Operations and North America

LUCA PELOSIN
CEO Operations

Production

FILA has full control over every process, “from the wood to the pencil”.

The business model adopted is vertically integrated and represents a point of reference for the sector, allowing the supervision of every stage of the production process.

FILA’s global presence gives it considerable flexibility and interchangeability so it can minimise supply risks linked to any contractions in production capacity in specific sites and the potential impact of variations in customs duties in specific countries.

The FILA Group operates with **22 production facilities** in several geographical areas (Italy, France, Germany, Great Britain, Argentina, Brazil, Canada, Mexico, Dominican Republic, USA, China, and India).

Production in India is playing an increasing role in the Group’s overall performance, serving the growth of both the domestic market and several other key markets for the Group.

FILA’s integrated business model also allows it to:

- **produce** almost the entirety of its product portfolio **in-house**;
- **have direct access to raw materials** with strategic value for the Group, such as wood, plastics, and pigments;
- **maintain high quality standards** over time;
- **start projects with an increased focus on environmental** protection and sustainable production.

Global Presence

Countries where we have a direct presence

Countries with factories

FILA Headquarter

Number of factories

- 33 SALES BRANCHES
- 22 PRODUCTION FACILITIES

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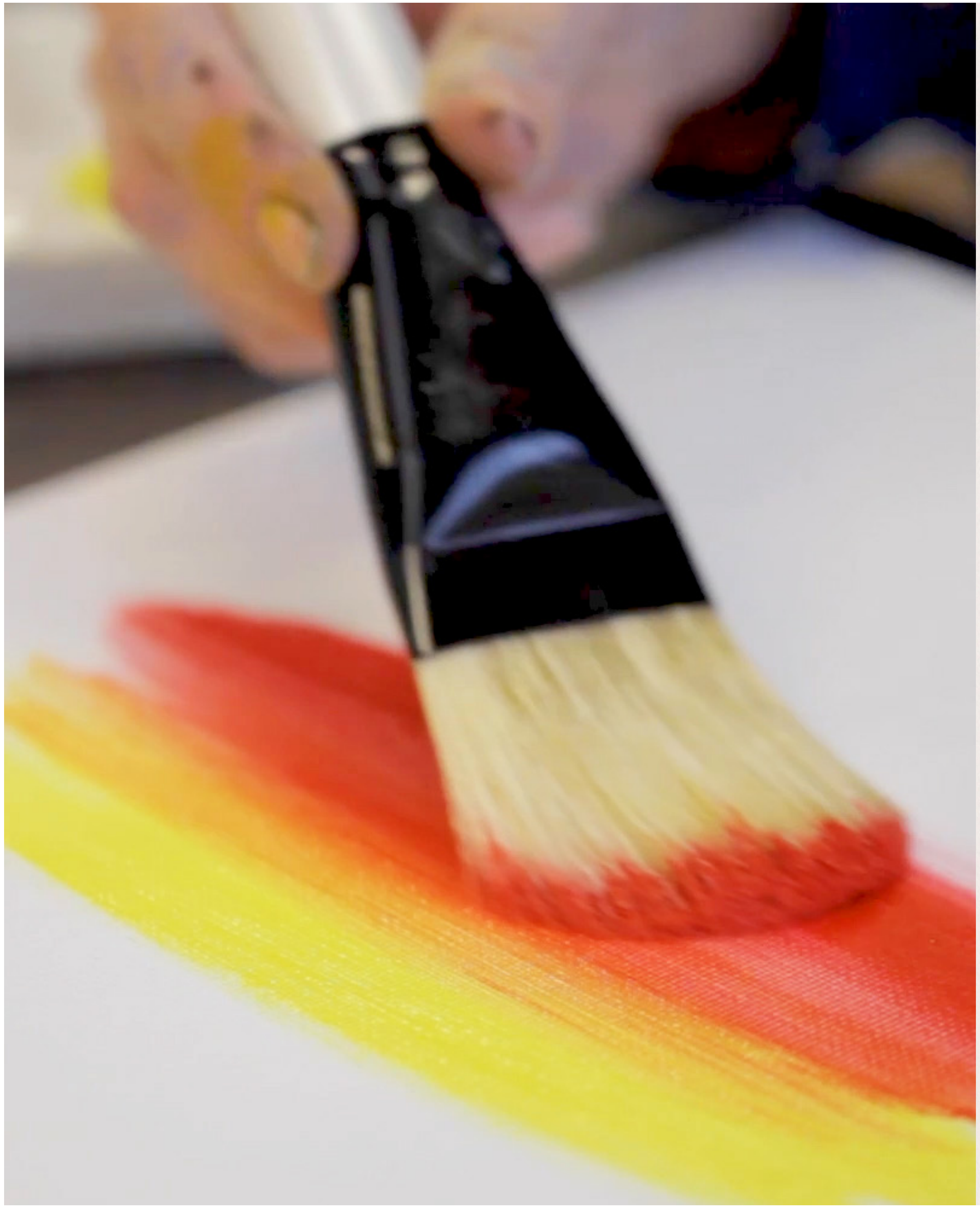


Distribution centers

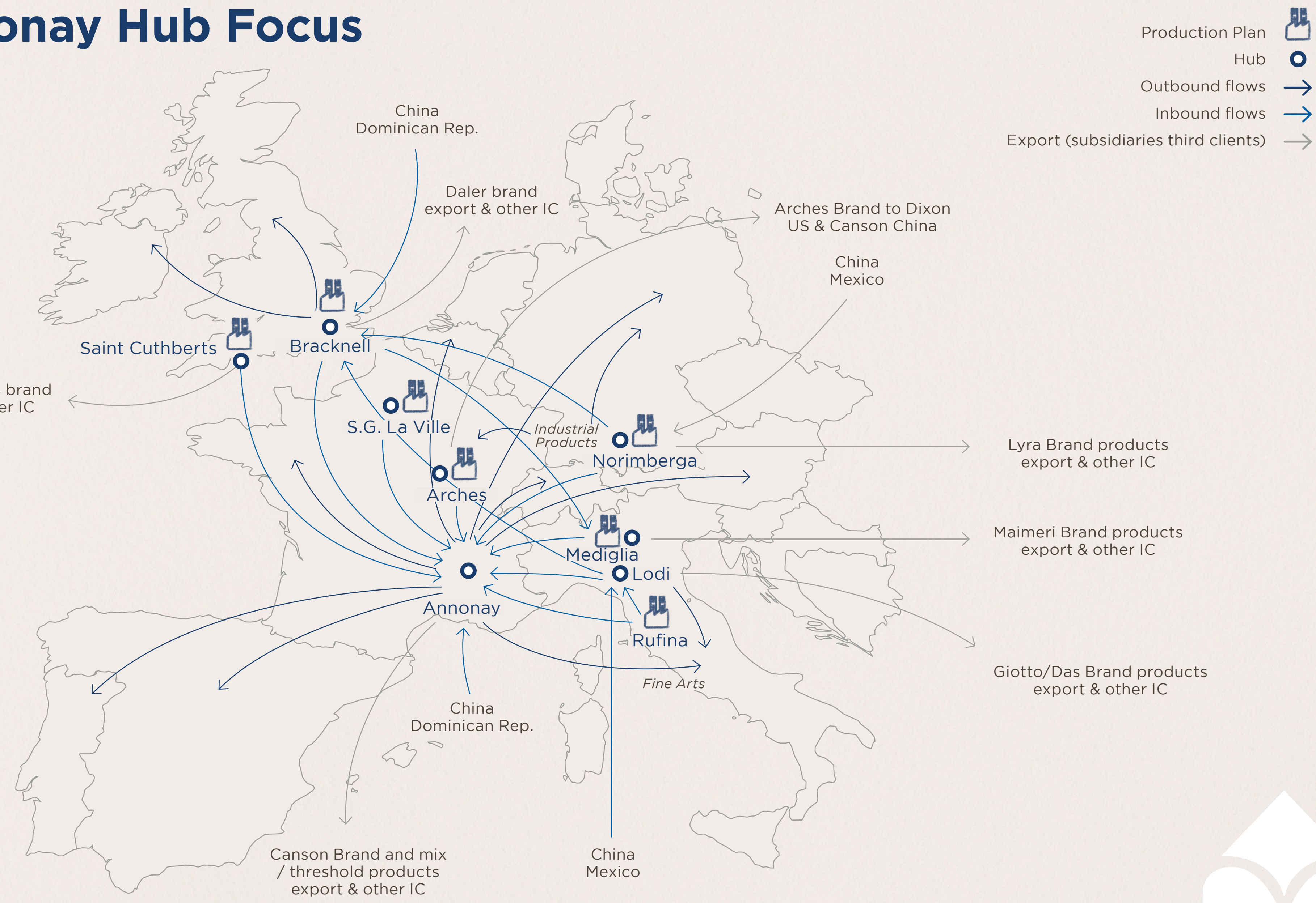
The Group distribute in each Country with local distribution centers which are operative in each production or commercial Subsidiary.

The only exception is represented by France which drop ship to France, Spain/Portugal, Benelux, Germany and Italian Fine Art Customers.

We operate by ourselves the Distribution centers with the exception of Italy which outsourced the distribution activities to DHL Supply Chain S.p.A.

The main Distribution centers are located in US (3 main DCs), in Mexico, in Italy, In UK and in France.

Annonay Hub Focus



Capex

Approx € 30 million yearly CAPEX expected in the next three years.

in areas with the most potential for growth and projects that benefit efficiency and the development of operating margins.

The investments are aimed in particular at:

- Increasing Capacity & Widening Product Lines in india between 2023 and 2024 to fulfill the market needs and sustain the growth.
- Keeping the production plants up-to-date.
- Increasing plant efficiency.
- Producing new products.
- Pursuing the Group's sustainability objectives.
- Continuing the SAP implementation road map and related tools (integrated demand planning (IBP), sales force automation, Advanced Available-to-Promise (aATP), Supply chain management (EWM), field production surveys (MES).

SAP and IT infrastructure

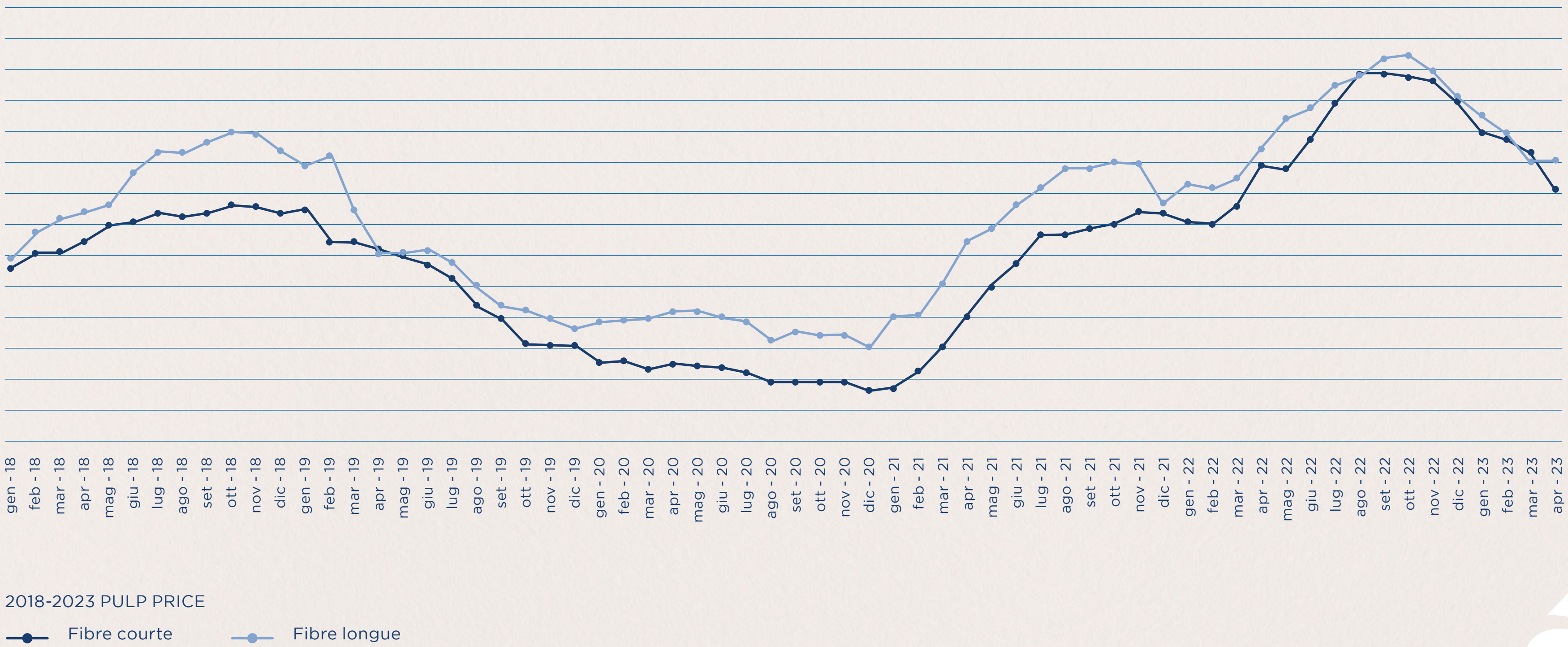
Up to-date we implemented SAP in 11 Entities (Dixon US, Dixon Canada, Daler-Rowney UK, Canson France, Fila Arches, Fila Iberia, Fila Benelux, Fila S.p.A., Industria Maimeri, Lyra Germany, Canson Cina).

The next SAP roll-out is planned for Juanary 01, 2025 for Dixon Mexico. Roll-outs on the Group's IT infrastructure are carried out together with the SAP roll-outs.

Purchasing prices: Raw Materials and Supply Chain

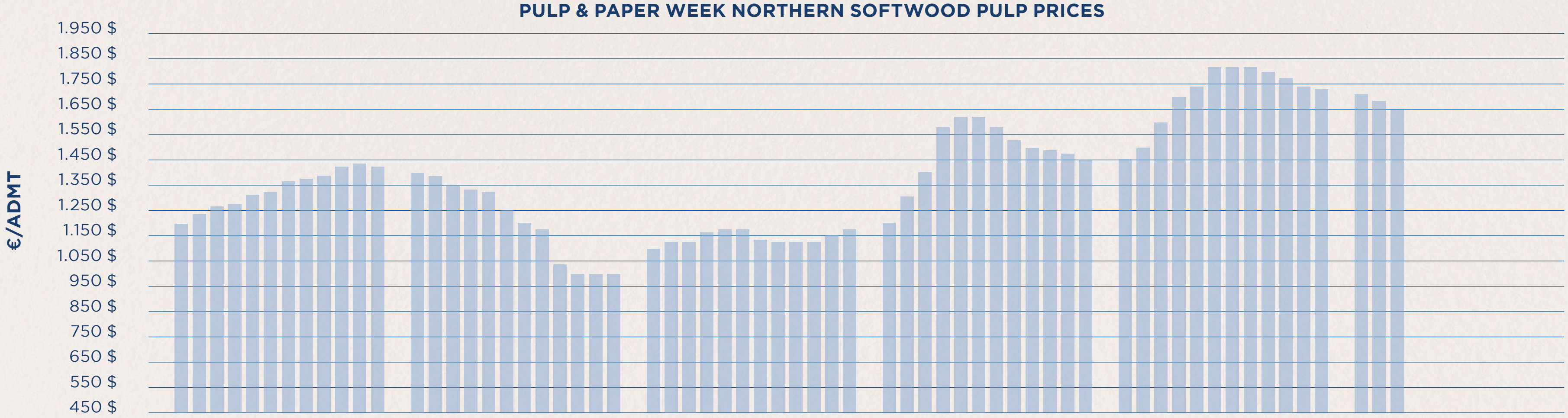
The Group suffered the strong increase of the inflation during 2022.

Raw materials, ocean freight and utilities have increased rapidly and consistently from February up to the end of the year.
The most important raw material that the Group purchases is cellulose fiber, directly as fiber and mostly indirectly as rolls of paper, packaging materials as cardboard boxes and packing cartons.
The EU trend for short and long fibers shows a peak in October 2022 followed by a cost decline.
Just for the fibers used at Annonay mill the 2022 average price was 37% higher than 2021.



2018-2023 PULP PRICE

Softwood trend in the US market.

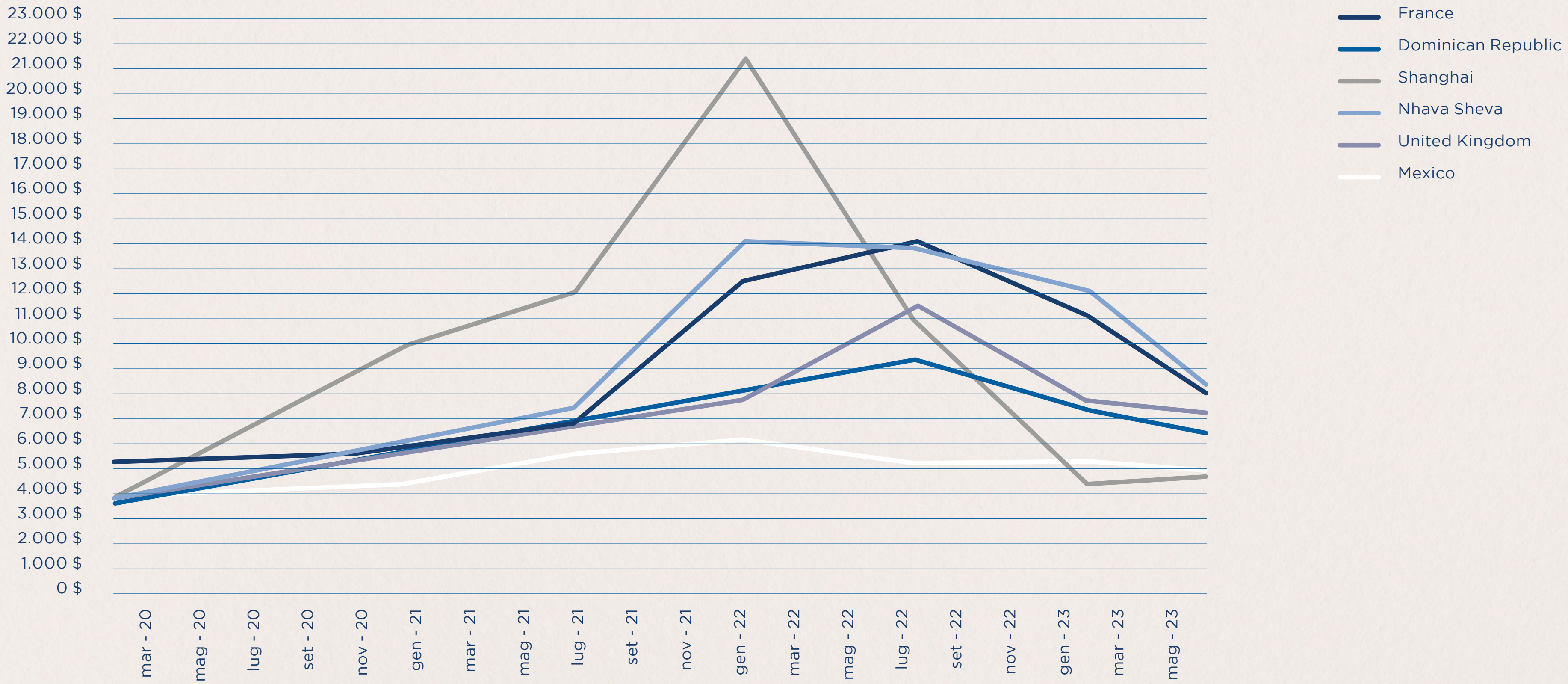


	NBSK '18	NBSK '19	NBSK '20	NBSK '21	NBSK '22	NBSK '23
Jan	1.210 $	1.405 $	1.115 $	1.185 $	1.450 $	1.700 $
Feb	1.240 $	1.380 $	1.130 $	1.300 $	1.515 $	1.675 $
Mar	1.260 $	1.355 $	1.135 $	1.400 $	1.615 $	1.650 $
Apr	1.280 $	1.330 $	1.155 $	1.565 $	1.680 $	
May	1.320 $	1.295 $	1.160 $	1.615 $	1.745 $	
Jun	1.330 $	1.250 $	1.160 $	1.615 $	1.805 $	
Jul	1.360 $	1.205 $	1.140 $	1.575 $	1.805 $	
Aug	1.380 $	1.170 $	1.130 $	1.535 $	1.805 $	
Sep	1.390 $	1.135 $	1.130 $	1.515 $	1.790 $	
Oct	1.420 $	1.115 $	1.130 $	1.495 $	1.770 $	
Nov	1.435 $	1.115 $	1.150 $	1.470 $	1.745 $	
Dec	1.430 $	1.115 $	1.155 $	1.450 $	1.720 $	

Another raw material widely used in the group is plastic and derivatives. Purchasing prices have begun to decrease since the beginning of 2023.
Some commodities reached already a price comparable with pre-covid price (ie: plastic raw materials), other are still declining (ie:Pulp).

Ocean freight

Ocean freight already returned to the pre-covid prices except for the sea routes Europe to the United States. Below the container rates cost for Dixon Ticonderoga Us, by far the larger importer in the Group.



Net working capital – inventories

The inventory value increased significantly in 2022 to prevent any potential material shortage as experienced during Covid period and for inflation reason.

One the top priorities of 2023 is to bring the inventory value down to a more normal value. The levers we are working on to reduce the value of inventories are as follows:

- Simplify the offer to our Customers by discontinuing the low profitable products;
- Better manage the sales forecast thanks to the integrated business planning tool (we plan regular quarterly meeting with all the Subsidiaries to estimate the pre-closing and define an action plan to resolve potential issues).
- Fine tune the material requirement planning (MRP) rules to continuously adjust safety stock, safety time, purchasing lead time, planning delivery fence, minimum production and purchasing order quantity.

In 2022 NWC on Sales was 39,6%. We expect to further improve in 2023.

North America Focus 1/2

Since the beginning of January, FILA Group Management focus was moved to North America with the aim to bring back the subsidiary to the historical level of profitability.

Sales and Products

- We've made effective the separation between School and Fine Art in reason of the different management of the two business units.
- We have today different EVPs and VPs for the two business Units except Finance and HR.
- We launched the Customer simplification project with the aim of reducing the sales organizations, fixing more precise rules in terms of minimum order quantity, price list discount policy and payment terms harmonization.
- Brand and products rationalization .
- We are simplifying the offer by reducing the number of products, discontinuing the not strategic lines.

Dixon Ticonderoga and Pacon brand rationalisation

Creativity Street · Flameless · Ghostline · Bordette · Now You See It! Art Paper · Spectra Glitter
Plastecraft · Art1st · ArtKraft · Dixon · Ella Bella · Classroom Keepers
Prang · GOwrite! · art Street · Ticonderoga · Decopuffs · realimages
Pacon · KolorFast · Decorol · Mind Sparks · Artstraws · Little Fingers
Corobuff Corrugated Paper · Creative Cut-Ups · Spectra art Tissue · MathNotes · Learn It By Art · Fadeless Paper · Tru-Ray
Squishy Foam · SunWorks · rainbow Colored Kraft · Lia Griffith · Ucreate · Gorilla Blocks
Trait-tex Yarn · ecology · Wax Works · Oriole · The Present-It · Wonder Foam

Ticonderoga · Prang · Ucreate
array Trusted Teacher Solutions · Tru-Ray · Fadeless Paper
Dixon · Spectra · Creativity Street

North America Focus 2/2

Margin and NWC management

- We launch the price excellence project to bring the margin up.
- We improved the delivery service level (on time and in full deliveries) to gain more trust from our Customers and reduce fines.
- We already closed one Distribution Center by shifting the distribution of those products to the other two.
- We defined the next Distribution simplification model for the future.
- We planned to implement by the end of the year the Advanced available to promise and enhanced warehouse management tools.
- We defined the 2023 targets with all EVPs and VPs to increase their commitment to reach the 2023 objectives (profitability growth, fines reduction, increase of efficiency, inventory reduction, cost savings).
- We are going to reduce the private label when not strategic to improve the working capital.

FILA GROUP