Beter Bed Holding

HARD AT WORK ON A GOOD NIGHT'S REST

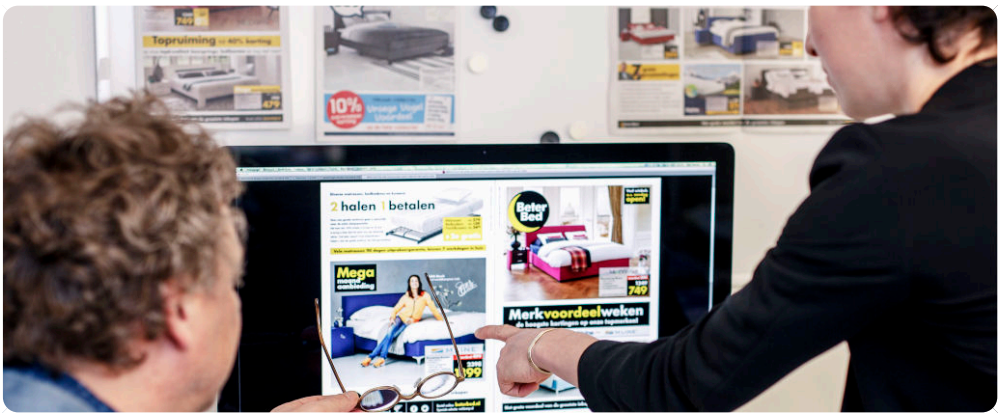
ANNUAL REPORT 2014

REPORT OF THE MANAGEMENT BOARD

GENERAL

Beter Bed Holding N.V. was able to benefit from a recovering market in nearly all the countries in which it operates. The Netherlands and Germany, in particular, experienced a clear recovery in revenue. Austria also showed excellent development and growth continued in Belgium and Spain. Switzerland was the only country that posted decreasing revenue. The measures in the field of positioning, margin improvement, cost savings and customer satisfaction that have been taken over the past two years in anticipation of a market recovery produced results.

The organisation's strategic decision to strengthen its purchasing, e-commerce and customer service have contributed to the positive development and led to the desired like-for-like growth in revenue. All things considered, we can conclude that in 2014 the organisation once again took good steps forward in the development of a modern omni-channel retail formula.



There was a sluggish recovery in consumer confidence in the Netherlands in 2014. Revenue in the Netherlands decreased by 5.0%, chiefly due to the closure of several formulas as stated below. The revenue of Beter Bed in the Netherlands rose by 0.5%, mainly as a result of higher conversion.

The Slaapgenoten, Matrassen Concord Netherlands and Matrassen Concord Belgium formulas were discontinued in 2014. This ultimately resulted in the closures of 32 stores in 2014.

As part of the strategy of strengthening the formula's positioning, the process of remodelling the Bed Bed stores was undertaken in 2014. This resulted in 45 stores having been remodelled by the end of the year. These stores now feature a modern and contemporary interior design and image to create stores in which consumers feel comfortable and in which the product range is presented in a more attractive fashion. The remaining stores will be remodelled in 2015.

The Beddenreus formula is set to undergo a similar process. The first pilot stores have been opened and, providing these pilots are concluded successfully, a plan for remodelling the Beddenreus stores will be put into action.

Consumers' propensity to buy in the home and bedroom furnishings segment in Germany rose in the course of the second quarter of 2014. Due in part to targeted marketing activities and improvements to the product range, Matratzen Concord was able to benefit from this trend, which resulted in an increase in market share. Revenue in 2014 ultimately turned out

to be 6.0% higher than last year, which represents a 5.6% increase based on revenue performance at comparable stores. Revenue developed positively for the second consecutive year at Matratzen Concord Austria (+ 13.3%) and Beter Bed Belgium (+ 158.6%). The recovery in revenue also continued in Spain (following the restructuring in 2013). Revenue at comparable stores rose by no less than 15.7%. Only Switzerland continued to lag behind in terms of revenue performance with a negative like-for-like of 5.0%. In summary, the group consequently achieved revenue of € 364.0 million in 2014, which amounts to an increase of 1.8% compared to last year and like-for-like growth of 4.8%.

	2014	2013	Change
Revenue (in € million)	**364.0**	357.4	1.8%
Operating profit (in € million)	**23.0**	12.3	87.6%
Net profit (in € million)	**16.9**	8.2	105.7%
Number of stores	**1,127**	1,175	-4.1%
Number of employees (FTE)	**2,369**	2,420	-2.1%

Gross profit rose from 56.9% in 2013 to 57.3% in 2014. This was achieved, as it was in 2013, through a combination of improved purchasing conditions, higher volumes, year-end bonuses, a (limited) change to the sales mix and increases in prices where possible and well considered.

Average expenses per store rose by 1.2% owing to a substantial increase in marketing spending on the one hand and the closure of a relatively large number of small stores with low expense levels on the other. The underlying trend of stringently controlling the development of expenses will be continued unabated. Operating profit rose by 87.6% in 2014 to € 23.0 million (2013: € 12.3 million). Operating profit as a percentage of revenue increased from 3.4% to 6.3%. Net profit rose to € 16.9 million in 2014 (2013: € 8.2 million), which equals an increase of 105.7%.

An average of 111 stores were closed and 63 stores was opened during the year under review. These closures include 32 stores that were closed due to the discontinuation of the Slaapgenoten, Matrassen Concord Netherlands and Matrassen Concord Belgium formulas. The other closures were due to location improvements or inadequate financial performance.

INVESTMENTS, FINANCING AND CASH FLOW

Total investments in 2014 stood at € 13.2 million; € 8.0 million higher than in 2013. This increase is connected primarily with the remodelling (of part) of the Beter Bed stores. A total of € 10.8 million was invested in new and existing stores. Investments were made in IT (e-commerce/webshops) and logistics. The cash flow (net profit plus depreciation) amounted to € 25.1 million in 2014 (2013: € 18.2 million). Solvency at the end of 2014 was 58.6% (2013: 56.6%). At the end of 2014, the ratio between net interest-bearing debt and EBITDA was 0 (end 2013: 0.22). The € 10.0 million loan taken mid-2009 was repaid in full in June 2014. The reduction of the net working capital, which began in 2013, was continued in 2014. The reduction in 2014 was largely achieved by reducing inventories by € 2.1 million on the one hand and on the other by increasing accounts payable and other debts by € 8.8 million and € 3.0 million respectively.

Matratzen Concord is a pan-European (primarily cash & carry) formula that serves the replacement market and specialises in the sale of primarily mattresses, bed bases and bed textiles to consumers. The chain operates 966 stores in three countries. The stores are located mainly near consumers at so-called C locations or in the vicinity of city centres.

	2014	2013	Change
Revenue (x € 1.000)	**249,137**	238,407	4.5%
Number of stores	**966**	1,002	-3.6%
Number of employees (FTE)	**1,724**	1,775	-2.9%

Revenue at comparable stores rose at Matratzen Concord by 5.1%, while total revenue increased by 4.5% in 2014. The rise that began in mid-2014 is primarily visible in Germany and Austria and has been achieved in part through targeted marketing campaigns in combination with a higher propensity to buy among consumers. An initial pilot of an updated version of the tried-and-tested Matratzen Concord concept was commenced in Germany in 2014. The key values of this concept will be retained, but will be adapted to a more modern approach.

A total of 38 stores were opened and 74 stores were closed in the year under review. Seven of the closures were due to location improvements. While online revenue rose sharply, the amount remains modest.

The stores of the Matrassen Concord Netherlands and Matrassen Concord Belgium formulas (a total of 23) were closed in 2014.

Beter Bed is a full-service formula of bedroom furniture showrooms operating in the middle end of the market and providing excellent value for money. Consumers order items in the store or on the website, after which they are delivered to their home and assembled there. The stores are located in the Benelux, preferably at 'furniture boulevards' or in the vicinity of other home furnishing stores.

	2014	2013	Change
Revenue (x € 1,000)	**91,327**	89,481	2.1%
Number of stores	**94**	92	2.2%
Number of employees (FTE)	**499**	482	3.5%

Beter Bed's revenue increased by 2.1% in 2014 to € 91.3 million. This rise is due to growing consumer confidence, the recovering housing market and the successful remodelling of the Beter Bed brand and stores. Following a number of pilots in 2014, all Beter Bed stores are now being remodelled. A total of 45 stores had the new look and feel at year-end 2014. The remaining stores will be remodelled in 2015. The operation must be finalised in mid-2015.

Beter Bed's online sales developed positively in 2014. Its share of the revenue currently stands at approximately 5% (2013: 4.6%). A net total of two stores were opened in the year under review. Order intake in comparable stores rose by 5.3% in 2014. Total revenue increased by 2.1% in 2014 compared to 2013.

Beddenreus is a cash & carry formula in the discount segment of the Dutch market. The stores are located at B and C locations in the vicinity of 'furniture boulevards'.

	2014	2013	Change
Revenue (x € 1,000)	**10,595**	11,862	-10.7%
Number of stores	**35**	40	-12.5%
Number of employees (FTE)	**59**	61	-3.3%

A great deal of work was put into giving the Beddenreus stores a new look and feel in 2014. Three pilot stores were opened under the name BeddenreuZ that offer consumers a renewed range and a unique approach to customer service. Following the successful conclusion of the pilots, all Beddenreus stores will be remodelled.

El Gigante del Colchón changed its retail format from full service to cash & carry following a successful pilot in 2012. El Gigante del Colchón's presence in the Spanish market was subsequently scaled down according to plan to 31 stores at the end of 2013. The location policy and the store look and feel are comparable to that of Matratzen Concord.

	2014	2013	Change
Revenue (x € 1.000)	**5,472**	6,659	-17.8%
Number of stores	**32**	31	3.2%
Number of employees (FTE)	**51**	44	15.9%

El Gigante del Colchón was able to continue successfully on the course that was set in 2013. Revenue in comparable stores rose by 15.7% and a net total of one store was added to the chain. The economic climate in Spain is improving and this is creating the opportunity for selective expansion fully in line with the targets formulated in 2012. The process of making the stores more contemporary is now also underway in Spain.

M LINE®
Sleep well. Move better.

DBC International (Dutch Bedding Company) is the wholesale arm within Beter Bed Holding. It develops and markets among other things mattresses under the name M Line via an international dealer network, a select group of Beter Bed and Matratzen Concord stores and El Gigante del Colchón. DBC International supplies customers in the Netherlands, Germany, Spain, Belgium, Austria and Switzerland.

	2014	2013	Change
Revenue (x € 1.000)	**13,968**	13,365	4.5%
Number of employees (FTE)	**10**	11	-9.1%

DBC International's revenue rose in 2014, both within the dealer network and in the Beter Bed and Matratzen Concord stores. The expansion of the M Line series (2013) made a large contribution to this revenue performance.

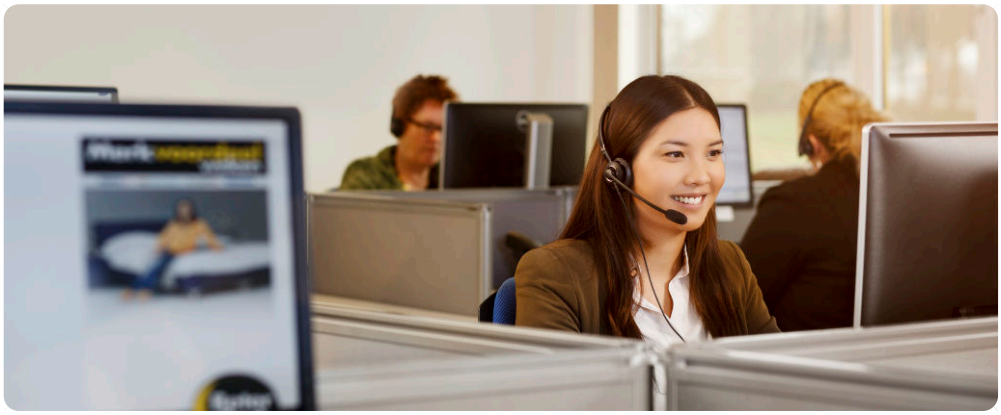
STAFF AND ORGANISATION

The group had 2,369 employees (FTEs) as of 31 December 2014, compared to 2,420 employees at year-end 2013. The decrease is attributable to the closure of the stores of Slaapgenoten, Matrassen Concord Netherlands and Matrassen Concord Belgium.

The quality of the service provided by our employees and their customer focus largely determines the success of the Beter Bed Holding N.V.'s retail formulas. This applies to both sale and logistics and equally to support services. A customer-friendly approach, a 'right the first time' attitude and speed of delivery are crucially important for our reputation and results. This is why the training and development of our employees at both the commercial and operational levels remains an ongoing focal point.

Web-based training was launched within the Beter Bed Netherlands organisation in 2014. Both the retail and the logistics organisations receive training relating to (product) knowledge and behaviour.

Management positions are filled with local personnel in all countries. Within this context, the company furthermore aims to have a larger number of women in management positions. The company currently has 27 women in management positions (22%). The target is to raise this percentage to 30% in 2016.



RISK MANAGEMENT AND RISKS

General

The following general controls 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 likelihood of their occurrence, the controls 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, Strategic/ Operational, Board and Management, Legal, Social, Information and Tax.

As part of the annual budget cycle, 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. The budget drawn up by the Management Board of Beter Bed Holding is discussed with and approved by the Supervisory Board.

All group entities (in the Netherlands and abroad) report monthly to the Group on the financial results achieved (revenue, margin, expenses and operating profit) and the financial position. These reports are discussed on a monthly basis by the Management Board of Beter Bed Holding with the various management teams, providing direct oversight of the various operating activities. Far-reaching uniformity is aimed for in the various reports to enhance their effectiveness. The administrative and accounting records for the operating activities are maintained in the SAP (ERP) environment (which has already been used for a considerable time in the organisation).

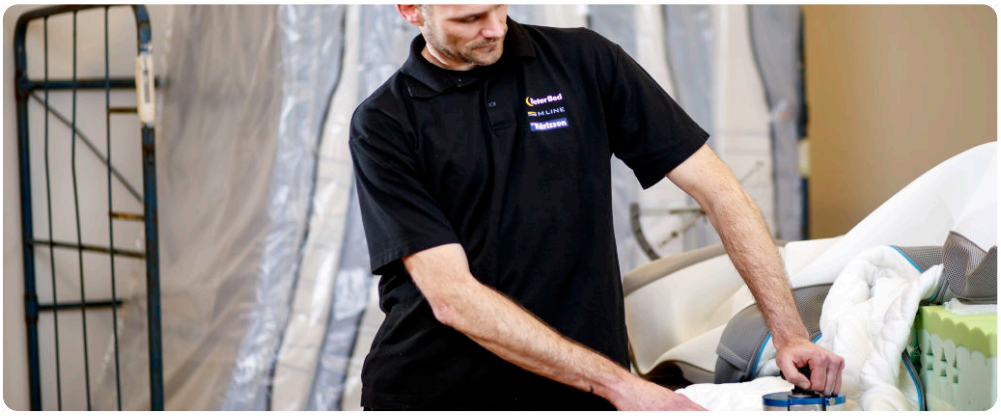
The effective operation of the accounts and internal control structure is reviewed every year by the external auditor as part of the audit of the financial statements. The audit findings are discussed by the external auditor with the Management Board, and, without the latter being present, with the Supervisory Board.

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

Financial

The main financial risk consists in failing to achieve the budgeted revenue and therefore the planned cash margins, mainly as a result of changes in consumer behaviour in response to altered economic conditions. Revenues and order intakes for each formula are reported on a daily basis to manage this risk. On a weekly basis, data on realised margins, numbers of visitors, conversion and average tickets are added to them and commented on.

On the basis of the analyses, adjustments are made in the utilisation of marketing tools, including pricing policy and the use of advertising. In addition, cost budgets are periodically reviewed and adjusted if necessary. Economic and macroeconomic information from the market, including sector-specific reports, is also utilised. Further information regarding a number of specific financial risks connected with normal business operations is provided under risks (see page 75) in the general notes of the financial statements. A sensitivity analysis with respect to these risks is also included.



Strategic/Operational

The strategic risks involve primarily the changed market and competition conditions, with the rise of new business models from an e-commerce perspective requiring express attention. Beter Bed Holding addresses this development in various ways. The positioning, product range, pricing and service level of the formulas in their own markets are continually refined based on frequent, extensive and thorough consumer research, market information and competition analysis. The company furthermore follows a proactive omni-channel strategy that has been elaborated and aligned 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.

In operational terms the potential business disruption by (strategic) suppliers constitutes a risk. 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 (CEO) with the principal suppliers. The organisation also applies an extensive system of supplier management, enabling continual 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 replaced within an acceptable timeframe.

Beter Bed encountered delivery problems in 2014 due to the fact that one supplier lost its production facilities in the floods in Bosnia. In connection with this, the supplier terms and conditions were made more stringent with respect to the alternative and fallback scenarios and insurance conditions.

Product liability is also a significant element in the group's risk profile. Although the Beter Bed Holding formulas do not manufacture products themselves, they do recognise the need for these products to meet the applicable requirements.

Accordingly, as part of our Corporate Social Responsibility, Beter Bed Holding applies strict standards in the area of supplier conduct and the share of products in the product range carried that have been subjected to stringent tests is growing from year to year.

Beter Bed (in the Netherlands) depends on its own (three) distribution centres for deliveries of goods to its customers. In the event of a calamity in one of those centres, deliveries will be handled from the other two centres. This minimises the risk of failing to make deliveries. In addition, each distribution centre has its own business continuity plan.

Information and information systems

An unavailability of core systems (cash register system, stock management and goods management systems), as well as an unavailability of reliable data (integrity) are identified as potential risk areas. To manage those risks the IT architecture has been designed to ensure that the cash register systems can operate locally (standalone) and back-ups are continually made of the data of all back-office systems, and therefore the externally located IT infrastructure will be operational within the timeframe required for continuity purposes in the event of a calamity. System integrity is monitored by applying a clear release policy and strict 'change management' procedures.

Tax

As part of 'horizontal monitoring' Beter Bed Holding has signed a compliance agreement with the Dutch Tax and Customs Administration. This ensures that any tax issues are discussed openly and on the basis of full transparency. The Management Board also reports twice a year on relevant tax issues to the Audit Committee.

Reporting by the auditor

With a view to transparency in risk assessment the company summarises the main findings of the auditor concerning risks and risk management. Ernst & Young Accountants LLP, the external auditor, reports its findings annually and these are discussed with the Management Board and the Supervisory Board. The external auditor tested, among other things, the effective operation of the internal control system and compliance with statutory and regulatory requirements, both within the framework of and insofar as relevant to the audit of the financial statements. The auditor stated that the level of internal control, including the automated systems, was the same as in 2013. The auditor also issued recommendations for improvements in the formalisation of controls with regard to the automated systems in particular. The external auditor reported that, in its opinion, the internal control system, insofar as it was examined as part of the audit of the financial statements, met the relevant requirements with a view to managing risks in the year under review.

In control statement

Based on the aforementioned and considering the limitations inevitably associated with any internal risk management and control system, the company's systems provide the Management Board with a reasonable degree of security with regard to financial risk that the financial reports 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 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 operated 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. Unless it conflicts with vital interests, a key priority is investment and the conditions on which changes in revenue and profitability depend. 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 per balance sheet date and profit of Beter Bed Holding N.V. and the companies included in the consolidation of the financial year 2014.

EXPECTATIONS AND OUTLOOK

The economic outlook remains moderately positive, as does the forecast for consumer spending. The focus remains fully on (like-for-like) growth in revenue and consequently on formula and product innovation, omni-channel e-commerce and customer satisfaction. In addition to completing the refurbishment of the Beter Bed stores, the process of rolling out updated store concepts will also commence for the other formulas following the successful conclusion of the pilots that are currently underway.

Improving margins, stringently controlling expenses and lowering net working capital will obviously continue to receive our full attention.

The company consequently expects the positive revenue trend of 2014 to continue in 2015, although in the Netherlands this will be partially dependent upon the speed of recovery of the housing market.

Uden, The Netherlands, 12 March 2015

A.H. Anbeek,
Chief Executive Officer

B.F. Koops,
Chief Financial Officer