



2023 COMPANY UPDATE

I am happy to report we had a successful 2022. When we compare the full year to the budget our sales were up 7.4%, and income was up 20.3%. We achieved 85% of our financial goal, and bonuses were paid based on that. Given the challenges and the numerous, very costly, self-inflicted wounds (which we are correcting), I'm pleased with the results.

The federal reserve has now raised rates nine times since March of 2022 increasing the Federal Funds Rate by 4.75%. They are trying to get inflation to their 2% target, but their increases are having some unintended consequences. As I have said, this has increased our cost of capital and we are working to reduce our working capital.

We saw late pandemic and post-pandemic demand increase and then a pretty sharp drop in some areas of our business as inflation affected consumers. We haven't seen a significant drop in macro demand due to a recession, but the possibility we will has now increased.

We must focus on winning business, managing the cost structure, and controlling what we can. For many reasons, including the cost of capital and our need to operate more efficiently, we continue to work to take money out of working capital – primarily inventory and accounts receivable. On a constant basis, meaning if nothing changes for the remainder of the year, we expect to reduce current inventory levels by \$8mm over the next ten months.

Two known things will affect our inventory.

- First, the seasonality of the business means our inventory will increase as we move through Q2 and Q3.
- Second, we added approximately \$3.5mm of inventory with the acquisition of CLI.

The good news is that inflation is headed in the right direction. Container rates are at pre-pandemic levels. The bad news is some customers are now asking us to reduce prices. Because we could never pass through all of the price increases, we experienced, we are pushing back on these requests. We've participated in several RPFs over the past few months, which is one of the processes customers use to negotiate prices with vendors. We are constantly negotiating pricing and terms with our suppliers. Thank you for all you do. Spend wisely. If we don't need it, don't buy it.

- Kevin Carpenter



Submit your questions via Survey Monkey by April 13, 2023. April 20, 2023 Townhall & Cookout Attend in person at 12th St. or via Zoom.

Advantus Principles

Customers First.

Do the Right Thing. Act with Integrity.

Hire and Develop Great People.

Embrace Growth and Change. Play Offense.

Be Relentless. Execution is Everything.

Be Accountable. Own It. Work Hard.

Add Value. Find a Better Way.

Avoid Waste. Be Frugal.



Floating Luxuries has shipped its largest orders ever which are full truckloads of Kai Shelf Loungers and other products headed to patio store chains. We are entering the 2023 pool season in a good inventory position.

We are introducing our new Kai Upright Chair for pool shelves. It has a smaller footprint and works for consumers who like sitting more upright. We are excited about the start of the pool season.

- Charlie Frohman



Everything Under the Sun Tradeshow
Orlando, FL



NESPA Pool & Spa Tradeshow
Atlantic City, NJ

Sales 2022 Sales YTD Recap:

- 7.5% below budget.
- 36% above 2021 – The growth is due to the addition of a full year of Victory in 2022 and a full year of Artistic.



Reasons 2022 income was significantly below budget:

- Compliance fines – mainly Essendant and Staples – have implemented processes with both customers to alleviate the fill rate fines. Should alleviate the bulk of the fines for 2023.
- Transition expenses for Artistic.

Completed the acquisition of Charles Leonard March 1.

- CLI will remain operating out of NY for 2023.
- We will not start moving inventory to JAX until Q4.



- Harry Chernek



Costco

The 12 Pack Blending Sponge program was a very strong success. We have a chainwide \$3 million program in play for this Q4.

TJ-maxx

Marshalls

HomeGoods



Walmart

Between adds and drops for the new modular, we are basically sku neutral, but with a pickup in overall stores and items that are proven to be more productive (a.k.a Sponges).

We have 2 items in their Beauty Bar initiative this summer, which will be a stack out display of beauty items for \$3, \$5 and \$9.

- Chris Pitzo



The TJMAX Family

TJ is over 25% of our overall revenue!

- Growing the business by providing some item exclusivity and committed domestic inventory for certain items in exchange for more POE orders.
- \$4,000,000 in business this August.

C&H (excluding Art 101)

- Fourth quarter was tough for Craft and Hobby. Total sales were down about 34% to budget and net income was about half of what we projected it to be. However, our 2022 year-end results weren't too far off our budget – both sales and net income ended up about 7% below budget.
- We saw a big decrease in consumer demand for glitter (after huge increases throughout the pandemic). As a result, we had significant sales decreases at both JoAnn Stores and Walmart with a significant sales decrease at Amazon across the board.
- Customers are being very conservative with their inventory buys – a trend that will continue for 2023.
- We did have sales increases at Hobby Lobby, Michaels, and Notions which helped to offset the decreases.



C&H (excluding Art 101) cont.

Some key factors negatively impacting our profitability, include:

- The import freight expense for Wyla.
- We ran less business through our HK/Total Design office, which increased the overall expense of the office for Sulyn.
- Our interest expense went up significantly.

As we look ahead for 2023:

- We continue to have strong placement for our products, taking advantage of new opportunities, while we watch our inventory closely and aim to minimize write-offs.
- We should continue to realize significant freight savings (hopefully even beyond what we've forecasted).
- We will likely continue to see softer demand for our products than in 2020/2021, due to a more conservative with their inventory planning.

Specific customer developments for 2023:

- **JAS** put several of our core product categories out to bid in an effort to reduce costs – namely, tulle and netting, glitter/GG, and storage. We currently ship these categories via domestic fulfillment out of Jacksonville. We submitted DI quotes for everything.
 - We have confirmation that we're keeping our glitter and glitter glue business, but it will move to DI. We are still waiting on decisions for the other categories.
- **Wyla** has several new product categories that are moving forward at JAS:
 - Commitment for 5 planters from Brazil for Spring 2024.
 - Commitment for jute yarn endcap for Spring 2024.
 - Strong possibility for water-repellents BTY outdoor fabric for Spring 2024.
- We are working with **Walmart** to switch out a couple of our slow-selling stacker jar colors and replace them with new items. We are also working to convert our glitter tube rack (that's in a small number of stores) to a smaller stacker jar rack. Both changes should have a positive impact on sales.
 - Also, regarding Walmart, we are working to comply with their RFID labeling requirement with a deadline of February 1, 2024.
- **Michaels** is interested in both BlueLounge and storage from us – we're in the early stages of working through this.
- **Hobby Lobby** continues to be a growing account for us – they are adding new Sulyn products all the time.
- **Notions** is taking over our international customers. This is something we wanted as the international accounts can be cumbersome to manage – we will continue to get the sales; they will just go through Notions. This is a huge time saving win for several departments.



Total 2022 year-end results for Art 101 were also much lower than expected – we were down about 30% to budget for both sales and net income. We knew we would be by June of last year, and we adjusted our forecasts accordingly, but the original budget did not change.

- We found out in the Spring that we did not keep our Costco USA business, which we've had for the past 7 years. This was a result of the factory closures in Vietnam in 2021 due to the pandemic, which caused us to ship orders late, and Costco ended up with too much inventory at year-end that they couldn't sell.
- We also found out that Walmart was canceling some significant orders on top of cutting back quantities.
- We also saw a significant decrease in sales at Amazon, due to additional competition on our 142-piece kit.
- Five Below cut back orders pretty drastically last year as well.

As we look ahead for 2023 we are optimistic. We still don't have final details on a lot of the business that will impact sales, and that's the hard thing with Art 101 – we often don't know what the year should look like until we're well into it due to the seasonal/promotional nature of the business, but we have many indications that business should increase this year.

- We are increasing our everyday business at Walmart from 4 items to 14 items, but we don't have store counts yet. We are also moving to domestic fulfillment for this business. Assuming store counts will be similar to our current items, this should give us a huge increase in sales here.
- We've been awarded two promotional features at Walmart as well – as a company they are cutting back on feature space, so to get 2 features is great. We do have store counts for the features, and it will be a nice piece of business for us.
- We are working with a new rep group for other departments in Walmart too, and we secured a 4' section (4 items) for their Dollar Spot. We don't have store counts yet.
- Our rep is also working on an opportunity for us at Sam's Club. The sales would be significant but at relatively low margins; however, it would allow us to move a ton of domestic inventory that we're sitting on as a result of the decline in Amazon sales. This would also allow us to save on storage fees that we're currently paying.
- We've grown the Hobby Lobby business to 7 items in their program, which should give us a nice increase over last year.

- Erica Maron



Company Goals

1. Financial: Beat budget by \$3MM
2. POI: 98|95|99|99 = 91.25%
3. Documentation/Training: 100% of core processes documented by year end.

Budget Updates

- Mercury Q4 sales were 18% below budget and net income was 29% above budget.
- Mercury total 2022 sales were 8% below budget and net income was 52% below budget.
- The sales being below budget is simply due to the decrease in recruit numbers last year. They were down about 30% in 2022. The net income being below budget is due to the unexpected tariffs. We may ultimately receive a refund, but that will require congress to act.
- Seward Q4 sales were less than 1% below budget and net income was 33% below budget.
- Seward total 2022 sales were also less than 1% below budget and net income was 225% above budget.



Customer Updates

- Mercury Tactical Gear was invited for a Live POG reset at the Navy. Where we reset the Sports, Mission Ready, and Tactical POGs. The meeting was a success, gaining placement with 2 POGs and keeping our placement with the 3rd. We added 9 new items!
- We were awarded the West Point Cadet Garment Bag Program. This will be 1,350 bags per year with 4 additional options (5 year total)
- For the 4th year in a row we received an order for Super Bowl bags
- This year it was 200 bags to the Philadelphia Eagles.
- Target agreed to turn all of our trunks back on and we have 15 skus available.



Inventory Updates

- MRC inventory is down about \$700k over last month and \$2.5M since October.
- We still need to reduce it significantly.
- We are still working through the vinyl issue for SWD. The first PO received from our new supplier was of acceptable quality.



MRC4940-bk Pro Travel Deluxe Backpack

- Miranda Freeman

CONTINUOUS IMPROVEMENT:

Structure/Personnel:

We have hired a new employee for the CI team, JoDeana Rosario, with a current start date set of April 10. She is a remote employee located in the Florida panhandle. JoDeana will be filling the role of CI Specialist focused on Customer Compliance.

CLI Acquisition:

We have started the recurring departmental meetings for the Charles Leonard acquisition go-live. CI will be acting as the liaison between the departments and CLI to assist in the data gathering and distribution. As you know, we have a TSA agreement currently in place through the remainder of 2023.

SHARED SERVICES UPDATE



Thanks to the work of the division, we expect to receive a reversal for some Essendant fines from last year.

- Innovera Surge / Power – V# 2722 – \$13.4K in FTF Fines.
 - Advantus ReadRight Canned Air – V# 0118 – \$13.5K in FTF Fines.
- Total credits – \$26.9k

CUSTOMER SERVICE:

Wins: Implementation of new CS NS dashboard – streamlined visibility to actionable orders and addition of 860s into the dashboard.

New 860 process that includes a new record that will populate with the raw data from the 860. This streamlines that process and automates tying the 860 to the original sales order.

Structure/Personnel: Customer Account Manager Hiring – we have begun actively interviewing in anticipation of Candace & Gabby's departure later this year. The goal is to have new hires in place for cross training by end of April.

Update: Wrapping up the Account Notes project to document all key customer details into a standard template our goal is to have it completed by the end of the month. After which we will begin reviewing and updating the data in the customer records of NetSuite.

Material changes in structure/personnel:

- Brittani Underwood and Jill Lowe have move from Compliance/Continuous Improvement to the Sale Operations Team as Sales Specialist.
- Marie Dorin (Varcoe), our Craft and Hobby, Sales Specialist will soon be out on maternity leave beginning the first week of April. All requests should go to the general email box C&HMarketing@advantus.com.
- David Truax, our Web & Social Specialist is no longer with the company. You can continue to send request to web@advantus.com. Carson will be monitoring this email box and managing these requests with a new external team. Please be aware, due to this new relationship, these requests may take a little longer a we go through this transition.



HR

- Wrapped up open enrollment for our healthcare plans the first of March.
 - The Company was able to absorb the increase in premium, and in some cases, lower it for employees.
 - Switched carriers for dental, vision, short term disability, long term disability and life insurance from Reliance Standard to Guardian.
- In addition to our regular recruiting efforts, we are actively working with some refugee organizations and local colleges/universities on internship programs to supplement staffing at the warehouse.
- We are working with an outside vendor to provide Excel training, based on the assessments completed last Fall. We hope to have a schedule in place in the next few weeks.
- Redistributed duties and responsibilities in HR to extend our resources across multiple areas:
 - We've elected not to hire a Corporate Trainer at this time. To fill some of that void, Katie Delamater is working with CI on the company's process documentation goal, and in C/S and will be used in other areas as well.
 - Laura Marshland has taken over the responsibility of our Safety program.
 - Aspen Kelley is also working with Customer Service regarding freight bill adjustments and with Accounting, processing PODs.



Sales Ops



Key wins/successes:

- In February, we launched the Tim Holtz 2023 New Spring Products. These new products will set in Joann's and Hobby Lobby in the fall.
- We continue to see steady e-commerce growth for FloatingLuxuries.com (up 18% or \$58K YTD) and Amazon.com (up 26% or \$93,000).
- On March 9, hosted a Facebook Live Launch with Yaya Han of our Spring Collection. The new fabric set in Joann store in March. The live release went well gaining over 3.2K views.



Yaya Han was live.

Fan Page · March 9 at 7:59 PM · 🌐

Live launch of Cosplay Fabrics Spring 2023 line hosted by YaYa Han!



OPERATIONS UPDATE

GUN CLUB ROAD

- Additional picker assigned to GCR (Vu) to help efficiency and reduce dependency on Temp labor.

12th STREET

- Replacement Cycle Counter hired at 12th.
- We are actively working on multiple reach driver positions.
- We have installed multiple display monitors in receiving, inventory management, and shipping.

SHAWAND

- Genee Zeigler was promoted to Manager at the Shawland location.
- We are actively looking for a lead to take over at the SHW facility.
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PETERSBURG

- Production of Seward Trunks has resumed. Black vinyl has arrived, passed QC review, and we are now back to running.

OPERATIONS

- Phase I of operational KPI metrics has been completed. This included identifying those numbers that are critical to monitor our internal success and efficiency.
- Phase II of operational KPI metrics will commence early April. This will be gathering and grouping the data into workable scorecards.
- A new Facility Manager has been hired. He's scheduled to begin work on March 27.
- Picking is 92.8% of planned pace across all facilities and all locations (Ecom, pallet, small pack, etc.).
- This is an improvement of 2.0% while maintaining 98.5% of the projected volume.
- An Operational Project List has been created to help provide insight into necessary repairs/jobs that need completion using both internal and external resources.

