



**BANG & OLUFSEN**  
INTERIM REPORT Q2 2015/16  
17 December 2015

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# AGENDA

HIGHLIGHTS

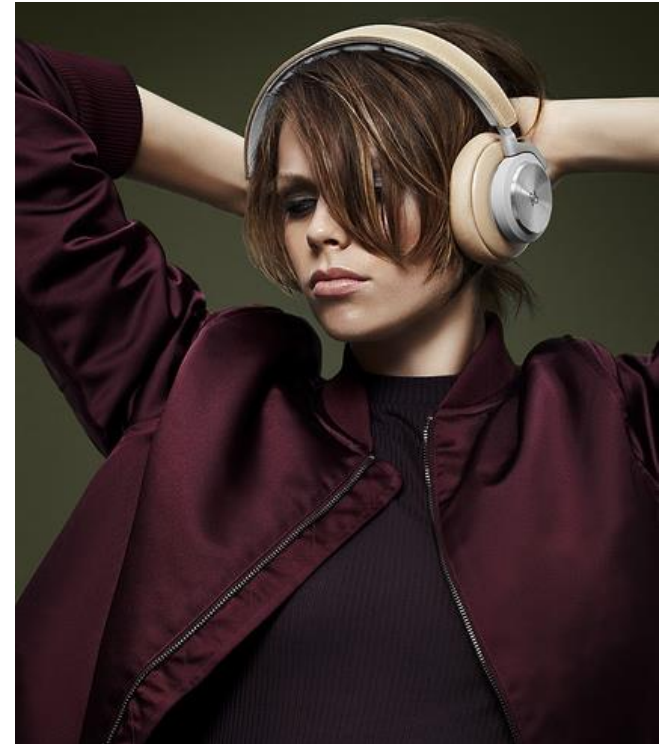
FINANCIAL RESULTS

OUTLOOK

QUESTIONS AND ANSWERS

# HIGHLIGHTS

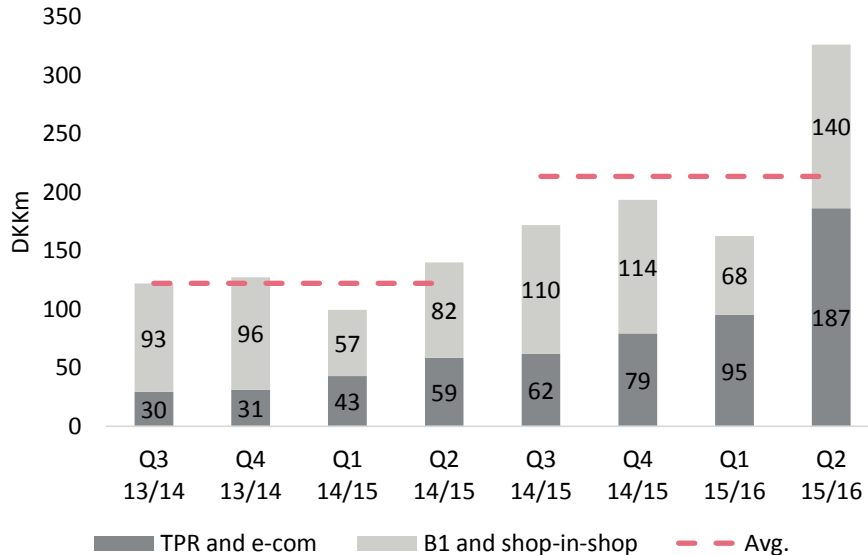
- Revenue growth of 26 per cent in the second quarter (21 per cent in local currency) driven by significant growth in B&O PLAY whilst Bang & Olufsen declined slightly
- Gross margin improvement program on track in both segments with especially Bang & Olufsen showing a positive development
- Free cash flow was positive DKK 63 million – impacted by improved earnings and net working capital
- 90th anniversary celebrated with the launch of the BeoLab 90. As expected, minimal revenue impact from BeoLab 90 in the quarter
- Guidance of revenue growth of 8 – 12 per cent and an EBIT (before costs previously allocated to Automotive) around break-even is maintained
- Growth expectations have been adjusted upwards for B&O PLAY and downwards for Bang & Olufsen



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# STRONG MOMENTUM IN THE B&O PLAY BUSINESS

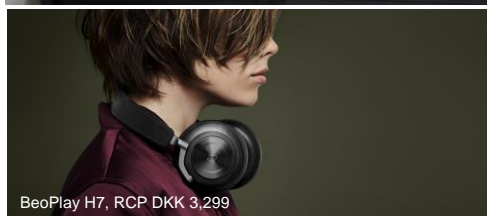
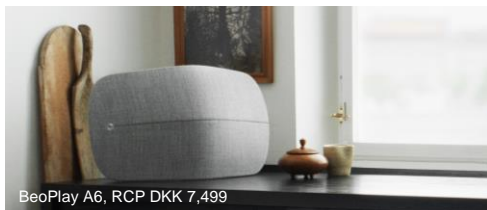
## B&O PLAY revenue



- Stronger than expected performance in the second quarter
- Growth in all retail channels
  - Third party retail and e-com grew 218 per cent
  - B1 and shop-in-shop grew 70 per cent
- Growth is expected to continue, albeit at lower growth rates than in the first half of the financial year
- Note that:
  - As the share of third party retailers increases, high-season shifts from Q3 to Q2
  - Q2 was the fourth quarter in a row with strong year on year growth. Q3 onwards represents a tougher comparison
  - The third quarter last year benefitted from a backlog in the second quarter on the key products

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# NEW B&O PLAY PRODUCTS LAUNCHED DURING THE QUARTER



## BeoPlay H7

- Premium wireless over-ear headphone
- Intuitive touch interface
- Rechargeable and replaceable battery with up to 20 hours playtime
- RCP DKK 3,299

## BeoPlay A6

- Integrates with BeoLink Multiroom to provide bridge from B&O PLAY to Bang & Olufsen
- Stream via AirPlay, DLNA or Bluetooth
- RCP DKK 7,499

## Headphone product portfolio



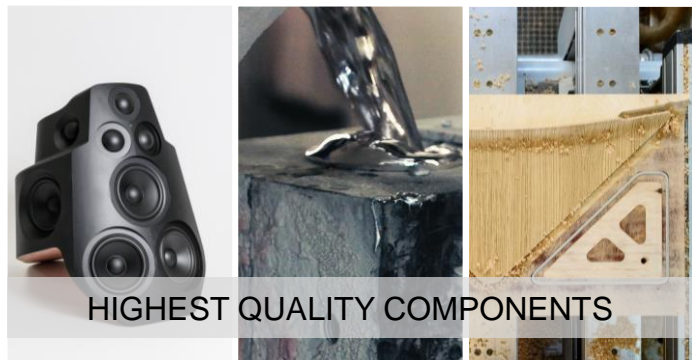
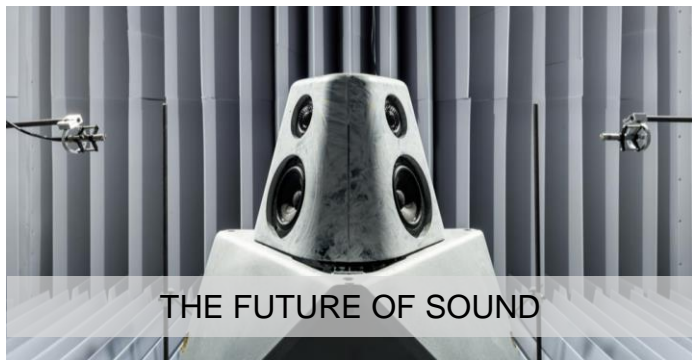
## BeoPlay A9

- Four new luxurious wool fabric covers
- Designed and developed in collaboration with the Danish textile company Kvadrat
- Launched in stores in November 2015

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# BEOLAB 90: BANG & OLUFSEN'S MOST INNOVATIVE SPEAKER TO DATE



HIGH-TECH

## Le pari fou de Bang & Olufsen

SON Pour marquer son grand retour après des années difficiles, la marque danoise lance une enceinte audiolophile aussi spectaculaire par son design que par ses innovations.

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TECHNIK UND MOTOR

Der Traum vom Raum

Zum 90. Geburtstag will sich Bang & Olufsen feiern. Mit einem Lautsprecher, der all sein Können in eine große, dreieckige Form bringt.

Frankfurter Allgemeine Zeitung  
13 October 2015

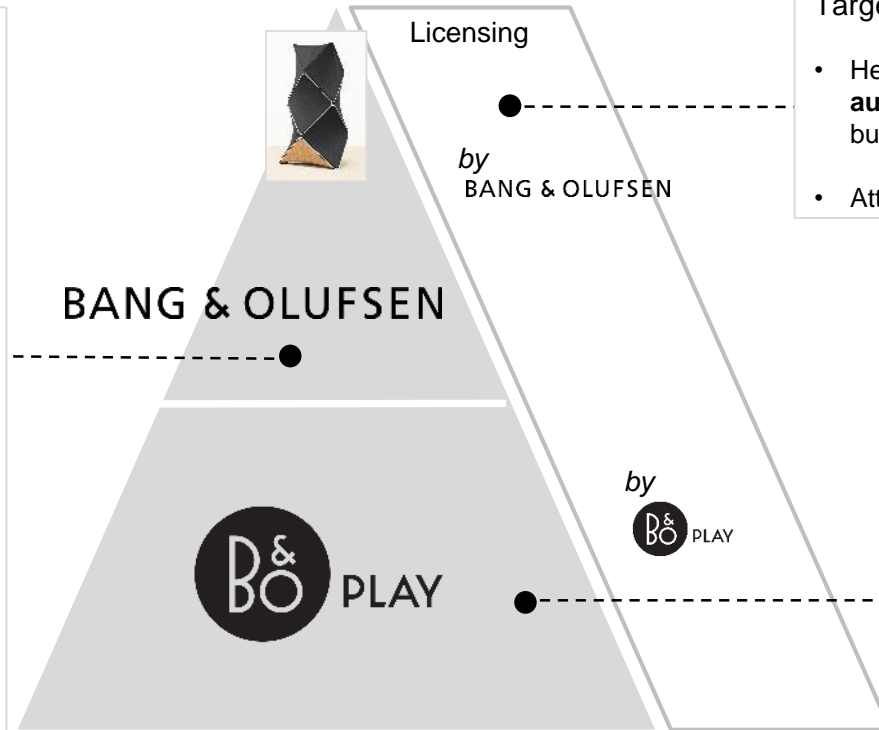
聆听生活的艺术  
BeoLab 90

Luxury Watcher  
November 2015

# BEOLAB 90 SUPPORTS THE WHOLE BUSINESS MODEL

**High-end** sound and picture experiences

- Manifests **Bang & Olufsen position** as a market leader within innovation and acoustics
- Has a **halo-effect** on the entire Bang & Olufsen product portfolio by signalling innovation, craftsmanship and design
- **Concrete BL 90 features** will trickle down the product portfolio
- Generates **revenue and a strong gross margin** to the Group (In comparison BeoLab 5 revenue has exceeded DKK 1bn since launch)





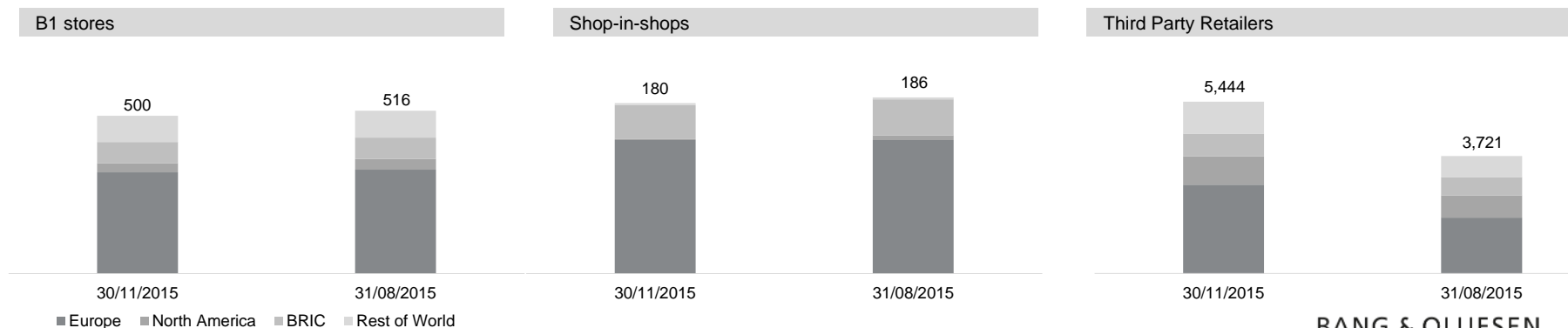
# B&O PLAY DISTRIBUTION CONTINUES EXPANSION

## B1/SiS distribution decreased the number of stores

- Continued focus on improving the profitability and the lifting the customer experiences across the B1 and shop-in-shops
- The number of B1 stores declined by (net) 16 stores in the second quarter, primarily due to store closings in Europe and North America. The number of shop-in-shops declined by 6 stores in the quarter
- New flagship stores opened in key locations such as Moscow and Madrid

## Third party retail store expansion continues

- The number of third party retail stores is now above 5,400
- The number of stores increased in all regions compared to the first quarter of 2015/16, with the Europe as the main contributor to the increase in stores
- Estimated store filling effect is DKK 15,000 – 25,000 per store added in the quarter (i.e. approx. DKK 35 million in the second quarter)



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# FINANCIAL HIGHLIGHTS

## Key financial figures

DKK million	2nd quarter		YTD	
	15/16	14/15	15/16	14/15
<b>Revenue</b>	<b>729</b>	<b>579</b>	<b>1,235</b>	<b>1,012</b>
Gross profit	276	156	429	285
EBIT	-31	-155	-136	-327
<b>EBIT (adj*)</b>	<b>-14</b>	<b>-118</b>	<b>-96</b>	<b>-257</b>
EBT	-23	-152	-142	-326
Earnings after tax (cont. busi.)	-20	-118	-112	-260
Earnings after tax (disc. busi.)	9	46	15	78
<b>Earnings</b>	<b>-11</b>	<b>-72</b>	<b>-97</b>	<b>-181</b>
Gross margin, %	37.9	26.9	34.7	28.1
Net working capital	270	724	270	724
Free cash flow	63	-40	-105	-281

\*Excl. cost previously allocated to the Automotive business (DKK 17 million in Q2)

- Revenue growth of 26 per cent in the second quarter, corresponding to 21 per cent in local currency
- Gross margin improved compared to the same quarter last year, driven by an improvement in Bang & Olufsen and B&O PLAY
- EBIT improved to negative DKK 31 million, from negative 155 million last year
- Net working capital dropped compared to the first quarter, driven by an increase in trade payables
- Free cash flow was DKK 63 million compared to negative 40 million last year
- Earnings after tax in the discontinued business (ICEpower) was DKK 9 million

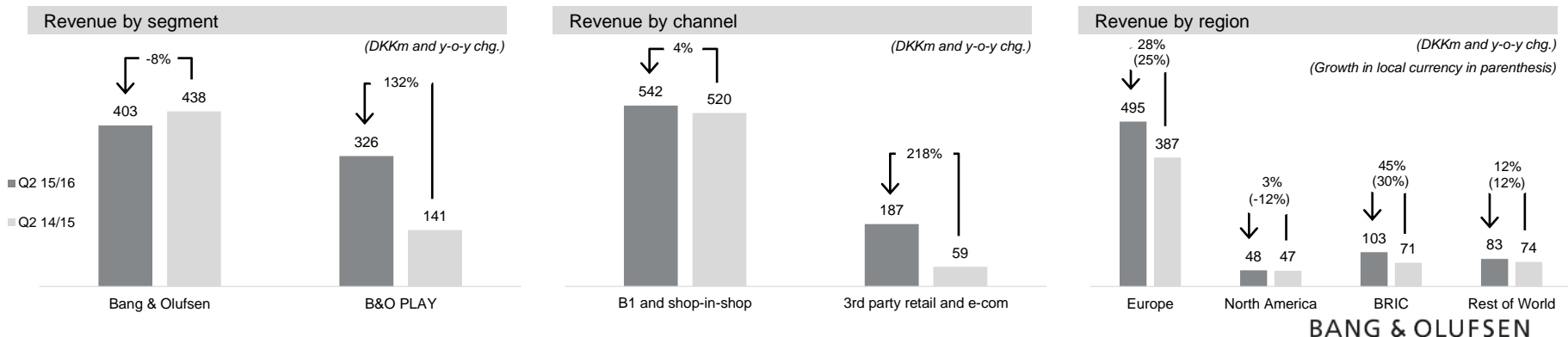
# REVENUE GROWTH DRIVEN BY B&O PLAY

## 26 per cent growth in the second quarter

- Growth was primarily driven by growth in the B&O PLAY segment, which grew by 132 per cent in the second quarter
- Revenue in the Bang & Olufsen segment declined by 8 per cent, which was weaker than expected
- Both the B1/shop-in-shop channel and the third party retail channel grew in the quarter, with 4 per cent and 218 per cent respectively

## Europe and BRIC drives Group growth

- Strong growth in Europe and BRIC driven by B&O PLAY products, whereas revenue from Bang & Olufsen products declined in the second quarter
- BRIC revenue increase driven mainly by growth in the Greater China Region through both B1/SiS and third party retail
- Revenue decline in North America was mainly related to restructuring of the retail network



# GROSS MARGINS SHOW STRONG IMPROVEMENT

Gross margin				
%	2nd quarter		YTD	
	15/16	14/15	15/16	14/15
Bang & Olufsen	42.2	25.5	37.8	27.8
B&O PLAY	32.6	31.1	30.0	29.0
<b>Group</b>	<b>37.9</b>	<b>26.9</b>	<b>34.7</b>	<b>28.1</b>

## Gross margin improvement in both segments

- Group gross margin improvement of 11 percentage points
- Gross margin improvement in Bang & Olufsen is driven primarily by:
  - **Product mix:** Focus on the multiroom launch means that there has been stronger performance in the Speakers and Audio product category than in the TV category
  - **Seasonality:** Revenue in the second quarter is higher than the first quarter, which dilutes the indirect production costs
  - **Cost focus:** Cost restructuring initiatives announced in the Spring 2015 have improved the overall cost level
- B&O PLAY gross margins improved due to:
  - **Product mix:**
  - **Scale:** Improved scale in production as volumes increase
  - **Distribution:** Improved distribution setup

# MODERATE DECLINE IN CAPACITY COSTS

## Capacity costs showed moderate increase

- Distribution and marketing costs increased mainly due to the 90<sup>th</sup> anniversary, the launch of the BeoLab 90, and the high season campaign activities
- Capacity costs include DKK 10 million in cost previously allocated to discontinued operations

### Capacity costs

DKK million	2nd quarter		YTD	
	15/16	14/15	15/16	14/15
Development	74	87	145	176
Dist. and marketing	216	205	383	396
Administration	19	19	39	40
<b>Total cap. costs</b>	<b>309</b>	<b>311</b>	<b>567</b>	<b>611</b>

## Development costs positively affected by restructuring

- Development costs positively impacted by the previously announced restructuring (12 March 2015)
- Strong pipeline of new products in both the Bang & Olufsen and B&O PLAY segments

### Development costs

DKK million	2nd quarter		YTD	
	15/16	14/15	15/16	14/15
Incurred development costs before capitalization	76	88	138	168
Net effect of capitalizations and amortisations	-2	-1	8	7
<b>Development costs in P&amp;L</b>	<b>74</b>	<b>87</b>	<b>145</b>	<b>176</b>
Capitalization (%)	63.2%	54.3%	57.1%	51.5%

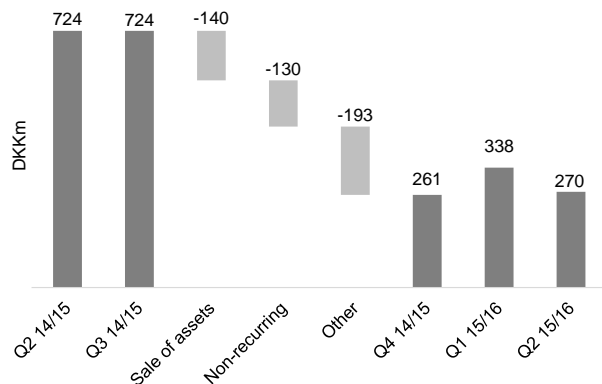


# POSITIVE FREE CASH FLOW IN THE QUARTER

## Net working capital improvement driven by trade payables

- The net working capital declined to DKK 270 million at the end of the second quarter from DKK 338 million in the previous quarter
- Higher trade payables was the main driver of the decline in net working capital

## Net working capital by quarter



## Positive free cash flow in the quarter

- The free cash flow was DKK 63 million in the quarter
- The improvement in the free cash flow was driven by a combination of improved earnings and net working capital
- Free cash flow year to date improved by DKK 176 million compared to last year

## Cash Flow

DKK million	2nd quarter		YTD	
	15/16	14/15	15/16	14/15
<b>Earnings for the period</b>	-11	-72	-97	-260
Net working capital related	79	53	5	-67
Other	69	58	110	201
<b>Cash flow from oper. activities</b>	<b>138</b>	<b>39</b>	<b>19</b>	<b>-125</b>
Cash flow from investing activities	-75	-80	-124	-156
<b>Free Cash Flow</b>	<b>63</b>	<b>-40</b>	<b>-105</b>	<b>-281</b>

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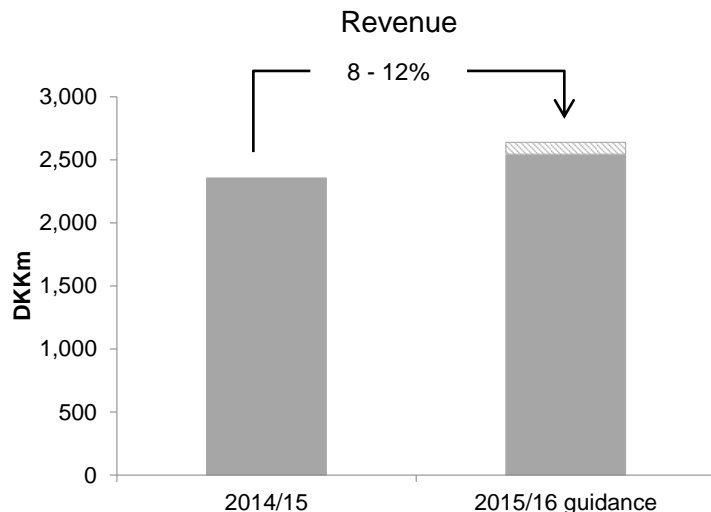
OUTLOOK

QUESTIONS AND ANSWERS

# OUTLOOK FOR 2015/16 - MAINTAINED

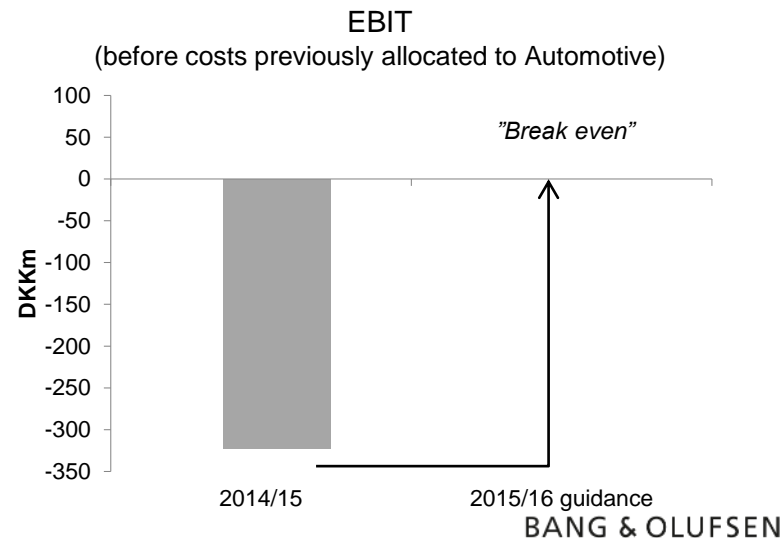
## Revenue

- Group revenue growth of 8 to 12 per cent compared to 2014/15
  - B&O PLAY is expected to grow in the coming quarters, albeit at lower year over year growth rates
  - Bang & Olufsen is expected to show a moderate decline



## Earnings before interest and tax

- EBIT adjusted for costs previously allocated to Automotive around break-even
- Costs previously allocated to Automotive are estimated to be DKK 70 to 80 million



# DIALOGUE REGARDING A POTENTIAL LAUNCH OF A TAKEOVER OFFER

BANG & OLUFSEN A/S  
26 NOVEMBER 2015

ANNOUNCEMENT NO. 15.07  
TRANSLATION

## **Bang & Olufsen A/S confirms dialogue regarding a potential launch of a takeover offer**

Bang & Olufsen A/S ("Bang & Olufsen") has received certain initial approaches in respect of a potential launch of a takeover offer, and based hereon the company has initiated a dialogue to investigate and analyse the firmness of these approaches.

The ongoing dialogue may or may not lead to an offer for the whole or part of the issued share capital of Bang & Olufsen.

As such, there is no certainty about the outcome of the discussions, or whether a takeover offer will be announced at all.

Bang & Olufsen will make further announcements if and when it is deemed necessary or appropriate.

On behalf of the Board of Directors of Bang & Olufsen A/S,

Ole G. Andersen,  
Chairman

No further comments, at the current point in time

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# Q&A



# BANG & OLUFSEN

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