BANG & OLUFSEN

INTERIM REPORT Q1 2017/18

4 OCTOBER 2017

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AGENDA

- **Highlights**
- Financial results
- Outlook
- Questions & answers

Q1 HIGHLIGHTS:
A SATISFACTORY START

- Group revenue grew 15 per cent
- Several new products launched across business units and increased brand partnering activities
- The Group gross margin increased to 39.9 per cent from 33.4 per cent
- Negative EBITDAC due to the seasonal nature of the business and development cost, however it improved compared to last year.
- The outlook for 2017/18 remains unchanged

STRATEGY EXECUTION


NEW PRODUCTS

- BeoLab 50, BeoVision Eclipse, Beoplay E8 and E4 was launched. Together with existing products and BeoSound Shape, which is now available, the company has a strong foundation for increasing revenue in the coming quarters

BRAND PARTNERING ACTIVITIES

- Brand partnering is an important driver of license income and brand awareness. The company announced collaborations with LG on the V30 smartphone, and with Bentley Motors, through Harman, to deliver an audio system to the Continental GT.

IMPROVED GO-TO-MARKET SETUP

- The go-to-market approach has been strengthened. New digital capabilities has been added, the transformation of the setup in the US and GCR is well underway and the overall quality of the mono-and multibrand distribution has been improved

FINANCIAL RESULTS

FINANCIAL HIGHLIGHTS

Key financial figures

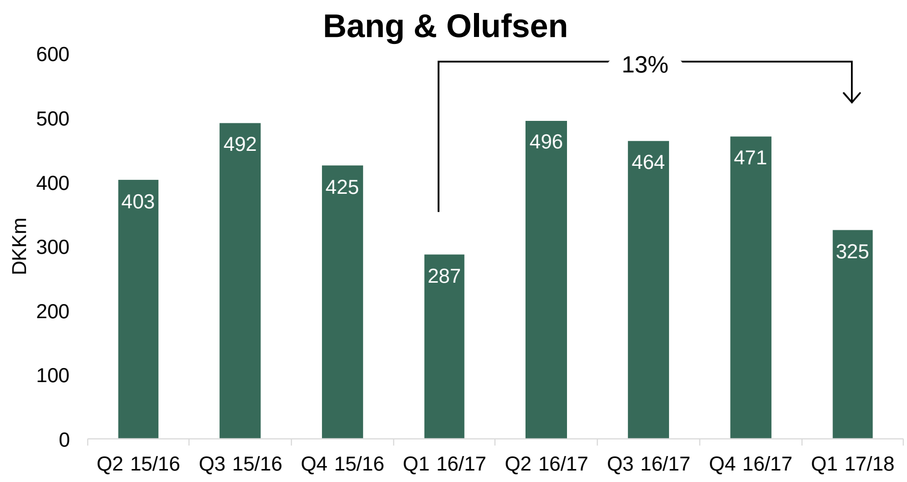
DKK million	1st quarter	
	17/18	**16/17**
Revenue	**592**	**515**
Gross profit	236	172
EBITDAC	-42	-67
EBIT	-65	-89
EBT	-70	-87
Earnings	**-55**	**-66**
Gross margin, %	39.9	33.4
Net working capital	130	285
Free cash flow	-159	-32

- Revenue increased from DKK 515 million last year to DKK 592 million, corresponding to a growth of 15 per cent
- The Group's gross margin increased to 39.9 per cent from 33.4 per cent driven by higher revenue, increased income from brand partnering, improved product margins and a change in product mix
- EBITDAC improved compared to last year. But due to the seasonal nature of the business and high development costs, it was negative DKK 42 million. The improvement was driven by the increase in revenue and improved gross margin
- Capacity costs increased due to higher depreciations on capitalised development costs related to the TV portfolio
- In line with expectations, free cash flow was negative DKK 159 million compared to negative DKK 32 million last year

DOUBLE-DIGIT GROWTH IN BOTH BUSINESS UNITS

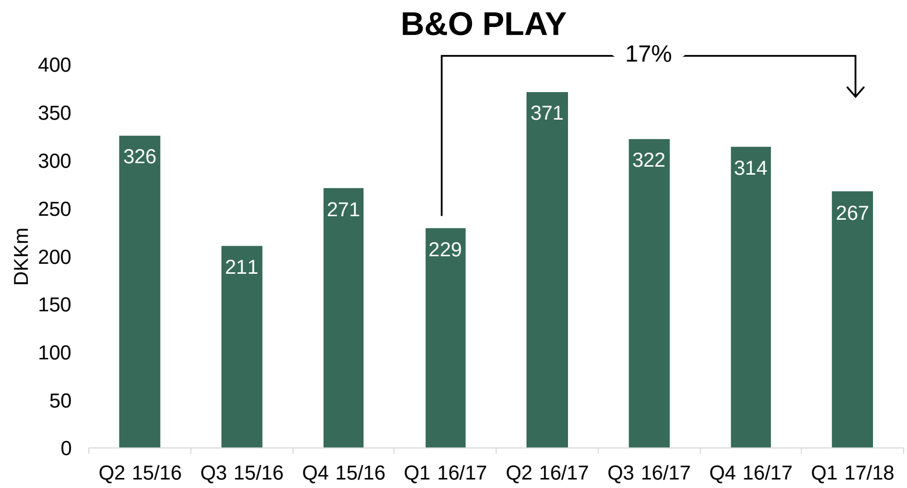
BANG & OLUFSEN QUARTERLY REVENUE

- The Bang & Olufsen business unit had a good start to the year and grew 13 per cent
- The growth was primarily driven by increased sales of BeoSound 1 and 2, and by the launch of new products such as BeoLab 50, BeoVision Eclipse, and BeoSound Shape, together with increased income from brand partnering



B&O PLAY QUARTERLY REVENUE

- The B&O PLAY business unit continued the double-digit growth and grew 17 per cent. The main growth contributors were Beoplay A1, A9 and H5, which continued to perform well, as well as Beoplay P2 and E4 that were launched in the previous two quarters
- B&O PLAY revenue through third-party retail and e-commerce increased by 25 per cent. The revenue through the B1 and shop-in-shop channel was on par with last year



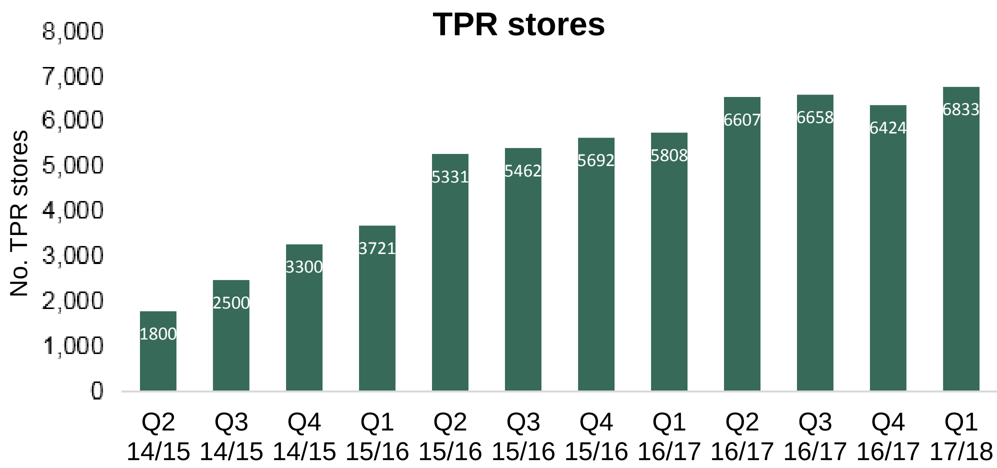
B1 STORES ADJUSTED AND FOCUS ON QUALITY IN TPR

FEWER B1 AND SHOP-IN-SHOP STORES

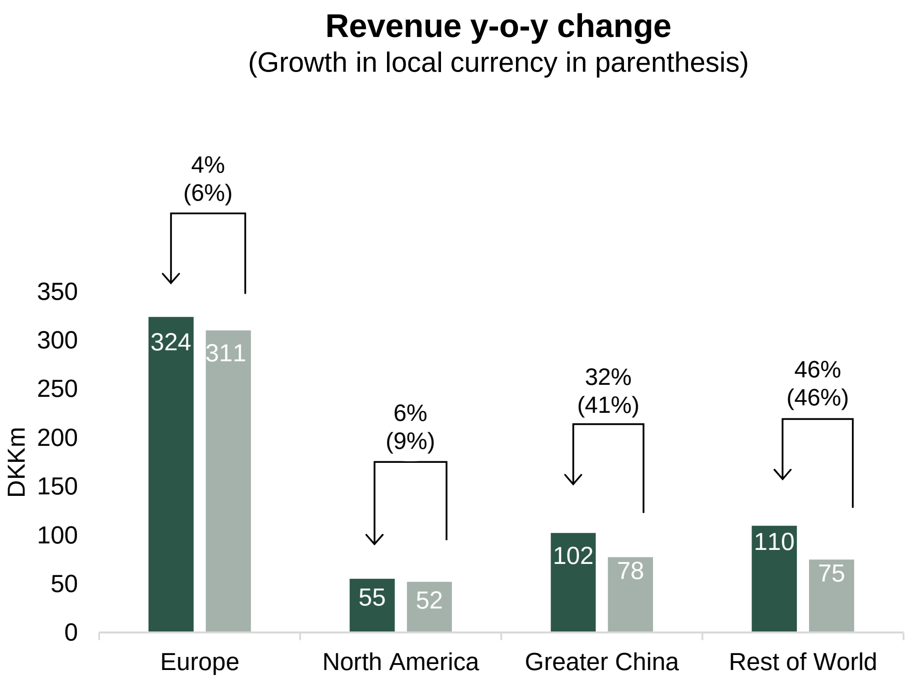
- The transformation of the mono-brand retail distribution continued, with key focus on creating a network of fewer, stronger partners
- The net number of B1 and shop-in-shops decreased by 28, primarily in Europe and Greater China

MODERATE INCREASE IN NO. OF TPR STORES

- B&O PLAY expanded the number of third-party retail stores while maintaining a strong focus on ensuring quality and depth to improve sales in the existing stores
- The number of third-party retail stores increased to 6,833 stores from 5,808 stores



GROWTH IN ALL REGIONS



GREATER CHINA AND REST OF WORLD WERE THE MAIN GROWTH DRIVERS

- Both business units grew in Europe in the first quarter. The growth was a result of the continued focus on driving flexible living products as well as the launch of BeoLab 50
- Focus in North America was to continue the transformation of the organisational structure and the B1 network, while expanding the distribution in the third-party retail channel. Revenue growth in North America was supported by increased income from brand partnering
- The growth momentum continued to be strong in the Greater China region, where focus continued to be on growing B&O PLAY
- The increase in revenue in Rest of World was driven by growth in both business units and partially supported by increased income from brand partnering

GROUP GROSS MARGIN IMPROVED TO 39.9 PER CENT

Gross margin

%	1st quarter	
	17/18	**16/17**
Bang & Olufsen	40,0	33,3
B&O PLAY	39,6	33,6
Group	**39.9**	**33.4**

GROUP GROSS MARGIN WAS 39.9 PER CENT AGAINST 33.4 PER CENT LAST YEAR

- The gross margin in the Bang & Olufsen segment was 40.0 per cent against 33.3 per cent last year due to:
    - Higher revenue in the quarter, resulting in a higher indirect cost absorption
    - Increased income from brand partnering
    - A change in product mix due to a higher share of speaker turnover

- The gross margin for the B&O PLAY segment was 39.6 per cent against 33.6 per cent last year due to:
    - Product mix
    - Higher volumes and positive scalability impacts on the supply chain

CAPACITY COSTS INCREASED IN THE QUARTER IN LINE WITH EXPECTATIONS

CAPACITY COSTS INCREASED DUE TO HIGHER DEVELOPMENT COSTS

- The capacity costs were DKK 301 million compared to DKK 261 million last year
- The increase was due to higher depreciation on development projects. Adjusted for this impact, capacity costs increased DKK 5 million

Capacity costs

DKK million	1st quarter	
	17/18	**16/17**
Development	114	75
Dist. and marketing	162	163
Administration	25	23
Total cap. costs	**301**	**261**

INVESTMENTS IN PRODUCT DEVELOPMENT CONTINUED

- Development costs were DKK 114 million against DKK 75 million last year. The increase was expected due to higher depreciations of the current TV product portfolio
- Incurred development costs and capitalisations of development projects in the quarter were particularly high due to the final development of BeoVision Eclipse. These costs are expected to decrease significantly in the coming quarters

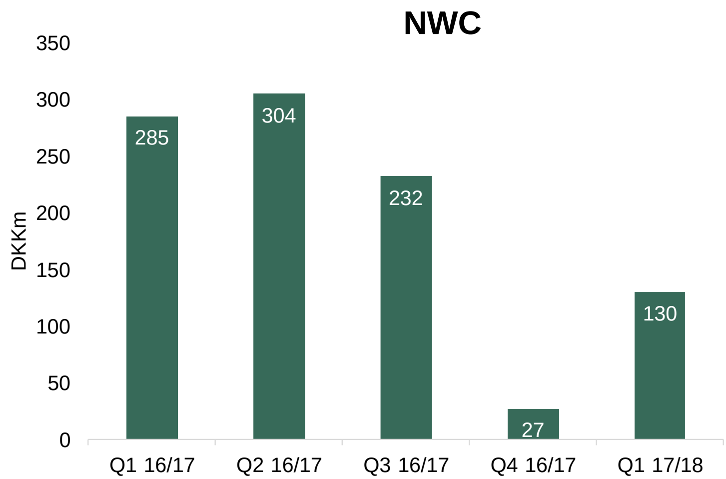
Development costs

DKK million	1st quarter	
	17/18	**16/17**
Incurred development costs before capitalisation	109	67
Net effect of capitalisations and amortisations	5	8
Development costs in P&L, reported	**114**	**75**
Capitalisation (%)	59.7%	39.8%

NET WORKING CAPITAL AND CASH FLOW

NET WORKING CAPITAL DECREASED

- Net working capital decreased to DKK 130 million, mainly due to the sale of the CZ factory at the end of the previous financial year
- Due to product launches, net working capital increased DKK 103 million compared to DKK 27 million at the beginning of the year



NEGATIVE FREE CASH FLOW

- In line with expectations, free cash flow was negative DKK 159 million compared to negative DKK 32 million last year
- The change was due to product launches driving higher inventory and trade receivables and increased investments of DKK 50 million compared to last year

Cash Flow		
DKK million	**1st quarter**	
	17/18	**16/17**
Earnings for the period	**-55**	**-66**
Net working capital related	-103	34
Other	80	26
Cash flow from oper. activities	**-78**	**-7**
Cash flow from investing activities	-80	-26
Free Cash Flow	**-159**	**-32**

OUTLOOK

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OUTLOOK FOR 2017/18

- Group revenue is expected to grow by around 10 per cent compared to 2016/17
    - B&O PLAY is expected to continue to be the main growth driver with growth of more than 20 per cent compared to 2016/17
    - The Bang & Olufsen business unit is expected to remain flat and adversely impacted by the transformation of the branded retail network
    - Revenue related to brand partnering is expected to be DKK 160-200 million
- The EBITDAC margin for the Group is expected to be 8-10 per cent for 2017/18
- The EBIT margin for the Group is expected to be 1-3 per cent for 2017/18 and impacted by high depreciations and low capitalisations
- The Group's free cash flow is expected to be positive in 2017/18

Q&A

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