

P9 Year to Date Performance Commentary

Commentary Glossary :

5+7 Forecast: Full year forecast conducted in August, based on 7 months actual results and 7 months forecast. Also called 'summer forecast'

A&P: Advertising and Promotion spend

AR/AP: Accounts Receivable (money owed to us)/Accounts Payable (money we owe)

EAC: Expenses Affecting Comparability (i.e. one-off, non-repeating costs/income)

EBIT: Earnings (profit) before interest and Tax.

FC1: Full year forecast conducted in April, based on 2 months actual results and 10 months forecast

FC2: Full year forecast conducted in September, based on 8 months actual results and 4 months forecast

FX: foreign currency movements

KPI: Key Performance Indicator.

Net Sales: Sales to customers less rebates and discounts

OCF: Operating Cashflow (excludes interest and taxes paid).

P9: September

YTD: Year to Date.

YTG: Year to Go.

End of Q3 financial performance exemplifies the financial turnaround that is well underway despite Net Sales being -4.2% vs the same period in 2018. On the primary financial KPIs (EBIT and OCF) we are focused on in 2019:

- **EBIT is +£10.7m** vs the same period in 2018 (including +4ppt of margin and £8.8m reduction in Opex)
- **Operating Cashflow (OCF) is +£20.6m** vs the same period in 2018 (including £7m reduced investment in working capital)

Measuring against our 5+7 forecast, P9 YTD performance is tracking very favourably on both EBIT and OCF, with Net Sales being significantly behind forecast (and we will see a fair portion of this shortfall reflected in FC2):

- Net Sales of £107,168k, decrease by -£4,126k (-3.7%) vs 5+7 – main variances are:
 - France, -£1.3m, mass market declines, Cultura large scale de-stocking
 - US, -£1.7m, losses incurred over Q3 due to warehouse start-up challenges
- EBIT of +£3,529k, increases by +£2,128k vs 5+7
 - -0.2ppt margin decrease generates gross profit of -£1,849k vs 5+7 (sales decline, increased obsolescence provision, lower efficiencies in Le Mans and CTAM due to lower volumes)
 - Opex shows £3,023k decrease vs 5+7 including £938k reduced A&P (savings and phasing that reflects sales profile) and £2,085k reduced overheads (US -£0.5m due to open position savings, travel savings; across CIHL functions -£0.5m; and -£0.7m from tight Opex control across operations sites - Le Mans £0.3m, £0.3m Huaibei rent)

- provision released)
- Other income and expense shows +£318k vs 5+7 (largely variations in FX transactions)
- EAC reduced by £636k vs 5+7 due to [sale of Souza painting](#)
- OCF of -£4,118k shows increase of +£1,606k vs 5+7
 - EBITDA +£1,980k vs 5+7
 - Working capital increase of -£556 vs 5+7
 - Inventory increase +£1,658k vs 5+7 – impact by lower YTD sales, Brexit buffer in DC2 and additional Arches purchases
 - AR decrease of +£3,561k – consequence of reduced Q3 sales, with on-going focus on collections
 - AP decrease of -£1,236k. as a result of lower purchasing (managing volume decreases), re-phasing of A&P and lower overheads
 - Other current payables/receivables decrease of -£1,224k as result of reduced rebate accrual in line with lower sales and/or amendment to terms (including -£0.6m in France) and VAT outflows.
- Capex of +£314 vs 5+7 plus capitalised merchandising materials of -£161k vs 5+7

Full details of P9 YTD performance:

£'000	YTD @ Budget Translation Rates						
	2019 Actuals	2019 FC1	2019 5+7	2018 Actuals	Actual vs. FC1	Actual vs. 5+7	Actual vs. PY
Net Sales	107,168	114,936	111,294	111,919	(7,768)	(4,126)	(4,750)
Cost of Goods Sold	(55,077)	(58,975)	(56,234)	(61,765)	3,899	1,157	6,688
Logistics	(9,239)	(10,779)	(10,359)	(9,759)	1,540	1,120	519
Gross Profit	42,852	45,182	44,701	40,395	(2,329)	(1,849)	2,457
Advertising, Promotion & Trade Investment	(6,384)	(7,651)	(7,322)	(10,083)	1,267	938	3,699
Brand Contribution	36,469	37,530	37,380	30,313	(1,062)	(911)	6,156
Overheads	(32,200)	(33,811)	(34,285)	(37,257)	1,611	2,085	5,056
Net Other Operating expenses/income	212	(453)	(106)	(237)	665	318	450
EBIT pre-EAC	4,481	3,266	2,989	(7,181)	1,214	1,492	11,662
Expenses Affecting Comparability	(952)	(2,153)	(1,587)	20	1,201	636	(972)
EBIT	3,529	1,114	1,402	(7,161)	2,415	2,128	10,690
Depreciation	5,577	5,572	5,725	2,937	5	(148)	2,640
EBITDA	9,106	6,686	7,127	(4,223)	2,420	1,980	13,330
Capex (Net)	(3,689)	(4,184)	(4,003)	(4,432)	494	314	743
Capitalised merchandising units	(407)	(275)	(246)	-	(133)	(161)	(407)
Change in Inventory	278	1,593	1,936	(12,754)	(1,314)	(1,658)	13,032
Change in accounts receivable	(1,485)	(3,148)	(5,046)	(675)	1,663	3,561	(811)
Change in account payable	(2,839)	(1,884)	(1,604)	1,321	(955)	(1,236)	(4,160)
Change in current receivables and liabilities	(5,428)	(4,531)	(4,204)	(4,328)	(896)	(1,224)	(1,100)
Working Capital Change	(9,474)	(7,970)	(8,917)	(16,435)	(1,503)	(556)	6,962
Other	346	193	316	355	152	30	(9)
Operating Cash Flow	(4,118)	(5,549)	(5,724)	(24,736)	1,431	1,606	20,619
Gross Margin	40.0%	39.3%	40.2%	36.1%	0.7%	(0.2%)	3.9%
APTID as %age of sales	6.0%	6.7%	6.6%	9.0%	(0.7%)	(0.6%)	(3.1%)
Overheads as %age of sales	30.0%	29.4%	30.8%	33.3%	0.6%	(0.8%)	(3.2%)
EBIT pre-EAC Margin	4.2%	2.8%	2.7%	(6.4%)	1.3%	1.5%	10.6%
EBIT Margin	3.3%	1.0%	1.3%	(6.4%)	2.3%	2.0%	9.7%