



BANG & OLUFSEN

INTERIM REPORT

Q2 2014/15

20 January 2015

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AGENDA

SECOND QUARTER HIGHLIGHTS

FINANCIAL RESULTS

EXPECTATIONS TO THE 2014/15 FINANCIAL YEAR

QUESTIONS AND ANSWERS

HIGHLIGHTS

- Revenue and gross margins severely impacted across all markets by ramp-up issues in the TV production and other supply chain issues. Now back to normal
- B&O PLAY weaker than expected due to delayed product launches. New products now successfully launched
- Automotive revenue stable compared to the second quarter last year
- Net increase in the number of B1/SiS stores and continued expansion of the TPR distribution
- EBIT for the second quarter and the first half year weaker than expected
- Strong second half expected compared to first half of the financial year due to the above developments
- Review initiated to identify strategic and structural options to increase scale and further reduce complexity

Consolidated income statement

DKK million	2nd quarter			YTD		
	14/15	13/14	Index	14/15	13/14	Index
Revenue	759	822	92	1,330	1,388	96
Gross profit	260	351	74	466	578	81
EBIT	-95	31	-	-224	-34	-
EBT	-92	17	-	-224	-51	-
Earnings after tax	-72	8	-	-181	-45	-
Gross margin, %	34.2	42.7		35.1	41.7	
EBIT margin, %	-12.5	3.7		-16.9	-2.4	

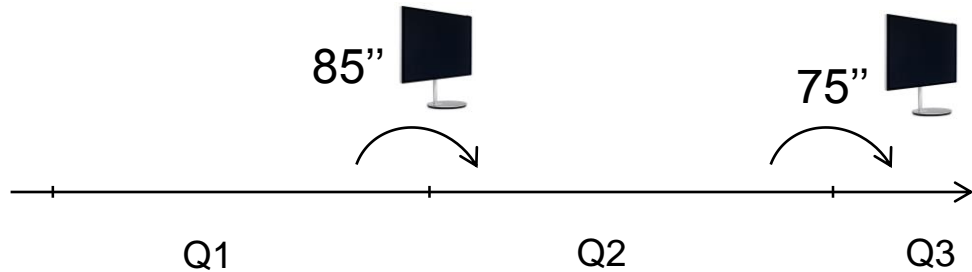
KNOCK-ON EFFECT FROM RAMP-UP ISSUES OF AVANT



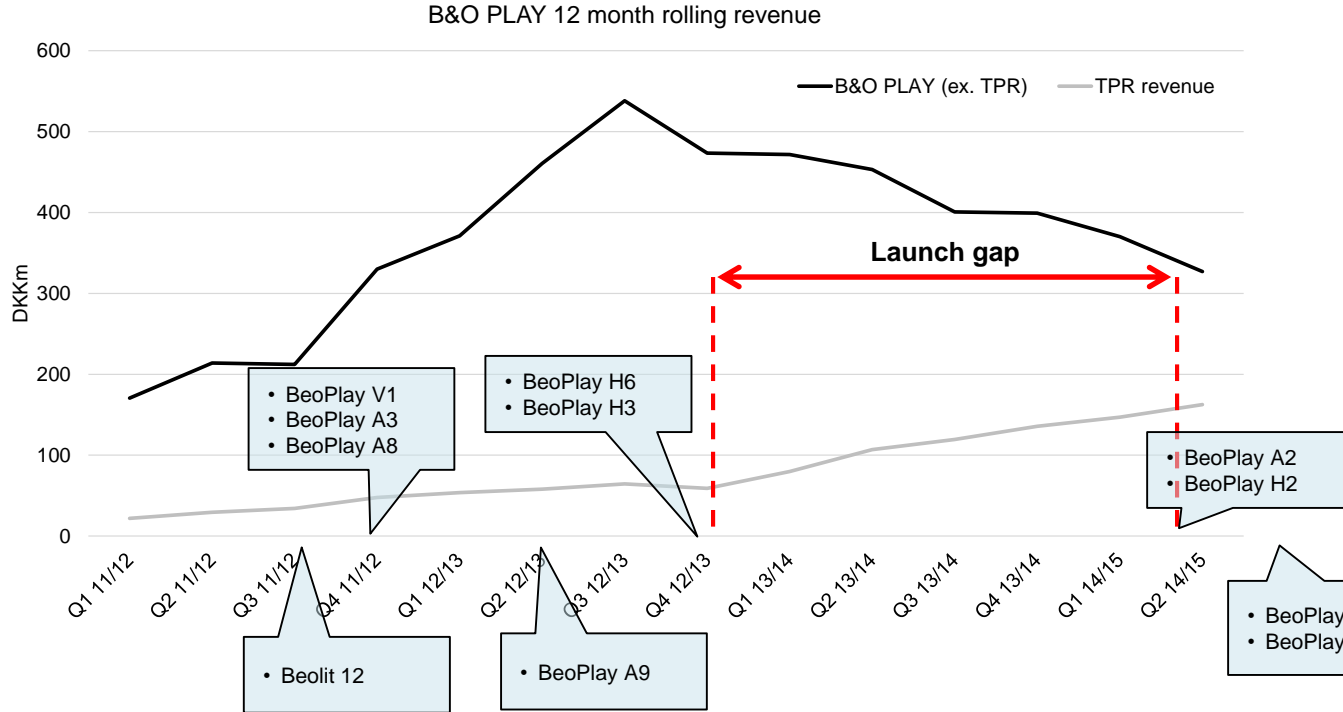
Ramp-up issues of the 55"

- Postponed and lost sales
- Weak gross margin
- Higher capacity costs
- Net working capital build up
- Knock-on effect on other product launches

- Great product reviews
- Production and shipment now stable for all Avant screen sizes
- Back-order situation back to normal at the end of Q3

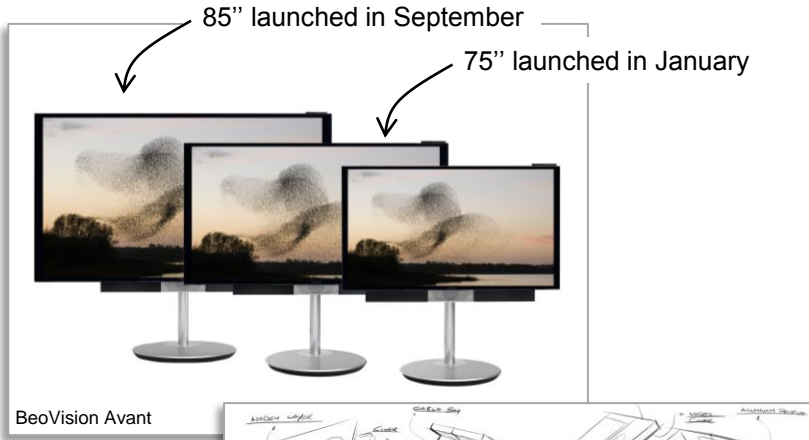


B&O PLAY PRODUCT LAUNCH TIMING AND REVENUE



- Launch gap significantly too long
- Q2 14/15 affected by BeoPlay A9 supply gap. Supply now available
- More new products and updates to come in Q3 and Q4
- New takt in launch rhythm going forward

NEW BANG & OLUFSEN PRODUCT LAUNCHES



BeoVision Avant 75" and 85"

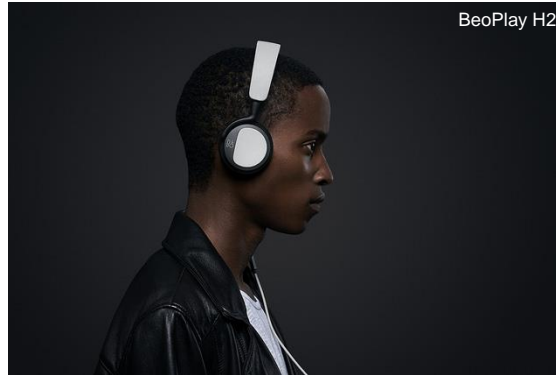
- 85" and 75" versions added to the BeoVision Avant family in September 2014 and January 2015 respectively, complementing the 55" (launched in May 2014)
- RCP DKK 109,995 (75") and 164,955 (85")

BeoSound Moment concept launched at CES

- **Navigating on wood:** Touch-sensitive oak "one touch" access to your music
- Intelligent **PatternPlay:** Intelligent feature that adapts your listening patterns and suggests music or radio programmes that fit with the relevant day of the week and the time of day
- The intuitive **MoodWheel:** Express your mood and BeoSound Moment will find the perfect sound track to match it
- In stores late January
- RCP DKK 16,995

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NEW B&O PLAY PRODUCT LAUNCHES



BeoPlay A2

- Portable Bluetooth speaker
- True360 degree sound
- Up to 24 hours battery life
- RCP DKK 2,499

BeoPlay H2

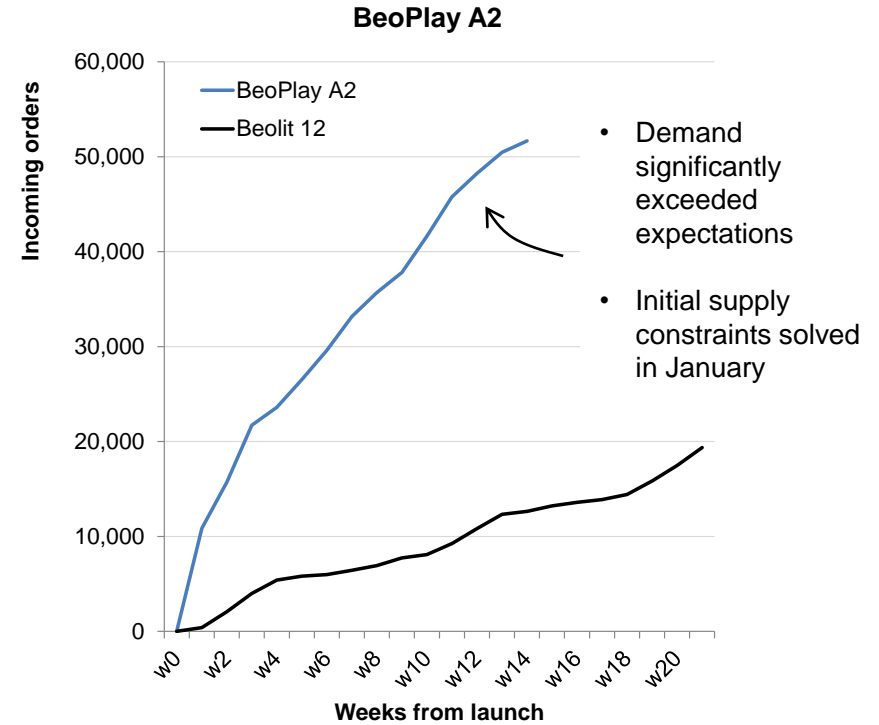
- Flexible, on-ear headphone
- Superior sound
- Microphone and remote for hassle-free control
- RCP DKK 1,499

BeoPlay H8

- Premium wireless headphone
- Active noise cancellation
- Intuitive touch interface
- RCP DKK 3,699

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BEOPLAY A2 OFF TO A VERY STRONG START

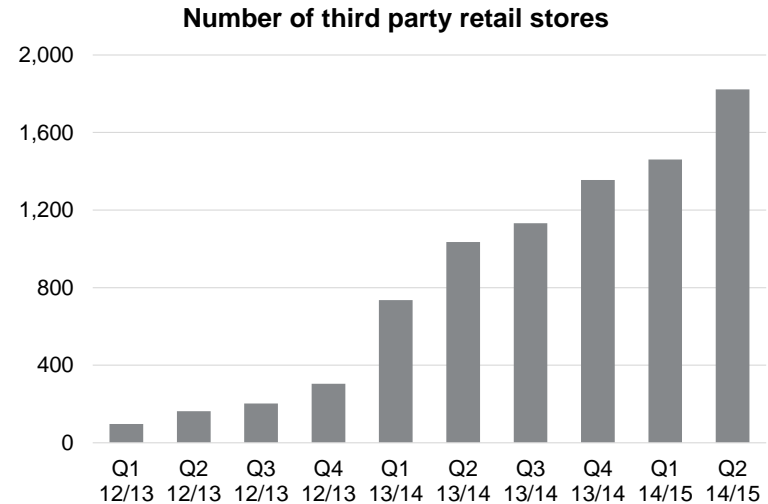
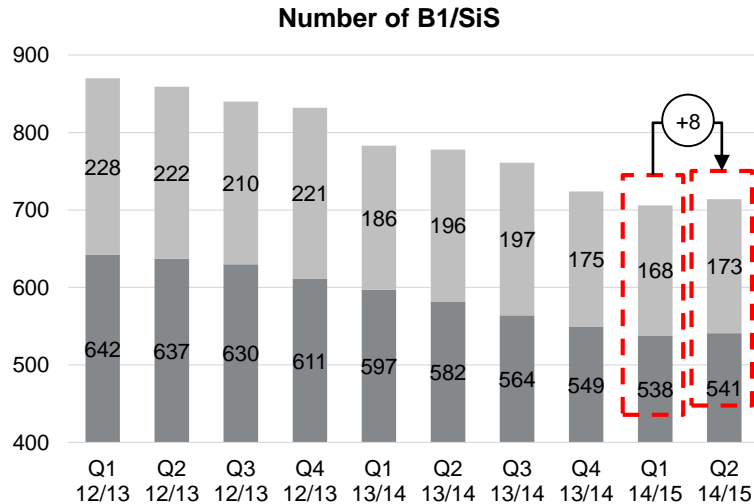


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B2C DISTRIBUTION IS INCREASING

- Net increase of 8 B1/SiS in the second quarter compared to the first quarter 2014/15 – first time since 2007
- An increase in the distribution is needed while continuing to increase same-store sales

- The number of third party retail stores is now above 1,800
- The increase in the number of stores will be a key growth driver in the second half of the financial year



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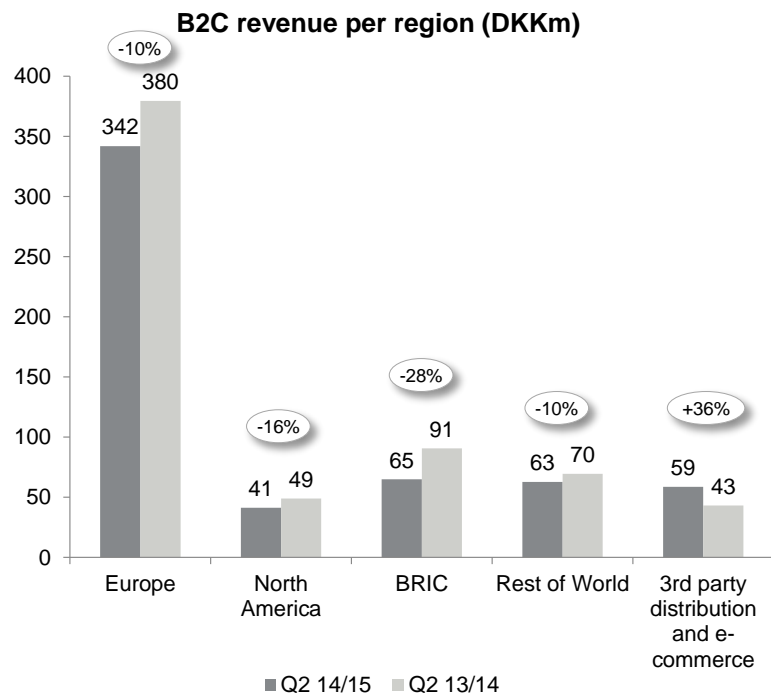
QUESTIONS AND ANSWERS

REVENUE

Revenue						
DKK million	2nd quarter			YTD		
	14/15	13/14	Index	14/15	13/14	Index
AV	429	464	93	761	743	102
B&O PLAY	140	168	84	240	286	84
B2C	570	632	90	1,001	1,029	97
Automotive	162	164	99	277	314	88
ICEpower	21	30	71	45	52	86
B2B	183	194	94	323	367	88
Other	7	-4		7	-7	
Group	759	822	92	1,330	1,388	96

- AV revenue declined by 7 per cent in the quarter
 - Strong demand for BeoVision Avant
 - Ramp-up issues
 - Audio and Speakers performed below expectations
- B&O PLAY revenue decreased by 16 per cent in the quarter
 - Lack of products a key issue
 - B1/SiS revenue declined by 35 per cent
 - Third party channels and e-com revenue increased by 36 per cent
- Automotive revenue declined by 1 per cent, and hence recovered from the weak first quarter

REVENUE PER REGION, B2C BUSINESS



- All markets adversely affected by ramp-up and other supply chain issues
- BRIC particularly unfavourably affected by the delayed launch of BeoVision Avant 85” in China as well as low consumer demand in Russia
- Third party distribution and e-commerce increased by 36 per cent in the quarter, driven by an increase in the number of third party stores

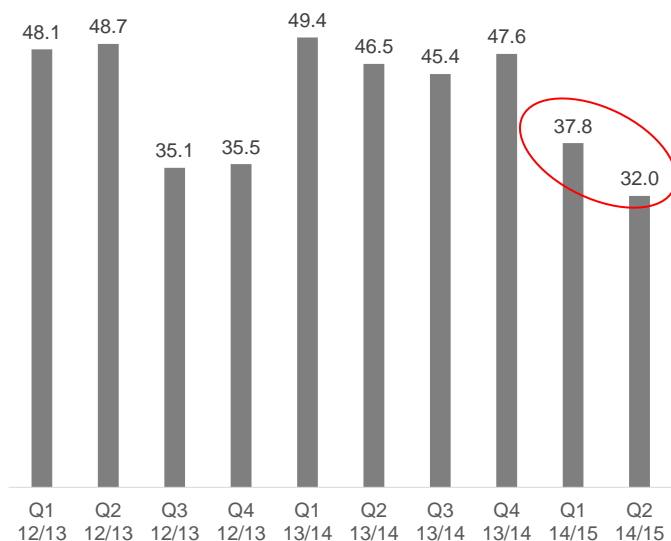
GROSS MARGIN

Gross margin						
%	2nd quarter			YTD		
	14/15	13/14	Chg.	14/15	13/14	Chg.
AV	32.0	46.5	-14.5	34.5	47.2	-12.7
B&O PLAY	31.1	35.2	-4.1	29.0	31.3	-2.3
Automotive	40.3	36.1	4.2	38.9	34.8	4.1
ICEpower	62.7	57.9	4.8	59.0	54.8	4.2
Group	34.2	42.7	-8.5	35.1	41.7	-6.6

- Group gross margin declined to 34.2 per cent from 42.7 per cent in the same quarter last year.
- The main driver of the decline was the gross margin in AV, which was 32.0 per cent compared to 46.5 per cent last year.
- The gross margin in B&O PLAY in the quarter was 31.1 per cent compared to 35.2 per cent last year, driven mainly by the product mix, in particular the gap in supply of the BeoPlay A9, combined with end of life clean up
- The gross margin in Automotive was 40.3 per cent compared to 36.1 per cent last year. The increased margin is largely due to a higher share of premium sound systems

AV GROSS MARGIN

AV Gross margin (%)



Key issues

- High share of TV sales
- Ramp up issues
- Negative impact from reducing NWC

Improvements going forward

- Product mix improvement driven by a higher share of audio and speaker related sales
- Ramp up issues will be improved with a more stable production rhythm
- Other improvements include
 - Higher ASPs on selected products
 - Lower dealer margin on TVs
 - Cost engineering across all products – especially the newly launched products

CAPACITY COSTS

Capacity costs

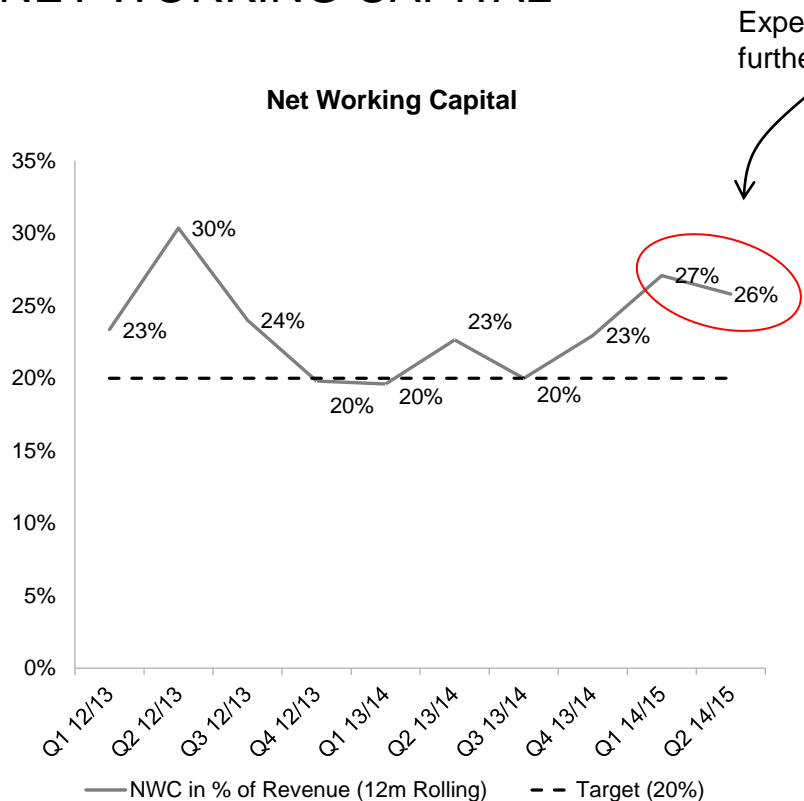
DKK million	2nd quarter			YTD		
	14/15	13/14	Index	14/15	13/14	Index
Development	108	100	108	217	197	110
Dist. and marketing	226	199	113	430	371	116
Administration	21	22	97	43	44	99
Total cap. costs	355	321	111	691	612	113

Development costs

DKK million	2nd quarter		YTD	
	14/15	13/14	14/15	13/14
Incurring development costs before capitalization	110	125	214	226
Net effect of capitalizations and amortisations	-2	-25	4	-29
Development costs in P&L	108	100	217	197
Capitalization (%)	55%	68%	53%	65%

- Capacity costs increased to DKK 355 million from DKK 321 million in the same quarter last year
- Distribution and marketing costs increased by DKK 27 million to DKK 226 million from DKK 199 million last year, due to increased marketing spend on newly launched products and a high level of marketing in the high season
- Administration costs were DKK 21 million, which was in line with last year
- Development costs were DKK 108 million compared to DKK 100 million in the same quarter last year. The capitalization rate was 55 per cent compared to 68 per cent in the same quarter last year

NET WORKING CAPITAL



Expected to decline further in H2 14/15

- The net working capital was reduced to DKK 724 million at the end of the second quarter compared to DKK 777 million at the end of the first quarter, and DKK 630 million at the end of the same quarter last year
- The reduction was achieved despite a seasonally higher activity level in the second quarter compared to the first quarter of the financial year
- The net working capital corresponds to 26 per cent of the last 12 months' revenue compared to 27 per cent in the second quarter, and 23 per cent in the same quarter last year
- Net working capital is expected to improve further in the second half of the financial year

CASH FLOW

Cash Flow				
DKK million	2nd quarter		YTD	
	14/15	13/14	14/15	13/14
Earnings for the period	-72	8	-181	-45
Net working capital related	54	-73	-67	-62
Other	58	69	123	139
Cash flow from oper. activities	39	3	-125	32
Cash flow from investing activities	-80	-55	-156	-154
Free Cash Flow	-40	-52	-281	-122

- The free cash flow was negative DKK 40 million in the quarter compared to negative DKK 52 million last year
- The negative development was primarily driven by a negative cash flow from earnings in the period, which was not fully mitigated by the improvement in the net working capital
- Although still negative, the free cash flow improved compared to the first quarter driven by NWC

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- High single-digit revenue growth in the 2014/15 financial year compared to 2013/14
 - AV single digit growth
 - B&O PLAY double digit growth
 - Automotive single digit decline (but stable in H2 2014/15 compared to H2 2013/14)
- Negative EBIT margin for the 2014/15 financial year, but positive in the second half of 2014/15
- Free cash flow is expected to be positive DKK 50 – 100 million in H2 2014/15
- Review initiated to identify strategic and structural options to increase scale and further reduce complexity

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Q&A

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