# Q3 2021 – AIDE MEMOIRE

Pandora Investor Relations

## Guidance

### Revenue

Full-year guidance: Pandora upgraded its guidance 6 August 2021. Organic growth was upgraded to 16-18% (vs 2019: 3-5%) from previously above 12% (vs 2019: above 0%). Implied H2 guidance is 2-5% organic growth vs 2019, which equal to roughly 2-5% organic growth vs 2020 as well. The guidance upgrade was driven by strong Q2 performance and an updated full year forecast.

Assumptions behind the full-year guidance

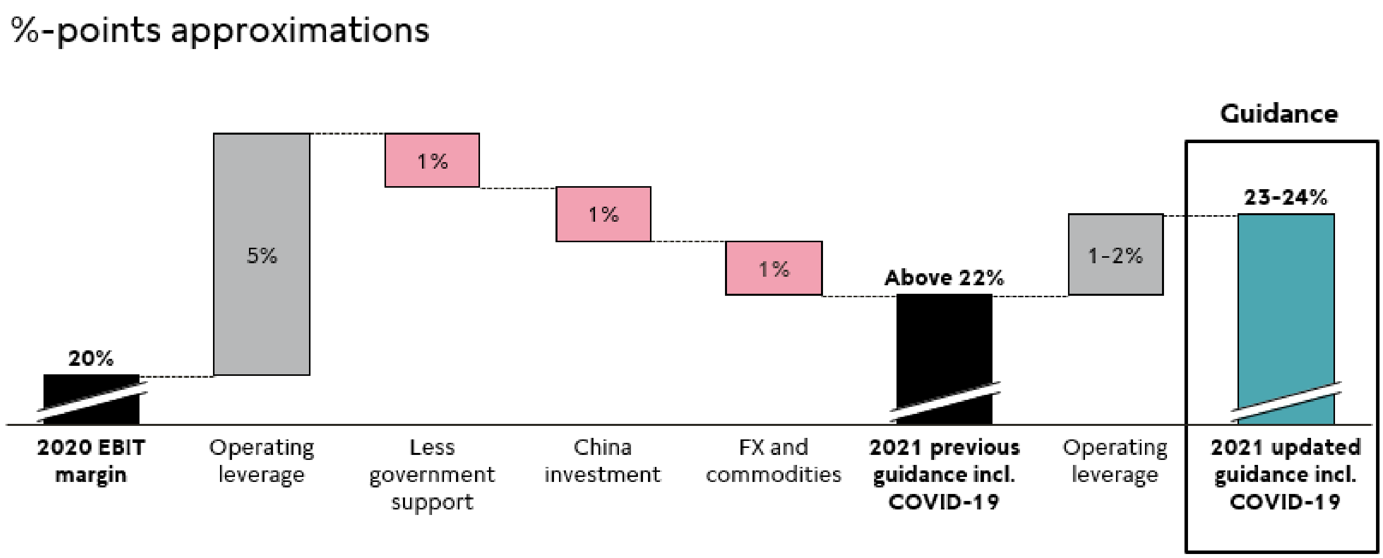
- 5% of the stores will be temporarily closed due to COVID-19 in the second half of 2021.
- Full-year negative revenue impact of -6% from COVID-19 as a net result of temporarily closed stores and partial online pickup of lost revenue.
- No major negative impact on production or supply chain from COVID-19.
- The unusual growth seen in US in H1 2021 will ease off in the second half of 2021.
- China will remain a drag on total revenue growth in 2021
- Forward integration expected to add around 1% revenue in 2021.
- Headwind from foreign exchange rates of approximately -1% taking total revenue to between DKK 22.0-22.4 billion in 2021.

Quotes on the 2021 revenue guidance upgrade:

- *"We have received quite a number of questions about whether the guidance is conservative. [...] 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."*

**EBIT margin**

Full-year guidance: EBIT margin guidance was upgraded 6 August to 23-24%% from previously above 22%, as a result of operating leverage from the revised revenue guidance. Implied H2 guidance is 23-25% EBIT margin. The guidance assume that Pandora will invest DKK 0.2 billion in the second half in repositioning the brand in China. Due to COVID-19 outbreaks, extreme weather and a less favourable retail environment, the investment is limited in Q3.




Quotes on the 2021 profitability guidance upgrade:

- *"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 [...] 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."*

**Other guidance parameters**

- CAPEX guidance for the year for the year was updated and Pandora now expects CAPEX to be around DKK 1.0 billion (previously DKK 1.0-1.2 billion)
- Additionally, Pandora expects 25-50 concept store closures compared to previous expectation of no major changes to the overall concept store network

**Quotes on the Q2 2021 performance**

- *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… 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.*
- *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.*
- *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.*

## New strategy Phoenix

**2023 financial targets**

- Pandora presented its new strategy, Phoenix, at the Capital Markets Day 14 September. Pandora also presented new financial targets towards 2023. The financial targets are built using the financial guidance of 2021 as the baseline.
- 2023 financial targets:
  - Organic growth CAGR 2021-2023 of 5-7%. (baseline of 2021 guidance)
  - EBIT margin expansion towards 25-27% in 2023.
  - The targets assume no COVID-19 impact in either 2022 or 2023 and furthermore it assume an immaterial net impact of COVID-19 on the one hand and unusually strong US performance in 2021 driven by stimulus packages on the other
  - EPS CAGR potential in the high teens during 2021-2023
- More details about the 2023 targets can be found in the *Financial appendix* cf. Company announcement no. 651 and in the Capital Markets Day presentation.

**New decarbonisation targets and inclusion & diversity strategy**

- Pandora announced new ambitious decarbonisation targets and an inclusion and diversity strategy on 14 September. Pandora commits to:

- Reduce greenhouse gas emissions by 50% across own operations and value chain by 2030 from a 2019 baseline. The target has been approved by the Science Based Targets initiative. Pandora also commits to become net zero by 2040
- i) Ensure gender balance in all hiring and promotions. ii) Have 1/3 women in leadership (VP level and above) by 2025 and full gender parity no later than 2030. iii) Spend 30% of branding content budget with suppliers owned by women or underrepresented groups

- More details about Pandora's decarbonisation targets, see the press release from 14 September.

**Cash distribution**

- At the Capital Markets Day 14 September, Pandora announced an increase of the ongoing DKK 500 million share buyback programme announced on 17 August. Under the revised programme, Pandora will buy back shares for an aggregate maximum amount of DKK 3.5 billion. The revised programme is to be concluded no later than 4 February 2022. In total, this brings planned share buybacks to DKK 4 billion in the period from 5 May 2021 to 4 February 2022.
- A DKK 5 extraordinary dividend was distributed on 31 August and Pandora intends to, all else equal, distribute another DKK 5 dividend in the final quarter of 2021.

**Quote on cash distribution:**

- *"After completing a successful turnaround, Pandora is now firmly back on the growth track. We remain a highly cash generative business, and because our leverage is also at the very low end of our capital structure policy, we have decided to increase cash distribution to our shareholders."*

## Performance KPI's

2020 was heavily distorted by COVID-19, which is why the performance vs 2020 need to be interpreted with care. Development vs 2019 is a better performance measure (although performance vs 2019 is also impacted by COVID-19)

**Q2 2021 sell-out growth vs organic growth:**

- The impact from COVID-19 was clearly visible in the Q2 2021 performance, as Organic growth ended at 84% vs 2020 and sell-out growth ended at 62% vs 2020 coming from different factors:

- Revenue moving from channels (online) included in sell-out growth to channels not included in sell-out growth (other points of sale)
- Calendar difference between Gregorian calendar (used for organic growth) and the 4-4-5 retail calendar (used for sell-out)
- Low sell-in in Q2 2020 due to COVID-19
- Phasing of shipments from Q1 to Q2

**Q3 2021 sell-out growth (vs 2020) vs organic growth (vs 2020):**

- Q3 2020 was also impacted by lockdowns, restrictions, and high market uncertainty from COVID-19. Pandora therefore also expect that organic growth 2020 in Q3 2021 vs 2020 will be above sell-out growth vs 2020 due to among others:
  - Channel shift to non-SOG channels
  - Low sell-in in Q3 2020 due to COVID-19

Note that the definition of sell-out growth excludes performance from multibrand and Shop-in-shop stores . For KPI definitions, please see the end of the Q1 2021 Aide Memoire.

## Other topics

- At 24 USD/ounce silver price level (1 September price), a negative commodity impact of 0.8pp to the gross margin and EBIT margin is expected in 2022, compared to the guidance for 2021.
- The impact of COVID-19 in 2020 has resulted in markets performing inconsistently across the year with large swings in performance as markets went into and out of lockdowns. As such, some key markets might turn temporarily negative in the second half of 2021.

**Notes**

- Pandora will enter a silent period on 2 October 2021.
- Our Interim Financial Report for Q3 2021 will be released 3 November 2021.
- Video replay and presentations material from the Capital Markets Day hosted on 14 September is available on the website.
- Collection of Pandora's pre-Q3 consensus will begin early October.