BANG & OLUFSEN

Q3 2018/19

4 APRIL 2019

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AGENDA

- **Key highlights**
- Financial highlights
- Outlook
- Questions & answers

Q3 FINANCIAL HIGHLIGHTS

REVENUE

DKK 710m (Q3 2017/18: DKK 865m)

-18% growth (-19% in local currencies)

- TV revenue decline in Europe
- The ability to execute on the transformation of the sales and distribution network has not been at the expected level

EBIT margin

4.2% (Q3 2017/18: 5.7%)

-1.4 percentage point

- Positive EBIT margin despite shortfall in revenue

Free cash flow

DKK -13m (Q3 2017/18: DKK 34m)

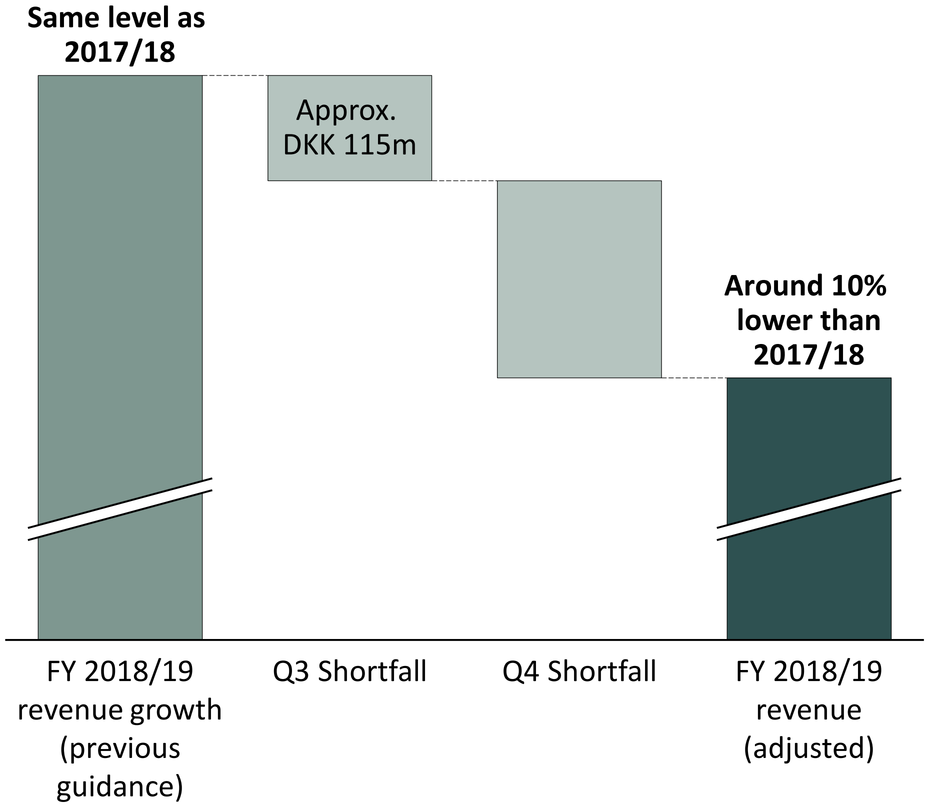
- Revenue shortfall and inventory higher than expected

2018/19 outlook

Outlook adjusted and share buyback programme discontinued

REVENUE GUIDANCE FOR 2018/19 ADJUSTED

DRIVERS OF REVENUE OUTLOOK CHANGE



EMEA

- Third quarter was impacted by the shortfall on Staged revenue as well as a need to transition to a more demand driven and retail-led model
- TV revenue is expected to normalise in the fourth quarter, but the transition to a more demand driven model and a slower than expected sales and distribution transformation will impact Q4 revenue

Americas

- Both the third and fourth quarters are impacted by slower than anticipated roll-out speed of the sales and distribution network across both North and South America

Asia

- Third quarter deviation mainly driven by a shortfall in Australia and New Zealand, while China was higher than expected due to sell-in to key partners
- A continued shortfall in Australia and New Zealand is expected in the fourth quarter as well as lower sell-in to partners in China due to Q3 performance

Impact on transition speed and implications for 3-year financial targets are being reviewed

TRANSFORMATION SLOWER THAN EXPECTED

REGIONAL REVENUE PERFORMANCE

	Q3			YTD		
DKKm	2018/19	2017/18	Δ (%)	2018/19	2017/18	Δ (%)
EMEA	340	457	*-26%*	1,168	1,323	*-12%*
Americas	51	67	*-24%*	162	226	*-28%*
Asia	272	287	*-5%*	738	727	*+2%*
Other	47	54	*-13%*	152	180	*-16%*

Share of Group revenue			Δ (%pp)			Δ (%pp)
EMEA	48%	53%	*-5%*	53%	54%	*-1%*
Americas	7%	8%	*-1%*	7%	9%	*-2%*
Asia	38%	33%	*+5%*	33%	30%	*+4%*
Other	7%	6%	*+0%*	7%	7%	*-0%*

REGIONAL TRANSFORMATION STATUS

EMEA

- Transformation of the European monobrand channel into fewer and stronger partners continued. The transformation speed of the multibrand retail was slower than expected partially due to sales through unauthorised channels

Americas

- Monobrand distribution has been rebased and a new, well-performing partner has been onboarded on the Westcoast and new store openings are planed for Vancouver and Miami. NYC is being developed as direct retail, with a SoHo flagship store opening as a pop-up in December 2018
- Multibrand distribution developed with Neiman Marcus, Holt Renfrew, Apple, Best Buy etc. The roll-out speed of the new multibrand retail setup was slower than expected and partially impacted by unauthorised sales of key On-the-go products
- Rebuilding the custom integrators channel and B2B ongoing, but materialising slower than anticipated

Asia

- New experienced master dealer in Australia in the fall 2018. Solid POS development plan in place, but the ramp-up is slower than expected
- New monobrand partners are developing distribution in China (11 new monobrand stores in Q3). Transformation of multibrand/etailers is now focused on stronger brand execution, while sales pressure will be eased in Q4 to enable monobrand foothold

TRANSFORMATION STATUS AND WAY FORWARD

Monobrand

CURRENT STATUS

- ***Key partners in place and transition of locations is gradually happening***
  (New openings in Q3 in Hamburg, Paris, Beijing, Busan, Los Angeles, New York etc.)
- ***Greater consistency in consumer experience and in-store execution***
  (Improved service model, new omnichannel elements, better product zoning etc.)
- ***Stronger legal framework in place***
  (New contracts implemented in Europe during H1 and in the rest of EMEA in the coming period)
- ***Need for a faster transition to a more retail-led, demand driven model***
  (Some unhealthy inventory build-up and leakage to unauthorised channels)

WAY FORWARD

- Continued transformation of building clusters, changing store locations, improving in-store execution and creating a better omnichannel retail ecosystem
- New and strong competencies in place within key roles in sales, digital and finance to drive a more retail-led and demand driven business
- Tighter product merchandising approach at launch of new generation of key products (e.g. E8 2.0 etc.) and more forceful governance of market misconduct with penalty systems as part of the new contracts
- Gradual inventory reduction of retailers with unhealthy inventory levels

Multibrand

CURRENT STATUS

- ***All key retailers are still willing to engage and develop distribution***
  (Department stores, travel retail, selected consumer electronics and etailers)
- ***Majority of tail-end closings has been implemented***
  (>1,000 POS closures, with limited revenue impact)
- ***Speed of opening and upgrading POS has been slower than planned***
  (Weaker state than expected and too optimistic expectation of transition speed)
- ***Unauthorised retailers and market misconduct is slowing transition***
  (IP infringements, sales to unauthorised channels, sales outside authorised territory)

WAY FORWARD

- Reboot development with key partners in current stores with new products that are not affected by unauthorised distribution
- Refocused internal on-ground resources to focus across channels with support of external resources
- Tighter product merchandising approach at launch of new generation of key products (e.g. E8 2.0 etc.) and more forceful governance of market misconduct with penalty systems as part of the new contracts
- Continue strengthening of in-house skills within multibrand luxury-lifestyle retailing and product merchandising

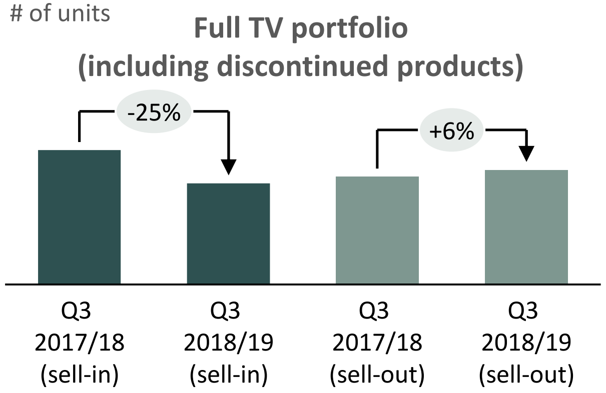
TV SELL-IN SIGNIFICANTLY BELOW EXPECTATIONS

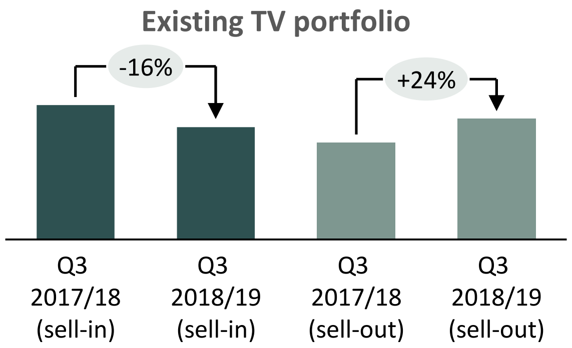
PRODUCT CATEGORY REVENUE SPLIT

	Q3			YTD		
DKKm	2018/19	2017/18	Δ (%)	2018/19	2017/18	Δ (%)
Staged	226	345	-34%	749	1,004	-25%
Flexible Living	128	105	+22%	353	307	+15%
On-the-Go	301	337	-10%	936	950	-1%
Other	55	78	-29%	182	195	-7%

TV SALES IN EUROPE (SELL-IN VS. SELL-OUT)

of units





Q3 DEVELOPMENT

Staged

- Staged revenue impacted by:
  - TV sell-in in Europe lower than expected
  - Lower price point, but higher profitability, per unit compared to LY (products with older platforms were discontinued in 2017/18)
- Growth in retail sales (sell-out) of TV units, hence inventory reduction among retail partners
- Sell-in TV revenue expected to normalise during Q4

Flexible Living

- Growth driven by Beosound Edge and Beosound 1 and 2 with Google Voice Assistant

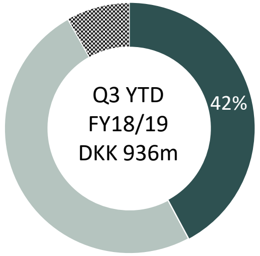
On-the-go

- Decline driven by multibrand revenue lower than expected
- Growth within key head- and earphone products such as Beoplay H9i and Beoplay E8 2.0 (launched in Q3 2018/19)

STRONG PRODUCT LINEUP AND ROADMAP

ON-THE-GO

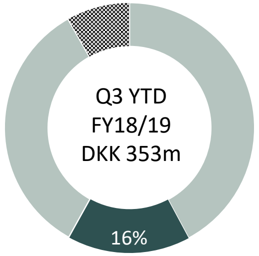
Products that are mobility based, built around nomadic use cases. This includes both immersive and social experiences



- Leading position within the use case and based on global platform standards
- Strong lifecycle management, as well as product variations to fit adjacent use cases
- Prioritise retail where consumers search for a luxury-lifestyle product offering
- Upgrades of key existing products as well as launch of entirely new products in 2019/20

FLEXIBLE LIVING

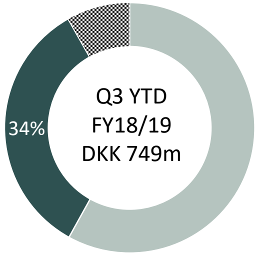
Products for consumers who want flexibility in use and placement in domestic settings



- True manifestations of the core capabilities of sound, design and craftsmanship
- Emphasise multiroom position based on global ecosystems
- Expand distribution of selected products to relevant on- and offline channels
- Launch of new platform and products as well as upgrades of key existing products in 2019/20

STAGED

Products used in stationary settings for immersive listening or viewing experiences



- Create innovative and progressive products that set new industry standards
- Expand the sound-for-video use case in collaboration with leading technology partners
- Expand distribution of selected products to relevant on- and offline channels
- Launch of new products leveraging technology partners in 2019/20

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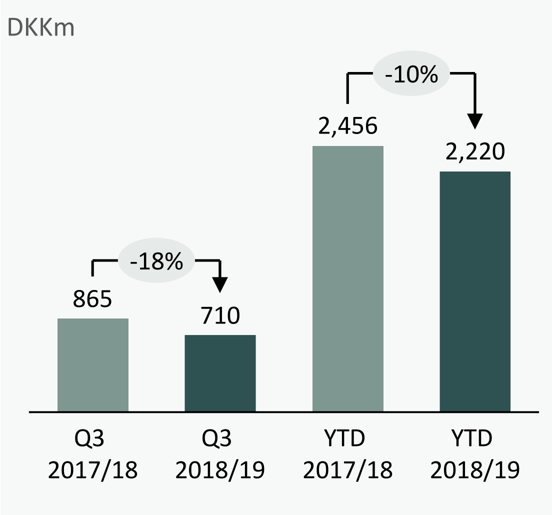
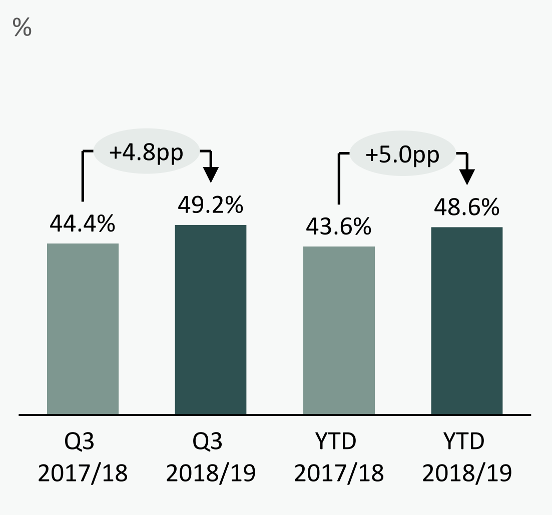
P&L HIGHLIGHTS

REVENUE



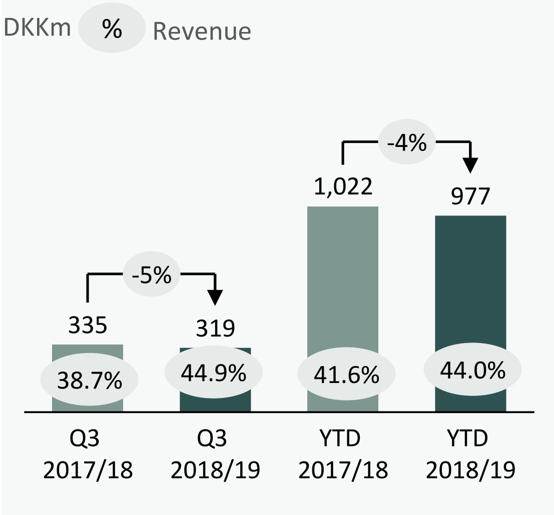
- Group revenue impacted by:
  - Lower than expected TV revenue
  - Ability to execute on the transformation of the sales and distribution network

GROSS MARGIN[1]



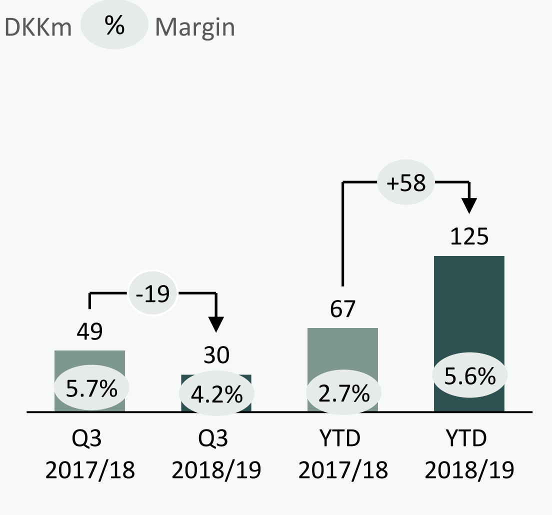
- Significant gross margin improvement (4.8 percent points) driven by:
  - Improved product profitability
  - Positive currency development

CAPACITY COSTS[1]



- Reduced capacity costs as a result of controlled costs and the company's focus on maintaining an agile and scalable cost base
- Increased distribution and marketing spend

EBIT

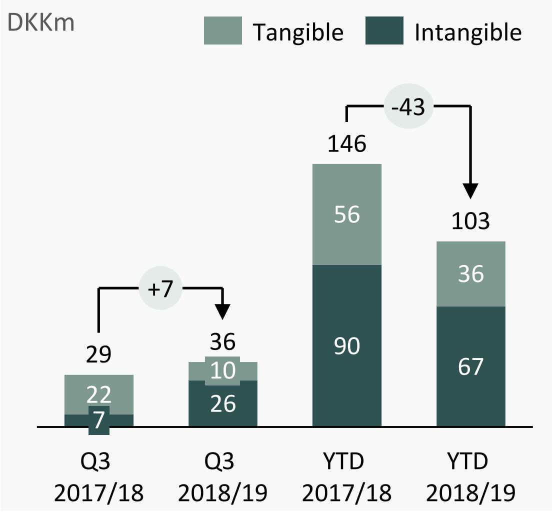


- EBIT margin decline of 1.4 percentage point driven by shortfall in revenue

1) As of December 2018, a new allocation model has been implemented in relation to the allocation of costs to functions. The new allocational model impacts production costs, development costs, distribution and marketing cost and administration costs. For the implementation of the new allocation model, the retrospective approach has been applied with no cumulative effects recognised in retained earnings as of 1 June 2017. The year to date and comparison periods have been restated. A fact book is available on www.bang-olufsen.com/investors

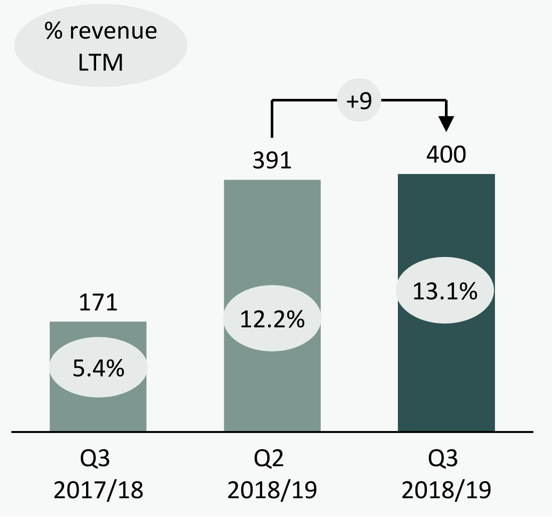
BALANCE SHEET AND CASH FLOW HIGHLIGHTS

CAPEX



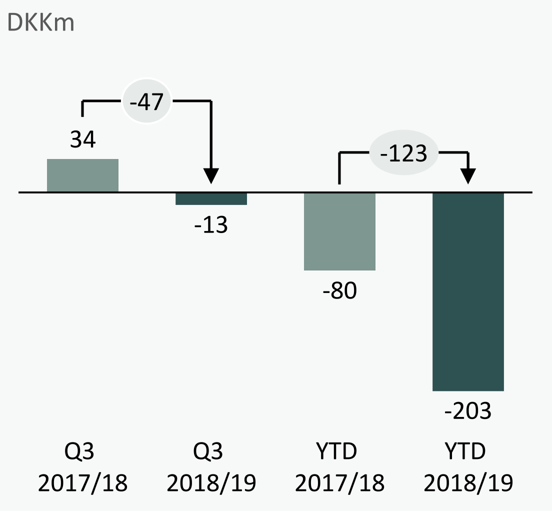
- Increased capex in Q3 driven by:
  - Development of new product and eCom platforms
  - New product development

NWC



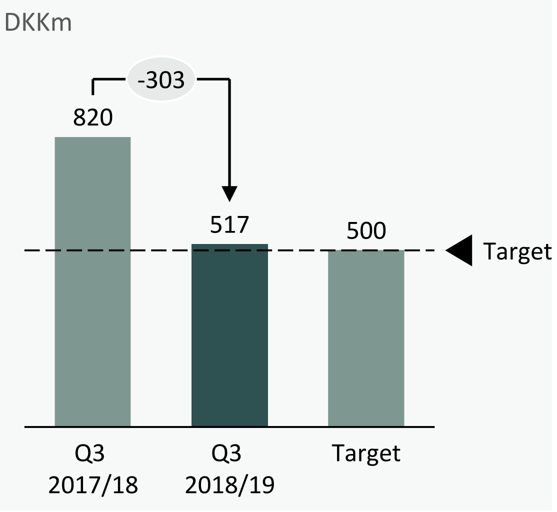
- Net working capital increased compared to Q2 2018/19 driven by:
  - Increased inventory
  - Decrease in receivables
  - Decrease in payables

FREE CASH FLOW



- Free cash flow in Q3 impacted by:
  - Lower profitability due to revenue shortfall
  - Increased net working capital
  - Higher capex than LY

NET CASH POSITION



- Net cash position of DKK 517m
- Share buyback programme discountinued
  - 2,273,449 shares acquired amounting to DKK 264m (54% of total programme)
  - Bang & Olufsen holds 5.5% own shares

AGENDA

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- **Outlook**
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GUIDANCE FOR 2018/19 ADJUSTED

	2018/19 OUTLOOK (PREV.)	2018/19 OUTLOOK (ADJ.)
Group revenue	Same level as 2017/18	Around 10% decline compared to 2017/18
EBIT margin	7-9%	Approx. 4-5%
Free cash flow	DKK >100m	Negative DKK 200-250m

DRIVERS OF OUTLOOK CHANGE

Group revenue

- Q3 TV revenue (sell-in) significantly below expectations
- The ability to execute on the transformation of the sales and distribution network has not been at the level expected

EBIT margin

- Adversely impacted by adjusted revenue expectations

Free cash flow

- Adversely impacted by adjusted revenue expectations
- Adjusted net working capital expectations for Q4

3-YEAR FINANCIAL TARGETS

- The company can no longer maintain its current 3-year targets. The company will assess and restate its long-term financial targets and will disclose revised targets in connection with the announcement of the annual report for 2018/19

AGENDA

- Key highlights
- Financial results
- Outlook
- **Questions & answers**


Defining Contemporary Art
The Iconic Interior
DENNIS HOPPER
INDUSTRIAL CHIC

QUESTIONS?

THANK YOU FOR YOUR ATTENTION

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