



BANG & OLUFSEN

Q1 2019/20

3 OCTOBER 2019

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AGENDA

Key highlights

Financial highlights

Outlook

Questions & answers

Q1 IMPACTED BY IMPLEMENTATION OF DEMAND-DRIVEN STRATEGY | OUTLOOK MAINTAINED

- Driving sell-out and reducing retailer inventories
- Tightened use of extended credits and discounts
- Addressing unauthorised sales through termination of partnerships
- Sales of end-of-life products through dedicated channels
- Integrated launch of products and upgrade of distribution network in the coming quarters

Q1 2019/20

REVENUE GROWTH
(local currencies)

-27%

DKK 419m

-30.3% reported growth

EBIT MARGIN

-30.8%

FREE CASH FLOW

DKK -206m

OUTLOOK 2019/20

REVENUE GROWTH
(local currencies)

**SINGLE-DIGIT
GROWTH**

EBIT MARGIN

ABOVE 2018/19

FREE CASH FLOW

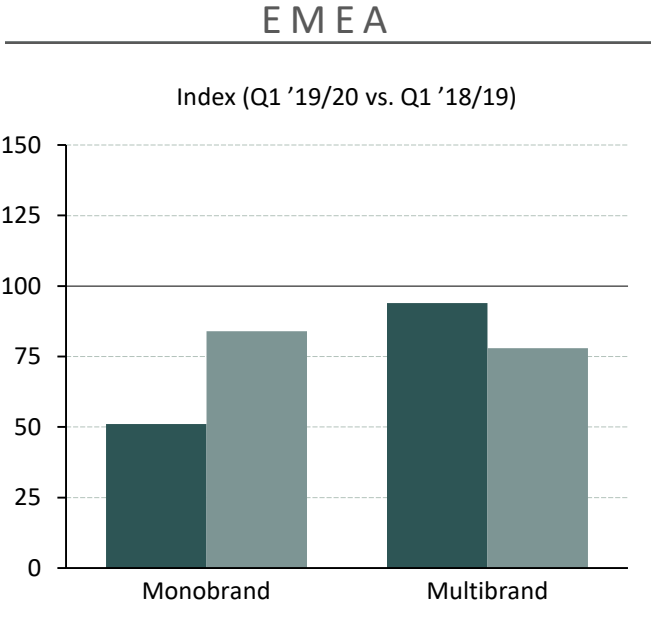
POSITIVE

REDUCTION IN RETAILER INVENTORIES | INVENTORIES NORMALISED DURING Q2

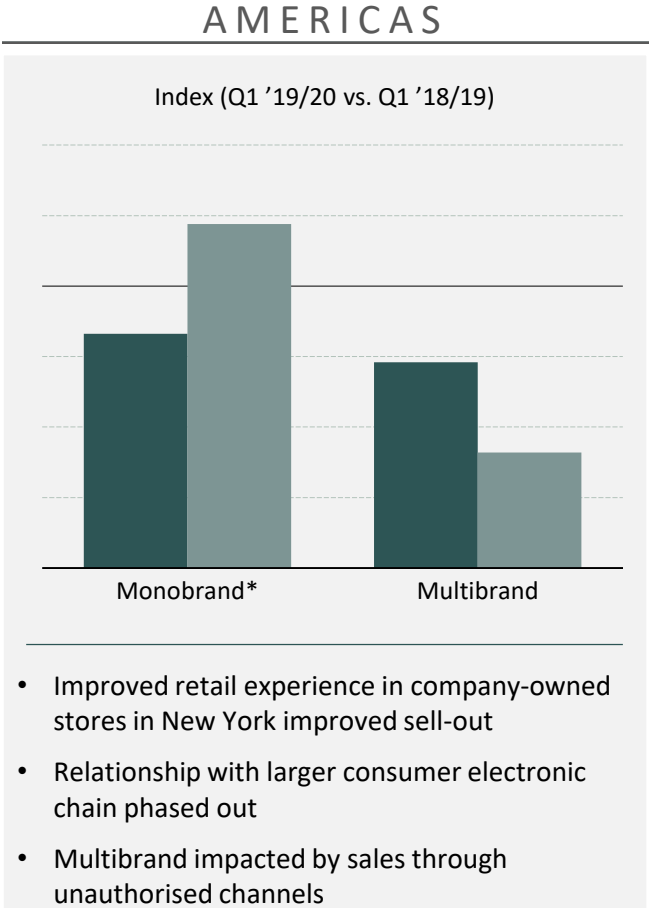
■ Sell-in ■ Sell-out

Monobrand sell-out development significantly stronger than sell-in

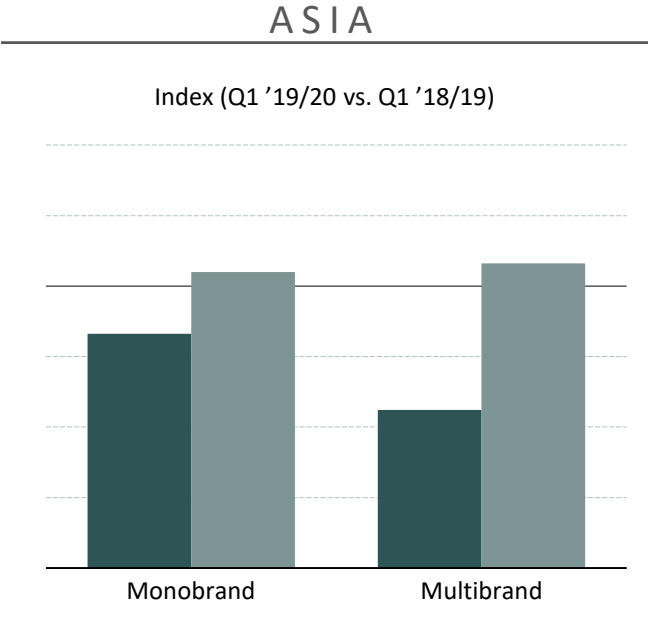
Insights



- Monobrand sell-out below last year, driven by TV sales
- Significant destocking in the monobrand channel
- The lower sell-out will be addressed through the roll-out of branded spaces



- Improved retail experience in company-owned stores in New York improved sell-out
- Relationship with larger consumer electronic chain phased out
- Multibrand impacted by sales through unauthorised channels



- Improved sell-out performance driven by new stores in high-traffic locations and branded spaces
- Reduction of retailer inventories especially with multibrand retail partners

SEVERAL NEW PRODUCTS TO BE LAUNCHED | EXPECTED TO LIFT REVENUE IN COMING QUARTERS

Q2 2019/20

H2 2019/20

New products

Beovision Harmony

- *Category:* Staged
- *Merchandising:* Monobrand
- *Availability:* October

Beosound Stage

- *Category:* Staged
- *Merchandising:* Mono- and multibrand and eCom
- *Availability:* Late Autumn

New products

- *Categories:* Flexible Living and On-the-go
- *Merchandising:* Mono- and multibrand and eCom
- *Availability:* Not public
- *Note:* First products on new technology platforms

New models, upgrades & variants

Model

- *Category:* Staged
- *Availability:* Not public

Variants (CMF)

- *Category:* On-the-go
- *Availability:* September
- AW2019 collection

Upgrade

- *Category:* On-the-go
- *Availability:* Not public

Models

- *Category:* Staged
- *Availability:* Not public

Variants (CMF*)

- *Category:* All
- *Availability:* Not public

Upgrades

- *Category:* On-the-go
- *Availability:* Not public



Beovision Harmony

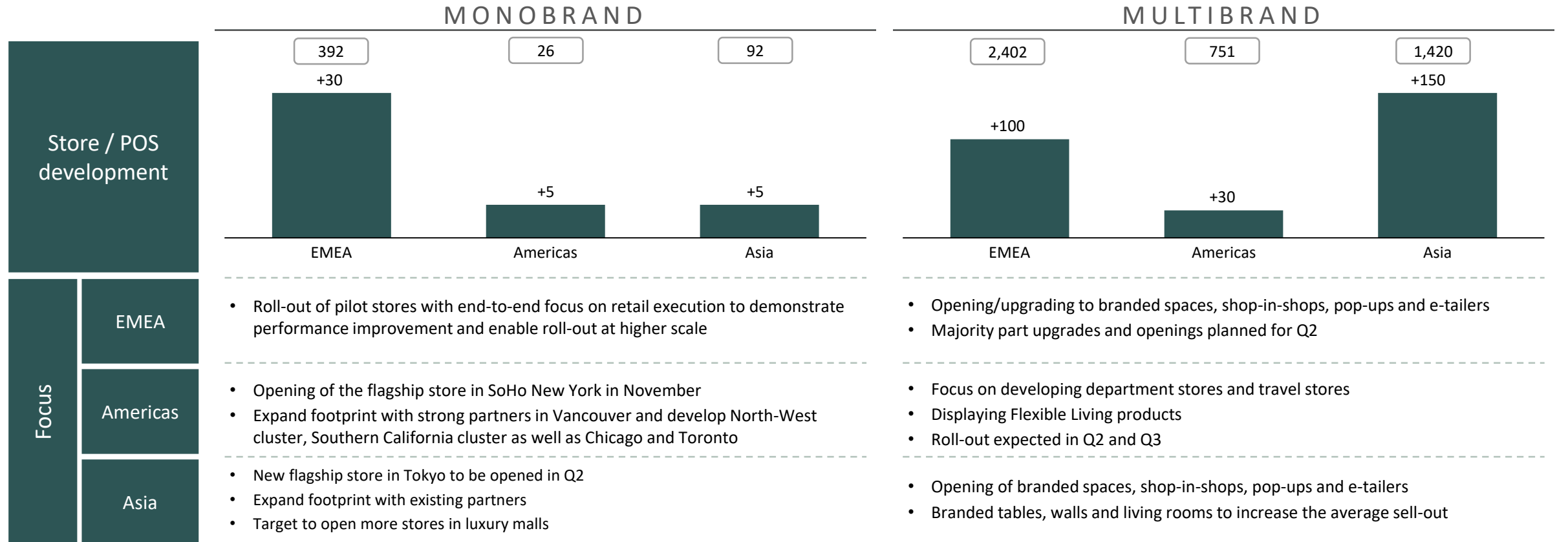


Beosound Stage

New products expected to contribute with more than **25%** of revenue in H2 2019/20 and further supported by new models, upgrades and variants

OPENING OF NEW STORES ACROSS REGIONS | HIGH-TRAFFIC LOCATIONS AND BRANDED SPACES

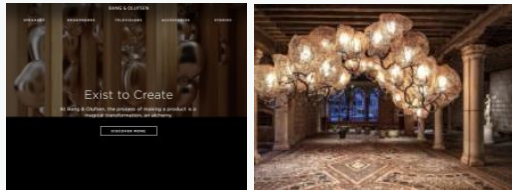
■ New/Upgrades □ Current



A significant share of top tier stores will be affected by the roll-out

DRIVING TRAFFIC AND CONVERSION | RIGOROUS ACTIVATION PLAN WILL ENSURE A CONSISTENT CONSUMER EXPERIENCE

CAMPAIGNS



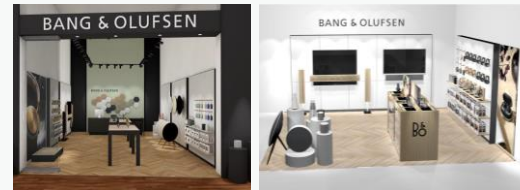
- Global PR launch of Beosound Stage in Venice as part of a larger campaign rolled out during the Fall and Winter
- PR, digital and SoMe lead campaign with targeted local activation
- Strong emphasis on Bang & Olufsen's core capabilities of Sound, Design and Craftsmanship

VISIBILITY



- Opening flagship stores in SoHo (NYC) and Ginza (Tokyo) in November
- Façade visibility in key high traffic locations such as KaDeWe (Berlin), Harrods (London), BHV (Paris)
- Strong presence at CEDIA – one of the worlds leading home technology trade shows

STORE DESIGN / VM



- Consistent campaign executions in windows and activation zones as well as in point of sales material
- Spearheading roll-out of branded spaces in multibrand with the Beosound Stage
- Digital point of sales displays in multibrand stores driving better consumer experience

RETAIL ACTIVATION



- More than 160 pre-launch VIP events held across regions building up to the launch of Harmony
- Instore events in October and November focused on Stage and the gifting season
- Pop-ups in NYC, Paris, London and Tokyo in October and November

The activation plan will ensure consistent messaging in a planned and coherent manner across distribution channels

AGENDA

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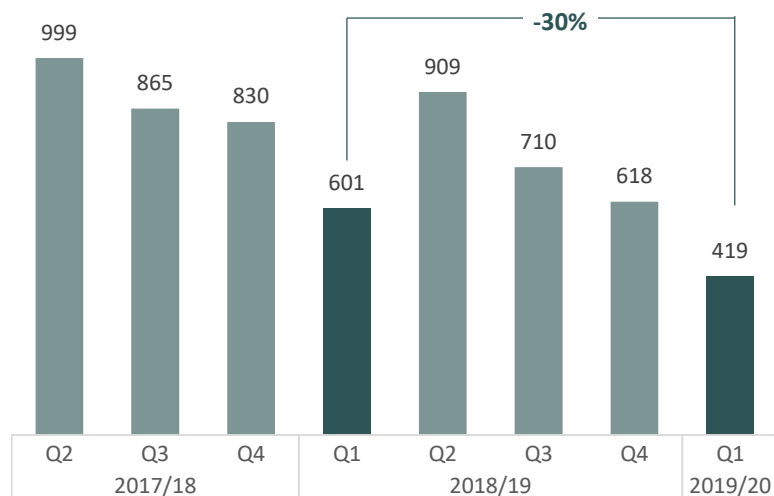
Outlook

Questions & answers



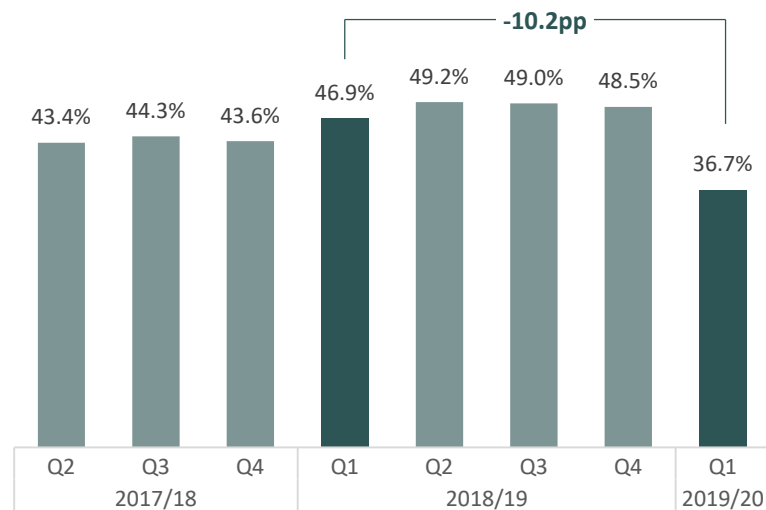
REVENUE AND PROFITABILITY

REVENUE, DKK m



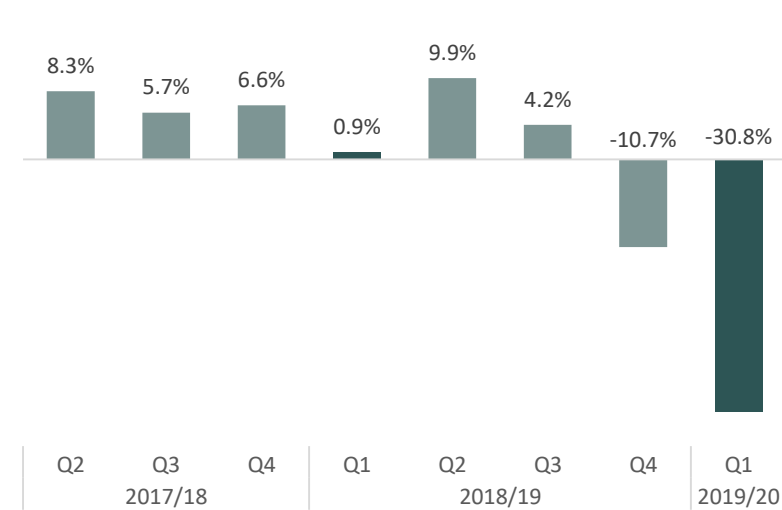
- Low sell-in as focus has been on sell-out and normalising retailer inventories
- Restricted use of extended credit and discounts
- Termination of sales to partners to mitigate unauthorised sales
- Q1 last year supported by high sell-in
- Decline was seen in both monobrand and multibrand channel

GROSS MARGIN



- Impacted negatively by
- Sales of end-of-life products at lower margins
 - Allocation of fixed production related capacity costs combined with the decline in revenue
 - Net effect from currency hedges of negative 2.2pp

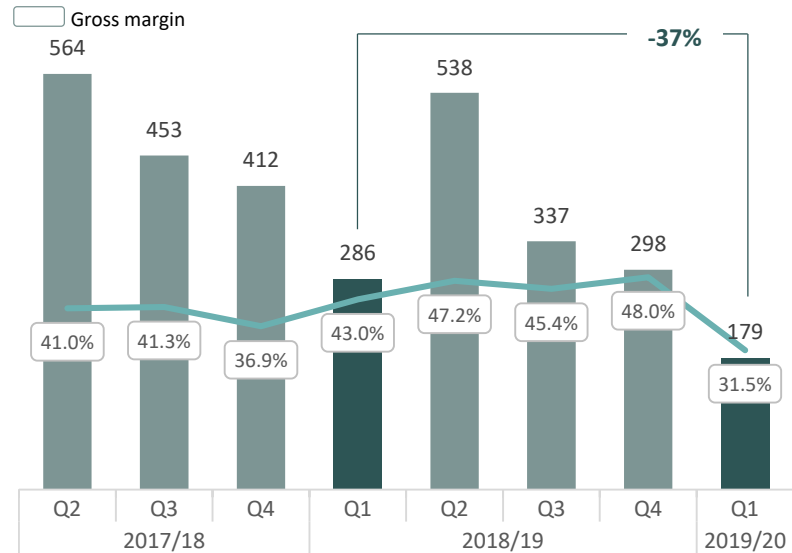
EBIT MARGIN



- Negatively impacted by decline in gross profit
- Positive impact from lower distribution and marketing costs
- Q1 last year was positively impacted by other operating income of DKK 23m related to a legal dispute
 - Excluding other operating income last year, EBIT margin was negative with 3.0%

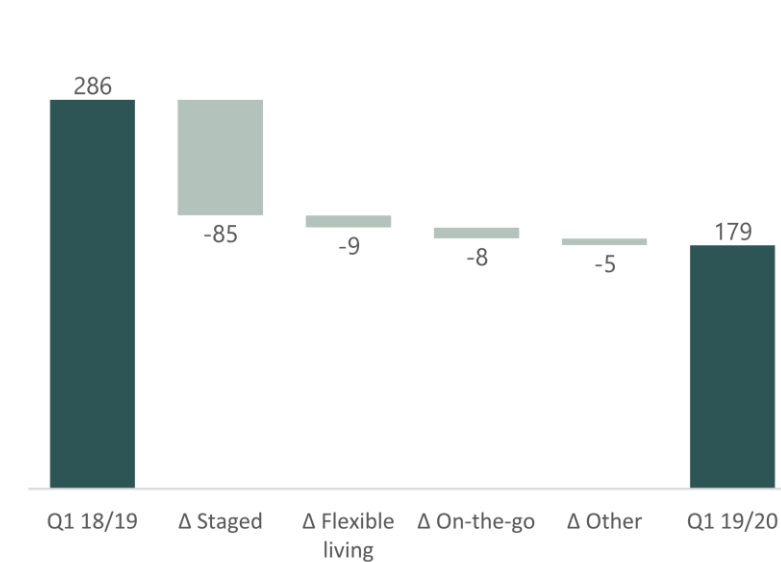
SEGMENTS | EMEA

REVENUE AND GROSS MARGIN, DKKm



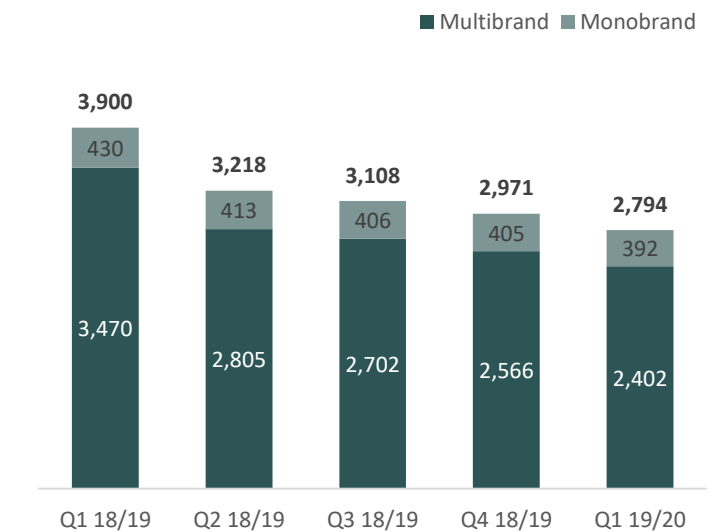
- Decline especially related to monobrand whereas multibrand was only slightly below last year
- Gross margin impacted by
 - Sales of end-of-life products at lower margins
 - Compared to last year, currency hedges impacted gross margin negatively

REVENUE DEVELOPMENT, DKKm



- Staged revenue down by 52%, impacted by
 - Normalisation of retailer inventories
 - Q1 2018/19 saw strong performance on Beovision Eclipse and Beolab 50 speakers
- Flexible Living had lower revenue from Beoplay A9
- On-the-go decline related to Bluetooth speakers offset by sales of end-of-life products

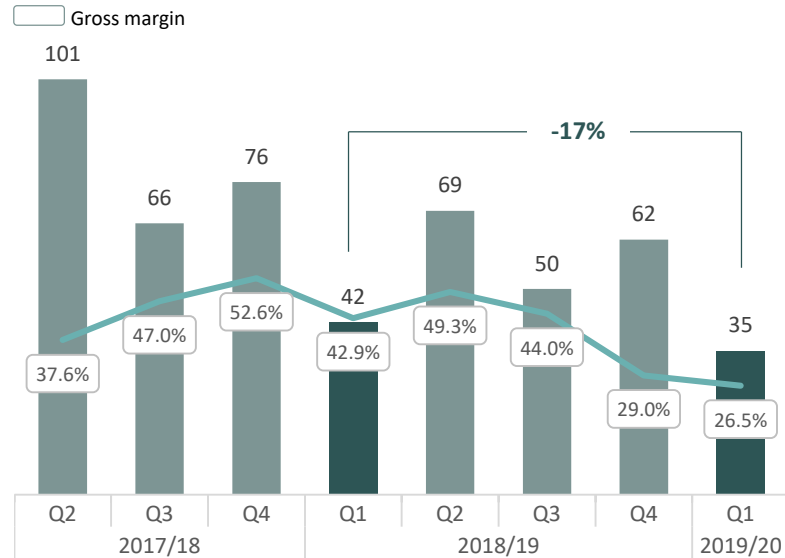
POINTS OF SALE



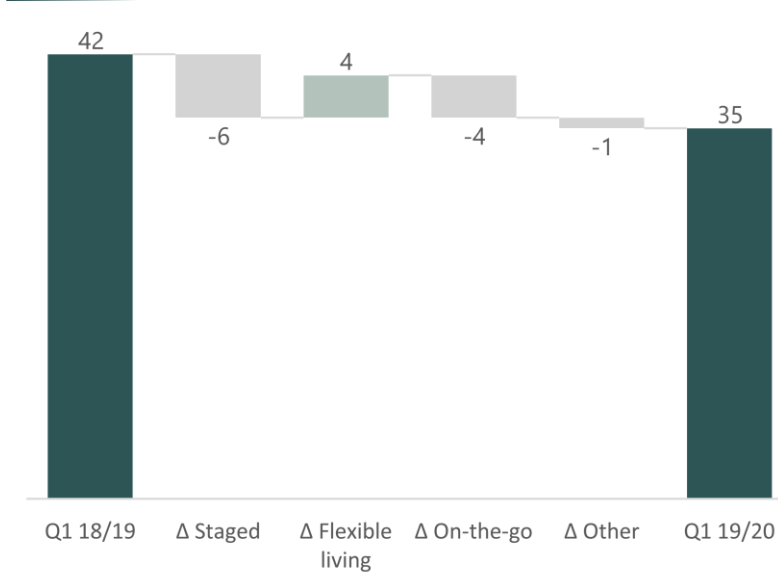
- 3 monobrand stores and 33 multibrand points of sale opened
- Relocation of stores to better venues
- Closing of 16 non-performing monobrand stores and 197 multibrand points of sale

SEGMENTS | AMERICAS

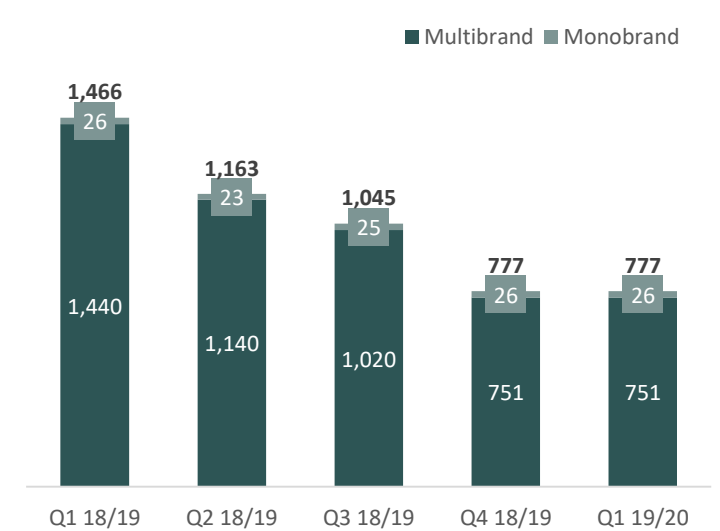
REVENUE AND GROSS MARGIN, DKKm



REVENUE DEVELOPMENT, DKKm



POINTS OF SALE



- Multibrand impacted negatively by reduced presence within mass market consumer electronics and sales through unauthorised channels
- Growth from company-owned stores in New York but revenue from monobrand was overall down
- Gross margin was impacted by sales of end-of-life products at lower margins

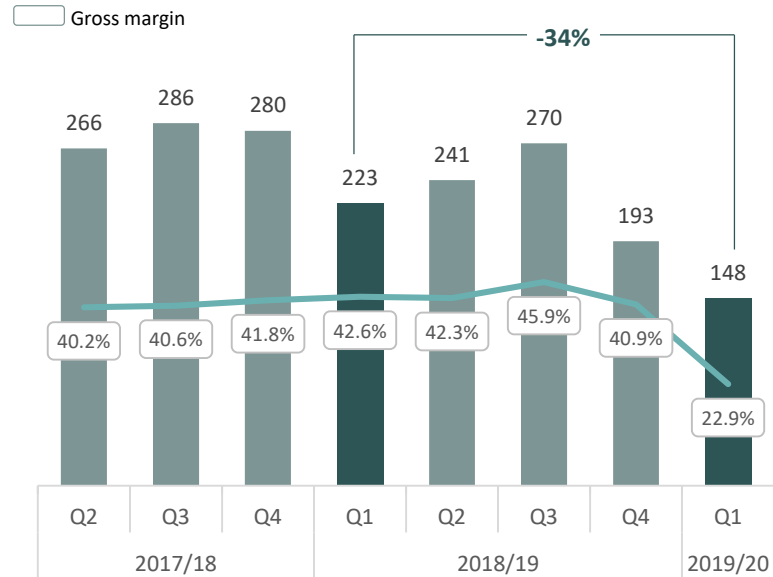
- Staged revenue declined by 48%, mainly related to Beovision Eclipse and Beolab 50 speakers
- Flexible Living grew by 90% among others related to Beoplay A9
- On-the-go declined by 16%, primarily related to earphones and impacted negatively by the development in the multibrand channel

- A new partner opened their first monobrand store in Vancouver
 - The store is located in a high traffic area and designed to give a full brand experience
 - The store has replaced the existing store in Vancouver

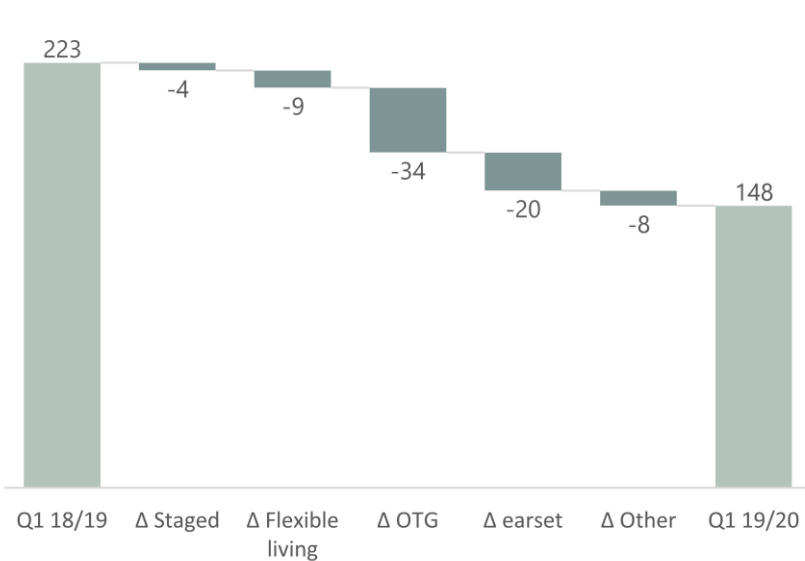
* Excluding one-off related to Beoplay Earset

SEGMENTS | ASIA

REVENUE AND GROSS MARGIN, DKKm



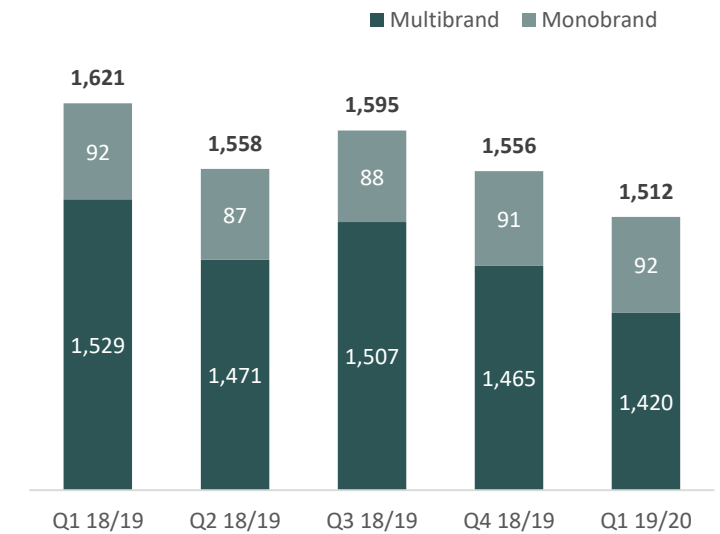
REVENUE DEVELOPMENT, DKKm



- Monobrand sales declined among others due to loss of retail margin from divested company-owned stores
- Multibrand declined, partly related to Beoplay Earset, which had high sell-in in Q1 last year
- Gross margin lower than last year due to sales of end-of-life products at lower margins

- The decline in Staged related to Beolab 50 speakers, whereas Beovision Eclipse was at the same level as last year
- Decline in Flexible Living mainly related to Beoplay A9
- Decline in On-the-go primarily related to Bluetooth speakers whereas earphones and headphones was supported by sales of end-of-life products
- Beoplay Earset supported revenue in Q1 last year with DKK 20m

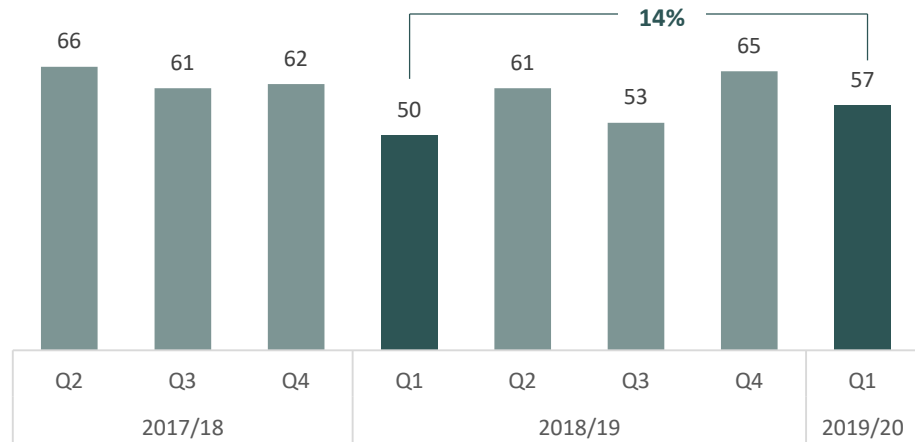
POINTS OF SALE



- 5 new monobrand stores opened in Japan, Taiwan and in luxury malls in China
- 54 new multibrand points of sale opened
- Closing of 4 non-performing monobrand stores and 99 multibrand points of sale

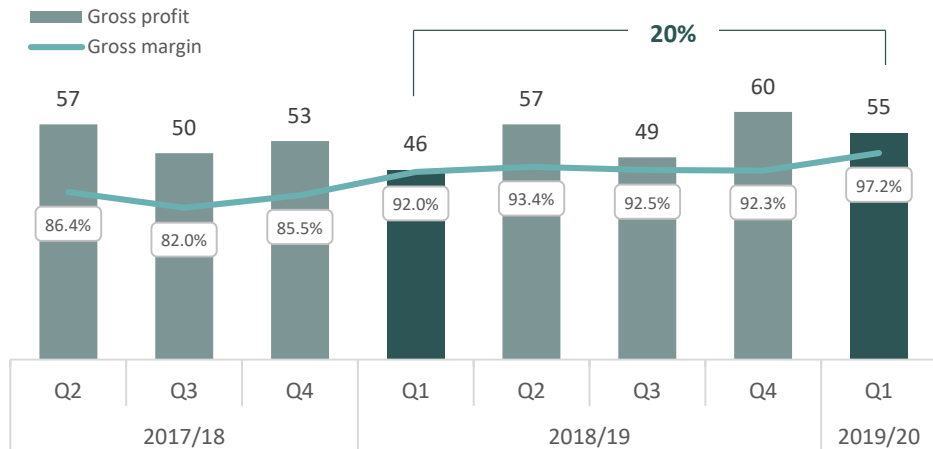
SEGMENTS | BRAND PARTNERING & OTHER ACTIVITIES

REVENUE, DKKm



- Higher income from Brand Partnering
- Aluminium production for third parties fell slightly in the quarter

GROSS PROFIT AND MARGIN, DKKm

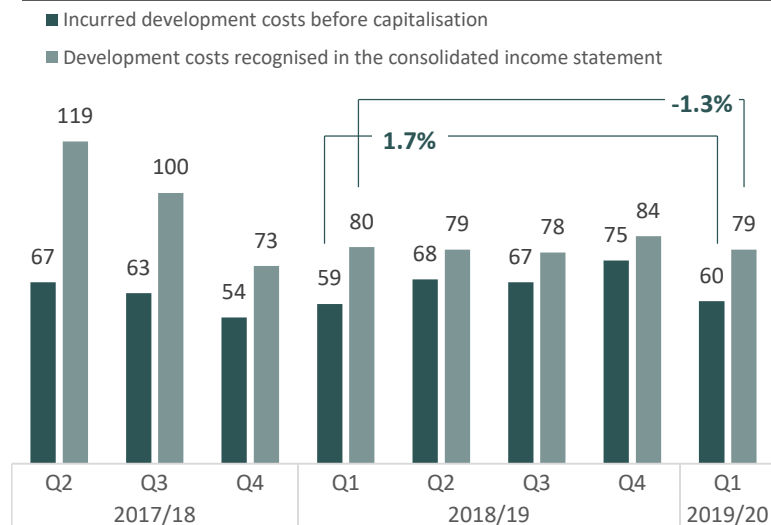


- Improvement related to Brand Partnering, which accounted for a higher proportion of revenue and profit



CAPACITY COSTS

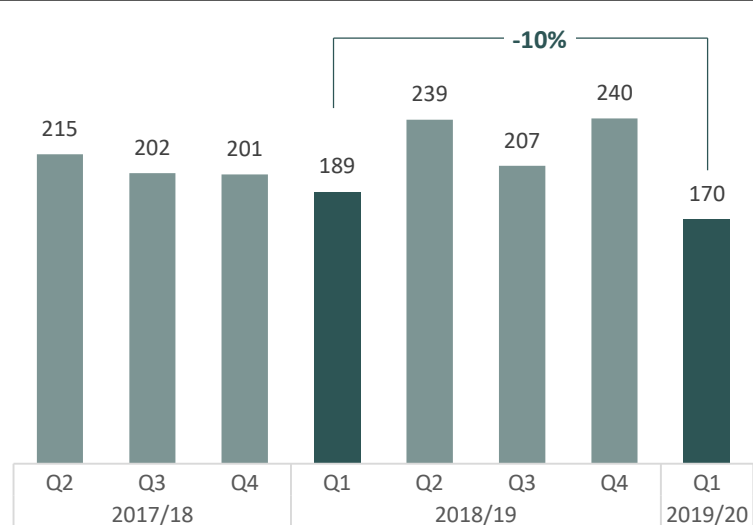
DEVELOPMENT COSTS, DKK m



- Decline in development costs was related to higher capitalisations
- Incurred development increased by DKK 1m related to product development and further improvement of the e-commerce platform

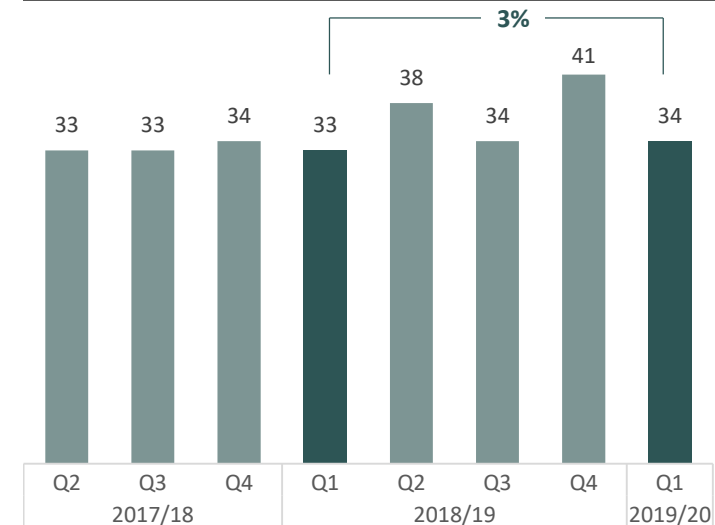
DISTRIBUTION

AND MARKETING COSTS, DKK m



- Distribution and marketing costs fell by DKK 19m
- Reduction partly due to lower marketing costs
- Marketing costs expected to increase in Q2 as part of launching Beovision Harmony, Beosound Stage and a global integrated marketing campaign

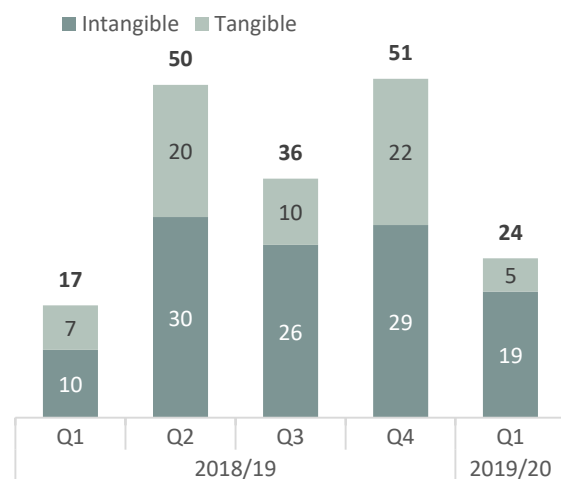
ADMINISTRATION COSTS, DKK m



- Minor increase in Q1 of DKK 1m primarily related to activities supporting the transformation process

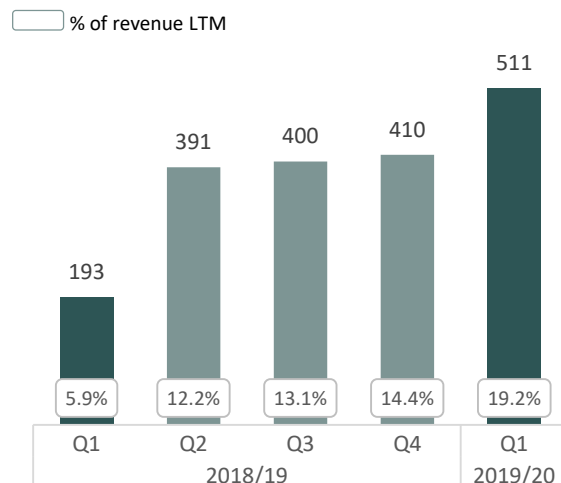
BALANCE SHEET AND CASH FLOW HIGHLIGHTS

CAPEX, DKKm



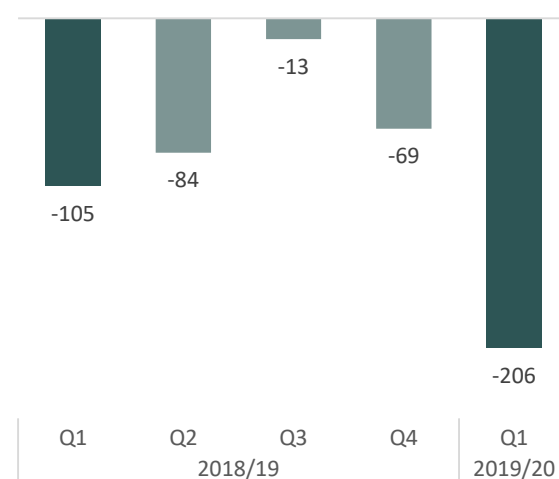
- CAPEX was up DKK 7m primarily related to
 - New products
 - Technology platforms
 - Improvements to own e-commerce platform

NWC, DKKm



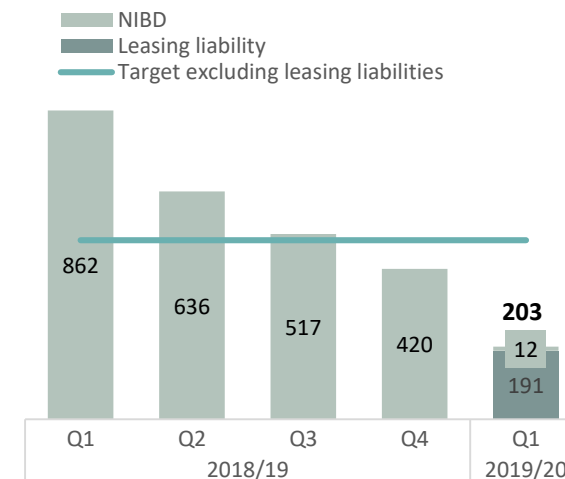
- Increase in net working capital related to decline in trade payables
- During the year, net working capital will normalise

FREE CASH FLOW, DKKm



- Impacted negatively by lower EBITDA and changes in NWC
- Changes to IFRS lifted free cash flow with DKK 9m

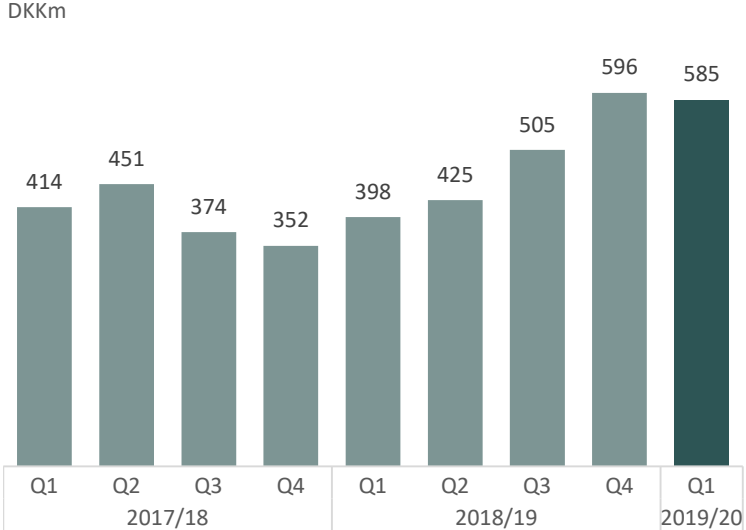
NET CASH POSITION, DKKm



- Declined to DKK 12m
- IFRS 16 increased interest-bearing liabilities impacted negatively by DKK 191m
- Excluding effects of IFRS 16, the net cash position was DKK 203m
- Cash position was DKK 275m at the end of Q1

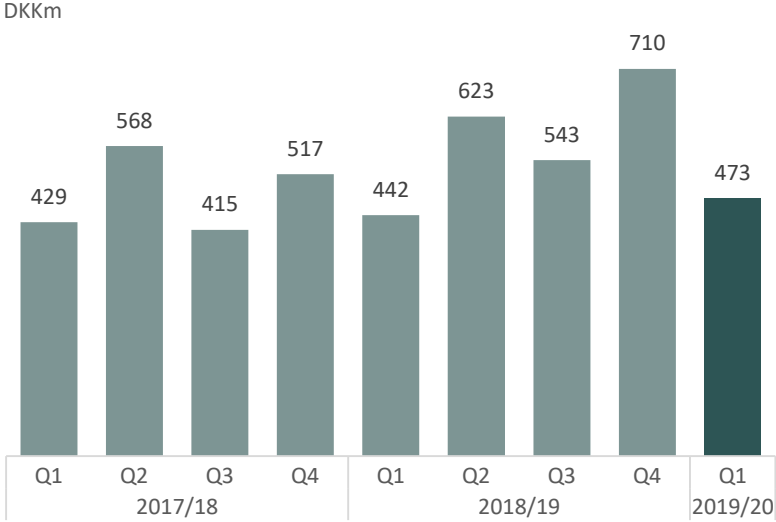
DEVELOPMENT IN NET WORKING CAPITAL

INVENTORY



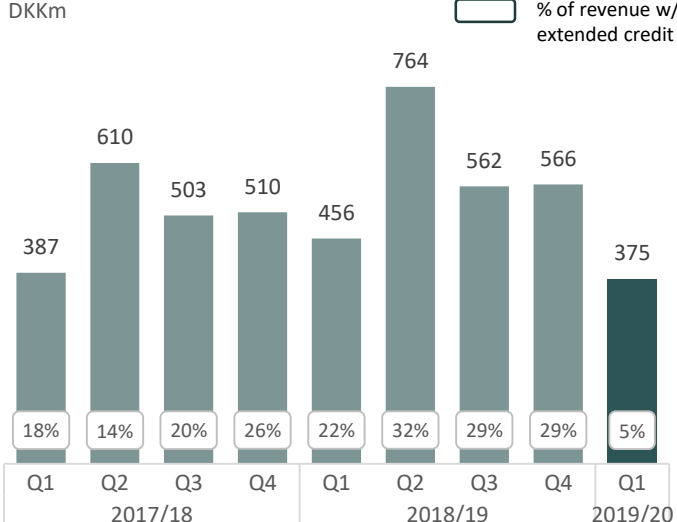
- First part of Q1 impacted by production obligation, but a significant decrease in inventory seen in August
- Further reduction of inventory expected in Q2 and during the second half of the year

TRADE PAYABLES



- Reduction follow seasonality
- Decline further impacted by reduced production leading to an imbalance between inventory and trade payables
- Will normalise during the financial year

TRADE RECEIVABLES



- Decline driven by lower revenue
- Overdue receivables increased in the quarter
- Extended credit given in Q4 2018/19 impacted negatively whereas the limited use in Q1 2019/20 impacted positively

AGENDA

Key highlights

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Questions & answers

OUTLOOK FOR 2019/20 | MAINTAINED

OUTLOOK

Revenue growth

Single-digit
in constant currencies

EBIT margin

Above 2018/19

Free cash flow

Positive

MAIN ASSUMPTIONS

- 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
- Supported by higher revenue
- Improved gross margin excl. FX
- FX headwind of approx. 2pp
- 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 cash positive during Q2 2019/20



QUESTIONS?