

BeterBed  
holding



Annual Report  
2019



# Report of the Management Board

## General

2019 has been an intense year for Beter Bed Holding N.V. In this year a number of key and strategic decisions was taken and subsequently executed to ensure a strong and sustainable foundation on which Beter Bed Holding N.V. can build its future. The Management Board is fully aware that these decisions had impact on key stakeholders such as shareholders and employees, though were necessary to safeguard a future.

In the second half of 2018 Beter Bed Holding N.V. announced a mid-term strategy which included a reorganisation for Matratzen Concord. Through this reorganisation 172 stores were closed, 64 FTE were made redundant and the inventory was reduced by € 10 million. At the same time initiatives were launched to change the assortment, refine the marketing and update the visual merchandising within the stores. The reorganisation was finished in time, within budget and delivered the planned reductions in costs. The new initiatives showed some nice encouraging first results, however the results were below the envisioned and communicated plan. This had an impact on other activities within Beter Bed Holding N.V. The negative developments at Matratzen Concord, with its cash losses incurred, resulted in an increased risk exposure for the future of Beter Bed Holding N.V. The liquidity pressure and the foreseen time it would still take to recover, resulted in thorough discussions on different alternatives that led to the decision to initiate a divestment process for Matratzen Concord, which ensured a stable and prosperous future for the remaining businesses of Beter Bed Holding N.V.

Supported by various advisors, Beter Bed Holding N.V. started a well-managed process, in which 24 parties participated, to divest. Through this process and after careful consideration, the Management Board and Supervisory Board have concluded that Magical Honour Limited represented the best option to enable a bright future for Matratzen Concord. In the Extraordinary General Meeting on 26 November 2019 the proposal was accepted by 100% of the votes.



The outcome of the divestment of Matratzen Concord enables Beter Bed Holding N.V. to have more focus on and dedication for its healthy core activities, being Beter Bed Benelux, Sweden and DBC. These activities are well-positioned for growth; they can further accelerate through investments in product, marketing and technology.

Over the summer period, when the liquidity was pressured, Beter Bed Holding N.V. engaged the financing banks and three shareholders in order to ensure enough funding for the period needed for the divestment. The three shareholders provided Beter Bed Holding N.V. with an incremental loan of € 7.0 million, where at the same time the banks allowed Beter Bed Holding N.V. to continue to use the committed and uncommitted facilities. The Management Board and Supervisory Board are very grateful that the three shareholders as well as the banks were willing to provide this flexibility and funding. This enabled Beter Bed Holding N.V. to find the best solution for Matratzen Concord, the remaining activities, all employees and all other stakeholders.

Although Beter Bed Holding N.V. went through a volatile period, the Benelux business has done a tremendous job in keeping the business going. The Benelux business was able to continue to grow revenue and order intake through hard work, attractive new campaigns, new assortments, the implementation of Tempur within the collection and the development and implementation of the TNO tested circular box spring 'Element'. In 2019 the organisation in the Benelux business has further matured, a Beter Bed Academy was initiated and has gone live and a supply chain project has been conducted. Important steps have been made to further improve our online and omni-channel activities resulting in a very healthy growth again.

Our wholesale business DBC is well underway in positioning itself as a branded international wholesale business with much more content than just M line. The current DBC business showed strong sales results in 2019, mainly driven by the success of M line in both our Beter Bed network as well as with existing dealers. DBC has been able to extend the sales network with new dealers nationally and internationally.

The main drivers of this growth were a result of the adjustments in the assortment, new dealers and smart promotions. DBC has launched a M line web shop in the fourth quarter of 2019 to enable customers to purchase directly with DBC. This is just in the Netherlands for now, however in 2020 DBC plans to go live in Germany and Belgium.

The pipeline of potential new B2B customers continues to grow in the Netherlands as well as abroad. In the fourth quarter of 2019 some new product lines (M line Iconic, Olympic Team NL mattresses as well as a wooden bedframe) were developed and have been successfully released at the IMM in Cologne in January 2020.

In 2019 Sängjätten grew sales, however the Company is currently working on a program which aims to improve the profitability going forward. Main elements of that program are:

- Analysing network and develop view on possible right-sizing of the network.
- Fine-tuning the assortment through collaboration with key suppliers.
- Migration of central warehouse to a hub structure.
- Implementation of a new backoffice system to further reduce overhead.
- Further development of the online presence through the newly launched website/web shop.

# Our strategy in 2019

## Mission

As Beter Bed Holding N.V., we believe that everyone can sleep better than one does today. Better sleep makes us healthier, happier and makes us perform better. That is why we care for your sleep. As market leader we take ownership to provide better sleep. For everyone.

**Offer best QUALITY REST @ AFFORDABLE prices**

## Our customer promise

Beter Bed Holding N.V. is committed to giving all its customers a better and healthier night's rest by providing them with the right sleeping solutions. The Group does this in several countries through international retail brands, products and services.

The international retail and product brands of Beter Bed Holding N.V. have been leading the way in providing solutions in the field of sleep for more than 35 years. Next to Nutrition and Exercise the Sleep domain is gaining an increasingly more prominent role in society. Customers attach more and more value to the importance of a good night's rest. Key trends within this domain include health, happiness, lifestyle, sustainability, accessibility and affordability.

Beter Bed Holding N.V. is convinced that these consumer trends and its many years of experience with international retail and product brands provide a perfect combination for a successful future as a value-for-money player.

The Group operates via physical stores and digital platforms in the following regions:

- Benelux, via the brands Beter Bed (in the Netherlands and Belgium) and Beddenreus (only in the Netherlands).
- Sweden, via the Sängjätten brand.

Beter Bed Holding N.V. promises its customers the best quality rest at affordable prices via the channel that best suits the individual customer.

## Strategy

For over 35 years, Beter Bed Holding N.V. has been leading in providing sleep solutions. These days the sleep domain is more relevant than ever, with several consumer trends guiding changes in demand including health & well-being, lifestyle, sustainability, accessibility and affordability. However consumer feedback indicates that the current customer journey causes frustration and results in consumers taking shortcuts towards one-size-fits-all mattresses and online channels. Altogether, this creates a market where there is room for true value-for-money play. Therefore, our promise to our customers is as follows:

## Offer best **QUALITY REST** @ **AFFORDABLE** prices



## Five strategic pillars

Five strategic pillars are at the heart of our mid-term strategy, which was launched in October 2018.

### Customer focused value-for-money proposition

Our retail formats with their relevant assortment and high-quality products are for each customer segment, at guaranteed affordable prices, including new and strong brands. Research & development enables us to oversee the quality and innovativeness of the products and services we offer to our customers. By structuring our assortment into a more logical Good – Better – Best price structure, we could continue to offer 'Good' entry-level assortment and drive upsell to 'Better' & 'Best'. At the 'Better' segment with the introduction of Wave we further strengthened our private label to more than 85%. The 'Best' segment displayed strongest growth with newly added Tempur products already representing a solid percentage of mattress revenue and consequently the M line assortment has continued to grow revenue. All these improvements combined drove up average order value for Beter Bed Benelux.

### Best sleep advice

We offer the best sleep advice throughout the full customer journey to make sure every customer finds the best sleep solution and experiences true value for money. We substantially improved the in-store advice by focusing on three key elements:

- Transforming our sales people into sleep advisors.
- A more logical assortment structure to guide the customers better to the right product for them.
- Data-driven reflection on and improvement of advice performance per store and per sleep advisor.

These three elements resulted in a reduction of product returns of almost 10% for Beter Bed Benelux.

### Seamless omni-channel experience

Our ambition is to lead in offline, online and omni-channel, by providing our customers a seamless experience across channels and throughout all stages of the customer journey. We leverage our digital and online capabilities across the Group to continuously improve and to increase our online channel share.

To do so, we implemented amongst others data- and ROI-driven channel selection and media deployment (for example targeted marketing campaigns on Black Friday), we improved user experience (UX) and platform performance and added a long-tail of online-only assortment in textiles. Through these improvements, we have been able to grow the online revenue of Beter Bed Benelux with more than 20% to a channel share of approximately 11%. In addition, we have realised operational benefits with our online portal in which delivery dates can be changed by customers. This new customer feature reduced customer service calls with 30-40%.

### Strong performance culture

We strive to create a performance culture that enables us to win, lead and outcompete in our market. By improving transparency, readjusting our performance cycle and further building on our succession planning, we have a clear focus on performance. We facilitated this focus with amongst others our new employee engagement app, which is actively used by 78% of the workforce. The further expansion of the Beter Bed Academy, with employee usage of its app exceeding the benchmark by +9 ppt, shows improvements on personal development. We have been able to promote 30 of our high performers to new positions, while absenteeism is reduced by over 20%.

### Cost leadership

We aim to be a cost leader by leveraging our scale as market leader and increasing focus on spend reduction and operational excellence. Our senior management is in place to act as one team where we effectively centralise and capitalise on scale and resources. The Group provides a platform for retail operations across countries, for example for our supply chain and group services.

First results are visible in the supply chain where changes in the fourth quarter of 2019 - to provide more stability for the workforce by shifting from variable to more fixed salaries - resulted in approximately 10% less absenteeism, leading to potential 1.0-1.2 ppt savings on total labour costs for transport & warehousing. Moreover, we launched a should-costing initiative in the fourth quarter of 2019 to further renegotiate purchasing prices and to refine value chain strategies. Our IT platform has been strengthened throughout 2019 to further digitise our commercial operations in-store and online with for example improvements in Point of Sale (POS), Production Information Management (PIM) and Customer Relationship Management (CRM) systems. Our internal operations were enhanced through better descriptive and predictive analytics.

### Future vision continuing operations

Whilst the divestment process of Matratzen Concord was taking place in the second half of 2019, Beter Bed Holding N.V. initiated a project to develop a future vision. Based on this vision, the mid-term strategic plan, as presented in October 2018, has been further developed and sharpened. We assessed the expected consequences and opportunities of the divestment in order to create a renewed plan and related roadmap of implementation. The desired outcome of this plan is to build a sustainable profitable business which is growing and creating value for its stakeholders.

# Financial results

Financial results from continuing operations	2019	2018	Change
Revenue (in € million)	<b>185.8</b>	172.8	7.5%
EBIT (in € million)	<b>(0.4)</b>	4.6	(109.4)%
Net profit / (loss) from continuing operations (in € million)	<b>(4.2)</b>	6.9	(160.5)%
Number of stores at year-end	<b>161</b>	160	0.6%
Number of staff (FTE) at year-end	<b>915</b>	887	3.2%

## Revenue

Group revenue from continuing operations in 2019 was € 185.8 million, which is 7.5% higher compared to € 172.8 million in 2018, with like-for-like revenue growth of 4.7%. Both the Benelux and the New Business operations contributed to this revenue growth. The Benelux reported significant year-on-year revenue growth of 5.5%, with like-for-like revenue growth of 4.3%. New Business, comprising the DBC wholesale business and Sängjätten in Sweden, delivered year-on-year revenue growth of 25.3% with like-for-like revenue growth of 8.1%. The online activities within the Group have grown significantly at a growth rate of 27.4%. From a regional perspective 85% of 2019 revenue was generated in the Netherlands (2018: 87%), 6% in Belgium (2018: 5%) and 9% in Sweden (2018: 8%).

## Gross profit

The gross profit as percentage of revenue decreased to 53.0% compared to 54.4% last year. The anticipated cost of goods improvements with key suppliers were not realised as a consequence of our liquidity constraints. As a result of higher revenue at a lower gross margin, the gross profit for the year increased by 4.8% to € 98.5 million, compared to € 94.0 million in 2018.

## Other income

In 2019 the Company closed sale-and-leaseback agreements for the three distribution centers in Uden, Nieuw-Vennep and Hoogetveen for a cash consideration of € 19.1 million. From these transactions, Beter Bed Holding N.V. recorded a one-time gain of € 6.4 million in 2019.

## Operating expenses

Total operating expenses for 2019 were € 105.4 million, compared to € 89.5 million in 2018. The higher operating expenses are mainly driven by higher personnel expenses, logistics costs and one-off advisory and legal costs related to the transition of the Group.

Total personnel expenses amounted to € 47.1 million, compared to € 40.8 million last year, mainly explained by investments in critical resources and capabilities to support the transformation and future growth, leading to a higher number of (temporary) staff in the Benelux, wage inflation and one-off severance costs related to the restructurings.

Depreciation, amortisation and impairment expenses were € 21.7 million in 2019 compared to € 7.2 million from continuing operations in 2018. This increase is mainly due to the adoption of IFRS 16 whereby rental and lease expenses have been replaced by depreciation of right-of-use assets and interests relating to lease liabilities as of 2019.



Other operating expenses decreased by € 4.9 million to € 36.6 million in 2019 (2018: € 41.5 million). Cost inefficiencies in logistics led to an increase in costs, while structural improvements have been lagging behind. In addition, the other operating expenses reflect one-off advisory and legal costs related to the transition of the Group of approximately € 4.7 million. These increases have been off-set by the decrease in rental and lease expenses as a result of the adoption of IFRS 16. In addition, reflecting one-off advisory and legal costs related to the transition of the Group of approximately € 4.7 million.

EBITDA increased from € 11.8 million in 2018 to € 21.2 million in 2019, reflecting a 7.5% increase in revenues, higher operating expenses, the positive impact from IFRS 16 and one-off costs and impairments. 2019 EBIT decreased year-on-year to € 0.4 million negative (2018: € 4.6 million). The net loss from the continuing operations amounted to € 4.2 million (2018: net profit of € 6.9 million).

## Net result

On 2 December 2019 we completed the sale of Matratzen Concord in Germany, Austria and Switzerland to Magical Honour Limited. Matratzen Concord is presented as discontinued operations in the financial statements for the period up to 30 November 2019. The 2019 net result after tax of discontinued operations including the loss from the sale was a loss of € 48.4 million. More details can be found in the paragraph [Discontinued operations \(see page 84\)](#) of the Notes to the consolidated financial statements. The total net result for the year was a loss of € 52.6 million (2018: loss of € 23.3 million).

## Financial Instruments

Financial instruments held by Beter Bed Holding N.V. are limited to primary financial instruments. Beter Bed Holding N.V. has a policy not to actively secure or hedge financial risks, for example interest rate and currency risks, and consequently does not have derivative financial instruments.

The primary financial instruments mainly relate to cash and cash equivalents including positions from credit institutions and trade receivables/payables. Per year-end, Beter Bed Holding N.V. is exposed to currency risks regarding the Swedish krona and the US dollar. Interest risks regarding the credit facilities are also considered low both on balance sheet date and forward looking. A more in-depth analysis on the risk exposure of Beter Bed Holding N.V. is stated in the paragraph [Risk Management \(see page 31\)](#).

## Continuing operations

### Cash flows

Total cash flow from operating activities in 2019 was € 3.2 million (2018: € 3.0 million). The operational cash flow generation of our continued business was positive, and we have achieved working capital improvements in all areas. The operating cash flow was significantly impacted by the continued losses of Matratzen Concord and IFRS 16.

Total cash flow from investing activities in 2019 was an inflow of € 12.7 million compared to an outflow of € 16.9 million in 2018. The investing cash flow included the proceeds of the sale-and-leaseback of the three distribution centers of € 19.1 million. As a result of the previously announced capex freeze program, the total amount of investments in both tangible and intangible fixed assets decreased to € 4.4 million in 2019, compared to € 8.7 million in 2018. The majority of these investments related to investments in IT and E-commerce platforms, two new stores and required maintenance in existing stores. The investing cash flow from the discontinued operations of Matratzen Concord amounted to € 15.5 million and was derecognised from the balance sheet at divestment date. Investments in the new strategic themes Online, Digital, Data Analytics and IT infrastructure will be continued in 2020.

### Cash, liquidity and debt financing

The cash flow from financing activities for the year was an outflow of € 20.2 million (2018: inflow of € 19.9 million), due to the deleveraging and the significant improvements in our financial position. The financing cash flow included the issue of the shareholder loan in the amount of € 7.0 million - of which € 3.5 million has been converted to a perpetual loan - the equity issue to Magical Honour Limited of € 5.0 million, and the repayment of borrowings of € 19.5 million.

The net debt position, including cash and cash equivalents, changed significantly during 2019. At year-end 2019, the Group reported a net debt position of € 7.9 million (2018: € 16.8 million).

### Financing and solvency

In July 2019, Beter Bed Holding agreed a transition plan with the banks and three major shareholders including: (i) waivers of the defaults that have taken place under the € 40 million credit facilities, (ii) amended covenants for the continuing operations until mid-2020, and (iii) additional shareholder loans of in total € 7.0 million to support the short-term liquidity. With these agreements, combined with the sale-and-leaseback of the three distribution centers, Beter Bed Holding managed to realise the transformation by divesting Matratzen Concord and decreased its total net debt. As a next step, the company reached agreement on new bank covenants in December 2019 and, resulting from its decreased outstanding bank debt, was able to further strengthen the equity of the Group by converting half of its outstanding shareholder loan of € 7.0 million in total into perpetual instruments, paying interest to its three shareholders and repaying a similar amount on its bank facilities, further reducing its outstanding debt.

The solvency ratio in 2019 was impacted by the introduction of IFRS 16 which increased the lease liability by € 45.6 million and almost doubled the Group's balance sheet position. Solvency decreased due to the operating loss and impairments of the discontinued operations and stood at 3.1% as at 31 December 2019.

## Highlights of our continuing operations

### Benelux

Revenue of the Beter Bed and Beddenreus stores in the Benelux in 2019 was € 163.7 million, which is 5.5% higher compared to € 155.1 million in 2018, with like-for-like revenue growth of 4.3%. The like-for-like order intake grew in 2019 by 2.6% compared to prior year. The continued positive trend in revenue is the result of a combination of 'always on' marketing activities, the continued strong online and digital proposition and the addition of new brands such as Tempur.

From a gross margin point of view the Benelux was unfortunately not able to secure the upside potential from Group synergies as a result of the announced divestment of Matratzen Concord. However, rationalisation of assortments and marketing activities prepared, in combination with suppliers, had a positive impact.

In 2019, costs increased compared to prior year, mainly relating to supply chain issues in the first half of the year. Supplier related issues had a negative impact on the internal supply chain. Consequently additional temporary personnel and transport was required to fulfil customer demands. Although this was largely solved in the second half of the year, the operation was not able to regain these additional costs. The cost synergies we expected to realise in 2019 as part of the centralisation of the organisation last year, did not materialize due to the divestment of Matratzen Concord. However, rationalisation of assortments and marketing activities done in conjunction with suppliers had a positive impact on gross margin.

Finally investments were made in the omni-channel proposition to further prepare the Company for a seamless customer journey between online and offline. The online activities within the Group have grown significantly at a growth rate of 27.4%.

### New Business

The New Business operations comprise Sängjätten in Sweden and the DBC wholesale business. The total operations realised € 22.1 million revenue, representing a total growth of 25.3% and a like-for-like sales growth of 8.1% compared to previous year.

Revenue at Sängjätten continued to grow, with the expansion of the store network in 2018 contributing to this revenue growth, together with enhanced commercial activities (better pricing and promotions) and the addition of the new brands Tempur and Ecolife. Start-up investments weighed on the store performance of Sängjätten, resulting in a negative EBIT for 2019. As previously announced, an action plan is currently being executed in order to turn the Swedish activities into a profitable operation with a positive cash flow. These actions include (i) the launch of a new supply chain structure focused on local stores and hubs, (ii) the roll-out of the successful online and digital platform of the Benelux, and (iii) streamlining the store portfolio.

The DBC wholesale business continued to show strong revenue results, both for existing B2B customers and new customers to which the first orders have been delivered. We continue to add new B2B customers, including local dealers and international retailers. Going forward, we see ample opportunity for further acceleration of these activities. For DBC, this will include further investments in additional sales force to especially drive the M line brand in existing markets and a number of carefully selected new markets.



# Risk management

## General

Beter Bed Holding N.V. operations are based on the Group's strategic objectives which are related to opportunities and risks. In this respect a risk management system to monitor and control the Group's most important risks has been implemented. The organisation applies a matrix that describes the risks, their (financial) 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 N.V. operates in the bed and mattress segment. Beter Bed Holding N.V.'s risk appetite is based on the operational results, the financial position and a carefully considered financial management. Although the Company's daily operations involve taking risks, Beter Bed Holding N.V. 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 N.V. is explained below.

The opportunities and threats identified by Beter Bed Holding N.V. 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 N.V. 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 (revenues, margin, expenses and operating profit) and the financial position. The Management Board of Beter Bed Holding N.V. 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 to these control measurements, the Company requests from its managers who are responsible for the individual business units to sign a letter of representation twice a year in which they confirm their compliance with both law and regulations as well as a confirmation that internal control measurements have been working effectively. Furthermore the letter of representation also requests the respective managers to comment on potential fraud matters and incidents that occurred during the period under report.

Beter Bed Holding N.V. also established an Internal Audit Function (IAF). The IAF has been placed externally and is 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 N.V. 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 sales 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 omni-channel 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 web shops and strategic web partners whenever possible. The **risk section** of the notes to the consolidated financial statements gives further information on a number of specific financial risks associated with the normal business operations.

### Risk management

The Group 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 N.V. is not prepared to take risks relating to non-compliance with legislation and regulations.

The **social strategic** risks primarily relate to damage to the Group's image and reputation as a result of defective products or irresponsible actions in a broader sense. It should be noted that the Group does not manufacture products for the product range. Control systems ensure that products meet the applicable requirements. Beter Bed Holding N.V. accepts no risks with regard to product safety. 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 backoffice 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 N.V. continued to take measures in 2019 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 centers (DCs) are in operation. Should an emergency occur at one of these DCs the other two can serve as backups. Each DC also has an individual business continuity plan.

### Tax

Beter Bed Holding N.V. has adopted explicit **tax** principles. The main principles are that Beter Bed Holding N.V. 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 N.V. 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.



## Expectations and outlook

Following the transformation during the past year, we can now fully focus on our continuing business. The positive trend in revenues from 2019 has continued into the first months of 2020. Given the current social and economic circumstances, which have no relation to the business operations year to date, we believe our business could be impacted for a period of time. Looking ahead, we see increased uncertainties following the COVID-19 worldwide outbreak and market volatility. We have no indication whether the governmental measures will have an effect in preventing a further spread around the world. Therefore we currently do not know whether these measures will be effective and what kind of duration we will be faced with. Such situation, especially when it takes longer, may have an effect on the financial performance of the Company.

During the year, we intend to further optimise our financing structure, as the current credit facilities will expire mid-2020. We are currently in discussion with the banks to successfully agree new credit facilities and the establishment of a fit-for-the-future Group financing structure. Current uncertainty might delay this process.

Beter Bed Holding starts 2020 from a stable financial position, with a significantly smaller scale, a lower asset base and lower revenues. The changes in the company structure will lead to a revision and update on the strategy for mid-term and longer-term goals. An update of the strategic direction will be presented on 13 May 2020. We are confident that we are well positioned for the growing trend of consumers increasingly recognising quality sleep as a key component of a healthier and more enjoyable lifestyle.

Uden, the Netherlands, 17 March 2020

A.J.G.P.M. Kruijssen,  
CEO

# Human resources

To achieve strategic goals, now and in the future, the Group is in need of a performance-driven culture in all activities and countries. In order to develop and deliver this in a similar way across the Group HR has and is playing a facilitating but significant role. By focussing intensely on the development of a performance-driven culture people better develop in their current roles, the pipeline of talent is growing and it becomes easier to fill vacancies internally. This makes us grow as an employer of choice within the open market, where at the same time our current employees become more eager to continue working for Beter Bed Holding N.V.

In 2019 Beter Bed Holding N.V. has made some important steps to create an environment in which performance-driven culture could be further developed and mature.

A proactive, transparent, performance-driven culture is necessary to be able to successfully carry out the transformation. Management at different levels in the organisation devotes a great deal of energy to this and takes the lead in order to provide a good example. One major area of focus has been the development of local teams as they form the basis of the success of the Group.

The HR department has developed into an integral Business Partner for the organisation in order

*to make you feel and perform at your best*

Some of the major developments in 2019 have been:

## Function House

Improving transparency across the organisation by implementing a new function house. We aspire an open communication about our organisation, departments & employee performance by developing the tools that employees can use to assess and manage their own performance within the Company. The tools facilitate individual ownership of achievements, assessments and developments. All job descriptions are clearly described on *what* should be done and *how* it should be done. This transparency will allow management to evaluate employees and have an open conversation about the performance of the individual. Separate to this function house a benchmark has been done to check if the remuneration of the different roles within the Group are still competitive and in line with the market so that we do not lose the war for talent already at hiring, or even worse, losing good employees where this could be avoided.

## Performance cycle

To improve the quality of the performance we have critically looked at the one in use. We aim to have a transparent and fact-based performance evaluation that will ensure employees are assessed based on their performance and development. Transparent evaluations will enable employees to see how they can further influence their own progress within the organisation. We therefore defined clear KPIs, linked to the new job descriptions, which have been developed for every role in the organisation.

## Training of management

Throughout every level within the organisation we developed, through training, more management capabilities for employees and managers. Examples are: (1) motivation of employees, (2) coaching, (3) delegating of tasks, (4) providing feedback.

We aim to create an EPIC (Empowering, Purpose-driven, Inspiring and Coaching) way of working. Management has been made much more aware and capable which enables them to coach and train the staff in their areas of responsibility.



### Beter Bed Academy

A Beter Bed Academy has been launched. All employees can develop and learn about relevant elements of their own position. They can also use this when moving to a new position within Beter Bed Holding N.V. The Beter Bed Academy is a 100% digital platform. The Academy trains employees on broad managerial skills or allows employees to further specialise themselves in a particular area. At this point, there are almost 600 e-learning modules available for our employees. In addition to the Beter Bed Academy there is a process of continuous learning due to learning from best practice by creating a community of sharing experiences and expertise (across departments).

### Improving the on-boarding process, in line with the desired performance culture, through:

- A uniform working mentality for new employees.
- Ensuring that employees that join the organisation feel welcome and are immediately motivated to perform well within the organisation.
- Movies that have been created to “onboard” new employees so that they experience the whole Company in a couple of minutes.
- A specific onboarding program for new employees.

### Employee engagement

A communication app (an information tool, which is contemporary and fast) has been introduced to increase the engagement of our employees. In this way, it is possible to communicate at all times and bring information about work and the organisation to our employees.

### Absence

The Company aims to have a direct approach to absenteeism, which means a direct and rapid contact between managers and sick employees. HR, together with our occupational health and safety service, has supported the managers in reducing frequent absence and sustainable employability. This is increasing the employee satisfaction and engagement, which will have a positive effect on the inflow and outflow.

Apart from the above different manuals have been developed and released, Smartdoc and Topdesk have been implemented in order to digitalise all the files within HR, HR Analytics have been activated and dashboards have been created to ensure that HR targets can be included in the objectives for managers and the satisfaction of our employees can be measured.



At 31 December 2019 the Group had 1,095 employees and 914.6 FTE, compared to 3,377 employees (2,738 FTE) at 31 December 2018. The decrease was mainly caused by the divestment of Matratzen Concord.

The development of the number of employees and FTE for the continuing operations is as follows:

	31-12-2019		31-12-2018	
	Number of staff	FTE	Number of staff	FTE
Beter Bed Holding N.V.	5	4.7	6	5.7
Netherlands	915	774.1	894	737.2
Belgium	38	32.0	27	22.0
DBC	17	15.8	13	12.3
Sweden	120	88.0	156	110.0
<b>Total</b>	<b>1,095</b>	<b>914.6</b>	<b>1,096</b>	<b>887.2</b>

# Corporate Social Responsibility

## The CSR year in brief

Every company that operates at the heart of society must embrace the social responsibility that comes with this. Sustainable enterprise is a key component in this respect. It is, after all, the only way to remain successful in the longer term.

Beter Bed Holding N.V. also takes its responsibility relating to CSR and initiated a continuous improvement process in this field. In line with the implemented CSR strategy important steps were taken in the development of a recyclable mattress and box springs in the past years. In 2019 the Group made further steps of improvement to realise its strategic goals.



## CSR strategy

The domain of sleep is now more relevant than ever. On the one hand good quality sleep is vital for physical health, happiness, productivity, creativity and success. On the other hand stress, sleeping disorders and the work-life balance of people are constantly under pressure.

In the Group's strategy, the CSR goals remain critically important. Therefore the themes as identified with the internal and external stakeholders, being circular economy, safety and quality of products and services, responsible chain management, energy & CO<sub>2</sub> emissions and safe working conditions, remained to be the main focus of the 2019 CSR report. These topics will be continuously used to identify possible strategic opportunities.

The challenging targets that were formulated have led to an increased embedment of CSR in the Group's daily activities. Next to that, in line with the strategy the category management team was implemented to better work together with suppliers in a proactive way on innovations in the bedding industry and especially the complete recyclability of mattresses. In the meantime the Group is also working on its innovation pipeline for sustainable mattresses. In 2019 the Group, in cooperation with the Ergonomic Institute of Munich, made great progress in the development of the 100% recyclable M line Green Motion mattress, which was presented to the market on the fair in Cologne in 2019.

Furthermore the box spring 'Element' was introduced in the first half of 2019. The Element box spring has been developed in a completely modular fashion in close collaboration with the supplier. The box spring is easy to disassemble and all the materials are recyclable. All the parts can also be replaced separately. They are all made of mono materials rather than mixed raw materials, which means they are completely recyclable. Beter Bed engaged the services of TNO – the Netherlands Organisation for Applied Scientific Research – in order to demonstrate the circularity of the Element box spring versus box springs produced in the standard way. TNO uses its unique IMPACT (Integrated Method of sustainable Product Assessment for Circular Transition) method to measure the effects on aspects such as resources, people & planet and the economy. This renders the product's circularity score or 'green score'. The results of the research carried out by TNO provide, in addition to a sustainability score for Element, insights into the further development possibilities in the field of sustainable products in the assortment.

Human rights and fighting bribery and corruption are two other social themes the Group can help address. By consciously choosing suppliers and requiring them to sign the Company's Code of Conduct, the Group obligates its suppliers to adhere to international treaties and conventions on working conditions. At year-end 82% of the suppliers has signed the Code of Conduct. At the end of 2019 two new suppliers are in the process of signing the Code of Conduct. Beter Bed Holding N.V. has entered into partnership with five of its strategic suppliers in order to develop more sustainable products.

Safety continues to be very important. Employees must be able to count on a safe working environment and customers must be able to rely on good-quality and safe products. Therefore the stores and warehouses in the Benelux were continuously involved in quality testing.

### Work to be done

Although ambitious, the Group still aims to realise the CSR goals as set out in its CSR strategy. In 2019 steps have been taken in the development and introduction of recyclable box springs and mattresses. However the circular economy still presents large challenges and opportunities. There is a far-reaching social necessity to bring about a circular economy given that the majority of the mattresses currently still ends up in the incinerator. Continuous development in the field of sustainable mattresses remains necessary.

There is already a well-functioning return system in the Netherlands for mattresses in the market. Great gains in the field of sustainability can theoretically be achieved through better recycling of materials at the end of the life span. Tapping into these opportunities demands above all a chain approach; only in partnership with suppliers and customers will it be possible to achieve workable and effective recycling solutions. Beter Bed Holding N.V. is focussing on collaborating with partners and customers and is part of a chain consultation with amongst others the Ministry of Infrastructure and Water, CBW and INretail.

The Company considers it important that all participants in the value chain take ownership of sustainable materials, production methods and recycling opportunities. Most consumers use their mattress too long. The quality of sleep improves dramatically when mattresses are regularly changed (approximately every 5-7 years). It is scientifically proven that better sleep leads to better performance, more happiness and better health. In order to ensure that the environment is not hampered by the disposal of products, the Group applies a sustainable recovery of used mattresses. Beter Bed Holding N.V. continues to be very ambitious and cooperative to work with stakeholders to make this possible.

In conclusion, Beter Bed Holding N.V. has taken steps in developing and introducing a 100% recyclable mattress and box spring in 2019 and has a collaboration with a company that mechanically dismantles the mattresses in order to reuse the materials. Beter Bed Holding N.V. remains ambitious and realises that still a lot has to be done. The Group will commit itself to drive continuous innovation and development, together with partners and customers in the coming years.

#### *About Beter Bed for a Better Future*

*Beter Bed for a Better Future*, Beter Bed Holding N.V.'s CSR report, provides insight into (the execution of) Beter Bed Holding N.V.'s CSR strategy in 2019. The CSR report 2019 is supplementary to the annual report 2019 and will be available not later than 13 May 2020. This is the ninth time Beter Bed Holding N.V. presents this report on its activities and progress in the field of CSR. It has been drawn up in line with the GRI Standards of the Global Reporting Initiative (GRI) at the 'Core' level and the internal reporting criteria for CSR information. The emphasis of the report is on the five most material themes as set out in the CSR strategy.



## Summary of facts

	Goal 2020	2019	2018
<b>Circular economy</b>			
Yearly sold mattresses collected through return system	10%	8%	7%
Sales from products with > 25% recycled content	25%	35%	12%
Share of sales from modular products	20%	0%	0%
Waste streams recycled high grade	75%	94%	71%
<b>Safety &amp; quality</b>			
Products which are tested on air quality (based on sales)	100%	93%	98%
Number of incidents reported in the field of safety and quality	-	-	-
Customer satisfaction: eKomi score (score 0-10, weighted average based on sales)	9.4	9.4	8.9
<b>Responsible chain management</b>			
Suppliers who signed the Code of Conduct	100%	82% <sup>1</sup>	92%
Number of strategic suppliers with proactive cooperation to ensure CSR criteria are pursued in the purchasing process	16 <sup>2</sup>	5	5
Tenders for products and services in the Netherlands where CSR criteria are taken into account	100%	40%	30%
<b>Energy &amp; CO<sub>2</sub> emissions<sup>3</sup></b>			
Purchase of renewable energy	100%	0%	0%
Energy consumption (TJ)	257	79	259
CO <sub>2</sub> emissions (tonnes)	18,922	7,709	25,079
<b>Safe working conditions</b>			
Number of accidents with sick leave	-	-	-
Tests performed on air quality <sup>4</sup>			
- DCs	Yes	Yes	Yes
- Loading docks	Yes	Yes	Yes
- Stores	Yes	Yes	Partly
Training and education attended by logistics employees (average number of hours)	4.0	2.0	2.5

1 Two new suppliers are still in the process of signing the Code of Conduct.

2 The target was still including Matratzen Concord, and will be redefined in 2020 resulting from the divestment.

3 - Decreased with the divestment of Matratzen Concord and by energy saving solutions, such as LED lightning, taken in the Benelux; - The target was still including Matratzen Concord, and will be redefined in 2020 resulting from the divestment.

4 Tests performed in DCs (integrally) and loading docks and stores (by means of sampling).

