

BANG & OLUFSEN
INTERIM REPORT Q3 2015/16
6 April 2016



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AGENDA

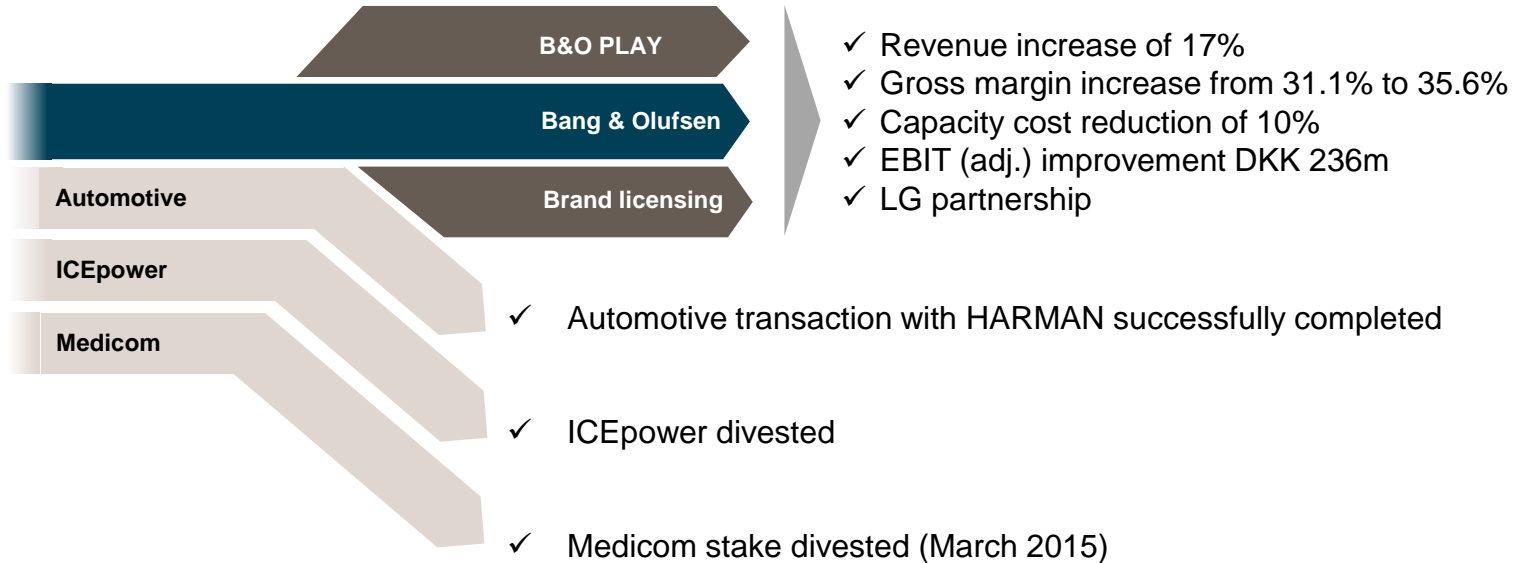
HIGHLIGHTS

FINANCIAL RESULTS

OUTLOOK

QUESTIONS AND ANSWERS

SUMMARY OF THE FIRST NINE MONTHS OF 2015/16



HIGHLIGHTS

- Revenue growth of 8 per cent in the third quarter (7 per cent in local currency), primarily driven by a continued positive momentum in B&O PLAY but also growth in Bang & Olufsen
- The margin improvement initiatives in the Bang & Olufsen segment continued to show a positive effect, and the gross margin improved compared to the same quarter last year. However, margin improvements are materializing slower than expected
- Capacity costs were DKK 45 million lower than last year, corresponding to a decline of 15 per cent
- Earnings before interest and tax (adjusted for costs previously allocated to Automotive) were DKK 22 million, compared to negative DKK 53 million last year
- Full year guidance is adjusted. Revenue is now expected to grow by 12 to 15 per cent compared to 2014/15 and EBIT is expected to be slightly below break-even
- Strategic technology partnership with LG Electronics regarding development and production of Bang & Olufsen's future TV
- ICEpower divested to reduce complexity and focus on the consumer business



Beoplay A9 with Kvadrat fabric

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STRATEGIC TECHNOLOGY PARTNERSHIP WITH LG ELECTRONICS

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Luxurious high-end TV concepts with “a story”

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Superior acoustics & sound an integral part of TV experience



Design & movable stands integrating TV concept into context of home



High end offerings designed on the basis of consumer insights



Perfect mix of Bang & Olufsen design and acoustics combined with LG to become the most complete high end TV concept in the world



LG OLED TV
THE ULTIMATE DISPLAY



OLED - the superior display technology with outstanding performance



Natural user interface based on speech and magic technologies



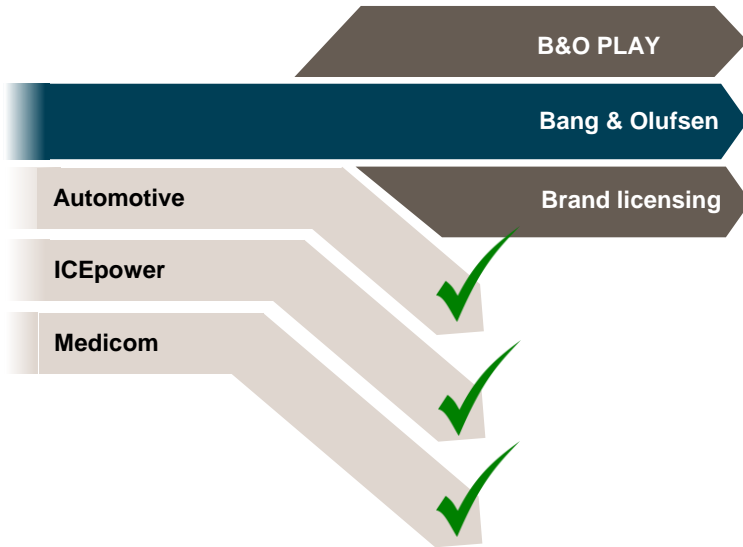
The best SmartTV platform in the industry with the best user interaction logic



Contemporary TV concepts & design

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SALE OF ICEPOWER COMPLETES THE CONSUMER FOCUSED TRANSFORMATION OF THE BUSINESS AREAS

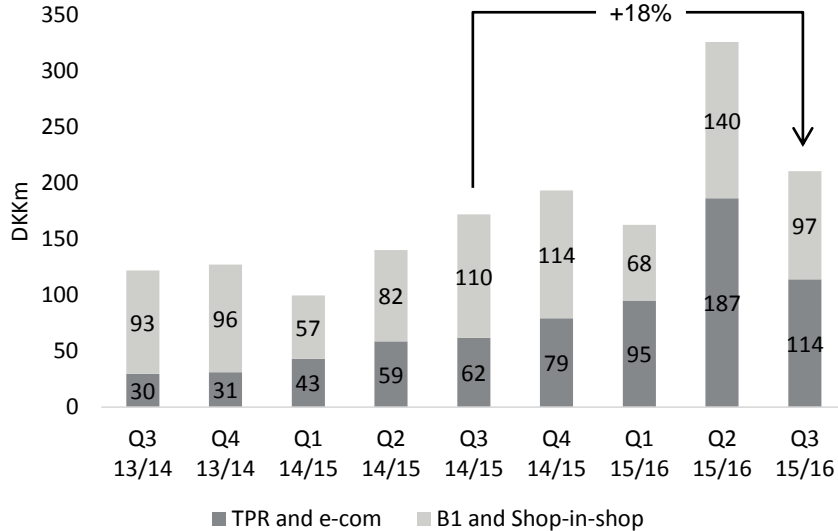


- Bang & Olufsen initiated a review in March 2015 to identify future ownership alternatives for ICEpower, in accordance with the strategy to reduce complexity and focus on the consumer activities
- Bang & Olufsen divests ICEpower in Management Buyout supported by Industri Udvikling
- The brand licensing business area has historically accounted for a significant part of earnings in ICEpower. Over the last 12 months, the licensing business has become a focus area in Bang & Olufsen, and has therefore been transitioned to Bang & Olufsen
- Financial implications of the transaction:
 - Enterprise value DKK 32 million
 - Free cash flow impact DKK 23 million
 - Bang & Olufsen entitled to an earn-out, which is dependent on the future performance of ICEpower
 - Non-cash, non-recurring accounting loss of DKK 31 million
- The deal is subject to customary closing conditions

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B&O PLAY SHOWING GROWTH FOR THE FIFTH CONSECUTIVE QUARTER

B&O PLAY revenue



- Growth driven by a combination of strong customer demand for existing and new products and a continued expansion of the number of third party retailers compared to the same quarter last year
- As the share of third party retailers increases, high-season shifts from Q3 to Q2
- The third quarter last year benefitted from a back-log in the second quarter on the key products (Beoplay A2 and A9 as well as the Beoplay H8 launch)

BEOLAB 90 HAS BEEN WELL RECEIVED IN THE MARKET

SEITE 74 DIENSTAG, 11. OKTOBER 2015 - NR. 237

Technik und Motor

Der Traum vom Raum

Zum 90. Geburtstag will sich Bang & Olufsen ein Denkmal setzen. Mit einem Lautsprecher, der all seine Artgenossen an die Wand spielt.

Von Wolfgang Tautz

Aus der neuen Welt: Beolab 90 war ein großer Erfolg und prägte die Klangwelt.



Rechtlich betrachtet ist die Vermarktung dieser neuen Artgenossen, die sich nicht nur in der Form, sondern auch in der Klangwelt vom Rest der Welt abheben, ein großer Erfolg. Die Beolab 90 ist ein Lautsprecher, der all seine Artgenossen an die Wand spielt. Mit einem Lautsprecher, der all seine Artgenossen an die Wand spielt. Mit einem Lautsprecher, der all seine Artgenossen an die Wand spielt.

INSIDER FEATURE BANG & OLUFSEN

In with a BANG

To mark annivers Bang & Olufsen launches Adrian J behind the discover

ESSAY

Taking the room out of the speaker equation

Lots of drivers, amplifiers and digital signal processing - can Bang & Olufsen change the way we all listen?



BEST OF CES 2016: OUR FAVORITE GADGETS FROM THIS YEAR'S SHOW



esolab 90

CES INNOVATION AWARDS 2016 BEST OF INNOVATION

HIGH-TECH

Le pari fou de Bang & Olufsen

Question ch'hour

90 – und kein bisschen leise



Der Traum vom Raum. Zum 90. Geburtstag will sich Bang & Olufsen ein Denkmal setzen. Mit einem Lautsprecher, der all seine Artgenossen an die Wand spielt. Mit einem Lautsprecher, der all seine Artgenossen an die Wand spielt.

Will, that was a close one! Bang & Olufsen's new flagship loudspeaker has a number of options to suit the company wanted to establish itself as a serious speaker choice for the high-end audio enthusiast, so we're looking at one of the major problems with all loudspeakers: the room in which they're used. Oh, and though it may have seemed a long way off when the project first started, more Bang and Olufsen is hard to come by these days, so it's not too far off the mark to say that the Beolab 90 should be a study in time for the Danish company's 90th anniversary celebration last month.

Let's come back to that myth of the ideal: it's essentially "invisible" listening room, and add to it the concept of the "best spot" (that single position in which the speaker is best to listen from). Even as the ideal persists to hard to realize, many frequency ranges the same, due to the different dispersion characteristics of the drivers, the spread of sound of the various drivers used, and so on. You can't have a "best spot" if it's not there only for one listener.

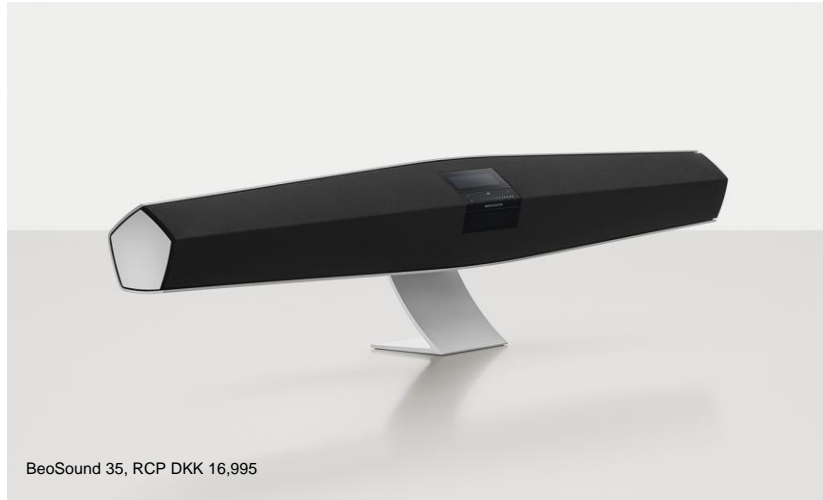
What the Beolab 90 is designed to do is allow the dispersion characteristics of the whole speaker to be optimized for that ideal position, or for a wider position, or indeed for the best compromise between several listening positions. The multiple drivers, amplifiers and all the digital processing done by the speaker are there to allow the speaker to be optimized for the "best" room.

The Beolab 90 is an optional, whether you choose to listen, and all controlled by setting and processing on a smartphone or tablet app. What's more, the company says that technology can be scaled down to smaller - and more affordable - speakers, and has even mentioned of doing just that in the next 12 months.

But you'll be wondering in this feature of sound systems, how's that? Bang & Olufsen says, "Don't panic."



BEOSOUND 35 – ALL-IN-ONE WIRELESS MUSIC SYSTEM



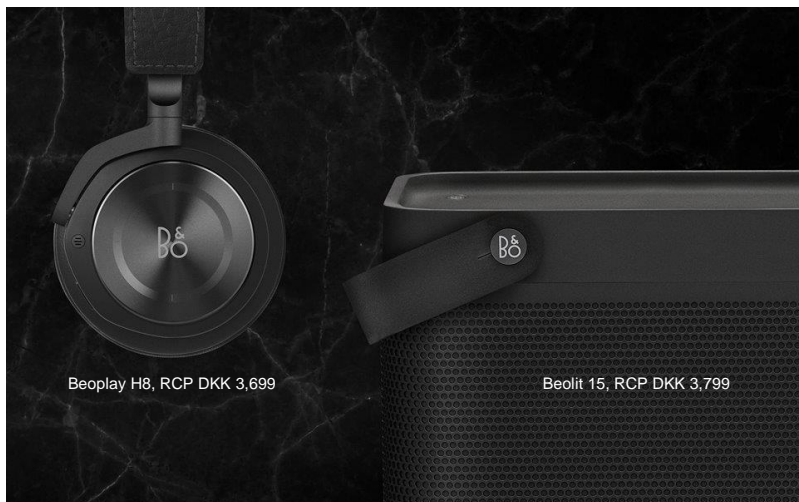
BeoSound 35

- New all-in-one wireless music system
- Intuitive interface
- Distinct Bang & Olufsen design
- Several placement options
- Easy connectivity with mobile devices and integrated access to music streaming services
- Integrates seamlessly as part of a BeoLink Multiroom system
- Works with AirPlay, Bluetooth and DLNA based devices

BeoSound 35, RCP DKK 16,995

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NEW B&O PLAY PRODUCTS LAUNCHED DURING THE QUARTER



Beoplay H8, RCP DKK 3,699

Beolit 15, RCP DKK 3,799

Beoplay H8 Black Edition

- Premium wireless over-ear headphone

Beolit 15 Black Edition

- Features True360 omnidirectional sound

Beoplay H7 Cenere Grey

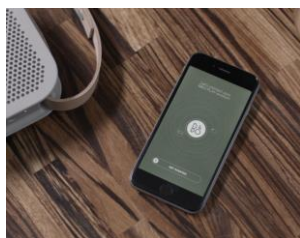
- Premium wireless over-ear headphone

Beoplay App

- Available on Google Play store during the Spring 2016

Google Cast to network speakers

- B&O PLAY brings Google Cast to B&O PLAY's in-market and future range of network speakers

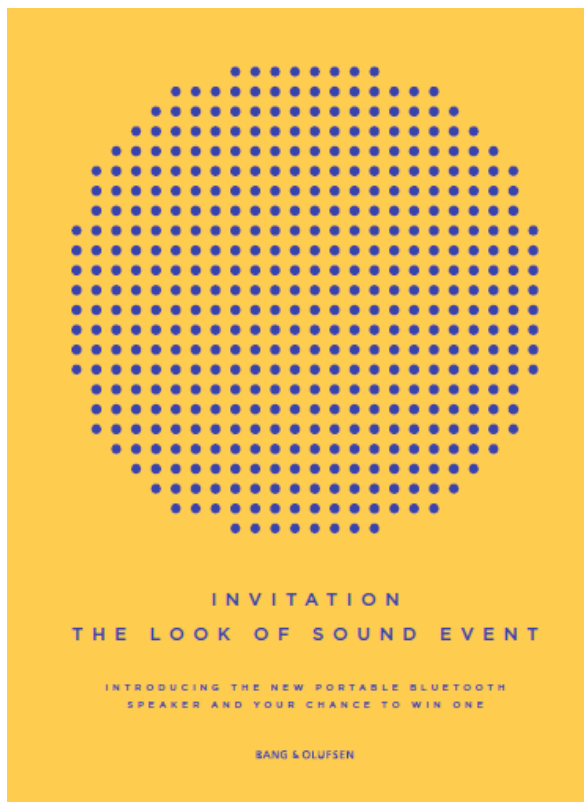


Beoplay H7,
RCP DKK 3,299



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SPRING EVENT - 21 APRIL 2016



We invite customers and friends into B1 and shop-in-shop stores on **21 April 2016** for the launch of a new B&O PLAY product, demos and presentations of recently launched products e.g.

- BeoLab 90 (in selected stores)
- BeoSound 35
- New limited editions of selected B&O PLAY products (Beoplay A6 and A9)

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RETAIL DISTRIBUTION DEVELOPMENT

B1 distribution decreased the number of stores marginally

- The number of B1 stores declined by (net) 9 stores in the third quarter, primarily due to store closings in Europe and North America
- New B1 stores opened around the world in locations such as Sofia, Austin, Brunei, Saigon and Dresden
- The number of shop-in-shops increased by 1 store in the quarter

Third party retail store expansion continues

- The number of third party retail stores increased to 5,462
- Estimated store filling effect is DKK 15,000 – 25,000 per store added in the quarter
- Number of TPR openings in the third quarter was moderate due to the high-season. More openings are expected in the fourth quarter of 2015/16



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DIALOGUE REGARDING A POTENTIAL LAUNCH OF A TAKEOVER OFFER

UPDATE

KREAB

22 March 2016

Sparkle Roll Group Limited confirms dialogue about potential bid.

Further to Bang & Olufsen a/s ("Bang & Olufsen") announcement no. 15.09, Sparkle Roll Group Limited ("Sparkle Roll") confirms dialogue about potential public offer for all shares in the company.

Mr. Qi Jianhong, Chairman of Sparkle Roll says

"Sparkle Roll has followed Bang & Olufsen since 2012 and we are enthusiastic about the company. We are excited about the products, its innovation power and the intrinsic value of the unique Danish brand recognised across the globe. We strongly believe that Bang & Olufsen would benefit from a different ownership structure than the present in order for the company to free up resources as well as accelerate growth and consolidation. As a result, we have explored the possibility of making a public offer for all shares in Bang & Olufsen.

However, while we continue working towards being in a position to make a public offer for all shares of Bang & Olufsen, several elements remain to be resolved. In any case, a condition for making an offer is that we are comfortable it will be possible for us to acquire all shares in Bang & Olufsen at a price we find reasonable, reflecting the potential of the company but also the significant uncertainty and the investments needed to ensure further development and growth".

ENDS

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FINANCIAL HIGHLIGHTS

Key financial figures

DKK million	3rd quarter		YTD	
	15/16	14/15	15/16	14/15
Revenue	703	649	1,937	1,661
Gross profit	260	232	689	516
EBIT	5	-70	-131	-397
EBIT (adj*)	22	-53	-74	-310
EBT	-14	-55	-156	-381
Earnings after tax (cont. busi.)	-11	-29	-122	-289
Earnings after tax (disc. busi.)	10	46	25	125
Earnings	-1	17	-98	-164
Gross margin, %	37.0	35.7	35.6	31.1
Net interest-bearing deposit / debt	618	-377	618	-377
Net working capital	334	724	334	724
Free cash flow	-63	28	-169	-253

*Excl. cost previously allocated to the Automotive business (DKK 17 million in Q3)

- Revenue growth of 8 per cent in the third quarter, corresponding to 7 per cent in local currency
- The Group's gross margin improved compared to the same quarter last year. The margin improvement initiatives in the Bang & Olufsen segment continued to show a positive effect. However, margin improvements are materializing slower than expected
- EBIT (adj.) improved to DKK 22 million, from negative 53 million last year
- Net working capital increased to DKK 334 million, mainly due to a decrease in trade payables
- Free cash flow for the third quarter was negative DKK 63 million compared to positive DKK 28 million last year

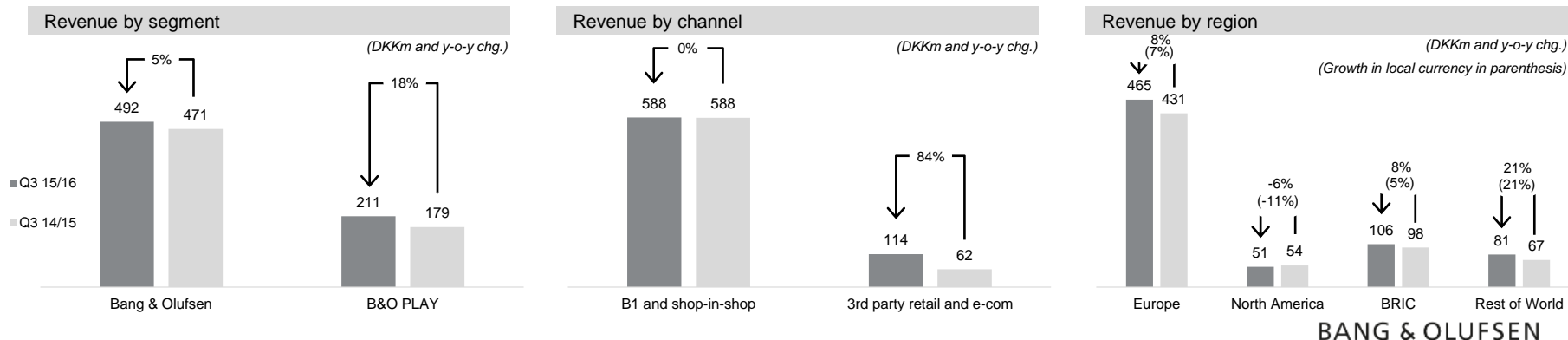
REVENUE GROWTH PRIMARILY DRIVEN BY B&O PLAY

8 per cent growth in the third quarter

- Growth was primarily driven by growth in the B&O PLAY segment, which grew by 18 per cent in the third quarter
- Revenue in the Bang & Olufsen segment increased by 5 per cent
- Revenue through third party retail and e-commerce increased by 84 per cent in the quarter

Europe, BRIC and Rest of World drive Group growth

- Growth in Europe driven by B&O PLAY products
- BRIC revenue increase driven mainly by continued growth in China and Hong Kong
- Rest of World revenue increase driven by a general increase across most markets
- Revenue decline in North America was mainly related to restructuring of the retail network



GROSS MARGIN IMPROVEMENT IN BOTH SEGMENTS

Gross margin

%	3rd quarter		YTD	
	15/16	14/15	15/16	14/15
Bang & Olufsen	38.8	36.8	38.2	31.3
B&O PLAY	32.9	32.7	30.9	30.5
Group	37.0	35.7	35.6	31.1

Group gross margin improved to 37.0 per cent

- Group gross margin improvement of 1.3 percentage points. However, margin improvements are materializing slower than expected
- The gross margin in the Bang & Olufsen segment was 38.8 per cent compared to 36.8 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 32.9 per cent against a gross margin of 32.7 per cent for the same period last year
- This resulted in an improved gross margin year to date of 35.6 per cent compared to 31.1 per cent last year

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CAPACITY COSTS WERE REDUCED BY 15 PER CENT

Capacity costs were DKK 45 million lower than last year

- Distribution and marketing costs decreased mainly as a result of lower campaign activity as well as general cost savings across the Group
- In addition, restructuring of the retail network has entailed a reduction in the number of company owned stores in North America

Capacity costs

DKK million	3rd quarter		YTD	
	15/16	14/15	15/16	14/15
Development	75	95	221	271
Dist. and marketing	161	186	543	582
Administration	21	20	61	60
Total cap. costs	257	302	825	913

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

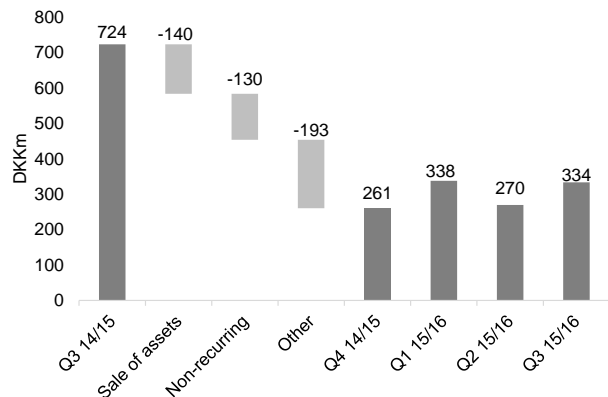
DKK million	3rd quarter		YTD	
	15/16	14/15	15/16	14/15
Incurred development costs before capitalization	72	84	210	252
Net effect of capitalizations and amortisations	3	11	11	19
Development costs in P&L	76	95	221	271
Capitalization (%)	48.4%	43.7%	54.1%	48.9%

NET WORKING CAPITAL INCREASED IN THE QUARTER

Net working capital increased driven by trade payables

- The net working capital increased to DKK 334 million at the end of the third quarter from DKK 270 million in the previous quarter
- Net working capital in the quarter was mainly driven by a decreased level of trade payables related to seasonality impact from the Christmas sales

Net working capital by quarter



Negative free cash flow in the quarter

- The free cash flow was negative DKK 63 million in the quarter

Cash Flow

DKK million	3rd quarter		YTD	
	15/16	14/15	15/16	14/15
Earnings for the period	-1	17	-98	-164
Net working capital related	-68	0	-63	-67
Other	46	78	156	201
Cash flow from oper. activities	-24	95	-5	-30
Cash flow from investing activities	-40	-67	-164	-223
Free Cash Flow	-63	28	-169	-253

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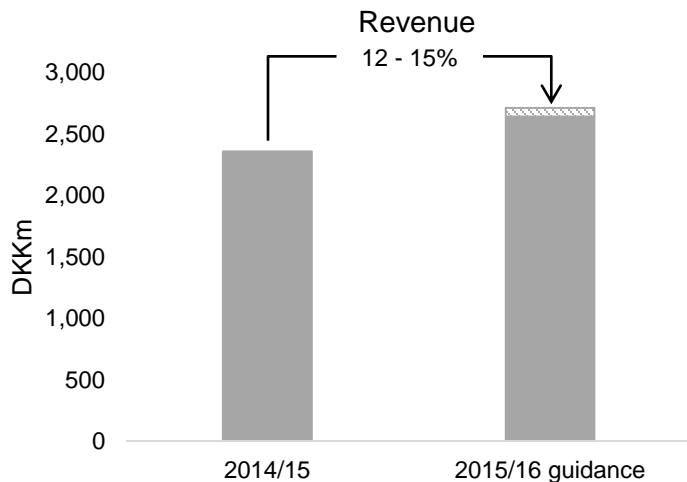
OUTLOOK

QUESTIONS AND ANSWERS

OUTLOOK FOR 2015/16

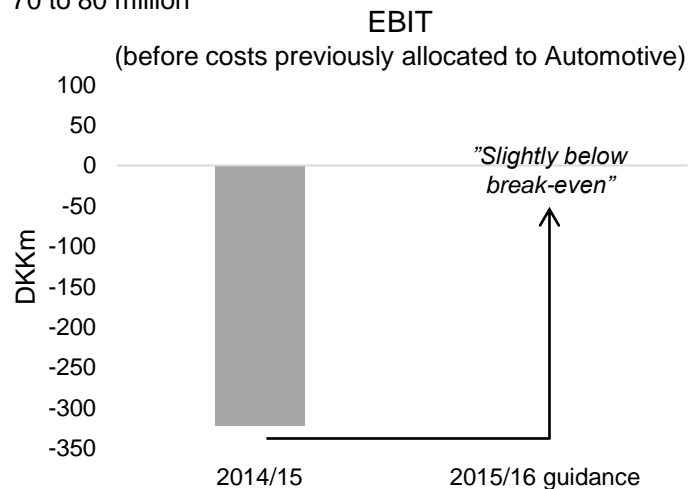
Revenue

- Group revenue is expected to grow by 12 to 15 per cent compared to 2014/15 (prev. 8 to 12 per cent)
 - B&O PLAY is expected to be the main growth driver
 - Bang & Olufsen is expected to show a moderate decline



Earnings before interest and tax

- Adjusted for costs previously allocated to Automotive and restructuring, EBIT is expected to be slightly below break-even (prev. "around")
- Cost previously allocated to Automotive are estimated to be DKK 70 to 80 million



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Q&A

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