

# Investor Insights

BIC Investor Relations Newsletter



## The Ins and Outs of our Raw Materials

With the launch of its Horizon strategic plan in November 2020, BIC started an ambitious journey towards becoming a more consumer-centric and agile company. Aimed to drive profitable growth and sustainable return to shareholders, this plan is driven by a set of transforming initiatives, including expanding total addressable markets, evolving towards a more value-driven business model, developing new routes-to-market, and growing a comprehensive portfolio of consumer-led brands.

To drive an in-depth understanding of this transformation journey and complement regulated financial disclosures and results presentations, BIC introduces "Investor Insights." This newsletter is aimed to drive knowledge of our Horizon Plan and business model by covering the whole spectrum of our markets and business drivers.

This first issue is dedicated to Raw Materials, and how input costs impact BIC's operating margin. This includes the types of raw materials used, recent market trends, and how you can follow them through various public indexes.

### In this issue:

Overview of BIC's raw materials (2), focus on rare earth metals (4) and 2021 market trends (7)

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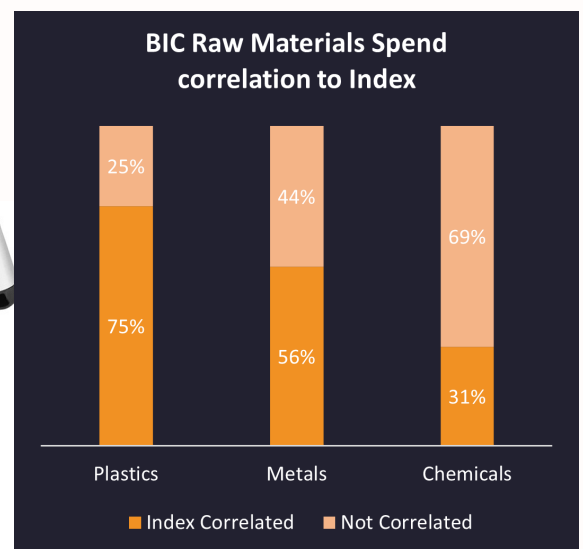
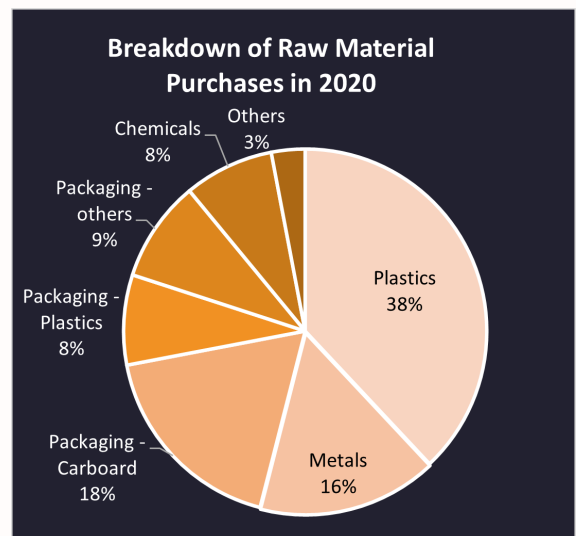
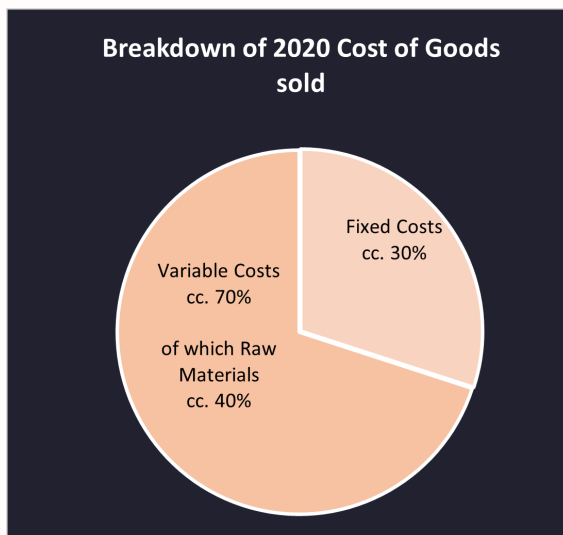
# Executive summary

Raw materials are a key component of BIC's variable costs and accounted for approximately 40% of BIC's Cost of Goods sold in 2020. BIC uses both commodities and specialties.

Commodities prices are easy to follow through public indexes. While Commodities indicate the feedstocks used in the production of raw materials, they do not reflect the supply/demand, order quantity, grade, shape, packaging type, nor the competitive landscape, which remain the main drivers for pricing. However, they provide a suitable overview of short-term trends and can be used as a reference to model the evolution of our cost base. BIC's cardboard and plastic packaging, as well as Stationery products, and, to a lesser extent Shavers, are the most correlated to commodities pricing. You can follow these trends via different websites, including the London Metal Exchange ([www.LME.com](http://www.LME.com)), and the International Polymer News and Prices ([www.polymeris.com](http://www.polymeris.com)).

Specialties with specific grades are only partially, represented with indexes. The high quality and reliability of the specialties used to manufacture BIC products are one of the key components of our business model, particularly in the Lighter category. Specialties' prices are negotiated directly with the suppliers. They are less volatile and more predictable than commodities' prices.

The strong and long-lasting relationships built with BIC's suppliers are a genuine asset to ensure the stability and the regularity of our raw material supplies. Although they do not entirely shelter us from market fluctuations, they allow being less vulnerable than some of our competitors, notably during crisis periods.



# Metals

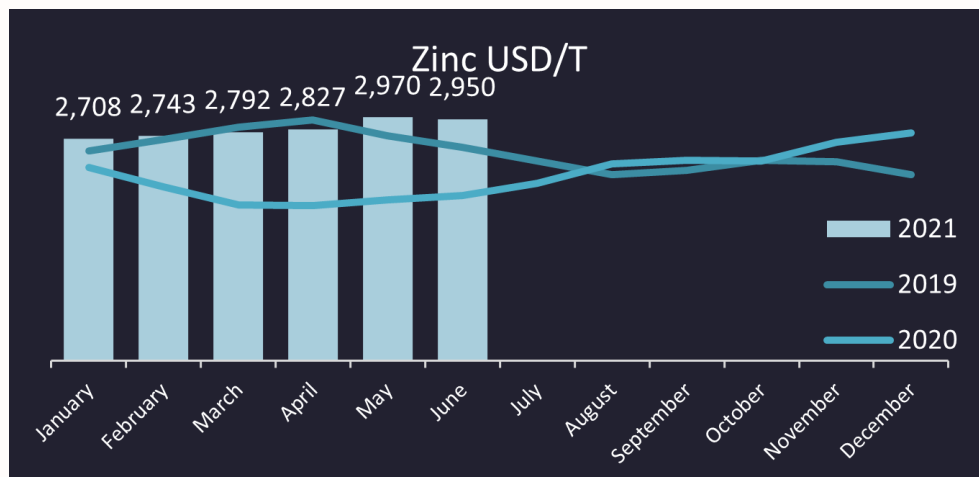
Metals accounted for 16% of BIC's Raw Materials purchases in 2020.

BIC's products and manufacturing process require specific metals that are rarely on a suppliers' catalog but rather use a combination of these raw materials. BIC uses ferrous metals, which contain iron, to produce spring wire (high carbon steel), and blades (stainless steel). Non-ferrous metals, such as aluminum and brass are used to produce tips; **copper, aluminum, magnesium, and zinc** are used to produce Zamac for lighters.

Only 56% of BIC metal spend is correlated with the market and can be followed via public indexes. Other essential alloys, such as **stainless steel, tungsten, and carbon steel**, are not directly correlated with a market index. They are developed with our suppliers, and their prices are subject to the evolution of supply and demand, including our own production volumes.

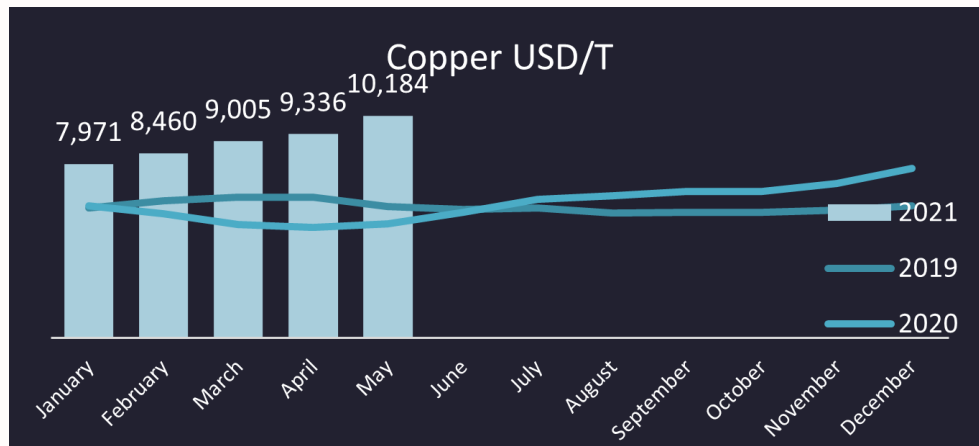
## ZAMAC

Zamac is the metal used mainly by the Lighter category and refers to zinc, aluminium, magnesium, and copper. Zinc, its main component, can be followed on the London Metal Exchange (LME - Metals/Non-ferrous/Zinc)



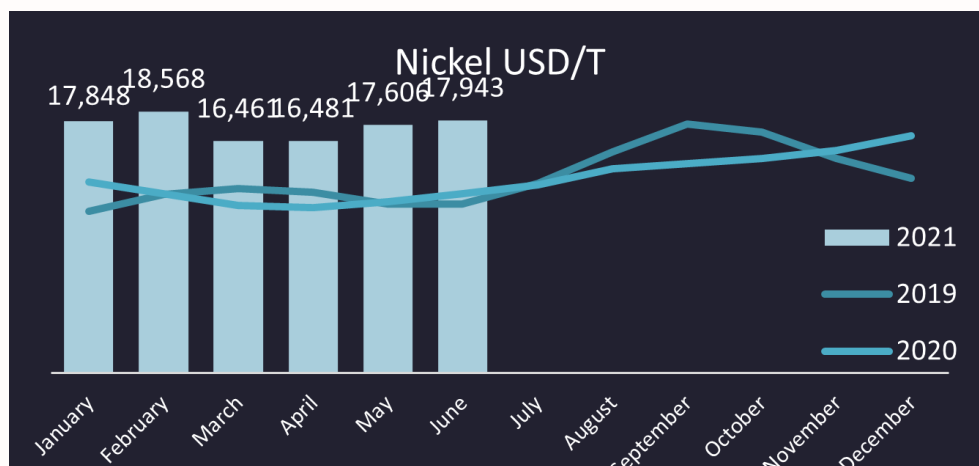
## BRASS

Brass is used in Stationery products to produce tips and is mainly composed of Copper (LME - Metals/Non-ferrous/Copper).



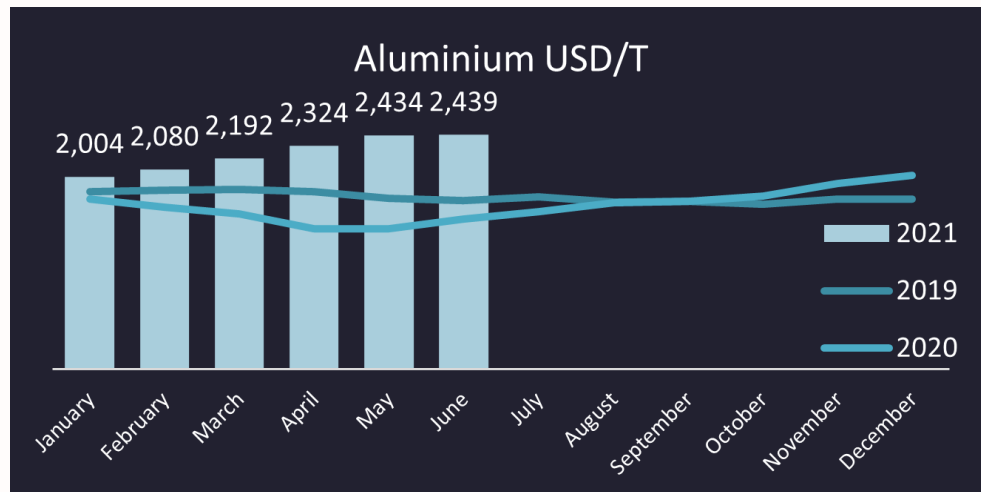
## NICKEL SILVER

Nickel Silver is also used to produce tips. It is primarily composed of Nickel (LME - Metal/Non-ferrous/Nickel) and Copper.



# ALUMINIUM

Aluminium is used for many purposes and is increasingly important for new product development (LME – Metals/Non-Ferrous/Aluminium)



## Focus on Rare Earth Metals

### *What are Rare Earth Metals?*

Rare Earths are 17 metallic elements located in the middle of the periodic table. These metals have unusual fluorescent, conductive, and magnetic properties, making them very useful when alloyed or mixed in small quantities with more common metals such as iron.

Geologically speaking, deposits of these metals are found in numerous places around the globe, with some of the elements offering the same abundance in the earth's crust as copper or tin. However, Rare Earths are never found in very high concentrations and are usually found mixed with one another or with radioactive elements, such as uranium and thorium.

Rare Earth elements have become an essential part of everyday devices like cell phones, vehicles, rechargeable batteries, computers and more. They are used for various functions, from catalysts in air pollution control to polishing compounds for optical quality glass.

### *Why are we using Rare Earths at BIC?*

Rare Earth Elements are used in the production of our flint lighters. The stone (flint) of a lighter is an inert solid metal alloy called "Mischmetal." Mischmetal is a small but critical part of the lighter, creating sparks to ignite the gas and produce a flame. It comprises iron and two of the 17 Rare Earth Elements: cerium (Ce) and lanthanum (La).

The rubbing of this stone against a hard, rough surface, like on hardened steel, can detach very fine particles of cerium that will ignite a spray of sparks in the presence of air. Cerium has the chemical properties to release spark-producing particles, necessary to light a flame instantly when the gas is released. On a lesser scale of heat, lanthanum also contributes to the sparks produced by flint lighters.

BIC sources cerium and lanthanum in China and Oceania. To lower price sensitivity and avoid shortage risks, BIC typically keeps one year of flint inventory on a rolling basis, including for the year 2021 (either through raw material, mischmetal, or finished goods). BIC has started to reduce exposure to China by diversifying supply in countries such as Australia. This more balanced sourcing, combined with a prudent inventory management, will help protect the Lighters' profitability from the pricing volatility and the risk of shortage in the coming years.

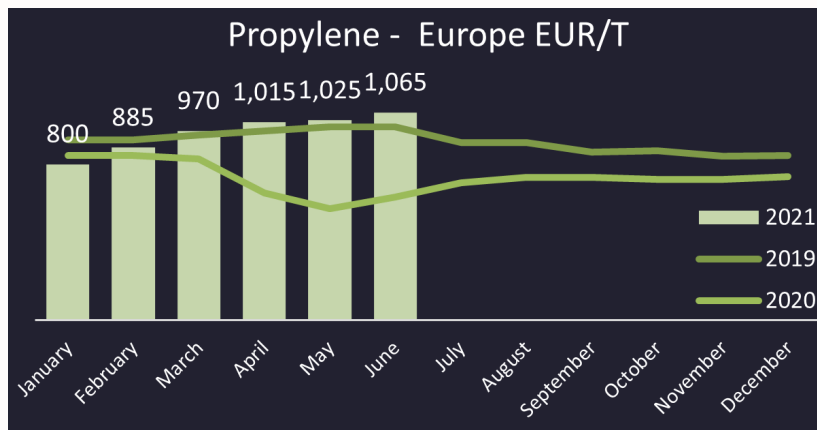
# Plastics

Plastics accounted for 38% of BIC's Raw Materials purchases in 2020.

Natural and synthetic polymers are formed via polymerization (addition) of small repetitive molecules (monomers) that provide different properties, such as elasticity and viscoelasticity. Among the various polymers, polypropylene (PP), polystyrene (PS) & polyoxymethylene (POM) represented approximately two-thirds of BIC's total plastics spend in 2020. Polymere index can be found at International Polymer News and Prices. They provide useful information to anticipate the evolution of BIC's main raw material cost, and should help you model a material part of our Cost of Goods sold.

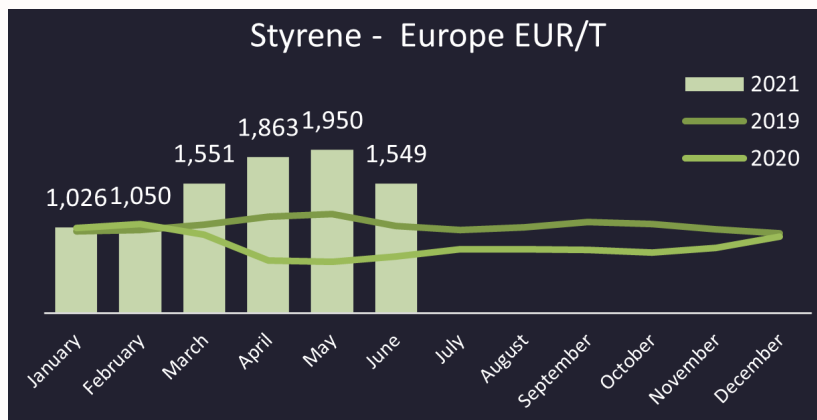
## POLYPROPYLENE

Polypropylene (PP), also known as polypropene, is a thermoplastic polymer used in a wide variety of applications. BIC mainly uses PP in shaver handles and stationery caps. The monomer associated is propylene.



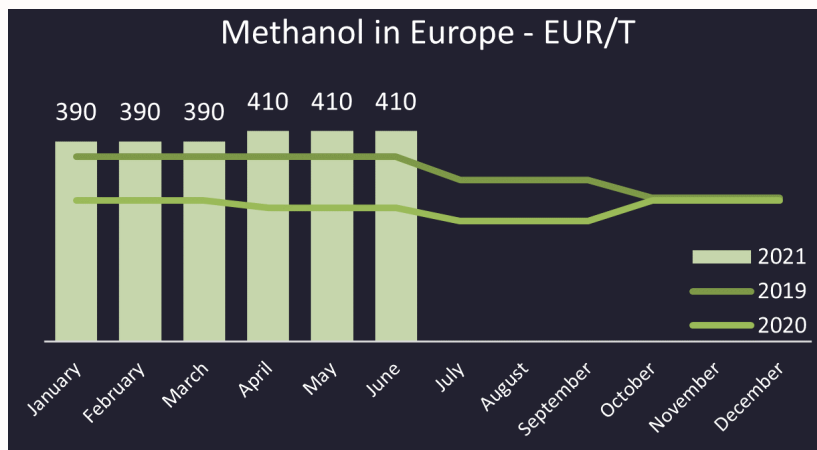
## POLYSTYRENE

Polystyrene (PS) is a synthetic hydrocarbon polymer made from Styrene (the monomer BIC uses PS in its shaver handles, and notably the Cristal pen barrel).



## POLYOXYMETHYLENE

Polyoxymethylene (POM) is an engineering thermoplastic used in precision parts requiring high stiffness and excellent dimensional stability. It is sold under various names, notably Delrin. POM is used to produce the body of BIC's lighters, and is produced from methanol, mainly coming from natural gas. Methanol is often decoupled from its feedstock, natural gas. BIC follows Methanol indexes for POM ([methanex.com/our-business/pricing](http://methanex.com/our-business/pricing)).



## BIC's Sustainability Commitments

BIC accounts for less than 0.017% of the worldwide total plastic production.

In November 2020, BIC took a new step in its commitment to plastics and announced an ambitious program:

- By 2025, 100% of packaging will be reusable, recyclable, or compostable;
- By 2030, we will use 50% non-virgin petroleum plastic in our products.

Securing the access to recycled or recyclable plastics will be key to succeed these ambitious targets, and will require BIC to strengthen its relationship with key suppliers. Total CAPEX investments is expected around 30 million euros over the next 5 years.

# Packaging

*Packaging accounted for 35% of BIC's Raw Materials purchases in 2020.*

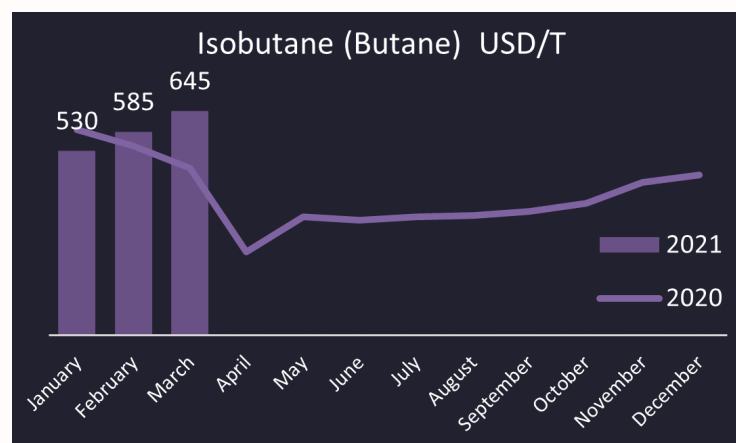
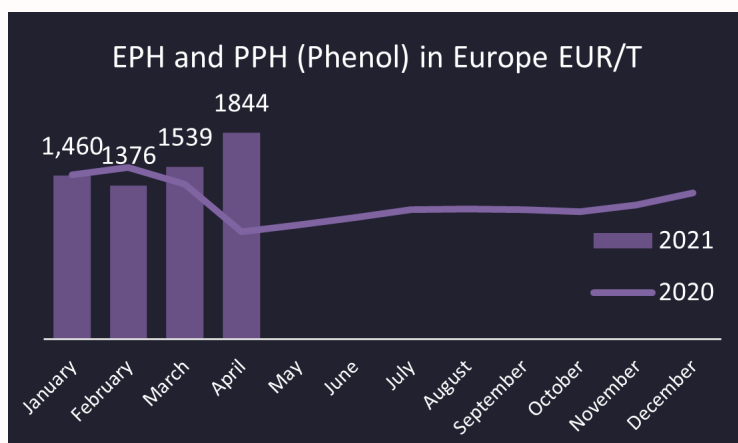
BIC purchases two types of cardboard for packaging: corrugated cardboard for master cases and displays, mostly sourced in Europe, with 90% derived from recycled content and 100% recyclable or biodegradable, and flat cardboards for light boxes and blister cards.

This raw material is closely correlated to its index as few adjustments are made to the packaging before receiving it at BIC. The kraft liner index for corrugated cardboard and the GD2 Index for flat cardboard are relevant markers of BIC's packaging costs.

# Chemicals

*Chemicals accounted for 8% of BIC's Raw Materials purchases in 2020.*

At BIC, chemicals are used primarily on solvents for inks systems in Stationery and isobutane gas in lighters, with a low correlation with the market. Solvents and isobutane represent less than one-third of BIC's spend for chemicals; the remaining are specialties without correlation with market or representative indexes. The primary solvents are phenoxyethanol (EPH produced from phenol derived from crude oil and ethylene derived mainly from natural gas), phenoxypropanol (PPH made from phenol and from propylene, both primarily derived from crude oil). Therefore, we follow mostly phenol but also ethylene and propylene. Regarding isobutane, we track butane indexes.



## Hedging policy for Raw Materials at BIC

During the first half of 2020, BIC conducted an in-depth study on the hedging opportunities offered by the financial markets for plastics, particularly propylene and styrene. It was important to validate the feasibility of hedging these raw materials and the proper indexation of the hedged indices in line with our purchasing contracts. Once the elements were validated, BIC covered a significant portion of its demand for these materials over several months. The total volume equivalent amounted to 9,800 tons of raw materials, of which 8,600 tons was dedicated to 2021 purchases. The hedging products are classic swaps. In accordance with IFRS rules, they will be recognized starting the second half of 2021 and in 2022.

# 2021 market trends and impact on BIC

As explained during BIC's Q1 2021 results, there has been ongoing pressure from market prices since the beginning of the year, notably in plastics, which were up 37% on average compared to Q4 2020. These adverse trends will impact BIC's input costs for the balance of the year.

We expect the challenging feedstock market trends to persist in Q2 and gradually soften towards the end of Q3. The overall pricing environment should remain volatile in 2022, as overall market inventories should remain low due to strong expected demand.

For the full year 2021, raw materials will negatively impact BIC's Gross Profit margin, despite ongoing procurement savings and the hedging policy initiated at the end of last year.

### *General market overview*

**Q2 and Q3 2020** presented the lowest historical prices for most feedstocks for plastics, metals and chemicals due to the first wave of COVID-19, which changed the market seasonality and lowered global demand. On the contrary, the packaging market was stable during this period due to the strong demand for essential goods like food and medical products. This overall trend led suppliers to reduce their production to mitigate inventory levels from mid Q2 to Q4 2020.

**From mid-Q4 2020** onwards, producers' capacity decreased further due to lower imports with issues such as the lack of containers from Asia and challenging weather conditions in the US, notably in Texas and Louisiana. This added pressure on raw material availability, leading to a historically high number of Force Majeures globally, particularly in the US.

**In Q4 2020 and Q1 2021**, demand recovered, particularly in China, supported by the global vaccination race. This led to higher market prices on average of +23% in Q1 2021 vs. Q4 2020, 15% for metals feedstocks, and 37% for Plastics feedstocks.

### *Recent feedstocks market performances*

Both Crude Oil and Natural Gas markets recovered by ≈35% versus Q4 2020, particularly in February. Q1 2021 pricing was on average 17% higher than 2019 and 95% higher than in 2020, with crude oil pricing 58% higher and natural gas recovering faster, with pricing up to 135% higher. The Global Feedstock market has regained 2018 price levels.

The Plastics market was on average 40% higher in Q1 2021 versus Q4 2020. Global demand continued to be very high in Q1 2021 as demand is outpacing supply capacity, driving a large increase in price on plastic commodities (PP, PS, ABS, SAN, PVC, PET).

Solvents feedstock market pricing was higher in Q1 2021 by 35% vs. Q4 2020. In the U.S., price levels were much higher, mainly due to adverse winter weather conditions in the south, impacting the ethylene and propylene markets. Finally, Metals prices maintained their upward trend from Q3 2020 through the end of Q1 2021. Supply and demand dynamics are progressively returning to pre-pandemic levels for the base metal markets, but limited market participants view an imminent market price correction.