



European Lingerie Group AB publishes the Annual Report for 2018

European Lingerie Group AB (ELG or the “Group”) publishes the Annual Report for 2018, including the Financial Statements Report and Independent Auditors Report for 2018.

“2018 was a transition year for ELG after the acquisition of Felina International Group in 2017 and formation of a vertically integrated structure. To further strengthen the Group’s business model, in mid-2018, ELG acquired Dessus-Dessous S.A.S., the French leader in lingerie e-commerce. This acquisition proves our strong commitment towards an online sales channel development and offers the possibility to embrace a true omni-channel strategy,” said CEO of ELG, Mr. Peter Partma.

“Throughout 2018, we invested in new technology, new people and process changes. Furthermore, the Group started several new strategy and market initiatives to respond faster to changes in the market. Even if the financial result is disappointing, we believe the Group has taken several crucial steps for a sustainable growth in the coming years,” commented Mr. Partma.

One of these steps is product range expansion to position ELG as a one-stop supplier of all relevant product segments. In 2018, Felina launched both, a swim and an activity wear collection and in the end of year, also introduced a new fusion lingerie brand *Senselle by Felina*.

To expand operations and add capacity for private label and *Senselle by Felina* production, the Group acquired Yustyna Ltd, a lingerie ready garment producer in Belarus. In 2018, ELG also placed several orders for innovative operational technology. These changes will allow ELG to further improve the quality of its produced fabrics and to be able to offer new solutions of materials to its customers. In parallel, ELG continues to build and strengthen its international team.

“If we look at 2019, the market climate is still tough, the sector is not growing and the digital transition is continuing at an increased speed. Nevertheless, we are confident that the initiatives we have taken already will result in a growth for the Group and ELG continues to be a strong player in the market due to our financial stability and sustainable future,” noted Mr. Partma.

*“This year we are preparing to launch a marketplace in our industry to facilitate the omni-channel strategy implementation as well as to further expand sales. We already see that our new brand *Senselle by Felina* starts bringing good volumes. From a financial point, we still feel a pressure on margins on all ends, but together with some investments and focus on innovation the Group’s margin will stabilize. We expect sales to come with a healthy growth, but unfortunately not all of it will transform into the profit due to the implementation of additional innovations and changes,” added Mr. Partma.*

Financial performance of the Group was analysed on the basis of the pro forma financial information of European Lingerie Group AB for 12 months 2018 and 12 months 2017. The Group’s sales amounted to EUR 77.2 million in 12 months 2018, representing a 2.9% decrease as compared to pro forma sales of 12 months 2017.

The sales results were below expectations due to the continuing pace of closure of small specialized retail shops in the Southern and Central Europe as well as the slow-down of the macroeconomy in the most European markets. Despite that, the ongoing initiatives helped the Group to stop the negative trend in sales of the first three quarters of 2018 and demonstrated the sales pick up in the fourth quarter 2018.

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.

Due to the fact that part of the costs is fixed, decline in revenue caused drop of profitability margins. Normalised EBITDA in 12 months 2018 amounted to EUR 9.3 million and decreased by 28.9% compared to pro forma normalised EBITDA in 12 months 2017. Normalised EBITDA margin in 12 months 2018 and 12 months 2017 was 12.0% and 16.4% respectively. EBITDA margin deteriorated mainly due to sales decrease and high impact of marginal sales contribution to EBITDA.

Normalised net profit in 12 months 2018 amounted to EUR 221 thousand, compared to pro forma normalised net profit of EUR 6.0 million in 12 months 2017. Normalised net profit margin in 12 months 2018 and 12 months 2017 was 0.3% and 7.5% respectively.

Similarly as for EBITDA, lower net profitability was due to sales decrease and the impact of costs of new initiatives. 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 S.A.S as well as for additional capital needed for future growth and investments that were not present to full extent in 12 months 2017.

Core operating markets for European Lingerie Group are Germany, Spain, France, Poland, Benelux countries, Baltic countries, Russia, Belarus and Ukraine. The Group’s sales in its core markets in 12 months 2018 were 83.7% of its total sales against 83.5% in 12 months 2017.

The largest growth in sales in 12 months 2018 was in Poland and it was mainly achieved through expansion of the Group’s lingerie products’ presence in the retail channels in this country. Sales in Germany and Benelux increased by 1.6% and 1.9% respectively in 12 months 2018, which is a result of the stable economy and the Group’s strong position in these markets.

There was growth of sales in the Baltic countries in 12 months 2018 by 0.5%. Growth is explained by the stabilisation of the market situation in Russia and other CIS countries, which are the major sales markets for the Baltic lingerie sewing companies.

In 12 months 2018, the sales in Spain reduced by 1.5%. The net deficit in Spain is heavily influenced by the overall change of the total retail concept in Southern and Central European countries whereby small specialised retail stores slowly disappear and department and online stores take over the market. The Group actively addresses this issue in order to gradually replace the lost turnover of small specialized retails with other sales channels. One of such activities includes development of the omni-channel sales strategy with the largest customer in Spain.

France had a decrease in sales in 12 months 2018 by 4.5% also due to the same change in retail concept described above, but this deficit started reducing in Q4 2018. The balance of sales growth vs margin, though, will still be the main issue in this market in the coming periods as the Group’s main competitors in France continue suffering and try to improve their sales by reducing prices and offering higher discounts to customers not only for previous season collections, but also for novelties. In part of these cases the Group chooses not to follow the general price trend and to better sell less, but at a

higher margin.

Markets in Russia and Ukraine dropped by 9.6% and 9.2% respectively in 12 months 2018, but the trend in Q4 2018 reversed completely compared to the first three quarters, which justified the Group's recovery expectations in these markets and outweighed half of the previous deficit faced in the reporting year.

Sales in Belarus dropped by 16.4% in 12 months 2018 and continued to be lower than before due to the change in the strategy of Group's largest customer in the textile segment, which decided to change most of its product range. To compensate this loss, the Group continues growing with other customers in Belarus in the textile segment and expands usage of materials in its own newly introduced brand *Senselle by Felina*.

European Lingerie Group AB Annual Report 2018 is available for viewing and download [here](#) and the presentation of the report [here](#).

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European Lingerie Group AB (ELG) is a fully vertically integrated intimate apparel and lingerie group with main production located in the Baltics, Hungary and Germany and with sales worldwide in 5000 points of sale in 46 countries and online. The Group produces fabrics for lingerie garments under the brand Lauma Fabrics and supplies leading lingerie manufacturers in Europe and rest of the world. The Group designs, manufactures and sells branded its own premium lingerie under the brands Conturelle, Felina and Senselle. ELG also owns Dessus-Dessous, the largest online retailer of lingerie and swimwear in France. The Group is headquartered in Stockholm, Sweden. More information available at www.elg-corporate.com.