BANG & OLUFSEN

INTERIM REPORT Q2 2017/18

11 JANUARY 2018

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AGENDA

- **Highlights**
- Financial results
- Outlook
- Questions & answers

Q2 HIGHLIGHTS: STRONG GROWTH MOMENTUM

- Group revenue increased by 15 per cent, especially driven by B&O PLAY
- Revenue in the quarter was characterised by solid growth across all regions
- EBITDAC in the underlying business was DKK 135 million against DKK 70 million last year
- EBIT in the underlying business was DKK 70 million against DKK 37 million last year

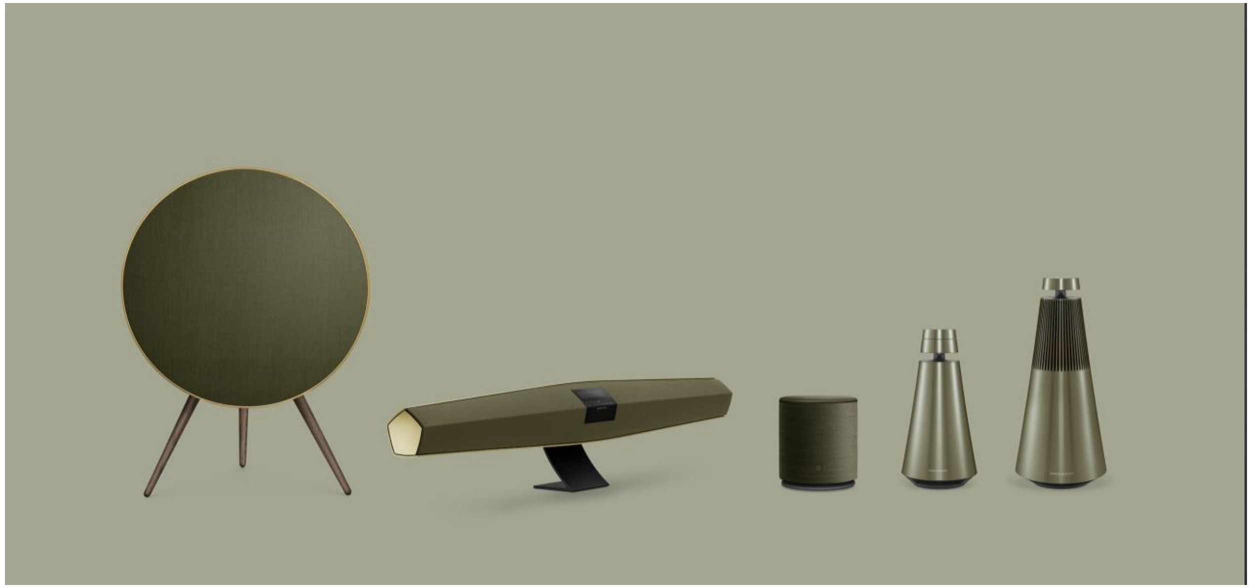
STRATEGY EXECUTION

STRONG PRODUCT PORTFOLIO

- Existing products continued to perform well and the portfolio was extended with the launch of Beoplay M3 and a colour-coordinated collection of connected audio products called Harmonies by Bang & Olufsen

BRAND PARTNERING ACTIVITIES

- New collaborations with Saint Laurent and David Lynch on limited edition collections, and with Lamborghini, through Harman, to deliver an audio system for the new Urus



GOOD TRACTION IN GROWTH MARKETS

- Revenue growth in the US driven by growth in B&O PLAY sales, especially in the third-party retail stores. Growth momentum in China continued with strong focus on collaboration with partners on key events

FINANCIAL RESULTS

- Highlights
- **Financial results**
- Outlook
- Questions & answers

FINANCIAL HIGHLIGHTS

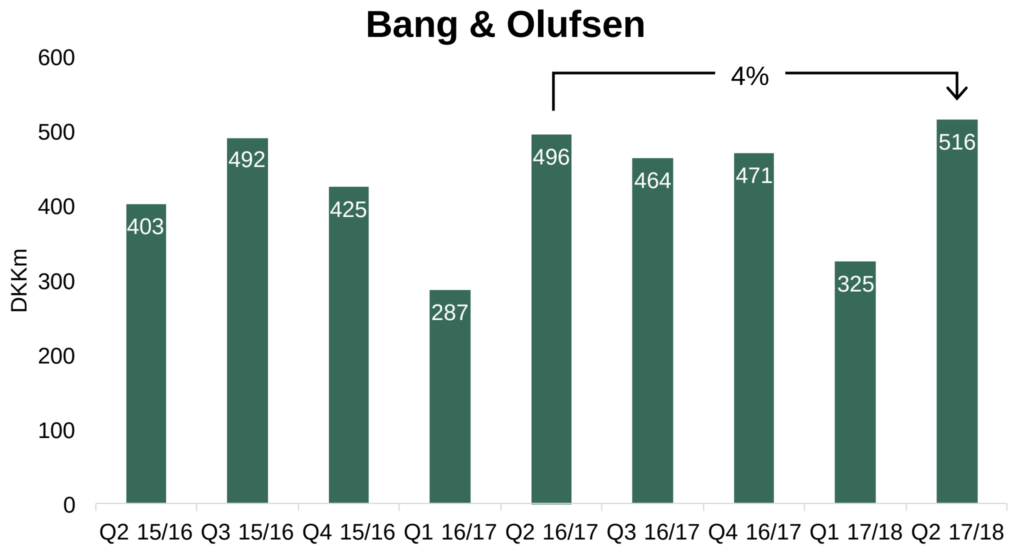
Key financial figures				
DKK million	**2nd quarter**		**YTD**	
	17/18	**16/17**	**17/18**	**16/17**
Revenue	**999**	**867**	**1,591**	**1,383**
Gross profit	411	358	647	530
EBITDAC	148	70	106	3
EBITDAC (underlying)	**135**	**70**	**93**	**3**
EBIT	83	37	18	-52
EBIT (underlying)	**70**	**37**	**5**	**-52**
EBT	77	31	7	-56
Earnings	**57**	**23**	**2**	**-44**
Gross margin, %	41.2	41.2	40.7	38.3
Net working capital	171	304	171	304
Free cash flow	44	131	-114	99

- Revenue increased from DKK 867 million last year to DKK 999 million, corresponding to a growth of 15 per cent
- The Group's gross margin was at 41.2 per cent on par with last year but with higher share of the revenue coming from the B&O PLAY business unit
- Capacity costs in the underlying business increased by 3.5 per cent. Excluding the effect from higher depreciations, capacity costs were slightly below last year
- EBITDAC in the underlying business was DKK 135 million against DKK 70 million last year. The company's ability to increase revenue without increasing capacity cost was key to the improved profitability
- EBIT in the underlying business was DKK 70 million against DKK 37 million last year
- Free cash flow was positive DKK 44 million against DKK 131 million last year

REVENUE GROWTH DRIVEN BY B&O PLAY

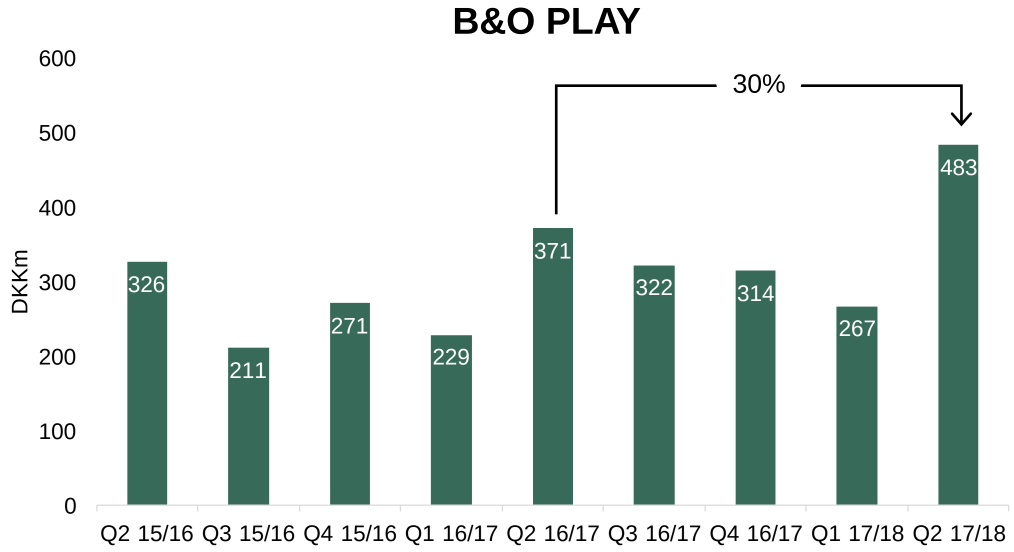
BANG & OLUFSEN QUARTERLY REVENUE

- The Bang & Olufsen business unit realised a revenue of DKK 516 million and grew 4 per cent
- The increase was driven by strong sales within TV, connected audio and speakers. There was a slight increase in income from brand partnering, which remains on track for the year



B&O PLAY QUARTERLY REVENUE

- The revenue in the B&O PLAY business unit grew 30 per cent and realised a revenue of DKK 483 million. The main growth contributors were existing products such as Beoplay A1, H5 and A9 together with the recently launched Beoplay E8 wireless earphones
- B&O PLAY revenue through the B1 and shop-in-shop channel grew 21 per cent. Revenue through third-party retail and e-commerce increased by 35 per cent



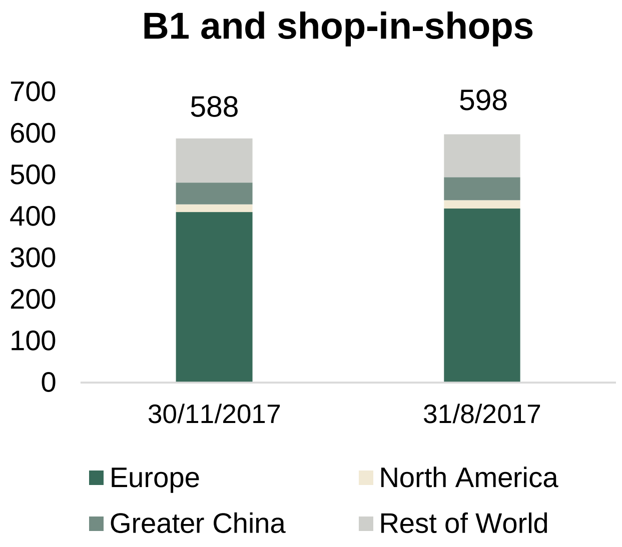
FOCUS ON QUALITY IN DISTRIBUTION

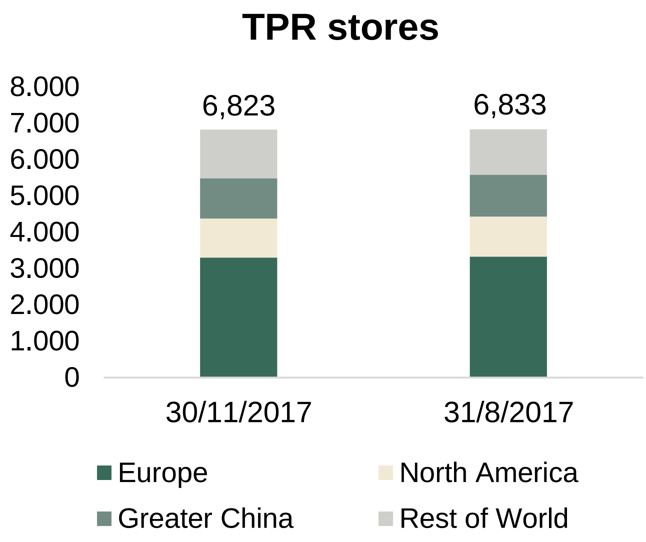
FEWER B1 AND SHOP-IN-SHOP STORES

- As part of the company's focus on strengthening the customer experience, the transformation of the mono-brand retail distribution continued
- The net number of B1 and shop-in-shops decreased by 10, primarily in Europe and Greater China

NO. OF TPR STORES ALMOST UNCHANGED

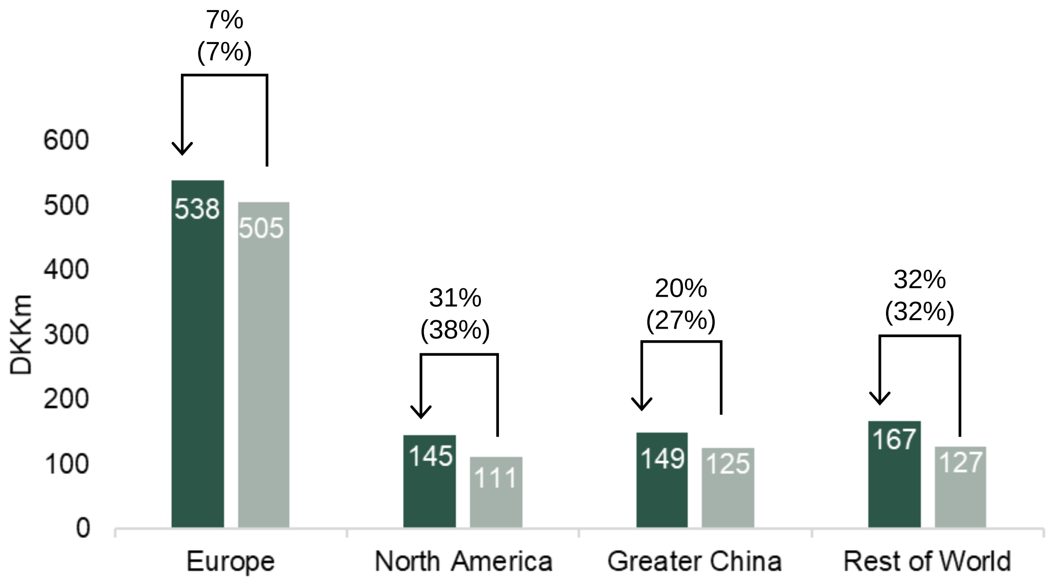
- Improving the quality and depth of third-party retail stores continued to be a main priority
- The 6,823 third-party retail stores was almost the same as the number of third-party retail stores at the end of Q1





GROWTH IN ALL REGIONS

Revenue y-o-y change
(Growth in local currency in parenthesis)



DOUBLE-DIGIT GROWTH IN GREATER CHINA, NORTH AMERICA AND REST OF WORLD

- Growth in Europe was primarily driven by B&O PLAY, higher sales of connected audio, including BeoSound Shape in the Bang & Olufsen business unit
- The revenue growth in North America was driven by growth in B&O PLAY sales, especially in the third-party retail stores. To support the company's growth ambition, the Chicago and New York offices have been consolidated into one
- The growth momentum in the Greater China region continued, driven by strong B&O PLAY sales
- The development in the region Rest of World was characterised by growth in both business units with especially connected audio and TVs in the Bang & Olufsen business unit performing well

GROUP GROSS MARGIN ON PAR WITH LAST YEAR

Gross margin				
%	2nd quarter		YTD	
	17/18	**16/17**	**17/18**	**16/17**
Bang & Olufsen	45.5	45.5	43.4	41.0
B&O PLAY	36.5	35.6	37.6	34.8
Group	**41.2**	**41.2**	**40.7**	**38.3**

AS EXPECTED, GROUP GROSS MARGIN WAS ON PAR WITH LAST YEAR (41.2)

- The gross margin in the Bang & Olufsen segment was 45.5 per cent – the same as last year – due to:
  - Decreased revenue from fewer company-owned and company-operated stores was compensated by an overall improvement in product profitability
- The gross margin for the B&O PLAY segment was 36.5 per cent against 35.6 per cent last year due to:
  - Key product margin improvements compared to last year, which was partially off-set by a negative product mix compared to last year

CAPACITY COSTS SLIGHTLY BELOW LAST YEAR

ADJUSTED FOR HIGHER DEPRECIATIONS CAPACITY COSTS DECREASED

- The capacity costs were DKK 341 million compared to DKK 330 million last year – an increase of 3.5 per cent
- The increase was due to higher depreciation on development projects, which increased from DKK 57 million to DKK 69 million. Adjusted for this impact, capacity costs decreased by DKK 2 million

INVESTMENTS IN PRODUCT DEVELOPMENT CONTINUED

- Development costs were DKK 118 million against DKK 100 million last year
- Incurred development costs were DKK 66 million against DKK 84 million last year. Capitalisations are expected to be approximately 30 per cent of incurred development costs throughout 2017/18

Capacity costs

DKK million	2nd quarter		YTD	
	17/18	**16/17**	**17/18**	**16/17**
Development	118	100	232	175
Dist. and marketing	196	206	358	369
Administration	27	24	52	47
Total cap. costs	**341**	**330**	**642**	**591**

Development costs

DKK million	2nd quarter		YTD	
	17/18	**16/17**	**17/18**	**16/17**
Incurred development costs before capitalisation	66	84	175	151
Net effect of capitalisations and amortisations	52	16	57	24
Development costs in P&L, reported	**118**	**100**	**232**	**175**
Capitalisation (%)	25.0%	49.3%	46.6%	45.1%

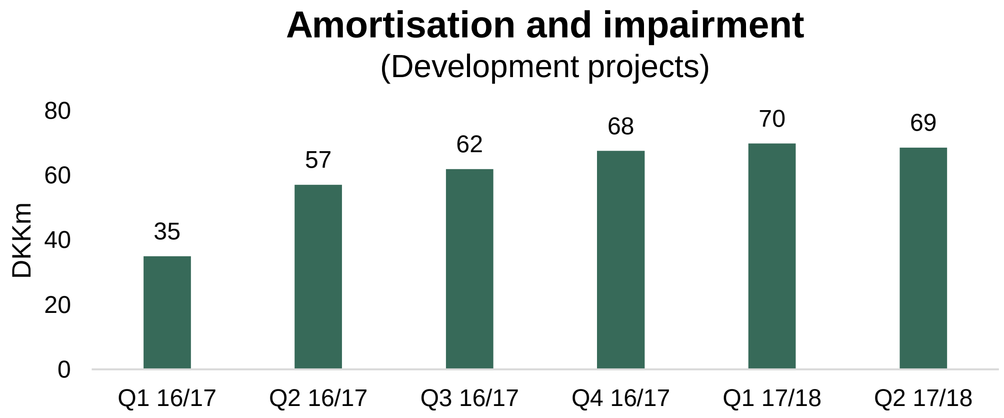
R&D MODEL TRANSFORMED

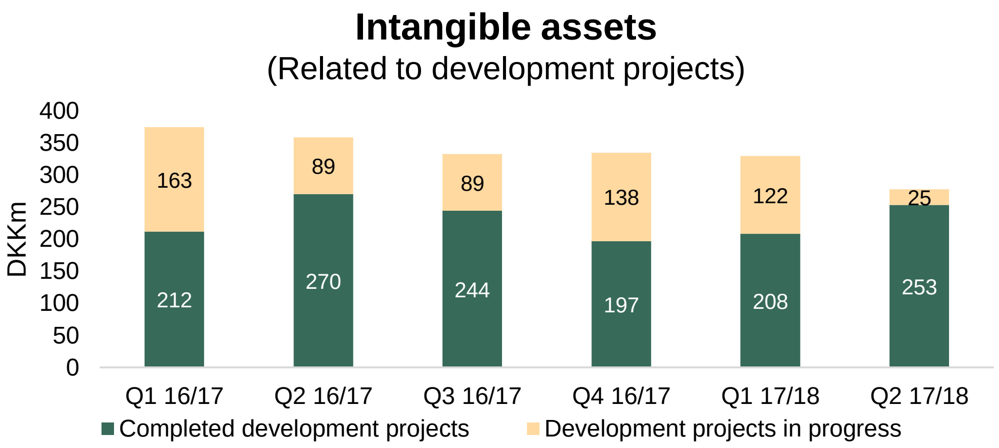
THE FUTURE R&D MODEL

- Development within core capabilities of acoustics, design and craftsmanship will be done by Bang & Olufsen. Incurred development cost will reflect this
- Non-core R&D will be performed by key technology partners, and reflected in the standard unit cost (i.e. in the gross margin)
- The capitalisation ratio will be lower than historical levels, because a larger share of the development costs are related to early stages in the development process

TRANSITION IMPLICATIONS

- Amortisations will be high until the product portfolio, especially TVs, reflects the transformed development model
- Lower incurred cost, a lower capitalisation ratio and high amortisations, will result in intangible assets being significantly reduced

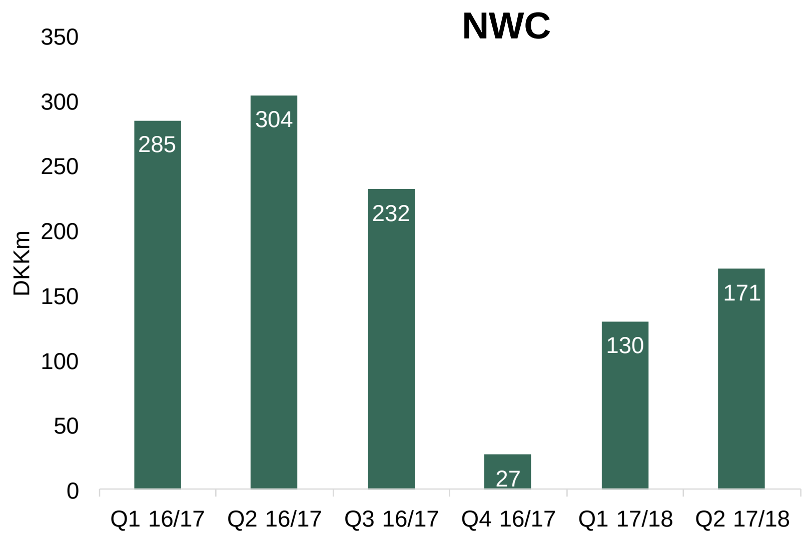




NET WORKING CAPITAL AND CASH FLOW

NET WORKING CAPITAL INCREASED

- The Group's net working capital was DKK 171 million. This was an increase of DKK 41 million compared to the end of the previous quarter
- The increase was due to increased activity in the quarter with higher trade receivables partially offset by higher trade payables



POSITIVE FREE CASH FLOW

- Free cash flow was positive DKK 44 million against DKK 131 million last year
- Last year, free cash flow included the escrow payment from Harman of DKK 93 million, and excluding this impact, free cash flow improved by DKK 6 million

Cash Flow

DKK million	2nd quarter		YTD	
	17/18	**16/17**	**17/18**	**16/17**
Earnings for the period	**57**	**23**	**2**	**-44**
Net working capital related	-41	-19	-143	14
Other	65	106	143	132
Cash flow from oper. activities	**81**	**109**	**2**	**103**
Cash flow from investing activities	-37	22	-117	-4
Free Cash Flow	**44**	**131**	**-114**	**99**

OUTLOOK

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OUTLOOK FOR 2017/18

- Group revenue is expected to grow by around 10 per cent compared to 2016/17
    - B&O PLAY is expected to continue to be the main growth driver with growth of more than 20 per cent compared to 2016/17
    - The Bang & Olufsen business unit is expected to remain flat and adversely impacted by the transformation of the branded retail network
    - Revenue related to brand partnering is expected to be DKK 160-200 million
- The EBITDAC margin for the Group is expected to be 8-10 per cent for 2017/18
- The EBIT margin for the Group is expected to be around 3 per cent (prev. 1-3 per cent) for 2017/18 and impacted by high depreciations and low capitalisations
- The Group's free cash flow is expected to be positive in 2017/18

Q&A

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