

## Bang & Olufsen a/s Annual Report 2018/19

### Full year highlights

#### CEO Henrik Clausen comments:

“It has been a disappointing year for Bang & Olufsen. Our unsatisfactory results were primarily due to difficulties related to the transition of our sales and distribution network and fewer product launches compared to last year. Despite those challenges, we are still a profitable business, which underlines that we’ve come a long way in our transformation, though we still have a great deal of work ahead of us. With a number of new product launches over the next year and an improved sales and distribution network, we expect to achieve profitable growth in 2019/20.”

“2019/20 will be a challenging year, but we expect to return to growth in the second half. Growth will be driven by the continued transition of our sales and distribution network, which will involve opening new points of sale in all key markets and taking more ownership of the customer experience, as well as new innovative products in all product categories.”

#### Full year 2018/19

- **Group revenue** declined in all segments and amounted to DKK 2,838, for a 13.6% drop (12% in local currencies) A slower-than-expected transformation of the monobrand and multibrand distribution channel setup coupled with fewer product launches compared to last year were the main reasons for the decline.
- The **gross margin** grew to 48.5% from 43.6% last year. The improvement was seen across all product categories, driven mainly by developments in product mix and tailwinds from the US dollar in particular.
- **Capacity costs** were DKK 1,342 million compared with DKK 1,328 million last year, for a 1.1% increase.
- **EBIT** was DKK 59 million against DKK 122 million last year, for an EBIT margin of 2.1% (against 3.7%). The margin decline reflects the lower revenue and higher capacity costs and was partly offset by the higher gross margin and lower depreciation and amortisation charges.
- The **free cash flow** was negative at DKK 272 million (2017/18: positive by DKK 85 million). The change was related to the lower cash flow from operating activities coming from the shortfall in revenue and changes in net working capital and partly offset by reduced negative cash flows from investing activities.
- **Outlook 2019/20:** The company expects to deliver single-digit revenue growth in 2019/20 at constant currencies. The company expects the EBIT margin to be above the 2018/19 EBIT margin of 2.1%. The company expects free cash flow in 2019/20 to be positive.

#### Fourth quarter 2018/19

- **Group revenue** declined by 25.5% (23% in local currencies) to DKK 618 million. The Q4 revenue was negatively impacted by a one-off effect of the Beoplay Earsets. In addition, unhealthy retail inventory levels impacted demand from monobrand stores, and thereby demand for Staged products, including TVs. Also, demand from the multibrand network was adversely impacted by large inventories at retail level. Furthermore, the slower-than-planned transformation of the monobrand and multibrand distribution channel setup had a negative impact on revenue.
- The **gross margin** grew to 48.5% from 43.8% in Q4 last year. The gross margin was negatively impacted by the one-off effect of the Beoplay Earsets. Excluding the effects of Beoplay Earsets, all product categories delivered a higher gross margin. The gross margin from Brand Partnering & Other Activities improved, predominantly because Brand Partnering represented a larger share of the segment following the decline in revenue from the lower-margin aluminium production for third parties.
- **Capacity costs** were DKK 366 million compared to DKK 308 million last year, for a 19.0% increase.
- **EBIT** was a loss of DKK 66 million against a profit of DKK 55 million in Q4 last year, equivalent to a negative EBIT margin of 10.7% against plus 6.6% last year. The decline in margin reflects the lower revenue and higher capacity costs and was partly offset by the higher gross margin.
- **The free cash flow** was negative at DKK 69 million (2017/18: positive by DKK 165 million). The negative development related to both operating and investing activities.

### Conference call

In connection with the release of the annual report for 2018/19, Bang & Olufsen will host a conference call for investors and analysts on 11 July 2019 at 10:00 CET. The conference call can be followed live via the company's website, <https://investor.bang-olufsen.com>

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