

# TELECONFERENCE Q1 2014 FINANCIAL RESULTS

10:00 CET, 13 May 2014



**PANDORA**  
UNFORGETTABLE MOMENTS

# AGENDA

## AGENDA

- Business highlights:
  - Key developments in Q1 2014
  - Market development and sales-out
  - Performance of newly launched products
  - Guidance 2014
- Financial review for Q1 2014
- Recap and Q&A



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Certain statements in this presentation constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and our anticipated or planned financial and operational performance. The words “targets,” “believes,” “expects,” “aims,” “intends,” “plans,” “seeks,” “will,” “may,” “might,” “anticipates,” “would,” “could,” “should,” “continues,” “estimate” or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as our future results of operations; our financial condition; our working capital, cash flows and capital expenditures; and our business strategy, plans and objectives for future operations and events, including those relating to our ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities; and

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# IMPORTANT EVENTS IN Q1 2014

## CEO MESSAGE

- Q1 2014 revenue was DKK 2,592 million, an increase of 29.5% or 34.0% in local currency, driven by all geographic regions, positively impacted by:
  - Success of newly launched products, including two small additional collections
  - Replenishment following strong Christmas sales
  - Store network expansion across geographies – including 223 new concept stores compared to Q1 2013
- All major markets saw a continued positive development in sales-out from concept stores (like-for-like)
- EBITDA increased 45.7% to DKK 937 million – an EBITDA margin of 36.1%
  - Including a gain of 3.5pp on gross margin driven by lower commodity prices (compared to Q1 2013)
- Free cash flow was DKK 1,049 million vs. DKK 406 million in Q1 2013
  - Primarily driven by increasing profits
  - Positively impacted by repayment of VAT in Germany of DKK 259
- Revenue guidance increased to more than DKK 10.5 billion from more than DKK 10.0 billion
- DKK 2.4 billion share buyback programme on track – DKK 317 million bought back in Q1 2014

# REGIONAL REVENUE DEVELOPMENT

## REVENUE BREAKDOWN BY GEOGRAPHY (DKKm)

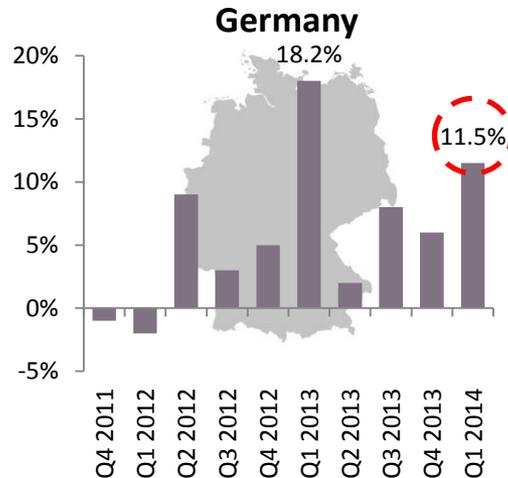
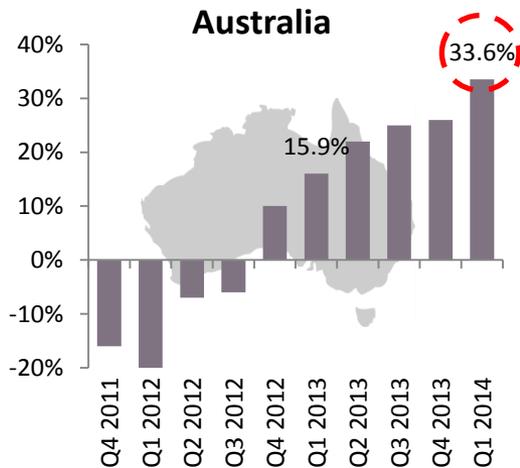
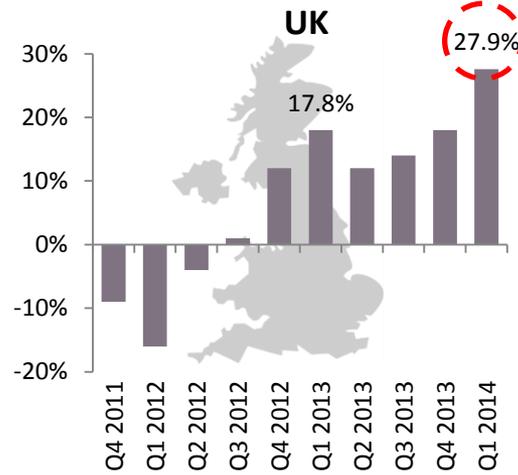
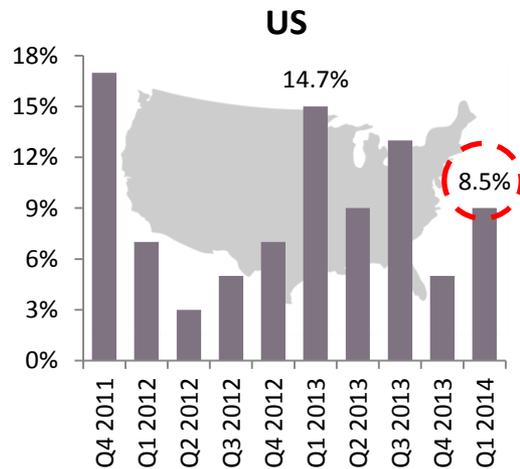
	Q1 2014	Q1 2013	FY 2013	Growth Q1/Q1	LC Growth Q1/Q1	Share of revenue (Q1 2014)
<b>Americas</b>	<b>1,170</b>	<b>1,057</b>	<b>4,156</b>	10.7%	<b>16.2%</b>	<b>45.2%</b>
US	876	832	3,201	5.3%	9.2%	33.9%
Other Americas	294	225	955	30.7%	42.1%	11.3%
<b>Europe</b>	<b>1,064</b>	<b>713</b>	<b>3,760</b>	<b>49.2%</b>	<b>48.3%</b>	<b>41.0%</b>
UK	299	190	1,158	57.4%	52.3%	11.5%
Germany	121	108	544	12.0%	12.0%	4.7%
Other Europe	644	415	2,058	55.2%	55.2%	24.8%
<b>Asia Pacific</b>	<b>358</b>	<b>232</b>	<b>1,094</b>	<b>54.3%</b>	<b>71.9%</b>	<b>13.8%</b>
Australia	142	148	681	-4.1%	16.1%	5.5%
Other Asia Pacific	216	84	413	157.1%	200.7%	8.3%
<b>Total</b>	<b>2,592</b>	<b>2,002</b>	<b>9,010</b>	<b>29.5%</b>	<b>34.0%</b>	<b>100.0%</b>

## COMMENTS

- Americas impacted by unfavourable exchange rates
- Canada driver of growth
- UK and Other Europe (driven by Italy, France and Russia ) significantly up
- Germany is still in recovery
- Hong Kong, Singapore, Malaysia and Taiwan drive growth in Asia Pacific
- Growth in Australia significantly impacted by exchange rates

# SALES-OUT POSITIVE IN ALL MAJOR MARKETS

## LIKE-FOR-LIKE CONCEPT STORES – SALES-OUT DEVELOPMENT (Y/Y GROWTH)



## COMMENTS

- Continued positive like-for-like growth across all four major markets
- Improved product assortment and newness in stores drives growth
- Positive reception of the Valentine's Day and the Spring Collections
- Like-for-like growth outside the four markets continues to be high in new markets (Italy, Russia, France, Hong Kong, etc.)

# PERFORMANCE OF NEWLY LAUNCHED PRODUCTS



## COMMENTS

- Valentine's Day and Spring Collections successfully launched
- Two additional collections included in the quarter: Alphabet and Symbols
- Products launched within the last 12 months continue to do well and represented roughly 50% of sales-in and a third of sales out
- The PANDORA ESSENCE COLLECTION now launched in more than 1,000 concept stores in 48 countries. Continued focus on building the concept.

## 2014 FINANCIAL EXPECTATIONS

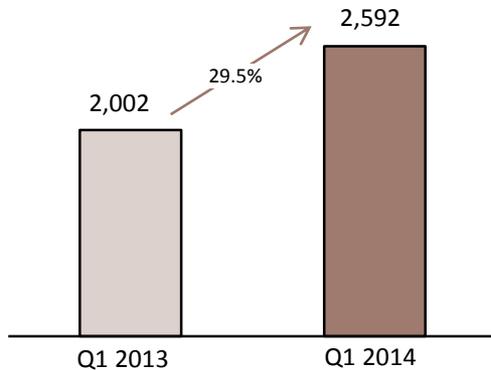


### 2014 FINANCIAL EXPECTATIONS

- Revenue of more than DKK 10.5 billion (upgraded from more than DKK 10.0 billion)
- EBITDA margin of approx. 35%
- CAPEX of approx. DKK 550 million (includes expansion of the production facilities in Thailand)
- Effective tax rate of approx. 20%
  
- During 2014, PANDORA expects to open more than 225 concept stores (upgraded from more than 175)

# REVENUE DEVELOPMENT

## REVENUE (DKKm)

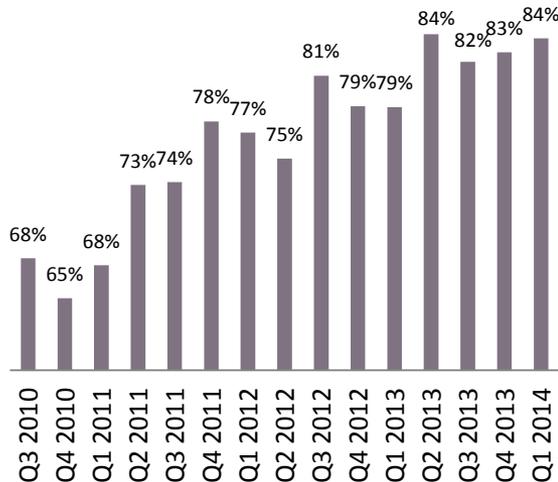


- 34.0% growth in local currency
- Volume up 26.6%
- ASP DKK 131 (vs. DKK 128 in Q1 2013)

## COMMENTS

- Total revenue increased by 29.5% driven by newly launched products and store openings
- Revenue impacted by replenishment following strong Christmas sales
- Revenue increase driven by volume growth - ASP increase marginally due to product and channel mix
- Branded distribution generating 84.4% of Q1 2014 driven by more branded stores as well as higher average revenue per stores

## SHARE OF BRANDED REVENUE



## SHARE OF REVENUE PER CHANNEL

	Q1 2014
Concept stores	51.0%
Shop-in-shops	18.5%
Gold	14.9%
<b>Total branded</b>	<b>84.4%</b>
Silver	8.0%
White & travel retail	4.3%
<b>Total unbranded</b>	<b>12.3%</b>
<b>Total direct</b>	<b>96.7%</b>
3rd party	3.3%
<b>Total</b>	<b>100.0%</b>

# DEVELOPMENT IN OUR DISTRIBUTION NETWORK

## NUMBER OF STORES AND OPENINGS

	Number of stores				Net openings	
	Q1 2014	Q4 2013	Q1 2013	Share of total (Q1 2014)	Q1 2014 vs. Q4 2013	Q1 2014 vs. Q1 2013
Concept stores	1,137	1,100	914	11.3%	37	223
- Hereof PANDORA-owned	158	146	111	1.6%	12	47
Shop-in-shops	1,388	1,372	1,287	13.8%	16	101
- Hereof PANDORA-owned	60	60	56	0.6%	0	4
Gold	2,323	2,329	2,258	23.0%	-6	65
<b>Total branded</b>	<b>4,848</b>	<b>4,801</b>	<b>4,459</b>	<b>48.1%</b>	<b>47</b>	<b>389</b>
Silver	3,098	3,187	3,092	30.8%	-89	6
White	2,126	2,291	2,692	21.1%	-165	-566
<b>Total</b>	<b>10,072</b>	<b>10,279</b>	<b>10,243</b>	<b>100.0%</b>	<b>-207</b>	<b>-171</b>

## NUMBER OF STORES, KEY NEW MARKETS

	End of Q1 2014							Net openings		
	Russia	France	Italy	China	Japan	Rest of Asia	Total	Q1 2014	Q4 2013	Q3 2013
Concept stores	134	24	26	26	1	56	267	20	31	24
Shop-in-shop	37	33	7	14	6	64	161	6	9	15
<b>Total</b>	<b>171</b>	<b>57</b>	<b>33</b>	<b>40</b>	<b>7</b>	<b>120</b>	<b>428</b>	<b>26</b>	<b>40</b>	<b>39</b>

## COMMENTS

- 47 branded points of sale opened in Q1 2014, including 37 concept store net openings
- Continued focus on global branded network – 389 branded points of sale opened since Q1 2013:
  - 223 concept stores
  - 101 shop-in-shops
  - 65 gold stores
- 51 new O&O stores opened since Q1 2013, including five in Italy, four in France, 16 in Brazil and 16 in Netherlands

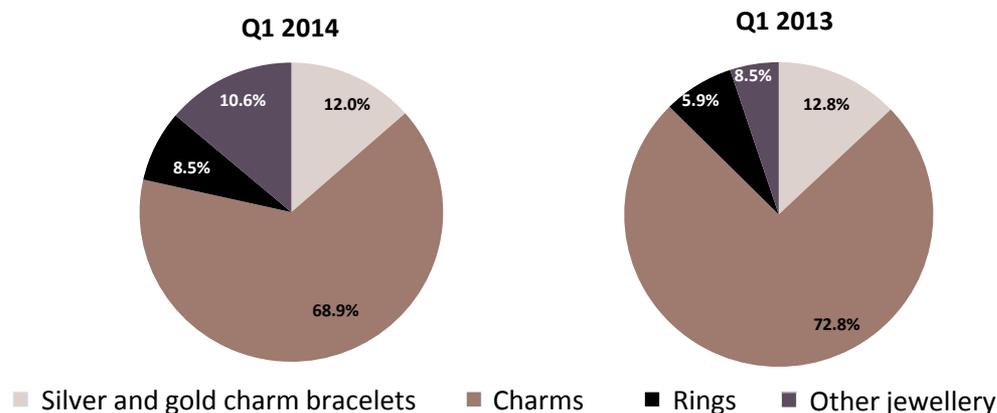
# PRODUCT MIX

PRODUCT MIX (DKKm)					
	Q1 2014	Q1 2013	FY 2013	Growth Q/Q	Share of total Q1 2014
Charms	1,784	1,457	6,293	22.4%	68.9%
Silver and gold charm bracelets	312	256	1,157	21.9%	12.0%
Rings	220	118	550	86.4%	8.5%
Other jewellery	276	171	1,010	61.4%	10.6%
<b>Total</b>	<b>2,592</b>	<b>2,002</b>	<b>9,010</b>	<b>29.5%</b>	<b>100.0%</b>

## COMMENTS

- Charms and Bracelets continue to perform well driven by newer products
- Revenue from Rings increased 86.4% following an increased focus on the category
- Other Jewellery increased by 61.4%, driven by the silver bangle and earrings
- Charms and Bracelets constituted 80.9% of revenue for the quarter

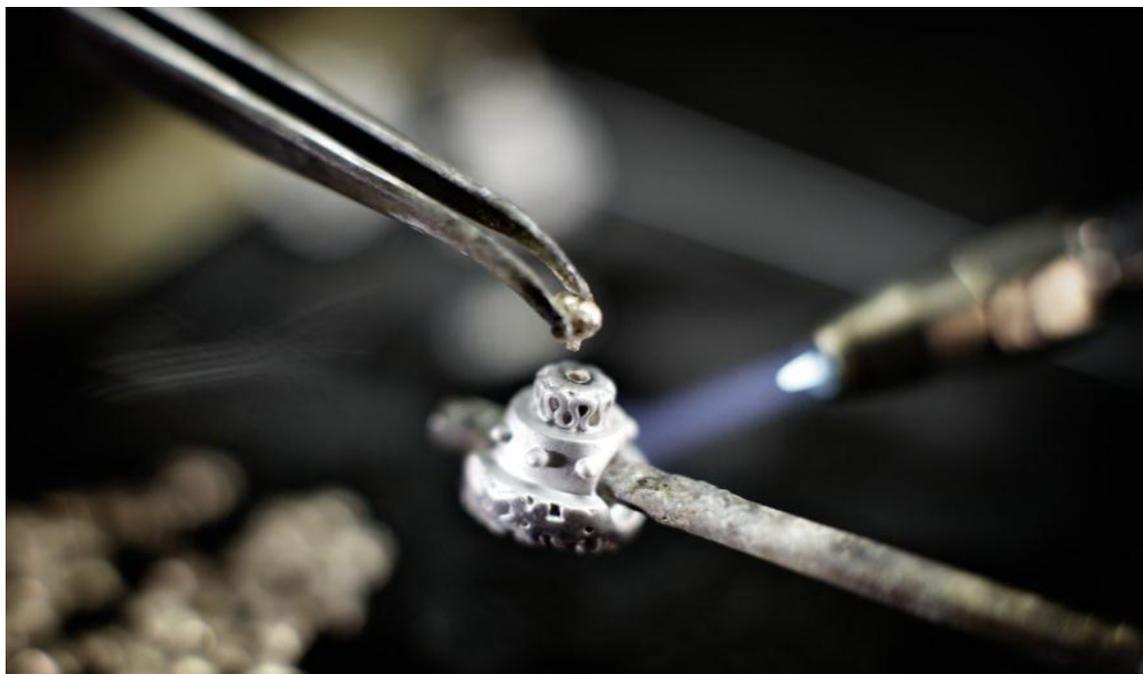
## PRODUCT SPLIT AS PERCENTAGE OF TOTAL REVENUE



# GROSS MARGIN DEVELOPMENT

## GROSS PROFIT (DKKm) AND GROSS MARGIN (%)

	Q1 2014	Q4 2013	Q1 2013	FY 2013
Revenue	2,592	2,822	2,002	9,010
Cost of sales	801	904	688	3,011
Gross profit	1,791	1,918	1,314	5,999
Gross margin	69.1%	68.0%	65.6%	66.6%



## COMMENTS

- Gross margin up 3.5 percentage points vs. Q1 2013 driven by lower commodity prices
- Excluding hedging and inventory time lag, underlying gross margin would have been approximately 73% based on average gold and silver spot prices in Q1 2014
- Gross margin impact of 1-2pp if 10% deviation on commodities

# OPEX DEVELOPMENT

OPEX, EBITDA AND MARGIN				
	Q1 2014	Q4 2013	Q1 2013	FY 2013
<b>Gross profit</b>				
Share of revenue	69.1%	68.0%	65.6%	66.6%
DKKm	1,791	1,918	1,314	5,999
<b>Operational expenses</b>				
Share of revenue	34.9%	36.4%	35.7%	36.8%
DKKm	904	1,027	715	3,318
Sales and distribution expenses				
Share of revenue	16.0%	17.4%	15.8%	16.8%
DKKm	415	491	316	1,517
Marketing expenses				
Share of Revenue	8.1%	9.7%	9.6%	9.8%
DKKm	210	273	193	880
Administrative expenses				
Share of revenue	10.8%	9.3%	10.3%	10.2%
DKKm	279	263	206	921
<b>EBIT</b>				
EBIT margin	34.2%	31.6%	29.9%	29.8%
Depreciation and amortisation*	50	55	45	200
<b>EBITDA</b>				
EBITDA margin	36.1%	33.5%	32.1%	32.0%

\*Excluding gains/losses from sale of assets

COMMENTS
<ul style="list-style-type: none"> <li>• Increase in sales and distribution expenses driven by higher revenue, an increase in owned and operated stores and investments in the e-commerce platform</li> <li>• Marketing expenses were DKK 210 million corresponding to 8.1% of revenue from 9.6% in Q1 2013</li> <li>• Administrative expenses were DKK 279 million corresponding to 10.8% of revenue and impacted by:               <ul style="list-style-type: none"> <li>• Anticipated increase in IT costs</li> <li>• Relocation of offices</li> </ul> </li> </ul>

# REGIONAL EBITDA MARGINS

EBITDA MARGINS							
	Q1 2014	Q4 2013	Q1 2014 vs. Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q1 2014 vs. Q1 2013
	(% pts)						(% pts)
Americas	44.3%	37.7%	6.6%	44.2%	44.7%	44.1%	0.2%
Europe	39.8%	40.4%	0.8%	39.6%	23.1%	34.6%	5.2%
Asia Pacific	50.3%	38.7%	11.6%	40.2%	36.1%	35.8%	14.5%
Unallocated costs <sup>1</sup>	-7.1%	-5.6%	-1.5%	-7.9%	-9.0%	-7.6%	0.5%
<b>Group EBITDA margin</b>	<b>36.1%</b>	<b>33.5%</b>	<b>2.6%</b>	<b>33.8%</b>	<b>27.4%</b>	<b>32.1%</b>	<b>4.0%</b>

## COMMENTS

- All regional margins positively impacted by the improved gross margin
- Americas impacted by Brazil revenue being moved from Other Europe to Other Americas
- Asia Pacific significantly up compared to Q1 2013, driven by leverage on costs in new markets

<sup>1</sup> Unallocated costs includes HQ costs, central marketing and administration cost in Thailand

# PROFIT DEVELOPMENT

FINANCIAL ITEMS, TAX AND NET PROFIT			
DKKm	Q1 2014	Q1 2013	FY 2013
<b>EBIT</b>	<b>887</b>	<b>599</b>	<b>2,681</b>
Finance income	8	1	167
Finance expenses	-16	-59	-106
<b>Profit before tax</b>	<b>879</b>	<b>541</b>	<b>2,742</b>
Income tax expenses	-175	-103	-522
Effective tax rate	20.0%	19.0%	19.0%
<b>Net profit</b>	<b>704</b>	<b>438</b>	<b>2,220</b>

COMMENTS
<ul style="list-style-type: none"> <li>• Net finance income amounted to DKK -8 million in Q1 2014</li> <li>• Net profit increased to DKK 704 million</li> <li>• Effective tax rate 20.0%</li> </ul>

# WORKING CAPITAL DEVELOPMENT

## WORKING CAPITAL AND CASH MANAGEMENT

DKKm	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Inventory	1,574	1,490	1.603	1,463	1,396
Trade receivables	889	895	1.017	687	724
Trade payables	613	539	481	184	174
<b>Operating working capital</b>	<b>1,850</b>	<b>1,846</b>	<b>2,139</b>	<b>1,966</b>	<b>1,946</b>
<i>Share of revenue<sup>1</sup></i>	<i>19.3%</i>	<i>20.5%</i>	<i>25.6%</i>	<i>24.9%</i>	<i>26.9%</i>
Other receivables	548	731	702	719	533
Tax receivables	41	35	128	163	140
Provisions	601	506	447	444	500
Income tax payable	651	546	478	394	337
Other payables	576	699	551	823	595
<b>Net working capital including derivatives</b>	<b>611</b>	<b>861</b>	<b>1,493</b>	<b>1,187</b>	<b>1,187</b>
<i>Share of revenue<sup>1</sup></i>	<i>6.4%</i>	<i>9.6%</i>	<i>17.9%</i>	<i>15.0%</i>	<i>16.4%</i>
Derivatives	49	148	109	274	56
<b>Net working capital excluding derivatives</b>	<b>660</b>	<b>1,009</b>	<b>1,602</b>	<b>1,461</b>	<b>1,243</b>
<i>Share of revenue<sup>1</sup></i>	<i>10.5%</i>	<i>11.2%</i>	<i>19.2%</i>	<i>18.5%</i>	<i>17.2%</i>
<b>Free cash flow</b>	<b>1,049</b>	<b>1,085</b>	<b>363</b>	<b>102</b>	<b>406</b>
<b>Cash conversion<sup>2</sup></b>	<b>149.0%</b>	<b>146.8%</b>	<b>59.3%</b>	<b>23.7%</b>	<b>92.7%</b>
<b>NIBD/EBITDA<sup>3</sup></b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>ROIC<sup>4</sup></b>	<b>52.4%</b>	<b>44.9%</b>	<b>35.5%</b>	<b>32.4%</b>	<b>28.0%</b>

## COMMENTS

- Operating working capital was improved during the quarter and represented 19.3% at the end of Q1 2014, compared to 26.9% at the end of Q1 2013
  - Trade receivables improved, due to improved cash collection
- Other receivables impacted by repayment of VAT in Germany
- Free cash flow increased to DKK 1,049 million mainly driven by higher EBITDA and improvement in working capital
- NIBD/EBITDA was -0.2x, and is expected to increase as a consequence of the on-going share buyback programme

<sup>1</sup> % of revenue in relation to last 12 months revenue. DKK 9,600m for the period ended 31 March 2014

<sup>2</sup> Calculated as free cash flow / net profit

<sup>3</sup> Calculated as last 12 months EBITDA

<sup>4</sup> Calculated as last 12 months EBIT / Invested capital (at end of period)

## Q1 2014 IN SUMMARY



### SUMMARY

- Revenue was up 29.5%
- Growth levels expected to moderate the rest of the year
- Gross margin increased to 69.1%
- EBITDA margin was 36.1%
- Free cash flow was DKK 1,049 million
- Revenue guidance upgraded to more than DKK 10.5 billion
- Share buyback of up to DKK 2.4 billion in 2014 on track

## KEY MESSAGES



## HIGHLIGHTS

- Revenue growth will still be strong – but at more moderated levels going forward
- Seven drop structure working well and consistently
- Franchisee demand remains high
- Product diversification beginning to impact
- Geographical diversification unfolding
- Strength of business allowing us to invest strategically in Germany, Russia, China, Japan, US and our infrastructure

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## QUESTIONS AND ANSWERS

