

Bang & Olufsen annual report 2021/22:

## Second year with double-digit growth and improved profitability despite headwinds

Revenue amounted to DKK 2,948m, equivalent to 12% growth (10% in local currencies). Both product sales and Brand Partnering & other activities grew. The company managed to achieve double-digit growth despite being impacted by component shortages throughout the year and extended COVID-19 lockdowns in China in the last months of the year.

The company improved its profitability to an EBIT margin before special items of 1.8%, an increase from 1.4% last year. The margin reflects both the company's investments in building robustness but also significantly higher component costs. The combined extraordinary logistics and component costs amounted to DKK 220m, which was an increase of DKK 155m compared to last year, or a 5pp negative impact on the margin. The results show the strength of the strategy and the resilience that has been created in the company.

Free cash flow was negative by DKK 172m. It was adversely impacted by extra component and logistics costs and extended COVID-19 lockdowns in China in the last months of the year, which led to an increase in working capital following the delay in sales and the subsequent inventory increase. The company expects net working capital to decline in 2022/23.

CEO Kristian Teær comments:

"For the second year in a row, we delivered double-digit growth and improved our profitability. We achieved that despite facing significant headwinds from lockdowns, the war in Ukraine, and global challenges related to logistic and components, which meant that we had to absorb DKK 220m in extraordinary costs. The extended lockdowns in China resulted in lower sales and increased working capital, and this, combined with the extraordinary cost, impacted our free cash flow, which was negative for the year."

"The financial results show that our strategy is working and that we have built a more robust company capable of absorbing more external challenges. I want to thank all colleagues and partners for their big contribution and passion. We grew our customer base by more than 30%, hired new talents, especially within software, design, sales, and marketing, and strengthened our digital presence and product platforms. Today, we can also share our new strategy for how to become an even more sustainable company with products that are built to last."

"Next year, we will continue our transformation and focus on improving the customer experience across channels and products. We will invest in product innovation, brand awareness and our people to build a more future-proof Bang & Olufsen. We expect the pressure on global supply chains to slowly ease. We are, however, facing unusually high uncertainty related to the war, inflation, and lockdowns in China, which means that we currently have lower visibility on next year's financial performance."

### Financial highlights, FY 2021/22

- Revenue increased by 12% (10% in local currencies), driven by both product sales and Brand Partnering & other activities.
- Product sales increased across all regions and product categories. The three regions EMEA, Americas and Asia grew by 5%, 61% and 12% respectively (4%, 55% and 8% in local currencies). The growth in Asia was adversely impacted by the extended lockdowns in China in Q4.
- Like-for-like sell-out grew by 13%. All product categories, regions and channels grew. Sell-out was adversely impacted by COVID-19 related lockdowns in Q4. Sell-out in China declined by 28% in Q4 as a consequence of lockdowns.

- The gross margin was 45.3%, which was 2.0pp higher than last year. The increase was driven by an improved gross margin from product sales.
- The combined additional supply chain costs for components and logistics were DKK 220m above normal level and DKK 155m higher than last year, equal to 5pp impact on product gross margin.
- EBIT before special items was DKK 54m, equivalent to an EBIT margin before special items of 1.8% (FY 20/21: 1.4%). The increase was driven by higher sales and improved gross profit.
- Free cash flow was DKK -172m (FY 20/21: DKK 119m). Free cash flow was adversely impacted by lockdowns in China resulting in lower sales and higher net working capital and extra costs for components and logistics.
- Available liquidity was DKK 301m at the end of May 2022 (end-May 2021: DKK 593m).

### Financial highlights, Q4 2021/22

- Revenue declined by 10% (12% in local currencies), mainly driven by COVID-19 related lockdowns in China and high comparables.
- Like for like, sell-out grew by 1%. Sell-out in China declined by 28% in Q4, adversely impacted by COVID-19 related lockdowns.
- The gross margin was 48.2%, which was 7.1pp higher than last year, with the product gross margin improving by 4.9pp.
- Higher component and logistics costs adversely impacted product margin by around 9pp, which was 3.5pp more than Q4 of last year.
- EBIT before special items was DKK 12m, equivalent to an EBIT margin before special items of 1.7% (Q4 20/21: 1.9%).
- EBIT was DKK 11m (Q4 20/21: DKK 7m), which corresponded to an EBIT margin of 1.6% (Q4 20/21: 0.9%).
- Free cash flow was DKK -190m (Q4 20/21: DKK 34m).

### Strategic initiatives

Another year of strategic focus has strengthened the business. Despite a challenging operating environment, the company continued to achieve results from its strategy execution and delivering on many of its commercial and operational ambitions.

- The six European core markets delivered 14% like-for-like sell-out growth. The “Win London” project delivered 103% YoY sell-out growth from monobrand. The pilot with in-field VIP service team in France and insourcing of the Danish service centre has improved customer satisfaction.
- The two Asian core markets delivered 5% like-for-like sell-out growth. Sell-out declined by 28% in China in Q4, adversely impacted by COVID-19 related lockdowns.
- Brand licensing expanded with new partnerships, including products for hybrid work with Cisco.
- Five product launches and two significant software releases, Beolink and Stereo pairing. Focus on longevity with Beolink, connecting old, current and future products, and Beosound Level, the world’s first Cradle-to-Cradle certified speaker.
- 31% customer growth and 37% growth in number of customers owning two or more products.
- Improved brand awareness, 68% increase in SoMe follower base, and 27 million people reached through influencers and celebrities.
- 12% growth from eCommerce. The company also launched the eCommerce platform in Japan, South Korea, Singapore and Australia.
- Employee engagement score improved 4 points to 77 (0-100 scale) and improved perception score of managers. New initiatives launched such as a structured talent acquisition set-up and a Diversity, Equity and Inclusion Council.

### Outlook

The company will continue to execute in line with its turnaround strategy and long-term vision. The outlook for 2022/23, however, is subject to unusually high uncertainty related to consumer sentiment due to high inflation,

rising interest rates and the war in Ukraine, which has increased the risk of recession. Furthermore, there is higher geopolitical uncertainty and risk related to current and potential future regional COVID-19 related lockdowns especially in China. The company's outlook for the financial year 2022/23 is as follows:

- Revenue growth (in local currencies): -4% to 5%
- EBIT margin before special items: -2% to 3%
- Free cash flow (DKKm): -50 to 100

The outlook is based on certain assumptions described in the annual report.

#### Conference call for analysts and investors

The company will host a webcast on 6 July 2022 at 10:00 CEST, where the financial development for FY 2021/22 will be presented.

The webcast can be accessed at <https://streams.eventcdn.net/bo/q4annual-report-202122>

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