Pandora

Transcript: Q1 2022

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John Bäckman, Vice President, Investor Relations, Treasury & Tax: [00:00:00] Good morning, everyone. Welcome to the conference call for Pandora's Q1 2022 results. I'm John Bäckman from the Investor Relations Team. I'm joined here in Copenhagen by our CEO Alexander Lacik and our CFO, Anders Boyer and the rest of the IR team, Kristoffer Malmgren and Adam Fuglsang. 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 kindly get back into the queue if you have additional questions.

John Bäckman, Vice President, Investor Relations, Treasury & Tax: [00:00:24] Slide two, please. Please pay notice to the disclaimer on slide two and then turn to slide three. Alexander, please go ahead.

Alexander Lacik, CEO: [00:00:36] Thanks, John, and welcome, everyone for joining this call today. I'm happy to say that we've had an outstanding start to 2022 with record revenue in the first quarter. Just like we've done in the past we also assess our underlying performance versus the last clean year, which was 2019. In this perspective, our first quarter of this year shows an 18% growth. Whichever way we look at the quarter, it's a very good result. We consider the growth to be of high quality as it is broad based. All product platforms contributed, as did most of our core markets. Furthermore, the revenue came behind a lower discounting level, or said in another way with a higher degree of full price revenue. Again, demonstrating the strength of our brand. The execution of our growth strategy, Phoenix, is progressing very well. The investment in our growth pillars, as well as the foundations, continue to yield strong results visible also in the financial performance. Our business model continues to deliver an impressive profitability. In the quarter EBIT margin landed at 23%, which is up almost three percentage points from 2021, equal to an EBIT growth of 45%. In spite of inflation and increasing interest rates, consumer demand generally remained healthy throughout April. It is, however, prudent to be mindful of the world around us being plagued by yet another macro event due to the ongoing conflict in Ukraine. Furthermore, we are well aware that our comps do get tougher in the balance to go. In the first part of last year, a large part of our network was closed, as well as the strong positive impact on the US category due to the stimulus checks. Nevertheless, we'll continue to invest in our business, just like we have done in the last few years with good outcomes. We just need to ensure we are even sharper in everything we do going forward.

Alexander Lacik, CEO: [00:02:37] Now let's move to slide four, please. We have updated our guidance slightly. This is based on both the strong Q1 results as well as our updated view for the rest of the year. For the full year 2022, organic growth is now expected to be in the 4 to 6% range, up from 3 to 6%, while EBIT margin is still expected to be in the range of 25 to 25.5%. Anders will give a more detailed perspective on our assumptions behind this.

Alexander Lacik, CEO: [00:03:07] Slide six, please. Before we dive into Q1 results, I want to give a brief update on the four main building blocks in our growth strategy, Phoenix. As I mentioned, our strategy execution is off to a strong start, which confirms the potential ahead of us. First, in the design pillar, the focus is on driving the core while also fueling the brand with more. Pandora Moments continue to deliver strong growth, showcasing the vitality of the platform. Fueling the brand with more is well represented by, for instance, the successful new collaboration with Marvel. Second growth pillar is about growing our core markets. In US, our largest market, we completed the acquisition of 32 concept stores, mainly located on the West Coast. China remains weak, as you would probably expect, and we have decided to postpone the planned investments to reposition the brand until market conditions stabilize. We are delivering very strong growth in our other core markets, so the focused approach is working well for us. The third growth pillar is driving higher brand desire. In our most recent Brand tracker study, we continue to lead in brand equity. We are number one in five out of the top seven countries. Our positioning among Gen Z has strengthened, which bodes well for the future. Unaided awareness remains a competitive edge. These scores are the result of our marketing, as well as sales efforts across all consumer touchpoints. The fourth growth pillar is personalization. Here we are improving the omnichannel experience to offer consumers more personalized path to purchase journeys. Our online channel performance continues to be solid, so the starting point is very strong. We're investing a fair amount of effort in building a solid tech foundation on which you can implement and accelerate many of the experiences we want to offer our customers. The most recent activity is the launch of our new customer loyalty program in France, which is being rolled out nationally as we speak.

Alexander Lacik, CEO: [00:05:15] Slide seven, please. Our largest platform, Moments, is and was our key driver of growth in the quarter delivering 17% sell-out growth versus 2021. The strong result was driven both by the base portfolio and supported by new products such as the Padlock, another innovation within the Moments platform. This helped drive a very strong performance during Valentine's Day in February. The padlock follows the other initiatives we've told you about in previous quarters, such as key rings, bag holders and engraving, all designed to keep Moments relevant in the minds of consumers.

Alexander Lacik, CEO: [00:05:54] Next slide, please. Our collaborations delivered very strong growth of 41% in Q1. This segment was supported by a successful Marvel launch in February. The Marvel collaboration is building on Pandora's strong relationship with Disney and proved an imminent success. Marvel alone accounted for 3% share of business in the quarter and 6% since launch. So far it has been outperforming the initial launch of both Star Wars and Harry Potter and has performed very well across key markets. Among the product heroes is the Infinity Ring, which sold out in the first two weeks. So we have over 17,000 customers now that have signed up on a waiting list, and that's the first for Pandora. Collaborations with other big brands is a way to build awareness and drive brand desirability. Marvel is designed to engage and introduce existing and new customers into the Pandora brand.

Alexander Lacik, CEO: [00:06:53] Next slide, please. Besides driving the core, we also want to fuel the brand with more. Therefore, we're launching new platforms with the launch and leverage mindset. This means we're putting more support behind new initiatives than we used to do. Our relaunched Pandora ME grew 132% versus Q1 of 2021 and continues to do well across key markets. There was no major marketing push specifically on Pandora ME in the quarter, though we have given it an ongoing support plan. We'll bring further innovation and products into the platform later this year. For Pandora Brilliance, we're currently gearing up to expand the geographical footprint. This is planned for later this year. We've continued to play around with the model in the UK in particular focusing on visual merchandizing, distribution and assortment variations. The learnings are very valuable as we get ready for further market entries.

Alexander Lacik, CEO: [00:07:49] Next slide, please. Now let's have a look at our core markets. I'll cover the US and China separately in a minute. Let's first have a look at our key European markets. They've had a phenomenal performance in Q1. UK, Italy, France and Germany all delivered double digit growth, both versus 2021 and 2019. You always ask me what the magic is, and the answer is always the same - strong execution of our known business drivers, such as clear merchandizing choices, strong sales execution in our stores, great communication programs across a multitude of platforms, heavy media support and finally, consumer relevant initiatives. Our more established markets, UK and Italy, both delivered more than 30% organic growth versus 2019, cementing our strong brand position in these markets. Australia was flat versus 2021 and 2019. However, there was a negative impact from COVID 19 as travel and quarantine restrictions impacted traffic significantly. Online did well supported by successful click and collect performance. As conditions more recently are stabilizing, we note a return to growth.

Alexander Lacik, CEO: [00:09:03] Now let's have a look at our largest market on the next slide, please. US continued growing in Q1 with organic growth of 7% versus 2021 and equal to 62% versus 2019. The growth in Q1 was in line with the expectations we laid out in the guidance for the year. And as we've said before, we expecting a slowdown of the US market during 2022. Looking at our market share data, this represents a 2.3 market share compared to 2.0 in 2019. So the growth is coming through in market shares. Our guidance assumption for Pandora US is unchanged. As I mentioned, we acquired 32 stores in the US in Q1 and five in Canada, 20 of the stores on the West Coast, strengthening our foothold there and enabling for further network expansion.

Alexander Lacik, CEO: [00:10:01] Next slide, please. Our business in China remains challenged, and the growth continues to be significantly negative. The traffic continued to be impacted by COVID 19 restrictions, which escalated in the end of the quarter as hard lockdowns were put in place, not least in Shanghai. In Q1, we changed management in China. Irving Holmes Wong has joined us. He brings extensive experience of general management in the region, both mainland and Hong Kong. He has a proven track record of turnaround and transformation from Bacardi and Avon in mainland China as well as L'Oreal in Hong Kong. I just wanted to reiterate that we still see significant opportunities for Pandora to grow in China, but given the difficult trading conditions, we have postponed the planned brand relaunch until market conditions stabilize, which could very well be next year. In the meantime, we continue to fine tune our plans.

Alexander Lacik, CEO: [00:11:00] Next slide, please. I wanted to address a point in relation to how many companies these days offset the inflationary pressures on the P&L by passing on the costs to the consumers. First of all, we are positioned as an affordable, yet desirable jewellery brand. We serve the many rather than the few, and we take pride in offering a sharp value proposition. This is the foundation on which Pandora has been built and attracted many millions of customers over the years and keep doing so. Going back a few years, the brand failed to offer the right value equation and had to resort to heavy discounting and frequent promotions to try and sustain the customer interest. We know all too well that this formula wasn't working. So, in the last three years we have done quite the opposite - namely made the brand more relevant through marketing, innovation, good salesmanship, efficient merchandizing and strong digital presence. During this period we have also literally halved the promotional intensity, reduced the deep discounting, thus effectively increased the full price revenue, while at the same time increased our volumes. This is clear evidence that we have a great value equation and that the brand holds meaningful pricing power. We will be very careful with maintaining our value equation. This might, however, imply that some select and careful pricing adjustments could come into play as a way to offset some of the cost price pressure. But I would like to stress that this will not come at the expense of affordability position as seen by our customers. Net, we are not immune to inflation, but we're very clear on the perimeter in which we want to play.

Alexander Lacik, CEO: [00:12:46] Next slide, please. The engagement for our brand was strong in the quarter, among other things, supported by our new heroes from the Marvel collection. Through relevant brand content, we established ourselves as the go to brand hub for Marvel fans. We saw record breaking reach with 40 million impressions across social platforms, 16 million engagements in the first month after launch. Marvel alone drove twice the web and email traffic as Star Wars during the pre launch and reached more than 1 million views on TikTok in the first 24 hours. The biggest question we are receiving from our customers is why or when Spider-Man will show up in our assortment. So I say with great power comes great responsibility.

Alexander Lacik, CEO: [00:13:32] Next slide, please. Before I hand over to Anders, I want to comment on our personalization journey. One of the key growth pillars in our strategy. Our online performance continued to be solid in Q1, more than doubling versus 19. We are hard at work to build a strong digital foundation, which is key for the omnichannel experience. In France, we test launched our new loyalty program online and in 20 stores. In the first four weeks, 50,000 consumers signed up. And we can already note an increased basket value of 8% in store and 18% on e-com. Furthermore, we see an increased unit per transaction as well as conversion rate. Bearing in mind, though, that this data from the last couple of weeks, either way, it's a very inspiring start. As you know, we are a direct to consumer brand. More than 75% of our transactions are done direct with our customers. Owning first party data will be the bedrock on which we will build our unique and personalized path to purchase. Given that our brand promise is built on self expression and collectability, offering a personalized journey fits the brand particularly well. On that note, I hand over to Anders for a closer look at the numbers.

Anders Boyer, CFO: [00:14:47] Thank you. Alexander. Then please go to slide 17. I'll talk about revenue and EBIT on the following slide. So on this one, I'll just give a couple of comments on some of the other financial highlights. On the gross margin, it remained strong in Q1 of this year and almost at the same level as last year. And that's despite headwinds from commodity prices and a temporary drag from the forward integration that we have been doing here in the first quarter. Net Working capital increased around four points versus last year as we continue building inventory to mitigate the risk of supply chain disruptions. And we do expect to increase inventories further during the rest of this year, during the rest of 2022. And this will, of course, have a temporary negative impact on cash conversion. It's also worth noting the significant increase in both return on invested capital and EPS, as you can see on the slide here. And that's driven by the combination of revenue growth and EBIT margin expansion in the quarter.

Anders Boyer, CFO: [00:15:58] Then we go to the next slide, please. The revenue performance in the quarter. Before I give a few comments to the bridge, I wanted to start out with a comment on the different revenue growth KPIs. In the past, we have usually showed both sell-out growth and organic growth in most tables and slides because they each of them serve a specific purpose and they're both sort of important KPIs. But now, as you know, we are guiding on organic growth, not sell-out growth, and combining that with the fact that network expansion is a core part in our Phoenix strategy. And that is not captured in sell-out. Then in order also to simplify the communication, we now focus on organic growth in most tables and slides. But just to be clear, all the usual data are still made public. It's still available in our disclosures. So no change from that perspective. On the bridge on this slide, it's clear that Pandora keeps growing, that's quite visible in the bridge here. Sell-out growth was plus 17% versus last year and the main driver of the organic growth in the quarter. Network expansion is also becoming more visible in the numbers. And as you can see in the first couple of building blocks in the bridge, network expansion and takeovers of franchise stores added around three points of growth on top of the sell out and helped lift organic growth to 21%. Forward integration also supported revenue growth by just around one point and this is in the quarter, this is mainly in the US. And then finally to get to the total reported revenue growth of 26%, we had foreign exchange tailwind of around four points and that's mainly from a stronger US dollar.

Anders Boyer, CFO: [00:17:59] And then if you go to the next slide. This is the EBIT margin bridge. And the key message on this slide is that what we have shown in the dotted box, in the middle part of the bridge, illustrating the improvement in the underlying EBIT margin from Q1 last year to Q1 of this year. And first of all, our operating leverage was quite strong, as you can see within the dotted box here, contributing over five points to the EBIT margin. And then there was a further two points coming from efficiency gains at gross margin level as we had lower promotions, as Alexander said, but also lower production costs per unit and a favourable channel mix. And then to the left of the dotted box and to the right of the dotted box, we have isolated various temporary effects. And if you look at the elements to the right, so the temporary effects this year, there were three things pulling down the EBIT margin in Q1. First of all, that's the precautionary measures in Thailand that we continue to take due to COVID-19. Secondly, we made a provision for the full trade receivables towards the Russian distributor. And as you know, we suspended all business with Russia and Belarus on February 24th and we have instructed our suppliers that we will not accept any type of direct or indirect sourcing from Russia or Belarus. On top hereof, the point dragging down the EBIT margin in Q1 was a temporary drag from forward integration as we are buying back inventory at wholesale value.

Alexander Lacik, CEO: [00:19:50] And then let's go two slides down to slide 21 and the guidance. As Alexander already mentioned, we have updated our organic growth guidance to 4 to 6% from 3 to 6% before. And on the surface, that's obviously a smaller adjustment. But underneath there are some changes in the assumptions compared to the original guidance back from February. First of all, our Q1 performance was good and other data point that Pandora is back on a sustainable growth track and that would, all things equal, have led us to upgrade the guidance for 2022. But as you know, during the quarter, the business environment changed quite considerably and increasing the risk for 2022 compared to the original guidance. There's negative impact from the war, cost inflation, potential impact on consumer demand due to inflation and higher interest rates and as well as some COVID-19 impact and all of that adding pressure to the rest of 2022. But net net and despite these sources of uncertainty, we have lifted the bottom of the growth guidance. And in a business environment like this, you either need to guide with a very wide range, or alternatively, you make certain assumptions about the business environment, and then you guide within that. And we've done the latter and made a number of assumptions about the business environment and you can see these assumptions here in the table on the bottom right. And I want to stress that you should see these assumptions as directional and indicative only.

Anders Boyer, CFO: [00:21:36] And then we go to the next slide, please. The EBIT margin guidance. And even though the EBIT margin guidance is unchanged, there's a few underlying movements. As you can see in the bridge, we expect inflationary cost pressure combined with the cost of the war and the pandemic to add incremental cost of about 80 basis points or 200 million kroner compared to the original guidance. But we expect to offset this by a number of mitigating actions as well as some foreign exchange tailwind. And therefore we can keep the EBIT margin guidance unchanged.

Anders Boyer, CFO: [00:22:18] And then on the next slide 23. We know there's a wish from many of you to understand how inflation impacts our P&L. So we've added a table here which will give you a flavour of where we are. And as I mentioned, we expect inflationary pressure and other costs to add around 200 million kroner to the original guidance. And that's the number in the last row on the table here. Around half of that comes from higher cost for energy, raw materials that are not hedged and transportation costs. That's the first 100 million kroner. And then we have the Russian trade receivable provision and the cost related to the COVID19 measures in Thailand. And needless to say, the situation is changing by the day, and I'm sure that this picture might look different later this year.

Anders Boyer, CFO: [00:23:20] And then we go to the next slide, please. Before handing back to Alexander, we'll just have what we're showing on this slide is the implied growth for the rest of the year. The 4 to 6% organic growth guidance for the full year implies between 0 and 2% growth for the rest of the year. And sequentially, the 0 to 2% is obviously quite a change from plus 21% in Q1, and that's among others where the COVID19 lockdowns in Q1 of last year gave some noise. And we are facing some tougher comps in the quarters to go for the rest of the year. And for that reason, it might be easier to look at the growth compared to 2019. And that was what we're showing in the lower part of the slide. And then you can see that the implied growth for the rest of the year corresponds to between 12 and 15% growth versus 2019, and that's at some points lower than the 18% growth that we saw in Q1. And that change is driven by, among others, the uncertainty related to inflation and consumer demand and the pandemic as well. And with that, I'll hand it back to Alexander and slide 26.

Alexander Lacik, CEO: [00:24:48] Thanks, Anders. So to summarize, execution on Phoenix continues now with more and more visible results. And we took further steps in all growth pillars in the quarter. The Q1 delivered record revenue for first quarter for us, and the growth was driven by all product platforms and most of our core markets. We updated the organic growth guidance, as Anders just showed, for the full year, despite the worsening business environment. We saw profitable growth in Q1 and expect this to continue going forward as well. And with that, we're ready for the Q&A session. Operator, please go ahead.

Operator: [00:25:27] Ladies and gentlemen, if you have a question for the speakers, please press five star on the telephone keypad. To withdraw your question, please press five star again. We will have a brief pause while questions are being registered. The first question comes from the line of Martin Brenøe from Nordea. Please go ahead your line and I'll be unmuted.

Martin Brenøe, Nordea: [00:26:05] Hi, Alexander and Anders. Congrats with another strong quarter, testimony to the work that you have done in recent years. I have two questions as a starter. First of all, I think it's quite interesting that you now talk about the price increases. When we spoke about it during Q4, I think that you said that price increases were not a part of the guidance. Do you now embed price increases to the updated guidance or how should we think about that? And then to you, Alexander, I appreciate that there's a huge upside when we look at China. But the road to getting traction in China seems quite long right now. On the contrary, you seem to have quite strong momentum in Latin America. Would it make sense perhaps to change resources and strategic focus, at least for the next couple of years, to Latin America? How should we think about that? Thank you.

Anders Boyer, CFO: [00:27:08] Hi Martin, Anders here. Maybe I can start on the first question. There's some bits and pieces of ASP changes, list price changes embedded in the guidance. But that was already the case already back from February. Not big things. Pretty much, I think the same story as we've done in prior years where we have indirectly increased prices in 2019-2021 as we decreased the promotion level. But I would say it's important to stress that the guidance is not dependent on ASP changes, list price changes. That's not the signal that we want to send.

Alexander Lacik, CEO: [00:27:59] And then on China. I mean, first of all, we have a business in China. We have over 200 stores. We have an organization. So we cannot just walk away from that. That's probably also not the smartest thing to do. Having said that, of course, with the current conditions, there is really no point, at least in overinvesting in China. So now it's more we're holding the fort and we'll just have to sit and wait for a little while. Let's see how that develops. And we may come to different conclusion later in the year. But certainly at this point in time, I have no reason to change that. As it comes to Latin America, I think we have sufficient resources to actually drive the business in Latin America at this point in time. So the kind of core market focus that we've launched in Phoenix, I don't see a reason to change that. But I acknowledge your point, if China continues like this for a prolonged period of time, then we'll probably have to take a step back and rethink our approach. But for now, as I said in the presentation, we still see that there's a big opportunity for Pandora to grab a nice piece of that market in the future.

Martin Brenøe, Nordea: [00:29:16] Thank you. I'll jump back in the queue.

Operator: [00:29:22] The next question comes from the line of Klaus Kehl from Nykredit. Please go ahead. Your line will be unmuted.

Klaus Khel, Nykredit: [00:29:33] Yes. Hello. Two questions from my side. First of all, you have a lot of headwinds on the margin in the quarter, but still, the margin is much better than I had expected. And I guess it's the same for consensus. So could you just elaborate a bit on your underlying operational leverage? Is there anything that has changed or you've done anything differently? That's my first question. And then secondly, you write somewhere in the report that April is off to a good start. I can't remember the exact wording, but could you just comment a little bit on what you're seeing here in April? That would be very helpful. Thank you.

Anders Boyer, CFO: [00:30:18] Hi Klaus, maybe I can start on the leverage piece. And obviously the reason that the bridge that we are showing on EBIT margin, that it shows a big five points or 5.3 percentage points of operating leverage is obviously linked to that revenue growth is substantial. So the logic in how we're getting to the 5.3% operating leverage is roughly 25 basis points of leverage per point of growth. So, mathematically, this is a 21 points of organic growth times 25 basis points. And that basically means that as we grow, then of course the gross margin flows through to the P&L, but then there's a bit of variable expenses and then marketing increases roughly in line with revenue around these 13, 14, 15% of revenue growth. And that means that sort of give and take the incremental EBIT margin on the growth is around 50% EBIT margin, incremental EBIT. And that's how we get to that. So that's no change of the underlying structure of the business. I think what helped us, I think the gross margin did come out a bit better than what we had expected in the quarter, keeping it flattish despite the different headwinds that we're seeing among all of us. Because, as Alexander said in the introduction, it is high quality growth discounts is even lower than in the first quarter of last year. And that also is visible in the gross margin and thereby the EBIT margin.

Alexander Lacik, CEO: [00:32:11] On the second point, of course, this is a quarter one announcement, so we don't want to elaborate too much on ongoing basis, but we thought it was useful to at least give a comment. You know, since the macro environment is quite fluid as we all know and I think the comment is more around that we don't see the wheels coming off in April, which one could fear, let's say, given all the inflationary pressures and war and what have you. So see that as a kind of macro comment that we see structurally, you know, April being healthy.

Klaus Khel, Nykredit: [00:32:52] Okay. Thank you very much.

Operator: [00:32:57] The next question is from Elena Mariani from Morgan Stanley. Please go ahead. Your line will now be unmuted.

Elena Mariani, Morgan Stanley: [00:33:06] Hi. Good morning, everybody. Thanks for taking my two questions. My first one is, sorry, I'm just going back to the most recent trends, not because I want a number for April, but perhaps you could give us some more colour with regards to any changes in consumer behaviours that you might have perceived in the recent weeks. So anything that is a sort of early indicator of some potential deterioration in consumer sentiment, which is exactly what the market is expecting. And we don't know when that's going to happen and whether it's going to happen. But have you seen anything at all changing in any of the geographies or are trends still completely intact, you know, excluding China, of course, and COVID related situations? So that's question number one. And my question number two is more on the second half of the year overall. So clearly, you need only around 0 to 2% growth year on year to get to the guidance. And it was very helpful to get also the bridge versus the 2019. But what's your embedded macro assumption for the second half? So do you expect a material deterioration in consumer sentiment in Europe and in the US? Or is your current guidance, assuming that you're just going to see some normalization of growth given the high comp base in the U.S. market and the progressively difficult comp base in Europe? So I just want to understand what your internal management assumption is in terms of what's going to happen in H2. And I perfectly know that nobody knows the answer, but I would like to know what's the embedded macro assumption in your guidance. Thank you.

Alexander Lacik, CEO: [00:34:55] I can take your first question on the consumer sentiment. I mean, if I look at the retail metrics without getting into too much science here, but, you know, we could pick up things on traffic. We can see on units per transaction, on basket size. And frankly, we are not seeing anything. Now, is that going to be the case as we go into the future? I have no idea. But so far, we haven't seen anything that would ring any alarm bells. To be perfectly honest with you. So and as you said, China and COVID19 is an entirely separate topic. So the simple answer is, so far it seems okay.

Anders Boyer, CFO: [00:35:40] I think I could add on that one, Elena this is Anders, is of course, the impact that we do see on growth numbers is the one that follows from the comp base is changing and that's of course visible in the US where the stimulus checks started mid-March, I think it was mid-March last year. And now we are moving into the point of time last year where step by step Europe was opening up again. So and of course, that by default is visible in the growth numbers. But otherwise, what we've seen and here is mostly anecdotal. One of the things that I think the I mentioned to one of you earlier today is that we've seen that in some markets in the last couple of days of the month, then the demand is a little bit slower than what it is in the first part of the month, maybe indicating that people are waiting for the next paycheck, but it's not something that's visible in the numbers. So but what we are assuming on in from a macro perspective for the rest of the year, and I'm going to say is not very academic. I think we can all guess about what how the year plays out. But what we have assumed is that there will be a couple of points of so the low single digit negative impact on consumer demand for the full year. And that means then a little bit more because this is mainly then we didn't see that in Q1. So mainly for the last three quarters. But where that happens in which markets and when it happens, I think we can all speculate, but that low single digit negative impact in the full year guidance because of impact on a bit from the pandemic, but then mainly from inflation and higher interest rates impact on consumer demand. And then the other assumption that we're making is we assume that there will be no reported revenue in Russia and Belarus for there won't be and for Ukraine as well. So that's around 1 point of revenue lost for 2022.

Elena Mariani, Morgan Stanley: [00:38:16] Perfect. Thank you very much.

Operator: [00:38:21] The next question is from the line of Grace Smalley from JP Morgan. Please go ahead and I'll be unmuted.

Grace Smalley, JP Morgan: [00:38:29] Hi. Good morning. Thank you. My first question would be on an environment where you do see inflation increasing and consumer wallets being squeezed. Given Pandora's focus on your value proposition, would you expect Pandora to benefit from a trade down by the consumer or how do you view that dynamic? And then my second question would be just on Q2, I know your the rest of your year, the guidance embeds, I think flat to 2% organic revenue guidance. Would you be able to give any indication as to whether you would also expect Q2 to fit within that range or how should we think about that? Thank you very much.

Alexander Lacik, CEO: [00:39:08] So I mean, I can address the first question. So, first of all, if we look at the inflation, there are some, some different components of this. One is obviously the one hitting all of our wallets in terms of mortgage rates and interest rates going up, energy prices going up. So there might be a little bit less disposable income at that level. On a macro level, though, we see that unemployment is probably at record low levels. There is also some report that maybe the let's say the savings ratio is a little bit higher, maybe due to the pandemic that people spend a little bit less money. So those two things may very well kind of be counteracting forces and which is going to win. I mean, we shall see. But there are even some economists out there, which I read recently, that suggest that it may not have such a huge impact as we expect. And the final point there, from a personal wallet standpoint, I mean, we've clearly seen wage inflation happening across the globe as well. So there is already some compensation happening for people. So that's kind of at a macro level. Then if you look at the category before we dove into Pandora and looking through the what happened after the financial crisis in 2008 and 2009 and now also most recently through the COVID pandemic, this category seemed to have fared relatively well. I think it declined by some five points or thereabouts back in all in 2010, but then it bounced back quite fast. So which speaks to that. There is some resilience in this type of categories. Within the category as well, I mean, then we can just speculate how the shifts happen, but clearly the kind of value proposition that we represent means that we are still an attractive gifting idea for a lot of people, and we remain sharp on that. And that's also why I mentioned that, you know, we're very, very keen on holding on to the value proposition that we have. And then we keep investing in the brand, we keep investing in our stores, we keep investing in new initiatives. So being active and kind of leaning in is the best way forward. That's what we did during COVID and we had a good outcome and that's our intention going forward as well. And then let's see what happens. But that's probably as much as I can speculate on that topic.

Anders Boyer, CFO: [00:41:37] And then, Grace, to your other question about the shape of Q2, three and four, while being sort of hesitating to guide on individual quarters, I think it's a fair question, and I think what we should say is that we expect the shape of the three quarters on the top line growth to be reasonably alike. So we're not looking into Q2, three and four where we start at a big plus and end at a minus or the other way around for that matter. But sort of shape wise, the three quarters being more or less similar. And the reason for that, I think when I say that you should recall that the toughest comp base in the US is the second quarter. But I think then also for the rest of the year, you should expect that you will still see the world outside of the US growing despite headwind from the war and the pandemic and possibly also from the inflation and higher interest rates. While the US we do implicitly in our guidance, as if you do a little bit of math, you can see we expect to go from plus seven organic growth in Q1 to and minus for the rest of the year due to the tough comps. Still very, very high double digit growth versus 2019 in the US for the rest of the year. But year over year being in the minus in Q2, three and four.

Grace Smalley, JP Morgan: [00:43:15] That's very helpful. Thank you very much.

Operator: [00:43:21] The next question is from the line of Lars Topholm from Carnegie. Please go ahead. Your line when I'll be unmuted.

Lars Topholm, Carnegie: [00:43:30] First of all, congrats with an exceptionally strong quarter. A couple of questions from me. One is on your gross margins. There are a lot of swing factors affecting it. And you also mentioned many of them. If we sort of strip out all the noise, if we take current commodity price level, current input cost inflation, current foreign exchange rates, where do you see the gross margin next year? Everything is equal, i.e. when your hedging runs out. That was the first question. The second question goes on, some of the markets outside the seven you reported individually, because here revenue is more or less unchanged versus Q1 2019. And you mentioned Spain and Mexico is growing extremely fast. Of course, I understand Russia is out of the equation, but I still wonder there must be some other markets dragging that number down. I wonder if you can give some comments on that. Thanks.

Anders Boyer, CFO: [00:44:45] It sounds like a question for me Lars. It's Anders here. On the first on the gross margin, it's a good question how to think about when it all runs out. And I think that equation I can't remember whether you mentioned but the headwind from forward integration the 80 basis points temporary hit that we have in Q1 phasing, all that out, we should see the gross margin actually being a bit higher than where we are currently. And because we net net to see we have a little bit of tailwind from silver next year given at the current prices we have in the books this year, we have a silver price of around 25 USD we are just around 23 actually a little bit below that now. So that would be, let's call that 50 basis points of tailwind on a run rate basis and then taking out the forward integration headwind that will stop automatically the 80 basis points that we have here in Q1. And then there will actually be an FX impact on a run rate basis that will go the other way around. If I'm not mistaken. I'm just looking at my colleagues here. And so net net, I think you could look into a gross margin that's let's call it a point up versus where we are right now. And here, I'm not factoring in that the share of our own business is likely to increase a little bit year by year. So excluding some channel mix impact. There's more tailwind to the gross margin than headwind when you look into next year.

Lars Topholm, Carnegie: [00:46:48] Just to make sure I sum it up correctly. So if the starting point is 76%, which you made in this quarter, then everything else equal a sort of rough guess today is 77% for next year. I know it's not a guidance, but more to make sure I draw the right conclusion on your answer Anders.

Anders Boyer, CFO: [00:47:10] And I think that a net net. I think that's a good way to think about the gross margin. And then on the other piece of what's dragging down the revenue growth, I think we're still in Q1 if you take some of the bigger markets in that. We have in Asia, we have a number of smaller markets that are still in the minus, dragging that down that still has some COVID impact in the quarter. So for example, we in India as one, Indonesia as others, is dragging down the organic growth in Q1. Let me just see what I can do. Give you a few more hints. Maybe if you go to the next question, I'll come back there after that and give you a little bit more flavour of what sits in that number, Lars.

Lars Topholm, Carnegie: [00:48:38] But it's basically COVID related is the message as I hear you.

Anders Boyer, CFO: [00:48:43] Yeah. And then, of course, we have some of the Russia sits in that as well.

Lars Topholm, Carnegie: [00:48:51] Of course. Fantastic. Thanks. I'll jump back into the line. Thank you very much.

Operator: [00:49:01] As a reminder, please press five star on your telephone keypad to ask a question. The next question is from the line of Karina Schotter from Goldman Sachs. Please go ahead. Your line will now be unmuted.

Karina Schotter, Goldman Sachs: [00:49:15] Hi, Alexander. Hi, Anders. Thank you very much for taking my two questions. Both of them are China related to some degree. So the first one is just whether you can give us some color on the situation in China at the moment. I realize China a slightly smaller proportion of your revenue versus peers, but if we think about in your release, you're talking about gaining traction around Chinese New Year, but still getting organic growth decline of 18% in Q1. If you could help us think about the situation at the end of March and going into April, that would be very helpful. And if there's anything that's giving you confidence around underlying demand, whether it be online trends or, you know, stores metrics in areas less impacted by restrictions. And then secondly, just on your cost guidance for this year, and thank you very much for laying it out so clearly in the slide and what's changed versus your previous guidance. But I was just wondering how the postponement of the China brand relaunch plays into that and what effect that has on OPEX for this year and potentially next year. Thank you.

Alexander Lacik, CEO: [00:50:15] On your first question, I mean, it's as we've said all along, we have an underlying issue on the brand. And of course, now with these COVID related restrictions, it's not made life easier, to say the least. So, you know, with Shanghai being completely shut down, not only does it shut shops down there, it also shuts our office down. So people are kind of locked up for I think it's the fifth or sixth week in a row now. But, you know, even then we have our e-commerce being shipped out of the Shanghai area, which means that also being closed. So that didn't help the online sales, particularly. What we did as a precautionary measure, we shared out some of those volumes to some of the stores that we have around China in order to try to offset a little bit. But of course, that you can't carry too much inventory in those places. They're not geared to that. So I think right now, China, frankly, is totally plagued by not just the fact that in some places the stores are closed, people are also, this is kind of feedback from the market, people are also afraid of going out in if they would then contract COVID because then they're shipped off into these quarantine hotels. So actually, people are just sitting at home waiting this whole thing out. So from our end, from a business standpoint, it's like, you know, it's very quiet. What we keep doing in the background is, of course, kind of still working on the relaunch program, but that's been now postponed, as I mentioned, you know, right now until things change and who knows how fast that's going to happen. So it's not a lot of things happening, to be perfectly honest. So to your question, do we see any signs? No, because there's not much happening. So it's very difficult to decipher anything meaningful at this moment in time. And maybe Anders you can comment a bit on the second question.

Anders Boyer, CFO: [00:52:20] Yeah. On the China marketing, in absolute terms, it could be sort of up. I think last year we spoke about up to 200 million kronor that we might incrementally put into a brand relaunch in China that doesn't have a sort of 1 to 1 impact on the EBIT margin, but obviously because it would drive some revenue, but from an absolute OPEX perspective, it could be up to a couple of hundred million kroner that might be pushed into next year in China. And then just going back to Lars' question before, if you look at some of the markets that sort of dragging in the other group that's dragging down the organic growth in the quarter, markets like Hong Kong, where obviously impacted by the pandemic and lack of traveling as well, Singapore as well. New Zealand like in Australia, it's actually the same growth level, flattish, 0% organic growth year over year. And then there's a number of markets that are still in positive but dragging down the average like Poland, which actually is ten points up still in Q1, despite all of the noise, but below the average of the of the group.

Operator: [00:53:51] The next question is from the line of Fredrik Ivarsson from ABG. Please go ahead. I will now be unmuted.

Fredrik Ivarsson, ABG: [00:54:01] Thank you. Hi, everybody. Just one question on the US, because obviously it was very, very strong, 62% above pre-pandemic levels, and that is up from 42% in Q4. And then you say that was in line with your expectation. And I'm curious to hear whether you assumed such a strong momentum in Q1. Was it because when you gave us the guidance last time in the beginning of February, you saw very, very strong January and then expected a deceleration. Or what did you see in the US timewise?

Anders Boyer, CFO: [00:54:38] It's Anders. On the Q1, I think one a couple of things. One is that it's Q1 is before the stimulus packages last year, which makes the headwind stronger. So when we came into the weeks in mid-March onwards this year, we could clearly see that in the year over year growth rates in the US that we now we were comping the, the, the stimulus package from last year. So that's one. And then there's a bit of phasing in the sell-in between quarters. And also why you can see that sell out in the US in Q1 was zero and organic growth plus seven.

So the distance between those two KPIs were a bit bigger than what it would normally be and that's because of timing on when new collections are launched and when we're selling that to the partner community in the US.

Fredrik Ivarsson, ABG: [00:55:44] Okay. So we should understand, like the US decelerated in March and in February, January, maybe it was well above 62% versus 2019.

Anders Boyer, CFO: [00:55:55] On a monthly basis versus 19. I can't remember that in my head, but clearly on a year over year basis, growth was slowing down, getting into the back half of the quarter.

Fredrik Ivarsson, ABG: [00:56:09] Yeah. Fair enough. Thanks. That's my question.

Operator: [00:56:15] The next question is from the line of Antoine Belge from BNP Paribas. Please go ahead. When I'll be unmuted.

Antoine Belge, BNP Paribas: [00:56:24] Good morning. Antoine from BNP Paribas Exane. Two questions. First of all, you don't seem to be talking much about Brilliance in that call. So is it possible maybe to have a bit of an update of the performance in the quarter in the UK? And what's the latest thinking about the timing of the rollout and maybe some change compared to the initial assumption for that product line? And second question relates to the store rollout. And is it possible to maybe give us an indication of the phasing in the fourth quarter of the year in terms of the store rollout that you have for 2022 and maybe some flavour in terms of the region. Thank you.

Alexander Lacik, CEO: [00:57:20] Hi. So on Brilliance. I think the what we were focused on in this quarter was essentially preparing the global rollout. So that schedule has not changed though. We haven't published the schedule, as I've been saying in the previous calls. And then we've been kind of playing around with different distribution in the store network. We've been playing around a little bit with the assortment. So it's been more of continued kind of to learn in front of the rollout that we have ahead of us. Then on terms of the Evoke store concept, which I think you're asking for, we have rolled out five stores so far. We are planning to roll out another 7 to 10 from memory in Q2. And then there's a bigger portion coming in Q3. Normally in Q4, we're a little bit quiet with these type of activities as we are focused more on the trading being such an important quarter for us. So and from a geo standpoint, we have planned a few stores in China, but that's of course, a question right now. We have three stores rolling out now, a couple of stores in UK, US, Germany planned. So it's a global spread, if you may.

Antoine Belge, BNP Paribas: [00:58:56] Thank you. Thanks a lot. But actually, it was also just on the new format. But even like just the store openings that are scheduled for the year and expected to account for one or 2% of your space.

Anders Boyer, CFO: [00:59:14] And I can maybe take that question. We do expect quite a net openings already from this quarter, the second quarter and with net closed some concept stores in Q1, but already now here in the second quarter, we will be net net opening up new stores.

Antoine Bellsch, BNP Paribas: [00:59:42] Thank you very much.

Operator: [00:59:46] The next question is from the line of Silky Akawal from Citi. Please go ahead. Your line when I'll be unmuted.

Silky Akawal, Citi: [00:59:58] Hello. Yeah. Hi. Morning, everyone. So I have two questions. One on this. Again, new store format, the Evoke stores that we're talking about. Could you share any key matrix that has improved anything on the basket size or the number of transactions? And how much are we talking about in terms of investment? What kind of investments do we need in opening these stores? And the second one is on more of a housekeeping question for you. And this is in terms of the Thailand pre-caution. We are trying to say we are trying to keep aside 45 million. Right. For the full year of that. I think 30 million has already been done in Q1. So I believe another 15 million of provisions we should account in a model in in Q2. Right. Thank you.

Alexander Lacik, CEO: [01:00:51] Okay. So if I try to address the first one. In terms of retail metrics, what the most important thing, what we've picked up in the let's say the four or five stores that have been open a little longer is that we see that customers have a higher dwelling time, which is a good thing. We have a better, how should you say, they read our collections easier. So we can also see that, for instance, in the UK store we can see that Brilliance, for instance, went from being, let's say, one of the lower performing stores in the network to being one of the better ones. And that's purely based on the presentation. So it's easier to find the collections in the store, which is one of the key criteria for these stores. The other thing which is important is that they performed from an operational standpoint really well during the peak trading period, which is one of the issues with the previous attempt that actually was very nice store. But from an operations standpoint it wasn't particularly efficient. So I think those are the key highlights. And then in terms of CAPEX, I mean, it's natural we have kind of refined the existing store layout for over ten years. So it's very cost optimized. The ambition would be to come to a similar point with the new store concept, but that's going to take us a little bit of time. So in the first pilots that you run there, I mean, it's all bespoke so you don't get any scale advantages. So those are a bit more expensive. But as time goes by, we'd expect to be in the similar type of range, probably with the exception of if we put in more digital elements in those stores versus the previous one, that would probably be the only exception to the rule. But generally speaking, we expect that the store CAPEX would be in the similar range after a year or so.

Silky Akawal, Citi: [01:02:55] So it's still around like 10 million past all?

Alexander Lacik, CEO: [01:03:00] No, we are average CAPEX globally. It's more like €250,000 give or take. So, it varies a little bit by country. US is a little bit more expensive because we have slightly higher stores and there's just labour is a bit more expensive there. Of course, the furniture is pretty much the same across the globe, but that would probably be the only exception to the rule.

Silky Akawal, Citi: [01:03:25] Okay.

Anders Boyer, CFO: [01:03:28] So I'll get on your other questions about the COVID 19 impact. Your math is right. We have sort of indicated, say, 45 million kronor for the full year, of which 30'ish has been spent in Q1.

Silky Akawal, Citi: [01:03:46] Thank you.

Operator: [01:03:46] The next question is a follow up from Lars Topholm from Carnegie. Please go ahead. Your line will now be unmuted.

Lars Topholm, Carnegie: [01:04:02] Just a quick question. I remember in the Q4 call, you mentioned that, I think it was one third of the customers buying Pandora ME were new to Pandora. I just wonder if you have some observations on that metric for Q1.

Alexander Lacik, CEO: [01:04:24] I think the one third was referred to that one third of the volume went to Gen Z. And so far those trends seem to hold up. So we haven't seen any major change there.

Lars Topholm, Carnegie: [01:04:42] Okay. Fantastic. That was all. Thank you.

Operator: [01:04:48] As there are no further questions at this moment in time, I will now hand the word back to the speakers for any closing remarks.

Alexander Lacik, CEO: [01:04:56] Thank you very much for attending the call. As we opened up, we're very happy with the record revenue that we had in Q1. There will be some tougher comps coming up, but I think the business is in really good shape and we're looking forward to see you in the next quarterly call, if not earlier than that. Thank you very much for joining today.