



**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 under a dark grey sweater. The background is a solid dark teal color.

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

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# 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

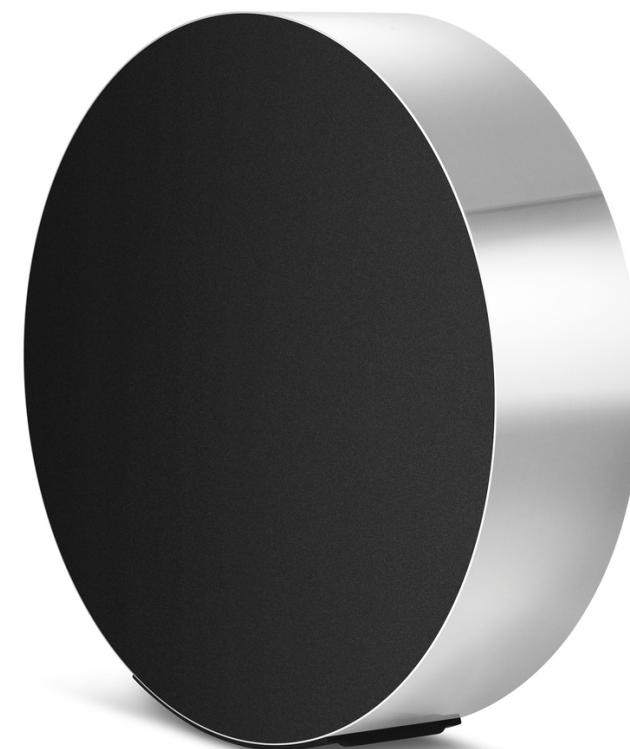
*9.9% (Q2 2017/18: 8.3%)*

*1.6 percentage point improvement*

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

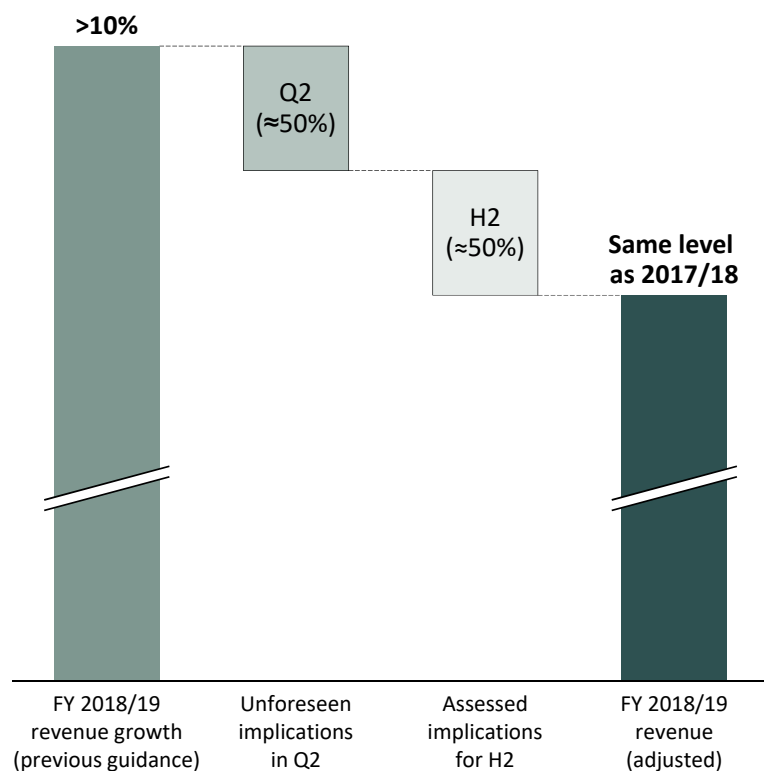
## 2018/19 outlook

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

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

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

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

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

## Q2 DEVELOPMENT

- ✓ 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

- ✓ 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

✓ 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

✗ Significant decline in buying from 5 key distributors in Q2

✗ Ability to drive sales at retail through distributors in the transition was weak

## ADDRESSING CHALLENGES

- 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

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

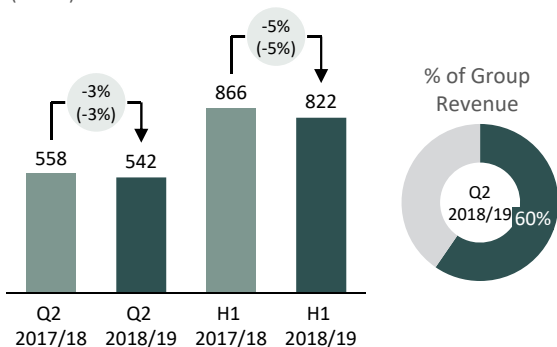
- Future role of the key distributors has now been clarified with partners, resulting in less reluctance and wait-and-see

# 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

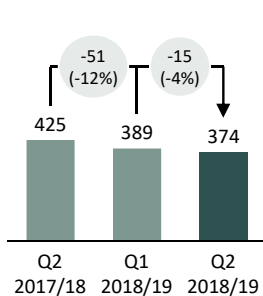
- Roll-out of shop-in-shops and branded space throughout the region – targeting department stores, airport retailers and select consumer electronics retailers

### Monobrand execution

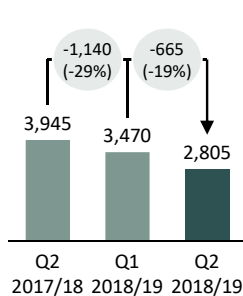
- 10+ expected monobrand openings in H2 (i.a. Madrid, Lisbon, Malmö and Courmayeur)

## 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)

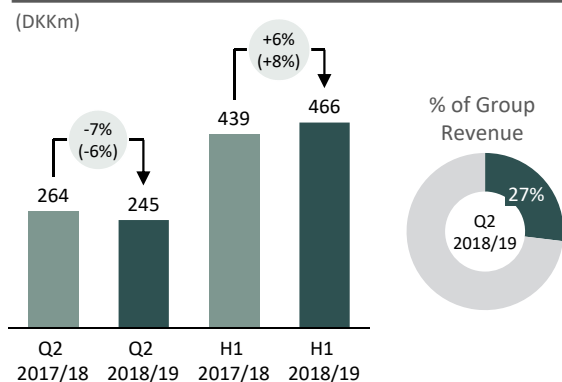


Monobrand store, Verona, Italy (October 2018)

# 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

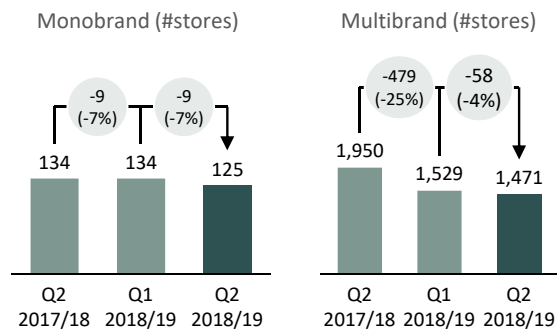
### Greater China Region

- 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



Pop-up store, Taikoo Hui luxury mall, Guangzhou, China (November 2018)



Shop in Shop, Century Jinhua luxury mall, Xi'an, China (October 2018)



Bronze collection pop-up store, Suzhou, China (October 2018)



Monobrand, Sydney (Bondi) Australia (November 2018)

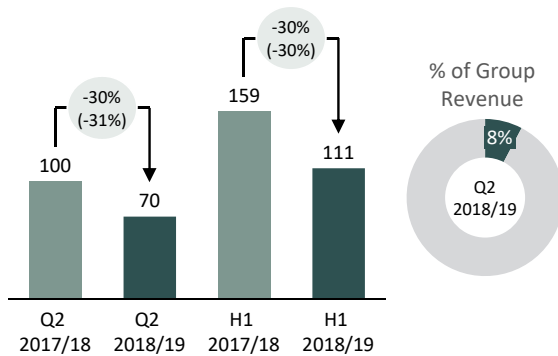


# AMERICAS – IMPACTED BY TRANSFORMATION



## 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

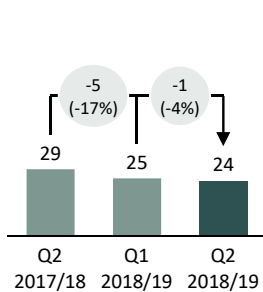
- Opening of flagship store in New York, SoHo and monobrand store in Vancouver
- Continue branded space roll-out at existing and new department stores
- Roll-out pop-up stores across New York
- Rebuild custom integrators and B2B channel in the US together with existing base of 30 partners
- Continue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

### South America

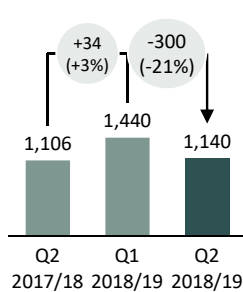
- Onboarding new South American multibrand partner (Q3 ramp-up)

## STORES DEVELOPMENT

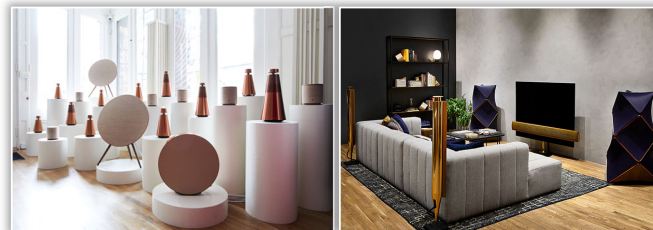
Monobrand (#stores)



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



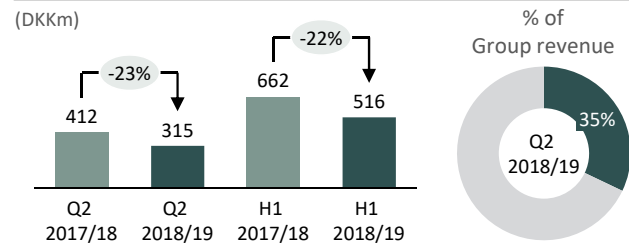
- Beosound Edge, Beoplay A9 and Beosound 1 and 2 were key revenue drivers
- Flexible Living products have been software upgraded to include AirPlay 2
- Beosound 1 and 2 were launched with Google Voice Assistance\* and Beosound 1 was launched in a Piano Black edition

## ON-THE-GO



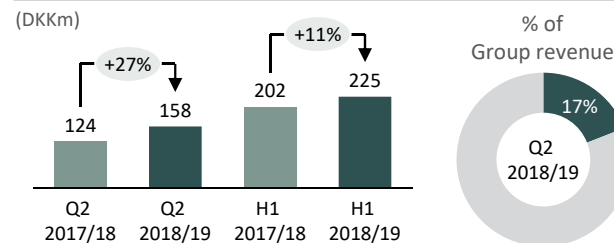
- Key head- and earphone products such as Beoplay H9i, Beoplay E8 and Beoplay E6 are growing, whereas the Bluetooth speakers declined
- Beoplay E8 Pink introduced as a permanent color due to popularity, especially with female customers

## REVENUE

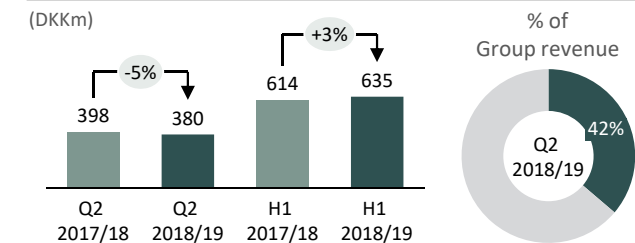


\*Selected markets only

## REVENUE



## REVENUE



# AGENDA



- Key highlights

- **Financial results**

- Outlook

- Questions & answers

# REVENUE DEVELOPMENT

## REVENUE SPLIT

DKKkm	Q2				H1			
	2018/19	2017/18	Δ (%)	Δ LCY (%) <sup>1</sup>	2018/19	2017/18	Δ (%)	Δ LCY (%) <sup>1</sup>
<b>Group</b>	<b>909</b>	<b>999</b>	<b>-9%</b>	<b>-7%</b>	<b>1,510</b>	<b>1,591</b>	<b>-5%</b>	<b>-4%</b>
<b>Region</b>								
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%	
<b>Channel</b>								
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%	
<b>Product</b>								
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%	

<sup>1</sup>) 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

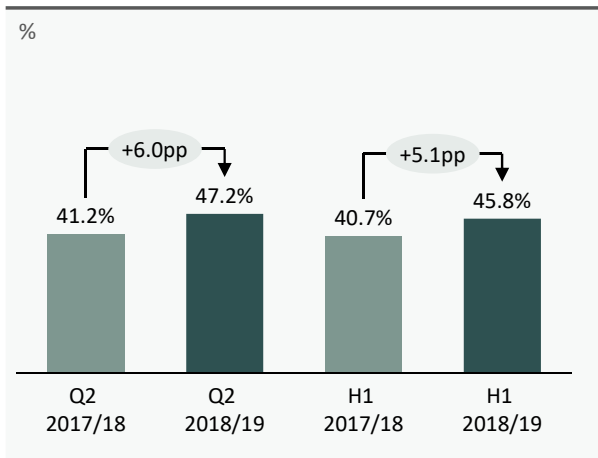
- All regions impacted by the transformation of the sales and distribution network and the logistics challenges
- Brand Partnering was largely unchanged compared to last year
- Other was impacted by aluminium components products for third parties, currency hedges and unallocated items

### 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

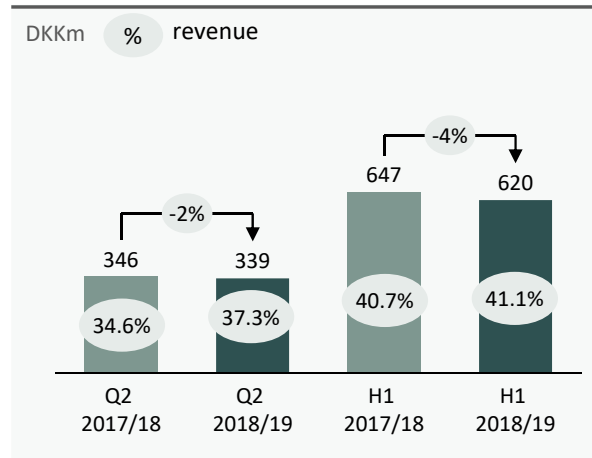
# P&L HIGHLIGHTS

## GROSS MARGIN



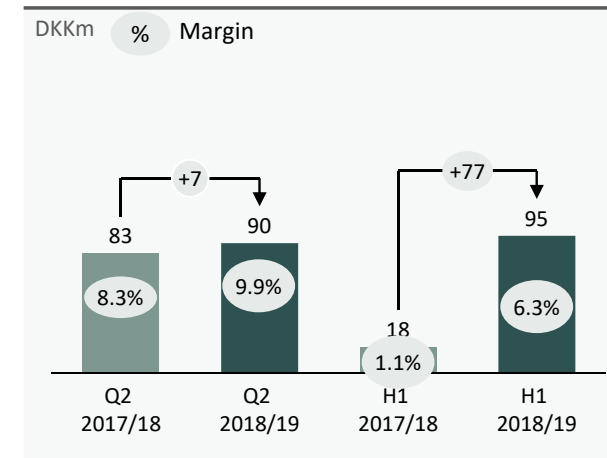
- Significantly gross margin improvement (6.0 percent points) driven by:
  - Improved product profitability
  - Positive currency development
  - Channel mix development

## 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

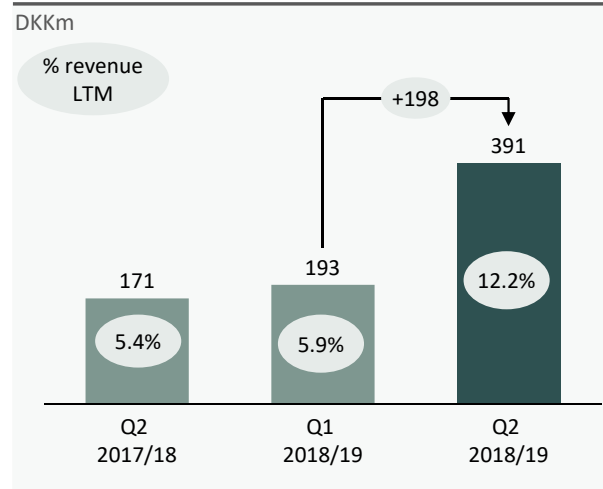
## EBIT



- 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

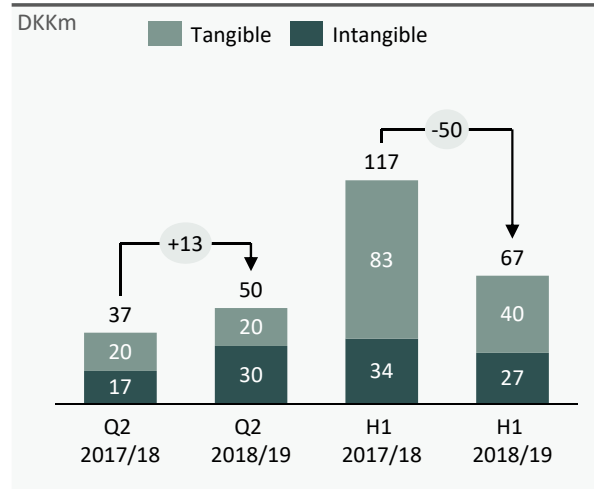
# NET WORKING CAPITAL, CAPEX AND FREE CASH FLOW

## NET WORKING CAPITAL



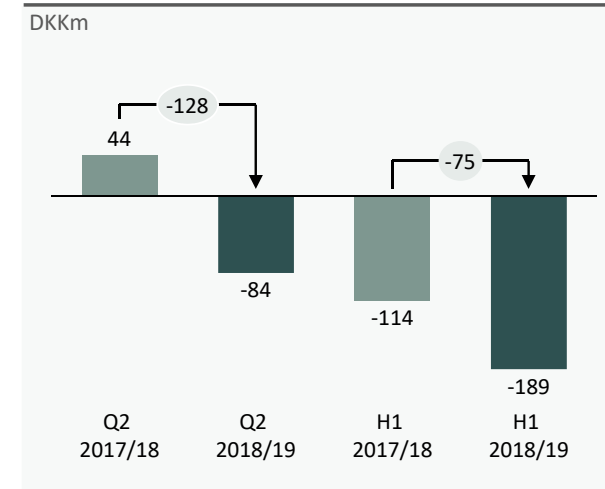
- Net working capital impacted by temporary actions to mitigate the adverse impact from the new logistics setup in Q2, hence higher trade receivables due to short-term extension of credit terms to retailers and seasonality

## 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	Unchanged
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
- Financial results
- Outlook
- **Questions & answers**





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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