BANG & OLUFSEN

ANNUAL REPORT 2016/17

12 JULY 2017

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AGENDA

- **Highlights**
- Financial results
- Strategic direction & outlook
- Questions & answers

FINANCIAL HIGHLIGHTS 2016/17

- Revenue grew by 12 per cent for the year, driven by 27 per cent growth in B&O PLAY and 3 per cent in Bang & Olufsen
- EBITDAC (underlying) was DKK 81 million for the year compared to DKK 14 million last year
- Free cash flow was DKK 307 million compared to negative DKK 187 million last year
- Full year 2016/17 was in line with guidance

EXECUTION ON TRACK

STRENGTHENING THE OPERATING MODEL

- In May, the Czech Republic facility was divested. This allows the company to concentrate on its core capabilities in line with the strategy of transitioning the company to an agile and asset-light model and leveraging technology partners in areas which are not core to the company

LAUNCH OF INNOVATIVE PRODUCTS

- 2016/17 saw the launch of several products that were well-received in the market. E.g. B&O PLAY launched Beoplay P2 and Beolit 17, among others, and Bang & Olufsen launched BeoSound Shape, BeoSound 1 and 2 as well as the BeoVision 14

BRAND PARTNERSHIPS

- Brand partnering has become a key part of the business in 2016/17 and a platform to drive brand awareness and amplification. Partnerships were further developed with HP, Harman and LG

FINANCIAL RESULTS

- Highlights
- **Financial results**
- Strategic direction & outlook
- Questions & answers

FINANCIAL HIGHLIGHTS

Key financial figures

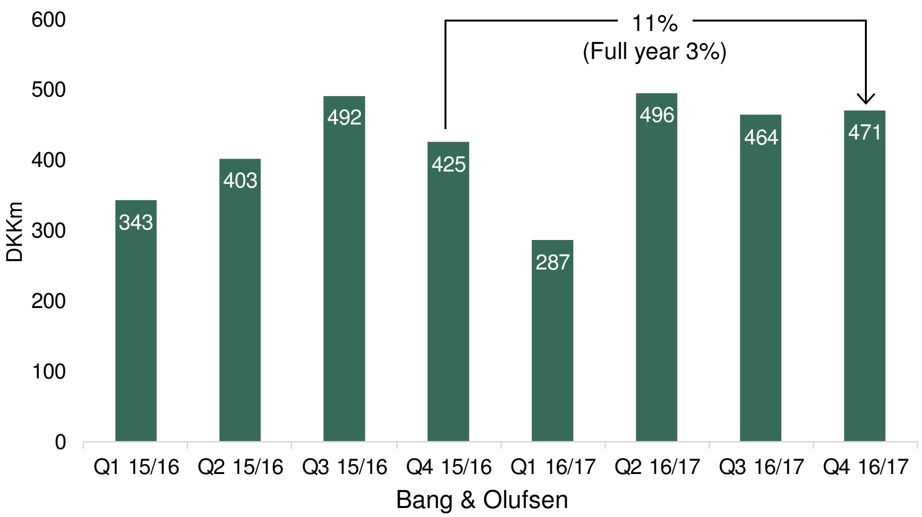
DKK million	4th quarter		YTD	
	16/17	**15/16**	**16/17**	**15/16**
Revenue	**785**	**696**	**2,954**	**2,633**
Gross profit	261	263	1,126	952
EBITDAC (underlying)	**15**	**24**	**81**	**14**
EBIT	-95	-72	-129	-202
EBIT (underlying)	**2**	**6**	**-32**	**-69**
EBT	-119	-86	-166	-242
Earnings after tax (cont. busi.)	-76	-75	-117	-198
Earnings after tax (disc. busi.)	-	-35	-	-10
Earnings	**-76**	**-110**	**-117**	**-208**
Gross margin, %	33.2	37.8	38.1	36.1
Gross margin, % (underlying)	38.6	39.8	39.7	37.7
Net working capital	27	319	27	319
Free cash flow	111	-18	307	-187

- Continued growth momentum driven by B&O PLAY and brand partnering
- Brand partnering revenue was DKK 140 million for the year, compared to DKK 30 million last year
- Profitability significantly improved, resulting in an EBITDAC margin of 2.7 per cent for 2016/17
- Positive free cash flow for the year, resulting in net interest-bearing deposit of DKK 900 million, compared to DKK 599 million last year
- The changed operating model starts to show results on the profitability and the risk profile of the company

DOUBLE-DIGIT GROWTH IN BOTH BUSINESS UNITS

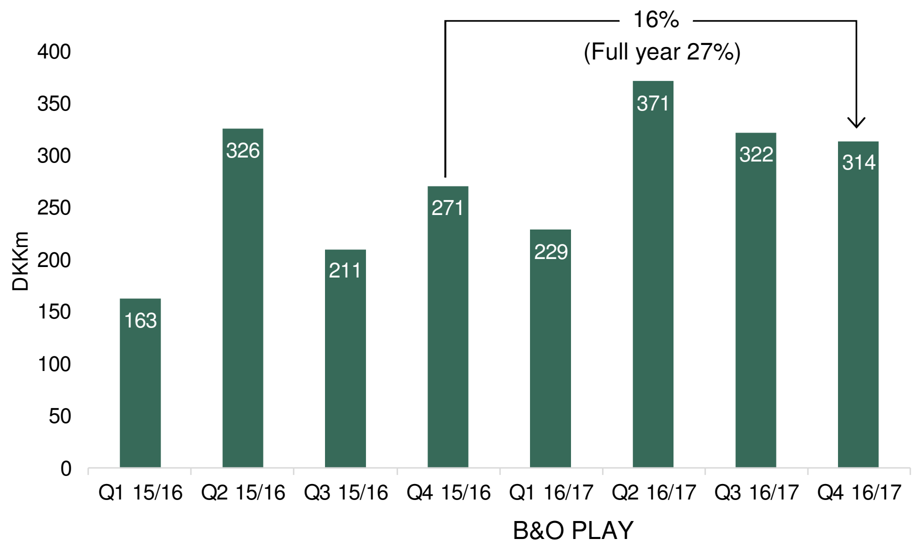
BANG & OLUFSEN QUARTERLY REVENUE

- The Bang & Olufsen business unit realised a revenue of DKK 471 million, compared to DKK 425 million last year, which was an increase of 11 per cent
- The increase was primarily due to new products launched in 2016/17, including BeoSound 1 and 2, and increased income from brand partnerships



B&O PLAY QUARTERLY REVENUE

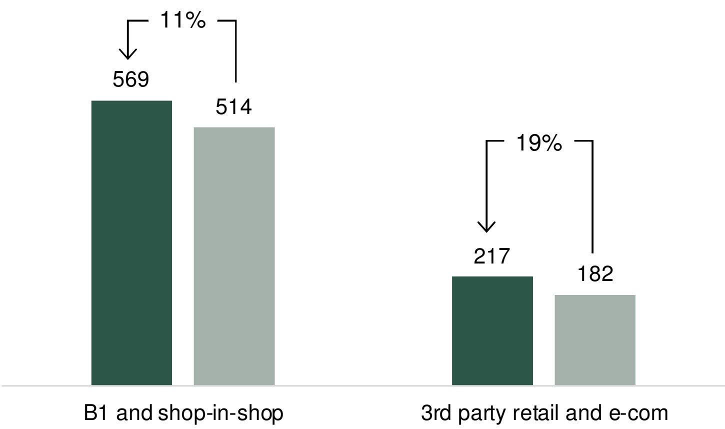
- B&O PLAY recorded a revenue of DKK 314 million against DKK 271 million last year, corresponding to an increase of 16 per cent
- The growth in B&O PLAY was driven by a combination of strong customer demand for existing and new products, especially Beoplay A1, Beoplay P2 and Beoplay H5



19 PER CENT GROWTH IN TPR AND E-COMMERCE

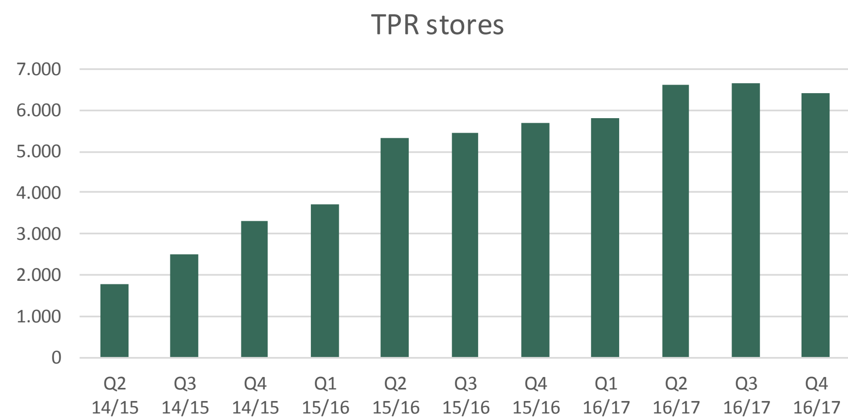
NEW PRODUCTS DROVE REVENUE GROWTH

- B&O PLAY revenue through third-party retail and e-commerce increased by 19 per cent in the quarter, primarily driven by new product launches and further development of the third-party retail stores
- Revenue through the B1 and shop-in-shop channel increased by 11 per cent, compared to the same quarter last year

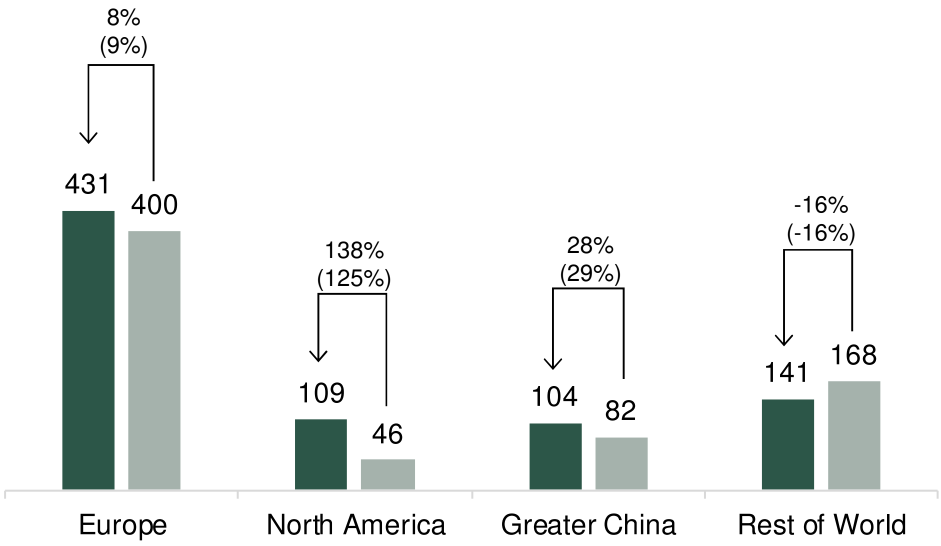


DEVELOPMENT IN TPR STORES

- The number of third-party retail stores increased to 6,424 from 5,692 stores at the end of the same quarter last year, while decreasing from 6,658 stores at the end of the third quarter of 2016/17
- TPR focus continues to be on increasing the sales per store and ensuring a high quality of the channel



GROWTH IN ALL REGIONS EXCEPT REST OF WORLD



DKKm and y-o-y change
(Growth in local currency in parenthesis)

NORTH AMERICA, GREATER CHINA AND EUROPE WERE THE GROWTH DRIVERS

- Revenue in Europe increased, primarily driven by B&O PLAY sales
- Revenue in North America increased, driven by a combination of growth in B&O PLAY sales, higher revenue from custom installers, and increased income from brand partnerships.
- Revenue in the Greater China region increased, driven by continued growth in B&O PLAY
- Revenue in the region Rest of World declined compared to last year, which was positively impacted by a substantial single order

CONTINUED TRANSITION OF THE OPERATING MODEL

Profit & Loss statement, reported vs. underlying

DKK million	Q4 16/17 reported	adjust- ments	Q4 16/17 underlying
Revenue	**785**		**785**
Bang & Olufsen	471		471
B&O PLAY	314		314
Gross profit	**261**	**42**	**303**
Gross margin	**33.2**	**5.4**	**38.6**
Bang & Olufsen	33.0	8.9	41.9
B&O PLAY	33.7	0.0	33.7
Capicity costs	**387**	**-86**	**301**
EBIT	**-95**	**97**	**2**
EBITDAC	**-41**	**56**	**15**

EXTRAORDINARY COSTS AND NON-CASH BALANCE SHEET ADJUSTMENTS IN Q4

- Gross profit was negatively impacted by DKK 42 million related to write-down of inventories including service stock and retail inventory
- Capacity costs were negatively impacted by DKK 86 million, mainly related to:
  - Restructuring in the Bang & Olufsen business unit of DKK 30 million
  - Fewer company owned and operated stores in all regions resulting in additional costs, impairments of goodwill, and write-down of tangible assets corresponding to DKK 56 million
- Other income of DKK 31 million related to the sales of shares in the Czech subsidiary

UNDERLYING GROUP GROSS MARGIN DECREASED

Gross margin, underlying business

%	4th quarter		YTD	
	16/17	**15/16**	**16/17**	**15/16**
Bang & Olufsen	41.9	43.5	42.4	40.9
B&O PLAY	33.7	33.8	35.7	32.2
Group	**38.6**	**39.8**	**39.7**	**37.7**

GROUP GROSS MARGIN WAS 38.6 PER CENT AGAINST 39.8 PER CENT LAST YEAR

- The gross margin in the Bang & Olufsen business unit was 41.9 per cent against 43.5 per cent last year due to:
  - Positive impact from increased income in brand partnerships
  - Negative impact from exchange rates
  - Negative impact from product mix with a higher share of BeoSound 1 and 2 compared to a high share of BeoLab 90 last year
- The gross margin for B&O PLAY was 33.7 per cent against 33.8 per cent last year due to:
  - Continued positive scalability impacts from increased volumes
  - Negative impact from exchange rates and product mix

CAPACITY COSTS INCREASED IN THE QUARTER

CAPACITY COSTS INCREASE DRIVEN BY DEVELOPMENT COSTS

- The capacity costs in the underlying business were DKK 301 million compared to DKK 271 million last year
- The increase was due to higher development costs related to upcoming product launches
- B&O PLAY continues to invest in Distribution and Marketing, while costs in Bang & Olufsen remain low

CONTINUED INVESTMENTS IN PRODUCT DEVELOPMENT

- Development costs were DKK 107 million against DKK 94 million last year
- The increase was mainly related to TV development. This will also impact the first quarter of 2017/18
- The increase was due to continued high investments in new product development as well as higher depreciations of the current TV product portfolio

Capacity costs, underlying

DKK million	4th quarter		YTD	
	16/17	**15/16**	**16/17**	**15/16**
Development	107	94	386	315
Dist. and marketing	170	177	725	717
Administration	24	19	98	79
Total cap. costs	**301**	**271**	**1,208**	**1,066**

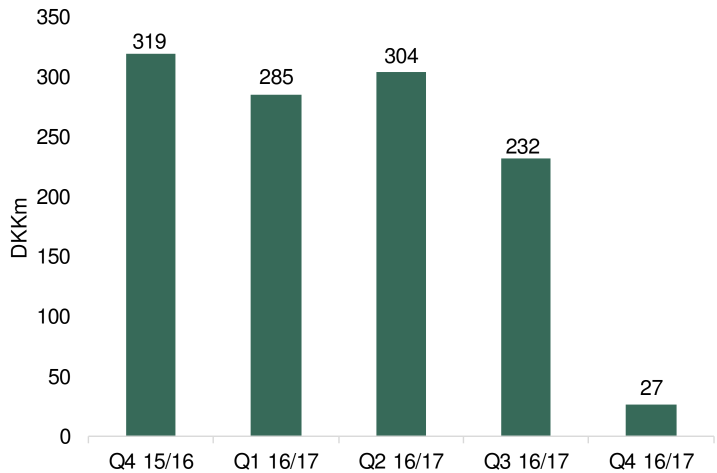
Development costs

DKK million	4th quarter		YTD	
	16/17	**15/16**	**16/17**	**15/16**
Incurred development costs before capitalisation	132	93	361	302
Net effect of capitalisations and amortisations	-2	1	48	13
Development costs in P&L, reported	**130**	**94**	**409**	**315**
Development costs in P&L, underlying	**107**	**94**	**386**	**315**
Capitalisation (%)	52.8%	41.7%	48.1%	50.3%

NET WORKING CAPITAL AND CASH FLOW

NET WORKING CAPITAL IMPROVED

- The Group's net working capital was DKK 27 million against DKK 319 million last year
- The net working capital was reduced by DKK 112 million due to the sale of the Czech subsidiary and reduced by DKK 98 million due to the development in trade payables



POSITIVE FREE CASH FLOW

- Free cash flow was positive DKK 111 million against negative DKK 18 million last year
- Adjusted for the impact from the sale of the Czech subsidiary, free cash flow was negative DKK 12 million against negative DKK 18 million last year

Cash Flow

DKK million	4th quarter		YTD	
	16/17	15/16	16/17	15/16
Earnings for the period	**-76**	**-110**	**-117**	**-208**
Net working capital related	72	-68	87	-63
Other	105	178	383	266
Cash flow from oper. activities	**101**	**0**	**352**	**-5**
Cash flow from investing activities	10	-18	-45	-182
Free Cash Flow	**111**	**-18**	**307**	**-187**

STRATEGIC DIRECTION & OUTLOOK

- Highlights
- Financial results
- **Strategic direction & outlook**
- Questions & answers



A SOLID FOUNDATION HAS BEEN CREATED

- The business has been focused on the consumer business of Bang & Olufsen and B&O PLAY
- More agile operating model with greater focus on the core capabilities and leveraging technology partners in areas which are not core to the business
- Three years of high growth and significantly improved profitability and cash flow generation

STRATEGIC DIRECTION

- Becoming the leading global audio lifestyle brand
- A more agile business model
- Developing the brand and brand partnerships
- Innovation based on core capabilities
- Strengthening distribution and channels
- Realising growth potential in China and the US

3 YEAR FINANCIAL TARGETS

REVENUE MOMENTUM MAINTAINED

- Group revenue momentum maintained, driven primarily by the B&O PLAY business unit

STRONG PROFITABILITY AND CASH FLOW

- Profitability improvement driven by growth and the adapted operating model
- The improved profitability is expected to result in a strong cash flow generation

3 year targets*

	2016/17 Actual	2019/20 target
Revenue		
Group	2,954	> 10% CAGR
- Bang & Olufsen	1,718	Low single-digit growth
- B&O PLAY	1,236	> 20% CAGR
EBITDAC		
Group, underlying	3%	>15% of revenue
EBIT		
Group, underlying	-1%	>12% of revenue
Free Cash Flow**		
Group	3%	>10% of revenue

**All target exclude non-recurring items*

***2016/17 free cash flow has been adjusted for escrow payments and sale of shares in the Czech subsidiary*

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 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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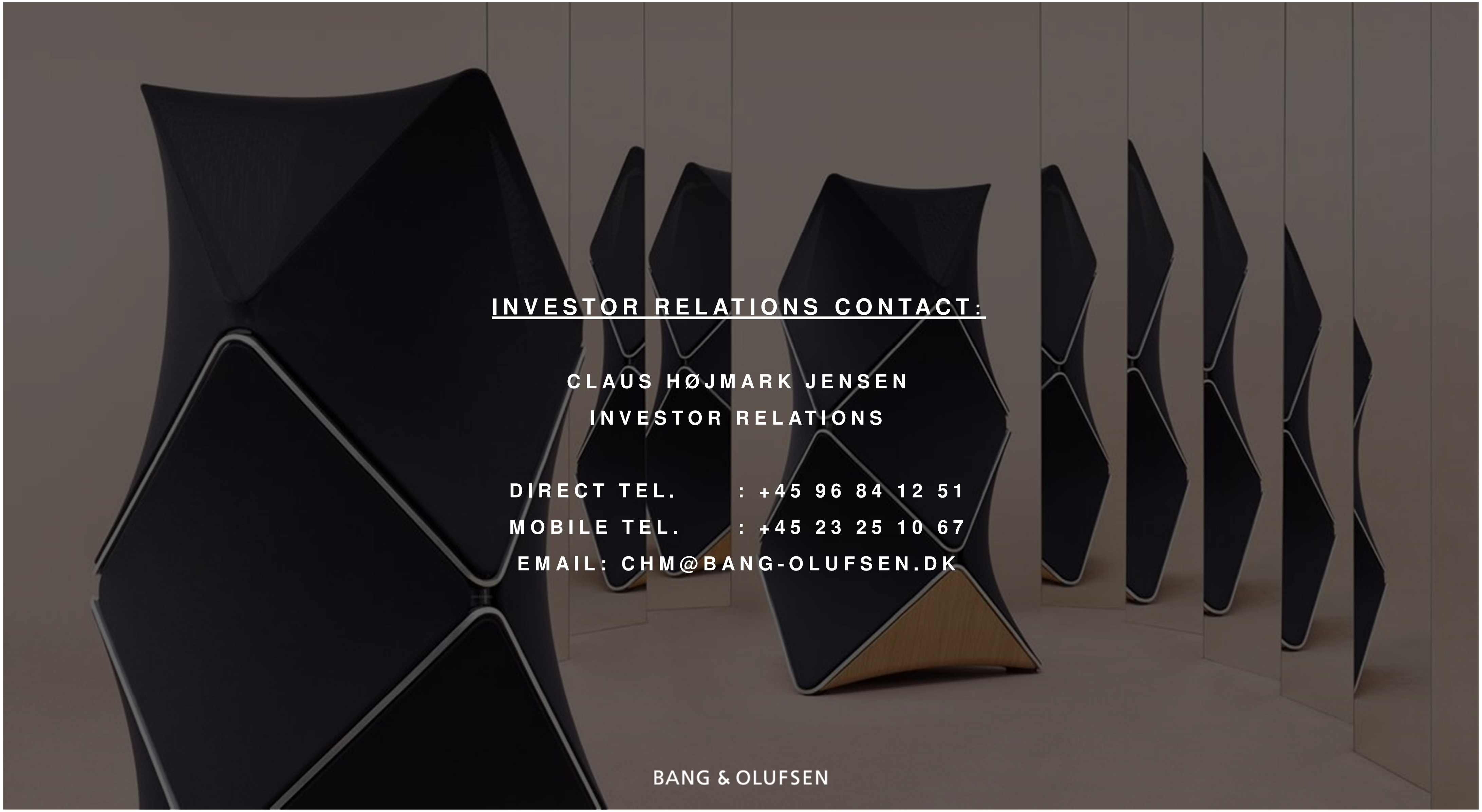
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