



**BANG & OLUFSEN**  
ANNUAL REPORT 2014/15  
13 August 2015

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# AGENDA

HIGHLIGHTS

FINANCIAL RESULTS

STRATEGY UPDATE

OUTLOOK

QUESTIONS AND ANSWERS






# HIGHLIGHTS

- Revenue growth of 14 per cent in the fourth quarter and 9 per cent for the year, driven by growth in B&O PLAY and Bang & Olufsen
- B&O PLAY showed strong growth in B1/SiS channel (19 per cent) as well as through third party retailers (154 per cent) in the fourth quarter
- Reported EBIT of negative DKK 410 million, of which DKK 357 million relate to non-recurring and aperiodic, non-cash items, which are mainly a result of the revised strategy and the sale of assets and costs previously shared with the Automotive business
- EBIT of the underlying business was negative DKK 53 million in the quarter
- Automotive transaction closed 29 May 2015 with a cash payment of DKK 1,105 million
- Positive free cash flow in the quarter of DKK 43 million (excl. the gain from sale of assets and businesses) and a net interest-bearing deposit of DKK 788 million at the end of the quarter
- Consumer focused strategy detailed and 3 year financial targets have been set



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# GUIDANCE TRACKER 2014/15

Guidance	Actual	
The continuing business (i.e. Bang & Olufsen and B&O PLAY) is expected to show high single digit revenue growth for the 2014/15 financial year	+9%	
<ul style="list-style-type: none"> <li>B&amp;O PLAY in particular is expected to show double digit growth for the year driven by new product launches as well as an expansion of the third party distribution</li> </ul>	+15%	
<ul style="list-style-type: none"> <li>Bang &amp; Olufsen is expected to show single digit growth</li> </ul>	+7%	
EBIT for the continuing business (excl. restructuring, impairments and costs for shared functions) of negative DKK 230-260 million for the 2014/15 financial year	Neg. DKK 323 million	
Free cash flow in the second half of the financial year is expected to be in the range of DKK 50 million to DKK 100 million	DKK 70 million (excl. sale of assets)	

# STRONG REVENUE GROWTH IN THE CONTINUING BUSINESS

## 14 per cent growth in the fourth quarter

- Revenue growth in the Bang & Olufsen segment was driven by the Love Affair Collection and positive currency effects
- B&O PLAY growth was driven by the B1/shop-in-shop distribution (19 per cent) as well as third party stores (154 per cent)

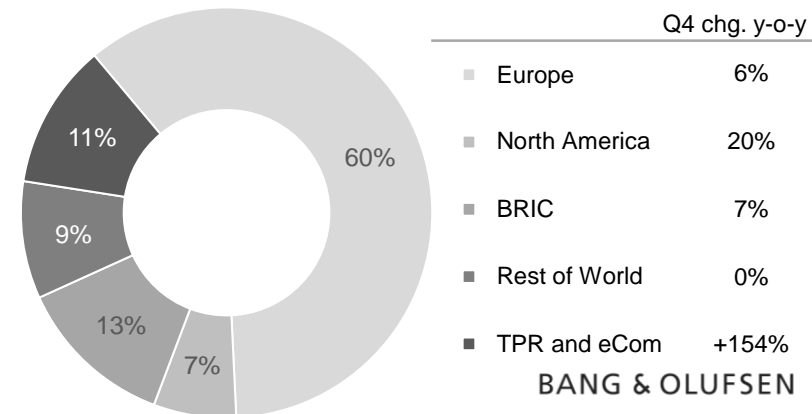
### Revenue by segment

DKK million	4th quarter		YTD	
	14/15	13/14	14/15	13/14
Bang & Olufsen	502	481	1,743	1,628
B&O PLAY	193	127	613	534
<b>B2C</b>	<b>695</b>	<b>608</b>	<b>2,356</b>	<b>2,162</b>

## Growth in all regions

- Growth in Europe driven by key markets incl. DK, UK, and DE
- Revenue in North America increased by 20 per cent, driven by currency effects
- BRIC revenue increase driven mainly by China (+15 per cent), whereas revenue in Russian remains subdued

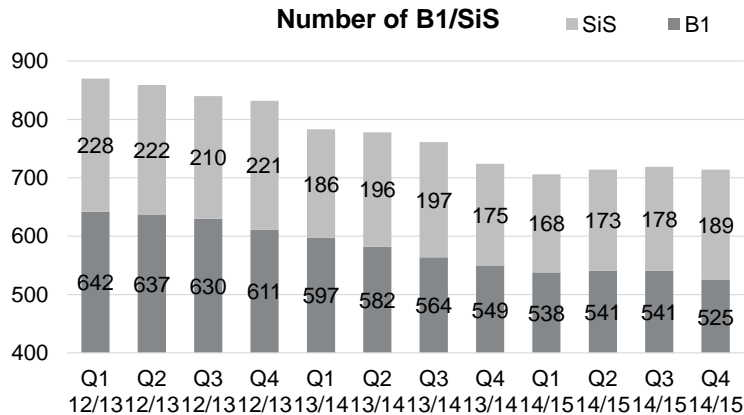
### B2C revenue by region



# BANG & OLUFSEN DISTRIBUTION IS STABILISING AND B&O PLAY DISTRIBUTION IS EXPANDING

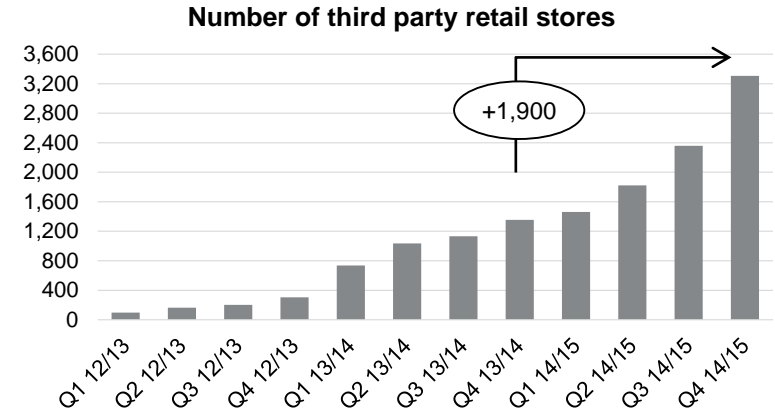
## Stabilization of the B1/SiS distribution

- The net number of B1/SiS showed a moderate decline (-5) in the fourth quarter. Restructuring of the B1/SiS network in the US was the main driver of the decrease of especially B1 stores in the fourth quarter
- 63 new B1 and SiS were opened in 2014/15, corresponding to 9 per cent of the total number of stores at the end of 2014/15



## Third party retail store expansion continues

- The number of third party retail stores is now above 3,300
- The number of TPR stores has particularly grown in key European markets, including Germany, UK and France and in North America





# WIRELESS MULTIROOM SOLUTION ROLL-OUT DURING THE SUMMER



- A real step change in innovation, consumer benefits and commercial opportunities for Bang & Olufsen and B1 retailers
- The solution currently includes BeoSound Moment, Essence, BeoPlay A9 and Bang & Olufsen TVs
- Rolled out during the summer with a marketing and PR campaign from early August
- Enables integration across B&O PLAY and Bang & Olufsen
- The BeoMusic app offers tablet or smartphone control of music across rooms and products
- TVs are part of the system - unlike any other multiroom system Bang & Olufsen TVs are part of the experience and can be used as a multiroom audio master or speaker
- Backwards compatibility - existing Bang & Olufsen products can be connected to the system. Even iconic audio masters like BeoSound 9000, Overture etc.

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# SPECIAL EDITIONS LAUNCHED IN B&O PLAY

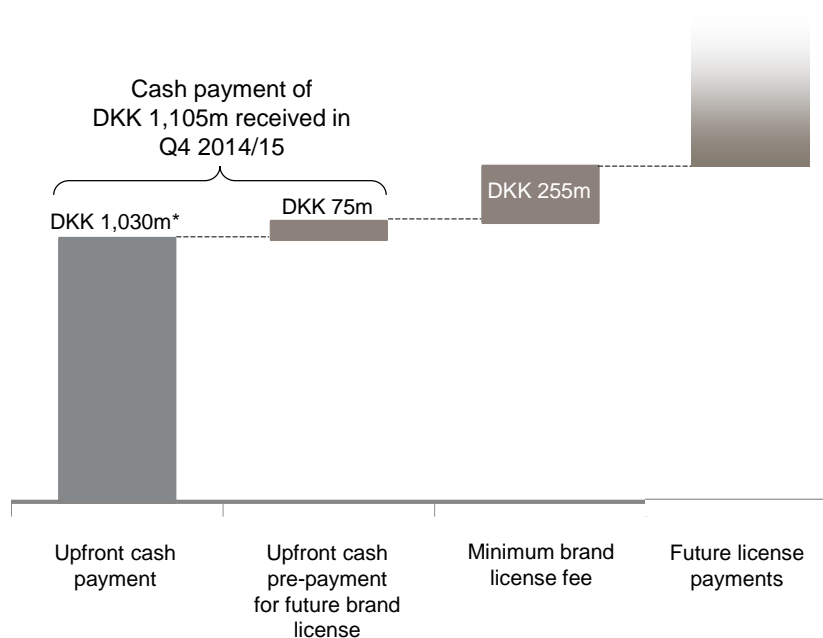


## Three new variants launched in the fourth quarter

- The BeoPlay A2 was launched in a black and copper version
- The BeoPlay H6 launched in collaboration with the British lifestyle cycling brand Rapha in a special black and pink version
- The BeoPlay H3 in Ocean Blue and a Hard Graft Blue bag

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# FUTURE AUTOMOTIVE BRAND LICENSE PAYMENTS



\*In addition cash of DKK 93 million have been placed in escrow for 15 months to secure any warranty related claims

## Future license payment structure

- License payments will be based on the unit sales of car models launched with new brand partners
- Guaranteed minimum payments of DKK 12.7 million per year will start at the day where the first car is launched and no later than in 2018 and run for 20 years
- Bang & Olufsen will begin to receive cash flow from license payments in addition to the above mentioned guaranteed payments when the upfront license payment of DKK 75 million and any guaranteed minimum payments received has been covered by license from new partners
- Future license payments represent a significant license revenue opportunity potentially exceeding the upfront payments

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# FINANCIAL HIGHLIGHTS

## Key financial figures (Cont. business)

DKK million	4th quarter		YTD	
	14/15	13/14	14/15	13/14
<b>Revenue</b>	<b>695</b>	<b>608</b>	<b>2,356</b>	<b>2,162</b>
Gross profit	64	244	580	830
EBIT	-410	-17	-807	-261
<b>EBIT (underlying*)</b>	<b>-53</b>	<b>-</b>	<b>-323</b>	
EBT	-422	-15	-803	-286
Earnings after tax (cont. busi)	-319	-11	-607	-228
Earnings after tax (disc. busi.)	540	59	664	199
<b>Earnings</b>	<b>221</b>	<b>48</b>	<b>57</b>	<b>-29</b>
Gross margin, %	9.2	40.1	24.6	38.4
<b>Gross margin, %(underlying*)</b>	<b>38.9</b>	<b>-</b>	<b>37.2</b>	<b>-</b>
Net working capital	261	657	261	657
Free cash flow	1,166	-73	913	-101
FCF (excl. sale of assets)	43	-73	-211	-101

\*Excl. non-recurring and aperiodic items and costs for shared functions and license fee previously allocated to discontinued operations in 2014/15

- Revenue growth of 14 per cent in the continuing business in the fourth quarter and 9 per cent for the full year
- Adjusting for non-recurring and aperiodic items and costs for previously shared functions and license fee previously allocated to Automotive the EBIT was negative DKK 53 million in the fourth quarter
- Net working capital significantly improved, driven by improvements in all lines and the sale of the Automotive assets and non-cash adjustments in the quarter
- Free cash flow excluding sale of assets for the fourth quarter was positive DKK 43 million compared to negative 73 million last year

# REPORTED VS. UNDERLYING PROFIT & LOSS

Bang & Olufsen continuing business Profit & Loss statement, reported vs. underlying						
DKKm	Q4 14/15 Reported	Adjustments*	Q4 14/15 Underlying	Q4 13/14 Reported	Reported Grow th	Underlying Grow th
<b>Revenue</b>	<b>695</b>	-	<b>695</b>	<b>608</b>	<b>14%</b>	<b>14%</b>
Bang & Olufsen	502	-	502	481	4%	4%
B&O PLAY	193	-	193	127	52%	52%
<b>Gross profit</b>	<b>64</b>	<b>-207</b>	<b>271</b>	<b>244</b>	<b>-74%</b>	<b>11%</b>
<b>Gross Margin</b>	<b>9.2%</b>	<b>29.7%</b>	<b>38.9%</b>	<b>40.1%</b>	-	-
Bang & Olufsen	6.4%	-	38.2%	44.7%	-	-
B&O PLAY	20.1%	-	29.5%	30.8%	-	-
<b>Capacity Costs</b>	<b>-474</b>	<b>-150</b>	<b>-324</b>	<b>-260</b>	<b>82%</b>	<b>24%</b>
<b>EBIT</b>	<b>-410</b>	<b>-357</b>	<b>-53</b>	<b>-16</b>	-	-

\*Adjustments include non-recurring and aperiodic costs as well as costs and license payments previously allocated to discontinued operations

## Special items impact the P&L

### • **Gross profit** impacted by:

- Revaluation of inventory DKK 62m
- Indirect production costs DKK 61m
- Cost prev. allocated to disc. DKK 39m
- Write down of fixed assets DKK 17m
- Other items DKK 28m

### • **Capacity costs** impacted by:

- Provisions for losses etc. DKK 42m
- Imp. of develop. and warranty DKK 36m
- Restructuring and other DKK 31m
- Impairment of buildings DKK 22m
- Cost prev. allocated to disc. DKK 19m

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# REPORTED VS. UNDERLYING GROSS MARGINS

## Non-recurring, non-cash items impacting gross margins

- Group gross margin of 9.2 per cent from the 40.1 per cent in the fourth quarter last year
- The group gross margin was adversely affected by DKK 168 million in non-recurring and aperiodic items during the quarter, which particularly impacted the Bang & Olufsen gross margin
- In addition, the gross margin included costs for shared functions and license fees previously allocated to Automotive of DKK 39 million in the fourth quarter
- Underlying gross margin for Bang & Olufsen adversely impacted by a high TV mix in the quarter and ramp-up issues in the beginning of the year

## Shared functions and license fees impacting gross margins

- The gross margin for the continuing business for the full year, was impacted by costs previously allocated to the discontinued business and license fees of DKK 124 million for the year and DKK 39 million in the quarter
- During the transition phase HARMAN will cover costs related to services provided

Gross margin						
%	4th quarter			YTD		
	14/15	13/14	13/14	14/15	13/14	13/14
	Reported	Underlying	Reported	Reported	Underlying	Reported
Bang & Olufsen	6.4	38.2	44.7	26.5	35.2	44.1
B&O PLAY	20.1	29.5	30.8	27.2	30.2	31.8
<b>Group</b>	<b>9.2</b>	<b>38.9</b>	<b>40.1</b>	<b>24.6</b>	<b>37.2</b>	<b>38.4</b>

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# COSTS IMPACTED ADVERSELY BY SEVERAL SPECIAL ITEMS

## Non-recurring costs, and aperiodic items and currency

- Capacity costs adversely impacted by DKK 131 million in non-recurring and aperiodic costs and DKK 19 million in cost for shared functions previously allocated to discontinued operations
- In addition, marketing and distribution costs were high due to a high level of marketing costs related to newly launched products and adverse currency effects

DKKm	4th quarter			YTD		
	14/15		13/14	14/15		13/14
	Reported	Underlying	Reported	Reported	Underlying	Reported
Development	178	88	60	449	359	293
Dist. Marketing	280	238	184	862	820	732
Administration	17	17	16	77	77	66
<b>Group</b>	<b>474</b>	<b>343</b>	<b>260</b>	<b>1,387</b>	<b>1,256</b>	<b>1,091</b>



The "underlying" numbers here only adjust for the non-recurring and aperiodic costs of DKK 131 million

## Investments in innovation remains high

- Net development costs were DKK 178 million, compared to DKK 60 million last year. The net effect of capitalizations and amortization was DKK 69 million compared to the fourth quarter last year
- The capitalization rate was 31 per cent compared to 83 per cent in the same quarter last year. Last year was impacted by the finalisation of major development projects e.g. the Avant TV family

## Development costs

DKK million	4th quarter		YTD	
	14/15	13/14	14/15	13/14
Incurred development costs before capitalization	118	69	370	285
Net effect of capitalizations and amortisations	60	-9	79	8
<b>Development costs in P&amp;L</b>	<b>178</b>	<b>60</b>	<b>449</b>	<b>293</b>
Capitalization (%)	30.6%	82.6%	43.1%	61.8%

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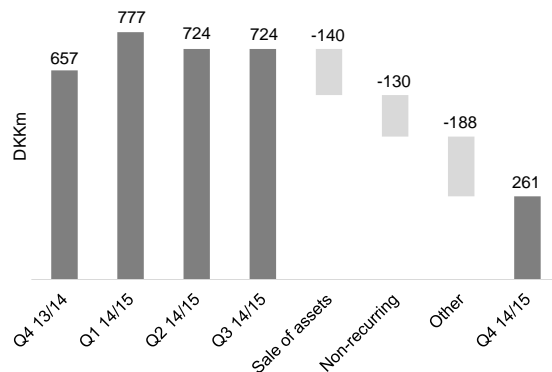


# POSITIVE FREE CASH FLOW IN THE QUARTER

## Net working capital significantly improved

- The net working capital declined to DKK 261 million from DKK 724 million at the end of the fourth quarter
- The sale of assets improved the networking capital by DKK 140 million and non-cash, non-recurring and aperiodic items improved the NWC by DKK 130 million
- The underlying NWC improved significantly driven by improvements in all lines

### Net working capital by quarter



## Positive free cash flow of DKK 1,166 million

- Free cash flow in the quarter was positively impacted by the sale of assets and businesses by DKK 1,123 million
- The free cash flow adjusted for the sale of assets was positive DKK 43 million in the quarter driven by the improvement in net working capital, especially in trade payables compared to the third quarter

### Cash Flow

DKK million	4th quarter		YTD	
	14/15	13/14	14/15	13/14
Earnings for the period	221	48	57	-29
Net working capital related	312	-75	245	93
Other	-448	91	-247	119
<b>Cash flow from oper. activities</b>	<b>85</b>	<b>64</b>	<b>55</b>	<b>183</b>
Cash flow from investing activities	1,081	-137	858	-147
<b>Free Cash Flow</b>	<b>1,166</b>	<b>-73</b>	<b>913</b>	<b>-101</b>
<b>FCF (excl. sale of assets)</b>	<b>43</b>	<b>-73</b>	<b>-211</b>	<b>-101</b>

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HIGHLIGHTS

FINANCIAL RESULTS

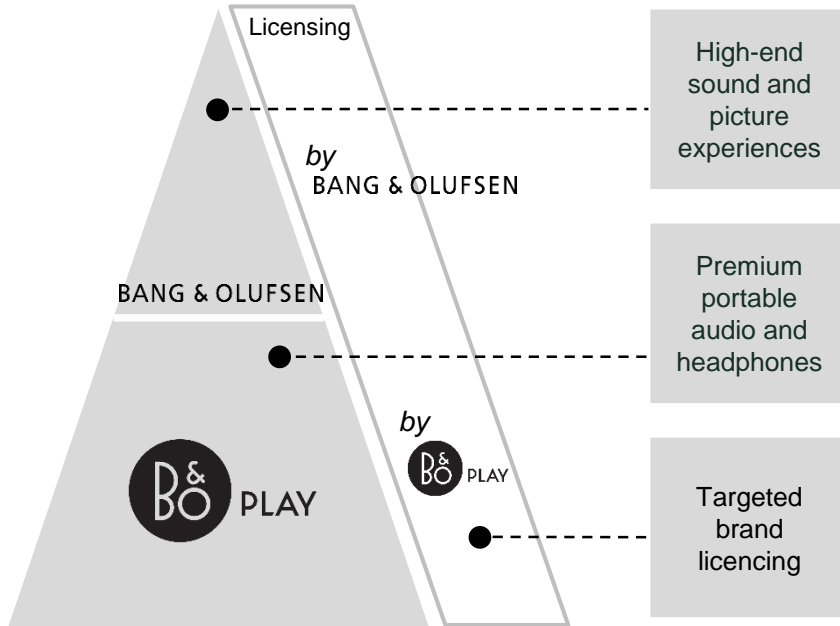
STRATEGY UPDATE

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# STRATEGY PLAN - THE BANG & OLUFSEN BUSINESS MODEL

## The unique brands...



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

- The high-end brand is the backbone of the company
  - Key focus will be to further strengthen the brand attractiveness and continue to invest in innovation and retail experiences
  - Improve the profitability through product portfolio optimization and technology partnerships
- 
- Premium brand position, as an extension of the high-end Bang & Olufsen brand
  - Main growth driver of the Group in the medium term
  - Attract younger and broader audience and increase brand awareness
- 
- Leverage brand value of the Bang & Olufsen and B&O PLAY brands
  - Enable long-term value creation and awareness of the brands

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# KEY FOCUS AREAS

## BANG & OLUFSEN



### Products

- High level of product innovation and quality
- Strengthened focus on software, design, innovation and acoustical leadership
- Reduced complexity and increased profitability of the product portfolio

- Broadening of the headphones and portable audio product portfolio
- High launch frequency of new products and product updates and impactful launches

### Distribution

- Continue strengthening and increasing consistency in the customer experience
- Attract new, high potential partners to key locations

- Aggressive expansion of the third party distribution, through specialised distributors
- Particular focus on growing the North American market and China
- Growth of like-for-like sales in addition to store expansion

### Cost and complexity

- Increased use of technology partners for scale and technology benefits
- Strong product life cycle management
- Simplified service and service related setup

- Continued use of outsourcing partners
- Cost efficient and scalable distribution
- Optimised outsourced logistics setup

# FINANCIAL TARGETS IN THE STRATEGY PERIOD

## **Financial targets 2015/16 to 2017/18**

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- Approximately 10 per cent CAGR with B&O PLAY as the primary growth driver for the Group
- 7 per cent EBIT margin (before special items) reached within the strategy period
- Positive free cash flow within the strategy period

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# OUTLOOK AND CAPITAL STRUCTURE

## Outlook for 2015/16

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### Revenue

- Group revenue growth of 8 to 12 per cent compared to 2014/15
  - B&O PLAY is expected to be the main growth driver
  - Bang & Olufsen is expected to show moderate growth

### EBIT

- EBIT adjusted for costs previously allocated to Automotive around break-even

## Capital structure

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- The bank debt facility has been repaid
- The Board of Directors will recommend to the AGM that no dividend is paid to the shareholders



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QUESTIONS AND ANSWERS

# Q&A

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