Pandora A/S

Transcript: Investor conference call

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Operator

Welcome to the Pandora interim report for the third quarter, first 9 months of 2018. For the first half of this call, all participants will be in a listen-only mode and afterwards there will be a question and answer session. Today I am pleased to present Brian Granberg from Investor Relations. Please begin.

0.30.13

Brian Granberg

Good morning everyone and welcome to the conference call for Pandora's results for Q3 2018 which we released this morning. My name is Brian Granberg from the Investor Relations team. With me I have our COO Jeremy Schwartz, our CFO Anders Boyer as well as the chairman of the Board Peder Tuborgh. I would like to note that the call today will be longer than usual as there are many items we need to cover to provide sufficient details for all of you. Before I hand the word over to Jeremy and Anders, Peder will share a couple of words on our business. Peder, please.

0.30.53

Peder Tuborgh

Thank you, Brian, and welcome ladies and gentlemen. Today's announcement reflects that Pandora has taken a new look at how to execute on our strategy and that we are taking very forceful action to deliver renewed sustainable growth. Back in January, we launched our strategy to transform Pandora to a full-range branded jewellery retailer. Our earnings reports in May and in August made it clear that we were not progressing fast enough on our journey. A key parameter to that stood out and it actually still stands out – is our continued drop in like-for-like sales. It has become clear to the Board that we have not been executing forcefully enough on our strategy. It has also become clear that our challenges are not only about refreshing our product assortment but also about other aspects of how to service our customers. This ultimately led us to change the management. Since Q2, we have been in very close dialogue with our new joint leadership Anders Boyer and Jeremy Schwartz. Together, we have diagnosed the business and decided on the first important actions to bring us back on track. Today, we launched Programme 'NOW' to step change how we execute on our strategy. Anders and Jeremy will describe this to you in detail later. The programme aims at driving like-for-like growth and significantly improving efficiencies and execution across the company. As you will see, the programme underlies that we are thinking in a new way about how to manage our business. Going forward, our emphasis will be on 1. sustainable growth, 2. an entirely different cost mindset and 3. operating as one global company. We believe this is what is needed. Let me be the first to say that we should have arrived at these conclusions earlier but I am pleased to see that a joint management group now acts forcefully to turn the situation around.

Today's announcement also reflects that we are not in waiting mode until a new CEO is on board. The change of our network expansion plans is a first major step to drive the business forward. And there will be other significant changes from Programme 'NOW' as we continue our diagnosis of challenges and opportunities. We will communicate more in February. Let me emphasise that we stand on a strong foundation and a strong business model. We have a leading brand position and a global retail footprint. We have excellent creative and innovative capabilities and an unrivalled production setup, actually second to none. And we remain a highly cash generative high-margin business. And it is from this position that we will step change the execution of our strategy.

Finally, I would like to say that I am encouraged by the interest we are receiving in the search for a new CEO and new members of the Board. On both accounts, we are in contact with some interesting candidates. We want to find the right candidates and we will take the time we need to do that. On this subject, we will of course come back to you when we know more. Please, Brian, back to you.

0.34.09

Brian Granberg

Thank you, Peder. I will now hand over the word to Jeremy but before I do so I would like to point your attention to the disclaimer on page 2. Jeremy, please.

0.34.21

Jeremy Schwartz

Thank you, Brian and good morning everyone listening. A couple of words about me to start. I joined Pandora in September. Back in 2004 though, my team and I were the architects of the Sainsbury's supermarket's turnaround. It was strongly rooted in re-engaging women shoppers in a new, sharper business purpose, brand and product offer with very strong results, which I think is going to be relevant here. I have also worked at L'oréal for 12 years, which like Pandora is focused on meeting the needs of women with products that increase their confidence and reflect their personality and lastly, I was a CEO of the Body Shop for the last four years which has actually several similarities with Pandora. Not least shifting the company and investment mindset from a traditional retailer to putting e-com data and omni-channel at its centre. Also focusing all employees on understanding their customer, the needs of their customer and the behaviour, both globally but also in specific countries like China and the USA. And of course, the absolute need to focus ruthlessly on like-for-like, productivity and reducing costs everywhere. Getting close to our customer stores and business has been my first priority so I have visited all our main countries. The US stores and franchisees were insightful, and I am really pleased we have recruited a strong regional president in Sid Keswani.

In China, we have also recruited a retail and e-com expert G.M. Geena Tok and we both visited Tier 1 and also Tier 2 cities as well as meeting our team, our partner. Our APAC team are based in Hong Kong and as always, I have seen very impressive stores in Hong Kong. Now you may be surprised to know that I am actually a metallurgist by training and my visit to our factory in Chiang Mai in Bangkok showed we combine both traditional craftsmanship with really leading-edge modern manufacturing techniques and I am confident we are able to create the great products we need. So, I look forward to meeting many of you face to face and let me hand over to Anders to share the messages of today. Anders.

0.36.32

Anders Boyer

Thank you, Jeremy. Moving on to slide 3, as we said back in August, Q3 was expected to be a difficult quarter and it was indeed a difficult quarter. Revenue growth ended in negative territory despite 10% tailwind from acquisitions and concept store openings and this is due to the fact that the wholesale business was significantly impacted by timing of shipments as well as reduction of inventories and we will get back to that later on. As a consequence of more de-stocking in the wholesale channels, less forward integration and higher uncertainty on like-for-like in the fourth quarter, we have lowered our revenue guidance to 2-4% for the full year. A positive note is that the EBITDA margin is still expected to be around 32% despite the lower revenue. As Peder just said, we have diagnosed the business during the last few months and Jeremy and I and the rest of the management board have spent considerable time asking questions and understanding and testing and looking in all corners of the business and that leads us to three very important messages today.

First of all, we are not progressing fast enough on our journey and it is clear that we need to think in a new way about how we manage the business and it is also clear that we have substantial unexploited opportunities across the company and that our top line challenges are not just about refreshing our product assortment. That is why this morning that we launched Programme 'NOW'.

Secondly, the first important step of the programme is that we adjust our network expansion strategy. In short, we have decided to cut down significantly on the number of acquisitions and reduce and redirect our concept store openings to primary white space areas.

And thirdly, as a consequence of this, we cancel the long-term 7-10% revenue guidance. Looking forward, we see a lower but more sustainable growth level, mainly driven by positive like-for-like and supported by some store openings and maybe a few acquisitions still. On the margin side, we still see strong profitability ahead of us but we need further analysis of what the net impact is of the cost reduction opportunities on the one hand and the needed investments to drive positive like-for-like on the other hand before we can be more concrete on exactly where we see the margin and we will get back to that on a later slide.

Then please turn to slide 4. Just a couple of quick highlights for the quarter and we will get back to some of the numbers in more detail later on. Revenue was down 3% in local currency and that is clearly not satisfactory. We expected the quarter to be impacted by weak sell-in to the wholesale channel but it was impacted even more so – and you will later on see that the timing of shipments, the destocking and weak sell-in to other points of sale actually had an impact on revenue to the tune of -10% in the quarter.

The EBITDA margin also came in below expectations at around 29% due to the lower revenue but as just mentioned, we still expect to be able to keep the full-year margin at around 32%. Total like-for-like remained negative at -3% and that is the same level as we saw in the first half of the year but it is down from -1% that we saw in the second quarter. Like-for-like in our new product launches was flat zero and has not helped lift like-for-like as expected. And this is part of what we will address in Programme 'NOW'.

Please turn to slide 5 and Jeremy, please.

0.40.41

Jeremy Schwartz

Getting close to our products or stores, teams and customers is really giving Anders and me good grounding in the current reality of our situation but also a sense of a vision for the future. On the left-hand column of this chart, we note some of the strengths and on the right, some of the opportunities we have not yet exploited and I am going to go through a number of these. So, starting off on the left of the chart, clearly we are a big jewellery company, but worth noting we only have 2% market share. Of course, big can be good but it is better when it operates as one global company. Just reflecting Pandora's speed of growth gave it the skills to open up new countries and concept stores. Now, we need to leverage that scale and best practice working as one global company to drive speed of execution, efficiency and importantly productivity without of course losing our local relevance. On the second point, around our brand, we have a global brand tracking which shows really an enviable and high brand name awareness but to be frank, we don't have a strong enough brand proposition and this is something we are going to fix. Also, Pandora is not yet a customer-driven company and yet to the global store state and e-com site can be really a super rich source of first person data so the opportunity to create personalised one-on-one relationships, communication and buying experience is to be done. Now, as you would expect, Anders and I are working on quick wins. And we have launched, therefore, a demand centric growth model which has interviewed 28,000 customers worldwide to understand who our present and our future customers are and of course, what they want. As we have said, we have an incredible design craft and manufacturing capability and yet, funnily there is an opportunity to communicate far more emphatically about the quality proposition. You know, for example that Pandora charms are actually 100% silver. And that every single product is hand finished. We don't say this. Now on a different subject, as you know, Pandora has increased promotions to drive short-term sales. But it comes at a cost. As many of you will know, around brand perception and frankly customers waiting for the next deal. To rebalance the quality of our sales, promotional levels will really need to be reduced and at the same time, our core icons, i.e. products that we have had for a while and our new products really amplified much, much more than we have been doing to engage new customers to drive traffic, which is critical, new occasions and new needs. So as a quick win, the profit contribution of every single promotion has been analysed and we will share the future lower promotional weight plan when we meet next.

Now, there are not many retailers that have got 2,600 concept stores globally and for me, it is very reassuring to see the high store profitability we have across the metrics. But there is actually an opportunity now to become more sophisticated, to segment the retail network, its experience and in particular the merchandising so that we can flex our investments and help customers and store staff navigate our offer better. As a quick win, we are recruiting right now ahead of merchandising to lead a new global merchandising function that we have just created. And this will help part of this journey. Now, every one of you knows consumers enjoy shopping at our eSTORE and in our stores. Pandora, frankly, is yet to fully meet customers' expectations to have a seamless omni-channel journey between their mobile phone, computer website and stores. Just to remind you, the sort of things people want nowadays and of course it changes every day, they want a site to remember the page they have just looked at. They want to engage 24/7 in a chatbot to sort out issues and if they go in store and something is not there they now want the store staff to source online that product and send it immediately to their home.

Now, ironically, Pandora charms are all about a personalised experience and that is what our e-com needs to do too. Now, I can tell you there are many quick wins on action in omni-channel but I just picked one little example that I think you are going to like which is we are using Mobify to make the mobile e-com experience in the US faster and more inspirational and that goes live ASAP. So, Anders, tell us some more from the cost side, please.

0.45.19

Anders Boyer

Yes, Jeremy, on the cost side, several initiatives have been taken in the past but reality is that we have never really addressed cost in a structured, hard-nosed way where fundamentals are questions and we will change that. And along the same lines, we need a structured, systematic approach to the way that we use capital because cash is a scarce resource also in Pandora. We are very profitable and we are very cash generative, but that does not mean that cash is for free. And then please turn to slide 6 and Jeremy, please.

0.45.59

Jeremy Schwartz

Yes, we have taken this chart from the Capital Markets Day because we thought that was useful which laid out the 2022 Pandora strategy and the main supporting activities. I am sure you would agree with the four strategic pillars and that is why at this stage they remain unchanged. Obviously, you can see, below these there are several sub-strategies which on the whole make good sense and we see these remaining as broadly the same. It is within the execution around the goals set, the business cases, the plans and the speed of delivery that we are doing our strategy health check. You will therefore see the changes from the Capital Markets Day, a presentation has been concrete and visible with regard to the execution both today and when we meet again. So let us explore a little bit more about what we mean by this, Anders.

0.46.50

Anders Boyer

Yes, moving on to slide 7. In order to speed, drive change and grab the opportunities we see, we need to approach this as a dedicated programme and launching a dedicated programme is also a signal that we are thinking in a new way about how we manage our business. We call it Programme 'NOW' and it is about three things. It is about re-igniting growth and that is like-for-like growth and not total growth. It is about pursuing the cost opportunities that we have identified during our health check and keep questioning how we spend our money and last but not least it is about working as one unified global company and that means a much more structured approach to what is being done locally, what is being done regionally and what is being done globally because we do have duplication of efforts today and I know this latter thing sounds blurry and unspecific but it is actually quite important in order to succeed on the journey that we are on.

Then please turn to slide 8.

0.48.02

Jeremy Schwartz

The key part of the programme now is a diagnosis into the root causes of the business performance. However, as point 1 on the chart shows revised network expansion, it is quite clear from the analysis undertaken already that we can act now to revise our network expansion strategy which I will explain on chart 9. To re-ignite sustainable growth will frankly take a little longer to scope out and requires drilling into the consumer-driven reasons for the change in the performance of our business and of course charms in particular and we plan to share relevant findings and go-forward plans in the new year. Anders, will you explain about the cost and working capital?

0.48.42

Anders Boyer

Yes, on the cost side, I think the only thing I really want to say at this point in time is that we have seen significant opportunities across all cost buckets and that we have seen significant opportunities in all parts of the value chain but exactly how much we can take out, how fast we can do it and what the restructuring cost will be, requires some further diagnosis but a couple of examples of where we do see cost opportunities are in our cost of goods sold, it is across IT and it is across our concept store network. But let us elaborate a bit on the network expansion strategy on slide 9.

0.49.25

Jeremy Schwartz

So, returning to the revised network strategy, if you look at the left-hand panel in dark, we have three main inputs that informed our decision around this approach. Firstly, with negative like-for-like growth in physical stores, the business cases that underpin franchise buyback really are now less attractive. Secondly, the jewellery category really should lend itself to excel in e-com and so our focus will be putting omni-channel at the heart of our efforts and investment. Of course, we are going to use it to drive traffic from our website to our stores, reduce store inventory, collect rich customer data and meet customers' demand for seamless and frictionless buying wherever and whenever they want to, but over time, as you know, it will probably require less stores to do this.

Finally, we want to direct our financial and human capital resources to driving positive like-for-like sales rather than using them to open and acquiring stores so if you look at column 2, this is regarding the franchisees, we can see that the headwind that we indicated of between DKK 0.5 and 1 billion in top line sales contribution will of course reduce significantly by reducing further buybacks. Now, of course, there will be franchisees reaching the end of their agreement period where an action has to be required. Our new strict decision-making criteria, though, will first support the franchisees renewing their agreement if they are a strong operator and they have the desire to do so.

Secondly, we then hope another professional franchisee can purchase a store if the original seeks an exit. Finally, if the store warrants remaining open, we will secure a price that gives true value for money to the Pandora company.

Now, just as a side note, I want to just inform you that all our franchisees around the world will be informed today, right now, about this change of approach with an intent to re-ignite our relationship and really drive like-for-like together.

If we move to column 3, we are also informing you about a new limit on opening of new stores. They will be focused on less penetrated markets such as China, Latin America and India, for example. So the 1,000 additional concept store openings communicated at the CMD in January for 2020 after the 250 stores that we have opened in 2018 will be cut back significantly. The store opening plan, of course, will be reviewed annually and if the pace of e-com is expansional, other traffic and store economic factors change, the plans will be adjusted accordingly.

In addition, a new and rigorous store management framework has been deployed where we will review our existing store base at the end of lease and if the profitability and outlook remain strong, we will consider a lease renewal. Otherwise we will consider relocation or closure.

Please turn to slide 10 where Anders will take you through some of the financial implications of this programme.

0.52.29

Anders Boyer

Thank you and back at the Capital Markets Day in January this year, we presented an ambition to grow the top line by 7-10% per year and maintain an EBITDA margin of around 35%. What we announced today obviously has an impact on our long-term targets and not least the revenue target. In relation to the revenue target of the 7-10%, most of you will probably recall that some 6-8% of that was related to acquisitions and store openings with acquisitions being 2-4% per year and store openings being around 4% per year and with our change of network expansion strategy, future revenue growth will be at a lower but more sustainable level driven by first and foremost like-for-like plus some store openings in white space areas. Contrary to the revenue target, the EBITDA margin target is not cancelled but is being reviewed and I will come back in a second with exactly why we say it like that. Specifically, for 2019 we see that as a year of transition and I will just give you a few comments on what to expect on the top line in 2019. First of all, there will be quite some tailwind from acquisitions and store openings already done in 2018 and that will be to the tune of DKK 1 billion or 4 percentage points of tailwind. Secondly, you should expect an impact from a reduction in promotions and mark-downs and that will put pressure on our like-for-like, but we actually do not expect it to have an impact on the EBITDA margin. Thirdly, there will continue to be some headwind from a normalisation of inventories in the wholesale channel, so all in all, that means that 2019 will sort of not be a great year from a revenue point of view but it will be a big step in the direction of a more sustainable and healthy growth level. On the margin side, it is too early to say how we think about the net impact of the additional cost reductions on the one hand and additional investments in driving like-for-like on the other, but we will revert on this in February 2019.

But then please move on to slide 11 and this sort of waterfall chart that we have put together. We have done this because we wanted to give you some flavour on our thinking about margins. In the ideal world, we would provide a revised revenue and margin target today but that is not where we are yet because we are still in a diagnosis phase in some areas. We do, however, believe that we have enough knowledge to provide some more details on what we mean when we say that the EBITDA margin target is being reviewed and that is what we try to do on this slide 11. If we start on the left, we still expect and EBITDA margin of around 32% this year in 2018 and that is the anchor. Then, we have the 3-percentage-point tailwind, which we already discussed back in August, coming, among others, from the cost initiatives that we have launched already during 2018. Then our health check shows that there is significantly more cost to be taken out. We do not know exactly how much yet but when you look at the chart, it is deliberate that we draw the size of the box like this where it is visibly bigger than the 3 percentage points bucket that is just to the left of it and the sum of the first three buckets, 32 plus 3 plus further cost reductions as part of the NOW Programme sums up to more than 35% and that is a starting point and that is a good starting point but it is also clear that we need to invest more in driving our like-for-like growth and the next few months of analysis will show how much we need to invest and thereby also what the net impact is of these two buckets being so the net impact of the cost reductions and the reinvestments or investments in like-for-like growth. There is one important premise for this bridge and that is what is stated in the headline of the waterfall and that is that it assumes positive like-for-like. If like-for-like is not positive, the bridge will obviously look different.

And then please move on to slide 12 where we are digging into the quarter. We have been through some of these numbers already so I will do it short and just go all the way to the right of the chart, looking at the cash conversion. Cash conversion was 89% in the quarter and included in this cash conversion number is one of the first small signs of a different way of doing things and what I am hinting at is that we have reviewed payment terms and payment practices with our suppliers and this has a visible impact in Q3 with accounts payable being up around DKK 0.5 billion since June 2018.

Then please move on to slide 13 and we think this is an important slide, maybe a somewhat different way of bridging the revenue development since last year but there are two things we would like to highlight on this slide.

First of all, revenue growth in Q3 is significantly impacted by things you could consider temporary of nature and that is the bucket called timing of shipments and changes in inventory levels as well as the bucket called other points of sale, decline in other points of sale. The development in other points of sale shown here is a mix of negative like-for-like and changes in inventories and we don't know exactly what that split is. But the fact is that these two buckets taken together are somewhere between -8 and -10% impact on revenue in Q3. And that makes the reported Q3 number look worse than I actually think it is. It does not change the fact that Q3 was unsatisfactory but we just wanted to call this out.

Secondly, the other important message on this slide is that inventories are not yet normalised as we still see that inventories in the wholesale channel are too high and with too many slow-moving items. So we do expect still that the reported growth will be negatively impacted for some quarters still.

Then Jeremy will take us through slide 14.

0.59.56

Jeremy Schwartz

On chart 14, we are looking at revenue per channel. Pandora-owned retail continues to increase as a share of total revenue, mainly driven by opening and acquiring concept stores. At the same time, the eSTORE performs well, though with a higher promotional weighting. Total revenue increased 34%. Franchise on the right concept store declined partially from buybacks, negative like-for-like and as Anders has just mentioned along with wholesale the timing impact of shipments and inventory reduction in the quarter. Total revenue declined 27%. For clarification, the Christmas collection was shipped in the US in Q3 2017 and this year being Q4. The value of that shipment is around DKK 175 million.

Also, note revenue from the distributors not shown here decreased 21% due to the takeover of our Spanish and Irish distributor.

If you move to page 15, we will look at products. So on slide 15, we can see that the product category performance has been impacted in Q3 of course by the weak sell-in. However, the charms category which represented 53% of revenue did decline by 9%, but I need to tell you the performance does vary by region and type of charm and is really not satisfactory. The diagnosis phase we mentioned will get to the true root causes of what is happening on charms and identify ways that we could reignite purchase intent.

Just being philosophical for a second, the power of Pandora brand comes from jewellery that is not just for looks but also can tell a story for us and about the consumer. The needs for consumers to tell these stories is both timeless and universal. And that plays into the charms offer. So we hope we will share plans for charms next year. It is encouraging, though, to see that bracelets grew by 13%, benefitting from 39 new bracelet types, including the sliding and the padlock items which I am sure you have seen.

Now importantly, our classic snake chain bracelet which was actually launched in 2016 grew 13% like-for-like and I think this is an important sign of the importance of core icons as well as new products in thinking about growth. Necklaces are actually the second largest category in the market so it is pleasing to see that from a small base they grew by 23% on the back of actually five quarter of growth of over 40% each quarter and this was partially fuelled by the reactivation of the Signature collection which again, just for your interest, was first launched in 2015.

Unfortunately, rings declined by 8% and earrings by 13%.

Moving to slide 16 and our countries. The top seven countries represent 69% of the sales and we saw the US, China and Germany in positive like-for-like in Q3. Germany is showing good growth across stores and online while the US and China have a good contribution from eSTORE while retail frankly was weaker. Italy, Australia, UK and France unfortunately delivered like-for-like growth in the quarter in spite of strong e-com growth in those countries. It is worth just remembering and noting that the prices in mainland China were reduced by 15% in June to counter the increasing challenge with the grey market trading and I can tell you that transactions have increased, particularly actually on Tmall as a result of the lower prices but the store traffic remains unchanged. As you think about growth, though, we did open 60 new stores in the last 12 months and that explains partially the +28% in local currency.

In Australia, just to clarify, prices were actually increased in June and Australians are particularly price sensitive, we can see, with purchase rates declining on those products that were targeted with price increases. Overall, traffic and transactions have reduced as a result of this but also the curtailing of the Chinese cross-border trading which was part of the objective of this whole pricing strategy and of course, though, it is strategically correct to progressively increase Australian prices with the rest of the world. Now Anders will now discuss the EBITDA bridge between Q3 2017 and 2018.

1.04.27

Anders Boyer

Yes, on slide 17, we have the EBITDA margin bridge and overall the EBITDA margin was also here significantly impacted by the timing of shipments and the change in inventory levels in the wholesale channel as well as the negative like-for-like that we saw in the quarter, total like-for-like in the quarter, and that is the two biggest buckets in this waterfall to the left on the page. I would also like just to call out that in the third quarter, inventory buyback related to acquisitions impacts the gross margin – and thereby also the EBITDA margin – with 1.6 percentage points and that means that if we stopped acquisitions completely, there would be a 1.6 percentage points tailwind on the gross margin and the EBITDA margin over time as we get past acquisitions behind us.

And now please turn to slide 18. As already mentioned, we do see some upside also on net working capital across all three components payables, receivables and inventories. And as you can see in these numbers, our trade payables are up as a percentage of revenue to the tune of DKK 0.5 billion as I just mentioned earlier on. But we are not happy with the development in trade receivables and in inventories. And although the development in inventories can be explained by more O&O stores and higher cost prices, we do think that the inventory level is too high.

In relation to receivables, we can look at that on slide 19. And days sales outstanding was up 5 days in the quarter from 63 to 68 days this year. And I had actually expected that DSO would come out better than this in the third quarter but we had IT challenges again in the US and they actually escalated by the end of the third quarter and that pushed up overdue receivables by the end of the quarter and the driving force behind that is the implementation of AX in the US, AX being our new ERP system that we are implementing not just in the US but globally. We do also see some challenges on that front here in the fourth quarter where we have a team on the ground that so far deals with this matter in a manual way.

Turning to slide 20 and the guidance for the year. The new lower revenue guidance of 2-4% is driven by three things. First of all, the third quarter was disappointing and we see higher than expected impact from changes in inventories in the wholesale channel and that includes weak sell-in to the other points of sale. Secondly, as we reduced the number of acquisitions, this will have an impact already this year to the tune of DKK 200 million or about 1 percentage point of less growth and finally, we have had a tough start in the fourth quarter with like-for-like being down below the year-to-date level and the year-to-date level being

-3%. And it is clear that in order to reach the upper end of this new guidance, 4% growth for the full year, we will need a significant increase in growth in the fourth quarter. And implicitly, in order to meet the high end of that guidance, we will need 8% growth in the fourth quarter and when you evaluate that number, please remember that we will have much easier comps in Q4 due to much less impact from timing of shipments and changes in inventories plus that we will still have a continued significant tailwind from concept store openings and forward integration. And reiterating one positive thing is that we expect the EBITDA margin to be about 32% still despite the lower revenue guidance.

Finishing off quickly, so that we can move on to Q&A, we would like to reiterate that we are taking immediate action as a consequence of the disappointing numbers. We are launching Programme 'NOW' today and we have already taken a first important step by changing our network expansion strategy. So thank you for listening for 40 minutes here. We are now ready to take your questions.

1.09.15

Operator

Thank you to participants on the phone. If you wish to ask a question, please dial 01 on your telephone keypads now. Our first question comes from the line of Michael Vitfell-Rasmussen of ABG Sundal Collier. Please go ahead. Your line is open.

1.09.32

Michael Vitfell-Rasmussen

Thank you very much. Three questions. I would like to address my first question to Peder, please. So Peder, can you tell us a little bit about what exactly is it that you are looking for in a new CEO? What kind of type are you looking for? Because it seems like you have two guys here heading Pandora right now, which is, you know, very, very strong background both within strategic and also the financial side. So that is my first question. My second question goes a little bit to some of the newer products so if you could talk a little bit about how the initial take has been of the Reflexions launch. Was it better than Shine earlier this year? And how many charms per bracelet are you seeing consumers buying here? And then my final question that goes on to prices in general. Do you believe that you have the right price strategy for Pandora? Will you need to maybe lower prices and how has the reaction been also from the price hikes outside of Australia which you mentioned here, Peder, sorry Anders?

1.10.41

Anders Boyer

For the questions, Michael, it is Anders here. I think we will start out with Peder addressing the first question and then Jeremy will address the two last questions that you have – Peder, please.

1.10.53

Peder Tuborgh

Yes, thank you very much. I understand the question. We are looking for a CEO who has a proven track record in the areas that Jeremy and Anders, as you rightly point out in an excellent way, are mastering, that is how I am going to answer that question.

Jeremy Schwartz

I will pick up on Reflexions so obviously it is early days but I think the first thing is from a pure consumer and store staff feedback, they are positive because it is addressing a new opportunity which is obviously to have a flatter and a way of expressing the charms expression which is perhaps a little bit more contemporary. We can see that the number of charms per bracelet purchased at the moment is between 1 and 2 and that is partly because of a choice of charms we have actually created and, you know, people normally the way they do it in some countries, not in China, but let us say in Europe and America, will choose 1 or 2 for the first purchase and then will come back and collect and that is obviously the power of the whole charms model which is that people come back so we have got around a target of 10% of the target sell-out of new products which we are aiming for and just looking at the data we seem to be on track with that so we are warmly positive, I would say. Now, of course the question is, is it driving like-for-like sale? And the reality is we can, as we particulate it, that the new products in total are not driving new traffic to the level we need so that is why we are going through this diagnosis phase. When it comes to pricing, you know, I think one of the things that the team have been doing for the last couple of years which really is, I would say, pretty exceptional because not every company does this, is to move the business to a global pricing strategy so that you don't have huge disparities between countries which leads to this grey market effect which of course then corrupts all your interpretation of the data so first of all, I would celebrate that and I think obviously the work in China and Australia, though it does have a short-term impact on places like Canada and Australia where a lot of the grey market movements have been occurring, in the end, when that nets out, that will be in a better place. Obviously, pricing is a critical part of any strategy and during this diagnosis phase, we are looking at that very question about price tiering because that really is the area to understand better the role of price tiering to attract different customers at different price points. And we will be able to talk about that in more detail when we see you next.

1.13.38

Michael Vitfell-Rasmussen

Thank you very much.

1.13.41

Operator

Thank you. Our next question comes from the line of Elena Mariani of Morgan Stanley. Please go ahead. Your line is open.

1.13.48

Elena Mariani

Good morning everybody. I appreciate you will provide more details in February but I also have a few questions on the new restructuring plan. My first one is really on how you are going to prioritise this numerous initiatives apart from the first quick wins. From one side, you are talking about a big cost-cutting programme, on the other side you are talking about enhanced marketing, personalisation, a different store experience. So how do you plan to balance the cost savings programme with the investments required to reboost the top line growth? In my view, this could take way longer than the two-year time frame you have provided, particularly given that at the moment there is no CEO on board and middle management is still being reshuffled. The second question is on the Pandora brand and the product: I just would like to go back to your view there. You mentioned in the release that you see in the future a normalised level of like-for-like in the low to mid single-digit camp, post restructuring but the recent performance shows that new product launches have not meaningfully changed momentum in the quarter so it means to me that newness is not enough to drive sort of consumer interest and apart from the possible mismanagement at the retail level or perhaps the pricing architecture – do you feel that consumers are tired of the brand – or maybe the market is saturated with charms so what is your overarching view here on the brand? And finally, I would like to get your early opinion on the store network. Do you already have a medium-term view on how distribution should be restructured? I am talking about the proportion of retail versus wholesale but also the magnitude of the store closure programme you would have to go through to better balance physical sales versus online sales. I would imagine that particularly in some of the regions we should expect a meaningful number of closures and I just would like to know if I am right. Thank you.

1.15.53

Anders Boyer

Thank you very much Elena for your three questions. I think I will start out and just give a couple of comments on the restructuring and priorities and then I think Jeremy will address the last two questions but on the priorities and you are actually spot-on that it is a big programme and we see many opportunities across the company to do things in a better way and we have to prioritise as always but even more so given the situation that we are in. Exactly what the sequence will be, we will only know when we have finalised our diagnosis phase. Having said that, on the cost side, we are moving ahead full speed because we have been through many parts of that diagnosis already. It is not fully completed but there, we will move ahead and just, if you like, calculate backwards in order to make sure that we have the resources needed to take out the cost at as high a speed as possible. This is a.. we have created a new position in our management board, a chief transformation officer, for the same reason reporting directly to Jeremy and me because this is not just another project. It is a programme. It is much bigger than a project. And then each of our management board members, senior vice presidents, will be running relevant parts of the work streams that we decide to prioritise but on top of that we will need significant support, analytical capacity hand and feet from a consultancy company in order to make sure that we can drive this through at as high a speed as possible but exactly how it all pans out we will come back with when we meet next in connection with the full-year announcement.

1.18.10

Jeremy Schwartz

So just on the brand and the product. My counselling at the moment and what I will say to you is it is too early to reach too strong conclusions, even the ones you have mentioned because we are, as we have said, doing a deeper and more thorough piece of research and reflection than has perhaps been done and that is because of the situation we are now in going from fantastic growth to not in that situation but I think the first indications tell us, you know, that the brand has got tremendous legs but we haven't made the most of it, is the way I would leave that point. I think the second point is I would say that the products, the new products that I have seen, are extremely relevant and would be seen in my view to be very competitive but one of the challenges that a business like this has is to ensure that the consumer actually knows that the new products are being launched and are visible so two different examples of what we are doing about that. The first one I mentioned is the greater global merchandising function and the role of that function is to think more reflectively and we are more clearly about how we present our different ranges so that when customers come into stores, they really can identify them far quicker and realise that we are talking to them. Now, to implement something like that, as you rightly say, takes time, and that is why we wanted to share with you the concept of quick wins and quick decisions because many things can be done quickly and make an impact but other things will take time to both execute and for their results to be seen and we will share more of this phasing, which you have articulated and correctly identified, when we see you next, but we are working on the fast and the longer, more strategic changes that are required. In terms of the network, you know, I think one of the things that really differentiates Pandora versus probably almost any other retailer is the EBITDA profitability of our stores so we are starting with a store base that has an EBITDA profile which exceeds many, many other retailers so you could say therefore we have got far more headroom at a store level from an EBITDA point of view and therefore, right now, our focus is on developing e-com, developing omni-channel, and we will tell you those things because we are moving quickly in a quick win way to catch up frankly with where we need to be and of course, we will then share, our plan is to share on an annual basis what our store network view is based on, the latest lease completions that we will be having in that year as I mentioned on the state of e-com and movement of traffic and particular locations which might have been popular for five years but now have been replaced by another mall so our approach will be an annual update to you on how that network should change at that moment in time.

1.21.03

Elena Mariani

Perfect, thanks very much.

1.21.07

Operator

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

1.21.15

Chiara Battistini

Good morning. Thank you for taking my questions. My first question would be on the takeover of franchisees on the forward integration. I was just wondering if you are going to reduce the takeover of the franchisees going forward, what are your plans for the existing franchisees that you were previously planning to take over? Would you consider accelerating the closure of franchisees whose contract is coming up to expire if that comes to that? And then on the gross margin in Q3, which surprised me on the negative side, could you please quantify the moving parts within the gross margin move in Q3? And notably, how much the negative metal mix fact impacted the gross margin in the quarter? And about that, am I right, I have calculated that the silver products were down around 15% in the quarter. Is that a right estimate, please? Thank you.

1.22.04

Okay so this is Jeremy Schwartz and I will pick up on the franchisees so you know I think first of all what we are indicating to you and telling every franchisee in the world today is that we view them as collaborators and partners in our go-forward strategy. So they are people who often are extremely sophisticated retailers and business people in their own right. They quite often have multiple brands or they have been working on the Pandora business for 10-15 years or so, so we see them as a great asset going forward. As we mentioned earlier but I will repeat because you know it will have been lost, we are also being extremely explicit to you and to them about our decision-making process which first and foremost, if they come up to the end of their term, is to, if they are good and have the desire, to extend that term with them because if they are a good operator who wants to work we want them on site. If, though however, they say for whatever reason that they want to end that relationship, what we will be asking them to do is to find an alternative owner. Now that owner, though, will need to meet our criteria at some point for competence because we want to ensure that that outlet or chain of outlets meets and continues to grow. If that is exhausted and the outlet, the store still meets our criteria, that will be that it will be profit-enhancing and a net PV value over time, then we will consider buying it but if actually the store is underperforming or not meeting our criteria, then we will let that be closed so we are telling them that, we told you that and we are being very transparent about the way that we will make decisions around this so hopefully that is helpful.

1.23.51

Anders Boyer

And then on to your questions Chiara on the gross margin size. If you use slide 17 as your place holder – go through that breakdown, then the metal and product mix and the longer production time that we talked about also earlier during the year is to the tune of and a drag on gross margin of 2.5 percentage points and then on the higher part of O&O revenue that goes the other way with tailwind on the gross margin of around +2 percentage points and then we have 0.5 percentage point drag on the inventory buyback related to acquisitions and then the last piece is a drag on gross margin from commodities which is around 0.5 percentage point, give and take.

Chiara Battistini

Thank you very much and just on my question on whether the silver products went down around 15% in the quarter?

Anders Boyer

Could you repeat the question again, please?

Chiara Battistini

Just based on your comments in the press release this morning on the increased penetration of the Rose and the Shine collection. I calculated then the silver products were down around 15%. Is that a fair assumption?

1.25.19

Jeremy Schwartz

I don't think that is – but you have done a quick calculation that we may not have caught. Can we come back to you on that, Chiara, please?

Chiara Battistini

Absolutely.

Jeremy Schwartz

And anybody else who wants to know

1.25.35

Operator

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

1.25.41

Lars Topholm

Yes, thank you, a couple of questions on my side. First of all, on admin costs you reversed 100 million of provisions so a, does that boost your EBIT by 100 million everything else equal and b, what run rate for admin costs should we assume for Q4? Question number two: In your presentation and comments you mentioned that there are still too many slow-moving items in the channel and I am very sure you have had considerations about this but what is the reason for not making a channel clean-up exercise as this stage assuming slow-moving items will probably never really move and you want to do less promotion so you can't flush it? Question number three: You mentioned Q4 is off to a weak start. Can you maybe say if this is due to specific markets or more across the whole network? And then maybe a final question on the longer production times you just mentioned. Is there any getting up on the learning curve from Q2 to Q3 so Y/Y maybe production times are longer but sequentially, you actually produce these items a bit faster, how does that look? Thanks.

1.27.13

Anders Boyer

Thank you, Lars, for the questions. Should I start answering maybe the first one and the last one on the production time, then Jeremy will come back on the two in the middle if you would like. On the admin costs, it is true that there is a reversal of provisions to the tune of DKK 100 million in the quarter so that is absolutely correct and you can also then argue that there are a couple of things going the other way, one being the severance payment related to change of management and severance payments related to just around 400 people that were let go back in early August and that more or less balances out in the quarter but it is true, there is a reversal of provisions related to incentive programmes in Q3. Then you also asked about the run-rate going into Q4. There is no sort of structural change in admin cost so far and we are not expecting sort of big restructuring costs, we are not that far down the programme now yet, so for Q4 specifically, shouldn't expect any changes compared to where we have been for the last number of quarters. Then, on production time, yes, that is, we do see there is a learning curve, production time was up quite significantly as we started producing some of the more complex new products but that is clearly a learning curve. It has not already kicked in here yet but we do see some opportunities to get down production time again a bit on these new items that we have launched during 2018.

1.29.10

Jeremy Schwartz

Okay, picking up on the slow-moving items, we have been drilling down into each line item of what these are including doing stock takes in third party so we can get a good picture of that. What we have decided is to really focus on the post-Christmas sale which is a great opportunity to flush out slow-moving items which are a blend of things that people bought too much of or that they haven't been great sellers for whatever reason and to use a more sophisticated approach to mark down thinking which can target in a more sophisticated way the level of mark-down required to drive through those items so we are hoping and planning and targeting to double the clearance rates or more than double clearance rate through that Christmas work and we will update you, I am sure, in the new year on the approach and the success of that and that is what we have decided to take as a team as the approach going forward as opposed to something more significant. On the Q4 weak start, you know, as you know, we are number one, we are new here so we are drilling down into all the data and of course what we are going to do is drill down not just in this year but last year because everything is always of and about annualisation and you know we can see that, as has been expressed, I think the word was everything has been done to meet the targets last year and there were some extremely strong promotional mechanics used in October for example last year which we don't want to annualise because then you get into a bad habit of that sort of thing, so partly it has been driven by a different level of promotions, we have also launched things like Disney in Europe last year which was highly successful and we are not annualising something of such uniqueness so there is quite a few pieces but I think we have not lived through, Anders and I, a Christmas in Pandora, we have lived through Christmases in other different businesses and Christmas always has its own shape also with things like Black Friday in different categories so we haven't yet got that intuitive feeling about how daily run-rates are working and like-for-like and it is because of what we saw in October and our belief that there is a blend of what we have just described with potentially other elements going on at a core level that we have indicated to you a new guidance for the year based on what the rest of the year could look like, so we think that is a sensible approach to take in this context.

1.31.44

Lars Topholm

That makes sense. One final question, if I may, because if we look at the like-for-like momentum, it stands out to me that it is better in less penetrated markets such as US and China and it looks honestly very bad in more mature markets such as Italy, UK, Australia, I think one could add Canada to that. What do you think is the reason for this markedly different momentum between mature and less mature markets and do you see any risk that there is a saturation point for Pandora?

1.32.23

Jeremy Schwartz

To be honest, we can cut the data, and we are cutting the data, to try and find clusters of countries that are behaving in a similar way so that we can build a cluster-based strategy. I don't want to use the words I don't agree with your diagnosis, that would be a far too strong a word, but I don't think the diagnosis you have articulated is a good or a complete explanation of the like-for-like we are seeing and I could cut it in a completely different way so I wouldn't want you to walk away with that being an explanation if I may suggest. So, that is just point one. I think, at this time, it is really too early to say do we believe the brand and the business is saturated because, for example, I will give you a concrete example, you know, if you go, town by town, through the UK or France or Italy, and this is what I am doing, or China even and you say for that particular town, how many people have we got in the vicinity of that store that it is servicing and would that person in that town be going to another town to see if there is another Pandora there, you know, we can see in many places the distance is so far they wouldn't know there is another Pandora. They have got their Pandora and they are not saying oh my gosh, there is lots of Pandora around. Now, we have some big cities where perhaps that movement may be different because we know the mobility of people by city and country is different. But my first point would be let's hold on until we have done the diagnosis and of course just generically we know though that there is a tendency for brands nowadays to have to balance availability with exclusivity and without a doubt, Pandora's secret is about the balance of those two things and we need to ensure, going forward, that we have worked out what that right balance is and how we nourish that journey and that balance well. So, I would take that way as an important thought that we are thinking about.

1.34.24

Lars Topholm

Perfect, thank you very much for detailed and good answers to my questions. Thanks.

1.34.31

Operator

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

1.34.38

Thomas Chauvet

Good morning, thanks for taking my questions. I have three, please. The first one, I am trying to reconcile the EBITDA margin bridge on slide 11. So, if I understand correctly, assuming you have positive LFL, you stop from 32% base for 2018 plus 3 points from the 350 million of cost savings, procurement and job cuts and then more cost savings in the future, offset by reinvestments in marketing to drive LFL up, so net/net, Anders, is it yielding, in your view, to an EBITDA margin above or below the 32% that you would report for 2018, consensus I think for the next two years is at about 31%. And just related to that, given the positive impact yield you will have from the changes in lease accounting on your EBITDA margin, when are you going to start to talk about EBIT margin and guide about EBIT margin rather than EBITDA? Secondly, on China, I think total LFL was up one so no major change in trend but obviously you had the big price cuts. Can you elaborate more precisely on the volume impact and whether that price cut has helped cleaning up the bulk of the grey markets or how much do you estimate still are the grey markets weighing on China growth? And finally, on the CEO search, could it be that given the maybe urgency of the situation and how long it takes perhaps to hire someone and to bring into the company, could it be that the CEO is to be found inside Pandora to be maybe more plug and play at this time? Thank you.

1.36.32

Anders Boyer

Thank you, Thomas. I think we will probably start from behind and then have Peder answer the question about the CEO search and then I can come back and answer the EBITDA and EBIT IFRS related question and Jeremy finishing off commenting on the grey market, if that is okay, Peder?

1.36.58

Peder Tuborgh

Yes, thank you very much. Let me answer in this way, that it has been important to me and the board as we changed management not long ago, that we could put in place a well-functioning management, board management team, Anders Boyer and Jeremy, that together could serve the office of the CEO and take the scene immediately in the company and that has proven to be a very good process. On further comments to the CEO process, I would refrain from bringing more detail, just saying that we are looking for the right person, we are taking our time, not because we have endless time but we also feel confident that the way we are working now, also with the board very close to the action at the moment, there are some things that we need to follow through as you have understood from today's presentation and we are doing so. So, let me come back to you when we have some more to say on the CEO search, for now we are occupied in launching the project now, it has been underway for a while, we understand the company through different lenses and more details today and are seeing an emerging number of initiatives that, as Jeremy put out and Anders as well, both short-term and long-term need to be initiated, so that is my main focus at the moment whilst the CEO process continues in the pace that such a process should continue.

1.38.45

Jeremy Schwartz

So I will be covering China, so on China, if I just totally understand your question properly, the reduction in price has led to an increase in units sold in line with the price increase and that gives us really a net.. not increase in sales value. Is that clear? Hopefully, that is clear. What we do see, though, is the elasticity on Tmall is significant versus in stores so we have seen a dramatic increase in transactions on Tmall and that is probably because, as you know, pricing is very transparent and visible when you go online, much more so than stores where you got to work your way through it as a consumer, so I think that sums up that. And then in terms of grey market, if I am really honest with you, I can't give you a number right now. What I do know is that the amount of grey market has gone down and we are happy with that.

1.39.39

Thomas Chauvet

In the first quarter…

1.39.41

Anders Boyer

Then if I go to your first question, Thomas, on the EBITDA, it is too early. Ideally, I think, we would have liked to come out with more concrete guidance on top line and on bottom line but we are still in our diagnosis phase in the programme, both with a fairly big plus being further cost reductions and a minus being further investments in driving our top line and it is just too early to be specific yet on where that ends up. And on the EBIT versus EBITDA, we have put in an updated slide in the appendix, far back in the appendix on page 32 in the roadshow deck where we can see that come 2019, the IFRS change will lift the EBITDA margin by around 4 percentage points next year and when we come out with our guidance for 2019, we will talk about what to guide on going forward but I think, as we indicated in some settings during the Q2 announcement, it might make sense to transition looking at EBIT or EBIT margin as our main profitability KPI.

1.41.02

Thomas Chauvet

Just to follow up maybe for Jeremy on the grey markets, when you say what has been contained further in China but it has been displayed, you said earlier, into other markets and you were talking about price reduction, I mean can you clarify, are you looking to narrow further the gaps across all your regional markets or are you satisfied now with the current price gaps?

1.41.31

Jeremy Schwartz

For clarity, we have said that we have seen a significant reduction in grey market from Australia and Canada due to the price realignment in China and the very small marginal benefit it gives the traders to actually cross-border ship. Of course, we are going to continue to review prices and if we see any change, we will make the right moves and will inform you at the right time.

1.41.57

Thomas Chauvet

Thank you.

1.42.01

Operator

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

1.42.06

Hans Gregersen

Hi. A few questions. If we look on the change in your strategy towards franchise operators, have you seen that the previous strategy has had a negative impact on growth and that is why you are changing it as the first question. If we look on the diagnosis process you have done so far, have you had any external support to that? Thirdly, do you anticipate on the changed let's say retailing outlook that there will be some goodwill impairment? And then finally, as you maintain your EBITDA margin for the full year despite lower revenue, that will imply negative leverage. What extra cost cutting have you factored in? Thank you.

1.42.49

Anders Boyer

Thank you, Hans. It sounds like most of that was actually for me to comment on. You asked about whether one of the reasons for changing franchise strategy was about that we have seen some negative growth coming from that but that is not it. The main drivers or the reasons why we changed direction on franchise acquisition strategy is, as Jeremy mentioned, one is that we do see weak sell-out in the physical stores and that is what we are reacting on and slowing down acquisitions of franchisees and then secondly, we need to focus on driving like-for-like in our existing store network. Y/Y in Q3 we have opened up or acquired 401 stores, concept stores, and that takes a lot of focus and energy and we can't do that while we have negative like-for-like across the company. Then on external support for the diagnosis phase, yes, we have had, actually I would say quite extensively external support but it has been driven by the new chief transformation officer that we have in place together with the management board, so nothing is owned by an external partner, each of the pieces that we are looking into is owned by a member of the management board and we are certainly working together with a global, big, well-known consultancy company but supported by experts sort of in specific, more narrow fields. And then on goodwill, no, nothing is in the pipeline. The way that goodwill impairment is done in Pandora is on a regional basis and that creates a lot of headroom in between sort of the book values and the implied value of the different regions so that is not on the agenda at all. And then in terms of the last question, maybe I didn't get that right, I am just listening to what Brian is saying, whether extra cost cutting had been factored into the EBITDA margin, I didn't catch that…

1.45.29

Brian Granberg

On the EBITDA margin, when we look ahead at least, I think slide 11 showed that very well, as Anders mentioned, that we do see cost lines across the P&L where we can improve that significantly so a lot of cost exercises can be made and that will of course improve the EBITDA margin but as Anders also mentioned, a part of that or all of that will be reinvested into improving our like-for-likes going forward.

1.46.02

Hans Gregersen

The question, can you hear me? Hello?

Anders Boyer

Yes, we can hear you. Loud and clear.

1.46.10

Hans Gregersen

Yes. The question was, if you looked on your changed guidance for this year in terms of revenue, you cut your revenue, that must have a negative impact on margins from a lower sales base. As you maintain the margin, is that driven by additional cost cutting specifically impacting Q4?

1.46.27

Anders Boyer

Sorry, I think, Hans, I didn't get that right in the first setting. When you look at the 4-7% guidance that we gave back in Q2, then we also said we can actually reach just around 32% even in the lower end of that range and then moving from 4% in the old guidance down to the 2% in the new guidance, you can look at two components. One is one percentage point less growth from forward integration and that doesn't actually dilute margins because forward integration is actually a little bit margin diluting so you can actually argue that it goes somewhat the other way around so it is only, and now you can't see my body language here but only in quotation marks, one percentage point of lower growth that we need to bridge in order to get to around 32% margin. Having said that, I would like to say that if we end up in the lower end of the revenue guidance, around 2%

rather than around 4%, it is probably likely that around 32% should be interpreted as something that is a bit below 32% if we get all the way down there to 2% local currency growth. I hope that clarifies it.

1.47.55

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 open.

1.48.02

Fredrik Ivarsson

Yes, thank you. A couple of questions from me as well. First on the gross margin, we have seen silver prices coming down quite a bit lately and I am just curious on your preference here, will you try to reap the full benefit of that through a stronger gross margin or will you more reinvest part of it at least into the offering to drive sales?

1.48.40

Jeremy Schwartz

We know that we are obviously taking options on price. To be honest, if we are just really honest with you, right now we don’t have that information at hand. Can we come back to you with that? Because we will have to look at our forward-buying on that and see and get you a good answer.

1.48.53

Anders Boyer

But I think, if I understood your question correctly, Fredrik, then there will be.. if silver prices have come down recently, then that is absolutely true, whether it has an impact on our ASPs and how we think about our price setting, was that what you asked about?

1.49.14

Fredrik Ivarsson

Yeah, I am just curious on whether you want to drive sales on a more revenue or like-for-like focus now or if you have a preference of reaping the full benefit of the lower raw material prices in terms of a stronger gross margin.

1.49.28

Anders Boyer

Okay. But then yeah, the way that we set prices is not based on cost, it is based on a sort of consumer research, what is a consumer willing to pay, so it is a little bit black and white way of saying it but cost doesn't have an impact on the way that we set our recommended retail prices so the lower silver prices will, everything else equal, flow through to our gross margins and EBITDA margins in the quarters to come and as you will see somewhere hidden in the notes in the quarterly release, we have actually hedged a bit further out than normal for exactly that reason, we have hedged into full 2019 and that should give us some 50 basis points of margin tailwind support in 2019.

1.50.24

Fredrik Ivarsson

That is very clear and another one on the 8-10% headwind in the quarter you mention. How much of that do you assume to get back in Q4 in the new 2-4% guidance?

1.50.40

Anders Boyer

In terms of the part of that bucket that we are calling timing and inventory changes, plus and minus that will disappear in the fourth quarter because when we look at the comparison base Q4 of 2017, net/net there is sort of low impact from timing of shipments so half of those two buckets that disappears. We still do expect to have headwind from.. in other points of sales in the quarter but not to the tune that we have seen in the third quarter so it will be quite an easier comparison base in the quarter that we are standing in right now.

1.51.32

Fredrik Ivarsson

That is very clear, thank you.

Operator

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

1.51.42

Anne-Laure Bismuth

Yes, hi, it's Anne-Laure Bismuth from HSBC, so in the past when you had to do your profit warning you did that almost two weeks before so just to understand all you.. what is your planning channels of communication, why did you not do that regarding Q3? And my second question is about… Still, I want to come back on the search for the new CEO. I understand that the priority is to focus on the strategy you announced today. But all along can you reasonably assume.. how long can it take to recruit the right person as a CEO for Pandora? Thank you very much.

1.52.28

Anders Boyer

Thank you, Anne-Laure, I think we will start sort of in the reverse order, having Peder address the CEO question firstly and then I will revert on the first question afterwards.

1.52.42

Peder Tuborgh

Yeah, I think you would know from experience – certainly I do – that there is no formula for the timing of such a process. Obviously, we can't continue the process endlessly but we do believe, as I said previously, that both the board and the management at the moment should stand very strong in the phase that we are in and initiating all the right initiatives in the company. That being said, the search is ongoing, there have been discussions also on the board level, as we also have announced, that we are looking for new board members. So, I am pleased with that part of the process and when the timing is right, the timing is right, I am sorry to phrase it in that way. I would not like to set a certain deadline on this search. But we will come back to you when the time is right.

1.53.45

Anders Boyer

And on the other question, on the timing of the profit warning that came out this morning, we have had discussions all the way up until actually I think ending this morning, I can't even remember, 6 A.M., having meetings with the organisation, trying to sort of exactly understand where we are heading but you should remember that we have just got the October numbers, obviously we have had an idea about where October was moving but we got the October numbers Saturday, I think it was, or was it Sunday morning? I can't even remember and reacting on those and having meetings both yesterday evening with the Americas organisation and our APAC organisation again this morning before we could make a final conclusion on where we are heading.

1.54.41

Anne-Laure Bismuth

Sure, I am just interested what is giving you confidence you can return to positive growth in Q4 given the weak performance in October and the ongoing clearance in the wholesale channel, so if you can give us some more clarity on that? Thank you very much.

1.55.03

Anders Boyer

I can do that if you.. one way to think about the guidance that we have given for the full year is that on local total growth, local currency growth, it implicitly means between 2% growth in Q4 and 8% in Q4 as total growth and in that number, you have to the tune of DKK 900 million in tailwind from forward integration and store openings so we are starting on DKK 900 million positive starting point and that is more than 10% tailwind as a starting point in Q4, so that leaves, one way to look at it, it leaves quite some room for a negative like-for-like and lower revenue in other points of sale but a different way to think about it is that in the upper end of the guidance, it implicitly means a like-for-like in the fourth quarter close to zero, low single digit negative and in the low end of the guidance, the around 2% for the full year, high single digit negative total like-for-like in the quarter, that is kind of the range that we are implicitly talking about in this guidance.

1.56.38

Anne-Laure Bismuth

Thank you very much.

Operator

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

1.56.50

Klaus Kehl

Yeah, hello, Klaus Kehl from Nykredit Markets. Two questions from my side. You have stated a couple of times that you have had a weak start to Q4 and especially October. I was just wondering, does that include the shipping of the Christmas collection or haven't you shipped the Christmas collection yet? That is my first question and secondly, when we think about your margins going into 2019, you highlighted that like-for-like is obviously a pretty important driver and I understand that you cannot give us a guidance for like-for-like in 2019 but if you could just give us your, yeah, thoughts about what positives and negatives we could think about going into 2019? That could be very helpful. Thank you.

1.57.39

Anders Boyer

Thank you, Klaus. Maybe I can actually comment on both of the questions. When we say that we have had a weak start to Q4, we are actually referring to like-for-like and the timing of shipments does not have an impact. But that is the way to think about it and when we say that we have had a weak start to Q4, it is because the like-for-like is below the level that we have seen for the first nine months of the year. On the other questions about sort of the thoughts on like-for-like in 2019, it is a little bit too early to be specific on how to think about that but when I went through slide 10 in the deck, we gave a couple of indications on what could impact like-for-like next year being sort of lower promotions and mark-downs, that would be a drag on the year on like-for-like when you do it but just reiterating no expected impact on the EBITDA margin and then I think it is clear that we have had some negative momentum so far in 2019 on our like-for-like but it is too early to be concrete apart from saying, as I did on slide 10, that we don't expect 2019 to be a great year from a revenue point of view.

1.59.18

Klaus Kehl

Okay, thank you very much.

1.59.21

Operator

Thank you. Our next question comes from Piral Dadhania of RBC Capital Markets. Please go ahead, your line is open.

1.59.27

Piral Dadhania

Yeah, thanks. Just if I may quickly on your relationship with franchisees, you talk about reigniting that relationship so could we maybe just touch on to what extent that is damaged given the forward integration strategy and potential appetite from franchisees to exit Pandora contracts? And, I guess, in that context, assuming that the physical retail store like-for-like is down double digit, I estimate it to be about minus 12, minus 13, any comments on that will be helpful, you know, to what extend would franchisees wish to remain in these commercial terms and what are you going to be saying to them today and in the months to come that the performance will improve? I just wanted to sort of understand how the franchisees' side of the equation will evolve. Thank you.

2.00.21

Jeremy Schwartz

As you know, our relationship with the franchisees is a business partnership where it works very well when you have aligned if different goals and I think that in speaking to some of the franchisees in America, in Philippines and in Europe, the conversations I have had with them is that obviously when we signal an intent to acquire with such scale franchisees, it questions the way we value them so I think that we can demonstrate really pretty quickly through the words we are saying today, through the message we are giving and in through our actions and for example, we have a franchise counsel in two weeks' time in the US which we will be attending, that the new management and our new direction has a different approach and I think they will be able to feel that and see that because, for example, we are going to crank up the level of communication both ways because we want to hear great ideas from them and vice versa. I think you would be careful in your interpretation of the like-for-likes you are thinking of so I wouldn't be in the sort of scale of thinking that you are in and I think if you also then just look at a couple of things, first of all, we are the most profitable jewellery business that they will be having in their business, and as we know, speaking to all franchisees, they are EBIT and the EBITDA focused as people so profit is their number one metric that they like to look at and I think it doesn't take long for them to realise that we are a great contributor to that and we also have a brand and product that has got great, great potential, and as you know, this is a very fragmented marked with few brands that really have the sort of kudos and opportunity we have so I would say my feeling is that they are going to be supporting us.

2.02.20

Piral Dadhania

Great, thanks, Jeremy.

Operator

Thank you and we have one further question on the line that is from Elena Mariani of Morgan Stanley. Please go ahead, your line is open.

2.02.30

Elena Mariani

Yes, this is just a small follow-up, please. I was wondering if, as part of your diagnosis, you identified the need to review your disclosure structure and whether there was anything you could anticipate on this front given that we have had many changes in the past few years and quarters. I was interested in understanding how you are going to look at the business going forward more from a channel perspective, so retail versus wholesale, from a geographic perspective and if you could provide any clarity around this. Thank you.

2.03.06

Anders Boyer

Obviously, we are on an ongoing basis reviewing disclosure and we have made a couple of changes already this year with disclosing like-for-like, total like-for-like and for a number of markets as well back in Q2 and this quarter also giving a little bit of additional disclosure on how to break down our trade receivables and actually also giving historical total like-for-like, you will see in one of the footnotes in the company announcements that we have given quarter by quarter for 2017, so the only thing I will say that is in the making as we speak is the EBITDA versus EBIT discussion that we have just had earlier on this call and we will review that and get back to that when we meet next in February 2019. But we are always listening for input from analysts and investors and so far, we have reacted on it by disclosing our total like-for-like.

2.04.13

Jeremy Schwartz

And just one very small bill from an internal management point of view, I can assure you that Anders and I are really cranking up the accountability of data and the way we are looking at the business in various cups to run it in a more productive and efficient manner.

2.04.30

Elena Mariani

Great, so going forward, you are going to continue to provide a total like-for-like sell-out across all channels and also separately a retail like-for-like?

2.04.40

Anders Boyer

That is clearly the intention, yeah.

Elena Mariani

Okay, thank you.

2.04.45

Operator

And we have had a further question coming through that is from Hans Gregersen of Nordea. Please go ahead, your line is open.

2.04.52

Hans Gregersen

Thank you. Just to your guidance for Q4, when you talked about the local currency growth, you mentioned 900 million from forward integration including M&A. Does that also include the inventory phasing in the US where you mentioned DKK 175 million last year? The first question. Second question: You are investigating the like-for-like growth levers, understand that. Could you just give some sort of indication on what sort of communication framework we should expect at Q4 in this regard? Thank you.

2.05.25

Anders Boyer

Thank you, Hans. On the first question, that is in the implicit guidance that we talk about for Q4, that DKK 175 million Christmas thing is included in that. For the full quarter, if you take everything into consideration in the fourth quarter of 2017, there is no net impact specifically in that cup base from timing of shipment. And then on the second question, I am just making sure that I understood exactly what that was about.

2.06.07

Hans Gregersen

I understand that you are investigating the like-for-like growth drivers you are going to implement. I understand you are not willing to or you cannot share any details now but can you explain or just hint to us in what way you are thinking on communicating the findings to us? Will it be specific numbers or specific drivers with a weight on or what are you looking at?

2.06.30

Anders Boyer

I think what we can say at this point in time is that we are still in the diagnosis phase and once we have concluded on that and come out with our meet next in February 2019, we will communicate the programme in a way that makes it possible for our investors to understand where we are on that journey, on that Programme 'NOW' journey. And exactly how that should be done, we need to get past our diagnosis phase and understand the phasing and the magnitude of what we are embarking on. Thank you everyone for taking this extended time today to listen in to what we have to say about the third quarter and we look forward to meeting you again soon. Thank you.