Pandora A/S
Havneholmen 17 – 19 | DK-1561 Copenhagen V | Denmark
Tel. +45 3672 0044
www.pandoragroup.com
CVR: 28 50 51 16

5 May 2020

Q1 2020 TELECONFERENCE CALL - TRANSCRIPT

Welcome to the Pandora Interim Financial Report for the first quarter of 2020. For the first part 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 Michael Bjergby, Vice President, Investor Relations, Treasury and Tax. Please begin your meeting.

0.00.22
Michael Bjergby
Yes, good morning everyone and welcome to the conference call for Pandora's Q1 results. Even though it is special times then I am as usually sitting in the head office at Havneholmen in Copenhagen. There are not many employees in the office today. Most of them are sitting in this room and with me I have our CEO, Alexander Lacik, CFO Ander Boyer and Christian and Mikkel from the IR team. There will be a Q&A session at the end of the call. As usual, please limit your questions to two at a time and then get back into the queue for further questions. Please pay notice to the disclaimer on slide no. 2 and let me then hand over to Alexander and get the show started with slide no. 3.

0.01.07
Alexander Lacik
Thank you, Michael. It is indeed quite a peculiar situation. Pandora is impacted like all businesses and our leadership agenda is very different from what I think we all had expected going into the year. When COVID-19 broke out in China, we immediately established a global crisis team to mitigate the impact and prepare scenarios for the times ahead. We were therefore quite well prepared when C-19 spread to the rest of the world. First and foremost, we have protected our employees and we have fortunately seen very few cases in the company. We have also protected our consumers and we have supported government actions across markets. From a financial perspective, we have taken a number of actions to strengthen our financial flexibility both to sustain worst case scenarios but also and importantly to have muscle to navigate and adapt to a potentially new reality on the other side of this situation. Short term we have focused on managing cost and protecting cash. We have taken such actions without compromising the long-term health of our company. At the same time, we are preparing for a strong commercial comeback when demand returns. COVID-19 may have a lasting impact on the face of retail. We are monitoring this closely. Where there is change, there is more certainly opportunity. Please move to slide 4.

COVID-19 came at a time when we were seriously harvesting the fruits of our hard labour from 2019. Our brand momentum continued to strengthen on the back of the brand relaunch in

August and the performance in January and February was better than what we had expected. Organic growth was positive and charms and bracelets had positive revenue growth. These are key milestones for our turnaround and tell us that Programme NOW is working. Most of our stores around the globe have been closed over the past months. So our revenue today is needless to say seriously impacted. At the same time, the online business is firing on all cylinders and this is a resilient channel that we can continue to push very hard. Please jump to slide 6.

On the chart to the left you can see the positive organic growth of 1%. Note that this was in a period where China was significantly down. We provide organic growth numbers due to the definition issues with like-for-like but the picture is exactly the same when you look at sell-out. In January and February, group like-for-like was flat excluding China. We are supporting government actions around the globe and have closed more than 80% of our stores during the month of March. We have guaranteed eight weeks of base pay for store staff and yesterday, we announced that this will be extended by two weeks to 1 June. At the same time, we have decided that the top leaders, executive management and the board take a temporary salary cut of 20%. Production has remained unaffected. Business continuity plans are in place if a curfew should occur. Our franchise partners are important for us and we strive to stay in close contact with them. We are trying to consult and help them during this crisis to the best of our ability. But we are generally not providing any financial support. I will now hand over to Anders for some comments on stress tests financials on slide 7.

0.04.54
Anders Boyer
Thank you Alexander and good morning everyone. This slide number 7 and the following slide are two somewhat unusual slides but it is also two slides which are very important in a situation like this. So let me start out by saying that Pandora's financial starting point is strong and a simple stress test will show that Pandora can absorb around let us say 50% revenue decline before reaching break-even on profits and before we start to burn cash and that is a pretty privileged situation to be in for me and for the company and that is what we have tried to illustrate in a simplistic way to the left of slide number 7. Despite this strong starting point, we are of course taking serious action on cost and cash because we want to be prepared for the worst. So we have immediately reduced media spending as stores started to close in markets around the world and we are with success renegotiating rent agreements on offices and stores with many of our landlords and we are also applying for government relief programmes in many markets and on the cash side we have suspended our share buyback, we have reduced our CAPEX by around 40% and we are managing working capital tightly just to mention a few of our cash actions. And these are all necessary actions to protect the financials and the health of the company but these are also actions which strengthen our position when demand returns. So then let us go to the next slide with a few more details on the funding and how we have prepared ourselves for a stress test scenario on slide number 8.

We are in a highly uncertain environment and therefore we have decided to arrange funding or cash for a stress test scenario so we have decided that we want to pay that insurance premium to be ready if a worst case or a stress test as we have called it on this slide should happen because in an environment like we are in right now we need to work with different scenarios and different scenarios require a different amount of cash and different amounts of liquidity and with the funding package we are announcing today, we have enough cash even if all stores remain closed for the rest of the year and that is what we have illustrated to the right on this slide 8 and I will get back to that in a bit more detail in just a minute, but first I would like to walk you through our thinking about the different scenarios so in a base case, that is what we call scenario A in the pink box to the left here, we see a gradual opening of stores just like what we saw in Germany back in late April. And in this scenario, trading is improving slowly in the second quarter and further in the third quarter and leads to something that more or less is a normal fourth quarter. And in that scenario, despite being heavily hit in the second quarter and also in the third quarter, we would actually not need additional funding. However, if we are in a scenario B where store openings are dragging out, some markets mainly to close down again for a second time later on and the fourth quarter is significantly impacted either by some markets being closed down or simply because consumer demand is lower, then additional bank funding was required and to cover that scenario B, we have done three things. First of all, we have negotiated a waiver of our loan covenant and that covenant which by the way is our only bank funding covenant that has been raised to 4.25 net interest bearing debt/EBITDA. Secondly, we have extended one of our credit facilities by approximately 1 year to May 2022 and then thirdly we have established a DKK 3 billion Club Deal with our core relationship banks and that is guaranteed partly by the Danish State investment fund Vækstfonden. But in an absolute worst case scenario and that is scenario C where there is significant second virus outbreaks in the third quarter and the fourth quarter and the majority of stores are closing again like what we have seen during April, then the DKK 3 billion in additional bank funding would not be sufficient and to cover that scenario and to strengthen the capital structure during these challenging times, we decided to sell 8 million treasury shares as you saw announced this morning. So to summarise, when the sale of the treasury shares has been completed then we have secured enough liquidity even for the worst case scenario, scenario C, and thereby we also have the flexibility and the muscle to focus on a strong commercial comeback. So going back to the illustration on the right here, we have tried to illustrate the liquidity situation in the worst case scenario in a somewhat different way so assuming that closing the majority of the stores leads to a 70% revenue drop then we will be burning about DKK 1 billion in cash per quarter or DKK 3 billion for the last three quarters of the year plus restructuring costs and plus a bit additional funds being tied up in working capital because our working capital is still at a quite a low level and that would take us too close to the available committed facilities after the repayment of the DKK 3.4 billion loan facilities that expire by year-end but with the sale of the treasury shares, there is sufficient funding also in the worst case scenario and we will also have funding to sustain a continued material negative impact from the virus going into next year 2021. And with that I will hand back to Alexander and an update on Programme NOW.

0.12.04
Alexander Lacik
Thank you, Anders. I will now turn focus to the underlying business and our long-term initiatives. The execution of Programme NOW has definitely not stopped during the outbreak. We continue to progress and execute while obviously adapting to a new reality. When we entered the year, it was important for us to continue to build on the strong brand momentum since the brand relaunch in August. This was the key driver behind the positive performance in January and February but I would also like to highlight that both new and base products were doing well and even more importantly, charms and bracelets were the best performing product categories. This is critically important as this is the core of Pandora and it is the core of Programme NOW. We continue to drive the cost programme to secure both fundamental sustainable savings and additional short-term savings to protect the business during this period. We consider the commercial reset track in the bottom to be more or less completed. Inventory levels are healthy, promotional dependence is significantly reduced and the product assortment is simpler and more productive. Please turn to the next page.

This is one of the most important slides in the deck as it talks to the brand health which is actually at the heart of the whole turnaround programme. The underlying brand momentum is clearly improving. That is evident from our traffic and like-for-like numbers both in Q4 as well as in January and February of this year. In the first quarter, we increased our media efforts with national TV campaigns running in most key markets. The marketing message was consistent, inside driven and properly tested. We redirected spend to digital to drive traffic in conversion in our online stores and the key brand metrics paint the same picture. Unaided brand awareness, unaided ad recall and Google searches are all pointing in the right direction. The development is significant, solid and something we will continue to nurture. Please turn to the next slide.

The new online store was launched in August and has been key to our strong online growth. We have also increased our media spend on digital marketing and consumers are responding positively. It should be noted that our online performance is predominantly driven by conversion rate in Q1. We see this as a result of first that our marketing content is much stronger and consumers are therefore browsing and engaging significantly more with the site. Secondly that we have improved the back-end of the online site which leads to faster load times and higher-quality product pictures. Faster load time is a key factor that has a clear correlation with conversion. In March, quality of traffic was likely impacted by loyal consumers shifting offline to online. But it should be noted that neither growth nor conversion was significantly better in March than in the first two months of the year. Our online business has first really started to fire in April with triple digit growth rates. Now please turn to slide 13 for a couple of words on China.

As you already know, Pandora has built a quite large business in China in a very short time period. However, the brand has not been clearly positioned and has not been nurtured in the right way. Now, we are taking necessary steps to prepare for a proper turnaround in China. We have been able to appoint a gentleman by the name of Jacques Roizen as the new general manager in China. He joined in late March, has a very strong retail background, in-depth knowledge of the Chinese market and an expert in data-driven growth. The strategy and time line for the rest of the year can be split into three major milestones. The first one is to stabilise the Chinese business. There are low-hanging fruits to support the concept store performance and elevate the online business. The next milestone is to qualify our relaunch plan in China and this has to be data driven and well tested. Finally, a relaunch of our plan by the end of the year. On the back of COVID-19, trading in China has been quite slow to recover. Most of our stores are open and we are starting to see like-for-like moving towards the level pre-COVID-19. In April, our Tmall business which is essentially our e-commerce business in China back to flat numbers. Please turn to slide 14.

As you are aware, we announced a strategic re-org on 4 March. This is the foundation for our ambition to strengthen the organisational capability. Global headquarters come closer to local markets and consumers. This ensures that feedback from consumers can quickly fuel new concept creations. The reorganisation will also reduce complexity and enable Pandora to execute with more speed and agility. As I have spoken about before, Pandora is moving into its 3.0 phase where the objective is to become a world class brand builder and a world class omni-channel retailer. During these turbulent times we have also gained critical competences in key positions. Carla Liuni as chief marketing officer and Martino Pessina as chief commercial officer to name a few. I am personally extremely excited about the potential of the new structure and the new executive team. It is important for me to say that the reorganisation was planned long before COVID-19. And it is clearly not a cost exercise. This is a key investment in the long-term success of Pandora. That was my part of Programme NOW and I will now hand it back to Anders.

0.18.14
Anders Boyer
Thank you, Alexander. Then please go to slide 15. In the light of COVID-19, it is clear that the cost focus has changed from structural and long-term cost reductions to also focus more on short-term savings here and now. But the cost reset programme under Programme NOW is still on track with a run rate saving target of DKK 1.4 billion by the end of this year. We continue to progress well on all parameters and not least the efficiency gains on the production sites in Thailand and achievements on our large IT transformation so in the quarter the Programme NOW savings amounted to DKK 125 million and that comes on top of the savings that were generated in Q1 of last year and just to avoid any misunderstandings, the numbers on this slide and the DKK 125 million number for the quarter do not include short-term savings that are being achieved as part of the COVID-19 situation so then please turn to slide 17 for a brief update on the Q1 performance.

As already mentioned by Alexander a couple of times, the performance was strong in January and February with the +1% organic growth even with the virus outbreak in China already happening at that point in time and +1% might not sound impressive but it is a major step

PANDORA

considering where we are coming from with negative organic growth and declining like-for-like for quite a long time and then impacted by COVID-19 we had 42% organic growth decline in March and for the quarter organic growth therefore ended at -14% and the EBIT margin was just above 15.

So let us turn to the next slide for a bit more detail first on the revenue and here on slide 18 you have the usual revenue bridge and the like-for-like, including stores which are temporarily closed due to the virus, was -17 and that is clearly the driver of the revenue development compared to last year. The KPI that we are showing here is the sell-out growth including the stores that are temporarily closed and it is the same as our normal like-for-like KPI except that it includes the negative impact from the stores that are temporarily closed but I also want to highlight the third pink box from the left and that shows 2.5 percentage points impact from normalisation of sell-in to Wholesale and it is quite an important number because it shows that the selling is normalising and that our big efforts of cleaning up inventory during last year has come to an end. And then please turn to slide 19 on the EBIT margin bridge.

The profitability in the first quarter was clearly not where we wanted it to be but given the circumstances and the impact from the virus it was okay, it was solid and shows how Pandora can absorb a pretty significant revenue decline and still generate profits and the main story line is that our EBIT margin in the first quarter is heavily impacted by the large de-leverage effect from the COVID-19 virus in the month of March. And if you look at the first two pink boxes to the left, the +2.5 and -2.5, they show you that the cost reductions were essentially all reinvested in the business to drive the top line and that is very much in line with what we saw during the quarters of 2019 as well.

And then turn to slide 20 and cash flow. I will not go into too many details here but high level you can say that the cash flow numbers are not as attractive for the specific quarter as we normally show but as expected and as we communicated back when we released the full-year numbers in February, the free cash flow in the quarter was impacted by a cash outflow from trade payables and obviously also impacted by the COVID-19 impact on EBIT and I just want again to put our working capital level in this quarter into perspective. At the Capital Markets Day now almost two years ago, it was mentioned that our working capital should be around 15% of revenue. Today we are at 4.2 or by the end of March we were at 4.2. And that is a very low level and not sustainable but we can long-term definitely do better than 15%. But we still expect to see working capital increase during 2020 among other things due to an increase of inventories.

And then please turn to slide 22 and that is the last slide from me today and just about the guidance or the lack of guidance because on 16 March, we withdrew our guidance as we no longer felt that it was meaningful. At that point in time, the uncertainty was simply too high and today that is still the case and we are not providing any update to the guidance for the year. Having said that we are updating some of the building blocks to the guidance to reflect some of the cost and cash actions that we have taken so restructuring costs have been lowered by

25%. CAPEX has been lowered by 30-40% compared to the original guidance and lastly and that is probably the first time in the history of Pandora, the net concept stores are expected to decrease a bit this year going down by between 25 and 50 stores in 2020. As expected, the second quarter of this year has started out with revenues being down significantly in April as the majority of the stores were temporarily closed. Online as accelerated as Alexander mentioned delivering triple digit growth in the month but obviously not enough to offset the loss coming from the physical stores being closed. We don't want to guide specifically for the quarter but you should expect that revenue will be down significantly in the second quarter and much more than in the first quarter and you should also expect to see that the bottom line for the second quarter will be negative. And with that I will hand over to Alexander again.

0.25.54
Alexander Lacik
Thank you, Anders. So if you move to slide 23. I am one year in the job and this slide is a perfect reflection of the reason I came to Pandora maybe with the exception of the Programme NOW point which you know I think was part of my job description to try to drive the business but it is good to put this slide up there to remind ourselves of the underlying strong foundations of Pandora. We have a business model with a very clear competitive advantage and we are focusing on driving those even as we are kind of facing this crisis.

So if we now move to the next page which is no. 24 so I will conclude the presentation where we started it. Programme NOW is on track. I think the performance in January and February is a testimony to the commercial initiatives bearing fruit. The underlying brand momentum is solid as reflected in the brand metrics. We see improved traffic in online channel to really be on fire. We are financially resilient and the strength of our balance sheet is key and finally and very importantly we have been preparing for a strong commercial comeback. We have already established the financial muscle and the flexibility to focus on life after C-19. So with those remarks we will now open for the Q&A session. Operator please.

0.27.23
Operator
Thank you. If you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw a question, you may do so by pressing 02 to cancel. That is 01 if you would like to ask a question. Our first question is from the line of Magnus Jensen from SEB. Please go ahead, your line is open.

0.27.46
Magnus Jensen
Hi guys. It is Magnus from SEB, thank you for taking my questions. First of all on the COVID-19 and the impact on your business, it is clearly pretty big. But how much is it a setback in terms of what you have already done? I mean how much are you set back in terms of the marketing efforts you have been doing and the nice numbers you have been getting in terms of awareness and the likes. How large is the setback and do you need to start all over on the other

side? My second question goes to your store network. Independent jewellers are clearly under pressure due to COVID-19, is there a risk that when the market starts to open up that you will lose a significant number of multi-branded retailers and the same for concept store franchisees, do you have a sense of how well they are getting through this crisis? That was my two questions for now. Thank you.

0.28.46
Alexander Lacik
On your first question, how large the setback is, you know if we take Europe we have been in this for six weeks. We normally get monthly trackers so you know we have one dipstick in margin and that is actually before COVID-19 happened so from that metric you would not see anything. I have seen some data for consumer sentiment in China which actually was not too bad. Of course it came down a little bit in the midst of February but then it seems to have bumped back. I think that the answer to the question is going to be dependent on how long the societies are in a lock-down mode because the longer we are locked down, of course the less we invest in the communication and the less people walk by our stores so then you would get some kind of impact but so far, I would say it is way too early to make any strong statements. I think what is encouraging is if we look at Germany which reopened just 8 days ago, traffic there rebounded at a much faster click than what we saw in China for instance so I think it is very difficult right now to say that we have seen any material impact. If markets reopen now during the month of May, which is kind of what we are expecting, then we will come very strong out of the gates in order to capitalise on the momentum we built towards the last couple of months before COVID hit us.

Then maybe on the independent retailers I think it is fair to assume that many retailers with low margins are going to suffer a lot through this. The situation is going to vary country by country depending also on what the local governments are doing to support them. You know, we have had I would say in particular if I then turn to the latter part of your question on the franchisees where you know UK is big in our portfolio as well as US, I think the governments there have provided quite strong support packages and then we don't expect that the franchise partners have big overhead costs like we do so frankly speaking if this crisis blows over you know, at least this first wave blows over reasonably soon, then we have not yet seen any massive issues come our way but of course, the longer this thing carries on, the more we are all exposed I think is the long in short of that answer but nothing that we have experienced so far.

0.31.22
Magnus Jensen
Okay, thank you very much.

0.31.26
Operator
And our next question is from Lars Topholm from Carnegie. Please go ahead. Your line is open.

O.31.33
Lars Topholm
Yes, congrats with the good and encouraging look in Q1. I have two questions also. So clearly numbers are going to be blurred because of the coronavirus – maybe it is a tricky question to answer but how should we judge your Q2? Clearly top line is going to be down, earnings are probably going to be negative but how should we judge your relative success in that scenario and what I am of course referring to is that in Q2 2O19, there were some early positive signs in UK and Italy and then Q3 those signs looked reversed so I am just wondering maybe from an internal perspective how you will judge your own success. Question number 2. So your sort of constant product when you might become somewhat challenged since many stores are closed for example I will assume some stores are going to miss out on Mother's Day, how do you manage innovation from that perspective? Are you going to hold back on certain product launches? Does that mean you will have a big splash of new products at the end of COVID-19 if stores subscribe to purchasing Mother's Day and have to stay closed, will you take it back or how do you manage that whole product situation? Thank you.

O.33.1O
Alexander Lacik
On your first maybe we will split this one between Anders and myself, you know, in reality the going-in scenario we had assumed was all physical stores closed throughout all of Q2 and essentially only trading on e-commerce and trading in China. Now of course we learned a few weeks back that Continental Europe in particular, the governments want to start reopening the economies and therefore those numbers are going to be a little bit better. I think Q2 is just one we want to put behind us to be honest, I am not sure what performance metrics there is you know making sure we don't bleed cash and holding on to the wallet in a sense I think is the success. The question is more how quickly we can get the markets to come back and then I am probably looking more into Q3 to be perfectly honest with you. And I will let Anders answer this one and then maybe I can take the innovation one as well when I am at it.

So when this situation hit, we immediately cut back on the innovation pipe, not in terms of volume on the big bets, those we have kept intact. What we have done is we have cleaned up because as always you have some small stuff hanging around in your pipeline so we just stopped those so we will probably have fewer, bigger and hopefully better so that was one aspect. The other one was we essentially pivoted to the view that most of this volume is going to be online so we haven't flooded the stores with too much inventory of the new. You remember also last year we did a clean-up of the assortment. We went from 18OO to 12OO DVs. That is kind of coming through. And we have also rebalanced the focus between what we label as the core assortment versus the new so now we have a better balance because if I am over inventory, overstocked on the core, it does not really matter too much because I will sell this at one point. If I have a highly, highly seasonal type of assortment, yes, then that is more a challenge so if I am in the apparel industry and I have a summer T-shirt you know I will probably need to sell it in the summer because in the winter nobody is going to be asking for it. We don't have that issue to a large extent in our portfolio so that is something which I think we will be managing quite well but of course it is a bit of a guesswork because you never know when the stores are going to reopen and from an inventory coverage standpoint, I think we have roughly 25-26 weeks of coverage based on normal demand sitting out in the supply chain which also takes care of one of the questions which I am sure is going to come later around what happens if we have problems with the production facilities in Thailand so you know we can sustain sales for quite some time before we run out of inventory but maybe Anders some views on Q2 success criteria?

O.36.24
Anders Boyer
Yes, hi Lars, it is Anders here. It is a good question because yeah there is no concept of business as usual in a situation like this so as we speak, one of the things that we follow very closely with even more interest than normally is announcements coming out from other global brands, global retail companies and see how they are performing, what they are saying and in fact also what they are doing on cost, cash and other types of actions, we are following that very closely, that is kind of a step 1 to when a market opens up how are other companies, how are other branded companies performing. Obviously, that is a piecemeal type of data but I think that is one way to look at whether we are performing okay or not. Then hopefully, a step two would be that once markets have been open for a while, then you get back to something that is a little bit more normal that you can hopefully compare to how we were trading before the virus broke out, hopefully we get to that point at a later time during the year but we are definitely not there yet. For now, I think yeah looking at what other companies are announcing is a good starting point. And obviously, in a situation like this you also would like to do some internal benchmarking and see, when we saw Germany opening up a couple of weeks ago and then when our next market opens up, that kind of becomes a benchmark but obviously countries have been very differently hit but still that can also provide a benchmark at least within the company how the individual markets are performing.

O.38.24
Lars Topholm
Perfect. Thank you very much guys. Thanks for taking my questions.

O.38.29
Operator
And our next question is from Silky Agarwal from Citi. Please go ahead. Your line is open.

O.38.36
Silky Agarwal
Good morning, hi everyone. Silky Agarwal from Citi. I have two questions please. The first one is on the marketing investments. How do you think marketing investments will evolve in the next few quarters? How much are you allocating to digital versus traditional media, especially you talk about what are your plans on marketing there? And two on gross margin evolution. You had a very strong increase in the first quarter and it seems that you are getting manufacturing

efficiencies as you have seen last year. What are you doing in terms of sustaining your gross margin? Do you think gross margin could take a temporary hit in the second half as you probably might have to increase promotions to drive sales or clear some of the excess inventories that Anders was mentioning? Thank you.

0.39.32
Alexander Lacik
Hi Silky, so on your first question I mean when the COVID started, we essentially removed most of our what we would label as traditional above the line media, TV, print, out of home etc. and we kept the portion that we somehow can attribute to the e-commerce sales and that is, you know, for as long as we don't have a sufficient amount of stores reopened, I am not going to be burning cash to close stores so we will keep pushing the digital spend and social spend because we still want to remain top of mind in consumers so we don't believe in a scenario where you go completely black but you know we would not provide you specific splits because in fact they keep changing all the time. This is quite a flexible environment. What we are considering as well if and when we have a sufficient amount of stores reopened, buying TV media and those traditional medias, this is quite a lucrative opportunity to go and negotiate quite interesting media rates so that is going to be part of our game plan because again as I said we want to come strong out of the gates and strong out of the gates means to be sharp at the point of sale but also to invest in the brand equity messaging so we are not just going to be relying on promotions like I have seen a few other players doing in particular in China. That is not the game we are going to play.

Anders Boyer
And then, hi Silky, it's Anders…

Silky Agarwal
… promotion going to …

0.41.17
Alexander Lacik
No, you know that last year we went through this big promo detox and I am not going to throw that out of the window. We might be sharp tactically here and there but fundamentally we will stick to our guns and keep to the base plan in terms of promotions that we had in store. That is give or take what we are going to do.

0.41.43
Anders Boyer
And if I should give a comment on the gross margin, when you look at the scenarios A, B, C that we outline on slide 8 I think it was, the way to think about it high-level is flattish gross margins, by far the most of our COGS is variable so there not that much leverage, de-leverage effect, there is a little but it is not material from that perspective so when we look ahead then we are thinking flattish gross margins for the year. Of course, there are continuously more and more

cost reductions coming in on the initiatives that we are doing as part of the cost reset programme. That helps a bit. Currently, you can also argue that there is a bit of tail wind from channel mix given that most of the or all the revenue that is coming in as we speak is from our own channels. There is a little bit of support from that.

0.42.53
Silky Agarwal
Thank you

0.42.58
Operator
And our next question is from Chiara Battistini from J.P. Morgan. Please go ahead, your line is open.

0.43.04
Chiara Battistini
Good morning. Thank you for taking my questions. The first one would be on how to think about the sell-in versus the sell-out and is it fair to assume that in Q2, as long as the stores are closed, then the sell-in will be effectively zero and therefore, we should not look at the sell-out progression as a leading indicator also in Q2 for the sell-in also? And the second question is on your cash and the excess liquidity. Would you consider to redistribute the excess liquidity from the ABB if the worst case was not to materialise and therefore from here, we would just see a sequential opening of the stores and things progressively returning to normal? Thank you.

0.43.54
Anders Boyer
Hi Chiara, it is Anders here with the first question sell-in/sell-out. Yes, I think the important starting point is that inventories across partners were getting into 2020 and in Q1 is quite healthy so from that starting point, of course there are some inventories among the partners they can eat off during the second quarter but there is a limit to it but I think to your point, I think it is safe to assume that in an environment like this, you are extra careful on cash and thereby our sell-in could be lower than sell-out during the second quarter. I think that that is a reasonable assumption and also what we have seen during the month of April. Then on the proceeds from the ABB. Yeah, I hope both for the world and society from a bigger perspective and for Pandora's sake that we are not getting into scenario C meaning a scenario where there would be second and third maybe lockdowns of major markets and a major additional virus outbreak and if that does not happen then step number one is that we would not need the proceeds from the ABB and secondly what we would then do was sit down and look at our capital structure policy where are we within that and if we are within the range of 0.5 to 1.5 times leverage then we would distribute whatever is in excess of that of obviously it would mean as a starting point that would be give and take 1.5-1.6 something billion more to distribute from than there would not have been but let us cross that bridge once we get there and if it ended up that we did not need that additional funding.

0.46.15
Chiara Battistini
Great, thank you very much and just if I can follow up on the sell-in question. Is it fair to assume right now that the sell-in for stores that are closed is actually zero right now?

Anders Boyer
Yes, that is the case yes.

0.46.29
Chiara Battistini
Great. Perfect. Thank you very much

0.46.35
Operator
Our next question is from Elena Mariani from Morgan Stanley. Please go ahead, your line is open.

0.46.41
Elena Mariani
Hi, good morning Alexander and Anders. A couple of question from me as well. The first one, I just wanted to go back to your trends in January. You have experienced positive like-for-like across the several countries excluding China probably. What do you think was the key driver there and how was traffic versus conversion, tracking versus last year, was there any specific promotions? So any additional details you could provide. I know you have disclosed already quite a lot about it but if you could help us understand whether that start of the year perhaps would have been sustainable excluding COVID-19? That was question number one. Question number two is more like a general question on your view on the shape of recovery given that you have run several scenarios, I mean I am not asking you about the guidance but perhaps your view in general about how quickly things could recover assuming that your base case scenario plays out so in your view do you think that it would be feasible in 2021 to go back to the same sales and margins of 2019 or do you feel as a management team that given the global situation and the potential global recession it might take a little bit longer for consumers to regain sentiment. I know it is difficult to answer but based on your base case scenario do you think it would be feasible?

0.48.15
Alexander Lacik
Okay let us take the first one so the key drivers in January-February I think you can summarise in a simple sentence is that: That is the core of Programme NOW at work so it is not just one isolated aspect, I think it is the whole programme is starting to work and the reason I can say that is because we get those good results across the board so it is not just one country and of course the brand has different maturity and different starting points in various places around

the globe and that is actually the comforting thing about it. From a promotional standpoint we had a similar promo schedule as prior years. There was no more than last year so we did not buy volume in January-February to promote this. There was a tad more media investment. I think over January-February we spent DKK 100 million more than we did in the same period last year but that was kind of to carry the momentum for Q4 that is kind of starting to build. You don't turn a brand that is kind of being out of fashion let us say for a while on a dime. This is something that you need to consistently communicate and consistently be top of mind of people and at one point, the penny drops and I think that is kind of what we saw happening to a large degree in January-February and you know so in essence, it is the components inside Programme NOW that is working hard and the good thing about that is we know what those things are and we can repeat it. Now of course it is up to us to prove that we can repeat it and unfortunately COVID came a little bit in the middle but we are very confident that we know what the right levers are.

Then on your second question I just wish I had a strong insight on that because I would not be doing this job then I would be trading in the stock market and probably make a fortune but I am not. I don't know. This is an impossible question to ask. What we can talk about is what we have seen in China and what we can talk about is what we have seen in Germany because those are the two only yardsticks which somehow could give us a sense of direction. China has been quite slow to recover in particular when you talk about the physical traffic. Online has recovered quicker so if you look at Tmall, total Tmall traffic I think was already at par with last year a month ago. For us it took a little bit longer and our business in March was down 30 odd % on Tmall and now we are back to flat whereas in the stores this is still slow-going so I think we are still down 30% or there about in terms of traffic versus prior year and that is now, what, 8-9 weeks post let's say the reopening of the economy. Germany has been open for 8 days and traffic has already rebounded you know we are down 60/40% on average so we are throwing numbers around here but what is happening in Germany is that they are rebounding much, much quicker than China so now pick your swim lane and I don't think any of those necessarily are going to be true for when US reopens or when Italy and Spain and France for that matter or even the UK – I think each country will have a different trajectory on how fast it comes back but I think those two might be, might be I stress, the outliers so really fast recovery and a really slow recovery and then probably we will have a couple of countries in the middle so in our A scenario which Anders spoke to, the view was sequential recovery over the month to come and Q4 kind of being similar to last year. That is you know kind of a base scenario. Now you could also have an argument that well that is nice up until Q3 and then we get a rebound of COVID which is not unusual within this type of pandemics if we go back into the history books. And therefore we could argue that Q4 is actually going to be similar to the previous quarters and that is our B scenario if you may, and then the C scenario is that this thing continues into 2021 so on the basis of those, that is kind of how we build our financial plan but also our commercial plan so I know it is not answering your question but unfortunately I don't have any better answer than that. I mean the rest of the..

0.53.11

Elena Mariani
Your answer is great thank you, some of the best I have had so far so thanks a lot.

0.53.21
Operator
And our next question is from Fredrik Ivarsson from ABG, please go ahead. Your line is open.

0.53.28
Fredrik Ivarsson
Thank you operator. Thank you for the presentation guys. Most of my questions have already been asked but one on China, the turnaround there. You mention a few low-hanging fruits when it comes to the improving concept store performance I guess. I was just wondering if you can elaborate a little bit on that. What are those low-hanging fruits?

0.53.51
Alexander Lacik
Think of it like this. The Chinese business has actually not been well performing if you look at it from the like-for-like standpoint for quite a long period of time in fact. It has been kind of on a declining trend. And then last year, I believe it was in August when the Chinese Valentine's Day happened, and you know the team had forecasted a very different outcome in general which they did not deliver. I think what happened then is you know there was a fair few people in that organisation that lost a little bit of faith in that we can actually turn this ship around. Now we have put new management in there and of course somebody comes in with a fresh view, a couple of other key people that have just entered the business and of course they will see some – you know – we refer to them as low-hanging fruits but they are more operational in nature so if you kind of look at the China case then you say I have 30 % of my opportunities operational issues and 70% is kind of these structural issues that we have been speaking about for a while so I think his initial view was well on the operational side, there are plenty of things which we can do, you know things like incentive programmes, things like what we sell, how we sell, the merchandising, similar to what we have done in the rest of the world where we have rebalanced the focus from just focusing on new items to core items that rebalance has not yet taken place in China so that is what we are fixing there. That yielded very strong results outside of China. The refocusing on making sure that the opening price points are clear so that we really drive home the idea of this being affordable and desirable jewellery to sell and that is kind of one tangible which we have learnt elsewhere that it works and I can go on for a while. So there are lots of operational mechanics that are found specifically in China but also what we found and learned outside of China and it is quite normal when a new leader comes in that they you know they view the world slightly differently in a particular business that has been in troubled water. They will put their mark on it from day one which is what Jacques is doing.

0.56.10
Fredrik Ivarsson

Thanks, and then a short follow-up on Germany because I did not really catch what you said there. Can you just repeat what have you seen in terms of improved store traffic since you opened up in Germany? And also, if you can confirm that 100% of your stores in that country are currently open.

0.56.28
Alexander Lacik
Not 100%, I think there are still a few but I think 80 or 90% of them are, I am just trying to look up the most recent - 25 out of 140 - so most stores are reopened so what you see is and there is a bit of context which one needs to bear in mind is there are specific regulations in various countries on the social distancing so you can only have a certain amount of customers per square metres or there needs to be a particular distance between the people in a store so what you see is that the people that are then – because it ends up with having quite few customers inside the stores and people waiting outside, which means that what we see is whilst the traffic is let us say 50%, we see that conversion rate is much, much higher because the people that are in fact queuing up to come in are very committed to do a purchase act so we see that our conversion rates are sky-rocketing and then all the other metrics are actually in a very good place in terms of average order size, basket size, units per transaction etc., so traffic .. and it changes by the day but essentially, traffic was in the first week was down something like 50 % from memory and it depends a little bit on the first few days there was a delta between rural or let us say city stores and mall stores but that is now converted in the last two or three days so that seems to kind of be more or less the same.

0.58.09
Fredrik Ivarsson
But it is higher quality traffic so the conversion rate is high.

Alexander Lacik
Yeah, absolutely yeah so and now we have seen that and we see that online as well. In fact our volume of traffic is going up but we see less browsers and more committed users so in fact online I have had weeks where my conversion rate in – I think it was in the UK – was almost double digit, you know 8-9% conversion rate and you know in the past it was 2-3 percentage points in the UK so conversion rate has definitely moved up and we see this across the globe, so it is a more committed buyer coming to Pandora which I would attribute to all the efforts we have done behind Programme NOW. We are getting more committed shoppers to come our way.

0.59.00
Fredrik Ivarsson
Now that is super clear. Thank you guys and best of luck for the rest of the year.

Alexander Lacik
Thank you.

0.59.07
Operator
And our next question is from Klaus Kehl from Nykredit. Please go ahead. Your line is open

0.59.17
Klaus Kehl
Yes hello. Two questions from my side as well. Maybe I missed some of it because I was on another conference call so sorry about that but you have had organic growth of 1% in January and February and just to be clear is that including China? And also could you translate that into a like-for-like in January and February? And secondly, you haven't really talked about the short-term cost initiatives so could you try to talk a little bit about what are doing in order to keep your costs down at least for the coming quarters? That would be my two questions. Thank you.

1.00.00
Anders Boyer
Yeah, thank you Klaus, it is Anders here. On the organic growth of +1%, yeah that is the full group – the total reported revenue as it will be sitting in the books and for the first two months of the year, like-for-like was also positive when we take out China. China was down 60%, something like that, like-for-like for the first two months with and some 80% down in the month of February specifically but excluding China, like-for-like was also positive for January and February with all the markets that we are reporting on externally being in positive except for China and also Australia just being below zero but the other markets actually being in plus so it was a quite uniform and broad based good start of the year that made us smile a bit until the virus hit Europe and then Americas.

And on the other piece, on the cost side, when the virus actually already before it came to Europe while it was only in Asia, we immediately decided to set down a crisis committee meeting every morning and organised ourselves around the number of work streams where one of them was cost and cash obviously, and on the cost side we have been taking a broad based view across all cost categories to see how much we could take out without jeopardising our ability to participate when demand returned. As you will see, we have when we get a report on the second quarter numbers, that will be visible that we have taken quite a tough stand on the cost side. If you look at the rule of thumb that we have previously talked about when business is more normal, business as usual, we have normally said, well think about the Pandora business in a way that when revenue drops by 1 percentage point then it hits the EBIT margin by 40 basis points and indirectly when we say that then it means that there will be – if revenue goes down by 100 dollars, DKK 100 then there is an OPEX reduction of 10, so 10% of the revenue change. Obviously, when you have a hit like what we see right now, you can do more than that and you should think about that the level of cost that we can take out is around let us say 20ish % of the revenue change so if revenue was down by 1 billion compared to last year, we will be able to take out cost with short-term measures of around DKK 200 million. That is very broad terms. OPEX costs of around DKK 200 million that is very – roughly how to think about it. And the bigger buckets in that OPEX reduction are rental, rental reliefs, temporary rental reliefs is one big bucket and a second big bucket is media spending where the market got into a lockdown we just suspended all media spending at least media spending driving traffic to offline stores and fortunately we can do that with actually very short notice. Travelling, needless to say, is very, very close to zero as we speak so that also helps and then I think a fourth bucket worth mentioning is government support programmes around the world and they are also very, very different programmes being in place in different markets but obviously also something that supports our ability to reduce cost during a difficult time like this.

1.04.53
Klaus Kehl
Okay but just to clarify, does that mean that you will have a drop through margin of 30% now meaning that if your revenue goes down by DKK 100 then your EBIT will only go down by DKK 30?

1.05.13
Anders Boyer
It is in the old – the rule of thumb that we are normally giving where we say 1% change in the top line hits the EBIT margin by 40 basis points – they are the fall through. The EBIT margin is implicitly 65-70% something like that. When we are saying that now we can – if revenue is down by 1 percentage point, we can take out OPEX by 20% of the absolute change in revenue, then the fall through to the bottom line is more like 50-55.

1.05.55
Klaus Kehl
Okay, I will absolutely look further into that. Thank you.

1.05.58
Anders Boyer
We can go through the numbers Michael or myself and just show how it fits together.

Klaus Kehl
Excellent, thank you.

1.06.12
Operator
And our next question is from Piral Dadhania from RBC. Please go ahead. Your line is open.

1.06.19
Piral Dadhania
Thanks, good morning everyone. If I can maybe just ask a question on the e-commerce growth rate that you are enjoying in April, could you perhaps help us to explain if there is any specific

factors driving that triple-digit growth? How much of that do you believe will be sustainable versus temporary and within that you know is there anything you would want to call out with respect to the potential demographic mix in terms of new versus existing customers? Are you recruiting new customers during the period of lockdown which would be very encouraging and then just following on from that, you know I think you mentioned that the concept store count is expected to decrease this year for the first time in Pandora's history. Given the lockdown and the strengthened e-commerce, is there a case to be made that you may evaluate the overall store network on the more sort of longer-term structural basis if you are able to capture you know incremental demand online and serve your customers from that channel which I imagine is not an accretive? I am just thinking about the longer-terms store network strategy as well. Thank you very much.

1.07.33
Alexander Lacik
Hi, so on e-commerce I think the first thing to say is that post the brand relaunch, we have seen increasing growth rates on the e-commerce business so I think we are doing a lot of things right on the back end of this from the tech standpoint as well as the consumer facing a touch point so we know because we have tracked this that consumers are much more satisfied with the experience that we are providing, you know page loads are much quicker which we know drive conversion but also the kind of narrative and the type of product that we sell so all of that will go into the first bucket which was the 30% growth rate we were enjoying in the first three months. Then as shops closed, that 30% became 300% and I think that is purely a shift of people that would normally go into a shop, the shop is closed. Can I find it somewhere else? Yes, I go online. How much of that is going to remain once stores reopen, we can only guess. I have no idea to be honest with you. The interesting fact but it is like based on 7 days of trading is that in Germany, the growth rate on e-com did not slow down when the stores reopened but I am not sure that that is going to sustain itself. It is probably fair to say that a portion of those consumers will find that it was a quite decent experience and they will stay online so you know we are ready to take them wherever they want to shop you know being an omni-channel retailer that is kind of the nature of the game. From an accretion standpoint, whether they buy online or buy in our stores, there is no difference if you would do a vertical P&L and look at the very bottom line when you kind of allocated costs out so that actually does not matter. Of course, there is some margin accretion in our end when people would not buy through a third party and buy through our own channel, but that goes without saying. So there were no funnies, there were no funny activities to drive those types of growth rates. This is you know good business. We see this through the engagement grade. We see that this is propelled both by traffic and conversion rate. I think we are getting an equal split of new versus existing so that does not really – the only data point I have was from January-February where we saw quite a lot of influx of new overall to Pandora but that was kind of split more or less even between on and offline so no major shift there yet.

Then on your question on concept stores so first of all, the reason we are now guiding for a decline is you need to decompose that so on one hand we already had in our base plan that we would shut a few stores but on top of that to balance out to a flat which I think we were guiding towards more or less a flat store fleet or space this year was because we anticipated actually building more stores in Latham and in China. Those two we have postponed which is probably not going to happen in this year given the kind of uncertainties around COVID so that is why you get a net negative on the square metres let us say so it is not that we have decided to close more stores because of COVID. We haven't got into that place yet. And then the speculation of will we be shutting stores because we have moved that traffic to e-com is way too early to say. We can make some models but frankly speaking, if things go back to normal as it were in the next month or two, then I don't anticipate any change of the structure. If this lockdown continues for another couple of months and even in the worst case comes back in Q4, yes of course we will have to look at it but then we know more. Let us not forget that we are, what, 6 weeks into the European and US lockdown as it were whereas in China, we are a little bit past that point so I am sure we will come back on this point when we have a better view. That would be my thinking today.

1.12.19
Piral Dadhania
All right. Thank you.

1.12.24
Operator
And our next question is from Magnus Jensen from SEB. Please go ahead, your line is open.

Magnus Jensen
Hi this is Magnus again. Just two very quick questions from my side. You reduce restructuring costs with around DKK 300 million. Are they postponed to next year then or are they just not going to happen? And the second one is, could you say what the like-for-like on charms was in January and February? That is my question. Thank you.

1.12.52
Anders Boyer
Hi Magnus, it is Anders here on the first question on the restructuring costs. I think you should see that change as a permanent change so we don't see for any sort of big practical purposes Programme NOW extending into next year so it is a real reduction.

1.13.16
Alexander Lacik
Yeah, Magnus and on your second question. For January/February we were slightly positive on charms and bracelets. So I will leave it at that.

Magnus Jensen
That is very clear. Thank you guys.

1.13.35
Operator
Our next question is from Antoine Belge from HSBC. Please go ahead, your line is open.

Antoine Belge
Yeah hi, it is Antoine Belge at HSBC. Two questions. Actually, one is a follow-up on the previous one so on the 1 billion restructuring now what was the split between gross margin and OPEX? And the second question relates to the improvement that you saw in the first two months of the year and can you name maybe a few brand attributes that you know you have improved and of those improvements, which ones do you think are going to stick when stores do reopen? Thank you.

1.14.23
On the – Antoine, it is Anders, on the first question for the quarter, DKK 86 million kroner of the 435 restructuring costs were sitting in gross profit and the remaining in OPEX so DKK 86 of 435 was COGS.

1.14.54
Alexander Lacik
Yeah, hi, on your second question I mean as I mentioned in the presentation, the things we keep a close eye on is traffic, conversion rate, which are kind of outcome measures, but then we also look at the unaided brand in ad recall and also then Google search so those are the kind of let us say 5 metrics that we keep a close eye on and that is also the type of stuff that we share with you in those calls because that you know since the brand relaunch, these metrics have all been moving in the right direction so it seems like what we are showing to consumers stick and we are able to repeat that over time you know since September of last year so that would be how I would view that question.

1.15.48
Antoine Belge
Yes, maybe just on this, in terms of the price positioning of the brand and so the ability of the brand to sell new products beyond charms are you noticing anything interesting there?

1.16.06
Alexander Lacik
What I have said is in order to stabilise Pandora, we needed to get the focus squarely back on charms and bracelets because that is 70% of our model, if I don't have this under wraps then frankly it does not matter if I sell a couple of rings left, right and centre so the focus has been very, very pointed on charms and bracelets so far and that seems to now be yielding so when we have put a couple of more quarters under the belt you know we ensure that this is a sustainable track then we are looking into of course we are already looking into the other ones, but I am not allowing them on the table yet because that will just distract us so I need to have the core firing very hard before we enter into other adventures.

1.16.58
I am sorry to come back on this split between COGS and OPEX I mean that is what actually took 1 billion for the year rather than for the first quarter.

1.17.13
Anders Boyer
For the full year, the split will still be that OPEX is by far the majority of the 1 billion and probably even more skewed towards OPEX for the remaining part of the year so an even smaller COGS part for the second, third and fourth quarters.

1.17.34
Antoine Belge
Thank you very much.

1.17.40
Operator
Our next question is from Louise Singlehurst from Goldman Sachs. Please go ahead, your line is open.

1.17.46
Louise Singlehurst
Hi Alexander and Anders. Thank you very much for the clear commentary so far. Just a quick one from me in terms of going back again about the inventory and how the dialogue between obviously your teams and the third-party retailers how that is changing in the current circumstances and just in terms of you know additional help that you will need to provide to the retailers about any payables, any slow-moving stocks to take back and you have done a lot of work over the past 12-18 months to remove some of the slow-moving stock out of the channel so that should be a lot cleaner. Could you tell us a little flavour about the current environment and the dialogue that you are having with third parties to reduce the risk of further discounting? Thank you.

1.18.29
Alexander Lacik
Well, I think you know we did clean up a lot of the inventory last year to say the least and we spent DKK 6-700 million on that so not just the quantity but also the quality of their inventories and I mentioned earlier on in the call we tried to rebalance not only focusing on new but actually trying to drive our top sellers harder which means that you get an inventory which is fresher and can sustain itself a little bit longer and that is very important as you go into this. Of course they are not placing any orders as we speak so we don't think that neither our own stores nor franchise partners you know at a global view are overstocked at this point in time. I think where the question mark will come up is as we kind of eventually get out of this crisis there is no doubt that a lot of people out there are going to be a little bit cash strapped. That is

the expectation we have. And of course then that is going to manifest itself into conversations around them being able to buy the new innovation or new products that we are going to bring on the market. Before we open up our wallet, we are going to ensure that they exhaust all the funding facilities that they have available to themselves because of course we are not a banking facility as you very well know. We are interested in protecting the joint business that we have with them but we will have to make sure that they have exhausted all opportunities before we entertain any conversation on terms or things like that. You know, they are free standing businesses, that is the whole idea of having a franchise partnership so, but you know, that is probably where we get to that. Those conversations are not very sharp at this point in time because we are all kind of still in a lockdown mode so I am sure that over the next quarter as things start to reopen, that we will engage in those conversations. Now we have been having some dialogue with a few of our partners in terms of how we prepare ourselves for the comeback and ideas on how we can kind of drive this engine commercially so those are kind of more let us call it leaning-in type of conversations versus just having the financial conversation but that one will come, there is no doubt in my mind.

1.20.58
Louise Singlehurst
Great. Thank you.

1.21.02
Operator
And our next question is from Chiara Battistini from J.P. Morgan. Please go ahead, your line is open.

1.21.09
Chiara Battistini
Hello, hi, sorry, a very quick one, a follow-up. I saw you noted in the press release that you have not applied for government subsidies that will lead to any restrictions on the cash returns but on the presentation, you actually mention that you applied for support on the government packages. So I was just wondering if you could clarify the difference between the two statements, please. Thank you.

1.21.39
Anders Boyer
We have definitely applied for government subsidies around the world but the comment was about that where the restrictions come up would be if you apply for the government programmes in Denmark being company based in Denmark or listed in Denmark and there we have not yet applied for government support. And there was a dividend restriction under the Danish government support schemes only applies if you are getting support above a certain level of your cost.

Chiara Battistini

So that is basically a regional difference so the only country where you have not applied is Denmark? So you have applied for example in France and Germany.

1.22.26
Anders Boyer
Yes in France and Germany I know and I think we have applied in most countries around the world. I know of quite many of them but obviously at least from a retail perspective our activity in Denmark is very, very minimal.

Yeah just recall that we have 8 shops or stores in Denmark so the government support that we could apply for here is less relevant.

Chiara Battistini
Wonderful, thank you very much for this clarification.

1.22.58
Operator
And our next question is from Poul Jessen from Danske Bank. Please go ahead, your line is open.

1.23.04
Poul Jessen
Yes thank you. Thank you for taking the question. Just a follow-up on the social distancing. If we look into the fourth quarter where a large part of revenue is coming from December and you have rather small shops, do you believe that there will be some kind of a capacity limitation on your Christmas sales if we assume that we will continue to have about 1-2 metres between each other in the store? Thank you.

1.23.36
Alexander Lacik
This is a brilliant question because you do the math. Average store size and put some furniture in there and you fill up these stores very quickly and would kind of be in breach of either social distancing rules so we actually have a task force that is already working on finding solutions which could be technology based, which could be retail based and a mixture of the two and hopefully we have what we call an MVP to use agile language a Minimal Viable Product in the next 30 days that we can actually test so that is one aspect. The other one is to try to think through the trading line up and see if one can kind of sequence things differently from when this was not a restriction so yes, this is a topic that is occupying our minds a lot. We already see a capacity conversation happening on e-commerce because right now we went into the year saying you know we were internally arguing with ourselves and the countries you know should it be 10% growth in the budget or 30% growth which David, our global lead on e-commerce was kind of talking, and the country was saying that was impossible so then we kind of settled for somewhere in the middle but now are talking something that 10x that so you can imagine what that means for the supply chain and for the people at the packing lines etc. etc. So that is part

PANDORA

of the scenario planning not only for Mother's Day where we have a temporary solve in place but importantly also for Q4 because already last year we saw big spikes putting pressure on the supply chain from Black Friday and onwards so definitely this is where retail is going to be challenged. And this is not just for Pandora. I think it is true for many people. In the US, we are playing with things like you know you have this click and collect facility but actually there we have gone one step further and you do curb side delivery. So you place your order and you turn up with your car and somebody delivers it to you in the car so we are playing with lots and lots of interesting things in this space.

1.25.54
Poul Jessen
But do you believe that if you get a normal quarter and that means not a second phase in infections that a normal quarter would be lower than last year because you don't have the capacity in store?

1.26.09
Alexander Lacik
I can't answer the question now. I need to see what type of solution we can bring. If I don't change any of my behaviour from last year. Yes there will be an impact. But I am obviously not taking that as a solution so that is why we are working through this.

1.26.26
Poul Jessen
Okay, thank you.

1.26.31
Operator
And our next question is from Omar Saad from Evercore ISI. Please go ahead, your line is open.

1.26.38
Omar Saad
Thanks for taking my questions. I have three questions. The first one: Do you have any insight you can share in terms of the store opening cadence? We know China, Germany is open but any thoughts in terms of the rest of Europe, North America. Do you expect the rest of your stores and partner stores generally to mostly be open by the end of the second quarter? That is my first question. The second question, obviously, inventory remains very clean. I am curious how you are managing your factories and your production and your higher managing of fixed costs with volumes down and then the last question any specific comment around some of your new product lines Pandora Me, and Harry Potter was big, Pandora O, Valentine's Day, any kind of comments you know, pre-COVID comments on those trends? Thank you.

1.27.34
Alexander Lacik

Hi so on the store cadence, we follow the very simple rules from the beginning of this crisis and that is that we follow the guidance from the local authorities. We don't jump the gun because that somehow would suggest that we know more than the authorities do and we clearly don't I mean we sell jewellery that is what we are good at so I mean you can read the news to figure out how retail in general is viewed by the governments. I would say continental Europe what we know so far is that we should expect that there is going to be a staggered opening approach throughout I think May and June. US, it depends on which tweet I read from Mr Trump. I don't know what to believe so I would say that – and they seem to be entering the situation a little bit later than continental Europe if again we are to believe what has been reported so I would say that US probably is one step behind. UK, we just heard this morning that they are looking to start to reopen the market. That was a surprise to me. I thought they would have been waiting a little bit longer because they were also later out of the gates in terms of this so if I had had to make a broad statement, I would say Q2 you would see staggered reopening and as we get into Q3, probably most of retail should be open but you know ask me in a week's time and I may have a different opinion because authorities have changed their minds, so that was your first question.

In terms of managing inventories in the factories so when the crisis hit, I mean our main concern was what if Thailand shuts because all of our production comes out of Thailand so we actually cranked up the output from our factories in Thailand and then shipped it straight out of Thailand so we weren't kind of having any finished goods inventory in Thailand. I wanted to get that away from Thailand and into the DCs and into the stores around the globe so in case we would be facing some kind of a disturbance there, we would not be affected and you know we hold as I mentioned earlier on in the call something like 25 weeks of coverage in a normal demand curve, right now demand is lower than that so likely our weeks of coverage are a little bit higher.

In terms of the capacity management, of course we have put a forecast in place and we are adjusting our capacity based on that forecast and then you asked on some of the new product lines, so we had you know a very strong start of both Pandora Me and Harry Potter. They have continued very strongly into January-February. We then launched birth stone rings and in particular in the US and in the UK where this concept is strong in the mind of the consumer. They have done really well. What else? And then the collection on Valentine's Day was also very, very strong. Now bear in mind that last year I think was a car crash. That was terrible. So I am not sure that the base line is totally representative but in terms of the sale through rates that we had it did meet the objective so actually I had my core doing really well based on the insights we kind of gleaned last year and now we also have a couple of strong initiatives on top and this becomes a really nice mix when you run a business that your core is healthy and then you put new on top and that is how a growth model should look like whereas in the past we unfortunately misfired on both. So that is probably what I have for you today.

1.31.21
Omar Saad

PANDORA

Thank you very much. It is helpful.

Operator
And as there are no further questions, I will hand the word back to the speakers for any final comments.

1.31.37
Alexander Lacik
So yeah, I think I will just end where I ended the presentation I think. I should not say that we are bullish but I think we are very comfortable with the Programme NOW is delivering. I think we have found the right levers. We are investing in the product innovation which we now will see more of I think in a 12-18 month window. We have stood up this new organisation which is there to ensure that Project NOW was not just a project but we actually can count on these types of results on a continuous basis and we are recruiting in world class talents left, right, centre so you know we are making Pandora a top player. Now there is still work ahead of us. Don't get me wrong. COVID is in the middle so we have to kind of just motor through this, but I stay very positive on the prospects of the company. I think I will end on that note.