

BANG & OLUFSEN  
INTERIM REPORT  
Q3 2014/15  
16 April 2015



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# AGENDA

HIGHLIGHTS

FINANCIAL RESULTS

EXPECTATIONS TO THE 2014/15 FINANCIAL YEAR

QUESTIONS AND ANSWERS

# HIGHLIGHTS

- Revenue growth of 19 per cent driven by customer demand for new and innovative AV and B&O PLAY products
- B&O PLAY showed strong growth in B1/SiS channel as well as through third party retailers
- Positive free cash flow in the quarter
- Launch of the consumer focused strategy with focus on the Bang & Olufsen and B&O PLAY brands, supported by selected brand license partnerships
- Future brand license agreement entered and transfer of Automotive assets to HARMAN
- Guidance for the 2014/15 financial year maintained



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More details to follow in August 2015

# THE LEADING BRAND IN LUXURY CONSUMER ELECTRONICS

## The unique brand...

### CoolBrands®

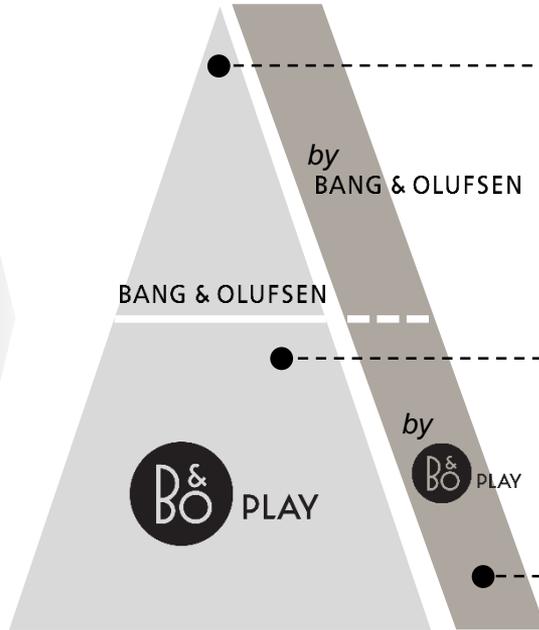
Coolbrands rated B&O as the UK's 11<sup>th</sup> coolest brand in 2014/15 and B&O has been in top -10 since 2008



Focus<sup>1</sup> in German market rated B&O as no. 1 in 2014 based on product quality and workmanship



3 Red Dot design awards within last 3 years to Bang & Olufsen and B&O PLAY products



## ...to be leveraged in the new consumer focused strategy

### Luxury AV experience

- Back bone of the company
- World class, luxury brand proposition
- High-end retail network
- Driver of innovation

### Premium portable audio and headphones

- Extension of the Bang & Olufsen brand to:
  - Attract new and younger audience
  - Increase brand awareness
  - Gain volume and generate cash flow

### Targeted brand licencing

- Leverage brand value
- Increase brand awareness
- Enable even stronger growth and awareness of the brand

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# TRANSFER OF AUTOMOTIVE ASSETS AND BRAND LICENSE AGREEMENT WITH HARMAN



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# THE LOVE AFFAIR COLLECTION – CELEBRATING 90 YEARS OF EXCELLENCE



- Celebrating 90 years of excellence with the exclusive collection containing six iconic designs in Rose golden aluminium
- The collection will be available throughout 2015
- Products included:
  - BeoLab 18
  - BeoVision Avant 85”
  - BeoVision 11 46”
  - BeoRemote 1
  - BeoPlay A9
  - BeoPlay H6
- BeoLab 5 will be added to the portfolio due to customer demand
- Products are built to order and retailed at a premium to standard products

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# A STRONG AND BROAD HEADPHONE PORTFOLIO



 H8

- On-ear
- Wireless
- Active noise cancellation
- Aluminum touch interface
- EUR 499

 H6

- Over-ear
- High quality aluminium and leather
- 3-button inline remote and microphone
- Various special editions
- EUR 399

 H2

- On-ear
- Light weight headphone
- 3-button inline remote and microphone
- EUR 199

 Form 2i

- On-ear
- Semi-open headphone
- 3-button inline remote and microphone
- EUR 129

 H3

- In-ear
- Crafted from lightweight metal
- Customised for comfort and fit
- EUR 199

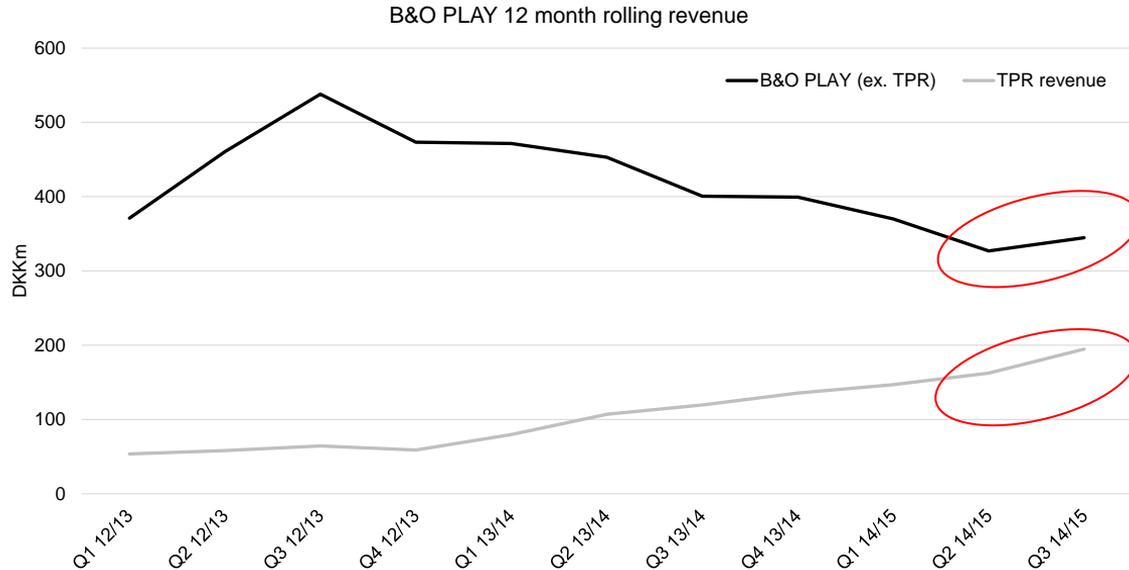
 Earset 3i

- Fully adjustable in all dimensions for a perfect fit
- Crafted from aluminum providing lightweight comfort
- EUR 169

On average 1 headphone was sold per minute in the third quarter!

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# B&O PLAY GROWING IN B1/SIS AND THIRD PARTY RETAIL CHANNELS

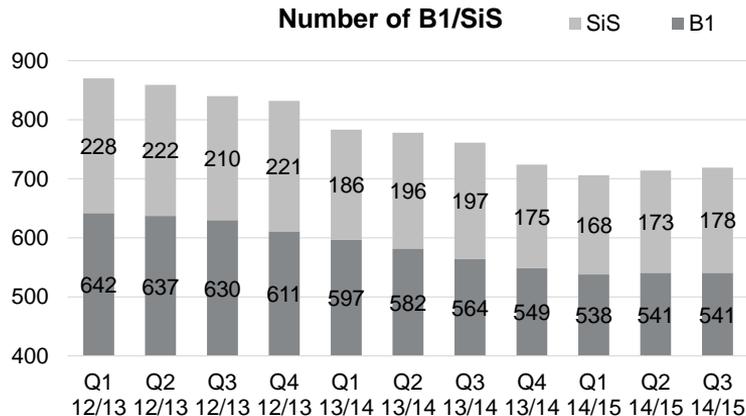


- B&O PLAY growth in the third quarter:
  - B1/SiS channel +19 per cent
  - Third Party Channel +109 per cent
- Growth driven by newly launched products:
  - BeoPlay A2
  - BeoPlay H2
  - BeoPlay H8
  - BeoPlay A9 mrk II
  - Beolit 15
  - ...and many special editions
- Continued increase in the number of third party retail stores in the fourth quarter and next year

# B2C DISTRIBUTION IS INCREASING

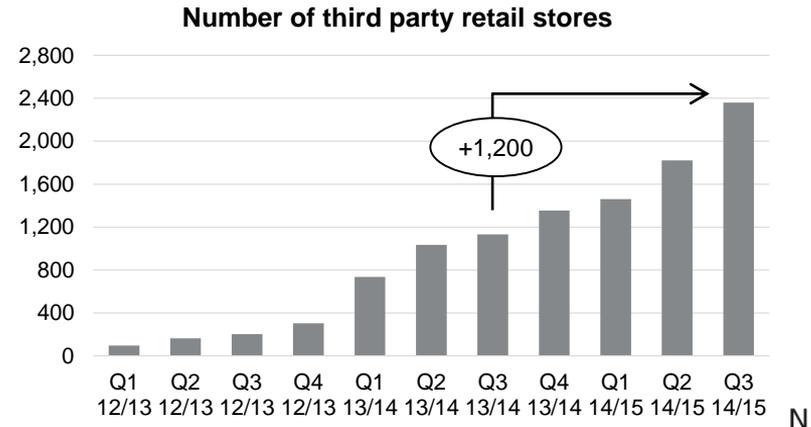
## Moderate increase in the B1/SiS distribution

- The net number of B1/SiS showed a moderate improvement (+5) in the third quarter and is expected to increase further in the fourth quarter.
- The churn remains high replacing poor performing stores with better performing stores. B1 stores opened in key locations such as Mayfair (London), Munich, New Delhi and Bangkok
- New dedicated B&O PLAY SiS in China with Sparkle Roll

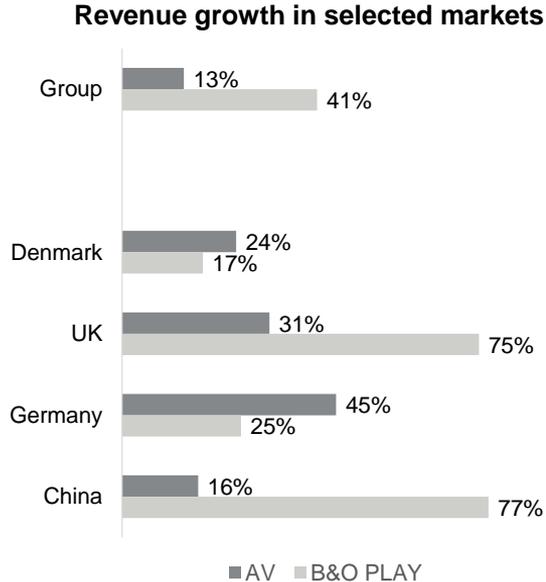


## Third party retail store expansion continues

- The number of third part retail stores is now above 2,300
- The number of TPR stores is expected to exceed 3,000 stores at the end of the 2014/15 financial year



# CORE MARKETS SHOWING STRONG GROWTH



## Organic revenue growth

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- Revenue in B1 and SiS open more than 24 months increased by 19 per cent and 45 per cent respectively in the third quarter
- Key European markets such as Denmark, UK and Germany show strong growth in AV and B&O PLAY
- China realised growth of 37 per cent in the quarter, driven especially by strong growth in B&O PLAY

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# FINANCIAL HIGHLIGHTS

## Key financial figures

DKK million	3rd quarter			YTD		
	14/15	13/14	Index	14/15	13/14	Index
<b>Revenue</b>	<b>800</b>	<b>675</b>	<b>119</b>	<b>2,130</b>	<b>2,063</b>	<b>103</b>
Gross profit	319	288	111	785	866	91
EBIT	-10	-28	-	-234	-61	-
EBT	5	-37	-	-218	-88	-
<b>Earnings after tax</b>	<b>17</b>	<b>-32</b>	<b>-</b>	<b>-164</b>	<b>-77</b>	<b>-</b>
Gross margin, %	39.9	42.7		36.9	42.0	
EBIT margin, %	-1.2	-4.1		-11.0	-3.0	
Net working capital	724	560	129	724	560	129
Free cash flow	28	94	30	-253	-28	-

## Strong growth in revenue

- Revenue growth of 19 per cent driven by customer demand for new and innovative AV and B&O PLAY products
- Gross margin improved by 4.8 percentage points compared to the first half of the year driven by stabilised production and other margin improvement initiatives
- EBIT improved to negative DKK 10 million from negative DKK 28 million last year
- Positive free cash flow of DKK 28 million in the quarter

# STRONG REVENUE GROWTH IN THE B2C BUSINESS

## 19 per cent growth in the B2C business

- Growth in the AV segment was driven especially by BeoVision Avant, the Love Affair Collection and BeoSound Moment
- B&O PLAY driven by new products and continued growth in the number of third party stores

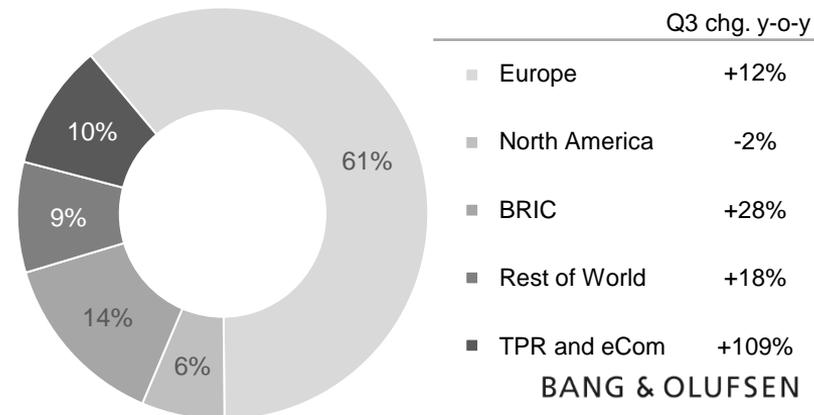
### Revenue by segment

DKK million	3rd quarter			YTD		
	14/15	13/14	Index	14/15	13/14	Index
AV	457	406	113	1,217	1,149	106
B&O PLAY	172	122	141	412	408	101
<b>B2C</b>	<b>629</b>	<b>528</b>	<b>119</b>	<b>1,629</b>	<b>1,557</b>	<b>105</b>
Automotive	128	129	99	406	444	91
ICEpower	24	23	105	69	75	92
<b>B2B</b>	<b>152</b>	<b>152</b>	<b>100</b>	<b>475</b>	<b>519</b>	<b>91</b>
Other	19	-6		27	-13	
<b>Group</b>	<b>800</b>	<b>675</b>	<b>119</b>	<b>2,130</b>	<b>2,063</b>	<b>103</b>

## Large screen sizes support growth in BRIC and RoW

- Growth in the Europe in the B1/SiS channel driven by both AV and B&O PLAY products
- Revenue in BRIC and RoW supported by large screen sizes
- Third party retail growth continues to be driven by new products and new third party retail stores

### B2C revenue by region



# STABILISED PRODUCTION SUPPORTS INCREASED GROSS MARGIN

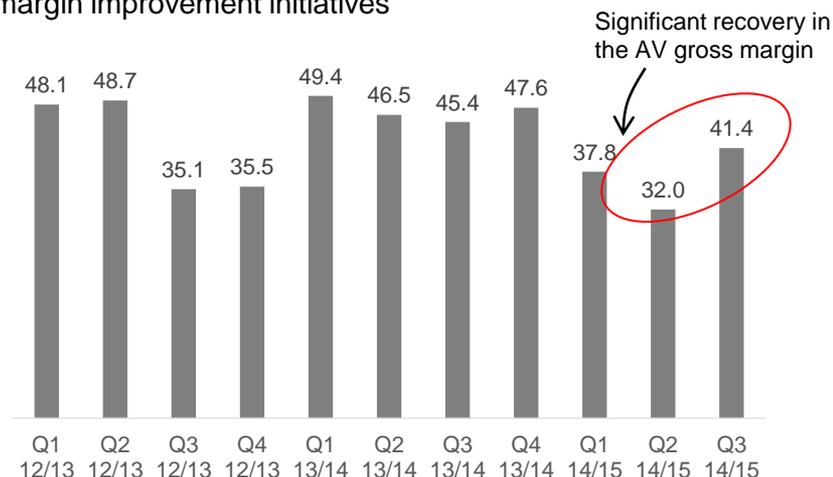
## Group gross margin improving compared to H1 2014/15

- Group gross margin of 39.9 per cent significantly improved from the 35.1 per cent in the first half of 2014/15
- The improvement is mainly driven by higher share of large screen sizes, higher average selling prices and a stabilised production
- Strong margins in B2B due to product mix, mitigate the negative earnings impact from a decline in revenue

Gross margin						
%	3rd quarter			YTD		
	14/15	13/14	Chg.	14/15	13/14	Chg.
AV	41.9	45.4	-3.5	37.3	46.5	-9.2
B&O PLAY	32.7	33.7	-1.0	30.5	32.1	-1.6
Automotive	43.4	38.8	4.6	40.4	36.1	4.3
ICEpower	64.3	53.2	11.1	60.8	54.3	6.5
<b>Group</b>	<b>39.9</b>	<b>42.7</b>	<b>-2.8</b>	<b>36.9</b>	<b>42.0</b>	<b>-5.1</b>

## AV gross margin improved with stabilised production

- Stabilised production and cost initiatives positively impact gross margins
- Further gross margin increase expected due to general unit production cost improvement, restructuring effects and other margin improvement initiatives



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# COSTS FOCUS REMAINS HIGH

## Distribution and marketing costs significantly lower

- Dist. and marketing costs lower than last year mainly due to general cost savings and high campaign activity last year
- Admin. costs positively impacted by DKK 11 million in non-recurring costs in third quarter last year

Capacity costs						
DKK million	3rd quarter			YTD		
	14/15	13/14	Index	14/15	13/14	Index
Development	115	98	118	333	295	113
Dist. and marketing	189	208	91	619	579	107
Administration	24	10	241	67	54	126
<b>Total cap. costs</b>	<b>329</b>	<b>315</b>	<b>104</b>	<b>1,019</b>	<b>927</b>	<b>110</b>

## Continued high investment in R&D

- Net development costs were DKK 115 million, compared to DKK 98 million last year
- The third quarter last year included DKK 30 million in addition to capitalized development costs, relating to key components and technologies acquired from 3rd parties
- The capitalization rate was 46 per cent compared to 48 per cent in the same quarter last year

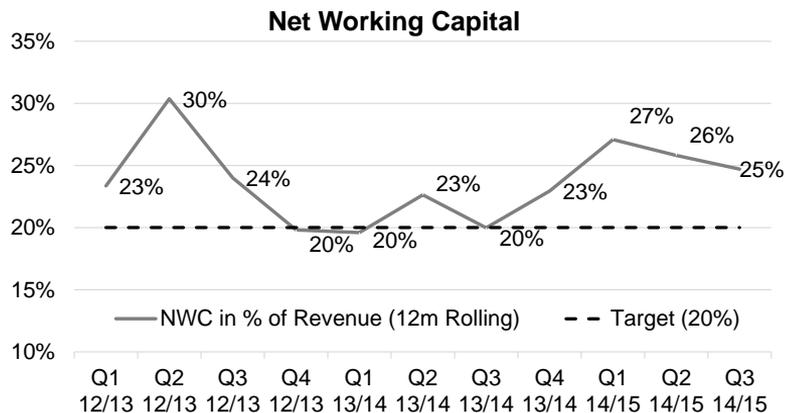
Development costs				
DKK million	3rd quarter		YTD	
	14/15	13/14	14/15	13/14
Incurring development costs before capitalization	101	74	315	300
Net effect of capitalizations and amortisations	14	24	18	-5
<b>Development costs in P&amp;L</b>	<b>115</b>	<b>98</b>	<b>333</b>	<b>295</b>
Capitalization (%)	46%	48%	51%	61%

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# POSITIVE FREE CASH FLOW IN THE QUARTER

## Net working capital continues to steadily improve

- The net working capital was DKK 724 million at the end of the third quarter which was unchanged compared to the second quarter, and DKK 560 million at the end of the same quarter last year
- The net working capital continued to decline as a share of 12 month rolling revenue



## Positive free cash flow of DKK 28 million

- The positive free cash flow in the quarter was driven by improved earnings
- Adjusted for non-recurring items, FCF in the third quarter was DKK 13 million than last year
- Third quarter 2013/14 was positively impacted by DKK 79 million from the sales and leaseback transaction in the Czech Republic

### Cash Flow

DKK million	3rd quarter		YTD	
	14/15	13/14	14/15	13/14
<b>Earnings for the period</b>	17	-32	-164	-77
Net working capital related	0	59	-67	-3
Other	78	60	201	199
<b>Cash flow from oper. activities</b>	<b>95</b>	<b>87</b>	<b>-30</b>	<b>120</b>
Cash flow from investing activities	-67	6	-223	-147
<b>Free Cash Flow</b>	<b>28</b>	<b>94</b>	<b>-253</b>	<b>-28</b>

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# FULL YEAR 2014/15 OUTLOOK

- The outlook for the 2014/15 financial year remains unchanged compared to the outlook previously given
- According to IFRS, Automotive and ICEpower will be reclassified as discontinued business in the Annual Report for the 2014/15 financial year and the guidance for the continuing business can be further specified as follows
  - The continuing business is expected to show high single digit revenue growth for the 2014/15 financial year
  - Estimated EBIT for the continuing business is expected to be negative DKK 230-260 million for the 2014/15 financial year
    - This Estimated EBIT assumes a positive Estimated EBIT from the continuing business in Q4
- This guidance does not include non-recurring costs of DKK 15 – 20 million related to the restructuring announced 12 March 2015, potential impairments, and costs for shared functions which are currently allocated to Automotive and ICEpower and gains from the Automotive transaction

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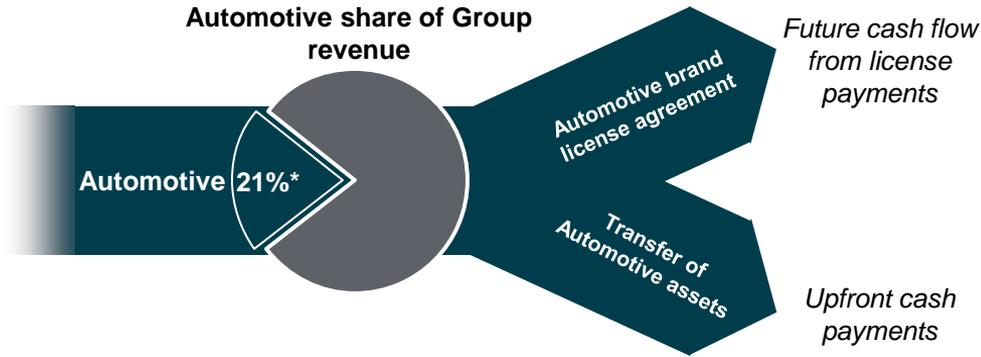
# Q&A

# APPENDIX

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# AUTOMOTIVE BRAND LICENSE AGREEMENT WITH HARMAN

New Automotive brand license agreement and transfer of Automotive assets to HARMAN



\* Full year 2013/14

Focus on value creation

**Reduce complexity**

- Significant reduction of organisational complexity
- Enable stronger consumer focused strategy

**Brand awareness**

- Potential significant increase in Automotive volumes
- Effective expansion of Bang & Olufsen and B&O PLAY brand awareness

**Attractive valuation**

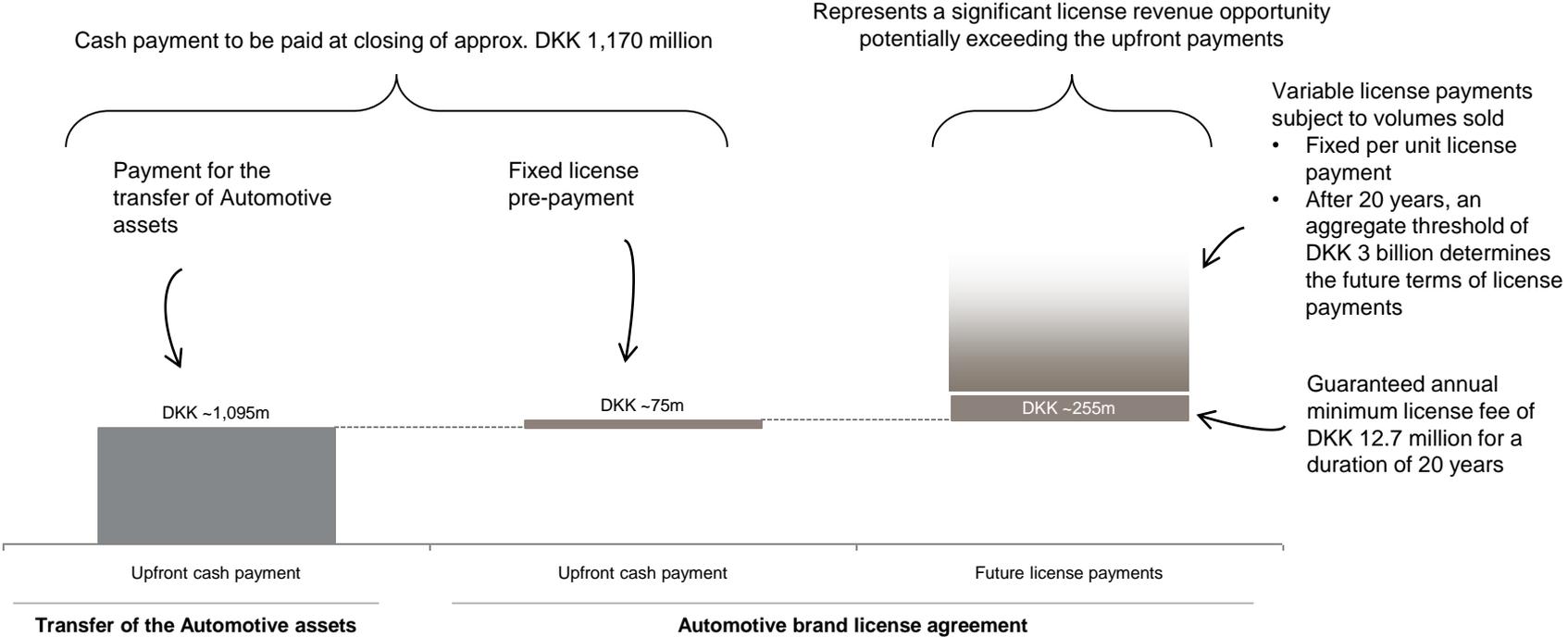
- Upfront cash payments
- Future license payments per unit sold to new brand partners

**Use of proceeds**

- Maximise shareholder value
- Create strong capital base in order to support new consumer focused strategy
- Reduce the company's bank facilities
- Future capital structure communicated at announcement of full year results for 2014/15

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# KEY PAYMENT TERMS OF THE TRANSFER OF AUTOMOTIVE ASSETS AND BRAND LICENSE AGREEMENT WITH HARMAN



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