Annual report

# Bang & Olufsen: Full-year earnings not satisfactory, but profitable growth expected in 2019/20

Challenging transition of the sales and distribution network and fewer product launches than in previous years resulted in 13.6% drop in revenue. EBIT was still a profit, and the company expects to return to profitable growth in 2019/20.

Bang & Olufsen generated revenue of DKK 2.8 billion in the 2018/19 financial year, recording a 13.6% decline from the previous year. The gross margin was up by 4.9pp to 48.5%, while the EBIT margin was 2.1% and net earnings were DKK 19 million.

Bang & Olufsen lowered its financial guidance three times during the year, and CEO Henrik Clausen was highly displeased with the results, calling the recent financial year a disappointment.

“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,” said Henrik Clausen.

Mr Clausen explained that the transition of the sales and distribution network is about taking greater ownership of the brand experience and about establishing a more retail-driven sales model. According to Henrik Clausen, this transition is essential for creating profitable long-term growth and for strengthening the Bang & Olufsen brand. The company closed almost 2000 unprofitable multibrand stores in 2018/19 and now has 4782 multibrand stores and 522 monobrand stores

## Return to profitable growth in 2019/20 based on more new products

Henrik Clausen pointed out that the first half of 2019/20 will be a challenging period. A main focus will still be on the work to transition the company’s sales and distribution network, and the scheduled product launches will only begin to have a material effect in the second half of the financial year.

“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,” said Henrik Clausen.

The full Annual Report is available at investor.bang-olufsen.com.

Financial highlights of the year were as follows:

2018/19 vs 2017/18

- Group revenue was down by 13.6% to DKK 2,838 million. The transition of the sales and distribution network had a strong impact on revenue, affecting all markets, and the company launched fewer new products than in previous years, which also had a negative impact on revenue.

- Revenue in EMEA was 16.0% lower at DKK 1,459 million. EMEA was severely impacted by the transition of the distribution network. More than 1000 unprofitable third-party stores were closed during the year and new contracts were signed with monobrand partners. This is essential for providing a more consistent consumer experience and increasing revenue going forward.

- Revenue in the Americas fell by 26.2% to DKK 223 million. The setback was due especially to the transition of the distribution network, which especially impacted revenue in multibrand. Bang & Olufsen onboarded several new retail partners during the year. The company’s upcoming flagship store in New York opened as a pop-up store in December 2018.

- Revenue in Asia was down by 8.0% to DKK 927 million. In China, revenue was up by 7%, as five new monobrand partners were established and 19 new brick and mortar stores were opened. The change of distributor in Australia and New Zealand early in the financial year had a negative impact on revenue.

- Revenue from Brand partnering and other activities fell by 3.8% to DKK 229 million, driven mainly by weaker sales of aluminium components produced for third parties.

- The group gross margin improved to 48.5% from 43.6%, driven mainly by an improved product mix and tailwind from a positive currency effect.

- Capacity costs were up by 1.1% to DKK 1,342 million. The increase was due investment in marketing, digital platform as well as an upgrade in competencies across the organisation.

- Profitability: the EBIT margin was 2.1%, a decline of 1.6pp. Earnings for the year was DKK 19 million, as compared with DKK 81 million last year. The asset-light business model that has been implemented over the past few years contributed to keeping the company profitable despite the lower revenue.

- Free cash flows were negative at DKK 272 million (2017/18: positive by DKK 85 million). The change was mainly due to the lower revenue, which also resulted in larger inventories.

## Strengthening the digital customer experience

In March 2019, Bang & Olufsen launched a new e-commerce platform intended to contribute to strengthening sales through both on- and offline channels, improve the digital customer experience and develop a deeper understanding of customer behaviour. The company also launched a new Augmented Reality app that lets customers visualise how Bang & Olufsen products would fit in their homes.

## New brand partnerships and award-winning products

Among Bang & Olufsen's launches were the Beosound Edge speaker, which won a number of design awards, and the Beovision Harmony TV, which will be on the market in early October 2019. In addition, the company entered into a number of brand partnerships intended to raise brand awareness, including a limited edition Beoplay H9 with Rimowa.

## Building new competencies

During the year, the company invested heavily in building new software, data, retail and other competencies, which are prerequisites for the company to succeed in the necessary transition of its sales and distribution network. In addition, the company appointed two new members of the Executive Management Board, welcoming Nikolaj Wendelboe, EVP and CFO and Snorre Kjesbu, EVP and Head of Product Creation & Fulfilment.

## Share buyback programme terminated

The Board of Directors resolved on 26 March to terminate the share buyback programme that had been planned to run until December 2019. The decision was made in response to developments in the free cash flow, which meant that the company had reached the DKK 500 million minimum target for its net interest-bearing deposit.

## 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.

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About Bang & Olufsen

Bang & Olufsen is a global luxury-lifestyle brand founded in 1925 in Struer, Denmark by Peter Bang and Svend Olufsen whose devotion and vision remains the foundation for the company.

The rich heritage built around the relentless determination to create products that push the boundaries of audio technology continues to place the company at the forefront of audio innovation. Today, every Bang & Olufsen product is still characterized by the unique combination of beautiful sound, timeless design, and unrivalled craftsmanship.

The company's innovative and progressive audio products are sold worldwide in Bang & Olufsen monobrand stores, online and in multibrand stores. The company employs around 1,000 people and operates in more than 70 markets and Bang & Olufsen's shares are listed on NASDAQ Copenhagen A/S.

For more information on Bang & Olufsen, please visit www.bang-olufsen.com. Images are available for download via this link: https://www.flickr.com/photos/bangandolufsen