



# ANNUAL REPORT 2013/14

13 August 2014

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# AGENDA

FULL YEAR AND FOURTH QUARTER HIGHLIGHTS

FINANCIAL RESULTS

STRATEGY UPDATE AND 3 YEAR TARGETS

EXPECTATIONS TO THE 2014/15 FINANCIAL YEAR

QUESTIONS AND ANSWERS

# HIGHLIGHTS

- Revenue increased by 8.2 per cent in the fourth quarter compared to the same quarter last year, driven by growth in all business segments. Full year revenue grew by 1.8 per cent
- Gross margin improved 9 percentage points in the quarter and 4 percentage points for the full year, driven by gross margin improvements across all business segments
- EBIT for the fourth quarter was DKK 64 million leading to an EBIT for the full year of DKK 3 million
- Strategic transformation efforts and focused investments in innovation are starting to pay off
- Capital increase of DKK 250 million (net proceeds) successfully executed
- Anders Aakær Jensen (CFO) and Stefan Persson (COO) hired to join Executive Management

# PRODUCTS LAUNCHED DURING THE FOURTH QUARTER



## **BeoVision Avant**

- High-end multimedia entertainment hand in hand with uncompromising design
  - Mechanical magic and a multitude of stand options ensure a high degree of flexibility and convenience for the customer
  - Sublime Ultra High Definition (4K) video performance and jaw-dropping acoustic authenticity are built in
  - Provides wireless streaming of sound to the IWS speaker range

## **BeoRemote1**

- New, elegantly designed remote cast in one piece of aluminium
- Gives simple and intuitive control of Bang & Olufsen products as well as many other third party products through the PUC technology. Includes three "my buttons" allowing simple and easy access to personalised settings

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## BEOLAB 20 – ADDED TO THE IWS SPEAKER RANGE



- New high-end active, floor speaker BeoLab 20 launched built on Bang & Olufsen's digital sound engine and with the acoustic lens technology
- The speaker delivers stunning acoustic performance both in a wired and wireless setup
- The technology delivers 24-bit, unparalleled acoustic performance in a wireless surround setup
- Bang & Olufsen was the first company to launch wireless speakers, which incorporate the open WiSA standard, and therefore can connect to any WiSA compliant third-party television, Blu-ray player, AV receiver or the like
- The IWS speaker range now comprises four speakers: BeoLab 17, BeoLab 18, BeoLab 19 and BeoLab 20

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# B&O PLAY SPECIAL EDITIONS AND PARTNERSHIPS



## BeoPlay H6 Special Edition

- Three new special edition colour variants Graphite Blush, Bronzed Hazel and Blue Stone
- Design edge that makes them particularly interesting for youthful, design affectionate professionals looking for that something special that stands out



## BeoPlay H6 and Form2i LIVE FOR NOW Special Edition

- B&O PLAY teamed up with Pepsi, six of the biggest football superstars, the most popular musicians, and four of the hippest street artists to create the talk of the town extravagant combo of football, art and music



## B&O PLAY accessory collaboration with Hard Graft

- Exclusive accessory collection fit as a perfect extension to the B&O PLAY headphone products

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## NEW MEMBERS OF EXECUTIVE MANAGEMENT



### **Anders Aakær Jensen (39), CFO (1 August 2014)**

- Joins from a position as Group Senior Vice President Corporate Finance at Grundfos Holding A/S
- 13-year career with Grundfos and held various positions in Denmark and internationally within the fields of finance and accounting



### **Stefan Persson (47), COO (1 October 2014)**

- Joins from a position as VP Head of Development EU and Head of BU Companion at Sony Mobile Communications
- Has held various international product management and product development roles in Ericsson, Sony Ericsson and latest Sony Mobile Communications
- Will be responsible for Product Management, Research & Development, Production and Supply Chain Management



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# INCOME STATEMENT

## Consolidated income statement

DKK million	4th quarter			YTD		
	13/14	12/13	Index	13/14	12/13	Index
<b>Revenue</b>	<b>801</b>	<b>740</b>	<b>108</b>	<b>2.864</b>	<b>2.814</b>	<b>102</b>
Gross profit	358	265	135	1.224	1.096	112
EBIT	64	-38	-	3	-187	-
EBT	65	-44	-	-23	-210	-
<b>Earnings after tax</b>	<b>48</b>	<b>-37</b>	<b>-</b>	<b>-29</b>	<b>-159</b>	<b>-</b>
Gross margin, %	44,7	35,8		42,8	38,9	
EBIT margin, %	7,9	-5,2		0,1	-6,7	

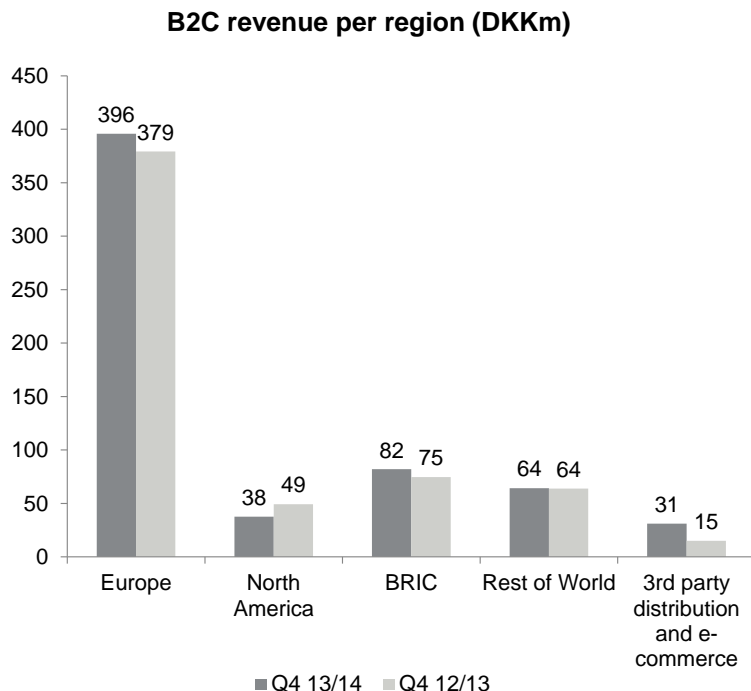
- Revenue increased by 8 per cent in the fourth quarter. Same-store-sales growth in the quarter was 11 per cent for B1 stores and 22 per cent for shop-in-shops
- The gross margin was 44.7 per cent compared to 35.8 per cent in the same quarter last year. The fourth quarter last year was adversely affected by, among other factors, indirect production costs, due to the reduction of inventory and inventory write-downs
- EBIT in the fourth quarter was DKK 64 million compared to negative DKK 39 million in the same quarter last year

# REVENUE

Revenue						
DKK million	4th quarter			YTD		
	13/14	12/13	Index	13/14	12/13	Index
AV	484	470	103	1,633	1,649	99
B&O PLAY	127	113	113	535	532	101
<b>B2C</b>	<b>611</b>	<b>582</b>	<b>105</b>	<b>2,168</b>	<b>2,181</b>	<b>99</b>
Automotive	169	140	120	613	546	112
ICEpower	27	19	142	102	87	118
<b>B2B</b>	<b>196</b>	<b>159</b>	<b>123</b>	<b>715</b>	<b>633</b>	<b>113</b>
Other	-6	-2		-18	0	
<b>Group</b>	<b>801</b>	<b>740</b>	<b>108</b>	<b>2,864</b>	<b>2,814</b>	<b>102</b>

- AV revenue grew by 3 per cent in the quarter. Revenue impact in the fourth quarter from the BeoVision Avant was limited due to the launch late in the quarter
- B&O PLAY revenue increased by 13 per cent in the quarter. Especially third party channels demonstrated strong performance
- Automotive revenue grew by 20 per cent, driven by a combination of an increased number of car models as well as sales and marketing campaigns targeted at increasing take-rates
- ICEpower revenue grew by 42 per cent. The investment in product innovation has enabled ICEpower to grow its sales outside the Bang & Olufsen Group

# REVENUE PER REGION, B2C BUSINESS



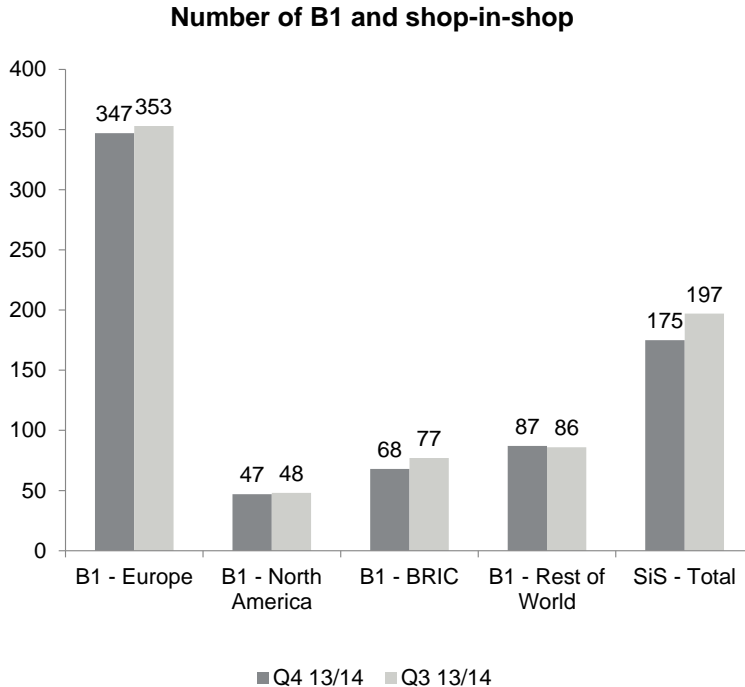
- Europe grew by 4 per cent in the quarter, which was driven by strong demand for newly launched speaker products, especially the BeoLab 18, as well as a general, strong demand across the AV product range
- North America declined by 24 per cent in the quarter. The revenue was adversely affected by the relocation of a few major stores
- BRIC revenue increased by 10 per cent in the quarter, driven by Bang & Olufsen's own stores in Hong Kong and China. Revenue from Russia was very limited in the quarter
- Rest of World was unchanged compared to the same quarter last year
- Third party distribution and e-commerce was DKK 31 million compared to DKK 15 million in the same quarter last year

# GROSS MARGIN

<b>Gross margin</b>						
%	4th quarter			YTD		
	13/14	12/13	Chg.	13/14	12/13	Chg.
AV	47.6	35.5	12.1	46.8	41.7	5.1
B&O PLAY	30.8	31.4	-0.6	31.8	29.6	2.2
Automotive	44.0	36.9	7.1	38.3	36.4	1.9
ICEpower	53.7	56.2	-2.5	54.2	53.9	0.3
<b>Group</b>	<b>44.7</b>	<b>35.8</b>	<b>8.9</b>	<b>42.8</b>	<b>38.9</b>	<b>3.9</b>

- Group gross margins in the quarter and for the full year were strong due to segment mix, product mix and absence of inventory write-downs
- The gross margin in AV was 47.6 per cent compared to 35.5 per cent last year.
- The gross margin in B&O PLAY in the quarter was 30.8 per cent compared to 31.4 per cent last year
- The gross margin in Automotive was 44.0 per cent compared to 36.9 per cent last year. The increase was primarily due to a change in mix between the premium and the advanced sound systems

# DISTRIBUTION DEVELOPMENT IN THE FOURTH QUARTER



- There was a net reduction of stores in Europe of 6, which was comprised of 4 openings and 10 closures
- In North America 1 B1 store was opened and 2 stores were closed
- The number of stores decreased by 9 in the BRIC markets. In the BRIC markets, there has been a significant churn in the network due to focus on building a network of more productive stores, in better locations
- In Rest of World the net number of stores increased by 1, comprised of 2 openings and 1 closure
- The number of shop-in-shops decreased to 175 from 197 in the previous quarter, as Sparkle Roll decided to focus resources on stores with the highest potential. Sparkle Roll had 32 stores in China at the end of the fourth quarter, compared to 48 stores at the end of the third quarter

# CAPACITY COSTS

## Capacity costs

DKK million	4th quarter			YTD		
	13/14	12/13	Index	13/14	12/13	Index
Development	75	94	79	370	442	84
Dist. and marketing	202	186	108	781	755	103
Administration	18	22	84	72	86	84
<b>Total cap. costs</b>	<b>295</b>	<b>303</b>	<b>97</b>	<b>1,222</b>	<b>1,283</b>	<b>95</b>

## Development costs

DKK million	4th quarter		YTD	
	13/14	12/13	13/14	12/13
Incurred development costs before capitalisation	90	111	390	476
Hereof capitalised	-76	-77	-259	-251
Total amortisation charges and impairment losses on development projects	61	60	238	217
<b>Development costs in P&amp;L</b>	<b>75</b>	<b>94</b>	<b>370</b>	<b>442</b>
Capitalisation (%)	84%	69%	66%	53%

- Capacity costs decreased to DKK 295 million from DKK 303 million in the same quarter last year
- Distribution and marketing costs increased by 8 per cent to DKK 202 million compared to DKK 186 million in the same quarter last year, due to increased marketing spend on newly launched products and a generally high level of marketing activities during the high-season
- Administration costs decreased to DKK 18 million from DKK 22 million in the same quarter last year
- Development costs were DKK 75 million compared to DKK 94 million in the same quarter last year. The capitalization rate was 84 per cent compared to 69 per cent in the same quarter last year

# CASH FLOW AND NET WORKING CAPITAL

<b>Cash Flow</b>				
DKK million	4th quarter		YTD	
	13/14	12/13	13/14	12/13
<b>Earnings for the period</b>	<b>48</b>	<b>-36</b>	<b>-29</b>	<b>-159</b>
Amort., depr. and imp.	88	89	342	332
Change in receivables	-114	-4	-141	81
Change in inventories	-15	133	-63	93
Change in trade payables	55	20	127	-118
Other	2	-32	-52	-101
<b>Cash flow from oper. activities</b>	<b>64</b>	<b>168</b>	<b>184</b>	<b>127</b>
Cash flow from investing activities	-137	-109	-285	-329
<b>Free Cash Flow</b>	<b>-73</b>	<b>59</b>	<b>-101</b>	<b>-202</b>

- The free cash flow was negative DKK 73 million in the quarter compared to positive DKK 59 million last year. Year to date, the free cash flow was negative DKK 101 million compared to negative DKK 202 million last year
- The net working capital was DKK 657 million at the end of the fourth quarter compared to DKK 557 million at the end of the same quarter last year
- The net working capital of DKK 657 million corresponds to 23 per cent of the last 12 months' revenue compared to 20 per cent in the same quarter last year
- The net working capital was adversely affected by the launch of BeoVision Avant and BeoLab 20 late in the quarter



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# LEANER, FASTER, STRONGER

## **Phase 1: Create a strong foundation (2011/12 – 2013/14)**

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- Significantly stronger product portfolio across all product categories
- Established B&O PLAY
- Strengthened retail network
- Established a strong platform for growth in China
- Leaner, more efficient innovations process

## **Phase 2: Generate profitable growth (2014/15 – 2016/17)**

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- Leverage the foundation built in the first 3 years of the strategy
- Continue to strengthen the retail network
- Increase the focus on "go-to-market" activities, such as marketing
- Maintain a high level of product innovation

# STRATEGIC FOCUS AREAS OF PHASE 2

1

Create truly outstanding Bang & Olufsen retail experiences

- Lift the customer experience across all touch points
- Continue creating a strong, profitable retail network in Europe and leverage the platform built in key growth markets, especially China

2

Continue to build "sound as our hero"

- Deliver world-class acoustical performance and products that satisfy customers' increasing demand for convenience
- Will guide the business end-to-end, including products, retail and marketing

3

Make TV a growth driver for the business

- Build a global leadership position in the premium segment with significantly higher volumes than in recent years
- Ensure that the increased sales also drive revenue of other products

4

Exploit B2B potential of the AV products and solutions

- Leverage the strengthened AV product portfolio, the brand and experience in the luxury hotel market
- Focus will be on a few select cities

5

Accelerate B&O PLAY through an increased number of product launches and expanded distribution

- Significantly increase the pace of new product introductions. Focus will be on music products, especially headphones and portable speakers, and a number of new categories
- Expand third party distribution

6

Continue growth momentum in Automotive

- Continue to lift the innovation level across the portfolio
- Leverage newly strengthened sales force to even better support the partners through their headquarters, local importers and individual retailers in key markets.

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## FINANCIAL TARGETS FOR THE 2014/15 – 2016/17 STRATEGY PERIOD

	Target
Revenue	> 10% CAGR with year-on-year growth increasing over the strategy period
EBIT margin	> 6% EBIT margin before special items reached within the strategy period
Cash flow	Generate a positive free cash flow during the strategy period
Dividend	The company will resume dividend payouts as soon as it is prudent to do so. The objective is that this will happen within the three year strategy period

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# EXPECTATIONS TO THE 2014/15 FINANCIAL YEAR

- Revenue growth is expected to exceed 5 per cent
- All segments are expected to show growth compared to the 2013/14 financial year, but growth within the segments will fluctuate over the course of the year
- Gross margin is expected to be at a level around that of the 2013/14 financial year
- The EBIT margin is expected to increase compared to the last financial year

# Q&A

# BANG & OLUFSEN

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