Pandora

Transcript: Investor Presentation, Q1 2018

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Operator

Welcome to the Pandora A/S investor presentation for Q1, 2018. Today, I am pleased to present Magnus Jensen, Head of Investor Relations. For the first part of this call, all participants will be in listen-only mode and afterwards there will be a question and answer session. Magnus, please begin.

0.00.18

Magnus Jensen

Good morning everyone and welcome to the conference call for Pandora's results for Q1 2018 which we released this morning. I am Magnus Jensen from Pandora's Investor Relations team and with me I have our CEO Anders Colding Friis and CFO Peter Vekslund. I will now hand over to Anders who will give you an overview of our strategic progress and the performance for the quarter before Peter goes into more details on the numbers. Finally, Anders will conclude the presentation and then we will be happy to take your questions. Before handing over to Anders, I would like to point your attention to the disclaimer on page 2.

Now please turn to slide 3. Anders, please.

0.01.00

Anders Colding Friis

Good morning everyone and thank you for joining the call this morning. As expected, we started the year with moderate growth and we are on track to meet our targets. At the same time, we have made good progress on our 2022 strategy which we outlined at the Capital Markets Day. We have momentum on each of our four strategic pillars: Innovating affordable jewellery, agile manufacturing, digitalising the brand experience and winning in omni-channel retail.

I am especially happy to see that our new Spring collection including PANDORA Shine was received well by consumers in all our markets. This confirms our capacity to write more newness which is top on our agenda. Meanwhile, we saw an unexpected slowdown in China. We have already taken action to turn that around and I will come back to this later.

Please turn to slide no. 4. Revenue for the first quarter was DKK 5.1 billion and increased 6% in local currency compared to the first quarter of last year or -1% in Danish kroner. As we have guided previously, the year has started with growth slightly below the full-year expectations of 7-10%. During the quarter, we launched several new products which will be key drivers of our growth. We delivered an EBITDA margin of 32.6%. As in previous years, we expect the year to be back-end loaded in terms of profitability.

We continue to return cash to our shareholders and in the first quarter, we returned DKK 1.2 billion. We paid out DKK 1 billion as dividend and used the rest to buy back shares.

Now please turn to slide no. 5. Now let me give you an update on the progress that we made against our strategic priorities. Starting with products, we launched the first collection created by our new design team, the Valentine's collection in January and the Spring collection in March. The Spring collection contained the first products from our gold plated concept PANDORA Shine. The collection and not least the PANDORA Shine concept were well received across markets.

In total, we launched more than 150 products. We renewed the product assortment even more. For the rest of 2018, we will launch an additional 500 new products. This will also include a new charms and bracelet concept.

In terms of digitalising the brand experience and improving the consumer journey, we successfully merged our two online platforms, the eSTORE and the PANDORA.net. We did this in March without affecting traffic to our site.

To increase the control of our network, we added 48 Pandora owned concept stores to our retail network. 17 of these were acquired from franchisees. Combined with strong performance in our eSTORE, this resulted in growth of 41% in local currency. Revenue from our retail network now represents 51% of revenue compared to 38% in the first quarter of last year.

Our agile manufacturing track is also progressing. We have now installed plating lines in our crafting facilities and we are currently testing. As most of you know, we plate our products externally but from the fourth quarter we will be able to do this in-house.

Now please turn to slide no. 6. As mentioned earlier, we have seen a slow-down in China during the quarter with revenue growth of 16% and negative like-for-like in the mid-teens. Valentine's Day and the Chinese New Year occurred at the same period this year and that had some impact. However, we have conducted extensive analysis to understand this trend in China and we have identified two main issues. First, we have seen a notable increase in the grey market trading.

Our analysis suggests that this has an impact of around 10-15% on growth in China for the quarter. The trading is mostly done on the larger online sites where we do not currently sell our products. We are already working on reducing this and we will proactively manage and limit unofficial sales channels. It seems that the parallel importing is coming from wholesale accounts across all Pandora regions.

Secondly, our marketing activities have not been sufficient to drive traffic across China. This means that awareness around our new products is too low but also the general awareness could be stronger. We are increasing our marketing spend in the remaining part of the year. With that we believe we are addressing the issues and we will see a gradual improvement over the year. With that, I hand the word over to Peter.

0.06.15

Peter Vekslund

Thank you, Anders. Now please turn to slide 7. We delivered total revenue for Q1 of DKK 5.1 billion, an increase of 6% in local currency or a drop of 1% in Danish kroner. Growth mainly came from a strong performance by the eSTORE as well as the acquisition of stores, which contributed with DKK 288 million. We increased revenue in Pandora owned retail by 41% in local currency and it now represents 51% of total revenue compared to 38% in Q1 of last year.

Growth was driven by network expansion of 24% and the acquisition of stores, which added another 17%. Like-for-like for the quarter was flat, which was primarily a consequence of the negative like-for-like in China. Our eSTORE showed strong performance across all major markets and increased 53% in local currency. The eSTORE now represents 9% of group revenue and is on track to meet our target of 10-15% of group revenue by 2022.

Revenue from franchise concept stores decreased 10% in local currency. The decrease was mainly due to our acquisition of franchise stores as well as weak performance in some of our larger markets as it will take some time before we see sufficient newness in the product assortment. Revenue from other points of sale in the wholesale channel decreased 18% in local currency. This was caused by a negative development in the US as well as in Italy where we have closed several multi-branded accounts.

Also like-for-like in other points of sale is generally underperforming our concept stores. Revenue from third-party distributors decreased 23% as we acquire distributors. If we exclude Spain, Belgium and South Africa where we have taken over distribution, revenue from third-party distributors was only slightly down.

Now please turn to the next slide where I will talk you through the performance in each of the 3 regions. Starting with Americas, the reported revenue of DKK 1.4 billion decreased 4% in local currency, primarily driven by developments in the US. Revenue in the US decreased 8% in local currency, primarily due to a negative development in the physical store network, including a drop in other points of sale where around 100 multi-branded accounts were closed over the last 12 months. The eSTORE continues to perform extremely well and contributed to a positive like-for-like growth in the US of 9% in the owned and operated network.

Momentum in Latin America continued to be positive. Revenue increased 24% in local currency and we opened net 48 concept stores in the last 12 months. EMEA generated revenue of DKK 2.5 billion corresponding to an increase of 16% in local currency.

Revenue in Italy increased 14% while revenue in France was up 11% thanks to the positive concept store revenues while revenue from other points of sale declined. Revenue in the UK was flat with an underlying negative like-for-like in physical stores offset by strong performance in the eSTORE as well as acquisitions.

Germany continues to perform well with 19% growth. Revenue in Asia-Pacific was DKK 1.2 billion, an increase of 1% in local currency. The lower growth in Asia-Pacific was mainly due to the slowdown in growth in China, which Anders has covered, as well as a 4 percentage-point decline in Australia. Australia continues to be challenged by a lack of newness but we also continue to see a decline in revenue from Chinese consumers.

Now please turn to slide 9 which is an overview of our 5 product categories. Revenue from charms was DKK 2.9 billion, an increase of 2% in local currency. Growth came mostly from the continued success of the PANDORA Rose Collection as well as the launch of the PANDORA Shine Collection. Despite the new launches, charms continue to be impacted by lack of newness.

Revenue from bracelets increased 10% in local currency, supported by the launch of several new bracelets while revenue from rings increased 5% impacted by lower in-store activity during the quarter compared to Q1 2017.

Demand for earrings and neckwear remains strong and they delivered local currency growth of 16 and 28%, respectively.

Now please turn to slide 10. Gross margin for the quarter was 75.8% compared to 73.3% last year. The increase was driven mostly by the share of revenue from Pandora owned retail which had a positive impact of around 3 percentage-points. This was partially offset by metal mix mainly related to a higher share of revenue from PANDORA Rose and PANDORA Shine with an impact of around 1 percentage point.

OPEX grew 7.6 percentage points for the quarter, mainly driven by a significant increase in sales and distribution costs. Sales and distribution costs increased to 26.8% of revenue compared to 21% last year driven mainly by the increase in share of revenue from owned retail as well as 1 percentage point impact from amortisation of acquired stores and distributors. Also, marketing saw a slight increase which was due to the launch of PANDORA Shine.

Administrative expenses increased 8%, which was more or less all driven by one-off costs related to organisational changes. Finally, our profitability was impacted by around 1 percentage point from currency which altogether resulted in an EBITDA margin of 32.6% compared to 36.4% in Q1 of 2017.

Now please turn to slide 11. Free cash flow in the quarter was DKK 439 million compared to DKK 1.1 billion in Q1 2017. The lower cash flow was mainly due to lower EBITDA as well as a negative impact of around DKK 300 million from tax payments, primarily related to taxes paid on earnings from the Pandora production company in Thailand which we announced at the full-year results in February. The operating working capital for the quarter was 14.6% of revenue, an increase of 0.3 percentage point compared to last year.

The increase was mainly related to an increase in receivables, and Days Sales Outstanding were 66 compared to 42 days for the same quarter last year. The increase in Days Sales Outstanding was mainly due to revenue in the first quarter being skewed towards the end of the quarter one of the reasons being the success of the Spring collection which was delivered late in the quarter. Furthermore, the acquisition of our Spanish distributor had an impact of around DKK 130 million on receivables.

Before I hand over to Anders, let me grab this opportunity to say thanks for the discussions over the last 16 quarters of financial reporting. As announced in January, I have resigned from my position and from next quarter Anders Boyer will take over as the CFO. And with that, I will hand over to Anders.

0.14.37

Anders Colding Friis

Thank you very much, Peter. Now please turn to slide no. 12. As mentioned earlier, we maintain our full-year guidance of 7-10% revenue growth in local currency and an EBITDA margin of approximately 35%.

Looking at the second quarter of 2018, we expect currency headwind of around 6% given today's foreign exchange rates. Regarding EBITDA for the second quarter, we still expect the first half of 2018 to be significantly lower than the second half.

Now please turn to slide no. 13. To summarise the quarter, we grew revenue by 6% in local currency and delivered an EBITDA margin of 32.6%. A moderate quarter as expected and on track to reach our full-year targets. We see some challenges in China but we believe we have identified the root causes and are taking steps to address them. We have made strong progress on our strategy towards 2022 with improvements on all four strategic pillars and our new products have been well received, which is one of the main drivers of growth as we look ahead.

Thank you very much for listening and we will now take questions. Operator please.

0.15.56

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from the line of Michael Rasmussen of ABG Sundal Collier. Please go ahead. Your line is now open.

0.16.15

Michael Rasmussen

Thank you so much. I would like to address my first question on China, please, so when exactly did you see things turn around to the more negative in China? And are you going to take Pandora's products on these platforms that you mentioned yourself? And finally on the commercial plan, does that include price reductions so you get prices down towards the level of Australia? My second question goes to the momentum that you talk about at the end of the first quarter in relation to your net working capital comments. Has that momentum continued into the month of April? Is that why you so firmly reiterate your full-year guidance? Thank you.

0.17.03

Anders Colding Friis

Let me do the first one. If we look at China, we saw in the quarter and in the early part of the quarter that our figures were getting a little bit weaker so that was when we started doing it, so we have actually already done the plan and we have also implemented the plan in China. If we look at prices, clearly we are always monitoring the prices in our markets and this is one of the things that we are looking into but whether this would mean that we would increase prices somewhere or look at decreases elsewhere is not something where we have any plans at this point.

0.17.48

Peter Vekslund

As to the question on current trading in April, we will as such not comment on that. But from the beginning of the year we have said that growth will accelerate throughout the years and we are on track with the plans.

0.18.06

Michael Rasmussen

Thank you, so Anders, on your comments, it basically means that you took action quite early in Q1 and this belief that you already have seen the positive impacts from your actions is that why you are so positive of you being able to turn this China story around?

0.18.25

Anders Colding Friis

Well, I think we saw the indications and of course we took some time to do the analysis and make the plan but it was already implemented in the end of the quarter and what you should expect in terms of the development in China looking at the remaining part of the year is that gradually you should see our figures improve. That's what we have in the plan and that is what we expect.

0.18.51

Michael Rasmussen

Thank you very much, guys. And best of luck, Peter.

Anders Colding Friis

You are welcome

Peter Vekslund

Thank you

0.18.58

Operator

Thank you. Our next question comes from the line of Chiara Battistini of J.P. Morgan. Please go ahead, your line is open.

0.19.05

Chiara Battistini

Good morning gentlemen. Thank you for taking my questions. My first question I get on China. Anders, you commented that Shine and Spring and the Spring collections were well received in all regions. Can I just confirm that that includes China as well? And on China, also on your comment that you are ready to already execute on your plan. Does that mean that some of the step-up marketing investments are already included in the Q1 figures, please? And then the second question on e-commerce. You mentioned that you already did the merger of the two online platforms. When did you do this in the quarter? And can you comment on the impact you saw from this merger in impact to growth and also can you remind us of how many eSTORES you opened in the last 12 months and the impact to growth from that, please? Thank you.

0.19.55

Anders Colding Friis

Very happy to do so. If we look at China, also in China the new products were well received so we also saw a very positive reception in the Chinese market. There is no execution on the plan in terms of marketing for the first quarter. It is only happening in the second quarter of this year. If we look at e-commerce, we merged on 13 March the two platforms and we were actually positively surprised to see how little impact it had in terms of negative development in traffic so I would say, well done of our people who have been working on this for long period of time and now we are in a situation where we can actually strengthen our new single platform, which we are looking very much forward to doing. And then on the last question, maybe Peter will take that?

0.20.52

Peter Vekslund

Yes, on the eSTORES, most recently we have opened in Singapore, Spain and also South Africa, but this is not something that will have a major impact on our like-for-like numbers which I guess is the underlying question.

0.21.12

Chiara Battistini

Yes, just to confirm because from the merger of the two platforms I would have actually expected a boost to growth rather than a headwind so just to confirm, basically the growth that we are looking at in e-commerce is quite organic? That is what I am trying to get to.

0.21.28

Anders Colding Friis

Yes, but maybe I should say when we merged the two platforms, we expected to see a loss of traffic based on the fact that when you put it all on one platform you lose some of the organic growth and we saw a lot less of that than we had expected so actually our own expectations were losing traffic in connection with the merge and we haven't seen that so that was a very positive one for us.

0.21.57

Chiara Battistini

All right. Thank you very much.

0.21.58

Anders Colding Friis

You are very welcome. Thanks for your questions.

0.22.03

Operator

Thank you. Our next question comes from the line of Kristian Godiksen of SEB. Please go ahead. Your line is now open.

0.22.10

Kristian Godiksen

Thank you. So firstly, do you still expect a sequential increase, rest of the year in both local currency growth and also like-for-like? And is that already from Q2? That was my first question and the second one, I guess the most important driver for acceleration in growth is all these new products and hence could you give us an indication of the magnitude in the improvement of the like-for-like since the launch of the new products compared to January-February where you did not have the products? Thank you.

0.22.42

Anders Colding Friis

Thanks for your questions. If we look at the growth over the year, what you should expect and I think we also said that at our Capital Markets Day is that as we add more products into the assortment we expect it to be gradual over the year. That is also the reason why in our guidance we communicated an expectation of lower growth in the first quarter. If we look at the new products, we are encouraged with what we have seen. I also think it is a little bit early because we only had two weeks of trading in the quarter on the new platform. Clearly, we put a lot of focus on the launch of the PANDORA Shine new concept and that was very well received so we are encouraged with what we see but it is too early to put out numbers.

0.23.35

Kristian Godiksen

Thank you, Anders, but I think you also, I guess you also have the numbers for April and mid-May so it is just to get a feel for – because you know obviously it's innovation we have talked about a lot and it was also the main reason why 2017 was not as impressive as we had hoped for. So I guess that is the main reason why we should expect this pick-up from

Q2 in the rest of the year? So can you give some kind of indication of the magnitude you have seen in the pick-up?

0.24.00

Anders Colding Friis

I think, what I can say is that we have seen a positive contribution to our assortment. We also see positive like-for-like numbers compared to previous launches so we are quite encouraged with what we are seeing at this time.

0.24.16

Kristian Godiksen

Okay, now nothing about single digit, any single digit to high single – double something?

0.24.21

Anders Colding Friis

No, as you noticed, you are not getting a number.

0.24.24

Kristian Godiksen

Ah I noticed. Okay, thanks a lot.

0.24.28

Operator

Thank you. Our next question comes from the line of Anne-Laure Bismuth of HSBC. Please go ahead, your line is now open.

0.24.37

Anne-Laure Bismuth

Yes hi, it is Anne-Laure Bismuth from HSBC. I just wanted to come back on the slowdown in China and to better understand if you can keep your guidance with the China slowdown not anticipated when you gave the guidance; does that mean that you have already seen the slowdown early in February? And my second question is regarding the marketing expenditure, so given the support that you will have in China, does that mean that we should expect the marketing to sales ratio towards the higher end of the 19% range that you mentioned before, does that mean that it should be closer to 10% in full year 2018? Thank you.

0.25.23

Anders Colding Friis

First one. If we look at China, it was, as we also said, a surprise to us but in business there are positive and negative surprises. If we look at a couple of other areas where we have seen a positive development in the quarter that would be Latin America where we started our efforts in 2017 and we have seen a very strong start of 2018 there. Also Germany, which used to be our market of trouble, has actually developed nicely and we see the brand strengthening in the German market so there is always a balance between different things. If we look at the marketing we expect it to still be between 9 and 10%. If you want to put a closer range to that, it will probably be skewed a little bit towards the higher end of that range.

Anne-Laure Bismuth

Thanks.

Anders Colding Friis

Okay. Thank you very much.

0.26.38

Operator

Thank you. Our next question comes from the line of Fredrik Ivarsson of Kepler Cheuvreux. Please go ahead. Your line is now open.

0.26.38

Fredrik Ivarsson

Thank you, hi guys. First one, yet another one on China. Given what is going on there at the moment, do you feel like you might have been too aggressive on the expansion there and should we expect you to be maybe more cautious until you see some positive trends?

That is my first question and the second one on sales and distribution costs – they were obviously up almost 6 percentage points in relation to sales versus Q1 last year. How much of that is explained by higher Pandora owned stores and how much is due to more negative leverage from poorer like-for-like in the brick and mortar store network?

0.27.21

Anders Colding Friis

Thank you Fredrik for your questions. I will do the first one and Peter will get back to the second one. And the answer is very simple and very short to the first one. No, we do not believe that we have been too aggressive in our development in China. What we can see is that there is a couple of other root causes which we are addressing in the plan both increasing marketing but also looking at how we can limit the black market or grey market part of it. Be aware of the fact that we can never close down the black market. The black market is clearly a reflection on the fact that we are the most well-known jewellery brand in the world and we will see things like that but we do believe that we have levels to use to reduce it.

0.28.09

Peter Vekslund

Yes, thank you and the question on sales and distribution cost. Basically, the increase is all related to the increased share of owned-and-operated (stores). Remember it includes also 1 percentage point from amortisation of rights when acquiring distributors and finally when looking at this percentage of sales and distribution costs to revenue then we will see leverage later in the year as revenue will pick up so for the full year still around 23-25% of sales and distribution costs to revenue ratio, probably towards the 25%.

0.28.58

Fredrik Ivarsson

Thank you and a follow-up on the Chinese expansion then should we expect you to keep on rolling out stores in the range of 40-50 per year until 2022 then?

0.29.10

Anders Colding Friis

Yes, you should. I don't think we have given that to 2022, but at least for the next couple of years we believe that that is the right number of openings to have in China and bear in mind that our stores are highly profitable in the Chinese market so they are really, really good so there is definitely no reason to change that.

0.29.31

Fredrik Ivarsson

Okay, that's very clear. Thanks.

Anders Colding Friis

Thank you very much.

0.29.34

Operator

Thank you. Our next question comes from the line of Lars Topholm of Carnegie. Please go ahead. Your line is open.

29.44

Lars Topholm

Yes. Two questions on my side. One goes to the receivables. You commented a bit on it, Peter, in your presentation. But your non-retail revenue is down by 671 million. Your receivables are up by 350 million and relative to non-retail revenue they are actually all-time high and this of course reflects the new collections but as Anders pointed out they have just been selling for two weeks in the quarter so this increase in receivables, does that basically illustrate that stores will enter Q2 with higher inventories than normal or what additional flavour can you put on that increase in trade receivables? And then a question for you, Anders, because it is now roughly 3 months since you took over responsibility for the US after Scott so I just wonder what your initial observations are? If there are things you are going to change and I am particularly interested to hear your view on what level of promotional activity you think you should keep and maybe also comment on whether spend more save more campaigns should be repeated because I understand the last couple of those did not work that well so any colour on what you see in the US and what you would like to change? Thank you.

0.31.17

Anders Colding Friis

Thank you very much for your questions, Lars. I will do the second one and then Peter will get back to the first one. If I look at the initial observation, I must say it has been a pleasure to dig a little bit deeper into the US market and there is clearly a lot of things which are happening there. One of the things which is not happening is that the retail market is still where it is, but if we look at our own performance, one of the things that we have a strong focus on doing now and which we will reinforce further as we move forward and get our new president, Americas, on board is our retail performance, and I have seen and I am happy to see that more efforts go into it but also a positive result on it. We are also on our e-store picking up and doing more and we see positive results coming out of that. So that is just a couple of the things. Clearly, the US market is probably the market in the world where the interest in newness is biggest and thereby we also see gradually as we move through the product launches of 2018 that we expect that to have a positive impact and so far, so good. The reception in the US of the new products has also been good. If we look at the promotional activities, that is an interesting subject and also something that we have spent some time looking into to try to understand what are the right ones and as you point out, Lars, just repeating a promotion that you have done before does not mean that you get the same or a better result. Sometimes you actually get the opposite. So, one of the learnings that we have, which is actually built into our trading plans for 2018 and further, is that we need to rethink our promotional plans at all times and try to mix and do different things and clearly that would also mean that from time to time we will hit it right and at other times we will not hit it so right, so that is one of the things that we will do. If we look at the promotional level, there are no changes to what we have talked about previously. We are still continuing focusing on having a bit less in the last part of the year.

0.33.40

Peter Vekslund

Yes, and Lars, the question on receivables, receivables increased by DKK 350 million of which DKK 130 million is related to Spain. Then revenue skewed towards the end of the quarter and for a couple of reasons. First of all, Mother's Day, which was launched in stores on April 12, was shipped, of course, at the end of March. So all of that was shipped to franchise and wholesale partners. Furthermore, the Spring collection of around DKK 150 DVs launched in mid-March was also shipped to partners so that we have a receivable at the end of the quarter. And in general you could say that our franchise and wholesale partners, they have very much been anticipating and looking forward to our new collections meaning that they have ordered the Spring collection on also Mother's Day and therefore revenue came late in the quarter. And we do have more products this year than last year in both Mother's Day and also in the Spring collection.

0.34.54

Lars Topholm

The shipping of Mother's Day, was that different compared to last year?

0.35.00

Peter Vekslund

Yes, that was different from last year. Last year it was bigger in both March and April. This year, it was all in March simply to get the products in stores by April 12.

0.35.15

Lars Topholm

That's fantastic. Thank you and also good luck moving forward, Peter and I have some more questions but I will jump into the queue again. Thank you.

0.35.24

Peter Vekslund

Thank you

Anders Colding Friis

Thank you very much, Lars

0.35.28

Operator

Thank you. Our next question comes from the line of Hans Gregersen of Nordea. Please go ahead, your line is open.

0.35.35

Hans Gregersen

Good morning. First of all, like-for-like. If we assume a 1% like-for-like growth in the quarter, what would that amount to in DKK if you can give an indication so we have a magnitude of what like-for-like means in Q1? Second question, moving to China, can you elaborate on how you mentioned that the grey market accounted for between 10-15% of the market, how that has evolved during 2017-2018 and what it will take for you to onboard JD and WeChat on top of the platform you already have in China? Thank you.

0.36.16

Anders Colding Friis

Yeah, what we have seen is that we have seen quite big growth in that and we want to have a rough, it is more or less doubled if you look at where we came from in terms of the magnitude of it so it is quite a bit that we have seen and presently, we have an agreement with Tmall, an exclusive agreement and that will run out in a few months and then we will evaluate and look at are there other platforms that we would want to engage with at that time. But right now, we stay with Tmall. If you look at what we have of options of doing it, there is a supply site and demand site for this and clearly, what we can do is clamp down harder on the supply part in the Chinese market and then the demand part is we are looking at where does the product come from, we have actually made some acquisitions of products through these channels to find out where are they originating from. We see quite a bit coming out of EMEA as one and clearly we also see that some of that has a wholesale background so that gives us an opportunity to try to focus on that and stop as much as we can but it will still be that we can't take all of it. And Peter will take the other question.

0.37.48

Peter Vekslund

Yeah, on your question on like-for-like and some sensitivity on that, you could say Pandora-owned retail 2.6 billion of which concept stores is around 2.5 including online and of that we have a base included in the like-for-like calculation of around 1.8 billion. So with that you can play with the numbers and do some sensitivity.

0.38.19

Hans Gregersen

So just to confirm so what you are saying, Peter, is that 1% like-for-like is roughly DKK 18 million?

0.38.26

Peter Vekslund

In rough numbers. There is a lot going into this but just to give the magnitude of the numbers, this is ballpark right thinking.

0.38.36

Hans Gregersen

Yeah and just on the grey market, your comment about doubling, is that referring to Q1 Y/Y? I know it's difficult numbers.

0.38.50

Anders Colding Friis

It is. I can confirm that, Hans.

0.38.55

Hans Gregersen

Thank you very much.

0.39.00

Operator

Thank you. Our next question comes from the line of Thomas Chauvet of Citi. Please go ahead, your line is now open.

0.39.07

Thomas Chauvet

Thank you and good morning. Two questions. Firstly coming back to the parallel markets, would you think the increase year-over-year of parallel markets could have come from the stronger Renminbi at the start of the year leading to the price gap? And Anders, when you said you find this thing correctly that you are not planning to reduce the price gap with other regions what is the rationale for that? Obviously, I guess you want to protect profitability. Secondly on rings, it has become an important part of your business; it has had a pretty good momentum last year, particularly in the second half. The slowdown in Q1 is a bit abrupt. Could you share some thoughts on whether this category has become more competitive or is it just a matter of you introducing more new products in coming quarters? And finally, can you confirm you still have no plan to enter the engagement rings business? Thank you.

0.40.08

Anders Colding Friis

I will be very happy to. If we look at the increase, I think what is very, very clear in China is that this grey market is a pretty well-organised market and clearly, currency differences have and play an impact or price differences play a role in how big those markets are going to be. But it is something that we have seen and we will see in the future also. When I said we don't have planned and this time also said and that is something that is important, that we are looking at prices across the different markets but whether we are going to increase some or decrease others or exactly what we are going to do, we haven't firmed up our plans on at this time but it is clearly something that we are monitoring. We can see that the price index, as you might know, for China is higher than other markets and clearly, that also has an impact on this market. So it is one of the things we are looking at but it can be increasing prices in one market or decreasing it in another market. No plans at this time. If we look at rings, we have seen a development in the quarter which is more or less in line with the development we have in Pandora so 5% compared to the 6% overall growth and remember that rings are now around 14% of our total sales so it has become a very big category in Pandora. What you should expect in terms of the different categories over time is that there will be differences from quarter to quarter, depending on the activities we have in individual quarters and in the first quarter of this year, we actually actively decided to have little bit less activity on rings and that meant that the growth of rings was a little bit weaker than the other categories. But it has already grown into a big part of the Pandora assortment. But do expect that over the years, we will see fluctuations in the growth of the different new categories depending on our activities. Oh, and the last question.. we have no plans to go into engagement or wedding rings but we do see consumers who are using our products both for engagements and weddings and that is of course also encouraging.

0.42.37

Thomas Chauvet

Thank you, Anders.

Anders Colding Friis

You are welcome, thanks for your question.

0.42.41

Operator

Thank you. Our next question comes from the line of Zuzanna Pusz of Berenberg. Please go ahead, your line is now open.

0.42.50

Zuzanna Pusz

Good morning, so I just have two questions. First of all on China, I guess a follow-up but I am just trying to understand why have you spotted the weakness just only now? I mean, I guess there have been some concerns about the slowdown in China for a while. And I understand that also pricing contributes to the grey market but could it be that perhaps the weakness in the market has been underestimated or is there anything specifically that led to this weakness coming only just now or have you been seeing it and basically observing what has been happening in the market over the last couple of quarters already? And the second question that is a follow-up actually from some of the comments you made at this CMD. I think you mentioned that you were looking at potentially launching some omni-channel services that you will speak to some of your franchise partners on how this could work. Is there any update you could give us on that? How this would exactly be executed, when any of that could be launched? Thank you.

0.43.56

Anders Colding Friis

Thank you very much. I think you always wonder when you are sitting and running a business, could you have seen this prior? We have seen a spike in the great market and we have seen that in Q1 so that is one thing which of course has gotten our attention. If we look at the development, we have seen strong growth and we have also anticipated that the growth in percentage should go down but we have really seen a steep decline in this quarter so I think that is very much what we can see. We can see that what we are doing now, we have initiated the plans and we are also seeing that the plans are working in the market. If I look at omni-channel services, it is one of the things where we feel that this is an area where we need to meet the consumers' demand and we have had the discussion with franchisees and let me just focus on the market which I am spending most of my time right now which is the US and there you can see that it is planned to be something that we will do during 2018. We are discussing with our franchisees to find the right model still but we have good progress in that. I don't want to go too far in that because it is still an ongoing discussion. One more thing which is important to mention is that we have in the quarter also strengthened our e-commerce team, we have hired and established a position head of e-commerce in Pandora and we have already seen some good ideas and also activities coming out of that so we have Karl Walsh who has joined us and is leading our e-commerce activities across the group.

0.46.00

Zuzanna Pusz

Okay, perfect, thank you. Just one thing to clarify on China so you mentioned that the plans that have been initiated are already working but have you already seen any pickup in traffic or is there any.. anything just to.. maybe any colour you could give us to be a bit more reassured that actually the full-year outlook is not.. well, it is something you can deliver on?

0.46.23

Anders Colding Friis

Clearly, we are then moving into the quarter we are in and not last quarter but I will say that we have initiated the plans and we believe that we will see a progression during the year where we will slowly but surely see it working and I can also say that we already see a little bit of positive implications at this time but expect it to come during 2018.

0.46.51

Zuzanna Pusz

Perfect, thank you so much, that was really helpful.

Anders Colding Friis

Thank you very much.

0.46.57

Operator

Thank you. Our next question comes from the line of Frans Høyer of Jyske Bank. Please go ahead, your line is now open.

0.47.05

Frans Høyer

Thanks very much. I am sorry, it is about China again and the grey trading. I understand that you have already implemented various actions to try and stop the supply into that market. Are you seeing actually any impact on the availability to consumers on these various websites yet?

0.47.27

Anders Colding Friis

No, we haven't been able to.. clearly, there are two things. The availability we can't see a big difference at this time. There are a couple of different sources into China, one of them where we can do something is if it comes from wholesale customers around the world, that is an area where we can monitor and try to find out where it comes from and we have seen a couple where we have identified that. The other part, which is Chinese residents in other markets also buy Pandora products, they do that retail and then ship it into China and that is the part which will be there and normally be there. What we can do in China is if they used our assets like the pictures that we have, we can actually address that and that helps us address the issues so we can do some to challenge it but there is a limit to how much we can do but we do believe that we can work quite a bit with this.

0.48.30

Frans Høyer

Okay. And also, given that novelty is such a key factor here, could you talk about the progression going forward in terms of the importance of the products that are not performing and the weighting of the two categories, those that perform and those that don't, when are we going to see a meaningful shift in that balance, please?

0.48.57

Anders Colding Friis

Well, if we look at the plans for 2018, it is to introduce 650 new products which is an absolute all-time high. So what you should expect is that that goes into the assortment, then even in some of 2016 and 2017 assortments where we have seen the weaknesses, we have products which are performing pretty well and clearly we will keep that in assortment but we will do a bigger shift of products during the year but what you can expect is that it will be an ongoing process as we introduce the product during 2018.

0.49.33

Frans Høyer

How much did you do of the 650 in Q1?

Anders Colding Friis

We have around, you can say, 500 products to go at this time. So we have done 170 products so far.

0.49.52

Frans Høyer

And is Q2 going to see increased momentum behind that effort?

Anders Colding Friis

Well, what we are going to do is we have it lined out for the year so 170 is quite a bit so you can say it is around a fourth of the products that we are going to put in the products so to see a continuous development over the year that is what you should expect.

0.50.16

Frans Høyer

Okay. And finally, a question on the diversification away from charms and bracelets in the US. I believe that was a very slow process in the beginning, I was just wondering if you could talk about that also given that you have been looking deep into that business recently? Is that diversification happening now more actively or is it still an issue to be addressed?

0.50.43

Anders Colding Friis

It is definitely happening. Now, I think it is not away from charms and bracelets but it is onto also embracing the other categories, I think that is our mindset on the development of the new categories but the Americas in general but in the US specifically have embraced the new categories in a much better way so we have seen very, very nice progress on that over the past couple of years. So they have caught up to the average of Pandora.

0.51.11

Frans Høyer

So rings are now roughly the same share view as sales as for the group?

Anders Colding Friis

In rough figures, yes.

0.51.20

Frans Høyer

Okay, alright. Thanks.

Anders Colding Friis

You are welcome. Thank you, Frans.

0.51.25

Operator

Thank you. Our next question comes from the line of Klaus Kehl of Nykredit Markets. Please go ahead, your line is open.

0.51.33

Klaus Kehl

Yeah, hello, Klaus Kehl from Nykredit Markets. Two questions. First of all, if I look at the like-for-like then you have, in your own stores, then you have around 0% here in Q1 but as you have mentioned a couple of times, the online part is doing very well. So if I do the math and exclude online, is it then around correct that your like-for-like in the physical stores must be in the range of -5% here in the quarter? That would be my first question.

0.52.15

Peter Vekslund

On the calculation 0% including online, of course excluding then it is negative in that and around 5% is ballpark right.

0.52.30

Klaus Kehl

Ballpark right, okay. Yes, thank you. Second question would be your depreciation is up quite a lot here in Q1 and you have made a couple of acquisitions in Spain etc. So I was just wondering, this run-rate we have seen here in Q1, is that also a fair guesstimate for the full year? Meaning that your depreciation will go up to around DKK 1 billion for the full year? That would be my second question.

0.52.56

Peter Vekslund

Yes, so the level we see on depreciation and amortisation in Q1 is expected to continue. We include Spain for the full year, the amortisation of the right of acquiring Spain will be included and then, as you know, we have ongoing investments in IT that will start also having a meaningful impact on amortisations. So expect the level to continue for the year.

0.53.29

Klaus Kehl

Okay, so it could actually go above 1 billion?

Peter Vekslund

This is the level for this year and then as we have invested heavily over the last couple of years, then it will most likely increase.

0.53.47

Klaus Kehl

Okay, thank you very much.

0.53.51

Operator

Thank you. Our next question comes from the line of Kristian Godiksen of SEB. Please go ahead, your line is open.

0.53.59

Kristian Godiksen

Thank you. Just two follow-ups from my side. So, I was wondering which of your four largest markets that is the most worrying to you as you have a negative like-for-like for the physical stores in all of the four main markets and I am referring to US, UK, Australia and also now China, and also where you at the CMD expressed that one should expect positive like-for-like for physical stores for the group in your strategy plans so I guess when you expect that to materialise and then on the second question, if you could talk a bit about the positive impact on the gross margin, one should expect when you are being able to plate your own products yourself from fourth quarter this year? Thank you.

0.54.44

Anders Colding Friis

If you look at the four largest markets, you can say that we would expect that they would all be impacted by the new products that we are launching and as you said, if we look at our ambition, that we also talked about in connection to the Capital Markets Day, it is to have a positive like-for-like number in our physical stores, absolutely. So we would expect also in those markets to see an improvement over the year. Remember now you talked about the four largest markets but Italy is actually bigger than the UK in this quarter so that was very nice to see that picking up quite a bit. If we look at our new plating lines, they are being installed, I have actually received the first product coming out of that, which is really nice to see, and it will be starting up for commercial production in the last quarter of the year, there will be a ramp-up curve but we do expect to see some positive margin impact of that but don't expect it to be humongously big.

0.55.52

Peter Vekslund

And maybe just a comment on that, as Kristian, as you know, at the Capital Markets Day we said that we would see over the period, the strategy period, around 2 percentage point impact from product innovation and that is a bucket of us insourcing PANDORA Shine and PANDORA Rose but some of that deficiency will be offset by increased complexity and details in our products so I guess what I am saying is don't put in a lot of production efficiency in your model. What we said at the Capital Markets Day, that still stands.

0.56.30

Kristian Godiksen

Okay, thanks a lot.

Anders Colding Friis

Thank you.

0.56.35

Operator

Thank you. Our next question comes from the line of Lars Topholm of Carnegie. Please go ahead, your line is now open.

0.56.42

Lars Topholm

Yes, just two follow-ups. Back to China and you mentioned that year on year you think parallel imports took 10-15% off in the growth. I wonder if you can comment on the difference between Q4 2017 and Q1 2018 because your growth was 62% in local currency in Q4 2017 and now down to 16 so are parallel imports significantly different compared to Q4 2017? And then a household question, how many SKUs do you have in total right now, give and take? Thanks.

0.57.30

Anders Colding Friis

Well, we saw, there are a couple of things, Lars. I think that when we look at China, it is not just grey market, there are also other things which are affecting and that is also why we talk as we did about marketing being one of them but we did see quite a big pick-up in the first quarter of 2018. And if we look at the number of SKUs, it is 1,565.

0.58.02

Lars Topholm

Okay, thanks Anders.

Anders Colding Friis

You are welcome.

0.58.08

Operator

Thank you. Our next question comes from the line of Hans Gregersen of Nordea. Please go ahead, your line is open.

0.58.14

Hans Gregersen

Yes, two questions, please. In terms of guidance for Q2, can you give any direction in terms of the EBITDA versus Q1? And then secondly, you mentioned there was some, as far as I understood, from trying to buy the products on the Chinese grey market that certain parts were supplied by wholesalers. How quickly can you close this wholesaling down? Thank you.

0.58.44

Anders Colding Friis

If we look at the EBITDA guidance first, what we have said and that is still the case, that you should expect the second half to be significantly higher than the first half so that would mean that you should expect something which is less than our guidance in the second quarter guidance for the year also as we did in the third quarter. If we look at supplied by wholesalers, what is happening is that we are looking and finding some and closing them but sometimes what happens is that then other supply areas will open up. So this is something that we are monitoring on a running basis and we will look at it so to expect that we can get that fully under control is probably, would be too naive on our side, but bigger supplies we can find and we do.

0.59.45

Hans Gregersen

What are your remedies, I mean how quickly can you cancel a wholesale agreement if you catch them in doing so? And then coming back to the EBITDA margin, can you be a little bit more precise, will the EBITDA margin, how will that develop sequentially, upward, down or flattish? Thank you.

1.00.03

Anders Colding Friis

If we look at the.. we can, if we see a breach of an agreement, we have in our agreements an opportunity to cancel those agreements. Clearly, what we normally start by doing is having a good conversation. I don't think we can get into more of the details here. And Peter has a comment on the EBITDA margin.

1.00.27

Peter Vekslund

On the EBITDA margin, just translating what has been said earlier, then an EBITDA margin in Q2 around the same level as in Q1 so more or less flattish. Don't expect a big pick-up in Q2. Historically, there has been a 4 percentage point difference between second half and first half so that is also ballpark what is expected this year.

1.00.55

Hans Gregersen

Thank you.

Operator

Thank you. Our next question comes from the line of Fredrik Ivarsson of Kepler Cheuvreux. Please go ahead, your line is now open.

1.01.06

Fredrik Ivarsson

Thank you. One more question from my side here. Back on the comments about the 9% like-for-like in the US, obviously driven by the eSTORE, correct me if I am wrong here but I believe you said that the online share of your reported revenues was around 10% in the end of last year. I just wanted, can you confirm that and can you also confirm that it is growing ahead of group average? Thank you.

1.01.31

Anders Colding Friis

I can confirm that what you should expect is that there is phasing over the year in term of like-for-like numbers so it is always highest in the last quarter of the year.

1.01.44

Peter Vekslund

Yes, and on the eSTORE share of revenue in the US, that is around group average still.

1.01.55

Fredrik Ivarsson

Thank you.

Anders Colding Friis

You are welcome

Operator

Thank you. Our last question comes from the line of Anne-Laure Bismuth of HSBC. Please go ahead, your line is open.

1.02.07

Anne-Laure Bismuth

Yes, hi. I just wanted to come back on the gross margin expansion of the 250 basis points that you had in Q1 and should we expect the same contribution from the stock conversion from wholesale to retail of 200 basis points for the year and what could be the impact of FX on the gross margin development for full year 2018? And my other question is about the admin extensions and the organisational changes that you mentioned that impact Q1 2018, can you elaborate more on these organisational changes, please?

1.02.44

Anders Colding Friis

I will do the last question and then Peter will do the first one. When we look at the organisational changes, we have had quite some changes in the management board of the company but we also had organisational changes in EMEA and in Americas broader sense so all of that together has meant that we have had some extraordinary expenses that we have called out in the admin part in the quarter.

1.03.13

Peter Vekslund

Yes, and as to the other questions, then on the gross margin as you know, we do not guide as such on the gross margin but we do give some indication and there will be some impact also positively on the gross margin going forward. Total impact on EBITDA from more owned and operated around 1% for the full year. And we did see a negative impact from FX on the margin in Q1 but currently for the full year we do not see any impact from FX.

1.03.56

Anne-Laure Bismuth

Thank you.

Anders Colding Friis

Thank you very much for listening in on the call today and for all your questions and we would wish you a very, very nice day. Thank you.