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European Lingerie Group AB publishes 6 Months and Second Quarter Report for 2019

European Lingerie Group AB (ELG or the "Group") publishes unaudited 6 Months and Second Quarter Report for 2019 (January 1 – June 30, 2019), including pro forma and condensed interim financial statements.

"Even though 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 recovery speed to some extent, the sales results of the second quarter of 2019 for European Lingerie Group were at the level of the previous year," commented CEO of ELG, Mr. Peter Partma.

"The Group continues realising its strategy of vertical integration, which takes time and bears costs during the transformation phase of the previous processes. In 2019, the Group's new product lines, including our new brand Senselle by Felina and also Felina swimwear, have started bringing good volumes. The contribution of these new products to total sales will continue with increasing pace throughout the whole year," noted Mr. Partma.

"On the production side, we continue investing in our manufacturing base in order to improve the quality of our products as well as to offer better and new materials to our customers. As a results of these investments we will be able to serve backlog on orders we have in new technologies. Named investments will gradually convert into cost savings and profit margin improvement starting from the second half of this year," added Mr. Partma.

During 6 months 2019 the Group invested into property plant and equipment and intangible assets EUR 1,400 thousand. The main investments during this period related to the remaining payment for the spacer molding equipment for Lauma Fabrics, the down-payment for 2 new knitting machines, lace and racheltronic technology, as well as the next instalment for the stenter acquired by LSEZ Lauma Fabrics SIA. In addition to this, the Group continues investing in its new sewing plant in Belarus, whereby it increases the number of sewing machines there and develops a new material cutting facility, which is necessary for sewing operations.

In January 2019 European Lingerie Group AB established a new subsidiary Brafetch GmbH and in March 2019 Brafetch GmbH established a new subsidiary SistersOf Production SIA. The companies are involved in the implementation of the omni-channel strategy of the Group. On 14 June 2019, European Lingerie Group AB sold Brafetch GmbH, a wholly owned subsidiary, with the objective to search for a separate financing of the project.

In May 2019 LSEZ Lauma Fabrics SIA established a new subsidiary SIA Lauma Medical in order to separate its medical business into it. The separation was done for allowing the business to develop and be led independently as it focuses on a different market, product development process, etc.

Financial performance of the Group was analysed on the basis of the reported financial information of European Lingerie Group AB for 6 months 2019 and Q2 2019 as well as pro forma financial information for 6 months 2018 and Q2 2018.

The Group's sales amounted to EUR 39,985 thousand in 6 months 2019 (Q2 2019: EUR 18,963 thousand), representing a 4.3% increase as compared to pro forma sales of 6 months 2018 (0.1% decrease to pro forma sales of Q2 2018). In 6 months 2019, the growth in sales was achieved by sales of new product lines, i.e. *Senselle by Felina* lingerie and *Felina* swimwear, as well as the general increase of orders from traditional customers in the textile segment. Q2 2019 sales demonstrated a slight increase in the textiles segment with 2.6% decrease in the lingerie segment due to a partial shift of sales to Q3 2019.

Profitability margins in 6 months 2019 are generally comparable to those of 6 months 2018 and some demonstrating a slight improvement. Q2 2019 margins showed a decreasing trend as a result of lost contribution from sales shifted to Q3 2019. The profit improvement effect during 6 months, though, is not significant due to the general cost inflation still faced in important cost categories as well as the effect of additional costs invested in marketing to promote the new products just launched and in product development to deliver further novelties to the market.

Normalised EBITDA in 6 months 2019 amounted to EUR 4,628 thousand (Q2 2019: EUR 1,944 thousand) and increased by 0.5% compared to pro forma normalised EBITDA in 6 months 2018 (11.1% decrease to pro forma normalised EBITDA for Q2 2018). Normalised EBITDA margin in 6 months 2019 and 6 months 2018 was 11.6% and 12.0% respectively (Q2 2019 and Q2 2018: 10.3% and 11.5% respectively).

Normalised net profit in 6 months 2019 amounted to EUR 425 thousand (Q2 2019: net loss of EUR 28 thousand), compared to pro forma normalised net loss of EUR 101 thousand in 6 months 2018 (Q2 2018: loss EUR 181 thousand). Normalised net profit margin in 6 months 2019 and 6 months 2018 was 1.1% and -0.3% respectively (-0.1% and -1.0% in Q2 2019 and Q2 2018 respectively).

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 6 months 2019 were 81.1% of its total sales against 84.0% in 6 months 2018 (83.1% in Q2 2019 against 85.1% in Q2 2018). Decrease in core markets is explained by a diversification of the Group to other markets and growth of its sales there.

The largest growth in sales in 6 months 2019 was in Russia and Belarus. These markets grew by 44.8% and 34.2% respectively in 6 months 2019 (11.3% and 57.2% respectively in Q2 2019). Sales in Russia in 6 months 2018 were very limited due to postponement of orders by two largest *Felina* and *Conturelle* distributors in Russia. 2019, in its turn, did not have extraordinary circumstances; thus, the sales were at a normal level with a growing trend. Russia is also one of the main customers for *Felina* swimwear and *Senselle by Felina* lingerie ready garments, which pushed the sales up even further. Sales in Belarus grew in the textile segment of the Group and were a result of the growth of medium lingerie sewing companies in the country.

Spain and Poland also delivered sizeable growth both in 6 months and Q2 2019, whereby sales in these countries in 6 months 2019 increased by 6.4% and 3.1% respectively (Q2 2019: 7.2% and 1.3% 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. Spain is another important market for *Felina* swimwear, which helped to grow the sales further.

Sales in Germany, France and Benelux decreased by 5.8%, 18.3% and 6.9% respectively in 6 months 2019 due to the slowdown of the European macroeconomy and blocked potential growth (Q2 2019: drop by 3.5% in Germany, 15.3% in France, 6.3% in Benelux). The balance of sales growth vs margin is still the main issue in France in the current and the coming periods as the Group's main competitors in the region 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 better margin.

Sales in the Baltic countries reduced by 11.5% in 6 months 2019 (Q2 2019: decrease by 18.9%) 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 as a result, did not have quick enough capital turn to continue ordering raw materials.

Sales in Ukraine dropped by 22.8% in 6 months 2019 (Q2 2019: drop by 21.6%), but there was no particular reason for that. Customers of the Group in this country have a number of ordering rounds and the ordering weeks are not exactly the same between the years, thus it influences the sales results in particular periods. During the second half of 2019 the Group expects this deficit to reduce.

European Lingerie Group AB 6 Months and Second Quarter Report of 2019 is available here and the presentation of the report here.

*European Lingerie Group AB (ELG) performance, operations and strategy will be discussed in-depth at ELG AB **investors meeting** on **September 4**, 2019 at 11.00 am (EEST) in **Liepaja, Latvia** at Group company Lauma Fabrics headquarters. Participants are kindly asked to register for the event by August 19, 2019 the latest, via contacts provided below. More information about the event can be found here.*

For further information, please contact:

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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**.*