Pandora
Q4 & Full Year Results 2019
4 February 2020 11:00 CET

Operator
Hello and welcome to the Pandora Group Annual Report for 2019. For the first part of this call, all participants will be in a listen-only mode and after this there will be a question and answer session. Today I am pleased to present Alexander Lacik, President and CEO, Anders Boyer, Executive Vice President and CFO, and Michael Bjergby, Vice President, Investor Relations, Treasury and Tax, so please begin.

0.00.27
Michael Bjergby
Thank you operator and good morning everyone and welcome to the conference call for Pandora's Q4 results. My name is Michael Bjergby from the Investor Relations team and with me today here at the head office in Copenhagen I have our CEO, Alexander Lacik, CFO Anders Boyer and Mikkel Johansen from the IR team. There will be a Q&A session at the end of the call. Please limit your questions to two at a time and then get back into the queue if you have additional questions. I will quickly ask you to pay notice to the disclaimer on slide 2 and then finally, let me hand over to Alexander and slide number 3.

0.01.02
Alexander Lacik
Thank you, Michael. Let me start up by taking a step back and look at 2019 as a whole. 2019 was the first year of our turn-around and we have been executing as planned at a very high pace. Preferably, I would have liked to have much more time for these changes but Pandora's situation required the highest sense of urgency. Across the board, we see that our actions have improved the health of the business. It is encouraging that we have brought mature markets back to growth in Q4. This is a clear indication that our Group decline can be reversed. Performance improved in Q4 and we delivered on our financial guidance. With this, it is fair to say that Programme NOW is firmly on track.

Moving to slide 4. With that being said, we are not out of the woods yet. On this slide, we have outlined the financial headlines of 2019. Revenue was DKK 22 billion and we delivered an industry-leading EBIT margin of 26.8 before restructuring costs. Like-for-like was, however, -8, which clearly shows that we are still in a turn-around. Our turn-around remains unchanged. We will stabilise like-for-like and protect our industry-leading margins.

With this, let me move to the next slide to review Programme NOW in 2019. On slide 6, you will see the most important initiatives of the year. As you can see, it has been a very, very busy year. I am especially pleased with the commercial reset initiatives. As a listed company and a quarterly scrutiny, it is not easy to absorb short-term pain for long-term health. Inventories are at a much better level, promotion dependency is lower and we have pruned the product assortment to make it more productive, but our success all comes down to the relevance of brand. That we stay exciting and relevant for consumers. In the last quarter, we saw good early results from our commercial actions. In particular, I will point to our media and marketing investments and the positive effect on traffic. Consumers are responding. Our thesis from earlier in the year has proven right. Pandora has not invested enough in marketing.

On the next slide, I will discuss the data and details behind this. We conducted brand tracker service in our markets. This gives us the solid data to track if our marketing investments yield the desired returns. The first metric measures whether we are loud enough and if consumers take notice. This is confirmed with a more than 30% increase in unaided ad recall.

Secondly, we want to make sure that our investments strengthen top of mind awareness. This is confirmed too. Unaided brand awareness increased 9 points following our investments.

The last piece of the funnel is that we want our media push to lead to an increased engagement in the brand. One way to measure this is through Google searches. Here we also see an increase of more than 15% since the brand relaunch. In summary, data clearly confirms that consumers have noticed our marketing investments. We have strengthened top of mind awareness and consumers engage more with us as a brand.

Next slide, please. Another key engagement metric is obviously traffic into physical stores. As you can see on the right-hand side, this is also improving. I am obviously not satisfied with the -7% traffic, but I am satisfied with the developments since Q3. In the last quarter, we spent around DKK a quarter of billion in media investments and we still see roughly a return of 2 on that investment, varying across markets of course. Our media investments have mostly been TV campaigns and digital across our key markets.

On slide 9, we have provided an overview of the results of our turn-around in key markets. There is a consistent improvement trend, except for China. I want to emphasise the performance in Italy, France and Germany. They all delivered positive like-for-like, which is obviously a huge swing compared to the performance earlier in the year. Just as a reminder, France and Italy had -23 and -22% like-for-like in Q1 of 2019.

Now, there are really no special circumstances for these markets. They are mature. When we can change the trajectory here it gives confidence for the Group's potential to grow. I am also satisfied with the clear improvement in the US and UK although they ended just short of positive growth. The odd one out is China. This should be no surprise to any of you. We have spent significant time assessing our brand position and organisational setup in China. The brand has not been established in line with the global position and has not been able to build sufficient awareness. We have grown very fast but based on trend and fashion driven consumers.

Going forward, we will invest more in China. I will be very clear on our desired position. As you know, China is currently also challenged by the Corona virus that has left streets empty and forced store closures. Anders will come back to that later.

Next slide please. In the fourth quarter, we focused on the corporate position of Pandora amplifying affordability and collectability. It has worked really well and drove the improved performance. Besides significant media investments, we had some solid product launches that created excitement and traffic into stores, but it is worth noticing that this is still our base products, i.e. products launched more than 12 months ago, that perform the best. We have some strong bread and butter products like the Moments Bracelets with the hot clips. They will always perform when we get traffic into the stores. The resilience of the base business shows that we have a solid foundation and we will drive this even harder going forward.

Worth to mention is also the performance of charms improving materially in the quarter. I will go quickly through slide 11 and our efforts to reduce discounting dependency. As in previous quarters, we have executed according to our plan. We are reducing the number of discounting days but we will continue to promote the brand. We will play to win in big retail moments like Black Friday, Christmas, Valentine's Day and Mother's Day.

We have taken a big step in the right direction in 2019 but we are not yet at the right long-term sustainable level and we will reduce the number of promotions another notch in 2020.

Now I am handing over to Anders and slide 12.

0.08.03
Anders Boyer
Thank you, Alexander. As you have probably noticed we have increased our cost saving target once again and we are now targeting DKK 1.4 billion up from DKK 1.3 billion before and DKK 1.2 billion when we launched the Programme NOW so the target is now around 6% of our total revenue. The momentum across the cost initiatives is quite strong. The additional savings which enable us to increase the target today are found in the buckets that we call Cost of sales at the top of the slide and Other at the bottom of the slide. We are moving into more complex cost levers in the Programme NOW because all of the low-hanging fruits are gone and have been implemented already and that means that we will start to drive for example cost savings through cross-value chain initiatives and complexity reduction and with that I will hand back to Alexander and Programme NOW in 2020.

0.09.11
Alexander Lacik
Thanks, Anders. Let me jump to slide 14. We have executed on many important commercial initiatives in 2019 such as the brand relaunch and brand activation events with the Pandora Me Charm Academy. Our initiatives have very strong momentum with consumers and it is important that we now build on that momentum.

In 2020, we will continue to make collaborations, partnerships, activation events and much more to keep our brand exciting and contemporary. We have already initiated the first small 2020 brand initiatives. We are celebrating the 20th anniversary of the iconic Moments platform with 12 limited edition vintage charms launched at the 20th of each month.

The first charm Pandora ever made, the Strawberry Charm, was relaunched on 20 January and instantly sold out online.

On the next slide, we are providing an overview of our roadmap and key initiatives in the year. Some of these will have short-term effects but we are also planning initiatives that will have strong and more sustainable long-term effects. This includes a new product strategy and a strengthening of the organisation.

Another example is a digital step change. It will support us in the short term but will become a powerful competitive advantage longer-term.

And we move to slide 16 for a deep dive on our digital efforts. In January, we announced that we are establishing a digital hub in Copenhagen. It will be a centre of expertise. We are having more than 80 additional IT, digital and data scientists. Their efforts can be divided into four different work streams.

These are not just words and Power Point slides. All four work streams have very clear revenue targets attached to them. They will be held accountable to deliver on these numbers. The first work stream is to further improve pandora.net. Optimising pandora.net is a very effective and simple way of creating additional revenue. We can increase conversion rate by making the sites faster and easier to use. We also want to make pandora.net more inspirational for better integration to social media and more story telling.

The second one is about personalisation. It is absolutely vital for media effectiveness and conversion rates that Pandora delivers a personalised experience much like we do in our physical stores. This is across all touch-points. It is how our online store looks and what products are activated based on the consumer or gift they are visiting.

Another example is retargeting of former customers with relevant marketing messages and complementary offers.

The third work stream is omni-channel which we have discussed before. We have progressed well in the US and China and will expand to the rest of our 7 key markets during the year.

The fourth work stream is our loyalty programme. This is a key opportunity for collecting brand to engage with consumers. It will strengthen our CRM system with strong engagement with the brand and open for targeted consumer communication.

Please turn to the next slide and some comments on our updated network strategy. I will try to make this very simple. The network strategy that we are announcing today is not a revolution but rather confirmation of our current leverage. We will grow more online and make the link between offline and online stronger with enhanced omni-channel capabilities like we have just discussed. We will optimise the physical network with openings in white-space areas and a systematic approach to store closures. Let me come back to this in a couple of slides.

Finally, in line with the general trend, we will reduce the number of multi-brand doors. Within this, though, we see opportunities to improve the presence in higher quality doors because we see an opportunity to drive customer acquisition as well as improving brand awareness.

Slide 18. The starting point is really that we have a highly profitable network setup. Full stop. We will open more stores in areas where there is still white space. This is unchanged. At the same time, we will now also take a systematic bottom-up approach to stores in catchment areas. This will probably lead to more store closures than we have seen in the past. To be very concrete. We are very happy with the footprint, so now it is more by polishing what we already have.

Store openings in some areas, store closures in other places. In total, probably a stable number of stores in coming years. From an ownership perspective, franchisees continue to be an important point of the Pandora business. We may continue to take over a few stores if there is a strong business rationale for doing so, for example when a franchise contract expires. With that I will shift gear for my final slide today.

You have probably all seen our announcement last week about our new ambitious climate targets. This is important for the company and important for me personally. We have a responsibility as the world's largest jewellery brand to reduce our greenhouse gas emissions and set climate standards for our industry. In 2019, Pandora received a top rating of triple A in the Morgan Stanley ESG rating assessment for the fourth consecutive year. Our two largest crafting facilities in Thailand are LEED gold certified and so are our headquarters in Copenhagen. We have actually always been at the forefront of ESG development but we have never set any public targets and we have probably not communicated enough about it. That is changing now.

Our new targets are first of all, we will become carbon neutral by 2025. Secondly, our crafting facilities will be run by 100% renewable energy already by the end of this year. And finally, we have joined the Science Based Targets initiatives. That is the leading corporate collaboration for ambitious action on climate change. With this we will set our science-based targets to reduce emissions across our full value chain.

This will obviously not be done overnight, but we are working at full speed to figure out what these numbers should be. And on that note I will hand over to Anders for the financials.

0.15.31
Anders Boyer
Thank you, Alexander. On slide 21 just a few comments on the Q4 results. Overall, the performance in the fourth quarter was satisfactory and it was clearly a step in the right direction and we can see impact of our turn-around programme on many of the financial KPIs in the quarter and that is a quite important milestone for us. A general comment which is not shown on the slide here is about the absolute profit in Danish kroner in the quarter because when we normally talk about profits in Pandora we focus on the margin but I think it is worth mentioning or noting that the absolute profit level in the quarter, or the absolute EBIT kroner level before restructuring costs was 11% above last year.

Then on slide 22 and the organic growth bridge. This waterfall actually looks a bit different than during the last few quarters because the size of the different boxes is smaller than what we have seen in the prior quarters and there are fewer moving parts in general when we look at the Y/Y bridge and that is a good thing. And that is first of all a result of the fact that the commercial reset is getting behind us so the heavy impact that we have seen from lowering inventories and reducing selling patterns, changing payment terms in the wholesale channel is getting behind us.

And equally important, like-for-like improved to -4 from -10 in the first three quarters of the year and as Alexander already explained in the -4% like-for-like you will see an improvement in momentum in all of the key markets with the exception of China. China dragged down the Group like-for-like by around a percentage point in the quarter and the decision to reduce promotions also had a small negative impact as well in the quarter.

The grey box to the right of the like-for-like box is the sum of a number of smaller effects that combined added around 2 percentage points to growth in the quarter. And the change of payment terms in Italy is the largest part of that box and you probably remember that discussion back from the last quarter and if you combine that or together with a normalisation of the sell-in/sell-out ratio in the wholesale channel, this results in organic growth which is much better in the fourth quarter than what we saw back in Q1, Q2 and Q3 of 2019.

And then please turn to slide 23 and the EBIT margin bridge. As we have guided, the fourth quarter generated a strong EBIT margin and the EBIT margin was actually above the level of Q4 in 2018. In general, I think that the bridge is pretty self-explanatory so I won't go through it in detail but there are two things that are worth noting on this bridge.

First of all, we see a massive shift in our cost base so we are reducing cost wherever we can do that and that is the minus or the plus 4.5% of revenue you can see in the first grey box and then we are using these to fund our top line investments, our Programme NOW investments and that is mainly in marketing. And that is the first two steps in the bridge. Secondly, it is worth noticing the two light grey boxes to the right and they are mainly a result of extraordinary costs back in 2018, that is the 2 percentage points box called gross margin and the 1 percentage point box just to the right of that.

What this means is that the EBIT margin seasonality that we see here in 2019 is a more clean picture than back in 2018 and the seasonality with a relatively larger share of profit in Q4 should also be expected going forward.

Then please turn to slide 24 and the cash generation. Both the Q4 cash conversion and the full-year cash conversion for all of 2019 were pretty strong and that comes after also a pretty good cash conversion back in 2018. As you will see on the slide here, we have focused our commenting around the KPIs excluding the impact of IFRS 16 as we think this gives a more fair view of the real cash generation in the company.

The operating working capital level ended at a very low level by the end of 2019 and that is driven by both lower inventories and higher trade payables. The inventory level ended nothing less than DKK 1 billion lower than last year and that is almost a third down and most of this is good and a result of us driving focus on inventory but the inventory levels ended too low by the end of 2019 and we will see a higher level going into 2020.

Trade payables ended at a very high level and are elevated by the restructuring costs so the 14.2% of revenue from trade payables by the end of 2019 is not a long-term sustainable level so net/net we still see a sustainable working capital level to be around 10% of revenue may be high single digit, so the very low working capital going out of 2019 will be a drag on cash generation in 2020.

And with that I think we should go to the guidance for 2020 at slide 26. In short, organic growth between -3 and -6 and EBIT margin excluding restructuring costs above 23. We know that open-ended guidance ranges are not that usual but at this stage of the turn-around we believe that this is the best way to represent our thinking and expectations for 2020 and it clearly reflects that our number one objective is to stabilise like-for-like because we are willing to invest what it needs to create a sound and long-term sustainable business.

Digging into the organic growth bridge on slide 27. Here we have provided the building blocks for the organic growth and there are fewer building blocks than last year and we are, actually you can say, happy about and it reflects that we are putting most of the commercial reset behind us.

The three pink boxes combined represent our guidance on negative mid-single digit like-for-like and there is actually an important story behind these three pink boxes and it tells a somewhat different story than when you just look at the overall like-for-like guidance of mid-single digit negative.

The first building block, the first pink box, impacting like-for-like in 2020 is our deliberate decision to further reduce the number of promotional days in 2020.

Secondly, we see a continued unsatisfactory performance in China in 2020, even when we exclude the potential impact from the Corona virus.

And then the residual, the third pink box, is the underlying like-for-like in all other markets and the main message on the bridge here is actually in that last pink box because it means that we believe that we will be approaching stabilisation of like-for-like for some markets in 2020 and as the year passes by.

And we should emphasise that the guidance that we show here does not include any impact from the Corona virus. In the last couple of weeks, we have had quite a number of store closures and we have seen empty streets in China and it is a quite dramatic impact on our business there in both China and Hong Kong. The situation is highly unpredictable of course and we can make no meaningful estimate on the impact on the guidance on 2020 for now and we will continuously evaluate when the full-year impact can be estimated in any reasonable way.

Then on the next slide, on the EBIT-margin. I think the EBIT margin bridge here is relatively self-explanatory. I am now on slide 28. We will reinvest all or most of our cost reductions in driving the top line. Exactly how much we need to reinvest and how that plays out we will see as the year progresses and that is why some of the boxes here are made shaded in this bridge but it is important for us to retain the flexibility to invest in driving the top line in order to exit 2020 with a like-for-like which is approaching stabilisation in the key markets.

We can fund the investments in the top line through our cost reduction initiatives but the de-leverage in the business will lead to 1.5-2.5 percentage points drag on the margin and then on top of that we will have headwind by the increase in silver prices and a strengthening of the Thai Baht in 2020.

And then restructuring costs are estimated to amount to around DKK 1.1 billion in 2020.

Then my final slide on the guidance, slide 29, is about the cash distribution. We will distribute around DKK 3 billion to the shareholders in 2020 and that is around 9% of our current market cap. We have decided to skew our distribution from dividends towards share buybacks in 2020 and that is because we think that Pandora is in a unique situation. We are in the middle of a large turn-around. We have high margins, we have strong cash flows but when we look and measure it on traditional capital market multiples, the valuation of the stock could appear low and we see that as an opportunity for us to reduce the number of shares outstanding and thereby build the capacity for higher dividends per share in the future and thereby rewarding long-term shareholders. This should not be taken as a signal that the dividends will be kept at DKK 9 per share in the future because we will of course evaluate the split between dividends and share buybacks every year. With that I will hand back to Alexander for a few closing remarks.

0.27.26
Alexander Lacik
Thank you, Anders. I will conclude the presentation where I started it. Programme NOW is on track and we are executing as planned. That is important. With 2019 in the books, we are only half-way in our turn-around. Early results are encouraging but there is still a lot of work to do. As we move through the year, there will be ups and downs on the way, but at the end of our turn-around, we will have stabilisation of like-for-like in sight. With these remarks we will now open for the Q&A session. Operator please.

0.27.57
Operator
Thank you very much. So ladies and gentlemen, if you haven't already can you please press 0 and then 1 on your phone keypad now in order to enter the queue and then after I announce you, just ask that question. And if you find that question has been answered before it is your turn to speak, just press 0 and then 2 to cancel. And the first question is over the line of Elena Mariani of Morgan Stanley. Please go ahead, madam. Your line is open.

0.28.28
Elena Mariani
Hi good morning Alexander and Anders. I know I have to keep my list of questions to two and my first one is related to your like-for-like, you know both the guidance and the exit rate from Q4. Can you have us understand why your exit rate from the fourth quarter is actually not a good proxy for your like-for-like guidance in the fiscal year 2020? I mean, I have noticed that you have mentioned that you have reduced promotions in October and November but you haven't done so in December so is it reasonable to assume that the reason why your like-for-like has improved through the end of the quarter is because you have run promotions in line with the past. This is in my opinion a very important point because it helps us understand how the moving parts are coming together and what we should expect next year so maybe you can tell us what exactly you are planning in terms of further cuts in promotions through the course of the year, in which markets because you have done quite a lot already in 2019 so that is question number 1 and question number 2 is on your EBIT margin guidance of above 23%. What is the underlying marketing expense assumptions here as a percentage of sales? And I would like to understand what you think would be a sustainable level of marketing expenses needed for you to sustain reasonable like-for-like or, you know, to achieve stabilisation of sales and whether you think this new EBIT margin that you are going to

achieve in 2020 could be considered to be the new recurring EBIT margin for the future or whether you do not exclude that you could have a further step down in the following years. Thank you.

0.30.28
Alexander Lacik
Maybe I will try to dissect your first question. It was a complex question, let me start by that. I think the starting point is – I won't get into the technicalities – is, you know in order to establish a trend you need more than one observation so in order to kind of say we now have a clarity on the travel of direction I would want to look at at least three quarters of some performance in order to then say: Yeah, now I know what the underlying base sits. Q4 is one observation, okay, so that is kind of one thing. Then I think it is very difficult to compare what we did in the Q4, let's say, of 2019 with 2018. There are quite a number of moving parts but I think the big differences are we have a significantly different media investment coming into Q4 of 2019 versus 2018. We have a significantly better advertising package hitting the market. We believe that focus on the core business paired with some strong initiatives in Q4 2019 was better than 2018 and then you can kind of see that there are also some markets which have gone from having a relatively low investment level if we now go one step deeper getting it a better level in 2019 so I think on that basis there are so many moving parts that I can only look at the totality of it and say we see that we have more consumers coming to the brand in Q4 of 2019 versus 2018 and that is a good first sign, but that is also why we are hesitant to then just draw out the line and say, you know, this is now a slam dunk for the year of 2020. We know that there will be quarters which are going to go up and down so this is a little bit difficult to predict.

Then on your question on promotions I would say as you correctly point out, October/November was a pull down versus the prior year whereas probably from Black Friday and onwards was more or less similar, maybe with the exception of China which had a 30% reduction on days, so days is one metric. The other one is obviously the type of offers that you put in place and again I think we widened up a little bit on the type of offers that we put in the marketplace from Black Friday and onwards. I know it is not a perfect answer to your question but I think it is.. we are being cautious of just taking one observation and then drawing out the trend line on that basis. That is maybe why you see us not being overly bullish at this stage of the game but rather come with sensible numbers with sensible assumptions and make sure we deliver on this just like we did in the last year. Maybe I will hand over the EBIT question to Anders.

0.32.17
Anders Boyer
Yeah, thank you Elena for the questions on the marketing investment levers and as a starting point marketing investments in 2020 will be higher than in 2019 that is a given and I think looking at the level that we have invested in the second half of 2019 is a good starting point to say what could 2020 look like, but this is – it is actually why we have made some of the boxes on slide 28 shaded in the guidance because we want to see, we cannot conclude yet exactly how much do we need to invest in driving the top line. It could be a little bit higher, it could be a little bit lower and that is exactly why we have designed the margin guidance for 2020 as we have but having said that we will invest more in absolute kroner in 2020 than in 2019, that is a given and then we will have to track initiative by initiative and then look at the return that we are getting from those additional investments and then find what is the right and sustainable level going forward. On the long-term sustainable EBIT margin, the short answer is that it is too early to say. We are in the middle of the turn-around still and we need to see how it all plays out a little bit longer and it could be that when like-for-like stabilises we will also be able to stabilise the margins so the one big mover is when is like-for-like stabilising, what is the path towards that and then the second part of that equation is exactly how much do we need to invest in the top line in order to stabilise the top line and that net equation is too early to conclude on yet, but we have in the announcements today repeated the statement saying that

there is nothing that prevents us from being a company with very high margins still going forward. Exactly the same statement as we had in the Annual Report for last year.

0.35.37
Elena Mariani
Okay, now thank you very much for your comprehensive answers.

0.35.42
Operator
Okay, so we are now over to the line of Lars Topholm at Carnegie. Please go ahead. Your line is open.

0.35.51
Lars Topholm
Yeah thanks and congrats with a good finish to the year. I will also limit myself to just a couple of questions. So Alexander, on store closures you said that we should assume give and take a stable concept store count going forward but you also mentioned that you would shrink the multi-brand channel which stands at some 3,800 outlets right now. Can you comment a bit on how much that should be reduced and maybe also comment on the phasing? And likewise on the promotional activities as discussed just before, can you comment a little bit on the phasing in 2020 so will this have a more significant impact on like-for-like in Q1, Q2 and when do you see this reduction of promotional activity being fully in the comps. Thank you.

0.36.53
Alexander Lacik
Hi, Lars. On the multi brand, the work we have done during the last few months we have kind of painted a picture 3-4 years out, let us say, and in that time horizon we see that probably stepping down the multi-brand by a couple of hundred stores. This is obviously a very fluid discussion, you know, but .. so that is kind of one answer to your question. The other one is, as we have gone through this properly because there has not been an awful lot of attention to multi-brand stores as you very well know over the last few years where the course has been towards O&O and franchise in favour of that. We have actually identified that there are some opportunities which we have foregone by reducing the multi-brand presence so much. We see that a lot of new customers, new category entrance, they typically would come through a multi-brand rather than necessarily a concept store so it is an opportunity for us to actually get hold of, acquiring new customers through that channel and of course reaching a broader brand awareness by being present there so part of the thinking that we have done is to review essentially country by country in the main markets whether there is an opportunity to increase the quality of presence so it might be that the overall number is going to shrink in line with multi-brand essentially shrinking but what we are also trying to look at and we have identified a couple of ideas is where we are currently not present and could offer some opportunities for the brand as I mentioned. So I think that is that.

On the promotional one. Do we actually have that detail on the quarterly impact? The overall impact what we have guided for is roughly a point, right, and a large portion of that comes out of the sequential take down of the sales tab in the US e-commerce site so.. but actually at the top of my head I don't have exactly the impact, maybe there you can help me out?

0.39.11
Anders Boyer
It has all had a big impact on the seasonality as such between the quarters also given that the impact is far less than in 2019. I think it could be a slightly higher impact in the first half than in the second half but it is in the decimals that we are accounting it and I think you also asked, Lars, about whether this is now it. The reductions that we are seeing in 2020 and I think our philosophy has been that we should get out of the

Programme NOW turn-around having done what needs to be done and I am looking at Alexander here whether he says he agrees to that. Of course I don't we want to nail it down and say this is it forever but of course that is our philosophy that we need to do the commercial reset fully, before we exit Programme NOW.

0.40.13
Alexander Lacik
As I mentioned, in the big retail moments, we still have to be there and play because you know to a large degree we are in the gifting business as you all know so things like Black Friday, Christmas, Valentine's Day, Mother's Day of course there we will be promoting the brand. We will have end-of-season sales twice a year as we currently do and then there might be some local specifics where it is just meaningful to be part. It does not necessarily have to mean that every activation of the brand has to breed the price promotion so that we can probably widen up as time goes by. There are other ways to kind of entice consumers and especially as we get into loyalty programmes and CRM mechanics then we can kind of be more targeted with our offers across the various trading channels, but I would say generally speaking we should kind of have a decent base line coming out of 2020 for the future.

0.41.13
Lars Topholm
Just a very quick follow-up on the store closures. You mentioned your gross openings will be in emerging markets. Can you comment on in which countries you expect to close concept stores? And then I will jump back into the queue after that.

0.41.36
Anders Boyer
I think the majority of the store closures that you will see will be in some of the European markets like what we saw back in 2019. It is not one single country but there are a number of countries especially in the more mature European markets where there will be a relatively bigger share of store closures.

0.42.01
Lars Topholm
Okay, thank you very much for answering my questions.

0.42.06
Operator
Our next question is over to the line of Silky Agarwal at Citigroup. Please go ahead, madam. Your line is now open.

0.42.13
Silky Agarwal
Good morning everyone. I have two questions, please. The first question is on your overall assessment of the situation I mean looking back what has been the key learnings and any initiatives and measures that you think need to be tweaked or reached under or delivered and my second question is relating to China I mean what are you planning to combat the structural weakness that you are seeing in this market? I mean, I am talking beyond the outbreak of the Corona virus, have you planned any measures to improve the brand desirability and if so when do you expect these measures to pick in? Thank you.

0.42.53
Alexander Lacik

Okay, so on your first question is as we said I think overall there were like 8 or 10, it depends on how you count, major topics on the Programme NOW and I would say by and large we are very pleased with all of them. I think the one which still kind of is in the hopper is the new store concept so we have, I mean it has been in the market for quite a short period of time but I think in all fairness we probably have more work to do on that before we push button and make what could be a multi-billion Danish kroner investment in refurbishing that aspect so there are some positives in there and there are some kind of question marks and some negatives so we are working through that but we probably have a few more months ahead of us before we close on that particular topic. I think most of the other ones we are very pleased with and that is also why we say we are going to continue with those activities into 2020.

On your second question on China, as we have alluded to before we have some underlying issues in China and I think that the starting point is really the way the brand was established from a positioning standpoint is not what we have done in any other markets and I think we have a very vanilla type of position currently going in China which in my book is the main reason why we are seeing those issues. And fortunately, that is the one that takes the longest time to fix. It is not a mechanical issue per se. We have done a lot of analysis in the last few months and my expectation is that by the end of this quarter we will conclude on the analytics and have an action plan to go forward. My expectation is for the 2020, you know disregard the Corona virus for two seconds, is that we will be in negative territory in China. This is going to take us a little bit longer to fix. Unfortunately, one of the things which we found in the analytics was our media model and we had planned to do a media test in the weeks to come but of course with the current situation that will have to be postponed so that might be a leg that comes on stream a little bit later but it is a day-by-day situation. But generally speaking, by the end of the quarter we will be in a position to say this is what we think is wrong. This is what the go-forward plan looks like and from there on we will need to assess how quickly we can turn this back to growth because I think it is very important to say that China is the biggest jewellery market in the world and we are not going to walk away from this so this is fixable, it is just going to take a bit of time for us.

0.45.39
Silky Agarwal
Thank you. Just coming back to your point about 10 of these new concept stores probably lagging behind a bit. I remember in the third quarter call you said that these stores were kind of having positive retail like-for-like momentum. Are you kind of suggesting that the like-for-like momentum in these new stores has not property picked up to the same extent as you would have thought and that is the reason why you want to go slow with the new store roll-out in 2020?

0.46.09
Alexander Lacik
Oh, there is actually much more to it than just like-for-like. We are looking at the cost of servicing those stores, we are looking at conversion rates etc. so it is – and the picture is mixed. We have launched them across the three regions, let's say, and we have a mixed picture also from the three regions. So it is not a conclusive picture that says: Yes we have nailed it, let's go. It is more: Hmm, why is it working here and why is it not working there because arguably the starting point was similar so these are kind of some operational issues that we are working through and it could be that in two months' time we are in a different position. Remember, that some of these stores have been in the market for what? 10 weeks or something, which is super early in the curve.

0.46.59
Silky Agarwal
Thank you

0.47.02
Operator
We now go over to the line of Magnus Jensen at SEB. Please go ahead, Magnus, your line is now open.

0.47.09
Magnus Jensen
Hi guys. It is Magnus from SEB. I have two questions as well. First of all, back in November you were so kind to give us the like-for-like for October. Is there any chance that you can give us some sort of flavour on how January has progressed and maybe in relation to that, obviously the Corona virus has a significant impact on your Chinese business but do you have any sense of what kind of impact it could have outside of China, maybe if you have any insight into how large a share of your tourism sales is from Chinese people travelling who will be travelling less obviously? Thank you

0.47.52
Hi, it is Anders here. I can start with the first question on January. What we can say is that the year has started out in line with the expectations and in line with the guidance that is given for the full year. Obviously, from late January we start to see some impact from the Corona virus but having said that, yeah we started out the year in line with expectations. I think Alexander will answer the last question.

0.48.25
Alexander Lacik
Yeah I wish I had a crystal ball to say where this is going to go. I mean, if you go back to SARS that was in the market for many, many months so I think it is too early to say. I will just provide some context though which I think is useful to bear in mind so if I take Greater China which is Mainland China, Hong Kong, Macau, Taiwan and what we estimate the travel retail from Chinese tourism specifically to be, that would represent somewhere between 10 and 12% of our global revenue, okay? So if you want to do math, I mean you can say that then goes to zero and then with a P&L that flows, that will be kind of the worst case scenario from a financial standpoint, let alone other issues with people's safety etc. So that is kind of the simple math you could do. And as I said I mean we are watching this on a day-by-day basis. It is very difficult to model out but you know that is the number we have at hand. I think it is important to also mention that we have a full-court press on avoiding at least to contribute to any issues, which means that we have a strict no travel in or out of China policy in effect as we speak and we are also limiting travel within the wider Asia region and of course we are concerned if this would spread to Bangkok as you know we have a big facility in Bangkok so we have – we are checking people, temperature, we are asking people not to turn up to work if they have any symptoms or a cough or sneeze or anything alike so we try to kind of do whatever we can, I mean we have masks etc. so we are kind of following all the guidelines that governments in the various countries are helping us to understand what is going but as I said for us if I have 10-12% in jeopardy I still have 90%, which today I feel a little bit better about than maybe we did a year ago so that is kind of how we would see our exposure to China is in fact a little bit lower than what we see other companies have but you know, let us all hope that for the safety of people that this goes away sooner rather than later.

0.50.54
Magnus Jensen
Thank you. Just a short follow-up. So China and Hong Kong make up around 10% of revenue and you say that so it is only zero to 2% of your revenue that comes from Chinese people shopping outside of China.

0.51.06
Alexander Lacik

It is 10% plus 2% - you are right, Magnus. 10% from China, Hong Kong, Macau and then 2% of revenue coming from Chinese travellers in the rest of the world so 12% in total – 10 + 2.

0.51.22
Magnus
All right, yeah. Okay, sounds good, but great thank you

0.51.27
Operator
Okay, our next question is over the line of Klaus Kehl at Nykredit Markets. Please go ahead, sir. Your line is open.

0.51.38
Klaus Kehl
Yes, hello. Two questions from my side as well. We talked a little bit about the exit rate on a like-for-like basis in 2019. So could you help me a little bit here with some math because you said that you started Q4 with a negative like-for-like of -7% and you ended at -5% so you must have ended the quarter higher than -5% and if I do the math I end up in the range of -3% for December. Is there something wrong with my math in this perspective? And secondly, Germany, Italy and France – they performed very strongly in Q4 and you have seen a major improvement compared to Q3. Could you elaborate a bit on what actually happened here in Q4 and what you have done in these specific markets?

0.52.45
Anders Boyer
Yes, I can give a couple of comments on the questions, Klaus. Obviously it goes by math that November and December together had to be better than October like-for-like and that was actually also as we had planned from the outset. I think if we go back probably a year we used an expression at a point in time that we wanted to make Q4 and the Christmas, Black Friday trading bigger and better than ever and the entire guidance for Q4, the implicit guidance for Q4 was built around that trading from week 48 to 52 would be what will be driving like-for-like and that is also what happened. I think in general what we have seen is that trading around the key events comes a little bit later than what we have seen in prior years, it comes even closer to the event as such and that means that Q4 as such becomes even more back-end loaded than what we have seen in prior years. I think looking at December isolated, you have to be quite careful because Black Friday from a like-for-like perspective shifted from November 2018 to December 2019 and given that Black Friday is also a massive event it makes December look on an isolated basis good but that is also the general caution that we will give that we have to look at.. be careful looking at individual months and individual weeks even because there are trading differences, differences when we launch new products when exactly, which week is it put into the market? But having said that, yes. November and December together was obviously better than October.

0.54.40
Alexander Lacik
Now on your second question so the generic template for Q4 was the same so it is not like we said: Okay, let us put the hammer down in those three markets more than somewhere else so the promotional schedule etc. was exactly the same, the initiatives from a newness standpoint were exactly the same so actually I think there are different possible explanations by market, I mean, I think France and Italy in my book were probably underinvested versus the base and then we were kind of just right-sizing the media investments in those markets and then it is bound to work because we have seen that our media efforts have yielded very well. I think in Germany I think the awareness of the brand generally speaking is a little bit lower so when we put the media there and we saw this already in the back-up of Q3 that Germany

reacted very strongly to the media impact so I think there is no one simple answer to that question. Each country had different starting points somehow which drove those numbers. And even if you look on a 2-year basis, you go back in the prior year you could say: Well, Italy and France had a slightly easier comp. Germany did not. So again it is like, yeah, because we have been kind of scratching our head as well so I just think we have to accept that the brand has different starting points in different markets and responds in a way slightly different depending on the investments we do but from an activity standpoint it was the same basic programme that we executed everywhere.

0.56.27
Klaus Kehl
Okay. Thank you very much.

0.56.31
Operator
The next question is from the line of Frans Høyer at Handelsbanken. Please go ahead.

0.56.37
Frans Høyer
Thank you very much. You commented recently around how the like-for-like performance was structured across different categories of price points and I was wondering what you saw in Q4 in this respect. And also you did a lot of clearing of inventories at dealers in the fourth quarter and have you done enough? Have you and what is the situation in your own stores regarding the need otherwise for cleaning or clearing out some slow-moving items? And then finally, a broader question about your thoughts on the assortment on different categories, charms and bracelets, rings, earrings, necklaces and so on what are your thoughts on that now that you have experienced several quarters with the company?

0.57.46
Alexander Lacik
So let us try to knock them off. So your first question is on the like-for-like by pricing points. I am not sure I have that number at hand. The one thing I can say but it is a slightly different twist on your question is that what we regard as the base versus new items so the base performance in Q4 was actually flat whereas in new it was obviously a little bit lower than that of course to get to the -5. I will actually have to come back to you on that question. I don't have that data point at the top of my head. So what was the second one?

0.58.31
Frans Høyer
It was regarding the need or otherwise to do more cleaning up of the inventories with dealers or indeed in your own outlets.

0.58.42
Alexander Lacik
I think from an inventory position it might actually be the opposite because of the back order situation we have had in the last few months. We are probably on the light side and I think Anders also alluded to that. We should probably expect that our inventory position is going to go up in the year in order to make sure that we can fulfil customer service at a better rate than what we have done so I don't foresee.. there is one last cleaning exercise going on in the US now after the winter sale as we have communicated before but other than that we don't see a need – at least not structurally – that there needs to be done anything else. And assortment, could you just remind me on assortment on different categories?

0.59.30

Frans Høyer
Well, you mentioned at an earlier stage that you thought there was a need to go back and focus more intensively on charms and bracelets, the core of the base of the company and I was just wondering you see this broader line-up of jewellery categories in your stores and are you basically comfortable with that effort behind these other product categories perhaps at a time when you need to focus on charms and bracelets?

1.00.02
Alexander Lacik
No, I think the first part if you look at my P&L which I am sure you have done even more times than I have you will know that charms and bracelets represent the large majority of our business still, depending on country still, but it is like 70%. If I don't have that 70% kind of humming and really firing in all cylinders it does not really matter what I do with rings or pendants and the rest of it. So the first decision we made was to drive the core and that is kind of working for us. Now the second point is I still have what DKK 6 billion worth of revenue in those adjacent segments which we need to take care of so that is going to be like let us call phase 2 and we have in some of these we are doing a little bit better than that. We just launched the rings now so they are both stone rings or colour rings so there will be small initiatives here and there but I think we need to take a broader look on all these other ones. I mean if you think about charms and bracelets it is all kind of neatly tied under the Moments platform which consumers understand and appreciate. I think when you look at the rest of our assortment it is more a collection of products rather than underpinned by any particular concept that we can build out. So it is still done reasonably well I would say but there is more work that needs to happen in the future but for now I think for.. that is probably something that we will see in 2021 and the out-years. We have some nice initiatives in this year to kind of hold up the business let's say, but my clear focus is charms and bracelets. That is the key focus of what we are trying to drive here.

1.01.41
Frans Høyer
Okay, thank you

1.01.45
Operator
Okay. The next question is from the line of Fredrik Ivarsson at ABG. Please go ahead. Your line is now open.

1.01.52
Fredrik Ivarsson
Thank you. On the new store concept I think you mentioned that this could be a multi-billion investment if I heard you correctly and I am just wondering how we should think about 2021 CAPEX if you will sort of nail a concept. Will you invest heavily across all regions within a single year maybe or will you rather phase it all out over a number of years? That is my first question and the second one is on store traffic. You mention -7% in Q4 and I am curious to hear what you sort use for assumptions for the full year 2020?

1.02.30
Anders Boyer
Anders here on the first question on the concept stores. I think the important starting point is that the new concept per store is not more expensive than the old one. There will be a run-up phase while we get used to build and produce the new concept but price per store is the same as the current format and that is around DKK 2 million in CAPEX per store so that the run rate CAPEX does not change as a consequence of us moving to a new concept.

And then on what that actually then will mean for CAPEX next year. It all depends on the retail metrics that we see as part of the new concept. You can see a couple of scenarios. One is that it is a little bit better than the current format but not massive and then we will probably just refurbish the stores when they would have been refurbished anyway so that would be low incremental change of change of CAPEX. Then you have the other scenario where we end up with a format that drives traffic, conversion, basket size, units per transaction – drives that up to an extent where it makes sense to accelerate store refurbishment even though we might technically not need to do it ahead of time you could decide to do that if we believe it drives incremental like-for-like that justifies an accelerated investment. How that plays out we can only comment on once we have nailed down the concept.

1.04.16
Alexander Lacik
Just to add a little bit of perspective, we have capacity to refurbish roughly 500 stores annually so if we would think about us owning what is it? 1700 something that would take us 2-3 years if we really accelerate and put some additional money on the table and equally then for the franchise partners so you know the ideal time line is really to put all the hands on deck. You are looking at a 3-year time line. I think the current store concept took 8 years to roll out globally so I don't know whether the truth is going to be somewhere in between but if we kind of crack it then we will.. you know, you make it as a business case and then you look at whether it is worthwhile accelerating the investment. Yes or no, but I think we have some work to do before we get there. And on your other question on modelling the global assumption, I am not really sure that we have that pinned down to the exact science but you could take the like-for-like view as a general proxy for traffic and I will tell you why it is a little bit difficult to pin it down more precisely because when you have the channel shift people moving online you have many more views online which we count as traffic as it were versus the physical retail so.. and then we can combine the two and that drives into the like-for-like assumption that we have guided on a mid-single negative digit so from a modelling standpoint that is probably the best proxy I could give you today.

Fredrik Ivarsson
Okay, thank you.

1.06.03
Operator
Okay. Our next question is from the line of Piral Dadhania at RBC. Please go ahead. Your line is now open.

1.06.14
Piral Dadhania
Thanks. Good morning everybody. So I was wondering if we could just talk a bit more around the online part of the business and you know you saw a nice acceleration in Q4 in terms of revenue trajectory there. Could you maybe help us understand which markets contributed to that mid-20s revenue growth in the online and sort of how much of your marketing spend you were allocating to online versus offline and you know what are the other drivers? Is the new website a contributing factor there? And any KPIs you could perhaps talk to in terms of traffic, units per transaction, conversion etc. That was my first question and I guess maybe related to that, do you have a view on the customer profile and how that is evolving in the last few quarters. Obviously, charms have seen a nice improvement but the newness categories are still showing signs of weakness so is it really old customers coming back to Pandora or is this the recruitment of new customers you are seeing? Any visibility on that would be helpful and then secondly I think you touched on this in your prepared remarks, the possibility to extend wholesale distribution to a higher quality and new partners. Could you perhaps just help us understand what type of wholesale doors you are referring to? Is this online? Multi-brand? Is it higher-end department stores? Could you just maybe help us understand a bit more about what your thoughts are around that? Thank you.

1.07.51
Alexander Lacik
So on your first question, if I look at it kind of just purely from an impact standpoint my online business in the US and UK is kind of where the action is in terms of driving the overall corporate number and that is where we have seen growth rates in the +20-30% range from the like-for-like standpoint so it is really kind of where it matters. Then of course we have good growth rates across all the other markets but you know if you look at it from a total impact standpoint that is where the game is played. I am excluding China from this conversation so that is kind of where it sits.

Customer profile, old or new? The only robust data I have is from the US where we have seen quite a shift in managing to drive new people into the brand. Maybe next time around we can share some more detail on that but that is the only place where we have a structured way of actually capturing this data point so we can see that, you know, in the funnel obviously new people, you have your existing ones and then you have people that kind of are falling out of your funnel. But we see that we have been quite good at attracting new coming into the funnel, specifically for the US. So that is that.

And then on the final question. I think this one is a little bit sensitive to talk about publicly so I will for now defer from answering that question.

1.09.34
Piral Dadhania
Okay great. And then maybe just coming back to the marketing spend allocation online versus offline.

1.09.41
Alexander Lacik
From a, you know, from a ratio standpoint if you think about the digital investments we do from a marketing standpoint that kind of is peanut buttered across all channels so there is no elevated spend against that particular trading channel so what you see there is the fruits of the general spend on the brand as it were. The only odd one out if you would want to conclude that picture would be China, of course, where – because in China we don't have a lot of broad-scale spend as we do everywhere else so there we have a dedicated spend against Tmall, but on a ratio basis it is not higher than any other trading channel.

1.10.26
Piral Dadhania
Okay, thank you

1.10.29
Operator
The final question for today is from the line of .. back to the line of Frans Høyer at Handelsbanken. Please go ahead. Your line is open.

Frans Høyer
Well, you just mentioned some nice new products or efforts coming up during the year in 2020. I was wondering if there is something more specific you could mention around that?

1.10.54
Alexander Lacik
From the news. I mean, nothing specific like that, I mean we have this kind of vintage charms that I mentioned. They are going to come up but that is a small piece. I think the big focus is to drive the core so

we are bringing out more initiatives on the sub for the €/£/$-type of products specifically in charms. We are going to bring out more DVs for the Pandora Me collection because that has obviously been doing very well. We are looking at doing more on Harry Potter. Initially, we only launched 12 DVs and there is huge interest for doing more in that space and then I have a few things which I will just keep up my sleeve for now but I think that is kind of, yeah, of course we have the 20-year anniversary coming up which.. there is going to be some very interesting news in Q3 and then there is a few other small, I would say, technical innovations on the bracelets which is going to come to market just to give a better consumer experience actually. I think that is probably what I have for now.

1.12.17
Michael Bjergby
That is what we want to say for now yes and then obviously we will do a lot of partnerships, collaborations and actually what we have done before and then I think a big change otherwise more from a go-to-market perspective is that we move away from drops and then rather have quarterly themes which will give a much more consistent expression of our marketing efforts and our brand position.

Frans Høyer
Thank you very much.

1.12.39
Operator
Okay. There are no further questions/comments at this stage.

Alexander Lacik
No, as I said I think we know we have a long path ahead of us. Q4 was strong. We are convinced that Programme Now is the right medicine for now. There might be some additions as we go with the new product strategy but we feel we are in a reasonably good place to continue the turn-around programme and I think on that note I might see some or all of you in the coming days so until then safe travels and thank you for joining us.