Beter Bed Holding

HARD AT WORK ON A GOOD NIGHT'S REST

ANNUAL REPORT 2015

REPORT OF THE MANAGEMENT BOARD

GENERAL

Work on further refining the customer proposition was vigorously continued in 2015, with a focus on maximising customer satisfaction. Product ranges were modified, advertising campaigns updated and service levels increased by reducing delivery times, for instance. Stores were also refurbished and new store concepts were tested. At the same time, gross profit rose and costs were controlled. The strong balance sheet position was retained and working capital was further reduced.

The recently-initiated development of the company into an omnichannel retail formula was successfully continued.

Beter Bed Holding N.V. also benefited in 2015 from the positive and sometimes rising consumer confidence in its various markets. The recovery that started in 2014 continued in 2015. Virtually all formulas reported revenue growth, with the Netherlands and Germany in particular performing very well. Only Switzerland lagged behind slightly (in local currency), mainly due to the worsening economic situation resulting from the appreciation of the Swiss franc.

Beter Bed Holding benefited from the improving economic climate and achieved good results in 2015. Revenue increased by 5.9%, mainly due to growth in revenue of 10.9% at Beter Bed Benelux.The refurbishment of the Beter Bed stores was completed in 2015. Besides the optimised product range, the contemporary look and feel of the updated stores clearly contributes to revenue growth. Revenue at Beddenreus edged down compared with the preceding year. The formula is currently being modernised and rejuvenated.

Substantial growth in revenue was achieved in Germany in the first half of the year in particular, continuing the trend of 2014. The comparative basis for the third and fourth quarter was challenging, however. Overall, Germany achieved record revenue, up 4.5% from 2014. On the basis of comparable stores, the increase was 3.8%.

Matratzen Concord Austria strengthened its market position with the acquisition of the 18 stores of BettenMax, giving the formula access to a large number of retail parks and making it the market leader in the 'value-for-money' segment. Growth in revenue in Austria was 15.4%; on a like-for-like basis, the increase was 1.0%.

In Spain, the higher revenue (up 8.4%) was achieved mainly by expanding the number of stores. Revenue in comparable stores rose 0.6%. For the second successive year, revenue in Switzerland was under pressure due to the economic situation, contracting by 2.9% on a like-for-like basis. The pilot in France was expanded by opening a second store.

Overall, the group achieved revenue of € 385.4 million in 2015, an increase of € 21.4 million (5.9%) compared with 2014. Growth in revenue in comparable stores was 5.4%.

	2015	2014	Change
Revenue (in € million)	**385.4**	364.0	5.9%
Gross profit (in € million)	**222.2**	208.7	6.5%
Operating profit (in € million)	**30.7**	23.0	33.2%
Net profit (in € million)	**22.6**	16.9	33.8%
Number of stores	**1,159**	1,127	2.8%
Number of employees (FTE)	**2,513**	2,369	6.1%

Gross profit continued to increase and rose to 57.7% % (2014: 57.3%). Improved purchasing conditions, a change in the sales mix and product updates contributed significantly to this.

The average costs per store amounted to € 166,200 (2014: € 158,900). The increase was mainly attributable to increased marketing efforts, higher employee benefits, and higher depreciation and amortisation charges.

The operating profit for 2015 increased by 33.2% to € 30.7 million (2014: € 23.0 million). Operating profit as a percentage of revenue rose to 8.0% (2014: 6.3%).The net profit was € 30.7 million (2014: € 16.9 million); an increase of 33.2%.

The number of stores increased by 32 in 2015, of which 18 due to the acquisition in Austria. At year-end 2015, the group operated 1,159 stores in seven countries.

INVESTMENT, FINANCING AND CASH FLOW

Total investments amounted to € 16.0 million in 2015. A total of € 8.9 million was invested in new and existing stores. In addition, substantial investments were made in the omnichannel infrastructure (e-commerce and webshops).

The cash flow[1] amounted to € 33.0 million in 2015 (2014: € 25.1 miljoen). Solvency remained high, at 57.5% at year-end 2015 (2014: 58.6%).

As the company operates on a debt-free basis, the ratio between net interest-bearing debt and EBITDA was zero at the end of 2015, as it had been a year earlier.

The reduction of net working capital, while maintaining the commercial strength of the formulas, was continued in 2015. This reduction was achieved largely by an increase in accounts payable by € 5.0 million.

1 *net profit plus depreciation, impairments and carrying amount of disposals. Before 2015, net profit was not adjusted for the carrying amount of disposals.*

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, box springs and bed textiles to consumers. The chain operates 992 stores in three countries (Germany, Switzerland and Austria). The stores are located mainly at so-called C locations in or in the vicinity of city centres near consumers.

	2015	2014	Change
Revenue (x € 1.000)	262,150	249,137	5.2%
Number of stores	992	966	2.7%
Number of employees (FTE)	1,809	1,724	4.9%

Revenue at comparable stores at Matratzen Concord rose by 3.1%, while total revenue increased by 5.2% in 2015. The increase was primarily visible in Germany and Austria and was achieved in part through targeted marketing campaigns in combination with a higher propensity to buy among consumers.

Pilots of an updated version of the tried-and-tested Matratzen Concord concept were continued in Germany in 2015. The key values of this concept have been retained, but have been adapted to a more modern approach.

A total of 72 stores were opened and 46 stores were closed in the year under review.

www.matratzen-concord.de

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.

	2015	2014	Change
Revenue (x € 1,000)	101,254	91,327	10.9%
Number of stores	97	94	3.2%
Number of employees (FTE)	544	499	8.9%

Beter Bed's revenue increased by 10.9% to € 101.3 million in 2015, due to growing consumer confidence, the recovering housing market and the successful relaunch of the Beter Bed brand. Refurbishment of the Beter Bed stores commenced following a number of pilots in 2014. This operation was completed in 2015 and all branches now have the new visual identity.

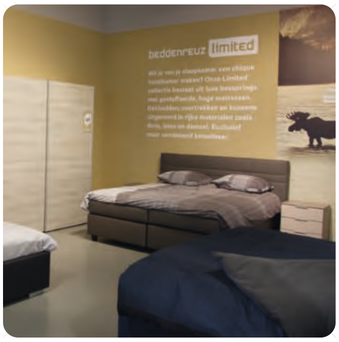
Beter Bed's online sales developed positively in 2015. Their share of revenue currently amounts to approximately 5% (2014: 4.7%).

A net total of three stores were opened in the year under review. Order intake in comparable stores rose 11.6% in 2015.

www.beterbed.nl

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' in the Netherlands.

	2015	2014	Change
Revenue (x € 1,000)	**10,313**	10,595	-2.7%
Number of stores	**34**	35	-2.9%
Number of employees (FTE)	**59**	59	-0.2%



Pilots continued in 2015 on the new design and image of the Beddenreus stores. The product range was also largely updated. Following the successful conclusion of the pilots, all Beddenreus stores will be refurbished in 2016. The like-for-like revenue increased with 6.7% in 2015.

www.beddenreus.nl

El Gigante del Colchón changed its format from full-service to cash & carry during the Spanish economic crisis. The retail formula, the location policy and look and feel of the store are comparable to that of Matratzen Concord.

	2015	2014	Change
Revenue (x € 1.000)	**5,933**	5,472	8.4%
Number of stores	**36**	32	12.5%
Number of employees (FTE)	**60**	51	17.8%

Revenue in comparable stores rose by 0.6% and a net total of four stores were added to the chain. Further expansion of the number of stores will be targeted in the years ahead.

www.gigantedelcolchon.com

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 via El Gigante del Colchón and Literie Concorde. DBC International supplies customers in the Netherlands, Germany, Spain, Belgium, Austria, Switzerland and France.

	2015	2014	Change
Revenue (x € 1.000)	**14,855**	13,968	6.4%
Number of employees (FTE)	**11**	10	11.2%

DBC International's revenue rose in 2015, both within the dealer network and in the Beter Bed and Matratzen Concord stores. The updating of the M Line mattress series in early 2015 contributed significantly to this.

www.mline.nl

M LINE®
Sleep well. Move better.

Literie Concorde A pilot was started under this name in France in mid-2014. The formula operated two stores at the end of 2015: one in Bordeaux-Mérignac and one in Lyon.

www.literie-concorde.fr

LITERIE CONCORDE
Qualité haut de gamme à prix abordable

STAFF AND ORGANISATION

The group had 2,513 employees (FTEs) as of 31 December 2015, compared to 2,369 employees at year-end 2014. The increase was attributable to the acquisition of BettenMax and organic growth especially at Matratzen Concord and Beter Bed.

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. A customer-friendly approach, a 'first time right' 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 focus area.

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 32 women in management positions (25%; 2014: 22%).

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, 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:

The **financial strategic** risks consist in failing to achieve revenue mainly due to entry of new competitors, the introduction of new products, brands and revenue models. 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 pro-active omnichannel 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. 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 to the financial statements.

In terms of **operational strategic** risks, the company recognises the risk of supplier side consolidation, which may threaten 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 (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.

In **legal strategic** terms, there is a risk of non-compliance with laws and regulations in various areas, including product liability, consumer protection and reporting. These risks are mitigated by systematically requesting advice from experts with the relevant knowledge, including legal specialists, tax specialists, accountants and competent authorities. In addition, audits are regularly performed.

The **social strategic** risks primarily relate to damage to the company's image and reputation as a result of defective products or irresponsible conduct in a wider sense. It should be noted with regard to the product range that the formulas do not manufacture products themselves. Control systems ensure that products meet the applicable requirements. To ensure responsible conduct, the organisation applies codes of conduct in various areas. The corporate culture, in which integrity and ethical business conduct are core values, significantly contributes to mitigating risks. The company also has 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. 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. Specific attention was directed in 2015 at the risk of cybercrime. The logistical risks relate mainly to the situation in the Netherlands, where three distribution centres (DCs) are used. In the event of a calamity at one of these DCs, the other two can be used as alternatives. In addition, each DC has its own business continuity plan.

Tax

Beter Bed Holding explicitly defined its tax principles in 2015. The main principles are that Beter Bed Holding maintains an open relationship with the tax authorities in the countries in which it operates, agrees tax rulings only to confirm the correct interpretation (and application) of the tax rules and tax laws and does not adopt (abnormal) tax arrangements directed solely at tax avoidance. 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 reports twice a year on relevant tax issues to the Audit Committee.

Independent auditor's report
The independent auditor obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. He reports his findings to the management board and supervisory board in his board report and independent auditor's report.

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, with regard to which special attention is paid to investments and conditions on which developments of revenue and profitability depend, unless it 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 per balance sheet date and profit of Beter Bed Holding N.V. and the companies included in the consolidation of the financial year 2015.

EXPECTATIONS AND OUTLOOK

The outlook for 2016 is positive. The economic outlook and the development of the housing market (at low mortgage interest rates) continue to appear to be favourable, despite a number of uncertainties. Building on the results of the measures put in place in the past few years, steps will be taken to continue like-for-like growth and to ensure that the formulas remain contemporary. To achieve this, a new strategic plan was formulated in 2015 for the period 2016-2020, named *'From good to great'*. The primary focus in that plan will be on innovation and maximum customer satisfaction in an omnichannel environment. Expansion will also be a priority, in order to further strengthen the position of our formulas in the various countries.

Uden, The Netherlands, 10 March 2016

A.H. Anbeek,
Chief Executive Officer

B.F. Koops,
Chief Financial Officer