Pandora

Transcript: Annual Report 2020

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[00:00:00] John Bäckman

Good morning everyone, and welcome to the conference call for Pandora's Q4 results. I am John Bäckman from the new Investor Relations team. I am here with our CEO Alexander Lacik, our CFO Anders Boyer, and the rest of the investor relations team Kristoffer Malmgren and Mikkel Johansen. There will be a Q&A session at the end of the call. As usual, please limit yourselves to two questions at a time, and get back into the queue if you have additional questions. Please pay notice to the disclaimer on slide two. And then turn to slide three. Alexander, please go ahead.

[00:00:37] Alexander Lacik

Thank you, John. And welcome to your first announcement at Pandora. We are really excited to have you on board. I would also like to welcome everyone that are joining us for the call today. As already announced in January trading update, we finished 2020 the same way we started the year with a strong performance. While we haven't fully turned around, we clearly see that the brand is turning around. We initiated program NOW two years ago. The objective was to stabilize the topline while maintaining industry leading margins. I think we have sufficient evidence to say that we are now delivering towards those objectives, even though covid-19 has muddied the waters somewhat last year. Q4 delivered positive organic growth despite the lockdowns and other related limitations. We had prepared ourselves thoroughly for the peak trading period, and it's safe to say that this work paid off. UK and Germany were most affected in the period yet delivering a very strong performance. Five out of our seven key markets generated positive sell-outgrowth in the quarter. The only exceptions were Italy and China, which we will come back to. Our online business grew 104 percent and accounted for a third of the sales. While we are happy about the strong performance in Q4, covid-19 continues to cloud the visibility. With around 30 percent of our physical stores now temporarily closed, it creates elevated uncertainty about 2021, which we will also return to later in the guidance section.

[00:02:19] Alexander Lacik

Next slide, please.

Our turnaround program NOW has been running for two years and is nearing its completion. The benefits of the new operating model were evident in Q4 with very tangible progress throughout the entire value chain. One example is a significant improvement in product availability across all trading channels. Something we had big troubles with in the prior year. And more data based approach and focus on top 500 DVS definitely supported a very high level of customer service. Our brand continues to gather momentum. There are a few key drivers behind this, like more distinct and relevant advertising, continued strong media investments, significantly smarter targeting, strong progress in merchandising and overall a much stronger organization. These things manifest themselves in higher brand interest, increased traffic and strong conversion rates, ultimately driving broadscale sell-out growth. The cost reset program has reached the targeted run rate savings of 1.6 billion Danish kroner, and this has been instrumental in funding the turnaround journey. We are step by step getting ready to switch gears from turnaround and closing gaps to once again focus on healthy growth. We are working on this in the background and defining the road ahead and will at a later point in the year, share our long term plans. Our belief is that the core business still holds plenty of lucrative opportunities for growth. But as I said, we'll come back to this further down the line.

[00:03:58] Alexander Lacik

Please turn to slide six and the business update section.

With program NOW nearly completed, I want to highlight some of the major milestones we've achieved. To increase brand relevance, we've spent significant resources to better understand our customers, thus generating stronger insights. This has been done both through traditional research but also to a larger degree than ever before, using data and analytics to fuel our personalization efforts, specifically online. We're constantly expanding our marketing toolbox, more precision in our targeting efforts, as well as using analytics and smart algorithms to optimize our digital marketing investments. In the last two years, we've transformed our marketing approach and are step by step becoming far more sophisticated. I wanted to comment on the situation in China. First of all, I'd like to iterate or reiterate that this remains a top corporate priority. The opportunity is significant and based on the research we've conducted, the Pandora proposition has every right to succeed. We are committed to fixing the fundamentals and go about this in a methodical way. As mentioned in the past, the first phase was to get a strong team in place and secondly, to ensure strong operational discipline. We consider this to be in a really good place now. The next phase is to turn to strategic insights into qualified and tangible plans. Finally, it will come down to excellence in execution. Our view is that those things will materialize during 21 and expect results to come through next year. So we're building this step by step. In terms of brand access we accelerated the rollout of our omni channel capabilities in Q4. So by now we have rolled out click and collect to over 400 concept store in the US and UK and consider these two markets to be complete. We also rolled out endless aisle across most other key markets.

[00:06:01] Alexander Lacik

Next slide, please.
As I said, program NOW has visibly improved the foundation of Pandora and will continue to do so. Taking a step back. The journey started with a shift in momentum in Q4 2019, followed by positive like-for-like trajectory. In March, as we all know, covid-19 started to have a material negative impact. We quickly adapted to those challenges and this is important. Our underlying business kept on improving. An example of this was Germany that I had assured a lockdown on many other countries and quickly came back into positive territory. We initiated a major reorganization in the second quarter, and in a strange way, the pandemic actually forced this in place quicker than one would normally expect. We started reaping tangible benefits from this as early as in Q3 with significant improvement in sell-out growth, followed by positive growth already in Q4.

[00:07:00] Alexander Lacik

Next slide, please.
It is clear that we're maintaining our industry leading brand opposition. The evidence of the momentum continues to be manifested both in terms of unaided brand awareness, as well as Google searches. On unaided awareness, we are number one in five out of seven key markets in Q4 and ranked second in the U.S. During our peak trading period in Q4, 1/3 of all branded jewellery searches on Google was on Pandora, well ahead of competition that were approximately around 10 percent.

[00:07:35] Alexander Lacik

Next slide, please.
The momentum was visible in Q4 with positive sell-out growth in five out of seven markets, as I mentioned. The only exceptions were Italy and China. Our largest market, the U.S.

delivered a 22 percent sell-out growth and accounted for a quarter of our total global revenue in the quarter. The strong performance was driven by heavy media investments, high product availability, successful execution of key trading events, and utilization of on omni channel features such as curbside delivery for instance. Our next biggest market, the U.K., delivered positive growth despite the lock downs in physical stores, by leveraging strong online capabilities. Italy ended in a negative sell-out growth. In reality, the covid-19 restrictions had a much bigger impact than the eight percent shown here, as many shops were opening partially in the week but closed during the weekends where we conduct the majority of the sales. And the eight percent only include stores closed for a full week. So with 30 percent of stores closed, if we count each day and online being a relatively small business in Italy, the minus 12 percent sell-out is easier to understand compared to the other markets. As expected, China is still underperforming in Q4 and is not expected to improve in the short term.

[00:09:00] Alexander Lacik

Next slide, please.

The challenge in Q4 was how to deal with the peak trading in light of the restrictions. To do this, we had prepared ourselves thoroughly. We accommodated peak traffic into physical stores through a combination of initiatives such as virtual queues, Pop-Up stores and remote shopping assistants, to mention a few. We stretched peak trading periods for Black Friday and Christmas over a longer time than usual. Through promotional tactics and media planning, we redirected traffic by promoting the online store and omnichannel service. We doubled the online capacity that we've spoken about before, leading to a doubling or 50 percent up on traffic online and eventually leading to triple digit growth. The social distancing battle plan proved successful with high conversion rates, and some of the initiatives will obviously continue as part of a normal business going into this year.

[00:10:00] Alexander Lacik

Next slide, please.

In the third quarter, we talked about how we were stepping up our efforts on data driven growth. Email marketing, for example, has historically not been a big source of revenue growth for Pandora. With the efforts that we made recently and the strengthening of our organization in this area, revenue from email marketing now contributed to a meaningful 300 million Danish kroner in Q4, which is more than double the prior year. This is a step in the right direction and there's plenty more potential in this space.

[00:10:32] Alexander Lacik

Next slide, please.

So let me share some of the other facts on our digital results in Q4. Page loading time was under three seconds - a 40 percent improvement since the start of the year. And it's a well-known fact that the speed site totally correlates with conversion rates. So we therefore continue to invest in this space. Best in class is around two seconds, which is obviously the next phase that we're looking to reach. Our online conversion rate was up 30 percent year on year and the conversion improved for most of the steps during the customer acquisition funnel. From traffic through to sales. The most recent initiatives to improve conversion included improved size guides, 3D imaging, virtual try-on and buy now, pay later with things like Klarna and Afterpay. So lots of continuous improvements leading to strong results. And we expect more in this space to come.

[00:11:32] Alexander Lacik

Please turn to page 13.

This is an important slide and addresses a question which I'm sure many of you have: How to interpret the one plus percent sales growth in Q4. What's the underlying performance, you might ask? First of all, we are very satisfied about the sell-out being in positive territory. That is a major milestone for Pandora given the recent years. In order to understand the performance in the quarter it's important to look at two opposing factors resulting from the pandemic. First, the lockdowns' leading to lost revenue in physical stores with part of that recovered online. Secondly, a shift in general consumer demand away from traveling and experiences, for instance, directed instead towards, amongst others, gifting and jewellery and other discretionary purchases. When trying to assess our underlying performance, we don't have data showing what the net impact of those two factors are in Q4. We do have general credit card data from the US which would indicate that a temporary shift in demand was material, but clearly less than the growth Pandora delivered in the US. We unfortunately don't have similar data from other markets. But aggregated market data from various sources do indicate that Pandora overall performed better in Q4 than the market in general, which suggests that we gained market share in most of our bigger markets, except China, of course.

[00:12:56] Alexander Lacik

Please turn to page 14.
We are preparing ourselves for another uncertain quarter with more lockdowns. Pandora will continue to be socially responsible by creating safe environments for our store staff and for customers. A key driver of the improved sales numbers have been a better balance between driving to core and new innovations. We understand those drivers very well and remain focused on this. In addition, we also ensure that there are strong plans in place for key trading moments. In quarter one those would be Valentine's Day, Chinese New Year's and Mother's Day in the UK. The performance will to some extent depend on the impact of potential lockdowns in those countries. As always, we're planning for the worst yet hoping for the best. Flexibility and agility will again be key, and Pandora will, to the extent possible, continue to successful initiatives from the social distancing battle plan from Q4. I will now hand it over to Anders for further dive into our numbers. Please take it away.

[00:13:50] Anders Boyer

Thank you, Alexander. And go to slide 15.
As Alexander already mentioned then the cost savings run rate target of 1.6 billion kroner has been delivered by the end of 2020. That means that there will be another 350 million kroner incremental savings, cost reductions in 21 from the savings that we have already realized during 2020. And we have decided that the cost reset team continues as part of normal business when program NOW comes to an end. And that's because you still see good opportunities to take out costs. But it is too early to talk about where and how much. But obviously all of the low hanging fruit have been done already.

[00:14:46] Anders Boyer

Then if you go to slide 17, please, then that slide 17 sums up the financial performance and mostly repeats what is already being said elsewhere in the presentation. So I just want to mention two things. And the first I want to mention that is that the four percent organic growth last quarter was the first quarter with positive organic growth since the fourth quarter of 2017. So the first quarter in in three years with a positive organic growth. And secondly, I would like to mention that the operating working capital ended in negative by the end of last year. And that is the lowest level that we've ever seen in the company. So minus two percent of revenue was where we landed when we exited 2020.

[00:15:35] Anders Boyer

And we go to the next slide, please, a slide 18.
So let's just have a short look at the drivers between the revenue growth in Q4. First of all, the changes in the store network had a negative impact of about minus one percentage points due to a permanent store closures. And our sell into the wholesale partners was boosted by the phasing from the third quarter into the fourth quarter, which we also talked about back in the third quarter announcement back in November. And you will probably recall that there was an equivalent negative impact in the third quarter of 2020. And then there's a bucket here in the bridge saying a 2.5 percent support from Channel Mix and others. And this comes partially from wholesale revenue converting to online revenue, especially, of course, in the markets impacted by lockdowns. And then it comes partially from higher freight income in our online business. And freight income is not included in the sell-out, but it obviously counts as part of the overall revenue growth.

[00:16:52] Anders Boyer

And if you go to slide 19, please.
The EBIT margin was quite strong in a difficult environment in the fourth quarter with headwinds both from foreign exchange, higher silver prices as well, and also some non-recurring cost. And I'll start by commenting on the second pink box, the one called non-recurring and covid-19 cost. And this includes, among others, that we had to have decided to have full staffing in the stores to manage the social distancing, even though revenue in the stores in the fourth quarter was down 23 percent compared to 19. And then we also had some non-recurring costs related to a write-off of an old design right that we had on the books. And this goes into our cost of goods sold in the fourth quarter. So in total, there were some two percentage points margin impact, which you can consider non-recurring in the quarter. And that means that the underlying EBIT margin was therefore roughly the same level as in the fourth quarter of 19, excluding these non-recurring cost and excluding the headwind from foreign exchange and silver prices. And as you can also see here, we continue to reinvest our cost savings into driving the topline. And for example, we made significant investments in additional online capacity, as Alexander mentioned, and improved online customer service. And then it's also important for us to stress that the last pink box to the right, the restructuring cost, those restructuring cost under program NOW were completed in Q4 and there will be no further restructuring costs reported separately from 21 onwards.

[00:18:50] Anders Boyer

And then we've got to the next slide, please slide 20.
As already mentioned, we generated a strong free cash flow in the fourth quarter and 2020 thereby became the second year in a row with a cash conversion above 100%. And a good cash conversion is, not the least, a result of very good progress in driving down the working capital and within the working capital we saw very good progress in driving receivables and day sales outstanding. Day sales outstanding for the wholesale business ended at twenty three days by the end of last year and for our entire business, including our own retail stores and online business, day sales outstanding was only ten days by the end of last year. We don't consider a negative operating working capital as sustainable. And we do plan, for example, to increase inventories during 2021. Having said that, there is no doubt that we have structurally improved the working capital level compared to where we were. Just a few years back then.

[00:20:05] Anders Boyer

please turn to Slide 22 and the financial guidance section.
The first two bullets on slide 22 are important and I'll just read out the second one. In the absence of covid-19 impact, Pandora would guide for slightly positive organic growth in 21 versus 19. And that is an important milestone for us after almost three years of revenue decline. The problem is, of course, that 21 will be impacted by the pandemic. We don't know for how long and to what extent, but there will be an impact. There's an impact as we speak. So to be transparent in our thinking about the underlying performance and the impact and duration of covid-19 on the reported numbers, we provide both the official guidance as well as what we think it would look like without the pandemic. And as you can see to the bottom right here on this slide, excluding covid-19, then Pandora would have guided for organic growth above 14% and an EBIT margin of above 23% and that plus 14% number is obviously difficult to relate to because 2020 was impacted by the pandemic. But as you can see then, this guidance is equivalent to a slight positive organic growth versus 2019 also. But there will be an impact from the pandemic in 21 also. And we currently assume that the pandemic will be six percentage points drag on revenue this year. And as you can see on the top right, this takes our official guidance on organic growth down to above 8% and an EBIT margin of above 21%. I hope this is a clear and helpful way of framing our guidance and thinking about 2021.

[00:22:16] Anders Boyer

If they go to the next slide.

Here we have spelled out our thinking about the revenue guidance in more detail and on the top show how we think about the guidance versus 2020 and then at the bottom, how we think about it versus 19. And I hope those two bridges are self-explanatory. But let me just put a few words on the key assumptions behind the guidance. We assume that an average of 25 percent of the physical stores will be temporarily closed during the first half of the year. And we are currently just around 30 percent of the stores being closed. And that's what drives the six percent drag on revenue for the full year. And as you can see here in the second last building block on the on the bridge. And this impact will be seen in the first half of the year is our assumption. And they will be for the first half of the year, it will be a 16 percent drag on revenue. And then for the second half of 21, we do not assume any material store closures due to the pandemic. But there might be some store restrictions that will still have some limited impact on operations.

[00:23:37] Anders Boyer

And then we turn to the next slide, please.

As you can see in the large black building block to the left, then Pandora's business model still has significant positive operating leverage when revenue goes up. And we've seen that from a negative angle during the last couple of years. But it also works the other way around when revenue goes up. But in the overall EBIT margin guidance, this leverage is less visible due to the expected temporary impact from the pandemic, but also from higher commodity prices. And indirectly here, you can also see that we expect to keep reinvesting the costs reset cost reductions in driving the top and the business so that the 350 million kroner run rate cost reduction, as I mentioned earlier on, will be reinvested in driving the topline and not least within digital. So we're guiding for an EBIT margin above 21%, and excluding the pandemic, we would have guided above 23%. And then CAPEX for the year. we expect to be between 1 and 1.2 billion and we don't expect any major changes to the overall store network footprint. There will be some closure, some openings, but no major changes.

[00:25:08] Anders Boyer

And then the next slide, please.

Cash distribution. We ended 2020 with a solid financial position. Our leverage was 0.5 times EBITDA, and that is in the very low end of our capital structure policy. And we expect to continue to be highly cash generative this year. And we also have ample liquidity to initiate cash distribution, as you can see in the grey box to the left here. Having said that, given the uncertainty caused by the pandemic, we think it's appropriate and prudent to await further certainty about the pandemic before initiating cash distribution. We are, after all, currently in a situation where only a third of our stores are fully open without any restrictions at all. But in order to get ready for potential distribution later in 21 later this year, we will be asking shareholders at the upcoming AGM in March to authorize us to distribute an extraordinary dividend of up to 15 kroner per share later this year. And we already have the authority to initiate a shared by back in due course from the shareholders. And with that, I will leave the word to Alexander again.

[00:26:33] Alexander Lacik

Thank you, Anders. So before heading into the closing remarks, I want to highlight our exciting product line up for Q1. In January, we launched Pandora Colours, a broad range collection with all product categories available in various colours. In February, we have Valentine's coming up, which is always an important event for us and where we believe we have a strong line-up focused on symbols that represent love, as you can imagine. And in March, we're launching a new spring collection, which brings a fresh connection to the world around us.

[00:27:08] Alexander Lacik

Please turn to the final slide.
So our performance in Q4 marked a material improvement and Pandora return to positive growth despite covid-19 lockdowns. This means that we're approaching the end of the turnaround and Pandora is preparing to shift gears from turnaround to growth. This is visible in our guidance where we're guiding for positive underlying growth in 2021, excluding the impacts from C-19, when it will be directly visible in the reported numbers, obviously depends on the development of the pandemic. And finally, as Anders mentioned, we continue to be highly cash generative and will resume cash distribution once the pandemic is under more control. With those final remarks will now open for the Q&A session. Operator, please go ahead.

[00:27:58] Operator

If you wish to ask a question, you may do so by pressing zero one. Thank you. If you wish to redraw your question, you may do it by pressing zero two to cancel. And again please press zero one on your telephone keypad if you wish to ask an audio question. We will have a brief pause while questions are being registered. The first question comes from Edouard Aubin from Morgan Stanley. Please go ahead.

[00:28:29] Edouard Aubin, Morgan Stanley

Yeah, good morning, Alexander and Anders. So two questions for me. Maybe the first one on current trading, if I may, if you could please give us an update of how you traded year to date. And I think, you know, related to that consensus about expecting about nine percent growth in Q1 issue. So that was achievable, given that you just mentioned Anders that you're expecting a double digit drag on revenues from some store closure. And my second question is on China. So I just come back on that. But I understand that you've made some comments in the past about the perception of the brand, which was not the right one, perceived as a mainstream jewellery brand. And also, you made some comments about management changes. But could you please come back to the core of the issue and why, Alexander you're confident that you could return to growth this year. Thank you so much.

[00:29:26] Anders Boyer

Hi, it is Anders here. I can start on the first question about current trading. We don't want to provide exact numbers on the current trading, but obviously compared to the fourth quarter, we are sitting with significantly more store closures, uh, 10 percent on average in the fourth quarter now. Now just around 30 percent being closed. And obviously that has an impact. But I think what we can go as far and say about general trading is that there is no structural changes compared to what we've seen in the past. But of course, the reported numbers will be impacted when you have almost a third of our stores in full lockdown. So the picture is pretty much the same, that we are seeing going into the new year and trading in line with our with our capital guidance.

[00:30:30] Alexander Lacik

Edouard, in relation to China, we can talk a lot about this, and if you want to hook up on a separate call, I'm happy to do that. But in brief, this traces back to how the brand was launched in China back in 2015 and very much tried to mimic the general approach that the Pandora brand was taking outside of China, essentially trying to go from only focusing on the charms and bracelets and trying to be a, you know, full scale assortment jeweller. And that's kind of how it was then portrayed in the Chinese market, which meant essentially, you know, you went in without any particular point of difference. And that now plagues us because as we conduct market research, which we do continuously cross the key markets, we can see that the understanding of what Pandora as a brand represents in China is very different from pretty much every other market that we research. So that's one issue. Then what we did. This is now some six to nine months back. We took the global positioning of the brand and did both qualitative and quantitative research concept testing with Chinese consumers in various clusters, various geographies in order to see whether the positioning, the original positioning actually was meaningful. And all the research that was conducted came back with a very clear thumbs up. Yes, once we understand the concept, we like it. It's distinctive, it's different. And it's interesting for me with a high purchase interest. So that makes me very strong in my opinion, that this brand definitely has a role to play. And in fact, if you think about it from purely from a cultural standpoint, symbols are even more pronounced in those Asian cultures maybe than in many of the Western cultures where we've been successful. So that is the kind of key point that we need to address.

[00:32:26] Edouard Aubin, Morgan Stanley
Ok, thank you.

[00:32:30] Operator
Our next question comes from Silky Agarwal from Citi. Please go ahead.

[00:32:36] Silky Agarwal, Citi
Hi, good morning, Alexander and Anders. I have two questions, please. One on charm performance. Now, we have had two consecutive quarters with charms the kind of underperforming bracelet. Do you see any structural shift in the consumer shopping behaviour in terms of wearing less charm bracelet? Because this in a way, kind of affects the collectability proposition of charms, which I think is key to the brand. And secondly, taking on the full price sales evolution. You gave some interesting statistics during Q2 that about 80 percent of the revenue in June and July came from full price sales, which was 60 percent a year ago. So, I just wanted to get an update - has that ratio improved further through 2020? Thank you.

[00:33:22] Alexander Lacik
Ok, um, how to answer this properly, I don't see that there's a structural if anything, there's a structural positive change. So if we take Australia as a pointing case, in the fourth quarter, they actually increased the number of charms sold per bracelet. So when they execute the strategy, then we can see tangible results. If you look at the drivers of the US business, for

instance, I mean, we had strong progress on rings, which is not unsurprising because rings as a percentage of the categories are slightly higher in the US versus Europe. But fundamentally, the strong underlying growth comes from the Moments platforms. So that's all in a good place then. It will vary from quarter to quarter, you know, when we when we push certain collections that sit underneath the platforms. But broadly speaking, this is what keeps pushing the business forward. Then on the full price sales ratio, I don't have those stats handy. The only thing which I could say is that comparing to last year, you remember we did a big clean-up of the assortment where we went, from memory somewhere around 1800-1900 DVS down to 1300-1400, give or take. That, of course, ended up with a lot of things that we put on the sale and in particular in the end of season sale of prior year that was a big proportion. Going into this year, we had a lot less to put on sale because we've been managing our inventory position much better. So the actual end of season, there was half the size of last year. So if I look at that, then just by, you know, arithmetically, my full price sales has to be a higher proportion of. But also, let's not forget that what happened this year was that in UK in particular, which sits in Q4 numbers, their stores were closed. So the online performance on sale was I think it was down something like 10 percent versus prior year. But of course, the sale event is a bigger, let's say, relative exercise in the physical stores. And when they're closed, of course, that has an impact. So the analysis has so many moving parts I can't really, you know, speak to it like we did last time around when the period you're referencing because it was a more clean base to read from. So I have a few things going on. But generally speaking, end of season sales is going to continue being a smaller portion of our activity because we're just managing the merchandising much, much more professional than we've done in the past. That was kind of like the, you know, say get out of jail card if you didn't manage your assortment well, but we are now more sophisticated than we used to be. So I think that's going to be less of an impact going forward.

[00:36:21] Silky Agarwal, Citi
Got it. Thank you.

[00:36:22] Operator
Our next question comes from the Lars Topholm from Carnegie. Please go ahead.

[00:36:30] Lars Topholm, Carnegie

Yes, congrats with a great finish to a very strange year. I have a couple of questions. With respect to your revenue guidance bridge, which I don't completely understand it because I understand you're assuming sell-out will grow by at least three percent. But isn’t it fair to assume that if you own online strategy works, you will capture more of that sell-out value in 2021 that you did in 2019? I mean, on my numbers, you captured around 72 percent of the 19 sell-out value and each additional one percent you catch would actually boost your growth by 140 bps mathematically. So where is that what you say, increase capture of retail value in the equation, assuming you will have a higher online share in 2021 than in 2019? That was the first question. The second question is on your networking capital. So presumably when you have a big online shift sales, there's no trade receivable in there. So I just wonder if you strip that out of the equation, where would you on networking capital position be? Thank you.

[00:37:54] Anders Boyer

Hi Lars, its Anders here. It is two very relevant questions and on the on the revenue bridge, if you if you look at it, that impact versus 2020, it's most likely going to be the other way around given that we saw an elevated share of online business in 2020, which depending on how the virus pans out, could result in that, that it some of that pick up is shifting back to become, rather than being part of our sell-out, then it becomes sell-in to the wholesale partners. I think that would be a likely outcome that I understand.

[00:38:44] Lars Topholm, Carnegie

That I understand Anders. But compared to 2019 is my question. Clearly in 2021 you should capture more than in 2019.

[00:38:52] Anders Boyer

Yeah. And it's a completely relevant question. We've had discussions internally about that. I think there's no doubt that the online business is going to be higher in 21 than in 2019. But and it was, what was it, 13-14 percent in 2019. But how much higher. That is a question. But of course, you're right that if we see a more permanent and structural high shift towards online business, then then that will be supportive of the organic growth also versus 19 where baked into this might be saying that we see sell-out growth of more than three percent, but exactly how that plays out... but we do assume that there will be a higher share of online business in 21. But I'd be hesitant to be specific on how much exactly that that plays out, but definitely higher than what we saw in 19, but not at the 2020 level.

[00:40:08] Lars Topholm, Carnegie

But just to understand you absolutely correctly. If network development is minus one and if sell-out is plus three, then your reported revenue should grow more than two percent, If we look from 19 to 21 and strip out covid-19, is that correct?

[00:40:34] Anders Boyer

I just need to understand your line of thinking, is a network development sort of the...

[00:40:42] Lars Topholm, Carnegie

I take you your bridge on slide 23; 2021 versus 2019. So you have a network minus one, sell-out plus three. And that gives you organic growth of two. But my question just to make sure that organic growth should be higher than, just taking network development and then adding the sell-out growth because of this channel dynamics.

[00:41:15] Anders Boyer

Yeah, and that is why that piece, the second part of that bridge we're calling it "sell-out growth in own channels and sell-in to partners". So it is a mix of the two. So the above three percent is not sell-out growth only. It includes the impact of that. So it is still our growth in our in our own stores and online and then the sell-in the partners, which obviously underneath that includes a change in the in the mix of channels.

[00:41:51] Lars Topholm, Carnegie

So what is the sell-out assumption then?

[00:41:54] Anders Boyer

I'll do it two steps. Because versus 21 versus 2020, it's I think it's likely that the sell-out could be at or maybe a little bit above organic growth, because obviously in…

[00:42:16] Lars Topholm, Carnegie

Anders, I am actually more interested in from 19 to 21, because then we don't have to analyse what is and what isn't covid-19. So from 19 to 21, what is the sell-out growth assumption?

[00:42:36] Anders Boyer

The way I would look at it Lars, is to look at the 2020 actuals, then organic growth was sort of roughly a percentage point, a little bit more than a percentage point above sell-out. And I think that that that's the way when you look at it on a two year bridge, I think you should think about the sell-out will be a little bit below the organic growth guidance on a two year basis, because we saw that organic growth being a bit above sell-out in last year in 2020.

[00:43:12] Lars Topholm, Carnegie

But now you go from organic growth and say what that means in sell-out. I would like to go the other way. I mean, I assume your assumptions is sell-out growth. And I want to calculate what that means for organic growth. But maybe we could take it offline.

[00:43:29] Anders Boyer

Yeah, but in that equation obviously also comes that if we go all the way back to 19, we had a hard hit on sell-in to the partners as part of the commercial reset. And that has an impact when we go into 2020 as well. So that that of course it starts with sell-out and then you have to look at what do you think about changes in the inventories in the channel and then changes in the channel mix as such. And then you're getting to the organic growth. But I think in short, we will say that you were guiding, versus 19 and forgetting covid-19 for a while above two percent organic growth. And the sell-outsell-out is likely going to be a little under that two year basis, the sell-out a little bit lower.

[00:44:26] Lars Topholm, Carnegie

Ok, so if you gross sell-out is three percent, I'm right that the organic growth should be higher than the sell-out when we adjust for network development?

[00:44:38] Anders Boyer

On a two year basis, yes.

[00:44:43] Lars Topholm, Carnegie

Yeah, yeah, fantastic, thanks. And then on trade receivables and what networking capital would look like if you didn't have this big increase in online revenue?

[00:44:56] Anders Boyer

I think one way to answer it, is that our receivables in our own channels is close to zero. And that's actually also an area that has improved during 2020 navigating the DSOs in our online business quite nicely down. I think in one of the notes into the annual report, you also see that the absolute receivables are down even though revenue online and in our own channels is up. So there is an impact there, if some of that shifts back again and to convert into wholesale revenue, then that by itself will have a negative impact on the working capital.

[00:45:52] Lars Topholm, Carnegie

Ok, thank you very much, Anders.

[00:45:55] Operator

Our next question comes from Magnus Jensen from SEB. Please go ahead.

[00:46:01] Magnus Jensen, SEB

Thank you for taking my question. I have two questions. One relates to store network. So you closed 80 stores in 2020, which I guess a lot must have been to due to covid-19 and that will continue until 2021. Why would you then not expect further closings? That was my first question. And then the other question is in terms of your indirect guidance for 21, if we exclude covid-19 or you say that you expect revenue two percentage points higher than in 19 and then a margin above 23. If we compare that to your guidance for 20, where you said that you would have revenue three to six percent lower than 19 and still a margin above 23, that doesn't really compute to me that you would not expect the higher margins now with two percent going higher. I know there’s something about commodities that have significant impact and all, but on the other hand, you got a significant cost savings in the meantime. So why would you not expect the higher margins with two percentage points higher revenue compared to 19 now?

[00:47:20] Anders Boyer

Hi Magnus. On the first question about the store closes. The 80 store closures that we've done in net in 2020 is actually not very much related to covid-19 is something that we've done anyways with those closures. The reason that we are ending with more net closures in the year than what we guided, we guided around 50 net closures, is not because we've closed more, but because we have not opened new, because we had originally planned to open more stores not least in China and Latin America. But we sort of pushed that out at a bit. So if you look at the store network that we have, it's still very, very profitable. The four-wall EBIT margin in the stores is obviously below what it was in 20 and 19, but it's still in the mid-30s on average. And of course, then there's a distribution around that. But it's despite the revenue reduction, I think, is 30 percent down our revenue in the physical stores in the full year. If I recall right from memory, it's still an EBIT margin in the 30s. So that's also leading into why we are guiding for this year that the net no big changes in the store network. And then on the on your other question, I understand why you are asking about that and there are two main differences. And the one is I should also say much higher silver prices. I guess when we made the guidance a year back I saw the silver price and was still in the high teens, some something like, like that. And compared to that we both have a 150 basis points headwind this year in 21 from the higher silver prices. And then the other piece is that we are investing all the money that we're taking out of the business in cost reset and a bit more, we are reinvesting back into building a company that can generate sustainable top line growth. It is our number one priority. So the cost reset savings is funding most of the journey. But we are investing a bit more than that in the top line because that we see as our focus point to get to that point. Well, not being stupid, of course, we have to be careful about how we spend the money. But the biggest piece is the silver prices.

[00:50:27] Magnus Jensen, SEB

Ok, that's clear. Thank you.

[00:50:32] Operator

Our next question comes from Anne-Laure Bismuth from HSBC. Please go ahead.

[00:50:39] Anne-Laure Bismuth, HSBC

Yes, sir. Good morning. I have to question as well. So I just want to come back on the current trading please, is it possible to comment on the performance for the month of January and only comparing to the performance of Q4, is it possible to give a bit more colour about your performance for the month of January? And my second question is about the store closures, so in Q4it was around 10 percent and the end of January at around 30 percent. So I personally understand that I know the schedule of the markets, such as the UK or Germany, but where did this come from? Thank you very much.

[00:51:26] Anders Boyer

Hi Anne, it is Anders here. On the current trading, I think I can’t provide further comment then what we have said and it's out of a principle. It's not because something is happening. And then I'm indirectly maybe saying something anyways, but it's just out of a principle that we simply shouldn't sort of comment on the first couple of weeks of the year. But I can repeat that there's no structural changes apart from that we have 20 percentage points more stores closed then we had back in the fourth quarter that obviously we can't help with that. That's not visible in the numbers. And then on the store closures, we have actually started out back in February last year doing that a little bit, unscientifically in an Excel sheet, as you sometimes do that kind of stuff. And as it became clear that this is something I would keep on, we do it in a system store by store, and we're tracking that every Friday at our weekly operating meeting and looking at where we are. So it's data that we get in from each of our stores around the world and from our partners.

[00:52:50] Operator

Our next question comes from Christian Ryom from Nordea, please go ahead.

[00:53:01] Christian Ryom, Nordea

Hi, Alexander and Anders. Thank you for taking my questions. I have two. First I'd like to, if you could elaborate a bit more on your guidance for organic growth, excluding covid-19. So when we look back over the last two or three quarters, the period where you were arguably least impacted by covid-19 was in sort of early autumn where you delivered organic growth rates roughly of a six to eight percent relative to 2019 levels. So my question is, why are you only assuming organic growth of above two percent versus 2019 levels in this sort of excluding covid scenario? And the assumption, I would imagine, would be that you continue to see improvement in the brand momentum. And then my second question is to the guidance for the impact of covid-19. So as I read your guidance commentary, you say you expect or you assume 25 percent of stores closed, yet during the first half will translate into a 16 percentage point drag on organic growth. And that would imply sort of a multiplier of around 0.6 times. Is that sort of a number we can work with also to understand how the first months of the of the year develops as we track your store closures? Thank you.

[00:54:48] Anders Boyer

Christian, thank you for the two questions. On the on the guidance, a couple of comments; one is that it is deliberate that we are making an open ended guidance, which is I know that is usually easier to work with a range on a number, but it is deliberate that we are guiding with an open end, both because there's a lot of moving parts, as always a lot of moving parts in the business, but that's even more so this year. But with covid-19 and how that plays out, macro-economic development, government support packages that we saw in many places in 2020, how does that play out in 21 etc. etc. So I think the important fixed point for us is to say we believe and guide, so to speak, that we are back on the delivering underlying growth after a couple of years of revenue decline. How much that would be above the two percent, with the two percent being the low end of the guidance. So open ended guidance range? We will see. We are still turning around. We are getting closer to say that we can put program now behind us. We are. But we are still turning around and combined with a situation where the world is shaking up by adding additional factors, I hope that helps you a bit. When one way to think about it on when you have a market that goes into lockdowns, let's just as a sake, for example, say we have a market that goes into lockdown, 80 percent of the revenue is coming from stores and 20 percent from online. Just as an example. Then obviously as a starting point, you are losing the revenue because the stores are closed. And then as an average, what we have seen during the pandemic, with very different numbers between markets and quite different numbers depending on wave one and two and three. But roughly that a third of that revenue that we miss in the physical stores is recovered online. And that what leads you to the 16 percent revenue impact in the in the first half of the year. And on that 16 percent revenue loss in the first quarter, I think you'd probably be likely. We can all guess about the pandemic impact, but likely a bit bigger impact in the first quarter and a bit less impact in the second quarter from the from the from the pandemic as such. But we will see how exactly that that plays out. But our internal assumption will be there will be a little bit of more stores closed and the twenty five percent during the winter spring and then a little bit less due in late spring, early summer. But we will see.

[00:58:16] Christian Ryom, Nordea
Ok, thank you very much.

[00:58:17] Operator
Our next question comes from Fredrik Ivarsson from ABG, please go ahead.

[00:58:26] Fredrik Ivarsson, ABG

Many thanks. First, I want to come back to e-commerce a little bit. How do you plan for that channel next year and maybe also in the words given what we saw in 2020? I guess you reached maximum capacity over the latter part of the year. So just curious on your thoughts on that.

[00:58:26] Alexander Lacik

It depends on from what angle you approach this question. As we've said before, if you look at the channel shift, let's say that a customer moving from one channel to the other, we are kind of agnostic where the transaction actually falls and there's been some windfall because we have of course picked up some of the revenue that would normally have gone through a partner. So from that standpoint, the actual transaction point is, is not such a relevant measurement point. It's one we report on because it's easy to understand. But from a commercial standpoint, it's not the major point. The transaction is an outcome of all the activities that happen before you get there. So our focus is on that side of it. And that's why we keep talking a lot about the investments we make in digital capabilities, meaning not just logistics, but also the marketing efforts we do and the kind of improvements we keep making on the sites are targeting efforts. And that's a full on focus on that, because we do think we can eke out a competitive advantage in that space. So I think that's how I would think about it. But from a financial standpoint, it doesn't have a major impact at this stage of the game. That may change in the future. But right now, we don't see that.

[01:00:18] Fredrik Ivarsson, ABG

Got it. Thanks, Alexander. And the other question from my side is on the rent level somewhat you see and expect on that side, I guess that's a quite significant part of your operating expenses?

[01:00:35] Alexander Lacik

Let us answer that in two ways. On the first hand, I mean, with lower traffic everywhere in physical retail, I think it's obvious that that we need to have a conversation with the landlords across the globe on what the model should look like, because, of course, part of the rent we pay is because they provide traffic to us. The traffic isn't there. Then I think the model needs to be questioned. On that basis, of course, we've done had plenty of conversations and you can see some of those kind of rent reliefs or concessions being seeping through in the numbers. But I think there are there are two topics there. One is what's kind of the retail landscape, one that looked like going forward. And obviously at the current traffic levels, we have to have a conversation on what this landscape should look like. And secondly, as I said, maybe Anders give some context on what has actually been achieved in the last year in the numbers.

[01:01:37] Anders Boyer

As you know, I think we have mentioned that before when we made the reorganization back in March last year, then a dedicated network management team was established, a new global team, and we are already seeing the first results of that. Both on the rent level as such, but also the split between fixed and variable leases, the magnitude of break clauses, everything that helps giving flexibility in our operations. And one of the ways that you can see some of that impact is we've looked at, and there's a little bit technical, but it may help you to look at the progress, is the right of use assets that sits on our balance sheet have gone down. And that's the technical way of saying that what the number for the capitalized value of all of our stories is around the world has gone down from by one billion kroner during 2020 from four billion to three billion, which is obviously quite a big amount of money. So it's something that we have a lot of focus on and still see opportunities. And you also see on the in the roadshow presentation that we just went through on the on the cost piece, one of the bigger buckets of the one point six billion kroner cost reductions is coming from the stores. But in that quite decent piece from the from the lease renegotiations.

[01:03:29] Fredrik Ivarsson, ABG

Thanks, that's helpful. Would you just care to remind us of the share of stores that you have on turnover based terms?

[01:03:42] Anders Boyer

Yeah, it's been around a third of the stores have been on variable rent in the past. And the reason I'm hesitating a little bit when I enter is that there's a variable rent. But often then in those agreements, there can be a minimum rent still. So if the if the revenue in a store drops a lot, then the threshold kicks in. But combined with that, I think when you look at it from a risk perspective, uh, you should keep in mind that usually our store leases are not that long. And often, even though we might have a five year contract, we often have a break clause in between. So in giving us some optionality to get out of the agreements. In general.

So what the couple of years I've been here, you haven't seen situations where we have been so locked up in a in a long time in a store that we want to get out of. We actually have quite some flexibility, even though we are operating, uh, owning fourteen hundred stores across the world.

[01:05:09] Fredrik Ivarsson, ABG

Great, that helps. Thanks.

[01:05:12] Operator

And our next question comes Omar Saad from Evercore ISI. Please go ahead.

[01:05:20] Omar Saad, Evercore ISI.

Thanks for taking my question. Great quarter. Can you guys tell if it's new customers in the fourth quarter driving your demand or is it existing customers? I don't know if the e-commerce is so much higher that you have more data on who the customers are driving your business. That would be helpful to start.

[01:05:41] Alexander Lacik

I don't have that data yet, and again, the situation is versus what. Because we have a slightly different composition due to the store closures. I will have to come back when we have mined especially the December data.

[01:06:00] Omar Saad, Evercore ISI.

OK, that's fair. Is the fact that rings and bracelets outperform charms, is that insightful or is the fact that Moments was the strongest within Charm's despite Harry Potter and Star Wars and Pandora ME and some of these other lines that you've launched, are there takeaways we can glean from those insights?

[01:06:23] Alexander Lacik

I think the key takeaway is that what underpinning the strong progress is the Moments platform. And then, of course, then we might launch, you know, we have birthstone rings, for instance, that are picking up stronger in some markets like the U.K. for instance, but they seem to be more topical. Is the same with Star Wars, had a phenomenal share of business in the US and Australia, much weaker in China. So it's not all, you know, one size fits all in a way. But I think that the key takeaway is the growth is underpinned by the Moments platform fundamentally. And then U.S. has a slightly different composition. If you look at the category mix where rings in general has a slightly higher proportion than we see in other countries. So there we also see that the rings have made strong progress in the US. But generally speaking, the key point for me is that the focus is on Moments platform and that is what drives this business forward the most.

[01:07:27] Omar Saad, Evercore ISI.

Ok, yeah. And so in the U.S. and rings and bracelets, you're saying that the rings and bracelets is a higher percentage of the mix in the US and that drives the overall number or within the US rings and bracelets it's becoming a much higher piece of the mix?

[01:07:39] Alexander Lacik

No, what I'm saying is that the category in the rings has a higher proportion than we see in other markets. So when we do a good job on rings in the US, then of course we get the benefit of the fact that we kind of let's say we pick part of that market better.

[01:07:59] Omar Saad, Evercore ISI.

I get it. Thank you, thank you. Good luck.

[01:08:02] Operator

Our next question comes Klaus Kehl from Nykredit. Please go ahead.

[01:08:10] Klaus Kehl, Nykredit

Yes hallo, two questions from my side as well, and first of all, we talked quite a lot about your networking capital development and Anders I also believe that you said something like that it's been structurally improved. But do you have any input to where we should expect your networking capital ratio to be, let's say mid-term? And secondly, If I look at your guidance for 21, then you have this a negative drag due to no government support and no rent concessions. But maybe I'm not understanding it correctly, but didn't you just say that you have actually renegotiated quite a lot of your leases and you are doing a great job there. So in other words, how will this rent concession become a negative in 2021? Thank you.

[01:09:19] Anders Boyer

Hi Klaus, Anders here. Maybe starting out with the last one first. And that's a relevant question and maybe that could have been spelled out clearer. The piece that we have included that in the that bucket called "no government support or rent concessions", are the rent concessions that were specifically related to covid-19. So especially during the wave one, we approached landlords and said "stores are closed, let's have a chat about how we split the cost of that". And that's to be precise, 112 million kroner. That was one-offs purely covid-19 lockdown related saving that has disappeared. Now then you can say that with stores closed now in UK, Germany or other markets, there might there be new rent concessions there a managed to negotiate this year. That might be, I don't expect that we will see it to the same level as we did last year, where I think everything was new. Eighty percent of our stores were closed. If we go back into April last year and afterward is a different situation. But if you go a little bit further to the right in that bridge, then the second last bucket is called cost actions and government support. And we have assumed that we can do a little there's a half a percentage point of uplift have assumed that there's something that we can do, but not to the extent what we saw back in 2020. But this is one of the elements that we have to see how it plays out, also how it plays out with government support packages. I don't think that the governments that we saw giving support to businesses last year will necessarily do it this year as well. Some will, some won't. But that is one of the element of uncertainty in the margin for this year. Then on the net working capital, if you go back two years, I guess we were in double digit, uh, networking working capital, 10 percent of revenue. Then it was down to minus three, end of 19 and then minus two by the end of last year. And if you go back rolled back a year, we got the same question. And then I think we answered, well, we can probably operate the business with a high single digit percent of revenue, working capital and the high single digit, that's a little bit far away from where we are now. And I think we have made some structural improvements during the year. But I think we can operate the company with working capital in the mid single digit percent of revenue, which is still significantly down compared to where we were a couple of years ago. But mid single digit, I think is a is a good guess. Our inventories were too low going out of last year. And in a business like ours with very high gross margins and products that, if you are smart, all of them have an almost indefinite lifetime, or definitely a long lifetime. It can easily be quite expensive to have too low inventories.

[01:13:15] Klaus Kehl, Nykredit

Right. Thank you very much.

[01:13:16] Operator

Our next question comes from Chiara Battistini from J.P. Morgan. Please go ahead.

[01:13:24] Chiara Battistini, J.P. Morgan

Good morning. Thank you for taking my questions. I also have two. Firstly, I would like to come back to your comment on potentially the shift of wallets, jewellery and other discretionary categories, potentially helping you, I guess, how are you thinking about this as we're going into 2021 and you're still factoring in the first half being impacted by lockdowns and potentially then therefore benefiting from this from this ongoing trend that you factor in at all in your guidance? Or how are you thinking about this? I know it's difficult to quantify, but I mean, insight on that would be very helpful. And the second question is, on your marketing budget for 2021, how are you thinking about marketing and growth in 2021 versus 2020? And in the medium term, where do you see marketing as a percentage of salesin the phase of actually stabilising, from 2020 and onwards, the marketing as a percentage of sales? Thank you.

[01:14:27] Alexander Lacik

I'll start with the last one because that's the easiest one to quantify. And it's consistent to what I've said before. We think that a level somewhere between 13 and 15 percent of revenue is a sufficient level to keep driving the growth of the brand. And as I've also said, it might fluctuate up or down a point depending on the year and depending on the initiative schedule etc. But there, I think, is a reasonable level. But within that then what we continuously do, and I mentioned in one of the slides, was to try to optimize the spend. And the more sophisticated we are, the better we can target the consumer, the less waste we have. I mean, that's pretty obvious. And that waste, if identified, I will keep reinvesting. So over time, I hope to keep getting more bang for the buck as we move forward. And then on the wallet shift, I don't think this has had a major impact because it's incredibly difficult to quantify. And the funny thing is, if we compare, let's say, the two or three waves of pandemic, we've actually seen some different behaviours in each wave. So you cannot just say what happened in wave one, I can just overlay and model on wave two and wave three. They seem to have been other factors driving up and down. The one unknown right now for me is what happens to unemployment rates or do people get more nervous here after Christmas, you know, depending on what goes on in the marketplace. So that might be a much bigger implication. Using a bit of stats going back to we've pulled out some data from that Altagamma does this study that Bain does. And if you look at what happened after the financial crisis in 09, you saw that the whole luxury market as such contracted a bit, but actually rebounded quite fast. So on the assumption that there was actually a contraction globally last year, you know, if we model on the basis of what happened 10 years ago, one would expect that to kind of normalize. Now, the one factor which doesn't really play heavy in our equation is travel retail, contrary to many other luxury players, which are heavily influenced by what goes in travel retail. For Pandora this is not a not a big factor. So to conclude on your question is we have not made a major factor of this in our in our assumptions for the budget of this year.

[01:17:04] Chiara Battistini, J.P. Morgan

Okay, thanks. And just to follow up on your marketing comment, I guess 13 to 15 percent is on a more normalized level of pace from 2022 onwards, right?

[01:17:17] Alexander Lacik

But if I'm not mistaken, that's kind of where we landed in 2020 as well, give or take.

[01:17:23] Chiara Battistini, J.P. Morgan

But I guess or maybe if I ask it in another way, how are you thinking about the growth of marketing in 2021 versus 2020? But just looking at marketing rather than as a percentage of sale.

[01:17:34] Alexander Lacik

I mean, in all honesty, this is also a moving feast we are learning as we go. So if I look at, you know, a very concrete example, three years ago, if you looked at the kind of media because it's not just about the spend is also where I spend it and how I spend it, which is actually becoming a bigger factor than it used to be. But again, back up to take a look at the US. They only had what I called broad-reach advertising, which is namely TV, essentially to support the Christmas trade. What we've now shifted to is much more of an always on type of model. And we can see, you know, that it's paying dividends to be top of mind, not just the four weeks of the year, but actually throughout the year. And that I actually think is what's underpinning the very strong results we see in a couple of markets. So now as we've gone into lockdowns, we've shifted some of that spending to digital and then when the markets reopened and we shifted back. So it is a bit of a moving feast. So that's why I say the 13 to 15 range seems to be a good level. But then within that, how we spend the money and using data to be smarter about the targeting is going to be a moving feast. You know, long are the days gone. When I started in marketing, then essentially you developed a TV ad and you went to the TV station, you bought 30 weeks of TV and then your marketing was job done. Now it's much more fragmented. It moves around. We see new platforms evolving. So this is much more sophisticated if you want to be good in this space. So I think that the 13 to 15 percent globally is a good number. There are a couple of markets which are well behind that curve still, which we're looking to kind of see how you move them up the curve etc. So but from a modeling standpoint, if that's what you're asking for, 13 to 15 percent, I think is a decent level, then we just need to be clever about optimizing underneath.

[01:19:34] Chiara Battistini, J.P. Morgan

Thank you very much.

[01:19:37] Operator

Our next question comes from Piral Dadhania from RBC. Please go ahead with your question.

[01:19:44] Piral Dadhania, RBC

Morning, everyone. Thank you. Two questions. If I could maybe just come back to charms performance. I appreciate your comment that Moments is driving the growth and the recovery, but just wanted to understand, is this still kind of a key area of focus? And as you think about 2021, are you are you prioritizing, narrowing the growth differential between charms and the other categories and perhaps what's changed in 2020, maybe related to channel shift that has led to a few percentage points of relative underperformance in that category, which is still half of your revenue base. And then secondly, just in terms of customer demographics, just wanted to understand, I think you touched on it before, that you're more sophisticated in the way you go to market and data capture and using data, you perhaps just give us an indication of how your customer demographic has changed since you've driven improvement in your top line. Are you seeing younger customers coming into the brand? What's the mix between returning versus new customers etc.? That would be very helpful. Thank you.

[01:20:57] Alexander Lacik

Uh, just to be clear, where we are most sophisticated is in the US because that's where we have a high degree of data capture, a higher degree of data captured than elsewhere. So I think a lot of the commentary we provide is borne out of that data set. And then, of course, we can kind of somehow triangulate that, that this is relevant in other markets as well that have similar kind of dynamics to the U.S. just to kind of put that out there. And on your second question, first, on the customer demographic, we don't necessarily see a shift in the demographic as such. And I keep reminding people of that, that, you know, we don't go after, when we talk about targeting, we don't go after the traditional demographics as targeting. You know, there are other things that we chase. We don't see that it's shifting materially younger. When we introduced Pandora MEthat was by design appealing to a younger audience. So in the periods where we drive Pandora ME, then we, of course see a slightly different shift. But that's by design. But let's say the underlying demographic remains as it has been. And of course, everything I just said doesn't apply for China because there in general there is a much younger audience than we see elsewhere in the world. But that that has, you know, other reasons behind it, because the older generations didn't accessorize to the same degree as maybe our parents did and kind of passed that onto the younger generations. And on Charm's performance, I'm not sure I understand your question. What's changed with regards to Channel Shift?

[01:22:49] Piral Dadhania, RBC

Yes, sorry if I wasn't clear. It's just that, you know, when you relaunched the brand, you were able to narrow or improve the charms, relative growth rate to be in line with group. But through 2020, it's diverged and it's slightly underperforming again at the time. Back in 2019. I think you guys are saying that challenge is central to the overall product proposition is half of the revenue base is where you generate the lifetime value of the customer in terms of repeat purchasing. I just want to understand what perhaps has changed to 2020 and how much of the focus is still remains to get it back to in line or even above the group growth rate.

[01:23:28] Alexander Lacik

So first of all, the way we think about it is not charm's isolated. The way I think about it is on the platform, which is Moments, and Moments represent roughly 70 percent of our revenue base. So if that 70 percent isn’t humming, then, you know, I have a big headache, which was one of the issues when I came to the business two years ago and we were facing spending too much energy on, let's say, the other segments. So the focus remains on the Moments platform and has not really materially shifted. I mean, again, it depends on country by country. So if I look at the larger markets that we actually see a very strong progress on the Moments platform. So, you know, I, I don't really see that there's anything that's fundamentally shift that that is our focus is to keep pushing the Moments platform as the number one priority.

[01:24:28] Piral Dadhania, RBC

Okay, so maybe if I just read between the lines in your comments, is it fair to say then that you're slightly more category agnostic than perhaps you previously suggested? It's all about the platform and the categories within that on an equal weighting and wherever the customer shops. And that's absolutely fine.

[01:24:47] Alexander Lacik

I mean, for instance, we don't see a different behaviour depending on whether they go online or offline. It's the same customer, same customer behaviour that just shifts kind of trading platform. But from what we want to focus on is most definitely to keep the Moments platform alive and well. Then, of course, underneath that we have different collections of Charm' etc. So you can categorize them in and, you know, in love charms or people charms or family charms, what have you there. We kind of keep playing around with those. But fundamentally, it's the Moments platform that is the kind of main engine here.

[01:25:28] Piral Dadhania, RBC

Thank you, that's great.

[01:25:31] Operator

There appears to be no more time for questions, so I'll hand it back to the speakers for any further remarks.

[01:25:39] Alexander Lacik

Well, thank you, everyone. As I said, 2020 was a quite tumultuous year for all of us, for, you know, both from a personal standpoint as well. From a business standpoint. I think Pandora did perform very well. We're quite pleased with, you know, at least the anecdotal evidence that we've built market share in our key markets. China still remaining in opportunity, as it were, and quite hopeful that we will turn that around. And on that note, I wish you a good year and see you next quarter, if not earlier than that. Thank you