E | L | G

EUROPEAN LINGERIE GROUP AB

QUARTERLY REPORT – 6 MONTHS AND SECOND QUARTER 2018

E | L | G
EUROPEAN LINGERIE GROUP

European Lingerie Group AB (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 5000 points of sale in 46 countries worldwide and online. ELG includes three business segments – **Lauma Fabrics**, **Felina International** and recently acquired 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

1263
Employees worldwide

46
Countries

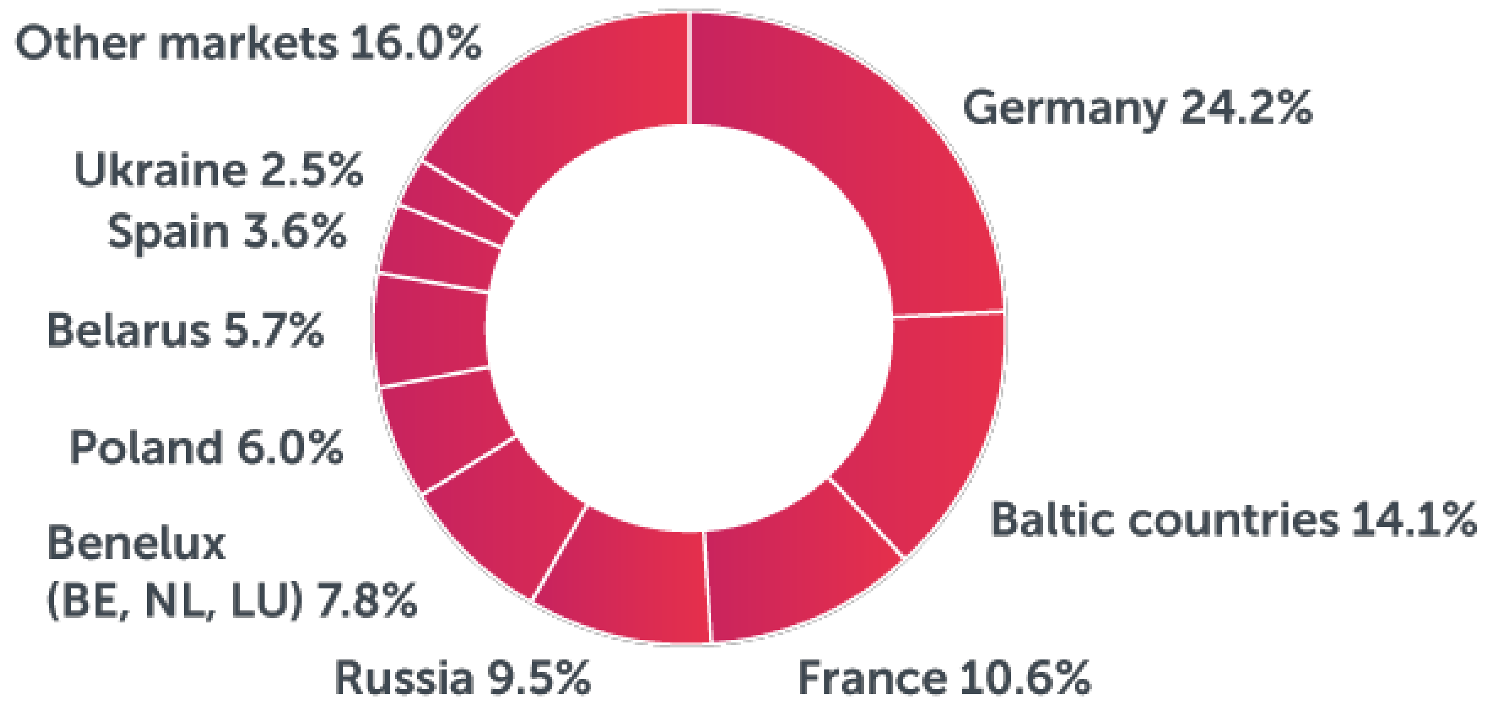
5000
Points of sale

5 brands
Lauma Fabrics, Felina, Conturelle, Lauma Medical, Dessus-Dessous

19.0m
Sales Q2 2018

38.3m
Sales 6M 2018

ELG sales by markets 6M 2018



Company locations

USA

Portugal
Spain
France
Germany
Italy
Latvia
Poland
Czech Republic
Hungary
Russia

Key company locations – sourcing, design, development
Germany (Mannheim), Latvia (Liepaja),

Production
Germany, Latvia, Hungary

Trading
Germany, Latvia, Hungary, Poland, France, Italy, USA, Spain, Portugal, Czech Republic, rep office in Moscow, 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

European Lingerie Group AB is one of the rare fully vertically integrated companies in the lingerie industry in Europe who produces lace and fabrics for largest lingerie brands as well as produces and distributes branded lingerie garments under Conturelle and Felina 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.

The business is fully invested with recent investment in dye house and does not require substantial capital expenditure going forwards.

Highly experienced and credible management

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

On growth path

The company is on a stable organic growth path and is in addition looking at further M&A targets.

Organic growth from private label business expansion, geographical expansion and new distribution channels.

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

Manufacturing arm with blue-chip customer base

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

Supplies all major manufacturers of intimate apparel in Europe.

High brand awareness and customer proximity

Established brands Felina and Conturelle with high brand awareness.

Wide distribution network exceeding 5,000 points of sale throughout Western Europe and online.

Close customer proximity through department stores, online and other retailers.

ONE-STOP-SHOP FOR LINGERIE

Value creation through vertical integration

Business rationale of full vertical integration is value creation through:

- Deep integration of the supply chain (from fabrics to retail)
- Efficient supply chain management
- Short time to market and secured access to market for all types of products (classic, flash, seasonal)
- Quick reaction to market demands
- Efficient inventory managements across the whole supply chain
- High asset/capital turnover

- **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), Felina (premium lingerie, a client) and Dessus-Dessous (French leader in online sales), facilitating the geographical expansion and vertical integration.**

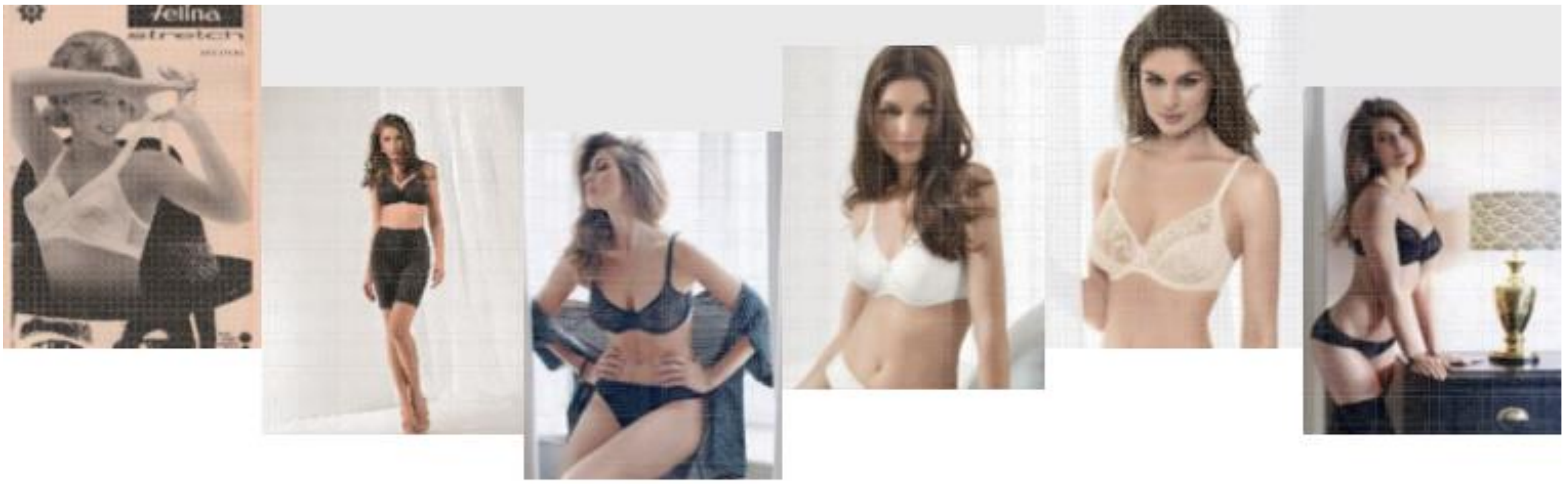
	Raw material (yarns)	Fashion trends	Fabric design	Fabric production	Product design	Lingerie production	Branding / marketing	Wholesale	Retail
Lauma Fabrics	●●	●●	●●	●●	○	○			
Felina					●●	●●	●●	●●	●

felina

CONTURELLE
felina

Felina

premium quality lingerie since 1885



Products and brands

- Felina's classical and modern collections are marketed under two distinct and complementary brands *Felina* and *Conturelle*. Both are positioned in the upper pricing, premium fit segment and address female end-customers above 30 years of age with high purchasing power.
- Core portfolio of Felina is focused on bras up to large cup sizes, slips, shape wear and other intimate wear, which distinguish via excellent fitting characteristics, quality, wearing comfort and skin-friendly materials.
- Product development, sales and logistics are located in Mannheim, Germany and manufacturing in two plants in south-east Hungary. Felina employs 698 people.

Target markets

- 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. 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.

Vertical integration

- Lauma Fabrics is one of the key suppliers for Felina. The combination of in-house large-scale fabrics and lace production by Lauma Fabrics and strong end-product and distribution experience contributed by Felina allows the Group to significantly decrease time to market, and react faster to changes in consumer preferences.
- The high internal value-add of Felina's fully integrated business model from product design and collection management to two own production sites in Hungary and sales support secures highest quality standards and guarantees short lead times.

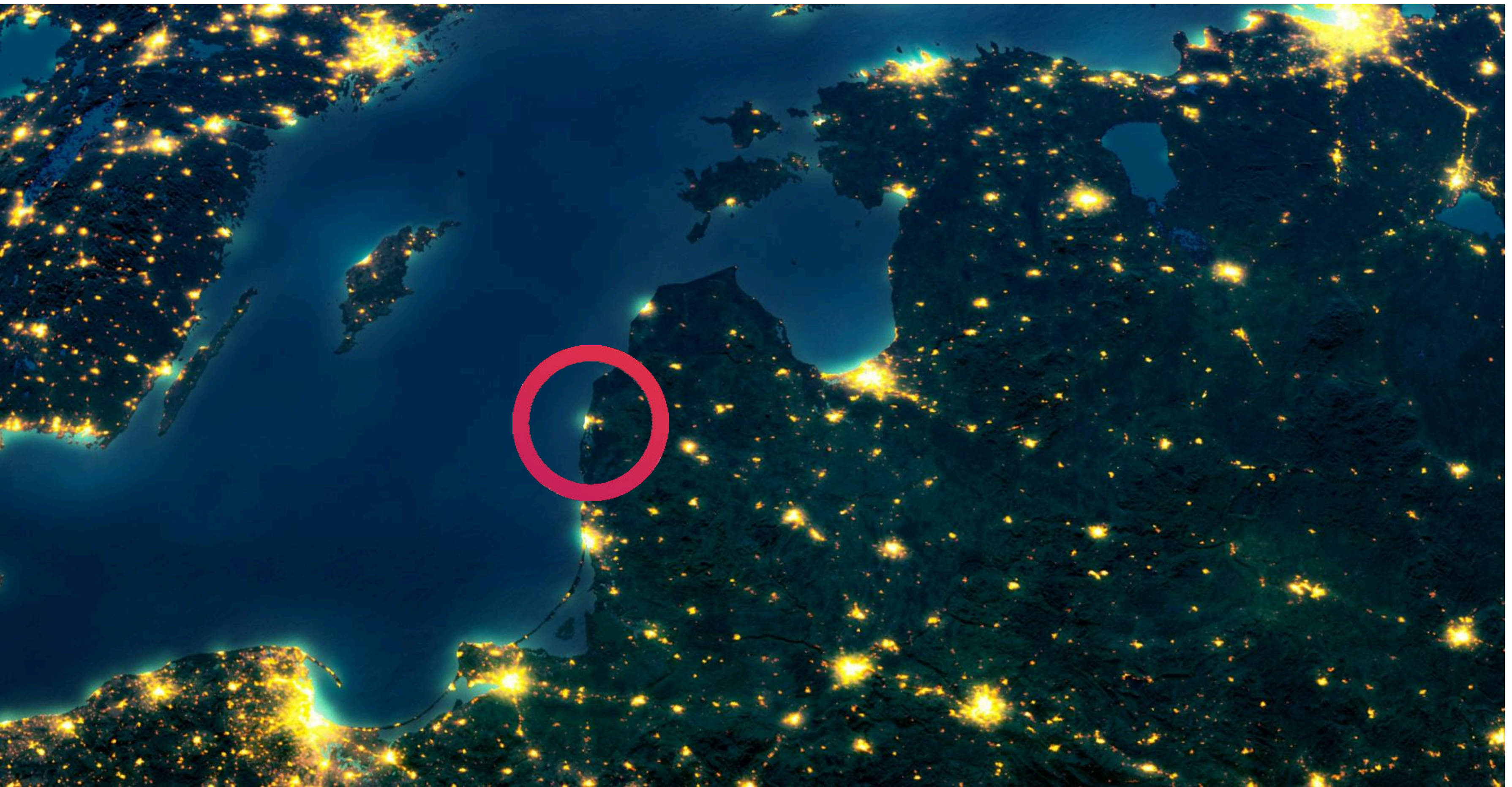
LAUMA

FABRICS

Lauma Fabrics

Lauma Fabrics is located in Latvia, European Union, and has a strong reputation and loyal customer base built by using high quality materials, manufacturing all products in-house and reasonable product pricing. The company has around 200 client accounts in total.

Currently Lauma Fabrics supplies all major manufacturers of intimate apparel throughout Europe. Lauma Fabrics historical success has been built on ’one-stop-shop’ strategy whereas a full set of materials for ladies underwear is offered to the customer.



In September 2013 Lauma Fabrics acquired a business in Germany, which manufactures elastic fabrics with an objective to enter the Western European market.

Lauma Fabrics produces and sells laces, fabrics, narrows and embroideries (89% of current turnover), medical products (8%) and molded cups and supply chain management services where ready garment production services are offered on an outsourced basis (3%).

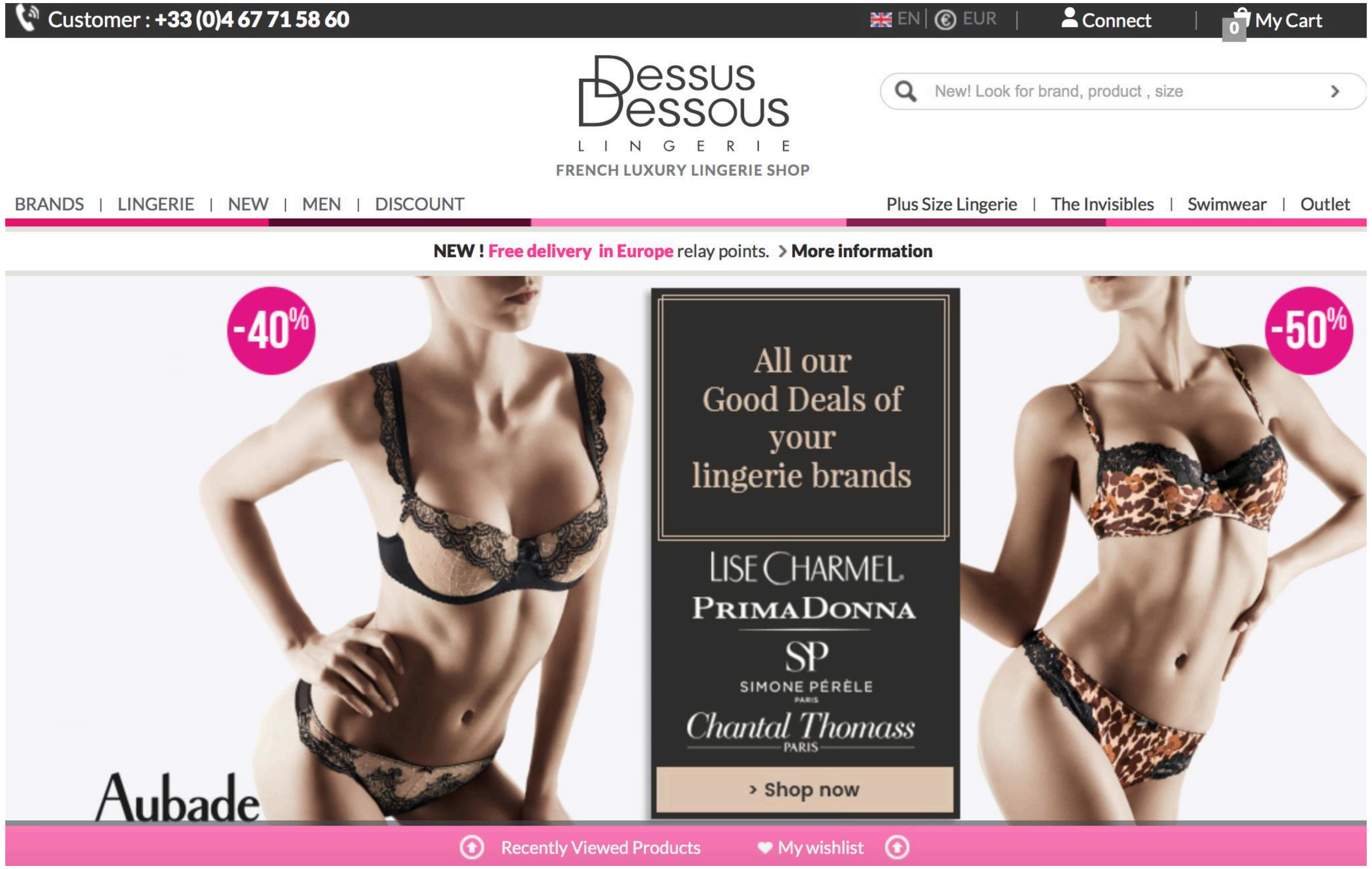
Historically Lauma Fabrics specializes in the production of materials used for classical lingerie models for a big cup size and exclusively with synthetic yarns (polyamide and elastane).

The building of the main production site in Liepaja ranks as the 8th largest factory in the World in 2016 (100k sqm), after Volkswagen, Hyndai, Tesla, Boeing, Belvidere, Mitsubishi and Jean-Luc Lagardère Plant. Lauma Fabrics currently employs 518 people.

Lauma Fabrics blue-chip customer base:

Dessus Dessous
LINGERIE
FRENCH LUXURY LINGERIE SHOP

www.dessus-dessous.com



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

7.3m
Sales 2017

0.9m
EBITDA 2017

31
Employees

No 1
in French online lingerie market

50+ brands
Represented on website

150 thousand
Articles in selection

214 thousand
Customers in database

Highlights of 6M/Q2 2018

Secured bond issue and the Group refinancing

On 22 February 2018 the Parent issued new bonds in Sweden in the amount of EUR 40,000,000. The issued bonds are senior secured bonds with a maturity of 3 years. The bonds are planned to be listed on a regulated market within 12 months from the date of issue.

Acquisition of Dessus-Dessous S.A.S.

In June 2018, the Group acquired the largest online retailer of lingerie and swimwear in France – Dessus-Dessous S.A.S. The company's sales amounted to 7.3 million euros in 2017 and it employs 34 people.

The acquisition marks the Group's expansion to the online retail segment of the lingerie market and reinforces the ELG's strategic commitment to building a truly vertically integrated business.

Further development of the Group

In 2018, the Group added two new product lines to its lingerie ready garment collections portfolio: new Move activity collection by Conturelle for which sales will start in October 2018 and a swimwear collection by Felina for which sales will commence in Q1 2019.

This year the Group is doing quite a lot of strategic investments and market initiatives to respond faster to changes in market to capture the competitive positioning of the Group. One of these steps is developing the online channel.

Key findings of 6M/Q2 2018

The results for the second quarter of 2018 are **not satisfactory** for European Lingerie Group but at the same time expected.

In Q2 2018 the Group still faced a decline in revenue, but the **deficit in sales reduced** in Q2 2018 compared to Q1 2018. As part of the costs are fixed, decline in revenue caused a drop of profitability margins.

The shortfall in sales reduced as a result of improving sales trend in Russia. In most European markets, though, the **trading climate is still poor** and most European suppliers suffer from this to the same extent.

On the sales side there's an **overall change in the retail concept** in Southern and Central Europe where some of the small specialized retail shops disappear and department and online stores take over the market. This is also confirmed by the trend with ELG's largest customers in these countries, and the Group's sales are growing with them.

Despite that, in the short-term this growth does not compensate the drop of the shrinking sales channel of small boutique stores and **time is needed** for the market to adapt.

2018 is regarded by the Group as a year in transition. To recover the decrease in turnover and to grow, **strategic investments** and **initiatives for innovations** are undertaken.

These actions will not affect the sales until 2019 due to the natural cycle of the industry, but will start bringing returns in the coming years and the Group believes that **16-17% EBITDA margin** over a business cycle is a good target.

Financial highlights of 6M/Q2 2018

Financial performance of the Group was analysed on the basis of the pro forma financial information of European Lingerie Group AB for 6 months 2018, 6 months 2017, Q2 2018 and Q2 2017.

The Group's sales amounted to **EUR 38.3 million** in 6 months 2018 (Q2 2018: **EUR 19.0 million**), representing a 6.9% decrease as compared to pro forma sales of 6 months 2017 (5.4% decrease to pro forma sales of Q2 2017).

As part of the costs are fixed, decline in revenue caused drop of profitability margins. Normalised **EBITDA** in 6 months 2018 amounted to **EUR 4.0 million** (Q2 2018: **EUR 1.8 million**) and decreased by 42.1% compared to pro forma normalised EBITDA in 6 months 2017 (49.0% decrease to pro forma normalised EBITDA for Q2 2017).

Normalised **net profit** in 6 months 2018 amounted to EUR 26 thousand (Q2 2018: net loss of EUR 120 thousand), compared to pro forma normalised net profit of EUR 3.5 million in 6 months 2017 (Q2 2017: EUR 1.1 million).

In thousands of EUR	6 months 2018 (Pro forma)	6 months 2017 (Pro forma)	Change
Revenue	38,348	41,211	-6.9%
Normalised operating profit	2,427	5,559	-56.3%
Normalised EBITDA	4,026	6,954	-42.1%
Normalised net profit/(loss)	26	3,472	-99.3%
Operating cash flow for the period	(733)	2,007	-136.5%

In thousands of EUR	Q2 2018 (Pro forma)	Q2 2017 (Pro forma)	Change
Revenue	18,991	20,072	-5.4%
Normalised operating profit	1,014	2,875	-64.7%
Normalised EBITDA	1,807	3,544	-49.0%
Normalised net profit/(loss)	(120)	1,115	-110.8%
Operating cash flow for the period	619	2,958	-79.1%

Financial highlights of 6M/Q2 2018

Normalised **EBITDA margin** in 6 months 2018 and 6 months 2017 were 10.5% and 16.9% respectively (Q2 2018 and Q2 2017: 9.5% and 17.7% respectively). EBITDA margin deteriorated mainly due to sales decrease and high impact of marginal sales contribution to EBITDA.

Normalised **net profit margin** in 6 months 2018 and 6 months 2017 were 0.1% and 8.4% respectively (-0.6% and 5.6% in Q2 2018 and Q2 2017 respectively).

Similarly to EBITDA, **lower profitability** was due to sales decrease. In addition, there was an increase in finance costs in 6 months 2018 compared to 6 months 2017 related to incremental costs on borrowings raised for the acquisition of Felina Group and for additional capital needed for future growth and investments that were not present in 6 months 2017.

Marginal analysis, %	6 months 2018 (Pro forma)	6 months 2017 (Pro forma)	Change
Normalised operating profit margin	6.3%	13.5%	-7.2 pp
Normalised EBITDA margin	10.5%	16.9%	-6.4 pp
Normalised net profit margin	0.1%	8.4%	-8.3 pp

Marginal analysis, %	Q2 2018 (Pro forma)	Q2 2017 (Pro forma)	Change
Normalised operating profit margin	5.3%	14.3%	-9.0 pp
Normalised EBITDA margin	9.5%	17.7%	-8.2 pp
Normalised net profit margin	-0.6%	5.6%	-6.2 pp

Sales of 6M/Q2 2018

Core operating markets for European Lingerie Group are Germany, Spain, France, Poland, Benelux countries, Baltic countries and CIS countries (Russia, Belarus and Ukraine). The Group's sales in its core markets in 6 months 2018 were **84.0%** of its total sales against 83.8% in 6 months 2017 (85.1% in Q2 2018 against 84.9% in Q2 2017).

The largest growth in sales in 6 months 2018 was in **Poland and Benelux countries**, where the sales increased by 3.7% and 3.1% respectively. The reversed trends in these countries between Q1 2018 and Q2 2018 were only a shift between months of customer purchases.

Sales in Germany stayed stable in 6 months 2018 and showed an increase by 2.0% in Q2 2018 as a result of the country's stable economy and the Group's strong position in this market.

Sales by markets – 6 months

In thousands of EUR	6 months 2018 (Pro forma)	6 months 2017 (Pro forma)	Change, %	6 months 2018, % of sales	6 months 2017, % of sales
Germany	9,266	9,198	0.7%	24.2%	22.3%
Baltic countries	5,400	5,576	-3.2%	14.1%	13.5%
France	4,078	4,304	-5.3%	10.6%	10.4%
Russia	3,637	4,943	-26.4%	9.5%	12.0%
Benelux countries	3,001	2,911	3.1%	7.8%	7.1%
Poland	2,318	2,236	3.7%	6.0%	5.4%
Belarus	2,192	2,796	-21.6%	5.7%	6.8%
Spain	1,387	1,432	-3.1%	3.6%	3.5%
Ukraine	950	1,148	-17.2%	2.5%	2.8%
Other markets	6,119	6,667	-8.2%	16.0%	16.2%
Total	**38,348**	**41,211**	**-6.9%**	**100.0%**	**100.0%**

Sales of 6M/Q2 2018

Sales in Russia, Belarus, Ukraine and the Baltic States dropped by 26.4%, 21.6%, 17.2% and 3.2% respectively in 6 months 2018 (Q2 2018: drop by 14.2% in Russia, 31.2% in Belarus, 28.4% in Ukraine and increase by 4.6% in the Baltic States).

In Q2 2018 the **trend of sales** in Russia and the Baltics States for which Russia is one of the main markets **improved** with stabilisation of RUR/EUR exchange rate and the deficit in sales reduced.

Spain and France had a decrease in sales in both 6 months and Q2 2018 due to the **overall change in retail concept** in the Southern and Central European countries where sales by small specialised retail stores are shifting towards department and online stores. This also explains **a growth trend** of the Group with its largest customers in these countries.

Sales by markets – Q2

In thousands of EUR	Q2 2018 (Pro forma)	Q2 2017 (Pro forma)	Change, %	Q2 2018, % of sales	Q2 2017, % of sales
Germany	4,830	4,733	2.0%	25.4%	23.6%
Baltic countries	3,105	2,969	4.6%	16.3%	14.8%
France	1,701	1,827	-6.9%	9.0%	9.1%
Russia	2,221	2,590	-14.2%	11.7%	12.9%
Benelux countries	1,453	1,327	9.5%	7.7%	6.6%
Poland	1,115	1,157	-3.6%	5.9%	5.8%
Belarus	905	1,315	-31.2%	4.8%	6.6%
Spain	335	441	-24.0%	1.8%	2.2%
Ukraine	491	686	-28.4%	2.6%	3.4%
Other markets	2,835	3,027	-6.3%	14.8%	15.0%
Total	**18,991**	**20,072**	**-5.4%**	**100.0%**	**100.0%**

Sales of 6M/Q2 2018

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

In thousands of EUR	6 months 2018 (Pro forma)	6 months 2017 (Pro forma)	Change, %	6 months 2018, % of sales	6 months 2017, % of sales
Textiles	17,032	18,409	-7.5%	42.8%	43.6%
Lingerie	21,932	23,243	-5.6%	57.2%	56.4%
Intercompany eliminations	(616)	(441)			
Total	**38,348**	**41,211**	**-6.9%**	**100.0%**	**100.0%**

In thousands of EUR	Q2 2018 (Pro forma)	Q2 2017 (Pro forma)	Change, %	Q2 2018, % of sales	Q2 2017, % of sales
Textiles	8,957	9,703	-7.7%	45.6%	47.1%
Lingerie	10,330	10,614	-2.7%	54.4%	52.9%
Intercompany eliminations	(296)	(245)			
Total	**18,991**	**20,072**	**-5.4%**	**100.0%**	**100.0%**

E | L | G

EUROPEAN LINGERIE GROUP

www.elg-corporate.com