European Lingerie Group AB publishes 9 Months and Third Quarter Report for 2019

European Lingerie Group AB ("ELG" or the “Group”) publishes unaudited 9 Months and Third Quarter Report for 2019 (January 1 – September 30, 2019), including pro forma and condensed interim financial statements and reports a financial covenant breach under the terms and conditions for its bond (the "Bond Terms and Conditions") for the reference period ending on 30 September 2019.

ELG announces that there is a transfer of functions plan in place in order to increase the financial results of certain Group companies and to reach an agreement with the bondholders.

ELG also announces its intention to initiate a written procedure under the Bond Terms and Conditions to waive the financial covenant breach and to amend the Bond Terms and Conditions to make possible the contemplated restructuring plan of the Group and to ensure that it will be complying with the provisions under the Bond Terms and Conditions going forward (the "Proposal").

ELG finally announces that Bondholders representing over 50% of the outstanding bonds under the Bond Terms and Conditions have notified ELG that they will vote in favour of the Proposal.

The performance of the Group has been close to the required covenant level as per the Bond Terms and Conditions throughout the year. In Q3 2019 the Group’s sales decreased by 9.3% and this is related to the continued trend of close-down of small retail stores in Europe as well as some shift of revenue from Q3 to Q4 2019. Furthermore, change in accounting estimates made back in Q3 2018 resulted in a weaker profitability of the reporting quarter in comparison with the same period prior year and also negatively impacted the rolling EBITDA as at 30 September 2019. As a result, the overall rolling EBITDA level was EUR 9,323 thousand, the Debt/EBITDA covenant at the level of 4.8 times, exceeding the maximum threshold of 4.25 times allowed by the Bond Terms and Conditions. The Group is, therefore, in breach with the financial covenant under the Bond Terms and Conditions.

“We realize the situation; we are working on the solution and have taken the necessary measures in terms of both – seeking the agreement with the bondholders as well as the improvement of the underlying performance of the Group. Following discussions with the largest bondholders we have been notified by them that they will vote in fovour of amending the Bond Terms and Conditions and granting a waiver for Q3 2019 covenant non-compliance in the written procedure which is to be initiated shortly. We expect to resolve the situation in a prompt manner and will continue to update on the development of the situation,” commented Mr. Indrek Rahumaa, CEO and Board member of the Group.

“Due to the dropped profitability, the Group has prepared an action plan with specific measures aimed at the recovery of the initial profitability in order to have a sustainable business model for the medium and long-term. The measures are planned to be initiated following the approval of the bondholders,” noted Mr. Rahumaa.

As disclosed in previous quarters, 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, Felina 1885 and also Felina swimwear, have started bringing good volumes. The contribution of these new products to total sales is observable in Q4 2019 and will continue with increasing pace throughout Q4 2019 and into 2020.As the transformation of the retail channels in Southern and Central Europe still continues and the economy is slowing down in most European markets, which limits the recovery speed to some extent, the sales results of Q3 2019 for European Lingerie Group were lower than previous year. Additional temporary reduction in the lingerie segment revenue in Q3 2019 was a result of delays in shipments, which shifted part of the revenue to Q4 2019.

The Group’s sales amounted to EUR 58,867 thousand in 9 months 2019 (Q3 2019: EUR 18,882 thousand), representing a 0.5% decrease as compared to pro forma sales of 9 months 2018 (9.3% decrease to pro forma sales of Q3 2018). In 9 months 2019, the decrease in sales was a result of the decrease in lingerie segment, while textiles were slightly above last year. Q3 2019 sales demonstrated a decrease in both segments which is expected to be partially recovered in Q4 2019. The continuing decrease in revenue is explained mainly by the general economic slow-down in the Western Europe and poor performance of the lingerie retail sector. Additional temporary reduction in the lingerie segment revenue in Q3 2019 was a result of delays in shipments, which shifted to Q4 2019.

Profitability margins in 9 months 2019 and Q3 2019 are better than in the previous two quarters, though below the previous year which is explained by a change in the accounting estimate for write downs of finished goods in Q3 2018, which boosted the performance in Q3 2018 at the expense of other quarters, resulting in a weaker Q3 2019 in comparison. The change in the accounting estimate for write downs of finished goods was made in order to be in line with the historical statistics on write downs and net realisable values. The recalculation included the impact of the reported quarter and all previous periods and was recognised prospectively in the period of the change in accordance with IAS 8.

Normalised EBITDA in 9 months 2019 amounted to EUR 7,619 thousand (Q3 2019: EUR 2,991 thousand) and decreased by 13.3% compared to pro forma normalised EBITDA in 9 months 2018 (28.5% decrease to pro forma normalised EBITDA for Q3 2018). Normalised EBITDA margin in 9 months 2019 and 9 months 2018 was 12.9% and 14.8% respectively (Q3 2019 and Q3 2018: 15.8% and 20.1% respectively). Normalised net profit in 9 months 2019 amounted to EUR 1,085 thousand (Q3 2019: EUR 660 thousand), compared to pro forma normalised net profit of EUR 1,567 thousand in 9 months 2018 (Q3 2018: EUR 1,673 thousand). Normalised net pro t margin in 9 months 2019 and 9 months 2018 was 1.8% and 2.6% respectively (3.5% and 8.0% in Q3 2019 and Q3 2018 respectively).

At the end of 2018 the Group had fulfilled the second step of the Group structure simplification, during which the shareholding in all the Felina group companies was transferred from Felina International AG to E|L|B GmbH (with the exception of Felina Hungaria Kft (HU), which was transferred to

SIA European Lingerie Group) and Felina France S.a.r.l. (FR), which was transferred to European Lingerie Group AB). Said changes were also made public by the Group.

In order for the Group to increase its profitability, further measures of its operations are required. It is therefore contemplated to relocate certain functions within the Group.

ELG intends to initiate a written procedure under the Bond Terms and Conditions to approve the Proposal.

Bondholders representing o ver 50% of the outstanding bonds have notified ELG that they will vote in favour of the Proposal in a written procedure.

According to the Bond Terms and Conditions the adoption of the Proposal would require that at least 2/3 of the votes submitted and it is therefore our belief that the Proposal will we approved by the bondholders.

The Proposal can be summarized as follows:

- a waiver of the financial covenant breach described above for the reference period ending on 30 September 2019;

- certain amendments to the Bond Terms and Conditions to enable the restructuring of the Group as described above;

- increasing the allowed ratio under the financial covenant test (i.e. Net Interest Bearing Debt to EBITDA) to avoid future financial covenant breaches;

- capital injections (by way of equity and/or subordinated debt) shall be made to the Issuer of not less than EUR 7,300,000 of which EUR 1,300,000 shall be made on the date the Bond Terms and Conditions are amended and applied against general corporate purposes and EUR 6,000,000 shall be made no later than 31 May 2020 and applied against redemption of the Bonds;

- additional security to be provided over certain trademarks and the shares in certain Group companies.

European Lingerie Group AB 9 Months and Third Quarter Report of 2019 and the presentation of the report are available here:

https://www.elg-corporate.com/uploads/2019/12/ELG_9M_Q3_2019_presentation.pdf
https://www.elg-corporate.com/uploads/2019/12/elg_q3_2019_reportA4_ver6.pdf

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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 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.***