

"Karlsson"

Annual Report
2017

Report of the Management Board

General

Each country put Beter Bed Holding's adopted strategy 'From Good to Great 2016-2020' into practice with varying success in 2017. The central themes of this strategy are: customer satisfaction, retail marketing, further development of the omnichannel proposition, innovation and acceleration in the logistics chain.

Beter Bed Holding's strategy centres on achieving long-term value creation by seeking to gain market leadership in all the countries in which the group operates. It seeks to achieve this position based on the omnichannel principle, a focus on service, a strong private label brand portfolio and up-to-date and modern stores.

Beter Bed Benelux and Beddenreus continued the positive development of 2016 and saw their revenue, margin and operating profit improve further. This success could be achieved thanks to a range of commercial activities coupled with a substantial acceleration in the logistics chain. The organisation has now been completely aligned to the demands placed on a modern omnichannel retailer and as a result can now expressly lay claim to its position in the bedroom furniture sector. Beter Bed has succeeded in further developing its leading position in the highly competitive Dutch market. A high level of consumer confidence and effective realisation of the strategy went hand in hand in this endeavour. The further development of the online proposition also contributes to long-term value creation.

The revenue of Beter Bed Benelux rose by 8.8%, with revenue increasing further in both the Netherlands and Belgium. Revenue also rose at Beddenreus in the Netherlands. The group continues to seek expansion of the number of Beter Bed stores in Belgium and Beddenreus stores in the Netherlands.



The formats in Germany, Austria and Switzerland had a difficult year in 2017. While in Germany a limited recovery of revenue compared to the trend in 2016 could be seen in the first six months of 2017, revenue in the third and fourth quarter trailed far behind, primarily due to a lower number of visitors. A similar pattern could be discerned in Austria and Switzerland. The demand for box springs is growing in the German bed and mattress market. In addition, the share of the pure players at the bottom of the market is increasing. In 2017, Matratzen Concord took steps forward in both areas en route to gaining a fair share.

The decrease in the fourth quarter was due primarily to supplier-related problems and the ensuing negative publicity that dissuaded consumers from deciding to buy a mattress. Nonetheless a number of key steps towards making the format more contemporary were taken. In addition to the refurbishment of many of the stores, these steps included the implementation of the new e-commerce platform and the introduction of box springs. The management was also changed at multiple positions.

Spain was able to sustain the growth in revenue, despite the number of stores being slightly lower at year-end. Revenue rose by 5.6%.

The development of the Sängjätten format in Sweden acquired in 2016 was extremely positive, which resulted in a positive contribution margin in the last quarter of 2017. The conversion of the format into the Beter Bed format and the introduction of its own brand portfolio formed the foundation for this success.

The conclusion had to be reached in the summer of 2017 that profitable operation of the format Literie Concorde in the south of France in the short to medium term was unlikely. It was consequently decided to close the format and the closure was effected at the end of 2017.

In summary, the group realised revenue of € 416.4 million in 2017, which represents an increase of € 5.9 million (1.5%) compared to the previous year. Growth in revenue in comparable stores amounted to -0.4%.

	2017	2016	Change
Revenue (in € million)	416.4	410.5	1.5%
Gross profit (in € million)	239.5	237.1	1.0%
EBITDA (in € million)	27.5	37.5	-26.8%
Net profit (in € million)	9.5	19.0	-49.9%
Number of stores	1,188	1,206	-1.5%
Number of employees (FTE)	2,849	2,765	3.0%

Gross profit decreased slightly and amounted to 57.5% (2016: 57.8%). The decrease was caused primarily by the increased share of box springs and bed textiles in the revenue. This was countered by improved purchasing conditions, an adjustment in the sales mix and range and product innovation.

Total expenses rose with € 14.0 million to € 225.1 million. This increase was caused mainly by higher marketing costs, the expansion of the omnichannel organisation and the further professionalisation of the different back office departments. In addition, the amortisation costs increased chiefly due to investments in the refurbishment of stores in Germany. Increased revenue at Beter Bed Benelux was accompanied by higher logistics expenses. An amount of approximately € 2 million has also been appropriated for restructuring.

Operating profit decreased by 44.6% to € 14.4 million in 2017 (2016: € 26.0 million). EBITDA as a percentage of revenue decreased to 6.6% (2016: 9.1%). Net profit amounted to € 9.5 million (2016: € 19.0 million); a decrease of 49.9%.

The number of stores decreased by 18 in 2017. The group operated 1,188 stores in seven countries at the end of 2017.

Investment, financing and cash flow

Total investments amounted to € 21.4 million in 2017. A total of € 14.8 million was invested in new and existing stores. The largest investments were made in the refurbishment of Matratzen Concord. Substantial investments were also again made in the omnichannel infrastructure (e-commerce and web shops).

Cash flow¹ amounted to € 22.6 million in 2017 (2016: € 30.5 million). Solvency remained high, but decreased to 44.8% (2016: 53.5%). This decrease is mainly attributable to the use of the facilities within the cash pool structure.

The net interest-bearing debt/EBITDA ratio at year-end 2017 was zero (2016: zero).

Net working capital² decreased in 2017. The change compared with 2016 has several effects and is due, on the one hand, to the higher inventory value resulting from the addition of box springs to the range in the German-speaking countries and the receivables in connection with prepaid corporate tax. On the other hand, amounts owed to credit institutions increased due to the use of the facilities within the cash pool structure.

¹ Net profit plus depreciation, amortisation, impairments and carrying amount of disposals.

² Total current assets less current liabilities.

Matratzen Concord is a pan-European 'Fach Discount' format that primarily serves the replacement market and focuses on the sales of principally mattresses, bed bases, box springs and bed textiles. The chain has 999 stores in three countries (Germany, Switzerland and Austria). While the stores have traditionally been located near consumers in and around city centres, they are increasingly also located in retail parks.

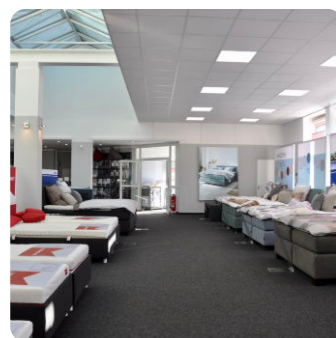
	2017	2016	Change
Revenue (x € 1,000)	243,213	257,029	-5.4%
Number of stores	999	1,004	-0.5%
Number of employees (FTE)	1,925	1,895	1.6%

Revenue in comparable stores decreased at Matratzen Concord by 6.0%, while total revenue in 2017 decreased by 5.4%. This decrease occurred primarily in Germany. German consumers' lower propensity to buy led to a lower number of visitors.

The range was restructured in the second half of 2017, which created space in the stores that could be used to offer a wider selection of box springs. In addition, the process of refurbishing the stores was continued in Germany. All of the stores in Germany will be modernised within three years, with the refurbishment of the last stores being completed in 2018. The same modernisation is taking place in Austria and Switzerland.

46 stores were opened and 51 stores were closed in the year under review.

www.matratzen-concord.de
www.matratzen-concord.at
www.matratzen-concord.ch



Beter Bed is a full-service format of bedroom furniture showrooms in the mid-segment of the market with an outstanding price-quality ratio. Customers order the items in the store or on the website and most of these items are then delivered to and assembled at the customers' homes free of charge. The stores are located in the Benelux, preferably on furniture boulevards or in the vicinity of other furniture stores.

	2017	2016	Change
Revenue (x € 1,000)	133,258	122,430	8.8%
Number of stores	95	100	-5.0%
Number of employees (FTE)	663	612	8.3%

Revenue of Beter Bed increased by 8.8% to € 133.3 million in 2017. This means Beter Bed achieved the highest revenue in its history for the second successive year. The increase is partly due to the continuing high level of consumer confidence and the favourable housing market. Continuous adjustments to the ranges and the high level of service in the stores also contribute to the growth in revenue.

The share of online sales grew further in 2017 to 7.8% of the revenue (2016: 6.2%).

The order intake in comparable stores in 2017 rose by 7.2%.

www.beterbed.nl
www.beterbed.be





Beddenreus is a format in the discount segment of the Dutch market. The stores are located in the Netherlands, predominantly on furniture boulevards.

	2017	2016	Change
Revenue (x € 1,000)	14,594	11,635	25.4%
Number of stores	33	33	0.0%
Number of employees (FTE)	77	74	4.1%

Beddenreus was able to sustain its strong revenue performance in 2017. The contemporary format appeals to a specific target group who appreciate the range and look and feel of the store. The like-for-like order intake rose by 21.2% in 2017. Online revenue as a percentage of total revenue rose to 5.7% (2016: 4.3%).

www.beddenreus.nl



Sängjätten is a full-service format in the Swedish market, comparable to Beter Bed. There are a total of 25 stores, of which 9 are franchises. The company was added to the group in June 2016. The new Sängjätten look and feel was introduced in late 2016, followed by the introduction of the new ranges from the second quarter of 2017. This resulted in a significant rise in the order intake.

	2017	2016	Change
Revenue (x € 1,000)	11,606	4,966	133.7%
Number of stores	16	16	0.0%
Number of employees (FTE)	71	52	36.5%

Three stores will be acquired from franchisees in 2018. This is one reason why the number of stores will likely rise to above 20 in 2018. In the course of 2018, the other franchisees will continue to operate individually and under their own name and will no longer be part of Sängjätten.

www.sangjatten.se

El Gigante del Colchón is the format for the Spanish market. The location strategy and the look and feel of the stores are comparable to those of Matratzen Concord. The format is now being upgraded as the economy in Spain currently provides scope for this.

	2017	2016	Change
Revenue (x € 1,000)	7,641	7,234	5.6%
Number of stores	45	48	-6.3%
Number of employees (FTE)	73	80	-8.8%

Growth in revenue in comparable stores decreased by 5.0%. The net number of stores decreased by three in 2017. The process of modernising the number of stores and making changes to the range was begun in the fourth quarter of 2017. The group expects to once again see an increase in the number of stores in 2018 and the following years.

www.gigantedelcolchon.com



DBC International (Dutch Bedding Company) is the wholesale division of Beter Bed Holding. A range of items including mattresses is being developed under the name M line and marketed via an international dealer network, via a select group of Beter Bed and Matratzen Concord stores and via El Gigante del Colchón and Sängjätten. DBC International delivers its products to clients in the Netherlands, Germany, Spain, Belgium, Austria, Switzerland and Sweden.

	2017	2016	Change
Revenue (x € 1,000)	15,805	16,999	-7.0%
Number of employees (FTE)	7	8	-12.5%

The revenue of DBC International decreased in 2017. This is primarily due to the discontinued alliance with Dreams in the United Kingdom.

www.mline.nl



Staff, organisation and culture

The group had 2,849 employees (FTE) on 31 December 2017. There were 2,765 employees at year-end 2016. The increase was caused primarily by higher staffing levels on the store floor, growth in the number of logistics employees and the expansion of the omnichannel activities of the group as a whole.

The quality of the services and our employees' focus on service largely determine the success of the retail formats of Beter Bed Holding N.V. A customer-friendly approach, a first-time-right and a KPI-focussed attitude, and speed of delivery are crucial for our reputation and the results. This is why we continuously focus attention on the training and development of our employees in both the commercial and operational fields. The 360° assessments were elaborated further in the Benelux in 2017.



Both the logistics and the sales staff are given training with respect to product knowledge and behaviour. In addition, employees are given scope to complete individual training and educational programs when necessary.

Management positions are filled with local employees in all countries. The company furthermore aims to have a larger number of women in management positions. The organisation had twelve women (39%) in top management positions on 31 December 2017 (2016: 29%).

The Management Board expressly attaches importance to open and honest communications within the group. The 'tone at the top' is crucial in this regard. The organisation's current structure guarantees short lines of communication and transparency. The core values of the culture have been established in the Code of Conduct and can be described by the terms customer focus (internal and external), experimentation, ownership and collaboration.

Risk management and risks

General

The following general control measures are in place at Beter Bed Holding to manage risks:

The organisation applies a matrix that describes the risks, their financial and other impact, the probability of their occurrence, the control measures and the actions to be taken. This matrix is updated and discussed in the Audit Committee twice a year and the key points are reported to the Supervisory Board. The risks are classified in the categories Financial, Operational, Board and Management, Legal, Social, Information and Tax.

Risk appetite

Beter Bed Holding operates in the European bed and mattress segment. Beter Bed Holding's risk appetite is based on a strong operating cash flow, a healthy balance sheet without external financing and carefully considered financial management. Although the company's daily operations involve taking risks, Beter Bed Holding adopts a carefully considered and balanced approach to those risks. More information about the risk appetite in the various categories defined by Beter Bed Holding is explained below.

The opportunities and threats identified by Beter Bed Holding for the group as a whole and for the individual companies in economic, strategic and commercial terms are determined in the annual budget cycle. The budget drawn up by the Management Board of Beter Bed Holding is discussed with and approved by the Supervisory Board.

All business units (in the Netherlands and abroad) report monthly to the group on the financial results (revenue, margin, expenses and operating profit) and the financial position. The Beter Bed Holding Management Board discusses these reports in monthly meetings held with the various management teams, an approach which provides for direct monitoring of the various operations. Endeavours are made to achieve a high degree of uniformity in the various reports to enhance their effectiveness. The administrative and accounting records of the operations are maintained in the SAP (ERP) environment implemented in the organisation several years ago.

In addition, Beter Bed Holding established an Internal Audit Function (IAF) in 2017. The IAF has been placed externally and is therefore an independent and objective body with the aim of contributing to the further professionalisation of the entire organisation (in accordance with the [Internal Audit Charter](#)). From a risk management perspective, the IAF is qualified as the '3rd line of defence', after the '1st line of defence' of operational management and the '2nd line of defence' of the internal control structure. The IAF's findings are discussed with the Management Board and the Audit Committee.

The external auditor (4th line of defence) reviews the Administrative Organisation and Internal Control (AO/IC) during the annual audit of the financial statements. The audit findings are discussed by the external auditor with both the Management Board and the Supervisory Board, also in the absence of the Management Board.

The principal risks for Beter Bed Holding and its affiliated operating companies are as follows:

The **financial strategic** risks relate to the failure to achieve revenue due to the entry of new competitors, the introduction of new products, brands and revenue models. The positioning, product range, pricing and service level of the formats in their own markets are continually refined on the basis of frequent, extensive and thorough consumer research, market information and competition analysis. The company also follows a proactive omnichannel strategy that has been elaborated and tailored to consumers' wishes in each country. This strategy allocates an express role to the stores in combination with own online webshops and strategic web partners whenever possible. The [risks](#) section of the general notes to the financial statements gives further information on a number of specific financial risks associated with the normal business operations.

The company identifies **operational strategic** risks with respect to supplier side consolidation, which could jeopardise margins and supplies. To mitigate this risk, internal agreements are in place on the maximum share in revenue that an individual supplier can have within the group. In addition, regular consultation takes

place at the highest executive level (Management Board) with the principal suppliers. The organisation also applies an extensive system of supplier management, enabling continuous monitoring of the performance of individual suppliers and early identification of indications of potential problems at suppliers. Moreover, the product range sourced from any one supplier can in principle be transferred to another supplier within an acceptable timeframe.

Legal strategic risks relate to non-compliance with legislation and regulations in various fields, including product liability, consumer protection and reporting. These risks are mitigated by systematically requesting advice from experts with relevant knowledge, including legal specialists, tax specialists, accountants and competent authorities. In addition, audits are conducted at regular intervals. Beter Bed Holding is not prepared to take risks relating to non-compliance with legislation and regulations.

The **social strategic** risks primarily relate to damage to the company's image and reputation as a result of defective products or irresponsible actions in a broader sense. It should be noted that the formats do not manufacture products for the product range. Control systems ensure that products meet the applicable requirements. Beter Bed Holding accepts no risks with regard to product safety. In October 2017, the group was confronted with potentially contaminated mattresses, because the supplier had supplied a contaminated raw material to foam manufacturers. Deliveries of foam mattresses were discontinued immediately after this became known. It was established within a few days, on the basis of our own review and reviews in the industry, that no contamination had occurred and deliveries were resumed. Consumers' safety had not been at risk at any time. Following this event, further measures were taken in order to prevent the risk of any reoccurrence of this type of incident. The organisation has adopted codes of conduct in various fields to ensure responsible conduct. The corporate culture, in which integrity and ethical business conduct are core values, makes a significant contribution to the mitigation of risks. The company has also adopted a whistleblowers policy.

The main operational risks relate to the availability of **information** systems that support the primary processes and the availability of the logistics facilities. These risks are managed by designing the IT architecture in a manner that ensures that the cash register systems can operate standalone and that backups can continually be made of the data of all back-office systems, in turn ensuring that the external IT infrastructure will be operational within the timeframe required for continuity purposes in the event of an emergency. System integrity is monitored by applying a clear release policy and strict change management procedures. Beter Bed Holding continued to take measures in 2017 in cooperation with external parties to further optimise digital security in the broadest sense of the term and lift it to a higher level. The logistics risks relate largely to the situation in the Netherlands, where three distribution centres (DCs) are in operation. Should an emergency occur at one of these DCs then the other two can serve as backups. Each DC also has an individual business continuity plan.

Tax

Beter Bed Holding has adopted explicit tax principles. The main principles are that Beter Bed Holding maintains an open relationship with the tax authorities in the countries in which it operates, agrees on tax rulings solely to confirm the correct interpretation (and application) of the tax rules and tax laws and does not adopt (abnormal) tax arrangements focused exclusively on tax avoidance. Beter Bed Holding has signed a compliance agreement with the Dutch Tax and Customs Administration within the context of 'horizontal monitoring'. This ensures that any tax issues are discussed openly and on the basis of full transparency. The Management Board reports twice a year on relevant tax issues to the Audit Committee.

Independent auditor's report

The independent auditor assesses the internal control measures relating to the financial statements to the extent required for an efficient and effective audit approach. He reports his findings to the Management Board and to the Supervisory Board in his management letter and his independent auditor's report, respectively.

In control statement

Based on the aforementioned and considering the limitations inevitably associated with any internal risk management and control systems, the company's systems provide the Management Board with a reasonable degree of security with regard to financial risks that the financial statements do not contain any material misstatements and that the annual report gives a true and fair view of the situation on the balance sheet date and the developments during the year under review. These risk management and control systems operated properly during the year under review, and there are no indications that this situation should change in the current year. With regard to the other risks, the company maintains a risk management and control system adapted to the company's size, which also performed adequately during the year under review.

True and fair view statement

The Management Board declares that, to the best of its knowledge, the annual report provides a true and fair view of the situation on the balance sheet date, developments during the financial year of Beter Bed Holding N.V. and those of its affiliates whose details are included in its financial statements, along with expected developments, with regard to which special attention is paid to investments and conditions on which developments of revenue and profitability depend, unless this conflicts with vital interests. The Management Board also declares that, to the best of its knowledge, the financial statements provide a true and fair view of the assets, liabilities, financial position at the balance sheet date and the result of Beter Bed Holding N.V. and the companies included in the consolidation of the financial year.



Expectations and outlook

Economic developments remain favourable in the countries in which the group operates. As was the case in 2017, the outlook for the current financial year will be determined primarily by the degree to which revenue recovers in the German-speaking markets (more than 50% of the group revenue). The introduction of a renewed marketing campaign, the availability of a sufficient range of box springs and the completion of the refurbishment of the stores must enable Matratzen Concord to strengthen its position in the market under new management.

The group continues to pursue in full the objectives set out in the strategic plan 'From Good to Great 2016-2020', with the primary focus being on maximising customer satisfaction within an omnichannel environment. As part of this undertaking, the group furthermore aims to gain market leadership in the various markets through mainly like-for-like growth in revenue and expansion.

Uden, the Netherlands, 1 March 2018

B.F. Koops,
CFO