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## PRESENTATION

Operator

Hello, and welcome to the BIC First Quarter 2020 Results Presentation. My name is Monique, and I'll be your coordinator for today's event. Please note, this call is being recorded. (Operator Instructions)

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

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Sophie Palliez-Capian

Well, thank you. Good afternoon, and good morning, everyone, and welcome to our first quarter 2020 earnings call. As usual, our agenda today will be the following: Gonzalve Bich will give you an overview of our operational performance; then, Jim DiPietro will take you through our consolidated financial results in more detail; before Gonzalve concludes and opens to the Q&A session.

Gonzalve, I leave you the floor.

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Gonzalve Bich - Société BIC SA - CEO & Director

Thank you, Sophie, and good day, everyone. Before we move to our results, I want to acknowledge the impact of the current pandemic from a human perspective. From society at large, to our stakeholders, friends, families and communities, the health and safety of all those around us remain our utmost concern and priority. Our heartfelt thoughts go out to all those impacted directly as well as those on the front line caring for those who are sick. I would also like to express my sincere gratitude to all our BIC team members. I'm especially proud of their courage and commitment, which has allowed the company to maintain our function.

At the end of last week, we released a statement outlining all the actions currently being taken around the world in support of all against the COVID-19 pandemic. It is important for me that all our stakeholders know about our engagement and actions in support of all. I'm proud of our team members and their contribution to their local communities, and I'm thrilled by their ability to come up with ingenious solutions to help those fighting against the virus, including molded plastic face shields produced in several of our factories around the world.

I will now begin with a summary of our first quarter core business performance. The first quarter of 2020 was challenging on many fronts, ultimately resulting in a decline of organic net sales of 13.8%. Part of this soft performance was due to the rapid spread of the pandemic, which I'll come back on later. However, the underlying trends of our 3 core categories remained challenging from a consumption as well as a competitive perspective.

In this volatile trading environment, we continued to outperform our markets, maintaining or gaining share in almost all of our geographies. This was driven by solid execution from our teams, additional distribution and new product launches. In the U.S., BIC was the only brand to grow in the female one-piece shavers segment, propelled by the success of the new BIC Soleil Sensitive Advanced product. Despite numerous market headwinds, our business in Europe showed resilience, driven by continued growth in Eastern Europe and a solid performance in Germany. In Shavers, we outperformed the European market for the eighth consecutive quarter, driven by both male and female products.

In Stationery, we saw continued sequential share growth over the last 4 quarters. Group e-commerce net sales increased by 12%, with a strong growth in Lighters and Shavers categories. We grew in all channels with plus 40% growth coming from pure players; plus 100% in marketplaces, our fastest growing channel; and over 50% for shopbic.com and bic.com, our direct-to-consumer websites in the U.S. and France.

The U.S. Pocket Lighter business continued to be a major headwind and weighed heavily on the group's performance, impacting Q1 net sales growth by approximately 4 points. The market declined by 6.7% in volume and 6.5% in value at the end of March. Over the last 2 months, although the overall pocket lighter market showed signs of a potential future rebound, the convenience store channels were strongly affected by a significant drop in consumer in-store traffic, notably in gas stations, as consumers stayed home as part of the efforts to combat the spread of COVID-19. On a positive note, with many families in the U.S. confined, home grilling has increased, and the utility lighter market grew by 10.6% in value year-to-date and by 29.2% during the month of March alone, and I'm proud to see that we continue to outperform this market, gaining 5 points in value share.

Now if we take a closer look at the COVID-19 pandemic impact on our business. Over the past weeks, the virus has spread rapidly, profoundly impacting our personal and professional lives. From a business standpoint, all our regions and categories have been affected. Most of the countries we operate in were progressively impacted by school closures and the closing of nonessential businesses and the introduction of lockdown measures, starting with Italy in the end of February. While the trading environment and consumer patterns are changing daily, we see people are shopping less, focusing their purchases on food and hygiene products. Moreover, most traditional and convenience stores are closed or suffering from a significant in-store traffic decline, notably in developing countries. Overall, we estimate the impact of the COVID-19 on our group first quarter net sales growth to be between minus 2 and minus 3 points. From a global supply chain perspective, several of our factories and warehouses are closed to comply with local government regulations and guidelines. However, to date, approximately 90% of our total manufacturing capacities are operational, and all the necessary measures are being taken to secure the health and safety of our team members. Good news, one of our Indian factories in Haridwar in the North reopened this morning.

The duration and magnitude of this crisis remains unknown. In the current environment, our priority is to minimize the short- and long-term impacts.To succeed, we have begun implementing several actions. Working capital is strictly monitored, and we have reduced the level of planned CapEx investments to around EUR 80 million for this year. We are also adapting our organization and the way we work. When and where possible, our teams are working remotely, a transition I'm amazed has happened so swiftly with the determination and engagement of all our teams, especially our IT support team. Finally, proactive operational expense management and cost-saving measures are being implemented throughout the company.

As we are faced with uncharted challenges, our solid financial situation and position net cash position -- positive net cash position, combined with the focused execution of our BIC 2022 Invent The Future transformation plan will be key assets to seize business opportunities and to emerge from this crisis stronger.

As I said in the past, I'm convinced that our categories have solid potential. In the current environment, access to affordable and reliable daily product -- essential daily products, like writing instruments, lighters and shavers, is key to consumers, notably the most vulnerable. It is our responsibility to continue to accompany them every day, everywhere.

Now a few high-level comments on our first quarter financial performance, which Jim will provide more detail on in a few minutes. Q1 2020 net sales were down 13.8% on a comparative basis at EUR 357 million. Normalized IFO margin was 7.1%, down 6 points versus prior year, while normalized EPS group share was EUR 0.60, down 32.6%. Our net cash position remains strong at EUR 143.2 million.

Let's now take a closer look at our operational performance in our 3 categories during the first quarter, beginning with Stationery. While markets declined in both the U.S. and Europe, we were able to increase share, gaining 0.1 points in the U.S. and 0.5 points in Europe. In the U.S., our outperformance was not only driven by added value segments, such as gel and permanent marker, but also by core segments in Ball Pen and mechanical pencil. I'm glad to say we pursued market growth in e-commerce as well, gaining 0.5 points in value share year-to-date. Our new products like BodyMark Ultra Fine, the latest version of our temporary tattoo marker, saw a successful start to the year. However, our category sell-in performance was weak, and it's fair to say that, among BIC's categories, stationery was the most affected by the COVID-19 outbreak. For instance, a rapid deterioration was seen in the U.S. stationary market, which declined 4% in value year-to-date and 18.5% in just the last 5 weeks. In Europe, while the environment was challenging, we were able to perform well in both Europe -- Eastern Europe and Western Europe, notably in Germany in the modern mass market channel. Our added-value products like Gelocity Full Grip and the 4 Color Velvet were a success. In Latin America, while Brazil saw a solid start to the year, thanks to back-to-school replenishment orders, our weak performance in Ecuador and Mexico unfortunately offset this. And needless to say that the COVID-19 outbreak negatively impacted our performance in the last few weeks as well as in the Middle East and Africa and India regions, with gradual border closures and various country lock down.

Now turning to Lighters. Our overall sell-in performance was very weak. In Europe, while Eastern Europe performed well with new listings and good promotional activity, our sell-in was highly impacted by poor performance in France, Italy and the U.K. in a challenging market environment. In North America, as I mentioned before, we continued to see a declining U.S. pocket lighter market, inevitably impacting our performance. With COVID-19 in the last 4 weeks, the pocket lighter market trend improved in the modern mass market channel but worsened in the convenience store channel. In just the last 4 weeks, convenience declined sharply, down 8% in value, as consumers gradually stopped their purchases in small stores such as gas station. As you can see on this slide, however, the U.S. utility market continued to grow and even more so in the last 4 weeks, as consumers avoided restaurants and enjoy home grilling. Fixed products are essential here, and we continue to see robust growth in this segment with additional distribution. In Latin America, the quarter was marked by a soft performance in Mexico, with net sales impacted not only by a high level of distributors' inventories at the start of the year, but also a decrease in March of replenishment orders from retailers as they prioritize basic goods and food.

Let me give you a summary of our Shaver business before I hand it over to Jim. First and foremost, I'm proud to say that despite current market headwinds, we've gained market share across all our main geographies in Europe, the U.S. and Latin America. This was driven by good execution from our teams with continued distribution gains and the success of our added-value products in the 3 to 5 Blade segment. In Europe, we performed well in both Western and Eastern Europe and gained share in countries like the U.K., Poland and Russia. Both of our female products with the Soleil range and the male with the Flex and Flex Hybrid ranges drove this performance. In North America, while we continue to face a decline in one-piece shaver market, we had a great start to the year, outperforming our market and gaining 1.1 points in value share. As in previous quarters, this is largely thanks to the female segment with BIC's popular BIC Soleil range. Moreover, I'm thrilled to see the success of the new products launched this year, such as the BIC Soleil Sensitive Advance, and Us, our gender-neutral system shaver sold off-line. This is a great example of our teams' relentless efforts to design new and added-value products, always at a better quality to meet new consumer trends. With the COVID-19 outbreak in the last 4 weeks, consumers' pantry loading impacted the overall one-piece positive -- market positively.

To end with Latin America, despite a declining and competitive market in Brazil, we continue to see robust market share growth as consumers appreciate our 3 blade offering. This has led us to reach a new historical record of 22.2 -- 22.3% of market share and value at the end of March.

This concludes our operational performance review. I'll now turn it over to Jim to take us through our consolidated results.

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James DiPietro - Société BIC SA - CFO & Executive VP

Thank you, Gonzalve. I'll begin by reviewing the net sales results for the first quarter of 2020. On an as-reported basis, first quarter net sales were down 14.1% versus last year. On a comparative basis, net sales were down 13.8%. The unfavorable impact of the currency fluctuations of 0.4% was mainly due to the Brazilian real, partly offset by the strong U.S. dollar against the euro. The perimeter impact adjustment includes mainly our recent acquisition of Lucky Stationery in Nigeria. As a reminder, due to Argentina's hyperinflation, we are excluding Argentina from our net sales on a comparative basis. The main drivers of the 13.8% sales decrease on a comparative basis, were the U.S. lighter market accounting for approximately 4 points, and COVID-19 outbreak for approximately 2 to 3 points.

On this slide, you can see the key elements of the summarized P&L. First quarter gross profit margin came in at 51.1% compared to 50.9% for the first quarter of last year. First quarter normalized IFO margin -- I'm sorry, first quarter normalized IFO was EUR25.3 million compared to EUR54.6 million last year, with a normalized IFO margin of 7.1% versus 13.1% in 2019.

Now reviewing the margin versus last year. The stabilization of first quarter gross margin was driven by favorable FX and a decrease in raw material costs. This is partially offset by negative fixed cost absorption and unfavorable sales mix. We also had an increase in brand support. The first quarter IFO margin was negatively impacted by OpEx and other expenses resulting from the decline in net sales and the costs related to the new implementation of the new organization.

Slide 10 shows normalized IFO to net income for the first quarter of 2020. The first quarter income before tax was EUR34.8 million compared to EUR55.4 million in the first quarter of last year. Net finance revenue was positive EUR11.8 million compared to a positive of EUR0.8 million in the first quarter of 2019. The increase is explained by 2020 higher favorable impact of the fair value adjustments to financial assets denominated in the U.S. dollar versus the Brazilian real and the Mexican peso. The first quarter net income group share was EUR25 million as reported compared to EUR39.3 million in the first quarter of 2019. Normalized net income group share was EUR26.9 million compared to EUR40.1 million last year. And the effective tax rate for this quarter was 28%. EPS group share was EUR0.56 compared to EUR0.87 in the first quarter of 2019. And normalized EPS group share decreased 32.6% and to EUR0.60 compared to EUR0.89 last year.

On this slide, we see the main elements of working capital. Inventories amounted to EUR499 million and accounts receivable at EUR472 million. Trade and other payables were EUR145.2 million. The inventory in days increased in March of 2020, mainly due to the first quarter net sales decline.

Slide 12 summarizes the evolution of our net cash position between December 2019 and March of 2020. Net cash from operating activities was EUR34.9 million, including EUR22.7 million in operating cash flow. Net cash was also impacted by investments in CapEx, as we invested EUR15.9 million in the first quarter. We bought back EUR7.4 million of shares year-to-date. Our net cash position at the end of the first quarter in 2020 remained solid at EUR143.2 million. As we prepare to the second quarter and the beginning of the third quarter seasonal low cash levels, and in order to strengthen our post-crisis financing capabilities, we are working on setting up additional credit lines with our banking partners.

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

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Gonzalve Bich - Société BIC SA - CEO & Director

Thank you, Jim. Let me conclude briefly with our priorities for the balance of the year before turning to the Q&A session. Of course, our main priority remains to continue securing the health and safety of our team members now and through the different levels and stages of deconfinement around the world. While I think we all wish for better days, as an organization, we are determined to stay at our best through deconfinement, and remain focused on the business, whether remote, in offices or on the front lines. Everywhere, we will continue to serve our customers the best we can to ensure the availability of BIC products, especially during the back-to-school season. In Europe, North America and Mexico, our teams are already fully engaged and focused on this key milestone despite the volatility of the business environment. As I mentioned already, we will continue to manage our working capital and CapEx proactively. We will also continue to execute our transformation plan, BIC 2022 Invent the Future.

With the further escalation of the crisis in April and the uncertainties on the dates and pace of the deconfinement measures, we expect a substantial decrease in net sales during the second quarter. However, while some of our team members are focusing on navigating through today's headwinds, others are already preparing for the post-crisis period, working on new products and business developments that will reshape and strengthen our company, paving the way for future growth.

This concludes our first quarter results conference call, and we are now ready to answer your questions. Thank you.

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## QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have questions submitted in the queue. Our first question comes from the line of Charles Scotti.

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Charles-Louis Scotti - Kepler Cheuvreux, Research Division - Research Analyst

I hope you are safe and healthy first. I've got a couple of questions. The first one, how do you explain such a drop in organic sales across the board even if we strip out the COVID-19 impact? Is it related to an issue on stocks that are too high? And how long it could last? Second question on the operating costs. Can you give us an idea of the split between fixed and variable costs at the group level? And a follow-up on raw materials. Can you also remind us how much of your operating cost is related to oil derivatives? And if you have any hedging strategy in place right now? And when can we expect positive raw material tailwinds? And finally, can we expect a strong positive working capital inflow as was the case in 2009 (sic) [2019]?

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Gonzalve Bich - Société BIC SA - CEO & Director

Charles, I hope you're well. Thank you for your questions. I'll talk to the first one, and then I'll let Jim answer some of the fixed and variable cost questions. I think we might need to ask you for some precision on your third part. Jim and I are kind of not clear. But let me take you through this. Our first quarter decrease of 13.8% on a comparative basis, as you mentioned, has 2 components, right? The weak core business trends and COVID. And COVID, as we mentioned in the points. On the core business, as I highlighted during my intro, we've gained market share despite these challenging markets, or maintained in some markets. And this is really solid execution, new product launches, like the Soleil Advanced product in the U.S. The declining U.S. pocket lighter market, down 6.5% in value at the end of March, and that has impacted our sales considerably. And we've talked about the U.S. lighter market quarter every quarter, and it's been extremely volatile for the past 2, even 3 years. Couple of -- last year, we were talking about vaping on these calls a lot. And although that's kind of come off the main wires, it's still a reality, and we're staying very close to market dynamics. As well, as I mentioned, convenience stores in this country, I can't give you the most updated number, but it's significant. The number of them are either completely closed, reduced hours or just seeing a lot less foot traffic, because as you can imagine, if people aren't driving back and forth to work as much as they were before, they're not stopping to pick up their lighter and essentials.

E-commerce, on the other hand, grew 12% in the first quarter, and in each of the 3 verticals of e-commerce, pure players, marketplaces and direct-to-consumer, we're seeing good progress. I think that e-commerce is going to come out a massive winner, not only for us, but for the market of this [COVID]. On a category-by-category perspective, definitely, Stationery is the hardest hit. We have back-to-school coming up in the Northern Hemisphere, and as I said, the teams are really working to make sure that we have what's in place to respond. We all hope that everything will be deconfined by then, and that schools should reopen as planned in either August, September, October, depending on where you are in the world. But that remains to be seen. The impact on some of the markets, I think, in the emerging countries has surprised everyone, both internally and externally when we think about the shutdowns that we've seen in Latin America, that's been very surprising in just how hard those shutdowns have been and the economies have ground to a halt. India was for 3 or 4 weeks, and we're starting to see some opening, as I mentioned, one of our plants reopened this morning, but we're a far way away from the Indian economy restarting the way it needs to.

Jim, fixed cost, variable cost?

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James DiPietro - Société BIC SA - CFO & Executive VP

So Charles, just to be clear, your question on fixed and variable is related to the cost of production on the manufacturing side?

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Charles-Louis Scotti - Kepler Cheuvreux, Research Division - Research Analyst

Yes. More generally speaking, if we would take the amount between adjusted EBIT and sales, basically how much of that is variable? So would it be adjusted to lower sales? And how much is fixed?

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James DiPietro - Société BIC SA - CFO & Executive VP

So to be clear, you're asking about total variable between manufacturing and OpEx?

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Charles-Louis Scotti - Kepler Cheuvreux, Research Division - Research Analyst

Yes.

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James DiPietro - Société BIC SA - CFO & Executive VP

Okay. Right. And then your following question after that was raw material costs related to oil prices?

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Charles-Louis Scotti - Kepler Cheuvreux, Research Division - Research Analyst

Yes. Basically, if you can quantify how much of your COGS are related to oil derivatives? And if you have any hedging in place? So basically, when can we expect some positive raw materials impact?

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James DiPietro - Société BIC SA - CFO & Executive VP

Okay. So on the operating cost and the fixed and the variable on the manufacturing side, it's -- at the group level, it's a little different category-by-category, but on average, the variable side is about 70%. Now yes, we need to be a little careful with the 70%, because that includes both direct labor and indirect labor, which doesn't necessarily be or is variable versus some other items, because you can't vary direct and support labor as quickly as some other expenses. So it's fixed around 30% variable, around 70% with 40% to 45% of that being roughly the average for raw materials.

On the operating side, the fixed is, I would say the fixed side of that is around 60%, to the variable of discretionary is closer to 40%.

On the raw material oil question, as we came into the year, we had forecasted a bit of an improvement in raw materials based on market trends as well as procurement initiatives. We're starting to see that. As well as to your question, I think we're also seeing, obviously, the impact of oil prices. While some of our plastics are not directly correlated, they do trend to move in that direction. So we do see both the procurement benefits as well as the market benefits being incurred. And when I say incurred, it means we're realizing it when we're purchasing. But as you've seen, we have a fair amount of stationery inventory as well as total inventory. So the P&L impact of that is when the product is produced and then products sold.

And then, I believe your last question was on working capital. Obviously, we're in unique times, the inventory on the working capital, inventory and receivables were at high levels. At the end of the first quarter, the working capital related to the receivable side, some of that's timing. That will offset itself in the second quarter. The inventories, obviously, will be impacted by sales, and then the sales that we see in the second quarter and third quarter, and then obviously, we'll have to manage both the inventory side as well as the production side for the balance of the year.

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Operator

Our next question comes from the line of Nicolas Langlet.

Nicolas Langlet - Exane BNP Paribas, Research Division - Research Analyst

I've got 3 questions. The first one, how much of the Q1 '20 like-for-like decline if we exclude the COVID-19 impact would you consider as nonrecurring? Second question on Lighters in the U.S. It seems that your like-for-like was down at least 20% in Q1 compared to a market down 6.5%, so it implies quite a significant destocking effect in Q1. Do you expect this destocking effect to normalize in Q2? Or you expect further impact? And secondly, on the U.S. Lighters, have you planned any price adjustment in the country this year? Third question on gross margin. So it was up 20 basis points in Q1. What's the outlook for the coming quarters? I guess, FX and raw materials should remain supportive, but on the other hand, I guess we should expect some lower cost absorption? So if you can say what trend you expect for the coming quarters on the gross margin?

James DiPietro - Société BIC SA - CFO & Executive VP

Nicolas, can you just repeat your first question? We're just trying to separate first from the second?

Nicolas Langlet - Exane BNP Paribas, Research Division - Research Analyst

Yes. The first question is, of the, let's say, double-digit like-for-like sales decline, excluding COVID-19, how much of that is nonrecurring? So really related to specific one-time effect in certain countries -- or certain markets?

James DiPietro - Société BIC SA - CFO & Executive VP

Yes. It's -- I'm not sure if there's anything specific as far as nonrecurring. I think we've had some promotional activities in some regions in the first quarter. Some of that obviously was planned, some of that was reactive to the trends we had seen. So I wouldn't say there's a significant amount of items that we would say would be nonrecurring. I think what we had seen, as Gonzalve had mentioned, other than COVID-19, and we'll talk about Lighter in a second. We had -- it was a soft start for the year.

Gonzalve Bich - Société BIC SA - CEO & Director

I think I would -- so I totally agree with what Jim said. And I would build on that by saying, we knew it was called COVID-19 like, late-, mid-Feb, right? Because the first instances that we -- at least, internally, that we had, with Italy. That was the first kind of, oh my God moment, and that was the last week of Feb, even maybe the third week of Feb, which, when we take the 12 weeks of the 13 weeks of Q1, already half of it is pure, and then the beginning half of it. I don't know how to tackle your qualification of nonreoccurring. I think when history writes itself in a few quarters or years, it would be really hard to separate stuff out. But Nicolas, the thing that I think about when we talk about COVID is how we respond to it as a company, right? And so the first few months, so let's call it, March, April, maybe May, depending on how things go, I'm not quite as confident in all this deconfinement 1st of May stuff, it's really about reacting to the crisis. We're ensuring the safety of our teams. We're managing cash. We're avoiding all unnecessary costs because, frankly, from one day to the next, you don't know what announcement is going to be made by state A or state B. You don't know how consumers are reacting. It seems a long time ago, but if we all roll back the clock not 5 weeks ago, some people weren't sure whether they should be going to work, going to the store, how they should be living their lives. And that's -- so it's really about reacting, ensuring business continuity and focusing on supply chain integrity and then supporting retail.

Then probably Q2, Q3, it's going to be about resuming business activities, ramping up into growth segments, preparing for fluctuating recovery, because at the end of the day, I don't think it's going to be a linear recovery. I'm not going to get into the debate of whether it's -- so I think we can all agree, it's not a V. But is it U? Is it an L? Is it a squiggly line? Nobody knows. Our responsibility is to make sure that we're adequately prepared to react, but that we've also measured the downside, right? So I talked about trimming CapEx by 20%, really focusing on inventory, maintaining cash, making sure that spending is where it is. And one of the things that we've done is really focused on digital advertising and promotion. We're not doing a lot of the traditional off-line stuff. But we also need to balance that building of resilience with looking at future opportunities, and I think there are going to be a lot. But this is -- the response to COVID is going to come over a long time.

Lighter in the U.S., destocking? Yes. I mean, the math that you laid out, approximately there. I'm sure we could argue a little bit to the left, a little bit to the right.

Q2, is it going to normalize? I can't tell. Nobody knows when the stores are going to reopen. Today, I think the number that the French team gave me, Monday, was 40% of tobacconists in the Greater Paris area are closed even when they could be open. But most of them are seeing such declines in foot traffic. We don't know what April is going to look like much less May, but we're continuing to gain share. So it's kind of that make sure that you're reacting, building distribution, BIC seen, BIC sold and focusing on the quality of sellout and gaining market share and making sure that the inventory levels of our customers are what they should be. Now I'm not going to tell you what's in the press. We all read it together. Today, customers large and small from Amazon and Walmart down to our small stores are rationalizing, and they're also making choices on what they want to focus on, hygiene and health, food, perishable versus nonperishable. So I can't tell you Q2, but it's something that we're staying extremely focused on.

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Nicolas Langlet - Exane BNP Paribas, Research Division - Research Analyst

Okay. And do you have some visibility in terms of the level of inventories at retailer level at the moment? Would you consider them as pretty high compared to the recent demand drop?

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Gonzalve Bich - Société BIC SA - CEO & Director

No. I don't consider them high. The visibility that we have is deteriorated versus the past. Because let's face it, when you call your it, your friendly neighborhood retailer right now and you say, "What's your level of inventory?" I'm going to be polite and say that you're not at the top of this priority list to give you an answer. They're trying to keep stores open. They're trying to make sure that their employees and their customers are safe as part of the shopping experience. I don't know if you guys saw, but like, there's been tests of like disinfected passes like in airports at the entry of some retailers. The shopping experience 12 months from now, could be -- it could go back to what it was before, it could be massively different forever. So that's what retailers are really focused on, and we're focused on making sure that they have all the available products they need in the right packaging formats and so on and so forth, which, as you can imagine, with our SKU count, is sometimes a bit of a challenge. And something, frankly, I think this is an opportunity for us to work on as a business as well.

To your question about price increase, yes, we will be taking a price increase in the middle of the year here in the U.S. on selected SKUs. If I talk a bit about the price increase strategy that we've had for years, we take price adjustments on a regular cadence basis that we work through with our retail partners. We don't do it in all channels on all SKUs at all times, but we will be taking a price increase at the half year here in the U.S. And then there was a fourth?

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James DiPietro - Société BIC SA - CFO & Executive VP

Yes, Nicolas, your last question was on gross margin for the year to go. Obviously, it's going to be difficult to forecast that. When we came into the year, we were seeing stabilization of GP primarily around raw materials. We have seen that to be a bit better than a year ago. The wild card, if you will, is going to be absorption depending on sales trends, and that becomes, I think, a bigger variable right now. I think material costs, as I -- as we talked about Charles' question earlier, we're starting to see favorability in some plastic pricing. So as we buy materials, that is a lower cost now. The bigger question is going to be working through the inventory levels we have and then the balance of the year production. So I think we still see raw materials being favorable this year. We currently have the favorability of some FX, but the big variable is going to be production levels and the impact on absorption. So it's going to be difficult to say what the range of margin would be, but the variable as we expected coming into the year, but more so now, is production and absorption.

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Nicolas Langlet - Exane BNP Paribas, Research Division - Research Analyst

Okay. And if we look only at raw material and FX, and which I guess you already have some visibility, how much basis point you could support? Only those 2? And then I can understand you can't really comment on the under absorption cost, because it will depend on the rate.

James DiPietro - Société BIC SA - CFO & Executive VP

And the reason that's going to be difficult, Nicolas, to answer is basically the fact of when you buy the material, doesn't necessarily mean that's when the favorability is hitting the P&L, because the favorability of the material needs to be built into the production, and then that production needs to be sold. So either we'll see a bit of that favorability impacting the second half of the year, where if sales and inventory levels remain such that some of that moves into 2021, that's really what we're going to be evaluating on the sales level and then the cost of production for the second half of '20, and then what the first half of '21 looks like.

Nicolas Langlet - Exane BNP Paribas, Research Division - Research Analyst

Okay. Okay. And maybe just to come back on the first question. So if there is no nonrecurring item in your Q1 like-for-like and given the COVID-19 impact will be bigger in Q2, it means the like-for-like in Q2 will be lower than in Q1, this is your message?

Gonzalve Bich - Société BIC SA - CEO & Director

I think that you summed it up adequately, Nicolas.

Operator

Our next question comes from the line of Steve Levy.

Steve Levy - MainFirst Bank AG, Research Division - Analyst

Good afternoon, everyone. I hope you are safe. I have 3 questions, if I may. The first one is, do you see a rise in default within your clients in Q1? And do you -- should we expect some default in Q2 with the COVID-19 crisis? Second question is, can you give us a bit of visibility on back-to-school orders, usually in the past in order to do you evaluate when orders are done by your retailer? And if they would be -- I mean, at a desk to give order? And the third question, I'm sorry, about my line was crappy. Can you repeat the reason why financial cost is -- well, financial revenue is at EUR 11.8 million, please?

James DiPietro - Société BIC SA - CFO & Executive VP

So Steve, the first question on default from customer payments. So far, we have not experienced anything in the first quarter. But I think as you raised the question, obviously, it's something we've been very much concerned about and managing quite actively on a daily basis with each of the business teams working back with customers following the aging of receivables. I think, to your point, there could be some retailers in some regions, probably the smaller or weaker ones that could have trouble coming out of this. But again, that's what we are managing with the teams on a daily basis. But so far, through the first quarter, no, we have not had any significant impact.

Gonzalve Bich - Société BIC SA - CEO & Director

To your second question, Steve, you're right. When we start talking about the back-to-school for 2020, we started to talk about that sometime in September of 2019, and the plans had been in place prior to COVID. As we've worked through this, the teams have stayed extremely close to all our customers, making sure that we're confirming order as well as shipment dates. If anything, some of the customers are thinking about timing of their back-to-school being potentially a little bit earlier than in years past. But at this point, given that we don't know when deconfinement will happen, we don't know how store times and openings will be. It's a little bit too early for me to give you any numbers, but I think that if we look at our first quarter results and continuing to gain market share, the relevance of the company and our ability to really drive that value message with consumers as we have in past years and in past crises, frankly, I think that this could be an opportunity for us to continue to gain share in the upcoming back-to-school. But it's too early comment in numbers on back-to-school.

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James DiPietro - Société BIC SA - CFO & Executive VP

And then your last question was the finance revenue. What we see this year is really coming out of Brazil and Mexico, both on the U.S. dollar-denominated accounts and the revaluation of those based on the currencies, and that's what's really driving that change versus a year ago is the favorability of the revaluation and the fair value of that U.S.-denominated account. And it's roughly split 50-50 between Brazil and Mexico.

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Operator

All right. We have another question. Our next question comes from the line of Marie Fort.

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Marie-Line Fort - Societe Generale Cross Asset Research - Equity Analyst

I've got one question about your unallocated costs that you're now reporting. What is the inclination of the strong rise during Q1? And is this why this has to be escalated over the full year? I've got some questions about your Lighter market, I'm sorry. You reported minus roughly 15% on a like-for-like basis. Could you tell us what is the split between the COVID and the underlying decline in the market? And also, could you tell us, are the -- what represent the utility lighter in Europe and in U.S.? And what is the upside for this segment in the U.S.?

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James DiPietro - Société BIC SA - CFO & Executive VP

So let me start on the unallocated costs. As we've said, with the new organization, what we are looking at in the new structure. Some of the cost, be it more central and non-category related, we're treating those as "unallocated" cost. So with the new structure, obviously, as we've said coming into the year, and we've seen a bit in the first quarter, is a higher investment in the new organization. That explains the difference between this year's unallocated cost than last year is really the building up of that new organization. Last year, what we tried to do is normalize the numbers a bit, so the full organization wasn't in place last year. And that's why as we came into the year, we said the new organization was going to be increasing the OpEx level, and that's what we had seen, and you see it here in the unallocated cost is really the standing up of the new structure.

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Gonzalve Bich - Société BIC SA - CEO & Director

To your question about U.S. Lighter, like I said, the pocket lighter market is down 6.7% in volume and 6.5% in value. And the unfavorable impact on our results in the quarter, we estimated around 4 points. I don't think it's possible for us to really give you very precise information on the split between COVID and the market, so I'm not sure I'm going to try. But as we move forward, our goal is to really make sure that we're gaining share in the U.S. pocket lighter market.

In utility, we outperformed the utility market, which was up 10.6%. We gained 5.3 points in value, driven by a lot of the -- some additional distribution that we'll continue to capitalize on for the full year. I wasn't quite sure what your question was about the European utility lighter market, but it's very small in comparison to the U.S. business. It's something we still need to educate consumers about and build over time.

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Marie-Line Fort - Societe Generale Cross Asset Research - Equity Analyst

It was just to know how much does it represent in Europe, for instance? And how much does it represent in the U.S. lighter market size?

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Gonzalve Bich - Société BIC SA - CEO & Director

Yes. Here, it's about 10%. In Europe, it's not material. So we're working on that.

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Operator

All right. We have one final question in the queue. (Operator Instructions) Our final question comes from the line of Christophe Chaput.

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Christophe Chaput - ODDO BHF Corporate & Markets, Research Division - Analyst

I have one question on currency, because, obviously, the Brazilian real depreciated sharply in Q1. So for the moment, it's not meaningful in your figure. But can we have the sensitivity for the balance of the year, which means that, obviously, it will have a conversion effect, so we got more or less the number. But what kind of impact could it have on the operational profit margin relative to sales? So let's imagine the currency depreciated by 10%, what is the impact on operating profit margin?

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James DiPietro - Société BIC SA - CFO & Executive VP

Yes. And Christophe, there's a couple of things. And I think what we've said historically on Brazil and Mexico, roughly a 5% movement in the currency, as you would see, I would say, income before tax moving between 0.5 point to a full point. And that's probably more so, to your point, on the overall translation side.

On Mexico and Brazil, from a flow standpoint, we have a lot of -- we're pretty close to being naturally hedged in both, so you do see some timing as well that would offset. But from a translation impact, I would say, between 0.5 point to a full point.

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Operator

There are no final questions in the queue. So I'll hand you back over to your host.

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Sophie Palliez-Capian

Okay. Thank you. Thank you, everyone. So if there's no more question, we will end the call here. Just as a quick reminder, our AGM this year will be hold closed door on the 20th of May. But shareholders will be able to ask questions via an e-mail until May 14. So we encourage shareholders to ask questions through this e-mail, All the information are on our website.

In the meantime, we remain at your disposal for any follow-up questions. Thank you.

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James DiPietro - Société BIC SA - CFO & Executive VP

Thank you.

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Gonzalve Bich - Société BIC SA - CEO & Director

Thank you.

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Operator

Thank you for joining today's call. You may now disconnect.

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