Pandora

Transcript: Interim Financial Report for the first quarter 2021

Date & Time: 04 May 2021 at 11.00 CEST

[00:00:00] Operator

Welcome to the Pandora Interim Financial Report. For the first part of this extended call, all participants will be in listen-only mode and afterwards there will be a question-and-answer session. Today I am pleased to present Head of Investor relations, John Bäckman, please begin.

[00:00:24] John Bäckman

Good morning everyone and welcome to the extended conference call for Pandora's Q1 results and the announcement of our new strategy. 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.

Slide 2, please.

Please pay notice to the disclaimer on slide 2. Alexander, please go ahead.

[00:00:50] Alexander Lacik

Thank you John and welcome everyone who are joining us in this extended call today. Today's call will be split in two parts. First, we go through the Q1 results and there will be a 30 minute Q&A session for that part. So please limit yourself to one question at a time – and get back into the queue if you have additional questions

Then, in the second part, we present the new strategy and there will be a Q&A session following that as well.

Next slide, please.

Go to the following slide.

[00:01:24] Alexander Lacik

Today is a big day for us as we release our new strategy, Phoenix, a new chapter of sustainable and profitable growth for Pandora. The turnaround has been successfully completed, the top-line has been stabilized and we have a much stronger organisation. We are now ready to share the highlights of our new strategy, which will lead Pandora into a chapter of sustainable and profitable growth. But more on that later, let's first start with the Q1 numbers.

As already announced in the March Trading update, we have had a strong start to 21, with a continued strong momentum.

Our strong Online growth continued and was up over 200% vs. 2019.

The US growth was very strong, up more than 50% vs. 2019

Overall sell-out growth in the Quarter was only down 5% vs. 19, despite that 30% of the stores were closed in the quarter. We are pleased with the start of the year.

Next slide, please.

[00:02:30] Alexander Lacik

On top of announcing the new strategy today, we have 3 other important announcements to make:

First of all, based on the strong performance so far, and our expectations for the rest of the year, we upgrade our guidance for the year to now expect Organic growth above 12% and EBIT margin above 22%.

Secondly, we also re-initiate cash distributions to the shareholders by doing a combination of extraordinary dividend and share buybacks.

And finally, today, our new sustainability report is also released, where we disclose strong results achieved so far and our ambitious goals for the future.

Slide 7, please.

[00:03:17] Alexander Lacik

Our underlying performance is best viewed vs 2019 when there was no impact from COVID-

19.

Using Q1 19 as the comparison, in Q1 21 we saw solid performance across most key markets despite lockdowns.

UK, which is our second largest market, was only down 16% vs 2019 despite all the stores being closed in Quarter. Our stores in the UK are now fully opened again.

The performance in our largest market, US, really stands out, with sell-out growth 52% higher than the same quarter in 2019. Australia, which was almost fully opened, also delivered positive growth vs 19.

As expected, China is still underperforming in Quarter. We are now getting ready to take the first and significant steps in the China transformation and increase our investments to strengthen and reposition our brand and reduce promotions during the second half of the year.

Next slide, please.

[00:04:28] Alexander Lacik

As said already, we think our underlying performance is best viewed vs 19.

The sell-out growth of -5% vs. 19 is impacted by opposing factors. We talked about these in Q4 as well and they are still all very relevant.

Firstly, lost revenue from closed stores which is partly offset by revenue picked up online instead.

Secondly, as we have talked about before, a shift in general consumer demand away from travelling and services for instance and towards among others gifting and jewellery. In the US, this has been fuelled further by the stimulus packages.

Net net and trying to cut through all of this noise, our assessment is that the underlying Q1 performance confirms that this top-line is stabilizing

Next slide, please.

[00:05:21] Alexander Lacik

It is clear that we are maintaining our industry-leading brand position, however, with lockdowns and closed stores, we have adjusted the spend pattern more towards digital, especially in markets where physical retail has been closed – so, little bit less of top funnel spending which impacts the unaided brand awareness.

More than one third of all Google searches for branded jewellery globally was for Pandora in the Quarter, while the two closest competitors had around 10% share of searches.

On global unaided brand awareness, we were number one in 5 out of 7 key markets in the Quarter, and ranked second highest in the US.
Let's have a look at our digital results in Q1
Next slide, please.

[00:06:02] Alexander Lacik

Let's have a look at our digital results in Q1.

Online growth continued and revenue more than doubled vs 2020 and was up over 200% versus 2019.

Our online conversion rate was up over 80% year-on-year, and the conversion improved for most of the steps during the customer acquisition funnel – from traffic to sales.

The Click & Collect concept in the US continued the strong traction, and made up around 10% of online sales in US in the quarter.

Digital plays a key role in our new strategy that we will cover later in this call, both as foundation for the strategy and as a growth driver.

Next slide, please.

[00:06:02] Alexander Lacik

Today, we launched our new sustainability report, with increased disclosure.

Sustainability is close to our heart and we are working towards becoming low-carbon.

circular and inclusive business.

In 2020, we lowered our CO2 footprint and switched to 100% renewable energy in our manufacturing facilities in Thailand.

We are supporting a circular economy and have established a roadmap towards achieving our target of using only recycled silver and gold by 2025.

Our recent refinancing also links part of our borrowing costs to our sustainability goals to be carbon neutral and use recycled metals only by 2025. It integrates sustainability into our capital structure and creates a transparent further incentive for us to reach our goals.

I will now hand over to Anders to take us through the financial performance. Anders, please go ahead.

[00:07:46] Anders Boyer
Thank you, Alexander.

Let's go to slide 13 where we can have a short look at the financial performance in first quarter.

As Alexander already said, the first quarter performance was strong given that 30% of the stores were closed.

The EBIT margin was up 5 points, 5 percentage points, compared to last year, and mainly driven by the robust operating leverage that we see in our business.

In the Q4 announcement from back in February, we said that the cash conversion in the quarter would be affected by both a large reduction in payables as well as a deliberate increase in our inventories. And as you can see on the cash conversion here, that is quite visible in that KPI in the quarter.

But despite this negative cash conversion, the new working capital continues to be very low and was still negative by the end of the first quarter.

And then I would just mention that the significant increase in earnings per share thatyou can see in the last row of the table here – and just noting that earnings per share is obviously also supported by the fact that we have no restructuring costs now that Programme NOW is behind us.

And go to the next slide, 14, please.

[00:09:08] Anders Boyer

On the revenue development here on slide 14, we have provided both a bridge vs 19 and vs 20. And I know it's quite a lot of data but we hope it's useful for you.

I think the bridges are mostly self-explanatory so I wont go through them. But there is one unusual building block in the bridge vs 2020 in the lower part of the slide here, and that's the negative, 6% negative, impact from calendar shift, as we have called it. And it's somewhat technical, but it relates to the fact that different calendars are used for sell-out growth and organic growth.

And the organic growth is calculated on the calendar month, obviously, I would say. But sell-out is based on weeks and the so-called 4-4-5 retail calendar. And sell-out in Q1 therefore covers weeks 1-13, which is Jan 4 to April 4 of 21. And that means that the sell-out KPI includes 4 trading days in April, where we are comping very limited revenue in 2020 and therefore sell-out ends up higher than organic growth. And that is pure timing of course, and we will see the reverse effect in the second quarter.

So next slide, please.

[00:10:37] Anders Boyer

The only thing I want to say about the EBIT margin is that we are pleased with the performance and that we are pleased to see the positive operating leverage in the quarter when revenue goes up.

The rest should be quite self-explanatory, so in order to move us forward to the Q&A, I suggest that we go to slide 17 and the guidance.

[00:11:00] Anders Boyer

Based on the strong start to the year and combined with our updated expectations for the rest of the year, we have upgraded our guidance for both organic growth and the EBIT margin, as Alexander said.

So there's two comments I would like to give to the guidance:

First, and obviously, the guidance is associated with significantly higher uncertainty than normal due to the pandemic.

And secondly, the guidance still provides the floor for what we expect and we deliberately leave the guidance open-ended and based on certain specific Covid-19 assumptions.

And I'll comment a bit more on this on the next slide, 18.

[00:11:50] Anders Boyer
On slide 18, I have three comments to the organic growth guidance that we are showing here.

First of all, we have still included a 6 percentage point impact of the pandemic on the full-year revenue – and that's the same as in the original guidance. The only difference is that we now expect it to be spread across all 4 quarters of the year and not just the first two quarters as in the original guidance.

Secondly, I won't call out that this 6% revenue impact from the pandemic only includes the impact of closed stores and online pickup from those closed stores. It doesn't include the tailwind from the stimulus packages in US, which also need to be taken into account if you want to reflect on the implicit underlying performance in the guidance.

And finally, the guidance corresponds to a sell-out growth vs 19 of around, let's say, -2. And given that we have delivered -5% sell-out growth in the first quarter vs 19, then the implicit rest of year sell-out growth guidance – or the guidance floor - is therefore around -1 vs 19. We just wanted to give you that data point as well.

So, around -1 for the rest of the year on sell-out growth. And when we look at the current trading for the second quarter – so that's April – we are doing better than that implicit guidance for the rest of the year.

And as you've probably seen in the company announcement already, we'll expect April to end with a sell-out growth being mid single digit positive vs 19. And it continues to be driven by the US where performance in April is actually even stronger than in first quarter. And, as you heard just before, sell-out growth in the US in the first quarter was +52, but April is above that level. And you will see the details when we sent out a trading update for April in just a few days.

On that note, I would like to stress that we hope - and expect – to stop sending out monthly trading updates soon. When the number of closed stores due to the pandemic gets below, let's say, 15%, then we plan to revert to normal quarterly reporting.

[00:14:33] Anders Boyer
On the next slide, the EBIT margin guidance, we have upgraded the EBIT margin guidance by 1 point – 1 percentage point.

And on the one hand, that's supported by the operating leverage and it is also supported by a bit higher cost reductions than what we guided previously.

On the other hand, we will be investing in supporting the strengthening of our brand in China. And, initially, this will be a drag on the bottom line, both in absolute terms and not least in terms of margin as well.

Then, going to slide 20.

[00:15:14] Anders Boyer
During the last year, we have taken a quite prudent approach to our cash distribution due to the pandemic. But now, based on another quarter of good performance, our low leverage and our strong liquidity, we are re-initiating cash distribution.

And as an extraordinary measure due to pandemic, the cash distribution will follow what we have been calling a “pay-as-you-go” approach – so, initially paying out 1 billion kroner during the second quarter of the year.

And assuming that the pandemic situation improves, then we will expects to continue the quarterly distributions in the third and fourth quarter of the year.

And with that, I will now hand it back to Alexander.

[00:16:02] Alexander Lacik
Thank you, Anders.

So, our performance in Q1 shows strong underlying performance in most key markets. As Anders mentioned, US and online are the key drivers of growth. And based on this strong performance and our expectations for the rest of year, we, as Anders just went through, will upgrade the financial guidance, as well as re-initiate distributions to our shareholders.

So, good day all around, I would say.

And with those remarks, we are ready for the Q&A session regarding our results. And as a reminder, please limit your questions to one at a time, since we only have 30 minutes.

When we are done with this, we will get into the Phoenix session, and we will also be joined by our Chief Marketing Officer, Carla Liuni.

But before that, let's get into the Q&A. Operator, please go ahead.

[00:16:50] Operator
Thank you - If you do wish to ask an audio question, please press ZERO ONE on your telephone keypad. If, you wish to withdraw your question you may do so by pressing ZERO TWO to cancel. Once again, please press ZERO ONE on your telephone keypad, if you wish to ask an audio question.

[00:17:07] Operator
Our first question comes from, Elena Mariani, from Morgan Stanley. Please go ahead, your line is now open.

[00:17:13] Elena Mariani, Morgan Stanley
Hi – good morning everybody.

So, I will stick to one question of course.

Just from the guidance, so, my question is more about how conservative that it is. I know that you have put a floor, and so anything could happen. But, can I, try to better understand what the assumption of your floor base is, because you of course believe that a better performance in Q1, your April trends are very encouraging. So, why, you know, are you so conservative in giving this floor. What is it assuming? Is it assuming that there are further lockdowns? But, the question is more about if things progress in the way we believe, and so the re-openings will be progressively happening through the rest of the year. You know, what could be a sort of range that we should expect?

I hope you understood my question. Thank you.

[00:18:10] Anders Boyer
Thank you, Elena. It's Anders here.

We obviously provide the guidance, because we think it's a good reflection on how we think about how the year could play out. But, had we been in a more normal year – if that will ever exist – then we would probably have put a more concrete range in and not leaving it open-ended. But we are leaving it open-ended, because we see a wider range than normal during this year.

So, but we are expecting that we will continue to see some kind of impact from the pandemic during the rest of the year. So, we have in the guidance, we implicitly assume that 5 to 10% of the stores will be closed during the second half – so, much less than what we have seen in Q1. But, still, the lockdowns impacting our performance here and there. So, that's one important assumption. And, then I think, another thing to call out will be that we obviously also expect that the impact from the stimulus packs that we have seen in the US will fade out as the year goes by, and that we will be in a more normal stage in the second half of the year and thereby have much less, sort of, tailwind on a group level from the US growth.

[00:19:43] Elena Mariani, Morgan Stanley
And, sorry, well just to clarify on this point. Because in your slide, you're talking about the US stimulus package – both when you're moving from your guidance from above 8% to above 12% and also the compensating factor versus the store closure. So, it's not very clear to me what exactly you're factoring in for the US, because you include that effect in both the two bars – I'm talking about slide 18.

[00:20:11] Anders Boyer

It's actually, the explanation we are having on slide… I am just going through that one… on the "Implicit Guidance" on slide 8. What we are trying to say there, if you are thinking about the underlying performance in Q1. So what would the minus 5% sell-out growth versus 2019 had been, had it not been for the pandemic and the stimulus packs. That's what we are trying to call out on that slide, and that context obviously there is an extra-ordinary support from the stimulus packs in the US. How much? I think we can only guess about, but we just wanted to call that out on that slide. So we are expecting that the... in the back part of 21 that the growth in the US will be a much lower number than what we have seen in Q1. And on that note, you should remember that we were just about 20% growth in Q3 and Q4 in the US last year. So, we will be comping a much tougher base in the US when we get into the second half of 21.

[00:21:31] Elena Mariani, Morgan Stanley

Okay. Understood. Thank you very much.

[00:21:31] Operator

Thank you. Our next question comes from Michael Rasmussen from Danske Bank. Please go ahead.

[00:21:40] Michael Rasmussen, Danske Bank

Thank you very much. Well done, guys. It's great to see Pandora back in great shape, so well done on that.

I'll ask into China. I don't know if the timing is right, or if I should wait and do that later, but since you mentioned it in the presentation, I will put down my question right now. So, on the issues that you have in China right now, is there anywhere where you can utilize on some of the previous learnings, in terms of some of the problematic markets that you have had at Pandora in the past. You know is there anywhere you can say "okay, this is the same that happens in terms of consumers' behavior via the brand positioning or anything". So, will that speed up, perhaps, the restructuring of the Chinese marketplace.

[00:22:34] Alexander Lacik

We will actually cover that in the next section at a little but more in depth. But, as I have been saying in the past, the way the brand was launched into China is different from the way it was launched anywhere else. So, the job is essentially, if I dumb it down, is to think of it as a relaunching the brand in China. Then there are many things that are similar: You know the store network, the density, the kind of behavior we see on- and offline. A lot of these things are kind of similar. But the starting point in China is just different for the brand. It doesn't have that clarity in consumers' minds what's unique and different and interesting about Pandora that we see elsewhere, so that's the brief answer I will give you today.

[00:23:21] Michael Rasmussen, Danske Bank

That makes sense, and it certainly doesn't seem like a quick match… or sorry, a quick fix. But I'm sure you guys are on top of it. Thank you.

[00:23:34] Operator

Our next question comes from Lars Topholm from Carnegie. Please go ahead.

[00:23:40] Lars Topholm, Carnegie

Yes, I would also like to start by congratulating you for a very strong quarter.

I also have a couple of questions regarding… one question of course regarding the US. So, I wonder if you can shed some color on A. the impact from stopping with Jared. I just wonder if there is any inventory you have taken back, and if you have a offset that against revenue, and if you have how it expects… how it effects your margins and then in the presentation you likewise mention that based on credit card data you grew faster than the overall US market. So, I wonder what growth you refer to more specifically in the credit card data. Thank you.

[00:24:35] Anders Boyer

Hi Lars. I can start on the sub question number 1 on the US about Jared. We actually… the revenue impact is very limited, even though it is quite a number of point of sales that have been officially closed down. Now, the revenue impact is miniscule, because it was already at a low point in 2020. But we did do something on the inventory back in… I can't actually even recall, but that was late 19 or early 20… Not this year, definitely not this year, but it might even have been all the way back in 19, as part of knowing that we were closing down that channel, making sure that we managed the inventory as well, but that's low impact in the Q1 21 numbers.

[00:25:34] Lars Topholm, Carnegie

And then on the credit card data and what growth this year

[00:24:38] Anders Boyer

It’s… the credit card data… this is Bank of America that releases data on that, and we picked up… it’s basically the only data point that we have on… sorry, in print on the market growth. Sort of the entire jewellery market was in the high 30s, if I remember right, in growth. So, still we have our growth that we have seen is well above that in in the US.

[00:26:13] Lars Topholm, Carnegie

So, high 30s, I should compare to what number in your report, Anders? Just to make sure it is completely right, I should compare to the 64 percent local currency growth over last year or 81 percent sell out growth?

[00:26:32] Anders Boyer

The Bank of America data that must be sell out, growth data, that would be my logic, because of the nature of the underlying data. So…

[00:26:44] Lars Topholm, Carnegie

So, you're basically growing more than twice as fast as the underlying market – based on the data?

[00:26:51] Alexander Lacik

Yeah. On the assumption that the Bank of America covers 100 percent or a large proportion and that we don't know. So. So I think that's why we're being a bit careful of, you know, making too big conclusions on that. We can just see that we're significantly ahead of that data point. But I don't think that necessarily they're apples to apples comparisons. I would be a bit careful with drawing that conclusion. [Investor relations: Bank of America data suggest growth of 41% vs 2019 in the US market for luxury spending. This should be compared to 52% sell-out growth for Pandora.]

[00:27:20] Lars Topholm, Carnegie

Fair enough. Thanks for taking my question.

[00:27:24] Operator

Our next question comes from Silky Agarwal from Citi. Please go ahead.

[00:27:29] Silky Agarwal, Citi

Hi. Morning.

Coming back to the US. Could you just describe what is really brand specific that is driving that stellar growth in the US apart from the things that you've outlined? You mentioned something during the last call that you had launched email marketing in that market. So, have we seen any further improvement, in terms of all the CRM data capture that you are now leveraging in the US? Thank you.

[00:27:58] Alexander Lacik

Yeah, I mean, yes, we have seen a very strong improvement on the impact of email marketing, but you need to put that in context in… versus the totality of the business. This is still not the major driver. Actually, if you… the performance in the US started after the summer last year. So, if you look from August and onwards, we've had, you know, continued improvement in the momentum in the US. So, it's not like something just happened on January 1. So, it's been ongoing. And this has come behind, you know, as we've been speaking about in the past, good basics. So, we are investing more in media. I think we're making smarter media choices. We're doing a better job on merchandizing, on product availability. So it's core basics that are at play.

[00:28:54] Silky Agarwal, Citi

Thank you.

[00:28:56] Operator

Our next question comes from Antonie Belge from Exane BNP Paribas. Please go ahead.

[00:29:03] Antoine Belge, Exane BNP Paribas

Yes. Hi. Good morning. It's Antonie, Exane BNP Paribas.

My question relates to online and more importantly, how online evolves when you are reopening stores a little bit early, but maybe taking the UK market as a sort of a showcase… how, I mean, you see, what kind of moderation do you see when physical stores are reopening. Thank you.

[00:29:32] Alexander Lacik

So, that question has many facets, because it really depends in which geography we are and, let's say, the adoption of e-commerce as a channel – not Pandora specific. So, what we saw, for instance in Australia where, generally speaking, e-commerce as a percent of trade is a little bit lower than maybe what we are experience in, let's call it northern Europe. When the stores reopen, we actually saw a big, big kind of traffic movement back into the stores. So, the high levels of share of business that we saw in e-commerce came down quite, quite a lot – similar to what we've seen in the Mediterranean countries. So, in Italy, for instance, we had the same type of behavior. Then you take a country like UK. Now, I only have the last two weeks of stores being reopened, so it's very early in the curve, but there we've seen a strong influx of traffic to the stores, whilst the e-commerce actually has continued to be very strong. So, there is not one generic answer to that question. It really depends in which geography we are. So, yeah.

[00:30:48] Antoine Belge, Exane BNP Paribas
Okay, so, rule of thumb is maybe is that…

[00:30:50] Alexander Lacik
Sorry. Maybe just to put some more color on it, because I think the… part of your underlying question might be, you know, what do we expect when we get back to, let's call it more of a steady state or a normal if there any such thing exists. So, versus 2019, I think we can safely say that the share of business transacted online is going to stay at a higher level. There is no doubt, but I don't think it's going to stay at the current high level. Today, we have roughly one third of our global revenue done through online. I think that is going to come down. But to what level? I don't know. And 2019, if my memory serves me right, was more like 13 percent. So, it's you know, maybe it's going to end up settling somewhere in the middle, but we shall see.

[00:31:43] Antoine Belge, Exane BNP Paribas
Ok, you preempted my follow up, so thank you very much.

[00:31:49] Operator
Thank you. Our next question comes from Magnus Jensen, from SEB. Please go ahead.

[00:31:56] Magnus Jensen, SEB
Thank you guys for taking my question.

Yeah, one goes to the to the second half of the year, so, so Signet is out, saying that they're planning for guiding for negative growth in the second half of the year. Of course, they are mainly exposed to the US, so you cannot make a complete comparison to you guys, but could you give us some thoughts on what you think about the second half, especially for the US? Do you also, sort of, expect negative growth in the second half year. That's my question. Thank you.

[00:32:27] Anders Boyer

Yeah. Magnus, it's Anders here. I think maybe that's a stupid way to start the answer, but it would definitely be growth rates that are below what we're seeing currently. Both for two reasons. One being the assumed less impact, much less impact from stimulus packs that we are seeing in Q1 and also here in April. But secondly, that we are facing, if we look at a year over year at 20 percent sell-out growth in Q3 and Q4, roughly last year. So, the comp base will be much tougher when we get into to the second half of the year. So, we are assuming that the sources of growth, if you like, compared to what we've seen here in the Q1, will be quite different when we get into the latter the latter part of the year with… from having a Q1 very much driven by the US and dragged down by China and not the least, but also Europe due to the pandemic, then assuming much less pandemic impact in the latter part of the year, we will see Europe going back and probably being part of driving growth, but a much less, hopefully also less drag from China and less tailwind from the US. So, quite an unusual big shift in the sources of growth during the year due to the pandemic, not least when you look at it year over year.

[00:34:05] Magnus Jensen, SEB

Okay. Thank you.

[00:34:07] Operator

Our next question comes from Fredrik Ivarsson from ABG. Please go ahead.

[00:34:13] Fredrik Ivarsson, ABG

Thank you very much. One question from me. Alexander, you mentioned the conversion rate of 80 percent that I believe it was 30 percent in Q4, if I remember correctly, and maybe two questions related to that. Firstly, what have you done to drive that conversion rate? Is it marketing, imaging, payments etc.? And secondly, if you would be open to give us a ballpark number of your current conversion rate and whether you see upside to the current levels. Thank you.

[00:34:47] Alexander Lacik

I mean, we haven't done anything materially different in this quarter versus the previous quarters, to be perfectly honest with you. It's… we're continuing. Maybe what we've done is since there's been more stores closed now, we have shifted a bit the, let's say, the media mix. And we've spent a little bit less on the top funnel spend and spent it more towards the digital. But it's not materially different from what we've done in the past. So there's there's really no big magic. I think, in some places we've introduced Klarna and After pay, which obviously drives a little bit, but again, doesn't explain the, let's say, the macro movements on conversion rates. The thing with e-commerce, the way we're running it now, it's a continuum of improvements in terms of features and site speeds. And so this is not like, you know, it used to be when I grew up, at least, where you kind of made one change and then you sat and watched it. Every two to three weeks we have a new release of some kind that keeps improving the experience online. So that's it. So you can't attribute it to any major change. Maybe, as I said, unless we talk about Klarna and After pay. But again, that's not been rolled out globally. That's been in some geographies, I think UK has done some good stuff there. And in parts of the US has also gone into this type of mechanism. But that's probably the only major change that I'm foreseeing. It’s a continuous improvement effort. That's kind of how these teams are organized. They work on two to three week sprints and then they release new things.

[00:36:39] Fredrik Ivarsson, ABG

Thanks. And on the level of the conversion rate – any ballpark figure?

[00:36:44] Alexander Lacik

I think will keep those numbers relatively close to our chest, you can say that, you know, an ambition would be to get, you know, going to somewhere north of three, and we still have some way to go there from a sustainable standpoint. There will be peaks when we go above that. And I'm talking about a global number. You know, I have geographies which are lower than that, I have geographies which are quite a bit higher, but the average is there. So that's part of the things that, you know, we're going to talk about in the second session today. Conversion rate is one of the keys on how we're going to drive more growth.

[00:37:24] Anders Boyer

On slide 10 in the Investor Day, we actually showed that the conversion rate in the quarter was three, three percent, but it tends to be so positively impacted when stores are closed, but three percent in the quarter. So.

[00:37:45] Fredrik Ivarsson, ABG

I missed that. Thanks. That is excellent.

[00:37:48] Operator

Thank you. Our next question comes from Frans Høyer from Handelsbanken. Please go ahead.

[00:37:54] Frans Høyer, Handelsbanken

Yeah, good morning, thank you very much. Question about the online revenues. Could you give us an idea of the breakdown, just the top few most important markets, how important are they as a percentage of your total online sales? And also, what was the roughly percentage increase in those markets in online year on year, please?

[00:38:26] Alexander Lacik

Ok, I mean, it is a quite detailed question. So, to no surprise, the US and UK are the the big ones, as you can imagine, and the UK, the growth was – this is versus 19 for the quarter – was over 400 percent. And the US versus 19 was over 200 percent. The average… the average was two 200 percent. So then most markets are kind of in you know, you can do the math yourself, but the big the two big ones to watch for us always is US and UK, that is, you know.

[00:39:12] Frans Høyer, Handelsbanken

How big is the US as a percentage of Q1 online sales, roughly speaking, and the UK?

[00:39:24] Alexander Lacik

Roughly, what, 25 percent give or take about? Yeah?

[00:39:27] Frans Høyer, Handelsbanken

Both of them? Or was that the US?

[00:39:30] Alexander Lacik

US is roughly a quarter.

[00:39:34] Frans Høyer, Handelsbanken

And the UK?

[00:39:38] Alexander Lacik

Oh, know, you're stretching my math…

[00:39:43] Anders Boyer

A third of the revenue – a third of the online revenue in Q1.

[00:39:48] Frans Høyer, Handelsbanken

And 25 percent for the US?

[00:39:49] Alexander Lacik

Yeah. Give or take.

[00:39:50] Frans Høyer, Handelsbanken

Okay. Thank you very much.

[00:39:56] Operator

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

[00:40:02] Klaus Kehl, Nykredit

Yes, hello. I was just thinking about something else. Sorry. The question was that we've seen some major movements in the inventories among the franchisees and it was quite a negative movement in March. And then we've seen quite a positive movement here in April. So, what is driving these changes and is it any specific markets that are affecting this?

[00:40:35] Anders Boyer

Yeah, maybe Klaus, it's Anders here, I can start on that one. So the shipments and the timing of those is purely driven by commercial and logistical circumstances. So the shift that we're seeing between March and April is purely… so what makes sense from an operational and commercial point of view. So we are much more focused on the on the sell-out growth. But I agree that it has been, when you look at March and April, it has been quite big shifts between those two months. But I would say that it's one of the... it's always been there. It's not new. The new thing is that we're disclosing monthly numbers, so suddenly becomes visible for the outsiders as well, that there are these swings between months, which then becomes less visible on a quarterly level.

[00:41:36] Klaus Kehl, Nykredit

Okay, but has it anything to do with your production capabilities in Thailand or anything?

[00:41:42] Anders Boyer

No, no absolutely not. We're, I think, actually quite fine on inventories. We do think that inventories were too low when we entered Q1. So you can also see the inventories are up at, what is that 3-350, 400 million kroner during the quarter, so we would like to operate with a bit higher inventory levels, but that was not definitely not the reason for the timing between whether we should ship in March and April. That was purely due to both on the receiving end… the partners when they thought it made commercial sense for them to get the shipments. Merchandizing, logistical point of view, we are in a fairly good shape.

[00:42:29] Klaus Kehl, Nykredit

Great. Thank you.

[00:42:31] Operator

Thank you. Just as a reminder, if you wish us an audio question, please press zero one on the telephone keypad. Once again, zero one on the telephone keypad. if you wish us an audio question.

Our next question comes from Deborah Aitken from Bloomberg. Please go ahead.

[00:42:50] Deborah Aitken, Bloomberg

Hello, I'm trying to work through my EBIT margin expectation, and hearing that, and you reminder that second half of 2021 in the US will be a slower… slow one going forward for the reasons that are being given. And then I look at the hedging policy in the way that you work and think about a little bit more exposure, maybe 20 percent more exposure on your hedge at this stage for the second half. So I'm trying to understand the process and where we think EBIT margin will be weighted through the quarters. Thank you.

[00:43:29] Anders Boyer

I had a little bit difficulty in hearing the question Deborah here, but let me see if I answer right. But I think, as usual, the Q4 is by far the biggest quarter on the topline and on the bottom line. It was in absolute terms, but also in terms of margin. So typically, we see a significant EBIT margin pick up in the fourth quarter. This year it might be, you can argue it will be a little bit less than what we'll see in a standard year for two reasons. One being that… will have more silver price headwind in the quarters to come, in Q3 and Q4, based on the silver price increase that we have seen. So that as hedges lapses, there will be a bigger drag on silver prices in the second half of the year. And then we will be investing, start investing in the back part of the year on in the repositioning of the brand in China as well. But of course, we have guided above 22 percent EBIT margin and we were only at 20 in Q1. So that there will be… that pick up is something that that margin pick up from Q1 to the full year guidance on the floor of the full year guidance is a Q4 thing.

[00:45:01] Deborah Aitken, Bloomberg
Thank you.

[00:45:02] Anders Boyer
But that's completely normal seasonality.

[00:45:05] Deborah Aitken, Bloomberg
Yeah, I was just wondering whether, as you said, whether the US would cancel some of that. The other thing is just to try to understand whether we saw the excess cost from the end of Programme Now… whether they'll be any on boarding costs for the new strategy.

[00:45:23] Anders Boyer
No. There will be costs associated with the new strategy, but it's a… if you're talking about US specifically, it's not margin diluting. It adds to the bottom line from day one.

[00:45:39] Deborah Aitken, Bloomberg
And that's across the whole group?

[00:45:44] Anders Boyer
I'm sorry, could you repeat that, I couldn't hear that

[00:45:46] Deborah Aitken, Bloomberg
Sorry. The question there, so was related to the group, so we wouldn't expect any margin dilution across the group from the on board in this new strategy this year?

[00:45:58] Anders Boyer
Apart from China. That's it. Otherwise, it adds to the bottom line from day one.

[00:46:06] John Bäckman

And we have time for one more question.

[00:46:06] Operator

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

[00:46:16] Chiara Battistini, JP Morgan

Hi, yes. Thank you for taking my question. Maybe just a follow up question on the margin for the year. Your sales and distribution costs in Q1 came in much lower than I was expecting them. And I was just wondering, in terms of sales and distribution costs, the percentage of sales for the year. What did you embed in your full year guidance, please? Thank you.

[00:46:40] Anders Boyer

The… we're not sort of guiding on specific… on the individual OPEX lines, but I think two comments on that, that might be helpful. One is that we had 82 million kroner in government support that we received in the markets that were closed down in Q1, and all of that – and I think as I think is all of that, but at least close to 100 percent of that 82 million kroner – goes into as a negative OPEX in sales and distribution in Q1, because it's compensation for store colleagues that we have on board. So that's one of the reasons you probably see that sales and distribution costs looks lower in Q1. The other comment I would give is that we have upped the… increased the expectations for the cost reduction program a bit, half a percentage point of revenue, or a hundred million kroner in lower costs this year. And a big chunk of that is sales and distribution costs, where we do see further upsides, not least on the level of store leases, store costs, rental costs that will help keeping sales and distribution costs down as well.

[00:47:59] Chiara Battistini, JP Morgan

Sorry, just following up on these two points, then, in terms of the government support, was this mainly the UK? So this is going to weigh into Q2? Or should we factor in some also for the coming quarters for the year?

[00:48:14] Anders Boyer

You're absolutely right that it's mainly the UK, both given the magnitude of stores being closed there for all of Q1, basically, all of Q1, and the nature of the program in place in the

UK, but also a bit in in in Germany and Italy, but UK in absolute terms being the biggest piece. And then we do assume that we will get a bit as well of support that is included in the guidance here in Q2 and April specifically. But then we assume that at some point of time it will disappear. So even though we have assumed some store closures and lockdowns in the second half of the year, they're not assuming that government support programs will continue forever. So, which I think is a prudent approach to it.

[00:49:08] Chiara Battistini, JP Morgan

And on rent reduction. To what extent, what you've seen is… we can consider structural versus something that is also going to normalize in the coming quarters?

[00:49:20] Anders Boyer

It's a… if I heard, the sound is a little bit bad, but if I heard the question right, this is structural reduction. It’s not temporary reductions due to the pandemic. The half percentage point of margin in support from lower cost is permanent lower cost reductions that we’re looking at.

[00:49:40] Chiara Battistini, JP Morgan

Perfect. Thank you very much

[00:49:43] John Bäckman

And that concludes the first Q&A session on our Q1 results. We now move to the next part of the presentation, which is covering our new strategy: Phoenix. There will be another Q&A session after that as well, but I will now hand it back to Alexander. Please go ahead.

[00:50:28] Alexander Lacik

Now that we have finished the quarter one announcement, we would like to lift our sights and discuss what lies ahead of Pandora in the years to come. I have two pieces of good news. On one hand, we declare the end of Program Now. On the other hand, we are excited to introduce our new strategy, which we call Phoenix.

Given the relatively limited time we have today, the intent is to give you a high level overview of the key components in our go forward strategy. I fully realize it might be challenging to assess these from a numeric standpoint, as we will not disclose any figures yet – but there should be meaningful value to discuss the direction of our company and the key choices we have made. We have included a deeper dive into one of the growth pillars, such that we can demonstrate a more concrete output of this new plan. Our ambition is to hold a Capital Markets Day in September, where we will be able to share more details across the full suite.

We are excited to share with you the 3rd chapter of Pandora's journey. In the first Chapter the founder successfully introduced the Moments platform. In the 2nd chapter Pandora quickly established a strong and profitable global retail network. We will continue to improve on these two as they are critical to our success. In the upcoming 3rd chapter we will seek to unfold the true potential of Pandora by putting the brand and our customers at the center of everything we do.

The strategy we are launching today is focused on further developing our existing core business, where we see significant opportunities to generate growth. The strategy is on one hand built on leveraging some of the unique advantages we possess – like our manufacturing capability, global distribution network and well-known brand. On the other hand, we have drawn useful learnings from Program Now. These ingredients together with our view of what it will take to win on the global stage in the future have shaped the new Strategy.

As we have said before and to manage expectations: we will not provide any numbers or financial targets today. Our turnaround efforts have clearly improved the foundation of Pandora, but the COVID-19 situation continues to blur the picture, so it is still a bit early to disclose numbers. As I just said we will cover this and much more in the upcoming Capital Markets Day.

Although we won't be sharing any financial targets, we can safely say that we will expect to deliver a balanced top and bottom-line growth profile. We do operate in a healthy market segment that in the last 10 years has been ahead of GDP growth. Our initial ambition is to be in line with the market growth. The key value driver is growth within our core business. We don't need to pursue completely new business areas to create growth as we see plenty of opportunities closer to home. It is also important to stress that we do not need to succeed with all growth opportunities in Phoenix in order to deliver on our growth ambitions.

In the mid to long-term, we see interesting opportunities for Pandora within M&A, new product segments and select geographic expansion. It is a deliberately choice to deselect those for now, in order to stay laser focused on our plan.

Before we begin the actual presentation, I would like to remind ourselves why Pandora plays such a unique role in people's lives. We said that the 3rd chapter is all about the brand and our customers – so let's see what they have to say.

Video Plays

[00:55:32] Alexander Lacik

What these customers are saying is really the essence of what Pandora is all about. We have built the brand on the idea of people being able to express themselves in a very unique and personal way.

Throughout history, humankind has shared feelings of happiness, love, pride and belonging. This need for self-expression lies at the heart of connecting with our partners, friends, family and many others, and it is the essence of our brand.

That is why Pandora is a story about touching the lives of hundreds of millions. Every day, people express who they are and what matters to them with their Pandora jewellery. Whether it is a display of friendship or romance of any kind, or a love for art, gardening or our planet. Our jewellery is a way to express these loves. That is our purpose: We give a voice to people's loves.

Pandora pursues this purpose by creating affordable, hand-finished jewellery for the many rather than the few. Jewellery that can be personalised to reflect the many facets we all have and express who we are.

Our purpose is also about celebrating and empowering people in becoming who they wish to be. And it is about caring for our shared planet by crafting our jewellery with respect for resources, environment and people – leading our industry towards a more sustainable future.

[00:57:00] Alexander Lacik

Before talking about the future, we want to pay tribute to the turnaround journey we have been through in the past two years.

When initiating Programme NOW, we said that we would stabilize the top line while retaining strong profit margins.

Due to Covid-19, it is difficult to compare year-on-year development exactly, but when looking at the underlying factors, the net effect is that we believe the last 3 quarters are showing positive growth.

We achieved this by focusing on first driving heat back into the Pandora brand, secondly improving access to the brand and finally to structurally reset our cost base. Let's quickly take a closer look on some of these achievements as they are partly foundational of the new strategy.

[00:57:46] Alexander Lacik

From a growth point of view, we can highlight three areas where NOW has delivered and placed us in a much stronger position.

We have revitalized the brand by developing communication based on a much stronger understanding of our customers. We have invested significantly more in driving awareness behind a multi-pronged media model. The payoff in increased customer engagement and like-for-like sales has been very clear.

We have step changed our Digital Capabilities. Our investment in the e-commerce business has paid off as we record stronger traffic and conversion rates than ever before – Covid-19 notwithstanding. We have embarked on new omni-channel solutions to broaden the access and services to our customers. We have also made strong progress in digital marketing.

Our product portfolio has been restructured and slimmed down, leading to much higher productivity. We have applied more databased and analytical approach to our merchandising efforts, which among other things materially improved product availability. Furthermore, a renewed focus in our assortment on affordability and collectability has been critical to improve sales performance.

Finally, and certainly by no means least important, is the organizational re-structure we implemented last year. We have created a customer centric organization, that operates faster and connects our markets closer to Copenhagen. This allows us to not only be agile but also to draw on our global scale. We can move business insights across our global network lightning fast. This is most definitely a new competitive advantage.

[00:59:29] Alexander Lacik

With a strong foundation and a clear direction, we are now excited to let you in on the plans of our future journey. Let's kick this off with a small video.

[01:00:22] Alexander Lacik

With Phoenix we are changing our mindset from turnaround to growth. From fixing a lot of problems to a more positive and forward-looking plan. The purpose and the idea behind Pandora is still the same, but we now have a new ambition, a new objective for the Company and where we see Pandora.

With the purpose in mind, we have set an ambitious plan for our company. We want Pandora to become the largest and most desirable brand in the affordable jewellery market.

This will be accomplished by continuing to deliver high quality jewellery to our customers around the globe and by staying true to our fundamentals, affordability, personalization and collectability.

[01:01:09] Alexander Lacik

Why do we call it Phoenix? The Phoenix bird resembles rebirth as at the end of its lifecycle, it will burst into fire and be reborn from the ashes. A new magnificent bird emerges – more powerful and more desirable for every time.

Associated with the sun, the phoenix is seen as symbol of immortality and transformation. All elements that span across Pandora's journey as we move from turnaround and into growth.

We consider the new strategy to be an evolution, rather than a revolution.

Now, let's have a closer look.

[01:01:45] Alexander Lacik

At the heart of Phoenix we keep the reason why we exist – which is our purpose.

As I said, Phoenix is fundamentally about driving balanced profitable growth. We have a very good understanding of our drivers and have picked 4 growth pillars to focus on. They are:

- Fuelling our brand desirability and reach
- Creating consumer centric designs
- Personalizing the customer experience
- Growing our core markets

Today we will give you a snapshot view of three pillars and a somewhat deeper dive into the Design pillar – where we will show you some of the early output that will hit the market already this year.

It goes without saying that you need a solid foundation to stand on. We have put in place a good foundation in all critical areas during the last 2 years – this means we have a strong starting point. We have done a thorough assessment across 5 areas as can be seen in the foundational layer. We have defined desired end states and developed multi-year roadmaps how to get there.

We are also launching a new set of core values, that have codeveloped with our employees and designed them to support our growth strategy.

[01:03:03] Alexander Lacik

I wanted to briefly highlight 3 major aspects of our foundation, before diving into the growth pillars. Our most important asset is the 26.000 employees and partners that are located in all corners of the world. The second point I wanted to touch upon is our sustainability agenda. And thirdly, I want to highlight the transformation from a traditional analogue business to a modern company with an aggressive digital agenda. First let’s look at some aspects of our People agenda.

We have simplified the organization by removing the regional layer and built 10 market clusters with clear accountabilities. We have refreshed 5 of the General Managers to drive growth through stronger leadership. We have rebuilt the Executive Team, which now boasts world class talent in each position.

Our global operating model has been flattened and simplified based on two global product categories. This is an organization which is rooted in being close to our core markets and local customers. This new operating model makes Pandora more responsive to customer preferences. Our ambition is to become much faster from idea to execution.

We have invested in critical capabilities in Marketing, Merchandising, Digital and Supply Chain in order to create more capacity for growth. This has led to over 1,000 white collar hires in the last 12 months across the global organization. We now have capacity and capability to support growth in our core markets.

We have reset our performance culture to dial up focus on ambition, courage and execution. We are driving high performing teams development in our top 20 teams across the company. We have realigned how we manage performance so we can carry the strategy from launch to execution. We have identified a global scorecard of 27 KPIs, which we will use to track performance. There is a clear link between our performance and pay, a model which we continuously keep refining.

We have defined performance leadership at Pandora for the first time and have started to assess all senior leaders to identify strengths as well as gaps for attention. This will roll through the next two year.

[01:05:21] Alexander Lacik
Sustainability is, and has always been, an integral part of our business. We lead our industry by being a low-carbon, circular and inclusive and fair business.

We have previously announced some very ambitious ESG targets. We will be carbon neutral in our own operations and only use 100% recycled silver and gold by 2025. Furthermore, we have joined the Science based Target initiative. Specific targets will be announced later this year when the studies are concluded.

Lastly, we are developing a strategy for inclusion and diversity to advance equality. For more information about our programs, you can find a comprehensive overview in the Sustainability report that we released this morning.

Given our size and reach our ambition is to be both a thought leader as well as catalyst of change towards a more sustainable future.

[01:06:18] Alexander Lacik

The third foundational element I want to highlight today is digitalization. As I mentioned earlier, we have progressed with pace in the last 2 years. Our ambition is to become the leading direct-to-consumer brand in the Jewellery industry. We believe that successful brands of tomorrow will need to excel in creating personalized shopping journeys. In our case, we also need to do this at scale.

In the digital strategy we have identified three key areas, which will enable us to deliver on that ambition. Those are Organization, technology and Data analytics.

We have built a new digital powerhouse in Copenhagen. There are more than 400 colleagues dedicated to deliver digital and technology solutions that are driving growth. The Digital HUB is the place for our data, digital and tech experts to innovate and work together to transform our customer experience online as well as in store.

We will continue to strengthen our Digital organization as we are setting the bar high to become the leading global direct to consumer jewellery brand. We have recently announced that we are merging our IT, Digital and data organizations into one new global Digital and Technology function.

This new set up will ensure full alignment in delivering on our growth plan, as well as empowering our amazing employees through improving their daily work with technological touchpoints.

The second key area we are further strengthening, and standardizing, is our technology foundation. We are working on cleaning up fragmented legacy systems that to a degree have been slowing us down. For example, roll out of omni-channel features like click and collect have been slow due to incompatible systems. Good work has been done on taking cost out of our technology platforms through the IT transformation work. The next phase is about reducing complexity, increasing speed and enhancing return on investment.

The final key focus area in our digital strategy is Data and Analytics. The no. 1 priority is to focus on the changes that drive growth. A key priority is to significantly ramp up our efforts to capture more data – we will create more value for customers to share their data with us in stores and in our marketing channels.

In 2020, we had over 650 million customer contacts in our own channels. This generated close to 40 million transactions. Historically, Pandora didn't capture any meaningful customer data. There was also no structured effort to mine even the transactional data.

We plan to increase the amount of data we capture dramatically over the coming years. This will be done in a systematic way, through for instance online sales, everyday contacts in the physical stores, introduction of a new loyalty program, new services and incentivizing customers to share richer data with us.

Capturing the data is, however, not enough, the key to create value is being able to analyze, uncover insights and importantly leverage those by personalizing the customer shopping journey. We've made a start with our global Marketing Customer View platform, and customer segmentation dynamically driving our digital media spend, meaning more relevant ads tailored to customer interests in real-time.

Going forward, you'll see much more personalized experiences – each of us seeing a slightly different version of Pandora.net, different emails based on our interest and history, and with client-telling technology conversations in stores as well.

This is a program designed to support our growth. It's an area in which we continue to lean forward in terms of investments since we believe it will be a competitive advantage.

This concludes a brief view into three of the foundational elements. During the Capital Markets day we will have more time to cover this and the other ones in much greater detail.

[01:10:25] Alexander Lacik
Now let's turn the focus to the 4 growth pillars. First we will look at how we intend to further drive the desire for our brand.

[01:10:35] Alexander Lacik

Pandora is a global brand with very high level of awareness and a distinct positioning. We are playing in a discretionary category where it's fundamental to continuously invest in the brand experience. In order to develop the brand, we must drive desirability – and do this for many people.

We will focus on 3 distinct aspects in our brand building efforts.

The first objective is to constantly be relevant for our audiences. We apply an outside in approach where we generate deep insights about their needs and wants. We turn those insights into commercial initiatives.

A key priority is therefore to invest even more in learning about our customers. This is done both via traditional market research, as well as increasingly mining our own customer data.

We use these insights to create engaging, authentic and culturally relevant brand experiences. For example in advertising, visual merchandising and product design.

We have also introduced a more quant-based approach to estimate the value of our commercial initiatives – to ensure that we pick the winners, as well as provide them with sufficient support levels.

Simply put, we are combining arts and science to deliver relevant brand experiences.

Pandora is a brand for everyone, but, as we will present later today, we have changed our collection structure which will ensure that we are better equipped to target different needs.

One of the key target groups we will focus on is winning with Gen Z and Millennials. These two generations are the key growth drivers in the affordable luxury market. Forecasts suggest that they will represent more than 50% of personal luxury goods consumption by 2025.

We already enjoy a fairly strong position among women aged 18-34, as they represent 44% of Pandora owners today. We believe there is more we can do to make our brand even more relevant for them.

We will retain the core values of Pandora, such as self-expression, affordability and collectability. This will ensure that the brand position remains very clear. Under this umbrella we will, however, allow to stretch the brand to ensure it is relevant and in synch with the audiences and usage occasions we are target.

Later in the presentation, Carla Liuni, our Chief Marketing Officer, will show you how we are applying this to two new initiatives, we are bringing to the market this year.

When I grew up, the job of a marketer was much easier. The number of media channels were few (typically TV and Print), the retail landscape was more focused. Today, we live in a world where the path to purchase is far less linear and has multiple touchpoints, ranging from Social Media, influencers, traditional advertising thru to instore communication. The number of platforms where we consume media just keeps on increasing.

On one hand we have a changed consumer behavior, and on the other a significantly more fragmented media landscape. Going forward, consumers will meet the Pandora brand in a much more personalized way across more channels. We are paying far more attention to ensuring we know who we speak to, what they might be interested in and how they actually respond to our efforts.

It is important to point out that we include traditional media channels, digital channels as well as our stores and store staff when we drive out holistic messaging – it all needs to synch up for maximum impact.

In this fragmented landscape we have raised the media investment significantly in the last two years to a far more competitive level. Going forward, we will turn our attention to getting the most out of this investment.

We are building a sharper analytical capability to evaluate the impact of our media investments. We are for instance pioneering digital media in terms of new attribution models. Most companies use last click attribution to analyze the optimal media mix. We are building the next generation model that will give us the ability to better understand a more true impact of various digital channel choices. This can be modelled live and provide an immediate impact on the media tactics that optimize return on Investment.

For good order, I should also mention that this modelling doesn't rely on cookies or tracking of individuals. This is in line with GDPR and privacy legislation and therefore we believe it is future proofed.

As you can see, we are merging arts with science to deliver a desirable brand experience at scale.

Let's now move to the second growth pillar, which in a way is linked to what I just spoke about. It's about how we intend to personalize the shopping experience.

[01:15:35] Alexander Lacik

Pandora is built on the idea of personalization. Our Moments platform offers our customers a unique opportunity to create their jewellery and make it tell their own personal story. A significant part of this experience is the personalized service we offer, in particular in our stores. This is typically where the co-creation takes place

By being a direct-to-consumer brand, we have a unique position to interact directly with our customers. Today, more than 75% of all transactions are direct. We want to take this to the next level by using our digital capabilities to create the most personalized shopping journey.

The customer journey has evolved quickly the last few years, especially among our young customers, who now move fluidly across different channels. They might discover Pandora through a store in a shopping mall, explore the brand on Instagram, buy online and then pick it up instore. This creates a need for us to offer a true omni-channel journey, and for our different channels to reinforce each other. At the same time, the demand for a personal shopping experience is increasing.

We've massively strengthened the core digital experience at Pandora. You might call this the vanilla experience, where we all see the same version of Pandora. Heading forwards we'll wrap the Pandora experience around each customer. In time this will look like:

Each customer seeing different creative that in a way follows them from what they see on Instagram onto Pandora.net – based on what we know they like.

Your local store manager reaching out to you with new releases, special events or offers, because they know you're a Pandora fan – by the way, this is happening in our China stores right now with the power of WeChat.

And then personalizing the actual selling ritual – using augmented reality with things like Virtual Try-On, and giving personal recommendations on our 3D bracelet builder platform.

We're making the ways you can receive your Pandora products more personal to you, too. We continue to rollout click and collect as a same-day option in major markets. We introduced kerbside collections in the US, and on the future roadmap we'll be testing interest in same day home delivery.

Lastly, we are introducing a new loyalty program that will enable us to increase customer lifetime values. The program will drive increased purchase frequency, retain and reward loyal customers, offer access to pre-release products and much, much more. The program will also be connected with our store staff, so that they can provide even more relevant services when you enter the store.

The key to all of this personalization agenda is deepening relationships with people who love Pandora. Providing an increasingly rich Pandora brand experience, making the best use of advanced analytics and data technology to enable it.

Therefore, this is an area which will receive disproportionate attention and resources going forward.

[01:18:47] Alexander Lacik
The third growth pillar relates to our geographical presence. This also includes our network strategy, which we have discussed earlier this year. In essence, our distribution is sufficient, and we don't foresee any major changes other than what we have previously announced, namely a larger footprint in China and Latin America. We have a somewhat revised view on US, which I will touch on briefly today.

Today, we sell Pandora to consumers in about 100 countries through almost 7,000 points of sales. Going forward, we still see long-term growth opportunities in geographical expansion, however, in the near to medium-term we will focus on core markets we still expect to drive higher brand penetration.

Our Core markets have one important commonality in that we have a very healthy financial structure. Despite many other things being similar, we can still see that the brand development in terms of awareness and penetration differs. This suggests that there is still a strong potential in our core markets to drive brand penetration.

In the last two years we have proven that we can drive healthy growth even in the most mature markets like Australia, Italy and UK. We will continue to have a strong focus here and expect to continue driving solid profitable growth.

US and China represents more than 50 % of the global jewellery market and will continue to increase in importance with a significant part of the absolute market growth driven by those two. As such, we plan to invest over-proportionally in US and China.

We recently developed and started deploying a growth plan in the US. We already see strong commercial traction, while part of this has been inflated by the unusual market dynamics – we still believe that our relative outperformance can be partly attributed to this plan that we have labelled 'Ignite'.

Examples of levers in the plan are:

- Driving awareness via further investment in Media
- Expanding our consumer base, including winning with Gen Z
- Driving a healthy network expansion: Our concept store penetration in the US is lower than other core markets and we see meaningful opportunities for expanding our network further

China remains a top priority, and a significant growth opportunity for Pandora. We are currently developing a plan for setting us up for accelerated growth in China – to reap the opportunity in market size and growth that China represents.

Our plan is focusing on turning around our performance in China. We have identified 6 key areas to focus on and drive growth in China, which have been the outcome of rigorous analysis across consumer, brand, marketing, product, retail and digital insights studies from the best Market Research companies globally. In brief they are:

Brand and Communications: This is the primary priority as our unaided brand awareness in China is only 16%, which is very low compared to our other key markets, and consumers therefore are less familiar with Pandora's key brand attributes, such as collectability, personalization and affordability. To fix this, we will increase our media investment and communicate our brand message clearly across each channel. A first media pilot is just being concluded as we speak.

Product Assortment: Our main platform, Moments, has not been properly launched in China, and our product range has not been aligned to Chinese consumer preferences and specific key retail events. Going forward, our key focus will be to drive Moments and introduce market-specific products built for the Chinese consumer and its unique calendar.

The other focus areas are centered on our network size both on- and offline – there is a clear expansion roadmap. The retail experience – both in terms of visual experience as well as the selling ceremony – needs to be closer linked to the emotional connection with our unique brand proposition. Our Digital setup needs further enhancements to be competitive.

And finally, People: We are strengthening and growing our team. We have evaluated each function and the business's needs for the future to build a winning team fit for long-term growth.

By building a robust strategy derived from comprehensive insights, we are confident we can fix our business in China. More details of the plan will be presented later in the year at the Capital Markets Day.

Finally, we do have a number of potential geo expansion opportunities. For instance, a proper entry in Japan and India. We have decided to put this on the back burner and focus our short to mid-term attention in our core markets, overdriving US and setting up China for success.

[01:23:47] Alexander Lacik

Now I will hand over to Carla Liuni, our Chief Marketing Officer, who is with us from Italy to talk about our strategy for products and design.

[01:23:57] Carla Liuni

Thank you, Alexander, and hello to all. Let’s now take a deeper look into our fourth growth pillar, Design, and specifically how we are going to drive innovation – consumer centric innovation.

With the mission to create sustainable growth for Pandora, we have established a simple strategic framework with three clear business priorities.

First: Protect The Core. Our core is Moments, which represents ca 70% of business, and it goes without saying that we must keep Moments relevant to current users while reactivating lapsed users. We will do so by fueling charms addictive power and by creating new growth engines for Moments – wearable occasions, new carriers, new collabs.

The number two priority is: Fuel With More. Pandora brand can’t just stand on one leg. This is quite intuitive. If we look at key players in the jewellery industry, their brand architecture is made of several collections. Cartier for example has: Love collection, Just en clou collection, Panther collection – similar case with Tiffany. But even we look at more accessible businesses like fragrances, Chanel doesn’t just stand for Chanel Number 5 – they have Coco Mademoiselle, they have Channel Chance, Allure and so on and so forth. So, beside Moments universe, we will create new growth engines: new brand universes that will target different consumers with different needs.

Last, but not least, our number three is to ensure that we have a dedicated support model. Our go-to-market will be fundamentally important to bring alive the strategy. We will mirror key priorities with dedicated communication, media, instore, training and so on and so forth. This will allow us to fuel incremental growth, while minimizing cannibalization of existing business.

[01:27:51] Carla Liuni
With this in mind, we have defined a roadmap for growth for Pandora. The starting point has been the segmentation of the jewellery market. We segmented the market based on key drivers of consumer choices in the category. We looked at functional and emotional consumer needs combined with desired product. We then clustered the needs and mapped in the market.

As you can see from this chart: we have identified what we call: 10 Enduring Concept Platforms. Each one of these platforms or segments answers to why a certain group of consumers buy jewellery: What is the role of the jewellery, and what product is associated to cover identified needs?

For me, to make it easier to understand, I will give you a couple of examples:

If you look at “Eternal treasure” at the top-left of this chart in blue. What you see there is the consumer need: Jewellery is eternal – it never goes out of fashion, and it will always be there. Here, we find consumers that buy jewellery, because it stands. It never goes out of fashion. And as a consequence the product feature expected is somewhat traditional with long standing design.

Conversely, if you go to the bottom of the chart at the center, you see platform which is called “creative expression”, and what you are reading there is “life is too short to wear boring jewellery”. Obviously, these consumers buy jewellery to spice up their lives, and they will expect product design, which are fun/playful and allow them to express their style and their personality.

After having done the segmentation, we went through each one of these ECPs, or segments, and they are all very sizable and globally relevant. But we selected five, where we know Pandora has the right to win today. These are the five we selected. And how we did that? We did that by looking at brand fit first, materials fit (what kind of material that was fitting in that platform), affordability, price point, global size and so on and so forth. We believe we have today five ECPs that will deliver incremental growth for the brand.

[01:28:58] Carla Liuni
The result is summarized in the following chart. As you can see here, we have Pandora House. And what you see here – beyond the purpose, which Alexander explains is our obviously, thread around – you see collection, existing collection and new collection. And we have linked existing and new ones to the five ECPs (to the five enduring concept platforms or segments), so each of our collections – existing or future – have a clear place, a defined target consumers and a universe to refer to. If we start with Moments – for example, you see that it sits into “My stories” ECP: “Jewellery is like a biography. A story that tells many chapters of my life” and Moments will answer to that need by offering high quality, affordable jewellery with a meaning. This is who we are. Communication will give jewellery a voice by communicating loves, passions, aspirations, desires and milestones in consumer lives.

We will create for each collection distinctive and ownable propositions. And the fun thing about this is the innovation and communication will be focused around different spaces, so we can minimize cannibalization and maximize incremental sustainable growth.

[01:30:34] Carla Liuni
To bring this to live, I will show you a couple of examples of what is coming next, and how we plan to grow in two ECPs with two distinct propositions:

What you see here, you see two examples, which I will go through. Under Creative Expressions, ECP "Life is too short to wear boring jewellery", we have developed Pandora Me global relaunch.

Under Iconic Hallmarks "The brand I wear says everything about me", we will launch Pandora Brilliance – our first sustainably lab created diamond collection. I will get back to this.

But both initiatives deliver on our promise to empower self-expression and affordability, they just do it in very different ways: Targeting different consumers groups – one being more focused on Millennials, the other one more on Generation Z, and most importantly allowing us to generate different propositions, and as a consequence minimize cannibalization. Let me go a little bit more into detail and give you a little bit of a teaser on Pandora ME.

[01:31:53] Carla Liuni
What are we going to do with Pandora ME. Pandora ME re-launch, we will re-launch Pandora ME this fall in October, and it will be a major re-launch.

We have identified four key factors to drive success.

First and foremost: Target and design the entire proposition for Gen Z. As Alexander said, we have done extensive research to deeply understand Gen Z motivations, aspirations, needs, and we will offer a proposition that is being created for them – that mirror and anticipate their needs, and it will empower self-expression and personalization. We know this is critical for Generation Z.

The second piece, we will offer a full cross- category proposition. A very attractive assortment, shifting category mix to what's most relevant for them. Beyond bracelets and charms, which of course we will offer, we will have rings, earrings, necklaces, while we will ensure the right price point and mix in the assortment, because we know that for this generation, value is very important.

The third piece is: We have created a 360 digital first communication. We will be where these people are. We will be where they talk, where they are, in their channel and communicating in their language with music as the creative catalyst of the campaign.

Lastly, we believe we have a winning proposition, because concept, communication, product have all been qualified, and we believe that this is a very different proposition versus Moment, while still being into self-expression and collectability.

[01:33:51] Carla Liuni
So, let me show now a little video that gives you a taste of the new Pandora Me product – much more to come in September at the capital market day.

Video Plays

[01:36:02] Carla Liuni
So, I hope you enjoyed the video. Beyond Pandora Me, we will also explore a new territory, as anticipated before: sustainably lab created diamonds – Pandora Brilliance. This will be introduced in UK on May 6th with global roll-out in 2022.

As you might have seen from the press release this morning, lab created diamonds are basically identical to mined diamonds, but grow in a laboratory rather than being taken from a mine. They have same optical, thermal and physical characteristics and are graded by the same standards known as the 4 Cs – cut, colour, clarity and carat. We think there is an opportunity to make diamonds accessible to a broader audience.

[01:36:56] Carla Liuni
Okay, so, allow me to introduce Pandora Brilliance. Pandora Brilliance collection has been created with this in mind: lab grown diamonds captured in a pure emblematic design – a reimagined infinite symbol.

So why Brilliance? With Brilliance we want to do four simple things:

Democratize diamonds, making it affordable to a broader group of consumers.

- Tap into the growing 500 billion DKK diamond market.
- Signal our commitment to sustainability by launching our first carbon neutral product.
- And finally, develop further our position in the Iconic Hallmarks ECP.

Overall, we have seen a great consumer acceptance on this proposition, but we know in many ways this is a new territory for us, and we will make sure we test and learn in UK market, before we roll this out in other countries.

[01:38:01] Carla Liuni
So, let me show you now a little video, which introduce you to the products.

Video Plays

[01:38:01] Carla Liuni
In a nutshell, how the assortment will look like: Pandora Brilliance will launch with what I will define as a complete assortment. We have rings, pendants, earrings and bracelets.

It is 5 carats in silver, white, gold and yellow gold. And we are going from what is 0.15 carat to 1 carat. 0.15 carat with an entry price for silver at 250£, and 1 carat in yellow and gold with an entry prices of 1,290£.

One thing which is important for us to stress: These price points are obviously much higher than other Pandora collections, but they are very competitive versus the mined diamond market. I want to stress this is not about raising Pandora pricing, but about making diamonds jewellery affordable and provide consumers with a real value equation versus the rest of the market in a sustainable way, which we know is absolutely critical – especially for millennials.

[01:40:14] Carla Liuni

If we go to the next chart, we will see – we will talk about what the concept is behind this product. We have created a winning concept behind Brilliance. We didn't want to go into the bridal space, and we certainly didn't want to go into one of "once in a lifetime consumption". So, we created a concept, which tested extremely well with consumers, which is about a transformational journey. It's highly, highly relevant in today's context.

It basically captures a "diamond in the rough" transforming into a brilliant creation. It creates a parallel between the products and the video that you will see in a second. We obviously have a lot of product videos that explain lab-grown diamonds, glorifies the product and educate consumers about it.
But the main video captures authentic transformation story and highlights what every woman can become with determination, optimism, resilience. It is all about infinite possibilities.

[01:41:31] Carla Liuni
We have two great talents – we *have* chosen two great talents. They are both incredibly successful women, but they are equally well known for the difficulties they had in life and for how they overcame it. Ashley Graham: Ashely was once bullied for being overweight and today is a famous model, as you know, and advocate for body positivity. Rosario grew up homeless and today is a famous actress. Both of them are authentic and relatable role models with strong values, and we believe they're the best possible ambassadors to launch Pandora Brilliance's sustainably created diamonds.

[01:42:22] Carla Liuni
Let me show you our two videos, which bring the main concept to life.

- Video plays

[01:42:22] Carla Liuni
So, it is the end of my session. To sum it up: we have defined a roadmap for growth rooted into consumer centric portfolio architecture. As we go to market, we will protect the core, fuel the brand with more. You've seen Pandora Me, you've seen Pandora Brilliance and there are many more things in the pipe.

And lastly, we will definitely mirror our go-to-market and support model to business priority, because we know execution is key. So, many exciting things in front of us! I hope you enjoyed it, and I thank you.

Now, I hand it back over to Alexander.

[01:44:27] Alexander Lacik

Thank you Carla. I apologise for the first three quarters of the presentation, which was my boring read-out, but we had had the Capital Markets Day, then maybe we would have been able to put a bit more spark on. But I think Carla made a terrific job on showcasing some of the outcomes of this strategy. And the way I like to think about this growth strategy is: we are fusing art with science at scale. That's the Pandora of the future.

And with those words, I will now hand it over to the operator, so we can get into the Q&A.

[01:45:00] Operator

Thank you. As a reminder, if you wish to ask an audio question, please press zero one on your telephone keypad. Once again that's zero one on your telephone keypad, if you wish to ask an audio question. If you wish to withdraw from your question, please press zero two on your telephone keypad to cancel.

[01:45:19] Operator

Our first question comes from Frans Høyer from Handelsbanken. Please go ahead.

[01:45:26] Frans Høyer, Handelsbanken

Yeah. Hi, thank you. It's… it does sound like you are really making some major fundamental changes and very exciting to see where this will go. I wanted to ask about the issue that Carla raised regarding price points. I also noticed, I think I'm right in saying that you have launched a number of products with more gold in them lately. And, of course, the diamonds will take that even further. And how do you think about analyzing the extent to which your core consumers, customers will be receptive and supportive of these types, and trusting of these types, of price points that you're going into?

[01:46:26] Alexander Lacik

Carla, maybe you want to give it a go first?

[01:46:29] Carla Liuni

Yes, absolutely. Hi, nice meeting you. So first and foremost, what I want to say, it is clearly the reason why we are going first into UK is because we are very conscious about the fact that this is a new territory for us. So we will have in place a very strong measurement to understand that the acceptance of Pandora Brilliance that we have lots of confidence on, but equally understanding how current consumer sees us. We do not have any concern about confusing consumers. We have a strong Pandora Moments business which we'll continue to fuel with innovation. We will also have new innovation come in which are going to be in the same price range, if not more affordable, than Pandora Moments, which is Pandora ME. Pandora Brilliance is a different case. And what I want to stress is a couple of things. First and foremost, conversely than the past, we are not going into high end luxury. We are actually claiming that we are going to go and make diamonds affordable to our consumer. So our main, main promise to consumers, which is offering you handcrafted, affordable, high quality jewellery, it's absolutely the same and remain absolutely the same.

Also, the Pandora brilliance is quite a high value equation proposition. If you think about the entry price 250, you will see… against the mine diamonds this is half of what a mine diamond would cost. And this is the case for all the carats. What I think is also important is to point out that these diamonds are actually real diamonds. And the reason why we believe we offer a strong value equation to the consumer is because they've been evaluated against the same quality standard that the real diamonds would do, which is this 4C. So in brief A, we will obviously monitor consumer acceptance, which is the reason why we are going to UK first. B, we have, together with Brilliance, strong programs behind Moments, strong behind ME, which remain the most affordable proposition within this. And 3, this is not about raising price. This is actually about offering a strong value equation to consumers and making diamonds affordable, not one of "in a lifetime location". Extend your occasion to what we know is important from the test we need, which is more an everyday usage.

[01:49:25] Frans Høyer, Handelsbanken

Okay. Thank you very much.

[01:49:25] Alexander Lacik

The only thing I could add to that, Frans, is that we've… the launch has been preceded by, you know, deep, deep research, both from a concept standpoint, but also from the price elasticity standpoint. So, you know, we we've learned a lesson from the past, and therefore we've spent an inordinate amount of time to convince ourselves with quant based methodology that there is a high acceptance level on these type of price points. But as Carla rightfully puts out, one thing is what you're doing concept testing. The other one is what happens in real life. And that's what we will experience now going forward in the UK launch.

[01:50:05] Frans Høyer, Handelsbanken

Exciting. Thank you very much.

[01:50:08] Operator

Thank you. Our next question comes from Elena Mariani from Morgan Stanley. Please go ahead.

[01:50:16] Elena Mariani, Morgan Stanley

Hi, thank you very much. Couple of questions for me. One is the main one and the other one, I promise, is a small one. The first one is on demographics. So, what is the average age or the range of ages you are targeting? And how do you expect to be able to keep the existing consumers and grow with them, but at the same time targeting the very young clientele? So, do you see a risk that some consumers might be puzzled or confused by some of these launches? And how do you plan to tackle this? Because I've always been wondering exactly right now what's your age distribution. I don't know if you have an answer for this, and maybe how do you plan to evolve this while you do this transformation? And then a second, very small question. I was very curious to hear, who do you see as your main competitors? I know that the market is very fragmented, but I was wondering, just in terms of positioning, which are the brands that you see as more similar to you in terms of client base, demographic and product quality? Thanks.

[01:51:26] Alexander Lacik

Carla, you can give the first one a shot and I'll try to deal with the second one.

[01:51:31] Carla Liuni

Ok, I'll go with the first one. So the average age. Hello, the average age of our consumer is 37,8. Obviously, this is 38 years old. Obviously, this varies by market. Where we see in China it’s younger versus in other markets it’s slightly older. And we also, as Alexander said at the beginning, the current owners, which is around 44 percent, if I go by memory, are between 18 and 35 years old. So, we actually have quite… We are actually very widespread because, you know, we like to think that Pandora is for everyone. But we also know that it’s absolutely critical to promise to a certain target consumer, a certain proposition. So we do not see, at all, a risk of confusing. If you look at, you know, key competitors, if you look at also the most affordable products market, where gifting is very important, as long as we are true to our promise – and our promise is about ensuring that we offer consumers a platform for self-expression in an affordable way with high quality products – it is absolutely enriching for a brand to demonstrate that we are not just about charms and bracelets. I fundamentally believe that innovation, even if these two initiatives that we just presented are not successful, innovation is something good for the brand.

We need to wake up the Sleeping Beauty. We need to keep our current users happy. And they are, because we will continue to offer a Moments proposition, which is true to our self with a holistic and consistent communication, which is about, you've seen in the presentation, it's about my story, it's about celebrating life with jewellery with a strong meaning. And that's what Moments is, and we will continue to communicate in this way by offering also some product innovation there with new collaborations, with new carriers, with you charms. Because we know it's important to keep the brand fresh and to keep the Moments franchise relevant to them, without contradicting who we are. Together with this, on top of this, it's also equally important to stretch the brand a bit, and stretch the brand doesn't mean contradicting who we are. We are about self-expression, but the way in which we talk to very young consumer generation Z, and the offer in terms of product and communication has to be customized to them. Otherwise, the risk is they would become older together with our audience. And that's not really where we want to go. I hope I answered your question, Alexander, if you want to build on the second one.

[01:54:31] Alexander Lacik
Yeah, I mean, the simple answer on this one is nobody really or a lot. It depends on what you think about. A large proportion of the volume in our business is gifting. So, which means that, you know, the average gift size or value of the basket is maybe 100 to 150 dollars euros, pounds, what have you. And of course there are other options for gifting in that kind of price range. So that's one way to think about it. Now, if you narrow the scope and say that the gift is going to be in the jewellery space, globally, there is no main competitor. We have different competitors in different geographies. So if you take the US, you would have a company like Alex and Ani, for instance, if you go to China, you could possibly look at APM Monaco. I'm conscious of not mentioning Swarovski because I think Swarovski, at least the old Swarovski that we knew there, also kind of changing now. But the old Swarovski was much more focused on style. And our customer comes to us because we offer them meaning. So the key driver is not style. Of course they want nice style, but that's not the key driver, whereas in Swarovski's case it's is about the style much more than the meaning. So

therefore, from a geographic standpoint, you could argue that they are kind of where we are, but I don't see them as a meaningful competitor from that standpoint. So, globally, there is really nobody today. Locally, there are kind of pockets of local competition.

[01:56:11] Elena Mariani, Morgan Stanley
Ok, thanks very much, very clear.

[01:56:14] Operator
Thank you. Our next question comes from Antonie Belge from Exane BNP Paribas. Please go ahead.

[01:56:22] Antonie Belge, Exane BNP Paribas
Yes, hello again. That’s Antoine. I think you mentioned that data analytics, I was under the impression that you already made some progress in the last 18 months. Have you done some kind of benchmarking against, I don't know, consumer brands or consumer retail companies? And where would you put Pandora you know, in that journey? Do you think that you really, I would say, above average or any sort of perception there?

[01:56:55] Alexander Lacik
Antoine, it’s is a very, very relevant question. So, yes, we have done extensive work together with Bain, when we defined the whole digital strategy, as it were, and in fact, one of the topics there was who do we use as a benchmark? Who do we get inspiration from? Because, of course, Pandora started from a very analog point, a few years back and now moving forward. So, if we kind of set the benchmark across, you know, a number of criteria, then versus the, let's say, direct competition, if you know other jewellery brands, then probably we are on par, or maybe even a little bit ahead. But I'll be humble enough to let's assume that we are on par. But if we then compare ourselves with other specialty retailers or other brands. Let's talk about some of the suspects I mentioned before, like the Nike's of this world or Sephora’s of this world to talk about a specialty retailer, then I think we still have some ways to go to get to where they are. So in our strategy, we've essentially gone through a 360 review of all aspects of digital.

And now you can divide that up in essentially a revenue oriented exercises and also cost and efficiency. The focus on our strategy, Phoenix, is on driving revenue. So in that space, we've then gone through a whole slew of benchmarks and we've established where we currently are, where the jewellery competition is, where, let's say, our gold class benchmark looks like. And then we made some very specific choices on what to drive first, because this can be a very expensive exercise and can also quickly become an unfocused exercise. So we have a very detailed plan. And when we meet you in Capital Markets Day, I'm happy to go through exactly where we think we stand, what the kind of key points are. But, as you can see, as one of the four key growth pillar, personalization is one that we've picked and we're going to overdrive. What we haven't really spoken about today, because we don't have the time, is to show exactly what that means. So we'll kind of uncover that and share that with you in September.

[01:59:20] Antonie Belge, Exane BNP Paribas

Okay, thank you very much, I'm looking forward to it.

[01:59:28] Operator

Thank you. Our next question comes from Silky Agarwal from Citi. Please go ahead.

[01:59:34] Silky Agarwal, Citi

Hi. I just wanted to follow up on Pandora Brilliance. Maybe, could you just guide a little bit on the cost structure and whether this is a gross margin dilutive versus your underlying sort of a business or any indication? Just qualitative as fine. I understand you cannot provide any financial numbers to it. Thanks.

[01:59:57] Anders Boyer

So, it's Anders here. I think it's… we will not provide a lot of comment on that yet, but obviously when we have been developing the Brilliance concept, you always have been looking at the financial aspects of it, and from that perspective, it’s a quite interesting additional play on the infrastructure in the business. The gross margin will depend quite a lot on volume. Where that takes us? And I think initially you should expect it to be slightly gross margin diluting but still accretive on the bottom line. I think that's what we can say. And accretive from a margin perspective on the bottom line, I should say.

[02:00:44] Silky Agarwal, Citi

Ok, thanks.

[02:00:46] Operator

Thank you. Our next question comes from Chiara Battistini from JP Morgan. Please go ahead.

[02:00:53] Chiara Battistini, JP Morgan

Hi again. From your presentation, it sounds that you have many different projects going on at the same time. So I was wondering whether there is any priority in terms of, say, for example, prioritizing the strengthening of US and China versus expanding charms beyond Moments, and also expanding into the other categories and into Brilliance and Pandora ME, if you have any sort of priorities within all these projects. And then all these projects, especially when it comes to expanding charms beyond Moments and within the other categories as well, is your aim at mainly to drive repeat purchase with your existing customers or attracting new customers, or are you thinking about starting? And link to that, how are you thinking about your marketing budget in the last quarter to 2, especially if you're trying to recruit new consumers? Thank you.

[02:01:52] Alexander Lacik

So, maybe maybe I'll start and then I'll flip it to Carla. So, in fact, I think the strategy is extremely focused. We have made some very, very distinct choices. You know, we could have gone into other other countries, and that is a big effort in and of itself. We could have expanded into new categories. You know, we could have gone into watches and accessories like many other, you know, other companies in the jewellery space do. But we haven't done any of that. So we've essentially said we stay focused on the jewellery space. We stay focused on the Pandora brand. And then within that, we put the product strategy in place. And we have a very clear sequence on how we go about expanding the number of ECPs that Carla spoke to. So, in fact, it is a very, very focused effort that we are doing. And even from a geo standpoint. So, I do believe that we are very, very clear on our priorities going forward. And maybe I'll the back half of your question to Carla.

[02:02:59] Carla Liuni

Yes. So, to just to clarify a little bit. Our number one priority is obviously to protect our user base, existing user base, our Moments, our Moments business. And this is where you would see, and what you've seen already, in the last 12-18 months we'll focus all our energy, all our support, all our innovation, all our media budget behind Moments. And the reason behind this is obviously A, way to ensure that we have a strong base to start with, B, to keep the brand relevant, and C, to just obviously wake up the Sleeping Beauty. That's our number one priority. As we look at the future and as we move from turnaround to ensuring sustainable growth, obviously we need to attract new consumers. We need to attract new users. And the segmentation that I displayed, that I just shared before, just show that there is enough space in the market, if Pandora has the right to win in this market by offering different propositions to different consumers. So, A, we want to minimize as much as possible cannibalization. B, obviously, we want to create incremental business. Incremental business is not just about creating a nice piece of jewellery or nice piece of communication, incremental business goes from creation to how we go to market.

And I think this links back, and trying to answer your question, about how do we think about marketing model. Obviously, we're going to have a very refined marketing model, because it's not that every new innovation will have plenty of media budget. We obviously want to make sure that, A, we create desirable consumer propositions. B, we have compelling, compelling financial for our shareholders. So we're very, very conscious about that. But at the same time, we also know that for consumers to see that things exist, we need to make sure that we create that level of awareness through the different channels, whether it's broad-based TV or digital launch, depending on how the proposition is. But most importantly, we need to make sure that our store, and our store ambassador, which are fundamentally a fundamental communication element for us, has the ability to sell Moments, and at the same time any new collection that will create and will be successful, so that on one side, number one job is to protect the core. Number two job is to fuel the brand with more across the entire value chain, from creation to finally execution to the last store of Pandora.

[02:06:00] Chiara Battistini, JP Morgan
Grazie, Carla. Thank you, Alexander

[02:06:02] Carla Liuni
Grazie, Italiana!

[02:06:07] Operator
Our next question comes from Fredrik Ivarsson from ABG. Please go ahead.

[02:06:13] Fredrik Ivarsson, ABG
Thank you very much. First one question on Brilliance and then one short one follow up. But starting with the Brilliance question. Anders, you said it was a margin accretive to the

bottom line as well, if I heard you correctly, and I wonder whether that is true for both channels, i.e., the owned and operated concept stores and the e-commerce store?

[02:06:41] Anders Boyer

Fredrik, when I talked about this being margin accretive, I think about it as a… for the group consolidated EBIT margin. There would be no big differences between the channels in terms of margin, except I think I would probably think that there will be more of an O&O sort of physical store part of revenue in a price range like this than online. But it is in terms of the EBIT margin for the group, when I think about that, it is EBIT margin accretive.

[02:07:18] Fredrik Ivarsson, ABG

Excellent, thank you. And one short one, if I may, regarding the loyalty program, Just wondering if you are open to share how many loyalty members you have today and how many you had, like, say, a year ago or two?

[02:07:35] Alexander Lacik

I think we'll get into that when we get to September.

[02:07:40] Fredrik Ivarsson, ABG

Okay, I will wait for that. Thank you.

[02:07:43] Operator

Thank you. Our next question comes from Frans Høyer from Handelsbanken. Please go ahead.

[02:07:49] Frans Høyer, Handelsbanken

Yeah, thank you. Just to… I am I not right in thinking that you did mention M&A as a possibility, an element that you might activate going forward? What would be the objective of such action? I mean, type nature. And also regarding Pandora Brilliance in the stores, I would have thought there must be some significant implications if you want to sell a product that is, I think, quite a lot different from what you have at the moment. It ought to also have a bearing on the way you organize your shop.

[02:07:49] Alexander Lacik

Yeah, so I'd just like to clarify the M&A point, because I see that we receive a fair few questions on that. So, if we zoom out a little bit, and then I'll come back to the specific point. So when we decided on kind of the profile of this strategy, we were kind of very clear on that it has to be primarily about a balanced growth profile. So with that in mind, then of course what we did, we examined different avenues of growth. One of them was, you know, we have the Pandora brand, you can take the Pandora brand into different categories, as I think I mentioned, you could go into watches and all sorts of adjacent categories. So that could have been one option. The other option could be to add brands to the company. Which obviously it comes back to the M&A point. What we have said, and in the short to medium term focus, is to stay focused on the Pandora brand, stay in the jewellery space, and drive out growth there by expanding the number of ECPs that Carla just touched upon. That is the main idea. Then we zoom out and then we say, okay, who is Pandora? We have a number of things working in our advantage.

We have a manufacturing capability and capacity which bars none. We're the biggest guy in town. We have a global distribution network. So, we have assets, which arguably you could bolt other things on and kind of get a good return on. But that is, of course, something which we think is not for now, because we have so much opportunity within the core that we actually don't want to get distracted by acquiring other companies. And for those of you that that follow statistics, you know that out of 10 M&As, 5 to 6 typically are shareholder negative, two are neutral and two are positive. So, M&A, whilst it sounds like a nice revenue opportunity, it actually comes with a fair amount of risk attached to it. Pandora has zero history of making M&A. So where we are now, we've just come out of a turnaround. We want to focus. We want to stabilize the company. We want to ensure that we drive out the growth opportunities that we have in front of us. And then M&A might be an interesting opportunity going forward. It's a very fragmented market across the globe. We're one of the big players. We have a strong balance sheet. So, you know, so there might be an opportunity for us to be part of a consolidation in the future, but it's certainly not something which is in the, let's say, at least in the near to mid-term horizon. We want to stay focused on the plan, which we have at hand.

And then your second question on reorganizing the shops. Yes, this is going to be a different approach. And I think, you know, as we get into more ECPs, more collections in the stores, we will have to learn how to deal with this. So that's one part of the learning journey we are through going now in UK. But just to put it in perspective, in an average shop, we can showcase something like a thousand pieces. This range, as Carla showed before, is a quite narrow range. So, we're talking about, I don't know, 35 pieces, let's say, to to showcase the range. So right now, that is not the challenge. It's more how you actually visually merchandise this, the sales narrative, and the training that goes into to support our staff so that they can kind of guide you through that shopping experience. And those are all things that we are now uncovering as we go into this Brilliant launch.

[02:12:24] Frans Høyer, Handelsbanken

Thank you very much.

[02:12:27] Operator

Thank you. Just as a quick reminder, if you wish to ask an audio question, please press zero one on your telephone keypad. Once again, that’s zero one on your telephone keypad, if you wish to ask an audio question.

[02:12:39] Operator

Our next question comes Lu from Flower and Tree. Please go ahead.

[02:12:46] Lu Jianaing, Flower and Tree

Hi, I have a question regarding retail operation. So, in the past, Pandora used to have a slow moving SKU in the… building up in the channel. That's why that program now proper inventory and with focus on the charms… charms and bracelets right. So, with the relaunch of ME and the Pandora Brilliance, so what I see is that you're doing two things at the same time. One, you're expanding pricing point both downwards and upwards. And, second, you're extending… I mean you’re increasing the product offering outside of charms, such as like earrings, rings and necklaces. So this will increase the complexity of the retail operation multifold. So even today, how do we make sure that the past mistake of a slow moving SKU doesn't happen again? How do we control the SKU inventory? Thank you.

[02:13:43] Alexander Lacik

Okay. Carla, do you want to go?

[02:13:45] Carla Liuni

Yes. I think this is you know, you summarize it pretty well. So first and foremost, this is a constant effort. We constantly work with merchandizing to ensure that we have the right assortment. As you rightly say, in the last few years, there's been lots of focus and effort in making sure that our assortment is as productive as possible. And I think we made a big, big step forward in terms of simplification, while ensuring that, you know, we offer the right assortment to our consumer. This is an ongoing effort. We will continue to do so, both on existing collections as well as with new launches. And, you know, just to give you perspective, you know, it's not like we are talking zillions and zillions of DVs of Pandora. It's about 50 DVs and Pandora Brilliants is about 36 Vs. But obviously this is a fundamentally important piece of our operational discipline. And we are all very, very keen to continue to keep this operational discipline machine going, because we know that on one side, you know, creating new things is absolutely critical for the business, but the operational discipline of ensuring the right assortment in every single store and the most productive assortment is something that we do daily. We have a strong merchandizing team. We have a strong commercial team. So this will keep doing that. Absolutely.

[02:15:18] Lu Jianaing, Flower and Tree

Is there any chance that we can further shorten the supply chain, so that we only need to have a minimum inventory in the channel? And whether the ecommerce platform can play a role of reducing the excess inventory that is required, you know, in a retail business?

[02:15:38] Alexander Lacik

I'm not... I mean, it's an interesting question. The inventory position, inventory holding in the shops is, what, 15 weeks roughly, and then we hold a bit more in the LCs. So, in fact, is not… it's dramatically been reduced in the last two years, I should say, on one hand in absolute. But the second one is also we have the better control of which type of SKUs we promote. So in fact, we have segmented the assortment in a way. And we are now focusing much more on the top sellers than maybe we did in the past. So I do think if I compare to, let's say, two years ago, the effectiveness in our supply chain and the inventory holding is significantly improved. In fact, to the point where we think we may we may be on the low side, because when you're in a high margin business, the one thing you don't want to do is to be out of stock, because the cost benefit analysis is very simple to do. If you lose that sale, which is, you know, an 80 percent gross margin in our own stores. You don't make that up for the cost of capital to hold a bit of inventory. So that it's actually not a major, major concern for us today.

[02:16:59 Lu Jianaing, Flower and Tree

Understood. Very clear. Thank you very much.

[02:17:01 Operator

Our next question comes from Michael Rasmussen from Danske Bank. Please go ahead.

[02:17:07] Michael Rasmussen, Danske Bank

Yeah, thank you. So just a follow up question on the on the Brilliance. So, what is your game plan in terms of moving on to other markets after the UK? I don't know if I've missed it, if you already commented on that, but also if you could kind of comment on what kind of shared group of revenues are you guys are targeting here once it's fully rolled out. It's just in order to make it a bit of a hand on kind of what kind of meaningfulness this will have on the on group revenues? And finally, how are you going to report? Will it be split into the normal product categories, rings, earrings, bracelets and so on? Thank you.

[02:17:51] Alexander Lacik

So let me let me be the boring guy on the first one. As we said, today is not about numbers. So, you will have to wait a little while before we conclude that. And then maybe, Anders, you can answer the reporting in question.

[02:18:05] Anders Boyer

Yeah, so that's a good question, Michael. But if you… in one of the notes to the company announcement this morning, you will see that as part of what Carla explained earlier on the ECPs and the way that we will work with our product portfolio. We will also going be changing the way that we report on product categories and aligning with the with the ECP, because that's how we work with products internally. So it will follow, going forward, the GPU structure and the subcategories below. So moving away from thinking about a charm's category and bracelet category etc., because that's not how we work with our product portfolio going forward. And as if, if and when, brilliance becomes a meaningful part of that, that will be sort of outlined as part of those subcategories in the global business units, the GBUs.

[02:19:15] Michael Rasmussen, Danske Bank

Fully understood, but on the markets, I guess you could comment on kind of the level of markets there, the UK market.

[02:19:24] Alexander Lacik

The game plan is to, first of all, ensure that we can take all the learnings from the UK, so that before we kind of push the button globally, because I think as somebody mentioned before, it does require a bit of a difference in the operation in the store. So we need to figure out how we manage that. And on the assumption that all of that somehow is okay, what we're currently planning to do, then mid next year we would start thinking about rolling out into a few other geographies. For competitive reasons, I will refrain from mentioning which they are today.

[02:20:00] Michael Rasmussen, Danske Bank

Great. Thank you very much, Alexander.

[02:20:03] Operator

Our next question comes Martin Brenøe from Nordea

[02:20:09] Martin Brenøe, Nordea

Hi, thank you very much. I have two questions. The first is that I noticed that the reflection platform is not mentioned anywhere. Is that going to be phased out? And if you could just tell us what the platform share of revenue is on the group today? That would be great.

[02:20:29] Alexander Lacik

Carla, you want to take that one?

[02:20:30] Carla Liuni

Yea, so, the reflection platform will be obviously… we will actually… we have quite some plan behind it, and it's included in the timeless platform. We did an extensive research with both consumer as well as with our product design. And we went through product design features. What are the key motivating factors? So we will create one collection, which is timeless, which will incorporate reflection. And we have a new product, Newness, coming for the next… in the coming future, let's say. So, no, we are not going to forget about it. To the contrary, we are going to make it part of a broader proposition. And we have some news coming up.

[02:21:35] Alexander Lacik

So, you have the timeless proportion of today is, what, 19?

[02:21:40] Carla Liuni

Timeless is around 19 percent of the business. 19. One nine.

[02:21:44] Alexander Lacik

Yeah. So, reflection sits inside that 19. So it's not 19 stand alone, just to be clear.

[02:21:51] Martin Brenøe, Nordea

Alright, thanks.

[02:27:51] Alexander Lacik

But I'd like to just pick up on that, because it's a very good question. The way we think about this, this is the whole notion of the platforms. So, rather than having lots of small its and bits that you cannot support properly, we'd rather have fewer of these platforms and then drive them properly. So it's much more of a launch and leverage type of thinking rather than launching and leaving, which unfortunately was a little bit the missteps of the past. But we've learned from that, and going forward… but that also means that you cannot have 18 different collections. So, that's been part of the work we've done in trying to kind of streamline that and put stuff where it makes sense based on this mapping that Carla went through. So some things will fall off and some things we will be, you know, relaunched and let's say a revitalized, and the reflections is part of this this effort.

[02:21:53] Operator

Thank you. Our next question comes from Chiara Battistini from JP Morgan. Please go ahead

[02:23:01] Chiara Battistini, JP Morgan

Hi, thank you. Just a quick follow up question on your store concept. I was just wondering whether you are also reconsidering your store concept, especially as you need to accommodate for a broader and quite different product offering. So where do you stand on that front? And can we expect an update also on that CMD? Thank you.

[02:23:29] Alexander Lacik

Carla, you want to take that?

[02:23:32] Carla Liuni

Yes, so we are in the process of developing a new concept, obviously, and yes, in the Capital Markets Day, we will have an update for you. What I think, however, it's important for us to recognize is that this is the new store concept will obviously bring to life, refresh, let's say, the brand, because the current one, the current store, obviously are a little bit tired. But beyond that, we also know that the dynamic of purchasing are not just about collections. So it's not that we are going to throw away what we have today, because actually, operationally, our current store works extremely well and is very efficient. But what we need to do is to combine the language by category some of the Moments consumers buy, which is your going store and you ask for a charm, which is about family. But at the same time exploring much more the walls, the display, digital tools that will allow us to have the flexibility to talk collection when consumers want to. And at the same time to also ensure that we can also talk category, should consumers want to buy by category. We are we are doing a lot of work in this to make sure that we have a brilliant store in terms of look and feel, but an equally brilliant store when it comes to operational and operational machine, because that has to work.

[02:25:07] Chiara Battistini, JP Morgan

And I guess when you're saying also from an operational point of view, you also mean the omni channel proposition?

[02:25:16] Carla Liuni

Absolutely, absolutely. It has to be totally integrated. That said, you know, that's going to be, as Alexander mentioned, we started with click and collect. But there is so much more we can do to ensure that this is a truly omni experience rather than separated offline versus online. So, yes.

[02:25:37] Alexander Lacik

And just piggyback on that, because that’s maybe a bit, let's say, hidden inside the growth pillars of the strategy. But when we talk about personalization, that really kind of covers all of that. So rather than having this division of talking about the store and talking about the e-commerce and talking about, you know, the website, whatever, it all sits under the umbrella of personalization, because that's the outcomes that we want to achieve – that people feel that we're taking special care of each and every one of you when you're a Pandora customer, regardless of where you decide to kind of interact with us, be just from a marketing standpoint or from a transactional standpoint. So that that's where it's encapsulated. I know it's a bit hidden there, but that’s… will go through that in more detail in the CMD. Now I'm getting a red flag here. We can take one more question and then we'll go to a close.

[02:25:37] Operator

Thank you. There appears to be no further registered questions, so I will hand back to the speakers.

Okay, so maybe we go to the… there are two slides at the end of the deck. So the quick, okay. So ,I mean, in a nutshell, what we wanted to plant with you today was a high level overview of the growth strategy going forward. We've talked about four growth pillars. We've shared with you a little bit more detail on the design piece. And I'm quite pleased that that's where all your questions were centered on, because it was a bit more concrete. I hope we can replicate that across the other three pillars, including some of the foundational elements, which will go through into Capital Markets Day. And I'll just essentially close on that note. So, we have planned it for September 14. We hope you can pencil this into your calendars. And on the assumption that travel restrictions are lifted, we will welcome you to our show in London in September. Thank you very much for attending our session today.