



Felina swimwear SS20

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EUROPEAN LINGERIE GROUP AB

QUARTERLY REPORT –
FIRST QUARTER 2019

European Lingerie Group (ELG) is a fully vertically integrated intimate apparel and lingerie group, supplying lingerie materials to all major intimate apparel brands and distributing own ready garment lingerie products through more than 5,000 points of sale in 46 countries worldwide and online. ELG includes three business segments – **Lauma Fabrics, Felina International** and online business **Dessus-Dessous**.

ELG has successfully embarked upon a growth strategy involving international M&A targets and building size, and is today a renowned and strong player in the European intimate apparel industry.

Key numbers

1,338

Employees worldwide

46

Countries

5,000

Points of sale

6 brands

Lauma Fabrics, Felina, Conturelle, Senselle, Lauma Medical, Dessus-Dessous

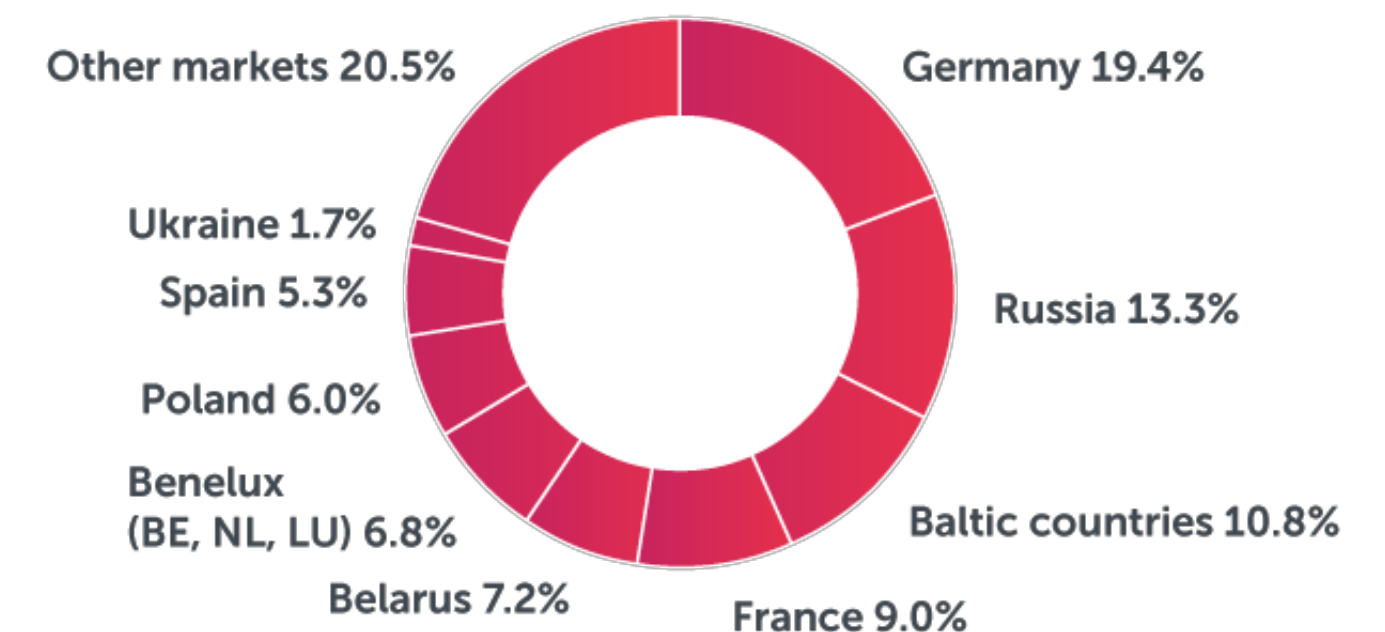
€ 21.0m

Sales Q1 2019

€ 2.7m

Normalised EBITDA Q1 2019

Sales by markets Q1 2019



Company Locations

Key company locations –

sourcing, design, development

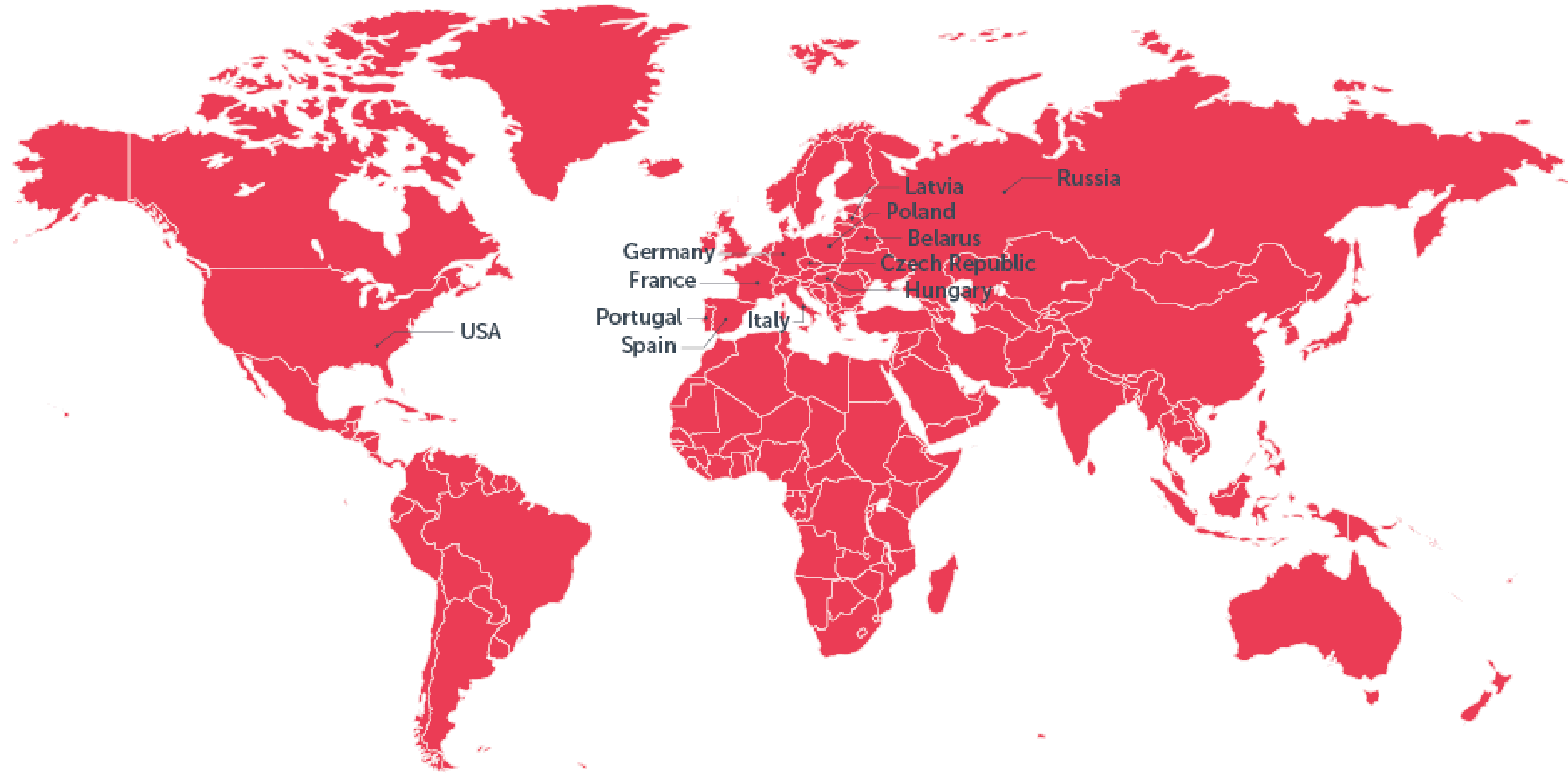
Germany (Mannheim), Latvia (Liepaja)

Production

Germany, Latvia, Hungary, Belarus

Trading

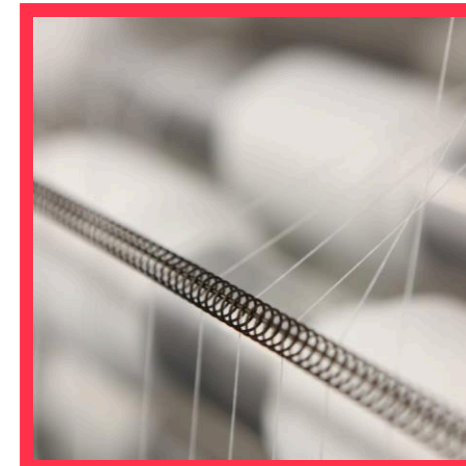
Germany, Latvia, Hungary, Poland, France, Italy, USA, Spain, Portugal, Czech Republic, Russia



Company Products

Lace, embroidery, elastic fabrics, narrows, private label products

Premium branded lingerie under Conturelle and Felina brands



Business case

Unique for lingerie industry

ELG is one of the rare **fully vertically integrated** companies in the lingerie industry in Europe producing lace and fabrics for largest lingerie brands as well as produces and distributes lingerie garments under Conturelle, Felina and Senselle brands.

Sound business model and strong cash flow

Sound business model whereas products are based on classic, **never out of stock items** - both in material and ready garment segment with low fashion sensitivity, have provided for **sound and stable long term performance** with substantial profitability margins.

On growth path

The company is on a **stable organic growth path**, which comes from private label business expansion, geographical expansion, product portfolio expansion and new distribution channels, especially online.

Highly experienced and credible management

Highly **experienced Board and management** with diversity of corporate and function experience. Proven track record of successful growth management.

Manufacturing arm with blue-chip customer base

ELG is **One-stop-shop manufacturer** with diversified blue-chip customer base.

The company supplies all major manufacturers of intimate apparel in Europe.

Innovative **European design and quality** for relatively **low cost**.

High brand awareness and customer proximity

Established brands Felina and Conturelle with **high brand awareness**.

Close customer proximity through department stores and other retailers. Wide distribution network exceeding **5,000 points of sale** throughout Western Europe.

Established position in Central and Eastern Europe an excellent platform for growth

ELG's long track record, strong market position, brand awareness and network in Central and Eastern Europe support integration of new business segments geographical expansion.

Value creation through vertical integration

Deep integration of the supply chain (from fabrics to retail)

Efficient supply chain management

Integration as a response to new demands for speed to market of 6 – 10 weeks (previously up to 9 months) for all types of products (classic, flash, seasonal) and quick reaction to market demands

Efficient inventory management across the whole supply chain

High asset/capital turnover and realization of full gross margin in-house

Reduction of risk through controlling key elements of the industry value chain

Diversification of the group sales and markets

ELG has a track record of successfully expanding into new geographies through acquisitions. Acquired companies include Elastic (fine fabrics, a client) and Felina (premium lingerie, a client), facilitating the geographical expansion and vertical integration

Raw material (yarns) > Fashion trends > Fabric design > Fabric production > Product design > Lingerie production > Branding / marketing > Wholesale > Retail

Lauma Fabrics

Felina



felina

CONTURELLE
— *felina* —



senselle

by *felina*

Felina SS19



Felina swimwear SS20

Felina

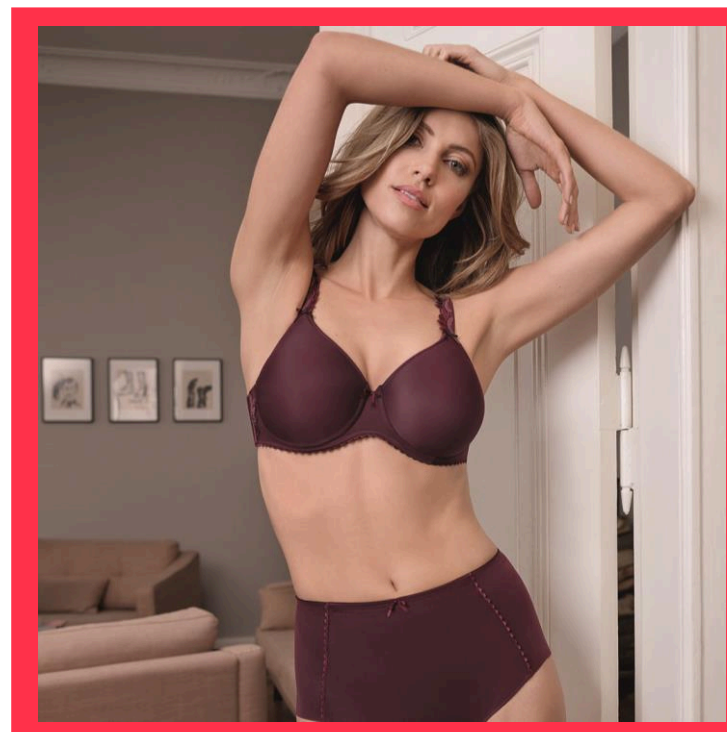
Premium quality lingerie since 1885

Well-established player in an intimate wear niche focused on **premium** bras, slips and other intimate wear products.

Over **100 years** of brand heritage and excellent product fit with loyal end customers obtaining a low degree of price sensitivity.

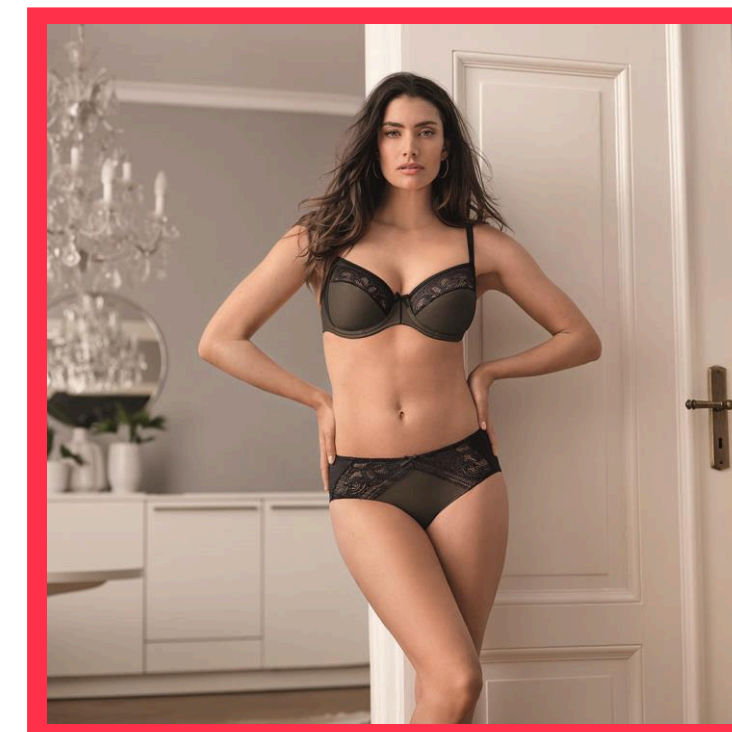
Two distinct and complimentary premium brands – **Felina** and **Conturelle**. Newest addition **Senselle** is a fusion collection

Recently launched a new *Move by Conturelle* **activity line** in its collection. For summer '19 Felina also reintroduced a **swimwear** line.



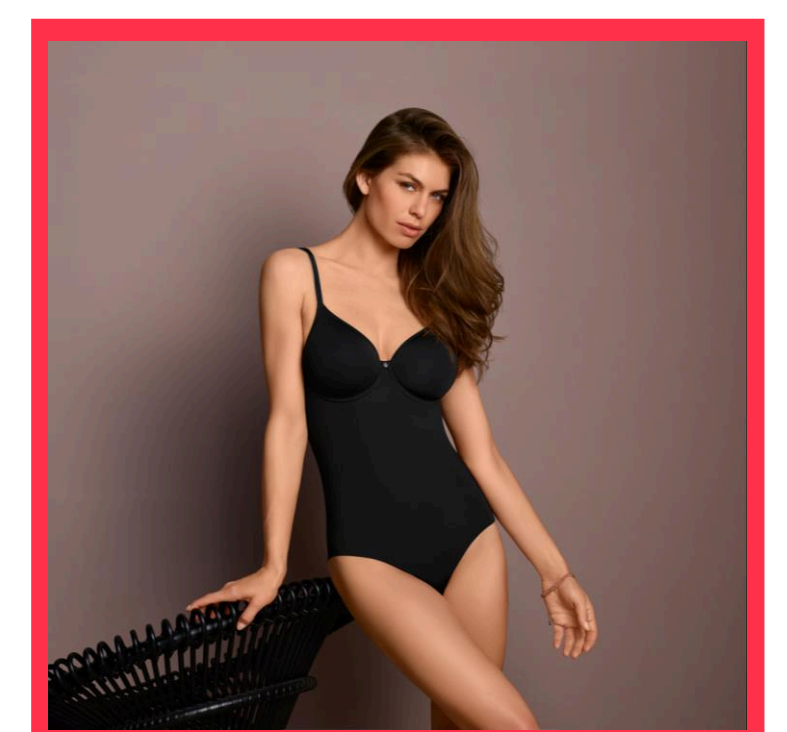
Vertical integration. The combination of in-house large-scale fabrics and lace production by Lauma and strong end-product and distribution experience by Felina.

Close customer proximity through regional sales subsidiaries focusing on department stores as well as fashion and lingerie retailers.



Low risk, asset-light business model, due to growing core business with high share of NOS (never-out-of-stock) products.

High internal value-add from product design and collection management to two own production sites in Hungary that secures highest quality standards and short lead times.



Felina sales and distribution

Felina has long-standing international customer relationship and a well-developed lingerie distribution network covering most of the European countries and serving over 5,000 wholesale customers worldwide. Wholesale business is mainly in the CIS region.

Core Markets

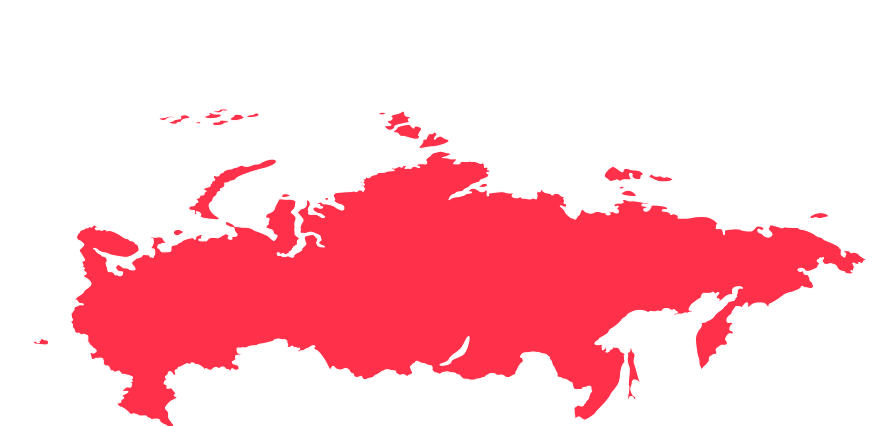
Germany



Western Europe



Russia



Felina realizes approximately 75% of sales through specialized shops, fashion boutiques and department stores.

Felina mainly sells lingerie to the European market, which is the world's largest women's lingerie market. Germany, is the core market for Felina.

Felina has a strong international presence, generating 60% of sales outside Germany (23% Western Europe, 12% Southern Europe, 8% Eastern Europe, 5% Northern America and Asia).

In 2018, a new back-up brand *Senselle by Felina* was launched to grow the market share in Eastern Europe as well as CIS countries and target the medium price segment.



LAUMA
F A B R I C S

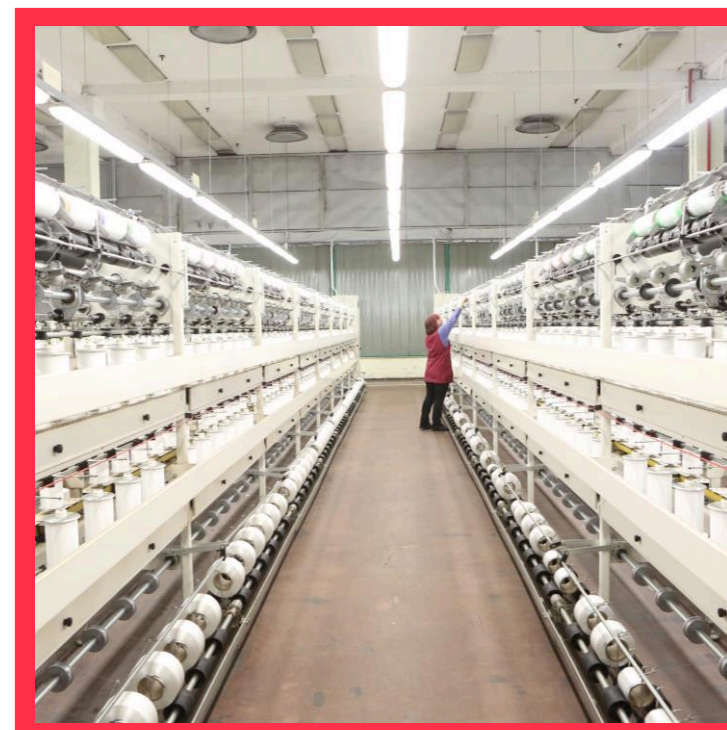
Business strengths

The company, situated in Liepaja, Latvia **supplies all major manufacturers** of intimate apparel throughout Europe.

Lauma Fabrics balances **European design and quality** for a relatively low cost in comparison with old European producers.

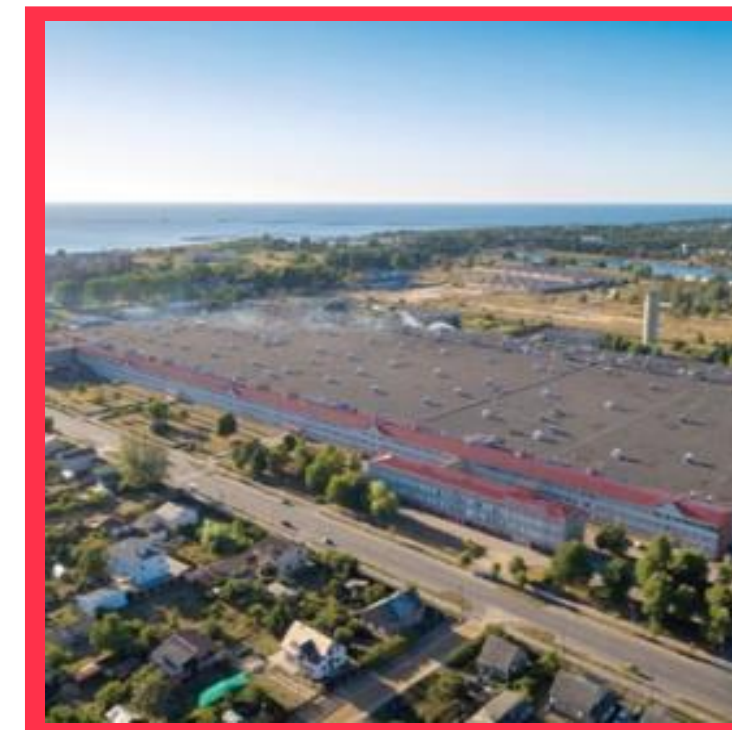
Financially sound and strong cash flow generative business.

Lauma Fabrics historical success has been built on '**one-stop-shop**' strategy whereas a full set of materials for ladies underwear (warp knitted fabrics, laces, narrows, embroideries, moulded cups) is offered to the customer.



Lauma Fabrics has a **full production process under one roof** (warping, knitting, dyeing and finishing), very rare for a European producer.

The company has a **modern dye-house**, which enables beam and jet dyeing as well as includes water scouring equipment and stenters.



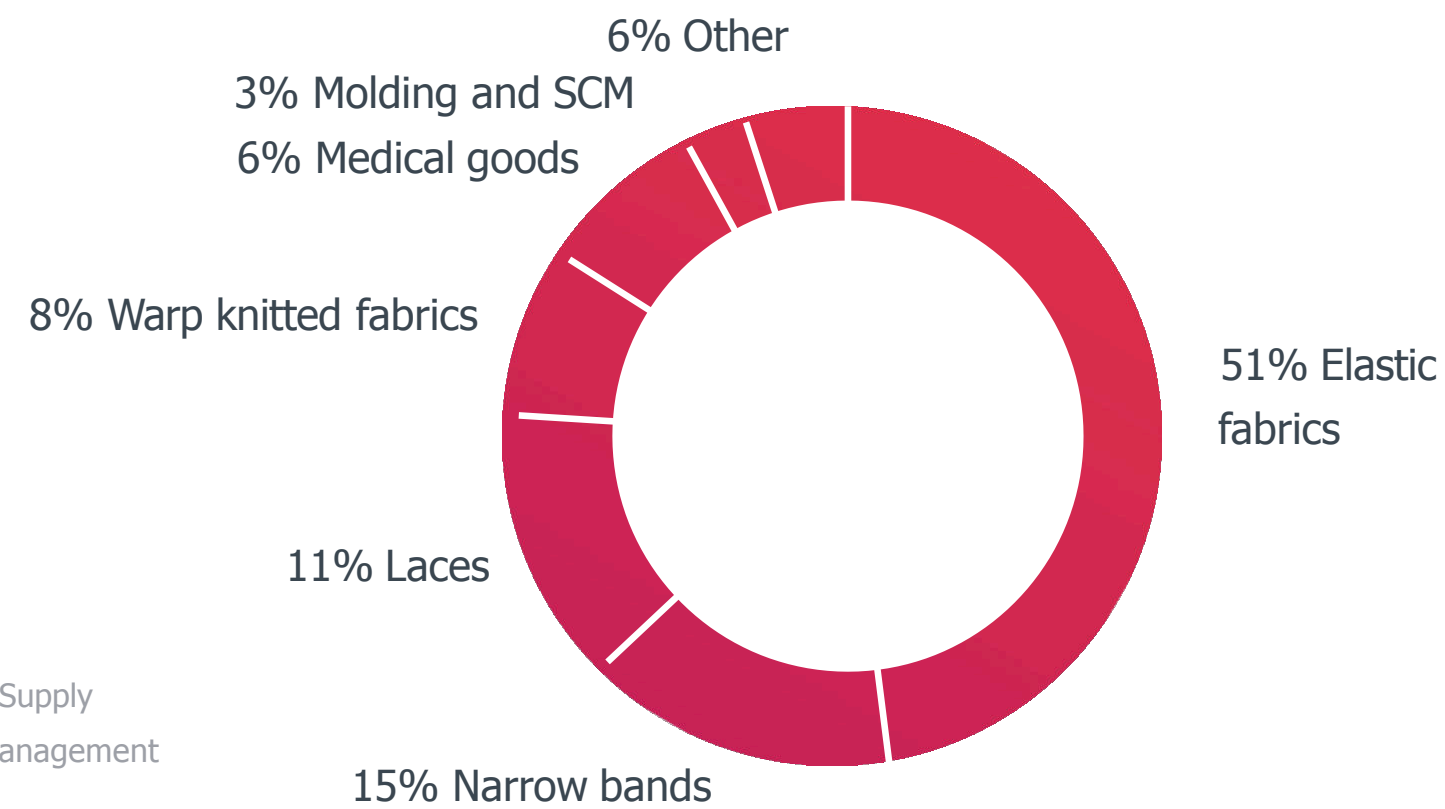
Convenient location for European production and historically loyal employee base.

Balanced geographical sales to CIS / Russia and Central and Western Europe with **market leaders** as the **key customers**.



Lauma Fabrics products

Sales by product groups Q1 2019



*SCM - Supply chain management

Fabrics product portfolio

Product portfolio includes elastic knitted fabrics, rigid knitted fabrics, elastic laces, narrows and embroideries.

Lauma Fabrics also offers SCM* services where ready garments are produced under customer brands.

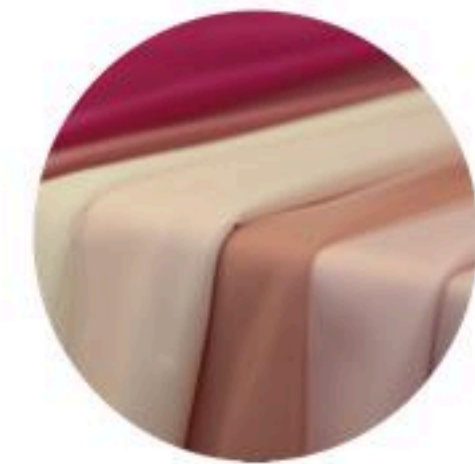
In addition to its core products, Lauma produces medical textile – compression bands and back supports. These products are sold under the brand Lauma Medical.



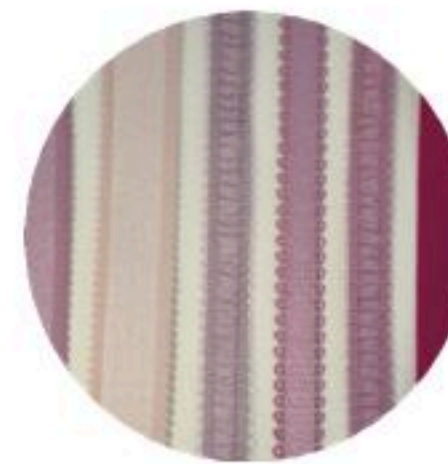
Lace



Embroidery



Elastic fabric



Narrows



Medical goods

Lauma Fabrics sales

Lauma Fabrics blue-chip customer base:

Lauma Fabrics has a **strong reputation** and **loyal customer base** built by using high quality materials, manufacturing all products in-house and reasonable product pricing.

Lauma Fabrics's client base is diversified in terms of size and geography – the Company serves all main lingerie brands in Europe and has around **200 client accounts**.

Lauma Fabrics currently produces a wide range of lace plus a variety of basic broad elastic fabrics. The majority of its production is used in intimate apparel garments, with principal markets being the CIS countries and Russia.

Sales to Western European countries are also growing steadily. More than 85% of fabrics, laces and other materials exported to more than **20 countries all over the world**.

Fabrics and laces are sold and marketed by dedicated distribution teams aiming to develop a close link between materials manufactured by Lauma Fabrics and the clothing where these products are used. In combination, the Latvian and German production facilities provide **wide geographic coverage**.

Lauma Fabrics carries a **wide range of fabrics** covering all product types. These are presented to customers either at trade fairs, customer conventions or directly at the customers' premises.



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FRENCH LUXURY LINGERIE SHOP

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Dessus-Dessous, headquartered in Lunel, France, is the French leader in online sales of lingerie. The Company specializes in online sales of luxury lingerie brands including Lise Charmel, Van De Velde, Simone Pérèle, Felina, Conturelle and others.

Dessus-Dessous has been leading the French online lingerie market since 2000, and enjoys extraordinary rates of customer satisfaction and loyalty, thanks to superb customer service, reliable delivery and a constantly up-to-date selection of over 150 thousand articles from over 50 brands.

Key numbers

35%

International sales Q1 2019

Nr 1

in French online
lingerie market

50+ brands

Represented on website

150 thousand

Articles in selection

214 thousand

Customers in database

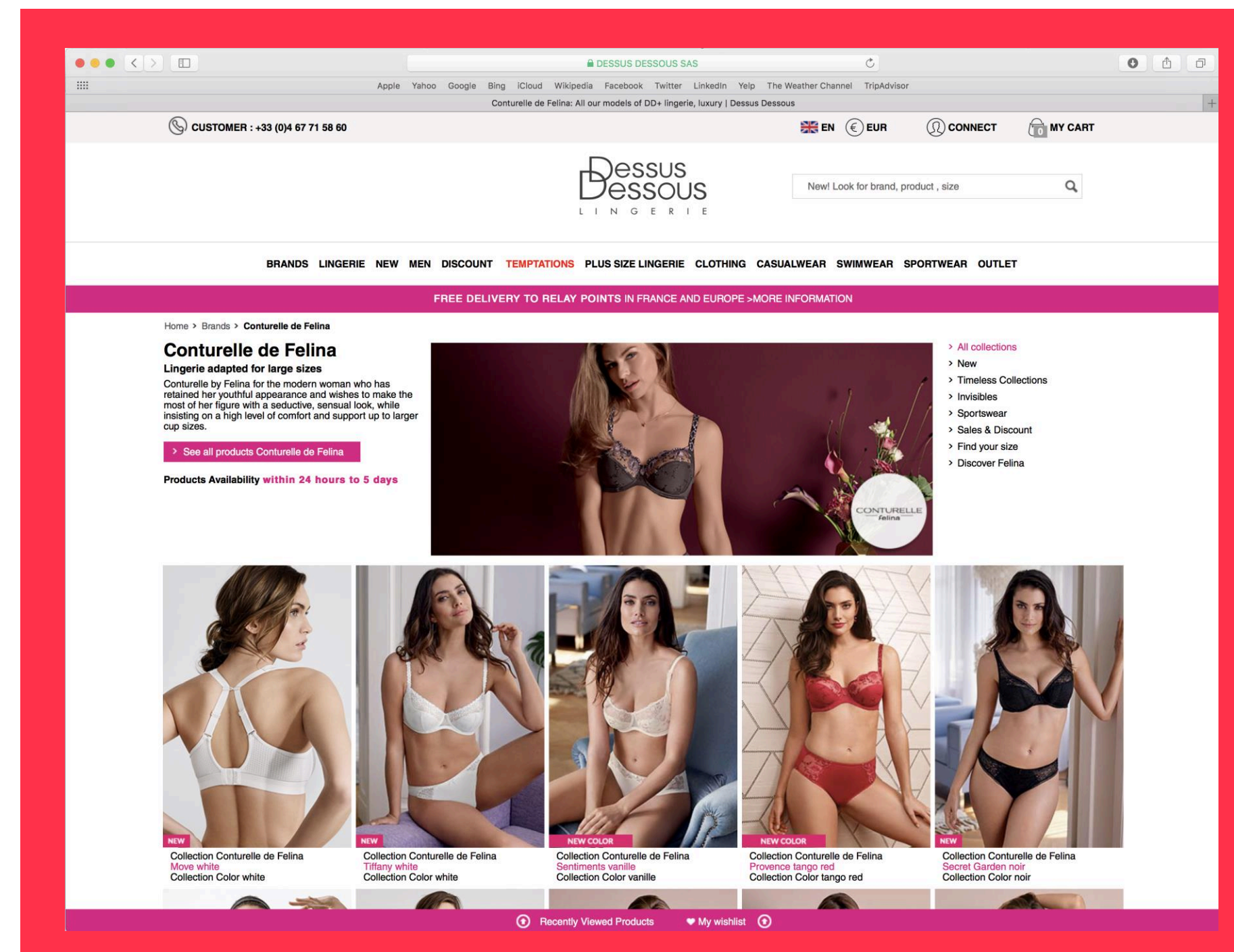
Dessus Dessous

L I N G E R I E

Business strengths

The acquisition of Dessus-Dessous, completed in June 2018, marks **ELG's expansion to online retail segment** of the lingerie market, reinforcing the Group's strategic commitment to building a truly vertically integrated business.

Sales of consumer goods are increasingly **moving online**, also in modern lingerie business. The acquisition of Dessus-Dessous is the response of ELG towards the persistent market trends.



As an added value, it is a unique window on **consumer trends** and preferences, which in turn will help to create **greater efficiencies** in the Group. There is significant gain in **distribution**.

There is **great potential** in Dessus-Dessous's business model on its own – it is a successful, profitable and sustainable business. ELG believes the acquisition of Dessus-Dessous is of great long-term strategic value.

Highlights of Q1 2019

Acquisition of Yustyna Ltd, a lingerie ready garment producer in Belarus

In January 2019, the Group announced the acquisition of OOO Yustyna (subsequently renamed to OOO Senselle), a lingerie ready garment producer in Belarus. The acquisition is part of the Group's strategy to expand operations and adds capacity for private label and ELG newest own brand *Senselle by Felina* production. The target is to produce all of Senselle in the Belarus unit, which is located close to the brand's main markets, Eastern Europe and CIS countries.

Secured bond listing

The bonds issued by European Lingerie Group AB were approved for listing on Nasdaq Stockholm Corporate Bond list in December 2018 and are traded since 2 January 2019.

Omni-channel strategy implementation

In January 2019, the Group established a new subsidiary Brafetch GmbH and in March 2019, Brafetch GmbH established a new subsidiary SistersOf Production SIA, which will be involved in the implementation of the omni-channel strategy of the Group.

Further developments of the Group

In 2019, the Group continues doing additional strategic investments and market initiatives to respond faster to changes in the market.

This year, the Group is preparing to launch a marketplace in the lingerie industry to facilitate the omni-channel strategy implementation as well as to further expand sales.

Key findings of Q1 2019

In 2019, the Group's new product lines, including the new brand *Senselle by Felina* and also *Felina* swimwear, have started bringing **good volumes**.

The sales results of the first quarter of 2019 were satisfactory and for the second quarter in a row the Group demonstrated the **sales growth**. There was also a general increase of orders from traditional customers in the textile segment, in addition to sales of new product lines. The contribution of the new products to total sales will continue with increasing pace throughout the whole year.

Unfortunately, the trend of closure of small specialized retail shops in the Southern and Central Europe still continues and the macroeconomy is slowing down in most European markets, which limits the **potential growth** to some extent.

On the production side, the Group continues investing in the **manufacturing base** in order to improve the quality of the products as well as to be able to offer better and new materials to the customers.

The **result** of these investments will gradually convert into the cost savings and profit margin improvement starting from the second half of this year.

The Group is currently close to the edge with its bond financial covenant and the Management is fully focused that the Group **complies** with the covenant's requirements and several improvement steps are in the implementation process.

Financial highlights of Q1 2019

Financial performance of the Group was analysed on the basis of the reported financial information of European Lingerie Group AB for Q1 2019 as well as pro forma financial information for Q1 2018.

The Group's **sales** amounted to EUR 21,022 thousand in Q1 2019 (Q1 2018: EUR 19,357 thousand), representing an 8.6% **increase** as compared to pro forma sales of Q1 2018.

Profitability margins in Q1 2019 are generally comparable to those of Q1 2018 while starting to demonstrate an **increasing trend**. The slight improvement in margins is a result of contribution earned on additional sales.

Normalised **EBITDA** in Q1 2019 amounted to EUR 2,684 thousand (Q1 2018: EUR 2,417 thousand) and increased by 11.0% compared to pro forma normalised EBITDA in Q1 2018. Normalised **EBITDA margin** in Q1 2019 and Q1 2018 were 12.8% and 12.5% respectively.

Normalised **net profit** in Q1 2019 amounted to EUR 318 thousand, compared to pro forma normalised net profit of EUR 29 thousand in Q1 2018. Normalised **net profit margins** in Q1 2019 and Q1 2018 were 1.5% and 0.1%.

<i>In thousands of EUR</i>	Q1 2019 (Actual)	Q1 2018 (Pro forma)	Change
Revenue	21,022	19,357	8.6%
Normalised operating profit	1,739	1,380	26.0%
Normalised EBITDA	2,684	2,417	11.0%
Normalised net profit	318	29	997.0%
Operating cash flow for the period	12	(1,148)	-100.8%

Marginal analysis, %	Q1 2019 (Actual)	Q1 2018 (Pro forma)	Change
Normalised operating profit margin	8.3%	7.1%	1.2 pp
Normalised EBITDA margin	12.8%	12.5%	0.3 pp
Normalised net profit margin	1.5%	0.1%	1.4 pp

Sales of Q1 2019

The Group's sales in its **core markets** in Q1 2019 were 79.5% of its total sales against 83.0% in Q1 2018. This is explained by a diversification of the Group to other markets and growth of its sales there. Q1 2019 demonstrated a growth in Morocco, Italy, Austria and other EU countries.

The **largest growth in sales** in Q1 2019 was in Russia and Belarus. These markets grew by 97.5% and 18.0% respectively in Q1 2019. Sales in Russia in Q1 2018 were very limited due to postponement of orders by two largest *Felina* and *Conturelle* distributors in Russia. 2019, in turn, did not have extraordinary circumstances; thus, the sales were normal.

Spain and Poland also delivered **sizeable growth** in the first quarter, whereby sales in these countries in Q1 2019 increased by 6.2% and 4.7% respectively. This is a result of several activities including development of the omni-channel strategy with the largest customer in Spain as well as the expansion of ELG lingerie products' presence in the retail channels in these countries.

Sales in Germany, France and Benelux decreased by 8.3%, 20.5% and 7.5% respectively due to the **slowdown** of the European **macroeconomy** and blocked potential growth.

Sales in the Baltic countries reduced by 1.5% in Q1 2019 and it related to the textile segment of the Group. Most of the Baltic customers of the Group suffered from changes in the importing rules into Russia and did not have quick enough capital turn to continue ordering raw materials.

Sales in Ukraine dropped by 24.2% in Q1 2019, but there was no particular reason. One of the largest customers of the Group in the textile segment in Ukraine orders its raw materials only 4 times a year and Q1 2019 was inside the low order period.

Sales by markets

<i>In thousands of EUR</i>	Q1 2019 (Actual)	Q1 2018 (Pro forma)	Change, %	Q1 2019, % of sales	Q1 2018, % of sales
Germany	4,068	4,436	-8.3%	19.4%	22.9%
Russia	2,796	1,416	97.5%	13.3%	7.3%
Baltic countries	2,260	2,295	-1.5%	10.8%	11.9%
France	1,890	2,378	-20.5%	9.0%	12.3%
Belarus	1,519	1,287	18.0%	7.2%	6.6%
Benelux countries	1,432	1,548	-7.5%	6.8%	8.0%
Poland	1,259	1,203	4.7%	6.0%	6.2%
Spain	1,117	1,052	6.2%	5.3%	5.4%
Ukraine	348	459	-24.2%	1.7%	2.4%
Other markets	4,333	3,283	32.0%	20.5%	17.0%
Total	21,022	19,357	8.6%	100.0%	100.0%

Sales of Q1 2019

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and are managed separately because they require different technology and marketing strategies.

Reportable segments	Operations
Textiles	Manufacturing, processing and wholesale of textiles
Lingerie	Manufacturing, processing, wholesale and retail (including online) of lingerie products

Sales by business segments

<i>In thousands of EUR</i>	Q1 2019 (Actual)	Q1 2018 (Pro forma)	Change, %	Q1 2019, % of sales	Q1 2018, % of sales
Textiles	8,918	8,074	10.5%	40.1%	40.1%
Lingerie	12,599	11,603	8.6%	59.9%	59.9%
Intercompany eliminations	(495)	(320)			
Total	21,022	19,357	8.6%	100.0%	100.0%

In Q1 2019, both - textiles and lingerie segments performed better than in the first quarter of 2018. This was driven by the improvement of the sales trend in particular markets explained here previously and start of the sales of new swimwear, activity wear and *Senselle by Felina* lingerie ready garments.



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