



**BANG & OLUFSEN**  
**ANNUAL REPORT 2017/18**

12 JULY 2018

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# AGENDA

A minimalist interior scene with modern furniture and decor. On the left, a large, light-colored oval mirror stands on a tripod base. Next to it is a tall, slender, blue vase. In the center, a blue armchair is partially visible, with a white side table in front of it. To the right, a large, dark, oval mirror leans against the wall. Below it is a blue cylindrical ottoman. Further right, a white side table holds a blue vase and a small white object. In the foreground, a metal shelving unit with three shelves is visible, holding a blue vase and some books.

- Executive summary
- Financial results
- Strategy & outlook
- Questions & answers

# SATISFACTORY RESULT



Launch of innovative and progressive products and improved lifecycle management



Strengthened luxury-lifestyle positioning of the brand



Stronger go-to-market approach, especially in China



Positive impact of a more asset-light and agile operating model



## FINANCIAL HIGHLIGHTS

**11%** REVENUE GROWTH  
(14% local currencies)

**3%** EBIT MARGIN<sup>1</sup>

**9%** EBITDAC MARGIN<sup>1</sup>

**DKK 85m** FREE CASH FLOW

*1) Underlying figures adjusted for non-recurring and aperiodic items*

# AGENDA



- Executive summary

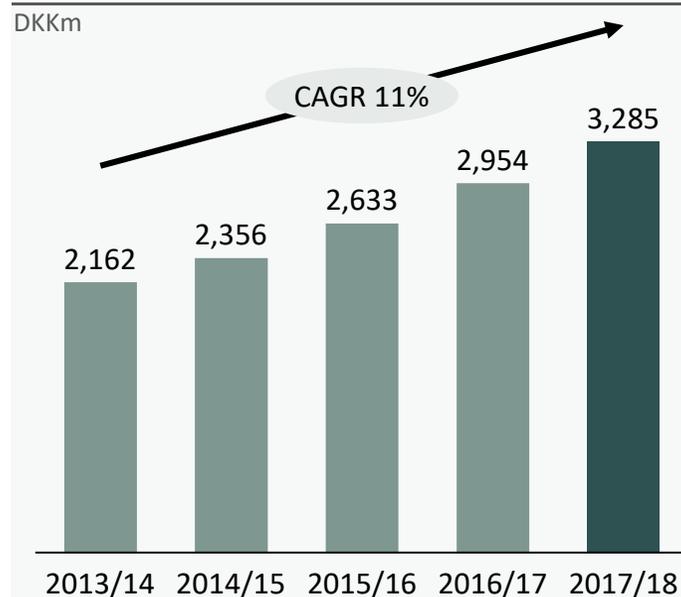
- **Financial results**

- Strategy & outlook

- Questions & answers

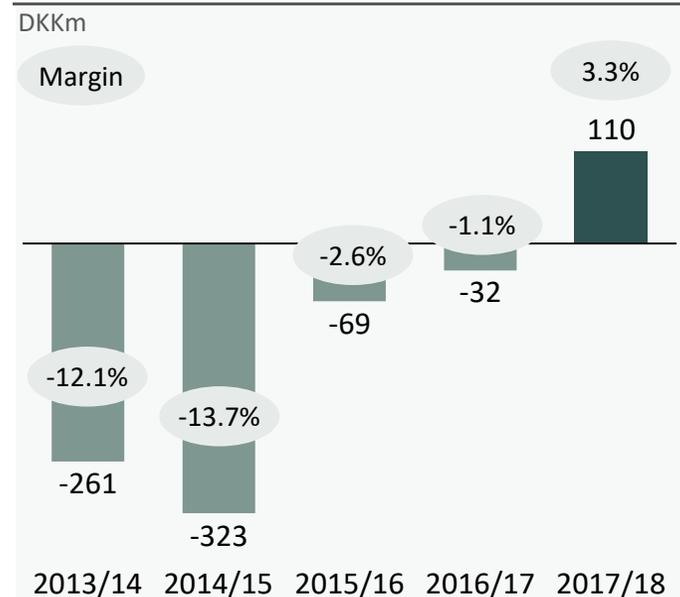
# 2017/18 - A MILESTONE YEAR FOR BANG & OLUFSEN

## REVENUE



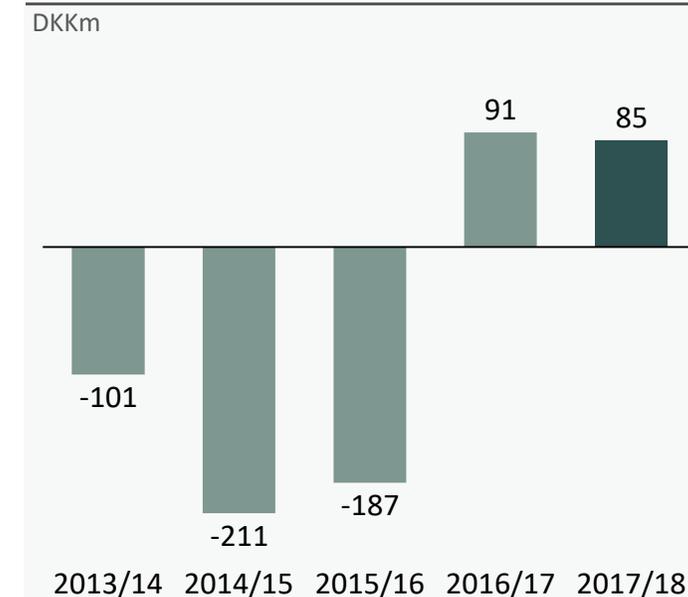
- Third consecutive year with **double digit revenue growth** (11% in 2017/18 and 14% in local currencies)

## EBIT<sup>1</sup>



- **Positive EBIT** underlines turnaround is on track and in line with guidance

## FREE CASH FLOW<sup>2</sup>



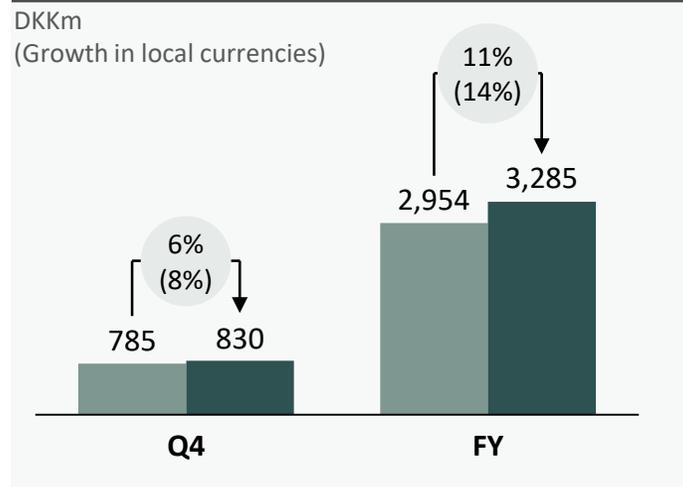
- **Sustainable** positive free cash flow demonstrated

1) Underlying EBIT adjusted for non-recurring and aperiodic items; 2) Underlying free cash flow adjusted for non-recurring and aperiodic items

# FINANCIAL HIGHLIGHTS – Q4 AND FY

2016/17  
2017/18

## REVENUE



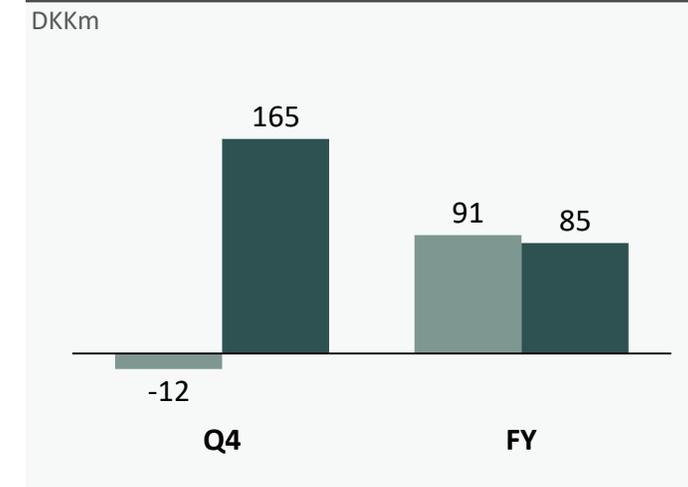
- Revenue in line with guidance
- Growth impacted by **ongoing transformation** of the retail distribution

## EBIT<sup>1</sup>



- Profitability **significantly improved** driven by:
  - Gross margin improvement
  - New operating model starting to pay off

## FREE CASH FLOW<sup>2</sup>



- Free cash flow **driven by positive earnings** and decrease in NWC
- NWC build-up (DKK 73m compared to 2016/17) resulted in lower free cash flow than last year

1) Underlying EBIT adjusted for non-recurring and aperiodic items; 2) Underlying free cash flow adjusted for non-recurring and aperiodic items

# REVENUE DEVELOPMENT

## REVENUE SPLIT

DKKkm	Q4				FY			
	2017/18	2016/17	Δ (%)	Δ LC (%) <sup>1</sup>	2017/18	2016/17	Δ (%)	Δ LC (%) <sup>1</sup>
<b>Group</b>	830	785	+6%	+8%	3,285	2,954	+11%	+14%
<b>Business units</b>								
Bang & Olufsen	435	471	-8%	-5%	1,737	1,718	+1%	+4%
B&O PLAY	395	314	+26%	+28%	1,549	1,236	+25%	+28%
<b>Regional</b>								
Europe	388	431	-10%	-9%	1,679	1,681	-0%	+1%
Greater China	153	104	+47%	+60%	589	412	+43%	+55%
North America	110	109	+1%	+7%	402	367	+10%	+17%
RoW	179	141	+27%	+27%	615	495	+24%	+24%
<b>Sales channels</b>								
B1 & Shop-in-shop	570	568	+0%		2,276	2,142	+6%	
TPR & eCom	260	217	+20%		1,009	812	+24%	
<b>Product categories</b>								
B&O PLAY					1,549	1,236	+25%	
Speakers					363	358	+1%	
Audio					266	222	+20%	
TV					853	808	+6%	
Other					255	331	-23%	

1) Growth in local currencies

## COMMENTS

### Business units

- B&O PLAY **drove growth** both in Q4 and FY
- Bang & Olufsen realised **flat growth in Q4** and **modest growth in FY** (both adjusted for divesture and closure of non-performing company-owned stores)

### Regional

- Q4 and FY impacted by ongoing **transformation of mono- and multibrand retail distribution** in Europe
- Strong **growth momentum in Greater China** in both Q4 and FY driven by B&O PLAY. Ongoing transformation of mono- and multibranded retail network during FY and onwards
- Q4 and FY impacted by **reset of organisation and monobrand distribution** in North America

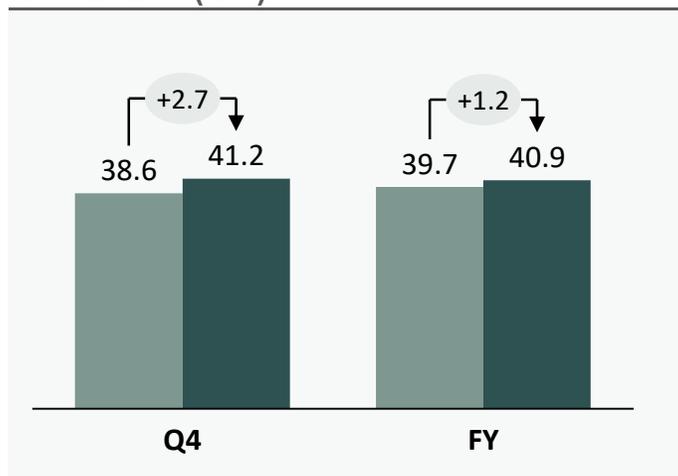
### Sales channels

- Q4 and FY impacted by **focus on strengthening the monobrand (B1 and Shop-in-shop) channel** (net closure of 61 stores)
- TPR & eCom (multibrand) delivered strong growth driven by B&O PLAY and a pick-up in sales through department stores, airport retail andetailers

# GROSS MARGIN DEVELOPMENT

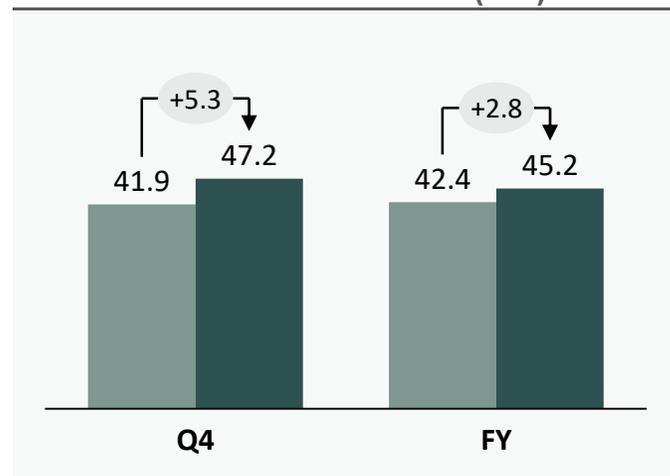
2016/17  
2017/18

## GROUP (%)<sup>1</sup>



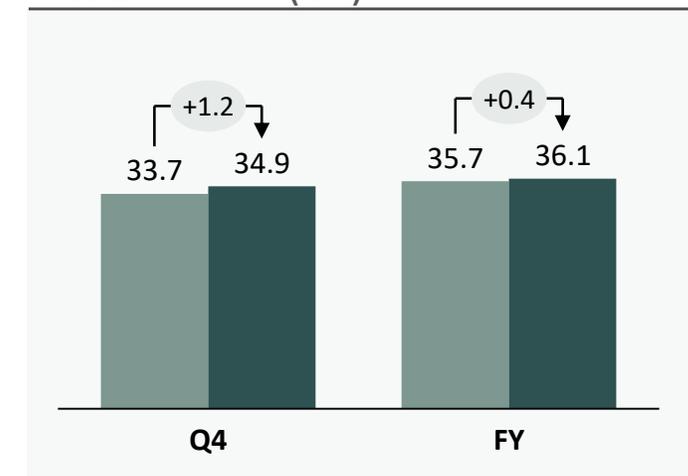
- Pick-up driven by:
  - Favorable development in both business units
  - Overall improvement of product profitability and mix
  - Brand partnering

## BANG & OLUFSEN (%)<sup>1</sup>



- Significant improvement driven by:
  - Increased product profitability (especially on TVs)
  - Favorable product mix development

## B&O PLAY (%)<sup>1</sup>



- Improvement driven by:
  - Higher volumes
  - Supply chain scalability
- Adversely impacted by channel clean-up in Europe

<sup>1</sup>) Underlying business has been adjusted for non-recurring and aperiodic items

# CAPACITY AND DEVELOPMENT COSTS

## OVERVIEW OF CAPACITY AND DEVELOPMENT COSTS

DKKm	Q4				FY			
	2017/18	2016/17	Δ (abs)	Δ (%)	2017/18	2016/17	Δ (abs)	Δ (%)
<b>Capacity costs</b>	287	387	-100	-26%	1,240	1,295	-55	-4%
<i>% of revenue</i>	34.6%	49.3%			37.7%	43.8%		
<b>Capacity costs, underlying<sup>1</sup></b>	286	301	-15	-5%	1,234	1,208	+26	+2%
<i>% of revenue</i>	34%	38%			38%	41%		
<b>Capacity cost split<sup>1</sup></b>								
Development	71	107	-36	-33%	401	386	+15	+4%
Dist. and marketing	189	170	+19	+11%	729	725	+4	+1%
Administration	26	24	+2	+9%	104	98	+6	+6%
<b>Development costs break-down</b>								
Incurring dev. costs before capitalisation	53	132	-79	-60%	288	361	-73	-20%
Net effect of capitalisation and amortisations	18	(2)	+20		113	48	+65	
<b>Development costs in P&amp;L</b>	<b>71</b>	<b>107</b>	<b>-36</b>	<b>-33%</b>	<b>401</b>	<b>386</b>	<b>+15</b>	<b>+4%</b>
<i>Capitalisations (%)</i>	22%	53%			37%	48%		

1) Underlying business has been adjusted for non-recurring and aperiodic items

## COMMENTS

### Capacity costs

- Decreasing incurred development costs as % of revenue as a result of new operating model
- Underlying capacity costs increased in absolute terms (DKK 26m) driven by:
  - Distribution and marketing due to a high level of campaign activity and marketing in B&O PLAY
  - Digitalisation spend

### Development costs

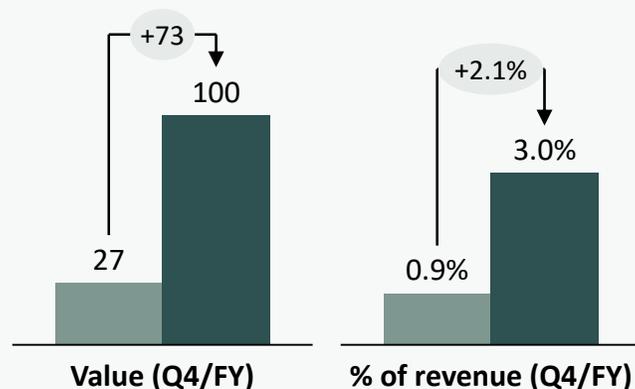
- Development costs increased due to significantly lower capitalisations, while amortisations remained high in the first 9 months of FY

# NET WORKING CAPITAL, CAPEX AND FREE CASH FLOW

2016/17  
2017/18

## NET WORKING CAPITAL

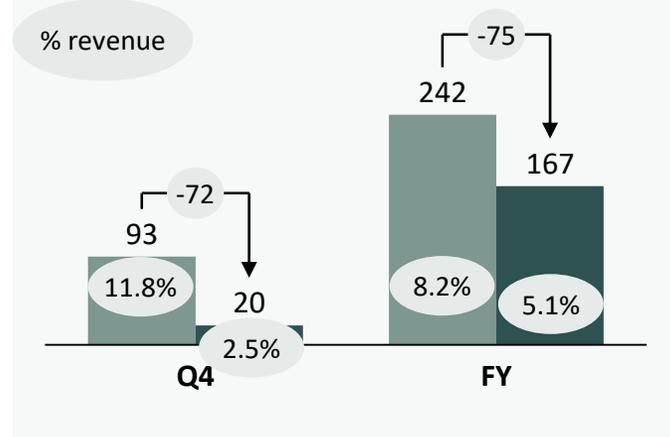
DKKm



- **Increased** net working capital compared to 2016/17 driven by increased trade receivables mainly due to higher sales

## CAPEX

DKKm



- **Decreasing capex** spend (compared to last year) as a **consequence of new operating model** with product development through partnerships
- Significant investments in product development focusing on new innovative and progressive products

## FREE CASH FLOW<sup>1</sup>

DKKm

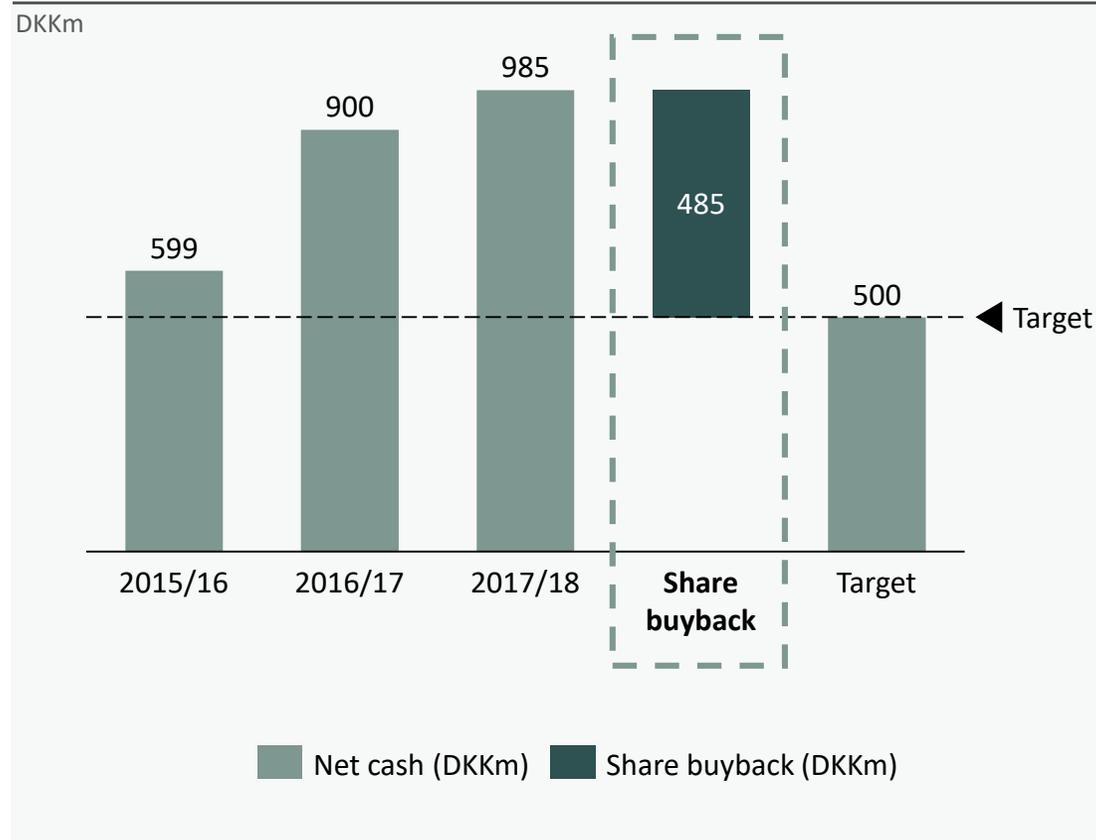


- **Positive free cash flow in FY** despite increased net working capital level compared to last year
- Q4 impacted by decrease in net working capital (DKK 121) compared to previous quarter

<sup>1)</sup> Underlying business has been adjusted for non-recurring and aperiodic items

# CAPITAL STRUCTURE AND DISTRIBUTION TO SHAREHOLDERS

## NET CASH POSITION



## NET CASH POSITION

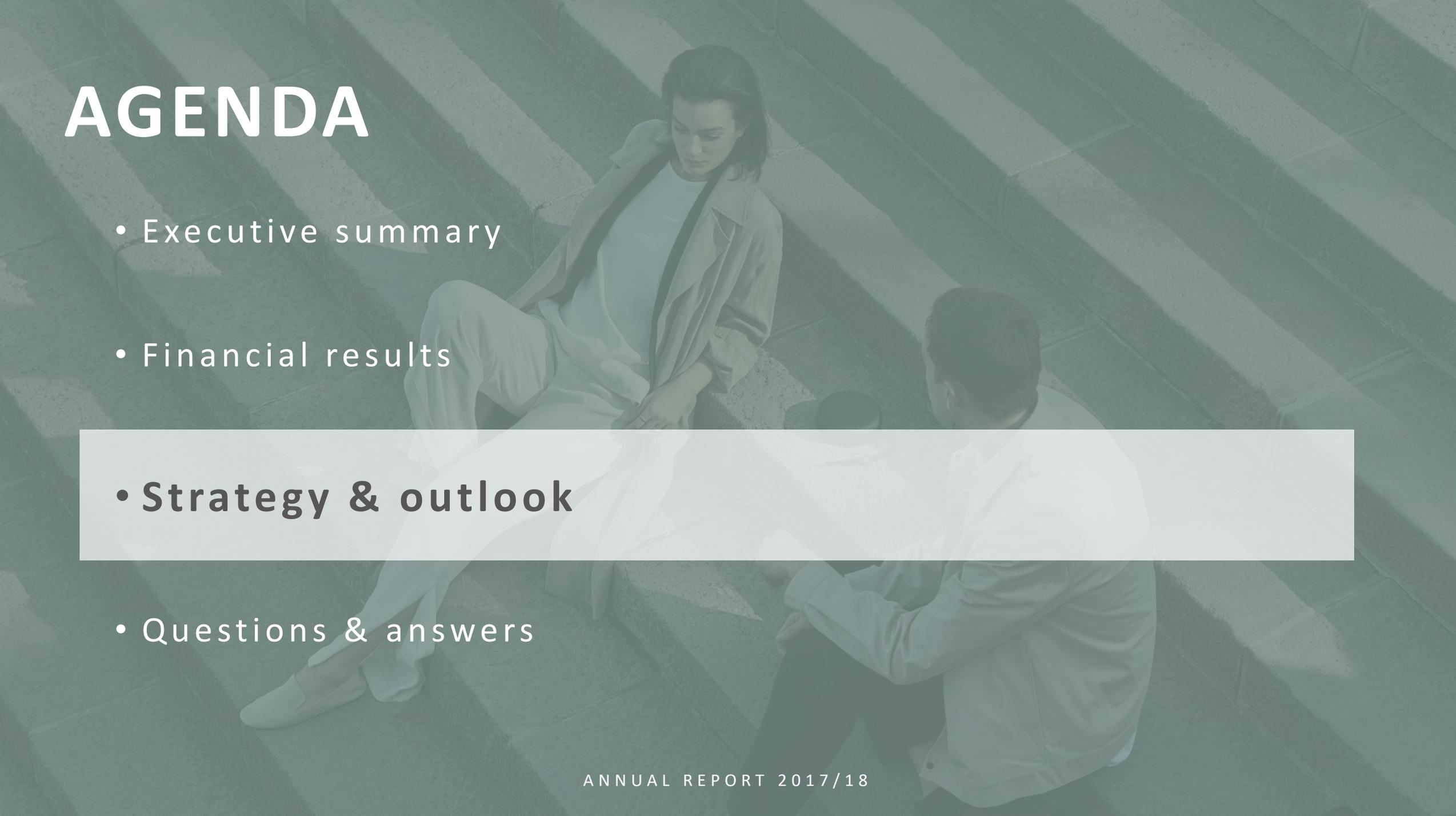
### Capital structure target

- Net cash position of minimum DKK 500m (DKK 985m in 2017/18)

### Distribution to shareholders

- Bang & Olufsen will initiate a share buyback programme of DKK 485m (subject to approval at the annual general meeting)
- The purpose of the share buyback programme is to adjust the capital structure and distribute excess capital to shareholders

# AGENDA



- Executive summary

- Financial results

- **Strategy & outlook**

- Questions & answers

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# LOOKING AHEAD

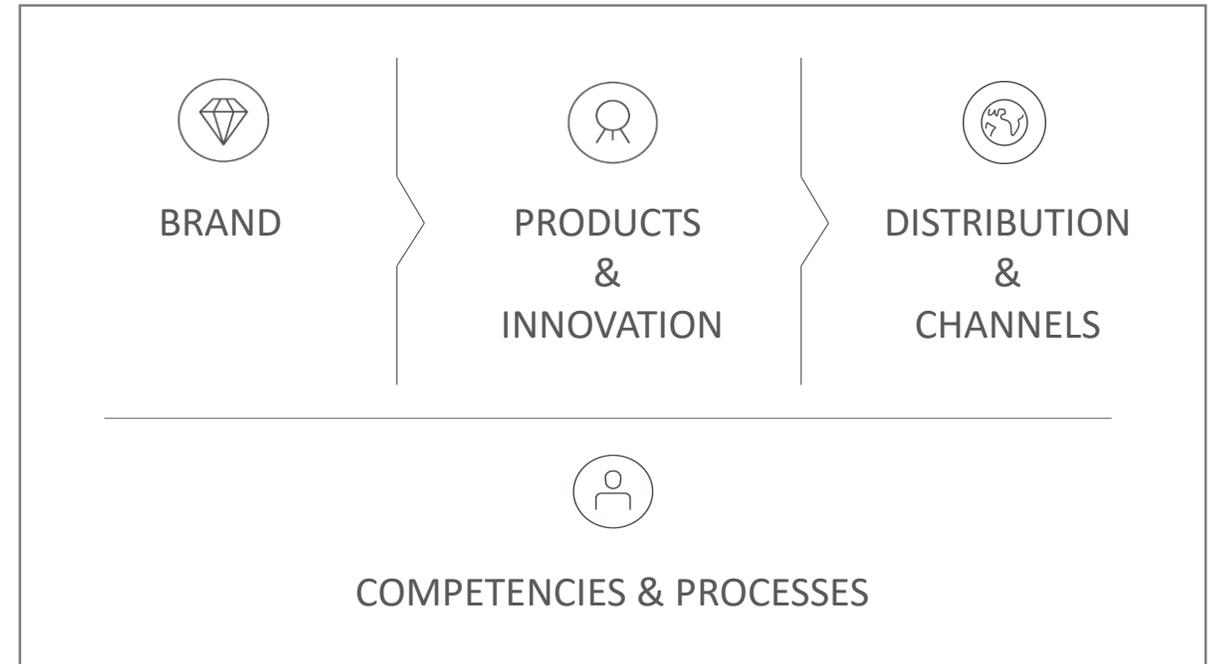
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## VISION

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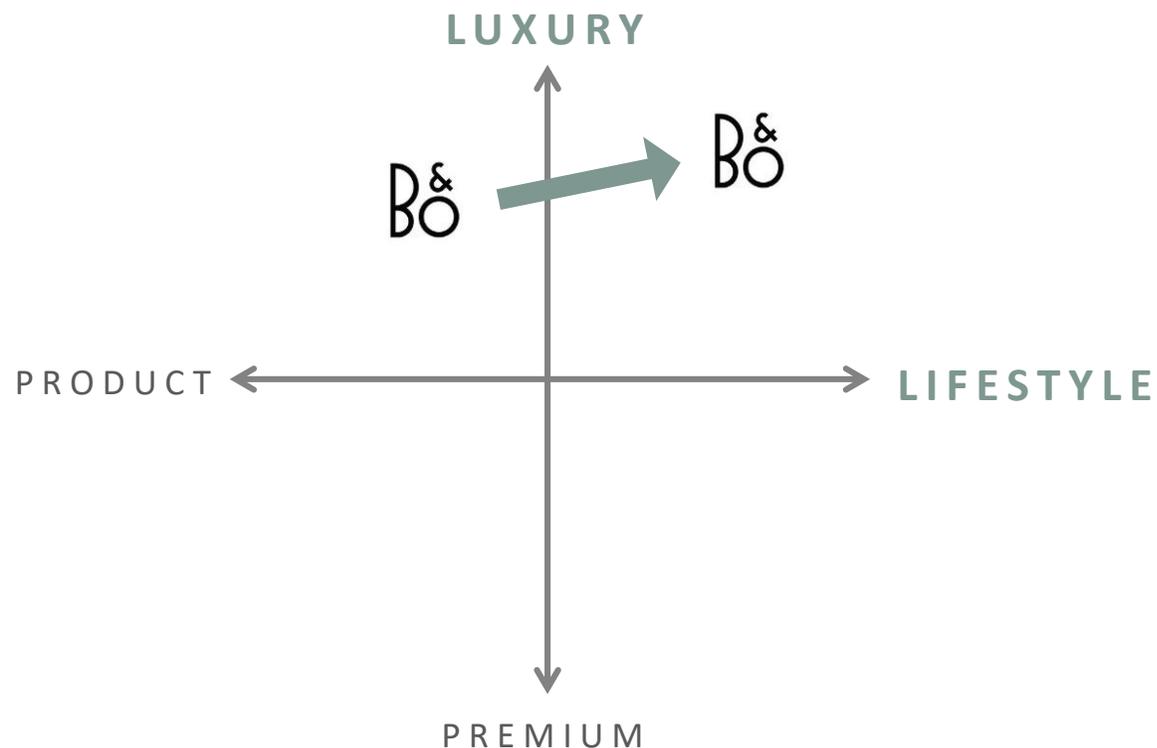
**BECOME THE  
MOST DESIRED  
AUDIO BRAND IN  
THE WORLD**

## STRATEGIC THEMES



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# BRAND POSITIONING



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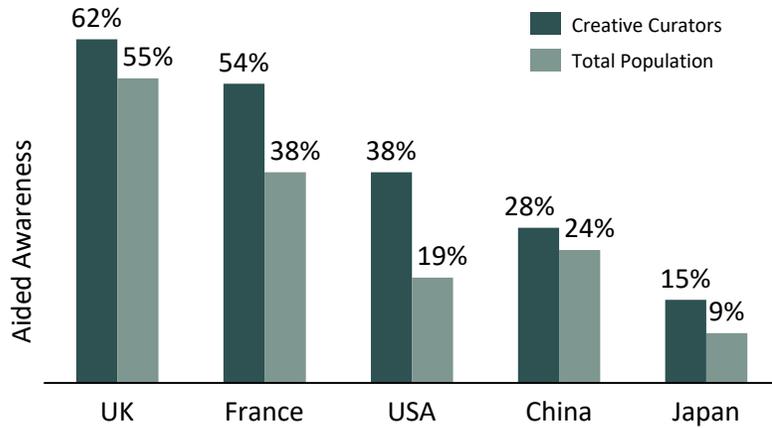
## LUXURY-LIFESTYLE

- Placing the customer experience at the center of technology
- Ensuring meticulous attention to detail in products and customer experience

# BRAND INSIGHTS

## AWARENESS

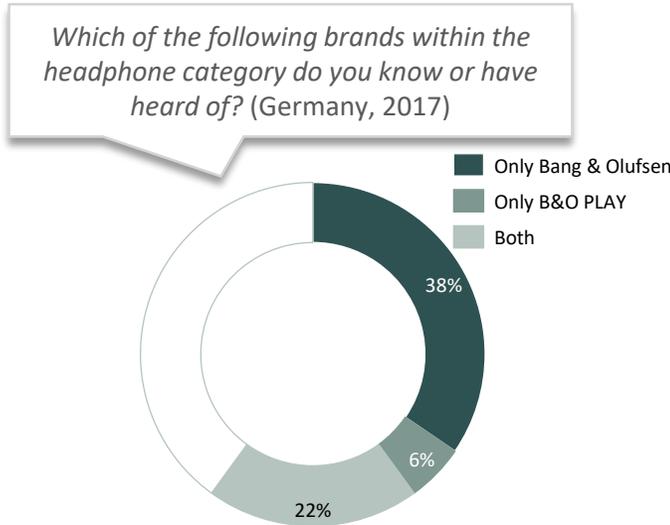
- Higher aided brand awareness with the target audience of creative curators than the general population
- Significantly higher brand awareness in Europe than in other key markets



Source: annalect brand awareness study 2018

## ONE BRAND EQUITY

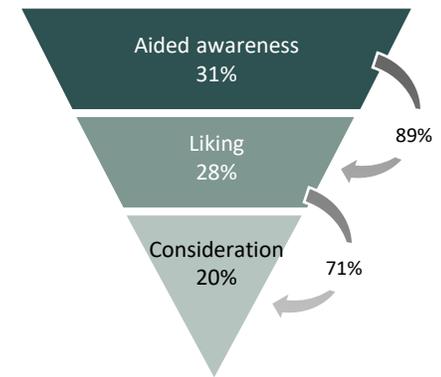
- The two business units have supported a common brand equity
- Consumers do not perceive a difference between Bang & Olufsen and B&O PLAY



Source: annalect brand awareness study 2017 (Germany)

## BRAND AFFINITY

- Creative Curators have high affinity for the brand (i.e. if they know it, they tend to like it)
- Those who know the brand, also have a high likelihood of considering Bang & Olufsen if they buy a product



Source: annalect brand awareness study 2018  
Note: Speakers Category, (Average of 5 key markets surveyed)

# EXECUTING AS ONE BRAND

FROM ...

BANG & OLUFSEN



- Achieving Established Families
- Urban Creative Professionals

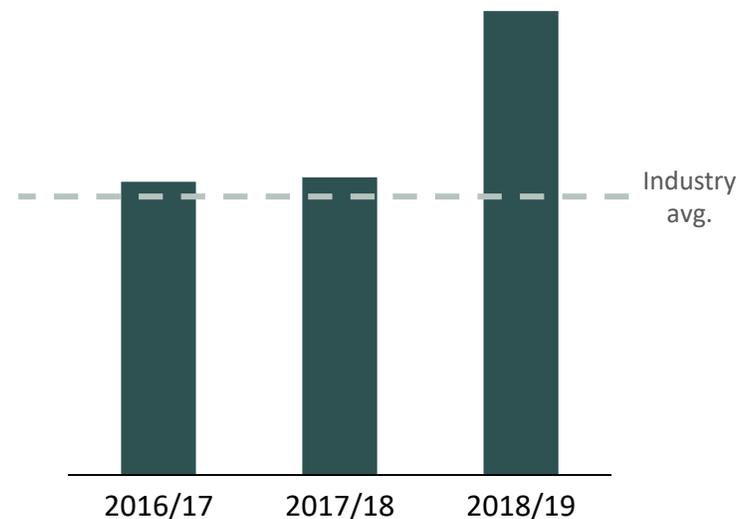
... TO

BANG & OLUFSEN

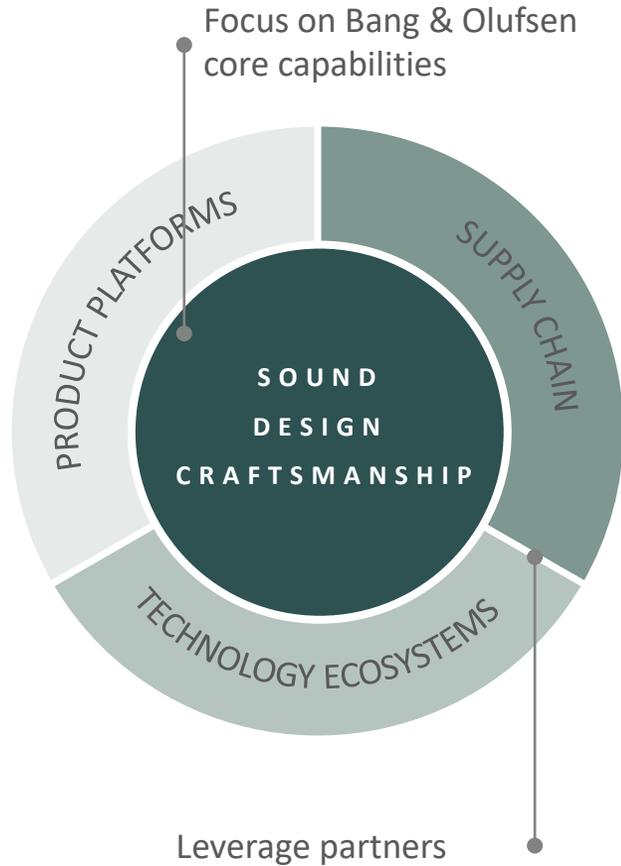
Creative Curators:

- Prioritise curated experiences
- Appreciate the added value of superior sound, design and craftsmanship
- Live predominantly in urban areas

Supported by an increase in marketing spend (% of revenue)

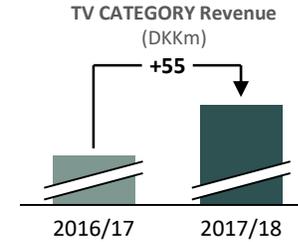


# OPERATING MODEL



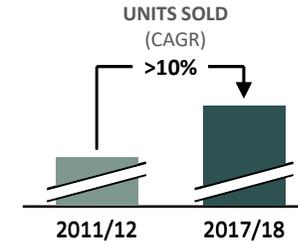
## A PROVEN CASE

BeoVision Eclipse



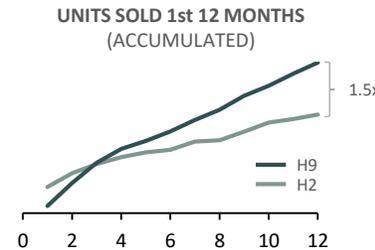
Focus on core capabilities and leveraging leading technology partners create unique customer experiences

Beoplay A9



Iconic products, leveraging global ecosystems and strong lifecycle management creates long term growth

Beoplay H9i



Creative curators value luxury-lifestyle experience over price point

BeoSound Shape



...and many more

Progressive products can be created with a fully outsourced, global supply chain

# THREE USE CASES & KEY FOCUS

## ON-THE-GO

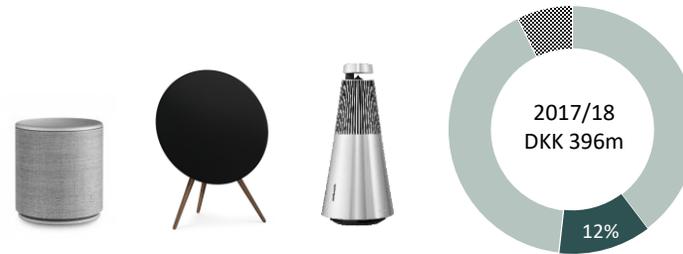
Products that are mobility based, built around nomadic use cases. This includes both immersive and social experiences



- 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

## FLEXIBLE LIVING

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



- True manifestations of the core capabilities of sounds, design and craftsmanship
- Emphasise multiroom position based on global ecosystems
- Expand distribution of selected products to relevant on- and offline channels

## 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

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# BRAND PARTNERSHIPS AND COLLABORATIONS

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## PARTNERSHIPS

Awareness  
Technology  
Licensing

E.g.

HP

HARMAN

LG



An integrated part of the  
business model

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## COLLABORATIONS

Awareness  
Brand equity amplification  
Distribution

E.g.

SAINT LAURENT

DAVID LYNCH

SUPREME

# RETAIL DEVELOPMENT

## PURPOSE

## INSIGHTS

## CHANGE



### MONOBRAND

- Give the full brand experience
- Cater for customers already familiar with the brand and special customer requests
- Expose new customers to luxury-lifestyle brand execution

The best quartile of monobrand stores are characterised by a location in...



...population density



...traffic passing by the store



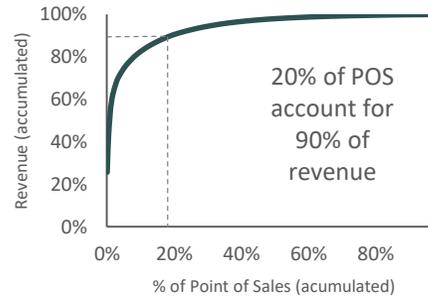
...close to related retail

- Ensure consistency in customer experience
- Location transition to high-traffic, urban areas close to related retail
- Build a cluster focused retail setup with professional partners

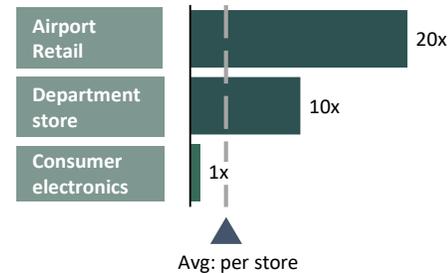


### MULTIBRAND

- Manifest the brand and build brand equity to target customers
- Attract new customers in high street locations
- Drives sales volume



Revenue per store



- Ensure consistency in customer experience
- Transition channel focus to luxury-lifestyle (e.g. department stores, strong consumer electronic retailers, airport stores etc.)



### ONLINE

- Meeting the customers in their own space and time
- Support the customer journey across all omnichannel touchpoints
- Develop the brand's digital interface and experience

78% of consumers research online before buying luxury goods on- or offline<sup>1</sup>

eTail revenue accounts for >30% of Bang & Olufsen multibrand revenue in selected markets

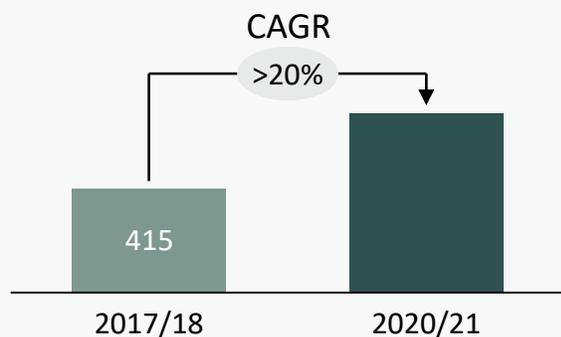
<sup>1</sup> Source: McKinsey research

- Strengthen internal eCom capabilities
- Introduce new eCom platform in Spring 2019
- Facilitate omnichannel features and functionality

# MARKET FOCUS

## AMERICAS

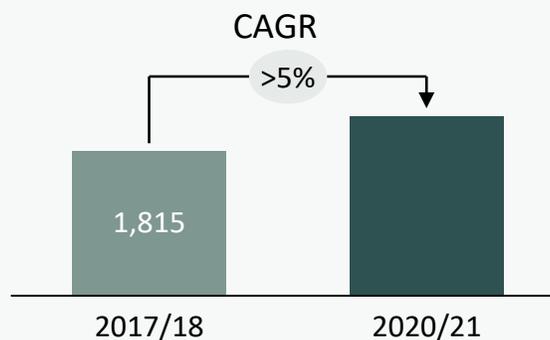
(DKKm)



- Build brand presence in key urban areas, starting with New York and the West Coast
- Leverage brand partnerships to build awareness
- Drive online business through a combination of own eCom and eTailers

## EMEA

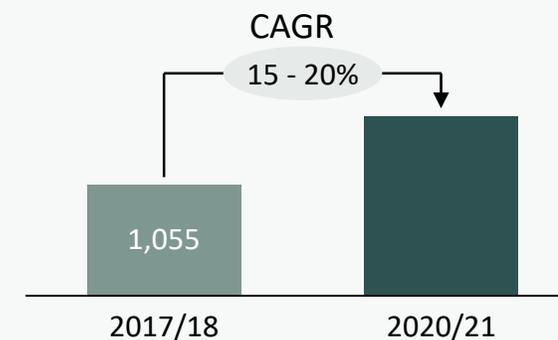
(DKKm)



- Establish and grow strong clusters of stores in key urban areas
- Enhance consistency across mono- and multibrand retail on- and offline
- Drive company-owned eCom platform

## ASIA

(DKKm)



- Grow key countries – particularly in China and Japan – through strong partnerships
- Operate competent and focused local organisations to ensure brand experience and partner support
- Manage online growth through local dominant eTail players

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# COMPETENCIES & PROCESSES



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## DIGITAL TRANSFORMATION

- Strengthen brand experience in consumer-facing touchpoints (app, web etc.)
- Ensure consistency in product and technology (UI/UX)
- Modernise Group IT infrastructure (Insights, Architecture, Automation etc.)



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## GLOBAL SUPPLY CHAIN

- Optimise processes to reflect the changed operating model
- Globalise logistics set-up to mirror growth regions
- Further digitalise supply chain platform to improve end-to-end processes



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## ENHANCE CAPABILITIES

- Product creation and design
- Brand and retail execution
- Customer insights and experience
- Digitalisation

# 3 YEAR FINANCIAL TARGETS

		2017/18 ACTUAL	2020/21 TARGET
REVENUE	Group	(DKKm) 3,285	>10% CAGR
	• EMEA	1,815	>5% CAGR
	• Asia	1,055	15 – 20% CAGR
	• Americas	415	>20% CAGR
EBIT	Group (margin)	3% <sup>1</sup>	>15%
FCF	Group (% of revenue)	3%	>10% of revenue

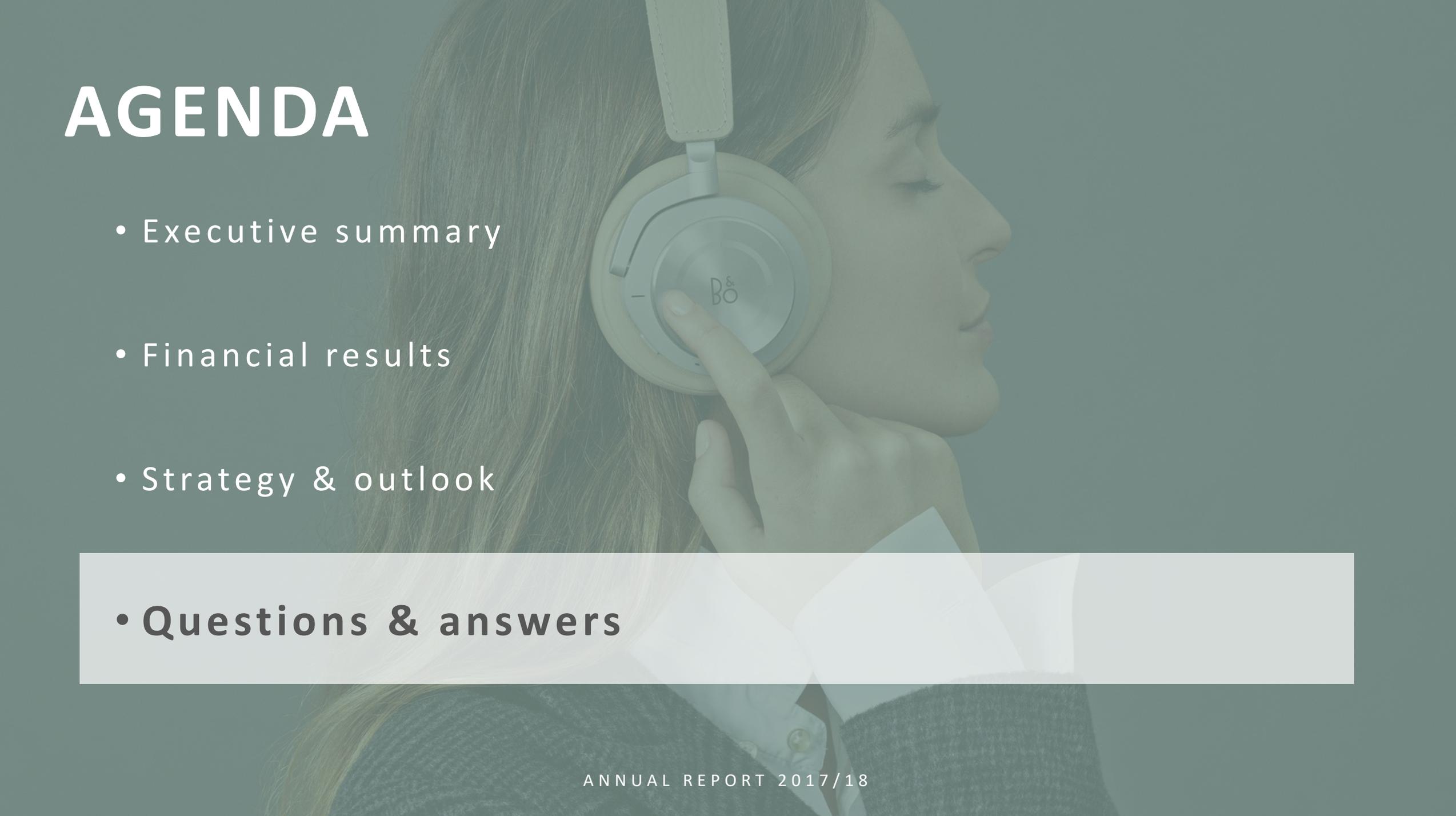
*1) Underlying figures adjusted for non-recurring and aperiodic items*

# OUTLOOK 2018/19

		2017/18 OUTLOOK	2017/18 REALISED	2018/19 OUTLOOK	COMMENT
REVENUE	Group	> 10%	11%	>10%	<b>H1 impacted by distribution transformation</b>
	• EMEA	-	-	>5%	Modarate growth in Europe and higher growth in rest of EMEA
	• Asia	-	-	>10%	China impacted by transformation of monobrand network
	• Americas	-	-	>20%	Main focus will be New York and the West Coast
	Brand Partnering	DKK 160 -200m	DKK 166m	Moderate growth	Strengthen execution of luxury-lifestyle position
CAP. COST	Group (% of revenue)	-	38%	Same as in 2017/18	Increased spend on distribution and marketing
EBIT	Group margin	Around 3%	3% <sup>1</sup>	7- 9%	Driven by revenue growth and improved gross margin
FCF	Group	Positive	3%	DKK >100m	

1) Underlying figures adjusted for non-recurring and aperiodic items

# AGENDA



- Executive summary
- Financial results
- Strategy & outlook
- **Questions & answers**



# QUESTIONS?





THANK YOU FOR YOUR ATTENTION