit driven by distribution gains, and increased visibility in traditional channels in France and Russia. This was partly offset by declines in Southern Europe, in countries such as Italy, Turkey, and in Germany. In North America, net sales increased low single digit, with improved visibility and a favourable mix effect in the modern mass market, as well as distribution gains in traditional channels and continued e-commerce expansion. Our performance was also driven by pre-buys from major customers, ahead of a mid-single-digit price increase implemented in the second quarter.

Overall performance in Latin America was impacted by Brazil, due to ongoing retailer inventory adjustments. However, in Mexico, we performed well thanks to distribution gains.

Q1 2018 normalised IFO margin for Lighters was 35.7%. This resulted from the increase in raw materials and in brand support, as well as unfavourable fixed cost absorption from category. This was only partially offset by the improvement of manufacturing efficiency.

Turning to Shavers, the disruption of the North American market continues with aggressive competitive pressure from direct-to-consumers players and rapid shift in consumer trends that involve the convenience of online purchase. At the end of March 2018, the total US wet shave market decreased by 4.1% in value, and the one-piece segment declined by 2.8%. While the environment remains challenging, our strong support plans for the brand are starting to play out with performance driven by the following. Firstly, the continued growth of the men’s business with a successful launch of BIC Flex 5 Hybrid in 2017, and also distribution gains on large packs of BIC Comfort 3 Hybrid, and BIC Flex 3. Secondly, the performance of our female business continues, thanks to the launch of BIC Soleil Balance and Bella Click.

Sales growth has been challenging. Shaver net sales were down 6.0 % on a comparative basis, in the first quarter versus prior year. Overall, the category was negatively impacted by high promotional pressure and trade inventory management changes. BIC Shavers, however, outperformed the market in a number of key geographies outside the US, thanks to successful new product launches which have all well been received.

If we now look by region, in Europe, net sales decreased low single digit, reflecting a soft market environment in France and in Southern Europe, particularly in Greece and Portugal. However, Eastern Europe performed well with sales in Russia growing four times faster than the market, thanks to BIC Flex 3 Hybrid and new listings and promotional activity in the Ukraine.

In North America, net sales declined high single digit, affected by ongoing market disruption and retailer changes in planogram and inventory management. On a positive note, our new products have been well received by the Trade and consumers.

Finally, in the Middle East and Africa, net sales decreased double digit due to decrease in promotional activity as we anniversary promotional activity linked to the African Football Championships in the first quarter of last year.

IFO margin was 7.9% in Q1, versus 12.3% last year, as a result of net sales decline, notably in the United States, raw material increases, as well as unfavourable fixed cost absorption. I’ll now hand it back to Jim for the consolidated results.

Jim Dipietro: Thank you Gonzalve. As we review the key elements of the summarized P&L, we see in the first quarter of 2018, net sales were down 12.2%, as reported, and decreased 1.5% on a comparative basis. Gross profit decreased 10.6%, while normalised IFO was down 14.2%.

Slide 10 shows the evolution of net sales between the first quarter of this year, and first quarter 2017. The perimeter impact was a negative 1.5%. This is related to certain BIC Graphic operations in developing markets that were stopped, as well as the closure of Norwood Europe operations in 2017. In addition, the foreign currency translation impact was unfavourable 9.2%. This is mainly due to the US dollar compared to the euro, as well as the Brazilian currency impact.

I will now review the change in first quarter normalised IFO margin compared to last year's first quarter. Cost of production was favourable 1.6 points versus a year ago. While we did realise an increase on raw material cost, it was more than offset by positive impacts and favourable manufacturing variances versus a year ago. As planned, total brand support investments increased by 0.2 points, which include consumer and business development support, advertising and consumer and trade support. Operating expenses and other expenses were higher by 1.8 points in the first quarter of 2018 compared to a year ago.

Slide 12 explains the elements of IFO to net income. We see net finance revenue was negative €2 million compared to a positive €0.7 million a year ago. First quarter 2018 has an unfavourable fair value adjustment to financial assets in US dollars. Income before tax decreased €67.6 million, while the effective tax rate decreased to 28.1%, mainly due to the favourable changes in the US corporate tax reform. Net income group share declined 1.9% to €48.6 million. And finally, EPS group share was €1.06 and stable compared to the first quarter 2017.

Slide 13, we see the main elements of working capital. Inventories increased to reach €476.5 million; trade in other receivables decreased to €441.6 million, trade in other payables were €121.7 million.

On slide 14, we see the summary of the evolution of our net cash position between December of 2017 and March of 2018. Net cash from operating activities was plus €37 million, with €75.2 million in operating cash flow. We had a negative €38.2 million of an impact from working capital, which is mainly driven by inventory increase versus December of 2017. Net Cash was also impacted by the investments in CAPEX, as we invested €27.4 million in the first quarter. Share buyback accounted for an investment of €21.2 million.

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

Bruno Bich: Thank you Jim. In conclusion, our net sales during the first quarter were negatively impacted by the weakness of the US shaver market, which continues to be disrupted, and a soft performance in Brazil mostly due to inventory adjustment by retailers. On the positive side, Stationery showed encouraging results. We had a solid Back-to-School season in South Africa, with further market share gain, and in North America, it was a good start of the year in the Modern Mass Market and strong growth in e-commerce. Distribution gain and increased in-store visibility supported the lighter category. For the full year 2018, we remain committed to achieving our objective as announced in February. Group net sales to increase between 1% and 3% on a comparative basis, with all categories contributing to growth. Normalised income from operation to be between 17% and 18%.

We are now ready to answer your questions.

Operator: Ladies and gentlemen, if you wish to ask a question, please press zero and one on your telephone keypad. And we have our first question from Nicolas Langlet from Exane. Please, go ahead sir.

Nicolas Langlet: Hello, good afternoon everyone, I have got four questions please. The first one, you mentioned the impact of favourable manufacturing variances in Q1. Is that something you expect to revert in the next quarter or not? The second question on Lighters, you mentioned the mid single-digit price increase in the US. Is that for the entire distribution network, or is it only for specific channel? And also, do you plan to increase prices outside US in 2018? Third question is on the raw material, I think at the beginning of the year, you were looking at 50 basis points negative impact for the full year; is that the case? And lastly on the Writing instruments, your key competitor in the US had a trade dispute in the past month, with key retailer. Do you think part of the market share gain is explained by that or not at all? Thank you.

Jim Dipietro: So Nicolas, let me start and I'll answer the variance question and the material question, and then I'll hand it over to Gonzalve for the other two. Manufacturing variances is what we have seen in the first quarter is really the change of the year-to-year impact, so first quarter of 2017 was less favourable. We had some favourability rolling into the first quarter of this year based on production and timing of sales that rolled over from the end of last year, so we were favourable in first quarter of 2018 compared to first quarter of 2017. You can see the biggest impact of that coming in Stationery.

For the balance of the year, we don't anticipate the same. We see that really as a first quarter dynamic, and I think that really leads then into your next question on raw material. Our view for the full year remains consistent to what we had said in February. We see the impact of IFO for this year being raw materials increasing, depreciation at a higher rate than it was a year ago, as well as absorption. And absorption will obviously be impacted by the sales results of the year, in addition to OPEX expenses for the full year.

Raw materials, as you mentioned, we were looking at roughly 50 basis points coming into the year. We would see that to be maybe 50 to slightly higher, but maybe depreciation being a little bit lower than what we had anticipated in the year. So in total, cost of production impact that we would envision and estimate for this year, is very consistent to what we discussed back in February of this year.

Nicolas Langlet: Okay, so you expect a big reversal of the cost of production in the next three quarters?

Jim Dipietro: Yeah, what we had seen in the first quarter was the impact of raw materials. We did have an unfavourable impact in the first quarter that was offset by the variances, and the change of variances versus a year ago. What was lower in the first quarter, but we still forecasted to happen in the balance of the year, is the higher depreciation cost which was less than the full-year estimate in the first quarter as well as the impact of the absorption.

Nicolas Langlet: Okay, so the raw material impact in Q1 was at around 50 basis points?

Jim Dipietro: It was close to the full-year estimate, yes.

Gonzalve Bich: Good afternoon Nicolas, it's Gonzalve. So for your question on Lighter, this year in the US, we took as we said a mid-single-digit price increase across the market, that's an average across the distribution channels. Outside of the US, we based our year-to-year price increases based on market dynamics, consumer buying power, and of course our desire to continue to drive distribution. I don't have any specific numbers pointing to different markets, but we are taking price where possible.

Nicolas Langlet: Okay.

Gonzalve Bich: With regards to your question about one of our large competitors and their dispute with a large retailer here, or customer here in the US, I don't think that we've seen an impact of that in our results for the market quite yet, and we remain vigilant on the year to go.

Nicolas Langlet: Okay, okay. But is this customer one of your customer already, and a big one?

Gonzalve Bich: Yes, as you know, we want all customers to be our customers, and we want BIC seen, BIC sold everywhere in the US.

Nicolas Langlet: Okay, if I can just add one quick question on the adoption of IFRS 16 in your account. Was there any impact on your EBIT in Q1, and what's the impact you expect for the full year?

Jim Dipietro: Yeah, IFRS 16 is a very small impact for the full year, and it was extremely small then quarter by quarter. The bigger change, as you have seen in what we have released earlier, is the impact of IFRS 15 with a re-class of investments, brand investments that were above net sales, now below. And year to year, that's a 20 basis points impact of margin, no absolute change, just 20 basis points. IFRS 16 is extremely low impact on the full year basis.

Nicolas Langlet: Okay, perfect, thank you.

Operator: So, we have another question from Gala Lutaaya from Bank of America Merrill Lynch. Please go ahead.

Gala Lutaaya: Good afternoon. I have a few questions please. So the first one is on Shaving. What is your view on the Shaving category? We know that Harry’s is now available at Walmart, and your largest competitor in shavings said last week that they are not happy about where they are with their grooming business, and they have plans in place to go back on track. How are you planning on reacting to the continued increase in the level of competition? And on the other hand, in Europe, European Nielsen data show a progressive decline in the shaving category. What are the drivers of the softness in the European market? and do you expect a contagion effect from the US to Europe, given the entrance of the shave clubs in the European Market?

And then my second question is on the guidance. You reiterated your guidance of 1% to 3% organic growth. And considering that Q1 was the easiest quarter in terms of comparables, and you also saw some trade loading in Lighters, this implies that you expect an acceleration over the next quarters, and then what will be the drivers of such an acceleration? Thank you.

Gonzalve Bich: Thank you for your question, Gala. So, I’ll start with Shaving. As we have said before, the US Shaving market is disrupted. And as you mentioned, one of our key competitors put that forward very eloquently last year, and I don’t think that that’s decreasing. You still have the main drivers of that disruption direct-to-consumer impact, pricing action by that same said competitor, increased promotional pressure from the market itself, and consumer dynamic changes. We are battling hard through the launch of new products, but also building on our core, and driving share and loyalty from consumers.

The grooming industry is undoubtedly undergoing a transformation – it has for a couple of years. And the visibility that the industry has on the outlook is limited. We remain focused on delivering on our strategy. And when you ask about reaction, it's new products, innovation, promotional activity that are relevant and meaningful for consumers, and working with our customer partners to maintain and grow distribution.

Europe on the other hand has probably been impacted for a longer timeframe, so the amount of disruption or the downward pressure is not as great as we have seen in the last two years in the US. That having been said, it's also disrupted. There are new players entering the market, with Harry’s launching in the UK. I think that's going to continue. Shaving globally is a complicated industry right now, but BIC through relevant and innovative products, both new and existing, continues to be chosen by hundreds of millions of consumers around the world. We have told you about our market share achievements here in the US many times over, and I think that we’re very focused on continuing that for the balance of the year.

From a guidance perspective, yes, we continue to be committed to achieving our sales outlook for the year between 1% and 3%. In the balance of the year, we have Back-to-School coming up in key regions, Europe, the US, and some other geographies in the world, and plan is in place to win there, as well as promotional plans on our three categories. As I said during my comments, distribution gains continue to be an important part of our strategy, either in existing markets or as we grow into new markets. You heard me talk about the growth in Eastern Europe for many quarters, many years at this point, and those are where we continue to see forward progression.

Gala Lutaaya: Okay, thank you very much.

Operator: So we have another question from Peter Testa, from One Investments. Please go ahead.

Peter Testa: Hi, thank you very much for taking the question. I guess, a question on the gross margin part, just to pick up questions earlier on. You were suggesting that the depreciation and absorption timing might be sort of more stress into later in the year, and I was wondering whether if you felt that overall the sort of other operating efficiencies would be enough to offset this on depreciation/absorption, and then half a point or so on raw material, like you did in Q1? Could you give us some view on how that might moderate. That's my first question.

Jim Dipietro: Okay, so back again to reemphasise the comment on the first quarter, that was more of a one-time impact as far as the variances rolling into this year based on the sale of the inventory produced at the end of 2017. So the favourability of what we have seen is really an one-quarter dynamic, if you will, especially compared to first quarter of 2017, where the variances were less favourable. For the balance of the year and for the full year, our view, as I mentioned a little earlier, is really the same as we had coming into the year. We see that you know, again, the guidance, the range of 17% to 18% normalised IFO being impacted by the cost of production in the three elements – again, being raw materials, probably being slightly greater than that of absorption and depreciation.

We have seen the increase of raw materials in the first quarter, and we’ll continue to see that for the balance of the year. Absorption a little less so in the first quarter, more so starting in the second quarter; and depreciation similar to absorption, starting in the next quarter. And again, the phasing of that will run through the balance of the year. So currently, especially as we plan the sales growth of 1% to 3%, we don’t see a significant change in the viewpoint on cost of production at this point, so we don’t see the same impact of the first quarter of efficiencies that we have realised versus a year ago materialising for the balance of the year. But again, this is consistent to what we have seen coming into the year, and what we explained back in February.

Peter Testa: Right, okay, and then on the lighter business, the Brazilian de-stocking situation has now gone on for some quarters. And I was wondering if you could give a view or some understanding of how you think that plays through, or what visibility you have managed to gain on that inventory to understand how this should work its way through as we go into 2018.

Gonzalve Bich: First of all, good afternoon Peter. The inventory management by wholesalers and retailers is really their strategy, and it's something that we partner with them on to ensure, as I’ve mentioned before, that they always have adequate inventory of our products to meet demand. The last – you're right – six, nine months have had a lot of volatility in Brazil. I think Brazil in general is highly volatile over the last year, and leading up into the elections of November, it's still going to be a challenging situation. The teams are on the ground and working with each other as partners to ensure that they have the right level of inventory.

If I think about the US, and the pre-buy, if we take the situation, excluding that pre-buy, our results in the US would have been low to mid-single-digit decline. So, inventory management is something that's going on around the world, and for those of us who follow retail, we read a lot about it. What's important from our perspective on an operational level is to ensure adequate levels of inventory, both in the warehouse but almost more importantly at the peg or next to the cash registers of the world, so the consumers can find those BIC products and those BIC Lighters every day.

Peter Testa: Okay, and do you have a sense of what the growth is in Brazil, excluding the inventory move that's been going on? Is there some context of up/down or where?

Gonzalve Bich: Brazil Lighters is not one where we have syndicated data that I could share with you, I wish I could, but we remain focused on managing that and ensuring that retailers have adequate levels of inventory, to never be out of stock, so the consumers can find their BIC Lighters, everywhere any time they need it.

Peter Testa: Okay, and then just lastly on the Stationery side, you mentioned that you didn't feel that you had much of a positive benefit from your larger competitor's issues in North America, but however, you have done quite well in market share. Do you have any sense of how your shelf space development progression might go, going forward, based upon the resolution of these issues? Are you as a result winning shelf space, or is it too difficult to tell at this moment? And if not, maybe if you could give some other thoughts as to why such a good market share performance in Q1?

Gonzalve Bich: I think, first, it's too early to say anything. This is a relatively new event. I'm going to, of course, point my answer towards the outstanding job of our sales and commercial teams around the country, ensuring that we are winning pegs. New products, absolutely, has been an important part of our strategy. You've heard me talk in the past about champion brands, and massification of products in the hearts and minds of consumers, and so we continue to build share. And then finally, there's e-commerce, and I gave some colour during my commentary about that – it's not low double-digit growth in e-commerce, it's quite important. And that's an important part of our strategy to ensure that a BIC seen is a BIC sold, and that's about ubiquity of distribution offline but also online. And we have dedicated teams working with online partners to ensure that consumers can find all BIC products when they need them online.

Peter Testa: Right, okay. Thank you very much for the answers.

Operator: So we have another question from Steve Levy from Natixis, please go ahead.

Steve Levy: Yes, good afternoon everyone, thank you for taking my questions. The first question is on the Shavers division, and just to get more colour of the question about, are you're seeing more pressure in Europe. I just wanted to know whether or not you are seeing P&G having the same price policy in EMEA, the same in the US?

Second question is on Lighters. I know that BIC Sport events are a good moment to sell Lighters. Have you planned any specific promotion for this quarter for the World Cup, and should we weigh some pressure on margin based on that specific event?

And the third question is on the CAPEX, you spent €27 million this quarter. Does that mean that we can extrapolate for the rest of the year this amount of CAPEX, or it should increase also by the end of the year? That's all, thank you very much.

Jim Dipietro: Steve, this is Jim, let me start with the last question on CAPEX, and then I'll turn it back to Gonzalve. The full year estimate of CAPEX is still €150 million that we communicated back in February. Based on our current plans, that is still the full year estimate that we see across all the three categories, so there's no change to the communication guidance we gave back in February for this year's investment at €150 million.

Peter Testa: Thank you.

Gonzalve Bich: Good afternoon Steve. In Shaver, Proctor and Gamble pricing policy, to which we have no visibility from an ASP out to the customer perspective, does lead potentially – because retailers are the ones who set prices, not us – to fluctuations in price in Europe. Europe not being a monolithic market, we'd have to go market by market, and that could be rather long and tedious, but we are seeing continued pricing action and probably more importantly promotional pressure from that large competitor in Europe.

To your question about Lighters, of course, the team in Russia has worked on some important and fun promotional activities for that market. Russia is a relatively small part of the global lighter business, so I don't see any impact at a global level.

Peter Testa: Thank you. Maybe just one last question, if I may, on e-commerce. Is Amazon on your top 10 distributors?

Gonzalve Bich: We don't give ranking to our customers. They're all important to achieving our mission in selling products to customers. But, of course, Amazon is an important and very valued customer that we partner with to continue to offer our products, not only in the US, but around the world.

Peter Testa: Thank you very much.

Operator: So at this time, we have no further question. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please dial zero and one on your telephone keypad.

Sophie Palliez: Okay, so if we have no more questions, we may end the call. And just a short reminder for a few dates for 2018. So our next AGM, 2018 AGM will be on May 16th, at our headquarters in Clichy. And the second quarter, first half results will be released on the 1st of August. Thank you very much, and we remain at your disposal for any follow-up questions. Thank you.

Gonzalve Bich: Thank you.

Bruno Bich: Thank you.

Operator: Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.