

Bang & Olufsen interim report Q3 21/22:

Bang & Olufsen achieved double-digit growth for the seventh consecutive quarter

The company achieved revenue growth of 10% and a positive EBIT before special items in Q3. Bang & Olufsen continued to progress in line with its turnaround strategy, delivering double-digit growth for the seventh consecutive quarter.

In Q3, growth was driven by both product sales and Brand Partnering. The positive trend in sell-out also continued, underlining the good customer demand for B&O products across markets. The global scarcity of components had an adverse impact on both revenue, especially in the Staged and Flexible Living categories, and costs. The EBIT margin before special items was 0.7% and free cash flow was a negative DKK 14m due to higher component costs, which amounted to more than DKK 65m in the quarter.

The company maintains its outlook for 2021/22. The company expects the high level of component and logistics costs experienced in Q3 to continue throughout the remainder of the financial year, impacting earnings and free cash flow negatively. Therefore, the company expect EBIT margin before special items and free cash flow to be in the low end of the range. In addition, uncertainty related to global supply chains and consumer demand has increased following higher inflation, Russia's invasion of Ukraine and COVID-19 lockdowns in China.

CEO Kristian Teär comments:

"For the seventh consecutive quarter we delivered double-digit growth. We achieved this despite the ongoing global supply chain challenges. That is a testament to the resilience of our partners and employees, and I want to thank them for their big contribution. In Q3, component scarcity impacted both our costs and growth, and we expect this to continue for a while. In addition, we see increased uncertainty related to consumer demand following higher inflation, Russia's tragic invasion of Ukraine and COVID-19 lockdowns in China."

"Our strategy is working, and we continued to build robustness in Q3. We added key people to the teams in especially engineering and regional sales and marketing to ensure that we have the right capabilities for the future. We continued to see high customer demand across markets, we grew our customer base by 25%, and we launched new products. We introduced a new edition of our gaming headphone to strengthen our position in the fast-growing gaming market. We also presented the Beosystem 72-22 as part of our Classics programme, showcasing our unique capabilities and the longevity of our products, which is a key differentiator for us."

Financial highlights

- As a result of steady progress on strategy execution the company grew revenue by 10% in local currencies in Q3. This was the seventh consecutive quarter with double-digit growth.
- The positive sell-out trend continued in the quarter with like-for-like sell-out growing 6%. Reported revenue from product sales grew by 10% in local currencies. Asia and Americas were the biggest growth drivers, while EMEA was on par with Q3 of last year due to high comparables in multibrand.
- Component scarcity continued to adversely impact operations, especially on the Staged and Flexible Living product categories as well as licensing income relating to the automotive industry. However, the new brand licensing partners contributed positively in Q3 and mitigated the decline related to the automotive industry.
- Gross margin declined by 0.9pp to 44.0%. Gross margin from product sales declined by 0.6pp to 38.7%, driven by higher component and logistics costs which amounted to more than DKK 65m and reduced product gross margin by approx. 9pp (Q3 20/21: 2.5pp). The effect was partly offset by changes in product mix and price increases.
- EBIT margin before special items was 0.7% (Q3 20/21: 4.9%). Despite the significant impact from higher component costs, the company remained profitable thanks to the strategy, improved robustness and agility to address challenges.
- Earnings for the period were a loss of DKK 16m compared to a profit of DKK 13m last year.
- Free cash flow was an outflow of DKK 14m (Q3 20/21: inflow of DKK 8m). The year-on-year decline was related to higher component costs and higher CAPEX.
- Available liquidity was stable at DKK 511m (Q2 21/22: DKK 534m).
- For the first nine months of the financial year, Bang & Olufsen delivered 19% revenue growth in local currencies, EBIT before special items of DKK 42m (9M 20/21: DKK 23m) and a positive free cash flow of DKK 18m (9M 20/21: DKK 85m). The results were impacted negatively by higher component and logistics costs of more than DKK 150m.

Strategic progress

Component scarcity impacted strategy execution again in Q3. Marketing activities were adjusted to accommodate for product availability.

- Demand was solid in the six core European markets, with sell-out growth of 10%. However, reported revenue declined by 10% in local currencies, mainly due to high comparables in multibrand.
- The two core Asian markets grew by 28% in local currencies. Sell-out was at the same level as last year. Sell-out growth was lower than sell-in in the multibrand and etail channels as the company transitions to new distribution partners. Also, the Chinese New Year began earlier this year, thereby impacting the number of sell-out days in Q3.
- Americas grew 32% in local currencies, driven by all product categories and distribution channels. Like-for-like sell-out grew by 18%.

- Year-to-date, the customer base grew by 25%. The company saw a 32% growth in customers owning two or more B&O products, partly driven by retargeting of existing customers.

Outlook maintained

The company maintains the outlook for the financial year 2021/22, but due to higher component costs, the company now expects EBIT margin before special items and free cash flow to be in the low end of the range. The outlook is as follows:

- Revenue: DKK 2.9bn to DKK 3.1bn
- EBIT margin before special items: 2-4%
- Free cash flow: DKK 0m to DKK 100m

The outlook is based on certain assumptions, including ceasing operations in Russia and Belarus since 24 February 2022. The outlook is subject to increased uncertainty related to supply chain and consumer demand due to higher inflation, the war in Ukraine and COVID-19 lockdowns in China. (see page 18 of the interim report for 9M 2021/22)

Conference call for analysts and investors

The company will host a webcast on 7 April 2022 at 10:00 CEST, where the financial development for Q3 21/22 will be presented.

The webcast can be accessed at <https://streams.eventcdn.net/bo/q3202122>

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