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Bang & Olufsen interim report for Q2 2023/24:

Strong gross margin contributed to positive earnings in Q2 despite lower revenue

Bang & Olufsen improved its gross margin significantly by 9 percentage points in the second quarter of the financial year (September-November) and delivered positive earnings despite declining revenue compared to last year.

Customer demand remained stable during the quarter with like-for-like sell-out growing by 2%. However, group revenue declined by 18.5%, (-16% in local currencies). Negative growth had been expected for Q2, especially due to the successful launch of the soundbar Beosound Theatre last year. Additionally, the company's decision to exit several multibrand stores as part of its strategic transition had a revenue impact. The price increases announced for 1 September 2023 also pulled some revenue into Q1. Lastly, the slower-than-expected recovery of the Chinese economy adversely impacted sales.

Gross margin increased from 44.4% to 53.1% year-on-year. Normalised component and logistics costs, price increases, and a positive change in channel and product mix drove the significant increase. The improved gross margin contributed to positive earnings despite the lower revenue level. EBIT before special items was DKK 21m (Q2 22/23: DKK 14m), corresponding to an EBIT margin before special items of 3.0%, which was an increase of 1.4 percentage points compared to Q2 of last year.

CEO Kristian Teär comments:

“We are pleased to report another quarter of an improved gross margin and positive earnings. This was a record-high gross margin and the third quarter in a row with a gross margin above 50%. This shows we are building a more robust company and progressing with key priorities in line with our strategy. However, we are not satisfied with the revenue development this quarter. Sales were impacted by several factors, such as the slower-than-expected recovery of the Chinese economy and our decision to exit multibrand stores to support our strategy and enable more sustainable growth in the future.”

“Recently, we opened our new flagship stores in New York and London as part of our Win City Concept, and B&O branded network of stores continues to be our best performing channels. Our strong brand, product portfolio and branded retail network enable us to deliver luxury experiences for our customers. We will continue to invest in these areas together with our partners. However, uncertainty remains high, and we will be prudent with our investments as we have previously communicated.”

Financial highlights, Q2 2023/24

- Revenue declined by 18.5% (-16% in local currencies) y-o-y. EMEA declined 14.5% (-15% in local currencies), Americas declined by 31.3% (-27% in local currencies) and APAC declined by 15.0% (-10% in local currencies).
- Brand partnering & other activities declined by 28.8% (-26% in local currencies) mainly driven by reduced revenue from the automotive industry due to factory strikes in the US.
- Like-for-like sell-out increased by 2%. In APAC, sell-out grew by 8% driven by sell-out growth in China of 17%, EMEA declined by 1%, while sell-out declined in Americas by 6%.

- The gross margin was 53.1%, which was 8.7pp higher than in Q2 of last year, driven by the normalisation of component and logistics costs. In addition, the margin was favourably impacted by price increases improving margins across regions and product categories.
- EBIT before special items was DKK 21m (Q2 22/23: DKK 14m) equivalent to an EBIT margin before special items of 3.0%, compared to 1.6% in Q2 of last year.
- The free cash flow improved by DKK 23m to DKK 24m (Q2 22/23: DKK 1m).

Strategic highlights, Q2 2023/24

- Bang & Olufsen announced two new products, Beolab 8 and Beosound Bollard, both intended to enable the offering of a broader product proposition. In addition, the Beosound A5 was launched in Spaced Aluminium and joined the existing finishes – Nordic Weave and Dark Oak.
- The company also continued executing structural changes in the channel network to promote and improve the branded channels, and to reduce the company's presence in multibrand and eTail channels that does not fit well with the luxury positioning.
- The Win City concept for London, Paris and New York continued to deliver results. Win London grew sell-out by 13% driven by company-owned stores, and Harrods and Selfridges both reported their best quarter ever. In mid-December, the company opened its first brand flagship store in London on New Bond Street. In Paris, sell-out growth was 2%. The company-owned store reported high double-digit sell-out growth while our monobrand channel declined. Win New York reported a 10% decline in sell-out. The quarter was impacted by the fact that one of two company-owned stores was closed for a third of the quarter while being relocated and upgraded. The company-owned store in New York, which was not impacted by closure, reported double-digit growth.
- The customer base grew by 5% and the number of customers owning two or more Bang & Olufsen products increased by 2% during the quarter.

Outlook 2023/24

Bang & Olufsen maintains the outlook for the financial year 2023/24. However, the company now expects revenue growth and free cash flow to be at the lower end of the range due to lower-than-expected revenue from APAC and the delay of a planned product launch. The expectation for the EBIT margin before special items is unchanged. The outlook is as follows:

• Revenue growth (in local currencies):	0% to 9%
• EBIT margin before special items:	0% to 6%
• Free cash flow (DKK million):	-50 to 100

The outlook for 2023/24 is subject to uncertainty related to consumer sentiment from the effects of a high inflationary environment, high interest rates, the war in Ukraine, and the recovery of the Chinese economy.

Conference call for analysts and investors

The company will host a webcast on 10 January 2024 at 10:00 CET, where the financial development for Q2 2023/24 will be presented.

The webcast can be accessed at https://bangolufsen.eventcdn.net/events/interim-report-q2

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