Annual report 2022/23:

A challenging year for Bang & Olufsen, aims to return to profitable growth in 2023/24

Group revenue was DKK 2,752m in 2022/23, a decline of 7% (-8% in local currencies) compared to last year. The decline was primarily driven by macroeconomic headwinds and the unexpected COVID-19 development in China, negatively impacting product sales. The company's strategic efforts to expand its Brand Partnering business resulted in revenue growth of 22% in that segment.

In December, China suddenly abandoned its COVID-19 lockdown policy. This led to a surge in infections, which impacted the company's sales. In Asia, revenue declined by 19% in 2022/23. Revenue in EMEA declined 6%, while Americas achieved 2% growth. Both regions were impacted by macroeconomic headwinds caused by high inflation and increasing interest rates. In addition, European retail partners were more cautious with replenishing inventory. Like-for-like sell-out declined by 2%, mainly impacted by China.

Gross margin was 44.2% against 45.3% last year. The decline was mainly related to a change in product mix being skewed towards lower-margin products. The overall margin level reflected higher-than-normal component and logistics costs of around DKK 160m. In Q4, component and logistics costs significantly decreased, and the company achieved a gross margin of 51.4%, up 7.8pp compared to Q3 of 2022/23. The EBIT margin before special items was negative 3.8% for the year, driven by the lower revenue and gross margin. The free cash flow improved by DKK 152m compared to 2021/22 and was negative DKK 20m in 2022/23. In Q4, the company had free cash flow of DKK 27m. This was the third consecutive quarter of positive free cash flow. Net working capital on 31 May 2023 was DKK 222m, a decrease of DKK 113m year-on-year primarily due to lower inventories.

In January, Bang & Olufsen presented a sharpened strategic direction with the ambition to strengthen its luxury timeless technology proposition. The Win City concept continued to yield results in Paris and London with like-for-like sell-out in company-owned stores growing by 16%. In Q4, New York was added to the list of Win Cities, and Bang & Olufsen expects the Win City concept to be a key driver of growth in the future. The company continued to invest in building a better and more connected portfolio of products based on its proprietary software platforms. Seven new product innovations were introduced this year. In addition, the company introduced its new Atelier Editions, which showcase Bang & Olufsen's capabilities to offer bespoke solutions and create limited editions. The partnership with Ferrari helped increase awareness of the Bang & Olufsen brand, and the new product collaboration is expected to support that as well as drive revenue. This year, Bang & Olufsen also committed to long-term climate targets as part of its work to support the transition to a more sustainable future.

CEO Kristian Teär comments:

"It was a challenging year for Bang & Olufsen with COVID-19 and macroeconomic headwinds impacting our business. I am proud to see the continued passion and resilience of our colleagues and partners, and I want to thank them and our customers for their support in 2022/23. We are not satisfied with the financial results and aim to return to profitable growth next year."

"Our strategy is right, and we aim to scale our initiatives as quickly as we can. Our Ferrari partnership is helping us increase global brand awareness, and we will soon launch our product collaboration. Our Win City concept is working, and we are expanding that to more cities. We have improved our portfolio based on our new software platforms and are building modular and long-lasting products that our customers can enjoy for decades."

"We still expect much uncertainty in the coming year, especially in China. Therefore, we will also be phasing in our strategic investments while working to ensure a lean cost base and continue improving our profitability. We have the right direction for the year and the future and will work closely with our partners to deliver the right customer experience in the stores, online, and in our products and services."

Financial highlights, FY 2022/23

- Revenue was DKK 2,752m and declined 7% (-8% in local currencies). Product sales declined 9.8% (-11% in local currencies) and Brand Partnering & other activities grew 21.8% (17% in local currencies).
- The decline in product revenue was mainly driven by Asia, across all channels and categories. Revenue from China was severely impacted by regional lockdowns and a surge in COVID-19 infections and declined by 28% year-on-year. Reported growth for the three regions EMEA, Asia and Americas was negative by 6%, 19% and positive by 2% respectively (-6%, -21% and -6% in local currencies respectively).
- Like-for-like sell-out declined by 2% mainly impacted by China. Like-for-like sell-out in China declined by 12% for the year.
- The gross margin was 44.2%, which was 1.1pp lower than last year. The decrease was driven by a change in product mix towards the On-the-go category, where efforts were made to reduce inventory on products with shorter lifecycles.
- The combined additional supply chain costs for components and logistics were DKK 160m, corresponding to a 6pp impact on product gross margin (DKK 220m last year).
- EBIT before special items was negative DKK 105m, equivalent to an EBIT margin before special items of negative 3.8% (2021/22: 1.8%). The margin was impacted by the overall revenue decline and the decline in gross margin.
- Free cash flow was DKK -20m (2021/22: DKK -172m). Free cash flow was positively impacted by improved inventory levels.
- Available liquidity was DKK 224m 31 May 2023 (31 May 2022: DKK 301m).

Financial highlights, Q4 2022/23

- Revenue declined by 7.5% (-10% in local currencies). Both product sales and Brand partnering & others declined in the period. Macroeconomic headwinds impacted EMEA and Americas while Asia was on par with last year. Brand Partnering was impacted by lower licence income from HP.
- Like-for-like, sell-out grew by 7% driven by solid growth rate in Asia of 30%. EMEA had growth of 1% while Americas declined 5%. Like-for-like sell-out growth was positive across channels and the company-owned stores grew 10% in the quarter.
- The gross margin was 51.4%, which was 3.2pp higher than last year. Compared to the third quarter, gross margin increased by 7.8pp.
- No component spot buys affected the quarter and freight cost was significantly below last year.
- EBIT before special items was DKK 9m, equivalent to an EBIT margin before special items of 1.4%, against 1.7% last year.
- Free cash flow was DKK 27m (Q4 21/22: DKK -190m).

Strategic initiatives

- The Win City concept in London delivered 24% year-on-year like-for-like sell-out growth supported by strong performance in Company owned stores and monobrand. The Win City concept was launched in Q4 in Paris, where we in the last quarter had sell-out growth of 18% driven by company owned stores but also monobrand and eCommerce.
- New York like-for-like sell-out declined 6% in Q4, with company owned stores performing relatively better with a decline of 2%. The company started executing on the Win City concept in Q4.
- Seven product innovations were launched during the year. The Beosound Emerge was successfully relaunched. In Q2, the company saw the launch of Beosound Theatre, and in March, Beosound A9 and Beosound 2 were launched on the new modular platform. In addition, the Beovision Harmony became available in 97 inches, and at year-end the company launched the Beosound A5.

- The Beocom Portal was MS Teams certified and now has both Zoom and MS Teams certification.
- The company submitted the second cradle-to-cradle certified product, and Beosound Emerge was certified in June 2023.
- 25% customer growth and 27% growth in number of customers owning two or more products.
- In February, the company entered into a partnership with Scuderia Ferrari for the 2023 formula 1 season. The collaboration was expanded with a product collaboration, which will launch during autumn.
- The company has set emission reduction targets according to the Science Based Target initiatives, which include target of operational Net zero targets in 2026/27 (scope 1 and 2) and Net zero across the value chain by 2039/2040.

Outlook

The company will continue to execute in line with its strategy and long-term vision but will make adjustments based on market development. The outlook for 2023/24 is subject to uncertainty related to consumer sentiment due to high inflation, rising interest rates and the war in Ukraine, which has increased the risk of recession. Furthermore, there is higher geopolitical uncertainty and risk related to the recovery in China. The company's outlook for the financial year 2023/24 is as follows:

• Revenue growth (in local currencies):	0% to 9%
• EBIT margin before special items:	0% to 6%
• Free cash flow (DKKm):	-50 to 100

The outlook is based on certain assumptions described in the annual report.

Conference call for analysts and investors

The company will host a webcast on 6 July 2023 at 10:00 CEST, where the financial development for FY 2022/23 will be presented.

The webcast can be accessed at https://streams.eventcdn.net/bo/annual-report-202223

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