SPEAKING NOTES - AGM, 21 AUGUST 2019 - OLE ANDERSEN
(Translation)

(In the event of any discrepancy between the oral and written version, the oral version prevails)

Thank you Kåre.

2018/19 was a disappointing year for Bang & Olufsen. We had set ambitious targets, but we failed to achieve them, and we had to downgrade our financial guidance three times. Naturally, this is very unsatisfactory, and a serious setback compared to the positive trend we have seen in recent years.

There were two main reasons for the downturn. First, we had significant challenges implementing the much needed transformation of our sales and distribution network; and second, we launched fewer products in 2018/19 than previously.

The ongoing transformation process reflects our wish as a company to take greater responsibility for where and how our products are experienced by our customers. The transformation is a vital prerequisite to achieving profitable long-term growth and strengthening Bang & Olufsen's position as a luxury and lifestyle brand. However, the implementation of the necessary changes has not progressed as we might have hoped.

Over a period of several years, we opened thousands of points of sale, including through distributors, where we had very little insight into sales performance and the customer experience, and if we were to continue down this road we would risk eventually diluting the Bang & Olufsen brand.

In the past year, we have therefore closed down a number of points of sale that neither contributed with repeat sales nor delivered the right customer experience, and instead focused on ensuring that our products are branded in the right way in the outlets that function well. At the same time, we wanted to establish new sales outlets that can deliver the right customer experience at more attractive locations in key markets. Unfortunately, as I mentioned, we have not been able to implement the transformation at the pace we had expected.

We also began to fundamentally change our approach to driving sales. We are now focused on demand-driven sales rather than being focused only on sell-in to our retail partners. This requires a new way of working, and thus another organisational set-up and other competences, and this is what we have been building – and will continue to build. This is also why we have employed many new staff in sales and marketing and within the digital area in the past year.

The other main reason for the disappointing growth is that we launched fewer products compared to last year.

We took a conscious decision to launch fewer products in 2018/19 and instead focused on upgrading existing products with new technologies, such as Google Assistant and Apple Airplay 2, or on offering a broader palette of materials and finishes. We firmly believe we have a strong product portfolio, but we acknowledge that we underestimated the need to regularly bring new products to market.

We will therefore increase the number of product launches, which will be supported by the new product platforms we have invested in in 2018/19. These new product platforms will – in addition to speeding up development and therefore the launch rate – considerably strengthen the user experience going forward.

Hence, we have planned significantly more new product launches for 2019/20, which I will return to later.

In our view, the strategic changes we initiated in 2018/19 were and are necessary, but regrettably we underestimated the short-term execution risk.

As a result of the slow transformation of our sales and distribution network and fewer product launches, revenue fell by just under 14% compared to the previous year. This is a disappointing setback given that we were capable of achieving average growth of 11% over the previous five years.

Lower revenue affected our EBIT margin negatively. Nevertheless, despite the significant fall in revenue, it was encouraging that we could still deliver a positive EBIT margin and bottom line. This was in no small way due to the flexible and scalable business model we have established in recent years – and which means we have tied up substantially less capital in production assets than we have done historically.

Our free cash flow was affected by both the lower revenue and by a greater amount of capital being tied up in inventories. As production had been planned to match higher sales than we realised, inventories rose sharply over the course of the financial year.

Despite the significant challenges we have faced, particularly in connection with the transformation of the sales and distribution network, we have seen solid progress on several strategic initiatives this past financial year.

Our vision of being the most desired audio brand in the world is unchanged, and we continue to work with four strategic themes that will plot the direction of the company going forward.

Before I present the financial results in more detail, I would like to go through the results and the progress we have achieved in these areas.

Our brand, Bang & Olufsen, is the foundation on which our company is built. It encompasses our core competences in sound, design and craftsmanship.

In 2018/19, we continued our work to strengthen our position as a luxury and lifestyle brand. We have started to create a more customer-focused business and we have taken greater ownership of the customer experience across all our sales channels – both offline and online. Meanwhile, we have also been focused on establishing new sales outlets at attractive locations in key markets that cater to customers seeking luxury and lifestyle products.

In 2018/19, we merged the two brands B&O PLAY and Bang & Olufsen – which now operate as one brand. The move contributed to creating a more consistent customer experience and at the same time enabled us to better focus our marketing and communication resources.

In 2018/19, Bang & Olufsen both further developed its existing partnerships and also entered into new partnerships with tech companies, designers and other luxury and lifestyle brands. Among others, we have teamed up with Rimowa, Saint Laurent, David Lynch, American Airlines, Singapore Airlines and LG, and these partnerships have contributed to strengthening our brand, increasing the exposure of Bang & Olufsen to potential new customers and have given us access to new distribution channels.

Our product development is focused on creating innovative and progressive products based on our core competences in sound, design and craftsmanship. We have to constantly be able to offer our customers the best and most relevant technological solutions on the market, and we do that by, for example, teaming up with technology partners, such as Google and Apple, when it comes to the integration of technological ecosystems.

We launched a number of updated versions of our existing products in 2018/19 in terms of technology, finish and materials.

For example, we were among the first Apple partners to introduce multi-room audio by integrating Airplay 2 into a number of our products, while Beosound 1 and 2, Beoplay A9 and Beoplay H9 were upgraded to support Google Assistant during the year.

We launched Beosound Edge, our latest multi-room speaker, in August 2018. The product is a manifestation of our company's core competences, and the speaker has won a number of international design awards.

We launched the new Beovision Harmony at Milan Design Week in April, this is a TV solution we have developed in collaboration with our strategic partner LG. The TV won't be available in the stores until October, but the market has already given it a positive reception and we have also experienced solid interest.

The merger of Bang & Olufsen and B&O PLAY also marked the starting point of efforts to streamline our product design and technological platforms. This is why we made significant investments during the year in developing the company's future product platforms, which will form the foundation for our future product launches. The new platforms allow us to substantially strengthen the user experience while also increasing the speed of product development – and thus our launch rate.

As I mentioned in my introduction, we decided last year that we would launch fewer products in 2018/19 and instead focus on upgrading the existing portfolio. And while we firmly believe we have a strong product portfolio, we must conclude that we underestimated the need to bring new products to market. In 2019/20, we will therefore increase the frequency of new product launches – particularly in the second half of the financial year.

As I have stated, one of the toughest challenges has been the transformation of our sales and distribution network, whereby we wish to take greater responsibility for the customer experience across all sales channels – both online and in-store.

We did not manage to carry out the necessary changes at the pace we had anticipated, and we have to conclude the problems were in large part due to our own execution of the strategy.

We have not been quick enough to expand our presence in the right multibrand points of sale, just as we have not managed to establish sufficient new monobrand stores and shop-in-shops at the right locations.

The shift to a more demand-driven sales and distribution network is an important prerequisite if we are to perform against international competition, create the right customer experience and deliver profitable long-term growth.

While we have not yet completed the transformation, we have nevertheless made substantial progress in several areas.

We have signed up new partners in China, North America, Australia and New Zealand, and our new partners in China have opened 19 new monobrand stores during the past financial year. Moreover, in April we launched our new e-commerce platform, which should not only contribute to increasing e-commerce income in the long term, but also very much strengthen the customer experience and increase sales from physical sales outlets.

It is vitally important for Bang & Olufsen that we continue to strengthen our online presence. As well as our own new e-commerce platform, we are busy working to strengthen our presence on the most important global online sales channels. Over the past year, we have strengthened our collaboration with Amazon, who sells our products in the European and US markets, and we continue to have a strong presence on Tmall and other major online shopping platforms in China. Bang & Olufsen's online sales thus constitute a not insignificant share of our total revenue.

We have, in addition, rolled out new contracts to our monobrand network in 2018/19. Going forward, this will enable us to gain a much greater insight into sales trends for our products in the monobrand stores, plus we will be able to create a more uniform customer experience across geographies. This will also allow us to react more quickly if we discover our products are being sold through unauthorised channels.

To be able to realise the full potential of our company, it is vital that we continue to strengthen the company's competences and processes.

This is why we have invested further in our digital transformation in 2018/19. Among other things, this will give us greater insight via data, which will increasingly ensure a better understanding of our customers and their preferences. Data insight will also be driven by the e-commerce platform that we launched in the spring.

We have also invested significantly in new competences that reflect the company's strategic direction. Hence, we have strengthened the organisation by hiring new employees with solid competences within retailing and more, with a new head of omnichannel and EMEA, and a new head for the North American market. In the digital area, we have hired a number of international profiles with expertise in software and data, while we have also strengthened our executive team by hiring Snorre Kjesbu as Head of Product Creation and Fulfillment, and Nikolaj Wendelboe as CFO.

I will now go into the financial results in greater detail.

As I have already mentioned, our results were adversely affected by the transformation of our sales and distribution network. This meant revenue falling by just under 14%.

When we look at EBIT margins over the past few years, it is clear that the changes we have made to our business model have strengthened the company. However, the EBIT margin for 2018/19 was negatively affected by falling revenue, particularly in the second half of the year and it dropped to 2.1%.

In addition to the negative development in EBIT, our net earnings were also affected by higher financial expenses. Our net earnings for the year amounted to DKK 19 million.

Free cash flow was affected by the lower sales volume, which in addition to the lower EBIT also resulted in substantially more capital being tied up in inventories.

The negative trend in revenue was unfortunately apparent in all three of our regions. Brand Partnering developed positively, while other activities developed negatively.

The greatest decline in sales across the regions was seen in our Staged products, which include TVs. No new products were launched in this category in 2018/19 and this had a negative effect on revenue. Furthermore, revenue in 2017/18 was supported by the sale of discontinued TV models. Revenue in Europe, in particular, has been affected by the decline in sales in the Staged product category, as the vast majority of monobrand stores are located in Europe.

We can see that inventory levels in the markets have been excessive at many of our retail partners. This has also had a negative impact on sales, especially in the second half of the year, as our partners were working to normalise stocks.

In EMEA, there was significant focus in 2018/19 on strengthening the sales and distribution network by having fewer monobrand partners run a larger network of stores in defined geographies. In addition, we rolled out new contracts to all our monobrand partners in Europe, creating a much better foundation for delivering the right customer experience going forward.

Our multibrand distribution network in EMEA changed significantly during the year. We pulled our products from more than 1,000 multibrand points of sale that were not contributing noticeable repeat sales or the right customer experience. Instead, we focused on establishing direct distribution to key partners, such as Amazon. However, the transformation of the multibrand channel has been a slower and more complex process than expected, in part due to increased sales through unauthorised channels during the year, which had a negative impact on authorised partner sales.

We were also particularly challenged in the multibrand channel in the Americas. We have opened many multibrand points of sale in recent years, which initially contributed sell-in but subsequently neither contributed repeat sales nor delivered the expected customer experience. We have therefore almost halved the number of multibrand points of sale over the past financial year.

As a result, we have also been focused on opening new multibrand points of sale in department stores such as Neiman Marcus, but establishing new points of sale has taken considerably longer than expected.

The number of monobrand and multibrand points of sale in Asia has been largely unchanged over the past year. Here, the focus has been on ensuring that our products are experienced in a consistent manner that reflects our brand. However, the transition here has also been slower than expected.

Nevertheless, we lined up five new monobrand partners in China, who together opened 19 new stores over the course of the year. We have now established a new, local organisation in Japan to ensure we realise the potential we perceive in that country, which is one of the world’s largest markets for luxury goods.

We switched retail partners in Australia and New Zealand at the start of the financial year, which meant starting all over again in those markets and incurring a considerable negative impact on revenue. We now have a contract with a new partner, who has established five stores in the two markets.

We launched our new e-commerce platform in the spring. Our initial experience is promising, and we have seen an increase in traffic to our website. As mentioned earlier, Bang & Olufsen also generates significant online revenue via other online channels.

Brand Partnering developed positively over the year with respect to both HP and HARMAN, with whom we have licence agreements. In contrast, sales of aluminium products to third parties have fallen, which is the reason why revenue in Brand Partnering and other activities declined.

Positive margin growth could be seen across all three product categories. The development was mainly due to changes in the product mix, though movements in the US dollar exchange rate also contributed positively to margin growth.

That we could still deliver improved profitability at product level despite reduced sales was indeed good news.

The company's capacity costs rose by 1% to DKK 1,342 million. The rise came on the back of higher distribution and marketing costs and also higher administration costs, while development costs fell compared with 2017/18.

Development costs declined by DKK 88 million, which can essentially be ascribed to a drop in amortisation charges. Incurred development costs fell by DKK 28 million, due to lower activity in the first half of the year, while the second half of the year reflects a higher activity level, in part related to the development of new products.

Distribution and marketing costs rose by 11%, reflecting our investment in the building of new competences, especially in the digital area – and also in marketing activities – to increase awareness of the Bang & Olufsen name.

Administration costs rose by 12% to DKK 146 million. The increase mostly relates to a write-down on the value of our former headquarters here in Struer, which has been put up for sale. Correcting for this reduces the rise in administration costs to 4.6% which, among other things, related to activities supporting the transition process.

The company's net working capital at the end of the financial year was DKK 410 million compared to DKK 100 million the previous year.

The increase was primarily due to inventory growth, up DKK 244 million because production had been planned according to considerably higher expected sales levels.

Investment fell by DKK 13 million in 2018/19 to DKK 154 million due to a lower level of investment in the first six months of the financial year Investment in 2018/19 was related to our new e-commerce platform, new product platforms and the development of new products for launch in 2019/20. Last year, the level of investment was further affected by investment here in our Innovation Lab in Struer – the site of today's AGM.

As I mentioned earlier, the company's free cash flow was a negative DKK 272 million, mainly due to the negative development in the company's working capital.

Our cash reserves fell significantly in 2018/19 to DKK 420 million. A substantial share of the fall was due to the negative development in the company's free cash flow. In addition, cash reserves were reduced through our share buyback programme, after we had bought back own shares for a total of DKK 264 million. We discontinued the share buyback programme on 26 March 2019 due to our financial performance.

We continue to have a target of maintaining net liquidity of at least DKK 500 million, so our ambition is that our future expected positive free cash flow be used to strengthen cash reserves.

We have identified a number of strategic priorities for 2019/20 that should ensure the company returns to profitable growth.

It is absolutely vital that we succeed with the transformation of our sales and distribution network that we kicked off last year and that we become more and more retail focused. This also means we will be working towards normalising inventories at our retail partners and that, going forward, our focus will be on ensuring sales to end-customers. We expect the normalisation of inventories at our retail partners to have a negative effect on our financial results, particularly in the first half of the financial year.

It is a clear priority for us to open new points of sale in key markets together with our partners – both multibrand and monobrand.

In Europe, we will have a particular focus on establishing clusters of stores, with partners being responsible for multiple stores in the same geographical area. In the US and Canada, we will be especially focused on building networks of stores in larger cities for customers who seek luxury and lifestyle products. In Asia, we will prioritise expanding the sales and distribution network in selected markets. We established new and strong sales organisations in EMEA and the Americas in 2018/19, and so we are now better equipped to succeed with the transformation.

As I mentioned earlier, we plan to launch more products during this financial year than in 2018/19.

We expect to present new products in all three product categories, and it is essential that we ensure successful launches – both in terms of quality and also in terms of marketing our products. We will be working closely with our partners to ensure this happens.

We have already announced our Beovision Harmony TV, which will be available in stores in October. The first new products are planned for the second quarter of the financial year, but the financial effect of the launches will not really be felt until the second half of the financial year and particularly in the fourth quarter.

In addition, we are continuing to work on our long-term product development so our company will always has a portfolio of innovative products. This is also why it is important we complete the development of our new technology platforms that future products will be based on, including products that we plan to launch already in the current financial year.

In 2019/20, we will also be working to strengthen awareness of our brands across markets.

We will do this by, for example, working with more locally anchored sales and marketing efforts that are much more data-driven to ensure more effective brand and product campaigns. Our digital competences have been greatly strengthened in 2018/19, which will enable us to target our efforts significantly better than previously.

At the same time, we will be working to develop existing partnerships and brand collaborations as well as establishing new ones. This is important if we are to strengthen the Bang & Olufsen brand and increase our exposure to new consumer groups.

Finally, we will continue to strengthen our internal processes and competences in selected areas, including retail, brand and digital.

In revenue terms, we expect to see single-digit revenue growth in local currencies for the current financial year. We're not expecting growth until in the second half of the financial year, as the first half will be negatively affected by the normalisation of inventories at our retail partners. In the second half of the year, however, we expect growth to be supported by product launches. Likewise, we expect to open new monobrand and multibrand points of sale in key markets together with our partners.

We expect the EBIT margin will be higher than the 2018/19 EBIT margin of 2.1%. We expect the pick-up will come from both higher revenue and a further improvement in the gross margin.

We expect the free cash flow to be positive in 2019/20. Our ambition is to reduce our working capital during the year, especially our inventory holdings. In 2015, we sold our Automotive business to HARMAN, from whom we have been receiving regular licence income since. This has been offset in the advance payment we received in 2015, but we expect that licence payments will affect the free cash flow in Q2 2019/20, as the advanced payment has now been settled.

Given the uncertainty related to the transition of our sales and distribution network to a more retail-driven business model, we have decided for now not to give forward guidance for the period beyond the current financial year.

Bang & Olufsen has adopted a policy laying down the guidelines for ensuring diversity on the company's Board of Directors, as Bang & Olufsen views diversity on the Board as essential to the Board's work.

Among our current shareholder-elected board members, two have an international background and one is female. We have a goal of having two female members elected by shareholders after this year's AGM. If the three candidates proposed for election are approved, we will then have three women on the Board, all with international backgrounds. Hence, we will have exceeded our target and will thereafter comply with the requirement regarding equal gender distribution.

To encourage diversity in the company, we also have a focus on promoting women at management level in Bang & Olufsen. We have defined a target of at least 25% female representation on our senior management staff by 2021.

To ensure the Board possesses the requisite competences and collaborates well internally and with the Executive Management Board, an annual assessment of the Board, the Board Chairman and the work of the individual Board members is carried out via an anonymous online questionnaire completed by Board members and members of the Executive Management. The results of the assessment are then summarised by an external consultant and subsequently presented to the entire Board.

Last year's result showed that we generally have a well functioning and well organised Board with experience of and insight into the industry.

The assessment identified three areas that needed particular attention:

- First, an increased focus on succession planning and talent development.
- Second, to ensure that relevant inspiration and data is sought outside the company within specific areas where experience or insight are currently limited.
- Third, to ensure a collaborative working relationship is established between the Board and the new members of the Executive Management Board.

We have set in motion the work to improve on these points.

In addition, I hold meetings with each Board member to review his or her individual evaluation.

Here at the general meeting we also have to touch on corporate governance. At Bang & Olufsen we view the work with corporate governance as an important and ongoing process, and we regularly consider the principles involved.

As a company listed on the NASDAQ Copenhagen A/S stock exchange and in accordance with the Danish Financial Statements Act, Bang & Olufsen is subject to the recommendations on corporate governance, and Bang & Olufsen complies with these recommendations.

The company's Board has prepared a report on corporate governance for 2018/19. This report is available on the company's website. This is also where you can view or download the company's annual report and get further information about our products, company announcements and corporate social responsibility, etc.

The remuneration of the Executive Management Board has been approved by the Board of Directors and is in compliance with the remuneration policy and the general guidelines for incentive remuneration that are approved by the shareholders.

As you can see, there was an increase in the remuneration of the Executive Management Board during the financial year. Base salary has fallen, reflecting two unoccupied positions on the Executive Management Board during part of the year, namely the CFO position and the Head of Product Creation & Fulfillment.

As you can also see, the bonus has increased, but this is because the bonus earned for 2017/18 is not paid out until the first quarter of the 2018/19 financial year. Worth mentioning here is that our CEO, Henrik Clausen, and our Head of Brand and Markets, John Mollanger, have both waived their right to bonus related to the 2018/19 financial year. That will appear from the 2019/20 annual report.

The level of remuneration of the Executive Management Board reflects our desire to be competitive and to be able to attract and retain competent employees – also on the Executive Management Board.

We implemented our new CSR strategy in 2018/19. It builds on the UN's global sustainable development goals and input from the company's stakeholders, and should contribute to us at Bang & Olufsen increasing our positive contribution to society.

The strategy builds on four focus areas:

1. Environment and climate impact, where we aim to minimise the negative environment and climate effects of both our operations and our products
2. Responsible employer – we wish to strengthen our focus on diversity and ensure a safe and motivating work environment for all employees at Bang & Olufsen
3. Role in society – we wish to use our core competences to strengthen the company's contribution to society. For example, in the areas of education and health
4. Responsible partner – we want to strengthen the dialogue with our supply chain and retail partners to ensure responsibility in our supply chain and a strong compliance culture.

We worked on a series of new initiatives in 2018/19 and have seen significant progress across all four focus areas.

We reduced the company's CO2 emissions through targeted initiatives, and we completed a comprehensive analysis of the environmental and climatic impact of our products. In 2019/20, we will begin to implement the recommendations of this report in our processes so that we minimise the negative effects our products have on the environment and climate.

We also had a great deal of focus on employee wellbeing in 2018/19 – and particularly on reducing the number of cases of stress, as we had seen an increase in 2017/18. We are happy to report that with a targeted effort we have reduced the number of employees suffering from stress during the financial year. Overall employee engagement fell a little compared with the previous year, in part due to organisational changes, so we have therefore launched a series of initiatives to reverse this trend. Another focus area for us during the year has been to increase the share of women in management roles, which we succeeded in doing, though we did not reach our target for the year.

At Bang & Olufsen, we are keen to use our core competences in sound, design and craftsmanship to benefit society. This is why we decided last year to closely collaborate with Sound Hub Denmark to help Danish and international start-ups in the sound and technology area by making our know-how and competencies available to them. All in all, we helped 16 new start/ups – and our collaboration with Sound Hub Denmark will continue in the current financial year.

We also contributed to a number of educational initiatives aimed at getting young people interested in technology, research and mathematics, etc. Contributions included our annual Innovation Camp, which was recently held in Shanghai for more than 40 international students. We also contributed to two new research projects that will investigate how sound can have a positive effect on our physical and mental health.

You can read more about the strategy and our work in our 2018/19 CSR report, which is available on our website.