

Sales Update From Gail Pasquier

Dear all,

I know that a number of people are asking about our YTD sales performance and why current sales are so adverse to FC1, where at the end of May Net Sales were down £3.6m and we have got off to a slow invoice start in June. Circa £1.9m of the shortfall at the end of May came from the US where we have seen some major changes in phasing from key customers vs what we planned.

For example, the timing of the direct import shipments of Liquitex Basics from China to Michaels has moved and we have over \$1m due to ship from CTAM in July. Michaels also had some systems issues and had been reducing their own inventory holding – however, they have now identified where they are under-stocked and are coming to us with very strong orders to get them back in stock and ready ahead of the key coming Back To School season.

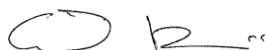
We already have over £5m of orders for June shipment placed by customers in the US and the new DC is up and running and getting the orders picked and ready for dispatch. The team there are also busy transferring the remaining stock from the old DC to the new and running both DCs during April and May also added additional complexity to managing the orders and ensuring inventory availability in the right location. Both Steve and Sanjay (who is enjoying his time in the US !) are confident that June will see us getting back to where we need to be.

In addition, we now get and analyse sales-out data from our major retailers in the US and we can see that both Liquitex and W&N are performing very strongly with double digit growth vs Last Year, out-performing our competitors. Our customers are delighted with our sales performance, as well as all the fantastic assets and programmes that we provide to them that help them engage and activate their shoppers and our consumers.

As ever, we also see ups and downs across the other markets and all of the Commercial Directors are focusing on ensuring we balance delivering sales, as well as delivering the right levels of margin, profit and cash as we know these are the key focus areas.

I hope this addresses any concerns that you may have – but don't hesitate to ask or send me a note or further questions.

Best Regards,



Gail Pasquier
Chief Commercial Officer