Pandora

Transcript: Interim Financial Report for the second quarter/first six months 2021

Date & Time: 17 August 2021 at 11.00 CEST

John Bäckman: [00:00:00] Good morning everyone and welcome to the conference call for Pandora's Q2 results. I am John Bäckman from the Investor Relations team. I am here with our CEO Alexander Lacik, our CFO Anders Boyer and the rest of the IR team, Kristoffer Malmgren and Mikkel Johansen. There will be a Q&A session at the end of the call, as usual, please limit yourself to two questions at a time and get back into the queue if you have additional questions.

Slide 2, please

John Bäckman: [00:00:29] Please pay notice to the disclaimer on slide 2… And turn to slide 3. Alexander, please go ahead.

Alexander Lacik: [00:00:38] Thank you John and welcome everyone who are joining us in this call today. As you will have seen from our guidance upgrade, the strong momentum continued in the second quarter. In fact, a record revenue quarter for Pandora. We are moving from strength to strength. During the Pandemic we have stayed focused on rebuilding our company and invested for the long term. We have maintained a high marketing investment, continued to bring exciting product innovation, continued to invest in our digital capabilities as well as strengthening our organization. We have laid a very strong foundation for the new strategy – called Phoenix. We will review this new program in great detail in the upcoming virtual Capital Markets day on September 14. Let's now drill a bit deeper into the second quarter. As you will see in the presentation, we continue to discuss our performance versus 2019, as this represents a cleaner base-without impact from covid 19. In the second quarter, sell-out growth vs 2019 was plus 7%. We are very pleased with this result as yet again we confirm playing in positive comp territory. The strong performance in the US continued with unusually high market growth that I will come back to. In our key European markets we saw clear and sequential improvement when our stores started re-opening. The strong growth lifted our EBIT margin above 25% in the second quarter, demonstrating the operating leverage in our business model. All in all, a very strong quarter for the company given the external circumstances.

Now, let's move to slide four please.

Alexander Lacik: [00:02:23] As a consequence of the strong results and an updated full-year forecast, we upgraded our financial guidance for both organic growth and EBIT margin in 2021 on August 6. Organic growth is now expected to be in the 16-18% range, driven by better underlying performance and a revised forecast. This is equal to the 3-5% organic growth rate versus 2019. Anders will shortly give more perspective on our assumptions and corresponding numbers. EBIT margin is now expected to be in the range of 23-24%. This is driven by the higher expected growth rates turning into higher operating leverage. We are also continuing the distribution to our shareholders with a further 1 billion DKK over the next three months, split evenly between dividend and share buyback.

Let's move to slide six, please.

Anders Boyer: [00:03:21] Apologies for a busy chart, but it's important to dive a bit deeper into the varying country results and the drivers thereof. Generally speaking, though, the key driver of the variance continues to be how much covid 19 restricts our ability to operate the physical store network. Using the second quarter of 2019 as the comparison, this quarter we saw 7% sell-out growth, despite that around 15% of our stores were temporarily closed due to covid 19. In US, our largest market, we continued to very high growth of 63%. It's fair to say that a market that historically has grown low single digit has been unusually benefiting from the stimulus checks. In addition to this we have strong indications that Pandora has been building market share on top of this situation. We do expect that there will be a natural correction once the fiscal stimulus is removed. It is, however, unclear how this demand curve will be shaped. We continue to invest for strong growth in the US to ensure we have momentum over and above those market dynamics.

In China, we saw sequential improvement in the quarter, however, growth was still negative versus 2019. Please note that in Q3, China has been impacted both by typhoons, which caused flooding in parts of the country and new outbreaks of the Delta variant. This will be visible in the third quarter performance. In the second half of 2021 we will take the first significant steps in the transformation to reposition our brand. Timing obviously depends on the recent C19 development - it doesn't make much sense to invest heavily in media and marketing if there's little traffic in the stores. More on the opportunity in China to come at the Capital Markets Day.

UK, which is our second largest market, was up 1% versus 2019. Since the re-opening traffic started to return to stores and online performance continues to be strong.

In our key European markets, we experienced sequential improvements when stores started to open up again as restrictions eased.

Slide seven, please.

Alexander Lacik: [00:05:34] In May we launched Pandora Brilliance in U.K. It's our way into the diamond market. Brilliance is the first platform tested under the new Phoenix strategy with the objective to become a new sizable and important concept platform next to Moments.

We are roughly 100 days into the test launch and progressing well. We're gaining important insights that are critical to sharpen a potential global launch. A decision of this will be taken later in the year. We will share more details about brilliance at the CMD as well.

Next slide, please.

Alexander Lacik: [00:06:10] Let's have a look at our underlying performance. As said, we think 2019 is the best comparison base. There are two major and opposing factors at play here. First, there is no doubt that covid 19 continues to impact our performance. With the lockdown of stores dragging down revenue. Some of that is obviously recovered online. Furthermore, we can also notice a slower recovery in parts of the world where governments have been more restrictive with supporting people as well as businesses. Latin America as a region is one example. Secondly, the unusually strong US growth accelerated by stimulus packages. It is hard to pinpoint the net impact of those two factors. However, we are confident the underlying sell-out growth versus 2019 is positive in the second quarter.

Next slide, please.

Alexander Lacik: [00:07:02] The strong brand momentum is the driving force of revenue growth and EBIT margin expansion. This is no surprise to us as we continuously have kept our marketing investment at a very competitive level. Our continuous advancements in digital marketing, better advertising quality, more consistent and holistic communication both on and offline pays dividends. A global unaided awareness remains high and even increased the relative gap to competition. We maintain a leading position in 5 out of 7 key markets. In terms of our global share of search, around one third of the Google searches for branded jewellery is for Pandora, well ahead of competition. Net, we continue to stay top of mind as well as engage with our consumer base. I expect that competitors will start to reactivate their efforts as we start moving towards more stable conditions. There is no doubt that the investment we've made during the pandemic will continue to cement our leading position.

Next slide, please.

Alexander Lacik: [00:08:07] Looking back, we are extremely pleased with the accelerated efforts to build out not only our digital marketing efforts, but likewise our e-commerce business. In most countries our 'estore' is the largest portal to the brand.

Our digital results in Q2 are very encouraging. Online revenue made up a quarter of the total in Q2. Our online revenue more than doubled versus 2019. Comparing to Q2 of last year, online was down as expected as consumers returned to stores. We continue to focus on driving full price sales across all our trading channels. Less promotional activity drove down our online discounts by 6%-points compared to the Q2 of last year.

Finally, we're expanding our omni channel features where and when it makes sense due to C19. There's a very strong consumer interest in, for instance, click and collect in the US. That made up 13% of our online sales in the quarter. Digital plays a key role in our new strategy, both as a foundation for the strategy and as a growth driver. But more needs to come on the upcoming CMD.

Next slide, please.

Alexander Lacik: [00:09:20] I want to give an update on the situation of our staff and production in Thailand since the covid 19 outbreaks there have escalated during the last couple of months and government restrictions have increased. First of all, the health and safety of our employees comes first - always. To protect our employees and to mitigate the risk of disruptions in the supply chain, we have taken a broad range of precautionary measures. This includes regular pro-active testing of all employees. If a case is detected, there is immediate quarantine of close-contacts and separation, sealing and cleaning of the area where case is detected. Normally this procedure is conducted within 24 hours and then we're back up again. We're in very close dialog and cooperation with Thai authorities and we are closely monitoring our suppliers as well. We took a decision earlier this year to hire an additional 1000 people into the production. One of the key reason was that we wanted to increase our inventory position as an insurance policy against increased C19 impacts in Thailand. It's safe to say that this was a good decision, as we're now in a position where the guidance on the current circumstances is safeguarded.

Next slide, please.

Alexander Lacik: [00:10:37] We look forward to unfolding the Phoenix strategy at our online CMD on September 14. The Executive Leadership Team will then present how Pandora will drive long-term sustainable and profitable growth, building on a vast untapped opportunities within our existing business. We will be disclosing our financial targets at this time. We will make material available in advance on our website so you can digest it before the presentations begin. The CMD will be accessed via our website, where you can also find additional information ahead of the event.

I'll now hand over to Anders to go through the financials in more detail.

Anders Boyer: [00:11:19] Thank you, Alexander. And please go to Slide 14.

We are quite pleased with the financial performance in the second quarter and that's not just on the top line and EBIT, but also on KPIs such as the gross margin, cash conversion and leverage. And as you can see here to the left on this slide, our leverage was only 0.4x by the end of the second quarter and thereby actually below our capital structure policy range. And this obviously leave some room for future cash distribution to our shareholders. And I can't help pointing out the significant uplift in earnings per share, which you can see in the last row in the table. The fact that we have no more restructuring cost and at the same time grow the topline gives a pretty significant uplift in EPS. And we've not shown ROIC, or return on invested capital, on the slide here. But the improvement would also have been very visible in ROIC if we had put it on the slide up here. ROIC ended at 44% in the second quarter and significantly up versus the last few years.

So let's go to the next slide where I can explain a little bit more about the revenue development in the second quarter, slide 15.

Anders Boyer: [00:12:46] And let me start off by saying that we do know that the revenue development is not easy to understand, especially versus 2020. The impact of covid 19 here in the second quarter is significant and can be difficult to understand. We've provided quite some detail for the same reason in the bridges here, and in the company announcement. And we hope that you find it useful.

Allright. But in the middle of all of this covid 19 noise, the most important KPI is the number that we put in the green box. The plus 7% sell-out growth versus 2019. That's a number that confirms that the company is growing and it's growing versus a clean base in 19 where we didn't have any pandemic impact. And as you can also see in the bridge in the upper part of the slide versus 19, there's a 7% bucket called "normalisation of sell-in and other". And that bucket includes a few things, such as the commercial reset we did back in 19 as part of program NOW with the purpose of reducing wholesale inventory. And many of you probably recall that. But it also includes good performance in other points of sale as well as higher online freight income. And both of these last two items is not included in sell-out growth, but only included in organic growth the way that we calculate it. And I would like to stress that inventories in the wholesale channel are at healthy levels and we don't see any issues with old inventories or excess inventories going out of the quarter.

So that was the easy bridge, so to speak. But in the bridge below where we compare to the second quarter of 2020 is a little bit more complicated. And most of the building blocks in the bridge are hopefully quite straightforward, or you'll recall them back from our first quarter announcement. But there is another slightly more technical, tricky building block, which is also a consequence of the pandemic. And that's the 7% bucket that we call "Shift from online to other points of sale". And that bucket includes the effect of that the lower covid 19 impact this year leads to a shift of revenue from online, last year, which is included in sell-out, to other points of sale this year, which is not included in sell out. And normally when you have these shifts, that's not really an issue, but when you have, shocks to the system, so to speak, like in the second quarter last year, this become visible in the way that the KPIs are calculated. A little bit technical, but this should be the only quarter where we have this effect of the pandemic.

So if it goes to the next slide, please slide 16.

Anders Boyer: [00:16:00] Our second quarter EBIT margin was 25.2% and actually the highest second quarter level that we have delivered in three years. Contrary to the revenue bridges, I'm not going to spend much time on this slide.

And we'll actually go directly on to Slide 18 and the upgraded guidance.

Anders Boyer: [00:16:24] On Slide 18 and then subsequently on slide 19, we are bridging back from 2020 through the old guidance and into the new guidance. And this is mostly background information for modelling purposes and there shouldn't be any big surprises here. But there's a few things that we just want to call out. And the first thing is about the pandemic assumptions behind the guidance for for the rest of the year. And we assume that around 5% of the stores will be temporarily closed in the second half of the year. And that number is obviously associated with high uncertainty. But on the other hand, we need to make an assumption behind the guidance. And on August 6, when we upgraded the guidance, about 6% of the stores were closed. Today, it's around 8% of the stores that are closed as more stores are closed in, among others, China and Australia compared to August 6.

Another C19 assumption is that we expect no major disruptions, or assume no major disruptions in the supply chain in the back half of the year. You should also expect that China will remain a drag on group performance in the second half and that the third quarter will be impacted by the recent increases in covid 19 cases, as Alexander mentioned, as well as the flooding in July and the typhoons that we've also seen in China.

And then we have been encouraged to specifically write what the guidance leads to in terms of real money, not just percentages, but DKK Kroner. So we've added that here, as you can see in the last column. And the guidance that we have given is translating into a revenue of between 22 and 22.4 billion DKK Kroner for for the full year.

So if you go to the next slide, please, and the EBIT margin.

Anders Boyer: [00:18:34] As Alexander already mentioned, the higher EBIT margin guidance is driven by operating leverage. And I think the bridge here is quite self-explanatory. So I'll just mention two other smaller changes to the guidance which are mentioned on the slide here as well to the right. And that includes a slightly lower CAPEX and a few more store closures than what we guided previously. And these additional store closures should just be seen as "normal ongoing optimization of the network". But we want to make clear that this does not indicate any change in our overall network strategy. We still see ample white space around the world and ample opportunity to expand the network. And we'll talk more about that at the Capital Market Day.

Then a few more slides on the guidance and the slide, 20 and 21.

Anders Boyer: [00:19:34] We have looked at what our full-year guidance implies for the second half of 2021. And first on this slide, we look at the implied revenue growth. And the data that we are showing on this slide is versus 2019. And the guidance that we have made of versus 2020 of 16-18% organic growth corresponds to 3-5% when you look at it versus 2019. And that's the number you can see in the last black box in the upper part of the slide; plus 3-5% organic growth. And the implied organic growth for the second half is therefore between plus 2 and plus 5. And that's the box in the middle in the upper part of the graph. And then we break down that 2-5% implied second half growth in the lower part of the graph. And the way that we are thinking about the guidance is that it corresponds to an underlying sell-out growth of between 2-6% in the second half of the year. And that's the first black box to the left at the bottom of the slide. And that number confirms that we do believe that Pandora is back on a growth track.

Compared to the 2019 base, which is obviously clean of covid 19 impact, that 2-6% sell-out will be offset by the continued temporary store closures driven by the pandemic. And that's that -2 to -3 that you can see in the pink box. And then when you convert it from sell-out to organic growth, you should think about adding around 2points to growth, to the sell-out growth. And this includes, among others, that we were running the commercial reset back in 2019, which reduced sell-in to wholesale partners back then.

We have received quite a number of questions about whether the guidance is conservative. And just a few comments on on that question. As Alexander already said, we have already obviously put out the guidance there because we think it's a proper reflection of how 2021 could play out. There is a lot of uncertainty coming from the pandemic, and that is not just the direct effect from lock-downs, but also secondary effects such as shifts in how consumers are spending their money. But it should also be clear that if the US continues at the really high growth rate that we saw in the second quarter or just something close to that, then that would be an upside to the guidance that we have put out. But let's see how that plays out.

Next slide, please.

Anders Boyer: [00:22:42] For the EBIT, the guidance implies a 23-25% margin in the second half of the year. And as to cuts on that margin guidance, or implied margin guidance, that we would like to make. And first, comparing with the second half margin last year, and then looking at the margin development on a sequential basis versus the first half of the year.

We start out looking at the roughly 3 percentage points lower margin versus the second half of last year. Then the big drivers of that 3 points lower margin in our implied guidance. That's first of all, that we are starting this year in the second half, the investments related to the repositioning of the brand in China. And that will be a 150 basis points, 1.5 percentage points drag on the margin in the second half of the year. Additionally, there is a 2 percentage points drag from the higher silver prices in the second half compared to last year. And that silver price impact is partly offset by a favorable foreign exchange impact. So the net silver and foreign exchange impact in the second half of the year is around half a percentage point drag versus last year. So that's 1.5 Points from China, half a point from FX and silver, and combined a 2 point drag on the margin. And then the rest is smaller bits and pieces, but importantly including less or no government support. And you might remember from the numbers last year that we got a 110 million kroner in government support last year or roughly 1 point of government support looking back towards last year.

Then if you turn to look at the margin from a sequential point of view, then the margin pick up in the second half, which Pandora is usually seeing, is a bit lower in 2021 than in prior years. And the reason for that are twofold. First of all, it's due to that the strong US growth that we have seen in the first half of this year came at very limited incremental costs and lifted the margin in the first half of the year. And secondly, as I just mentioned, it's the investment that we are doing in the repositioning of the brand in China. There will be a drag on the margin here in Q3 and Q4 of this year. So another way to say it is that there's no underlying structural changes to the business model in the margins baked into this guidance.

Enough about the guidance last slide for me on the slide 22.

Anders Boyer: [00:25:52] And as Alexander already mentioned up front, we are continuing the cash distribution. During the last 3 months, we have paid out 1 billion DKK Kroner, evenly split between dividend and buybacks. And we still have ample liquidity and a very low leverage, and over the next 3 months, we will distribute another 1 billion DKK Kroner, also evenly split between dividend and buybacks. And assuming that the pandemic doesn't worsen, Pandora expects to continue a cash distribution also in the fourth quarter.

And with that, I'll hand it back to Alexander and slide 24.

Alexander Lacik: [00:26:33] Thank you, Anders.

So to summarize, our revenue was record strong for the quarter. Sell-out growth and EBIT, as Anders has just gone through in detail, was very strong. So we are extremely pleased with the performance, given the circumstances. We upgraded our financial guidance ahead of the results and we'll continue distributions to our shareholders. Phoenix, our new strategy, is in progress and there's more to come at the online CMD on September 14. And with those remarks, we're ready for the Q&A.

Operator, please go ahead.

Operator: [00:27:05] Thank you. If you'd like to ask a question, please dial zero one on your telephone keypads now. Once your name is announced, you can ask your question. You can dial zero two to cancel.

Our first question comes from the line of Fredrik Ivarsson of ABG. Please go ahead. Your line is open.

Fredrik Ivarsson, ABG: [00:27:27] Thank you very much. First question on the US sell-out growth up I guess 60 percent during the first 6 months versus 2019 levels. And I appreciate that it's a very difficult forecast to make, but it would be kind of helpful to understand your base case assumptions for the US market for the second half of the year.

Anders Boyer: [00:27:51] Thank you, Fredrik. Maybe I can start out there. I think we will not go into details on our expectations on the guidance per market. But obviously, I think it would be strange not to assume that there would be a slowdown in the second half of 2021 compared to the very high level that we've seen in the first half of the year. But I think the way to think about the guidance for the second half of the year is that it's likely that the US will still be above the average of the group. China will remain a drag, and then we'll see improved performance in the European markets.

Fredrik Ivarsson, ABG: [00:28:35] Ok, that's helpful. Thanks Anders. The second one on the sequential improvements in key European markets that you mentioned. Did that trend continue in Q3 or have you seen something else due to the delta variant for instance?

Anders Boyer: [00:28:52] We expect as the markets are opening up that we will see continued improvement in Europe. As you can see on some of the data that we have released this morning, in the key European markets we were at -6% sell-out versus 2019 in the second quarter with a third of the stores being closed. And I think, when we look at that number, it feels kind of good in the stomach to assume that hadn't we had a third of the stores being closed, those key European markets would probably have been in a plus.

Fredrik Ivarsson, ABG: [00:29:38] Thank you.

Operator: [00:29:41] Our next question comes from the line of Lars Topholm of Carnegie. Please go ahead. Your line is open.

Lars Topholm, Carnegie: [00:29:46] There's a couple of questions from me. One is on the reduced summersales, which you mentioned. So two questions in relation to that. I wonder if you can put some words on exactly how much it means in terms of absolute revenue reduction. And maybe you can comment if that particularly hit June. And what does that suggest about your growth in June?

And secondly, just in relation to your margin bridge, Anders. So in Q2 here, more full price sales dragged up the gross margin. And I couldn't see any impact from that in your margin bridge for the full year. Is that because you expect that second half year will have as much discounting as last year, or is it simply so small so you didn't factor it in?

And then a second question, because now, Alexander, you commented on current trading in China, finding out that floodings and typhoons etc. had hurt revenue. I just wonder if you can put some words on current trading in the US since it's so important for the overall business, but of course, also for growth for the rest of the year. Thanks.

Alexander Lacik: [00:31:21] So on the summersale, maybe, you know, we can come back with a specific detail. I can just provide some context because the end of season sale happens in different weeks across different markets. Some fall in June, some fall in July. But if just going back to 2019; our end of season. That kind of 4 week period which cuts across the 2 months, represented roughly 1/3 of the sales. Now it only represented 15%. So there's a dramatic reduction of the end of season sale, which obviously comes at the back of a much smarter management of our assortment, much better merch policies. So therefore, we simply have less, let's say, bad performing product to put on the summersale. But maybe John and the team can come back to you with a more specific answer on the absolutes, how it cuts across the months.

Lars Topholm, Carnegie: [00:32:21] But Alexander, maybe to make it easier, can you say something about what growth was in June? We know sell-out for the quarter was up 7% versus 2019, but according to this, I assume June was significantly lower, maybe even down. Is that correct?

Alexander Lacik: [00:32:37] Assume that June was pretty much in line with the quarter.

Lars Topholm, Carnegie: [00:32:43] OK, thanks.

Alexander Lacik: [00:32:46] And about the other questions, over to you Anders.

Anders Boyer: [00:32:48] Thanks Lars for the question. On a year over year basis, the lower discounts and summersale is supportive on the gross margin. And we have a little bit of wording of that in the company announcement where we talk about the gross margin. The reason we haven't put it into the EBIT margin bridge is that it was already in the original guidance that we assumed that there would be lower or more full price sellthrough this year. So when we compare it to the guidance. But on a year over year basis, it will be supportive of the of the margin. At least when we compare it to 2020, there are so many pluses and minuses. And last year we also had this extraordinary cost of the close down of the production in Q2 of last year that it kind of drowns in all of the other impact. But the way to think about it is that it will be supportive of the gross margin on a year over year basis that we are seeing less discounting. We expect to continue having less promotions in the second half of the year compared to 2020 and compared to 2019 for that matter. That's in the plan.

Lars Topholm, Carnegie: [00:34:17] And Anders, can you just remind me, what are the other mitigating factors in terms of gross margins in a situation where commodities are a drag?

Anders Boyer: [00:34:30] Are you thinking about specifically for the quarter, Lars?

Lars Topholm, Carnegie: [00:34:34] No, no. I just think going forward, I mean, now FX is a mitigating factor, more full-price sales is a mitigating factor. But as far as I remember, there are a couple of others.

Anders Boyer: [00:34:48] Yeah. If we think ahead for the gross margin then we have the silver price, which will be a drag going forward on the gross margin. It will be less so than if you look a few months back, the silver prices have dropped a bit, but will still be a drag going forward. So one way to think about it is that, just from memory, the first half gross margin is just below 76.8%. If we use that as a starting point, then on a run rate basis the silver prices will be 4.5 Dollars higher than that. We had 19 as the silver price hitting the PnL in the first half of the year. And right now, silver prices are 23.7. So that would be a 150 basis points run rate drag on the gross margin going forward.

And then foreign exchange, there will be a bit marginal support on the gross margin going forward. The type is lower than what we have seen in recent times, and that would be some 50 basis points support to the gross margin. So these two are external factors, commodities and FX, net there's a 100 basis point drag on the gross margin compared to the first half. And then the offsetting factors. There will be continued cost savings on COGS. We still see some opportunities on that as revenue grows, where there will be some leverage from the higher production volumes simply spreading out the cost of the set-up in Thailand across more units. And then there will be a bit of continued channel mix support. So net-net long answer, you should expect that the gross margin would be slightly down to flat on a run rate basis. That's the way I would think about it

Lars Topholm, Carnegie: [00:37:24] When the current commodity prices have full impact. That's correctly understood, rigth?

Anders Boyer: [00:37:28] Yes. Yeah.

Lars Topholm, Carnegie: [00:37:31] Fantastic. Thank you very much guys for answering my questions.

Operator: [00:37:36] Our next question comes from the line of Magnus Jensen of SEB. Please go ahead, your line is open.

Magnus Jensen, SEB: [00:37:45] Thank you for taking my questions. First on Pandora Brilliance. Maybe you could tell us how much of the marketing has actually been behind the launch in the U.K, and also on Brilliance, if you decide to launch outside of the U.K. Is it fair to assume that the US will be the first market to go into and then globally following?

And then secondly, on the stronger time for performance and other points of sale, you mentioned, I think it's a year ago or so now, that you will start doing a bit of a different approach to other point of sales and rollout into other types of point of sales. You haven't talked too much about that since. Is this something that is a result of that? I see that you are back with CHRIST in Germany, for instance. So great to have some flavor on why you're doing so well on the point of sales. Thank you.

Alexander Lacik: [00:38:42] I think we will not necessarily disclose our marketing figures for this initial period. We can delve in a little bit more into detail in the CMD. I hope you can appreciate that.

And then your second question on the other point of sale. I mean, of course, given covid, there's been some restrictions on how much you can do when when networks are opening and closing and potential partners are in or out of this. But we have made some moves. So in Germany, we have started to work with CHRIST, as you very well mentioned. But again, Germany has been closed to large portions since this corporation started up, and then we made some moves with El Corte Ingles in Spain, where we're gradually taking over their shop in shops and running them ourselves with very good results. Now, early days, this was two months ago. But that looks like it's working out nice. Other than that, there are no significant movements on that as yet. But it's more driven by covid than anything else, to be honest.

Magnus Jensen, SEB: [00:39:50] Just a follow up on the other point of sales, I mean, remember, that the former management was sort of careful not to be in too many other point of sales because of the products would not be sold in a branded environment. How does that add up with how you're thinking in terms of other point of sales?

Alexander Lacik: [00:40:10] I mean, it's like any sales channel. If you don't manage it well, then we shouldn't be there. But I think we're much more operationally clued in and we are very selective on the opportunities we go after. So there is an important insight with people that are new to the category. A lot of these people don't start by going into concept stores, ours or Swarovski's or any. They actually start their journey typically in multi-brand stores where there is a wider selection of brands as they try to kind of navigate to space. That's one of the key reasons why we think playing in some of those channels, where the execution is good, makes a lot of sense for the brand. So I think you just need to be clear on why you're there rather than just, you know, running for a revenue grab that never works in the long run, at least not in this type of business.

Magnus Jensen, SEB: [00:41:03] Ok, thank you so much.

Operator: [00:41:07] Our next question comes from the line of Erwan Rambourg of HSBC. Please go ahead. Your line is open.

Erwan Rambourg, HSBC: [00:41:15] Hi, good morning. I just wanted to follow up on two things. First, if you look at the US, we've seen deteriorating consumer confidence with cases being up sharply. I think you were very clear in the presentation that the US saw quite exceptional growth and that this would slow. Have you seen any negative inflection over the past few weeks with potentially consumer confidence or, you know, covid related stress putting a bit of pressure?

And then secondly, I noticed that when you gave the guidance for the year, you had fewer stores being shut than today. The fact that you have a bit more stores shut to that, does that change anything? Is there a risk that you need to to revise your assumption in terms of the average stores being shut in H2? Thank you.

Alexander Lacik: [00:42:08] On your first question, we have not seen anything, to be honest, but, its very recent that the uptick in Covid, as you also know, it's focused on a couple of states rather than a national issue, at least at this particular moment in time. So no, we haven't picked up anything on that consumer confidence point.

And then when it comes to network, like Anders said in his presentation, the change in the guidance is nothing that is structural in the sense that you should expect us to start closing a boatload of stores. It's probably going to be the other way around. Once you've passed the capital markets day, you realize how much whitespace we still believe that there is in pockets of the world. So I think that's really the explanation.

Erwan Rambourg, HSBC: [00:43:02] Excellent. Thanks a lot. Best of luck.

Operator: [00:43:08] Our next question comes from the line of Antoine Belge of Exane BNP Paribas. Please go ahead. Your line is open.

Antoine Belge, Exane BNP Paribas: [00:43:16] Yes, good morning, it's Antoine at Exane. Three questions. First of all, regarding Brilliance, from a qualitative standpoint, are there any interesting elements that you can mention in terms of consumer response, especially if you've done some surveys about how people think about higher price points for Pandora? The second question relates to online, which was down 16 percent versus last year. So in your new guidance, I mean, do you expect online to be online sales in Danish kroner to be down year on year? And, you know, and can you maybe tell us how much online sales could account in 2021? Obviously, the numbers would be down from the 29 percent we had last year. And certainly regarding Q2, you have mentioned some improvement in China. Is it possible to say, you know, what went a bit better in China in Q2? Thank you.

Alexander Lacik: [00:44:21] So on on Brilliance, as I you know, I just remind everybody, we're 100 days in, so it's a baby at this stage in terms of a launch. And I think the critical question we are asking - not just ourselves but the consumer is - does this value equation, which is very different from the traditional, you know, let's say, charms bracelet proposition, does it hold with our consumer base and, you know, 100 days in? I would say all good. You know, it doesn't seem to be a major, you know, restriction around this type of proposition. But again, it's three months in. So we've said to ourselves, and I think we've also been clear with the market, that we need at least six months to do a proper evaluation. Of course, we launched it in a relatively low period, let's say. And what we understand from the diamond sales is that it follows a similar curve to our own i.e. Q1, Q2 & Q3 kind of equal, and then the big volumes kick in in Q4. So but so far so good is probably what I would say. And of course, we have plenty of more data which we're happy to share with you in the CMD coming up. I'll answer the last question one and I'll leave the middle one to Anders. So the improvements in China in the quarter, what we did better in the quarter was we ran some of the media tests with pretty good results. We had a better participation with key local key opinion leader, which helped to kind of drive our numbers. And then we did a fantastic job on 6/18, which is one of the biggest trading activities in the calendar in a year. So I think we, you know, outdid all of our competition. So so we really did a good job in there. But we should still remember that that we were still in negative territory. So so I think we're kind of slowly, slowly finding the keys on how to unlock the China opportunity. And maybe I leave the modeling question to Anders online and in the back off.

Anders Boyer: [00:46:25] Yeah, the I think without being too specific on this breakdown of the guides, the way I would think about it is that the versus 19, if you think about that, the clearly online revenue will be up both in absolute terms and in in in percentage of total revenue versus 2020. It's a bit more tricky because you had the extreme Q2 of last year where revenue was... online revenue in the second quarter of last year was 52% of total revenue. But I think, think about online revenue for the full year of 21 as flattish versus last year where you had a significant peak in the second quarter of last year. But year over year, so give and take flattish. I think that's a good way to think about it.

Antoine Belge, Exane BNP Paribas: [00:47:22] Thank you. Maybe just a follow up on the subject of online, because the fact that online sales are moderating and shouldn't have an impact on the gross margin or it doesn't really matter because it's online moderated, it means that your own retail brick and mortar is also picking up. So my question is, in terms of channel mix, should we expect a negative impact from the moderation of online or not?

Anders Boyer: [00:47:58] You're right that the gross margin in the online channel is a touch lower than in the in the physical stores. It's higher than in our distribution channel and franchise channel, but lower in our own physical stores. And the difference that is, is simply freight cost, logistic cost. So that there will be a... I think we previously said that you could think about the difference in gross margin between our own physical stores and our online store as sort of mid single digit, maybe a little bit higher, lower in our online channels. So obviously that has has some impact on the consolidated gross margin going forward.

Antoine Belge, Exane BNP Paribas: [00:48:53] Thank you very much.

Operator: [00:48:56] Thank you. And our next question comes from the line of Miles Socha at WWD. Please go ahead. Your line is open.

Miles Socha, WWD: [00:49:04] Oh, thanks, two questions. Just quickly, what's wrong with the brand positioning in China, if you could elaborate a bit on that. And second, if you could identify any best selling styles, items, categories or themes in the US. Thank you.

Alexander Lacik: [00:49:20] On China, when the brand was launched, kind of with more "oomph" back in 15, I think, when we had bought back the business from the previous distributor there, it coincided with, you know, a larger push in Pandora to try to break out of just being a Moments platform and trying to be a full assortment jeweler. So that kind of, let's say, was emphasized across the rest of the world in terms of assets and what type of products were launched. That then was the program in which they took to the Chinese consumers. So the Chinese consumer today would kind of understand that we're a full assortment jeweler, but without any particular point of difference, contrary to if you travel around the globe and speak to consumers pretty much in every other country, and you talk about Pandora, everybody's very clear on this Moments platform and the idea around what the charms and bracelet combination does. We don't see that same level of depth of understanding in China. So that's really the cardinal point. And what's important to to mention here, as well as we've done plenty of research, both qual and quant in China to verify that this positioning indeed is both, you know, relevant as well as unique, and that comes through in every piece of research we do. So the job here is to convey the, let's say, the core foundational message of Pandora in China as well as we do in every other country. So that's kind of the plan of action. Then on your second question, I will probably have to come back with that specific answer. But in general, what's driving the business in the US is the moments platform. That's kind of the engine that needs to hum, and it is so, but then, you know, we can drill into that maybe in a follow up call.

Miles Socha, WWD: [00:51:19] Great, thank you.

Operator: [00:51:23] Thank you. Next question comes from the line of Klaus Kehl of Nykredit. Please go ahead. Your line is open.

Klaus Kehl, Nykredit: [00:51:32] Yes, hello. You have a couple of times highlighted that China could take a hit here in Q3 due to flooding and typhoons, et cetera. But could you try to help us a little bit and try to quantify the impact for the quarter and what you're seeing right now? And secondly, also, could you talk a little bit about what's going on in Australia right now? Because I think we're seeing some new lockdowns in Q3 and also in the Melbourne. And as far as I remember, you have actually one store in Melbourne that is selling like crazy. So that could also potentially impact you in Q3. So any comments would be useful. Thank you.

Anders Boyer: [00:52:20] The reason we call - this is Anders, thank you for the question Klaus - the reason we call out the impact in China of the flooding typhoon and covid-19 increase, obviously, is that China is strategically important for us and for you and investors as well. So we would like to be specific about that sort of triangulation of three hits in one quarter: Typhoon plotting and pandemic, which has been taking really serious also by the Chinese authorities that will have an impact, but, of course, if it had been, sort of, a question of one or two points and one of the other way around, we would not have called it out. But it's visible in the numbers so far in in Q3 and then will see how it plays out and how the society and their pandemic develops in the in the weeks to come. But I would be hesitant to put a number on it and is not based out of unwillingness, but simply, how long are the restrictions lasting in China and how is the pandemic development? Nobody knows.

Alexander Lacik: [00:53:38] Some additional color on that. The difference with the pandemic this time around in China is that it seems to go city by city versus last year, if you recall, then literally the whole country shut in the month of Feb. So, you know, from start to stop, then it took something like six weeks to recover. So now the big, you know, view here is, you know, does the city recover in the four to six week span? And then how many cities are hit? That's why it's a very fluid situation. So it's kind of difficult to actually answer. Australia, the stores actually remain open, but people are, you know, asked to stay home, which, you know, you just read the newspapers. So there is there is a certain impact in the Australian business. But likewise, they seem to be, you know, very vigilant at the moment. If there is just, you know, just a smell of the covid then they go on lockdown. But it also seems like they then open up reasonably quick. So, again, it's quite difficult to to to gauge versus last year was more like the whole country's closed and then took a long time to to reopen. Now it seems to close quicker and then it needs to reopen a little bit quicker. So the impact on the numbers so far, I think should be covered within the guidance that we've provided.

Klaus Kehl, Nykredit: [00:54:57] Ok, great. Thank you.

Operator: [00:55:00] Thank you. Just as a reminder, if you do wish to ask a question, please dial zero one on your telephone keypad now. Currently, we have one further question in the queue. That's from the line of Piral Dadhania, RBC Capital Markets. Please go ahead. Your line is open.

Piral Dadhania, RBC Capital Markets: [00:55:16] Yeah, hi, morning, thank you for taking my questions. I apologize has been asked already, but are you willing to provide any insight as to how July and August is trading relative to the plus 7 you posted for Q2? Secondly, just on new product introductions in the second half of the year, could you provide us with any highlights as to... any big new products that we can expect to see? And are there any risk factors related to the delivery of those launches, just given some of the supply chain disruption and uncertainty in the back half of the year? And then finally, just on customer insights, obviously with reopenings in Europe, strength in the US, is there anything you've learned in the second quarter in relation to consumer trends which may have changed relative to the previous few quarters? You know, are consumers behaving differently when they come into stores... anything around KPI's on retail would be helpful as well. Thank you.

Alexander Lacik: [00:56:18] I'll pick off the last two and then I'll leave the Q3 question to Anders. So in terms of major initiatives in the back half, it's Pandora Me, which I think we detailed briefly in the May announcement. I know that the focus ended up being a lot on Brilliance, because that was kind of happening there and then but that's a major, major push on another attempt to create a new platform for the company. In terms of supply chain, as I mentioned before, we have no disruptions that will affect the guidance as it stands today. We're putting a lot of efforts to to safeguard this. We've increased inventory position, as I mentioned as well. We hired another thousand people in the quarter. So we do not foresee any disruptions, unless of course we get something which is completely unexpected. But right now, there is no view on that. Then in terms of customer insights, there is really nothing major that we're picking up. I think we've spoken about this in the past. Of course, when the shops were closed, people moved on. A lot of people migrated online. When the shops reopen, they migrate back to the stores. So we see this happening pretty much everywhere. And within that, we probably see that we used to have a lot more browsers coming into the stores without necessarily purchasing anything. Today, we see conversion rates are significantly higher, obviously on a slightly lower traffic volume, which suggests that there's a lot less browsing, at least entering the store. How many people are browsing the windows? We don't have counters on the outside, so that that's very difficult to gauge. But of course, there are limitations to how many people we can bring inside the store due to covid restrictions. If you're a browser and there's a queue outside, likelihood is that you move on somewhere else. So I think those are probably the two only major, you know, things we have picked up so far and maybe that's going to be more in the future. But that's what we have so far. And maybe to you, Anders, on the first question.

Anders Boyer: [00:58:30] Thank you, Piral on your the first question about July trading. But we're not sort of comment on current trading. But obviously, when we put out the guidance on August 6th, everything that happened all the way up until August 6th is reflected in the guidance. And as when we went through the guidance and the implied growth in the second half of the year, then you could see that the guidance assumes that we will remain and continue to be on a on a growth track, positive sell out growth, underlying sales growth of between plus two and six in the second half of the year. And that's a reflection of also what we have seen up until when we made the guidance.

Piral Dadhania, RBC Capital Markets: [00:59:18] Ok, that's great, thank you. Just coming back to the sort of customer insights point that Alexander referred to, if we think take the US market as a lead indicator, is it fair to assume that the relationship between your store network, like for likes and online is similar to what's happening at the group level? Or is it more pronounced in that the online deceleration is more aggressive just because more of the US is open in terms of the store network?

Alexander Lacik: [00:59:50] Let's see what the numeric answer to that is, the only complication there, I think, is that the US with this abnormal market growth, might not necessarily be representative, but I probably have to come back. I don't know exactly top of my head to answer your question. Maybe we can come back separately on that.

Piral Dadhania, RBC Capital Markets : [01:00:10] Sure. That’s fine. Thank you very much. And just one other follow up. If I could quickly just squeeze it in. Supply chain very clear on what you’re seeing, which is nothing at the moment. Could you just give us an indication of whether you’re having... how much of your product, you know, what the balance between air freight and sea freight is? Are you having to put more products on on planes to get into the US., just given some of the tightness in the container availability and freight costs?

Alexander Lacik: [01:00:37] Generally speaking, we don’t sea freight. We essentially air freight, pretty much everything.

Piral Dadhania, RBC Capital Markets: [01:00:44] Okay. Brilliant, thank you very much.

Alexander Lacik: [01:00:45] Not this container issue is, fortunately enough, is not a limitation for us.

Piral Dadhania, RBC Capital Markets: [01:00:52] That’s great. Thank you.

Operator: [01:00:55] And we just have a few more questions come through. The first is from the line of Thomas Chauvet of Citi. Please go ahead. Your line is open.

Thomas Chauvet, Citi: [01:01:04] Good morning. Thank you. Firstly, coming back to Pandora Brilliance, can you reconfirm that the US would be logically the next market roll out, and how quickly, can you scale these DVs in the US and globally ahead of the fourth quarter? And just on Brilliance also, is Brilliance included your upgraded revenue guidance? I see it had a three percent contribution to UK sales in the quarter. Would you expect that penetration in other markets in H2 to be broadly similar, or even slightly higher, given the Christmas period? And secondly, on China, you're talking about the first steps in the transformation in H2 21. Can you just elaborate a little bit on some of these first initiatives? And Alexander, did you say you will not step up marketing in China in Q3 because of the concerns on the weaker traffic from the typhoon and the new lockdowns? Thank you.

Alexander Lacik: [01:02:00] Ok, so Brilliance, I think we have never spoken about any roll out countries. So I cannot confirm something which we have never actually stated. We may cover some of that in the CMD. But as I said, the decision to go for a global rollout will be taken a little bit later in the year when we have more months under the belt. Then on the assumptions on penetration, I mean, this is way too early to comment on to be perfectly honest with you. As I say, we need to see through to the UK launch, draw the learnings and from there start the modeling. And then the specifics on China in the back half. So I take your last question first, on you know, initially we planned to kind of kick off this additional investment a little bit earlier. But of course, when shops are closed, then it doesn't make an awful lot of sense. So, that will probably be pushed out a little bit. But, you know, we're ready to go. We have our assets. We have... the plan is kind of there, but we just need to wait for the situation in China to stabilize a bit before we push the button. And specifically what we're doing is going to be an increased investment in media. As you know, we're developing new assets in terms of advertising. We're kind of reworking the sales narrative for our sales staff in the stores. And then finally, we are increasing the cooperation with, you know, specific key opinion leaders. Those are, you know, the more tangible things. Then there's a boatload of other things as well, which we can cover maybe in ACMD. But that's, kind of, it's a marketing push if you kind of try to find a headline for it, which is now a little bit... we're waiting for the situation to clear up in China. That's it.

Thomas Chauvet, Citi: [01:03:56] Good. Thank you, Alexander. And just so to clarify, Brilliance is included, at least for the UK in your upgraded revenue guidance for the second half?

Anders Boyer: [01:04:05] Hi Thomas. Yes, it is included. But given that it's one market only. It's bits and pieces.

Thomas Chauvet, Citi: [01:04:14] Only one market?

Anders Boyer: [01:04:16] Yeah. It's bits and pieces

Thomas Chauvet, Citi: [01:04:16] Yeah. It's tiny. OK, thank you. Thank you very much.

Operator: [01:04:21] Thank you. Our next question comes from the line of Louise Singlehurst at Goldman Sachs. Please go ahead. Your line is open.

Louise Singlehurst, Goldman Sachs: [01:04:29] Hey, morning, everyone. Thank you very much. I'm just a follow up for me, if I could, please, on channel distribution. You talked about the store closures, I just wonder whether it's a message about a bit more shift toward the online and the housekeeping in terms of some of the low store or densities in some of the underperforming stores, or is this more of a shift in terms of regional mix? I know, Alexander did pick up on the fact you talked about the white space in the presentation, in terms of some of the (inaudible) I'm sure we'll hear more about that in September. But just thinking about the longer term channel mix online. Is there any change in US history? Thank you.

Alexander Lacik: [01:05:08] No. Hi. As I said, you should not read into this any structural change to the network. It's, you know, bits and bobs, store here, a store there. There are a couple of stores in China which are being relocated, and it's just a gap between... because when I shut the store between then it reopen somewhere else, it's just a phasing thing. So please, please, please do not read into the guidance any structural change to our network strategy.

Louise Singlehurst, Goldman Sachs: [01:05:37] Great, thank you for clarifying. Thanks.

Operator: [01:05:41] Thank you. Our next question comes from the line of Elena Mariani from Morgan Stanley. Please go ahead. Your line is open.

Elena Mariani, Morgan Stanley: [01:05:47] Hi, good morning. Just two very small questions for me, which I've got left on my list. So the first one is on management changes. So I've seen that recently, Luciano Rodembusch joined Pandora to lead the US market. Can you comment on why do you think he's the right person to manage the brand there and whether you have completed the internal management changes across the different countries or the different functions? Maybe there were also other changes recently that were not disclosed. So can you comment a little bit on where you stand in terms of having the right talent across the group? And then a second question, a very simple one. What should we expect from your Capital Markets Day? Are you going to provide a five year guidance for top line and margins? So what do you expect to disclose and how should we expect the day to progress? Thank you.

Alexander Lacik: [01:06:50] So there are three questions in that, so let me kick it off. So, when it comes to Luciano in North America, I mean, why is he the right guy or the right talent for us?

First of all, he's got an extensive Blue-Chip background and he's got international background. So he kind of understands retailing at a wider scale. And not least he's been very successful in the last few years, heading up the Tiffany business in the US. So I think there you have three very, very strong components why he will be a good addition to Pandora. I will not comment on whether, you know, we make other changes or not. There's obviously a continuous job when you have 30000 employees to upgrade the bench. That's kind of ongoing work, which we've been doing since since I came here so that, you know. But over time, of course, we're getting stronger and stronger. I look around and I think we are now, you know, managing to attract world class talent across all the key functions in the company. So I think we sit there with a team that is very, very strong. And, and then I think you, what was the... in terms of structural organizational changes right now, I don't foresee anything. We did a big, big reset last year. I think the structure is proving to be very effective so that's probably, you know, in a good place. Now, there can be small adjustments as we go, but the framework is in shape. And then maybe I'll hand it over to Anders for the CMD question.

Anders Boyer: [01:08:33] Hi, Elena. It's Anders here. On the CMD you should expect... it's a virtual event only. Unfortunately, we had rented a fun space in London, but we'll have to save that for all the time. So that four hour online event only, we will go through all of the value chain, all of the Phoenix strategy elements. So you should expect to see, the executive leadership team on on stage virtually, and from one end to the other. And then on the the length of the target... I think five years is a bloody long time horizon in a business like this. Sorry for the language. But obviously, we won't talk about numbers beyond the current guidance and a little bit out, but five years feels quite too long. We are in the early part of the the Phoenix strategy with a lot of growth opportunities that we are working on in parallel. And we would like to see how that plays out before looking that far out in the future.

Elena Mariani, Morgan Stanley: [01:09:49] Ok, understood. Thank you very much, looking forward to the event.

Operator: [01:09:55] Thank you. And we have one final question in the queue, that's from Lars Topholm at Carnegie. Please go ahead. Your line is open.

Lars Topholm, Carnegie: [01:10:03] Yes, just to follow up on store acquisitions in the US, because I can see from note 8 to the Q2 report that in the quarter you've bought 22 concept stores for a consideration of 14 million. And then in July, you bought another 7 but paid 52 million. So I just wonder if you can come up with some indications, how do you actually put a value on these? And the reason why this very significant difference in purchase price. I would assume it's because the seven stores performed better than the 22. Will this have any implications for organic growth in the US in Q3? Thanks.

Anders Boyer: [01:10:52] It's a good, good catch, Lars. A very big difference by store on those two different pieces of forward integration. There's a couple of comments there. One is that the starting point is when when an agreement expires, then in many jurisdictions around the world, Pandora will be able to take over the store without any payment of goodwill. Then we will be paying for inventories and fixtures, et cetera. But there are a few exceptions to that sort of starting point, either due to local legislation of how to deal with the franchise, franchisee/franchisor relationship or because of legacy agreements that that's in place. And the difference between the takeovers that are in notes here... is a reflection of that there are certain agreements in place where there's agreement on a specific purchase price that has been put in place in the past. So that that's why on one of them, the per store purchase price is quite high.

Lars Topholm, Carnegie: [01:12:18] And what happened to the inventory in those 22 stores? Because you didn't pay for that, according to the note?

Anders Boyer: [01:12:26] Yeah, I think it's saying they'll be looking at the exact, what is called, purchase price allocation. So we are taking all the inventory. We would prefer not to have that floating around when we take over a store. So the 14 million kroner includes that we're taking over the inventory. On the... and the way that it actually works, I think if you go back in the past, and you'll remember that definitely, all forward integration would count not in organic growth, but only towards total growth, a local currency growth. Going forward, there will be a split that to the extent that we do not pay any goodwill and only pay for inventories and fixtures, then it counts as organic growth. But to the extent that goodwill is being paid, it does not count in organic growth.

Lars Topholm, Carnegie: [01:13:28] Fantastic, thanks on this.

Operator: [01:13:32] Thank you. And as there are no further questions, I'll hand back to our speakers for the closing comments.

Alexander Lacik: [01:13:44] Ok, so first of all, thank you for spending time with us today as as we opened up today, we said that we've had a strong quarter with us. We think that there's a good underlying growth, of course, propelled by this situation in the US, which we believe is going to normalize. But on top of that, we are having a good momentum there. We believe that kind of the reopening in Europe is moving from strength to strength. So, you know that's kind of where we stand today. And I think on that note, we will close the call. Thank you very much.