

Town Hall Meeting

Business Update: February 2020

On Tuesday 11th February we had the first Town Hall Meeting of the year, live from the Head Office. On the panel were Dennis van Schie, our CEO, Jonathan Spight, our Chief Financial Officer and Richard Llewellyn, our Sustainability Officer. This Town Hall saw everybody from Head Office attending, as well as over 85 people joining on our new collaboration tool Microsoft Teams!

Due to technical issues, we were not able to record the meeting. Please find below a summary of what was discussed.

Introduction from Dennis van Schie:

Dennis introduced the meeting by saying that this year we have planned to organise live stream meetings more frequently.

The purpose of the Town Hall Meetings is to stimulate and increase communication within the company and to invite everyone to have an open dialogue with the Global Leadership Team. Dennis encourages cross functional communication and transparency across the business remains essential - everybody can talk to anybody at Colart.

➤ Corona virus update:

A formalised process has been put in place together with Jane Beeston, our Chief People Officer, Hunter Zhang, CTAM General Manager, Jim Yang, Commercial Director China, Dominique Murzeau, General Manager Manufacturing Le Mans and Tianjin and Loic Chaumont, Group Supply and Planning Manager, to regularly share information via the intranet. As of today, the factory in Tianjin is still closed with the intention to reopen on 17th February. Operational priorities are set and communication to customers is being prepared.

➤ Business strategic priorities:

Dennis talked us through the strategic priorities for this year which Colart reports back to Lindénggruppen and the Board on a regular basis. There are of course many activities, initiatives and projects across the business, but these 5 projects have been chosen because of their strategic importance and their cross-functional nature.

- **Profit Improvement:** with the aim to seek efficiencies of all changes and investments done over the last three years. Mostly already embedded in our budget plans which will set us up for a 5% EBIT delivery in 2021. Jonathan and Jane own this project.
- **Sustainability 2.0:** Dialling up our ambition and focus on the three elements of sustainability: Profit, People and Planet. We have appointed a Sustainability Officer in our Management Team, Richard Llewellyn. We have a target roadmap up to 2025 and we track

and follow-up on a monthly basis in our performance review.
Richard owns this project.

- **Structural Service Level Improvement:** This is about reaching “best in industry” level of servicing our customers. Planning methodologies, systems, processes and joint customer planning are all part of this end-to-end Supply Chain Planning review.
Bruno Lebourdais Group Supply Chain Director owns this project.
- **Future-proofing Tianjin:** This project has two dimensions.
Firstly Tianjin has to become a truly competitive facility in term of cost, quality and service. Good steps have been made but more is to be done.
The second part of this project relates to business development of the domestic market in China, which Hunter and Jim will jointly work on.
Dominique owns this project
- **B2B platform:** To catch up with some competitors and to enable easier interaction with our customers, we will launch an ordering tool as an integrated part of our Digital Platform. The “Minimal Viable Product” will be tested by around 20 UK customers during March and then the rollout will start with Italy.
Toby Russell, Chief Technological and Digital Officer owns this project.

Dennis then shared his positivity and confidence about Colart’s development. As always, the company is facing a lot of challenges and issues but at the same time he remains convinced that we have the strategy, the operational focus and the people to continue to “*inspire every artist in the world*” and deliver on the 2020 financial targets we have committed to.

Financial Update from Jonathan Spight

➤ 2019 financial update

- The financial turnaround progressing is very well, the profit and cashflow for 2019 is very strong and well in excess of targets
- In 2019 we saw sales of c. £152m, which is c. £0.7m lower than 2018. The US and UK are growing; whereas China (supply issues), France (Cultura destocking, cessation of private label canvas, mass market discounting) and International (volume loss in exchange for high pricing/margin) are declining.
- The Arches inventory was mostly sold through.
- Our gross margin grew +3.5ppt (average of 38.7%) from exiting loss making SKUs, customer pricing and operations efficiencies – meaning that our margin is back to the level of 2015 and on an upward trend.
- The close control of Opex resulted in significant savings
- Before one-off costs, our profit is £5m representing 3.3% of sales (well on the way to our short-term objective of 5%) – and this is £12.4m more profit than 2018
- C. £10m cash has been generated in 2019 from trading and working capital management – this is £25m more cash generated than in 2018
- There is £1.2m of Reeves inventory remaining – any sell through ideas are welcome!
- Jonathan reminded everyone of the importance of completing the emPerform reviews

➤ 2020 financial update

- The impact of 2019 year end closing on 2020 is being assessed during Q1 and the FC1 process
- 2020 sales is budgeted at c. £141m, reflecting the loss of £21m sales from Reeves and Arches, and 4.6% growth of the remaining portfolio (this growth separates into 1.5% from “lapping” specific issues in 2019, 2.2% from real growth and 0.9% from Elephant)
- Our gross margin has increased to 41.3%, largely as a result of the impact of losing lower-than-average margin brands (Reeves and Arches), with modest customer price increases assumed. and efficiencies to offset the loss of Reeves and Arches expected to take 2 years to fully impact. Opex held flat.
- Before one-off costs, our profit is budgeted at £3.9m, representing 2.8% of sales (fall from 2019 driven by 2 year process to recover from the loss of Reeves and Arches)
- Cash generation is budgeted to remain strong at £7.5m

Update from Richard Llewellyn

➤ About Sustainability

Richard talked about how Sustainability program is fully support from Owner, Board and GLT. He also mentioned that Sustainability will be embedded at all levels within business and aligned to our vision and values.

Sustainability is such an important nowadays, it is crucial that we embrace for our business to stay relevant and not become obsolete. Communications on this topic has begun across all sites, and we have set ambitious targets to be reached for 2025:

Colart Sustainability Targets for 2025



Increasing creativity and wellbeing

Sick leave: less than 3%
Accidents: 0 industrial accident
Social impact: 5,000 hours community work per million hours worked



Decreasing environmental impact

Energy: - Reduce energy consumption by 5% YoY
- 100% renewable energy
Carbon Emissions: Reduce CO2 emissions YOY
Waste: Reduce hazardous waste by 50%
Plastic: Reduce single-use plastic packaging by 50%
Water: - Introduction of closed water loop systems
- Reduce overall water consumption by 2%

Supply Chain

- All Tier 1 suppliers signed up to supply chain transparency & ethical programs
- Colart's Code of Conduct signed by all Tier Suppliers

We have already started measuring usage and outputs across all our sites, e.g. single use plastic, waste, energy, water. This will allow us to review our progress versus targets and identify opportunities for improvement.

There will be Sustainability Ambassadors appointed on every Colart site – we do want your ideas and views, and you will soon be receiving more information on how we will gather these.

The sustainability team will share regular updates and reports. A recent example was the January Innovation Board in which we discussed the Snazaroo set packaging. It was decided that we will use recycled plastic & change colour for ease of further recycling. We are also investigating how Winsor

& Newton Pen & Marker sets can move away from plastic to card.

We do commit to no greenwashing and no short-term gimmick as we remain true to our values.

➤ About Health and Safety

Colart continues to take this subject extremely seriously. There will be reporting and discussing this topic at Owner, Board, GLT and local Management levels and we will ensure that roles and responsibilities are clear to all in our new decentralised structure.

➤ NPD update

This year, there are a high-number of exciting new projects coming up, including the 300th anniversary of Lefranc Bourgeois, Winsor & Newton new Oil colours, Winsor & Newton Fine liners & Promarker sets, Liquitex Mew Mediums and Lefranc Bourgeois Linel range.