BeterBed holding

Press release

Uden, the Netherlands, 1 March 2019

Beter Bed Holding completed its restructuring and started the transformation to fully focus on driving profitable growth

Highlights 2018:

- Development of the new strategy, fully embracing today's market and consumer dynamics.
- Sales decreased by 3.0% to € 396.3 million in 2018, with sales momentum regained in Q4.
- Good overall performance in the Benelux.
- Reorganization of Matratzen Concord successfully delivered, leadership teams strengthened.
- 2018 EBITDA excluding one-off costs of the restructuring at € 0.6 million.
- Financial stability. Good cash performance. Performance within amended bank agreements.

John Kruijssen, CEO of Beter Bed Holding, comments:
'In 2018 Beter Bed Holding went through an important and necessary restructuring. We had to take difficult measures to be able to create a solid basis for future growth. We introduced a new mid-term strategy with the overarching customer promise to offer the best quality rest @ affordable prices. We are currently fully focusing on the next phase, being the return to profitable sales growth as a value for money omni-channel retailer. The year 2018 had two faces for us; the negative Q1-Q3 trends caused the disappointing sales and profit performance, while we perceived the Q4 restructuring to address this as successful. We are also pleased that the cash flow has stabilized and the performance was within the amended bank agreements. With the first short-term restructuring successfully delivered I am proud to say that we are on track with the strategic progress as presented at the Capital Markets Day in October last year.'

The table below shows the key figures for the continuing operations for the full year 2018.

in thousand €	2018 FY	2017 FY
Sales	**396,331**	408,785
Sales growth (%)	**(3.0)%**	
Gross profit	**220,907**	235,861
Gross profit (%)	**55.7%**	57.7%
Total operating expense	**(244,594)**	(220,133)
Total operating expense (%)	**(61.7)%**	(53.9)%
EBIT	**(23,687)**	15,728
EBIT (excluding € 7.6 million one-offs)	**(16,087)**	
EBIT (%)	**(6.0)%**	3.8%
EBIT (%) (excluding € 7.6 million one-offs)	**(4.1)%**	
EBITDA (excluding € 7.6 million one-offs)	**624**	28,493
EBITDA (%)	**0.2%**	7.0%
Net profit (loss) from continuing operations	**(18,604)**	10,828

2018 performance by market

In the Benelux markets, the Group's new value for money strategy was already visible for customers, with strong sales and order intake as a result. Total sales grew by 4.9% due to adding more commercial power, new initiatives and campaigns, and a strong online focus. As a result, Beter Bed Benelux market share also increased.

Similar to 2016 and 2017, the Matratzen Concord stores in Germany, Austria and Switzerland showed decreasing sales in Q1-Q3 2018. Important trends in the market such as the online channel share increase, the shift to box springs and one size fits all mattresses were recognized, but not addressed appropriately. As a result, sales per store have continued to drop significantly since 2015. At the same time, costs per store increased due to investment programs that have not achieved the intended results. To address this, Matratzen Concord has successfully restructured itself during Q4 2018. In total, the number of stores in the portfolio decreased by net 150 in Germany, Austria and Switzerland together, and the number of employees reduced by 64 Fte. This resulted in a € 15 million lower costs basis and a significant smaller network that still covers a national customer reach.

The performance of Sängjätten in Sweden was mixed. A store expansion program to become a retail brand with a national coverage was started and successfully completed. After completion, the focus shifted towards driving growth of the current store portfolio. The leadership team has been adjusted for this.

The performance of the DBC wholesale business was promising. B2B deals with a holiday park and hotels have been successfully concluded. Additionally, the partnership between M line and NOC*NSF has been extended to the 2020 Olympics in Tokyo. Also, very promising innovations were launched during the year, such as the Wave one size fits all mattress, the 100% recyclable mattress (Green Motion) and box spring (Element through Beter Bed), and the new commercial M line proposition to facilitate growth at independent dealers.

2018 detailed financials

Total 2018 sales of continued operations of € 396.3 million represented a 3.0% decrease compared to 2017, where the negative performance in Q1-Q3 could only partially be compensated in Q4.

In 2018 **gross profit** decreased by 2 percentage points to 55.7%, mainly as a result of mixed effects in the portfolio. The country mix - strong Benelux growth versus a decline at Matratzen Concord - impacted overall Group gross profit. The growth of online sales in especially new categories also impacted gross profit. Thirdly, the inventory sell-out of the Matratzen Concord stores that were closed in Q4 2018 deteriorated overall Group gross profit. Lastly, core underlying gross profit of the continuing business decreased, as some aggressive commercial interventions were already taken, while the measures to compensate cost of goods will only materialize in the course of 2019.

In 2018 **operating expenses** increased by € 24.5 million to € 244.6 million. This includes € 7.6 million **one-off costs** related to the Matratzen Concord restructuring. Secondly, the expansion of Belgium, Sweden, and the online channels caused increases in operational costs. Thirdly, historical decisions caused an unavoidable significant increase in depreciation, marketing, IT, and logistical costs. These logistical costs were related to the opening of a new DC in Switzerland.

Net tax gain of € 1.9 million of the two closed tax items, the liquidation losses of the closed operation in Spain and the settlement of the discussion on the German intercompany loans and its interest rates, are included.

The combination of all items mentioned above caused a net loss of € 18.6 million in 2018 of the continuing operations.

The total negative impact of € 4.7 million related to the discontinuation of the operations in Spain is included as a result of discontinued operations.

Including this effect net loss amounted to € 23.3 million in 2018.

Investments and cash flow

In 2018 the Group invested € 17.3 million in capital expenditures. This mainly included investments in physical stores that were already committed in H1 2018. To facilitate the restructuring an unavoidable capex freeze was implemented as of mid-2018 and will last until mid-2019. Going forward focus and all possible investments are geared towards digital and online growth, no new store locations have been committed since.

In 2018 cash flow was € (17.0) million, mainly due to cash flow from investments of € (16.4) million, and cash flow from financing of € (0.7) million slightly mitigated by a positive cash flow from operations. This positive cash flow from operations was driven by a successful inventory reduction program that generated more than € 10 million cash, due to implemented more strict and disciplined processes, changing the product ordering methodologies and starting to apply ordering algorithms based on expected customer demand.

As announced at the Capital Markets Day and following the dividend policy, the 2018 financial situation was not sufficient to propose a dividend.

Financing and solvency

In H2 net debt stabilized as a result of the successful inventory reduction program at € 16.8 million. As a result, all cash needed for the restructuring is funded from existing credit facilities. The amended bank agreements to measure the covenants of the credit facilities have been successfully met per 31 December 2018. Due to the recognition of the annual loss to equity, 2018 solvency decreased to 33.2%, well above the minimum target set by the banks.

BASF

Following the announcement of 18 January 2019 to start a formal legal proceeding against BASF, the Group has issued a formal legal request for compensation at BASF. In case of relevant developments Beter Bed Holding will inform the markets accordingly.

Expectations 2019

As presented at the Capital Markets Day on 26 October 2018 Beter Bed Holding sees ample opportunities in the markets and categories in which it operates. The Group Leadership Team is confident with the increased positive consumer attention on sleeping and the impact it has on personal health. This in combination with the new strategy OFFER BEST QUALITY REST @ AFFORDABLE PRICES provides the confidence that all elements are in place to recover profitable growth.

The five pillars of the new strategy have actionable plans and targets and will all contribute to a successful value for money proposition in both online and offline channels. All plans should contribute to the mid-term financial ambitions of achieving 4-5% sales growth in the continuing portfolio, and achieving an EBITDA margin of 7-9%. The mid-term is defined as 2-4 years as of 2018.
2019 will be the year in which first steps of the new strategy will be visible for customers. From a financial point of view, Beter Bed Holding will start growing gradually towards the mid-term ambitions as presented at the Capital Markets Day.

Independent auditor's report

The financial information in the appendices is taken from the consolidated financial statements of Beter Bed Holding N.V. which will be submitted for adoption to the Annual General Meeting on 25 April 2019, and for which an unqualified auditor's report has been issued by the independent auditor. The 2018 annual report and financial statements will be published on 13 March 2019.

Profile

Beter Bed Holding is a European retail organization that offers its customers the best quality rest at affordable prices. The organization will do this through its international retail brands Matratzen Concord, Beter Bed, Beddenreus, Sängjätten and own wholesaler operation DBC International. All brands provide the best advice to their customers on all relevant channels including online. In 2018, the company achieved € 396.3 million sales with a total of 1,009 stores and an increasingly relevant share of online sales.

For more information

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Appendices

BeterBed holding

Consolidated balance sheet

Per 31 December

in thousand €	2018	2017
Fixed assets		
Tangible assets		
Land	7,385	7,090
Buildings	3,352	3,679
Other fixed operating assets	30,520	33,467
	41,257	44,236
Intangible assets		
Intangible operating assets	11,311	9,030
Financial assets		
Deferred tax assets	13,273	2,353
Deposits	94	526
	13,367	2,879
Total fixed assets	65,935	56,145
Current assets		
Inventories		
Finished products and goods for resale	55,679	65,697
Receivables		
Trade accounts receivable	3,014	3,014
Other receivables	9,243	9,669
Income tax receivable	636	4,536
	12,893	17,219
Cash and cash equivalents	6,173	17,669
Total current assets	74,745	100,585
Total assets	140,680	156,730

Per 31 december

in thousand €	2018	2017
Equity		
Equity attributable to equity holders of the parent		
Issued share capital	**439**	439
Share premium account	**18,434**	18,434
Revaluation reserve	**3,200**	2,797
Reserve for currency translation differences	**548**	673
Other reserves	**47,265**	38,316
Retained earnings	**(23,250)**	9,525
Total equity	**46,636**	70,184
Liabilities		
Non-current liabilities		
Provisions	**1,003**	44
Deferred tax liabilities	**3,452**	3,383
	4,455	3,427
Current liabilities		
Credit institutions	**22,998**	17,481
Trade payables	**24,409**	30,629
Income tax payable	**2,050**	1,482
Taxes and social security contributions	**10,931**	9,667
Other liabilities	**29,201**	23,860
	89,589	83,119
Total liabilities	**94,044**	86,546
Total equity and liabilities	**140,680**	156,730

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Consolidated profit and loss account

in thousand €	2018		2017	
Continuing Operations				
Sales	396,331		408,785	
Cost of sales	(175,424)		(172,924)	
Gross profit	220,907	55.7%	235,861	57.7%
Personnel expenses	(110,255)		(105,820)	
Depreciation and amortisation	(16,187)		(12,559)	
Other operating expenses	(118,152)		(101,754)	
Total operating expenses	(244,594)	(61.7%)	(220,133)	(53.9%)
Operating profit (loss) (EBIT)	(23,687)	(6.0%)	15,728	3.8%
Finance income	268		104	
Finance costs	(1,424)		(510)	
Profit (loss) before taxation	(24,843)	(6.3%)	15,322	3.7%
Income tax	6,239		(4,494)	
Net profit (loss) from continuing operations	(18,604)	(4.7%)	10,828	2.6%
Loss from discontinued operation, net of tax	(4,646)		(1,303)	
Net profit (loss)	(23,250)	(5.9%)	9,525	2.3%
Earnings per share				
Earnings per share in €	(1.06)		0.43	
Diluted earnings per share in €	(1.06)		0.43	
Earnings per share from continuing operations				
Earnings per share in €	(0.85)		0.49	
Diluted earnings per share in €	(0.85)		0.49	

BeterBed holding

Consolidated statement of comprehensive income

in thousand €	2018			2017		
	Gross	**Tax**	**Net**	Gross	Tax	Net
Profit (loss)	**(29,489)**	**6,239**	**(23,250)**	14,019	(4,494)	9,525
Non-recyclable:						
Change in revaluation reserve						
- due to revaluation of land	**295**	**108**	**403**	-	-	-
Recyclable:						
Movements in reserve for						
currency translation differences	**(125)**	**-**	**(125)**	(240)	-	(240)
Total comprehensive income	**(29,319)**	**6,347**	**(22,972)**	13,779	(4,494)	9,285

Consolidated cash flow statement

in thousand €	2018[1]	2017[1]
Cash flow from operating activities		
Operating profit (loss) from continued operations	**(23,687)**	15,728
Operating loss from discontinued operations	**(4,198)**	(1,303)
Net finance costs	**(1,604)**	(406)
Income tax paid	**(145)**	(8,865)
Depreciation and amortisation	**17,745**	12,847
Costs share-based compensation	**83**	268
Movements in:		
– Inventories	**10,018**	(3,813)
– Receivables	**426**	309
– Provisions	**959**	(154)
– Current liabilities (excl. credit institutions)	**385**	1,179
– Other	**36**	(104)
	18	15,686
Cash flow from investing activities		
Additions to (in)tangible assets	**(17,328)**	(21,384)
Disposals of (in)tangible assets	**524**	207
Changes in non-current receivables	**432**	134
	(16,372)	(21,043)
Cash flow from financing activities		
Dividend paid	**(659)**	(16,247)
	(659)	(16,247)
Change in net cash and cash equivalents	**(17,013)**	(21,604)
Net cash and cash equivalents at the beginning of the financial year	**188**	21,792
Net cash and cash equivalents at the end of the financial year	**(16,825)**	188

1 The cash flow statement above includes the cash flows from continued and discontinued operations.

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Consolidated statement of changes in equity

in thousand €	Total	Issued share capital	Share premium reserve	Revaluation reserve	Reserve for currency translation	Other reserves	Retained earnings
Balance on 1 Jan 2017	**76,878**	**439**	**18,434**	**2,812**	**913**	**35,265**	**19,015**
Net profit 2017	9,525	-	-	-	-	-	9,525
Other components of comprehensive income 2017	(240)	-	-	-	(240)	-	-
Profit appropriation 2016	-	-	-	-	-	19,015	(19,015)
Final dividend 2016	(8,782)	-	-	-	-	(8,782)	-
Interim dividend 2017	(7,465)	-	-	-	-	(7,465)	-
Transfer to other reserves	-	-	-	(15)	-	15	-
Costs of share-based compensation	268	-	-	-	-	268	-
Balance on 31 Dec 2017	**70,184**	**439**	**18,434**	**2,797**	**673**	**38,316**	**9,525**
Net loss 2018	(23,250)	-	-	-	-	-	(23,250)
Other components of comprehensive income 2018	278	-	-	403	(125)	-	-
Profit appropriation 2017	-	-	-	-	-	9,525	(9,525)
Final dividend 2017	(659)	-	-	-	-	(659)	-
Costs of share-based compensation	83	-	-	-	-	83	-
Balance on 31 Dec 2018	**46,636**	**439**	**18,434**	**3,200**	**548**	**47,265**	**(23,250)**