

inkbox ink inc.

M&A Call

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Call Participants

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Presentation

Operator

Hello, and welcome to the BIC acquisition of Inkbox conference call. My name is Jess, and I'll be your coordinator for today's event. [Operator Instructions]

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

Sophie Palliez-Capian

Vice President of Corporate Stakeholder Engagement

Thank you. So good morning or good afternoon, everyone, and thank you for joining despite the short notice. So the call today will be hosted by Gonzalve Bich and Chad Spooner. Gonzalve will start with a presentation of the transaction, and then both Chad and Gonzalve will be ready to answer any of your questions. Gonzalve?

Gonzalve Bich

CEO & Director

Thanks, Sophie. Hello, everyone, and welcome. I want to start by wishing you all a very happy new year. I sincerely hope it will be one of good health for all of us. At BIC, 2022 is off to a great start, and I'm super excited to share with you why.

This morning, we announced the acquisition of Inkbox, the cutting-edge semi-permanent tattoo brand. This acquisition is a game changer for our Human Expression division and for BIC more broadly. Chad and I are here to walk you through why we're so excited about this next step in fulfilling our Horizon plan and to answer any of your questions.

Let me start with an overview of the transaction. We're acquiring 100% of Inkbox from its 2 visionary founders, Tyler and Braden Handley, and a few financial investors. In terms of deal structure, the upfront payment is \$65 million or EUR 57 million financed in cash. The founders will also receive a deferred consideration based on Inkbox's future performance. These deferred payments will be based on future sales growth and profitability. Closing is expected in the first quarter of 2022, subject to customary closing conditions.

Inkbox is attractive to us for 2 main reasons. First, because it's clear link and focus on self-expression. Creativity and self-expression are fundamental elements of being human, and creating visual art is one of the defining characteristics of our species, first on rocks then on paper.

Tattooing skin has been around for thousands of years as a way of expressing individual identity. Tattoos are used to express social status, showcase one's history and unique experience, can mark one's cultural and artistic interest and so much more.

The second reason Inkbox is a transformative move for us as we continue to transform into a consumer-oriented and led organization is our ever-increasing focus on consumer habits and attitudes, which has only grown in relevance and urgency with the pandemic.

Today, consumers and particularly the younger generations are shifting towards individuality and an intense creativity. They're more fluid with their appearance as they want to showcase their authentic selves. They want a personalized products, and they're ready to pay a premium for goods that highlights that individuality.

Finally, they buy products they want to buy, not necessarily those that they need to buy. And they're using their body as a canvas. As you can see today, in major countries like the U.S., Italy or France, between 1/3 and half of people have tattoos. 145 million Americans have at least one tattoo. In fact, 59% of women have at least 1 tattoo compared to only 41% of men and are more likely to regret it and get it removed, while men would prefer to have theirs covered up by another tattoo.

But here, we're talking about permanent tattoos, the ones that are supposed to stay forever, which poses a major pain point for consumers. Getting a design on your body that cannot be simply erased. But what happens if you regret your choice one day. Tattoos, permanent tattoos can be painful, sometimes expensive, and time-consuming to get. They may also be dangerous as permanent tattoo inks can be toxic and a quality tattoo by a trusted artist is costly.

The solution for these challenges is temporary tattoos, which have gained traction recently. There are hundreds of tutorials on the Internet explaining how to make your own temporary tattoos. And some of you may remember that the first promotion of temporary tattoos was done by inserting it into a very famous bubble gum wrapper. You may remember the poor quality of that product as well. But more seriously, most of the products available on the market are not high quality, and you can definitely tell that they're fake.

This is when Tyler and Braden Handley, the founders of Inkbox, found a solution to our tattoo dilemma a few years ago. Like many others, they were interested in getting tattoos, but they didn't want to commit for a lifetime. They wanted something that they could change as their lifestyles, tastes and opinions evolve. They wanted to offer consumers something that could help them express themselves without worrying about a long-term commitment.

They spent countless nights researching how to solve this dilemma. And after months of failed experiments, they found a fruit in Panama used by local people which they use to create their first ink. This was the beginning of Inkbox's story, followed by a successful fundraising campaign on Kickstarter in August of 2015.

With this vision of resetting the standards of the semi-permanent tattoo, or more broadly the Do-It-Yourself Skin Creative market, they created a successful business.

In a record time, they catapulted Inkbox from a small business based in Toronto to a firm with 154 employees, \$27 million in revenue and a 44% CAGR between 2019 and 2021. 1/3 of their revenues are generated outside of North America, notably in Japan, the U.K. and Germany.

Their model is based first on product safety. Inkbox tattoos use a patented, plant-based, and skin-safe ink formula, which is a huge competitive advantage in today's world. They rely on vertical integration with entirely in-house manufacturing that releases designs with a greater speed than traditional supply chains.

This integrated manufacturing business model enables a gross profit margin of over 60%. And as the business scales, they are projected to be EBITDA positive in 2024. And BIC is an ideal partner to help them grow and reach their full potential. We will help them accelerate the international expansion in Europe and Latin America, notably. Our e-commerce teams will support them to strengthen their digital capabilities on different platforms including with large pure players.

And finally, we'll see the full potential expansion into retail distribution as a major opportunity in the midterm. If they succeed, they can achieve high double-digit growth. As I'm confident that they will, Inkbox will be a significant contributor to BIC's Human Expression division.

The company has a diverse product portfolio with great coverage of the semi-permanent segment. The bulk of their revenues come from artist-designed tattoos. Inkbox has a strong and growing catalog of 10,000 designs available online. Hundreds of contemporary creators now rely on Inkbox as a new revenue stream unconstrained by geography.

You can choose among a large variety of tattoos from words and quotes to animals and geometrics. Their best-performing designs are the 2 butterflies, dragons, and the solar system. But you don't need to be an artist to get a nice tattoo. However, if you think you are or if one of your friends is, you can create your own design online, thanks to user-friendly custom interface.

And in September of 2021, they launched a new Freehand tattoo marker, allowing consumers to draw their own tattoos directly on their skin or that of a loved one. Innovation is absolutely part of their DNA, just like it is here at BIC.

Their next step is to introduce an online subscription service in 2022.

The tattoos are simple and easy to apply. Believe me, I've tried. You just need to transfer the drawing to your skin by pressing down, leaving it on for 60 minutes and then removing the applicator. No fuss, no mess. The tattoo looks light blue initially and then darkens over the next 24 to 36 hours and will end up dark blue to black on most people, depending on your individual skin chemistry.

So who buys Inkbox tattoos? The company has 800,000 active customers, mostly Gen Z and millennials with the majority being women. For Gen Z, consumption is an expression of individual identity. They're eager for tools to self-identify who they are and what they believe in. For this generation, anchored in the social and digital space, Inkbox tattoos are a natural extension of how they shop, share and comment on the world.

Millennials are the second key demographic. They have immense buying power, letting a woman or especially active consumers accounting for \$170 billion of spending per year in the U.S. Now as they look for new ways to express themselves, their beauty, their beliefs, Inkbox provides an accessible resource for them to do so.

The addition of Inkbox to BIC's portfolio of brands shifts our customer demographic towards a younger, more beauty-addicted and highly creative consumer. We started to evolve our consumer base with Rocketbook, which is aimed at young business professional. With Inkbox, we're extending further.

While today, Gen Z and millennials represent more than 65% of Inkbox's customers, 35% of their customers fall into or within older age groups, which offer a strong potential for future growth.

When it comes to reaching its target population, Inkbox has a unique and effective social media and brand awareness strategy. Today, Instagram, Facebook and TikTok are their primary funnels for customer acquisition. However, the company has an active strategy for balancing its acquisition mix to leverage an increasing share of referrals from word of mouth and acquire more customers through search engine optimization.

In 2021, Inkbox.com attracted more than 21 million visitors, a 7% increase year-on-year. The brand has 1.5 million followers on Instagram, which is 10x more than their main competitor, and has been ranked the 12th largest beauty brand on TikTok, along with Rihanna's Fenty Beauty and Gucci.

Since their inception, they've pursued an active brand awareness strategy through exclusive partnership. This has proven an effective way for Inkbox to stand out from non-branded products and promote brand recognition. They've established a diverse range of partnerships with celebrities, including an officially licensed collection with the global music sensation K-Pop band, BTS, a collaboration with the viral and visual Canadian artist, Rupi Kaur, and they've also designed tattoos inspired by famous artists such as Jean-Michel Basquiat, or Keith Haring, one of my personal favorite artists.

The success of these creative collabs is such that they renew their partnership with the estate of Jean-Michel Basquiat for a second series of tattoo now available on the site. We should expect many more of these inspiring collaborations soon.

It's clear that Inkbox is an outstanding company with a promising future, and we see this partnership as a game changer for BIC globally and for the Human Expression division, in particular.

BIC was built on providing consumers high quality, simple and affordable products. The BIC brand is one of the world's most popular household name, has amazing power. Over time, other brands have been added to our portfolio, most of them using BIC as an umbrella to drive attractiveness and consumer engagement. We launched our Horizon plan in 2020 and reframed our 3 categories. Stationary pivoted to Human Expression, lighters evolved to Flame for Life and shavers to Blade Excellence. All of this with 1 single objective, transform BIC into a fast-moving consumer goods company and accelerate growth to create value.

With Horizon, our historical stationary business is moving beyond traditional writing into creative and digital expression to meet new consumer habits. The acquisition last year of Rocketbook, the reusable notebook brand in the U.S., was the first step in creating our digital expression platform, adding a young digitally native brand to our portfolio. The acquisition today of Inkbox builds out the Creative Expression segment, which now offers a diversified panorama of brands where consumers can each see themselves reflected and find their own favorite brand.

So what is Skin Creative, you might ask. Well, the short answer is body art, but this does not capture the full vibrancy of the concept or the broadness of the market. Skin Creative is fueled by consumer megatrends, namely the democratization of creativity and the trend towards greater individual self-expression. It addresses consumer desires to express themselves on their body, which, as I said already, is an ancestral though growing trend.

In market terms, this is a rapidly growing category currently quite fragmented. Today, as you can see on the slide here, if we exclude permanent tattoos, the Do-It-Yourself Skin Creative market size is slightly above \$400 million. It includes a wide range of products from entry point decals to semi-permanent tattoos, like Inkbox, and temporary tattoo markers, such as the BIC BodyMark, and the more traditional henna tattoos.

This is mostly a nonbranded market for now, although small players are emerging. I'm pleased to say BIC BodyMark is one of them as well as a few created by makeup companies. So now you have a picture of the market today.

Let's look at where we're going. The Do-It-Yourself Skin Creative market is expected to reach \$1.5 billion in 2031. There are 5 main drivers that's set to deliver this growth: increased awareness of the products and understanding of the

technology; innovation in semi-permanent tattoos, like more colorful design; creation of new brands; increasing quality of product offerings, notably in terms of tattoo decals; and finally, expansion into the beauty space with temporary tattoo eyebrows, liners and nail tattoos growing quickly and increasing the total addressable market.

About 20% of people who get a permanent tattoo regret their decision. Converting this population to semi-permanent body art, thanks to new products and brand awareness, can accelerate category growth. The industry includes a variety of products. Some can be self-applied; others require professional application in the studio. Prices range from a couple of euros to hundreds or sometimes thousands. Durability similarly varies, 3 days for a decal to forever or almost for a permanent tattoo.

We entered into skin creative with BodyMark in 2018. The acquisition of Inkbox is adding a segment to our portfolio and offers a tremendous opportunity to create, redefine, consolidate and be a leader in the DIY Skin Creative space.

To conclude, this acquisition is a key milestone for BIC, with Horizon serving as our North Star. Like Rocketbook, Inkbox is a company that resonate deeply with BIC's history, a better, safer, easier way to do something that is all the society itself. This is exactly how we want to lead the Skin Creative segment as it expands. By combining BIC's strengths with Inkbox's, we can succeed in our ambition to become the leader of this fast-growing, promising Do-It-Yourself Skin Creative market.

Thank you for all of your attention. Chad and I are now ready to answer your questions.

Question and Answer

Operator

[Operator Instructions] And the first question comes from the line of Marie Fort from Societe Generale.

Marie-Line Fort

Societe Generale Cross Asset Research

Yes. Just 2 questions about the synergies that you can benefit from your tattoo markers already and this company in terms of products and probably also in terms of geographies, have you an idea about what countries you could push the business model and benefit from additional growth? So if you can elaborate a bit more about synergies that you can benefit from this acquisition.

Gonzalve Bich

CEO & Director

Thanks, Marie-Line, and good afternoon. So first on the product set, we're going to continue -- as I said, Inkbox will be run completely separate from -- and stand-alone. They're autonomous. Tyler and Braden continue to manage the business. But of course, we bring, or BIC brings a ton of knowledge from an R&D perspective, a chemistry perspective. So there's a lot of things that we can collaborate there.

BodyMark will continue to be as it is today, in retail distribution and online. Because if you go back to that chart where there's the continuity of time of the product, that's a 1- to 3-day product. Inkbox's Freehand product is much longer in use, so we won't have merging of the brands or anything. Inkbox is Inkbox and BIC stays BIC.

That having been said, there's a ton of other opportunities and use cases for us to fill in our Skin Creative journey. BodyMark was a first step. This is a second step. I'm confident that there will be more steps as we want to remain leader in this fast-growing category.

Geographic synergies, knowing where you are today, I'm going to start by saying, I want to grow it in France. But there's a lot of other countries where we all know that BIC is strong from a distribution perspective, and we have local op. We'll be able to support the Inkbox team in their growth ambitions from an international perspective, but we want to make sure that we stay very true to that ethos, that image, that feel that has made Inkbox so successful on the global social platforms like Instagram, Facebook, TikTok and so on.

Operator

The next question comes from the line of Cédric Rossi from Bryan Garnier.

Cédric Rossi

Bryan Garnier & Co Ltd, Research Division

I have 3 quick questions, please. The first one is, could you share with us the share of DTC as a percentage of total sales on Inkbox is consolidated.

The second question is regarding the cost structure. So I understood that the Inkbox was achieving a 6% -- 60%, sorry, gross margin. Could you help us understand the cost structure between the gross margin and the EBITDA? So what's driving the negative EBITDA at that time, due to SG&A, marketing and so on.

And my third question is regarding some metrics that you can share with us regarding Inkbox, whether it is a frequency rate, what's the average order value and so on?

Gonzalve Bich

CEO & Director

Thanks, Cédric. So I'll tackle DTC and the metrics and then Chad will talk a little bit about the cost structure.

So pre-Inkbox, BIC had 3% of its e-com sales in DTC. Post, it goes to 14%, so 3% to 14%. On metrics, we -- Inkbox has a conversion rate similar to a lot of e-commerce businesses, so around 2%, but it's growing. And some of the

enhancements that they've made to their website in recent months that are going to have better navigation, search tools and such should allow it to continue to grow. The average order value is close to \$48, again, growing over the last couple of years. And as innovation comes on to the platform and new exciting and our collabs, we should see that growing.

Chad J. Spooner
Chief Financial Officer

Cédric, in regard to your question on cost structure, as mentioned, the gross profit is above 60%. And as you would expect in a company, a young brand company like Inkbox, the advertising and marketing expense is currently significantly higher than BIC's, which we expect over time as sales increase, that percentage will decrease, which will drive us towards the profitability in the future.

Operator

We currently have no questions in the queue. [Operator Instructions]

And the next question comes from the line of Christophe Chaput from ODDO.

Christophe Chaput
ODDO BHF Corporate & Markets, Research Division

Yes. Obviously, I wish you the best for 2022. Just one question for me. You say that the average basket is USD 48, if I heard correctly. And my question is, is it a recurring business? Because this is the average basket, but per year per consumer, what is the amount of spending? And again, is it recurring year after year?

Gonzalve Bich
CEO & Director

[Foreign Language] Christophe. Sophie is shaking her head at me.

I think -- so 2 things I want to say about that. The first is I'm really excited because we do have some quite heavy users. And we're not just talking about me and the 4 kids at home. But there are some really -- there are people who love the Inkbox solution. And so in 2022, we'll be launching a subscription-based service. And so to your point, that's a reoccurring revenue stream that the business will be able to bank on.

Then after that, you have to tier the different consumers, some 1, 2, but what we see is a lot of people order more than 1 tattoo every time they go in for an order. And that is something I'm extremely excited about. Because from an innovation perspective, as we bring more things into the platform, it means they'll go instead of 2 tattoos, there will be 2 tattoos and a freehand marker and 2 tattoos, freehand marker, and something else. And so that's really where we're going to build, on the one hand, the loyal kind of LTV-type consumer, but also grow out that Inkbox offering so that we're meeting every single one -- every single consumer's aspiration for DIY Skin Creative.

Christophe Chaput
ODDO BHF Corporate & Markets, Research Division

Okay. And I've got 2 as a follow-up, please. You say that the EBITDA is supposed to be breakeven in 2024. How does it look like, for example, in '21 or 2022, expected?

And the second one is more on the business. Is there a kind of limit in terms of ages that you can buy the product? I mean, is it allow up to 12 years old, above 12 years old, sorry, or 14 or 16? Is there a limit out there?

Gonzalve Bich
CEO & Director

So Chad is going to answer your second question about profitability.

Of course, we want to make sure -- so first, let me back up. Inkbox is skin-safe, patented ink. Now I'm not going to go tattoo a bunch of underaged children. That's up to each parent. There's no regulatory limit, but we want to make sure that people are safe and thoughtful on who they apply these to. That's all I can really say about that.

Chad J. Spooner
Chief Financial Officer

And all I can say in regard to the EBITDA in past years is that it was not positive, and that's why we're indicating when it will be a positive business in 2024. We expect positive results. And we do expect by 2025, this to be accretive to our Human Expression business.

Operator

We have no further questions in the queue. So I will hand the call back to your host for some closing remarks.

Gonzalve Bich
CEO & Director

Sophie is saying that I can do the closing remarks. I want to thank you all for attending today's conference call, which I'm really excited about. And Inkbox is a totally global business. So from wherever you're calling us, please feel free to go to inkbox.com and order your favorite flowers. Or I like the little dragon or the little dinosaur ones.

I look forward to seeing you for our full year results in just a few short weeks. Thank you so much.

Operator

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

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