

BANG & OLUFSEN

INTERIM REPORT Q3 2017/18

6 APRIL 2018



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AGENDA

- **Highlights**
- Financial results
- Outlook
- Questions & answers

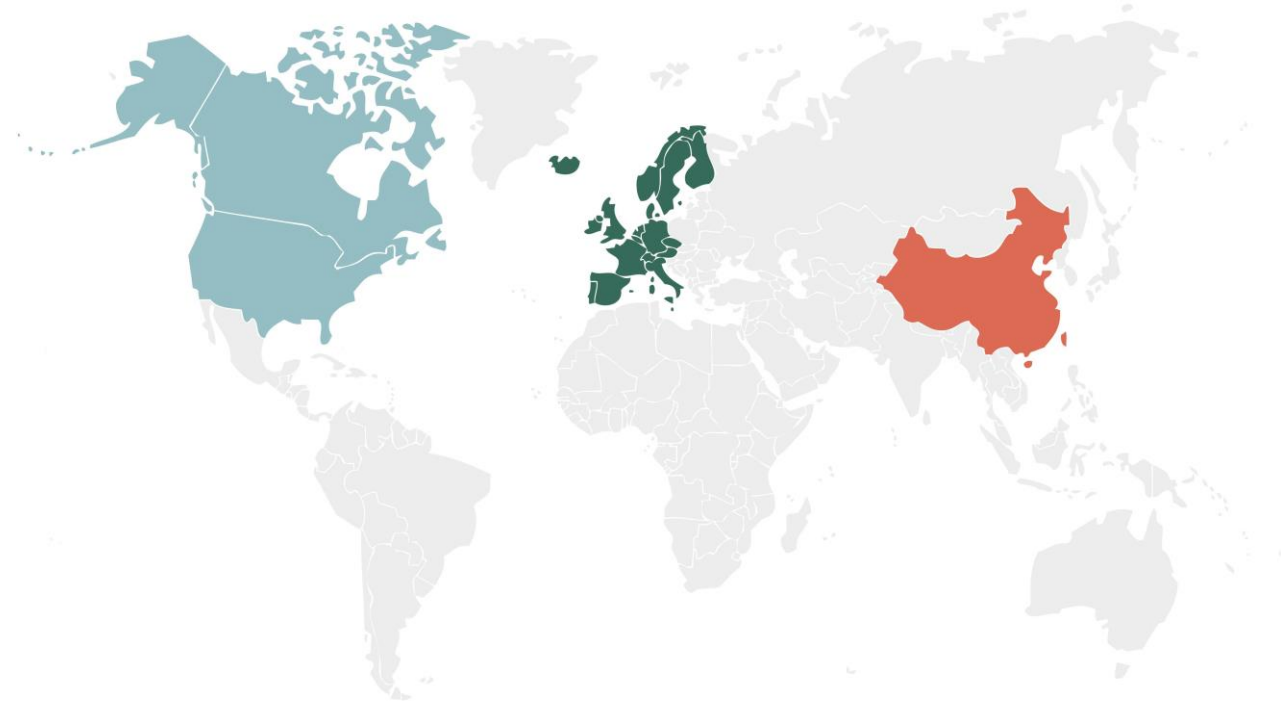


10 PER CENT GROWTH AND IMPROVED PROFITABILITY

- Satisfactory growth of the Group revenue by 10 per cent (13 per cent in local currency)
- The result was driven by a 25 per cent growth in B&O PLAY - and strong sales in the Greater China region reflecting the improved setup in the region
- EBIT in the underlying business was DKK 50 million against DKK 18 million last year, which corresponds to an EBIT margin of 6 per cent
- Improvement in profitability driven by growth and the changed operating model
- Well on track to achieve the full year targets

STRENGTHENING GO-TO-MARKET ACROSS REGIONS

- In **Greater China**, execution on the go-to-market plan is progressing very well. Presence on digital platforms improved and local organisation is in place. Emphasis is now on building the right mono - and multibrand store setup
- The **North America** offices have been consolidated, the new organisation is in place and the process to change the mono- and multibrand setup has been initiated with focus on strengthening the brand penetration in key metropolitan areas
- In **Europe**, the organisational setup has been adjusted. Transforming the retail distribution remains the key priority in order to strengthen the customer experience and improve the quality across all retail touchpoints



PRODUCTS & PLATFORM

STRONG PRODUCT PORTFOLIO

- The product portfolio was strengthened with the launch of two new flagship headphones, Beoplay H8i and Beoplay H9i. Recently launched products such as BeoVision Eclipse, BeoLab 50 and Beoplay E8 performed well in the quarter supported by strong sales of existing products such as BeoSound 2, Beoplay A1, Beoplay A9 and Beoplay H5
- Continued focus to ensure consistency across the product portfolio in terms of product offering and user experience

DEVELOPING TECHNOLOGY PARTNERSHIPS

- The Group continues to develop the collaboration with key platform partners. In the third quarter, the Group demonstrated a voice-activated BeoSound 1 pilot project with Google Voice Assistant built-in and announced that ten products will be updated with Apple AirPlay 2
- Collaboration with key technology partners, such as LG and Tympany, is progressing well



FINANCIAL RESULTS

- Highlights
- **Financial results**
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FINANCIAL HIGHLIGHTS

Key financial figures

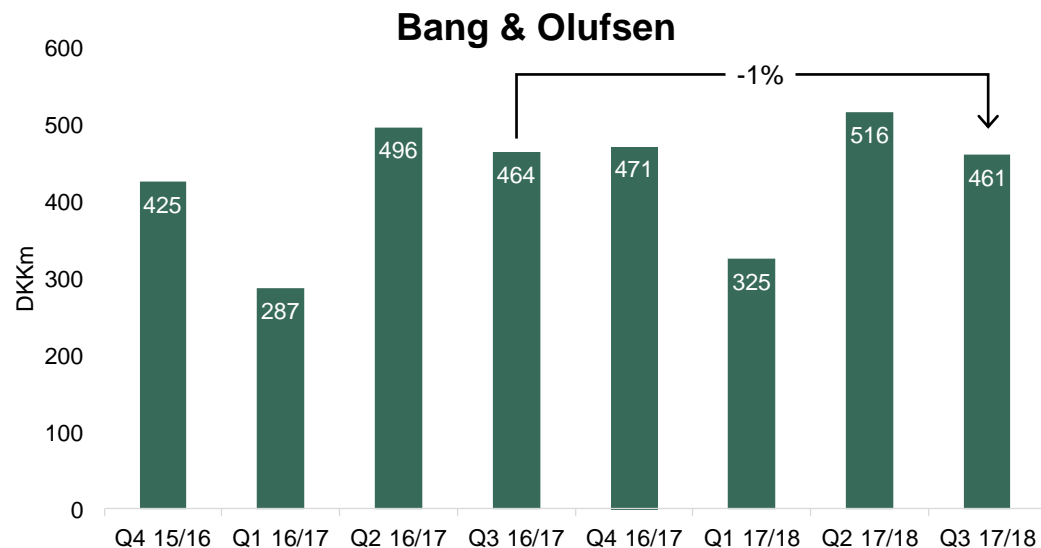
| DKK million | 3rd quarter | | YTD | |
|-----------------------------|-------------|------------|--------------|--------------|
| | 17/18 | 16/17 | 17/18 | 16/17 |
| Revenue | 865 | 786 | 2,456 | 2,169 |
| Gross profit | 355 | 335 | 1,002 | 865 |
| EBITDAC | 100 | 63 | 207 | 66 |
| EBITDAC (underlying) | 101 | 63 | 195 | 66 |
| EBIT | 49 | 18 | 67 | -34 |
| EBIT (underlying) | 50 | 18 | 55 | -34 |
| EBT | 50 | 3 | 28 | -41 |
| Earnings | 26 | 3 | 28 | -41 |
| Gross margin, % | 41.0 | 42.6 | 40.8 | 39.9 |
| Net working capital | 210 | 232 | 210 | 232 |
| Free cash flow | 34 | 97 | -80 | 196 |

- Revenue increased from DKK 786 million last year to DKK 865 million, corresponding to a growth of 10 per cent
- The Group gross margin was at 41.0 per cent 1.6 percentage points lower than last year
- Capacity costs in the underlying business decreased by 4 per cent
- EBITDAC in the underlying business increased by DKK 38 million and was DKK 101 million against DKK 63 million last year
- EBIT in the underlying business was DKK 50 million against DKK 18 million last year
- Free cash flow was DKK 34 million against DKK 97 million last year

REVENUE GROWTH DRIVEN BY B&O PLAY

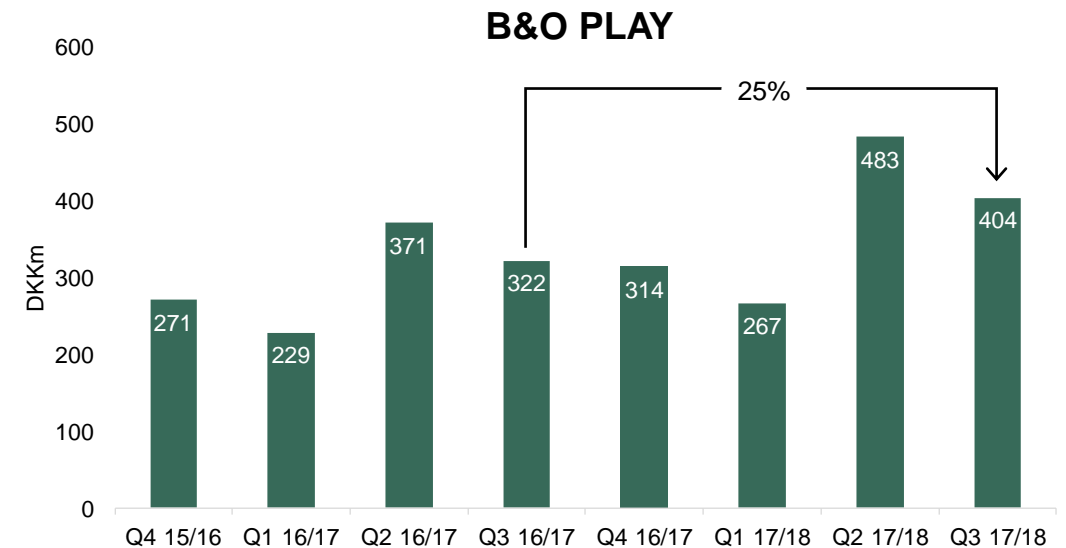
BANG & OLUFSEN QUARTERLY REVENUE

- The Bang & Olufsen business unit realised a revenue of DKK 461 million against DKK 464 million last year, which was a decline of 1 per cent (2 per cent increase in local currency)
- The quarter was characterised by solid sales within TV and Connected Audio. Revenue was, however, affected by the continued transformation of the retail network



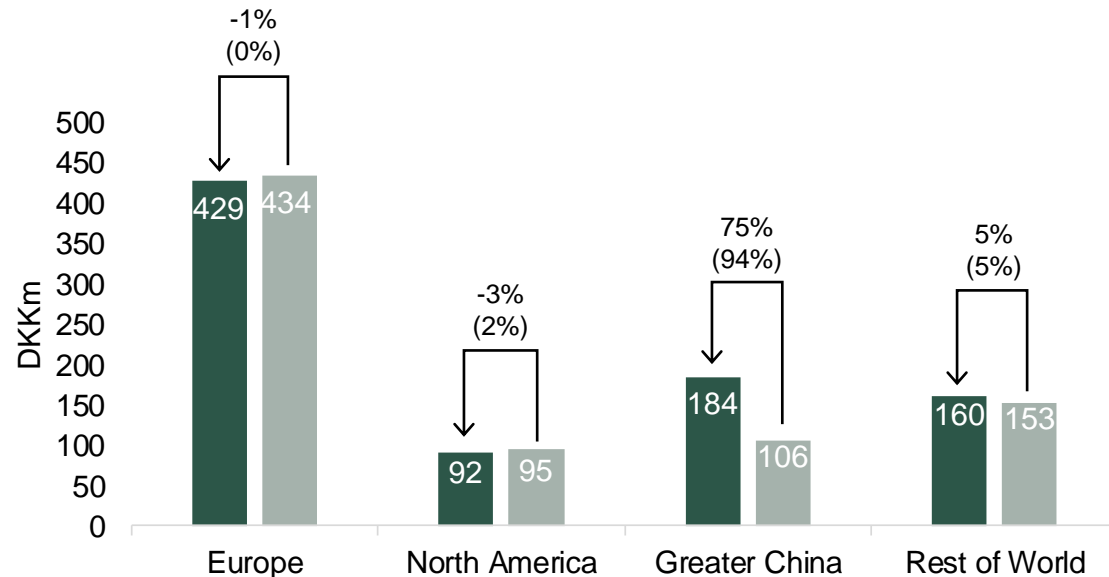
B&O PLAY QUARTERLY REVENUE

- The revenue in the B&O PLAY business unit grew 25 per cent (28 per cent growth in local currency) and realised a revenue of DKK 404 million
- The growth was driven by the E8 earphones and the new H8i and H9i headphones as well as existing products such as A1, A9 and H5



GROWTH DRIVEN BY THE GREATER CHINA REGION

Revenue y-o-y change
(Growth in local currency in parenthesis)



75 PER CENT GROWTH IN GREATER CHINA

- All regions showed flat or positive growth in local currency in the quarter
- The development in Europe was primarily a result of increased TV sales offset by the impact from fewer owned and operated stores
- The decline in North America was primarily a result of the restructuring process that has been ongoing in the region
- The growth momentum in the Greater China region continued to be driven by strong B&O PLAY sales
- The development in the region Rest of World was characterised by growth in the B&O PLAY business unit

GROSS MARGIN IMPACTED BY MIX AND CLEAN-UP

| Gross margin | | | | |
|----------------|-------------|-------------|-------------|-------------|
| % | 3rd quarter | | YTD | |
| | 17/18 | 16/17 | 17/18 | 16/17 |
| Bang & Olufsen | 46.6 | 44.8 | 44.6 | 42.5 |
| B&O PLAY | 34.7 | 39.4 | 36.4 | 36.4 |
| Group | 41.0 | 42.6 | 40.8 | 39.9 |

GROUP GROSS MARGIN WAS 41 PER CENT

- The gross margin in the Bang & Olufsen business unit was at 46.6 per cent 1.8 percentage points higher than last year. This was mainly a result of an improvement in product profitability
- The gross margin in the B&O PLAY business unit was 34.7 per cent against 39.4 per cent last year. This was primarily due to channel clean-up as well as end-of-life product campaigns

CAPACITY COSTS BELOW LAST YEAR

CAPACITY COSTS DECREASED BY 4 PER CENT

- The capacity costs were DKK 305 million compared to DKK 317 million last year
- Distribution and marketing costs continued to be focused more towards marketing and distribution in the B&O PLAY business unit, with lower spend in the Bang & Olufsen business unit including the impact from fewer company-owned and company-operated stores

Capacity costs, underlying business

| DKK million | 3rd quarter | | YTD | |
|-------------------------|-------------|------------|------------|------------|
| | 17/18 | 16/17 | 17/18 | 16/17 |
| Development | 98 | 104 | 330 | 279 |
| Dist. and marketing | 181 | 186 | 539 | 555 |
| Administration | 26 | 27 | 78 | 73 |
| Total cap. costs | 305 | 317 | 947 | 908 |

INVESTMENTS IN PRODUCT DEVELOPMENT CONTINUED

- Incurred development costs and capitalisation ratio in the quarter reflects the changed operating model
- Development costs were DKK 98 million against DKK 104 million last year
- Incurred development costs were DKK 60 million (of which DKK 13 million were capitalised) against DKK 78 million last year (of which DKK 36 million were capitalised)

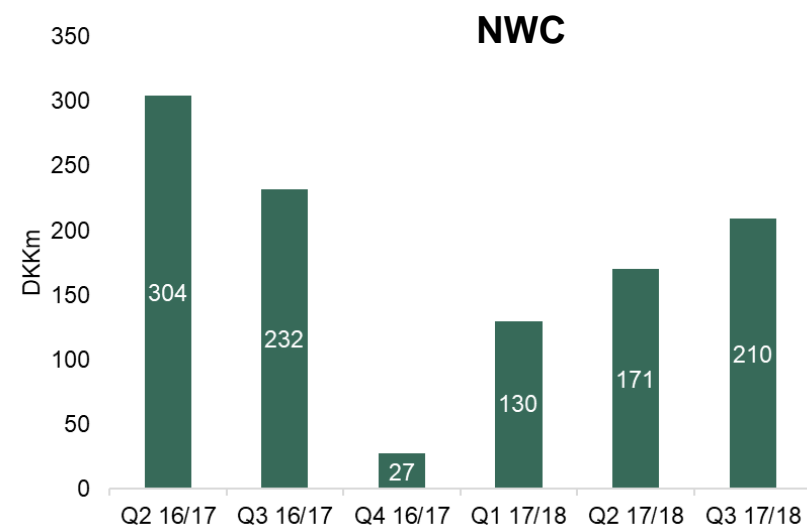
Development costs

| DKK million | 3rd quarter | | YTD | |
|--|-------------|------------|------------|------------|
| | 17/18 | 16/17 | 17/18 | 16/17 |
| Incurred development costs before capitalisation | 60 | 78 | 235 | 229 |
| Net effect of capitalisations and amortisations | 37 | 26 | 94 | 50 |
| Development costs in P&L, reported | 98 | 104 | 330 | 279 |
| Capitalisation (%) | 20.8% | 46.1% | 40.0% | 45.4% |

NET WORKING CAPITAL AND CASH FLOW

NET WORKING CAPITAL INCREASED

- The Group's net working capital was DKK 210 million. This was an increase of DKK 39 million compared to the end of the previous quarter
- The increase was due to increased activity in the quarter with higher trade receivables partially offset by higher trade payables



POSITIVE FREE CASH FLOW

- Free cash flow was positive DKK 34 million compared to DKK 97 million last year
- The improved earnings and lower investment levels were key to the positive free cash flow. This was partially offset by a negative change in net working capital compared to last year

Cash Flow

DKK million

| | 3rd quarter | | YTD | |
|--|-------------|------------|------------|------------|
| | 17/18 | 16/17 | 17/18 | 16/17 |
| Earnings for the period | 26 | 3 | 28 | -41 |
| Net working capital related | -39 | 73 | -183 | 87 |
| Other | 75 | 73 | 219 | 205 |
| Cash flow from oper. activities | 62 | 148 | 65 | 251 |
| Cash flow from investing activities | -28 | -52 | -145 | -55 |
| Free Cash Flow | 34 | 97 | -80 | 196 |

OUTLOOK

- Highlights
- Financial results
- **Outlook**
- Questions & answers

OUTLOOK FOR 2017/18

- Group revenue growth is expected to be above 10 per cent compared to 2016/17 (prev. around 10 per cent)
 - B&O PLAY is expected to continue to be the main growth driver with growth of more than 20 per cent compared to 2016/17
 - The Bang & Olufsen business unit is expected to remain flat and adversely impacted by the transformation of the branded retail network
 - Revenue related to brand partnering is expected to be in the low end of the previously guided range of DKK 160-200 million
- The EBITDAC margin for the Group is expected to be 8-10 per cent for 2017/18
- The EBIT margin for the Group is expected to be around 3 per cent for 2017/18 and impacted by high depreciations and low capitalisations
- The Group's free cash flow is expected to be positive in 2017/18



Q&A

- Highlights
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A modern interior scene featuring a chair and two large speakers. The chair is a wireframe design with a dark seat, positioned in the center. Two large, dark, rectangular speakers with a textured surface are positioned on either side of the chair. The background consists of several vertical, ribbed columns of varying heights, creating a sense of depth and architectural interest. The lighting is soft and directional, casting shadows on the floor and the columns.

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