

Bang & Olufsen: Interim report Q2 2019/20

Revenue for Q2 was DKK 627m, corresponding to a decline of 31.0% (-31% in local currencies) compared to the same quarter last year. Revenue was impacted by the transition to a demand-driven sales model and the ongoing reduction of retail inventory. Revenue in Q2 was supported by two product launches.

The gross margin was 42.5%, down by 6.7pp from last year. Excluding the effect of currency hedges, gross margin declined by 4.6pp. The decline was primarily related to sales of end-of-life products and sell-out allowances which supported the inventory reduction at retail level.

Capacity costs declined by 3.7% compared to last year. Administration expenses for the quarter was impacted by severance costs. Excluding special items, capacity costs declined by 5.1% due to lower distribution and marketing costs partly related to company-owned stores which have since been sold.

EBIT margin was negative 12.1%, impacted by lower revenue and gross margin, partly offset by lower capacity costs. Excluding special items, the EBIT margin was negative 9.8%.

Free cash flow in the quarter was DKK 32m compared to a negative DKK 84m last year. The free cash flow was mainly impacted by the positive development in net working capital.

Follow-up on strategic initiatives

The company launched the planned products in Q2.

The number of store openings and upgrades of in-store presence was lower than expected, largely related to a few retail partners. The plan for the full year is maintained.

Continued improvements of sell-out insights with 44% of European monobrand stores supplying data that are verified for analysis.

Financial highlights H1 2019/20

Revenue for H1 was DKK 1,046m, corresponding to a decline of 30.7% compared to last year (negative 31% in local currencies). The revenue decline reflects the transition to a demand-driven retail model and efforts to reduce retail inventory.

The gross margin decreased to 40.1% from 48.3% last year. Excluding the effect of currency hedges, gross margin declined by 5.9pp. The decline was primarily related to the sales of end-of-life products at lower prices.

Capacity costs declined by 4.9% compared to last year. Administration expenses were negatively impacted by severance costs. Excluding special items, capacity costs declined by 5.7%.

EBIT margin was negative 19.6%, adversely impacted by the lower revenue and gross margin. Excluding special items, EBIT margin was negative 18.2%.

Free cash flow was negative DKK 174m (negative DKK 189m). The free cash flow was primarily impacted by lower operating profit. Change in net working capital was DKK 10m compared to negative DKK 270m last year, reflecting focus on reducing net working capital.

Outlook 2019/20

The outlook is unchanged compared to the adjusted outlook presented in the announcement released on 17 December 2019.

- Revenue growth (local currencies): Decline by 13-18%
- EBIT margin (excluding special items): Minus 4-9%
- Free cash flow: Negative DKK 100-150m

The company is preparing a three-year strategy plan that will be presented at a Capital Market Day on 3 April 2020.

Webcast

Bang & Olufsen will host a webcast on 14 January 2020 at 10:00 CET. The webcast can be accessed through the company's website <https://investor.bang-olufsen.com>

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