

# Sales Update

## June, YTD and outlook

Dear all,

As we now head into July I wanted to give you an update on sales performance for the month of June and YTD, but more importantly the outlook for the coming months.

### North America

June was a tough month for many reasons and sales did not end where we had planned for them to be. The main driver of this was in North America where we had a great order book for June, but ongoing teething issues in the new DC meant that we weren't able to ship all of these. Broadly speaking we had \$4m worth of orders that did not get despatched and invoiced in June, and already as we speak today we have another \$1m of orders from customers which means we have \$5m of the planned \$8.1m for July.

Steve, Sanjay and the team are continuing to improve the ways of working in the DC and are confident that we will be able to pick, pack and ship all (and more) of the planned orders. As we look forward for the rest of the year in North America, we have re-phased sales in line with customer plans and activation, building on the strong sales-out that we continue to see, and Michaels' reset of their inventory levels which means they need more stock from us.

Overall the team in North America fully expect to deliver the full year FC1 which is also in line with Budget.

### International and France

Briefly on other markets, we see lower sales in International where Jake and the team have significantly increased prices and re-set discounts to drive much needed improvements in margin. As a result, we are seeing higher negative price elasticity than we forecast in a number of markets, which combined with some over-stocks at the end of 2018 and challenging economic conditions in others, means sales YTD and for the full year will be a lot lower. However, the good news is that margin and profit in International are very favourable and will deliver additional profit to the business for the full year.

In France we started June positively, but the very hot weather in the latter part of the month did impact footfall and we saw a drop off in orders. In addition some sales have been re-phased to July and August. Retail has been tough in France during the first half of the year and, whilst we have strong plans in the second half, we will not make up the shortfall. However, as with International, we see great margin and profit improvement in France through a combination of price, mix and cost control.

### China, DACH, Eastern Europe

In China we have seen the impact in the first half of the year of supply challenges of the domestic ranges which are now recovering, but unfortunately this does mean that we will not be able to deliver the full year FC1.

In DACH we are starting to see the impact of the decision to exit Reeves (where Reeves was an

important brand for the market), but the good news is that one of our major customers Bauhaus has agreed to replace Reeves with Liquitex in all their stores, which will secure future sales as well as an improvement in margin.

In Eastern Europe we have a number of challenges across the different markets, varying from economic context, customer liquidity, a slow-down in growth vs our planning assumptions and a re-phasing of orders. As a result, we will see lower sales for the full year than planned, but again margin and profit will be in line or even slightly ahead of forecast.

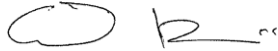
**UK, Benelux, Nordics, Iberia and Italy**

Sales performance in the UK continues to be in line with plan, with improving margins as we see the impact of some difficult price increase decisions.

Benelux is also on track and the Nordics saw one customer's order be temporarily blocked due to payment issues but we don't expect any major issues for the full year.

Finally, Iberia and Italy continue to perform well and will deliver their full year forecast.

I hope this answers any questions that you may have on sales performance but of course please do reach out to myself or any of the commercial teams if you would like more insight. Personally, I remain positive about our performance – we have made some tough, but right, decisions that are impacting top line sales, but can see that this is materially improving margins and means that we are setting ourselves up deliver in our 5% EBIT target.



Gail Pasquier  
**Chief Commercial Officer**