

Interim report for Q3 2023/24:

B&O's strong gross margin performance contributed to positive earnings in Q3 despite lower revenue

Despite a lower-than-expected revenue level, Bang & Olufsen generated positive earnings and delivered another quarter with a record-high gross margin. This is an outcome of the company's continued work to implement its Luxury Timeless Technology strategy and build a more resilient business. Enhanced focus on the customer experience in branded channels, luxury positioning, and product excellence are key elements in this transition.

The macroeconomic conditions in key markets in Europe did not improve as the company expected. This impacted sales during the quarter. Also, B&O does not expect the Chinese economy to improve significantly in the near future. Therefore, the company adjusted its full-year revenue outlook on 17 March 2024. Group revenue for the quarter declined by 3.4% (3% in local currencies) year-on-year. The company's product revenue in local currencies was flat, while customer demand (measured as sell-out) declined by 2%.

The company's gross margin increased to 53.2%, nearly a 10-percentage point increase compared to last year. Normalised component and logistics costs, a strong pricing focus, and a positive change in both channel and product mix drove the increase. Bang & Olufsen delivered positive earnings, and the EBIT before special items was DKK 11m (Q3 22/23: DKK -43m). This corresponded to an EBIT margin before special items of 1.8%, which was an increase of 8.6 percentage points compared to Q3 of last year. The free cash flow was positive, amounting to DKK 5m for the quarter.

For the first nine months of 2023/24, group revenue declined by 7% year-on-year in local currencies. EBITDA before special items was DKK 228m corresponding to a margin of 11.8% (9M 22/23: 2.4%) and an increase of 177m from DKK 51m in the first nine months of 2022/23. The EBIT margin improved by 7.9 percentage points to 2.5%.

CEO Kristian Teär comments:

"This was another quarter with a record-high gross margin, and we delivered the best nine-month EBIT results in half a decade, even at a lower revenue level. We do not see the expected improvement in the macroeconomic conditions in key markets in Europe and China, and this unfortunately impacts our sales. This meant that we had to adjust our outlook for full-year revenue in March."

"We're transitioning towards higher margin revenue in line with our strategy. We do that by focusing more on creating the right experience in our branded channels, ensuring high product quality, and strengthening our luxury positioning. That transition takes time, but we believe this is the right way for us to create profitable growth for Bang & Olufsen in the long term. I want to thank my partners and colleagues for their hard work during the quarter."

Financial highlights, Q3 2023/24

- Revenue declined by 3% (-3% in local currencies) year-on-year. EMEA declined 12% (-12% in local currencies), Americas declined by 4% (increase of 1% in local currencies) and APAC grew by 24% (27% in local currencies).
- Brand partnering & other activities declined by 16% (-17% in local currencies). This was mainly driven by reduced license income from the automotive industry as the industry slowly recovered from factory strikes in the US and a decline in license income from HP.
- Like-for-like sell-out declined by 2%. In APAC, sell-out grew by 23% driven by sell-out growth in China of 36%, EMEA declined by 13%, while sell-out declined in the Americas by 7%.
- The gross margin was 53.2%, which was 9.6pp higher than in Q3 of last year, driven by the normalisation of component and logistics costs. In addition, the margin was favourably impacted by a strong price focus and on improving margins across regions and product categories.
- EBITDA before special items was DKK 72m (Q3 22/23: DKK 15m) equivalent to an EBITDA margin before special items of 11.7%, compared to 2.4% in Q3 of last year.
- EBIT before special items was DKK 11m (Q3 22/23: DKK -43m) equivalent to an EBIT margin before special items of 1.8%, compared to -6.8% in Q3 of last year.
- The free cash flow was DKK 5m (Q3 22/23: DKK 33m).

Financial highlights, 9M 2023/24

- Revenue declined by 8% (-7% in local currencies) year-on-year.
- The gross margin was 52.9%, an increase of 11.0pp from 41.9% in 9M 22/23.
- EBITDA before special items was DKK 228m (9M 22/23: DDK 51m) equivalent to an EBITDA margin before special items of 11.8%, compared to 2.4% in 9M of last year.
- EBIT before special items was DKK 48m (9M 22/23: DKK -114m) equivalent to an EBIT margin before special items of 2.5%, compared to -5.4% in 9M of last year.
- The free cash flow was DKK -32m (9M 22/23: DKK -47m).

Strategic highlights, Q3 2023/24

- In January, Bang & Olufsen renewed the partnership with Scuderia Ferrari for the 2024 and 2025 seasons after a successful 2023 season.
- The execution of Win City concept for London, Paris and New York continued. In mid-December the company opened its new flagship store on New Bond Street in London. The store has steady traffic and conversion since opening. Overall, London sell-out declined by 11%, which was mainly due to limited end-of-life inventory at Bicester Village. Harrods and Selfridges both reported continued good performance considering lower footfall and a strong sell-out quarter for Beosound Theatre in Q3 of last year.
- In Paris, sell-out was negative at 31%, which was expected. A local management change and new setup with local retail partner was initiated during the quarter.
- New York sell-out grew by 2%. The company-owned stores reported growth driven by a high double-digit performance by the SoHo store.
- The customer base grew by 5% and the number of customers owning two or more Bang & Olufsen products increased by 5% quarter-on-quarter.

Outlook 2023/24

With reference to company announcement no 23.10 on 17 March 2024, the company adjusted the revenue outlook for the financial year 2023/24. In addition, the ranges for EBIT margin before special items and free cash flow were narrowed. The current outlook is as follows:

- Revenue growth (in local currencies): -8% to- 5%
- EBIT margin before special items: 0% to 2%
- Free cash flow (DKK): -50m to 10m

The outlook is subject to uncertainty related to consumer sentiment. In addition, geopolitical uncertainty has increased. The pace of the economic recovery in China is also subject to uncertainty.

Please see Interim report 9M 2023/24 for further details on outlook and assumptions.

Conference call for analysts and investors

The company will host a webcast on 10 April 2024 at 10:00 CEST, where the financial development for Q3 2023/24 will be presented.

The webcast can be accessed at <https://bangolufsen.eventcdn.net/events/interim-report-q3>

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