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Speakers: Sophie Palliez, Mario Guevara and Jim DiPietro

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Operator: Ladies and gentlemen, welcome to the Third Quarter 2015 BIC's Conference Call.

Sophie Palliez: Yes, good afternoon everybody. This is Sophie Palliez speaking. So again welcome to this nine months' results conference call. As usual, the call will be hosted by Mario Guevara, Chief Executive Officer, and Jim DiPietro, Chief Financial Officer. We'll start with the short presentation and then go through the Q&A session. Before giving floor to Mario, let me just mention that we are experiencing some phone connection issues in our offices in Clichy. So I hope it will not happen, but if you were to be disconnected, please do not move. Hang on, and we will redial and reopen the call as soon as possible. So if we are cut, don't do anything and it will be in our hands to reconnect you. Let me give the floor to Mario.

Mario Guevara: Thank you Sophie. Let me start with the nine months' group key figures. Year-to-date, the resources were good, since sales reached €1,682 million; a 5.8% increase on a comparative basis. The growth was solid in all consumer categories, which grew 6.6%, with a solid performance across all geographies in the world. BIC Graphic net sales were flat due to promotional calendar shipment shifting from the third quarter to the fourth quarter of this year. The income from operations increased 18.6% to €345.7 million, and normalised IFO – which excludes non-recurring items – was €343.4 million euros, up 22.9%, and normalised IFO margin was 20.4%. That compares favourably to the 19.1% in the first nine months of 2014. Page 4, we see the earnings per share group was €5.36, up 24.7%, and our net cash position at the end of September reached €360.3 million. And Jim will explain later in more detail the evolution of our net cash position compared to last year.

As you can see on slide number five, our consumer business increased 6.6% on a comparative basis. The net sales growth was well balanced across geographies, with mid-single-digit increases in both developed and developing markets. The developed market showed a good performance. Sales were up 5.4% in Europe, and North America increased 7.2%; that was mainly driven by lighters and shavers. Developing market in itself grew 6.9% with a good performance in Latin America.

Let me now comment on sales performance by category starting with the Stationery. As we can see on the slide number six, year-to-date markets continued to grow both in Europe and the US. In Europe, the market was growing mid-single digit at the end of June, with a strong performance in the retail mass market. In the US, Stationery category was up 3.4% at the end of August. Office products and Brick & Mortar class of trade, which includes notably modern mass market and office superstores, grew 2.5%. The e-commerce registered a strong performance, with a 21.5% growth from a smaller base. Let me turn to page 7. The nine months' reported net sales were €574.6 million, a 3.5% percent increase versus last year on a comparative basis. And by region, we can see that in Europe we've registered a high-single-digit growth with positive results in all regions of Europe.

2015 back-to-school sell-out was good, and we recorded market share gains in most countries thanks to promotions and better in-store visibility. The main drivers of this performance were the Colours segment, BIC Kids range and Classic products. In France we gained market share for the 11th year in a row. In North America, the nine months' net sales increased low-single digit, and in the third quarter it increased double digits, mostly due to the timing of shipments. As you know, we registered early back-to-school shipments in 2014, which was not the case this year. Also, in an increasing competitive environment back-to-school sell-out increased mid-single digit, in line with the market. Thanks to the success of our champion brand strategy, and our new product introductions like BIC Atlantis range and BIC Xtra Fun graphite pencils, delivered outstanding results.

In developing markets, nine-month 2015 net sales grew low-single digits. In Latin America, net sales grew high-single digit. In Brazil, where BIC continued to outperform the market, ball pen, marking and colouring segment registered strong market share gains. In this segment BIC gained leadership in the modern trade channel. In Mexico, BIC delivered good results with a good back-to-school sell-out season, and market share gains thanks to the champion brand strategy and distribution gains. In the Middle East and Africa regions, we expand distribution and increase in-store visibility of BIC branded products, including the launch of BIC Cristal Fine in Ivory Coast, and the partnership with the national rugby team in South Africa. In India, Cello Pens nine months' net sales declined low-single digit, with flat domestic sales. And particularly the third quarter domestic sales were up low-single digits, reflecting the good performance in ball pens. This was sustained by the good work done by the teams on distribution, and strong trade promotions. The nine months' 2015 Stationery normalised IFO margin was 14%. That compares favourably to the 13.4% in 2014. We benefit from more favourable production cost and operating expenses. The third quarter 2015 normalised IFO margin was 10.4% compared to 10.8% in the third quarter of 2014.

Let me turn to slide eight to comment on Lighters. Lighter net sales increased 8.1% on a comparative basis. In Europe, net sales increased mid-single digit. Sales were particularly strong in countries like France, Italy, and Ukraine. In North America, BIC delivered a high-single-digit growth driven by distribution gains, the continued success of our value-added sleeved lighters, price adjustment and the growth of multi-purpose lighter with more distribution opportunities. In developing markets, double-digit net sales growth driven by distribution improvements in Latin America, particularly in Mexico. In Asia, we expanded distribution mainly through convenience stores. And growth continues to be strong in Middle East and Africa, thanks to the improved distribution and visibility in stores in this region.

The nine months 2015 normalised IFO margin was 39.7% compared to 38.6% last year. This improvement is due to the impact of the second quarter price increase in the US combined with the favorable product mix, positive raw material impact and favourable fixed cost absorption. The third quarter normalised IFO margin was 39.8%, compared to 37.9% in Q3 2014.

Now let me turn to Shavers on slide number nine. As you can see, the markets continue to decline in Western Europe with a minus 1.7% decline for total wet shavers at the end of June, of which minus 1.9% is for disposables. In the US, the total wet shaver market was down 1.3% at the end of September, and the refillable segment was down 4.2%. The one-piece segment grew 3.2% in value. So the nine-month reported net sales for Shavers were €343.2 million, an increase of 11.4% on a comparative basis. In Europe, high-single-digit net sales growth was driven by the good performance in both Western Europe and Eastern Europe. Countries like France, Russia, Ukraine, and Turkey were the main contributors to this growth. In North America we delivered a double-digit growth, and we executed a strong new product introduction like the Flex 5 for men and BIC Easy Hybrid shaver for women. Our high-quality shave at a fair price positioning continue to drive sales in all blade counts. Since March we've run advertising campaigns in the US and Canada to increase awareness of the BIC Flex 5, and at the end of September Flex 5 is confirmed as number two in volume for the five-blade one-piece shavers in the US.

In developing markets, sales increased double digit. In Mexico, gains were driven by increased distribution, and triple blade shavers like BIC Soleil and BIC 3 did contribute to the growth in Brazil and in Mexico. The nine months' 2015 Shavers normalised IFO margin was 19.1%. That compares favourably to the 18.4% in 2014. The increase in margin was driven by net sales growth and positive FX impact on gross profit, which more than offset the increase in brand support compared to last year. The third quarter Shavers normalised IFO was 17% compared to 19.6% in Q3 2014, impacted by less favourable gross profit compared to the first half of 2015, and as expected an increase in brand support.

Now let me comment briefly on other consumer products. The nine months 2015 net sales decreased 0.6% on a comparative basis. The other consumer products businesses include various activities in different countries, the most relevant being BIC Sports. For the first nine months, BIC Sports net sales grew mid-single digit on a comparative basis. For the other activities, the nine-month decrease in net sales is mainly due to discontinuation of other product lines. Other consumer products' nine-month normalised IFO margin was €0.4 million. As may remember, we finalised the sales of our portable fuel cell technology to Intelligent Energy early April 2015. Last year, excluding the expenses related to the portable fuel cell project for €6.1 million, the nine-month normalised IFO which have been €0.4 million; the same as this year.

Let me now turn to BIC Graphic. BIC Graphic net sales were flat on a comparative basis. In Europe, the nine-month net sales increased low single-digit. The Stationery and Hard Goods segments delivered good results. Third quarter sales in Stationery grew in most of the countries like France, Italy, UK, and Eastern Europe. In North America the nine-month net sales were impacted by a timing impact in promotional calendars, with some shipments shifted from September to October. The Hard Goods segment continued to perform well thanks to the good value product line, new product launches, and BritePix in printed technology. In developing markets nine-month net sales increased double digit, thanks to the strong performance in Latin America and Asia. Excluding the impact of the timing impact in promotional calendars, BIC Graphic net sales at the end of September would have increased low-single digits, in line with our expectations. The nine-month 2015 normalised IFO margin was minus 0.9% compared to minus 0.6% in 2014. However, Q3 2015 BIC Graphic normalised IFO margin improved to 5.6% compared to 5% in Q3 2014.

Let me now give the floor to Jim, who will comment in more detail our consolidated accounts. Jim?

Jim DiPietro: Thank you Mario. Starting on slide 14 we see the summarised the P&L results for year-to-date September. Net sales increased 14.8% as reported, and 5.8% on a comparative basis. Gross profit increased 16.4% while normalised IFO increased 22.9%. The €2.3 million difference between normalised IFO and IFO is comprised of restructuring cost, mainly related to distribution reorganisation in the Middle East and Africa as well as the gain on fuel cell portable technology divestiture, and the impact of lump sum election for terminated vested pension participants. On slide 15 we see the evolution of net sales between third quarter 2014 and third quarter 2015. On an as reported basis, net sales increased 10.4%; on a comparative basis, net sales grew 4.8%.

Foreign currency translation impacted favourably 6.3 points, or €31 million. The strength of the US dollar compared to the euro accounted for €44 million of the translation increase. The other changes are related to the Indian rupee, with €2 million of a favourable impact; the Mexican peso as well as the Russian and Ukrainian currencies had a negative impact of €4 million in total, as well as the Brazilian currency for €12 million. The perimeter impact is related to the sale of Sheaffer.

On slide 16, the evolution of net sales between nine months 2015 versus last year. On an as reported basis, net sales increased 14.8%. On a comparative basis, sales grew 5.8%. Again, foreign currency translation impact was favourable: 9.7%, or €142 million. The strength of the dollar compared to the euro accounted for €140 million of the translation increase. The other significant changes came from the Indian rupee with €9 million of an impact, and the Mexican peso of €3 million impact. The Russian and Ukrainian currencies had a negative impact of €7 million, and the Brazilian currency a negative impact of €15 million. And again, the perimeter impact is related to the sale of Sheaffer.

We will now review the change of normalised IFO for the third quarter of 2015, compared to third quarter of last year, on slide 17. In the third quarter, gross profit margins slightly increased a tenth of a point. As we discussed with the first half results, brand support investments would be higher in the second half of this year due to the timing of our investment plans. Brand support increased three tenths of a point in the third quarter, mainly in Shavers. OPEX and other expenses were down one tenth of a point.

On slide 18, we'll now review the change for normalised IFO after nine months. We can see an increase of seven tenths of a point in gross margin, benefiting from better cost of production including cost efficiencies, favourable raw material and FX impact. Brand support decreased one tenth of a point, and OPEX and other expenses were down five tenths of a point; partly due to less expenses related to fuel cell. On slide 19 we can see net finance revenue increased €17.9 million compared to €2.9 million in 2014. This is due primarily to favourable revaluation of financial assets denominated in US dollar. Income before tax increased 23.5% as reported, to €363.6 million. The tax rate for nine months was 30%, and that's consistent with 2014 level. Net income group share increased 25%, and finally EPS group share increased to €5.36 compared to €4.30 in nine months 2014.

On slide 20, we'll look at the key components of our working capital. On a year-on-year basis, September 2015 compared to September 2014, we have a stable level of working capital. The inventory increase is impacted by an increase in inventories for Lighter and Shaver, which are in line with our sales performance. Slide 21 summarises the evolution of our net cash position between December 2014 and September 2015. We generated solid cash from operating activities, which funded our €76 million CAPEX investments. We paid almost €135 million of ordinary dividend, and the cash received through stock options exercised, net of liquidity contract, was €8.9 million for nine months. We had a share buyback during 2015 of €26.3 million, and the fuel cell divestiture impact was €14 million. As a reminder, the net cash position is impacted by the future value of Cello's remaining put option. This ends the review of our nine-month consolidated results, and I'll give the floor back to Mario.

Mario Guevara: Thank you Jim. Let me summarise nine months' results on slide 23. With high-single-digit net sales growth, the performance of our consumer business clearly reflects the strength of the BIC business model in both developed and developing markets. Stationery results were good, and as mentioned we had good back-to-school season in Europe and North America and Mexico. We continue to experience strong achievements in Lighters and Shavers. Excluding the timing impact in promotional calendar, BIC Graphic would have grown low-single digit with a steady performance in Europe and developing markets. Normalised IFO margin was driven by higher gross profit, which benefited from foreign currency fluctuations and a positive impact of raw materials. As to our net cash position: it remains healthy, thanks to a strong operating cash flow generation.

Let me conclude with our outlook for the full year. First of all, the momentum of our net sales has enforced our confidence to achieve our full year plus five, and plus five net sales growth on a comparative basis. In regard to profitability, we expect to slightly increase normalised IFO margin for the group this year. Thank you for your attention, and now we are ready to answer your questions.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question please press 01 on your telephone keypad. The first question is from Nicolas Langlet, UBS.

Nicolas Langlet: Hello, good afternoon everyone. Can you hear me?

Mario Guevara: Yes.

Nicolas Langlet: Okay perfect. Hello. I've got three questions, please. First, on the writing instrument margin in Q3: can you give us a bit more detail on what drove the deterioration? In Q3 I think it's around 40 basis points, something like that. And if you can give some comment as well on Cello's margin in Q3 on a standalone basis? It would be great.

Secondly on Brazil: it seems that sales growth at constant currency in the country has remained quite good in Q3. Can you give us the split between volume and price mix in Q3, and if you saw deterioration versus the price quarters? And also, given the figure deterioration recently, what actions do you expect to put in place to offset the negative impact?

And the last point is on the brand support: should we expect in Q4 a similar impact to Q3, roughly? Thank you.

Mario Guevara: Hi Nicolas, this is Mario. I will comment on Brazil, and then Jim will help me to answer the other questions. As you heard during my presentation, we have experienced good results in Brazil. Stationery will continue to gain market share, so volumes were up in Brazil. The Lighter business continued to be robust, and is growing at mid-single digits. And Shavers continued to grow, so as you can see volumes are growing and value continues to grow. I mean, clearly the impact of the devaluation of the currency is such that at some point it will reflect in the local inflation, that we all know is close to 10%. So as I have shared with you in the previous calls, it's not reasonable to impact the prices, say, in one action. So we will see how we're going to compensate for inflation in the next quarters, and we estimate that if nothing happens further on the currency, it will take us between 12 to 24 months to fully recover the impact of the devaluation.

Nicolas Langlet: Okay. The impact in local currency, right?

Mario Guevara: Local currency, yes.

Nicolas Langlet: Okay.

Mario Guevara: And so far we have not seen a significant slowdown in our sales. But let's say we remain cautiously optimistic in this country.

Nicolas Langlet: Okay. And looking at the price increase: do you expect to pass some further price increase by Q4, or it's more Q1, Q2 next year?

Mario Guevara: It would be more next year.

Nicolas Langlet: Okay.

Jim DiPietro: Nicolas, on your first question, your question was broken up a bit. We couldn't really hear you. I'm assuming your question was around third quarter Stationery gross profit; I just want to confirm that?

Nicolas Langlet: Yeah, exactly.

Jim DiPietro: Okay. So for third quarter Stationery gross profit, obviously what I felt was your question was four tenths of a change. Gross profit had a slight negative impact versus a year ago. So now it was just the change of manufacturing cost this year versus last. But the bigger impact that affects IFO is really the brand support; brand support in the traditional advertising-type line, as well as brand support that's recorded above sales. So those are probably the bigger impacts in the third quarter. Remember, a lot of that has to do with the back-to-school timing.

Nicolas Langlet: Okay. And looking at Cello's margin in Q3: that would be –

Jim DiPietro: Yeah, third quarter Cello margin standalone is low-double digits.

Nicolas Langlet: Okay. So compared to last year – it's a deterioration versus last year.

Jim DiPietro: It is. It's a continuation, as we continue to build some of the infrastructure and additional incremental expenses.

Nicolas Langlet: Okay.

Jim DiPietro: Right. And then your last question was fourth quarter brand support?

Nicolas Langlet: Yeah.

Jim DiPietro: Right. So again, continued as the same message we delivered after the first half results. Second half of this year would have higher brand support investments as we mentioned during the presentation. For the third quarter – so fourth quarter is going to be pretty close to the same trend as what we'd seen the third quarter. We expect higher brand support, and fourth quarter versus fourth quarter in 2014, as well as the timing of some other operating expenses, will be higher in fourth quarter of 2015 versus a year ago.

Nicolas Langlet: Okay, perfect. If I can just add a very quick one on BIC Graphic: you gave us the top line impact of the timing issue in the US, but what would have been the margin in Q3 if you include the timing issue impact on top line?

Jim DiPietro: You know, it's tough. I mean, you've got to remember that margin would obviously be better because the calendar business is a higher margin business. So if that business was realised in September the margin, just by consolidation of that calendar GP, would be better.

Nicolas Langlet: Okay.

Jim DiPietro: And what it means is obviously we will have a better month of October without moving from September to October.

Nicolas Langlet: Okay. And your guidance for BIC Graphic is still to generate in line with last year's margin for the full year?

Mario Guevara: Yeah, pretty much. Pretty much Nicolas.

Nicolas Langlet: Okay, thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder if you wish to ask a question please press 01 on your telephone keypad. The next question is from Marie-Line Fort, Société Générale.

Marie-Line Fort: Good afternoon. I've got three questions. The first one is to know your current hedging position on the dollar.

The second one is I would like to understand better the lower gross margin for the Shaver division; to know if it's due to lower cost absorption or to higher purchasing cost, if you can elaborate a bit?

And lastly, could you comment on the start of your new lighter factory in China?

Mario Guevara: Yes, Marie, let me start with your last question, the start of the lighter factory in China. As we mentioned to you, we are already producing in our factory in China. That is in line with our plan. So gradually the teams are delivering a better output in that factory. So I would say the plan is as originally expected for this time of the year.

Jim DiPietro: On the FX hedging for 2016, currently we're at about 76% hedged for next year at a rate of slightly below 112.

Marie-Line Fort: Okay, thanks.

Jim DiPietro: And on the Shaver gross margin in the third quarter, the first point of reference is third quarter 2014 was a very good manufacturing cost, with very favourable manufacturing variances. A lot of those were based on the timing of building inventory. Some of that doesn't repeat this year, and that's probably the biggest change year-to-year is the fact that last year was extremely strong at a gross profit percentage. So the year-to-year favourability is less, and there were also some one-time, I would say, costs in manufacturing this year versus a year ago. On the Shaver IFO, as we have mentioned in addition to that, was again the continued brand support that we had anticipated and had communicated after the first half results of 2015.

Marie-Line Fort: And can we expect such deterioration in gross margin rate from last quarter, for the Shaver division?

Jim DiPietro: I would anticipate the gross margin should be more in line with the full-year rate as we approach fourth quarter.

Marie-Line Fort: Okay.

Jim DiPietro: But again, brand support and another operating expenses will be higher in fourth quarter versus a year ago.

Marie-Line Fort: Okay. Thank you very much.

Jim DiPietro: You're welcome.

Operator: Thank you. As a final reminder, if you wish to ask a question please press 01 on your telephone keypad. One moment please, we seem to have an additional question. We have a follow-up question from Nicolas Langlet, UBS.

Nicolas Langlet: Hi again. I've got three quick ones. First on CAPEX: if you look at the first nine months the CAPEX are down roughly €10 million year-on-year, so I'm just wondering if you stick with your €120–130 million CAPEX guidance for the full year, or if we should look a bit lower?

Secondly, you talked about distribution expansion in Asia over the quarter: is it possible to quantify the progress over the quarter?

And last question on the cash return: at the beginning of the year you said that you were considering a special division for next year. Given the nine months' performances, are you still comfortable to pay a special dividend next year?

Jim DiPietro: So Nicolas, I'll start with the CAPEX, and to your point based on the investments made for nine months. And where we are right now, I would say we're probably looking on the lower end of that range, so closer to €120 million, and that's still assuming that all the timing and projects for the balance of the year materialise this year. If there is any continued timing difference, that will then move into next year. So right now we would estimate the lower end of the range, closer to €120 million.

Nicolas Langlet: Okay.

Mario Guevara: So on your question on the special dividend, Nicolas: subject to achieving the results in 2015, we strongly believe that the board will consider an extraordinary dividend in 2016.

Nicolas Langlet: Okay. And it's too soon to start to quantify what could be the special dividend?

Mario Guevara: Yes, I would say because the discussion at the board level doesn't take place until next year.

Nicolas Langlet: Okay.

Mario Guevara: Your question on the expansion and distribution of the convenient stores in Asia: we continue to increase our depth of distribution in Japan, and also other countries in Asia like the Philippines. So we increased about 1,500 stores more out of the 27,000.

Nicolas Langlet: Okay, so it's 1,500 out of the 27,000 you had before?

Mario Guevara: Yes.

Nicolas Langlet: Okay. And can you talk a bit about your performance on Lighters in Japan? Do you continue to gain share in the country, how is the competitive environment there?

Mario Guevara: I don't have the latest market share data in my head, but we continue to grow in Japan; sales in Japan continue to be strong with low-double-digit growth.

Nicolas Langlet: Okay. And when do you think the Chinese lighter factory will permit you to supply all your Japan operations?

Mario Guevara: I guess it will increase gradually, probably 2017 or 2018.

Nicolas Langlet: Okay.

Mario Guevara: There are some, let's say, permits that we need to have from the Chinese government to export to certain countries. As we speak, you know, we have applied for those permits, and we expect to have it cleared by the first half of 2017.

Nicolas Langlet: Okay. And so far you have only one line of production in China, right?

Mario Guevara: Correct.

Nicolas Langlet: Okay. And do you plan to put another one soon?

Mario Guevara: Well first, as the previous question, we want to make sure that we start with the right productivity, with the right quality. And eventually we will increase another product line, so that's a long term goal.

Nicolas Langlet: Okay. Thank you very much.

Operator: Thank you. The next question is from Marion Boucheron, Raymond James.

Marion Boucheron: Hi, good afternoon. Shavers' growth was obviously very strong in the first nine months. I was wondering what do you expect in Q4: has your sell-out figures followed the selling trends, or should it be softer?

And also, could you elaborate on sell-out for the Stationery division during Q3? Do you expect a reorder in Q4?

Mario Guevara: Marion, could you repeat the first one: did you say Shavers sell-out was what?

Marion Boucheron: Yes. Shavers, the performance is obviously outstanding for the first nine months. So I know BIC Flex 5 is part of it, but I was wondering if, in Q4, you expect similar growth trends, a strong reorder, or maybe you have better [inaudible]?

Mario Guevara: We expect that the trend will continue – the growth rate will continue in the fourth quarter.

Marion Boucheron: And for the Stationery after the back-to-school season and sell-out just in, do you expect reorder in the Northern hemisphere?

Mario Guevara: Yes, we have a good – as I mentioned, we have a good POS mostly in line with the growth for the category, particularly in North America and Europe. In the fourth quarter, as you may recall, the Stationary sales are driven mainly – more than the reorders in developed markets – driven by the back-to-school in Brazil, South Africa, and Oceania. That is the main driver of back-to-school. However, today let's say the visibility of the back-to-school orders in Brazil is, I would say, too early to make a statement.

Marion Boucheron: Okay, yes of course. Thank you.

Mario Guevara: You're welcome.

Operator: Thank you. We currently have no further questions.

Sophie Palliez: Okay. So if there are no additional questions, once again thank you for participating in this call. We were not cut so we lucky. Any follow-up question, anything you want to ask, please feel free to call us back. Thank you very much.

Operator: Ladies and gentlemen, thank you for your attendance. This call has been concluded, you may now disconnect.