Event: BIC 1st Quarter 2017 Results

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Speakers: Bruno Bich, Jim DiPietro and Gonzalve Bich

Misprints and repetitions have been corrected

Operator:

Ladies and Gentlemen, good afternoon and welcome to the Bic First quarter 2017 Results conference call. I now hand over to Mrs Sophie Palliez. Madam, please go ahead.

Sophie Palliez:

Thank you and good afternoon good - afternoon everyone. Welcome to this call. It will be hosted by Bruno Bich chairman and chief executive officer, Jim Dipietro chief financial officer and Gonzalve Bich chief operating officer

We still start by a short presentation including the main highlights by category and then we will go through the usual Q&A session. Let me give the floor to Bruno Bich.

Bruno Bich:

Thank you, Sophie. Let me start with the Key figures. As you read, sales reached 469.2M €, a 4.1% decrease on a constant currency basis. Europe increased 2.4% with a good performance across all categories. North America decline is due to both stationery and shaver performance developing market decrease by 3.4% mainly due to stationery. The normalised IFO which excludes non-recurring items reached 81.3M €. Stable compared to last year and normalised IFO margin was 17.3% compared to 19.2% last year excluding the special bonus. Regarding the earning per share, it was 1.06 € down 1.9%. Our net cash position at the end of March was 206.2M € compared to 222.2M € at the end of December 2016. Jim will explain later in more details the evolution of our net cash position. Let me know give the floor to Gonzalve who will comment in more details our performance by categories.

Gonzalve Bich:

Thank you, Bruno. Good afternoon.

Overall organic net sales for stationery including consumer and BIC graphic numbers were down 5.1%. As a reminder, we ended 2016 with high single digit growth in Europe. Over the first 3 months of 2017 business remained on track with slow single digit growth in net sales. We saw positive results from our champion brand strategy, notably in ball pen and the correction segment. France continued to show good results. Also, Eastern European countries like Russia and Turkey continued their growth.

In North America, the basis for comparison was high in a first strong quarter 2016. Q1 2017 net sales registered a double digit decrease in a soft challenging US stationery market. Especially in the mass market channel, partly due to decrease promotional support. We expect the trend to improve for the balance of the year notably behind an enhance push on new product launches such as BIC Gel-ocity quick dry gel pen and the Velocity Max Mechanical pencil.

In Latin America, we recorded a high single digit decline after a strong Q4 2016. However, in Brazil the “Back-to-school” sell out was strong with further market share gains notably in the colouring segment.

In the Middle-East and Africa region, sales decrease was mainly due to timing impact. South Africa’s “Back-to-school” season was very good thanks to strong in store visibility and our campaign named “Buy a pen. Donate a pen”. We continued to gain market shares and reinforce our leadership.

In India, Cello net sales increased mid-single digits in the domestic market. Champion brands and new product launches notably Butterflow and Marky are our priorities to maintain our strong leadership position in this pen segment.

Q1 2017 normalised IFO margin for stationery was 3.6% compared to 5.2% in Q1 2016 and 7.3% excluding the impact of the special employee bonus. This drop is due to higher R&D and grand support investments.

On slide 7 you can see net sales of lighters decreased 0.5%.

Europe delivered mid-single digit growth in net sales. Eastern Europe continued to show good performance thanks to distribution gains.

In North America, Q4 2016 ended with a strong growth. 2017 started at a slower pace with a low-single-digit decline. However, thanks to our sleeve strategy, we continued to gain market share in the U.S.

In Latin America, we delivered low single digit growth with a strong performance in Mexico. We also gained distribution in Brazil.

In the Middle-East and Africa region, net sales benefited from double digit growth mainly driven by distribution gains especially in the Gulf countries.

Q1 2017 normalised IFO margin for lighters was 37.4% compared to 38.0% in Q1 2016 and 39.5% excluding the impact of the special employee bonus. This decrease is due to lower gross profit and higher operating expenses.

On the next slide, number 8, we see in the US market during the first quarter the industry continued to face disruptive challenges and the shaver market remained highly competitive. The total market declined by 9% and the one-piece segment was down 7.4%. This trend reflects a phasing impact on promotional activities, pricing adjustments across the category and increased private label pressure. As a reminder, in H1 2016 the one-piece section market decreased by 4.5%, then it decreased faster in H2 2016 due to decrease in promotional activities and price action by a major actor starting in the middle of the second quarter 2016. Thus, the comparison basis could be more favourable in H2 2017.

Turning now to slide 9, Q1 2017 net sales for shavers decreased by 7.7 %.

In Europe net sales growth was in the low single digits. We continued to perform well in Eastern Europe. In Russia for example. Our premium 3- and 4- blade products led the growth. Both BIC 3 and BIC Miss Soleil shavers, as well as, the hybrid range continued to be successful. At the end of March, we launched the BIC Shave Club in France with encouraging initial results.

In North America, we registered a double digit decline in net sales. Our market share in one piece was 27.6%. A 1.5-point drop compared to a record share on 29% last year. Our great value for money strategy and our added product value launch underpinned the strength of our business model. We gained shares in the 5-blades disposable segment notably thanks to the launch of BIC hybrid-5 strengthening our number 1 position with approximately 33% value share compared to 27% a year ago.

In Latin America, net sales grew high single digits. Brazil led this growth supported by the launch of the BIC Flex-3 shaver and the extension in the BIC Soleil range.

In the Middle East and Africa region, we registered a double digit decrease mainly due to timing impact with orders shifted from Q1 to Q2 2017.

Q1 2017 normalised IFO margin for shavers was 12.6% compared to 10.7% in Q1 2016 and 12.9% excluding the impact of special employee bonus. The margin change is mainly impacted by the decline in the North America net sales, higher operating expenses including the continued investments in R&D which was partially offset by lower brand support compared to Q1 2016.

Now I turn over the call to Jim to present the Q1 2017 consolidated results.

Jim Dipietro:

Thank you Gonzalve.

As we review key elements of the summarised results we see Q1 2017 net sales were flat as reported and decreased 4.1% on a constant currency basis. Gross profit increased 3.8% while normalised IFO decreased 0.1%.

Slide 12 shows the evolution of net sales between first quarter 2016 and first quarter 2017. On an analysis reported basis net sales were flat versus last year. On a constant currency basis, our sales declined 4.1%. Foreign currency translation impact was favourable 4.1% mainly driven by the currency impact of Brazil and the US dollar. I will now review the change in first quarter 2017 normalised IFO margin compared to last year's first quarter. We had a favourable impact of 0.8% in cost of production. As planned total brand support investments which includes consumer and business development support accounted for above net sales. And advertising as well as trade support increased by 0.8%. OPEX and other expenses grew by 1.9% which includes planned increases in R&D.

Slide 14 explains the elements of IFO to net income. We see net finance revenue was 0.7M€ compared to a negative 2M€ last year. As first quarter 2016 had an unfavourable fair value adjustment to financial assets denominated in US dollar compared to December 2015. Income before Tax decreased to 75M€ while the effective tax rate remained consistent at 30%. Net income from discontinued operations was a negative 2.8M€ in the first quarter of 2017. Compared to 4.5M € last year. Net income Group share declined 2.7% to 49.7M€. And finally, EPS Group share decreased 1.06€ compared to 1.08€ last year.

The net cash position slide summarises the evolution of our net cash position between December 2016 and March 2017. Net cash from operating activities was 25.9M€ with 81.1M€ in operating cash flow. The increase in working capital of 55.2M€ was mainly driven by the increase in inventories compared to December 2016. We invested 31.5M€ in CAPEX in the first quarter. And the share by back was 9.2M€ in the first three months of this year.

This ends the review of our first quarter 2017 consolidated results. I now give back the presentation to Bruno.

Bruno Bich:

Thank you, Jim. So, let me summarize this presentation. The net sales were weakened by stationery and shavers in the US. The stationery market was soft and the shaver market as you well know continues to be disruptive. The positive side… it's early in the "Back-to-school" season but it looks in Brazil, we had a good back-to-school with solid market share.

In Eastern Europe, we are continuing to perform well in lighters with additional distribution gains. And in shavers we are achieving solid performances in Latin America and Eastern Europe.

The decline of the IFO margin is due to additional investments in R&D and brand support as we had announced aimed at backing up our mid- and long term growth plan. We did maintain a solid cash generation in the quarter.

For the year, we are maintaining the objective we gave you in February. These objectives are based on a reliable plan build by our experience and qualified management team around the world.

In stationery, we see back to school… good back to school pre-orders, it's early but we see good back to school pre-orders both in Europe and the US where are new quick dry pen and BIC Gel-ocity as well as our Velocity Max Mechanical pencil have been listed at major retailers starting in March… being in stores in March and April.

We are confident in lighters. We keep gaining market shares in the US and we continue to increase distribution in Latin America and Eastern Europe.

In shaver, we continue to perform well in Latin America and Eastern Europe but the market remains no doubt challenging in the US with the disruption you will know.

In total, organic net sales should grow mid-single digit which as you know over the years means between +4 and +6 %. In light of the volatility of the shaver market, we could be at the low end of that range.

As planned, in order to enhance our long-term performance, I just mentioned, we will continue to invest in R&D, CAPEX and brand support per the original plan and the total investment on normalised income from operations margin will be approximately 100 basis points compared to 2016 excluding major currency fluctuation.

We will now answer your questions.

Operator:

Thank you very much sir. Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please press 01 on you telephone keypad.

The first question today comes from Hermine de Bentzman of Raymond James. Please go ahead.

Hermine de Bentzman:

Hi, good afternoon. Thank you for taking my questions. My first question is unsurprisingly on the US market particularly for shavers and stationery. I would love to have a bit more details on what happened in the market. To what has changed since last year. Have you found the environment much more competitive than before? Maybe talk about the price decrease at the main competitor and the impact it has on the shaver activity. How do you see the US market evolving and what is your action to improve your performance in the US?

My second question is on the phasing impact, you are mentioning in the Middle-East and Africa with stationery and shavers. I remember in the confcall that we should have a better Q2 in shaver on this element, I guess it's also the case in stationery. Can you provide the gross in Q1 excluding the saving impact?

And lastly, in lighters, how do you explain the slow down? We are not used to seeing this level of growth in your lighter business. You mentioned a good Q4, do you think you have __ Do you think your sell out numbers today make you confident that lighters can improve in the rest of the year? Thank you very much.

Gonzalve Bich:

Thank you for your questions. Let me try to answer them in turn starting with stationery in the US. The US stationery market was down 2.5% in value at the end of February of 2017. All product segment declined expect the gel segment, porous and dry white. On average, all segments including gel decreased -6%. As you know our strength is in ball pen, correction and highlighters. Three segments in which we did very well and continued to gain market share.

All channels of distribution were affected excluding e-commerce. Mass market underperformed in part due to reduced promotions compared to the same period last year. But as I said our strength in ball pen, correction and highlighters will continue to work on those in the balance of the year and running into Back-to-school. Back-to-school as usual is very important. Focusing on visibility in stores, reaching consumers with our communication programs is what is important for us to carry the balance of the year.

Turning now to the shaver market in the US. As I said earlier the three major impacts are pricing, reduce promotional impact and the impact of private label.

And those across both, the system and one piece businesses.

We launched Bic Hybrid-5 at the beginning of this year. And as we said before, the back product is doing well and gaining market share today allowing us to drive growth in the business. In the balance of the year we are going to continue focus on excellence of distribution, in stores in the US, increase promotional support for our products and driving the disposable business in that market.

MEA when I refer to phasing, have two different roots in the MEA business. One is through our own subsidiaries and in some markets, we work through partners. And it's on those partners that some of the orders we ship to them were moved from Q1 to Q2.

For the lighter question, yes, we had a strong Q4. But as I explained in my comments earlier, it's a timing impact between shipping to the customer and sell out. And what is important for is we grew ourselves faster than the market and gained share in the US market. So, we believe our position in lighter in the US continues to be strong.

Operator:

Thank you very much. The next question comes from Nicolas Langlet from UBS. Please sir go ahead.

Nicolas Langlet:

Hello, good afternoon everyone. I have got three questions please.

The first one is on the gross profit development in Q1. Well… the cost of production reduction. The 80-basis point improvement. I was wondering that if there was any positive FX impact within that? Because I think last year you had a very negative impact from Latam currencies. So, did you have this year a positive impact? The second question on the shaver segment in the US. One of your key competitors announced 2 months ago price its plan to cut prices on April 1st this year. Did it happen? Did they cut prices on both system and disposable? And if yes, what was your reaction? And the third question is on the price increase on lighters. I think at the full year presentation, you mentioned you were planning to pass price increase but only for part of the distribution. Is it still the plan?

Jim DiPietro:

So, Nicolas, this is Jim. I'm going to address the gross profit question. And as you mentioned in the increase or the benefit we had 80 basis points. FX was a contributor to that and rightly said, last year Latin American currencies were unfavourable. This year, we are seeing a bit of a benefit year on year. So, driving the 80-basis point was one affix, two is still benefitting from favourable raw material versus a year ago. Those two are mainly off set by unfavourable mix. Primarily as we have talked about some of the softness in North America obviously having an impact on gross profit. So we have favourability on FX, continue favourability on raw material being offset a bit with unfavourable mix based on sales base in the US.

Gonzalve Bich:

As to the question about pricing in the US on shaver. Yes the price decreases announced by our large competitor earlier this year have now have now been realised in stores in the US and those prising reductions this year are focus on system. Last year they were on disposable in Q2. And across the range end of the year. Today those are in place and if you have seen over the weekend, that same competitor put out communication about the reduction about refills underlining our comment about the volatility of the US shaver market.

As regarding to pricing in lighter. Yes we did take the price increase we talked about and of the year and we continue to do so tacitly where and when it is good for the business.

Operator:

The next question comes from Mourad Lahmidi from MainFirst. Please sir go ahead.

Mourad Lahmidi:

Yes Good evening I have one question on lighters. I was wondering whether the slowdown in lighters in Q1 in the US was due to your price hikes at the end of last year. So some pick up in pre-ordering or it has nothing to do with that?

Gonzalve Bich:

No, I don't think so. Our price hikes were selected in selective as we announced earlier this year in selected channels of distribution. So no.

Operator:

We have another question from Christophe Chaput of ODDO. Please sir go ahead.

Christophe Chaput:

Yes, good afternoon. Christophe Chaput of ODDO. I just wanted to come back to page 8. On slide 8. Regarding the shaver market in the US. So as total the market declined by 5%. Could you give us the price effect on that minus 5% and could you break it down please between the refillable and one piece? And just to be clear, you say that the impact of the big competitor in term of price was mainly for 2016 on one piece and then 1st of April they are going to decrease the price on refillable that is?

Gonzalve Bich:

Let me start with the last part of your question and then I'll come back.

Yes you are correct that price decrease is on the refillable or system side of the business. When we talk about price effect value was down 9.2% and volume over the same period was down 4.9 or 5%

The next question comes from Steve Levy from Natixis, please go ahead.

Steve Levy:

Good afternoon everyone. Just a couple of questions from me. Can you explain what is a competitive environment excluding North America? And where do you see growth on with a high single digit for the rest of the year in terms of area? And can you give us more details on the Bic Shaver Club? You said it was encouraging start, can you give us a bit more colour on that?

Gonzalve Bich:

I am sorry Steve is your question on the competitive environment in shaver or in general.

Steve Levy:

Sorry in shaver and stationery excluding North America. Can you give us what is the environment elsewhere? In term of pricing? Can you see a strong pricing competition?

Gonzalve Bich:

Ok. Let me start with stationery. Outside of North America the competitive environment remains unchanged and important. That having been said, we have strong market share in a lot of geographies. As we have told you before, we continue to focus on the product, the quality of the product and putting that into the hands of consumers through impactful visibility in stores, relevant consumer communication where appropriate and that the point in time in the year and making sure we have excellent customer service. I don’t think it has changed.

Shaver is volatile. It is increasingly volatile in the US. Outside of the US it is not less volatile. It is volatile in a different way. We are in a battle for consumers and consumer satisfaction. But by continuing to launch relevant new products, whether that be the male 5-blades product hybrid 5 of Flex 5 we launched last year, Flex 3, Flex 4 into Eastern European Market. Or Flex 3 and Soleil range into Latin American markets forms the basis of our continued strong business plan.

And Bic Shave Club… As I said, it is early. It has only been one month. The initial results are encouraging.

Operator:

Thank you very much. There are no further questions in today’s conference call. So I give you back the floor for your final remarks.

Sophie Palliez:

OK. Thank you. If no further questions, we will end the call.

Just a short reminder on our agenda. We have an annual general meeting on May 10th in Clichy and we would be very happy to welcome you for that annual meeting. So thank you again, we stay at your disposal for any further question after this call. Thank you very much.

Bruno Bich:

Thank you to everyone.

Operator:

Thank you all for your participation. You may now disconnect.