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

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Misprints and repetitions have been corrected

Operator: Ladies and gentlemen, welcome to the Third Quarter 2017 Results BIC's Conference Call. I will now hand over to Mrs Sophie Palliez. Madam, please go ahead.

Sophie Palliez: Thank you. Good afternoon and welcome. This nine months 2017 results presentation will be hosted by Bruno Bich, Chairman and Chief Executive Officer, Jim DiPietro, Chief Finance Officer, and Gonzalve Bich, Chief Operating Officer.

We will have a short presentation including the main highlight by category, and then we will go through the usual Q&A session. Let me give the floor to Bruno.

Bruno Bich: Thank you to everybody for being here. Good morning, good afternoon depending on where you are. Thank you, Sophie.

I've included the summary which is in your presentation in my opening statement. The nine months net sales were €1,528.7 million, up 0.4% as reported, and down 0.1% on a comparative basis. Europe and developing markets grew by 4.5% and 0.8% respectively for the nine months, while North America declined by 3.9% on a comparative basis. The normalised IFO for the nine months was €302.9 million, with a normalised IFO margin of 19.8%.

Looking at the third quarter, net sales were down 0.9% on a comparative basis, stationery was up 2.6%, lighters were down 1.7%, and shavers were down 5.1%. Europe grew by 6.4% while North America and developing market declined respectively by 4.5% and 2.2% on a comparative basis. The normalised IFO for the third quarter was 83.5 million with a normalised IFO margin of 17.9%.

The nine months EPS was €4.02, down 11.6%. The nine months normalised EPS group share, which excludes restructuring costs that were mainly related to BIC Graphic, was €4.47, a 3.5% decline. Our net cash position at the end of September was €181.6 million compared to €222.2 million at the end of December 2016.

2017 is a challenging year in many of our markets. We posted a solid performance in Europe across our three categories, mainly driven by our momentum in Eastern Europe countries. In North America, we are facing an unprecedented market disruption in the US wet shave category, as well as unexpected customer inventory reduction in Lighters.

In developing market, our softness is mostly due to Brazil where retailers are cutting inventories in the three categories.

The decline in the nine months IFO margin was mainly due to increased cost of production and brand support as well as higher operating expenses. Despite this challenging context, we continued to maintain a solid cash generation.

Based on our current forecast, we confirmed our group outlook for 2017. Net sales in terms of organic growth are expected to be slightly below 2%. At this sales growth level, we expect 2017 normalised income from operations margin to decline by less than 100 basis points.

Gonzalve will now comment in more detail on the performance by category.

Gonzalve Bich: Thank you Bruno, and good afternoon everyone. On slide 8, we begin the category highlighted section of the presentation with a brief outlook at total stationery market sales in the US. And we can clearly see that the market environment remains challenging. While the obvious and significant growth in e-commerce continues its pace and in line with consumer trends, the improving growth rate of 19.8% versus 15.6% at the end of the first half was not enough or sufficient to fully mitigate the decline that that we see in other channels. As a result, total market sales in the US slipped into decline by 0.3% with perhaps the most notable changes occurring in brick and mortar due in part to a slower back-to-school and the continued slowdown of the adult colouring trend.

Turning now to our BIC results, organic net sales for Stationery category worth €619.4 million year-to-date, up 3.1% on a comparative basis. In Europe, our back-to-school sell-out across the board was robust and we gained market share across the region with a solid performance in the UK and the 14th consecutive year of market shares growth in France.

Our new products, including BIC Intensity Writing Felt Pen and BIC 4-Colour 3+1, which includes a mechanical pencil function, met with great consumer approval and continued investment in marketing support during back-to-school, with BIC 4-Colours and BIC Evolution campaigns meant that brand visibility was strong and innovative.

Year-to-date sales in North America grew low-single-digit in a slightly declining market. Although the market was flat during back-to-school and value terms, we enjoyed a strong back-to-school, gaining share in both volume and value driven by improved display and distribution across the range with successful performances with our new added value product line, Gel-ocity Quick-Dry in the gel segment and BIC Velocity Max pencil.

In Latin America, year-to-date grew net sales low-single-digit and reinforced our overall market leadership, thanks to the success of BIC Cristal colours range and the BIC Cristal Colours range and BIC Cristal Up.

In Brazil, the market was soft yet we continued to gain market share.

In Mexico, we outperformed the market with solid back-to-school sell-out performance. Thanks to BIC Cristal and our colouring and marking ranges supported with effective marketing to drive sales and awareness.

In the Middle East and Africa region, we continued to gain market share across the region particularly in South Africa. On a year-to-date basis in India, domestic sales of Cello Pens increased high single digit and we consolidated our brand leadership with market share gains in our two main products segments, ball pen and gel. In line with our strategy to accelerate our progress in India, we have acquired additional land for the building and construction of a new writing instrument facility in Daman, with a total investment of €28 million over two years of which €18 million is in this year.

Nine months 2017 normalised IFO margin for Stationery was 8.9% compared to 10.5% in nine months 2016, excluding the impact of the special employee bonus. Third quarter of 2017 normalised IFO margin was 3.6% compared to 4.0% in the third quarter of 2016. The decline in both third quarter and nine months 2017 margins was mainly due to the increase in brand support investment.

Looking at our Lighter business, net sales were €514.8 million, stable on a comparative basis. In Europe, net sales recorded mid-single-digit growth and in Eastern Europe, solid momentum continued, driven by distribution gain. In North America, net sales remain stable. Through mid-September 2017, our value market share held stable in the market while several customers optimised their inventory levels during the third quarter. In developing markets, net sales decline mid-single-digits driven by retailer inventory reduction in Brazil.

Nine months 2017 normalised IFO margin for lighters was 40% compared to 40.6% in nine months 2016 excluding the impact of the special employee bonus due to higher cost of production. The increase in operating expenses was more than offset by lower brand support investments.

Turning now to the next slide and the US Shaver business, the cause and effect of the increase competitive pressure and market disruption is evident this year. Year-to-date, the total wet shave market decline continued at unprecedented levels to minus 8.9%, driven predominantly by the performance of the systems business at minus 12.4%.

Recent competitor price reductions combined with aggressive promotional activity in system has not been compensated by a commensurate increase in volume purchase so far suggesting that the consumers continue to purchase in other channels such as e-commerce. By comparison. although still showing decline at minus 3.8, we see the trend in the one-piece segment improving versus minus 5.8 this time last year.

Looking at BIC's one-piece shaver's performance in the US, we see that market share is stabilising in the third quarter as we reap the benefits of driving sales with increased efficiency of our promotional and display activity. Our performance is further supported by the results on our premium items that provide consumers with exceptional value for money.

From a year-to-date value share perspective in one-piece shaver, BIC Hybrid 5 is the market leader of men's five-blade segment with over 36% share. Similarly, in the one-piece five-blade segment for women, BIC Soleil Shine continue to grow double-digit on year-to-date basis.

In addition, our direct to consumer site shopbic.com combined with an energetic yet strategic approach to ensuring that consumers can purchase BIC products omnichannel is an important step in supporting continued financial growth and category substantially.

Let me now turn to our total shaver performance. Net sales year-to-date was €339.3 million, down 4.5% on a constant currency basis. From a geographic perspective, net sales in Europe grew high-single-digit and we gained market share across the whole region.
In Eastern Europe, performance was driven by the distribution gains and the success of BIC's Flex 3 Hybrid and BIC's Soleil shaver.
In France, our online subscription service, BIC SHAVE CLUB, which launched in March, allows consumers to order refillable shavers online and continues to perform well. As a result, we are announcing the launch of a similar offer in the UK by the end of the year.

In North America, net sales declined double-digit. Our market share in the one-piece segment was 27% in value at the end of September, down 1.5 points versus the previous year. As previously mentioned, the green shoots of recovery that we see mean that our focus on value and performance positioning is working, and as a result we will launch BIC Soleil Balance in 2018. This new five-blade disposable shaver for women features our best technology for those consumers who wish great level of performance at a fair and great price.

Sales grew mid-single-digit in Latin America despite an unexpected inventory reduction in Brazil during the third quarter, competitor price reduction and upweighted competitive pressure in Mexico.

Year to date, 2017 normalised IFO margin for Shavers was 13.5% compared to 15.4% versus last year excluding the impact of the special employee bonus due to North American net sales and higher operating cost.

Third quarter 2017 normalised IFO margin was 13.8% compared to 19.8% in the third quarter of 2016, reflecting the evolution of North American net sales and the continued investments in the long-term development of the category.

Thank you. And with that, I'll hand over to Jim who will present the third quarter and nine months consolidated results.

Jim DiPietro: Thank you, Gonzalve. As we review some of the key figures for the nine months of 2017, we see net sales are up 0.4% as reported but down 0.1% on a comparative basis. Gross profit decreased 0.9% while normalised IFO decreased 2.6%.

On slide 16, we see the composition of our third quarter 2017 net sales performance. On a comparative basis, our net sales were down 0.9%. Our as reported net sales were down 5% versus last year due to the impact in the perimeter change, as well as foreign currency translation.

On slide 17, we see the composition again but this time for the nine months of 2017. On a comparative basis, our net sales were down 0.1%. The perimeter impact for nine months was minus 0.6%, while the translation impacted as reported sales of 1.1%. Our as reported net sales are up 0.4 versus last year.

Now, we're viewing the change in the third quarter 2017 normalised IFO margins and compared to third quarter of 2016. In the third quarter of this year, our production costs were higher at 1.9 points. This was mainly driven by the Shaver category decline, impact of the North American sales decline was in the Shaver category as well as higher production cost in the third quarter.

Brand support investments were higher in the quarter compared to last year by 0.7 points. OpEx and other expenses decreased by 0.6 points.

Now we're viewing the same for nine months normalised IFO compared to last year. In nine months, cost of production was higher by 0.5 points. This is mainly driven by the unfavourable third quarter trend. Brand support investments increased 0.2 points, OpEx and other expenses have also increased 0.5 points.

Slide 20 explains the elements of IFO to Net Income. We see net finance revenue was negative €0.8 million compared to a positive 1.7 million in nine months of 2016. The effective tax rate remains consistent, at 30%, for continuing operations in the nine months. Net income from discontinued operations was minus €6.7 million in the nine months of 2017 compared to minus 1.3 million last year. This year's impact also includes the €4 million loss related to the sales of BIC Graphic North America and Asia. Net income group share declined 12.3% to €187.3 million. Finally, EPS group share decreased to €4.02 compared to last year at €4.55 in the nine months of 2016.

On slide 21, you look at the key components of working capital. Inventory in days remain quite stable versus 2016 at 166 days. Receivable in days increased four days versus last year at 73 compared to 69 a year ago.

The net cash position slide summarised the evolution of our net cash position between December 2016 and September 2017. Net cash from operating activities was €272.1 million with €275.4 million coming in operating cash flow. The impact of the change of working capital and other was negative €3.3 million.

We invested a €133.2 million in CapEx for the first nine months of this year, and the dividend payment was €161 million. Share buyback, net of the exercise of stock options and liquidity contracts was €53 million. The proceeds from the sale of BIC Graphic in North America and the Asian Sourcing Operations was €55.7 million.

Lastly, the negative impact of €21.2 million in others is mainly related to the FX negative translation impact of the Brazilian currency and the US dollar. This ends the review of our nine months consolidated results, and now we're ready to take your questions.

Operator: Ladies and gentlemen, the Q&A session starts now. If you wish to ask a question, please 0 and 1 on your telephone keypad. Thank you.

And we have our first question from Nicolas Langlet from Exane BNP Paribas. Please go ahead, sir.

Nicolas Langlet: Hello. Good afternoon all. Lighters, do you expect the destocking issue to reverse in Q4? If yes, what could be the impact on your top line? And we can start with the first question and we will go through the others after.

Gonzalve Bich: So to your Lighter question, Nicolas, as we said during our call a few weeks ago, we didn't know what impact it would be in Q3 and in Q4. The teams continue to work on sell-out programmes around visibility in BIC seen BIC sold in all three categories, including Lighter and are working with retail partners to ensure that they have the right level of inventory for our products.

Nicolas Langlet: Okay. So the destocking impact could continue in Q4 for lighters?

Jim DiPietro: I think, to your point, Nicolas, the destocking impact has probably – we've seen – we probably have seen the majority of it. There could be a little bit more. So I think what we've reflected so far in the year-to-date results has probably been the destocking impact, most of the destocking impact of lighters in the US.

Nicolas Langlet: Okay. Second question on the brand support. So for the first nine months, you had an increase of 20 basis points. Do you think those investments are sufficient to support your top-line in the coming quarters, and should we expect further increase of brand support in 2018?

Jim DiPietro: No. I think the brand support investments that we've seen are probably still, I would say, consistent to what is in the full-year outlook that we've communicated a few weeks back, so we don't anticipate an increase in the fourth quarter. Again, what we will continue to do is review and may have a shift of type of investment, with some being above net sales and some being below, so some of the evaluation would still impact fourth quarter. But as far as increase would not say there's a significant increase in the fourth quarter.

Nicolas Langlet: Okay. On the OpEx increase for the first nine months, the 50 basis points, how much of that is related to investments in research and development?

Jim DiPietro: There's a piece of that, but there's also a piece of structure within OpEx whether we're investing in, I would say, organisational structure in some organisations, additional sales support to other organisations, more overall support to manage the business longer terms.

Nicolas Langlet: Okay. So there is no real increase in R&D spending for first nine months?

Jim DiPietro: There is a – first nine months – R&D year-to-date to nine months is relatively stable versus a year ago.

Nicolas Langlet: Okay. And the last question is for the US market, can you tell us how much of your sales are generated with pure online retailer in the country? And how does this compare versus the categories under which you operate?

Gonzalve Bich: So in the stationery market, as you can see on the stationery slide, online today represents about 8% of US stationery sales. In Lighter, due to shipping regulations, lighter sales online are negligible to non-existent. And in the disposable category, as compared to the systems business, sales are less than 3% online.

Nicolas Langlet: Okay. And for BIC, notably on the stationery, do you generate most 8% of your sales with pure lines of stationery in the US?

Gonzalve Bich: Our sales online are commensurate with the category average.

Nicolas Langlet: Okay. All right. Thank you.

Gonzalve Bich: Thank you.

Operator: So we have another question from Mr Steve Levy from Natixis. Please go ahead, sir.

Steve Levy: Good afternoon. This is Steve Levy from Natixis. Just a couple of questions. The first one is: do you plan any new initiative to address the online in the US? Have you changed your strategy, or do you plan to change your strategy going forward, for the web in the US?

The second thing is can you explain a bit further on the shavers? What has driven your decision to increase the promotion? Is it because you wanted to keep your market share or is it something else? I just wanted to be sure if I understand well.

The third question is on Brazil. Economy seems to stabilise. Do you see – do you confirm that the economy and your – the arrangement is stabilising in Brazil or, to say differently, when do you expect that it will be translated in your activity?

And the fourth question is on the guidance. You stayed unchanged slightly below 2%. Can you tell us where the growth will come from, or can you just quantify what it means that it's slightly lower than 2%? Thank you very much.

Gonzalve Bich: So on your first question about online initiative or web initiative in the US, as I've said during the year, we're very focused on BIC seen BIC sold. and that's in all channels of distribution. So whether you want to buy your pens, lighters or shavers in an independent convenient store, whether you want to buy them at a big box mass merchant, at a specialty shop, or online, we have teams dedicated to ensuring the most smooth and frictionless way for consumers to do that. That's presenting our products to them and their value for money and unique selling proposition. That will take many forms, and we have teams dedicated to that specifically in the US as well as elsewhere sharing best practices around the world.

To your question about shavers, I think what we said is that we were adjusting the promotional mechanics that we were using to always be in line with those available to us in the market. As we've explained before, when the market moves to everyday low pricing a little bit more than 12 months ago, that force all brands, including BIC, to adjust their promotional strategies, their activities around display to ensure that we continue to put our products in the best possible light for consumers to choose them every day. And as I said, we are the number one five-blade male shaver in the US today.

Steve Levy: That means you have been more aggressive this quarter than the first and second quarter in order to keep your market share unchanged?

Gonzalve Bich: Yeah, I think it's more about – as we said before, it's more about shifting between the different mechanics that are available to us, and within the market to make sure that we're competitive. It's not one single thing.

Steve Levy: Understood.

Gonzalve Bich: In Brazil, to your question and about the stabilisation of the economy, I guess I've been hearing about stabilisation of the economy in Brazil for the last three years and that hasn't played out, and the political and economic upheaval in Brazil, if you take a five-year trended view, pretty – you know, pretty much unchanged. And how that will or how long it will take for that to be translated into the CPG market and then into our results, I think you're into 2018, and we'll see how the next, you know, three to six months go with – in Brazil from a political and economic perspective. It's a little bit too early to say that recovery is here.

Steve Levy: The question on the guidance?

Gonzalve Bich: Yeah, I think overall, you know, 2017 is a very challenging year in many of our markets and for us. And based on that and what we see today, we're confident in our guidance. The net sales performance will notably be driven by two categories: first is Stationery. The solid momentum in Cello on a domestic sales. From a net sales perspective in the nine months, we're up high single-digit, with a strong double-digit performance in the third quarter. The success BIC seen, BIC sold or Cello seen, Cello sold, continues to be a driver factor in operations and our focus in the fourth quarter as well as new product launches.

Back-to-school in Brazil is expected to be solid although ultimately it depends on the overall Brazilian economy, as we just talked about. Back-to-school in South Africa, another big event coming up, should be strong. Finally, in Shavers, we mentioned in the press release, we're launching a new high-end female shave, BIC Balance and we'll start shipping the products in the fourth quarter.

On top of all of this, we are confident to continue our growth in Europe particularly in Eastern Europe.

Steve Levy: Thank you for that.

Operator: So we have another question from Mr Charles-Louis Scotti from Kepler Cheuvreux. Please go ahead, sir.

Charles-Louis Scotti: Yes. Hello, good morning – good afternoon, sorry. Three questions if I may. The first one on the Stationery business. As you have shown in your presentation, the brick and mortar channel is declining and the growth is driven by the e-commerce. Can you comment on your profitability across the different channels? And also your market share, are you less exposed to the e-commerce and to the retailers, the main retailers?

The second question is on the Lighter business. Can you comment on the growth trend of lighters in Western Europe? And also, why do you think retailers in the US are cutting inventory? Do you that they had overstocked in the past, or do you think it reflects a softer demand?

And last question on shavers: it seems that your profitability on the Shaver business was down heavily in Q3. Do you have – reduced your prices there?

And then also another technical question. How do you split price decrease and promotion, because it seems that you have stepped up your promotion activities in Q3 compared to H1? Thank you very much.

Gonzalve Bich: Okay. Thank you for your question. As to profitability and share, we're splitting it by brick and mortar and online; that's not information that we give. But it's something that we keep an eye on, and we make sure that we're balancing to continue to gain market share.

Jim DiPietro: The shaver profitability in Q3, which we see the biggest change in the third quarter within Shaver was the impact, and call it a mix impact based on the US sales decline within the third quarter, with that business declining in the third quarter had a negative impact on gross profit. That's probably the single biggest change within the margin of Shaver in the third quarter.

In addition to that, obviously with some of the volumes being down, cost of production was also a bit higher. And then brand support was also higher in total for Shaver.

So again, the mix impact of the US was the biggest impact followed by the absorption of the unfavourable within the third quarter, and then also the brand support investments within the third quarter.

I think as a sub-question to that, you were raising the question on price decreases versus promotion. If you look at the bridges that we showed on page 18 and 19 within brand support, we tried to show the composition of those investments separately, so you'll notice in both middle of the page, the brand support, the top of that bar, we tried to highlight the promotional investments in brand, development investments that does include in the US, as an example, coupons, which are obviously a vehicle of advertising but gets recorded as an adjustment or a reduction of net sales. So again, we try to highlight that, and you'll see that on page 18 and page 19 for both third quarter and nine months.

Gonzalve Bich: And I'm sorry, I missed the second part of your second question which was related to the US destocking in Lighter, and how we viewed it. I think that we've seen this before in years past, and this type of behaviour's cyclical unfortunately from an inventory management perspective at retailers that they adjust their own commercial strategies.

But as I said, our net sales are stable, and the market share is stable in the US, and we continue to focus on ensuring that we have maximum visibility of our product of standard, and those sleeve Lighter that we talk about to drive impulse purchase.

Charles-Louis Scotti: Okay, thanks very much. Can I ask another question?

Jim DiPietro: Sure.

Charles-Louis Scotti: Yes. More general question, I would say. It seems that actually, two of your three project categories are gradually shifting online where the competition seems to be stronger in my view. How do you intend to tackle that? And I think more particularly about the Shaver business, where the DOLLAR SHAVE CLUB said that it will probably enter European market. Do you intend to replicate the BIC SHAVE CLUB test in other European counties? Thank you.

Gonzalve Bich: Let me start with the last question, which is, yes – as I said in my comments, we are launching BIC SHAVE CLUB in the UK.

Charles-Louis Scotti: Okay.

Gonzalve Bich: From a more general perspective, sales are shifting where consumers want to buy, and that's been our commercial strategy for years, to make sure that we're in an optimal position for that to happen.

Characterising it as a stronger competition, I'm not sure. I mean we've been competing against Newell and Gillette for years, and years, and years, and I think we've done a very credible job that starts with the product and the quality of our products and the value from any positioning that those products have versus the competitive set.

It's our operational job to make sure that consumers are able, every day, all the time, and all over the world, to buy them, be satisfied by them, and then re-buy.

I agree with you that online presents new challenges for us operationally, but as I answered to Steve's question, we're investing in teams, and tools, to make sure all over the world, but in the US as well, that we're at the peak of our game in the online front.

Charles-Louis Scotti: Okay. Thank you very much for your time.

Operator: We have another question from Marion Boucheron from Raymond James. Please go ahead, madam.

Marion Boucheron: Hi, good morning – good afternoon, sorry. Three questions for me, please. First one would be on the guidance that you were saying, you're expecting in Q4, that was mainly driven by Stationery and Shaver. In Stationery, do you believe there should be also some replenishment; you were pointing to the strong sell-out in Q3. And also – and regarding the Shaver acceleration, you expect, where is the launch? Is it a global launch or it's more – to some markets in this – for woman shaver?

Then could you please remind us of the dividend policy of the group?

And my last question was on Q3, with there something that was a disappointment for you in the quarter, that you were not expecting apart from the Brazil slowdown and the destocking in lighters?

Gonzalve Bich: So let me tackle your second question because that's the one that I clearly understood with regards to the Balance launch. The Balance launch – I'm sorry, it's the third question. The Balance launch is a US-only launch, for now.

The first question, to stationery replenishment, I'm not sure I understood the question.

Marion Boucheron: Well, you said, you are confident with the guidance in full year, so that implies quite of an uptake in Q4, and so you mentioned you were very confident on stationery for the last quarter, but you mentioned not only emerging market, so but you were also referring to France which allows for the return in Q3. So do you expect replenishment following the strong sell out, or selling was in line with sell out already?

Gonzalve Bich: So back to school in the US and France are over, and that's the big buy-in. As I said, we see strong momentum in Cello in the domestic market, both from a visibility and new product launch perspective, as well as good plans for the upcoming back to school in Brazil and South Africa.

Marion Boucheron: Okay. And then my question was on dividend policy.

Jim DiPietro: The dividend policy – maybe it's better to really restate the use of cash policy. And, again, our use of cash policy remains the same as we, again, evaluate investments to grow the business long-term. Second is the dividend that we would pay back to the shareholder and the purchase share buyback. So that is still the fundamental use of our cash. And specific dividend discussions, obviously, it's too early to say this year. We'll talk about that obviously in February of 2018.

I think your last question was regarding third quarter disappointment. I think it's important to go back to what we said at the end of September and Gonzalve mentioned that a few minutes ago. When we had the call at the end of September to talk about the revised guidance, at that point we gave the revised outlook for the balance of the year, which in essence was the four months because as you remember, we said that the September results clearly were not done. We did not close yet. So what we have in view was really the balance of the year.

Some of that risk, I would say that we have crafted into the revised guidance materialising in September, which, again, from a full year outlook doesn't change. I think some of that has just materialised in the month of September versus early in the fourth quarter.

Marion Boucheron: Okay. Thank you.

Operator: We have another question from Riccardo Romiati from One Investment. Please go ahead, sir.

Riccardo Romiati: Hi, thanks for taking my question. I think one at a time, if that's okay. The first one is on the gross margin in Q3 which was down 190 basis points after being flat in H1. The question is what pricing power do you have to recover this in the fourth quarter?

Jim DiPietro: Yes. So the gross margin for the third quarter is down 190 basis points. The main drivers there go back really to the quarterly sales results of Lighter and Shaver, which was really – more than half of that is going to be mix-related, based on the decrease that's coming out of North America and the impact that has on margin.

The other, I would say, you know, less than 50% of that would be related to manufacturing cost, and that is primarily going to be, I would say, the efficiency absorption, efficiencies through the factory just based on the production where we are in the quarter, and some of the higher costs based on the slightly lower production levels. So the biggest piece is really the mix impact, followed by the manufacturing cost based on sales and production levels.

Riccardo Romiati: And on the pricing power to recover that in the last parts of the year for the full year?

Jim DiPietro: Yeah, I'm not sure if pricing power really has an impact or it should have an impact directly on those drivers because they're drivers related to the sales result. So it would be different as if we were facing material cost increasing, where you would try to go back and try to gain that through pricing power. In this case, it really was the function of the decrease of sales and the impact that it had on margin as opposed to trying to regain that in pricing.

Riccardo Romiati: Okay. And the second question on the – on the lower OpEx level, which helped the margins by 60 basis points in Q3, I wanted to understand what was the change in discretionary spending, and is this level sustainable?

Jim DiPietro: Yeah. And as we have talked about in our prior calls based on, you know, 2017 being a challenging year, we've gone back to revisit some standing to see what could be either deferred or reduced. In the third quarter, you have the impact of 60 basis points as you see in your reference. Is that sustainable? I would say it's a quarterly result. It's not going to be sustainable as far as factoring that in for the long term because we still need to review the plans in the upcoming years to figure out again what kind of investments we would have not only in CapEx, in brand support, but also in operating structure.

Riccardo Romiati: Okay, thanks a lot. That's very clear.

Operator: Okay. So we have another question from Tim Stevenson from Henderson Global Investors. Please go ahead, sir.

Tim Stevenson: Hi. Good afternoon, everybody. Just – I mean obviously this – what's going on in the US market you described as being unprecedented in the shaver market. A tricky question, but how long do you think this is going to carry on for, or, to put in another way, how long do you think it's going to take you to react to what sounds like it is a lasting change in the market? Thank you.

Gonzalve Bich: Yes, I am confirming this is, at least from my perspective, quite unprecedented in the US shaver market from a disruption perspective both in its magnitude as well as its speed. But I would also add the vectors, right? So instead of being a one or two horse race, it's very different today. How long that's going to continue, we're keeping very, very close to it, as you can imagine. We're focused on our strategy. We're very focused on executing and making sure that we have the best products available for consumers to purchase. But I would point you to the magnitude and the impact's actually in the system business. It's not in the one-piece business. Yes, there's trickle-on effect, and we need to be cognisant of it and build plans to fight against it or mitigate it as much as possible, but the disruption is with mainly our competitors.

Tim Stevenson: So if it's in the – I mean obviously, as you say, it is in the multi-piece strategy which you've just moved into in the last few years with three blades, five blades and so on. So it is beginning to affect part of your market. But as the lowest cost producer, or one of the lowest cost producers, surely you should be in a position to actually react and adjust your position to maintain your market share to some extent, which you're obviously doing in terms of brand support, as you've mentioned. But is it – do you feel you're taking too long over this change that you've got to make?

Gonzalve Bich: No, because – I mean, we all follow the market together, right? So there's a new wrinkle in the – or a new piece of disruption every couple of weeks and we keep reacting to it, making sure – I'm not going to talk about lowest cost producer, I better characterise it as best value producer. But as we pointed to in the slide where I showed the quarter on quarter analysis, you'll see the improving trend and the green shoots of recovery that we're focused on maintaining and continuing to push into Q4 and into 2018.

Tim Stevenson: Okay, thank you.

Operator: So we have another question from Nicolas Langlet from Exane BNP Paribas. Please go ahead, sir.

Nicolas Langlet: Hi again. I've got some additional questions please. The first one on the BIC SHAVE CLUB in France, can you give us some colours regarding the performance compared to your initial plan? And notably, are you able, to date, to measure what about the recent cannibalisation effect with your existing business in traditional retail?

Second question, you mentioned a launch in the UK for BIC SHAVE CLUB; should we expect extra cost in 2018 for that launch?

Third, on Cello, so you talked about the improving sales trend. What about the profitability about the first nine months? If you can give us any figures, that would be great. And lastly on raw material, any outlook to share for the Q4 and next year? Thank you.

Gonzalve Bich: So, first, BIC SHAVE CLUB in France, performance today, as I said, is in line with our plan and it's progressing. And as importantly, we're learning a lot in building those capabilities that we've talked about all through the year, and we have good loyalty levels from our subscribers. I don't think that we see cannibalisation yet on our brick and mortar business. The French market is not quite at the same level as the US from an online perspective.

As to the UK launch, no there won't be any extra cost on top of what we've already provided to you forward-looking in our full-year forecast.

Jim DiPietro: So, Nicolas, on Cello, as we spoke, domestic sales are performing well, so within the third quarter and year-to-date. So that's quite encouraging that the traction seems to be regaining in the domestic market. However, the export business is down. That was something that we experienced last year, we continue to experience a bit this year. So the profitability of Cello and the gross profit of Cello unfortunately is impacted by the decline in the export business, even though the domestic business is moving along pretty strongly.

Raw materials, fourth quarter, we wouldn't see much of a change on what we've been talking about year-to-date. As we look into 2018, we were still reviewing, you know, the operating plans. What we see in front of us is probably, I would say, a bit of an uptick in material prices for 2018, nothing that would be significant in nature, but a bit of an uptick versus what we've experienced in 2017.

Nicolas Langlet: Okay. So for Cello, how much of the sales are done with export business today?

Jim DiPietro: It's roughly 20%.

Nicolas Langlet: Okay, 20%. And just to be clear on the profitability today, are you profitable in India with Cello or not?

Jim DiPietro: On the – and it's probably tough to say on the bottom line because now, as it's part of the group, there are different allocations that we're making across Cello. So if we talk gross profit, we can say we are at a lower gross profit versus maybe the Stationery category, again, primarily driven because of the export sales decline.

Nicolas Langlet: Okay. And one last question on your FX exposure, how much of 2018 exposure have you hedged for the euro-USD, and at which rate?

Jim DiPietro: So far in 2018 we are approximately 90% hedged at roughly 1.13.

Nicolas Langlet: 1.13, okay.

Operator: And we have another question from Mourad Lahmidi from MainFirst. Please go ahead, sir.

Mourad Lahmidi: Yes, good evening gentlemen. I have actually two questions. The first one, on the US Shavers market, out of the 12.4% decline since the beginning of the year, how much is volume, and how much is value please, or…?

Gonzalve Bich: So our total US wet shave the 12.4% year-to-date value decline in system has a commensurate minus 5.9% decline on a unit basis. So minus 6% in volume and minus 12.4% in value.

Mourad Lahmidi: Okay. Is it fair to say that the unit decline is mostly driven by the shift to – from, you know, retail to subscription-based business models, or there is no explanation, less consumer, for example?

Gonzalve Bich: Very honestly, I think that's a question best asked to the market leader who is facing those declines.

Mourad Lahmidi: Okay. And a question on your CapEx plan: considering that the slowdown on your markets, do you still expect to spend above average CapEx for 2018? And – yeah, that's the question, actually.

Jim DiPietro: Yes. No, I think the third question, I think, for this year, you know, we're still forecasting in a range of 180 to 200 as we're about 133 investments for the first nine months. And we're tracking – at least forecasting to track similar to last year in the fourth quarter investments.

As we move into 2018, and to your point, as I mentioned earlier on overall plan, we are in the early stages of reviewing 2018 operating plans. And as part of that process, we're going through, obviously, the market situation on where we are today and we've been talking about for the last hour or so, looking at the capacity levels that we have currently reached based on the investments we had. And then based on that analysis and review, then, obviously, we'll plan accordingly. And it's too early to say what that number is going to be, because we still need to finalise. But clearly, in February, you will be able to hear a little bit more precision to the investment levels for 2018.

Mourad Lahmidi: Okay. Thank you very much.

Operator: So we have no other questions, gentlemen.

Sophie Palliez: Well, thank you everyone. So this will end our call. Just one date to put on your agenda, our full-year results for 2017 will be released on 14th February. And we say, as usual, we remain at your disposal for any follow-up questions after this call. Thank you very much.

Gonzalve Bich: Thank you.

Jim DiPietro: Thank you.

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