Société BIC SA ENXTPA:BB

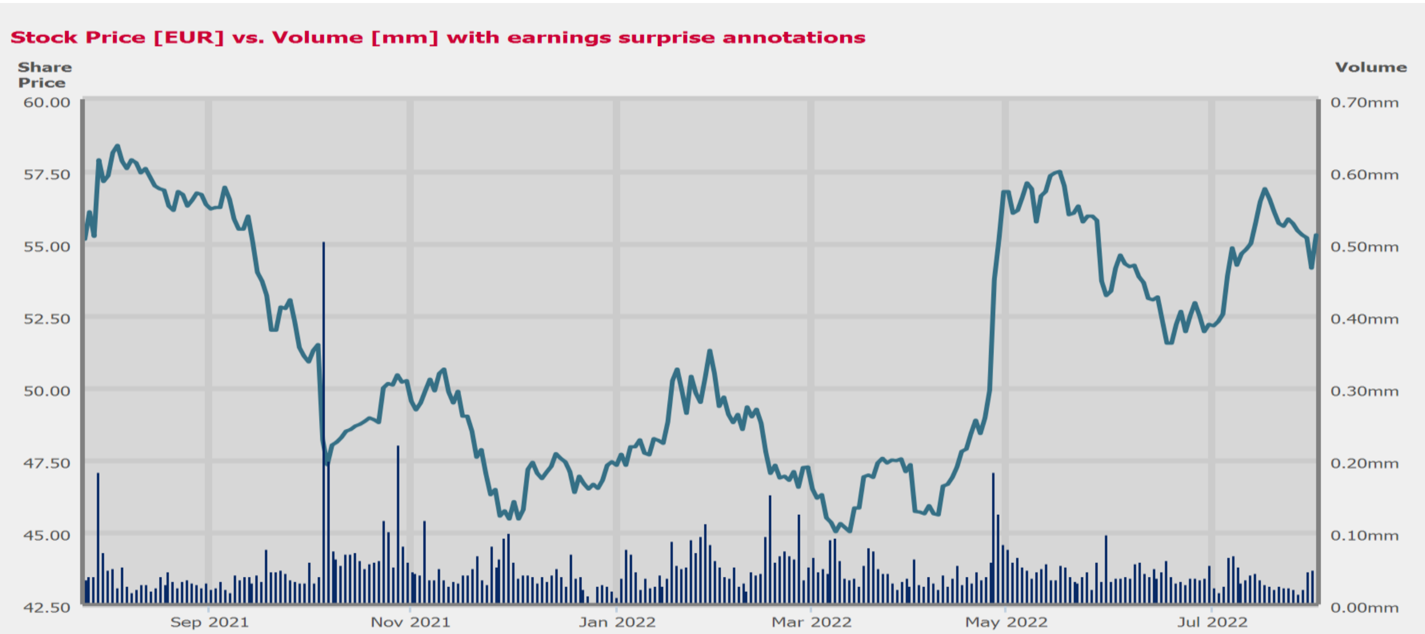
FQ2 2022 Earnings Call Transcripts

Wednesday, August 03, 2022 6:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	-	-	-	4.83	5.23
Revenue (mm)	575.60	611.40	▲6.22	2122.66	2197.15

Currency: EUR
Consensus as of Aug-03-2022 7:21 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	-	-	-
FQ4 2021	-	-	-
FQ1 2022	-	-	-
FQ2 2022	-	-	-

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Call Participants

EXECUTIVES

Chad J. Spooner
Chief Financial Officer

Gonzalve Bich
CEO & Director

Sophie Palliez-Capian
Vice President of Corporate Stakeholder Engagement

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Presentation

Operator

Hello, and welcome to BIC Q2 and H1 2022 Results. Please note, this call is being recorded and for the duration of the call, your lines will be on listen-only. [Operator Instructions]

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

Sophie Palliez-Capian
Vice President of Corporate Stakeholder Engagement

Thank you. Good morning, everyone, and welcome to BIC H1 2022 Results Conference Call. Our host today will be Gonzalve Bich, Chief Executive Officer; and Chad Spooner, Chief Financial Officer. Gonzalve and Chad will go through a short presentation of the results and then we will open the usual Q&A session.

Let me give the floor to Gonzalve.

Gonzalve Bich
CEO & Director

Thank you, Sophie. And good morning, everyone. Thank you for joining us today. Since its launch in 2020, you've heard me passionately talk about our Horizon Strategic Plan and our relentless focus on its execution. Quarter after quarter, I see firsthand, how our teams around the world have united under one vision to build our brand further, innovate long-lasting products and deliver profitable growth. Today I am more confident than ever, that we are best positioned to weather the headwinds ahead.

This morning, you'll hear more about how we're bringing our Horizon Plan to life, how it fuels our consumer obsession and commercial excellence, and more importantly, how it drove our revenue growth in H1. All told, the story of the first half of 2022 is one of momentum for BIC.

We achieved an overall net sales growth of 15.5% at constant currencies with a strong performance in all divisions. Based on this result, I'm happy to report that we're raising our net sales guidance for the full year and now expect to deliver between 10% and 12% growth on a constant currency basis, up from 7% to 9%.

Our adjusted EBIT margin was stable versus last year at 18%, demonstrating our strong resilience to the significant external challenges facing the entire global business community. Notably, throughout this time, we protected ourselves from supply disruptions and were able to deliver to our customers and respond to consumer needs across every division and region.

Net cash position was EUR229.9 million, driven by higher receivables with Back-to-School sell-in orders kicking off in Q2 and inventory buildup to fuel growth. Chad will take you through our financial performance in more detail shortly.

Starting with our divisions, here are a few takeaways that reflect our strong momentum since the beginning of 2022. First, in Human Expression; we outperformed in 70% of the countries where we operate, fueled by commercial excellence and a continued focus to deliver on what consumers want and need. We gained in our top countries, including Brazil, France, the U.K. and the U.S. where we are rapidly recovering fair market share, thanks to return to reliability in our regional supply chains.

Consistent with our Horizon ambition to strengthen our presence in Creative Expression, we outperformed the strategic segment of coloring in five key countries. These include the U.S. and the U.K. and South Africa, where we achieved an outstanding 7-points gain, as well as in Brazil and Mexico where we grew share by more than 2 points.

Back-to-School sell-in was a success, growing 23% in value across Europe, North America and Mexico. Both core and added-value products contributed to the success and we expect sell-out to be strong in store and online (during the key Q3 season). In the U.S., 70% of consumers plan to shop in brick-and-mortar stores and look for quality and value in the face of rising inflation. In France, our strong in-store visibility in the modern trade, coupled with a more than 50% increase in promotional activities, is setting us up to outperform in the French market for the 16th consecutive year.

In Flame For Life, we outperformed markets in all key countries, including the U.S., France, Germany and Brazil, powered by continued distribution gains and innovation. We saw 17% growth in the added-value part of the business, with products such as EZ Reach, Decorated Lighters and Djeep contributing significantly to the division's growth. Decorated Lighters continue to be a success and now represent nearly 34% of lighter sales in the U.S. This is up 5 points versus last year and more than 10 points in 10 years.

Djeep premium lighters successfully contributed to growth, with net sales growing almost 10% versus last year in Europe. Since July, Djeep has been available in the U.S. on multiple e-commerce sites, including walmart.com. In Europe, our Invest to Grow countries, including Germany and Turkey, achieved a double-to-triple-digit growth by executing our RGM strategy with efficient pricing and promotional activity.

Lastly, in Blade Excellence, we outperformed in approximately 80% of our countries and reached a record-high market share in five key markets, including Mexico, Brazil, Poland, Portugal and the U.K. We continued our strategic -- our strategy towards premiumization, with double-digit growth in added-value products. Globally, our five-blade segment net sales grew 35% versus last year, powered by the performance of Flex 5 and the Soleil ranges.

In Latin America, our trade-up strategy in Brazil led to further share gains, up 1 point in value, following four consecutive years of share gain. We reached a historical high of 24% market share in value, boosted by premium male and female products, such as Comfort 3 and Simply Soleil. At the same time, our new B2B BIC Blade-Tech business is ramping up quickly, contributing to 31% of the total division's growth (in the first half). In 2022, only one year into launch, we expect to reach EUR15 million to EUR20 million in net sales, incremental to our overall Blade Excellence division. We anticipate that this growing and highly profitable business will represent 25% to 30% of the division's net sales in 3 to 5 years.

On the innovation front, we are bringing to market ingeniously simple and joyful propositions that are meeting real consumer needs in the moment, and resulting in tangible growth for our business. Our EZ Reach innovation, designed to be the perfect lighter for hard-to-reach places, has capitalized on the staying-at-home consumer trend and already represents close to 4% of our total Lighter sales. Just two years since launch, EZ Reach has captured 5.5% market share in the U.S., thanks to efficient brand support, EZ Reach also reached over 50% distribution in less than 8 months after launch and continues to grow, contributing to the overall lighter market expansion, by bringing awareness to the utility segment.

At the same time, our recent launch of the Soleil Escape shaver in the U.S. has already reached 2% of women's one-piece category in less than six months. Uniquely designed to tackle a deep-rooted consumer desire, this innovation transforms a mundane task in a full-blown sensorial experience. Soleil Escape has outpaced iconic competitors and brought new buyers to the category. Today, the Soleil product line ranks at number #1 and number #2 amongst new items sold in the disposable category year-to-date.

Along with bringing new innovations to market, we remain laser-focused on leveraging our revenue growth management capability, to ensure we have the right pack in the right place. In H1, we delivered efficiencies across pricing and promotional activities, directly boosting profitability. At the same time, we augmented net sales per SKU by 25%, while tackling complexity. For example, in France, we've simplified our Human Expression portfolio in writing instruments, marking and coloring to bring increased simplicity for consumers through ease of shop and reduce complexity. This has resulted in a 6% SKU reduction and accelerated net sales growth.

At the same time, we're meeting the consumer where they are, delivering on their need to purchase any time, anything. Our e-commerce sales grew 14%, with omni retailers driving performance in India and Brazil, coming in at high double-digit growth. From a marketing spend perspective, over 82% of our advertising was digital.

Our strategy dictates that we not only drive our existing business, but continue to bring in exciting new brands. As part of our strategy to pivot our stationery business towards Human Expression and expand revenue opportunities in fast-growing creative segments, we acquired Tattly, a small U.S.-based Decal company. This acquisition further grows and diversifies our Skin Creative business, adding a third brand that perfectly complements Inkbox and BodyMark. Our ambition is to create a new category, in the same way we created the one-piece shaver segment almost 45 years ago.

I'm also very excited by the development of BIC Blade-Tech, our B2B Shaver business, which is ramping up quickly having signed another contract very recently with a new customer in Asia, as we broaden our reach geographically.

Lastly, we continue on our path to sustainability, meeting a rising consumer and societal demand for products that are better for the consumer and better for the planet. In less than 10 months since its launch in Sweden, our BIC Bamboo shaver has reached 2.6% volume market share. This clearly demonstrates that when we deliver relevant sustainable propositions to the market, consumers embrace these innovations.

At the end of June 2022, we reached more than 70% of reusable, compostable or/and recyclable plastic in our consumer packaging and we're on track to achieve our 100% goal in 2025. At a macro level, we're also on track to deliver our greenhouse gas emission reduction targets for 2030, making this a key component of our long-term business strategy.

And with that, Chad, over to you.

Chad J. Spooner
Chief Financial Officer

Thanks Gonzalve. I will now review our operational and consolidated financial results for the first half of 2022, starting with our performance in the Human Expression division. Net sales were EUR438 million, up 25.4% at constant currencies. Performance was driven by robust Back-to-School performance in the Northern Hemisphere, with 18.5% volume and 23% value sell-in growth in the U.S., Europe and Mexico, fueled by a solid commercial execution from our teams. Developing markets, such as Brazil, South Africa, Nigeria and India continue to rebound, showing high double-digit growth year-on-year on a comparative basis, and having now successfully recovered to 2019 levels.

Adjusted EBIT was EUR35.6 million, with an 8.1% margin compared to 8.3% last year. This slight decrease was driven by higher raw materials and freight costs and Inkbox's investment in growth, partly offset by net sales operating leverage and favorable fixed cost absorption.

Now turning to our Flame for Life division, net sales were EUR436 million, up 10.1% at constant currencies. Sell-in performance was driven by high single to double-digit growth in key countries, notably across Europe and Latin America. Our U.S. Lighter business contributed 51% of the division's organic growth, boosted by further distribution gains, effective pricing actions and catch-up of orders from Q1. As Gonzalve already mentioned, another key growth area was our BIC EZ Reach Lighter, which continued to outperform the market, driven by increased distribution, primarily in convenience stores. In line with our strategy to lean towards a more value-driven model, added-value lighters, including

Decorated, Utility, EZ Reach and Djeep, accounted for 38% of the Flame For Life net sales in the first half.

Adjusted EBIT was EUR166.9 million, with a 38.3% margin compared to 39.6% in the first half of 2021. This is explained by the higher raw materials and air and sea freight import costs, brand support investments were also higher, driven notably by BIC EZ Reach advertising campaign in the U.S. This was partly offset by favorable net sales operating leverage and fixed cost absorption.

Lastly, in Blade Excellence, net sales were EUR240.3 million, up 11.8% at constant currencies. Performance was driven by strong results from premium products, such as our one-piece 3 to 5-blade and hybrid shavers, which now represent 63% of the division's net sales. In Europe, performance was driven by the success of both Flex and Soleil ranges. In the U.S., our new innovative BIC Soleil Escape shaver, which was launched earlier this year, drove the overall growth of the Soleil range. In Latin America, our trade-up strategy continued to pay off, as we outperformed the markets in both Mexico and Brazil, thanks to our three-blade products, such as COMFORT 3 and Simply Soleil.

And finally, as Gonzalve mentioned, BIC Blade-Tech continues to ramp up and contributed 31% of the division's growth. Adjusted EBIT for the division was EUR43.3 million, with an 18% margin for the first half of this year, compared to 16.2% last year, driven by net sales operating leverage, favorable fixed-cost absorption and the positive contribution from BIC Blade-Tech. This was partially offset by higher production cost, cost of product and brand support investments.

Let's now review our consolidated financial results, starting with Q2 of 2022 net sales evolution. On an as-reported basis, net sales for the second quarter of 2022 totaled EUR611.4 million, up 20.9% versus last year. On a comparative basis, our net sales were up 9.6%, mainly explained by the rebound of our stationery business. Currency fluctuation had a positive impact of 9.5 points excluding the foreign exchange impact from Argentina. This was mainly due to the increase of the U.S. dollar and the Brazilian real against the Euro. The perimeter impact adjustment includes the acquisition of Inkbox.

Now turning to the first half of 2022 net sales evolution. On an as-reported basis, net sales totaled EUR1.127 billion, up 23% versus last year. On a comparative basis, net sales were up 13.7%, mainly explained by volume increase, favorable mix and the successful implementation of price adjustments in all regions. Currency fluctuations had a positive impact of 7.8 points, excluding the foreign exchange impact from Argentina. This was also mainly due to the increase of the U.S. dollar and the Brazilian real against the euro. The perimeter impact adjustment includes the acquisition of Inkbox, partially offset by the Pimaco divestiture.

Let me now review the adjusted EBIT margin change versus the prior year for the second quarter. Q2 gross profit margin decreased by 3.9 points to 47.9% compared to 51.8% in Q2 of 2021. Excluding Inkbox, the gross profit margin decreased by 4.3 points. This decrease was mainly driven by the negative impact from raw material, sea and air freight costs, as well as ForEx, which was mostly hedging related. This was partly offset by positive pricing and favorable fixed-cost absorption.

Adjusted EBIT margin was 16.5% compared to 20.9% in Q2 of 2021, mainly due to the gross profit margin decrease just explained previously. This decrease was partially offset by positive 3.2 points favorable net sales operating leverage, as well as a decrease in freight and distribution versus Q2 of 2021, when the costs were higher due to increased customer demand. Brand support was higher by 1.3 points, negatively impacting adjusted EBIT margin, as we continue to invest to support short-term and long-term growth. A good example of this being our successful EZ Reach advertising campaign in the U.S.

I'll now review the adjusted EBIT margin change versus prior year for the first half of 2022. First half adjusted EBIT margin was 18%, almost flat compared to H1 of 2021. Excluding Inkbox, the gross profit margin decreased by 2.3 points. Similarly to Q2, the margin was negatively impacted by higher raw material, sea and air freight costs, as well as ForEx, here again mostly hedging related. This was partly offset by positive pricing and fixed-cost absorption. The adjusted EBIT was favorably impacted by positive 4.6 points from net sales operating leverage and brand support was higher by 1.1 points.

This next slide shows the impact of input cost inflation on gross profit in 2021 and 2022 in millions of euros. Total input cost inflation weighed approximately EUR48 million on the first-half adjusted EBIT. As already communicated, we expect approximately EUR100 million impact on adjusted EBIT for the full year, which should be more than offset by volume increases, price adjustments, and additional savings, such that we end the year with an increase in adjusted EBIT in absolute terms.

On slide 11, you can see the key elements of the summarized P&L results. Adjusted EBIT for H1 of 2022 was EUR202.9 million compared to EUR166.1 million last year. As we look at non-recurring items in the first half of 2022, we see mainly EUR2.3 million of acquisition costs related to Inkbox, Rocketbook earnout and Djeep price adjustment, as well as a EUR3 million related to the impairment of our Ukraine operations.

First half of 2022 income before tax was EUR193.6 million with a 28.0% tax rate, compared to EUR328.5 million in the first half of 2021. Net income Group share was EUR139.4 million compared to EUR230.2 million for the first half of 2021. EPS Group share was EUR3.15 compared to EUR5.12 in H1 of 2021. And lastly, adjusted EPS Group share increased by 35% to EUR3.39. In H1 of 2022, we invested EUR40 million in CapEx. The greatest focus was on our growth CapEx, which represents around half of these investments.

On Slide 13, we see the main elements in working capital. Inventories ended the period at EUR625.5 million. The EUR102.1 million increase was notably driven by EUR40 million of input cost inflation. Trade and other receivables increased by EUR138.8 million and ended at EUR577.2 million as a result of strong net sales growth. We expect a decrease in the second half of this year and we plan to be in line with the December of 2021 level of receivables at the end of this year. Trade and other payables were EUR203.7 million at the end of the first half of 2022.

This last slide summarizes the evolution of our net cash position between December of 2021 and June of 2022. Net cash from operating activities was EUR62.8 million, including EUR275.6 million in operating cash flow and EUR212.8 million of impact from the growth in working capital and others. During the first half of 2022, we invested EUR67.8 million related to acquisitions, mainly Inkbox. Net cash was also impacted by investments in CapEx of EUR40.4 million. The dividend paid in June amounted to EUR94.7 million and we bought back EUR28.8 million worth of shares. Our net cash position at the end of June of 2022 was EUR229.9 million.

This ends the review of our first half of 2022 consolidated results. Now let me give the floor back to Gonzalve.

Gonzalve Bich
CEO & Director

Thank you, Chad. Our solid H1 results are a testament to the power of our global teams and the operational advancements achieved worldwide. These new capability builds on our iconic brand and historical strengths, accelerating profitable growth responsibly and sustainably. Based on this result, we are raising our net sales guidance for the full year and now expect to deliver between 10% and 12% growth at constant currencies, up from the original 7% to 9%. All divisions will grow mid to high single digits in H2.

In H2, we look forward to exciting new product launches, including our Ecolutions Lighter made from alternative and recycled materials and the relaunch of the Djeep brand in the US market. Input cost headwinds will continue to be widespread across our markets. The impact in the second half should be slightly above EUR50 million, leading to approximately EUR100 million of headwind for the full year, impacting operating margins.

While continuing to reinforce our brand support and operational investments, we expect to grow full-year 2022 adjusted

EBIT in absolute terms. This will be driven by higher volumes, positive pricing, and additional savings. We maintain our target of over EUR200 million in free cash flow.

While we're certainly not immune to economic volatility, we're well positioned to weather a continuing inflationary environment. Whatever challenges come next, we will respond with agility, resiliency and clear-eyed optimism and continue to actively manage our portfolio to deliver both sustainable growth and returns in all our activities and geographies.

During these uncertain times, consumers turn to brands they trust, to deliver great value, great quality everyday essentials. At BIC, we have proudly fulfilled this consumer promise for over 75 years, and will continue to do so, bringing simplicity and joy to everyday life, while caring for our people and planet, and creating sustainable value for our shareholders.
This concludes our presentation for today and we're now ready to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Christophe Chaput from ODDO.

Christophe Chaput
ODDO BHF Corporate & Markets, Research Division

I've got three questions, please. The first one is on the stationery markets. So it increased during the first half in USA by roughly 3% in value, but in your assumption for the full year, you seem to expect a low to mid-single digit decrease. Is there a specific factor in H2 we should be aware of, or is it other, let's say, areas in the USA that's explaining the swing? Or is it probably cautiousness, let's say, from your part?

The second one is on pricing. So regarding the H1, the pricing between 4% to 5%, what could be your strategy regarding the H2 and going forward in 2023? Should we expect further increase in that period? And the last one if I may is on CapEx. So roughly EUR100 million for 2022. The volume was very strong during the period or should be. Should we expect the CapEx to be up in 2023 and what could be the amount, please? Thank you.

Gonzalve Bich
CEO & Director

Stationery market, I think what we have to remember is, last year in the second half the market grew significantly, I think a little bit over 10%. So the comps are really big against that. What we need to make sure that we do, so monitor sell-out through the back-to-school period. So let's call it up until mid-September. Then really make sure that we're positioning ourselves for 2023, to your point, making sure that inventories are clean, out in store, that will happen naturally and preparing for the key growth battle that will be Back-to-School '23 that we have to ramp up for, already starting in the fourth quarter.

So it's really important. But from a market perspective, I think the market call that we're making is the right one. Could we have a little bit of positive surprise? Yes, but we remain cautious around different recessionary pressures that we might all be facing in the markets in the next few months.

Chad J. Spooner
Chief Financial Officer

Hey, Christophe, in regards to your question on price, you can expect to see similar rates for the second half of the year that you saw in the first half. And in regards to 2023, I would say that we will continue to evaluate the inflationary environment with and respond accordingly. I think we've been pretty effective this year, executing price adjustments as appropriate, and 2023 won't change from that strategy.

And in regards to CapEx, you hit it spot on, and what you'll see is we talk about investment in growth, and this year more than half of our CapEx is in growth. And as we go forward, I expect to see that trend to continue even more, and we'll continue to invest in growth. I wouldn't expect anything materially different from this year, but you'll probably see a greater percentage on the growth side of the CapEx next year as well as we go forward.

Gonzalve Bich
CEO & Director

I guess, building on what you're saying, Chad, one of the areas in which we know that there is a ton of momentum ahead of what we had expected in plan is BIC Blade-Tech. So, probably a little bit more than we might have expected originally in CapEx for BIC Blade-Tech, but nothing material at the total level.

Chad J. Spooner
Chief Financial Officer

That's correct. And like we said, very growth focused.

Operator

The next question comes from Cedric Rossi from Bryan Garnier.

Cédric Rossi
Bryan Garnier & Co Ltd, Research Division

I have three actually. The first one is regarding the inventory buildup, so it was mainly driven by volumes. Could you comment on these trends by category? I assume that stationery was the main driver. So probably you are referring to the positive surprises you have just mentioned. My second question is regarding the Inbox, could you comment the performance of Inkbox in Q2? And then could you also give us a few examples of on which BIC is already helping Inkbox to grow or whether it is a geographical rollout or in terms of marketing, because I've already seen a huge marketing campaign on social media? And my third question is regarding the phasing of the margin headwinds. So you reiterated the EUR100 million. Could you just give us the phasing in H2? I assume that probably Q3 will be more impacted than Q4, but I just wanted to have your comment on that?

Chad J. Spooner
Chief Financial Officer

Let me first handle questions one and three and then I'll hand over question 2 to Gonzalve for Inkbox. So, in regard to inventory, the way I'd rather -- I think the right way to look at it, just across all three categories where do we expect to end the total year, which is really the more relevant question. And we talked about the 40 million of cost inflation that's in our inventory at the end of June. We kind of anticipate by the end of the year, we should be back in line with where our inventory levels were last year, with the addition of a similar amount of cost inflation. So that can probably help you think about levels -- getting back to normal levels across the board at the company level, and the only difference will be cost inflation.

And the third question you had on margin headwinds, what's the H2 phasing? Between Q3 and Q4, I would say it's roughly similar actually in terms of the impact to the P&L, be slightly over EUR50 million. So we'll see it spread across the quarter kind of evenly, is what you should expect to see there.

So, Inkbox, Gonzalve?

Gonzalve Bich
CEO & Director

So Inkbox, I think if we take a step back and we think about the six months we had, I mean we're stopping these comments at July 1 or at August 1, let's say, 6 months of operation. The integration into the company, it is has gone well. I'm happy from that perspective. Super happy with the exchanges between their teams and our teams and some of the collaborations that -- thank you very much, by the way, for going to the website and looking at the new product offering and the collabs, there is more to come.

Where BIC is adding value to Inkbox already is definitely on the non-digital marketing stuff where they are experts. They are probably better than some of our teams from a how to generate -- I'm getting a lot of feedback from your line. And then there is regional expansion. So it's early days for Inkbox and we'll give you more color towards the end of the year on how things have gone. But most importantly, it's product roadmap for 2020 -- H2 2022, and then into 2023 to really continue to develop the offer, and that's why we made the really interesting Tattly acquisition just recently in the U.S. to continue to be able to offer whatever solution the consumer wants in Skin Creative, and then grow regionally, because to your point, it's still a very U.S.-focused business. So Europe and then other parts of the world.

Operator

[Operator Instructions] The next question comes from Marie Fort from SG.

Marie-Line Fort
Societe Generale Cross Asset Research

First question is about your EUR100 million headwinds. You maintain this amount [has been] from uncertainties about the electricity costs. I would like to know what are the moving parts of your estimates? The second one is on Lighters. Do you plan to have a positive organic growth in H2 and what will be the drivers? And the second question, just a little question, what is the reason for the Q2 sales decline in Middle East, Africa?

Chad J. Spooner
Chief Financial Officer

Great. I will take one and two and then hand it back to Gonzalve for the question -- for MEA. So, first, in regards to the headwinds, so great question in terms of electricity. And one of the things I'd like to point out, we've talked a lot in the past about our procurement organization and the savings that they've done from a cost perspective, and this is where they're adding value, not only in dropping costs, but also in thinking the future and containing our costs and fixing them. So, in regards to electricity, specifically in Europe where the issues are, we've actually bought almost 100% of our capacity needs for France for this year and next year, and then the vast majority for our Greece factory as well. So we've got ahead of the electricity issue with very favorable rates and locking in purchases for that. So that's what's helping us with some of those headwinds to keep it from getting even higher than $100 million.

In regards to Lighter growth, yes, we do expect Lighter growth in the second half of the year, it will be in line with our overall growth. All the categories, very similar growth rates. But the growth in Lighter will come from Europe in the second half of the year and not from the U.S., which is where our strongest profit margins come in. So keep that in mind as you think of the Lighter growth -- mid-single digit growth coming mainly from Europe, not at the same margin rate as the U.S.

And Gonzalve, I'll hand it over to you for the MEA.

Gonzalve Bich
CEO & Director

The reason behind the MEA number that you quoted is a phasing impact in the Ethiopian market, so it will correct itself in the second half. But I think what really excites me about MEA, because it's been a long story, the transformation of that region, started before Horizon, but kind of boosted, as we've gone into execution of the Horizon plan. It's a region with -- from a BIC perspective, with fantastic momentum, driven by a team that's been built over the years really, really solid. What I like about the strategy that we've done there and that we've done in other parts of the world, is it's choiceful. We've picked the markets and the segments in which we wanted to fight, and the ones we wanted to win in.

And what's coming to mind as I talk to you is Nigeria, we made the investment in the Lucky Stationery brand in Nigeria, on track to be one of the most populous countries in the world, will have continued demographic growth, continued disposable income growth, it's a great place for us to be with the BIC brand and BIC products. And that business has really delivered ahead of plan and continues to offer us opportunities. So it's a long-term play, because this is kind of a Brazil of 20 or 30 years ago. With a 1 billion consumers in the MEA region, I think in a few years now, the number of fingers I have on my hand, on one hand, but definitely less than two hands, it's going to meaningfully contribute to our continued and sustainable growth at a global level.

Operator

The next question comes from Othmane Bricha from Bank of America.

Othmane Bricha
BofA Securities, Research Division

I have three. So first, as of your latest tradings, have you noticed any consumer turning down in stationery and in shaving, and if not, do you expect any in the second half? Then second for Chad, on cost [Technical Difficulty] and margin recovery, if current raw material spot rates and as you've locked in electricity, so when do you expect to fully recover cost inflation with the different initiatives, savings, price increases, volume growth? And third, this is more long-term, working capital has always been high as a percentage of sales. So beyond the effects of the current inflationary environment and tight supply chain, what are the actions that you're taking to reduce working capital for the long term? And maybe compared to historical levels, what would be a sustainable level of working capital for the long term?

Gonzalve Bich
CEO & Director

Good morning, Othmane. I'll do one and then I'll let Chad do two and three. We are very vigilant -- to your point, very vigilant on consumers and how they're shifting across product segments. We're not seeing at a global level any trading down that I would point you to with very significant number -- 20% or 30% going down, but we are starting to see some shifts, mostly from online to offline and those types of things. As we go through Back-to-School, it will be really important for us to come out with key learnings on price pack architecture for 2023 in stationery, especially. In Shave not so much. But it's something that we definitely keep an eye on.

Chad J. Spooner
Chief Financial Officer

And in regards to your question, first on margin rate, what I will say is we're in a very uncertain environment with things changing every single day, inflation, wars in the world et cetera. And what we're really trying to do, and I think we've done a great job of this year is maintaining and growing our EBIT on an absolute basis.

The rate is very difficult to comment on, right, because as you know, a dollar -- a euro of price and a euro of cost will give you the exact same Euro output on margin, but the rate will drop as a result of the math. So we are doing everything we can to maintain our EBIT on an absolute basis and we are going to continue to do that to grow it on an absolute basis, right, to grow our absolute EBIT Euro, but the actual percent margin rate, that is something that will -- time will tell and we'll see what happens with inflation long term, right. But we are committed to maintaining and growing our absolute EBIT and EPS.

In regards to the working capital, I think that's a great question. And we have a renewed focus in the company on working capital management. I think in this environment we probably benefited some from our strategic inventory. As we said at the end of last year, we purposefully grew inventory to make sure that we had a very strong Back-to-School season and I think we've proven that's been successful. But over the long term, and this is in a quarterly kind of thing, but over the years, you will see improvement in our working capital metrics to get back to levels that we think are more competitive, but that's a long-term journey, but the company is focused on as we speak.

Gonzalve Bich
CEO & Director

The two things that are coming to mind, Chad, listening to you on working cap are, one is tactical and the other is strategic. Tactically, we've been reducing SKUs and working really hard to improve or increase the net sales per SKU. So you're cutting the tail and growing the volumes on those high runners and when we look at the numbers that we've published for H1, we are seeing proof points there. So we're seeing both absolute increases in volume, but we're also seeing increases in volume per SKU, which is going to help our working capital because it helps inventory management and the math goes down the line. What we don't know, because the world is evolving, there is one push towards globalization, and the other one towards regionalization and both are happening at the same time.

Now, we are well positioned because we have both a global and regionalized supply chain, but really making sure that we optimize in that equation versus getting trapped with both penalties. So really something that you, I, and the team are very focused on as we plan for '23, where we have to execute with excellence, but also forward look for '24 and '25 for the future. Now that's without the acquisitions, which should have a dilutive effect and should help us work.

Othmane Bricha
BofA Securities, Research Division

Okay, thank you. And maybe just a follow-up on the SKU reduction. I think you mentioned in the presentation that you've achieved 25% average sales growth per SKU. What's the comparative period, and if you could break down maybe the 25% between maybe mix, price increases, promotional activity, what are the moving parts here?

Gonzalve Bich
CEO & Director

I'm going to be really honest with you, Sophie is looking at me, she doesn't understand the question. I'm not sure I understood it. Can you simplify the question for me?

Othmane Bricha
BofA Securities, Research Division

Yeah. You've achieved plus 25% average sales growth per SKU. Is this relative to last year, or is this relative to 2019 pre-COVID? So this is one. And 25%, is this all related to reducing, as you mentioned, complexity and removing the unprofitable and, let's say, price dilutive SKUs? What's the breakdown between, let's say, mix and prices for this 25%?

Gonzalve Bich
CEO & Director

Okay. So the answer to your question is, yes, it's versus last year and yes, it's reducing the quote-unquote bad -- so our Chief Commercial Officer talks about good and bad cholesterol when he talks to the teams. Sometimes you have good cholesterol, or good complexity, which is the massive [theatricalized] Back-to-School displays that you see right now anywhere you want to go and shop. I think we all love that bad cholesterol -- good cholesterol, sorry. The bad cholesterol is the long tail. So last year, because I want to remind you, last year we cut our SKU count 22%. This year, we're further doing -- and there is more to go get.

So we have to be careful, because at the beginning you can go fast and then as you go on, you have to go slower and slower to make the choices, but it's really also working the promotional angle. So instead of promoting the bad cholesterol SKUs, you promote the good and so you have a compounding effect. This -- it's a journey, you don't turn a company of our size, scale and complexity, especially in a category like stationery, on a dime, it has negative consequences. So we're giving ourselves the time and the energy to do it, but you're already starting to see some of that benefit in how we operate. And I think you'll see more of it in '23 from the actions of '22.

Operator

We currently have no further questions coming through. [Operator Instructions] There are no further questions, I will hand back to your host.

Sophie Palliez-Capian
Vice President of Corporate Stakeholder Engagement

Okay. So then this ends our session for today. As usual, our Investor Relations team remains at your disposal for any follow-up questions. And a short reminder, our Q3 results will be released on October 27. And in the meantime, we wish you a nice summer. Thank you all.

Gonzalve Bich
CEO & Director

Thank you.

Chad J. Spooner
Chief Financial Officer

Thank you.

OperatorThank you for joining today's call. You may now disconnect.