Pandora A/S

Transcript: Investor Presentation Q3 2017

Date & time: 07 November 2017 at 11.00

Operator

Ladies and gentlemen, welcome to Pandora interim report for the third quarter of 2017. 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. I will now be handing over to Magnus Jensen, Head of Investor Relations. Please begin your meeting.

Magnus Jensen

Good morning and welcome to the conference call for Pandora's Q3 2017 results. My name is Magnus Jensen from the Pandora Investor Relations team and with me I have our CEO Anders Colding Friis and CFO Peter Vekslund. As per the agenda outline on slide 2, Anders will present the highlights for the quarter before Peter will talk you through the Q3 numbers in more detail. Following the presentations, we will be happy to take any questions you might have. Before I hand over to Anders, I would like to point your attention to the disclaimer on page 3. Anders, please.

0.00.53

Anders Colding Friis

Thank you very much Magnus and good morning to everyone and thank you for listening in on our call this morning. The result for the third quarter came in more or less on par with our expectations while the underlying performance contained some positives as well as some negatives. Our growth markets, including Germany, Italy, Australia and China, continued to perform well while the retail environment in the US continued to be a challenge.

Now turning to the highlights for the quarter. Revenue from the quarter was DKK 5.2 billion, which is an increase of 13% compared to the third quarter of last year or 16% in local currency. The growth was driven primarily by the continued solid performance of our owned retail business which delivered a 35% increase in revenue. Revenue from wholesale increased 5% for the quarter, positively impacted by the addition of 53 franchise concept stores as well as the launch of our Disney collection in EMEA early in October.

Furthermore, growth was supported by all product categories which all delivered double-digit growth in local currency for the quarter. The profitability of our business continued to be solid and the EBITDA margin for the third quarter was 37.8% compared to 39.9% last year. Free cash flow for the quarter was DKK 637 million and slightly higher compared to last year. Cash flow came in as expected and we will pay out a quarterly dividend of DKK 9 per share later this month. On top of the DKK 652 million used during the quarter to buy back shares.

Turning to slide 5, we maintain our financial guidance for 2017. However, we now expect to end up in the low end of the guided revenue range of DKK 23-24 billion. This is mainly a reflection of currency headwinds which was increased by around DKK 700 million since we guided in February. Additionally, we expect a headwind of around DKK 150 million related to the hurricanes in the US and the Caribbean Islands during the third quarter. Looking across our markets, this of course also reflects a continued difficult retail environment in the US. But success in other markets, such as Italy and China, has been able to compensate for a fair share of this.

Looking at the fourth quarter revenue, please be aware that we currently expect a tailwind from forward integration of around DKK 500 million. Additionally, revenue in the 4th quarter of last year was negatively affected by DKK 200 million related to product returns in the US. This will not reoccur. The EBITDA margin guidance is maintained at around 38%. Guidance on CAPEX and tax is maintained and we continue to expect to open more than 300 concept stores for the year.

Moving to the next slide, let me give an update on the progress on a number of the strategic initiatives during the quarter. Developing our product assortment remains a key focus in Pandora and our offering has improved over the year. However, we continue to see some challenges in terms of lack of newness in the more penetrated markets. As highlighted on earlier calls, we have a strong belief that the recent changes we have made to our product team will have a positive impact in 2018. This includes a new design team, more new concepts to be launched, our ability to fast-track products and a shorter development cycle.

During Q3, we launched the autumn collection in stores. The collection includes 20 fast-track products which was well received by our consumers. As we highlighted last quarter, fast-tracking products is a means to fulfil identified opportunities with our consumers and reflects the significance of our market-leading manufacturing capabilities and improved lead times. The new collection included 32 Rose products which were very well received and revenue from the Pandora Rose actually tripled compared to the same quarter last year. This illustrates the importance of adding new concepts and, as earlier communicated, we plan to launch at least 4 new concepts in the next 3 years.

Finally, following a successful launch of the Disney collection in Americas and Asia, we launched the collection in Europe in early October and we are delighted to see that the products already work well with the European consumers.

We continued to take increased control of our store network. Early in the quarter, we took over the store network in South Africa and in late September we acquired our distributor in Spain. This has added a total of 66 concept stores to our owned retail network and will support revenue with some DKK 500 million in the coming 12 months.

In addition, we have opened or acquired a total of 154 concept stores during the quarter. This brings the number of Pandora-owned concept stores to a total of 865 concept stores or more than 35% of the concept store base.

Our expansion in newer markets continues and revenue in Asia-Pacific for the quarter increased 26% and now represents 21% of group revenue.

Growth in the region was mainly driven by our expansion in China where revenue increased by 62%. Following the establishment of a regional office in Panama, we have strengthened our focus on Latin America and in the third quarter we opened 10 concept stores in the region. Revenue in Latin America now represents 13% of revenue in Americas. An increase of 20% for the quarter or around 40% if we exclude the Caribbean Islands which were impacted by hurricanes during the quarter.

Finally, let me give you an update on the latest development in the US market. The retail environment continues to be tough, which is reflected in the performance of our US operation. Mall traffic declined with 4% in the third quarter and promotional activity among retailers continues to be significant.

To support our US business, we decided to launch our Christmas collection in the US in October compared to November in earlier years with sell-in in September. This was done to strengthen sales at a time where competition for consumer spend is fierce. In essence, it means that we will have the Christmas products in our stores for an extended period.

On promotions, we continued to stay relevant and in the third quarter we maintained a promotional level comparable to last year in the US. It is always important to have the right promotional level and we believe that we are striking the right balance. Our gross/net sales for the first 9 months in the US were above 85% and on par with what we saw last year.

Going into the 4th quarter, we plan to strengthen the promotional activity across the world as well as in the US to remain competitive, and with this I will hand over the word to Peter.

0.08.49

Peter Vekslund

Yes. Thank you Anders and good morning everyone. Turning to the next slide, we will look at our three channels. Revenue growth for the quarter was mainly driven by Pandora owned retail which increased revenue by 40% in local currency. Growth in Retail was driven by a like-for-like development of 5% as well as an increase in our owned and operated store network through both new stores and acquisitions. The main driver of the like-for-like growth was the eSTORE which increased by 94%. While still early days, we believe this is a good indication that our online platform works. The eSTORE represented 5% of total revenue for the quarter.

Franchise concept store revenue increased by 7% in local currency compared to the same quarter last year. This was mainly driven by network expansion as well as the sell-in of the Disney collection to franchise concept stores ahead of the launch in October.

When analyzing our store productivity, I would like to highlight that owned and operated stores is our preferred ownership model and as such high revenue locations are either being opened as O&O stores or being acquired from franchise partners. Franchise stores are primarily being opened in Latin America and in smaller markets in EMEA which typically has a lower revenue per store. Revenue from other points of sale in the wholesale channel increased 3% in local currency.

The slightly positive development was driven by a number of non-branded stores that we upgraded to branded stores. The positive impact from the upgrades was offset by planned store closures as a part of optimizing the global store network.

Revenue from third-party distributors increased 6% driven by several markets in EMEA and Asia. In terms of distribution, we continue to increase our branded presence and in the last 12 months we have opened net 318 new concept stores globally. At the same time, we closed more than 1,500 other points of sale.

Now please turn to the next slide, where I will talk you through the performance in each of the 3 regions.

Starting with EMEA, the region generated revenue of DKK 2.6 billion corresponding to an increase of 17% in local currency. Revenue in the UK increased 22% in local currency. Growth was mainly driven by the expansion of the network, the sell-in of the Disney collection, as well as some timing of shipments between quarters. The retail environment in the UK remains difficult and we saw a negative development in the existing physical store network, partially offset by a good performance in the eSTORE.

Italy generated growth of 26%, which was the result of a good performance in the concept stores. Half of the revenue in Italy is generated in other points of sale which saw a slightly positive development in the quarter despite the closure of around 130 other points of sale as part of strengthening the store network.

Revenue in France was flat compared to Q3 of last year. The concept store network in France saw positive growth for the quarter and was supported by a good performance in the eSTORE while other points of sale, which represent around 25% of revenue in France, continued to be challenged.

Our business in Germany accelerated with a revenue of 26% for the quarter driven by the positive performance of our strengthened German concept store network.

Please turn to slide 9. Americas reported revenue of DKK 1.5 billion, an increase of 6% in local currency. Revenue in the US increased 4% in local currency with growth driven mainly by the eSTORE as well as the expansion and acquisition of franchise stores. Furthermore, growth was supported by selling to franchisees related to the early launch of the Christmas collection in the US. The exact impact for the quarter is not possible to quantify as this also had a natural adverse effect on replenishment orders on earlier collections.

As Anders has mentioned, the retail environment in the US is still tough and we still experience some lack of newness in our product assortment. This resulted in a negative like-for-like in our physical concept stores as well as in other points of sale. This was partially offset by a positive development in the eSTORE.

Reported like-for-like growth in our retail network was 5%.

For the quarter, the Americas region was impacted by around DKK 50 million related to the hurricanes that have hit the US and the Caribbean Islands during the quarter. The full year is expected to be around DKK 150 million as several stores are still not open and consumer confidence in some of the impacted areas continues to be very low.

Now turning to slide 10. We continue to see a strong performance in Asia-Pacific. Revenue in the region was DKK 1.1 billion, up by 32% in local currency. Revenue in Australia increased 21% compared to Q3 last year. This was mainly driven by store expansion which included the addition of 11 new concept stores in the last 12 months. China, which represented 8% of revenue for the quarter, continued to be an exceptional growth market and revenue for the quarter increased 62% compared to Q3 of last year. The increase was driven by the strong development of the brand supported by the addition of net 62 Pandora owned concept stores in the last 12 months.

We are making good progress with our online business in China which includes our collaboration with tmall and it continues to perform well. eCommerce contributed around 10% of revenue for the quarter. From Q4, the Chinese eSTORE will be included in the reported like-for-like numbers as it has now been operating for more than 12 months.

Now please turn to slide 11 which is an overview of our five product categories. Revenue from Charms increased 12% in local currency driven by Asia-Pacific as well as EMEA which included the sell-in of Disney. Revenue from Bracelets increased 16% and was supported by 5 new bracelets including a fast-track silver mesh bracelets which was very well received by consumers.

The Ring category performed well and revenue increased by 19% driven by a stronger product offering, including the bestselling Ring the Wishbone Silver Ring introduced this autumn.

Demand for Earrings and Necklaces & Pendants remained strong and they delivered growth of 31% and 39%, respectively. Both categories have been well supported by successful marketing campaigns and a greater focus in-store.

Now please turn to slide 12. Gross margin for the quarter was 74.2% compared to 75.1% last year. The decrease was driven mainly by 1 percentage point headwind from currency and a negative impact of around 1.5 percentage points caused by metal mix related to the growth in the Pandora Rose collection which currently is partially produced externally. This was partially offset by the increase in share of revenue from Pandora owned retail which had a positive impact of around 1.5 percentage points.

The EBITDA margin for the quarter was 37.8% compared to 39.9% in Q3 2016. The development was driven by the gross margin as well as a different phasing of brand building activities related to the third quarter last year.

Administrative costs provided slight leverage.

Now please turn to slide 13. The operating working capital for the quarter was 18.9% of the preceding 12-month revenue, a decrease of 0.9 percentage point compared with the same time last year. The decrease since Q3 2016 was mainly related to our inventories.

In terms of receivables, days sales outstanding were 63 days, up 7 days compared to the same quarter last year. The increase in days sales outstanding was primarily related to the strong sell-in of the Disney collection during September ahead of the October launch as well as the acquisition of our Spanish distributor where we have taken over receivables. Finally, receivables in the UK and Italy were slightly higher due to the usual extended credit terms ahead of Christmas.

CAPEX investments were around 7% of revenue on a par with the same quarter last year, equal to DKK 380 million this year, compared with DKK 324 million last year.

We are investing significantly in our manufacturing facilities in Thailand. An increasing number of Pandora owned stores as well as on various IT projects building our digital capabilities. Our net interest-bearing debt to EBITDA was 0.7, which is in line with our overall capital structure policy and slightly up compared to the same quarter last year. And with this, I will hand back to Anders.

1.18.49

Anders Colding Friis

Thank you very much, Peter. So to summaries the quarter, we have continued to see strong growth in a number of our key markets like Australia, China, Italy and Germany. However, the group's performance was also affected by the challenging conditions in the US. Rings, earrings and necklaces & pendants continue to perform and revenue from the 3 categories increased with 21% in the quarter. Our owned retail business recorded a 35% increase in revenue and I am delighted that we have strengthened our retail network further by taking over distribution in South Africa and Spain during the quarter. Finally, we remain on track to meet our guidance for the full year, however at the low end of the guided range. Before we move over to the Q&A session, I would like to highlight that we have decided to reschedule our Capital Markets Day and as mentioned in the Q3 report, it will now take place 16 January instead of 13 December.

As most of you know there is a significant external focus on our 2017 numbers. Additionally, we are of course also internally focusing on meeting our numbers so before we start to communicate on our longer-term plans at our Capital Markets Day, we would like to conclude 2017. We are of course sincerely sorry for any inconvenience for those of you who have already signed up for the day. Thank you very much for listening in and we will now take questions. Operator, please.

0.20.29

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad. So that is 01 to register for questions. Please hold for the first question. Our first question comes from the line of Lars Topholm from Carnegie. Please go ahead. Your line is open.

0.20.57

Lars Topholm

Oh yes. Just a couple of questions from my side. First if you can comment a little bit more on China and how the physical stores go because you have a 77% higher store count – you have tmall, you have your own online business, yet sales only grow 62% if I can say only but I wonder if you can comment on like-for-like then.

A second question that regards the early sell-in of the Christmas collection in the US and I fully understand you – you will not and maybe you cannot give the net effect of this but can you maybe put some comments on the gross effect – is it fair to assume the sell-in value of that collection is more than DKK 150 million or how should we see it? Can you maybe comment on how much it is per concept store in average in sell-in effect and then a third and final question is regarding the UK. You also mention there is some timing of shipments – can you comment on what those changes are –partly what the fiscal impact is but also which items you have delivered differently compared to previous years. Thank you.

0.22.22

Anders Colding Friis

Thank you very much, Lars, for your questions. I will do the first and I will give you a framework on the second and Peter will continue and do the third. So if we look at China in general we are very happy with the development that we have seen in China and we are expanding our store footprint. As we have said, we are not giving any numbers for like-for-like in China but as we have said we are developing city for city and that of course has an impact on the like-for-like numbers. One thing you should be aware of is that we have also transferred some of our former shop-in-shops into concept stores so the net movement is smaller than what you are looking at here. We are very happy with the development that we have seen in our eSTORE and tmall over the quarter and as mentioned, the like-for-like numbers in China have been more normalized and I think that is as far as we can get on that. Maybe I will just give a couple of comments on the sell-in in the US and then Peter can continue talking a little bit more about it but if we look at it, the reason behind it is we know that the consumers in the US are the ones who are most newness-oriented and to make sure that we have good newness in the stores for an extended period of time we have decided to launch our Christmas collection a bit early and get the commercial value out of it and do remember that it is more than Santa Claus and stockings we have in that collection – and then Peter.

0.23.51

Peter Vekslund

Yes, and as to the impact of this on the quarter, this is simply not possible to estimate this as it was announced for franchise partners in mid-September and of course had some natural adverse effect on replenishment orders in the quarter. And I know there is a request for a lot of building blocks in our performance in the US. There are a couple of building blocks that we do not provide. That is eSTORE, acquisitions and network growth and so on, so overall this of course had some impact but not something that is possible to estimate.

0.24.33

Lars Topholm

But is it fair to assume that shipping Christmas early moves the needle by more than 10 percentage points in the US?

0.24.42

Peter Vekslund

It is again, I can repeat it is not possible to quantify the impact. Of course you can do the assumptions in your calculations but it is not something that..

0.24.49

Lars Topholm

I am asking if my assumptions are fair or unfair. I am not asking you to quantify it. Just tell me if my assumptions are completely wrong or they are reasonable?

0.24.59

Peter Vekslund

And again, Lars, this is not something we will get closer to an answer to. We have not been able to estimate the impact as it does have an adverse effect on replenishment orders. To say final..

0.25.10

Lars Topholm

But I want the gross impact, Peter, not the net impact. The gross impact.

0.25.15

Peter Vekslund

But maybe let me just also add that if you look at our receivables in the US, it is flat compared to the same quarter last year.

0.25.27

Lars Topholm

So, but that was not what I asked. I asked about the gross impact from this. I fully accept you cannot estimate the net impact, but the gross impact and I am sure you realise because you know exactly what you ship to stores.

0.25.41

Anders Colding Friis

I think that we have.. historically, we have had too many small building blocks 50 million here, 20 million there, 50 million there to put it together and it has made things more complicated and we will try to avoid that.

0.25.54

Lars Topholm

But in previous quarters you have had a slide specifying the effect of timing differences in the US. Now it is suddenly no longer here, but are you saying this is DKK 20-50 million building blocks? Or is it more than that?

0.26.10

Peter Vekslund

I say, you are right, we had a table and that was a table we also said all along during the Q2 road show that that was the last time we wanted to write such a table because it created more confusion around numbers than clarity.

0.26.27

Lars Topholm

Okay. Thank you very much for taking my questions.

0.26.36

Anders Colding Friis

And maybe we should just take, there was a question on the UK as well – I think we should just answer that. Peter will you take that?

0.26.41

Peter Vekslund

Yes, and overall on the UK, the growth in the UK was driven by the launch of Disney, the network expansion as well as some timing of shipments. Underlying there was a negative development in the stores offset by a good performance in the eSTORE.

0.27.06

Operator

Our next question comes from the line of Michael Rasmussen from ABG. Please go ahead your line is open.

0.27.15

Michael Rasmussen, ABG

Thank you very much. I would like to ask a little bit more into the change promotions in the US. So looking at the fourth quarter, how do you expect the – how much growth do you expect this will drive and should we now understand that you are planning to be more promotional than the market in the fourth quarter or just be as promotional in the quarter? And my second question goes to the new design team that we have talked about on and off during the past year. When should we expect kind of the big plan, the big launches from these guys? Is it early 2018 or do we have to look further out for this team? And kind of as a follow-up on the second question. Is this basically what you expect to be able to reset – do better on the newness in stores, please? Thank you.

0.28.16

Anders Colding Friis

Thank you very much for your questions, Michael. Let me start with the promotions. I think that it is very important to start by saying Pandora is not a very promotional brand and have not been so. And one of the reasons why we have also given you the gross/net number, which we have not provided earlier, is to just reinforce that and show you that we are not. We are going to do a bit more – we are not going to be on the level of other retailers in the US market, that is for sure, in the fourth quarter. What we wanted to say is that: Expect us to be a bit more promotional. We need to be relevant in the market and that is an important part of being a good and strong retailer there, so not very promotional but a bit more than we have done but we will not meet what you will see, sometimes you see in the US that you have store of promotions. We do not do store of promotions.

When we look at the new design team. Now, as I mentioned, we are moving our Capital Markets Day. One of the things that you will be able to see because we moved it to January is actually some of the new concepts coming from our new team. The new team's products will be in the market from the beginning of 2018 starting with the Valentine's Collection which is the first one and we are very eager to show that to everybody when we can do that and further we have a launch of a new concept in connection with Drop 1 and we will be able to show you that new concept in connection with the Capital Markets Day in January and that will generate newness, we are quite certain of that.

0.29.56

Michael Rasmussen

Thank you very much

Anders Colding Friis

You are welcome

0.30.00

Operator

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

0.30.08

Anne-Laure Bismuth

Yes good morning everyone, it is Anne Laure Bismuth from HSBC so I have two questions. The first one, is it fair to assume that excluding each store the like-for-like at the group level were flat to slightly negative? And my second question is about Q4. What is giving you confidence in achieving 11% growth rate in excess of 20% in Q4 based on the low hand of the end of the full year guidance of 13% reported tail growth or 15+10 that comes from ??? including the negative effect in part of plus/minus 2%. Thank you.

0.30.47

Anders Colding Friis

Thank you very much for your questions, Anne, I think two excellent questions for Peter.

0.30.51

Peter Vekslund

Starting on the first one with like-for-like, overall ballpark figures that is correct calculation you are doing. Secondly, on the Q4 performance. Q4 is a big retail quarter and we also need to realise a lot of revenue in Q4, around 8 billion in revenue. What gives us confidence in delivering this in Q4 is in order to reach the low end of the guidance we need growth in reported currency of around 18%. We have 500 million in tailwind from acquisitions and we have 200 million in a technical tailwind from the closing of multibranded stores last year equalling those two elements around 11% of growth so if you subtract the 11 from the 18% needed then you are in the 7-8% range of growth in Q4 and that we believe is achievable while still 8 billion is a big number and we need to do a lot of revenue week by week in December also.

0.32.07

Anne-Laurie Bismuth

Thank you

0.32.08

Operator

Our next question comes from the line of Piral Dadhania from RBC Capital Markets. Please go ahead.

0.32.15

Piral Dadhania

Hi, good morning, thank you for taking my questions. I was just wondering if you could elaborate a bit on what you just said in relation to the 500 million tailwind from acquisitions? My understanding was that the guidance of the half year was for 450 million of acquisitions for the second half so could you just quantify if that has gone up slightly? That is my first question. And then I will ask my second after that.

0.32.43

Anders Colding Friis

Okay, I think it is a good idea that Peter continues.

0.32.47

Peter Vekslund

Yes. In connection with this you are right, there is a small uptake in the overall number of effect from forward integration. So the full-year number is expected to be around 750 versus 600 million in Q2. So 150 million more than in Q2.

0.33.14

Piral Dadhania

Okay, cool. And then just looking forward then into 2018, could you give us an indication of what your concept store opening run rate would look like and also what the contribution from acquisitions might look like in 2018? Because obviously the acquisition is a relatively new concept in relation to your expansion strategy and how you are growing your overall portfolio so I guess in terms of people's medium term assumptions in terms of the contribution from space or scope what should we be thinking about for the medium term?

0.33.47

Peter Vekslund

As to concept store openings in 2018, we have previously said it would be somewhere between 2-300 concept store openings in 2018. Of course concept store openings is something we will give you a bit more insight into our thinking on this at the Capital Markets Day. In terms of forward integration effects in 2018, that currently will be around 600 million of which Spain is 350 million.

0.34.25

Piral Dadhania

Okay, great. Thank you.

Anders Colding Friis

You are very welcome.

0.34.29

Operator

Our next question comes from the line of Hans Gregersen from Nordea. Please go ahead.

0.34.35

Hans Gregersen

Good morning. Coming on your sales growth on a product level, to what effect have different campaign pressures in the various subcategories affected growth rates? That is the first question. Second question. If we look on your eSTORE sales breakdown if you can provide some comments and in that context also if tmall had been included in Q3 this year, how much would that have added to like-for-like growth figures? Thank you.

0.35.03

Anders Colding Friis

Yeah, let's start with the impact of the different product groups and then Peter can take the second question. Hans, if we look at the different campaigns we do, we do that very much to support the different categories and that of course moves from category to category between the quarters. We have had a bit more focus on charms and bracelets for the quarter and that has had an impact and that you can see. And of course it does something to the other categories. We are still very happy with the overall development and now the new categories stand for 27% of our revenue for the quarter.

0.35.48

Peter Vekslund

And in terms of the eSTORE and tmall in China, revenue from that is around 10% of the revenue in China and it will be included in the like-for-like numbers from Q4. So based on this I assume you can do some rough math and estimate the impact. But 10% of revenue in China is from e-commerce.

0.36.12

Hans Gregersen

But my question was basically can you provide a little bit of further insight into the sales breakdown of the overall eSTORE?

0.36.21

Anders Colding Friis

You mean by countries or what do you mean?

0.36.24

Hans Gregersen

Yeah the key countries, yeah.

0.36.27

Peter Vekslund

Overall eSTORE think that as China, UK and the US and then we have the various markets in Europe which are doing okay but not big numbers.

0.36.44

Hans Gregersen

Thank you

0.36.46

Operator

Our next question comes from the line of Kristian Godiksen of SEB. Please go ahead, your line is open.

0.36.53

Kristian Godiksen

Thank you, I start with the initial two questions. So first of all, could you give some reasons for the like-for-like deceleration in the US compared to Q2 and this is despite we have seen an improvement in the underlying US jewellery sales and also traffic mall data and also I expect that you have the higher impact on the product innovation side in Q3 compared to Q2 and if you could take that also on the group level that would be very nice. And then the second question would be just if you could elaborate a bit more on why this guidance is guided down to the low end of the range now and not in connection with the Q2 results as the FX impact is the same as guided in connection with the Q2 results and the impact from the hurricanes is basically offset by the additional revenue you now guide on from additional conversion effect so thank you, that would be my second question.

0.37.46

Anders Colding Friis

So if we start with the US development and where are the like-for-like numbers and I can say we would have been happy to see a little bit of a higher number, that is absolutely certain. I don't think it is that material, it is a difficult environment that we are operating in and if you want to have a little bit of flavour on one thing we can say that we actually had one of our big campaigns in the US at a time where traffic was quite severely down in the stores so that impacted our quarter in the US. If we look at your second question which was the new product that we see and the launch of that we have seen a good reception of our new launches but at the same time there is of course also a reason why we have chosen to launch our Christmas collection a bit early and that is to provide more newness. I think we have talked about this a couple of times during the year that we have seen a lack of newness or a little bit too much of a repetition, that is also one of the reasons why we are looking very much forward to seeing the reception of our new products in 2018 where we have our new team really on the ground. If we look at our guidance and how we have developed that and why we have highlighted the fact that we will end up in the lower part of the quarter, you are absolutely right that we also had a currency headwind when we talked to each other last time. What we can see is that every time in connection with the quarter, we actually make a new calculation of our expected development and we see the hurricanes, we see a bit weaker development in the US and we put together all the numbers, we expect to end in the low end of the guidance and that is what our numbers show us now.

0.39.51

Kristian Godiksen

Okay. Just one follow-up if you could comment on the like-for-like deceleration on the group part of it which also decelerates and then you elaborated on the lack of newness but I guess that was what we expected when you reported in Q2 that that should come in connection with the new autumn collection and hence you should have this acceleration in Q3.

0.40.13

Anders Colding Friis

Looking at the overall reason for why our like-for-like numbers are a little bit weaker than we would have liked them to be, to be honest, in this quarter, there are two important building blocks of that. One you already know and that is the US, you can see that the like-for-like number in the US is a bit lower. The other big stone in that is China which is an important part of our retail footprint today and in China we have gone from a very, very strong double digit development into a more normalised development in our like-for-like numbers. As I said, we don't give numbers for China but that gives you a bit of flavour on why that has developed like this.

0.40.57

Kristian Godiksen

Okay. Thanks a lot

Anders Colding Friis

Welcome.

0.41.00

Operator

Our next question comes from the line of Thomas Chauvet from Citigroup. Please go ahead.

0.41.05

Thomas Chauvet

Good morning. A few questions, please. Firstly on China, do you feel there are some Pandora specific reasons for the slow-down in retail like-for-like, I am thinking maybe product assortment choices, pricing strategy, retail execution. Are you, as we enter in the fourth quarter and Chinese new year, taking any immediate actions to fix that part of the business? Secondly, on e-commerce can you just comment on the sharp acceleration in growth? I think you have added one country in the period but what are the other drivers of the growth acceleration and given that level of growth in absolute sales, I think you will probably be over 360 million for the full year eSTORE sales, are you seeing any interesting margin developments on that channel? And just finally just half skipping in the US with the closure of wholesale stores, buy-back of franchisees and the positive retail LFL, can you tell us what is now in the nine months the split between retail and wholesale sales I think it was 20-80% last year. Thank you.

0.42.20

Anders Colding Friis

I will take the first question and Peter will take the two second questions. Let me just start by saying we are very happy with the development that we see in China in general so there are no worries for us to look at there. If you look at what is happening, we have seen a very, very nice development in our e-commerce channel and that of course has an impact on the overall business but we also see our new stores ramping up and part of that is the way we have developed China and the way we have decided to develop China has been city to city or city by city which also means that when we open the third, fourth, fifth store in a city, there will be a bit of impact on the existing stores and that is the way you should look at it. But we feel very good about the 62% growth that we have had in China for the quarter.

0.43.13

Peter Vekslund

And on your question on e-commerce and the acceleration of growth, first of all driven by China which had zero in Q3 of last year because we launched in Q4 of last year and then secondly we do see a good performance in the eSTORE, both in the UK and in the US. In terms of the split on revenue in the US, then around one third of revenue is retail revenue and two thirds are wholesale revenue, broad numbers.

0.43.48

Thomas Chauvet

Thank you.

Anders Colding Friis

You are very welcome.

0.43.53

Operator

Our next question comes from the line of Erik Iversen from Kepler Cheuvreux. Please go ahead.

0.43.57

Erik Iversen

Yes thanks for taking the question. Just one on the margin in the Americas was down almost 5 percentage points in the quarter. Any chance you could try to sort of quantify the markdown or increase campaign effect from the US? Thank you.

0.44.15

Anders Colding Friis

Yeah. I can start and maybe Peter will elaborate a little bit. There is no markdown effect in the US. What you should look at in the Americas number is the fact that we have put more emphasis on developing Latin America. We have opened an office in Panama and we have also opened quite a number of stores in the Latin America, ten actually in the quarter. So we expand there and that comes with a little bit of cost before we see the gain and I don't know, Peter, maybe you have more specific…

0.44.52

Peter Vekslund

On the margin in Americas for the quarter that was negatively impacted by acquisitions of stores where you know we take back inventory. That impacted with -2 percentage points, then the phasing of marketing activities over the year -1 percentage point, the expansion in Latin America minus 1 percentage point. So that is the overall and then finally -1 percentage point on foreign exchange. So that is the building blocks on the EBITDA margin in Americas.

0.45.29

Erik Iversen

Very clear. Thank you.

Anders Colding Friis

Thank you very much.

0.45.34

Operator

Our next question comes from the line of Klaus Kehl from Nykredit Markets. Please go ahead.

0.45.41

Klaus Kehl

Yes, hello, a couple of questions. First of all, could you comment on the development in Germany which seems to be picking up nicely here in Q3? And secondly, you have launched the Disney collection here in the beginning of Q3 and the Christmas collection in the US as well. Could you give us any indications of how these collections have been received or any early indications for Q4? That will be my questions.

0.46.12

Anders Colding Friis

Thank you very much, Klaus. If we look at the development in Germany, we are very happy with the fact that we have reset the business, we have built a new, strong network of stores. What you should be aware of is that the productivity per store in Germany is still rather low. But of course we are happy with the fact that we see 26% growth in the quarter. So we will continue developing the German market but the reception by the consumers in general has been good but it is a rebuild and it is going to take some years to get that done. If we look at the launch of Disney, I think we have also mentioned that in our announcement, we are actually quite encouraged. You might remember we have talked about that at least that we were a little bit extra cautious to investigate how Disney would be perceived in Europe, not least in the UK market and we have seen a very, very positive reception in the UK. So early indications on Disney, and that is the only thing we can comment on, are good.

0.47.19

Klaus Kehl

Okay and what about the sales out of the Christmas collection in the US here in the beginning of Q4?

0.47.29

Anders Colding Friis

We will be very happy to talk about that when we meet next time.

0.47.34

Klaus Kehl

Okay. Thank you very much.

Anders Colding Friis

You are welcome.

0.47.40

Operator

Our next question comes from the line of Peter Testa from One Investment. Please go ahead.

0.47.47

Peter Testa

Hi, thank you for taking my questions. I just had two on the US, one was just to try to elaborate on this point that was earlier discussed on the Christmas impact. You said that the accounts receivable were flat and that the wholesale customers were made available, announced this in mid-September. Does that sort of imply that not all of them participated in this quarter in the pre-buy of Christmas? And is that something that still rolls through?. And then another question on the US is you have roughly 50 million of hurricane impact. I was wondering if you could give some sort of understanding of how your physical like-for-like would have looked gross of that without the hurricane impact? And I am curious on your comment on Q4's 100 million also reflecting consumer confidence in the region, is that basically more Caribbean Islands than US mainland? And then I had another question just on the implied Q4 margin. You have a change in number of stores, you have the buyback impact, the foreign exchange and so on. I was wondering if you could give some sort of clue as to whether the underlying trends in margin are changing in Q4 because there are a lot sort of factors which are hard to look at on a one-off basis, also affecting the comp last year. And the last question was just on other points of sale where there is a -80 in Q3 after a lot of activity over the last 12 months I was wondering if you could give some thoughts going forward as to whether you thought the other points of sale location is going to be down at this sort of level or we should think about something else to work on going forward? Thank you.

0.49.29

Anders Colding Friis

Let me start with the last one and then I think the others would be very much for Peter. If we look at the other points of sale what you should expect is that they will continue to decline. So we do not expect us to go out of all other points of sale. We believe it is a good idea for us to have some representation in less populated areas. It would be in terms of stores you should think in the direction of more shop-in-shops which is supporting our brand with a full coverage of our assortment as well but we still have stores to close. We have done quite a bit over the past years closing around 1,500 stores and we still have some to go. And then I will leave it to Peter.

0.50.15

Peter Vekslund

Yes, thank you, on the hurricanes..

0.50.18

Peter Testa

Could you just get on to you.. that question is also around the pace, I mean, you have got a very high pace at periods of time, a very low pace at other periods of time. What should we see as a representation of the pace now that you have done a lot of cleanup?

0.50.31

Anders Colding Friis

Okay, good question. I did not get that. Thank you. You should expect the pace to be a bit slower. We have taken some very big throngs in Germany and now also last year in the US so clearly there is a little bit less other points of sales there so expect the pace to be slower than what you have seen over the past couple of years.

0.50.53

Peter Testa

Okay, thank you.

0.50.53

Peter Vekslund

Yes, on the hurricanes, overall we had around 90 stores impacted by the hurricanes. 20 of those were owner operated and around 70 were franchise owned and if you look at the overall split of the impact, the 150, then round numbers, one third in the Caribbean and two thirds in the US. On the margin for Q4, one thing to remember is that last year in Q3 with the global launch of Pandora Rose so that impact is included in Q4 last year. So we will not see a big impact this year. And then round numbers, acquisitions will drag the gross margin off around 1 percentage point in Q4. Still on the other cost lines, Admin. 9-10-ish for the full year. Marketing above 9 – around or above 9 and then Sales and Distribution between 20 and 22.

0.52.10

Peter Testa

Okay and sorry there was another question on trying to understand your comments on the earlier conversation around the Christmas sell-in. You said that you were offered mid-

September and that account was even more roughly flat and I was wondering whether that was meant to imply that you had a not full participation at that stage, i.e. the break of the quarter stage and the pre-buy or whether this was not the message you are trying to give.

0.52.38

Peter Vekslund

Roughly, more or less all participated in the buy-in.

0.52.46

Peter Testa

All right, okay. Thank you.

0.52.50

Operator

I would like to remind you that if you want to ask a question you will have to press 01 on your telephone keypad. Our next question is a follow-up question from Kristian Godiksen from SEB. Please go ahead.

0.53.03

Kristian Godiksen

Thank you, so first question would be: What should we expect you to focus on and elaborate on in the upcoming Capital Markets Day and I guess if you want to focus on 2018 and ahead, should we expect you to pre-announce the numbers maybe a day ahead with just the top line numbers or something similar? That would be my first question and then second it is more of a household question, how much of the eSTORE revenue in China is from tmall and is this margin dilutive? And then the third and final question this time around is, how much positive effect should we expect on your gross margin when you in-source all your Rose production? Thank you.

0.53.46

Anders Colding Friis

So first, clearly we don't want to talk about all the things that we are going to talk about on the Capital Markets Day, but I think it is fair to assume that what we are going to do is we are going to focus on our strategy and we are going to talk about how we see the future. If you ask about a top line number so will we give a trading statement before we have the Capital Markets Day. I think it would be fair to expect that. If we look at eSTORE in China, tmall is the biggest part of our eSTORE and it is not diluting our margin. And then Peter, will you take the last one?

0.54.29

Kristian Godiksen

And on the cross margin on the Rose part? And also, how come is it that tmall is not margin dilutive I thought you sold it with I think once – first of all I thought that tmall got a share of the pie and then secondly I yeah and hence it should be margin dilutive.

0.54.48

Ander Colding Friis

If you look at our overall margin, it is supported also by the business that we do with tmall, of course they are paid to support us, that goes without saying. But it is a very small number, so it does not have a big impact on that. I don't know we...

0.55.08

Peter Vekslund

On the Pandora Rose and the possible in-sourcing of that, it is difficult to quantify the impact. There will be some upside on the margin but this is not something we are ready to quantify for the time being.

0.55.22

Anders Colding Friis

And I also think that we have to learn how to master this so don't expect it to be a big thing at first but as we kind of get it in-house and learn to do this, we will share with you if there is any great highlight in that.

0.55.42

Kristian Godiksen

Okay, just a follow-up on that, so on the metals we know that silver carries higher gross margins than gold – will rose be something in between or will it be more gold or more silver? And then the second question on the tmall part, just to understand it correctly when you said the margin is in line is that the in line the normal retail gross margin or is it in line your group gross margin?

0.56.05

Anders Colding Friis

(laughing) I think..

Kristian Godiksen

It makes a big difference, right?

0.56.10

Anders Colding Friis

I think it is supportive of our group gross margin and that is where we can go on that and what was your other question on rose again, that was?

0.56.20

Kristian Godiksen

Yes that was – it was more to get an understanding…

0.56.22

Anders Colding Friis

Oh yes, it is in between. It is in between, so between gold and silver. That is the way you should look at it. Absolutely.

0.56.28

Kristian Godiksen

Okay, thanks a lot, guys.

0.56.31

Anders Colding Friis

You are welcome.

0.56.33

Operator

Our next question is a follow-up question from Hans Gregersen from Nordea. Please go ahead.

0.56.40

Hans Gregersen

Just to clarify. Peter, you comment on the inventory – am I right to assume that the signal you want to send with your inventory statement is that there is – that this is not a reflection that pre-Christmas sales had a significant impact on sales in the quarter. That is the first question. Second regarding Australia, we know there is a huge degree of Chinese tourism. How great a proportion of the existing business of the growth do you anticipate being tourist-related? Thank you.

0.57.12

Anders Colding Friis

Let me do the last one. We don't have an exact number on Australia but we can see that it is something that is also the reason why we talk about it – it is something we can see. The thing is that it is often the Chinese with Australian residency who is buying and bringing it back to China and that means that we cannot follow it so we don't have an exact number. But we can see that it is a number which has impact on the Australian performance.

0.57.40

Hans Gregersen

Anders, can you just highlight here on the call what is the price as an index Australia versus China?

0.57.48

Anders Colding Friis

Australia is around index 80 and China is around index 140. So there is quite a big difference in price.

0.58.01

Peter Vekslund

And then the question on inventory – we don't find it significant on the group – the impact. So that is why we are not putting a number to it.

Anders Colding Friis

But I think it was maybe the receivable question so and that is clearly so that we did not see an increase in receivables as Peter said before in the US.

0.58.21

Hans Gregersen

As a consequence of the sell-in of Christmas. Good, thank you.

Anders Colding Friis

You are welcome

0.58.26

Operator

Our next question is a follow-up question from Peter Testa from One Investment. Please go ahead.

0.58.33

Peter Testa

Thank you. It was just I forgot to get the answer to one of my questions. If you look the in-store like-for-like excluding the hurricane impact whether you had .. have used whether excluding the 50 million hurricane impact whether the physical like-for-like would have been still down or positive?

0.58.54

Anders Colding Friis

And then the answer to that question is that of course it has an impact but it was insignificant.

Peter Testa

Fine, okay, thank you.

0.59.04

Operator

There are no further questions registered. I return the conference back to the speakers for any closing comments.

Anders Colding Friis

Thank you very much operator. Ladies and gentlemen, thank you very much for listening in on the call today and for your questions and we all wish you a very, very good day.