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EUROPEAN LINGERIE GROUP AB

QUARTERLY REPORT – 12 MONTHS AND FOURTH QUARTER 2018

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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 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

1332
Employees worldwide

46
Countries

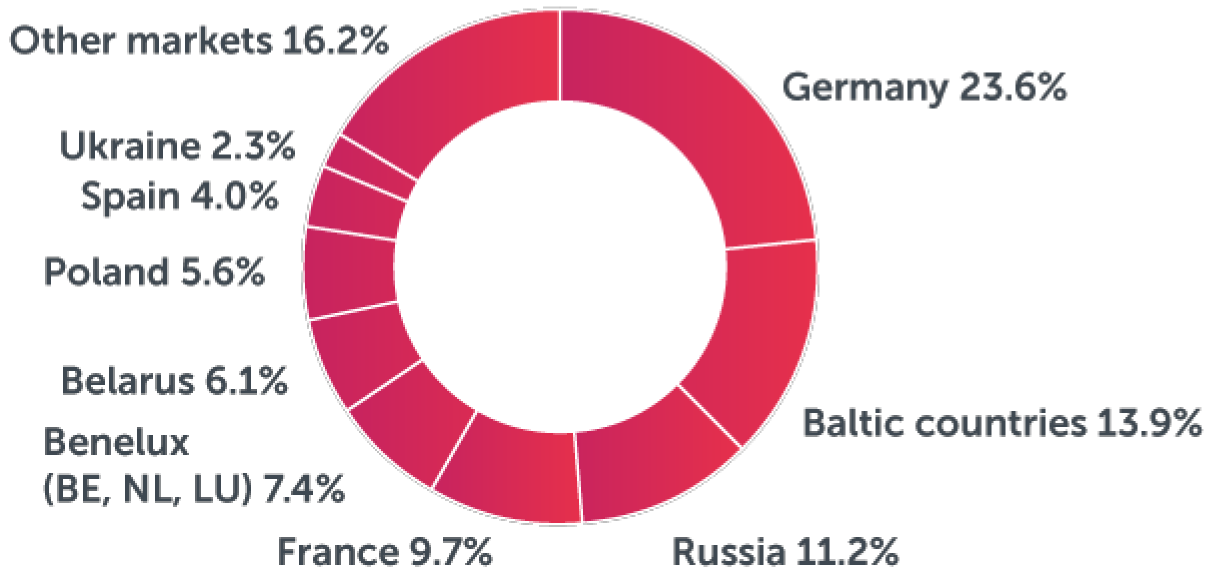
5000
Points of sale

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

18.1m
Sales Q4 2018

77.2m
Sales 12M 2018

Sales by markets 12M 2018



Company locations

USA

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

- 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					●●	●●	●●	●●	●

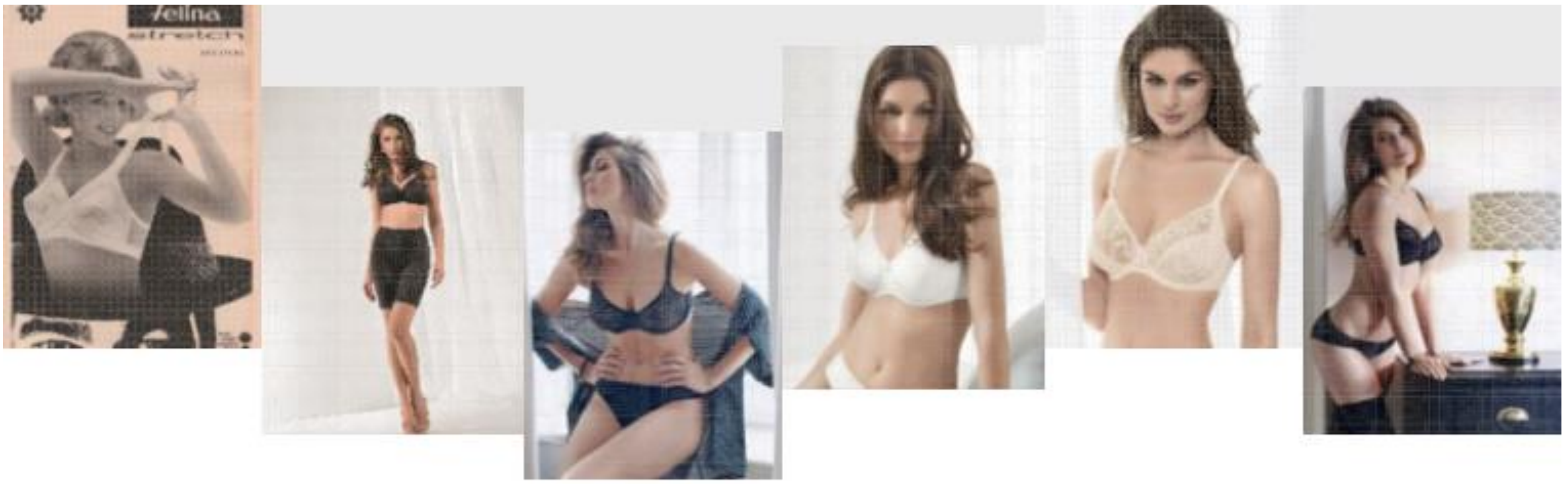
felina

CONTURELLE
felina

senselle
by felina

Felina

premium quality lingerie since 1885



Products and brands

- Felina's classical and modern collections are marketed under three distinct and complementary brands *Felina, Conturelle* and *Senselle*. The first two are positioned in the upper pricing, premium fit segment whereas the newest addition *Senselle by Felina* is a fusion lingerie collection providing unprecedented fit and comfort of premium lingerie garments at great value. Felina also has a swimwear line and *Move by Conturelle* activity line in its collection.
- 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 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.

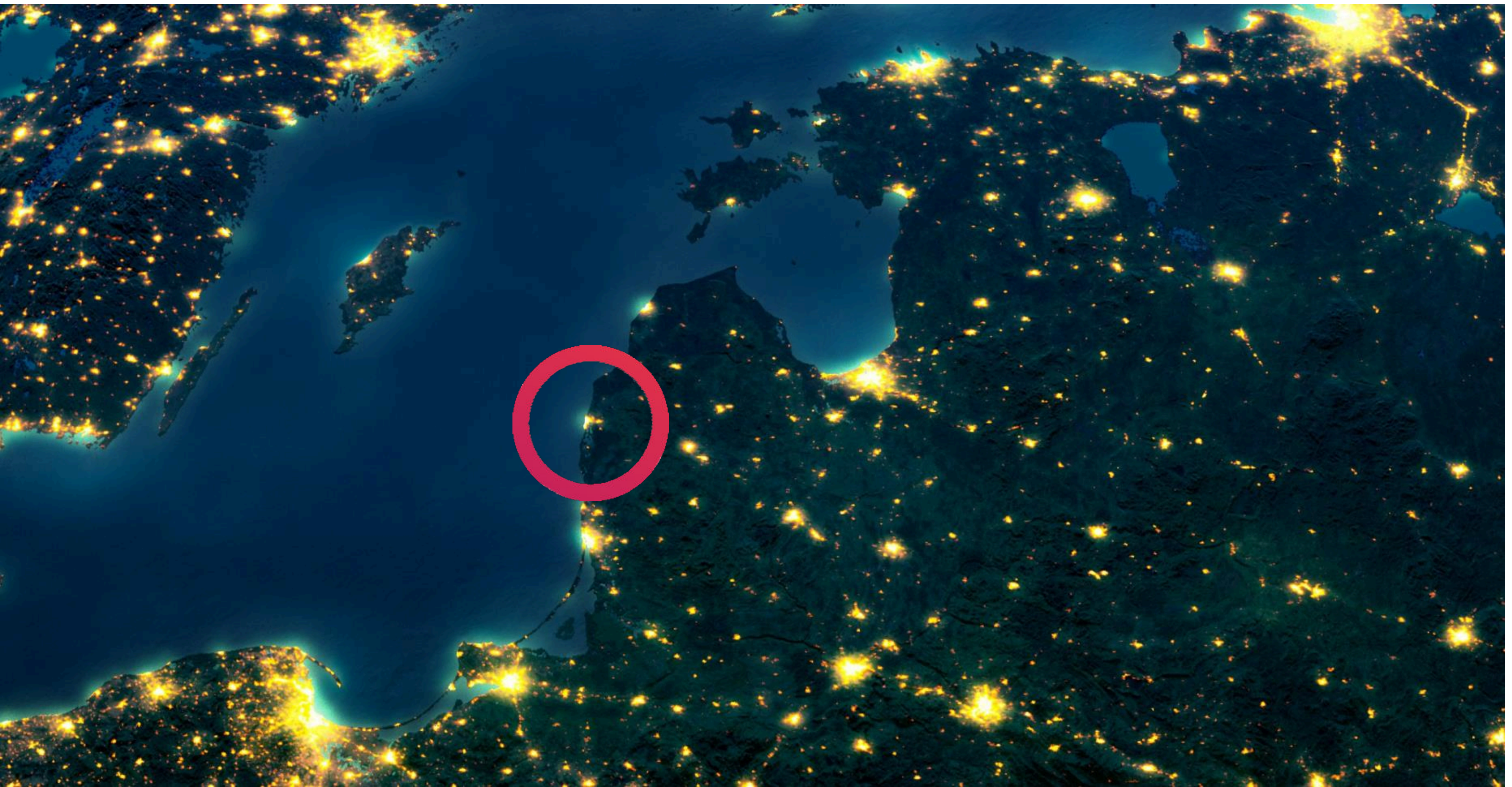
Embroidery by Lauma Fabrics

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:

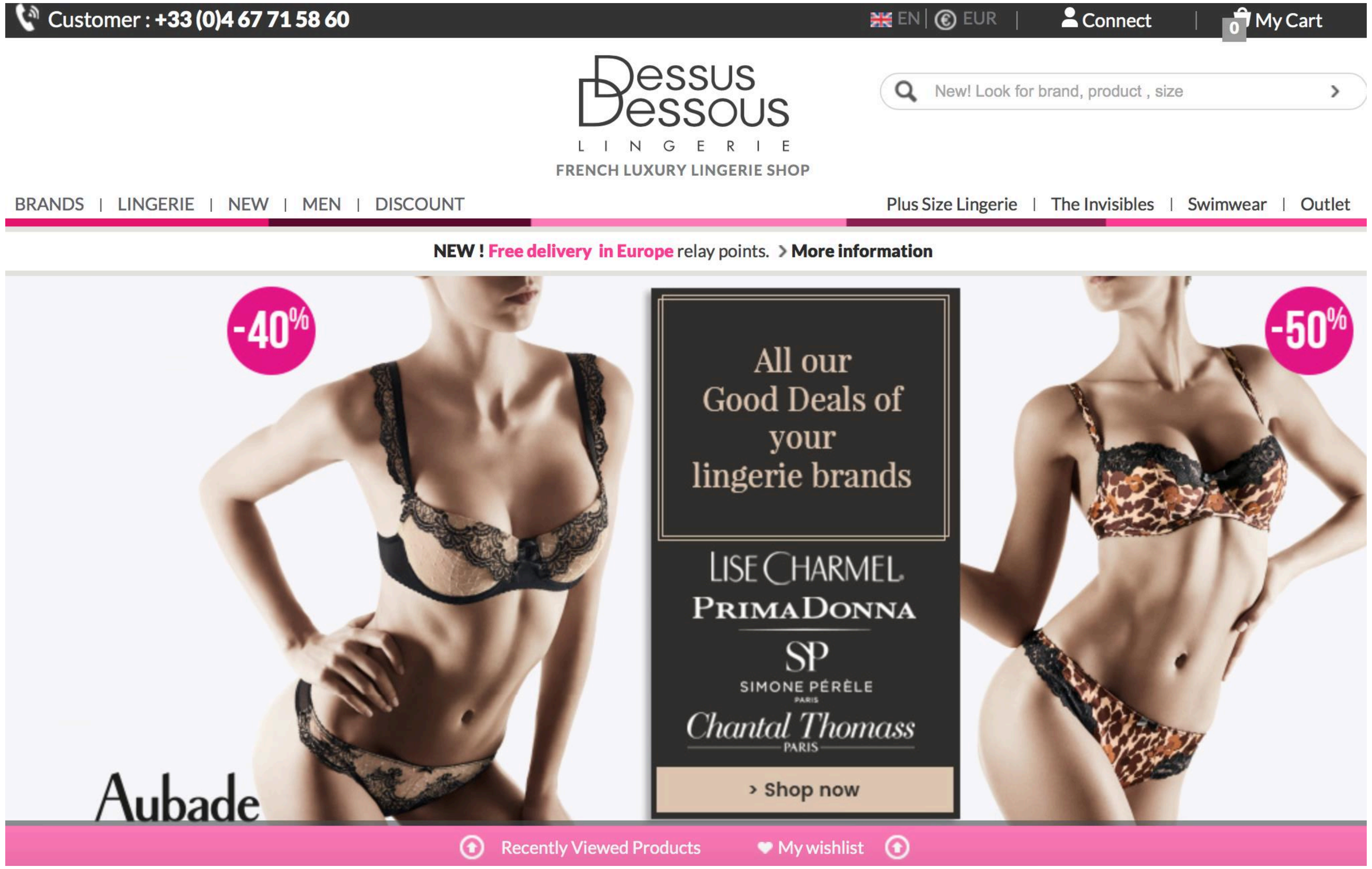
Triumph THE MAKER OF LINGERIE SINCE 1886 · Anita SINCE 1886 · Van de Velde · PRIMADONNA · NATURANA · Wacoal · Chantelle

Dessus Dessous

L I N G E R I E

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

No 1

in French online lingerie market

50+ brands

Represented on website

150 thousand

Articles in selection

214 thousand

Customers in database

Highlights of 12M/Q4 2018

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 31 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.

Secured bond issue, Group refinancing and bond listing

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 listed on NASDAQ Stockholm Corporate Bond list since January 2, 2019.

Product portfolio expansions

Earlier in the year Group introduced two new product lines to its lingerie ready garment collections portfolio: Move activity collection by *Conturelle* for which sales started in October 2018 and a swimwear collection by *Felina* for which sales commence in Q1 2019. Additionally, in December 2018, ELG launched a new *Senselle by Felina* brand, a fusion lingerie collection providing unprecedented fit and comfort of premium lingerie garments at great value. First three series of *Senselle* classical collection are available in retail, whereas the full range will be available from March 2019. *Senselle's* target markets are primarily Eastern European and CIS countries.

Lauma Fabrics receives ISO certification

In autumn of 2018, LSEZ Lauma Fabrics SIA obtained medical ISO certification (ISO 13485:2016). This is a recognition for the Group of being a trustworthy manufacturer in the medical textile industry and it will definitely help to open doors to new markets.

Development of 50 gauge circular knitting technology

In 2018, ELG invested into a new technology, 50 gauge circular knitting, whereby 2 machines were acquired this year and further 8-10 machines are planned for the next 1-2 years. The developed fabrics is a new type of fabrics for ELG group and have opened doors for new global customers.

Highlights of 12M/Q4 2018

Acquisition of new stenter for Lauma Fabrics

In summer 2018, the Group committed to a new stenter's acquisition for Group company Lauma Fabrics. The cost of the acquisition is EUR 1.2 million and the stenter is expected to be delivered in spring 2019. The acquisition will allow the Group to improve the quality of its produced fabrics and to be able to offer new solutions of materials to its customers.

In-house production of spacer molded cups

In 2018, ELG bought the equipment to start the in-house production of spacer molded cups at Group company Lauma Fabrics plant from January 2019. This step is an important part of the production strategy, reinforcing the full vertical integration of the Group and offers new possibilities for growth. Premium lingerie producer Felina, an ELG company, will be one of the biggest clients for Lauma Fabrics in spacer cups. Spacer cups are breathable cups with special chambers to offer maximum comfort, used in the production of fine lingerie.

Further developments of the Group

In 2018 the Group was doing quite a lot of strategic investments and market initiatives to respond faster to changes in market. One of these steps is product range expansion to position itself as a one-stop supplier of all relevant product segments.

Another important initiative is developing the online channel as e-commerce is the future of retail. The acquisition of Dessus-Dessous definitely offers the possibility to embrace a true omni-channel strategy. Also, ELG has focused on increasing ready garments offering under private labels. The initiative is well perceived by Western customers.

ELG will continue to build and strengthen its international team. As the newest addition, from February 1, 2019 Mrs. Sara Shahin joins Felina GmbH as the new Creative Director. The aim for the Group is to further strengthen the classic collections as well as innovate.

In January 2019 the Group announced the acquisition of Yustyna Ltd (subsequently renamed to Senselle Ltd), a lingerie ready garment producer in Belarus. The acquisition is part of the Group's strategy to expand operations and add 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.

Key findings of 12M/Q4 2018

Although the ELG 12M 2018 results were below expectations, we saw that sales started to pick up in Q3 2018 compared to the first half of the year and this **positive trend** continued into Q4 2018.

Sales results of the fourth quarter of 2018 for European Lingerie Group justified our previous belief that the bottom line of declining sales was hit in Q3 2018 and **recovery** should start. We see it across most of the markets and especially in Russia. Unfortunately, the trend of closure of small specialized retail shops in Southern and Central Europe still continues and the macroeconomy is slowing down in most European markets, which limits the recovery speed to some extent.

In Q4 2018, the Group was able to demonstrate **growth in sales** predicted in the previous quarters. The new product lines delivered first sales results as well as the largest markets of the Group such as Russia, Ukraine, Spain and Poland started gradually recovering and bringing positive tendency.

The Group believes that this **improving trend will continue** in the coming periods, bringing **additional revenue** at accelerated speed throughout 2019, as the Group constantly feeds the pipeline with additional novelties, complementary products and other initiatives.

Furthermore, while the Group was able to stop the negative trend in sales, it still continues **investing** its current profit into several **initiatives and new projects**, which will allow it to sustain the revenue and expand into new sales channels, products and target customer segments in the future, but reduces operating profit margins in the short term.

We understand that the Group is on the edge with its bond **financial covenant** at the moment and the net debt/EBITDA threshold will go down from 4.50 to 4.25 from February 2019. The management is fully focused that the Group complies with the covenant's requirements and **several improvement steps** are in the implementation process.

In 2018 the Group continued investing in new technology, new people and process changes. This affected negatively profit in the reporting year and the Group will need additional working capital resources in the coming 2-3 years, but it should **bring returns** through the growth in sales and profit going forward. It is expected that these innovations will comprise at least 10% of the total sales next year (2019).

Financial highlights of 12M/Q4 2018

Financial performance of the Group was analyzed on the basis of the pro forma financial information of European Lingerie Group AB for 12 months 2018, 12 months 2017, Q4 2017 and reported financial information for Q4 2018.

The Group's sales amounted to **EUR 77.2 million** in 12 months 2018 (Q4 2018: **EUR 18.1 million**), representing a 3.6% decrease as compared to pro forma sales of 12 months 2017 (3.7% increase to pro forma sales of Q4 2017).

As part of the costs are fixed, decline in revenue caused drop of profitability margins. Normalised **EBITDA** in 12 months 2018 amounted to **EUR 9.3 million** (Q4 2018: **EUR 1.3 million**) and decreased by 28.9% compared to pro forma normalised EBITDA in 12 months 2017 (34.6% decrease to pro forma normalised EBITDA for Q4 2017).

Normalised **net profit** in 12 months 2018 amounted to EUR 413 thousand (Q4 2018: loss of EUR 1.37 million), compared to pro forma normalised net profit of EUR 6.0 million in 12 months 2017 (Q4 2017: EUR 512 thousand).

In thousands of EUR	12 months 2018 (Pro forma)	12 months 2017 (Pro forma)	Change
Revenue	77,233	80,076	-3.6%
Normalised operating profit	6,084	10,078	-39.6%
Normalised EBITDA	9,288	13,057	-28.9%
Normalised net profit/(loss)	413	6,000	-93.1%
Operating cash flow for the period	11	3,134	-99.6%

In thousands of EUR	Q4 2018 (Actual)	Q4 2017 (Pro forma)	Change
Revenue	18,076	17,263	4.7%
Normalised operating profit	434	1,189	-63.5%
Normalised EBITDA	1,296	1,981	-34.6%
Normalised net profit/(loss)	(1,374)	512	-368.4%
Operating cash flow for the period	(986)	(207)	376.3%

Financial highlights of 12M/Q4 2018

Normalised **EBITDA margin** in 12 months 2018 and 12 months 2017 were 12.0% and 16.3% respectively (Q4 2018 and Q4 2017: 7.2% and 11.5% respectively). EBITDA margin deteriorated mainly due to sales decrease and high impact of marginal sales contribution to EBITDA.

Normalised **net profit margin** in 12 months 2018 and 12 months 2017 were 0.5% and 7.5% respectively (-7.6% and 3.0% in Q4 2018 and Q4 2017 respectively).

Similarly to EBITDA, **lower profitability** was due to sales decrease and cost of new initiatives impact. In addition, there was an increase in finance costs in 12 months 2018 as compared to 12 months 2017 related to incremental costs on borrowings raised for the acquisitions of Felina Group and Dessus-Dessous SAS that were not present to full extent in 12 months 2017.

Marginal analysis, %	12 months 2018 (Pro forma)	12 months 2017 (Pro forma)	Change
Normalised operating profit margin	7.9%	12.6%	-4.7 pp
Normalised EBITDA margin	12.0%	16.3%	-4.3 pp
Normalised net profit margin	0.5%	7.5%	-7.0 pp

Marginal analysis, %	Q4 2018 (Actual)	Q4 2017 (Pro forma)	Change
Normalised operating profit margin	2.4%	6.9%	-4.5 pp
Normalised EBITDA margin	7.2%	11.5%	-4.3 pp
Normalised net profit margin	-7.6%	3.0%	-10.6 pp

Sales of 12M/Q4 2018

The Group's sales in its **core markets** (see table) in 12 months 2018 were **83.7%** of its total sales against 83.5% in 12 months 2017 (82.8% in Q4 2018 against 81.2% in Q4 2017).

The largest growth in sales in Q4 2018 was in Russia and Ukraine. These markets dropped by 9.6% and 9.2% respectively in 12 months 2018, but the trend in Q4 2018 **reversed completely**, which justified the Group's recovery expectations in these markets and outweighed half of the previous deficit in the reporting year (increase by 41.0% in Russia and 21.4% in Ukraine in Q4 2018).

Sales in Belarus dropped by 16.4% in 12 months 2018 (4.2% in Q4 2018) and continued to be lower than before due to the change in the strategy of the Group's largest customer in the textile segment.

In 12 months 2018, the sales in Poland increased by 3.6% whereas the sales in Spain reduced by 1.5%. The net deficit in Spain is still heavily influenced by the **change of** the total **retail concept** in Southern Europe. Sales in Germany decreased by 0.4% in 12 months 2018 and by 0.2% in Q4 2018 due to the **slowdown** of the European macro**economy** and blocked potential growth.

Sales by markets – 12 months

In thousands of EUR	12 months 2018 (Pro forma)	12 months 2017 (Pro forma)	Change, %	12 months 2018, % of sales	12 months 2017, % of sales
Germany	18,257	18,332	-0.4%	23.6%	22.9%
Baltic countries	10,732	10,676	0.5%	13.9%	13.3%
Russia	8,625	9,539	-9.6%	11.2%	11.9%
France	7,477	7,858	-4.8%	9.7%	9.8%
Benelux countries	5,704	5,596	1.9%	7.4%	7.0%
Belarus	4,679	5,597	-16.4%	6.1%	7.0%
Poland	4,326	4,175	3.6%	5.6%	5.2%
Spain	3,099	3,145	-1.5%	4.0%	3.9%
Ukraine	1,747	1,925	-9.2%	2.3%	2.4%
Other markets	12,587	13,233	-4.9%	16.2%	16.6%
Total	**77,233**	**80,076**	**-3.6%**	**100.0%**	**100.0%**

Sales of 12M/Q4 2018

Spain and Poland also delivered **sizeable growth** in the last quarter whereby sales in these countries in Q4 2018 increased by 16.0% and 16.2 respectively. This is a result of several activities including development of the omni-channel strategy with the largest customer in Spain as well as expansion of the Group's lingerie products' presence in the retail channels in these countries.

Sales in Benelux **continued positive trend** in Q4 2018 and 12 months 2018 at the rate of increase of 6.8% and 3.6% respectively and the drop in sales in this market in Q4 2018 was only a temporary issue to balance the previous higher growth expectations with the actual development of the market.

France had a decrease in sales in 12 months 2018 by 4.8% due to the same reason as before, namely, the overall change in retail concept in Southern and Central European countries, but this **deficit started reducing** and in Q4 2018 was only 1.4% comparing to 6.9% deficit in Q2 2018 and 6.1% in Q3 2018.

Sales in the Baltic countries reduced by 4.6% in Q4 2018, but in 12 months 2018 there was growth in these markets of 0.5%. The **repeating growth** is explained by the stabilization of the market situation in Russia and other CIS countries.

Sales by markets – Q4

In thousands of EUR	Q4 2018 (Actual)	Q4 2017 (Pro forma)	Change, %	Q4 2018, % of sales	Q4 2017, % of sales
Germany	3,811	3,819	-0.2%	21.1%	22.1%
Baltic countries	2,684	2,812	-4.6%	14.8%	16.3%
Russia	2,629	1,864	41.0%	14.5%	10.8%
France	1,272	1,290	-1.4%	7.0%	7.5%
Benelux countries	1,098	1,028	6.8%	6.1%	6.0%
Belarus	1,446	1,509	-4.2%	8.0%	8.7%
Poland	927	798	16.2%	5.1%	4.6%
Spain	536	462	16.0%	3.0%	2.7%
Ukraine	528	435	21.4%	2.9%	2.5%
Other markets	3,145	3,246	-3.1%	17.5%	18.8%
Total	**18,076**	**17,263**	**4.7%**	**100.0%**	**100.0%**

Sales of 12M/Q4 2018

The Group has the following two strategic divisions, which are its reportable segments.

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

In Q4 2018 both - textiles and lingerie segments performed better than in the first nine months of the year and the deficit in sales reduced. This was driven by the improvement of the sales trend in particular markets and start of the sales of new swimwear, sportwear and *Senselle by Felina* products. In Textile segment the growth was slowed down by the Group on purpose to balance the growth in sales with the cashflow returns from customer payments.

Furthermore, the textile segment still suffered from the change in strategy by its main customer in Belarus. That deficit is gradually replaced by the growth with other customers in that country and by developing *Senselle by Felina* which is based on Lauma Fabrics materials, but time is needed to offset the full loss effect.

Sales by business segments

In thousands of EUR	12 months 2018 (Pro forma)	12 months 2017 (Pro forma)	Change, %	12 months 2018, % of sales	12 months 2017, % of sales
Textiles	34,107	35,866	-4.9%	42.8%	43.8%
Lingerie	44,149	45,037	-2.0%	57.2%	56.2%
Intercompany eliminations	(1,023)	(827)			
Total	**77,233**	**80,076**	**-3.6%**	**100.0%**	**100.0%**

In thousands of EUR	Q4 2018 (Actual)	Q4 2017 (Pro forma)	Change, %	Q4 2018, % of sales	Q4 2017, % of sales
Textiles	9,092	9,323	-2.5%	49.1%	52.7%
Lingerie	9,207	8,165	12.8%	50.9%	47.3%
Intercompany eliminations	(223)	(225)			
Total	**18,076**	**17,263**	**4.7%**	**100.0%**	**100.0%**


Conturelle SS19

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