



FROM THE OFFICE OF THE CEO

Dear Colleague,

On behalf of the CEO and Board of Directors, I want to welcome you to the Festival Town team. You were hand selected, along with 13 all-star peers, to lead the operational turnaround of this once proud and great organization. I could not be happier to have you on the team, and am thrilled to get started.

The situation that you are entering is admittedly a difficult one. This business was, until recently, a stalwart in the festive supplies industry, and in big box retail more broadly. The FT brand has, for decades, been ubiquitous across the USA and Canada—the clear market leader and the go-to retailer for anyone seeking to throw a party, to buy festive décor, a costume, a game, a puzzle, or a baked good (custom cakes, cupcakes, cookies, etc.). It was a fun place to work with a playful, family-like atmosphere. We all worked hard, and we all played hard.

Things began to change around 2015. For a few years, we noticed an erosion in our market share, as customers began ordering costumes, games, and festive merchandise from Amazon, Jet.com, and other direct-to-consumer channels. We were still growing, but were no longer enjoying the near-double-digit growth that we experienced for our first 3 decades. We adjusted by creating our own D2C channel, but had little uptake and experienced operational difficulties with accuracy and timeliness of deliveries.

Then came the pandemic. In the first two years of Covid, sales of festive goods, costumes, and baked goods plummeted, as people were forced to abstain from physical gatherings. In the games and puzzles category, D2C shipments and curbside pickups skyrocketed, but the increase wasn't enough to make up for the losses associated with the other categories. Halloween—our Black Friday—was nonexistent in 2020, and weak in 2021. This caused a significant hit to our already-strained financial situation.



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Exacerbating the demand-side weakness was an absolute perfect storm on the supply side. With long fulfillment cycles, FT's 2020 inventory stagnated in stores and DCs, while new orders were either left unfulfilled or significantly late because of supply disruptions (especially coming out of China). After months of receiving fractional shipments, our centralized merchandising team reacted by ordering 2X and 3X the amount forecasted. With no visibility into what was already on hand, much of the stagnant inventory was still in stores and DCs. And then we got all that we ordered.

Our stores and DCs are now packed full of inventory. We have containers staged at the DCs, full of inventory. We have temporary containers staged outside stores, full of inventory. And, of course, with the cost of capital being what it is, the cost to service our debt—much of which is due to the glut of inventory that we're left with—has risen to levels that are beginning to cripple us financially.

In Q3 2023, we were purchased for a small fraction of our previous valuation by a well-known private equity firm, Golden Lake (or "GL" as they're commonly referred to). GL immediately fired the CEO and most of her senior staff, including her Chief Supply Chain Officer (CSCO) and Chief Merchandising Officer. GL has since hired Deverl Masarang as CEO, and engaged the blue-chip consulting firm Fictitious Consulting Group, or FCG, to assist in the turnaround.

While the company continues to look for a new CSCO, you and your team will be assuming the role. Over the next four months, you will be tasked with creating a plan to turn around the company's supply chain and manufacturing operations. This will include short-term measures to improve the immediate flow of goods and capital, as well as longer-term measures to improve the overall configuration of the supply chain, including (and especially) the flow of information across the ecosystem.



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Going forward, we expect to have a higher degree of visibility and intelligence about our operations, as well as the operational agility to adjust product flow and cash flow when the need arises. In addition to identifying the best course of action, we also expect you to bring a change management plan, and to analyze the more foreseeable implementation scenarios to ensure success in the face of adversity. You will present your plan to the CEO and Board of Directors in the second week of April.

You will be guided in this endeavor by a team of consultants at FCG, and supported by an all-star roster of advisors, including David Warrick (former GM, Supply Chain, and Chief Supply Chain Technology Officer, Microsoft), John Church (former Chief Supply Chain Officer, Chief Transformation and Enterprise Services Officer, General Mills), Donna Palumbo-Miele (former Procurement Leader, Bloomberg), Peter Smith (former Chief Operating Officer, Party City), and Chris Clark, Chief Supply Chain & Procurement Officer, Motorola Solutions). Other advisors, technology leaders, and thought leaders will be introduced throughout the duration of your work.

On behalf of the Board of Directors, I wish you and your team the best of luck.

Sincere regards,

A handwritten signature in blue ink that reads "Ben Bellamy".

Ben Bellamy
Chief of Staff to the CEO
Festival Town, Inc.