

Pandora (TBA)

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Corporate Speakers:

- Magnus Jensen, PANDORA, IR
- Anders Colding Friis, PANDORA, CEO
- Peter Vekslund, PANDORA, CFO

Participants:

- Elena Mariani, Morgan Stanley, Analyst
- Naomi Schmidt, HSBC, Analyst
- Fran Hollier, Deutsche Bank, Analyst
- Poul Jessen, Danske Bank, Senior Analyst
- Klaus Kell, New Credit Markets, Analyst
- Peter Al-D'Sania, RBC Capital Markets, Analyst
- Chiara Batastini, JPMorgan, Analyst
- Faisal Ahmed, SEB, Analyst

PRESENTATION

Magnus Jensen: Good morning, everyone, and thank you for joining this morning's call on our updated financial reporting structure which we announced earlier today. My name is Magnus Jensen from PANDORA Investor Relations team and with me I have PANDORA's CEO, Anders Colding Friis, and CFO, Peter Vekslund.

I'll now hand over to Anders who will explain the rationale behind the decision to update our financial reporting structure before Peter will then provide you some additional details on the changes that have been made. We can then go to Q&A if you have any questions.

Before handing over to Anders, I ask you to pay close attention to the disclaimer on page 2. Anders, please?

Anders Colding Friis: Thank you, Magnus and good morning to everyone. Today we will provide you with an overview of our updated financial reporting structure and explain why we have decided to update our reporting.

We are convinced that our updated approach to reporting will provide a clearer picture of PANDORA's performance and the appropriate level of information to better understand the underlying drivers of our business. Our decisions have been informed by extensive analysis of our existing reporting structure, and we've also sought input from a number of sources and stakeholders.

We've been pleased with the willingness to provide input during the process and thank you very much for that. However, for obvious reasons, we have not been able to include

all input. If we did, the reporting structure would end up being way too extensive, and one of the most quoted requests has been to make our reporting more simple and accessible.

Please turn to slide number 3. To put the updated reporting into context, it is important to keep in mind the journey that PANDORA is on. PANDORA is a branded manufacturer at heart, the vertically integrated business model, which means that we are in control of the full value chain, including design, production, marketing, distribution and, increasingly also, the retail space.

PANDORA has, over the course of the past couple of years, changed the channel mix and a growing share of our revenue is generated through our owned and operated stores. We anticipate that this trend is set to continue. PANDORA owned and operated retail increases our control with our network and brand and, at the same time, it is financially sound as you recognize the full retail revenue and EBITDA which typically amounts to around 2.4 times the revenue and EBITDA of our franchise stores.

The updated financial reporting structure is designed to better reflect this development. As illustrated in the chart, revenue from our owned stores has increased at an annual average growth rate of approximately 80% since 2012 and in 2016, represented 47% of recorded revenue from concept stores. We anticipate that the revenue from our owned and operated stores will outgrow the reported revenue from our franchise stores from 2017 and onwards.

With these developments in mind, we now adjust our external reporting so it more appropriately reflects the underlying business performance and secure a strong alignment between our internal and external reporting. We keep our financial reporting structure under regular review to ensure that it remains current, relevant and in line with peers.

We are convinced that the changes we have made will enable investors and analysts of PANDORA to more appropriately model our revenue performance.

Turn to slide number 4 where Peter will give you more details on the changes. Peter, please?

Peter Vekslund: Yes. Thank you, Anders and good morning, everyone. The updated reporting structure has been designed to focus on our three distribution channels -- owned retail, wholesale and third-party distribution. We have found that the most significant changes were made to the disclosure would provide an improved insight into the dynamics behind PANDORA owned retail revenue. With the updated reporting structure we will provide like-for-like sales growth figures covering all PANDORA owned concept stores, including our eSTORE, as well as growth related to network expansion and the acquisition of stores. Additionally, revenue from the eSTORE was reported separately.

As with all revenue streams disclosed in the updated format, we will provide growth both in local currency and in Danish kroner. We are convinced that this level of information allows for more detailed modeling of our retail revenue. To further reduce complexity and improve accessibility, the metrics will be provided on a group level.

For the wholesale channel we will disclose group revenue and growth per store type. Our distributor channel, we will provide reported revenue and the growth. These changes -- we will no longer provide group or regional like-for-like growth across ownership or regional revenue for store type.

Please turn to slide 5. In addition to the structural changes that I've highlighted, we're making a number of additional adjustments to our reporting. First of all, we start to disclose reported revenue per market for our seven largest markets. The seven markets will be selected annually based on reported revenue in the latest financial year.

This means that, for 2017, we will disclose revenue on a quarterly basis for the U.S., U.K., Italy, France, Germany, Australia and China. For reference, these markets made up 71% of group revenue in 2016. We will, of course, provide growth figures in both local currency and in Danish kroner for these seven markets.

Historically we have talked to like-for-like sales growth in larger markets, but these will not be included in the new reporting structure. However, to add flavor we will provide like-for-like for our owned and operated concept stores in the U.S., including the eSTORE.

We also made two small adjustments related to our product categories. We will stop reporting revenue for the shop category called Moments and Essence Collection, and other jewelry will be split into two -- earrings and then, secondly, necklaces and pendants. Growth across all categories will be disclosed in both Danish kroner and local currency.

Finally, we have decided to reduce the number of store types to two, namely, concept stores and other points of sales. Other points of sales will include shop-in shops and multi-brand stores. This change has been made to reduce the complexity of the reporting and to emphasize our focus on concept stores.

I'll now hand the work back to Anders for a short comment.

Anders Colding Friis: First and foremost, thank you very much for listening. Before we open for questions, let me just address a question on our guidance that we have received from a number of you this morning. Guidance is as written in the announcement unchanged and that is based on what we know today. So let me just repeat what we've said in connection to the fourth quarter release.

We expect the revenue of DKK23 to DKK24 billion in 2017, with a single-digit growth in the first quarter.

Other than that, we are now ready for any questions that you have on the updated recording format. Operator, please.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Elena Mariani from Morgan Stanley.

Elena Mariani: Hi, good morning and thanks very much for the new reporting structure. My first question is regarding the like-for-like that you are going to provide. So, obviously, we are losing some piece of the information because we are just going to have information related to your own retail network.

And looking at the numbers that you've provided in 2016 and 2015, I mean, clearly, your retail network has meaningfully outperformed the third party out of the franchise stores. So I know that this is more like a strategic question than, you know, strictly related to the reporting structure; but, clearly, there has been some cannibalization going on here and then the underperformance of the franchisees is clear from the numbers that you have provided.

So what's your take on this? And, based on the current reporting structure, how should we expect the balance across the different channels to evolve over time? Do you have, maybe, some more specific targets for this rather than just the fact that your own retail concept stores' revenues are going to continue to grow?

And then, secondly, just a clarification on your reiteration on the full-year guidance. The indication you have provided today is as of today, so it would include information that you have related to the first quarter and also on the first month of the second quarter? Thank you.

Peter Vekslund: Well, let me start by -- thank you for the questions. Let me start by the last one. The guidance is of today, so this is based on our knowledge today and always has to be when we send out a message.

If you look at the development of our owned and operated stores -- and I think that on a channel level, I can say that we have said -- and we are also saying this today -- that we expect that part of the business to increase over time and in 2017, it will be more than 50% of the revenue from our concept stores.

And that is the reason why we think that the owned and operated like-for-like number is the relevant one. We can also say that this is where one of the areas where we looked at peers in the market and this is actually the way that everybody else does it. We haven't been able to find anybody who does the like-for-like numbers we did before, so it's always about owned and operated retail.

Operator: Mentor Business from HSBC.

Naomi Schmidt: It's [Naomi Schmidt] from HSBC.

I'm just wondering, can you remind me the share of online store in the group sales mix? And is there a target that you can share with us? Thank you very much.

Anders Colding Friis: In terms of online, as we say, the figures is all disclosed. We have also today released comparable figures for the last eight quarters with a detailed breakdown in the new reporting format, so that will allow everybody to adjust and prepare for the earnings release on 9 May. We, as such, don't have a target for the online share of business. However, I'm pretty sure that will increase over time.

Operator: [Franz Hollier] from Deutsche Bank.

Franz Hollier: Really just a question regarding around the U.S. and the, sort of, deep restructuring of the distribution in the U.S. market that is going on at the moment, and combine that with slightly less -- you could say less competitive visibility of what's going on in the States than the Americas than we used to have.

I just wanted to encourage you to help us understand the details of that restructuring as we move forward and, perhaps, put it in context to the similar exercises you've done before in terms of upgrading the distribution to branded stores?

I'm hoping that the slight step-back on the details of the American -- overall the Americas operations that you would help us and alleviate that by explaining that development a little bit more, perhaps on slides as we move forward through the quarters. That's it.

Anders Colding Friis: Yes. Thank you. And please rest assured that the U.S. is a thing we will comment and discuss more in connection with our Q1 reporting. We are not ready to start a discussion on that already now. Today is about our new updated financial reporting structure.

On the U.S. in general, we provide, actually, more information now in the new and updated format because we give a specific number for revenue in the U.S. quarter-by-quarter. And, in addition to that, we give the U.S. like-for-like number including the eSTORE. And we believe this is a good basis for modeling revenue going forward.

Operator: (Operator Instructions)

Poul Jessen from Danske Bank.

Poul Jessen: Just a follow-up on the U.S. just to clarify.

The like-for-like you're going to show for the U.S., is that you're owned and operated only, or is it total U.S. like-for-like? And if it is only owned and operated, how does it then weigh into the numbers that the online store then will be a major share of your owned and operated over there?

And then when you show the U.S. including eSTORE going forward, could you at some time provide the history because we only have that number for the U.S. in the fourth quarter last year? Thank you.

Anders Colding Friis: Yes. Thank you. In terms of the number in the history you asked for, there has been a change with increased owned and operated stores in the U.S.; and we believe, as of Q1 2017 and going forward, we have a meaningful number of owned and operated stores to report on. However, going back, that number will not be overall meaningful.

If you look at the concept stores and revenue in the U.S., then around 15% to 20% is owned and operated out of the total concept store base.

Poul Jessen: Thank you.

Anders Colding Friis: Yes, that was all your questions there, Poul?

Poul Jessen: No; it was more how would that have then weighed in that you have online store, which is growing significantly? And then that must be a mature share of your total U.S. revenue based on owned and operated then?

Anders Colding Friis: Yes it's that--

Poul Jessen: It's such skew in the growth rate to upwards, indicating that the growth will be higher than what we see out of the physical stores then?

Anders Colding Friis: First of all, we see the two channels as supplementing each other, the physical concept stores and the eSTORE. In Q4, in connection with our full-year reporting we said that 10% of U.S. revenue was related to the eSTORE; so based on that, I'm pretty sure you can all subtract and then get to a like-for-like number for physical stores only.

Operator: [Klaus Kell] from New Credit Markets.

Klaus Kell: A question related to your like-for-like growth in these eSTOREs. And I guess you only include the eSTOREs that has been open for more than 12 months. So I was just wondering is there any meaningful eSTOREs as of today that is not included in these numbers?

Peter Vekslund: I think that it is correct. We would only include them after 12 months. And to your question, you can say that the China eSTORE is not included if you look at the big pot.

Klaus Kell: Okay. And that's the only important one that is not included right now?

Peter Vekslund: There's also the Canada eSTORE, but etrade in Canada is somewhat smaller; but it is not included either.

Klaus Kell: And when will the China eSTORE be included; in other words, when did you open it; was that in Q4 of 2016?

Peter Vekslund: It was, indeed; yes. Correct.

Operator: [Pete Al-D'Sania] from RBC Capital Markets.

Peter Al-D'Sania: I just wanted to confirm if we take the new disclosure for your like-for-like as well as the disclosure for your organic retail revenue growth, just taking the fourth quarter of 2016, you have 40% organic revenue growth for retail, a 15% retail like-for-like; so the balance of, say, 25% is space contribution. Is that the right way to think about it and to model it going forward? Thank you.

Anders Colding Friis: Overall, that's right; and on top that, we also acquire franchise stores which roll into the number. But you're right -- difference is space and acquisitions of franchise stores.

Peter Al-D'Sania: Okay. That's brilliant. Thank you.

Anders Colding Friis: You're welcome. And that is the whole purpose of giving this because it's a clear cut of the figures where you can actually reconcile the different components of our revenue growth.

Operator: Chiara Battistini from JPMorgan.

Chiara Battistini: The first one is just to clarify on the number of the concept stores you will be reporting every quarter. Will you give, as you were giving before, the total number of concept stores by market and the number of owned and operated stores by market, or just one of the two?

And the other question I have is the reason why you discontinued the sales for the moment for bracelets and essence collection bracelets, is that because you are expecting further diversification into the bracelet category and, therefore, not just charm bracelets, or any other reasons behind that please? Thank you.

Anders Colding Friis: Yes, on your first question on concept stores. We have had and will still have an appendix in our company announcement outlining any markets, so any

country with more than 10 concept stores. And you will see a split of owned and operated and franchise stores as well as opening, so there's full transparency in the numbers on concept stores.

In terms of your question on bracelets, you are right; we are diversifying the bracelet category, going from only having the simple charm-carrying snake chain bracelet to now having a lot of different; and, therefore, the current category of breaking out the Moments and Essence simply doesn't make sense anymore.

We have a number of bracelets that carry charms, but also bracelets that doesn't carry charms. And currently, some of those are delivered and is included in other jewelry. So, again, this is providing a much clearer insight to our product categories.

Operator: There are no further questions in the phone queue at this time.

(Operator Instructions)

Faisal Ahmed from FED.

Faisal Ahmed: Just a quick clarification question on your Q1 guidance. Your official guidance was single-digit revenue growth in Q1, but you also in connection with the Q4 - - said that adjusted for one-offs, then it would have been double-digit revenue growth in Q1. Is that still the case?

Peter Vekslund: The simple answer is yes; we have said that in connection with our full-year reporting, and that still stands.

Faizal Ahmed: Thank you very much. That's all.

Peter Vekslund: Just to repeat that, single-digit growth excluding the one-offs -- one-offs are around 5%, so excluding these one-offs, growth would have been double-digit.

Faizal Ahmed: Thank you.

Peter Vekslund: Still between DKK23 and DKK24 billion.

Operator: Peter Al-D'Sania from RBC Capital Markets.

Peter Al-D'Sania: Yes. Thanks. Just a quick follow-up on Chiara's question. I was just curious if you're able to give us the split within bracelet of charm versus non-charm bracelets, you know, as we move to a clearer disclosure? That's a question we've been getting from investors, so I just wonder if you're able to give us that split at this time?

Anders Colding Friis: We can certainly give insight into the number of different products in that category; so, say, the split of design variations, charm carrying and non-charm carrying, but not revenue. That detail we'll not go into.

Operator: Klaus Kell from New Credit Markets.

Klaus Kell: And just a follow-up question on this new product category table. You now have earrings on its own. And while I appreciate that information, but I was just wondering whether there is any particular reason why you split out earrings now?

Anders Colding Friis: Well, I think that, as you know, we are on a journey to become a full jewelry brand and manufacturer, and we've seen very good growth in both earrings but also in necklaces and pendants. And to provide you a clear picture of the development of this, we thought it would be appropriate to give you those categories independently.

Operator: Elena Mariani from Morgan Stanley.

Elena Mariani: Just a quick follow-up from my side. In terms of profitability break-down, are you going to continue to provide the split of EBITDA by region only? Thank you.

Anders Colding Friis: Yes, we will continue to do that; and below revenue, we would say there will be no material changes to our disclosing format. That will remain unchanged.

Operator: (Operator Instructions)

There are no further questions queuing up at the moment.

I'd like to hand the call back over to you, Mr. Jensen, for any additional or closing remarks.

Magnus Jensen: Okay. Thank you very much for joining us this morning and appreciate the good questions. Have a wonderful day.