

# TELECONFERENCE Q2 2015 FINANCIAL RESULTS

10:00 CET, 11 August 2015



**PANDORA**  
UNFORGETTABLE MOMENTS

# AGENDA

## AGENDA

- Business highlights:
  - Key developments in Q2 2015
  - Market development and sales-out
  - Performance of newly launched products
  - Guidance 2015
- Financial review for Q2 2015
- Recap and Q&A



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Certain statements in this presentation constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and our anticipated or planned financial and operational performance. The words “targets,” “believes,” “expects,” “aims,” “intends,” “plans,” “seeks,” “will,” “may,” “might,” “anticipates,” “would,” “could,” “should,” “continues,” “estimate” or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as our future results of operations; our financial condition; our working capital, cash flows and capital expenditures; and our business strategy, plans and objectives for future operations and events, including those relating to our ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities; and

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## Q2 2015 SUMMARY

- Q2 2015 revenue was DKK 3,598 million, an increase of 41.4 % or 25.8% in local currency compared to Q2 2014, driven by all geographic regions and product categories, positively impacted by:
  - Success of newly launched products – including the new High Summer collection
  - Strong development in revenue from core categories Charms (+44%) and Charm bracelets (+37%)
  - Network expansion across all geographies, with 107 concept stores added during the quarter - revenue from concept stores increased 54.7% and generated 59.3% of total revenue
  - Newer initiatives including eSTORE roll out, the Disney collection and PANDORA Rose
- All major markets saw a continued positive development in sales-out from concept stores (like-for-like)
- EBITDA was DKK 1,311 million, up 46.8% compared to Q2 2014, corresponding to an EBITDA margin of 36.4%
  - Including a gain of around 1pp on gross margin mainly driven by lower commodity prices
- Free cash flow was DKK -268 million, or DKK 374 million excluding tax and interest expenses of DKK 642 million relating to transfer pricing audit
- Full year revenue guidance upgraded to more than DKK 16 billion
- DKK 3.9 billion share buyback programme on track – DKK 1.5 billion bought back in H1 2015

# REGIONAL REVENUE DEVELOPMENT

## REVENUE BREAKDOWN BY GEOGRAPHY (DKKm)

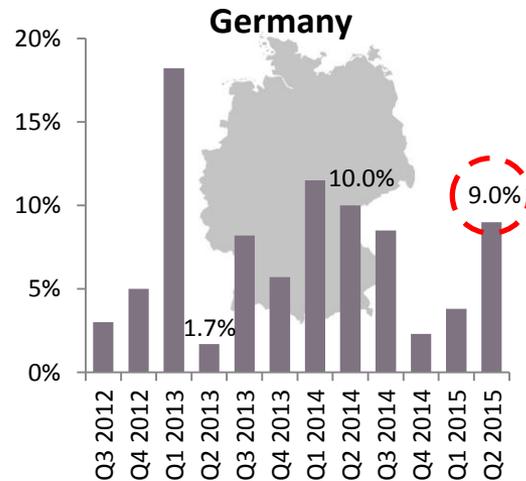
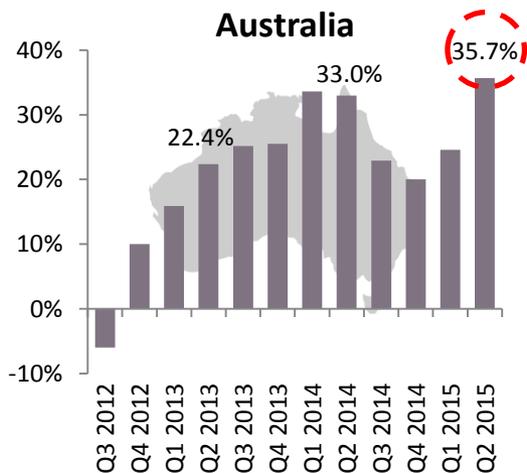
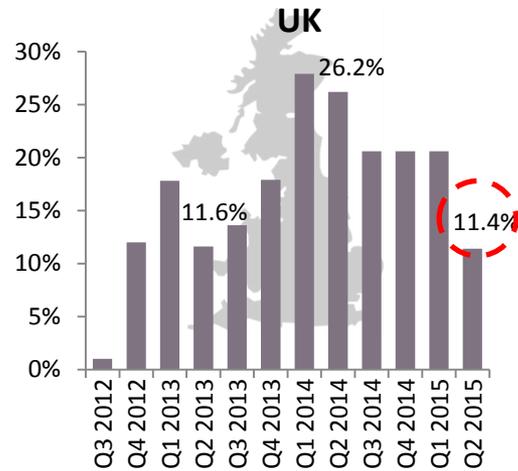
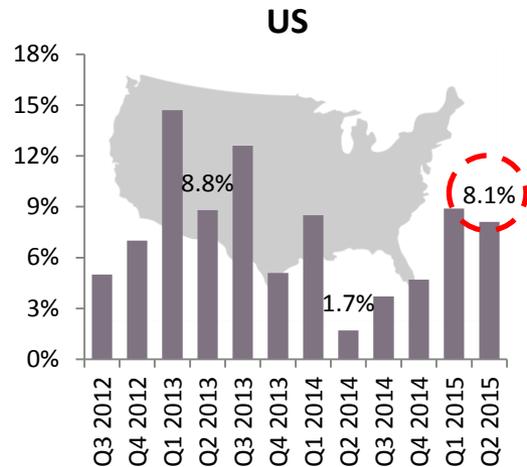
|                     | Q2 2015      | Q2 2014      | FY 2014       | Growth Q2/Q2 | LC Growth Q2/Q2 | Share of revenue (Q2 2015) |
|---------------------|--------------|--------------|---------------|--------------|-----------------|----------------------------|
| US                  | 1,171        | 824          | 3,629         | 42.1%        | 13.7%           | 32.5%                      |
| Other Americas      | 407          | 273          | 1,330         | 49.1%        | 36.3%           | 11.3%                      |
| <b>Americas</b>     | <b>1,578</b> | <b>1,097</b> | <b>4,959</b>  | <b>43.8%</b> | <b>19.4%</b>    | <b>43.9%</b>               |
| UK                  | 418          | 285          | 1,654         | 46.7%        | 31.2%           | 11.6%                      |
| Germany             | 110          | 107          | 578           | 2.8%         | 2.8%            | 3.1%                       |
| Other Europe        | 940          | 672          | 3,072         | 39.9%        | 37.2%           | 26.1%                      |
| <b>Europe</b>       | <b>1,468</b> | <b>1,064</b> | <b>5,304</b>  | <b>38.0%</b> | <b>32.0%</b>    | <b>40.8%</b>               |
| Australia           | 247          | 183          | 806           | 35.0%        | 29.0%           | 6.9%                       |
| Other Asia Pacific  | 305          | 200          | 873           | 52.5%        | 25.0%           | 8.5%                       |
| <b>Asia Pacific</b> | <b>552</b>   | <b>383</b>   | <b>1,679</b>  | <b>44.1%</b> | <b>26.9%</b>    | <b>15.3%</b>               |
| <b>Total</b>        | <b>3,598</b> | <b>2,544</b> | <b>11,942</b> | <b>41.4%</b> | <b>25.8%</b>    | <b>100.0%</b>              |

## COMMENTS

- All regions impacted by favourable currency moves
- Americas driven by the US, as well as a positive development in Brazil and Canada
- Continued strong growth in Europe, in particular driven by the UK, France and Italy
  - Germany impacted by one-off provision of DKK 53 million
  - Russia decrease 40% impacted by weak business environment
- Growth in Asia Pacific in local currency of 26.9% driven primarily by Australia, Hong Kong and China

# SALES-OUT POSITIVE IN ALL MAJOR MARKETS

## LIKE-FOR-LIKE CONCEPT STORES – SALES-OUT DEVELOPMENT (Y/Y GROWTH)



## COMMENTS

- Continued positive like-for-like growth across all four major markets
- US sales-out growth of high single digit in all major regions except for the Northeast
- UK and Australia driven by improved in-store execution high brand awareness
- Like-for-like sales-out in Germany improved despite adding 32 O&O concept stores in Q2 2015



## 2015 FINANCIAL EXPECTATIONS

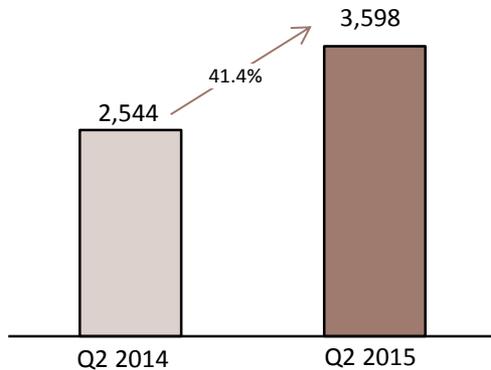


### 2015 FINANCIAL EXPECTATIONS

- Revenue of more than DKK 16 billion (upgraded from more than DKK 15 billion)
- EBITDA margin of approx. 37%
- CAPEX of approx. DKK 900 million
- Effective tax rate of approx. 30%
  - Excluding additional tax expenses related to the settlement, the tax rate is expected to be 22%
- During 2015, PANDORA expects to open more than 375 concept stores (upgraded from more than 325)

# REVENUE DEVELOPMENT

## REVENUE (DKKm)

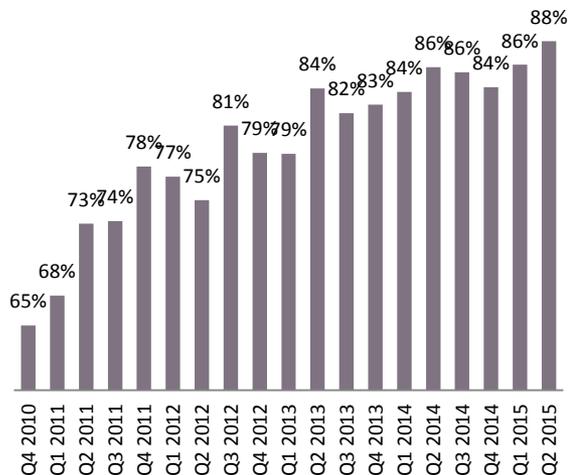


- 25.8% growth in local currency
- Volume up 15.8%
- ASP DKK 168 (vs. DKK 138 in Q2 2014)

## COMMENTS

- Total revenue increased by 41.4% driven network expansion (60%) and growth in existing stores (40%)
- ASP increase 22% driven by currency and an increased share of revenue from PANDORA owned stores
  - Individual prices stayed unchanged
- Revenue from O&O stores increased 131% to DKK 891 million
- Branded distribution generated 88.2% of revenue compared to 86.1% in Q2 2014

## SHARE OF BRANDED REVENUE



## SHARE OF REVENUE PER CHANNEL

|                        | Q2 2015      | Share of rev. |
|------------------------|--------------|---------------|
| Concept stores         | 2,132        | 59.3%         |
| Shop-in-shops          | 641          | 17.8%         |
| Gold                   | 398          | 11.1%         |
| <b>Total branded</b>   | <b>3,171</b> | <b>88.2%</b>  |
| Silver                 | 216          | 6.0%          |
| White & travel retail  | 102          | 2.8%          |
| <b>Total unbranded</b> | <b>318</b>   | <b>8.8%</b>   |
| <b>Total direct</b>    | <b>3,489</b> | <b>97.0%</b>  |
| 3rd party              | 109          | 3.0%          |
| <b>Total</b>           | <b>3,598</b> | <b>100.0%</b> |

# DEVELOPMENT IN THE DISTRIBUTION NETWORK

## NUMBER OF STORES AND OPENINGS

|                         | Number of stores |              |               |                          | Net openings        |                     |
|-------------------------|------------------|--------------|---------------|--------------------------|---------------------|---------------------|
|                         | Q2 2015          | Q1 2015      | Q2 2014       | Share of total (Q2 2015) | Q2 2015 vs. Q1 2015 | Q2 2015 vs. Q2 2014 |
| Concept stores          | 1,554            | 1,447        | 1,214         | 16.2%                    | 107                 | 340                 |
| - hereof PANDORA owned  | 357              | 292          | 175           | 3.7%                     | 65                  | 182                 |
| Shop-in-shops           | 1,575            | 1,548        | 1,443         | 16.5%                    | 27                  | 132                 |
| - hereof PANDORA owned  | 96               | 89           | 59            | 1.0%                     | 7                   | 37                  |
| Gold                    | 2,497            | 2,381        | 2,323         | 26.1%                    | 116                 | 174                 |
| <b>Total branded</b>    | <b>5,626</b>     | <b>5,376</b> | <b>4,980</b>  | <b>58.8%</b>             | <b>250</b>          | <b>646</b>          |
| Silver                  | 2,448            | 2,546        | 3,060         | 25.6%                    | -98                 | -612                |
| White and travel retail | 1,488            | 1,712        | 2,006         | 15.6%                    | -224                | -518                |
| <b>Total</b>            | <b>9,562</b>     | <b>9,634</b> | <b>10,046</b> | <b>100.0%</b>            | <b>-72</b>          | <b>-484</b>         |

### Regional concept stores

|                     |            |     |     |       |    |     |
|---------------------|------------|-----|-----|-------|----|-----|
| <b>Americas</b>     | <b>447</b> | 424 | 369 | 14.0% | 23 | 78  |
| <b>Europe</b>       | <b>882</b> | 811 | 663 | 15.5% | 71 | 219 |
| <b>Asia Pacific</b> | <b>225</b> | 212 | 182 | 33.2% | 13 | 43  |

## COMMENTS

- 250 branded points of sale opened in Q2 2015, including 107 concept store net openings
- 65 new O&O concept stores were added, including 32 in Germany and 7 in Brazil
- Continued focus on global branded network – 646 branded points of sale opened since Q2 2014 including:
  - 340 concept stores
  - 132 shop-in-shops

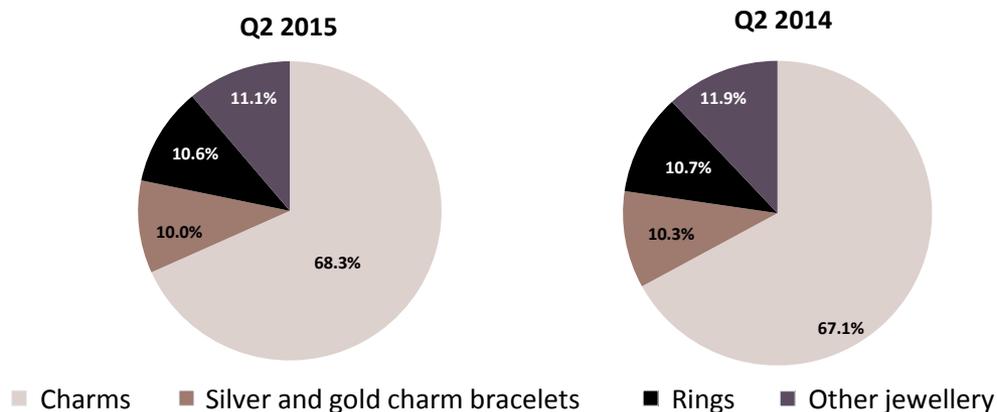
# PRODUCT MIX

| PRODUCT MIX (DKKm)              |              |              |              |                        |               |
|---------------------------------|--------------|--------------|--------------|------------------------|---------------|
|                                 | Q2 2015      | Q2 2014      | Growth Q2/Q2 | Share of total Q2 2015 | FY 2014       |
| Charms                          | 2,456        | 1,705        | 44.0%        | 68.3%                  | 7,933         |
| Silver and gold charm bracelets | 360          | 262          | 37.4%        | 10.0%                  | 1,427         |
| Rings                           | 382          | 273          | 39.9%        | 10.6%                  | 1,192         |
| Other jewellery                 | 400          | 304          | 31.6%        | 11.1%                  | 1,390         |
| <b>Total</b>                    | <b>3,598</b> | <b>2,544</b> | <b>41.4%</b> | <b>100.0%</b>          | <b>11,942</b> |

## COMMENTS

- High demand for the core products remains as Charms and Charm bracelets increased 44% and 37% respectively
- Revenue from Rings increased 40% driven primarily by the Americas and the Asian markets
- Earrings and Necklaces increased by around 70% and 80% respectively
- Charms and Bracelets share of revenue decreased to 78.3%, as Rings capture an increasing share of revenue

## PRODUCT SPLIT AS PERCENTAGE OF TOTAL REVENUE



# GROSS MARGIN DEVELOPMENT

## GROSS PROFIT (DKK<sub>m</sub>) AND GROSS MARGIN (%)

| DKK <sub>m</sub>    | Q2 2015 | Q1 2015 | Q2 2014 | FY 2014 |
|---------------------|---------|---------|---------|---------|
| Revenue             | 3,598   | 3,547   | 2,544   | 11,942  |
| Cost of sales       | 1,025   | 1,025   | 746     | 3,519   |
| Gross profit        | 2,573   | 2,522   | 1,798   | 8,423   |
| <i>Gross margin</i> | 71.5%   | 71.1%   | 70.7%   | 70.5%   |



## COMMENTS

- Gross margin increase 0.8 percentage points versus Q2 2014 driven mainly by raw materials and channel and market mix – negatively impacted by FX
- Excluding hedging and inventory time lag, underlying gross margin would have been approximately 73% based on average gold and silver spot prices in Q2 2015
- Gross margin impact of +/- 1pp if 10% deviation on commodities

# OPEX DEVELOPMENT

| OPEX & MARGINS                  |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
|                                 | Q2 2015 | Q1 2015 | Q2 2014 | FY 2014 |
| <b>Gross profit</b>             |         |         |         |         |
| Share of revenue                | 71.5%   | 71.1%   | 70.7%   | 70.5%   |
| DKKm                            | 2,573   | 2,522   | 1,798   | 8,423   |
| <b>Operational expenses</b>     |         |         |         |         |
| Share of revenue                | 37.2%   | 36.2%   | 37.6%   | 36.4%   |
| DKKm                            | 1,338   | 1,284   | 957     | 4,351   |
| Sales and distribution expenses |         |         |         |         |
| Share of revenue                | 18.4%   | 16.9%   | 18.0%   | 16.4%   |
| DKKm                            | 662     | 599     | 457     | 1,957   |
| Marketing expenses              |         |         |         |         |
| Share of revenue                | 8.9%    | 9.2%    | 8.6%    | 9.6%    |
| DKKm                            | 319     | 327     | 219     | 1,143   |
| Administrative expenses         |         |         |         |         |
| Share of revenue                | 9.9%    | 10.1%   | 11.0%   | 10.5%   |
| DKKm                            | 357     | 358     | 281     | 1,251   |
| <b>EBIT</b>                     |         |         |         |         |
| EBIT margin                     | 34.3%   | 34.9%   | 33.1%   | 34.1%   |
| Depreciation and amortisation*  | 76      | 67      | 52      | 222     |
| <b>EBITDA</b>                   |         |         |         |         |
| EBITDA margin                   | 36.4%   | 36.8%   | 35.1%   | 36.0%   |

\*Excluding gains/losses from sale of assets

| COMMENTS  |  |
|---|--|
| <ul style="list-style-type: none"> <li>All cost lines impacted by currency with a total effect of approximately DKK 100 million</li> </ul>  |  |
| <ul style="list-style-type: none"> <li>Increase in sales and distribution expenses driven by higher revenue as well as an increase in revenue from O&amp;O stores (-2pp)</li> </ul>   |  |
| <ul style="list-style-type: none"> <li>Marketing expenses were DKK 319 million corresponding to 8.9% of revenue compared to 8.6% in Q2 2014 primarily driven by higher media spend</li> </ul>   |  |
| <ul style="list-style-type: none"> <li>Administrative expenses were DKK 357 million corresponding to 9.9% of revenue and impacted by:                             <ul style="list-style-type: none"> <li>Increased headcount</li> </ul> </li> </ul> |  |

# REGIONAL EBITDA MARGINS

| EBITDA MARGINS                 |              |              |                                      |              |                                      |              |
|--------------------------------|--------------|--------------|--------------------------------------|--------------|--------------------------------------|--------------|
|                                | Q2 2015      | Q1 2015      | Q2 2015<br>vs.<br>Q1 2015<br>(% pts) | Q2 2014      | Q2 2015<br>vs.<br>Q2 2014<br>(% pts) | FY 2014      |
| Americas                       | 44.4%        | 42.3%        | 2.1%                                 | 46.3%        | -1.9%                                | 41.4%        |
| Europe                         | 38.6%        | 43.5%        | -4.9%                                | 39.3%        | -0.7%                                | 43.3%        |
| Asia Pacific                   | 51.3%        | 50.3%        | 1.0%                                 | 46.7%        | 4.6%                                 | 49.5%        |
| Unallocated costs <sup>1</sup> | -6.7%        | -7.2%        | 0.5%                                 | -8.3%        | 1.6%                                 | -7.4%        |
| <b>Group EBITDA margin</b>     | <b>36.4%</b> | <b>36.8%</b> | <b>-0.4%</b>                         | <b>35.1%</b> | <b>1.3%</b>                          | <b>36.0%</b> |

<sup>1</sup> Unallocated costs includes HQ costs, central marketing costs and administration costs in Thailand



## COMMENTS

- All regional margins positively impacted by the improved gross margin
- Americas' margin decrease two percentage points compared to Q2 2014 impacted by increase in OPEX related to head count and new headquarter
- Europe's margin was negatively impacted by a provision of DKK 53 million related to Germany as well as declining revenue in Russia
- Asia Pacific increase 4.6pp driven primarily by leverage on costs
  - Impact on the margin from the expansion into China is expected in H2 2015

# PROFIT DEVELOPMENT

| FINANCIAL ITEMS, TAX AND NET PROFIT |              |            |              |
|-------------------------------------|--------------|------------|--------------|
| DKKm                                | Q2 2015      | Q2 2014    | FY 2014      |
| <b>EBIT</b>                         | <b>1,235</b> | <b>841</b> | <b>4,072</b> |
| Finance income                      | 44           | 1          | 14           |
| Finance expenses                    | -113         | -14        | -214         |
| <b>Profit before tax</b>            | <b>1,166</b> | <b>828</b> | <b>3,872</b> |
| Income tax expenses                 | -256         | -166       | -774         |
| Tax rate                            | 22.0%        | 20.0%      | 20.0%        |
| <b>Net profit</b>                   | <b>910</b>   | <b>662</b> | <b>3,098</b> |

| COMMENTS  |
|---|
| <ul style="list-style-type: none"> <li>Net finance costs amounted to a net loss of DKK 69 million compared to a loss of DKK 13 million in Q2 2014</li> <li>Tax rate for the quarter was 22% impacted by the decision to recognise a higher proportion of profit in Denmark (as a consequence of the settlement with the Danish Tax Authorities)</li> <li>Net profit increased to DKK 910 million</li> </ul> |

# WORKING CAPITAL DEVELOPMENT

## WORKING CAPITAL AND CASH MANAGEMENT

| DKKm   | Q2 2015       | Q1 2015       | Q4 2014       | Q3 2014      | Q2 2014      |
|--|---------------|---------------|---------------|--------------|--------------|
| Inventory  | 2.161         | 1,925         | 1,684         | 2,126        | 1,684        |
| Trade receivables  | 1.009         | 1,093         | 1,110         | 1,327        | 792          |
| Trade payables   | 979           | 954           | 804           | 758          | 633          |
| <b>Operating working capital</b>                           | <b>2.191</b>  | <b>2,064</b>  | <b>1,990</b>  | <b>2,695</b> | <b>1,843</b> |
| <i>Share of revenue<sup>1</sup></i>                        | <i>15.7%</i>  | <i>16.0%</i>  | <i>16.7%</i>  | <i>24.9%</i> | <i>18.0%</i> |
| Other receivables  | 881           | 934           | 503           | 352          | 571          |
| Tax receivables  | 236           | 259           | 52            | 94           | 49           |
| Provisions   | 797           | 807           | 739           | 575          | 590          |
| Income tax payable   | 838           | 1,114         | 643           | 995          | 769          |
| Other payables   | 911           | 1,342         | 898           | 653          | 388          |
| <b>Net working capital including financial instruments</b> | <b>762</b>    | <b>-6</b>     | <b>265</b>    | <b>918</b>   | <b>716</b>   |
| <i>Share of revenue<sup>1</sup></i>                        | <i>5.5%</i>   | <i>-0.1%</i>  | <i>2.2%</i>   | <i>8.5%</i>  | <i>7.0%</i>  |
| Derivatives  | 177           | 132           | 169           | 188          | 13           |
| <b>Net working capital excluding financial instruments</b> | <b>939</b>    | <b>126</b>    | <b>434</b>    | <b>1,106</b> | <b>729</b>   |
| <i>Share of revenue<sup>1</sup></i>                        | <i>6.7%</i>   | <i>1.0%</i>   | <i>3.6%</i>   | <i>10.2%</i> | <i>7.1%</i>  |
| <b>Free cash flow</b>                                      | <b>-268</b>   | <b>990</b>    | <b>1,705</b>  | <b>567</b>   | <b>547</b>   |
| <b>Cash conversion<sup>2</sup></b>                         | <b>-29.5%</b> | <b>258.5%</b> | <b>169.3%</b> | <b>78.2%</b> | <b>82.6%</b> |
| <b>NIBD/EBITDA<sup>3</sup></b>                             | <b>0.2</b>    | <b>-0.1</b>   | <b>-0.3</b>   | <b>0.0</b>   | <b>-0.1</b>  |
| <b>ROIC<sup>4</sup></b>                                    | <b>65.5%</b>  | <b>70.9%</b>  | <b>67.0%</b>  | <b>54.6%</b> | <b>56.9%</b> |

## COMMENTS

- Operating working capital was 15.7% of revenue at the end of Q2 2015, compared to 18.0% at the end of Q2 2014
- Inventory increase compared to Q2 2014 mainly driven by preparation for Q3 launches, higher activity, currency and acquisition of stores
  - Negatively impacted by lower raw material prices
- Trade receivables as a percentage of revenue decrease due to strong cash collection and an increase in O&O revenue
- Free cash flow was DKK -268 million, impacted by tax settlement (DKK 642 million), inventory build-up and CAPEX (DKK 239 million vs. DKK 86 million in Q2 2014)

<sup>1</sup> % of revenue in relation to last 12 months revenue. DKK 13,951 m for the period ended 30 June 2015

<sup>2</sup> Calculated as free cash flow / net profit

<sup>3</sup> Calculated as last 12 months EBITDA

<sup>4</sup> Calculated as last 12 months EBIT / Invested capital (at end of period)

## Q2 2015 IN SUMMARY



### SUMMARY

- Revenue increase 41.4%
- Continued roll out of stores with the addition of 107 new concept stores during the quarter
- Gross margin was 71.5%
- EBITDA margin was 36.4%
- Free cash flow DKK -268 million, impacted by payment of DKK 642 million to Danish Tax Authorities
- Full year revenue guidance upgraded to more than DKK 16 billion
- Share buyback of up to DKK 3.9 billion in 2015 on track

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# QUESTIONS AND ANSWERS

