
BANG & OLUFSEN

ANNUAL REPORT 2019/20

WEBCAST PRESENTATION, 7 JULY 2020



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AGENDA

Key highlights

Financial performance

Strategy and Outlook

Q&A

DISAPPOINTING YEAR BUT RESULTS WITHIN LATEST GUIDANCE | OUTLOOK FOR 2020/21 MAINTAINED

- Transition to a demand driven retail-model was slower than expected
- Higher-than-expected sales from unauthorised channels
- Launch of new strategy
- Significant impact from COVID-19
- Rights issue of approx. DKK 356m (net) in new capital
- More products launched compared to last year



FY 2019/20

*REVENUE GROWTH
(local currencies)*

-29%

DKK 2,036m

-28.3% reported growth

*EBIT MARGIN
Before special items*

-15.0%

FREE CASH FLOW

DKK -234m

OUTLOOK FY 2020/21

REVENUE

Approx. DKK 2.2bn

*EBIT
Before special items*

Approx. DKK -100m

FREE CASH FLOW

Approx. DKK -200m

MORE PRODUCTS LAUNCHED | AWARD WINNING PRODUCTS AND FIRST PRODUCTS ON NEW PLATFORMS

FY 2019/20 LAUNCHES

AWARD WINNING PRODUCTS

NEW PRODUCTS

Beovision Harmony 77"



Beosound Stage



Beosound Balance



UPGRADES

Beoplay H4



E8 3rd Gen



Beosound A1 2nd Gen



MODELS

Beovision Harmony 65"



Beovision Harmony 88"



CMF*

Autumn/Winter collection



Stardust collection



Contrast collection



T3 SMARTER LIVING

EXAMPLES

B&O Beosound Stage review: a stunning soundbar both sonically and visually

★★★★★

The Beosound Stage sounds absolutely fantastic for movies, and is a top-tier music player and streaming speaker, too



L&B LYD & BILLEDE

Beosound A1 bliver endnu bedre

Den lille B&O-højtaler A1 kommer i ny indpakning.

Q4 SIGNIFICANTLY IMPACTED BY COVID-19

Q4 2019/20

REVENUE GROWTH
(local currencies)

-39%

DKK 377m

-39.0% reported growth

EBIT MARGIN
Before special items

-30.0%

FREE CASH FLOW

DKK -99m

COVID-19 BUSINESS IMPLICATIONS

CHANNELS

Situation

- More than 60% of monobrand stores closed at one point
- Both mono- and multibrand impacted by mall-closures
- Etailers and own eCom remained open in many markets

Mitigation

- Own eCom updated to allow for all products to be sold
- Temporary increase in revenue sharing with monobrand partners

SALES & MARKETING

Situation

- Changed consumer behaviour due to restrictions from COVID-19

Mitigation

- Focus moved to promoting home entertainment and home listening
- Focus on online activation
- Product focused marketing in line with new strategy

PRODUCTION & LOGISTICS

Situation

- Product availability not materially impacted
- Logistics impacted by travel restrictions

Mitigation

- Going forward, sea freight will be used to a larger extent

COST & CASH FLOW FOCUS

Situation

- Both Bang & Olufsen and partners negatively impacted by COVID-19

Mitigation

- Strict cost and cash flow focus
- Government relief packages reducing costs by DKK 26m
- Postponement of certain tax payments etc.

AGENDA

Key highlights

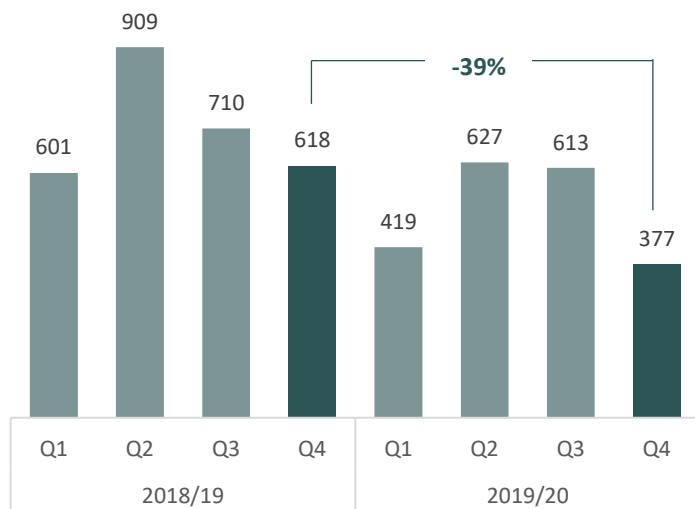
Financial performance

Strategy and Outlook

Q&A

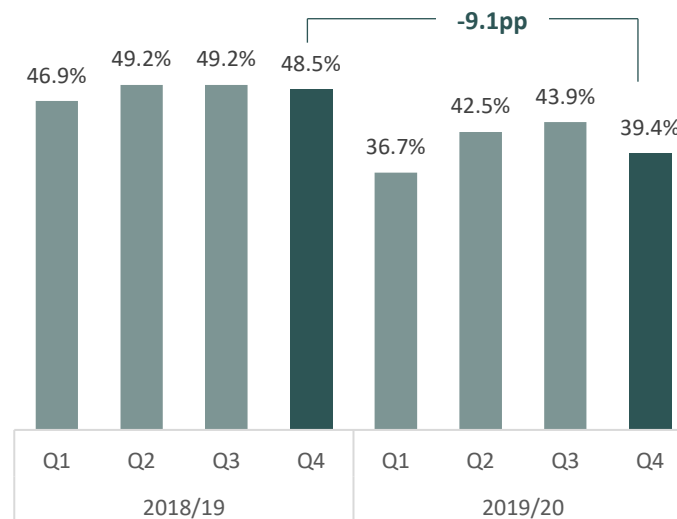
REVENUE AND PROFITABILITY

REVENUE, DKK m



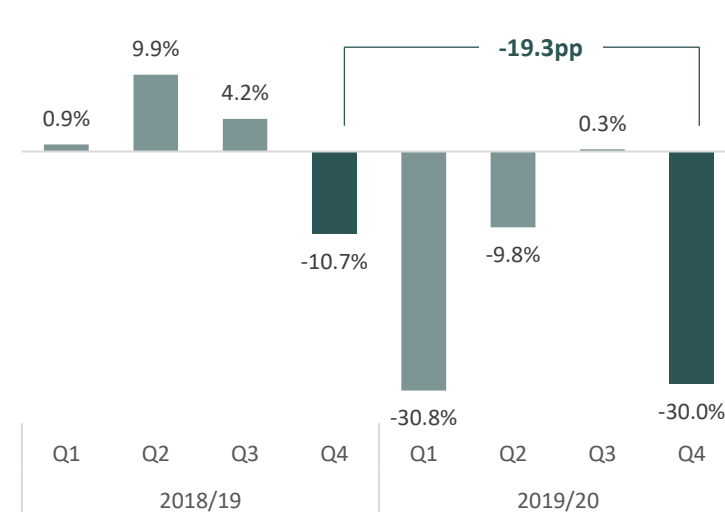
- COVID-19 primary reason for decline
- Revenue from mono- and multibrand channel declined by nearly 40% and 70% respectively
- B&O eCom platform more than doubled accounting for approx. 6% group revenue
- Brand partnering & other activities down by 22%
- Staged, Flexible Living and On-the-go declined by 32%, 25% and 56% respectively

GROSS MARGIN



- Excluding currency hedges gross margin declined by 6.0pp
- Government relief packages supported the margin with 1.6pp
- Impacted negatively by:
 - Sales of end-of-life products
 - Allocation of production related capacity costs
 - Higher eCom revenue sharing

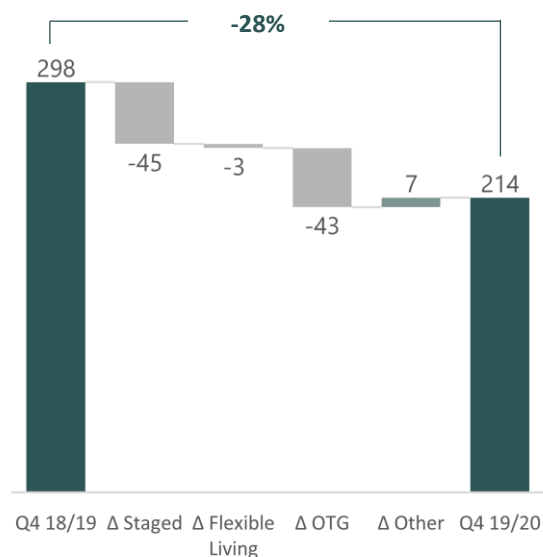
EBIT MARGIN BSI*



- Impacted by decline in revenue and gross margin
- Positive impact from lower capacity costs incl. DKK 18m from government relief packages

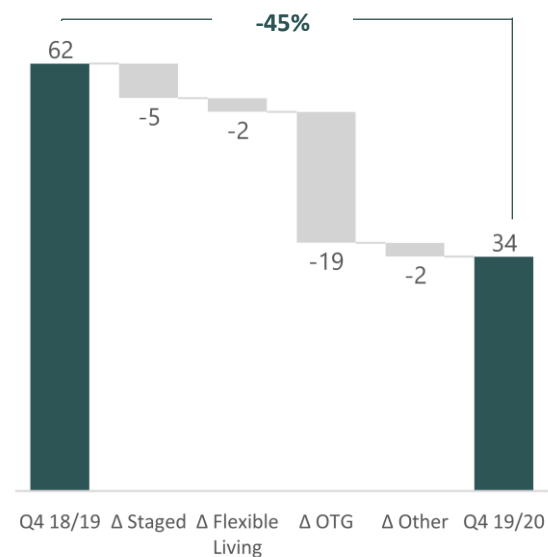
REVENUE PER SEGMENT | ALL SEGMENTS IMPACTED BY COVID-19

EMEA



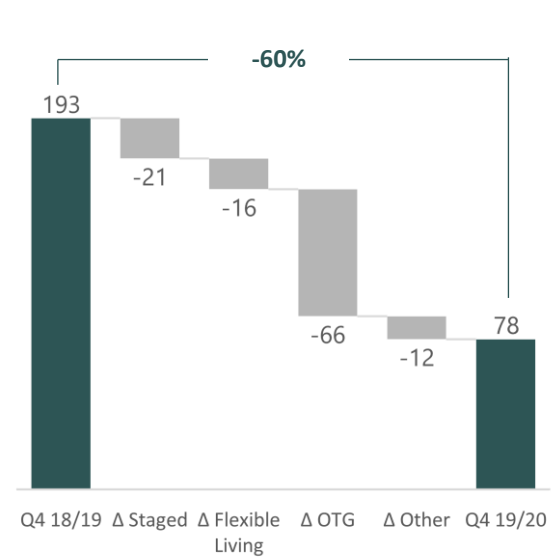
- All markets affected by COVID-19 with the biggest impact in Southern Europe and UK
- More than 90% of monobrand stores in UK and Southern Europe have been temporarily closed
- Strong growth in eCom revenue
- EMEA recovered better through May than expected

AMERICAS



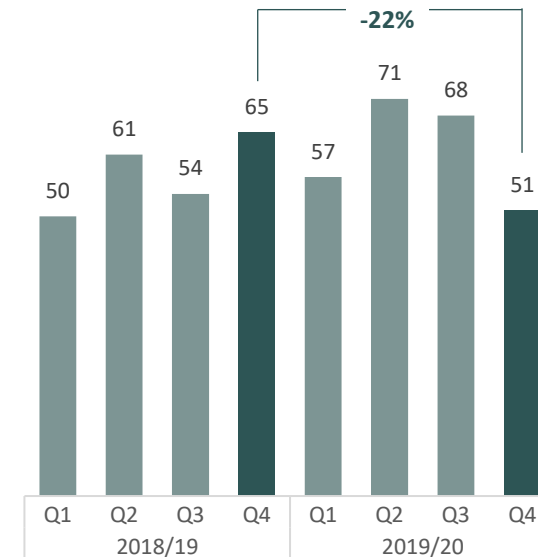
- Significant impacted from COVID-19 on both mono- and multibrand channels
- Strong growth from eCom and business-to-business
- Last region to be impacted by temporary store closures related to COVID-19

ASIA



- Impacted by temporary store closures in both mono- and multibrand channels
- By the end of Q4, most stores had re-opened
- Normalisation of sell-in to retail partners was slower than expected

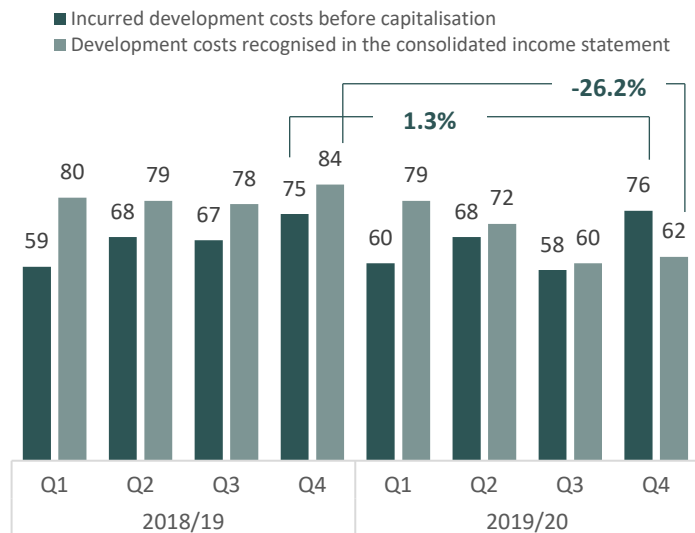
BRAND PARTNERING & OTHER ACTIVITIES



- Decline in revenue primarily related to COVID-19 and the effect it had on car manufacturing

CAPACITY COSTS

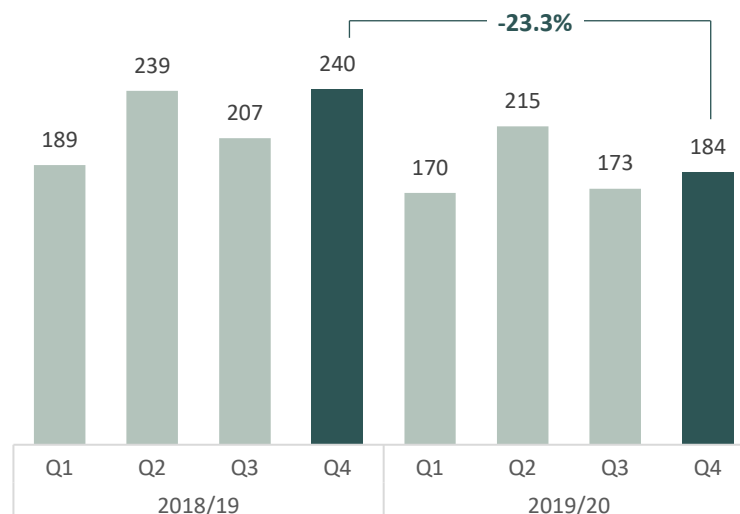
DEVELOPMENT COSTS, DKK m



- Development costs declined by 26.2% due to a combination of higher capitalisations and lower amortisations
- Incurred development costs were at the same level as last year
- Government relief packages supported development cost by DKK 7m
- Special items related to cost reduction programme of DKK 2m

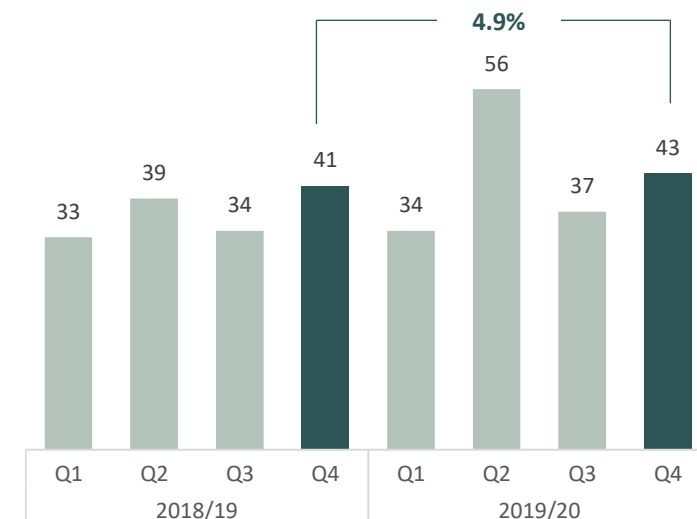
DISTRIBUTION

AND MARKETING COSTS, DKK m



- Marketing activities adjusted to the changes in the market i.a.
 - Focusing on online activation
 - Postponing retail marketing and distribution development activities
- Special items related to cost reduction programme of DKK 9m
- Government relief packages related to COVID-19 supported costs by DKK 6m

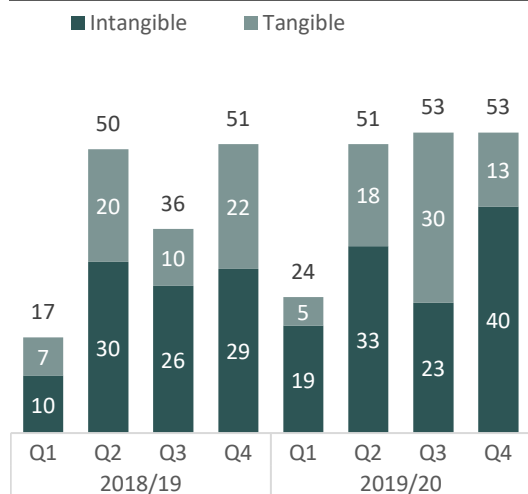
ADMINISTRATION COSTS, DKK m



- Increase related to special items concerning cost reduction programme of DKK 13m
- Before special items costs declined by DKK 11m

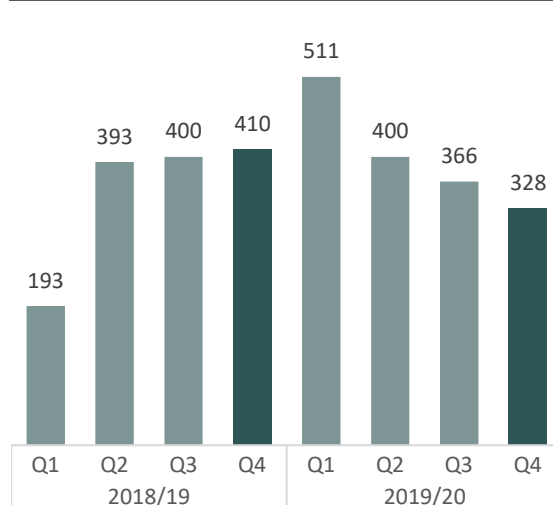
BALANCE SHEET AND CASH FLOW

CAPEX, DKKm



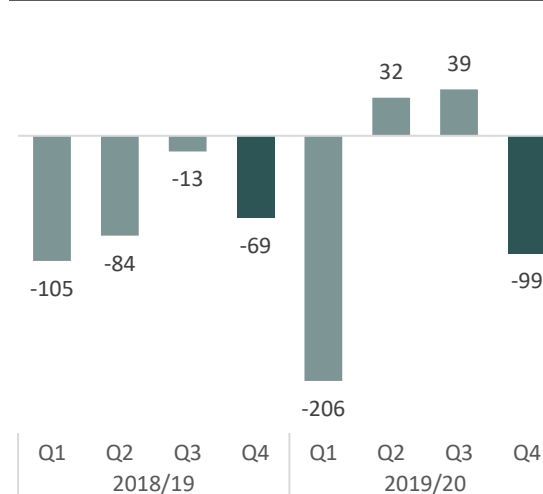
- Investments primarily related to the development of new products and technology platforms

NWC, DKKm



- Net working capital decreased by DKK 38m in Q4
- Continuous focus on net working capital management
- Special net working capital composition due to COVID-19

FREE CASH FLOW, DKKm



- Free cash flow DKK 30m lower than Q4 last year
- Mainly related to EBITDA which was DKK -92m
- Positive impact from net working capital reductions of DKK 38m

NET CASH POSITION, DKKm

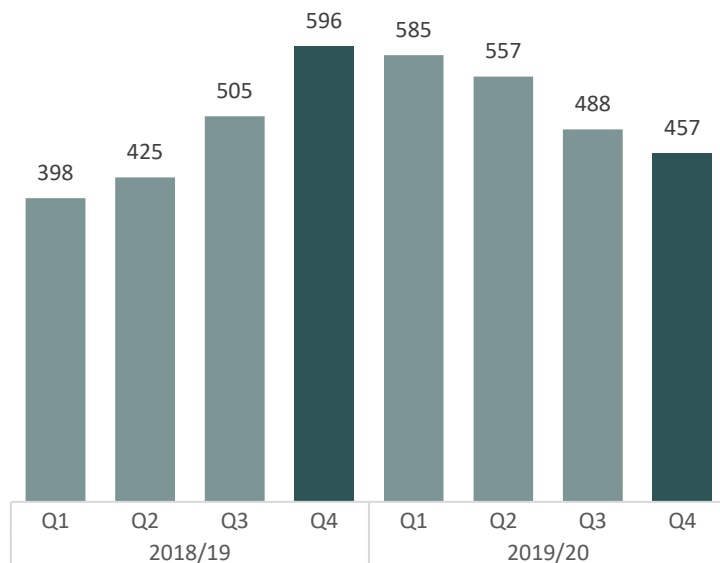


- Impacted by negative free cash flow
- Leasing related interest-bearing liabilities impacted with DKK 153m (IFRS 16)
- Net cash position excluding IFRS 16 amounted to DKK 146m
- Cash position of DKK 215m, reduced by DKK 112m in Q4

DEVELOPMENT IN NET WORKING CAPITAL

INVENTORY

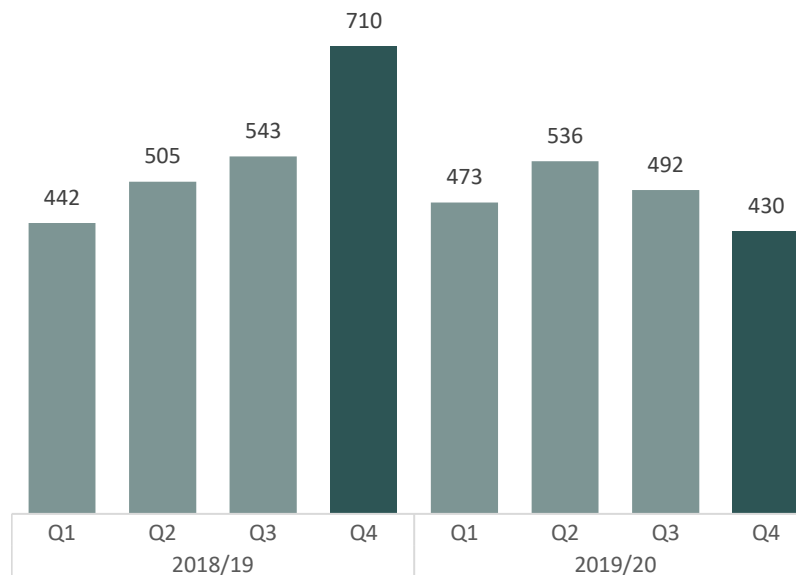
DKKm



- Continued focus on alignment between production and sales
- Further inventory reduction in Q4 however less than expected due to COVID-19

TRADE PAYABLES

DKKm

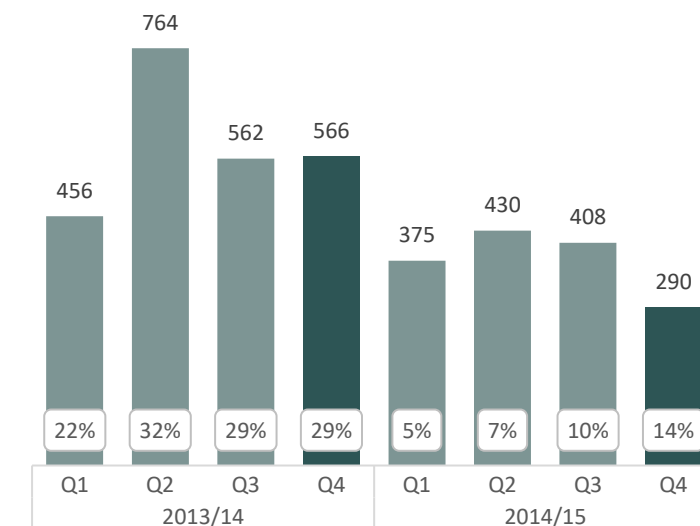


- Trade payables reduced following lowered production

TRADE RECEIVABLES

DKKm

% of revenue w/ extended credit



- Trade receivables further reduced mainly due to lower sales
- Q4, increase in extended credit due to instore display units of new products accounting for a higher share of revenue
- Year-over-year, impairments increased by DKK 22m and overdue increased by DKK 43m

AGENDA

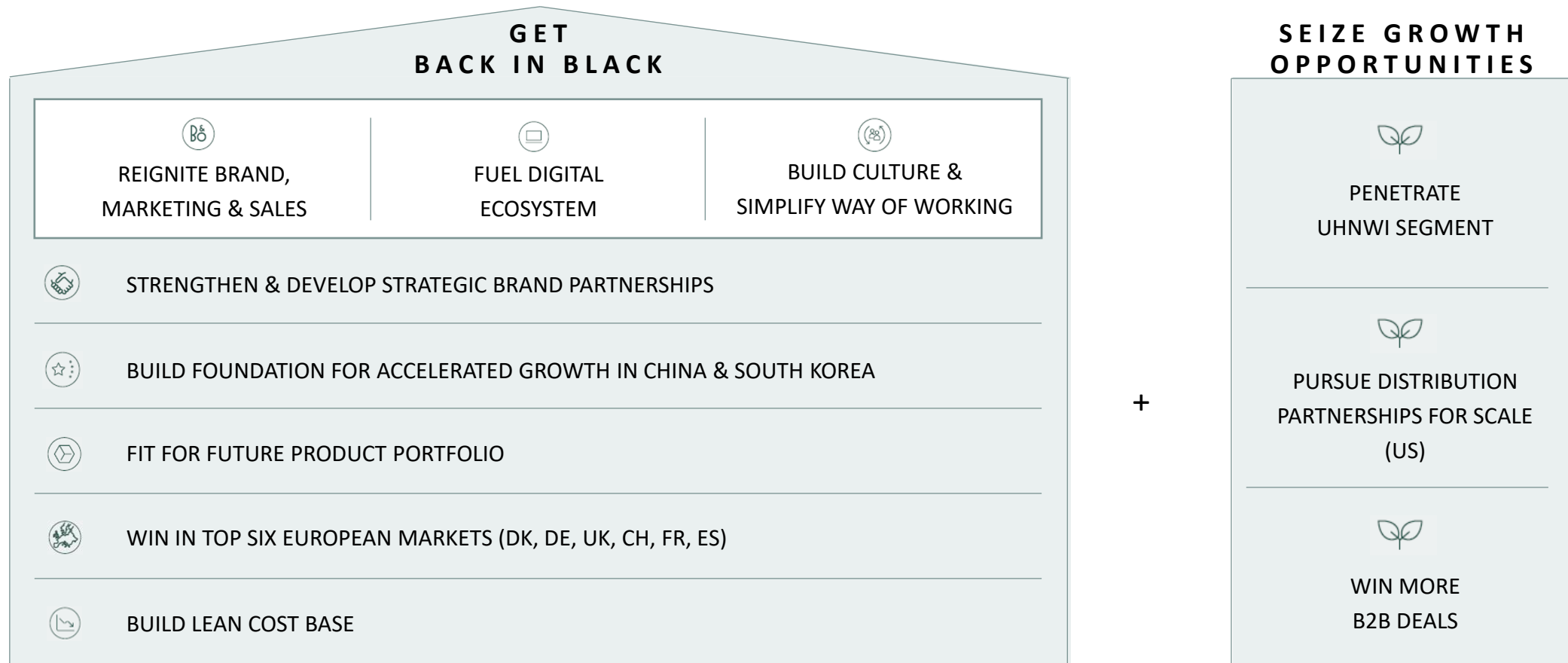
Key highlights

Financial performance

Strategy and Outlook

Q&A

SHORT TERM, WE WILL FIX FUNDAMENTALS IN OUR CORE BUSINESS, AND SEIZE POTENTIAL IN OPPORTUNITY POCKETS



BUILD LEAN COST BASE | ON TRACK TO DELIVER ON COST REDUCTION PROGRAMME OF DKK 175M

EFFICIENCY AND COST INITIATIVES

LEAN ADMINISTRATION	ORGANISATIONAL SIMPLIFICATION	NON-PRODUCT RELATED SPEND	COST OF GOODS SOLD	R&D EFFICIENCY
<ul style="list-style-type: none">✓ Headcount reductions implemented• Outsourcing of certain finance and IT processes in progress	<ul style="list-style-type: none">✓ Completed	<ul style="list-style-type: none">✓ New procurement model implemented• Right sizing of activities	<ul style="list-style-type: none">• Reduce component and material costs• Value engineering• Expand supplier options• Increase use of sea freight	<ul style="list-style-type: none">• Portfolio review• Utilise new product platforms to shorten time-to-market• Improve resource utilisation

FIT FOR THE FUTURE PRODUCTS | +10 PRODUCT LAUNCHES PLANNED FOR 20/21

PRODUCT DEVELOPMENT ACTIVITIES IN 20/21

+10 PRODUCTS PLANNED FOR 2020/21

Products launches planned for all categories

- New products
 - ✓ E8 Sport launched
- Upgraded products
- Limited editions
- Classic
- Bespoke
- CMF*

Partnerships and collaborations

- Partnership with Xbox
- Collaborations to build awareness, amplify the brand and strengthen distribution

FUTURE PRODUCTS TO TARGET NEW CONSUMER SEGMENTS

- Systematic product tiering to ensure fit with target audiences
- Good, better, best products
- Utilise craftsmanship capabilities to offer bespoke products

SOLVE ISSUES WITH EXISTING PORTFOLIO

- Investments in software resources
- Improved connectivity issues in old products
- Improve customer service



IMPROVING CUSTOMER SERVICE

DIRECT CUSTOMER SUPPORT

- 24/7/365 customer support implemented incl. proactive SoMe outreach
- Developing new digital service front-end on eCom platform
- Changed warranty handling policy for On-the-go product category

SUPPORTING RETAIL PARTNERS

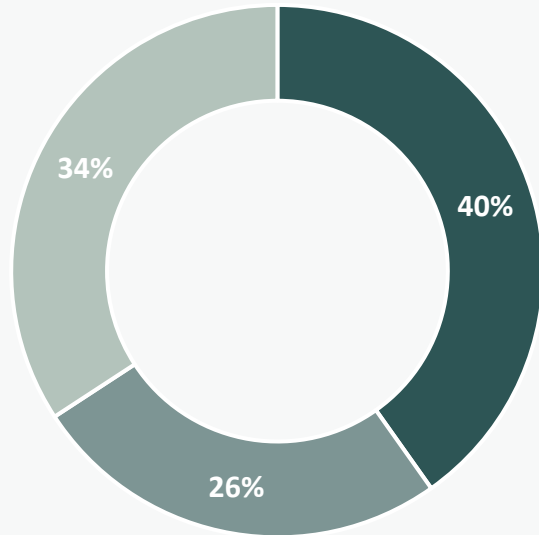
- 24/7/365 support function to help retail partners outside normal opening hours
- Changed warranty handling policy for On-the-go reducing time needed to handle service
- “Product health center” enabling retailers to remotely support customers



GO-TO-MARKET STRATEGY INDIVIDUALLY TAILORED | FOCUS ON CHANNEL SPECIFIC RESOURCES

REVENUE IN 19/20*

DKKkm



- 6 core European markets
- China and South Korea
- Rest of the world

CORE MARKETS

EUROPE DK, DE, CH, FR, UK, ES	ASIA CN & KR
<ul style="list-style-type: none"> • New regional manager of Europe implementing new initiatives • New country managers in UK, Switzerland, Eastern Europe and Sweden/Norway/Finland • Channel responsibility moved to regional managers • Increased resources, especially for multibrand and etailers 	<ul style="list-style-type: none"> • China Advisory Board established, utilising competences in the Board of Directors • Continue to strengthen distribution • Establish new partnerships • Strengthening local team

NON-CORE MARKETS

REST OF THE WORLD
<ul style="list-style-type: none"> • Seek large global distributors to penetrate non-core markets • Utilise distribution partners to add scale • Agreement with ASBIS signed

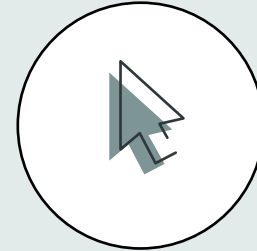
REIGNITING MARKETING EFFORTS AND ACCELERATING THE DIGITAL TRANSFORMATION

DEMAND CREATION ACTIVITIES IN 20/21



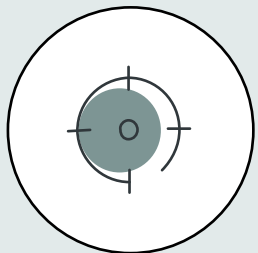
CONSUMER INSIGHTS

- Enrich current insights around new target audiences and segments



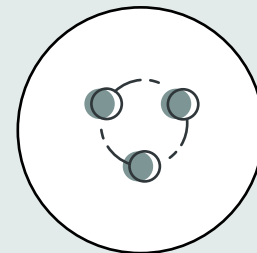
DIGITAL ACCELERATION

- Investing in own eCom
- Improve Product App and Experience App
- Increasing digital team through agency partner



MARKETING INITIATIVES

- Digitalisation of content creation process
- Influencer marketing programs
- Establish activation channels targeting high net worth individuals



OMNICHANNEL FOCUS IN KEY MARKETS

- Executing marketing activation plans in core markets
- Drive traffic to both physical stores and online

OUTLOOK 2020/21

OUTLOOK

Revenue

Approx. DKK 2.2bn

EBIT BSI*

Approx. DKK -100m

Free cash flow

Approx. DKK -200m

MAIN ASSUMPTIONS

- COVID-19 increases guidance uncertainty due to lack of transparency and uncertainty around:
 - Duration of the COVID-19 crisis
 - Timing and speed of the re-opening of key markets
 - Impact on the economies globally
 - Financial and operational impact for business partners
 - Revenue supported by more than 10 new product launches and upgrades as well as new colour, material, finish (CMF) versions of existing products
-
- EBIT impacted positively by lower capacity costs as a result of the cost reduction programme
-
- Free cash flow impacted positively by lower capacity costs as a result of the cost reduction programme
 - Adverse impact from working capital management and use of government relief packages in 19/20 in especially Q1 20/21

UNCERTAIN MARKET OUTLOOK

- In an alternative scenario, management would expect EBIT BSI* to breakeven with revenue of DKK 2.4bn
 - In this scenario, the implications of COVID-19 are less severe than reflected in the preliminary guidance
-
- In a more adverse scenario, management would expect revenue of DKK 1.6bn, EBIT BSI* margin of -25% and free cash flow of negative DKK 400m
 - In this scenario, COVID-19 extends further into 2020/21 with 50% of points-of-sale closed in Europe and North America before normalisation towards 30% in Q4
 - China is assumed less impacted with around 30% of points-of-sale closed for the first half of the year before starting to normalise

WE ARE ON TRACK TO FIX THE BASICS AND REGAIN STRENGTH

**GROW
SUSTAINABLY**

**BUILD
ROBUSTNESS**

**FIX
THE BASICS**

- P&L improvement
- Few priorities, deep implementation

- P&L robustness
- Proof of concept for scalability

- Healthy growth in focus markets
 - Scalable business model
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graph LR; A[Fix the Basics] --> B[Build Robustness]; B --> C[Grow Sustainably];
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# AGENDA

Key highlights

Financial performance

Strategy and Outlook

**Q&A**



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