

1999-07-01

## **INTERIM REPORT NINE MONTHS**

**1 September 1998 – 31 May 1999**

### **SALES INCREASED BY 12 PER CENT**

- Sales in the first nine months of the financial year increased by 12.1 per cent to SEK 2,685M (2,396). Lindex continued to take market shares on all geographic markets.
- Same-store sales rose by 5.9 per cent (2.8).
- Operating profit increased to SEK 195M (168) and profit after financial items to SEK 201M (165).
- During the period, the charge to profit for establishing Lindex's fourth market, Germany, amounted to SEK 54M (25) and is expected to amount to approximately SEK 75M for the 1998/99 financial year. During the period, a dissolution of SEK 3M was made of the provision for synthetic options (in the previous year, a provision of SEK 28M was made).
- In the third quarter of the financial year, sales increased by 15 per cent. Operating profit amounted to SEK 50M (17) and profit after financial items to SEK 53M (16).
- In total, 19 (22) new stores were opened during the first nine months of the financial year. An additional 5 stores will be opened during the remaining part of the financial year.
- During the period, September 1998 - May 1999, 4 stores were opened in Germany. As at 31 May 1999, there were 8 Lindex stores in Germany and an additional 3 stores will be opened during the 1998/99 financial year.

### **Future information dates**

Preliminary Accounts Report 1998/99 will be published on 19 October 1999.

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***Lindex is a retail chain with 285 stores on the Nordic market and 9 stores in Germany. The Group's product segments are ladies' wear, lingerie, children's clothing and Lindex Care - cosmetics, body care and health products.***

## Market and sales

During the period, September 1998 – May 1999, Lindex's sales increased by 12.1 per cent (7.9) to SEK 2,685M (2,396). Lindex's same-store sales rose by 5.9 per cent (2.8). Excluding exchange rate fluctuations, the increase amounted to 5.2 per cent. New stores generated an increase of 6.2 per cent (5.1). The sales increase for same-stores in the Nordic countries exceeded market growth of the respective market during the period. Lindex took market shares on all geographic markets.

The financial year started with high sales during September and November. Sales for Lindex as well as the retail clothing market as a whole were weak in October, especially during the latter part of the month. The sales trend in December was positive, whereas the market sales trend was slightly weaker during January and February 1999. The third quarter of the financial year, i.e. March to May, was characterised by high sales.

## Results

Operating profit amounted to SEK 195M (168) in the first nine months of the financial year. Profit after financial items was SEK 201M (165). The establishment in Germany affected the period's profit negatively by SEK 54M (25). During the period, a dissolution of SEK 3M was made of the provision for synthetic options\* (in the previous year, a provision of SEK 28M was made).

The gross profit margin remained unchanged compared with the same period in the previous year and amounted to 53.5 per cent (53.5).

During spring 1999, the foreign exchange market was characterised by higher prices for, among others, the USD compared with spring and autumn 1998. As a significant proportion of the Group's product purchases are made in USD, or in currencies linked to the USD, Lindex is exposed to fluctuations in the dollar rate. However, the rising rates during the first three quarters of the 1998/99 financial year, did not have any negative effect on the gross profit margin, due to the hedging policy that Lindex applies with currency hedging over a maximum period of 6-8 months from the order date.

Continued higher prices for the USD will have a negative effect on the gross profit margin. However, Lindex is of the opinion that the competitive situation on the markets makes it possible to avoid an effect on the gross profit margin through increased product prices. The higher USD rate affects in the long term the market operators in a similar way, i.e. it is relatively competition-neutral.

Financial income and expenses improved to SEK 6M (-3) which was mainly due to the continued successful launch of the Lindex Card (benefit/charge/credit card) and lower interest rates. In the first nine months of the financial year, interest-bearing liabilities averaged SEK 430M and interest expenses SEK 19M.

\*) Calculation of the provision requirement is based on the share price on 31 May 1999 which was SEK 235.

## Third quarter

Lindex's sales during the third quarter of the financial year (March-May 1999) rose by 15.4 per cent to SEK 856M (742). Same-store sales increased by 9.4 per cent compared with the same period in the

previous financial year. Excluding exchange rate fluctuations, same-store sales rose by 7.6 per cent. New stores generated a sales increase of 6.0 per cent.

Operating profit amounted to SEK 50M (17) in the three-month period and profit after financial items to SEK 53M (16).

The gross profit margin was higher compared with the third quarter in the previous year and amounted to 55.3 per cent (53.1). The increase was mainly due to Lindex's competitive product range and normal spring weather which led to higher sales than in the previous year.

The establishment in Germany affected the quarter's profit negatively by SEK 25M (17). Profit was positively affected by dissolution of the reserve for synthetic options by SEK 3M (-10).

## **Taxes**

Paid and deferred taxes amounted to SEK 72M (51). The tax rate in Sweden, Norway and Finland is 28 per cent, in Germany 44 per cent and in Hong Kong 16.5 per cent. Paid taxes were influenced by an estimated tax expense for synthetic options of 28 per cent on the change in provision for the options.

## **New stores**

During the first nine months of the financial year, Lindex opened a total of 19 (22) new stores – 8 in Sweden, 4 in Norway, 3 in Finland and 4 in Germany. The store network comprised 293 stores on 31 May 1999.

During the 1998/99 financial year, the expansion rate is expected to amount to 24 stores, 17 stores in the Nordic countries and 7 stores in Germany.

During the 1999/2000 financial year and in the following two financial years, the expansion rate is expected to total approximately 35 stores per annum. In Germany, the establishment rate is expected to amount to 15-20 stores per annum and in the Nordic countries it is also expected to amount to 15-20 stores per annum.

## **Lindex Care – the Group's fourth product segment**

At end-May, Lindex Care – cosmetics, body care and health products – had been launched in a total of 40 stores in Sweden, of which 12 were established during the first quarter of 1998/99, 6 in the second quarter of 1998/99 and 10 during the second quarter of 1998/99.

Lindex Care reports a high gross profit per square metre of sales area and contributes to increasing the number of customers per store. During the remainder of the financial year, the product range will gradually be launched in an additional approximately 5 stores. Lindex Care is gradually being launched in most existing stores and in all new stores in Sweden. During spring 2000, Lindex Care will also start to be launched in Norway and Finland.

## **Germany – the Group's fourth market**

The establishment of stores continues in a homogenous geographic region in Nordrhein-Westfalen in Western Germany. The concentration of stores makes possible, among other things, cost-efficient logistics and marketing. The first store was established more than a year ago in Mönchengladbach, on

19 March 1998. An additional three stores were opened during spring 1998 in Mülheim an der Ruhr, Gelsenkirchen and Essen (Limbecker Strasse). During the first quarter of the 1998/99 financial year, a further three stores were opened in Rhein-Ruhr Zentrum, Krefeld and Essen (Kettwiger Strasse) and in the third quarter of the financial year, an additional store was opened in Herne.

Sales per store are slightly higher than the average for new stores in the Nordic countries with a corresponding establishment date. In addition, the conversion ratio (paying customers as a percentage of number of visitors) is lower than in the Nordic countries, which is natural as the “new” brandname, Lindex, on the German market is in an introductory phase. In step with the expansion of the store network, Lindex’s opportunities for clearly establishing the identity of its brandname are strengthened.

The charge to profit for the establishment on the German market is expected to amount to approximately SEK 75M for the 1998/99 financial year. The conversion ratio has been steadily increased during spring 1999.

During the 1998/99 financial year, 7 stores will be established in Germany which means that there will be a total of 11 stores in Germany at the end of the financial year. The long-term plans for establishment in Germany stand which means, among other things, that approximately 20 stores are planned to be opened during the 1999/2000 financial year and thereafter 15-20 stores per financial year. This means that Lindex continues its investment on the German market.

## **The Lindex Card**

Since its introduction in Sweden in August 1995, the Lindex Card has been highly successful and at end-May 1999 there are approximately 325,000 cardholders (220,000). The card was launched in Norway in September 1997 and at end-May 1999 there are approximately 100,000 cardholders (45,000).

The Lindex Card is a benefit and loyalty card with payment and credit functions. Card customers spend twice as much on average on every purchase occasion compared with customers who pay cash. In addition, the proportion of ladies’ wear garments is higher on purchases with the Lindex Card compared with cash purchases.

## **Inventories**

Inventories at 31 May 1999 fell to SEK 652M compared with SEK 700M at 31 August 1998. New stores and new Care departments accounted for SEK 63M of inventory value on 31 May 1999.

## **Investments**

The Group’s net investments in fixed assets during the three quarters of the financial year amounted to SEK 111M (95). Most of this referred to investments in new stores, refurbishment of existing stores and new cash systems.

## **Financing and liquidity**

Cash flow after investments amounted to SEK 28M (0) during the first nine months of the financial year. Working capital increased by SEK 65M, of which trade debtors accounted for an increase of

SEK 72M and inventories for a decrease of SEK 48M. The increase in trade debtors was due to a significant increase in the number of Lindex Cards. Of total trade debtors of SEK 194M (122), trade debtors for the Lindex Card amounted to SEK 185M (107).

On 31 May 1999, liquid funds amounted to SEK 134M compared with SEK 121M on 31 August 1998.

On 31 May 1999, net borrowing was SEK 295M compared with SEK 225M on 31 August 1998.

During the period, the net debt/equity ratio increased from 35.1 per cent to 40.3 per cent, whereas the equity ratio rose to 44.4 per cent compared with 40.6 per cent on 31 August 1998.

## **Personnel**

The number of full-time employees during the latest 12-month period (June 1998 – May 1999) was 2,271 compared with 2,123 during the 1997/98 financial year. The increase was mainly the result of recruitment by the newly-opened stores.

During autumn 1998, a profit bonus programme was introduced for all staff.

## **Preparations ahead of the year 2000**

Lindex has taken a number of measures within the IT area aimed at avoiding problems in connection with the turn of the Millennium. Lindex estimates that preparations for the year 2000 will be completed during summer 1999. By that time, Lindex will have implemented all foreseeable measures to ensure that the turn of the Millennium will only have a minimal effect on operations. Lindex's assessment is that costs for solving any problems that may arise will be limited.

## **Parent Company**

Sales increased by SEK 145M, equivalent to 9.4 per cent, to SEK 1,697M (1,551). Profit after financial items rose to SEK 185M (154). During the period, net borrowing increased by SEK 52M and investments in equipment were made at SEK 66M (42).

Alingsås, 1 July 1999

AB Lindex (publ)  
Board of Directors

## **Audit Report for AB Lindex relating to Interim Report 1 September 1998 – 31 May 1999**

In our capacity as Auditors of AB Lindex, we have carried out a review of this Interim Report and in so doing followed the recommendation issued by the Swedish Institute of Authorised Public Accountants, FAR.

A review is considerably restricted compared to an audit.

Nothing has emerged which indicates that the Interim Report does not comply with the requirements stipulated in the Stockmarket and Annual Accounts Acts.

1 July 1999

Öhrlings Coopers & Lybrand AB

Robert Barnden  
Authorised Public Accountant

Hasse Lundin  
Authorised Public Accountant

### **Number of stores**

	<b>31 August</b>					<b>31 May</b>	
	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1998</b>	<b>1999</b>
AB Lindex, Sweden	124	136	149	153	160	159	168
Lindex AS, Norway	50	54	59	65	71	71	75
Lindex Oy, Finland	20	23	28	33	39	39	42
Lindex Textilvertrieb GmbH, Germany	-	-	-	-	4	4	8
<b>Total</b>	<b>194</b>	<b>213</b>	<b>236</b>	<b>251</b>	<b>274</b>	<b>273</b>	<b>293</b>
Closures	-	1	-	-	-	-	-

## THE LINDEX GROUP'S DEVELOPMENT PROFIT AND LOSS ACCOUNTS

SEK M	9 months 1 September – 31 May			Latest 12 months Jun-May 1998/99	12 months Sep-Aug 1997/98
	1996/97	1997/98	1998/99		
<b>Net sales</b>					
Sales, net	2 221	2 396	2 685	3 501	3 212
Other operating income	5	7	19	21	9
<b>Total operating income</b>	<b>2 226</b>	<b>2 403</b>	<b>2 704</b>	<b>3 522</b>	<b>3 221</b>
<b>Operating expenses</b>					
Goods for resale	- 1 061	- 1 115	- 1 248	- 1 685	-1 552
<b>Gross profit</b>	<b>1 165</b>	<b>1 288</b>	<b>1 456</b>	<b>1 837</b>	<b>1 669</b>
Other external costs*)	- 496	- 568	- 622	- 774	-720
Personnel costs	- 436	- 490	- 564	- 718	-644
Depreciation of tangible and intangible fixed assets	- 56	- 62	- 75	- 97	-84
<b>Operating profit</b>	<b>177</b>	<b>168</b>	<b>195</b>	<b>248</b>	<b>221</b>
<b>Result of financial investments</b>					
Other interest income and similar profit items	8	13	25	33	21
Interest expenses and similar loss items	- 19	- 16	- 19	- 24	-21
<b>Profit after financial items</b>	<b>166</b>	<b>165</b>	<b>201</b>	<b>257</b>	<b>221</b>
<b>Taxes</b>					
Tax on the period's profit	- 48	- 51	- 72	- 100	-79
<b>Net profit for the period</b>	<b>118</b>	<b>114</b>	<b>129</b>	<b>157</b>	<b>142</b>

\*) Including relating to synthetic options:

provision for anticipated liability	12	27	- 3	- 20	10
Written-off for options which have been redeemed by AB Lindex	0.3	1.0	0.0	0.0	1.0

## QUARTERLY PROFIT AND LOSS ACCOUNTS

SEK M	1996/97				1997/98				1998/99		
Quarter	1.9- 30.11	1.12- 28.2	1.3- 31.5	1.6- 31.8	1.9- 30.11	1.12- 28.2	1.3- 31.5	1.6- 31.8	1.9- 30.11	1.12- 28.2	1.3- 31.5
<b>Net sales</b>											
Sales, net	735	768	718	666	815	839	742	816	931	898	856
Other operating income	2	1	2	1	2	2	3	2	10	4	5
<b>Total operating income</b>	<b>737</b>	<b>769</b>	<b>720</b>	<b>667</b>	<b>817</b>	<b>841</b>	<b>745</b>	<b>818</b>	<b>941</b>	<b>902</b>	<b>861</b>
<b>Operating expenses</b>											
Goods for resale	-329	-393	-339	-354	-356	-410	-349	-437	-421	-445	- 382
<b>Gross profit</b>	<b>408</b>	<b>376</b>	<b>381</b>	<b>313</b>	<b>461</b>	<b>431</b>	<b>396</b>	<b>381</b>	<b>520</b>	<b>457</b>	<b>479</b>
Other external costs*)	-179	-146	-171	-150	-200	-173	-195	-152	-231	-180	- 211
Personnel costs	-141	-144	-151	-132	-162	-166	-162	-154	-186	-187	- 191
Depreciation of tangible and intangible fixed assets	-18	-18	-20	-19	-20	-20	-22	-22	-24	-24	- 27
<b>Operating profit</b>	<b>70</b>	<b>68</b>	<b>39</b>	<b>12</b>	<b>79</b>	<b>72</b>	<b>17</b>	<b>53</b>	<b>79</b>	<b>66</b>	<b>50</b>
<b>Result of financial investments</b>											
Other interest income and similar profit items	2	3	3	3	4	4	5	7	7	8	10
Interest expenses and similar loss items	-8	-5	-6	-3	-5	-5	-6	-4	-7	-5	- 7
<b>Profit after financial items</b>	<b>64</b>	<b>66</b>	<b>36</b>	<b>12</b>	<b>78</b>	<b>71</b>	<b>16</b>	<b>56</b>	<b>79</b>	<b>69</b>	<b>53</b>
<b>Taxes</b>											
Tax on the period's profit	-20	-18	-10	-7	-22	-19	-10	-28 **)	-30	-21	- 21
<b>Net profit for the period</b>	<b>44</b>	<b>48</b>	<b>26</b>	<b>5</b>	<b>56</b>	<b>52</b>	<b>6</b>	<b>28</b>	<b>49</b>	<b>48</b>	<b>32</b>

\*) Influenced by provision for estimated liability for synthetic options and costs for the synthetic options which have been redeemed by AB Lindex.

\*\*)Due to clarification of the fiscal treatment of synthetic options, the tax on the profit in the financial year has been increased by SEK 8M, of which SEK 5M refers to the previous financial year, based on option costs which were charged to profit.



# ITEMS WHICH HAVE INFLUENCED THE QUARTERLY PROFITS

SEK M	1996/97				1997/98				1998/99		
Quarter	1.9- 30.11	1.12- 28.2	1.3- 31.5	1.6- 31.8	1.9- 30.11	1.12- 28.2	1.3- 31.5	1.6- 31.8	1.9- 30.11	1.12- 28.2	1.3- 31.5
<b>Cost charges</b>											
Provision for estimated liability for synthetic options*)	7	0	5	5	10	7	10	-17	11	-11	- 3
Written-off for synthetic options which have been redeemed by AB Lindex	-	0.3	-	0.2	0.4	-	0.6	-	-	-	-
Influence on the profit by the newly-established market, Germany	-	-	-	-	5	3	17	12	14	15	25
<b>Adjusted profit</b>											
Profit after financial items adjusted for start-up costs in Germany and provision for synthetic options	71	66	41	17	93	81	44	51	104	73	75
*) Share price on the last stockmarket day in the respective period, SEK	161	160	181	202	243	273	320	248	293	248	235

## BALANCE SHEETS

SEK M	31 May		1999	31 Aug
	1997	1998		1998
Fixed assets *)	581	608	634	598
Inventories	488	594	652	700
Trade debtors	50	122	194	122
Other current receivables	32	39	36	39
Liquid funds	84	108	134	121
<b>Total assets</b>	<b>1 235</b>	<b>1 471</b>	<b>1 650</b>	<b>1 580</b>
Shareholders' equity	542	610	732	642
Interest-bearing liabilities	329	373	429	346
Operating liabilities and provisions	364	488	489	592
<b>Total shareholders' equity, provisions and liabilities</b>	<b>1 235</b>	<b>1 471</b>	<b>1 650</b>	<b>1 580</b>

\*) of which brandnames and goodwill which arose in connection with the acquisition by Industri Kapital 1989 and others of AB Lindex on 1 September 1993:

398	384	357	378
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**)Current liabilities	370	448	501	544
Long-term liabilities and provisions	323	413	417	394

## SOURCE AND APPLICATION OF FUNDS STATEMENTS

SEK	9 months 1 September – 31 May			Latest 12 months Jun - May 1998/99	12 months Sep - Aug 1997/98
	1996/97	1997/98	1998/99		
<b>Cash flow before change in working capital and investments</b>	<b>179</b>	<b>176</b>	<b>204</b>	<b>280</b>	<b>252</b>
Change in working capital	22	-81	-65	-75	-91
Cash flow before investments	201	95	139	205	161
Investments, net	-50	-95	-111	-124	-108
<b>Cash flow after investments</b>	<b>151</b>	<b>0</b>	<b>28</b>	<b>81</b>	<b>53</b>
Change in other long-term liabilities, dividend, etc	-16	-20	2	-10	-32
<b>Change in interest-bearing net liability</b>	<b>135</b>	<b>-20</b>	<b>30</b>	<b>71</b>	<b>21</b>

## KEY FIGURES

		9 months 1 September – 31 May			Latest 12 months Jun-May 1998/99	12 months Sep - Aug 1997/98
		1996/97	1997/98	1998/99		
Sales growth, total	%	10.1	7.9	12.1	14.3	11.3
Same-stores sales growth*)	%	5.0	2.8	5.9	8.1	5.8
Same-stores sales growth**)	%	4.5	3.6	5.2	8.1	6.5
Sales by square metre	SEK	-	-	-	18 885	18 390
Gross profit margin	%	52.3	53.5	53.5	51.9	51.7
Operating margin	%	8.0	7.0	7.3	7.1	6.9
Profit margin	%	7.5	6.9	7.5	7.3	6.9
Return on shareholders' equity	%	-	-	-	23.4	24.0
Return on capital employed	%	-	-	-	26.1	26.3
Return on capital employed in operations	%	-	-	-	26.1	26.7
Return on total capital	%	-	-	-	18.0	16.7
Equity ratio	%	43.9	41.5	44.4	44.4	40.6
Net debt/equity ratio	%	45.3	43.5	40.3	40.3	35.1
Interest coverage ratio	times	9.9	11.2	11.4	12.1	12.1
Capital turnover rate	times	-	-	-	3.3	3.7
Turnover rate of inventories	times	-	-	-	2.3	2.3
Investments	SEK M	50	95	111	124	108
Cash flow after investments	SEK M	151	0	28	81	53
Number of full-time employees		1 907	2 074	2 271	2 271	2 123
Profit per share	SEK	8.60	8.30	9.40	11.40	10.30
Cash flow per share	SEK	11.00	0.00	2.10	6.00	3.90
Equity per share	SEK	39.40	44.40	53.30	53.30	46.70

\*) including exchange rate fluctuations

\*\*) excluding exchange rate fluctuations

Some key figures 1996/97 have been recalculated due to the application of the new Annual Accounts Act.

## Lindex's largest shareholders

Shareholders	Number of shares	Per cent of shares and votes
Orkla ASA	1 376 428	10.0
AMF Pensionsförsäkring AB	674 700	4.9
AMF Sjukförsäkrings AB	644 000	4.7
Försäkringsbolaget SPP	609 400	4.4
Handelsbankens Aktie- och Allemansfonder	543 319	4.0
FöreningsSparbankens Aktie- och Allemansfonder	514 200	3.7
Allmänna Pensionsfonden, Fjärde Fondstyrelsen	450 000	3.3
S E Bs stiftelser	450 000	3.3
S E Bs aktiefonder	338 900	2.5
Konsumentkooperationens pensionskassa och pensionsstiftelse	300 000	2.2
<b>Total</b>	<b>5 900 947</b>	<b>42.9</b>

Source: VPC AB Share Register 31 May 1999

The largest shareholders represent 42.9 per cent of Lindex shares. The total number of shares in the company amounts to 13,750,000.

Ownership distribution	Per cent of Shares and votes	
	<u>1998-08-31</u>	<u>1999-05-31</u>
Swedish owners	76.4	77.8
Owners resident outside Sweden excluding the USA	18.1	20.1
USA	5.5	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Total number of shareholders</b>	<b>12 796</b>	<b>13 853</b>

Source: VPC AB Share Register 31 August 1998 and 31 May 1999.

## Definitions

**Same-store sales growth, %** - Sales increase in stores which have been opened for more than one year for comparable months.

**Sales by square metre** – Sales during the period divided by average store area (12 months average).

**Store area** – Total area less storage space.

**Gross profit margin** – Sales during the period less expenses for sold products as a percentage of sales.

**Operating margin** – Operating profit expressed as a percentage of sales during the period.

**Profit margin** – Profit after financial items as a percentage of sales during the period.

**Shareholders' equity** – Restricted and non-restricted equity.

**Average equity** – Total shareholders' equity on first and last day in the twelve month period divided by two.

**Average interest-bearing liabilities** – Interest-bearing liabilities at the end of each month during the financial year divided by twelve.

**Capital employed** – Total assets less non-interest-bearing liabilities.

**Capital employed in operations** – Total assets less liquid funds, other interest-bearing assets and non-interest-bearing liabilities.

**Return on shareholders' equity** – Profit after full tax expressed as a percentage of average shareholders' equity.

**Return on capital employed** – Profit after financial items plus financial expenses expressed as a percentage of average capital employed.

**Return on capital employed in operations** – Operating profit expressed as a percentage of average capital employed in operations.

**Return on total capital** – Profit after financial items plus financial expenses expressed as a percentage of average total assets.

**Equity ratio** – Shareholders' equity expressed as a percentage of total assets.

**Net borrowing** – Interest-bearing liabilities less liquid funds.

**Net debt/equity ratio** – Interest-bearing liabilities less liquid funds expressed as a percentage of shareholders' equity.

**Interest coverage ratio** – Profit after financial items plus financial expenses divided by financial expenses.

**Capital turnover rate** – Total sales divided by average capital employed in operations.

**Inventory turnover rate** – Costs for sold products divided by average inventory (12 months average).

**Cash flow after investments** – Profit before depreciation +/- financial items - paid tax +/- changes in working capital - investments.

**Number of full-time employees** – Total number of hours worked divided by normal annual working hours in the respective country.

**Profit per share** – Profit after full tax divided by number of shares.

**Cash flow per share** – Cash flow after investments divided by number of shares.

**Equity per share** – Shareholders' equity divided by number of shares.