Event: BIC Conference Call

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

Sophie PALLIEZ, External and Investor Relations Director, BIC

Thank you for joining this conference call. I am here with Bruno BICH, Chief Executive Officer, Gonzalve Bich, Chief Operating Officer, and Jim DiPietro, Chief Financial Officer. We will have a very short presentation from Bruno and maybe an introduction from Bruno, and then we will have a Q&A.

Bruno BICH, Chairman and CEO, BIC

Good afternoon or good evening, and thank you for being on this call. I will read the press release and then we can go to questions. Net sales in terms of organic growth are expected to be slightly below 2%, compared to between 3% and 4% as communicated previously. We expect 2017 normalised income from operation margin to decline to less than 100 basis points at this sales growth level. This revised 2017 net sales organic growth outlook is due to two main factors. Performance was lower than expected in North America in lighters and shavers for the balance of the year.

Through mid-September, the lighter market grew slightly in value and our market share was stable. However, several major customers are reducing their inventory level, which affects sales. The wet shave market continues to be heavily disrupted. BIC's market share stabilised over the last 13 weeks, but this will not be sufficient to achieve the initial objectives.

Secondly, there was stronger than expected softness in Latin America. This softness is mainly in Brazil, where, due to an increase in overall consumption, retailers are cutting inventory in our three categories. Despite this challenge in sales strength, we confirm our outlook for a decline in normalised income from operating margin of less than 100 basis points as a result of adjustment in grant-supported investment and operating expenses for the end of the year.

Questions and Answers

Nicolas LANGLET, Exane

I have three questions. Firstly, looking at your guidance revision, extrapolating the recent trend into Q4, what is the risk if the current situation in both the US and Latin America prevails? Secondly, on shavers, you mentioned that you will not achieve your objective. Is this related to market conditions or lower market share versus your previous objective? Finally, you said that, despite your lower like-for-like for the full year, you are not changing your margin guidance. Does this mean that you will further adjust your media spending for the full year, or do you have other lines with which you can offset this?

Jim DIPIETRO, Chief Financial Officer, BIC

The first question regarded the Q4 outlook based on the update of the full-year outlook in terms of year-to-year change. Is that correct?

Nicolas LANGLET

I will rephrase. Does the revision of the guidance only include the weakness in Q3, or did you already include the weakness in Q4 as well?

Jim DIPIETRO

I will address that question and the like-for-like margin question, and then Gonzalve will handle the shaver question. The revised outlook incorporates what we are seeing for September as well as for Q4, and it will be difficult to see how much it actually rolls into September versus Q4; we will have more precision on that after we close Q3. Obviously, we are still in the last few days of Q3, so we will be able to answer that more precisely when we are together on 25 October. However, the overall revision of the guidance takes into account what we expect to see over the last four months of the year.

Regarding the margin question, we are communicating that sales growth will be slightly below 2%, and the less than 100 basis point margin outlook is still less than we expect. Included in that forecast would be adjustment in brand support throughout the year, based either on brand supports that we have cut or redeployed to other areas of promotional-type activity. This is measured based on what is working and items that are not working as well as planned, so those adjustments have been made. Further to the brand support, some of the operating expenditures that we have gone through and were able to reduce have also been included in this outlook and forecast.

Gonzalve BICH, Chief Operating Officer, BIC

Regarding Nicolas' question about the shaver market, as we explained in August, the US shaver market, both in the system and disposable segment, is undergoing tremendous competitive pressure and disruption all year. Looking at the systems business, pressure from online direct-to-consumer offers continue to drive pressure at retail and online. We have aggressive price decreases in the system segment, moving pricing closer to premium disposable. There is also the launch of added-value products close to the BIC retail price point, increased focus on value positioning of disposables via increased value and frequency of digital and other coupon means, more aggressive loyalty support and aggressive bonus pack activity. Continued private label pressure driven by Edgewell continues in retail.

When we presented the H1 results, we thought that because those disruptions had started to end in Q2 2016, the balance of the year could have been more favourable. This has not been the case, and the market continues to be strongly impacted. The total market, on a year-to-date basis ending 27 August this year, is at minus 9% year-to-date. System was minus 12.6%, while disposable only was minus 4%. What I can share with you from a BIC perspective in the disposable segment is that, on the same four-week period ending 27 August this year, BIC is number one in both value and volume at our largest retail partner in the US, reaching 34.4% value share.

Nicolas LANGLET

Looking at the 13 weeks ending the period, is your market share improving year on year versus the same period last year?

Gonzalve BICH

We are down 0.7% from a value perspective on the same period last year. Comparing one to the other, it is better than the last time we talked.

Nicolas LANGLET

Therefore, you see a sequential improvement of the market share decline.

Gonzalve BICH

Yes.

Etienne DALMER, AFP

I just wanted to be sure of what you said, Gonzalve. You just said that the total US shave market is currently down 9% year-to-date. Is this from the end of August?

Gonzalve BICH

Yes. The total US wet shave market is down 9.1% in value for the period ending 27 August this year on a year-to-date basis.

Etienne DALMER

It is down 4% for disposable in value. Is that right?

Gonzalve BICH

Yes. Just to be very specific, these are as measured by IRI in total multi-outlets.

Etienne DALMER

Regarding my second question, you said that in Latin America you were mainly affected in Brazil. Are there other countries where you also observe a stock decline from your clients? I do not know whether you are exposed to Venezuela, for instance.

Gonzalve BICH

We are not exposed to Venezuela, and the impact that we talked about in mainly in Brazil.

Etienne DALMER

Can you mention other countries in Latin America? It is not exclusively Brazil.

Gonzalve BICH

It is mainly in Brazil, Etienne.

Maryline FORT, Société Général

I have just one question. Could you split your downward guidance revision from 3.4% to 2% between the impact from the US and Latin America? That is my first question. Secondly, I am not sure I understood Gonzalve's answer to Nicolas' question about the guidance. What about your visibility on the rest of the year, and is there a risk that you will revise the guidance downwards at the end of the year?

Jim DIPIETRO

Most of what we have talked about as far as the impacts to the sales guidance is US-driven, based on the sales outlook of shaver and lighter. Therefore, most of what we see as far as the change of outlook goes is driven from the US. Regarding the outlook question, are you talking about the NIFO margin commentary?

Maryline FORT

No, it was much more about top-line guidance.

Jim DIPIETRO

The forecast right now is for the balance of the last four months of the year. Right now, until we close Q3, it will be difficult to say how much is already realised in the month of September and how much in Q4. We will have more precision on that when we meet on the Q3 call on 25 October.

Christophe CHAPUT, Oddo

I have two questions. The first one is on the shaver market. Have you reduced your price during Q3, so July, August and September? Basically, how have you reacted to price pressure from Gillette? The second question is regarding the CAPEX programme. We could initially expect a CAPEX of EUR 180 million in 2018. Is this still of the same magnitude, or could you revise your CAPEX programme for 2018?

Gonzalve BICH

Regarding your shaver question, we remain active in the shaver market. We did not make any major revisions to our pricing in the US market. That having been said, in a competitive and everyday low-price market that is the US, we continue to use the promotional tools at our disposal to be aggressive and achieve the results I shared with you a moment ago, today and moving forward.

Jim DIPIETRO

Regarding CAPEX, for 2018 we obviously need to evaluate where we are in 2017 from a capacity standpoint based on our current outlook, and we will be able to communicate the expected CAPEX investments in 2018 as we introduce the beginning of the year, so as we conclude 2017 and have the presentation in early February, we will be able to communicate better the expected investment level for 2018.

Christophe CHAPUT

Regarding the investment, you were already down during the last couple of years and the actual volume expected for Q4 on the retail side. Do you need to overinvest from 180 versus 120?

Jim DIPIETRO

That is what I said. We will need to evaluate where we are in the market compared to the capacity, and that will lead us then to the expected investments for 2018, so we need to go through that analysis, and we will look at that and will be able to communicate that in February 2018.

Nicolas LANGLET

I have two additional questions. The first one concerns the lighter market in the US. Why do you think we see this destocking from the retailers? Do you think that this is only something temporary that will improve in the coming months, or do you have any colour on what is happening there? Secondly, sorry that it is a very short-term question, but looking at H2, do you expect the Q3 like-for-like trends to be below those of Q4, or do you expect the two quarters to be roughly on the same level, on a like-for-like basis?

Gonzalve BICH

Regarding the lighter market, retailer decisions on inventory levels are something they review at their discretion, and we partner with them to make sure that stores have the right amount of inventory so that we are not out of stock and consumers can continue to find BIC lighters, as you have seen when you visited the US market. Right now we are working on full-year 2017, and that is what we are projecting forward. We will continue our ‘BIC seen, BIC sold’ strategy to make sure there are as many BIC lighters as possible out for consumers to pick, whether standard stock or all those sleeves and decors that you have seen to pick from.

Jim DIPIETRO

Regarding the Q3 and Q4 question, we touched on this a bit in the earlier question on outlook. Honestly, it will be difficult to tell until we get through the close of the month of September, because we may have orders coming in this week of which some are shipped this week and some next week, which is October. Therefore, what we have seen is built into the full-year forecast right now, but we are obviously still in the process of closing the Q3 and Q4 numbers, and we will be able to communicate that more clearly on 25 October.

Christophe CHAPUT

I have a follow-up on Latin America. You mentioned the slowdown. Can we have the magnitude of the slowdown? Is it a low- or mid-single-digit decrease? Could you give more precise colour on that, please?

Jim DIPIETRO

Are you asking about the change in terms of point-of-sale information?

Christophe CHAPUT

No. I just wanted to ask about the like-for-like in Latin America for Q3 or for the months of July and August. What could we expect? Is it negative by 5%? What could we expect on that side?

Jim DIPIETRO

It will be difficult to comment on Q3, as I just mentioned to Nicolas, because we have not closed on Q3, so we will be able to give that precision as we move toward the next four weeks and we meet and talk on 25 October.

Christophe CHAPUT

Could we just have an order of magnitude for the months of July and August?

Jim DIPIETRO

We will report Q3 on 25 October.

Christophe CHAPUT

I will wait. Thank you.

Neil CHANDHOK, AllianceBernstein

I have two quick questions. Firstly, do you anticipate any margin pressure from higher raw material costs in the grooming business? Secondly, you mentioned earlier some competitive pressures in private label. Can you expand on that a bit?

Jim DIPIETRO

Regarding raw material costs for 2018, we are in the beginning phases of our operating plan reviews for 2018 right now. Our analysis is still to be completed, but what we have seen is a slight uptick, but nothing significant in terms of a year-to-year change. We will also have some materials that we will be able to use in production at the end of this year to be sold next year, so the impact on a year-to-year P&L basis should not be, as it appears right now, that significant in 2018 versus 2017.

Gonzalve BICH

Regarding private label, just to be correct, are we talking about shaver here?

Neil CHANDHOK

Yes.

Gonzalve BICH

Private label shaver from a value perspective grew a little less than 5% of share and 9% in volume from 2014 to 2016. That having been said, the trend year-to-date over the last 13 weeks, or the last four weeks, is basically flat. Therefore, we have seen increasing pressure from private label over the last few years in the US market in the shaving category. It continues to be strong at those levels, but we also see it slowing down.

Saad BENLAMINE, Kirao

I just have one question on the US shaver segment. When you mentioned that it declined by 9% year-on-year at the end of August, do the market figures include the likes of the Dollar Shave Club? What is your definition of the shaver market?

Gonzalve BICH

The data that I gave you is as recorded by IRI on multi-outlet. IRI does not report direct-to-consumer; those are only transaction-based reportings that IRI does not capture.

Saad BENLAMINE

Can we have the figure in terms of volume, please? Do you have an idea of the price impact?

Gonzalve BICH

The total wet shave market is minus 3.9% from a volume perspective on a year-to-date basis.

Saad BENLAMINE

I have one last question on the shaving segment. Are there any similar trends in other countries or continents, or is this specific to the US?

Gonzalve BICH

The US is by far the most impacted by direct-to-consumer models. It was not the first country to go, but it was the first one to make a significant industry-changing impact. There are other disruptive forces in shaver markets around the world, as this is a highly competitive industry, so it is competitive on price and promotions all over the world. However, I restrict my comments to the US market.

Sophie PALLIEZ

Thank you, everybody. We remain at your disposal for any follow-up questions, and we remind you that our Q3 numbers will be released on 25 October.