



Conturelle SS20

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EUROPEAN LINGERIE GROUP AB

QUARTERLY REPORT –
FIRST QUARTER 2020

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

1,297

Employees worldwide

46

Countries

5,000

Points of sale

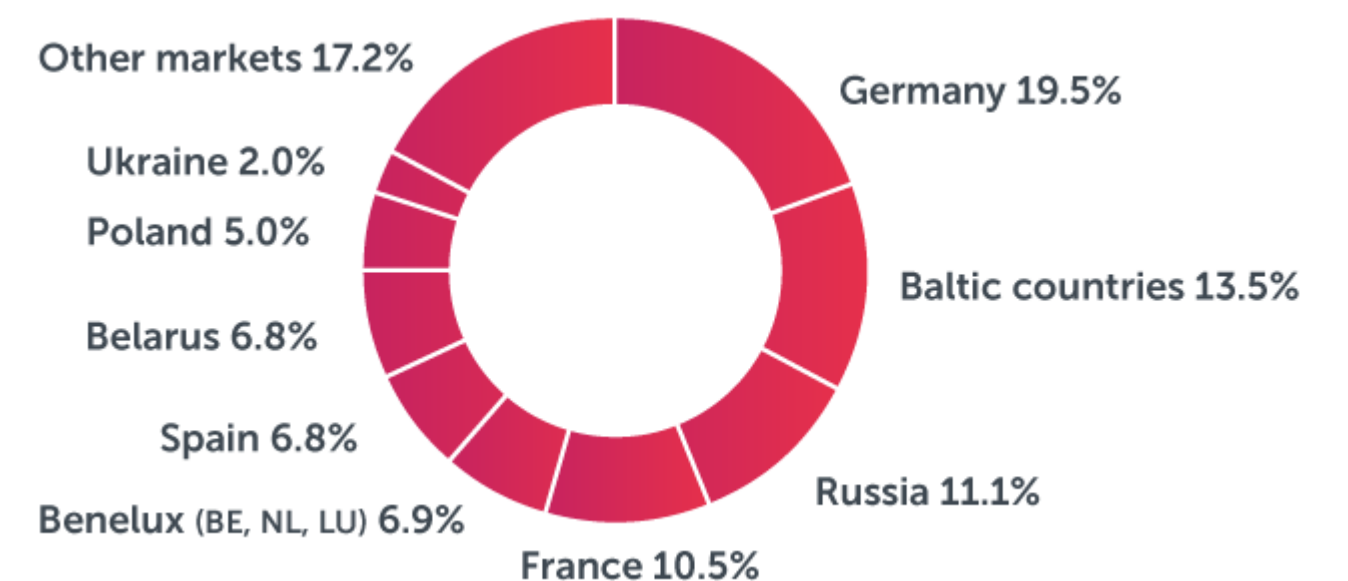
6 brands

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

€ 17.0m

Sales Q1 2020

Sales by markets 3M 2020



Company Locations

Key company locations –

sourcing, design, development

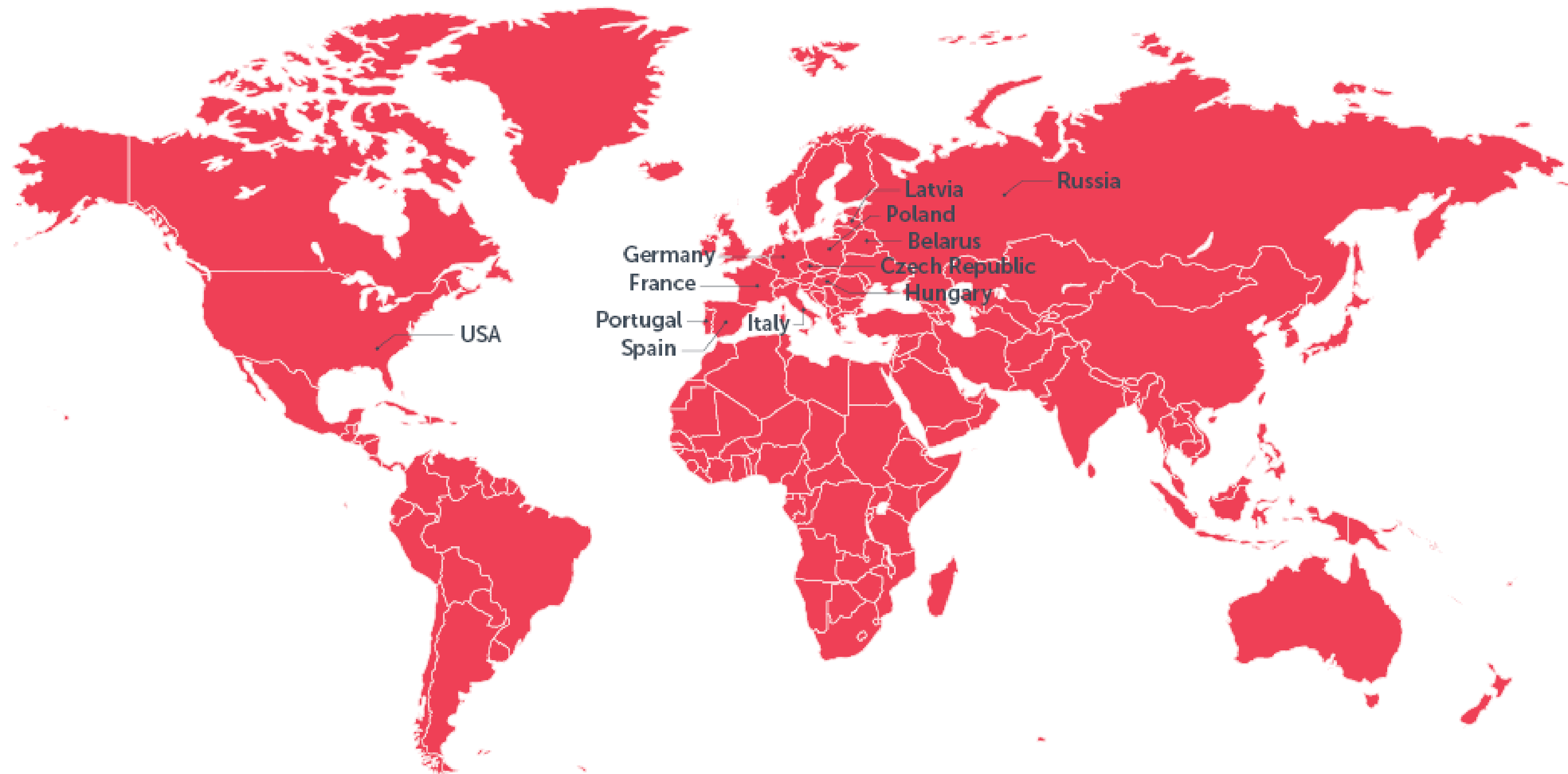
Germany (Mannheim), Latvia (Liepaja)

Production

Germany, Latvia, Hungary, Belarus

Trading

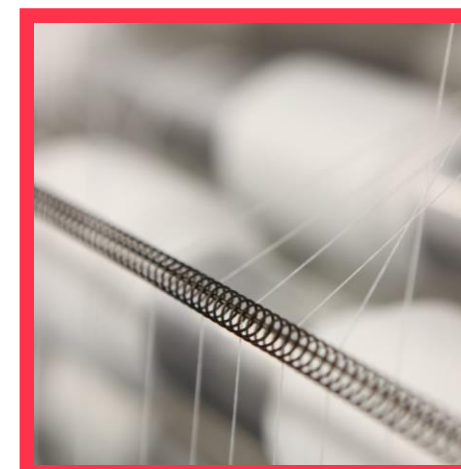
Germany, Latvia, Hungary, Poland,
France, Italy, USA, Spain, Portugal,
Czech Republic, Russia



Company Products

Lace, embroidery, elastic fabrics,
narrowes, 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 and 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 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.



Own Brands 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. 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.

Core Markets

Germany



Western Europe



Russia



Felina has a strong international presence, generating 60% of sales outside Germany (23% Western Europe, 14% Southern Europe, 20% Eastern Europe, 3% 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.

In the near future the Group sees good potential in expanding further into Scandinavia, Spain and the UK. Such an expansion can be facilitated either through greenfield expansion or via strategic acquisitions.

Product development, sales and logistics of Felina are located in Mannheim, Germany and manufacturing in 2 plants in South-East Hungary. Felina employs 673 people.





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.

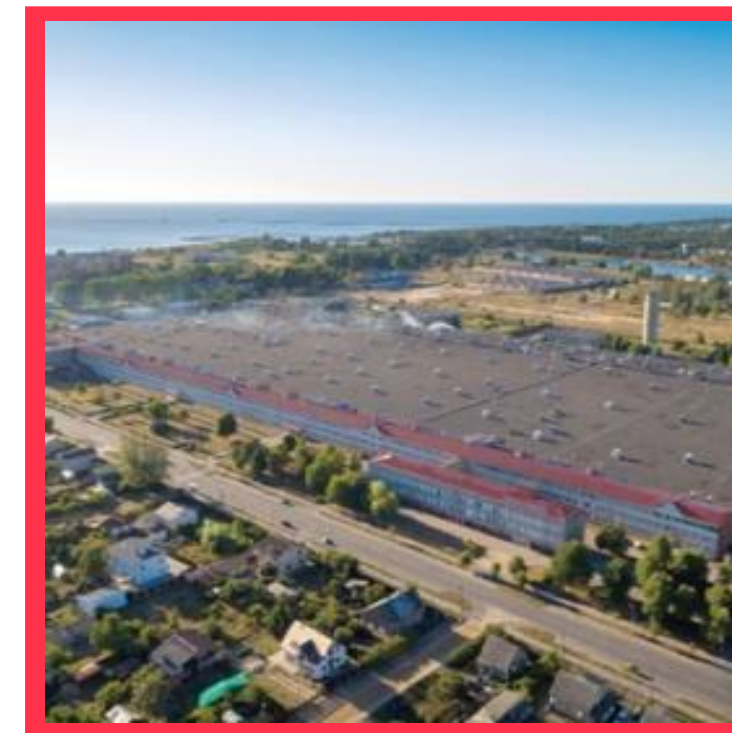
Financially sound and strong cash flow generative business.

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.



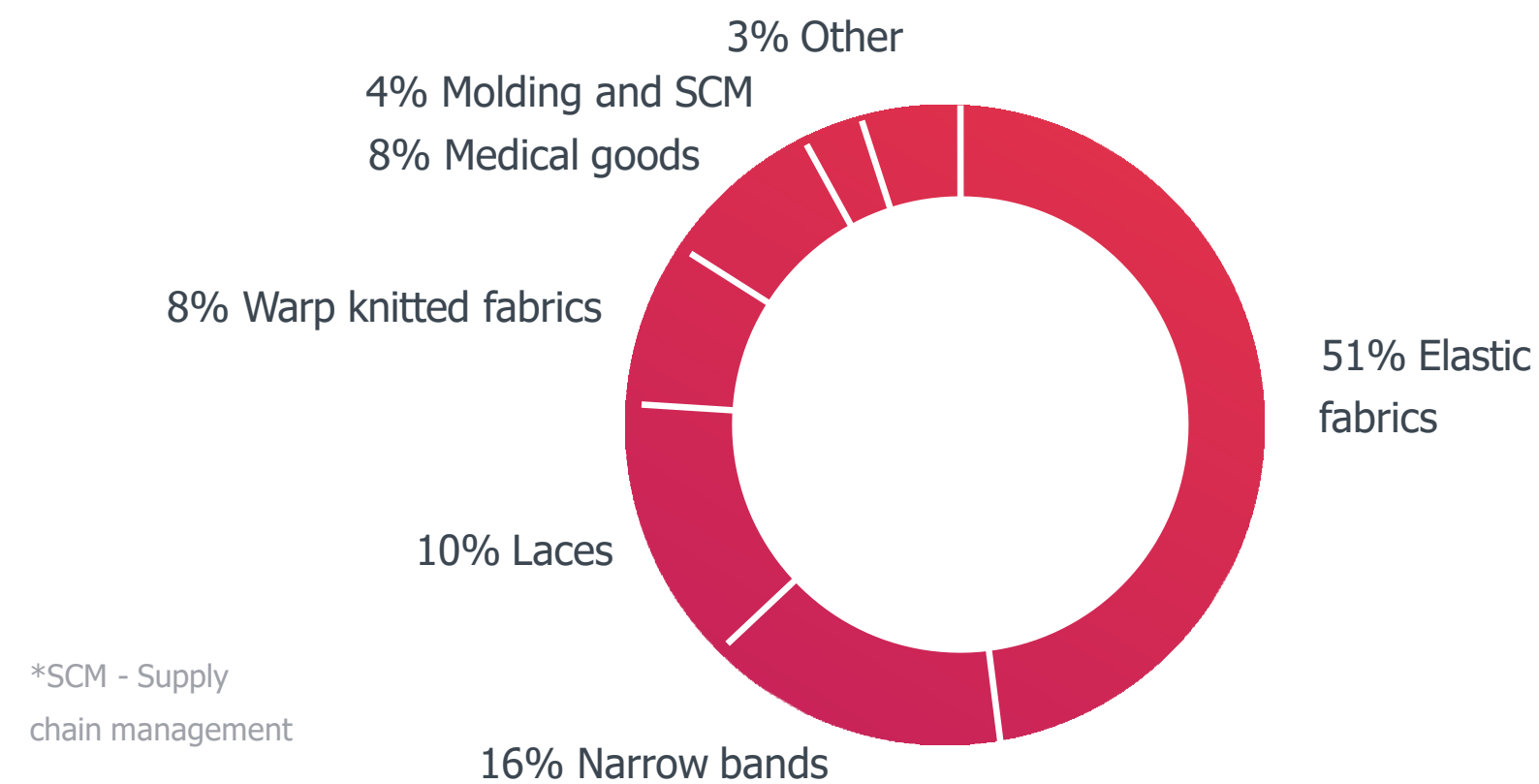
Convenient location for European production and historically loyal employee base.

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 12M 2019



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.

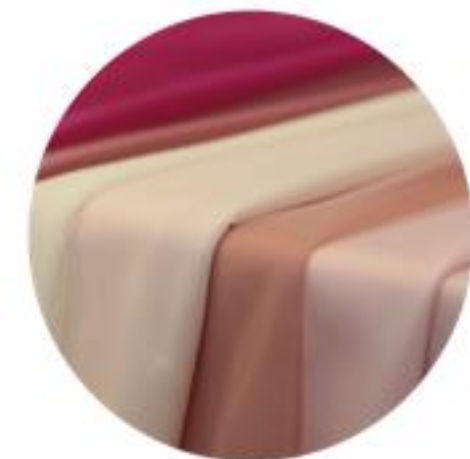
In addition to its core products, Lauma produces medical textile – compression bands and back supports. These products are sold under the brand Lauma Medical.



Lace



Embroidery



Elastic fabric



Narrows



Medical goods

Lauma Fabrics – Factories and manufacturing



All **production** including warping, knitting, dyeing and finishing **under one roof** with no outsourcing involved.

The building of the main production site in Liepaja ranked as the **8th largest factory** in the World in 2016 (**100k sqm**), after Volkswagen, Hyundai, Tesla, Boeing, Belvidere, Mitsubishi and Jean-Luc Lagardère Plant.

The company made an **investment of €6.4 million** in 2014-2015 and 2019 in dye-house modernization in Latvia, which enables beam and jet dyeing; includes water scouring machine and stenters.

The Group has **own machinery** needed for the full production cycle:

- In Latvia & Germany: 10 yarn weaving machines, 249 fabrics/narrows knitting and weaving machines, 4 drying machines, 27 dyeing machines as well as other supplementary equipment.

Fabrics and laces are mainly produced in the Latvian factory in Liepaja in the north of Latvia (471 employees):

- **Built in** the early **1970s** to provide textile products throughout the Soviet Union. Consequently, the business was established with both **knitting and dyeing & finishing facilities**
- **Dye-house** recently **modernized**
- The entire production process takes place in the same factory, enabling Lauma to **fully control all stages** of the process
- Provides ample **space for expansion**
- The knitting **machinery** is **well maintained** and generally is adequate for current needs

There are **two** smaller operating elastic fabrics **units in Neukirchen, Germany** (knitting) and Wuppertal, Germany (dyeing and finishing) with 53 employees.

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.



Dessus
Dessous
LINGERIE
FRENCH LUXURY LINGERIE SHOP

www.dessus-dessous.com

Customer : +33 (0)4 67 71 58 60

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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

€ 6.6m

Sales 12M 2019

Nr 1

in French online lingerie market

50+ brands

Represented on website

150 thousand

Articles in selection

214 thousand

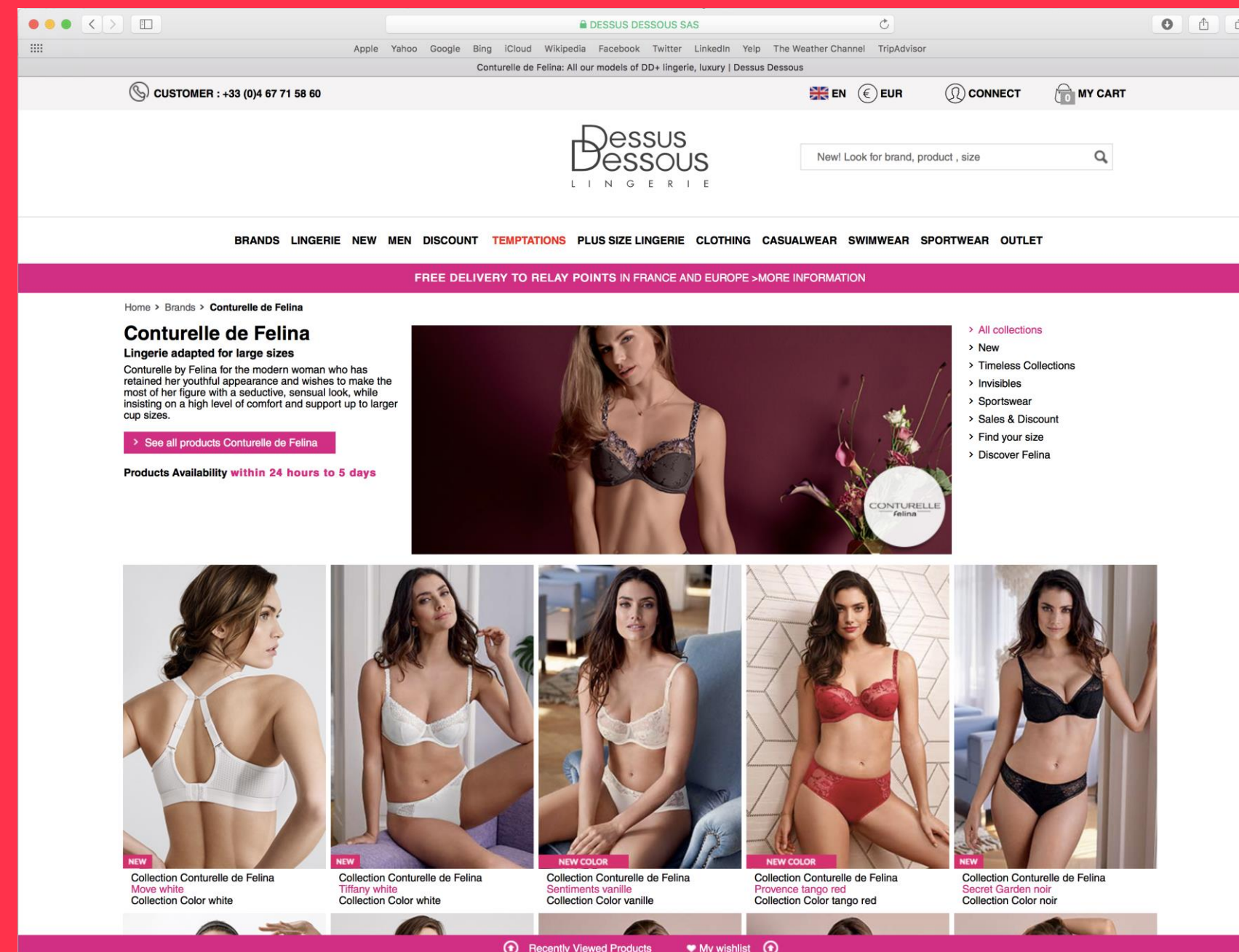
Customers in database



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 2020

COVID-19 outbreak

New outbreak of coronavirus which appeared in Wuhan, China in December 2019 and spread to other countries in the first quarter of 2020 negatively impacted the Group's financial position and results of operations in Q1 2020.

As response measures to the volume drop, the management has initiated several cost saving actions to save the profitability and these were implemented across all the Group's companies according to the available state supports in the countries of operations and contractual possibilities. The implemented actions will allow the Group to restart production in June 2020 when lock-down measures in the countries are fully or partially released and when the customers restart their operations and restart their orders from the Group.

Exceeding maintenance test covenant ratio

The Group reported that the Group's Net Interest Bearing Debt to EBITDA for the reference period ending on 31 December 2019 exceeded the maximum 4.25 allowed under the maintenance test of the Original Bond Terms and Conditions issued on 22 February 2018. On 16 January 2020 the Company completed a written procedure under the Terms and Conditions to adjust the maintenance test for the reference period ending on 31 December 2019. However, it was a condition for the amendments to the Terms and Conditions to come into effect was that a capital contribution by way of equity and/or subordinated loans is provided to the Company.

Due to the COVID-19 pandemic, the Group has not been able to raise the required amount of equity in full. Therefore, the amendments to the Terms and Conditions as approved in the written procedure, including the adjustments to the maintenance test for the reference period ending on 31 December 2019, have not come into effect, which has resulted in the breach of the maintenance test.

The management and the shareholders have ongoing discussions with certain holders of the Bonds and other investors to find solutions for the Group.

Key findings of Q1 2020

Q1 2020 started with a negative surprise through COVID-19 outbreak and majority of the industries and countries including ELG are facing a dynamic and unprecedented situation due to it. The imposed restrictions by the governments had a negative impact on the Group's financial position and results of operations in Q1 2020.

Although gross margin in Q1 2020 was stable and at a similar level of Q1 2019, due to the drop in sales volume, EBITDA and net profit dropped significantly as a result of relatively high percentage of fixed costs in total costs.

As response measures to the volume drop, the management has initiated several cost saving actions to save the profitability. The measures taken are downtime initiation for the employees, reduction of the number of employees where possible, reduction of production volumes with subcontractors to maximize internal capacity utilisation, initiation of alternative business opportunities, i.e. production of protective masks, cancellation or putting on hold of all possible contracts and costs as well as application for state subsidies and state supported loans. These actions will allow the Group to restart production when lock-down measures in the countries are fully or partially released and when the customers restart their operations and restart their orders from the Group.

In Q1 2020, online retail of the Group continued working as normal during the lock-down period and sales were even higher than in the same period last year.

Financial highlights of Q1 2020

Financial performance of the Group was analysed on the basis of the reported financial information of European Lingerie Group AB for Q1 2020 and Q1 2019.

The Group's sales amounted to EUR 16,961 thousand in Q1 2020 (Q1 2019: EUR 21,071 thousand), representing a 19.5% decrease as compared to sales of Q1 2019.

In Q1 2020, the decrease in sales was mainly a result of COVID-19 outbreak followed by partial deferral of orders by customers to later months as well as significant reduction of orders during the lock-down period. In addition to that, due to introduction of a smaller Felina swimwear collection in 2020, revenue of swimwear was also lower in Q1 2020 than in the same period last year.

<i>In thousands of EUR</i>	Q1 2020	Q1 2019	Change
Revenue	16,961	21,071	-19.5%
Normalised operating profit	(518)	1,739	-129.8%
Normalised EBITDA	482	2,684	-82.0%
Normalised net profit /(loss)	(1,364)	318	-528.7%
Operating cash flow for the period	620	12	5,066.7%

Financial highlights of Q1 2020

Profitability margins in Q1 2020 were below previous year, which is also explained by COVID-19 outbreak and shortfall in revenue which made it difficult to cover part of the fixed costs.

Normalised EBITDA in Q1 2020 amounted to EUR 482 thousand and decreased by 82.0% compared to Q1 2019.

Normalised EBITDA margin in Q1 2020 and Q1 2019 was 2.8% and 12.7% respectively.

Normalised net profit in Q1 2020 amounted to a loss of EUR 1,364 thousand, compared to normalised net profit of EUR 318 thousand in Q1 2019.

Normalised net profit margin in Q1 2020 and Q1 2019 was -8.0% and 1.5% respectively.

Marginal analysis, %	Q1 2020	Q1 2019	Change
Normalised operating profit margin	-3.1%	8.3%	-11.4%
Normalised EBITDA margin	2.8%	12.7%	-9.9%
Normalised net profit margin	-8.0%	1.5%	-9.5%

Sales of Q1 2020

Core operating markets for European Lingerie Group are Germany, Spain, France, Poland, Benelux countries, Baltic countries, Russia, Belarus and Ukraine. Group's sales in its core markets in Q1 2020 were 82.7% of its total sales against 79.5% in Q1 2019. As a result of COVID-19 outbreak in Q1 2020, sales in all markets operated by the Group demonstrated a decrease, except for Ukraine, Spain and the Baltic countries. As average decrease in dropping markets was 24.7% with Russia and Poland being the worst dropping cases.

The decrease in sales in France (-6%) was not as dramatic as in other markets which is explained by the switch of demand from traditional shopping to online during the lock-down and as a result higher sales in the Group's online retail operated by Dessus-Dessous S.A.S.

Sales in Ukraine increase by 33.6% compared to Q1 2019 as a result of *Senselle by Felina* lingerie sales in the region. The brand was introduced into the market and its sales commenced there in Q4 2019.

Sales in Spain increased by 1.8% compared to Q1 2019 as a result of renegotiation of consignment arrangement with the largest customer in Spain. The deal resulted in additional revenue in the amount of EUR 460 thousand recognised in January 2020.

Sales in the Baltic countries increase by 1.5% compared to Q1 2019 due to switch of local lingerie producers from Chinese to local textile suppliers after China lock-down due to COVID-19.

Sales by markets – Q1

<i>In thousands of EUR</i>	Q1 2020	Q1 2019	Change, %	Q1 2020, % of sales	Q1 2019, % of sales
Germany	3,306	4,098	-19.3%	19.5%	19.4%
Baltic countries	2,294	2,260	1.5%	13.5%	10.7%
Russia	1,878	2,796	-32.8%	11.1%	13.3%
France	1,777	1,890	-6.0%	10.5%	9.0%
Benelux countries	1,166	1,432	-18.6%	6.9%	6.8%
Spain	1,157	1,136	1.8%	6.8%	5.4%
Belarus	1,151	1,519	-24.2%	6.8%	7.2%
Poland	840	1,259	-33.3%	5.0%	6.0%
Ukraine	465	348	33.6%	2.7%	1.7%
Other markets	2,927	4,333	-32.5%	17.2%	20.5%
Total	16,961	21,071	-19.5%	100.0%	100.0%

Sales of Q1 2020

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

During Q1 2020, both textile and lingerie segment demonstrated a decrease with textile decrease being not as dramatic as lingerie. Lingerie segment suffered more from COVID-19 in Q1 2020 as it was hit immediately upon the closure of retail stores in most of the European core markets of the Group. Textile segment felt the reduction 2 weeks later when stopped retail sales hit lingerie manufacturers and brands and these decided to temporarily stop their production as well.

Sales by business segments

<i>In thousands of EUR</i>	Q1 2020	Q1 2019	Change, %	Q1 2020, % of sales	Q1 2019, % of sales
Textiles	8,036	8,918	-9.9%	44.8%	40.0%
Lingerie	9,361	12,648	-26.0%	55.2%	60.0%
Intercompany eliminations	(436)	(495)	-	-	-
Total	16,961	21,071	-19.5%	100.0%	100.0%



Felina SS20

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