

Dated: 16<sup>th</sup> February 2018

**\*\*\* DIRECTIVE \*\*\***

## Distribution of "Out of Stock" Product

Dear H2O Franchisees,

We have made a decision (Directive) with assistance from the FRC on the process for allocating the "Out of Stock" items once received.

Process:

1. Assess the current Back Orders per Franchisee for those specific items.
2. Calculate the average monthly purchases over past 6 months per Franchisee of those specific items, multiplied by the estimated number of months till the next shipment is received.
3. Should stock be left over after point 2 above, a further calculation will be made as per point 2 & allocated accordingly.
4. The exception will be if a Franchisee can prove a confirmed customer order, we will make a special effort to supply accordingly.
5. Stock will be supplied as per the Franchisee's current payment terms in place.

See attached example.

Trusting this meets with your approval.

**Regards**



**Ken Lister**

Financial & Operations Director  
H2O International SA (Pty) Ltd

**Example of Process:**

1. Total number of B5C units on backorder = 10, of which Franchisee A needs 7 & Franchisee B needs 3, of which 2 are paid by the customer & proof sent to the Franchisor
2. Balance of B5C units now on backorder = 8
3. Total number units received from the supplier = 5 of which 2 are taken in point 1 above, leaving 3 for allocation
4. Average 6 month purchases = 13
  - Franchise A = 10
  - Franchise B = 3
5. Months to next shipment = 2
6. Maximum Allocation = 26
  - Franchise A =  $10 \times 2 = 20$  (76.92%)
  - Franchise B =  $3 \times 2 = 6$  (23.08%)
7. Distribution:
  - Franchisee A =  $2.31$  ( $3 \text{ received} \times 76.92\%$ ) = **2**
  - Franchisee B =  $0.69$  ( $3 \text{ received} \times 23.08\%$ ) = **1**

If unsure of the above example, kindly call the Admin Department at the Support Centre on + 27 21 702 3262.

