Beter Bed Holding

Global Markets
Equity Research

Specialty Retail / The Netherlands

A king size opportunity

11 July 2018

BUY (from HOLD)

Target Price (12m):	**EUR 13.0**
Price (10-July-18):	EUR 6.41
Exp. Performance:	+102.8%
Exp. Dividend Yield:	+5.3%
Exp. Total Return:	+108.1%

Analysts

Robert Jan Vos
+31 20 343 75 79
robertjan.vos@nl.abnamro.com

Eric Wilmer
+31 20 629 1459
eric.wilmer@nl.abnamro.com

We upgrade our recommendation on Beter Bed to Buy from Hold, and raise our price target to EUR 13. Issues in Germany explain why the shares are now in the doldrums. However, there is a way out, in our view, by a combination of an acceleration of online, offering a one-fits-all mattress, and an overhaul of a store portfolio overhaul. Beter Bed's new CEO, John Kruijssen, is retail-experienced and familiar with change strategies. Also, Beter Bed replaced its German management, and the search for a CFO is nearly done, so management is set to go. The 1H18 results will not be a feast, in our view, but we expect the CEO to unveil highlights of his ideas at the results release (27 July). Also, we expect him to announce a full strategy update in November. Weighing all together, we see an attractive risk-return trade-off. Based on a discount valuation, we raise our TP on Beter Bed to EUR 13 (from EUR 10/sh) and upgrade to Buy from Hold.

Germany is close to operational losses, in our view

After 10 consecutive quarters of falling sales, Germany cannot be far off from operational losses, in our view. With a model of high operational leverage, the German sales/store cannot decrease much further before EBIT(DA) losses will be a reality. The cause of the problems is that management did not react adequately on several rapidly arising market trends in Germany.

Management gradually starting to work on solutions

Levers to pull to improve sales/store in Germany are the development of online, the introduction of a one-fits-all alternative, and the further rollout of box springs in Germany. Also, we deem a store portfolio overhaul as likely, and we believe Beter Bed should be able to handle this operationally and financially. Management, including the new CEO, is adequately skilled to pull this off, in our view. Investors should be aware that the group's 1H18 results are not likely to be anything to cheer about though, in our view.

We upgrade to Buy from Hold; TP up to EUR 13

We see Beter Bed as attractively valued when looking at peers, price-to-book, and DCF. We set our new TP at EUR 13 (was EUR 10/sh), and with an implied share price upside potential of 103%, we upgrade to Buy from Hold.

Fundamentals	
Market Cap (EURm)	141
Average Daily Volume (EURm)	0.6
Number of Shares (m)	22.0
Free Float (%)	66.0
52 Week High (EUR)	17.7
52 Week Low (EUR)	6.17
3 Month Performance (%)	(31.8)
6 Month Performance (%)	(50.7)
12 Month Performance (%)	(59.4)
Reuters Symbol	BETR.AS
Bloomberg Symbol	BBED NA
Website	www.beterbedholding.com

Source: Factset, ABN AMRO Equity Research

Year To December	2016	2017	2018E	2019E	2020E
Sales (EURm)	410	416	411	427	446
EBITDA (EURm)	37.3	27.3	29.1	35.9	43.4
EBIT (EURm)	26.0	14.4	14.8	21.4	28.6
EPS (fully diluted EUR)	0.87	0.55	0.46	0.68	0.92
DPS (EUR)	0.74	0.37	0.34	0.51	0.69
EV / EBITDA (x)	9.4	9.9	4.8	3.8	3.1
EV / EBIT (x)	13.4	17.7	9.3	6.4	4.6
P/E (fully diluted x)	19.5	24.3	13.9	9.4	6.9
Equity FCF Yield (%)	4.7%	(2.0%)	6.6%	9.5%	13.2%
ROCE (%)	23.3%	15.9%	14.7%	20.2%	25.5%
Net Debt / EBITDA (x)	(0.6)	(0.0)	(0.1)	(0.1)	(0.2)

Source: Factset, ABN AMRO Equity Research

Contents

1. Executive Summary 3
1.1. Beter Bed's share price is where it is because of Germany 3
1.2. Several issues explain why Germany is so weak........ 3
1.3. There is a way out for Beter Bed........ 3
1.4. Beter Bed's 1H18 results will be no feast, in our view........ 3
1.5. We see an attractive entry point and upgrade to Buy 3

2. Germany the culprit 4
2.1. Declining like-for-like sales for 10 quarters in a row........ 4
2.2. Revenue/store now too low in Germany 5
2.3. The Netherlands is performing much better........ 5
2.4. Beter Bed's operational leverage is high........ 7
2.5. Regional analysis shows Germany is just profitable 10
2.6. Germany loss-making if revenue/store drops further 11

3. The way out for Beter Bed........12
3.1. Improving revenue/store is key for Germany 12
3.2. Online should be developed further in Germany........12
3.3. Beter Bed should come up with an answer to one-fits-all........12
3.4. Catching up in the box spring category is essential 12
3.5. Store portfolio optimisation is another lever to pull 13
3.6. Plain vanilla cost-cutting not straightforward........13
3.7. We do not exclude store closures 13
3.8. Portfolio optimisation likely to lead to one-off costs 15
3.9. Major impairments unlikely as asset base is small........16
3.10. New management on key positions 17
3.11. A retail-experienced and open-to-change CEO........17
3.12. Highlights new strategy possibly unveiled on 27 July 17

4. Upcoming results and estimate changes 18
4.1. Upcoming results not expected to show German recovery........18
4.2. Other scheduled events 19
4.3. Changes to our estimates 20

5. Valuation........22
5.1. Trading at deep discount to peers 22
5.2. All-time low price-to-book ratio 22
5.3. Our DCF analysis shows material share price upside 23
5.4. Valuation summary: EUR 13/sh........24

6. Risks and mitigants........25
6.1. Star performer Netherlands could deteriorate........25
6.2. German economy could become a drag 25
6.3. Restructuring or not and amount of expenses unknown 25
6.4. Dividend could be cut or skipped 25
6.5. Cost inflation could turn out to be difficult to offset 25
6.6. Supplier concentration 25

Financial Statements 26

1. Executive Summary

1.1. Beter Bed's share price is where it is because of Germany

Germany's revenue/store close to loss-making levels, in our view

Beter Bed's shares are in the doldrums, which can largely be attributed to the poor performance in Germany. Ten consecutive quarters of negative like-for-like sales growth have led to revenue/store in Germany of EUR 236,756, which we believe is alarmingly close to an EBIT loss. This assumed drop in profitability is explained by Beter Bed's model of a high operational leverage, meaning that its fixed costs are high as a percentage of its total operating costs.

1.2. Several issues explain why Germany is so weak

Management reacted too late on several market trends in Germany

The poor German performance can be attributed to 1) the strong performance of the online one-fits-all mattress suppliers, 2) the late response to the growth in box springs where it is underrepresented, and 3) Beter Bed's low market share in online in Germany, which is a fast-growing segment of the EUR 2bn German bedding industry. The many changes in Beter Bed's management (CEO, CFO, German management, Dutch management) amplified the problems, in our view, as essential steps to prevent further deterioration were taken late.

1.3. There is a way out for Beter Bed

Beter Bed should improve its online proposition in Germany

We think Beter Bed can turn things around for the better. First, we believe Beter Bed should improve in online in Germany. By now it has web shops available for all brands, and the group is switching from two IT platforms to one. We expect Beter Bed to increase online marketing expenses.

We expect the introduction of a one-fits-all mattress by Beter Bed shortly

Second, Beter Bed should introduce a one-fits-all alternative shortly, in our view. Although specialised and personalised advise remains the group's bread and butter, Beter Bed should be able to compete successfully against one-fits-all suppliers by introducing premium and discount alternatives with free delivery, easy returns, recycling of old mattresses and an extensive trial period.

Beter Bed is already rolling out a box spring assortment in Germany

Third, Beter Bed is already offering box springs in most (if not all) Matratzen Concord stores. We see the addition of the box spring category as one of Beter Bed's main challenges, as its Matratzen Concord brand is famous for its mattresses and still unknown as a box spring retailer.

A store portfolio overhaul is a real option, in our view

As a final improvement option, we do not exclude Beter Bed deciding to do a portfolio overhaul in Germany. Depending on the magnitude of the underperformance of the tail stores, we conclude that cutting the tail by 10-20% could have a materially positive impact on the revenue/store and the overall EBIT(DA) profitability of Matratzen Concord in Germany. Our analysis of such a restructuring suggests that restructuring costs would be relatively limited. Depending on the size of the restructuring, we estimate the total costs at EUR 20-29m, with a cash flow impact of EUR 4-11m, or EUR 0.25-0.50/share.

1.4. Beter Bed's 1H18 results will be no feast, in our view

We still expect weak upcoming results at 1H18 (27 July)

We do not expect Beter Bed's 1H18 results update (27 July 2018) to be a feast, as we expect ongoing negative like-for-like sales growth in Germany that cannot be fully offset by a better performance in the other countries. However, we do expect CEO John Kruijssen to share some of his views about a new strategy with the market, probably scheduled for the coming November.

1.5. We see an attractive entry point and upgrade to Buy

We upgrade to Buy and raise the TP to EUR 13 (from EUR 10/sh)

On our estimates, we consider Beter Bed as attractively valued when looking at peer multiples, price-to-book, and DCF. Moreover, we note that for the short term, our estimates are materially lower than consensus estimates. We set our new target price at EUR 13 (was EUR 10/share), and with an implied share price upside potential of some 103% to our target price, we upgrade our recommendation to Buy from Hold.

2. Germany the culprit

Beter Bed's largest country is performing weakly

Germany is Beter Bed's largest country as measured by revenue, number of stores, and number of employees (see table below). Beter Bed is present in Germany with its Matratzen Concord retail brand, a pan-European discount brand that primarily serves the replacement market. The brand focuses on the sale of matrasses, bed bases, box springs (recently) and bed textiles. At the end of 2017, Beter Bed operated 849 Matratzen Concord stores in Germany, 85 in Austria, and 65 in Switzerland. As highlighted in the table below, Germany accounts for 49% of Beter Bed's total revenue, while 71% of Beter Bed's stores are located in Germany. This is explained by the fact that the Matratzen Concord stores, on average, are materially smaller than the stores in the Netherlands. To illustrate, the Netherlands contributes 36% to Beter Bed's group revenue with only 10% of the group's total store base. In the Netherlands, the group operates stores under both the Beter Bed brand name and the Beddenreus brand name. We estimate the average size of a (German) Matratzen Concord store at 250-300 square meters, and our estimate for the average size of a Dutch store is around 1,000 square meters.

Figure 1: Key 2017 figures Germany

Germany	2017	As percentage of group total (%)
Revenue (EUR m)	202.4	48.6
Average number of stores (x)	855	71.4
Fixed assets (EUR m)	19.5	36.6
Average number of FTEs (x)	1,667	59.2

Source: Beter Bed, ABN AMRO Equity Research

2.1. Declining like-for-like sales for 10 quarters in a row

The worrying top-line development has been going on for too long

The next chart illustrates Beter Bed's problems in Germany. In the past 25 quarters, Beter Bed reported positive like-for-like sales growth in just seven quarters. Moreover, like-for-like sales growth was negative in the past 10 consecutive quarters, which is the longest sequence with negative like-for-like sales growth in Germany in Beter Bed's history.

Figure 2: Quarterly like-for-like revenue growth in Germany since 1Q12 (%)

Source: Beter Bed, ABN AMRO Equity Research

Several reasons for the top-line issues in Germany

Beter Bed missed several key market trends in Germany

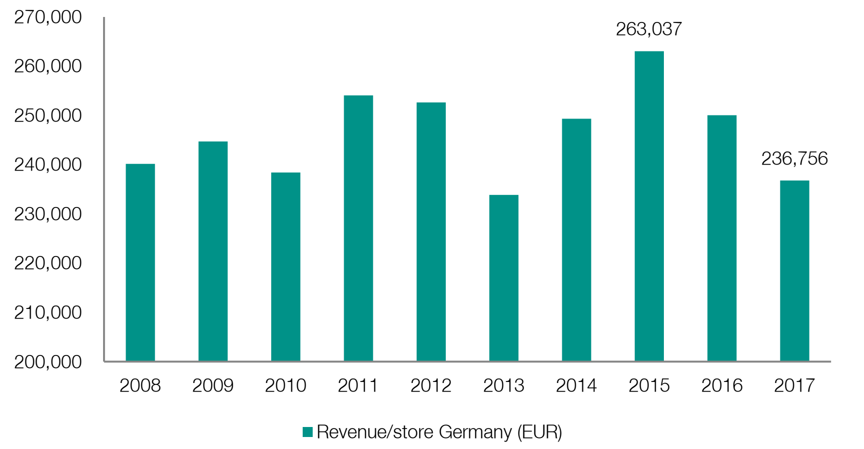
According to Beter Bed, the drivers behind the disappointing performance in Germany are the disruptions by the online suppliers (i.e. Casper, Eve, Emma, Bett1, Bruno, Simba), and the steep growth in box springs where Beter Bed is underrepresented. Matratzen Concord is underrepresented in online in Germany, which, in our view, can be attributed to the fast growth of the online one-fits-all suppliers. In the past three quarters, the poor top-line performance in Germany was severely amplified by the external foam (contamination) issues at suppliers. These issues started in October 2017, and in its 3Q17 trading update Beter Bed mentioned that these issues resulted in a declining number of visitors since October 2017. In its 4Q17 trading update, Beter Bed reported a 15.7% decline in like-for-like revenue in Germany. However, management also mentioned that it had noticed a recovery in the number of visitors in its stores in Germany in the second half of that quarter. This recovery did not persist, as Beter Bed reported a like-for-like decrease in sales in Germany of 9.4% in 1Q18.

2.2. Revenue/store now too low in Germany

The German revenue/store is clearly too low, while fixed costs are high

The next graph shows the revenue per average store in Germany between 2008-2017. The graph clearly shows how this metric has decreased materially to around EUR 237,000 in 2017 from a peak level of EUR 263,000 in 2015. As we highlight later on, Beter Bed's business model is one with a relatively high operational leverage. This means that a relatively high percentage of operational costs are fixed (i.e. rent/lease costs, employee costs, and depreciation/amortization costs) and that increasing or decreasing revenue/store therefore has a big impact on store profitability.

Figure 3: Revenue per average store Germany 2008-17 (EUR)



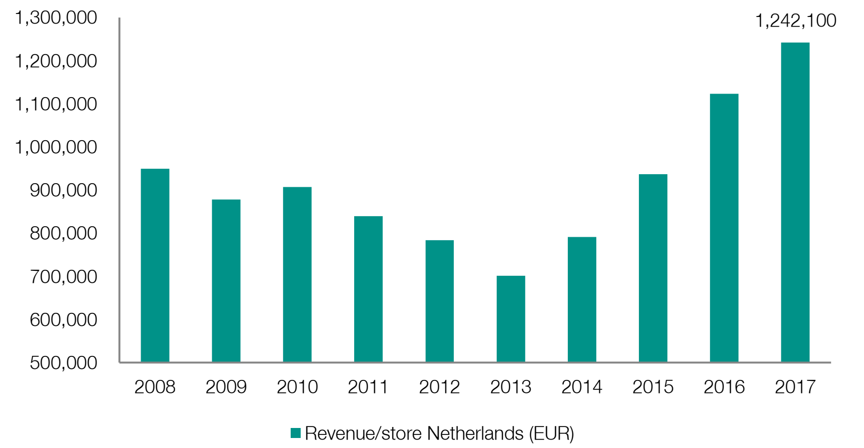
Source: Beter Bed, ABN AMRO Equity Research

2.3. The Netherlands is performing much better

The Netherlands is a positive example of operational leverage

As a comparison, the next graph shows the sales per average store in the Netherlands between 2008-2017. Since 2013, the development in the sales/store has been favourable in the Netherlands, leading to sales/store of EUR 1.2m in 2017. Beter Bed's other regions (16% of group sales in 2017) show a similar pattern as the Netherlands, i.e. increasing sales/store since 2013.

Figure 4: Revenue per average store Netherlands 2008-17 (EUR)



Source: Beter Bed, ABN AMRO Equity Research

Low correlation between group gross margin and top-line growth

On a normalised level, the EBITDA margin hovered between 7.0-12.6%

The next table shows Beter Bed's normalised P&L statement up to the normalised EBIT line. Based on Beter Bed's annual reports and comments from the group's results press releases, we have made adjustments to reported numbers for 2012, 2013, and 2017. Where possible, we adjusted in the separate cost lines in order to get a good sense of underlying costs. For example, Beter Bed mentioned restructuring costs for redundancies of EUR 2m in 2017, and we have adjusted for these costs in the wage and salary costs line. Other years when Beter Bed reported non-recurring costs were 2012 and 2013.

Figure 5: Normalised P&L statement Beter Bed 2007-17 (EUR m)

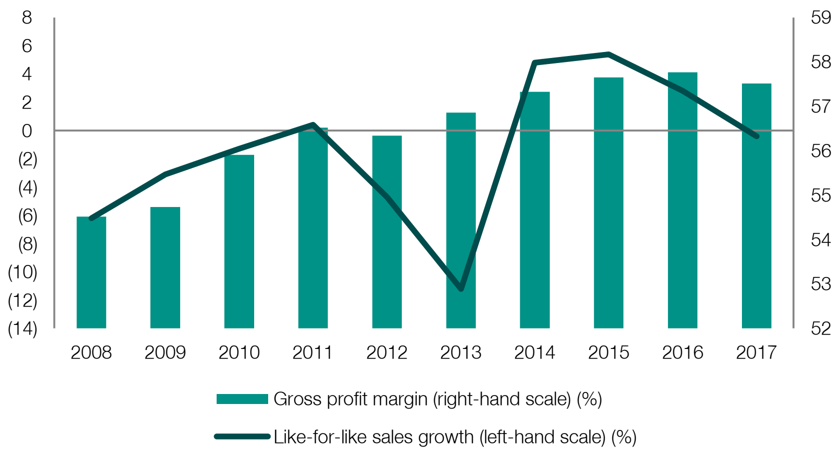
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**351.2**	**358.6**	**361.5**	**374.7**	**397.0**	**397.3**	**357.4**	**364.0**	**385.4**	**410.5**	**416.4**
Gross profit	**188.7**	**195.5**	**197.8**	**209.5**	**224.4**	**223.8**	**203.2**	**208.7**	**222.2**	**237.1**	**239.5**
Gross profit margin (%)	**53.7**	**54.5**	**54.7**	**55.9**	**56.5**	**56.3**	**56.9**	**57.3**	**57.7**	**57.8**	**57.5**
Normalised wage and salary costs	(73.1)	(78.1)	(78.2)	(81.2)	(87.8)	(90.4)	(87.0)	(89.9)	(92.2)	(100.5)	(106.3)
Normalised rental costs real estate	(33.3)	(37.6)	(39.6)	(41.0)	(44.0)	(47.3)	(46.0)	(43.1)	(42.6)	(45.1)	(47.7)
Normalised lease costs other	(2.2)	(2.4)	(2.4)	(2.7)	(2.6)	(2.7)	(2.5)	(2.5)	(2.6)	(2.7)	(2.8)
Normalised other operating costs	(35.8)	(38.9)	(37.2)	(39.3)	(43.3)	(42.8)	(39.1)	(41.9)	(44.3)	(51.5)	(53.5)
Normalised EBITDA	**44.3**	**38.5**	**40.4**	**45.3**	**46.8**	**40.6**	**28.6**	**31.3**	**40.5**	**37.3**	**29.3**
Normalised EBITDA margin (%)	**12.6**	**10.7**	**11.2**	**12.1**	**11.8**	**10.2**	**8.0**	**8.6**	**10.5**	**9.1**	**7.0**
Depreciation	(7.0)	(7.3)	(7.8)	(7.8)	(8.5)	(8.9)	(7.9)	(7.1)	(8.4)	(9.6)	(11.1)
Amortisation	0.0	0.0	0.0	0.0	0.0	(0.6)	(1.1)	(1.2)	(1.4)	(1.6)	(1.7)
Normalised EBIT	**37.3**	**31.2**	**32.6**	**37.5**	**38.3**	**31.2**	**19.6**	**23.0**	**30.7**	**26.1**	**16.4**
Normalised EBIT margin (%)	**10.6**	**8.7**	**9.0**	**10.0**	**9.6**	**7.8**	**5.5**	**6.3**	**8.0**	**6.4**	**3.9**

Source: Beter Bed, ABN AMRO Equity Research

Beter Bed's gross profit margin increased steadily in 2007-17

Beter Bed's gross profit margin increased consistently over the reported years (on average by 38bp pa), almost irrespective of reported like-for-like sales growth. This is illustrated by the next graph, which shows Beter Bed's like-for-like sales growth and its gross profit margin between 2008-2017. Even in 2013, the year with the strongest like-for-like sales decrease (of -11.2%), Beter Bed managed to improve its gross profit margin. Beter Bed's gross profit margin decreased marginally in 2017 (to 57.5% from 57.8% in 2016). This decrease was primarily due to the increasing share of box springs and textiles in group revenue. Although the absolute gross profit contribution from box springs is higher, the gross profit margin on these products is lower than the group average excluding this category, according to Beter Bed. Adding more box springs to the assortment in Germany is therefore set to have a negative mix effect on the group's gross margin going forward, in our view.

Figure 6: Beter Bed like-for-like sales growth and gross profit margin 2008-17 (%)



Source: Beter Bed, ABN AMRO Equity Research

2.4. Beter Bed's operational leverage is high

Fixed costs and therefore operational leverage is high

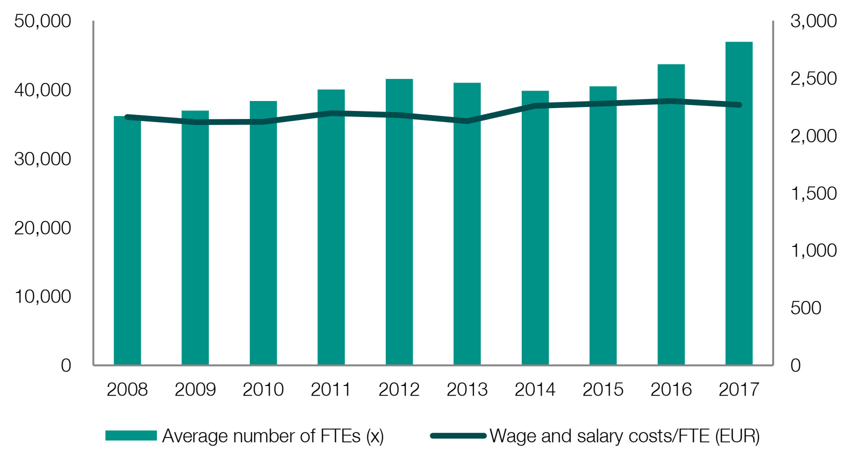
Beter Bed's operational leverage is relatively high, meaning that the percentage of fixed costs is high compared with the percentage of variable costs. This means that in scenarios of positive like-for-like sales growth, the additional EBIT contribution from this positive sales growth is almost equal to the gross profit contribution (in the case of Beter Bed, the gross profit margin was 57.5% of sales in 2017). Unfortunately, this also works the other way around. If sales comes down organically (i.e. a decreasing revenue/store), operational costs do not come down at the same pace because a high percentage of these operational costs is fixed (at least short-term). In the next sections of this note, we explore Beter Bed's business model further. Beter Bed's regional disclosure is very limited as the group only provides regional information on revenue, the number of stores, the number of FTEs, and the fixed asset based per region. Profitability metrics such as gross profit margin, EBITDA profitability, and EBIT margin are not provided on a regional level, and we will have to make several assumptions in order to be able to calculate EBIT(DA) per region.

We consider wage and salary costs as fixed

Wage costs are fixed and a function of FTEs per store

Below gross profit, Beter Bed distinguishes the following cost items: 1) wage and salary costs, 2) depreciation and amortisation costs, 3) rental and lease costs, and 4) selling and distribution costs. The next graph shows Beter Bed's average number of FTEs (right-hand scale) and the average normalised wage and salary costs/FTE (left-hand scale). In the past 10 years, the yearly wage and salary costs/FTE hovered between EUR 35,290-38,353. On a store level, we consider the salary costs as fixed. On a group level, the average number of FTEs/store is 2.4. In Germany, Beter Bed operates an average store with 1.9 FTEs. In the past years, this average has increased slightly (to 1.9 in 2017 from 1.7 in 2008). Attributed to the bigger size of the stores, the average FTEs/store in the Netherlands was 5.9 in 2017. Under the assumption that Beter Bed cannot materially change the number of FTEs/store, we consider salary costs/store as fixed on a short-term basis.

Figure 7: Beter Bed number of FTEs and wage and salary costs/FTE



Source: Beter Bed, ABN AMRO Equity Research

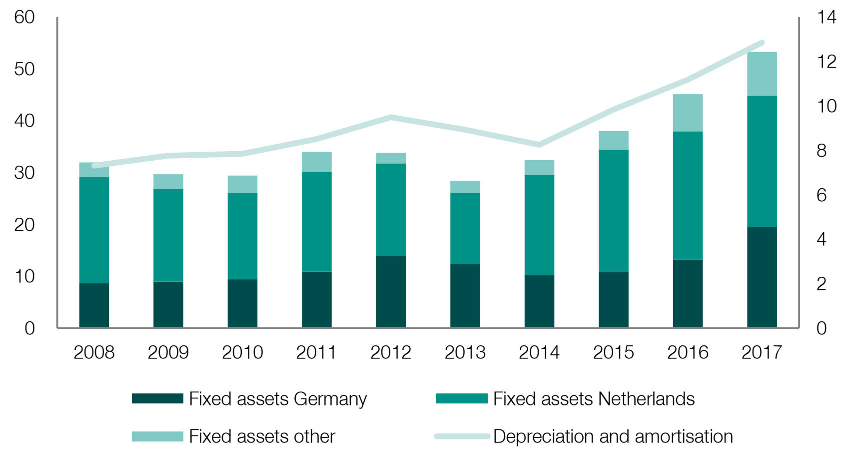
Depreciation costs are of a fixed nature, but on the rise

Increasing capex led to increasing depreciation costs lately

The next graph shows Beter Bed's fixed asset base split per region since 2008. The line in the graph shows the development of Beter Bed's depreciation and amortisation costs since 2008 (right-hand scale). The graph shows that the group asset base is increasing since 2013. Moreover, in the past few years, Germany is mainly responsible for this increase in fixed assets, explained by the refurbishment of the Matratzen Concord stores (at the end of 2017, 85% of all Matratzen Concord stores were located in Germany). Hence, we deem it likely that the increase in depreciation/amortisation can mainly be attributed to

Germany. From Beter Bed we understand that the planned remaining refurbishments in Germany were cancelled in light of the persistent poor performance of the stores (we estimate that some 30% of the German stores still needed to be refurbished when Beter Bed decided to cancel the rest of the programme). Still, based on already completed refurbishments, we anticipate depreciation and amortisation costs to increase further, also in Germany. Although non-cash, on a short-term, these costs are fixed costs, in our view.

Figure 8: Beter Bed's regional fixed asset base and group depreciation 2008-17 (EUR m)



Source: Beter Bed, ABN AMRO Equity Research

Beter Bed's rental costs are fixed as well

Rental costs are mainly fixed and a function of the number of stores

Beter Bed leases virtually all of its 1,188 stores (end 2017). In its 2017 annual report, the group states that the majority of the rental agreements for the Matratzen Concord format have been concluded for a period between five-to-ten years, and include a clause stipulating that the agreements can be terminated without charge within the first two years.

IFRS 16 is set to have a material impact on net debt and EBITDA

The introduction of IFRS 16 (lease accounting) is set to have a material impact on Beter Bed's financial accounts, in our view. We estimate the present value of the current lease obligations at EUR 127m, and we expect the group's balance sheet total (and lease-adjusted net debt) to increase at least by this amount. Note that our present value calculation does not take into account the renewal options on lease contracts. Including renewal options, we expect the lease-adjusted balance sheet total to increase by more than the mentioned EUR 127m. Lease-adjusted EBITDA and EBIT are set to increase as well. We do not know the exact impact from lease accounting on EBITDA and EBIT as it depends on both the depreciation rate and the interest rate assumed on the capitalised leases.

Covenant ratios remain calculated excluding IFRS 16 though

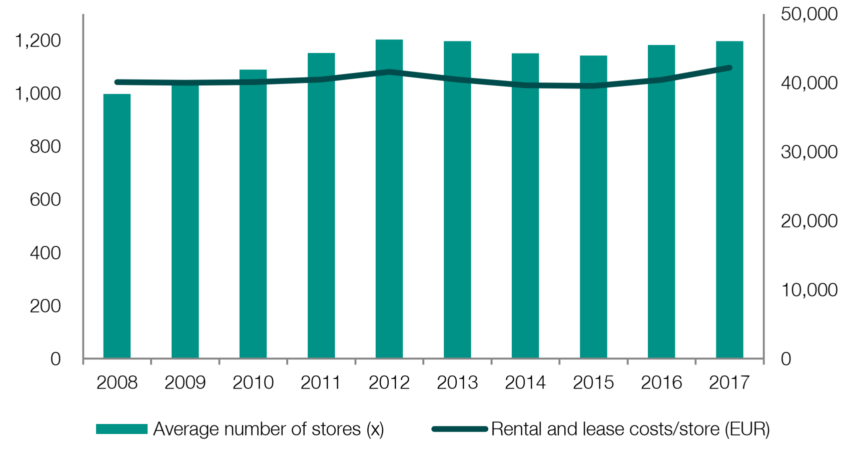
According to Beter Bed (annual report 2017), the balance sheet total and EBITDA will increase significantly. IFRS 16 will, in conclusion, inevitably have a great impact on a number of ratios, including solvency. The covenants with credit institutions are not impacted, however, given the fact that the ratios concerned are calculated excluding the impact of IFRS 16. The main conditions of Beter Bed's credit facilities are a minimum solvency (equity/total assets) of 25% and a maximum interest-bearing debt/EBITDA ratio of 2.5x.

The German stores are much smaller than the Dutch Beter Bed stores

The next graph shows Beter Bed's average number of stores (left-hand scale) and the average yearly rental and lease costs/store (right-hand scale). In the past 10 years, the rental and lease costs/store hovered between EUR 39,545-42,189 per year. On a store level, these costs are fixed, in our view. We assume that the actual costs/store are dependent on the square meter size of that store. Earlier we concluded that the German stores are materially smaller than the Dutch stores. In our analysis, we assume EUR 31,318 in rental and lease costs/store for the German stores. For the Dutch stores, we assume

EUR 125,271/store, and for all other stores we estimate these costs at EUR 39,147/store on average. As per end 2017, the total group floor space amounted to 429,210 square meters (2016: 425,038), implying an average store size of 360 square meters (2016: 350).

Figure 9: Beter Bed number of stores and rental and lease costs/store



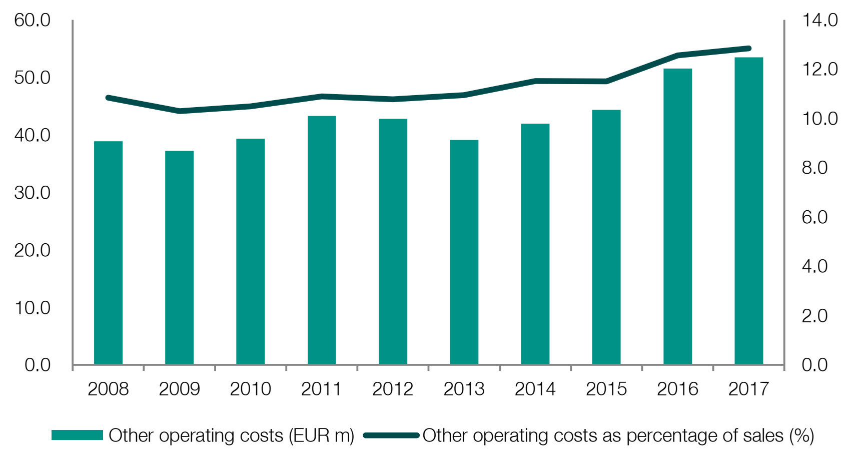
Source: Beter Bed, ABN AMRO Equity Research

We assume selling and distribution costs as variable

Selling and distribution costs vary with top-line development

The remaining operating costs are selling and distribution costs. Although not further specified by Beter Bed, we assume these costs to include costs for marketing/promotions and for distribution/logistics. As such, we consider these costs are variable, and strongly related to sales. The next graph shows Beter Bed's selling and distribution costs in absolute amounts (left-hand scale) and as a percentage of group sales (right-hand scale). As a percentage of sales, these costs hovered between 10.3-12.8% in 2008-2017. The maximum percentage of 12.8% was reached in 2017, and can partly be explained by additional marketing expenses to recapture lost consumer traffic in Germany. Although not disclosed by Beter Bed, we envisage that this percentage was higher in Germany than in the other countries. The general trend of rising other operating costs as percentage of sales can also be explained, in our view, by higher distribution costs on the back of the solid growth in the Benelux. The number of cash-and-carry transactions is much higher in Germany than in the Benelux, in our view. Hence, accelerating growth in the Benelux (i.e. more deliveries) could quickly lead to accelerating distribution costs, in our view.

Figure 10: Beter Bed operating costs (EUR m) and operating costs as percentage of sales (%)



Source: Beter Bed, ABN AMRO Equity Research

2.5. Regional analysis shows Germany is just profitable

Although not disclosed, we try to analyse German profitability

Based on our operational leverage analysis on Beter Bed's group level, we now try to assess how more than two years of negative like-for-like sales growth in Germany could have impacted EBIT(DA) profitability in Germany. In order to be able to perform this analysis, we assume the following:

We assume Germany's gross margin to be higher than the average

- We assume that Beter Bed's gross profit margin is the highest in Germany (and in the other Matratzen Concord countries), and lower in the Netherlands and in some other countries (ie, Belgium, Sweden and Spain). This is explained by the relatively higher gross margin on mattresses compared with the gross margin on beds and textiles. Until 2017, Beter Bed mainly sold mattresses in its Matratzen Concord stores. As a result of the addition of box springs in the Matratzen Concord stores and thus in Germany, we anticipate the gross margin (as a percentage of sales) to come down in these stores and in Germany going forward.

We assume similar personnel costs/FTE for all regions

- We estimate that annual personnel costs/FTE are similar for all regions, implying some EUR 37,762 for Germany as well. Total employee costs are a function of the number of FTEs per store. For Germany, this number is 1.9.

Following refurbishments, the German asset base has increased

- We calculate depreciation and amortisation costs as a function of the regional fixed assets base. This implies that c.37% of Beter Bed's group depreciation and amortisation can be attributed to Germany.

Rental costs are mainly a function of the size of a store

- The annual rental costs/store are dependent on the size of the stores. We assume that the Matratzen Concord stores in Germany are relatively small compared with the group average of 360 square meters in 2017. Our estimate for the annual rental/costs per store is EUR 31,318 for Germany.

- We forecast selling and distribution costs as a percentage of sales. For Germany, we assume a percentage equal to the group average of 13%.

We conclude that Germany barely remained EBIT(DA) positive in 2017

Our findings for Germany based on 2017 numbers (for reported revenue, for number of stores, for FTEs, and for fixed asset base), and assumptions are highlighted in the next table. We used normalised estimates, meaning that we adjusted for one-off expenses. Our main conclusion is that based on the current annual revenue/average store of EUR 236,756, Germany is slightly profitable on the level of EBIT, and we estimate the EBITDA margin at 2.9%. At its 2017 annual results presentation (2 March 2018), management confirmed that Germany remained EBIT(DA) profitable in 2017.

Figure 11: Beter Bed regional analysis Germany

	Per store 2017e (EUR)	Actual store base 2017e (EUR m)
Sales	**236,756**	**202.4**
Gross profit	**142,290**	**121.7**
Rental/lease costs	(31,318)	(26.8)
Employee costs	(73,625)	(62.9)
Sales and distribution costs	(30,395)	(26.0)
EBITDA	**6,953**	**5.9**
EBITDA margin (%)	**2.9**	**2.9**
Depreciation/amortisation	(5,496)	(4.7)
EBIT	**1,457**	**1.2**
EBIT margin (%)	**0.6**	**0.6**

Source: ABN AMRO Equity Research

We estimate that the Netherlands is Beter Bed's most profitable country

The next table shows a summary of the regional analysis for all regions combined. We conclude that the Netherlands is highly profitable (both on the level of EBIT and EBITDA), and that all other countries combined (i.e. Belgium, Austria, Switzerland, Spain, and Sweden) are both EBITDA and EBIT profitable, albeit at a materially lower level than the Netherlands. Note that the combined numbers do not add up to the reported group results 2017. This is explained by the exclusion of one-off items of EUR 2m related to redundancies.

Revenue/store for EBIT breakeven levels are EUR 960,000 for the Netherlands (2017: EUR 1,242,100), and EUR 281,500 for the stores in Beter Bed's other countries (2017: EUR 292,563). As explained, we assume that German revenue/store should not deteriorate much further before Germany could become loss-making on EBIT level.

Figure 12: Beter Bed regional analysis per region (EUR m)

	Germany 2017e	The Netherlands 2017e	Other 2017e	Group 2017
Sales	**202.4**	**149.1**	**64.9**	**416.4**
Gross profit	**121.7**	**81.2**	**36.6**	**239.5**
Rental/lease costs	(26.8)	(15.0)	(8.7)	(50.5)
Employee costs	(62.9)	(26.8)	(16.5)	(106.3)
Sales and distribution costs	(26.0)	(19.1)	(8.3)	(53.5)
EBITDA	**5.9**	**20.2**	**3.1**	**29.3**
EBITDA margin (%)	**2.9**	**13.6**	**4.8**	**7.0**
Depreciation/amortisation	(4.7)	(6.1)	(2.0)	(12.8)
EBIT	**1.2**	**14.1**	**1.1**	**16.4**
EBIT margin (%)	**0.6**	**9.5**	**1.6**	**3.9**

Source: Beter Bed, ABN AMRO Equity Research

2.6. Germany loss-making if revenue/store drops further

If top-line development does not improve, Germany will turn to losses

The table below shows a scenario analysis for Beter Bed's German operations based on our 2017 assumptions. If like-for-like sales decrease another 10% from the current levels (we note that on a like-for-like basis, revenue in Germany decreased by 9.4% in 1Q18), EBIT losses would increase to more than EUR 8m, on our estimates, or a negative delta of almost EUR 10m. On the other hand, if like-for-like sales were to increase by 10%, Germany could become EBIT profitable at EUR 10.8m, on our estimates, or an increase of EUR 9.6m. This scenario analysis clearly illustrates operational leverage. In the bull scenario, the incremental sales leads to EUR 12.2m incremental gross profit. Of this extra gross profit, EUR 9.6m (or 79%) falls through to EBIT(DA). We note that these scenarios are based on 2017 levels for rent costs/store, and employee costs/store. Going forward, attributed to normal inflation, we expect these costs to increase, implying that the revenue/store breakeven level is set to increase as well.

Figure 13: Beter Bed scenario analysis Germany (EUR m)

	Bear: like-for-like -10%	Base	Bull: like-for-like +10%
Sales	**182.2**	**202.4**	**222.7**
Gross profit	**109.5**	**121.7**	**133.8**
Rental/lease costs	(26.8)	(26.8)	(26.8)
Employee costs	(62.9)	(62.9)	(62.9)
Sales and distribution costs	(23.4)	(26.0)	(28.6)
EBITDA	**(3.6)**	**5.9**	**15.5**
EBITDA margin (%)	**(2.0)**	**2.9**	**7.0**
Depreciation/amortisation	(4.7)	(4.7)	(4.7)
EBIT	**(8.3)**	**1.2**	**10.8**
EBIT margin (%)	**(4.6)**	**0.6**	**4.9**

Source: ABN AMRO Equity Research

3. The way out for Beter Bed

3.1. Improving revenue/store is key for Germany

Revenue/store should return to historical numbers in Germany

Based on our operational analysis, we conclude that Beter Bed's solution to the problem is straightforward, namely improving the revenue/store in Germany. However, improving revenue/store is obviously easier said than done, but we believe that Beter Bed should be able to achieve this, particularly when it comes to online and one-fits-all. We identified four levers that Beter Bed should pull and, in some cases is already pulling, in order to improve its German operations.

3.2. Online should be developed further in Germany

Management is working on improving its German online proposition

Beter Bed should develop its online strategy further, in our view. In its annual report 2017, Beter Bed mentions that for its Beter Bed brand, online sales represented 7.8% of revenues. For the group's Beddenreus brand (representing the discount segment in the Netherlands), online sales represented 5.7% of revenues in 2017. Beter Bed claims to have web shops for all brands, but the group does not disclose its online sales as percentage of sales for Matratzen Concord, or for the Spanish and Swedish operations. On a group level, we assume Beter Bed still to be underrepresented in online, whereas a fair share in online is one of Beter Bed's objectives. With the web shops apparently operational for all brands, Beter Bed now needs to capitalise on earlier investment (this probably implies that more marketing is set to be spent behind the online proposition). Moreover, there is more to be gained operationally when Beter Bed transfers from the currently two IT platforms for online to just one. We do not see specific reasons why Beter Bed cannot achieve its fair share in online. For example, compared with pure online players, Beter Bed has the advantage of an extended and nationwide distribution network in Germany and the Netherlands, which helps when it comes to delivery, returns, and recycling. A major challenge here is that Matratzen Concord historically is a cash-and-carry concept. Changing both the actual organisation (to a more delivery-focused company) as well as the consumer perception, may be a challenge and also costly.

3.3. Beter Bed should come up with an answer to one-fits-all

Beter Bed has the know-how to introduce a one-fits-all mattress

Beter Bed's product offering is aimed at selling the perfect mattress, for the best price to each individual based on their needs. In other words, Beter Bed is not an advocate of the one-fits-all proposition. However, the one-fits-all proposition is gaining momentum, and is now one of the main new market trends, in our view. Beter Bed should develop an alternative in order to prevent these relatively young market players (i.e. Casper, Eve, Emma) to continue to gain market share on the traditional players, in our view. Adding one premium and one discount one-fits-all mattress to its existing assortment could resolve part of this gap, in our view. Also here, Beter Bed could leverage its existing platform by adding free delivery, free returns, recycling of old mattresses, and an extensive trial period in order to at least match, or preferably outbid the offering of these new market players. Similar to online in general, we do not see specific reasons why Beter Bed cannot introduce competitive one-fits-all propositions, and we assume the introductions thereof to be a matter of time.

3.4. Catching up in the box spring category is essential

Adding box springs should help Beter Bed to recapture part of the market

In its Matratzen Concord stores, Beter Bed is underrepresented in the box spring bedding category. According to management, this category is growing particularly fast in Germany (now at around EUR 1bn in consumer value) and in order to maintain its fair share in the bedding market in Germany, Beter Bed needs to adjust to this market trend. In our understanding, Beter Bed has added box spring beds to its assortment in the Matratzen Concord stores. We have no financial details about how the sales uplift from box spring sales went, but like-for-like sales growth remained under severe pressure in Germany in the past quarters. In order to convert the broader box spring offering in its Matratzen Concord stores into sales, Beter Bed likely is likely to have to increase marketing efforts and expenses, in our view. We consider the objective of capturing a certain share of the fast-growing box spring category as challenging. To our knowledge, the brand heritage of Matratzen Concord is that most consumers (in Germany, Austria and Switzerland) know Matratzen Concord as a cash-and-carry discounter that mainly sells matrasses. Although Beter Bed is familiar with offering box springs and other non-mattress products (for example in Beter Bed stores in the Netherlands), it may take some time and effort (and costs) before consumers are aware that Matratzen Concord also offers box springs in its stores.

3.5. Store portfolio optimisation is another lever to pull

A detailed store portfolio review is inevitable in Germany, in our view

Another way of improving the average revenue/store in Germany is optimisation of the store portfolio. We do not know how big the tail of underperforming stores is in Germany, but in the next sections we present scenarios of cutting the store portfolio by 10% and 20% in Germany. In light of the market trend of an increasing penetration of online sales, longer-term we deem a reduction in the number of stores by 20% likely.

3.6. Plain vanilla cost-cutting not straightforward

A simple cost-cutting exercise is not likely, in our view

We do not see how Beter Bed can lower its operating costs/store because, as explained, we consider most cost categories as fixed. For example, the number of FTEs/store is a function of the size of the store, in our view. This also explains why the average number of FTEs is 5.9 for the Netherlands (2017 numbers) and 1.9 for Germany, as the stores in the Netherlands are much bigger than the German stores. In the past 10 years, the low point for this ratio was 1.7 for Germany. We see little room for a further reduction in FTEs/store in Germany, as it simply takes so many FTEs (on average) to run a store. In a similar way, it is hardly possible, in our view, to lower rental/lease costs per store or depreciation costs per store.

Beter Bed's only variable cost line likely to surge rather than decrease

The only cost line that Beter Bed could possibly influence on a short-term basis, is selling and distribution costs, in our view. However, going forward, we foresee upward pressure on these costs, as both distribution costs (likely more deliveries, and less cash-and-carry) and marketing costs (a step-up is needed, in our view, to improve store traffic) are set to increase (as a percentage of sales), in our view. Regarding marketing costs, we can envisage that the total cost increase can be mitigated by shifting budget from traditional offline channels to new online-oriented channels.

3.7. We do not exclude store closures

Closing the tail stores could improve Germany's EBIT(DA)

Management could obviously decide to close stores in Germany and save on rental/lease costs, employee costs, and sales and distribution costs. However, closing stores obviously also lowers the overall gross profit contribution and thus only makes sense if store closures lead to an increase in the average revenue/store. The next table shows the estimated impact of closing a 10% tail of the German store portfolio under different scenarios. In all scenarios we assume that 10% of the store base will be closed (i.e. 86 stores). In the first scenario, we assume that these stores generate revenue/store that is 10% below the current average, and in the last scenario we assume these stores generate revenue/store 40% below the average. In these scenarios, closing the tail stores is obviously set to increase the average revenue/store for the remaining stores. Our scenario analysis shows that the EBIT and EBITDA cost savings could be EUR 0.8-3.7m, and EUR 0.4-3.2m, respectively.

Figure 14: Beter Bed scenario analysis for 10%-tail store closures in Germany (EUR m)

	Base	10% tail: -10%	10% tail: -20%	10% tail: -30%	10% tail: -40%
Sales	**202.4**	**184.2**	**186.2**	**188.3**	**190.3**
Revenue/store (EUR)	**236,756**	**239,386**	**242,017**	**244,647**	**247,278**
Gross profit	**121.7**	**110.7**	**111.9**	**113.1**	**114.4**
Rental/lease costs	(26.8)	(24.1)	(24.1)	(24.1)	(24.1)
Employee costs	(62.9)	(56.7)	(56.7)	(56.7)	(56.7)
Sales and distribution costs	(26.0)	(23.6)	(23.9)	(24.2)	(24.4)
EBITDA	**5.9**	**6.3**	**7.3**	**8.2**	**9.2**
EBITDA margin (%)	**2.9**	**3.4**	**3.9**	**4.4**	**4.8**
Depreciation/amortisation	(4.7)	(4.2)	(4.2)	(4.2)	(4.2)
EBIT	**1.2**	**2.1**	**3.0**	**4.0**	**4.9**
EBIT margin (%)	**0.6**	**1.1**	**1.6**	**2.1**	**2.6**

Source: ABN AMRO Equity Research

Our scenarios assume 10-20% store closures (86-171) in Germany

If management decides that the tail is bigger than 10%, the impact of closing the tail stores could be as highlighted in the next table, which shows the estimated impact of closing a 20% tail of the German store portfolio under different scenarios.

Figure 15: Beter Bed scenario analysis for 20%-tail store closures in Germany (EUR m)

	Base	20% tail: -10%	20% tail: -20%	20% tail: -30%	20% tail: -40%
Sales	**202.4**	**166.0**	**170.0**	**174.1**	**178.1**
Revenue/store (EUR)	**236,756**	**242,674**	**248,593**	**254,512**	**260,431**
Gross profit	**121.7**	**99.8**	**102.2**	**104.6**	**107.1**
Rental/lease costs	(26.8)	(21.4)	(21.4)	(21.4)	(21.4)
Employee costs	(62.9)	(50.4)	(50.4)	(50.4)	(50.4)
Sales and distribution costs	(26.0)	(21.3)	(21.8)	(22.3)	(22.9)
EBITDA	**5.9**	**6.7**	**8.6**	**10.5**	**12.4**
EBITDA margin (%)	**2.9**	**4.0**	**5.0**	**6.0**	**7.0**
Depreciation/amortisation	(4.7)	(3.8)	(3.8)	(3.8)	(3.8)
EBIT	**1.2**	**2.9**	**4.8**	**6.7**	**8.7**
EBIT margin (%)	**0.6**	**1.8**	**2.8**	**3.9**	**4.9**

Source: ABN AMRO Equity Research

The potential EBITDA uplift from the base scenario could be 6-109%

In all scenarios, we assume that 20% of the store base will be closed (i.e. 171 stores). In the first scenario, we assume these stores generate revenue/store that is 10% below the current average, and in the last scenario we assume these stores generate revenue/store 40% below the average. This second scenario analysis shows that the EBIT and EBITDA cost savings could be EUR 1.7-7.4m, and EUR 0.7-6.5m, respectively. Our two scenario analyses show that closing stores could improve revenue/store by 1-10%. Operational leverage is illustrated by the potential EBITDA uplift of 6-109%.

Store closures likely also in light of changing market dynamics

Increasing online penetration is an argument for store closures

In light of the strong growth of the online suppliers, we assume it to be inevitable that operators with a store network such as Beter Bed will have to adjust their sales platform and lower the number of physical stores. To illustrate, according to *The Guardian*, suppliers increased their share of the UK mattresses market to some 5% in 2017 from zero in 2013. Moreover, according to *The Guardian*, there are predictions that this percentage could increase to around 20% in 2021. In most countries of presence, we assume that Beter Bed's online revenue as a percentage of its total sales is comparable to the total market penetration for online. However, we assume that for Matratzen Concord (Beter Bed's largest brand by far) Beter Bed does not achieve its fair share in online sales.

We estimate the German bedding market at EUR 2.5bn in terms of consumer value

The next table highlights a simple overview of the estimated mattresses replacement market in the countries where Beter Bed is present. Our estimates are straightforward, as we assume an average replacement cycle of 12 years and an average selling price per mattress of EUR 220. According to Beter Bed, the German box spring market is some EUR 1bn, bringing the total for the German market to EUR 2.5bn, excluding textile and other accessories. Note that these estimates are consumer value estimates implying that on the level of net sales for Beter Bed, the amounts are lower, attributed to the average VAT rate of c.20% in Beter Bed's countries of presence.

Figure 16: Estimated market size per country of mattresses replacement market

Country	Inhabitants (m)	Mattress replacement volume (m)	Consumer value (EUR m)
Germany	82.5	6.9	1,513
Netherlands	17.1	1.4	313
Belgium	11.4	0.9	208
Austria	8.8	0.7	161
Switzerland	8.4	0.7	154
Sweden	10.0	0.8	183
Spain	46.5	3.9	853
Total	**184.7**	**15.4**	**3,386**

Source: Eurostat, ABN AMRO Equity Research

3.8. Portfolio optimisation likely to lead to one-off costs

A restructuring typically leads to one-off costs

Obviously there are costs associated with store closures. For example, we calculate the average duration of the lease contracts at 2.7 years on group level. When applying this to the 10% tail of the German stores, this gives remaining rental/lease obligations of c.EUR 7m for all these German stores combined for the average remaining duration of 2.7 years. Furthermore, by closing 10% of its German stores, Beter Bed can save around EUR 6.3m on employee costs annually. However, these implied redundancies would most likely also lead to one-off (restructuring) expenses, in our view. Also, considering Beter Bed's recent decision to cease the refurbishment of the remaining German stores, we can envisage the group taking an impairment charge on the refurbishments that were completed and activated so far. To illustrate, fixed assets increased to EUR 19.5m in 2017 from EUR 10.9m in 2015 in Germany. We assume that the bulk of this increase is associated with the recent refurbishments, and we can imagine Beter Bed announcing impairments.

In the base-case scenario we assume EUR 20m in one-off costs

The next table shows an overview of what we think one-off expenses could be in the event of store closures and other restructuring in Germany. We furthermore provide our view on what costs are expected to be cash-out costs and what costs are considered non-cash.

Figure 17: Potential restructuring costs 10%-tail store closures Germany (EUR m)

Cost item	Cash	Non-cash	Amount
Rental/lease restructuring	4.0	0.0	4.0
Redundancies	3.0	0.0	3.0
Impairments refurbishments	0.0	9.0	9.0
Other	2.0	2.0	4.0
Total	**9.0**	**11.0**	**20.0**

Source: ABN AMRO Equity Research

In the past five years, Beter Bed closed 5% of its German stores pa

For the rental/lease obligation we assume EUR 4m in cash costs in order to terminate the lease rents for the stores that are earmarked for closure. We do not assume the full amount of an estimated EUR 7m in remaining obligations as 1) Beter Bed probably has the right to find new tenants for the location, 2) because some of the obligations are due in the distant future, and 3) because Beter Bed can probably combine store closures with already planned relocations of stores. To illustrate, the next table shows the annual store closures and store openings in Germany in 2013-2017. The table highlights that, on average, Beter Bed closed some 5% of its German store portfolio per year in 2013-2017, and we therefore think that our EUR 4m in costs related to leases, in a scenario of 10% store closures in Germany, is not overly conservative.

Figure 18: Beter Bed store closures and store openings in Germany in 2013-2017 (x)

	2013	2014	2015	2016	2017
Stores open 1 January	**852**	**864**	**846**	**849**	**861**
Stores closed	(44)	(47)	(42)	(40)	(46)
Stores opened	56	29	45	52	34
Stores open 31 December	**864**	**846**	**849**	**861**	**849**

Source: Beter Bed

Redundancies could lead to material one-off costs

For redundancies (estimated at c.165 FTEs), we assume EUR 3m in restructuring costs (all cash), which equals around 50% of the annual cost savings on the FTE reduction.

Impairments on recently refurbished stores is likely, in our view

The German fixed asset base increased by EUR 8.6m over the past two years. We conclude that this increase can mainly be attributed to the store refurbishments so far. In our analysis, we assume impairments of EUR 9m, which obviously is all non-cash. In order to be conservative, we assume other restructuring costs of EUR 4m, of which an estimated 50% is cash. In summary, we expect that cutting the tail of the Germany store portfolio by 10% could lead to total restructuring expenses of some EUR 20m, with the majority expected to be non-cash costs.

3.9. Major impairments unlikely as asset base is small

Beter Bed's fixed asset base is relatively small at EUR 56m in 2017

We note that Beter Bed's fixed assets base is relatively small at EUR 56.1m reported in 2017 (see next table). There is no (more) goodwill on the balance sheet and the intangible operating assets mainly concern acquired brands (i.e. Sängjätten), licenses, and software. The balance sheet item where we would anticipate impairments is the other fixed operating assets (2017: EUR 33.5m). This is the balance sheet item that accelerated rapidly in the past years, which can mainly be attributed to new-store openings and refurbishments (store fittings). Our base case restructuring scenario assumed EUR 11m in non-cash costs, or impairments. This would equal an impairment of c.33% of Beter Bed's other fixed operating assets, or a very material percentage, in our view. We deem it unlikely that a restructuring related to store closures would lead to write-downs of Beter Bed's current assets (mainly inventory). First, the level of inventory is relatively low in the German Matratzen Concord stores, and second, we assume that the existing inventory can easily be transferred to the German stores that are not part of a restructuring.

Figure 19: Beter Bed fixed assets 2016 and 2017 (EUR m)

	2016	2017
Land	7.1	7.1
Buildings	4.0	3.7
Other fixed operating assets	27.0	33.5
Intangible operating assets	7.0	9.0
Goodwill	0.0	0.0
Deferred tax assets	1.2	2.4
Long-term accounts receivable	0.7	0.5
Total fixed assets	**46.9**	**56.1**

Source: Beter Bed, ABN AMRO Equity Research

A 20% tail closure could lead to EUR 29m in one-off costs

In the event of a 20%-tail store closure scenario, we expect the cash restructuring costs to double to EUR 18m. For the non-cash part (impairments) we expect the restructuring costs to remain at around EUR 11m.

To conclude, dependent on whether Beter Bed decides to close 10% or 20% of its stores in Germany, we expect restructuring costs of EUR 20m or EUR 29m. We note that we obviously do not know whether store closures will be part of Beter Bed's change strategy for Germany at all.

Figure 20: Potential restructuring costs 20%-tail store closures Germany (EUR m)

Cost item	Cash	Non-cash	Amount
Rental/lease restructuring	8.0	0.0	8.0
Redundancies	6.0	0.0	6.0
Impairments refurbishments	0.0	9.0	9.0
Other	4.0	2.0	6.0
Total	**18.0**	**11.0**	**29.0**

Source: ABN AMRO Equity Research

3.10. New management on key positions

A lot of new names at Beter Bed's top management positions

Beter Bed has coped or is coping with many management changes recently. To illustrate, former CEO Ton Anbeek resigned 14 July 2017 and left Beter Bed as per 1 November 2017. The group's CFO, Bart Koops resigned 1 May 2018 and is set to leave the company as per 1 August 2018. The appointment of Beter Bed's new CEO, John Kruijssen, was announced 16 January 2018. John Kruijssen started working for Beter Bed on 1 April 2018, and he was appointed CEO at Beter Bed's AGM on 26 April 2018. Alongside these changes to the management board, Beter Bed recently appointed new directors for Beter Bed Benelux and for DBC. Moreover, Beter Bed also installed a new management team in Germany, all of whom should be fully operational as of 1 July 2018. The quest for a new CFO is ongoing, but we anticipate an announcement in the coming months and the final appointment (at an EGM) shortly thereafter. We do not know whether the new CFO will come from Beter Bed or from outside the group, but in light of the recently-appointed CEO who came from outside Beter Bed, we assume an external appointment of the CFO as well.

3.11. A retail-experienced and open-to-change CEO

John Kruijssen seems to be the right person for the CEO position

From 1984-1997 Beter Bed's new CEO, John Kruijssen (1965), gained experience in a diverse range of managerial positions at companies such as Halfords and Unigro. Until 2010, Mr Kruijssen held various management and executive positions at Royal Dutch Shell in both the Netherlands and the United Kingdom. After that, he served as CEO of Markeur (until 2015) and Detailresult (the entity created upon the merger of two Dutch supermarket chains, DekaMarkt and Dirk van den Broek). We estimate Detailresult's consumer sales at more than EUR 2bn (realised with around 200 stores and c.20,000 employees). The impression we have from Mr Kruijssen is that he has a lot of relevant experience in retail. Moreover, he clearly does not come across as a CEO that solely wants to watch over the store portfolio. During his career so far, he implemented several change strategies at the various companies he worked for, and we understood that the challenges at Beter Bed (and possibly the lack thereof at Detailresult) are the main reasons why John Kruijssen decided to accept the CEO position at Beter Bed.

3.12. Highlights new strategy possibly unveiled on 27 July

We do not expect John Kruijssen to say nothing on strategy on 27 July

Although John Kruijssen's first 100-day period ended on 9 July 2018, we do not expect him to already present a detailed change strategy for Beter Bed at the release of Beter Bed's 1H18 results (27 July 2018). However, we do not exclude the possibility that he will unveil highlights of this strategy, which could include, in our view, comments on omni-channel, the store portfolio, Beter Bed's answer to one-fits-all, the progress with box springs, and restructuring/impairments. At Beter Bed's latest AGM (26 April 2018), John Kruijssen said that he would present a strategy update to the supervisory board end October 2018. At a later stage, in November 2018, he is set to present this update to the market. The form of this update and the audience still need to be decided on, but Beter Bed expects to provide more information on this on 27 July 2018 (1H18 results release).

4. Upcoming results and estimate changes

Germany had another very weak quarter in 1Q18

Because Beter Bed updated its shareholders on the disappointing trading in the first quarter during the group's AGM on 26 April 2018, Beter Bed preliminarily published its 1Q18 trading update on 27 April 2018. The start to 2018 was mixed, but weak on group level for Beter Bed. Total revenue decreased by 4% to EUR 110.4m in 1Q18. Like-for-like sales growth amounted to -9.4% in Germany in 1Q18, but the Netherlands posted strong like-for-like sales growth of +4.2%. The other regions showed a mixed performance with sales growth of 60.1% in Belgium, 1.6% growth in Austria, 22.9% growth in Sweden, a sales decrease of 17.2% in Switzerland, and a 26.7% sales drop in Spain.

4.1. Upcoming results not expected to show German recovery

We expect 2Q18 and therefore 1H18 to be even worse than 1Q18

Beter Bed is set to report its 1H18 results on 27 July. In Germany, 2Q17 was the strongest quarter of last year in terms of like-for-like sales (2Q17: -0.9%). Hence, we do not expect like-for-like sales to turn positive in Germany in 2Q18. Our forecast for like-for-like sales is a decline of 6.0% in Germany in 2Q18. The Netherlands is comparing against a very strong quarter (not even the strongest quarter though) last year (2Q17: +13.1%). Our forecast for the development in like-for-like sales is -3.0% in the Netherlands in 2Q18. The weather has been warm and dry in the Netherlands in 2Q18, which is typically unfavourable for store traffic for Beter Bed. We expect total group sales to decrease to EUR 89.8m in 2Q18 (-5.0%).

Figure 21: Beter Bed quarterly sales and sales growth 1Q17-4Q18e (EUR m)

	1Q17	1Q18	2Q17	2Q18e	1H17	1H18e	3Q17	3Q18e	4Q17	4Q18e	2017	2018e
Net sales	**115.0**	**110.4**	**94.6**	**89.8**	**209.8**	**200.2**	**105.4**	**104.0**	**101.3**	**107.1**	**416.4**	**411.3**
-Like-for-like sales growth Germany (%)	(1.7)	(9.4)	(0.9)	(6.0)	(1.4)	(7.9)	(3.6)	(2.0)	(15.7)	5.0	(5.8)	(3.0)
-Like-for-like sales growth Netherlands (%)	4.2	4.2	13.1	(3.0)	-	1.0	15.1	(1.0)	4.0	5.5	8.8	1.8
Like-for-like sale growth Group (%)	-	-	-	-	**1.5**	**(3.9)**	-	-	-	-	**(0.4)**	**(0.9)**

Source: Beter Bed, ABN AMRO Equity Research

We expect sales, EBIT(DA), and net profit to decrease in 1H18

For 1H18 this implies group revenue of EUR 200.2m (see next table). Based on the changing product mix (more box springs and more textile), we anticipate a modest decrease in Beter Bed's group gross profit margin. We anticipate personnel costs and depreciation and amortisation to increase, marginally offset by anticipated lower other operating costs. Attributed to lower net sales, a lower gross profit contribution, and higher depreciation (because of the refurbishments in Germany so far), we forecast operating profit to drop to EUR 5.3m in 1H18 from EUR 11.5m reported in 1H17. Our net profit forecast is EUR 3.4m for 1H18 (1H17: EUR 7.5m). We forecast a net debt of EUR 1.4m (2H17: net cash of EUR 0.2m). A big delta for cash flow is Beter Bed's final 2017 dividend of EUR 0.7m paid in 1H18 compared with EUR 8.8m paid in 1H17. Also, we expect lower working capital investment and lower capital expenditures in 1H18 compared with 1H17.

Figure 22: Beter Bed ABN AMRO estimates 1H18e, 2H18e and 2018e and Bloomberg consensus estimates 2018e (EUR m)

	1H17	1H18e	2H17	2H18e	2017	2018e	Bloomberg consensus 2018e
Revenue	**209.8**	**200.2**	**206.7**	**211.1**	**416.4**	**411.3**	**428.7**
Cost of sales	**(89.2)**	**(85.3)**	**(87.8)**	**(89.9)**	**(176.9)**	**(175.2)**	**(181.3)**
Gross profit	**120.6**	**114.9**	**118.9**	**121.2**	**239.5**	**236.1**	**247.3**
Gross margin (%)	**57.5**	**57.4**	**57.5**	**57.4**	**57.5**	**57.4**	**57.7**
Wage and salary costs	(52.9)	(53.6)	(55.4)	(53.6)	(108.3)	(107.2)	-
Depreciation and impairments	(6.0)	(7.0)	(6.9)	(7.3)	(12.8)	(14.3)	(13.6)
Other operating expenses	(50.3)	(49.0)	(53.7)	(50.8)	(104.0)	(99.8)	-
Total operating expenses	(109.1)	(109.6)	(115.9)	(111.7)	(225.1)	(221.3)	(224.4)
Operating profit (EBIT)	**11.5**	**5.3**	**3.0**	**9.5**	**14.4**	**14.8**	**22.9**
Operating profit margin (%)	**5.5**	**2.7**	**1.4**	**4.5**	**3.5**	**3.6**	**5.4**
Financial expenses	(0.1)	(0.7)	(0.3)	(0.5)	(0.4)	(1.2)	0.3
Profit before taxation	**11.4**	**4.6**	**2.7**	**9.0**	**14.0**	**13.6**	**23.3**
Income tax expense	(3.9)	(1.2)	(0.6)	(2.3)	(4.5)	(3.5)	(7.7)
Net profit	**7.5**	**3.4**	**2.1**	**6.7**	**9.5**	**10.1**	**15.6**
EBITDA	**17.5**	**12.3**	**10.1**	**17.0**	**27.5**	**29.4**	**36.6**
Change in working capital	(7.7)	(3.0)	5.2	3.2	(2.4)	0.2	-
Change in provisions	0.1	0.0	(0.3)	0.0	(0.2)	0.0	-
Net investments	(9.9)	(8.0)	(11.2)	(7.2)	(21.0)	(15.2)	(17.1)
Gross operating free cash flow	**0.1**	**1.3**	**3.8**	**13.0**	**3.9**	**14.4**	**-**
Cash taxes	(6.3)	(1.6)	(2.5)	(2.2)	(8.9)	(3.8)	-
Net operating free cash flow	**(6.3)**	**(0.3)**	**1.3**	**10.8**	**(5.0)**	**10.5**	**-**
Net Interest	(0.1)	(0.7)	(0.3)	(0.5)	(0.4)	(1.2)	-
Dividend	(8.8)	(0.7)	(7.5)	(6.8)	(16.2)	(7.5)	-
Change in debts	0.0	0.0	17.5	0.0	17.5	0.0	-
Change in equity	0.0	0.0	0.0	0.0	0.0	0.0	-
Change in cash balance	**(15.1)**	**(1.6)**	**11.0**	**3.5**	**(4.1)**	**1.9**	**-**
Net debt (cash)	**(6.6)**	**1.4**	**(0.2)**	**(2.1)**	**(0.2)**	**(2.1)**	**(3.6)**

Source: Beter Bed, Bloomberg, ABN AMRO Equity Research

We consider 2018 a lost year as well as the year of the start of the restructuring

For 2018 as a whole, we expect another year of negative like-for-like sales in Germany of -3.0%. We note that this requires recovery to positive territory in like-for-like sales growth for Germany in 2H18, and we highlight that especially 4Q17 was a very weak quarter for Germany with like-for-like sales down 15.7%. For the Netherlands, we assume like-for-like sales growth of 1.8% for 2018, and we note that the comparison base is particularly challenging in 2Q18 and 3Q18. The other regions are responsible for just a small part of Beter Bed's annual sales, and we expect Belgium, Sweden and Austria to contribute positively, while for the other regions (Switzerland, Spain) we assume flat or slightly negative like-for-like sales growth. For the group, we anticipate 2018 revenues to be slightly down compared with EUR 416m reported in 2017. Attributed to further positive operational leverage in the Netherlands, and despite an expected further decrease in revenue/store in Germany, we anticipate a modest increase in EBIT to EUR 14.8m in 2018 (2017: EUR 14.4m). We note that the 2017 results included EUR 2m in redundancy-related costs implying that on an underlying basis, we anticipate Beter Bed's EBIT to be slightly down in 2018. Apart from capital expenditures that we expect to come down materially vs EUR 21m reported in 2017, our 2018 forecasts are materially lower than Bloomberg consensus for 2018.

4.2. Other scheduled events

The next table shows Beter Bed's upcoming events. Beter Bed plans to be present at our ABN AMRO Small Cap Conference in Amsterdam on 19 September, and be represented by CEO John Kruijssen and Group Controller Erik Weerts.

Figure 23: Beter Bed upcoming scheduled events

Date	Event
27 July 2018	1H18 results release
28 August 2018	Road show London (NIBC)
19 September 2018	ABN AMRO Small Cap Conference Amsterdam
7 November 2018	Road show Paris (Kepler Cheuvreux)

Source: Beter Bed, ABN AMRO Equity Research

4.3. Changes to our estimates

New-store openings are not Beter Bed's priority, in our view

Our mid-term operational estimates are shown in the next table. As highlighted, we assume modest growth in the number of stores. For Matratzen Concord, we assume that Beter Bed will obviously not open new stores in Germany in the coming years (the increase is explained by minor new-store openings in Austria and in Switzerland). Growth in the number of Beter Bed stores can mainly be attributed to our forecast of new-store openings in Belgium, while the opportunities for new Beter Bed stores in the Netherlands are more limited. In the future, we expect most new-store openings for Beddenreus (discount stores in the Netherlands), El Gigante del Colchon (Spain), and Sängjätten (Sweden). However, we do not expect management's short-term focus to be on opening new stores. We note that our operational forecasts do not yet incorporate the explained scenario of closing the 10-20% tail of Beter Bed's German store base. As explained, such scenarios could lead to an estimated 1-10% higher revenue/store and a 6-109% EBITDA uplift for the German operations. Attributed to expected mix changes (more box springs and more accessories in the assortment), we expect Beter Bed's gross margin to come down to 57.4% in 2018. From its peak level of 53.6% reported in 2017, we expect operating expenses as percentage of sales to come down in the coming years. However, it may take a while before this percentage can reach Beter Bed's earlier stated ambition of 50% or lower.

Figure 24: Beter Bed divisional results and ABN AMRO forecasts 2016-20e (EUR m)

	2016	2017	2018e	2019e	2020e	CAGR (%)
Number of stores (x)						
-Matratzen Concord	1,004	999	1,005	1,007	1,009	0.1
-Beter Bed	100	95	98	101	104	1.0
-El Gigante del Colchon	48	45	48	51	54	3.0
-Beddenreus	33	33	34	35	36	2.2
-Sängjätten	16	16	16	17	18	4.0
-Other	5	0	0	0	0	(100.0)
Total number of stores (x)	**1,206**	**1,188**	**1,201**	**1,211**	**1,221**	**0.3**
Like-for-like sales growth (%)						
-Matratzen Concord	(4.8)	(6.0)	(3.0)	1.0	2.0	(2.2)
-Beter Bed	19.2	7.2	1.2	3.0	3.0	6.5
-El Gigante del Colchon	3.7	(5.0)	3.5	2.0	3.0	1.4
-Beddenreus	18.9	21.2	19.5	15.0	10.0	16.8
-Sängjätten	-	0.0	5.0	5.0	5.0	3.7
-Other	-	-	-	-	-	-
Total like-for-like sales growth (%)	**2.8**	**(1.1)**	**(0.5)**	**2.4**	**2.8**	**1.3**
Revenue						
-Matratzen Concord	257	243	236	239	245	(1.2)
-Beter Bed	122	133	133	142	150	5.3
-El Gigante del Colchon	7	8	8	9	9	6.7
-Beddenreus	12	15	18	21	24	19.5
-Sängjätten	5	12	12	13	15	31.2
-Other	7	6	4	3	3	(19.1)
Total revenue	**410**	**416**	**411**	**427**	**446**	**2.1**
Gross margin (%)	**57.8**	**57.5**	**57.4**	**57.4**	**57.5**	**(7)bp**
Operating expenses	**211.0**	**223.1**	**221.3**	**223.6**	**227.8**	**1.9**
Operating expenses as percentage of sales (%)	**51.4**	**53.6**	**53.8**	**52.4**	**51.1**	**(8)bp**
Underlying EBITDA	**37.3**	**29.3**	**29.1**	**35.9**	**43.4**	**3.9**
Underlying EBITDA margin (%)	**9.1**	**7.0**	**7.1**	**8.4**	**9.7**	**16bp**

Source: Beter Bed. ABN AMRO Equity Research

Our short-term estimates are materially lower than consensus

Our 2018-20 estimates are generally below consensus

The next table shows our previous and new estimates for 2018-2020e. The table also shows our estimates compared with Bloomberg consensus estimates. For 2018 and 2019, Bloomberg consensus is quite a bit higher than our estimates. For 2020, the differences between our estimates and Bloomberg consensus are a lot smaller. The changes to our operational estimates merely reflects our updated view on like-for-like sales growth (in Germany and in the Netherlands) and on new-store openings. We are more cautious about the dividend, as we expect cash available for interest payment and dividends to be at lower levels for a few years.

Figure 25: Beter Bed previous and new ABN AMRO forecasts and Bloomberg consensus 2018-20e (EUR m)

	2018e	2019e	2020e		2018e	2019e	2020e
Previous estimates				**ABN AMRO estimates**			
Sales	414.9	431.9	449.9	Sales	411.3	426.8	445.8
EBIT	16.7	22.6	28.4	EBIT	14.8	21.4	28.6
Net profit	11.1	15.3	19.5	Net profit	10.1	15.0	20.3
EPS (EUR)	0.51	0.70	0.89	EPS (EUR)	0.46	0.68	0.92
Dividend (EUR)	0.43	0.59	0.78	Dividend (EUR)	0.34	0.51	0.69
New estimates				**Bloomberg consensus**			
Sales	411.3	426.8	445.8	Sales	428.7	442.7	454.3
EBIT	14.8	21.4	28.6	EBIT	22.9	27.2	29.6
Net profit	10.1	15.0	20.3	Net profit	15.6	18.4	20.6
EPS (EUR)	0.46	0.68	0.92	EPS (EUR)	0.69	0.82	0.92
Dividend (EUR)	0.34	0.51	0.69	Dividend (EUR)	0.56	0.68	0.76
Difference (%)				**Difference (%)**			
Sales	(0.9)	(1.2)	(0.9)	Sales	4.2	3.7	1.9
EBIT	(11.3)	(5.3)	0.4	EBIT	54.6	27.0	3.6
Net profit	(9.3)	(2.4)	3.9	Net profit	54.1	22.8	1.4
EPS (EUR)	(9.3)	(2.4)	3.9	EPS (EUR)	50.4	20.0	(0.0)
Dividend (EUR)	(20.9)	(13.6)	(11.5)	Dividend (EUR)	65.3	32.5	9.9

Source: Bloomberg, ABN AMRO Equity Research

5. Valuation

We use different tools for valuing Beter Bed

We value Beter Bed using both peer group valuation multiples and DCF. We also highlight Beter Bed's current valuation compared with its book value.

5.1. Trading at deep discount to peers

Beter Bed is trading at a deep discount to its peers

The next table shows some listed peers we use for valuing Beter Bed. Although there are only a few really comparable peers available, most of the peers in the table have operational exposure to comparable markets as Beter Bed (ie, housing, furniture, beds, mattresses). In our analysis, we focus on EV multiples and on FCF-yield of peers. We deem P/E less suitable as Beter Bed is penalised for its net-cash position. Beter Bed is currently trading at an average discount of 47% to its peers on 2019 valuation multiples (excluding P/E).

Figure 26: Beter Bed peer group valuation multiple analysis (x)

Company	Last price	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)			P/E (x)			FCF-yield (%)		
		2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Dunelm Group (GBp)	490.40	1.05	0.99	0.94	7.4	6.9	na	9.8	9.2	na	11.1	10.4	9.6	7.7	9.0	na
Ferguson (GBp)	6,163.00	0.96	0.92	0.86	11.8	10.8	9.4	13.5	12.4	10.8	16.5	14.7	12.6	5.8	7.1	7.9
Grafton Group (GBp)	805.00	0.70	0.67	0.64	9.1	8.5	7.9	11.4	10.5	9.6	13.8	12.7	11.8	3.7	5.8	6.0
Hornbach Baumarkt (EUR)	26.20	0.27	0.26	0.26	5.9	5.6	5.2	10.3	9.7	9.2	13.1	12.0	11.7	(2.5)	(1.4)	(1.5)
Kingfisher (GBp)	301.50	0.54	0.53	0.51	6.6	5.7	5.0	9.3	7.3	6.1	11.4	10.2	8.9	4.8	6.3	8.6
Leggett & Platt (USD)	45.68	1.61	1.53	1.46	10.8	9.9	9.5	13.7	12.3	11.8	17.2	15.2	14.4	4.2	4.5	na
Sig (GBp)	133.00	0.37	0.36	0.35	8.5	7.7	7.0	10.9	9.6	8.8	12.9	10.9	9.6	4.8	5.0	5.6
Sleep Country Canada (CAD)	31.99	1.98	1.82	1.68	11.6	10.5	9.4	13.6	12.3	na	17.6	15.6	13.7	4.4	5.9	na
Tempur Sealy Int. (USD)	47.37	1.55	1.49	1.47	9.5	8.7	8.3	13.0	11.8	11.0	14.2	12.1	11.2	2.0	3.8	3.1
Travis Perkins (GBp)	1,387.00	0.59	0.57	0.55	7.9	7.6	7.2	10.4	9.9	9.2	12.8	12.1	11.2	4.9	6.0	5.3
Min.		**0.27**	**0.26**	**0.26**	**5.9**	**5.6**	**5.0**	**9.3**	**7.3**	**6.1**	**11.1**	**10.2**	**8.9**	**(2.5)**	**(1.4)**	**(1.5)**
Median		**0.83**	**0.80**	**0.75**	**8.8**	**8.1**	**7.9**	**11.2**	**10.2**	**9.4**	**13.5**	**12.1**	**11.4**	**4.6**	**5.8**	**5.6**
Mean		**0.96**	**0.91**	**0.87**	**8.9**	**8.2**	**7.7**	**11.6**	**10.5**	**9.6**	**14.1**	**12.6**	**11.5**	**4.0**	**5.2**	**5.0**
Max.		**1.98**	**1.82**	**1.68**	**11.8**	**10.8**	**9.5**	**13.7**	**12.4**	**11.8**	**17.6**	**15.6**	**14.4**	**7.7**	**9.0**	**8.6**
Beter Bed Holding (EUR)	**6.41**	**0.34**	**0.32**	**0.30**	**4.8**	**3.8**	**3.1**	**9.3**	**6.4**	**4.6**	**13.9**	**9.4**	**6.9**	**6.6**	**9.5**	**13.2**

Source: Bloomberg (closing prices as per 10 July 2018), ABN AMRO Equity Research

5.2. All-time low price-to-book ratio

Beter Bed's price-to-book ratio is currently at its all-time low of 2.0x

The next graph shows both Beter Bed's price-to-book ratio since 2002 and its average price-to-book ratio in 2002-2017. At Beter Bed's current trading price, its price-to-book ratio is 2.0. Since its IPO in 1996, this is the lowest price-to-book ratio. Even when Beter Bed reached its lowest average market cap of EUR 67.3m (and its all-time low trading price) in 2003, the group's price-to-book ratio was higher (2.8) than the ratio today. Beter Bed's average price-to-book ratio was 6.1 in the 2002-2017 period. At this long-term average price-to-book ratio, Beter Bed's implied share price would be EUR 19.8 today.

Figure 27: Beter Bed price-to-book ratio since 2002 (x)

Source: Bloomberg, ABN AMRO Equity Research

5.3. Our DCF analysis shows material share price upside

Beter Bed's NOPAT-based DCF is EUR 13.5/sh

The table below shows our DCF valuation analysis for Beter Bed. We use a three-stage DCF model. In the first 10 years, we make full P&L, cash flow and balance sheet forecasts. In the second 10 years, we make forecasts for growth in invested capital and we assume return on capital to decrease, albeit to a level that is still higher than the WACC. In the last stage of our model, we assume invested capital growth phases out to zero, and we expect return on capital to phase out to a level that is equal to WACC, implying that economic profit equals zero and that net operating cash flow just covers WACC times invested capital at the end of the third stage.

Figure 28: Beter Bed DCF analysis (EUR m)

	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	Sum PV post 2027e
Sales	**411**	**427**	**446**	**465**	**485**	**498**	**509**	**519**	**527**	**535**	
Sales growth (%)	**(1.2)**	**3.8**	**4.4**	**4.4**	**4.2**	**2.7**	**2.2**	**2.1**	**1.5**	**1.5**	
Normalised EBIT	**15**	**21**	**29**	**35**	**41**	**44**	**46**	**49**	**50**	**51**	
EBIT margin (%)	**3.6**	**5.0**	**6.4**	**7.4**	**8.4**	**8.8**	**9.1**	**9.4**	**9.5**	**9.6**	
Taxation	(3.9)	(5.6)	(7.4)	(9.0)	(10.6)	(11.4)	(12.0)	(12.7)	(13.0)	(13.3)	
Nopat	**11**	**16**	**21**	**26**	**30**	**32**	**34**	**36**	**37**	**38**	
Average capital employed start	63	71	72	74	76	78	81	83	85	87	
Average capital employed end	71	72	74	76	78	81	83	85	87	89	
Growth capital employed	12.7	2.0	2.6	2.9	3.3	3.2	2.8	2.6	2.3	2.0	
ROIC (%)	**17.6**	**22.4**	**29.4**	**34.8**	**39.6**	**41.3**	**42.3**	**43.4**	**43.2**	**43.3**	
Depreciation and amortisation	14	14	15	15	15	16	16	17	17	18	
Change in working capital	0	(1)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(0)	
Change in provisions	0	0	0	0	0	0	0	0	0	0	
Net investments	(15)	(15)	(16)	(16)	(17)	(17)	(18)	(18)	(18)	(19)	
Net operating cash flow	**10**	**14**	**20**	**24**	**28**	**30**	**32**	**34**	**35**	**36**	
Calendarised net operating cash flow	12	17	22	26	29	31	33	35	36	36	
Mid-year adjusted discount factor (x)	0.96	0.88	0.80	0.74	0.67	0.62	0.57	0.52	0.47	0.43	
Present value	**12**	**15**	**17**	**19**	**20**	**19**	**19**	**18**	**17**	**16**	**124**
Invested capital	**63**	**71**	**72**	**74**	**76**	**78**	**81**	**83**	**85**	**87**	
ROIC (%)	17.55	22.44	29.37	34.75	39.61	41.28	42.30	43.36	43.18	43.28	
WACC (%)	9.17	9.17	9.17	9.17	9.17	9.17	9.17	9.17	9.17	9.17	
Return spread (ROIC-WACC) (%)	**8.4**	**13.3**	**20.2**	**25.6**	**30.4**	**32.1**	**33.1**	**34.2**	**34.0**	**34.1**	
Economic Profit	**5**	**9**	**15**	**19**	**23**	**25**	**27**	**28**	**29**	**30**	
Calendarised Economic Profit	7	12	17	21	24	26	28	29	29	30	
Mid-year adjusted discount factor (x)	0.96	0.88	0.80	0.74	0.67	0.62	0.57	0.52	0.47	0.43	
Present value	**7**	**11**	**14**	**16**	**16**	**16**	**16**	**15**	**14**	**13**	**85**

Source: ABN AMRO Equity Research

Restructuring expenses easily funded by cash generation and balance sheet

Beter Bed's balance sheet can easily fund a major restructuring

We forecast net operating cash flow (cash flow available for paying interest and dividend) at EUR 10.5m for 2018. This forecast excludes the cash impact of a potential restructuring. In our scenario of EUR 20m in restructuring expenses (EUR 9m cash and EUR 11m non-cash), we estimate the negative impact on net operating cash flow at around EUR 3.8m (after-tax cash component of EUR 6.7m offset by a tax benefit of EUR 2.9m on non-cash, but tax-deductible component). Our current net cash forecast is EUR 2.1m for 2018. In a restructuring scenario, this net cash position could change into a net debt position of around EUR 1.7m. In our scenario of EUR 29m in restructuring expenses, we estimate the negative impact on net operating cash flow at around EUR 10.5m, in which case net debt could increase to EUR 8.4m. Beter Bed has current account facilities of EUR 42.3m at its disposal. Furthermore, facilities of EUR 6.4m are available for providing guarantees. These current account facilities include two committed facilities in the amount of EUR 10m each which will expire on 10 July 2020, and 15 July 2020, respectively. At the end of 2017, an amount of EUR 17.5m was used under the current account facilities, implying that there is sufficient room for Beter Bed to increase its debt and pay for potential restructuring costs.

Nopat-based DCF outcome of EUR 13.5/sh

We use a WACC of 9.2% and zero terminal growth for Beter Bed

The next table shows the input variables used for and the output of Beter Bed's DCF analysis. We use an unleveraged beta of 1.08x and a terminal growth rate of zero, and we stress that the impact of our terminal growth rate is limited as it is applied to cash flows in the very distant future. The WACC we use for Beter Bed is 9.2%. The Nopat-based outcome of our DCF analysis is EUR 13.5/share. Beter Bed is currently trading at a discount of 53% to DCF.

Figure 29: Beter Bed input variables and outcome DCF analysis (EUR m)

Input variables (%)		Output (EUR m)		Output Economic Profit	
Risk free rate	2.5	Sum present value FCF 2018-27e	172	Sum present value Economic Profit 2018-27e	136
Unleveraged beta (x)	**1.08**	Sum present value FCF 2028-37e	92	Sum present value Economic Profit 2028-37e	72
Debt / EV	20	Sum present value FCF 2038-47e	24	Sum present value Economic Profit 2038-47e	13
Tax rate	26.0	Present value terminal value	9	Opening Invested Capital	63
Leveraged beta (x)	**1.28**	**Enterprise value**	**296**	**Enterprise value**	**284**
Equity risk premium	6.5	Net cash (interest bearing debt)	1	Net cash (interest bearing debt)	1
Spread (bp)	100	Pension surplus (deficit)	0	Pension surplus (deficit)	0
Cost of equity	10.8	Minorities and participations	0	Minorities and participations	0
Pre-tax cost of debt	3.5	**Equity value**	**297**	**Equity value**	**285**
WACC	**9.17**	Number of shares (m)	22.0	Number of shares (m)	22.0
Terminal growth	0.0	**Value per share (EUR)**	**13.5**	**Value per share (EUR)**	**13.0**

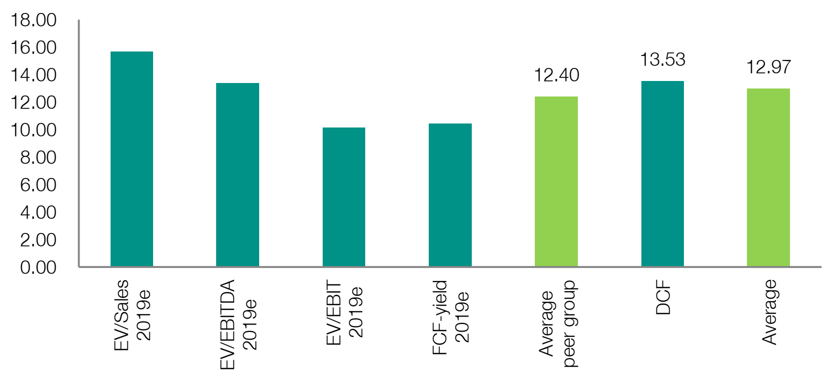
Source: ABN AMRO Equity Research

5.4. Valuation summary: EUR 13/sh

We set our new TP at EUR 13 (was EUR 10/sh)

Our valuation summary is highlighted in the chart below. Our target price is based on the average of the outcome based on peer multiples and on DCF. We set our new target price for Beter Bed at EUR 13 (was EUR 10/share).

Figure 30: Valuation summary Beter Bed (EUR)



Source: ABN AMRO Equity Research

6. Risks and mitigants

6.1. Star performer Netherlands could deteriorate

Beter Bed's profitability is now fully dependent on the Netherlands

The group's Beter Bed brand, which mainly concerns stores in the Netherlands, reported four sequential years of positive like-for-like sales growth. The other Dutch brand, Beddenreus, reported positive like-for-like sales growth in the past three fiscal years. The Netherlands represented 36% of Beter Bed's group sales, and an estimated 94% of Beter Bed's EBIT in fiscal year 2017. Deterioration of the Dutch operations while Germany has not yet improved, could materially impact Beter Bed's results negatively. However, the Beter Bed stores are in much better shape than the Matratzen Concord stores (in Germany), in our view. Moreover, in the Netherlands, Beter Bed holds its fair share in online, while the brand is also adequately involved in box springs, while the discount segment is sufficiently covered by Beddenreus, in our view.

6.2. German economy could become a drag

German operations could deteriorate further if the economy stalls

Beter Bed's German business is not performing well. Still, economic growth has been favourable at around 2% pa in Germany over the past four years. A perfect storm could occur if the Matratzen Concord's operational issues coincide with deteriorating economic conditions in Germany. Beter Bed could try to reduce the currently high fixed costs by a shift to more online sales, in our view. Also, adding more small-ticket products (i.e. textile) to the assortment could we believe reduce dependency on more discretionary items and hence cyclicality.

6.3. Restructuring or not and amount of expenses unknown

The scope of a restructuring could be much higher than our scenarios

Dependent on the scope of an overhaul, we potentially assume restructuring costs of EUR 20-29m, and cash-out expenses of EUR 4-11m. We do not know whether and a what scale management plans to restructure, but costs and expenses can be much higher if Beter Bed decides that the restructuring scope should be bigger. Although cash generation in combination with the dividend policy (to pay out at least 50% of net profit if net debt/EBITDA is below 2.0 and solvency is more than 30%) leaves little excess cash for funding a restructuring, Beter Bed's balance sheet is sufficiently strong to fund such a restructuring.

6.4. Dividend could be cut or skipped

Beter Bed could decide to lower or even skip its dividend

From the interim-high of EUR 0.87 paid in dividend in 2015, Beter Bed's dividend per share dropped to EUR 0.74 in 2016, and to EUR 0.37 in 2017. We do not exclude the dividend to drop even further (Beter Bed's dividend policy is to pay out at least 50% of net profit under the conditions of a solvency of at least 30% and net debt/EBITDA of below 2.0). For 2018, our dividend forecast is EUR 0.34. We note that lowering or skipping dividend can mean the difference between a persistently strong balance sheet, or a balance sheet that could turn towards more leverage because of the group's high-operating-leverage business model in combination with temporarily high restructuring-related cash out.

6.5. Cost inflation could turn out to be difficult to offset

Cost inflation, which is inevitable, could turn out difficult to offset

In light of the fierce competition in general and the additional competition coming from online (one-fits-all) suppliers, raising prices is very difficult, in our view. In the event of cost inflation, which we think is likely for wages and lease/rental costs, Beter Bed may have difficulties passing these costs on. The shift towards more online reduces Beter Bed's dependency on wages (in such a scenario the average FTEs/store is set to come down) and lease/rental tariffs (more online eventually should lead to fewer stores).

6.6. Supplier concentration

Concentration at suppliers could hurt Beter Bed's bargaining position

Suppliers could consolidate, which could weaken Beter Bed's bargaining position. There are internal rules as to the maximum exposure per supplier. Moreover, Beter Bed can relatively easy switch supplier if needed.

Financial Statements

P&L Statement (EURm) YE in Dec	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Revenue	**397**	**397**	**357**	**364**	**385**	**410**	**416**	**411**	**427**	**446**
Cost of sales	(173)	(173)	(154)	(155)	(163)	(173)	(177)	(175)	(182)	(189)
Gross Profit	224	224	203	209	222	237	239	236	245	256
Operating costs	(178)	(186)	(181)	(177)	(182)	(200)	(212)	(207)	(209)	(213)
EBITDA	**47**	**38**	**22**	**31**	**41**	**37**	**27**	**29**	**36**	**43**
Depreciation	(9)	(9)	(8)	(7)	(8)	(10)	(11)	(12)	(12)	(12)
EBITA	38	29	14	24	32	28	16	17	23	31
Amortization	-	(6)	(2)	(1)	(1)	(2)	(2)	(2)	(2)	(2)
EBIT	**38**	**24**	**12**	**23**	**31**	**26**	**14**	**15**	**21**	**29**
Net Interest	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(1)	(1)
Associates	-	-	-	-	-	-	-	-	-	-
Other pre-tax items	-	-	-	-	-	-	-	-	-	-
Pre-tax profit	**38**	**23**	**12**	**23**	**31**	**26**	**14**	**14**	**20**	**27**
Taxes	(10)	(9)	(3)	(6)	(8)	(7)	(4)	(4)	(5)	(7)
Minorities	-	-	-	-	-	-	-	-	-	-
Other post-tax items	-	-	-	-	-	-	-	-	-	-
Reported Net Profit	**28**	**14**	**8**	**17**	**23**	**19**	**10**	**10**	**15**	**20**
Normalised EBITDA	47	41	29	31	41	37	29	29	36	43
Normalised EBIT	38	31	20	23	31	26	16	15	21	29
Normalised Net Profit	28	22	14	17	23	19	12	10	15	20

Balance Sheet (EURm) YE in Dec	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Financial Assets	-	-	-	-	-	-	-	-	-	-
Goodwill	4	-	-	-	-	-	-	-	-	-
Other Intangible Assets	-	3	3	4	3	7	9	10	10	10
PP&E	34	31	26	29	35	38	44	44	45	46
Other Non-Current Assets	2	1	1	1	2	2	3	3	3	3
Fixed Assets	**40**	**35**	**29**	**33**	**40**	**47**	**56**	**57**	**58**	**59**
Inventories	59	61	56	53	58	62	66	65	67	70
Debtors	2	2	1	2	2	13	17	17	18	18
Cash and Marketable Securities (1)	7	5	10	21	26	22	18	20	22	26
Other Current Assets	7	8	7	8	7	-	-	-	-	-
Total Current Assets	**75**	**76**	**73**	**84**	**92**	**97**	**101**	**101**	**107**	**114**
Total Assets	**115**	**111**	**102**	**117**	**132**	**144**	**157**	**159**	**165**	**173**
Equity	62	56	58	69	76	77	70	73	77	83
Minority Interests	-	-	-	-	-	-	-	-	-	-
Total Shareholder Funds	**62**	**56**	**58**	**69**	**76**	**77**	**70**	**73**	**77**	**83**
Long-Term Debt (2)	3	1	-	-	-	-	-	-	-	-
Provisions	2	2	5	3	3	2	3	3	3	3
Other Long-Term Liabilities	-	-	-	-	-	-	-	-	-	-
Short Term Debt (3)	5	11	5	-	-	-	17	17	17	17
Accounts Payable	13	9	9	18	23	32	31	30	31	33
Other Current Liabilities	29	31	26	28	30	33	35	35	36	37
Total Liabilities	**53**	**55**	**45**	**48**	**56**	**67**	**87**	**85**	**88**	**90**
Total Liabilities and Shareholder Fund:	**115**	**111**	**102**	**117**	**132**	**144**	**157**	**159**	**165**	**173**
Net Debt (2 + 3 - 1)	1	7	(5)	(21)	(26)	(22)	(0)	(2)	(4)	(8)

Cash Flow Statement (EURm)	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA	47	38	22	31	41	37	27	29	36	43
Change in WC	(7)	(6)	7	12	0	5	(2)	0	(1)	(1)
Net Interest (paid) / received	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(1)	(1)
Taxes (paid) / received	(10)	(6)	(9)	(7)	(4)	(8)	(9)	(4)	(6)	(7)
Other operating cash flow	1	0	3	(4)	(0)	(0)	0	0	0	0
CF from operations	**30**	**25**	**22**	**33**	**36**	**34**	**16**	**25**	**29**	**34**
Maintenance Capex	(13)	(11)	(5)	(13)	(16)	(17)	(21)	(15)	(15)	(16)
Expansionary Capex	-	-	-	-	-	-	-	-	-	-
Disposals / (Acquisitions)	0	1	1	3	0	(3)	0	-	-	-
Other investing cash flow	(0)	0	0	0	-	(0)	0	-	-	-
CF from investing	**(13)**	**(10)**	**(4)**	**(11)**	**(15)**	**(20)**	**(21)**	**(15)**	**(15)**	**(16)**
Increase / (decrease) in Equity	1	0	1	2	1	-	-	-	-	-
Increase / (decrease) in Debt	1	4	(7)	(5)	-	-	17	-	-	-
Dividends Paid	(28)	(21)	(7)	(8)	(17)	(18)	(16)	(7)	(11)	(15)
Other financing cash flow	-	-	-	-	-	-	-	-	-	-
CF from financing	**(26)**	**(17)**	**(13)**	**(11)**	**(16)**	**(18)**	**1**	**(7)**	**(11)**	**(15)**
Other	-	-	-	-	-	-	-	-	-	-
Total change in cash	**(10)**	**(2)**	**4**	**11**	**5**	**(4)**	**(4)**	**2**	**2**	**4**

Source: Beter Bed Holding, ABN AMRO Equity Research

Per Share Data (EUR)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Avg. no. of shares (mln)	21.7	21.7	21.7	21.9	21.9	22.0	22.0	22.0	22.0	22.0
Eoy no. of shares (mln)	21.7	21.7	21.8	21.9	22.0	22.0	22.0	22.0	22.0	22.0
Avg. no. of shares FD (mln)	21.7	21.7	21.7	21.9	21.9	22.0	22.0	22.0	22.0	22.0
Dividend Per Share	1.10	0.47	0.27	0.65	0.87	0.74	0.37	0.34	0.51	0.69
EPS	1.29	0.66	0.38	0.77	1.03	0.87	0.43	0.46	0.68	0.92
Normalised EPS	1.29	1.02	0.64	0.77	1.03	0.87	0.55	0.46	0.68	0.92
Diluted EPS	1.29	0.66	0.38	0.77	1.03	0.87	0.43	0.46	0.68	0.92
Diluted Normalised EPS	1.29	1.02	0.64	0.77	1.03	0.87	0.55	0.46	0.68	0.92
Book Value per Share	2.86	2.57	2.66	3.13	3.45	3.50	3.20	3.33	3.52	3.78
Cash Earnings per Share	1.07	0.83	0.59	0.54	0.75	0.62	0.05	0.42	0.64	0.89
Equity Free Cash Flow per Share	0.76	0.65	0.77	0.89	0.91	0.80	(0.26)	0.43	0.61	0.85
Gross Operating Cash Flow per Share	1.88	1.46	1.45	1.83	1.84	1.92	1.14	1.35	1.62	1.95
Net Operating Cash Flow per Share	1.38	1.15	1.02	1.49	1.64	1.55	0.71	1.12	1.31	1.56
EBITDA per Share	2.16	1.76	1.02	1.43	1.85	1.70	1.24	1.33	1.63	1.97
Valuation	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Share Price Average	17.8	15.1	15.0	16.8	21.0	20.0	15.6	6.4	6.4	6.4
Share Price YE (used for MC calculation)	14.0	13.2	17.6	17.2	22.5	16.9	13.2	6.4	6.4	6.4
Market Cap	303	287	383	377	494	371	291	141	141	141
Net debt	1	7	(5)	(21)	(26)	(22)	(0)	(2)	(4)	(8)
Other EV adjustments	-	-	-	-	-	-	-	-	-	-
Enterprise Value	304	294	379	356	468	349	291	139	136	133
EV / Normalised Sales	0.8	0.7	1.1	1.0	1.2	0.9	0.7	0.3	0.3	0.3
EV / Normalised EBITDA	6.5	7.2	13.3	11.4	11.5	9.4	9.9	4.8	3.8	3.1
EV / Normalised EBITA	7.9	9.2	18.3	14.7	14.6	12.6	16.0	8.3	5.8	4.3
EV / Normalised EBIT	7.9	9.4	19.3	15.4	15.2	13.4	17.7	9.3	6.4	4.6
P / E Normalised	10.8	12.9	27.5	22.3	21.9	19.5	24.3	13.9	9.4	6.9
P / E Normalised fully diluted	10.8	12.9	27.5	22.3	21.9	19.5	24.3	13.9	9.4	6.9
Equity FCF yield	5.4%	4.9%	4.4%	5.2%	4.1%	4.7%	(2.0%)	6.6%	9.5%	13.2%
Div yield	7.9%	3.6%	1.5%	3.8%	3.9%	4.4%	2.8%	5.3%	8.0%	10.8%
WACC	9.12%	9.08%	9.05%	9.07%	9.08%	9.10%	9.17%	9.17%	9.17%	9.17%
EV/IC	5.3	4.7	6.5	7.0	9.6	6.6	4.6	2.0	1.9	1.8
ROIC / WACC	5.2	3.8	2.5	3.5	4.8	3.8	2.1	1.7	2.4	3.1
P/B	4.9	5.1	6.6	5.5	6.5	4.8	4.1	1.9	1.8	1.7
ROE / COE	4.1	3.4	2.2	2.3	2.8	2.2	1.5	1.4	1.9	2.4
Analysis	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
NOPAT (EURm)	27	22	13	16	21	18	12	11	16	21
NOPAT Adjusted (EURm)	27	22	13	16	21	18	12	11	16	21
Return on Average Capital Employed	40.6%	34.3%	21.9%	23.6%	28.4%	23.3%	15.9%	14.7%	20.2%	25.5%
Return on Average Invested Capital	47.8%	34.3%	23.1%	31.6%	43.7%	35.0%	19.4%	15.6%	22.0%	28.6%
Return on Average Assets	23.9%	19.2%	12.6%	14.5%	17.2%	13.4%	8.1%	7.0%	9.8%	12.5%
Return on Average Equity	44.5%	36.7%	23.6%	25.2%	29.6%	24.1%	16.5%	15.3%	21.0%	26.4%
Gross Profit Margin	56.5%	56.3%	56.9%	57.3%	57.7%	57.8%	57.5%	57.4%	57.4%	57.5%
Normalised EBITDA Margin	11.8%	10.2%	8.0%	8.6%	10.5%	9.1%	7.0%	7.1%	8.4%	9.7%
Normalised EBITA Margin	9.6%	8.0%	5.8%	6.6%	8.3%	6.7%	4.4%	4.1%	5.5%	6.9%
Normalised EBIT Margin	9.6%	7.8%	5.5%	6.3%	8.0%	6.4%	3.9%	3.6%	5.0%	6.4%
Normalised Pretax Margin	9.5%	7.7%	5.3%	6.2%	8.0%	6.3%	3.8%	3.3%	4.7%	6.1%
Normalised Net Profit Margin	7.1%	5.6%	3.9%	4.6%	5.9%	4.6%	2.9%	2.5%	3.5%	4.5%
Net Debt / Normalised EBITDA	0.0	0.2	(0.2)	(0.7)	(0.6)	(0.6)	(0.0)	(0.1)	(0.1)	(0.2)
Net Debt / EBITDA covenant	-	-	-	-	-	-	-	-	-	-
Net Debt / Equity (Gearing)	2.0%	12.7%	(7.9%)	(30.4%)	(33.7%)	(28.3%)	(0.3%)	(2.8%)	(5.8%)	(9.9%)
Equity / Total Assets (Solvency)	54.1%	50.4%	56.6%	58.6%	57.5%	53.5%	44.8%	46.1%	46.9%	47.9%
Solvency covenant	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT Interest Cover	46.2	54.0	24.2	63.1	73.3	86.4	32.2	11.6	16.8	22.4
Interest Cover Covenant	-	-	-	-	-	-	-	-	-	-
Company Key Performance Indicators	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Number of stores (x)	1,187.0	1,219.0	1,175.0	1,127.0	1,159.0	1,206.0	1,188.0	1,201.0	1,211.0	1,221.0
Comparable-store sales growth (%)	0.4	(4.7)	(11.2)	4.8	5.4	2.8	(1.1)	(0.5)	2.5	3.0
Operating costs per average store (EUR)	161,564.2	160,172.9	153,336.7	161,260.6	167,555.6	178,456.7	186,357.6	185,229.6	185,429.9	187,335.2
Employees per average store (x)	2.1	2.1	2.1	2.1	2.1	2.2	2.4	2.4	2.4	2.4
Capex per average store (EUR)	11,576.4	9,069.0	4,543.9	11,477.8	13,965.9	13,982.2	17,864.7	12,740.4	12,741.7	12,832.4

Source: Beter Bed Holding, ABN AMRO Equity Research

Important disclosures

Issuer	Ticker	Price EUR
Beter Bed Holding	BETR.AS	6.41

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Robert Jan Vos
Eric Wilmer

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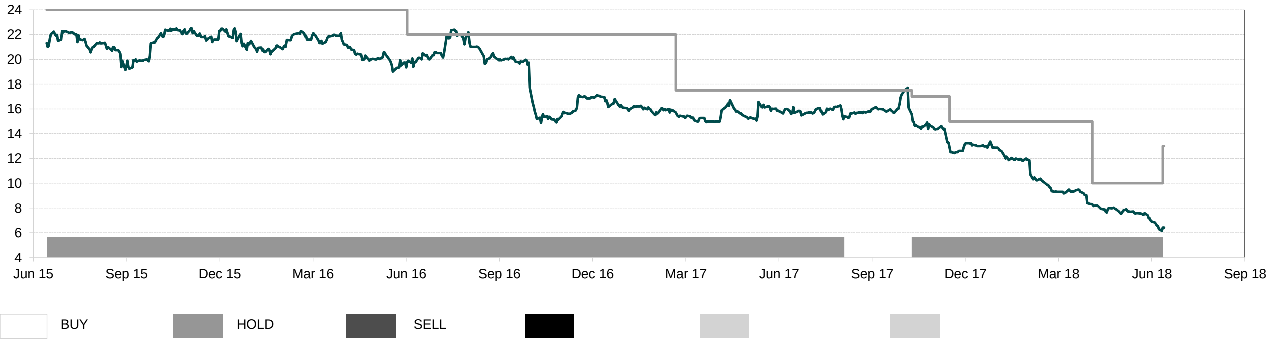
BUY	The stock belongs to the favourites of the local ABN AMRO Bank N.V. universe. Expected total return (incl. dividends) for the coming 12 months: > +15%	55%	58%
HOLD	The stock does not belong to the current favourites. The investment case is not appealing for the time being. However, it's worth to keep the stock. Expected total return (incl. dividends) for the coming 12 months: > 0%, < +15%	35%	32%
SELL	The stock belongs to the less attractive ones within the ABN AMRO Bank N.V. local universe. The outlook is uncertain. Expected total return (incl. dividends) for the coming 12 months: < 0%	10%	6%
11 July 2018	ABN AMRO Bank N.V. Primary Equity Research Coverage: 143 Prior to 1-10-2014 ABN AMRO applied 4 ratings (Buy, Hold, Reduce, Sell)		

Historical equity recommendations and target price for Beter Bed Holding (EUR)



History of Target Prices		
Date	**Recommendation**	**Target Price**
10/7/2018	BUY	EUR 13.00
2/5/2018	HOLD	EUR 10.00
13/12/2017	HOLD	EUR 15.00
6/11/2017	HOLD	EUR 17.00
20/03/2017	HOLD	EUR 17.50

History of Recommendation		
Date	**Recommendation**	**Target Price**
10/7/2018	BUY	EUR 13.00
6/11/2017	HOLD	EUR 17.00
1/9/2017	BUY	EUR 17.50

Source: ABN AMRO Equity Research, Factset

Equity Brokerage and Research - Contact List

Ferdinand Vaandrager +31 20 628 1688
Head of Financial Institutions Sales

Sales

Bram Fiselier (Head)	+31 20 535 7264
Eddy de Bruin	+31 20 535 7052
Peter van Ees - (Renewable) Energy & Shipping	+31 20 383 6096
Philip Hardeveld - Financials & Real Estate	+31 20 535 7364
Jeroen Koopman	+31 20 535 7285
Anne van Lie Peters	+31 20 535 7265
Jaap Linnebank	+31 20 535 7359
Johan van der Veen	+31 20 535 7263
Esther Silli (FR)	+33 1 5621 8581
Juliet Jellema (US)	+1 917 284 6742
Marc DeNatris (US)	+1 917 284 6725
Ronald Evers	+31 20 383 6097

Sales Trading

Frank Bonsee	+31 20 535 7082
Daam-Martijn van Holst	+31 20 535 7139
Ramon Hörchner	+31 20 383 6098

Equity Research

Wim Gille (Head) - Oil Services	+31 20 628 2639
Iver Baatvik - Oil Services	+47 23 11 49 63
Maarten Bakker - Industrials	+31 20 343 5412
Thijs Berkelder - Oil Services	+31 20 383 1216
Wilhelm Flinder - Shipping	+47 21 08 13 29
Mutlu Gundogan - Chemical and Materials	+31 20 628 1386
Ron Heijdenrijk - Financials	+31 20 343 7359
Marc Hesselink - Telecom and Tech Hardware	+31 20 628 1527
Lawrence Kilian	+31 20 628 2637
Cor Kluis - Financials	+31 20 383 7728
Niko Levikari - Real Estate	+31 20 628 9049
Glenn Lodden - Shipping	+47 23 11 49 68
Philip Ngotho - Construction and Materials	+31 20 344 2943
Robert Jan Vos - Food, Food Retail and Breweries	+31 20 343 7579
Eric Wilmer – Consumer & Real Estate	+31 20 629 1459
Konrad Zomer - Business Services and Media	+31 20 383 1356

Corporate Access

Robin de Jonge	+31 20 383 6879
Michelle Klievink	+31 20 535 7284
Nancy Kool	+31 20 535 7416

ABN AMRO Bank
Gustav Mahlerlaan 10 (visiting address)
P.O. Box 283
1000 EA Amsterdam
The Netherlands
Tel: +31 20 628 9393

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