

# **B&C SPEAKERS GROUP**



**INTERIM REPORT at 31 March 2017**

**The Board of Directors 12 May 2017**

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## 1 THE COMPANY B&C SPEAKERS S.p.A. – Corporate bodies

### *Board of Directors*

Chairperson:	Gianni Luzi
Chief Executive Officer:	Lorenzo Coppini
Director:	Simone Pratesi
Director:	Alessandro Pancani
Director:	Francesco Spapperi
Independent Director:	Roberta Pecci
Independent Director:	Gabriella Egidì
Independent Director:	Patrizia Mantoan

### *Board of Auditors*

Chairperson:	Sara Nuzzaci
Regular Auditor:	Giovanni Mongelli
Regular Auditor:	Leonardo Tommasini

### *Independent auditing firm*

PricewaterhouseCoopers S.p.A.

## 2 INTRODUCTION

The *Interim Report* at 31 March 2017 has been prepared pursuant to Legislative Decree 195/2007 and article 154 *ter* of the T.U.F.; the economic and financial aggregates shown below, even if determined on the basis of IFRS and in particular the same measurement criteria used for the preparation of the consolidated financial statements as at 31 December 2015, do not represent an interim financial statement prepared in accordance with *I.F.R.S.* and in particular with *IAS 34*.

This interim report has not been subjected to audit.

## 3 The main aspects of the period from January to March 2017

- During the period January-March 2017 the turnover of the Group reached a value of € 9.4 million, resulting in growth of 6.% over the same period of the previous year when turnover stood at € 8.8 million;
- The Parent Company order backlog was, at the end of March 2017, 8.2 million of Euro, was 8.9 million at the end of first quarter 2016;
- During 2017, the Parent Company continued the execution of the Buy-Back plan for own shares. As at 31 March 2017 it held 77,772 treasury shares. The new plan, valid until the date of approval of the financial statements at 31 December 2017, was approved by the Shareholders' Meeting on 26 April 2017;

## 4 Information on ownership structure

As at 31 March 2017 official data reported the following major shareholders:

- ***Research & Development International S.r.l.***, which holds a 55.37% stake (*parent company*);
- Alboran S.r.l. which holds 6.17%;
- Allianz Global Investors which holds 3.7%;
- Lazard freres Gestion sas which holds 2.97%;
- Aldinio Colbacchini who holds 2.17%;
- Norges Bank which holds 2.16%.

Subsequent to 31 March 2017 there were no significant changes in the ownership structure.

## 5 Operating, economic and financial results

This Interim Report at 31 March 2017 contains the information required by *art. 154 ter of the TUF*.

The IFRS accounting standards used by the Group are the same as those applied in the preparation of the financial statements for the year ended 31 December 2016, to which reference should be made.

In particular, as required by IFRS, a provision was made for the carrying out of estimates and the formulation of assumptions, which are reflected in the determination of the carrying amounts of assets and liabilities, including potential assets and liabilities at the end of the period. These estimates and assumptions are used specifically for determining amortisation and depreciation, impairment testing of assets (including the measurement of receivables), provisions, employee benefits, deferred tax assets and liabilities. The final results could therefore differ from these estimates and assumptions; moreover, the estimates and assumptions are reviewed and updated periodically and the effects of each change are immediately reflected in the financial statements.

Below are the financial statements and the explanatory notes to the statements. All values are expressed in euros, unless otherwise indicated. The financial and economic data presented are compared with the corresponding figures of 2016.

These financial statements, prepared in accordance with the requirements of *art. 154 ter of the TUF*, report the positive and negative components of income, the net financial position, divided between short, medium and long term items, as well as the Group's financial position. In view of this, the financial statements presented and the explanatory notes thereto, prepared for the sole purpose of compliance with the provisions of the aforementioned Issuer Regulations, are devoid of certain data and information that would be required for a complete representation of the financial position and the results of the Group for the quarter ended at 31 March 2017 in accordance with IFRS.

B&C Speakers is a key international entity in the production and marketing of "top quality professional loudspeakers"; owing to the nature and type of business carried on, the Group operates exclusively in this sector, both nationally and internationally.

Products are manufactured and assembled at the Italian production plant of the Parent Company, which also deals directly with marketing and sales in the various geographical areas covered.

Distribution in the US market is handled through the American subsidiary B&C Speakers NA LLC, which also offers support services for sales to local customers.

Distribution in the Brazilian market is handled through the subsidiary B&C Speakers Brasil LTDA.

Below is the table showing the Group's economic performance during the first three months of 2017 compared with the figures for the same period of 2016.

<b>Economic trends - Group B&amp;C Speakers</b>				
<i>(€ thousands)</i>	<b>IQ 2017</b>	<i>Incidence</i>	<b>IQ 2016</b>	<i>Incidence</i>
Revenues	9,419	100.00%	8,807	100.0%
Cost of sales	(5,418)	-57.52%	(5,149)	-58.5%
<b>Gross margin</b>	<b>4,001</b>	<b>42.48%</b>	<b>3,658</b>	<b>41.5%</b>
Other revenues	28	0.30%	17	0.2%
Cost of indirect labour	(548)	-5.82%	(514)	-5.8%
Commercial expenses	(204)	-2.16%	(187)	-2.1%
General and administrative expenses	(996)	-10.58%	(884)	-10.0%
<b>Ebitda</b>	<b>2,281</b>	<b>24.22%</b>	<b>2,090</b>	<b>23.7%</b>
Depreciation of tangible assets	(190)	-2.02%	(184)	-2.1%
Amortization of intangible assets	(7)	-0.07%	(7)	-0.1%
Writedowns	(3)	-0.03%	(5)	-0.1%
<b>Earning before interest and taxes (Ebit)</b>	<b>2,082</b>	<b>22.10%</b>	<b>1,894</b>	<b>21.5%</b>
Financial costs	(51)	-0.54%	(127)	-1.4%
Financial income	147	1.57%	246	2.8%
<b>Earning before taxes (Ebt)</b>	<b>2,178</b>	<b>23.13%</b>	<b>2,012</b>	<b>22.9%</b>
Income taxes	(639)	-6.78%	(663)	-7.5%
<b>Profit for the year</b>	<b>1,540</b>	<b>16.34%</b>	<b>1,350</b>	<b>15.3%</b>
Minority interest	0	0.00%	0	0.0%
<b>Group Net Result</b>	<b>1,540</b>	<b>16.34%</b>	<b>1,350</b>	<b>15.3%</b>
Other comprehensive result	17	0.18%	(186)	-2.1%
<b>Total Comprehensive result</b>	<b>1,556</b>	<b>16.52%</b>	<b>1,164</b>	<b>13.2%</b>

**EBITDA** (Earnings Before Interest, Tax, Depreciation and Amortisation) is defined by the Issuer's Directors as the "profit before tax and financial income and expenses", as resulting from the consolidated income statement approved by the Board of Directors, gross of amortisation of intangible fixed assets, depreciation of tangible fixed assets, provisions and impairment, as shown on the above consolidated income statement. EBITDA is a measure used by the Issuer to monitor and assess the Group's operating performance and is not defined as an accounting measure either by Italian Accounting Standards or by the IASs/IFRSs; it should therefore not be considered as an alternative measure for assessing trends in the Group's operating result. Since the structure of EBITDA is not regulated by the reference accounting standards, the measuring criteria applied by the Group may not be the same as that used by other operators and/or groups and may, therefore, not be comparable.

EBIT (Earnings Before Interest and Tax) is the consolidated result before tax, charges and financial income as recorded in the income statement prepared by the Directors in drawing up the IAS/IFRS-compliant financial statements.

Ebt (earnings before taxes) is the consolidated result before tax, as recorded in the income statement prepared by the Directors in preparing IAS/IFRS-compliant consolidated financial statements.

## **Revenues**

Consolidated revenues in the first quarter of 2017 totalled Euro 9.41 million, signalling in growth (+26.9%) compared to the corresponding period in 2016 when the figure was Euro 8.62 million. This result has been achieved thanks to a good performance in all most important markets, the IQ 2017 Turnover represents the best quarterly result ever.

During the period the Group increased its presence on the Asian market (+65% with sales of € 1.5 million) and the European market (+5% with sales of € 4.6 million).

In the first three months of the year, the Domestic market saw a significant drop in revenue (-29% with sales at 0.6 million of Euro), it only represents a percentage of 7% of the Group Turnover.

The Americans market achieved both a slightly increase in respect to the IQ 2016, North America showed sales at 2 million Euro and South America at 0.5 million (both area grew by 2% in respect to the same period of 2016).

As at 31 March 2017, the order book of the parent company amounted to Euro 8.2 million, while at the end of the first quarter of 2016 the figure was Euro 8.9 million.

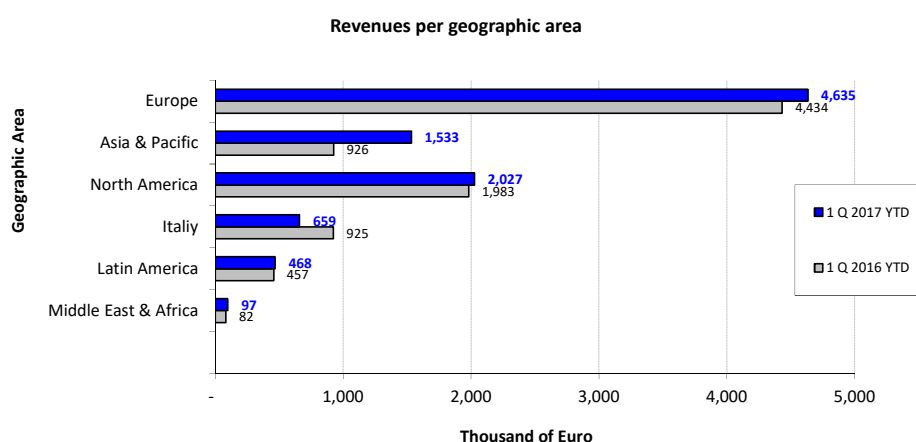
In the table below we show the breakdown by geographical area of the turnover achieved by the Group during the period under review compared with the same period of the previous year:

Revenues per geographic area <i>(values in Euro/thousand)</i>	1 Q 2017 YTD	%	1 Q 2016 YTD	%	Difference	Difference %
Latin America	468	5.0%	457	5.2%	11	2.5%
Europe	4,635	49.2%	4,434	50.3%	201	4.5%
Italy	659	7.0%	925	10.5%	(266)	-28.7%
North America	2,027	21.5%	1,983	22.5%	44	2.2%
Middle East & Africa	97	1.0%	82	0.9%	15	17.8%
Asia & Pacific	1,533	16.3%	926	10.5%	607	65.6%
<b>Total</b>	<b>9,419</b>	<b>100.0%</b>	<b>8,807</b>	<b>100.0%</b>	<b>612</b>	<b>6.9%</b>

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### **Cost of sales**

Cost of sales during the first three months of 2017 had a slightly decreased impact on revenues compared to the first three months of 2016, passing from 58.47% to 57.52%. This variation is mainly attributable to a greater level of efficiency reached by direct labour.

### **Indirect personnel**

Over the first three months of 2017 indirect personnel costs increased broadly in line with the increase in turnover.

### ***Commercial expenses***

Commercial expenses showed no significant changes compared to the first three months of the previous year.

### ***Administrative and General***

Administrative and General Costs grew by 112 thousands of Euro, mainly due to the consulting costs incurred for the lean production process started at the end of 2016; in addition to this the Group has started some investments related to the new business division, called Safety.

As a consequence Administrative and general costs increased by around € 112 thousand compared to the first three months of the previous year. Therefore, their impact on revenue was equal to 10.58% (last year was 10.04%).

### ***EBITDA and EBITDA Margin***

Mainly as a result of the trends described above, EBITDA in the first three months of 2017 amounted to € 2.28 million, an increase of 9.2 % over the same period of 2016 (which amounted to € 2.09 million).

**The EBITDA margin** for the first three months of 2017 was therefore equal to 24.2% of revenues, an increase of 9.2 percentage points compared to the first quarter of 2016 (when it was 23.7% of revenues for the period).

### ***Depreciation and amortisation***

The depreciation and amortisation of tangible and intangible assets are stable compared to the corresponding period of the previous year as a result of investment flows during the previous year.

Below is the financial data as at 31 March 2017 compared with assets at the end of 2016.



Reclassified Balance sheet (€ thousands)	31 March 2017	31 December 2016	Change
<b>Property, plant &amp; Equipment</b>	<b>2,711</b>	<b>2,807</b>	<b>(96)</b>
Inventories	8,897	8,182	715
Trade receivables	8,565	7,774	791
Other receivables	835	780	55
Trade payables	(4,013)	(3,949)	(64)
Other payables	(2,579)	(1,950)	(629)
<b>Working capital</b>	<b>11,705</b>	<b>10,836</b>	<b>869</b>
<b>Provisions</b>	<b>(810)</b>	<b>(793)</b>	<b>(17)</b>
<b>Invested net working capital</b>	<b>13,606</b>	<b>12,851</b>	<b>756</b>
Cash and cash equivalents	4,114	3,731	383
Investments in associates	50	50	-
Goodwill	1,394	1,394	-
Short term securities	6,270	6,164	106
Other financial receivables	510	510	(0)
<b>Financial assets</b>	<b>12,337</b>	<b>11,849</b>	<b>488</b>
<b>Invested net non operating capital</b>	<b>12,337</b>	<b>11,849</b>	<b>488</b>
<b>NET INVESTED CAPITAL</b>	<b>25,944</b>	<b>24,700</b>	<b>1,244</b>
Equity	23,362	21,878	1,484
Short-term financial borrowings	1,136	1,129	7
Long-term financial borrowing	1,446	1,693	(247)
<b>RAISED CAPITAL</b>	<b>25,944</b>	<b>24,700</b>	<b>1,244</b>

**Note:**

**Fixed assets:** are defined by the Issuer's Directors as the value of long-term assets (tangible and intangible). **Net Operating Working Capital:** is defined by the Issuer's Directors as the value of inventories, trade receivables and other receivables net of debts for supplies and other payables. **Funds:** the value of bonds linked to employees' and directors' severance pay. **Invested net working capital:** is the value of financial assets and other financial credits as described above. **Raised capital:** is the value of net assets of the Group and the total indebtedness of the Group.

A number of comments on the classification of assets and liabilities according to their operational destination are presented below.

**Net Operating Invested Capital** shows a decrease of € 0.7 million compared with 31 December 2016. This increase was mainly due to the combined effect of the following factors:

- an increase in trade receivables and in inventories respectively of approximately € 0.8 million and approximately € 0.7 million due essentially to the increased turnover;
- a decrease in fixed assets of € 96 thousand due to the effect of depreciation and amortisation in the period;
- an increase in sundry payables of approximately € 0.6 million due to increased purchasing volumes.

**Net Non-Operating capital** showed an increase of around € 0.5 million compared to 31 December 2016, primarily due to the increase in Group liquidity (+0.4 million of Euro) and Short term securities (+0.1 million of Euro).

The other Capital categories showed no significant changes compared with 31 December 2016.

## Equity

Changes in net equity reserves of the Group during the first three months of 2017 are attributable primarily to the balance of Treasury shares (negative as a result of purchases made in the period) and to the period positive result. It should be noted, however, that the decrease in share capital is due to IFRS-compliant handling of trading of Treasury shares.

## Financial debt

Net Financial Position as of March 31<sup>st</sup> 2017 was great and equal to 7.8 million of Euro, even bigger than the correspondent balance at 2016 year end (when reached 7.1 million).

Financial debt **in the short term** equal to € 1,1 million is mainly made up of the short-term portion of loan contracts.

Financial debt in the **medium/long term** equal to € 1,5 million is made up of the long-term portion of the loans contracted by the parent company (€ 1,4 million relating to long-term financing granted by Cassa di Risparmio di Firenze, € 0,1 thousand regarding the SIMEST loan).

## 6 Statement of changes in equity

Below is the statement of changes in equity from 1 January 2017 to 31 March 2017 (figures in thousands of Euro):

	Share Capital	Legal Reserve	Share premium reserve	Extraordinary reserve	Exchange rate reserve	Foreign exchange reserve	Retained earnings	Net Group Equity	Minority interest	Total net Equity
<i>Euro thousand</i>										
Balance at January 1, 2017	1,088	379	4,045	44	27	559	15,736	21,878	-	21,878
Result of the period							1,541	1,541		1,541
Other comprehensive income/expenses						17	(1)	16		16
<b>Totale other comprehensive income/expenses</b>	-	-	-	-	-	17	1,540	1,557	-	1,557
<b>Shareholders</b>										
Allocation of previous year result							-	-		-
Dividend distribution							-	-		-
Treasury shares allocation	(1)		(71)				-	(72)		(72)
Other										
<b>Balance at March 31, 2017</b>	<b>1,087</b>	<b>379</b>	<b>3,974</b>	<b>44</b>	<b>27</b>	<b>576</b>	<b>17,276</b>	<b>23,363</b>	<b>-</b>	<b>23,363</b>

## 7 Net Financial Position

Below is the Net Financial Position table prepared in line with that reported in the consolidated financial statements as at 31 December 2016 (figures in thousands of Euro).

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>Change %</b>
A. Cash	4,114	3731.4	10%
C. Securities held for trading	6,270	6,164	2%
<b>D. Cash and cash equivalent (A+C)</b>	<b>10,384</b>	<b>9,896</b>	<b>5%</b>
F. Bank overdrafts	(17)	-	
G. Current portion of non current borrowings	(1,119)	(1,129)	-1%
<b>I. Current borrowings (F+G)</b>	<b>(1,136)</b>	<b>(1,129)</b>	<b>1%</b>
<b>J. Current net financial position (D+I)</b>	<b>9,248</b>	<b>8,767</b>	<b>5%</b>
K. Non current borrowings	(1,446)	(1,693)	-15%
<b>N. Non current borrowings</b>	<b>(1,446)</b>	<b>(1,693)</b>	<b>-15%</b>
<b>O. Total net financial position (J+N)</b>	<b>7,802</b>	<b>7,074</b>	<b>10%</b>

**Note:** The net financial position, calculated by the Parent Company management as detailed above, is not identified as an accounting measurement under the Italian Accounting Standards or the IFRSs endorsed by the European Commission. Therefore, the measurement criteria may not be consistent with that adopted by other operators and/or groups and may, therefore, not be comparable. Moreover, the definition may differ from that established by the Issuer's loan contracts.

The cash flows generated by operations in the first three months of the current financial year have resulted in a positive Net financial Position, up by € 0.7 million compared to 31 December 2016.

## 8 Significant events occurring after 31 March 2017

Following the closing date of this quarter and until the draft date of this report, the following events have been worthy of note:

- the Shareholders' Meeting held on 26 April 2017 deliberated to distribute a recurrent dividend of € 0.40 plus an extraordinary of € 0.60 dividend for each of the outstanding shares (net of treasury shares held), for a total expense of € 10,92 million;
- during April the Company signed a new mid-term loan with Unicredit, with the purpose of having a different balance on financial sources, the amount of the loan is 5 million Euro and has to be paid back within 4 years, the interest rate to be applied is 0.59%.

## 9 Outlook for the entire year 2017

With regard to the full-year forecast for 2017, the Company management believes that this will represent a consolidation year.

## 10 Share performance in 2016-2017

Below is a summary table of the evolution of recent share performance.



## - Balance sheet and Consolidated income statement relating to 31 March 2017

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b> <i>in Euro)</i>	<i>(Values</i>	<b>March 31st</b>	<b>December</b>
		<b>2017</b>	<b>31st 2016</b>
<b>ASSETS</b>			
<b>Fixed assets</b>			
Tangible assets		2,620,882	2,709,902
Goodwill		1,393,789	1,393,789
Other intangible assets		90,226	97,355
Investments in non controlled associates		50,000	50,000
Deferred tax assets		254,923	296,702
Other non current assets		509,652	509,749
	<i>related parties</i>	88,950	88,950
<b>Total non current assets</b>		<b>4,919,473</b>	<b>5,057,497</b>
<b>Currents assets</b>			
Inventory		8,896,740	8,181,834
Trade receivables		8,564,966	7,773,575
Tax assets		179,322	225,624
Other current assets		6,671,170	6,421,637
Cash and cash equivalents		4,113,831	3,731,312
<b>Total current assets</b>		<b>28,426,029</b>	<b>26,333,982</b>
<b>Total assets</b>		<b>33,345,502</b>	<b>31,391,479</b>
		<b>March 31st</b>	<b>December</b>
		<b>2017</b>	<b>31st 2016</b>
<b>LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,086,444	1,087,340
Other reserves		4,423,316	4,494,290
Foreign exchange reserve		576,335	559,170
Retained earnings		17,276,218	15,737,242
<b>Total equity attributable to shareholders of the parent</b>		<b>23,362,313</b>	<b>21,878,042</b>
Minority interest		-	0
<b>Total equity</b>		<b>23,362,313</b>	<b>21,878,042</b>
<b>Non current equity</b>			
Long-term borrowings		1,445,622	1,692,635
Severance Indemnities		724,598	710,137
Provisions for risk and charges		85,096	82,596
Deferred tax liabilities		0	0
<b>Total non current liabilities</b>		<b>2,255,316</b>	<b>2,485,368</b>
<b>Current liabilities</b>			
Short-term borrowings		1,135,697	1,128,918
Trade liabilities		4,012,730	3,948,795
	<i>related parties</i>	28,757	340
Tax liabilities		1,180,542	712,098
Other current liabilities		1,398,904	1,238,258
<b>Total current liabilities</b>		<b>7,727,873</b>	<b>7,028,069</b>
<b>Total Liabilities</b>		<b>33,345,502</b>	<b>31,391,479</b>

<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>		
(Values in Euro)	<b>IQ 2017</b>	<b>IQ 2016</b>
Revenues	9,419,076	8,807,068
Cost of sales	(5,417,891)	(5,149,205)
Other revenues	28,036	17,328
Cost of indirect labour	(547,969)	(514,203)
Commercial expenses	(203,665)	(187,104)
General and administrative expenses	(996,240)	(884,061)
	<i>related parties</i>	(230,820)
Depreciation of tangible assets	(190,267)	(183,984)
Amortization of intangible assets	(6,857)	(6,960)
Writedowns	(2,500)	(5,000)
<b>Earning before interest and taxes</b>	<b>2,081,723</b>	<b>1,893,879</b>
Financial costs	(50,776)	(127,342)
Financial income	147,438	245,949
<b>Earning before taxes</b>	<b>2,178,385</b>	<b>2,012,486</b>
Income taxes	(638,874)	(662,661)
<b>Profit for the year (A)</b>	<b>1,539,510</b>	<b>1,349,825</b>
<b>Other comprehensive income/(losses) for the year that will not be reclassified in income statement:</b>		
Actuarial gain/(losses) on DBO (net of tax)	(535)	(10,667)
<b>Other comprehensive income/(losses) for the year that will be reclassified in income statement:</b>		
Exchange differences on translating foreign operations	17,165	(175,465)
<b>Total other comprehensive income/(losses) for the year (B)</b>	<b>16,630</b>	<b>(186,132)</b>
<b>Total comprehensive income (A) + (B)</b>	<b>1,556,141</b>	<b>1,163,693</b>
<b>Profit attributable to:</b>		
Owners of the parent	1,539,510	1,349,825
Minority interest	-	-
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	1,556,141	1,163,693
Minority interest	-	-
<b>Basic earning per share</b>	<b>0.14</b>	<b>0.12</b>
<b>Diluted earning per share</b>	<b>0.14</b>	<b>0.12</b>

**- Certification of Financial Reporting Manager pursuant to article 154-bis, paragraph 2 of Legislative Decree No. 58/1998.**

The Financial Reporting Manager, Mr. Francesco Spapperi declares, pursuant to paragraph 2 article 154-bis of the Consolidated Financial Law, that the accounting information contained in this document, "Interim report at 31 March 2017", corresponds to the company's accounting documents, books and records.

*The Financial Reporting Manager*

***Francesco Spapperi***