



**BANG & OLUFSEN**  
INTERIM REPORT Q1 2015/16  
30 September 2015

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# AGENDA

HIGHLIGHTS

FINANCIAL RESULTS

OUTLOOK

QUESTIONS AND ANSWERS

# HIGHLIGHTS

- Revenue growth of 17 per cent in the first quarter (10 per cent in local currency), driven by growth in B&O PLAY
- Cost reduction initiatives began to show effect and contributed to a 14 per cent decline in capacity costs compared to the first quarter last year
- Profitability improvement is on track, but remains negative due to seasonality (Q1 is a “small” quarter) as well as from costs for shared functions previously allocated to Automotive of DKK 23 million in the quarter
- Free cash flow was negative DKK 168 million – impacted by earnings and net working capital and one-off items related to the Automotive transaction
- Guidance of revenue growth of 8 – 12 per cent and an EBIT (before costs previously allocated to Automotive) around break-even is reiterated



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# NEW B&O PLAY PRODUCTS LAUNCHED AHEAD OF CHRISTMAS

BeoPlay A6, RCP DKK 7,499



## BeoPlay A6

- Integrates with BeoLink Multiroom to provide bridge from B&O PLAY to Bang & Olufsen
- Stream via AirPlay, DLNA or Bluetooth
- Available in stores from November

## Beolit 15 and BeoPlay A2 new features and colour

- Beolit 15 and BeoPlay A2 launched in "Natural" colour edition.
- Updated software enables wireless pairing of 2 BeoPlay A2 speakers, or 2 Beolit 15 speakers for twice the sound and an impressive stereo experience

## BeoPlay H3 - Active Noise Cancellation

- Based on the design of the popular BeoPlay H3
- Featuring direct and precise sound, unparalleled comfort, air tight fit, and hassle-free device control from the inline remote
- Available in stores from end October

## BeoPlay S3

- A Bluetooth speaker which can be used alone or paired with another speaker to create a wireless stereo system
- Available in selected stores from October

## BeoPlay S8 Connection Hub

- Allows for easy connection of BeoPlay S8 to third party TVs
- Use the remote control from your TV to adjust the volume on BeoPlay S8, as the IR commands from the remote control are learned by the BeoPlay S8 Connection Hub

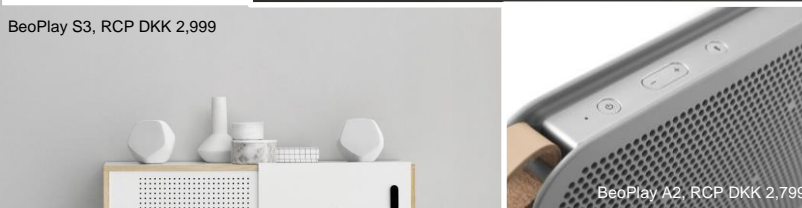
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Connection Hub, RCP DKK 1,499



Beolit 15, RCP DKK 3,799

BeoPlay S3, RCP DKK 2,999



BeoPlay A2, RCP DKK 2,799

# WIRELESS MULTIROOM SOLUTION ROLLED OUT



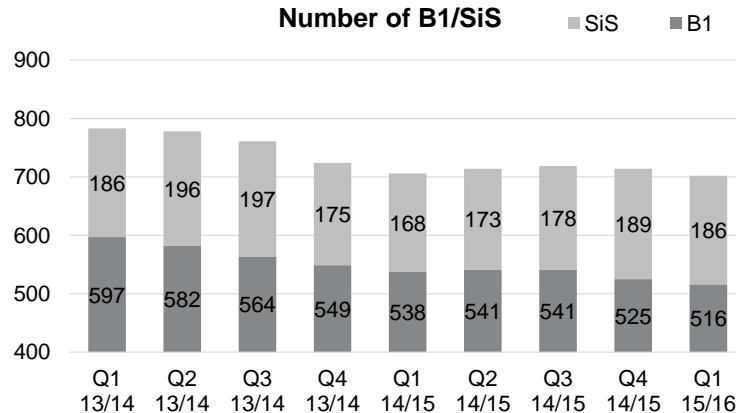
- Multiroom launched in August and is the key focus of the high-season fall campaign
- A real step change in innovation, consumer benefits and commercial opportunities for Bang & Olufsen and B1 retailers
- Bang & Olufsen TVs are part of the experience and can be used as a multiroom audio master or speaker, which differentiates Bang & Olufsen from competitors
- Enables integration between B&O PLAY (from BeoPlay A6 and A9) and Bang & Olufsen products
- The solution currently includes BeoSound Moment, Essence, BeoPlay A9 and Bang & Olufsen TVs
- Backwards compatibility - existing Bang & Olufsen products can be connected to the system. Even iconic audio masters like BeoSound 9000, Ouverture etc.

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# B&O PLAY DISTRIBUTION CONTINUES EXPANSION

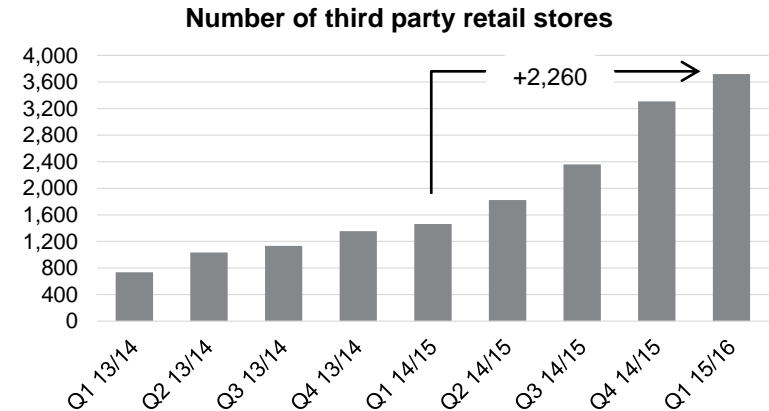
## B1/SiS distribution showed moderate decline

- The net number of B1/SiS showed a decline (-9) in the first quarter. During the quarter, there were 5 B1 openings and 14 closures
- The decline was driven by store closings in Europe and Rest of World
- New stores opening in key cities including Barcelona (June), Beijing (Sept.), Johannesburg (Sept.)



## Third party retail store expansion continues

- The number of third party retail stores is now above 3,700
- The number of TPR stores grew across all regions, especially driven by key markets in Europe
- Estimated store filling effect is DKK 15,000 – 25,000 per store added in the quarter



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# FINANCIAL HIGHLIGHTS

## Key financial figures

DKK million	1st quarter	
	15/16	14/15
<b>Revenue</b>	<b>506</b>	<b>434</b>
Gross profit	153	129
EBIT	-105	-171
<b>EBIT (adj*)</b>	<b>-82</b>	<b>-139</b>
EBT	-118	-174
Earnings after tax (cont. business)	-92	-142
Earnings after tax (disc. business)	6	32
<b>Earnings</b>	<b>-86</b>	<b>-109</b>
Gross margin, %	30.1	29.8
Net working capital	338	777
Free cash flow	-168	-241

\*Excl. cost previously allocated to the Automotive business (DKK 23 million in Q1)

- Revenue growth of 17 per cent in the in the first quarter, corresponding to 10 per cent in local currency
- Gross margin improved compared to the same quarter last year, driven by an improvement in the Bang & Olufsen segment
- EBIT improved to negative DKK 105 million, from negative 171 million last year, but remains unsatisfactory
- Net working capital dropped compared to last year, driven by the sale of the Automotive assets and non-cash adjustments in the fourth quarter, as well as general improvements
- Free cash flow was negative DKK 168 million compared to negative 241 million last year
- Earnings after tax in the discontinued business (ICEpower) was DKK 6 million

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# REVENUE GROWTH DRIVEN BY B&O PLAY

## 17 per cent growth in the first quarter

- Growth of 3 per cent (negative 3 percent in local currency) in Bang & Olufsen. The first quarter last year was positively affected by the BeoVision Avant launch
- Growth of 62 per cent (54 per cent in local currency) in B&O PLAY, driven by growth in all distribution channels

### Revenue by segment

DKK million	1st quarter		Chg.
	15/16	14/15	
Bang & Olufsen	343	333	3%
B&O PLAY	163	100	62%
<b>Group</b>	<b>506</b>	<b>434</b>	<b>17%</b>

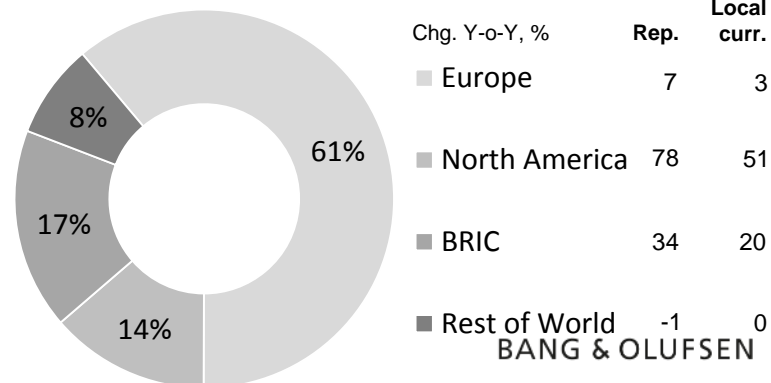
### Revenue by channel

DKK million	1st quarter		Chg.
	15/16	14/15	
B1 and shop-in-shop	411	390	5%
3rd party retail and e-com	95	43	121%
<b>Group</b>	<b>506</b>	<b>434</b>	<b>17%</b>

## Revenue driven by growth in North America and BRIC

- Growth in Europe driven by key markets incl. DK, UK, and DE, and driven by growth through third party channels
- Revenue in North America was driven by growth in selected B1 stores and by growth in sales to custom installers, and a weak first quarter last year
- BRIC revenue increase driven mainly by growth in the Greater China Region through both B1/SiS and third party retail

### Revenue by region



# GROSS MARGINS SHOW MODERATE IMPROVEMENT

## Moderate improvement in Group gross margin

- Bang & Olufsen segment gross margin improved, driven by selected price increases
- B&O PLAY gross margins were adversely impacted by a change in channel and product mix
- Cost for shared functions previously allocated to Automotive were DKK 12 million in the first quarter, corresponding to 2.4 per cent adverse impact on the Group gross margin

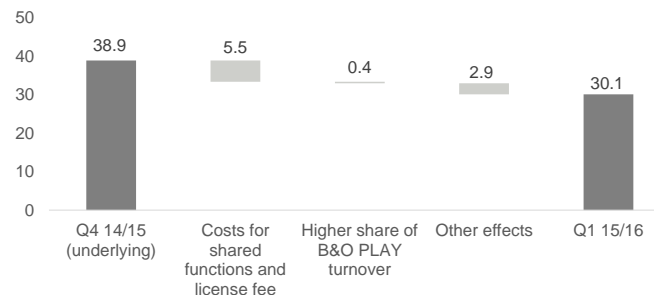
### Gross margin

%	1st quarter	
	15/16	14/15
Bang & Olufsen	32.7	30.9
B&O PLAY	24.8	25.8
<b>Group</b>	<b>30.1</b>	<b>29.8</b>

## Q1 2015/16 margins vs. Q4 2014/15 margins

- Decline in Group gross margin from the last quarter, is mainly a result of license payments and because of costs for shared functions being included in the Group gross margin for the first quarter of 2015/16
- There is seasonality in the gross margins because the revenue in the fourth quarter (Q4 14/15 DKK 695m) is higher than in the first quarter (Q1 15/16 DKK 506m)

### Gross margin



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# COST SAVINGS INITIATIVES BEGIN TO SHOW EFFECT

## Capacity costs reduced by 14 per cent

- Distribution and marketing costs decline due to lower campaign activity, lower costs related to company owned stores and general savings across the Group
- Capacity costs include DKK 11 million in cost previously allocated to discontinued operations

Capacity costs		
DKK million	1st quarter	
	15/16	14/15
Development	72	89
Dist. and marketing	166	191
Administration	20	21
<b>Total cap. costs</b>	<b>258</b>	<b>300</b>

## Development costs positively affected by restructuring

- Development costs positively impacted by the previously announced restructuring (12 March 2015)
- Strong pipeline of new products in both the Bang & Olufsen and B&O PLAY segments
- Negative P&L impact of DKK 10 million from higher amortisations than capitalisations vs. a negative impact of DKK 8 million in the same quarter last year

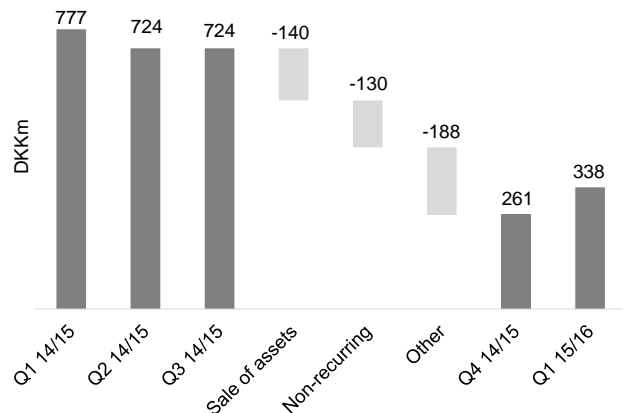
Development costs		
DKK million	1st quarter	
	15/16	14/15
Incurred development costs before capitalization	62	81
Net effect of capitalizations and amortisations	10	8
<b>Development costs in P&amp;L</b>	<b>72</b>	<b>89</b>
Capitalization (%)	49.6%	48.4%

# FREE CASH FLOW NEGATIVE AS EXPECTED IN Q1 BUT IMPROVED COMPARED TO LAST YEAR

## Net working capital increased compared to Q4

- The net working capital increased to DKK 338 million at the end of the first quarter from DKK 261 million in the previous quarter
- Lower payables impacted net working capital

### Net working capital by quarter



## Seasonally low free cash flow

- The free cash flow was negative in-line with normal seasonality
- Negative free cash flow driven equally by negative earnings and increase in net working capital
- Free cash flow improved by DKK 73 million compared to the first quarter last year

### Cash Flow

DKK million

	1st quarter	
	15/16	14/15
<b>Earnings for the period</b>	<b>-86</b>	<b>-109</b>
Net working capital related	-74	-120
Other	41	64
<b>Cash flow from oper. activities</b>	<b>-119</b>	<b>-165</b>
Cash flow from investing activities	-49	-76
<b>Free Cash Flow</b>	<b>-168</b>	<b>-241</b>

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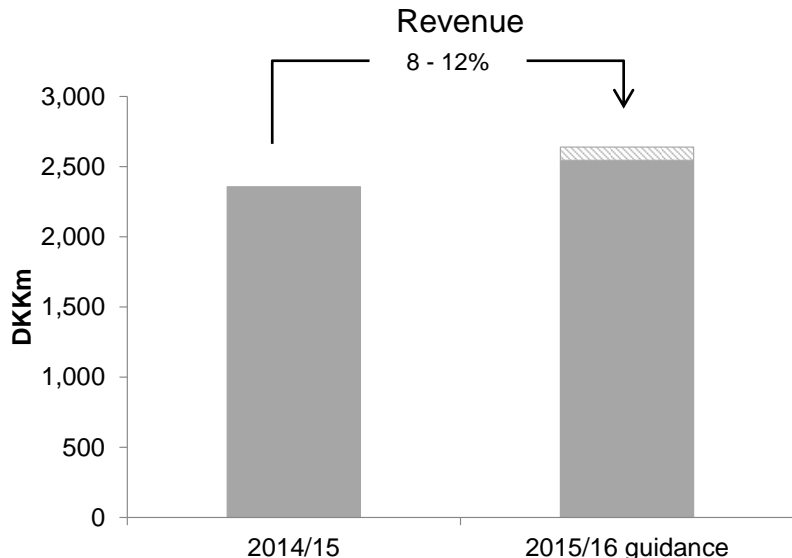
OUTLOOK

QUESTIONS AND ANSWERS

# OUTLOOK FOR 2015/16

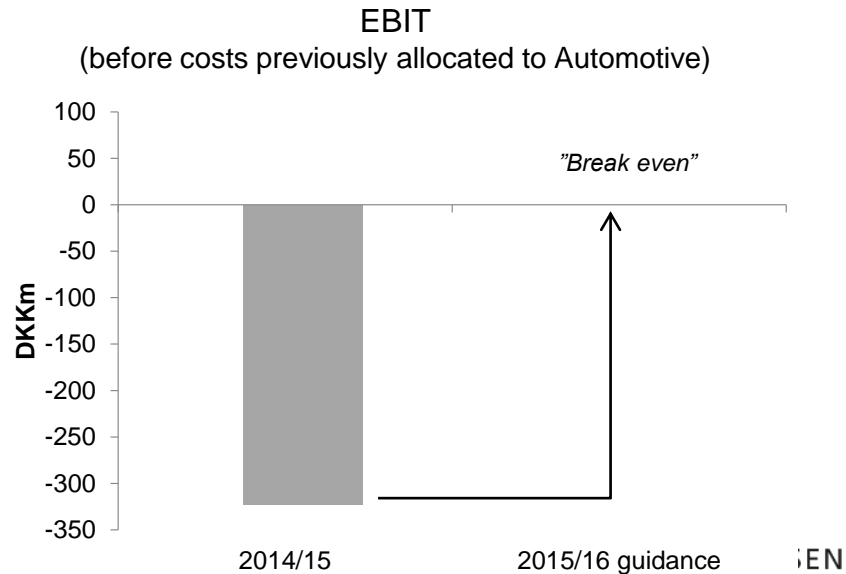
## Revenue

- Group revenue growth of 8 to 12 per cent compared to 2014/15
  - B&O PLAY is expected to be the main growth driver
  - Bang & Olufsen is expected to show moderate growth



## Earnings before interest and tax

- EBIT adjusted for costs previously allocated to Automotive around break-even



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# Q&A

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**Investor relations contact:**

Claus Højmark Jensen  
Investor Relations Manager

Direct tel. : +45 96 84 12 51  
Mobile tel. : +45 23 25 10 67  
Email : [chm@bang-olufsen.dk](mailto:chm@bang-olufsen.dk)