BANG & OLUFSEN

ANNUAL REPORT 2018/19

11 JULY 2019

DISCLAIMER

This presentation does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities issued by Bang & Olufsen a/s in any jurisdiction, including the United States of America, Canada, Australia, Japan or the United Kingdom, or an inducement to enter into investment activity in any jurisdiction.

This presentation contains forward looking statements. Such statements concern management's current expectations, beliefs, intentions or strategies relating to future events and hence involve substantial risks and uncertainties. Actual future results and performance may differ materially from those contained in such statements. This presentation does not imply that Bang & Olufsen a/s has undertaken to revise these forward looking statements, except what is required under applicable law or stock exchange regulation.

No part of the information contained in this presentation should form the basis of or be relied upon in connection with any contract or commitment or investment decision whatsoever. Neither Bang & Olufsen a/s nor any of its affiliates, advisors or other representatives shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this presentation or its contents.

AGENDA

- **Key highlights**
- Regional development
- Financial highlights
- Strategy and outlook
- Questions & answers

DISAPPOINTING YEAR
BUT WE EXPECT PROFITABLE GROWTH IN 2019/20

Negative impact of slower than expected transition of sales and distribution network to more retail-focused model

Fewer product launches, adversely impacted revenue

Positive EBIT due to asset-light operating model despite of revenue shortfall

Negative free cash flow due to high inventory level as a result of lower than expected revenue

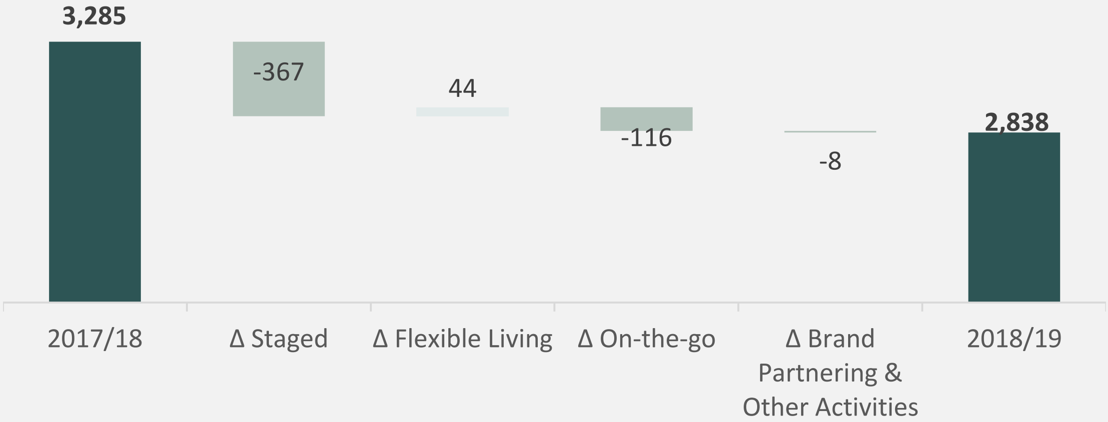
	FULL YEAR 2018/19	OUTLOOK 2019/20
REVENUE	DKK 2,838m *-13.6% growth (-12% in LC)*	SINGLE DIGIT GROWTH
EBIT MARGIN	2.1%	ABOVE 2018/19
FREE CASH FLOW	DKK -272m	POSITIVE

FULL YEAR | AFFECTED BY NECESSARY CHANGES TO THE BUSINESS

MAIN REASONS FOR REVENUE DECLINE

- The change towards a retail-driven model in distribution is taking longer than expected and had a greater impact on performance than anticipated
- Fewer product launches combined with 2017/18 being supported by discontinued products and new product launches
- Lower sales of TV's than anticipated in H2 2018/19

REVENUE, DKKm



RESETTING GO-TO-MARKET APPROACH TO A RETAIL-DRIVEN MODEL

BRAND	• Several brand collaborations and partnerships e.g. RIMOWA, David Lynch, Airlines
PRODUCTS & INNOVATION	• Development of product pipeline for 2019/20 • Development of cross-product platforms to be used in launches in 2019/20 and onwards • Introduced Google Assistant and Airplay 2
DISTRIBUTION & CHANNELS	• More direct engagement with mono- and multibrand retailers • New partners in China, North America, Australia and New Zealand • New eCom platform, driving revenue and data insights
COMPETEN-CIES & PROCESSES	• Strengthening Executive Management Board • New regional management in US and in EMEA • Upscaling digital competencies

Q4 | HEADWIND IN STAGED AND ON-THE-GO CATEGORIES

Q4 RESULTS

REVENUE

DKK 618m

-25.5% growth
(-23% in LC)

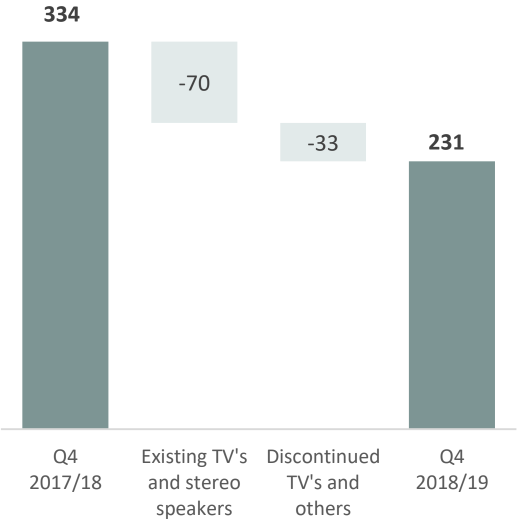
EBIT MARGIN

-10.7%

FREE CASH FLOW

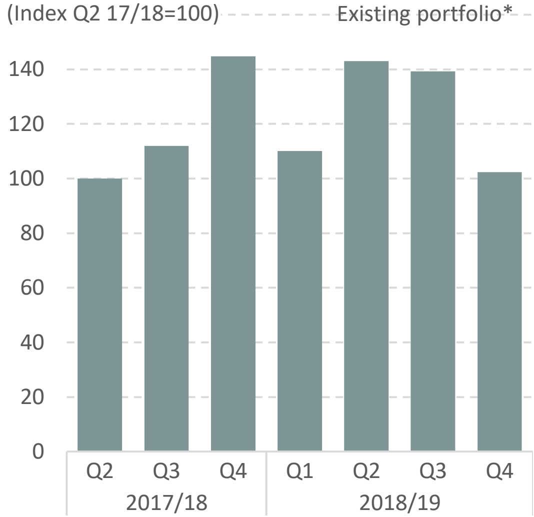
DKK -69m

STAGED, DKKm



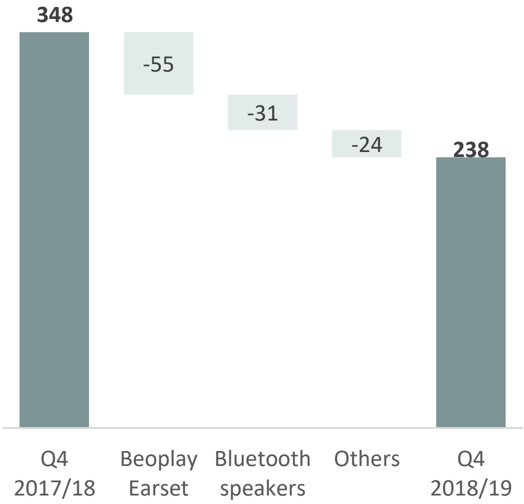
- Staged was impacted by lower sales of TV's in the existing portfolio and stereo speakers
- Discontinued TV's supported revenue in 2017/18 by DKK 33m

TV SELL-OUT



- Sell-out of TV's in the existing portfolio fell in Q4 compared to previous quarters
- The combination of high inventories and weak sell-out at retail adversely impacted the sell-in during the quarter

ON-THE-GO, DKKm



- One-off year-over-year effect from Beoplay Earset
- Decline in sales of Bluetooth speakers
- On-the-go furthermore impacted by high inventory at retail level

* Sell-out data on existing TV portfolio is based on warranty registrations

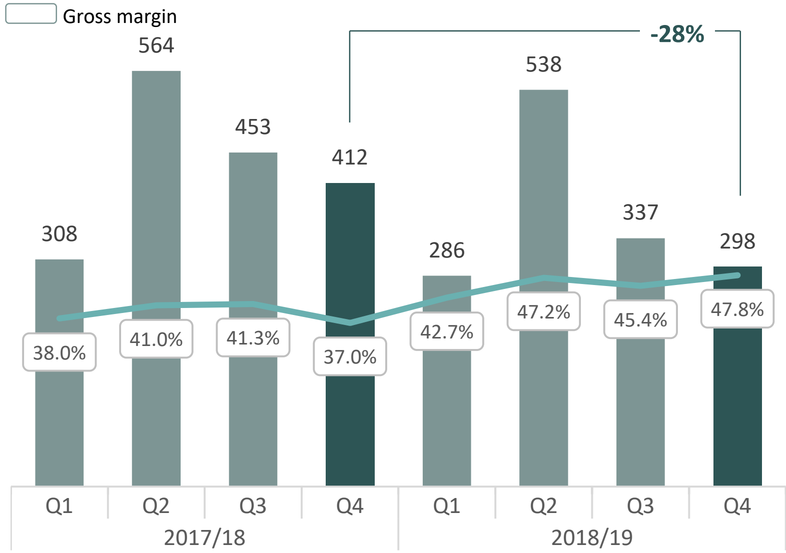
BANG & OLUFSEN

AGENDA

- Key highlights
- **Regional development**
- Financial highlights
- Strategy and outlook
- Questions & answers

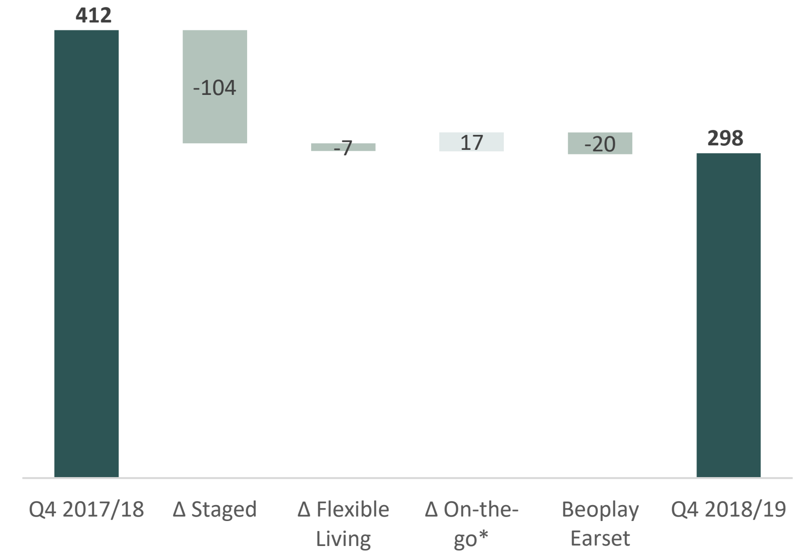
SEGMENTS | EMEA

REVENUE AND GROSS MARGIN, DKKm



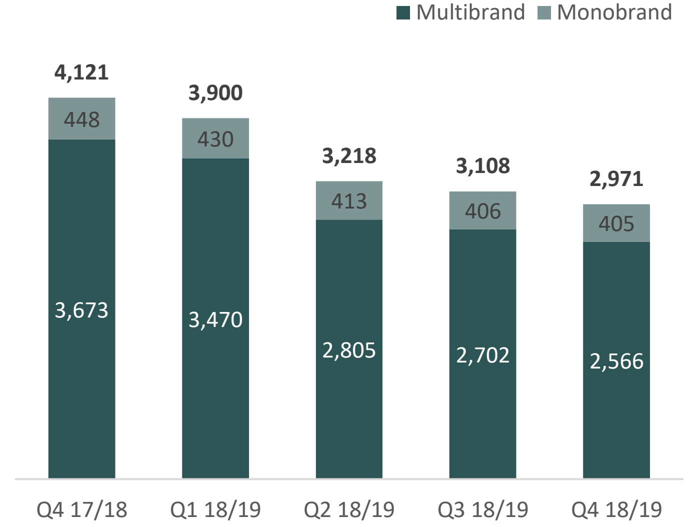
- Revenue impacted negatively by lower sales of Staged products in the monobrand channel
- Improved gross margin lifted by product mix and FX
- Compensation related to Beoplay Earset impacted gross margin negatively by 2.5pp

REVENUE DEVELOPMENT, DKKm



- Staged revenue impacted by
  - Lower sales of existing TV portfolio and stereo speaker
  - 2017/18 supported by discontinued TV's
- Year-over-year impact on Beoplay Earset of approx. DKK 20m
- On-the-go excluding Beoplay Earset was up

POINTS OF SALE



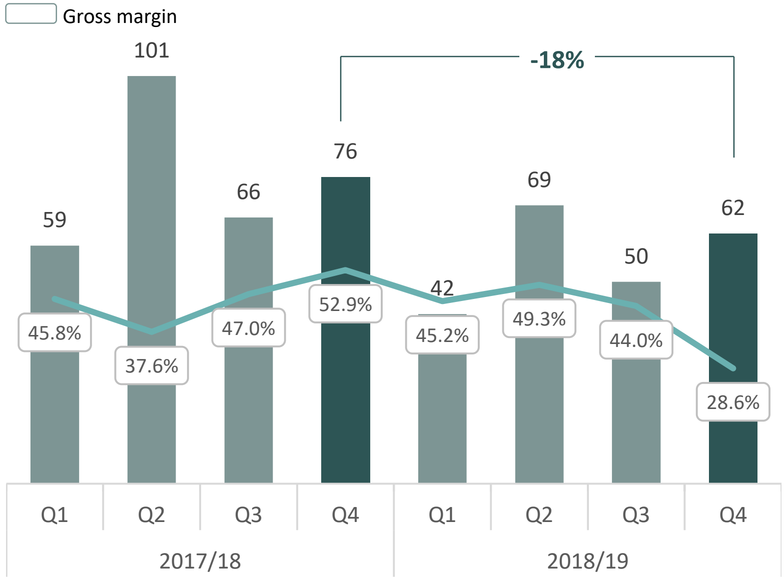
- Monobrand transition continued, with focus on building key clusters in urban locations across Europe
- Multibrand transformation continued with the main priority on establishing luxury-lifestyle retail channels and ensuring a more branded retail execution

* Excluding one-off related to Beoplay Earset

BANG & OLUFSEN

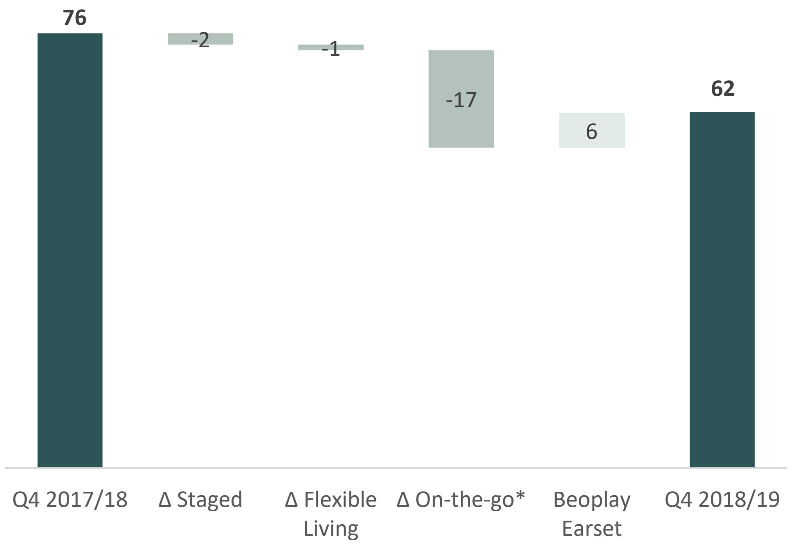
SEGMENTS | AMERICAS

REVENUE AND GROSS MARGIN, DKKm



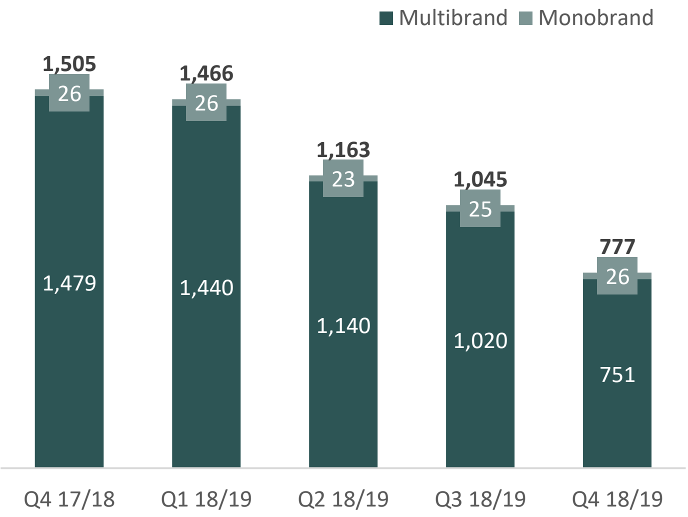
- Sales to the multibrand network was adversely impacted by the transition of the sales and distribution network
- Gross margin was impacted by approx. 16.7pp negatively due to the sale of Beoplay Earset to a US retailer at a discount

REVENUE DEVELOPMENT, DKKm



- Revenue decline primarily related to On-the-go
- On-the-go negatively impacted by lower demand from multibrand network
- Positive revenue impact from sale of Beoplay Earset to a US retailer

POINTS OF SALE

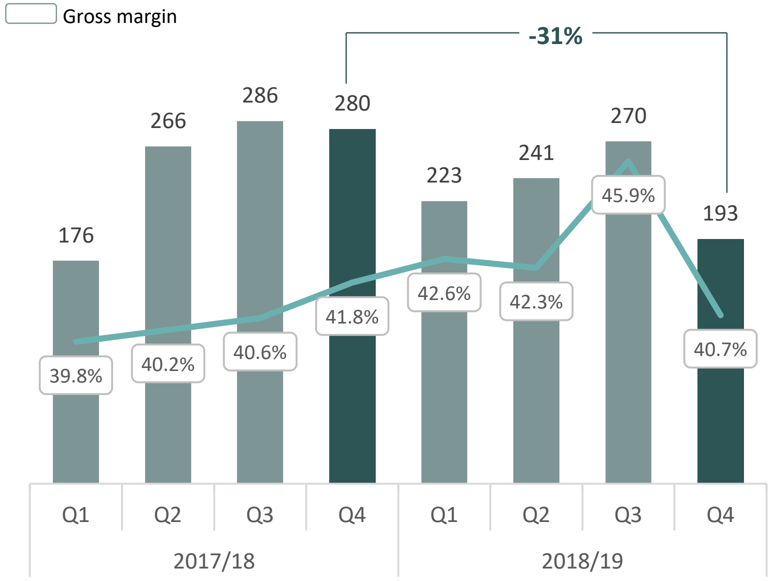


- Further reductions in non-performing multibrand points of sale
- US cluster partner opened new monobrand store in La Jolla (CA)

* Excluding one-off related to Beoplay Earset

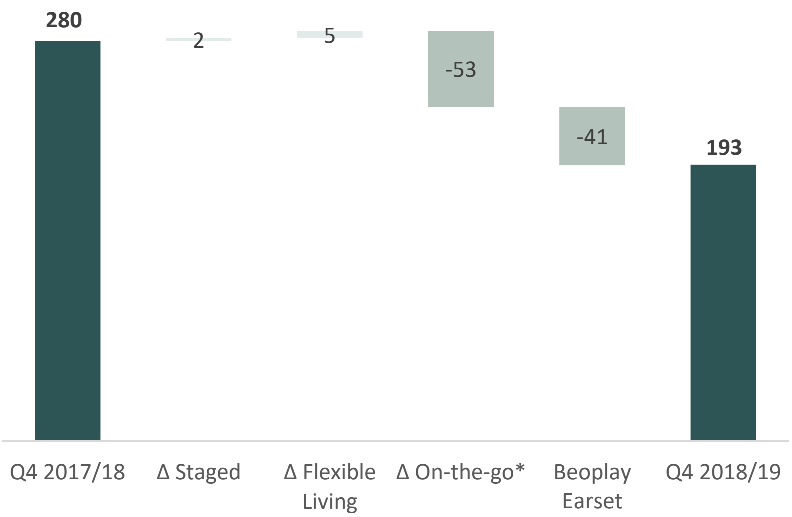
SEGMENTS | ASIA

REVENUE AND GROSS MARGIN, DKKm



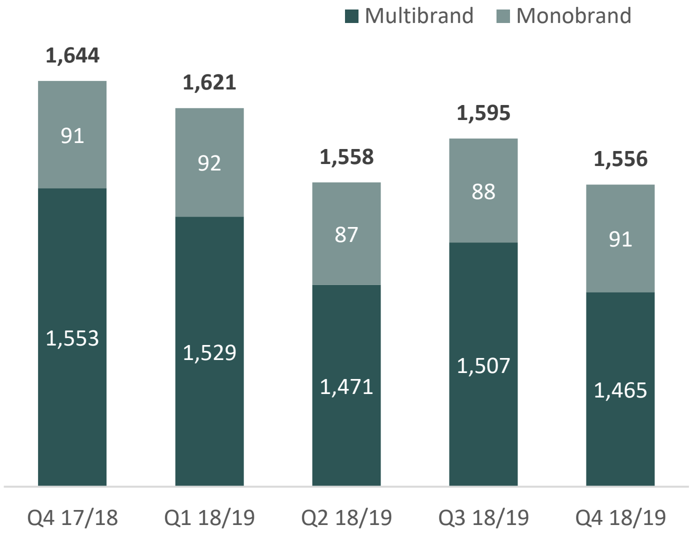
- Revenue growth impacted by sell-in in Q3 and sales and distribution transition in Australia and New Zealand
- The decline in gross margin related to compensation on Beoplay Earset, which impacted gross margin negatively by approx. 3.4pp

REVENUE DEVELOPMENT, DKKm



- Impact year-over-year from Beoplay Earset
- For both earphones and headphones, higher sell-in earlier in the year increased inventories at retail level which had subsequent negative impact on demand in the fourth quarter of the year
- Bluetooth speakers declined by 16% compared to the same quarter last year

POINTS OF SALE

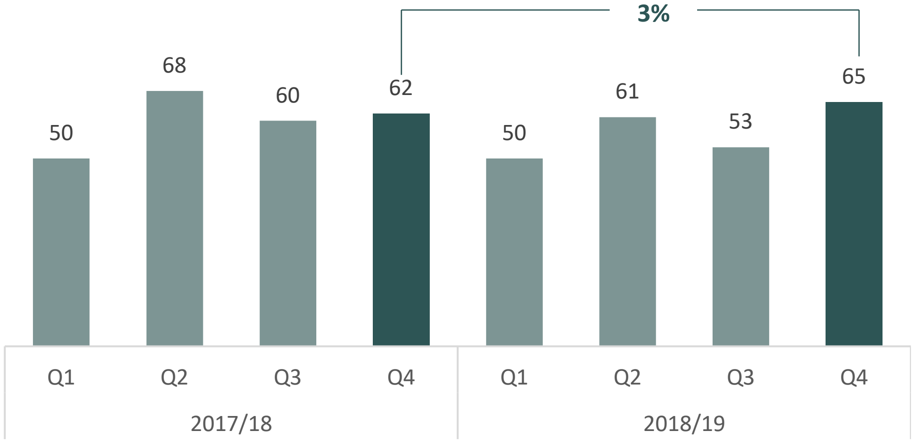


- New monobrand stores opened in China, New Zealand and Vietnam
- Exhibition of Bang & Olufsen in MixC (Chinese Luxury lifestyle mall) exposed the brand to 14 key multibrand retailers representing 143 points of sale

* Excluding one-off related to Beoplay Earset

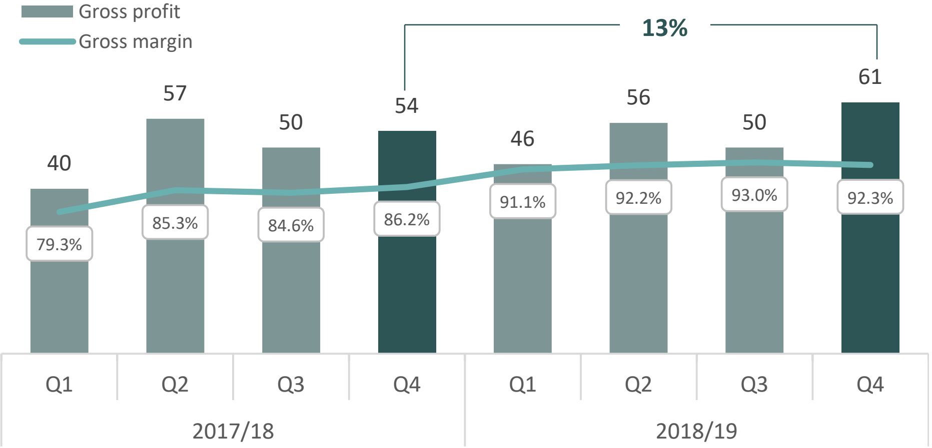
SEGMENTS | BRAND PARTNERING & OTHER ACTIVITIES

REVENUE, DKKm



- Higher income from Brand Partnering
- Aluminium production for third-parties continued the declining trend seen in the previous quarters

GROSS PROFIT AND MARGIN, DKKm



- Margin increase primarily a consequence of Brand Partnering accounting for a larger part of the segment

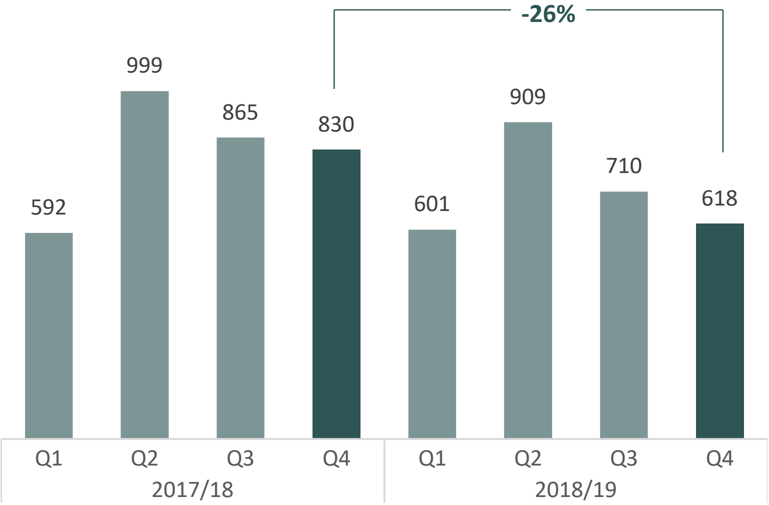
BANG & OLUFSEN

AGENDA

- Key highlights
- Regional development
- **Financial highlights**
- Strategy and outlook
- Questions & answers

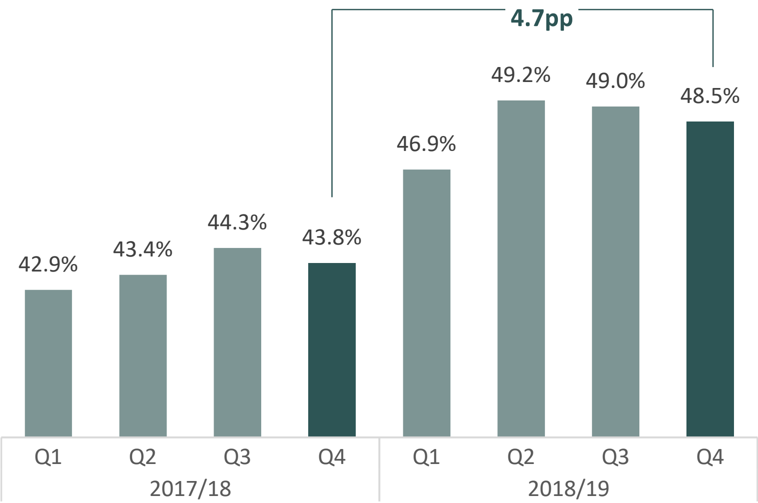
REVENUE AND PROFITABILITY

REVENUE, DKKm



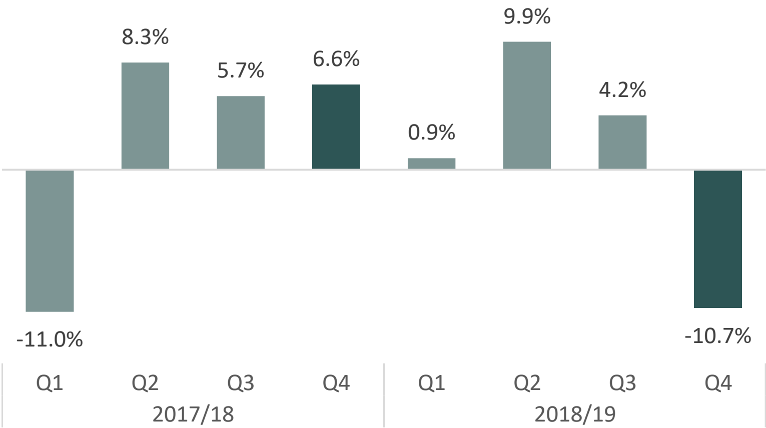
- Lower sales of existing TV portfolio and stereo speakers and Q4 2017/18 supported by sales of discontinued TV's
- Normalising inventory at retail level
- One-off related to Beoplay Earset
- Lower sales of Bluetooth speakers

GROSS MARGIN



- Excluding effects of Beoplay Earset, all product categories delivered higher gross margin
- One-off related to Beoplay Earset reduced gross margin by 2.5pp
- FX lifted the margin by 3.6pp in the quarter

EBIT MARGIN

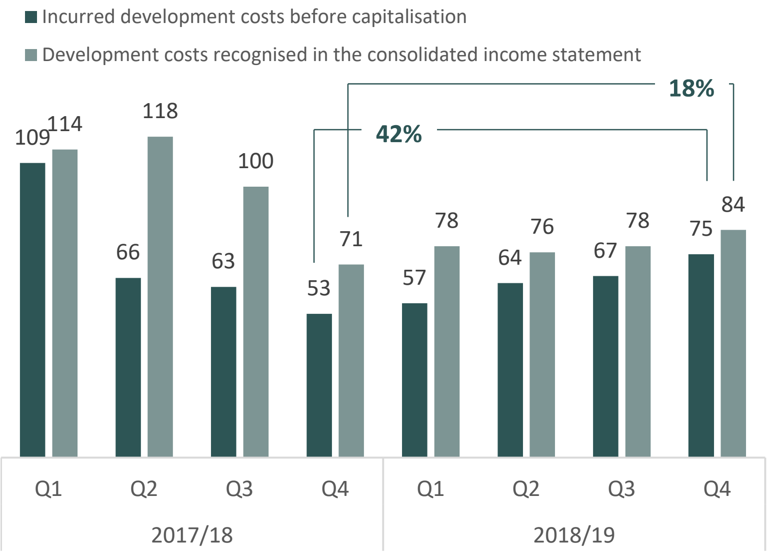


- EBIT margin was impacted negatively by
  - Lower gross profit
  - Higher capacity costs related to investments in product development, as well as marketing and distribution costs

BANG & OLUFSEN

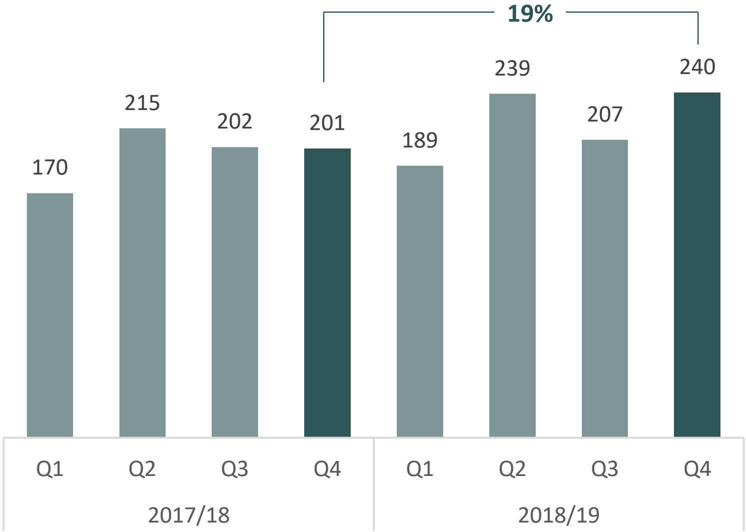
CAPACITY COSTS

DEVELOPMENT COSTS, DKKm



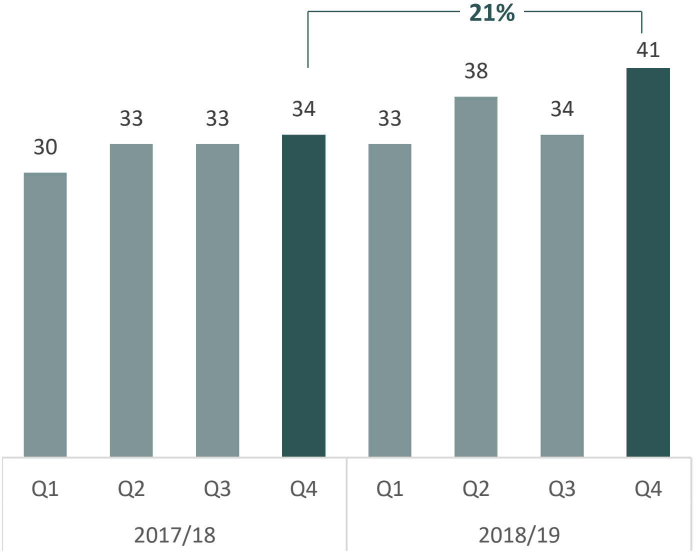
- Incurred development costs reflect investments into:
  - Cross-product platforms on which future products will be based
  - Product pipeline for 2019/20

DISTRIBUTION AND MARKETING COSTS, DKKm



- Investments into demand driving activities:
  - Branded spaces and stores
  - Regional marketing activities
  - Digital media

ADMINISTRATION COSTS, DKKm

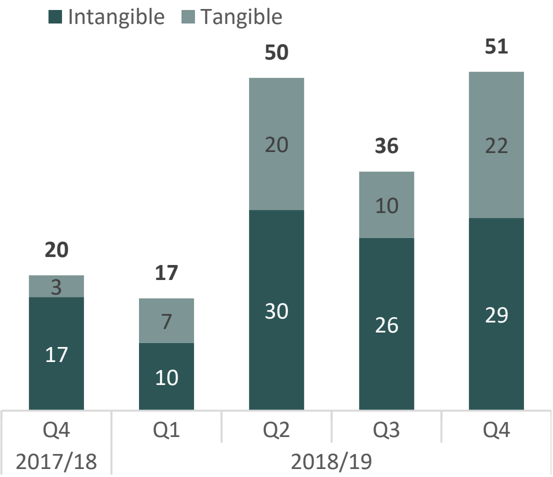


- Increase in Q4 primarily related to activities supporting the transformation process

BANG & OLUFSEN

BALANCE SHEET AND CASH FLOW HIGHLIGHTS

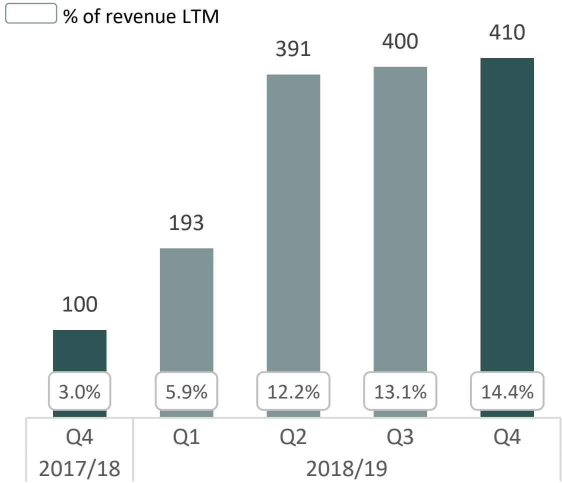
CAPEX, DKKm



Increased capex in Q4 reflects:

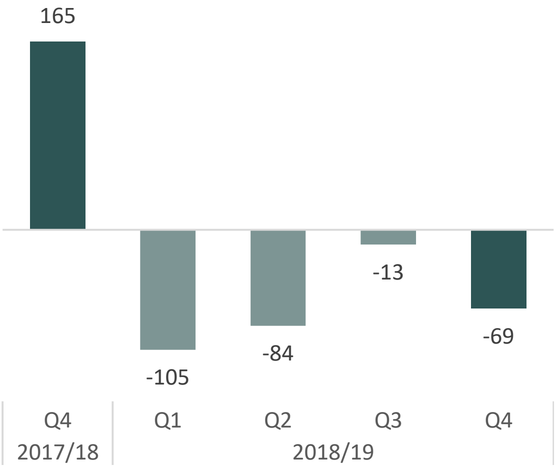
- Investments into new product platforms
- More products under development for 2019/20 launch

NWC, DKKm



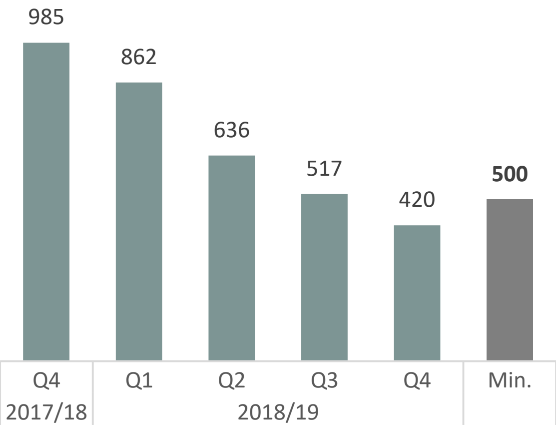
- Net working capital impacted by higher inventory in the quarter
- Increase in inventory due to lower sales than expected

FREE CASH FLOW, DKKm



- Free cash flow in Q4 primarily impacted by:
  - Lower earnings
  - Increased inventory
  - Higher capex compared to Q4 17/18

NET CASH POSITION, DKKm



- Reduction reflects negative free cash flow and share buyback
- Share buyback programme was terminated on 26 March 2019

BANG & OLUFSEN

AGENDA

- Key highlights
- Regional development
- Financial highlights
- **Strategy and outlook**
- Questions & answers

KEY STRATEGIC PRIORITIES 2019/20

BRAND

- Drive brand awareness across all touchpoints through improved content creation, localised go-to-market approach and insights-driven activities
- Maintain and develop partnerships and collaborations with technology and lifestyle brands to amplify brand experience and awareness and get access to complementary technology

PRODUCTS & INNOVATION

- Successfully launch of 2019/20 products across all categories, including already announced Beovision Harmony
- Complete cross product platforms and maintain innovation focus on future product pipeline

DISTRIBUTION & CHANNELS

- *EMEA:* Create clusters of stores in key locations and enhance consistency in mono- and multibrand and online. Normalise retail inventory levels
- *Americas*: Build presence in key urban areas across the USA and Canada within mono- and multibrand
- *ASIA*: Grow key countries through partners and ensure new store openings over the coming years. Normalise retail inventory levels

COMPETENCIES & PROCESSES

- Enhance data insight, including sell-out performance, and improve demand planning to help fuel growth
- Strengthen consumer-facing digital touchpoints and Group IT infrastructure

OUTLOOK FOR 2019/20

OUTLOOK	MAIN ASSUMPTIONS
Revenue growth Single digit in constant currencies	• Normalisation of inventory at retail level expected to impact mono- and multibrand in the first half of 2019/20 • Supported by product launches mainly impacting H2 and especially Q4
EBIT margin Above 2018/19	• Supported by higher revenue • Improved gross margin excl. FX • FX headwind of approx. 2pp • IFRS 16 to lift margin by approx. 1pp
Free cash flow Positive	• Ambition to reduce net working capital, however expected to be negatively impacted by seasonality and product launches in H1 2019/20 • Brand partnership with HARMAN expected to become fully cash positive during Q2 2019/20 • IFRS 16 expected to have a positive effect on free cash flow of approx. DKK 30m


Defining Contemporary Art
HISTORIC HOUSES OF PARIS
The Iconic Interior

QUESTIONS?