

LETTER TO SHAREHOLDERS

Dear Shareholders,

We founded Westwing eight years ago with the vision to inspire our customers to create a truly beautiful home for themselves. A place that they fall in love with – over and over again. In our homes, memories are made, and the future begins, life and love happen; it is where you feel at ease and where your kids take their first steps. A place that is constantly evolving and has its own soul. We offer something to our customers that is very much a highly emotional and ever-present part of their lives. That is why Westwing, first and foremost is a brand.

The Westwing brand and the loyalty of our customers to this brand are of utmost importance to us. From first apartments, to family homes, to havens for retirements, we can accompany our customers and be a part of their lives for decades. Our average customer is 43 years old, and 90 % of our customers are women. Already today, we generate 85 % of our sales with customers who visit our sites and apps on average 100 times per year. We do this with a unique business model which combines creativity, content and eCommerce in a seamless ‘shoppable magazine’ to fulfil our mission: To inspire and make every home a beautiful home.

2018 has been a very exciting year for us. We served 933,694 customers who placed 2,399,122 orders. Every 5 seconds we sold a product, 24/7. We have grown revenues by 16 % to EUR 254m, and we did so profitably on an Adjusted EBITDA level for the first time. We have coupled this profitable growth with best-in-class cash efficiency, clearly establishing the path that we believe will create a sustainable, market-leading company and long-term value for our shareholders.

Let us lay out the key principles by which we will continue to run Westwing:

- **Loyalty:** Customer loyalty is the foundational element of all long-standing successful consumer businesses, and we believe that a business primarily driven by customer loyalty is the only one worth building. That is why from our founding on we have focused on customer loyalty in every part of our business model. We take trade-offs in the direction of loyalty even at the expense of opportunistic sales. We aim to make our customers fall in love with our brand. In our market, this is rare. The Home and Living market is fragmented with very few well-known brands. Westwing is a brand that customers want in their homes. Once you have a brand like this, there is an amazing chance to sell our own label and private label products and increase customer experience as well as margins on the way. Loyalty is both the driver and the goal of our business strategy.
- **Unique business model:** The Westwing business model is truly unique, driving long-term value in a world where customers are looking for a shopping experience, in addition to pure search-based demand fulfilment. We have a powerful brand with a combination of content and eCommerce for a ‘shoppable magazine’ that inspires our customers every single day. Around our daily themes we have built a permanent assortment of bestsellers and our own and private label products. Our social media-focused organic marketing acquires new customers at high efficiency. The Westwing business model provides a deep moat and thus the ability to innovate long-term at profitable growth amid a dynamic and competitive market.

- **Creativity first:** The secret sauce of Westwing is our creative team and our approach to building our company around them. Our world-class creatives – like those at fashion or entertainment houses – drive their vision and ideas forward while the business/technology/operations part of the company makes them reality. Our creatives have wide-ranging decision-making power on all customer-facing aspects of Westwing, and with that we ensure customer excitement and differentiation. One of our angel investors (Christoph Janz from Point Nine Capital) has put it into words better than we could: “Westwing is probably the most as well as the least data-driven company that I know. When it comes to logistics, allocation of resources and overall business performance, the company is extremely numbers-driven. But as soon as you enter product selection, design, and customer experience, the opinions of the creative people in the company are sacrosanct.”
- **Technology-driven:** The internet and mobile phones are generational innovations that eCommerce is built on. We operate at the forefront of this wave by making these technologies accessible to our customers and thus making their homes more beautiful. Augmented Reality (AR) is the next generationally important technology in our view, and we aim to be also at the forefront of this wave. AR allows customers to visualize how their newly furnished homes will actually look like from the comfort of their sofa, another eCommerce advantage that store-based retail cannot offer. We develop and run our technology in-house with an experienced team of experts, heavily investing around three core areas: Consumer technology (esp. on mobile devices; already 74 % of our traffic is mobile), operations technology (esp. how we deliver our products and run our business), and new technologies (esp. AR and data-driven personalization).
- **Profitable growth:** We have created Westwing so that our differentiation will enable us to couple long-term growth with strong profitability. We are running our business model based on customer loyalty, creativity, and a strong brand for long-term 10+% Adjusted EBITDA target margin levels. We are working hard to improve upon the already achieved profitability. By running our company profitably, we will continue to build the right ‘muscles’ to realize our long-term target margins step-by-step, a process already well under way in our DACH segment.
- **Cash efficiency:** As founders who aim to run Westwing for the long term, we are not only focused on accounting metrics such as Adjusted EBITDA but on cash returns as the ultimate creator of long-term shareholder value. Our business model thus is one where cash efficiency is front and center. We limit Capex whenever we can. For instance, we currently rent our warehouses, as owning them is too expensive when considering our true cost of capital. We also run at roughly neutral net working capital, working with limited inventories and working with suppliers on attractive payment terms. The difference between Adjusted EBITDA and cash flow is comparatively small at Westwing, and we aim to keep it that way.
- **Long-term focus:** The European market for Home and Living eCommerce is very early with only 5 % of eCommerce penetration. Only recently have customers started to become comfortable with making their Home and Living purchases online. Trust in their favorite eCommerce brand thus is key and a main focus for us at Westwing. For instance, we invested very early into proprietary warehouse management software and processes that allow us to pack and ship efficiently a product range that comprises fragile wine glasses, complex table lamps, and large sofas. We will create many of the basics of the market ourselves, from operations infrastructure and educating our fragmented supplier base how to succeed online, to building the underlying technologies. We are committed to building a company that will stand the test of time.

- **Transparency:** Part of our internal values is to communicate openly, honestly, directly. This is also how we will continue to communicate with our shareholders. We will share the evolution of our path, the good and the bad, with openness in a timely and measured fashion. While we do not plan to give quarterly guidance, as this is not appropriate in a market as seasonal and weather-related as ours, we will fully explain any developments once we report them and how they affect our results with regards to full-year guidance. We will not hesitate to describe developments at Westwing and in our market as we see them.

The year 2018 marked our transition from proving our business model over the first seven years of our existence into running Westwing profitably growing. We as founders and leaders of Westwing are proud of this achievement, yet we fundamentally believe it is still only the beginning of what we will achieve with our and your company. With over EUR 100 million in the bank, we are now working our way into a future where our customers, team members, partners, and shareholders can rely on us for decades to come.

We want to thank you, our shareholders, as well as our business partners, our team members, and our customers, for the trust that you have put in us, our team and our company. We will work tirelessly to justify your trust and are looking forward to this exciting journey together with you.

The Westwing Founders & Management Board

Munich, March 27, 2019



Stefan Smalla
Chief Executive Officer
Westwing Group AG



Delia Fischer
Chief Creative Officer
Westwing Group AG



Dr. Dr. Florian Drabeck
Chief Financial Officer
Westwing Group AG