

BANG & OLUFSEN
ANNUAL REPORT 2015/16
11 August 2016



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AGENDA

HIGHLIGHTS

FINANCIAL RESULTS

OUTLOOK

QUESTIONS AND ANSWERS

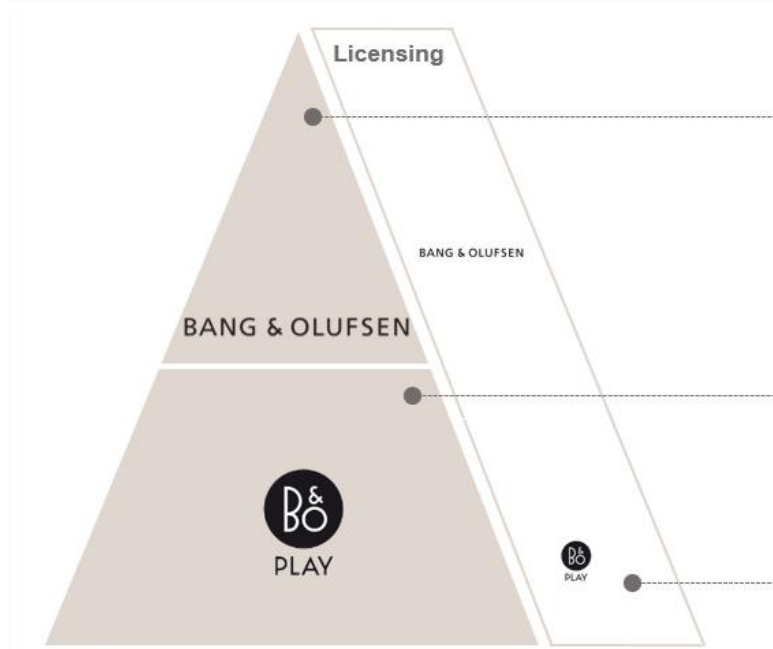
HIGHLIGHTS

- Revenue was flat in the fourth quarter and increased by 12 per cent for the year, driven by growth in B&O PLAY
 - Bang & Olufsen segment revenue declined by 15 per cent in the quarter and by 5 per cent for the year
 - B&O PLAY revenue increased by 40 per cent in the quarter, and 58 per cent for the year
- Underlying capacity costs were reduced by 16 per cent in the fourth quarter and 11 per cent for the year, mainly due to general cost savings and optimised distribution
- Underlying EBIT was positive DKK 6 million in the quarter and negative DKK 69 million for the full year
- Strategic technology partnership signed with LG Electronics
- ICEpower divestment completed
- Dialogue regarding a potential launch of a takeover offer terminated
- New CEO, Henrik Clausen, joined the company 1 July 2016



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STRATEGIC HIGHLIGHTS OF THE 2015/16 FINANCIAL YEAR



- Launch of the BeoLab 90
- LG technology partnership
- Strong focus on increased profitability

- Product launch frequency and precision
- Retail network development
- Product profitability

- More than 20 new products and updates
- 2,384 new TPR doors
- 58 per cent increase in turnover and increase in brand exposure

- Lower than expected growth in the North American market for third party retailers

- Automotive transaction completed
- Roll-out of licensing partnerships with HP, HARMAN and LG

BEOPLAY A1 AND BEOPLAY H5 – DESIGNED FOR LIFE ON THE GO



Beoplay A1, RCP DKK 1,999

Beoplay A1

- Portable Bluetooth speaker
- Signature sound by Bang & Olufsen
- Danish design by award-winning Cecilie Manz
- Speakerphone for taking calls out loud
- Up to 24 hours of battery life



Beoplay H5, RCP DKK 1,999

Beoplay H5

- Wireless earphones
- For music lovers with an active lifestyle
- Up to five hours of wireless mobility between charges
- Preset sound profiles in Beoplay App
- Designed by Jakob Wagner

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A NUMBER OF PRODUCT UPDATES DURING THE QUARTER

BeoLab 18 Black Edition



Beoplay A6 Oxidised Brass



Beoplay A9 Smoked Oak



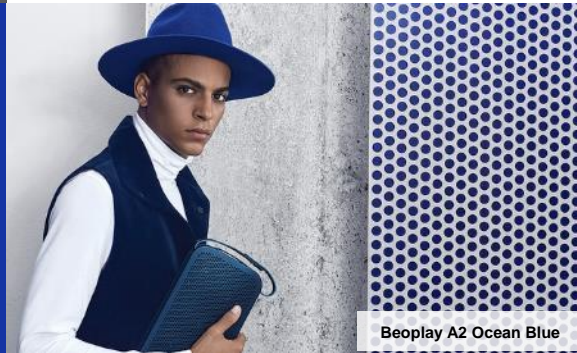
Beoplay A2 Champagne Grey



Beoplay H6 Champagne Grey

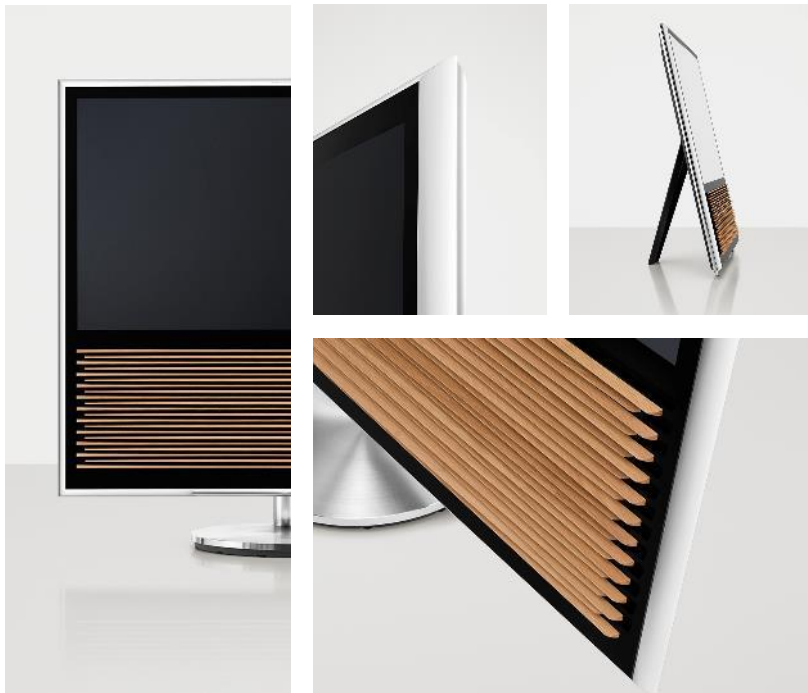


Beoplay A2 Ocean Blue



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BEOVISION 14 LAUNCHED – AND THERE IS MORE ON THE HORIZON...



BeoVision 14

- A picture perfect HD TV with a strong Bang & Olufsen design identity
- 4K Ultra HD TV
- Honours the iconic design tradition and craftsmanship of Bang & Olufsen
- Supreme sound and advanced connectivity options
- Available in 40-inch and 55-inch screen sizes

...and there is more on the horizon

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FINANCIAL HIGHLIGHTS FOR THE FOURTH QUARTER

Key financial figures				
DKK million	4th quarter		YTD	
	15/16	14/15	15/16	14/15
Revenue	696	695	2,633	2,356
Gross profit	263	64	952	580
EBIT	-72	-410	-202	-807
EBIT (underlying business)	6	-53	-69	-323
EBT	-86	-422	-242	-803
Earnings after tax (cont. busi.)	-75	-319	-198	-607
Earnings after tax (disc. busi.)	-34	540	-10	664
Earnings	-110	221	-208	57
Gross margin, %	37.8	9.2	36.1	24.6
Gross margin, % (underlying busi.)	39.8	38.9	37.7	37.2
Net interest-bearing deposit / debt	599	788	599	788
Net working capital	319	261	319	261
Free cash flow	-18	1166	-187	913

- Revenue was flat in the fourth quarter, which resulted in growth of 12 per cent for the full year
- The Group's underlying gross margin moderately improved compared to the fourth quarter last year. The margin improved in both segments, but the increased share of B&O PLAY revenue adversely impacted the Group margin
- The underlying EBIT in the fourth quarter improved to DKK 6 million from negative 53 million last year
- Net working capital increased to DKK 319 million from DKK 261 million last year, mainly due to a decrease in trade payables
- Free cash flow for the fourth quarter was negative DKK 18 million, compared to positive DKK 43 million in the same quarter last year (adjusted for the sale of assets and businesses)

REPORTED VS. UNDERLYING PROFIT & LOSS

Profit & Loss statement, reported vs. underlying			
DKK million	Q4 15/16 Reported	Adjust- ments*	Q4 15/16 Underlying
Revenue	696		696
Bang & Olufsen	425		425
B&O PLAY	271		271
Gross profit	263	14	277
Gross Margin	37.8%	2.0%	39.8%
Bang & Olufsen	40.6%	1.5%	42.1%
B&O PLAY	33.4%	0.0%	33.4%
Capacity Costs	-335	64	-271
EBIT	-72	78	6

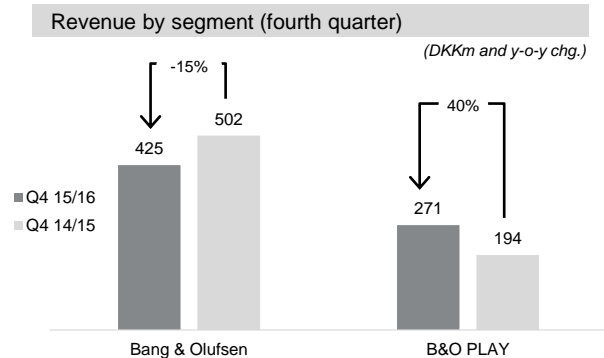
*Adjustments include non-recurring and aperiodic costs and license fees previously allocated to the Automotive business

- The Group gross margin was adversely affected by DKK 14 million in aperiodic and non-recurring items (mainly related to inventory write-offs) and costs previously allocated to Automotive
- The Groups capacity costs were adversely affected by DKK 64 million in:
 - aperiodic and non-recurring items, mainly related to restructuring, the terminated dialogue regarding a takeover offer and changes to the Executive Management Board)
 - costs previously allocated to Automotive

REVENUE GROWTH DRIVEN BY B&O PLAY

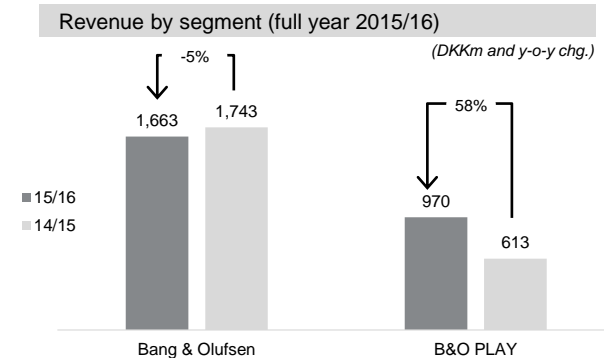
Growth in B&O PLAY, but a decline in Bang & Olufsen

- Bang & Olufsen revenue declined by 15 per cent in the quarter. This was mainly due postponed launches of new TV products, which resulted in lower TV sales in the quarter, compared to the same quarter last year
- 40 per cent growth in B&O PLAY revenue in the quarter, driven by strong demand for existing and new products through third party retail and e-com, but a decline in the B1 and SiS channel



B&O PLAY was the growth driver in 2015/16

- Bang & Olufsen showed a decline of 5 per cent in the financial year
- B&O PLAY growth in the full year was driven by growth in all channels

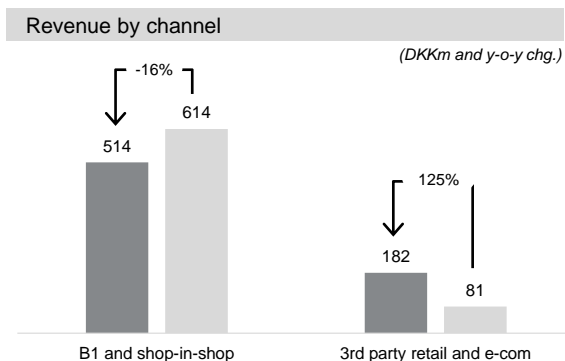


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GROWTH IN THE FOURTH QUARTER DRIVEN BY THIRD PARTY RETAIL

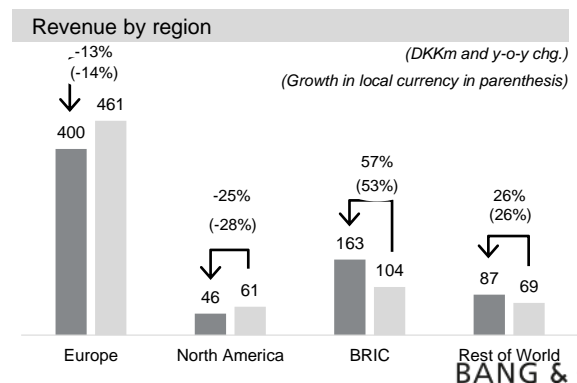
Growth in third party retail and e-com offset by B1 and SiS decline

- Growth was primarily driven by growth in the third party retail and e-com channel, which grew by 125 per cent, driven by strong demand for newly launched products and expansion of the distribution
- Revenue in the B1 and shop-in-shop channel declined by 16 per cent, mainly due to a decline in TV sales, compared to the same quarter last year



Growth in BRIC and Rest of World offset by a decline in Europe and US

- BRIC and Rest of World revenue increased, driven by both Bang & Olufsen as well as B&O PLAY products
- The decline in revenue in Europe was driven by lower than expected TV sales. The revenue decline in North America was mainly related to restructuring of the retail network



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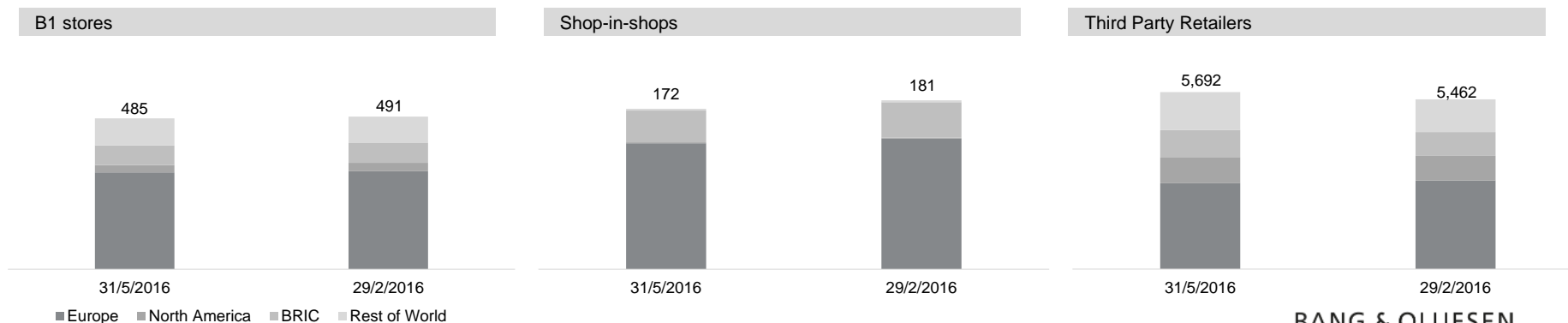
RETAIL DISTRIBUTION DEVELOPMENT

B1 distribution decreased the number of stores marginally

- The number of B1 stores declined by (net) 6 stores in the fourth quarter, due to store closings in Europe, BRIC and North America
- The number of shop-in-shops decreased by 9 stores in the quarter, due to general closings in Europe and closing of selected Sparkle Roll shop-in-shops in China

Third party retail store expansion continues

- The number of third party retail stores increased to 5,692
- Estimated store filling effect is DKK 15,000 – 25,000 per store added in the quarter
- Number of third party retail stores in Europe declined moderately in the fourth quarter



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GROSS MARGIN IMPROVEMENT IN BOTH SEGMENTS

Gross margin

%	4th quarter		YTD	
	15/16	14/15	15/16	14/15
Bang & Olufsen	40.5	6.4	38.8	26.5
B&O PLAY	33.4	20.1	31.6	27.2
Group	37.8	9.2	36.1	24.6

Gross margin, underlying business

%	4th quarter		YTD	
	15/16	14/15	15/16	14/15
Bang & Olufsen	42.1	38.2	39.2	35.2
B&O PLAY	33.4	29.5	31.6	30.2
Group	39.8	38.9	37.7	37.2

Group gross margin improved to 39.8 per cent

- Fourth quarter underlying gross margins slightly increased compared to the same quarter last year. Margins improved in both segments
- Margin improvement initiatives materialised slower than expected and the Group gross margin was adversely impacted by a higher share of revenue derived from the B&O PLAY segment
- The gross margin in the Bang & Olufsen segment was 42.1 per cent compared to 38.2 per cent in the same quarter last year
- The margin improvement initiatives in the Bang & Olufsen segment continued to show a positive effect. The improvement in Bang & Olufsen is driven primarily by:
 - A change in the product mix
 - Positive effects from the ongoing cost optimisation, e.g. value engineering initiatives
- B&O PLAY gross margin was 33.4 per cent against a gross margin of 29.5 per cent for the same period last year

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CAPACITY COSTS WERE REDUCED BY 16 PER CENT IN THE QUARTER

Capacity costs were DKK 53 million lower than last year

- Distribution and marketing costs decreased mainly as a result of lower campaign activity, optimised distribution, as well as general cost savings across the Group
- DKK 54 million in non-recurring and aperiodic cost in the fourth quarter, were mainly related to restructuring, closure of stores, the dialogue regarding a takeover offer, and changes to the Executive Board

Capacity costs				
DKK million	4th quarter		YTD	
	15/16	14/15	15/16	14/15
Development	94	178	315	449
Dist. and marketing	197	280	740	862
Administration	44	17	104	77
Total cap. costs	335	474	1,159	1,387
Capacity costs, underlying business	271	324	1,066	1,198

Continued investments in development of new products

- The expanded use of technology partners allows for increased productivity and continuous lift of innovation at the same or lower development costs compared to the company's previous development procedures
- Strong pipeline of new products in both the Bang & Olufsen and B&O PLAY segments

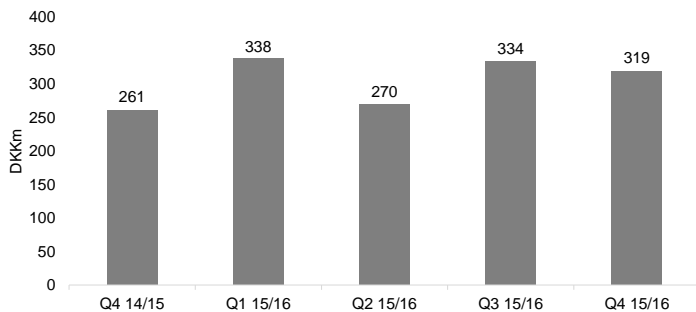
Development costs				
DKK million	4th quarter		YTD	
	15/16	14/15	15/16	14/15
Incurred development costs before capitalization	93	118	302	370
Net effect of capitalisations and amortisations	1	60	13	79
Development costs in P&L	94	178	315	449
Capitalization (%)	41.7%	30.6%	50.3%	43.1%

NET WORKING CAPITAL INCREASED IN THE QUARTER

Net working capital increased driven by trade payables

- The net working capital declined to DKK 319 million at the end of the fourth quarter, from DKK 334 million in the previous quarter and increased compared to DKK 261 million last year
- The increase, compared to the end of the same quarter last year, was mainly due a decrease of trade payables

Net working capital by quarter



Negative free cash flow in the quarter

- The free cash flow was negative DKK 18 million in the quarter compared to positive DKK 43 million (excl. sale of assets) last year
- Adjusted for cash flow from operating activities in discontinued operations, (from Automotive in 2014/15 and ICEpower) the free cash flow improved by DKK 17 million

Cash Flow

DKK million	4th quarter		YTD	
	15/16	14/15	15/16	14/15
Earnings for the period	-110	221	-208	57
Net working capital related	30	312	-32	245
Other	79	-448	235	-247
Cash flow from oper. activities	0	85	-5	55
Cash flow from investing activities	-18	1,081	-182	858
Free Cash Flow	-18	1,166	-187	913

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OUTLOOK FOR 2016/17

- Group revenue is expected to grow, compared to 2015/16
 - B&O PLAY is expected to be the main growth driver, with double digit growth
 - The Bang & Olufsen segment is expected to decline in the first quarter of the 2016/17 financial year compared to the same quarter last year, due to the postponed launch of new products. The revenue decline is expected to be at the level realised in the fourth quarter of 2015/16. However, due to a strong product pipeline, the Bang & Olufsen segment is expected to realise moderate growth for the financial year.
- EBITDAC is expected to increase, compared to the underlying amount of DKK 14 million in 2015/16
- Bang & Olufsen will incur higher depreciations of the current TV product portfolio as well as lower capitalisations during the 2016/17 financial year. These items will adversely impact the EBIT of the 2016/17 financial year, but will not impact the company's free cash flow.

INITIAL THOUGHTS AND
REFLECTIONS FROM
THE NEW CEO



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BANG & OLUFSEN

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