

Bang & Olufsen: Interim report Q3 2019/20

Revenue was DKK 613m, equivalent to a decline of 14% in local currencies compared to last year. The EBIT margin before special items was 0.3%, while free cash flow was DKK 39m among others supported by continued improvements of working capital. On 16 March 2020, the company announced a cost reduction programme with a targeted annual savings of DKK 175m, when fully implemented in 2021/22. The outlook is unchanged compared to the adjusted outlook presented in the announcement released on 13 March 2020.

CEO Kristian Teär comments:

“Overall, the third quarter financial performance was in line with our expectations. Despite COVID-19, we only experienced minor constraints on the supply of products in the quarter, and we expect to launch products with minor delays within the fourth quarter. We do, however see that COVID-19 impacts most of our major markets in the coming quarter. Countries are impacted differently, and the sales situation is still very uncertain. We have high engagement from our employees and partners and continue to work hard to keep our business running and adapt to changing market conditions, consumer behaviour and demand.”

Financial highlights Q3 2019/20

- Revenue was DKK 613m (DKK 710m), corresponding to a decline of 13.6% (-14% in local currencies). In total, new product launches supported revenue with approx. 20%. Furthermore, COVID-19 impacted sales negatively in the last part of the quarter in China.
- The gross margin was 43.9% (49.2%), down by 5.3pp and 2.7pp excluding the effect of currency hedges. The decline was primarily related to sales of end-of-life products at lower prices and higher logistics costs.
- EBIT was DKK -1m (DKK 30m) equivalent to a margin of -0.3% (4.2%), impacted by lower revenue and gross margin, partly offset by lower capacity costs. Excluding special items, relating to consultancy services amounting to DKK 3m, EBIT margin was 0.3%.
- Earnings before tax was DKK -3m (DKK 24m). Earnings for the period were a loss of DKK 275m (profit of DKK 15m), which was impacted negatively by an impairment charge related to the deferred tax asset totalling DKK 265m.
- Free cash flow in the quarter was DKK 39m (DKK -13m), driven by positive EBITDA and a strong focus on net working capital development. The cash position was DKK 327m by the end of the quarter.

Follow-up on strategic initiatives

- The company launched the planned products in Q3. The company's supply of products was only marginally impacted as a result of COVID-19. The company sees a higher potential from products launched in Q2 and have implemented initiatives to improve sell-out.
- Store openings and upgrades of in-store presence picked up in Q3.
- Verified sell-out data from European monobrand stores increased to 52% (44% end of Q2). Furthermore, data from monobrand stores in North America and Hong Kong have been validated, representing 60% and 100% of these regions respectively.
- The company has launched a cost reduction programme with a target of reducing costs by DKK 175m annually. The company expects to make a provision for restructuring costs amounting to approx. DKK 30m in the Annual Report of which DKK 3m was included in Q3.

Outlook

The outlook is unchanged compared to what was published in company announcement 19.19 on 13 March 2020.

- Revenue growth (local currencies): Decline by 20-29%
- EBIT margin (excluding special items): Minus 10-15%
- Free cash flow: Negative DKK 200-350m

The outlook has higher uncertainties due to COVID-19.

Strategy update

As communicated on 13 March 2020, the company has postponed the Capital Markets Day originally planned for 3 April 2020. The company will instead provide an update on short-term key strategic priorities and a strategic direction.

The short-term focus is to make Bang & Olufsen profitable again through better sales execution and costs reduction initiatives. Based on a thorough assessment of the company's operation and organisation, as well as feedback from partners and consumers, the company has decided on the below mentioned activities to support the short-term goals.

- **Lean cost base:** The company has identified a cost reduction potential driven by several measures e.g. simplifying the organisation and reducing spend in select areas. The company targets a reduction in costs of DKK 175m in 2021/22, when all cost measures are fully implemented, as communicated on 16 March 2020.
- **Market and consumer prioritisation:** Based on an evaluation of the company's consumer base and geographical strongholds, the company has defined four target consumer segments driving future growth and has decided to win these segments in six specific European countries (Denmark, Germany, Switzerland, UK, France, and Spain) as well as Greater China Region, which is the company's single biggest market. The company has already implemented a re-organisation of the European sales operation to strengthen sales focus for individual distribution channels.
- **Retail transformation:** The company will continue the transformation of its retail network through improved monobrand and multibrand footprint within the focus markets.
- **Strengthen digital execution:** Digital presence remains a key priority to the company. To mitigate the negative effect of temporary store closures and quarantines measures due to COVID-19, the company is implementing short-term initiatives to boost digital sales and execution alongside longer term initiatives focused on solidifying online presence and accelerating commercial traction on own online platform.
- **Brand and Marketing:** The company will re-target brand and marketing activities towards four consumer segments. Marketing efforts will be centralised to win in the six European focus markets and Greater China Region. The company will continue to pursue the position of a luxury brand in the consumer electronics market.
- **Products:** The company wants to strengthen consumer loyalty and repurchase rates. Resources have been earmarked for improvements into the existing portfolio as quality and user experience drive brand stickiness. Furthermore, the company will continue to bring new

innovative and competitive products to the market with technological parity to and differentiation from competition.

- **Brand partnerships:** The company intends to intensify efforts towards existing and potential new brand partnerships.

Based on the strategy update and the potential effects of COVID-19, the company is considering ways to strengthen the capital position.

The company will on 2 April 2020 at 10:00 CEST host a webcast where the financial development for Q3 and the strategic update will be presented. The webcast can be accessed through Bang & Olufsen's investor website, <https://investor.bang-olufsen.com>

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