



BANG & OLUFSEN
INTERIM REPORT Q2 2018/19
8 JANUARY 2019

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AGENDA

A woman with long brown hair is shown in profile, wearing large, light-colored B&O headphones. Her right hand is resting on the ear cup, which has the B&O logo on it. She is wearing a white collared shirt and a dark grey sweater. The background is a solid dark teal color.

- Key highlights
- Financial results
- Outlook
- Questions & answers

Q2 FINANCIAL HIGHLIGHTS

REVENUE

DKK 909m

-9% growth (-7% in local currencies)

- Impacted by transformation of the sales and distribution network and challenges related to the new global monobrand logistics setup

EBIT margin

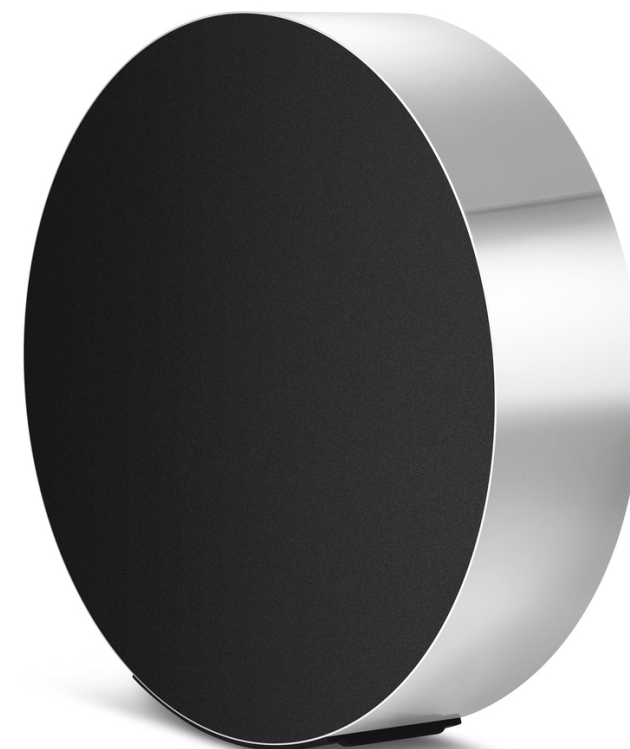
9.9% (Q2 2017/18: 8.3%)

1.6 percentage point improvement

- Agile and asset-light operating model ensured improved EBIT margin

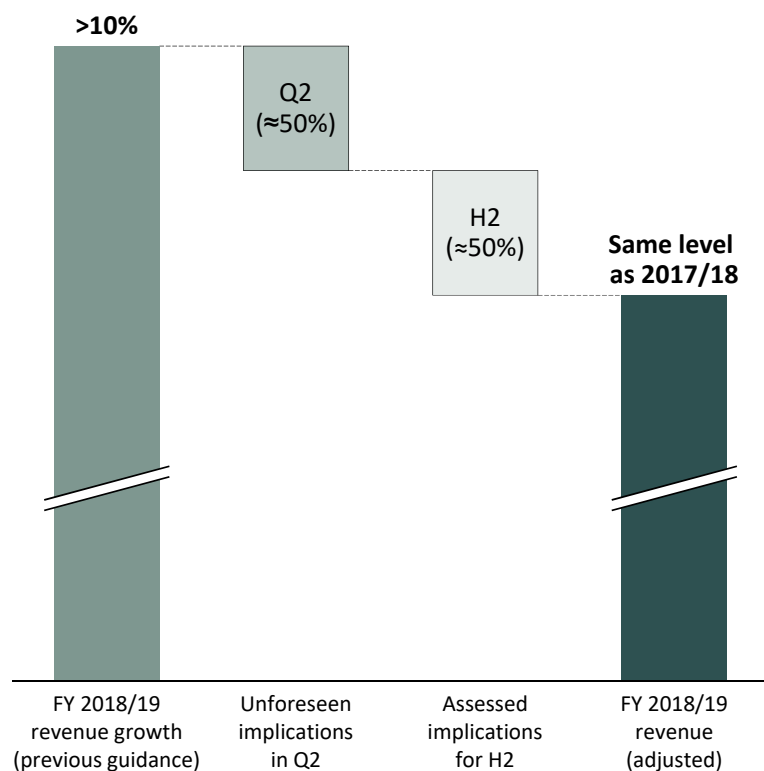
2018/19 outlook

Revenue adjusted



REVENUE GUIDANCE FOR 2018/19 ADJUSTED

DRIVERS OF REVENUE OUTLOOK CHANGE



Q2 2018/19

- Roll-out speed of the new multibrand retail setup was slower than anticipated and the ability to sustain momentum with key partners in the existing setup was weaker than expected
- Outsourced monobrand logistics setup did not establish well-functioning and stable operations, which resulted in delivery issues towards the end of the quarter
- Change of distributor in Australia & New Zealand was more challenging than expected

H2 2018/19

- The issues related to the transformation of the sales and distribution network are also expected to impact H2 – in particular Q3

MULTIBRAND RETAIL DEVELOPMENT

STRATEGY

Q2 DEVELOPMENT

ADDRESSING CHALLENGES

Prioritise luxury-lifestyle retail
(Department stores, travel retail, selected consumer electronics and etailers)

- ✓ Positive reception from all key retailers
- ✓ >1,000 non-performing POS closed, with insignificant revenue impact (est. DKK 4-5m in Q2)
- ✓ Luxury-lifestyle stores have proven to be able to sell Flexible Living products

More branded retail execution
(Shop-in-shops, branded spaces)

- ✓ Branded spaces opened in Q2 sold 7-10x the average of a consumer electronics store in the same period
- ✓ Significant pick-up in revenue per POS which was upgraded from shelf to branded space
- ✗ Speed of opening and upgrading POS has been slower than planned

- Retail off-season opens window for new upgrades and openings again
- Specific POS targeted and agreement entered into with key retailers (Neiman Marcus, Illum, MSH, FNAC and more) across all regions
- Some retailers that opened/upgraded in Q2 have already decided on a further acceleration of their roll-out

Direct POS engagement
(POS development, visual merchandising, training, marketing etc.)

- ✓ Lower cost spend than expected due to weak state of the channel
- ✗ In store presence was generally weaker than expected in current stores
- ✗ Internal focus hampered by mitigation of logistics issues

- Refocused internal on-ground resources to focus across channels
- Strengthened in-house skills on luxury-lifestyle retailing

Leverage distributors
(Logistics and additional services depending on scale and complexity of retailer)

- ✗ Significant decline in buying from 5 key distributors in Q2
- ✗ Ability to drive sales at retail through distributors in the transition was weak

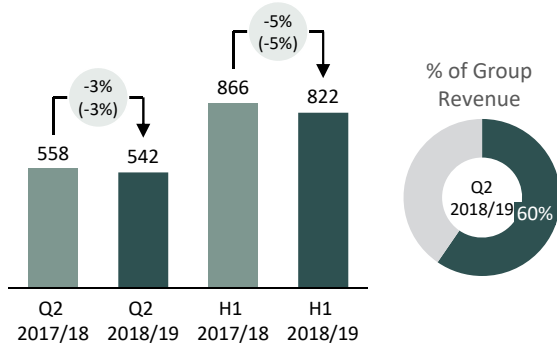
- Future role of the key distributors has now been clarified with partners, resulting in less reluctance and wait-and-see

EMEA – IMPACTED BY TRANSFORMATION



REVENUE

(DKKm)



Q2 HIGHLIGHTS

Revenue

- Multibrand adversely impacted by the transformation of the sales and distribution network
- Monobrand adversely impacted by transition to new logistics setup

Contractual framework

- Roll-out of new monobrand contracts finalised – creating a better foundation for a more consistent customer experience and product merchandising

Stores development

- Extensive reduction of low-performing multibrand stores

LOOKING AHEAD

Direct distribution

- Rolling out direct distribution to key multibrand retail partners

Branded retail execution

- Roll-out of shop-in-shops and branded space throughout the region – targeting department stores, airport retailers and select consumer electronics retailers

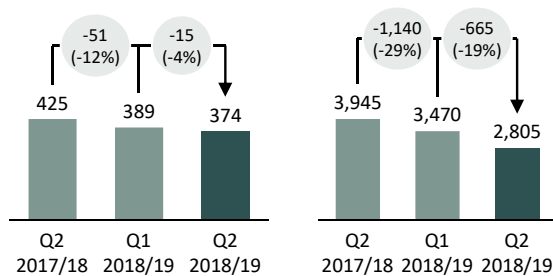
Monobrand execution

- 10+ expected monobrand openings in H2 (i.a. Madrid, Lisbon, Malmö and Courmayeur)

STORES DEVELOPMENT

Monobrand (#stores)

Multibrand (#stores)



SELECT STORE OPENINGS



Pop-up store, Rue des Archives, Paris, France (December 2018)



Pop-up store, Le Bon Marché, Paris, France (October 2018)



Monobrand store, Oviedo, Spain (December 2018)

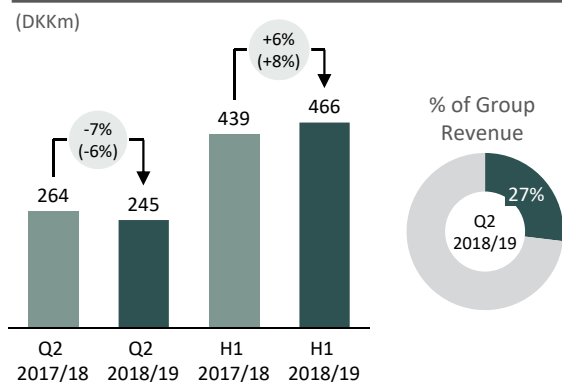


Monobrand store, Verona, Italy (October 2018)

ASIA – GROWTH IN KEY REGIONS



REVENUE



Q2 HIGHLIGHTS

Revenue

- Impacted by the transformation of the sales and distribution network
- Limited revenue in Australia & New Zealand due to change of distributor
- Greater China Region realised double-digit growth
 - ⊘ New partners showing good traction and expanding footprint as expected with 5 monobrand stores opened
 - ⊘ Ongoing online and multibrand focus on creating a more brand-consistent retail experience
- Japan realised double-digit growth

LOOKING AHEAD

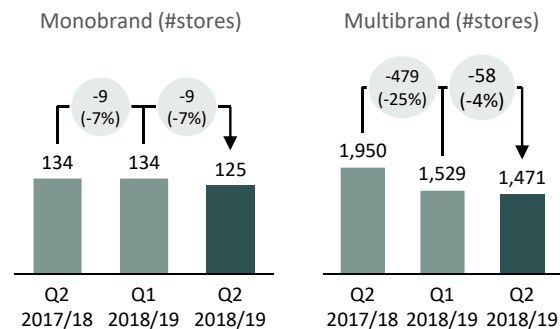
Greater China Region

- 10+ new monobrand stores in H2
- Pop-up stores to boost brand awareness in key luxury malls (i.a. Beijing, Shanghai, Xi'an, Nanjing and Shenyang)
- H2 expected to be adversely impacted by ongoing transition from company-owned to partner-owned monobrand stores

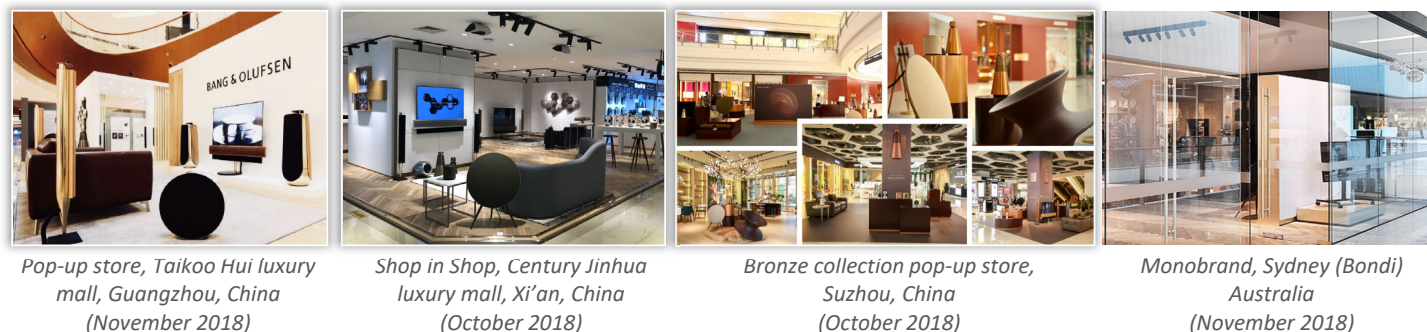
Australia & New Zealand

- Ramp-up in H2 with planned openings of 3-4 monobrand stores (Sydney, Melbourne and Adelaide) and 30+ shop-in-shops and branded spaces

STORES DEVELOPMENT



SELECT STORE OPENINGS

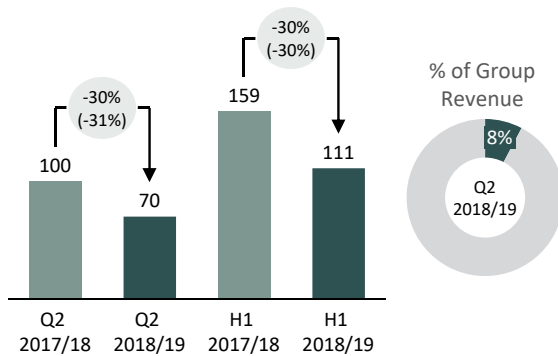


AMERICAS – IMPACTED BY TRANSFORMATION



REVENUE

(DKKm)



Q2 HIGHLIGHTS

Revenue

- Multibrand adversely impacted by the transformation of the sales and distribution network
- Monobrand adversely impacted by transition to new logistics setup
- Custom integrators impacted by rebuild activities
- 10+ new branded spaces opened in department stores such as Neiman Marcus and Holt Renfrew

Stores development

- Extensive reduction of low-performing multibrand stores

South America

- New partner in place for multibrand expansion in South America

LOOKING AHEAD

North America

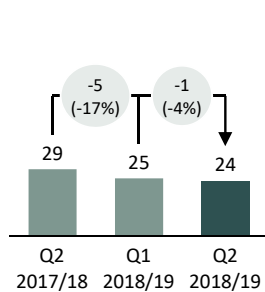
- Opening of flagship store in New York, SoHo and monobrand store in Vancouver
- Continue branded space roll-out at existing and new department stores
- Roll-out pop-up stores across New York
- Rebuild custom integrators and B2B channel in the US together with existing base of 30 partners
- Continue close-down of non-performing multibrand stores

South America

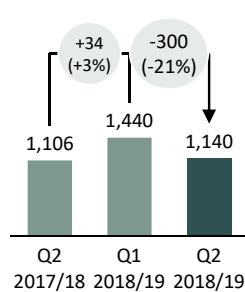
- Onboarding new South American multibrand partner (Q3 ramp-up)

STORES DEVELOPMENT

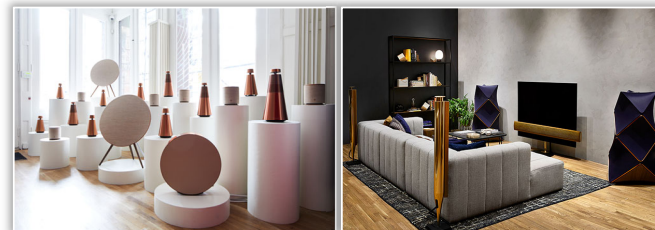
Monobrand (#stores)



Multibrand (#stores)



SELECT STORE OPENINGS



Flagship store (pre-opened as a pop-up), SoHo, New York City, the US (December 2018)



Branded space, Neiman Marcus department store, New York City, the US (November 2018)



Branded space, Holt Renfrew department store, Vancouver, Canada (November 2018)

PRODUCT CATEGORIES PERFORMING AS EXPECTED

STAGED



- Beovision Eclipse, Horizon and Beolab speaker series on par with LY
- Decline in revenue related to products with older, unprofitable product platforms that have been discontinued
- Beolab 50 and Beovision Eclipse launched in a Piano Black edition

FLEXIBLE LIVING



- Beosound Edge, Beoplay A9 and Beosound 1 and 2 were key revenue drivers
- Flexible Living products have been software upgraded to include AirPlay 2
- Beosound 1 and 2 were launched with Google Voice Assistance* and Beosound 1 was launched in a Piano Black edition

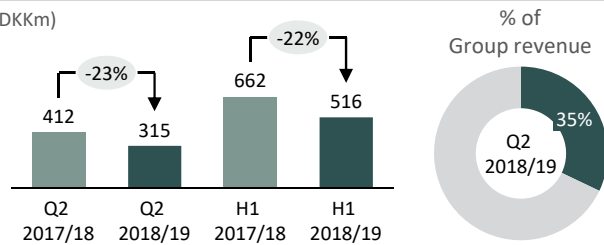
ON-THE-GO



- Key head- and earphone products such as Beoplay H9i, Beoplay E8 and Beoplay E6 are growing, whereas the Bluetooth speakers declined
- Beoplay E8 Pink introduced as a permanent color due to popularity, especially with female customers

REVENUE

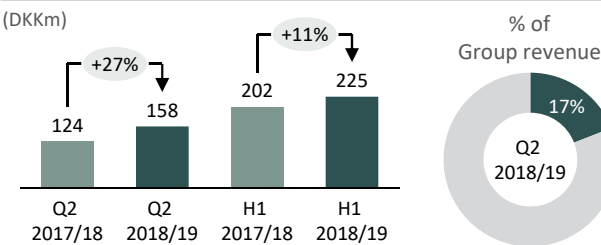
(DKKm)



*Selected markets only

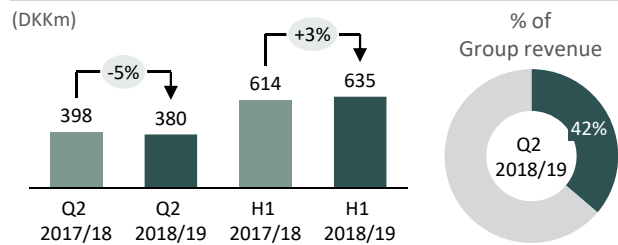
REVENUE

(DKKm)



REVENUE

(DKKm)



AGENDA

- Key highlights

- **Financial results**

- Outlook

- Questions & answers

REVENUE DEVELOPMENT

REVENUE SPLIT

DKKkm	Q2				H1			
	2018/19	2017/18	Δ (%)	Δ LCY (%) ¹	2018/19	2017/18	Δ (%)	Δ LCY (%) ¹
Group	909	999	-9%	-7%	1,510	1,591	-5%	-4%
Region								
EMEA	542	558	-3%	-3%	822	866	-5%	-5%
Americas	70	100	-30%	-31%	111	159	-30%	-30%
Asia	244	264	-7%	-6%	466	439	+6%	+8%
Other	53	77	-32%		111	126	-12%	
Channel								
Monobrand	569	572	-1%		920	902	+2%	
Multibrand	228	317	-28%		388	494	-21%	
Own eCom	12	12			18	19	-5%	
Other	100	98	+2%		184	176	+5%	
Product								
Staged	315	412	-23%		516	662	-22%	
Flexible Living	158	124	+27%		225	202	+11%	
On-the-Go	380	397	-4%		635	614	+3%	
Other	56	66	-15%		135	114	+19%	

1) Growth in local currencies

COMMENTS

Group

- 9% decline (7% in local currencies) vs. LY in Q2
- 5% decline (4% in local currencies) vs. LY in H1

Regions

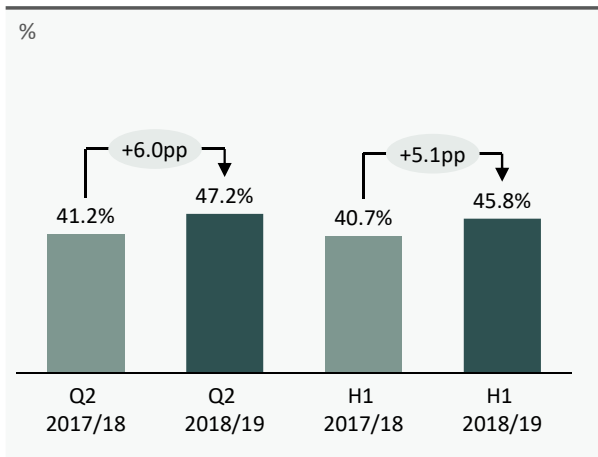
- All regions impacted by the transformation of the sales and distribution network and the logistics challenges
- Brand Partnering was largely unchanged compared to last year
- Other was impacted by aluminium components products for third parties, currency hedges and unallocated items

Channels

- Logistics challenges mainly impacted the monobrand channel, while the transformation of the distribution and sales network mainly impacted the multibrand channel
- Channel mix impacted by DKK 20-25m transferred from multibrand to monobrand

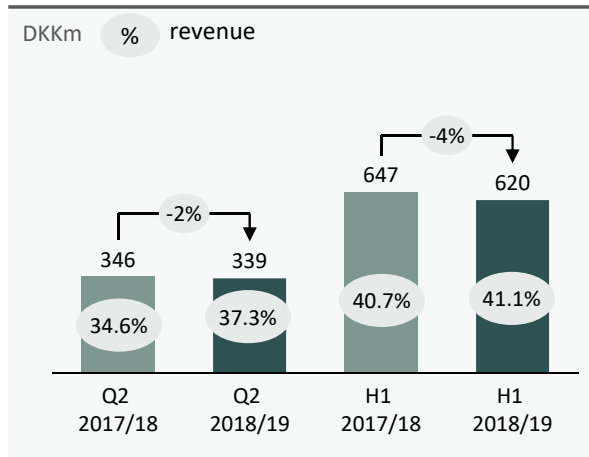
P&L HIGHLIGHTS

GROSS MARGIN



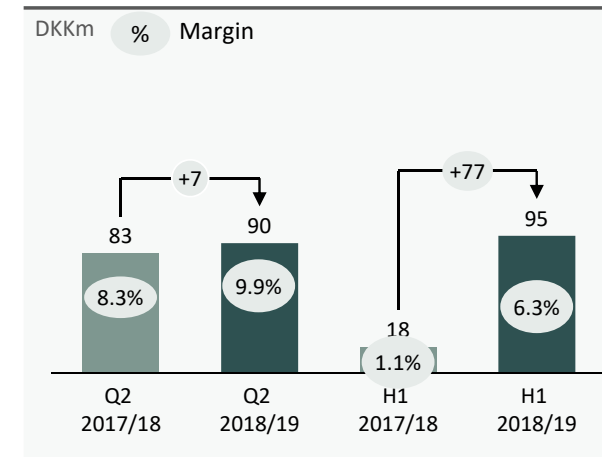
- Significantly gross margin improvement (6.0 percent points) driven by:
 - Improved product profitability
 - Positive currency development
 - Channel mix development

CAPACITY COSTS



- Development costs declined due to changed operating model
- Increase in distribution and marketing costs reflects investment in building brand awareness and in transforming the mono-, multi- and e-commerce channels
- DKK 10m impairment included in administration costs

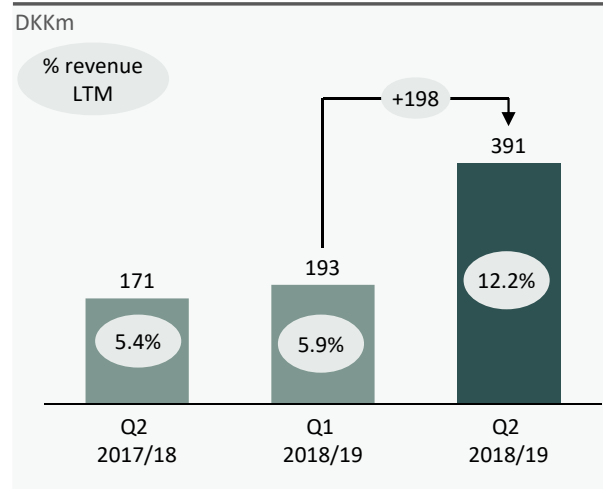
EBIT



- The improved EBIT margin is a result of the agile and asset light operating model that B&O has adapted during the last years
- EBIT margin improvement of 1.6 percentage point driven by:
 - Gross margin improvement
 - Lower development cost

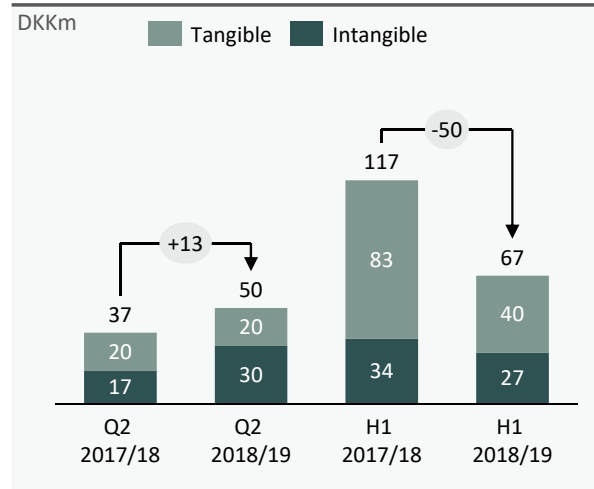
NET WORKING CAPITAL, CAPEX AND FREE CASH FLOW

NET WORKING CAPITAL



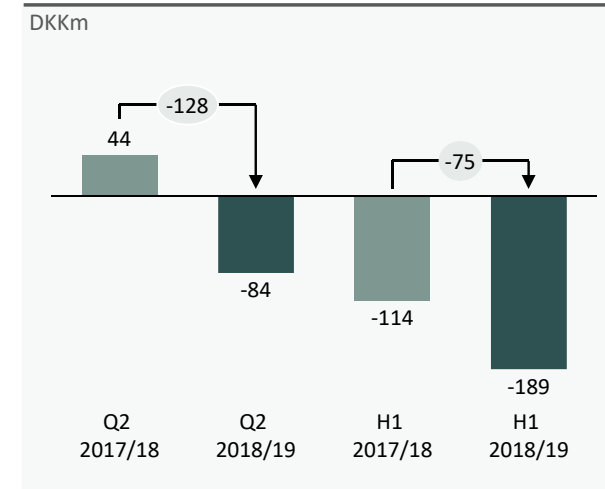
- Net working capital impacted by temporary actions to mitigate the adverse impact from the new logistics setup in Q2, hence higher trade receivables due to short-term extension of credit terms to retailers and seasonality

CAPEX



- Increased capex in Q2 driven by development of new platforms such as e-commerce, and product platforms
- In H1 2017/18, the majority of tangible capex related to modernising the premise, Innovation Lab, in Struer

FREE CASH FLOW



- Free cash flow in Q2 negatively impacted by
 - ⊘ Increased net working capital as a consequence the challenges experienced in the monobrand logistics setup
 - ⊘ Higher capex than LY

AGENDA



- Key highlights
- Financial results
- **Outlook**
- Questions & answers

ADJUSTED GUIDANCE FOR FY 2018/19

		2018/19 OUTLOOK (Prev.)	2018/19 OUTLOOK (Adj.)	EXPECTATIONS
REVENUE	Group	>10%	Same level as 2017/18	Regain growth momentum in H2 2018/19
	• EMEA	>5%	Same level as 2017/18	
	• Asia	>10%	Same level as 2017/18	
	• Americas	>20%	Same level as 2017/18	
	Brand Partnering	Moderate growth	Moderate growth	
CAP. COST	Group (% of revenue)	Same as in 2017/18	Same as in 2017/18	Unchanged
EBIT	Group margin	7- 9%	7-9%	Unchanged
FCF	Group	DKK >100m	DKK >100m	Unchanged

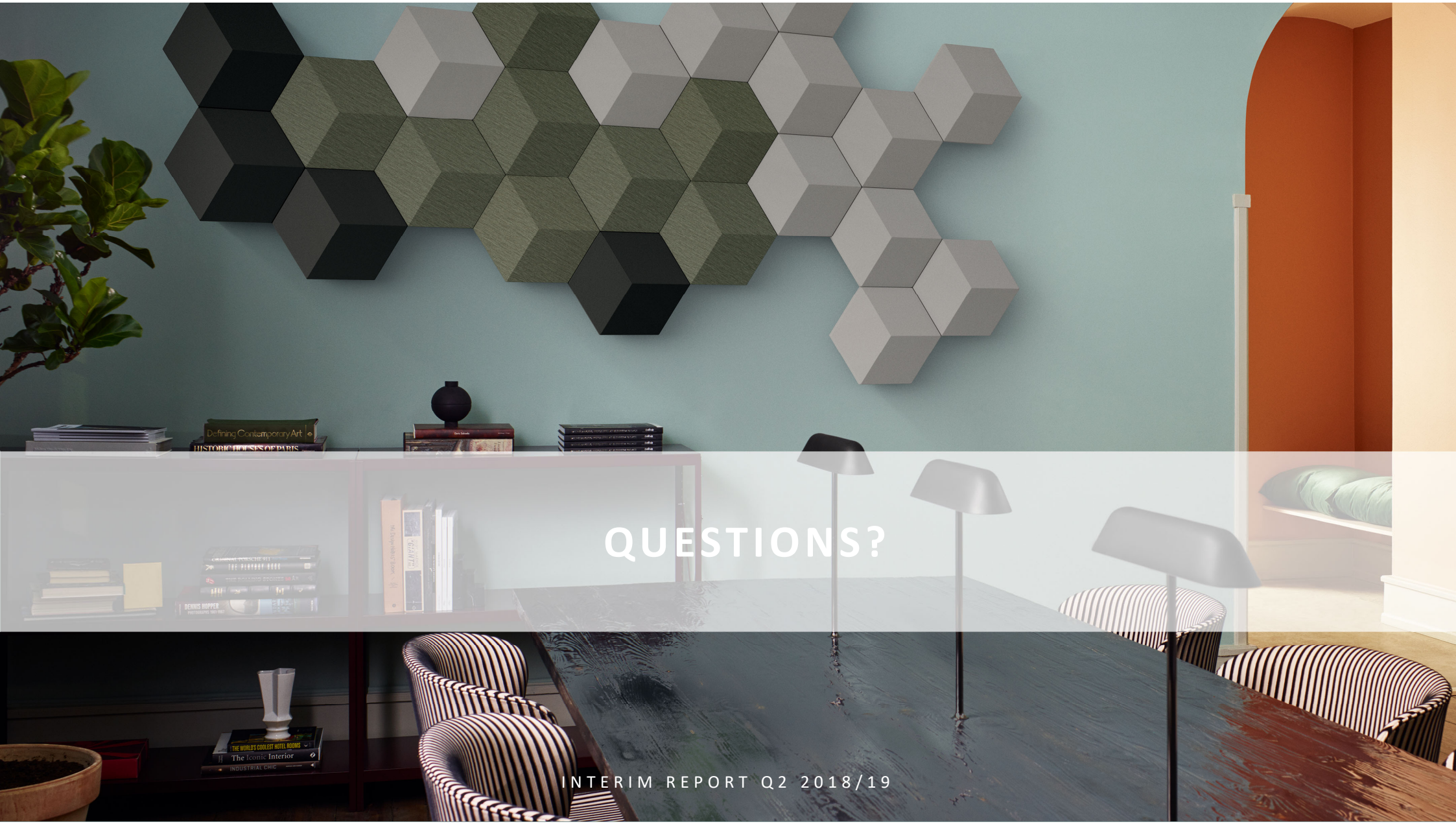
CLOSING REMARKS



AGENDA

- Key highlights
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QUESTIONS?

INTERIM REPORT Q2 2018/19

A woman with blonde hair is shown in profile, looking down. She is wearing large white headphones and a dark jacket over a patterned dress. The background is a solid dark grey color.

THANK YOU FOR YOUR ATTENTION

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