MOODY'S

Rating_Action: Moody's assigns first time Baa2 ratings to Pandora; outlook stable

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Paris, February 28, 2023 -- Moody's Investors Service (Moody's) has today assigned first-time long-term issuer ratings of Baa2 to jewellery company Pandora A/S (Pandora or the company). The outlook is stable.

"Pandora's Baa2 issuer ratings reflects the company's strong global brand, solid credit metrics, and its well established in house manufacturing capabilities, which allow for production flexibility, scale and growth, translating into high margins and a highly cash generative business" says Guillaume Leglise, a Moody's Vice President-Senior Analyst and lead analyst for Pandora. "The company also has a sound financial profile, with low funded debt, strong liquidity and prudent financial policies, despite large shareholder distributions", adds Leglise.

Financial Strategy and Risk Management as well as Management Credibility and Track Record are governance considerations, which were considered as key rating drivers in line with Moody's General Principles for Assessing Environmental, Social and Governance Risks Methodology for assessing ESG risks.

RATINGS RATIONALE

Pandora's Baa2 issuer ratings reflects the company's strong global brand in the affordable jewellery market; its well diversified channel mix with a well-established direct-to-consumer (DTC) operations and a wide geographical reach; its highly cash generative business owing to high margins, comparing well with luxury peers, reflecting its global scale, affordable price points and vertically integrated business model; its prudent financial policy, underpinned by a low debt level, and its good credit metrics for the rating category, with leverage (Moody's-adjusted gross debt/EBITDA) of 0.9x as of 31 December 2022; and its good liquidity and solid free cash flow (FCF) generation despite large shareholders' distributions.

The rating is constrained by Pandora's single brand focus and its narrow product offering, which remains skewed to its iconic charms and bracelets; its exposure to the fragmented and highly competitive jewellery market, which is characterised by various social risks such as changes in consumer preferences, shift to online and increasing awareness over sustainability issues; its seasonal and cyclical activities, which currently face high inflation; and its inherent exposures to fluctuation of precious metal prices (mainly silver and gold) and FX volatility, albeit mitigated by a systematic hedging policy.

Like other jewellery and consumer retail companies, Pandora is currently facing inflationary pressures and eroding customer purchasing power. Pandora's products are discretionary by nature, and there are risks that consumers trade down or curb their purchases. Moody's expects these difficulties to constrain sales growth and margin improvement in the next 12-18 months. However, Moody's considers Pandora's affordable value proposition and gifting-oriented offering should help mitigate the inflation impact on demand and weak consumer sentiment. Also, the 2023 global economic outlook has improved in recent months, which could support the company's upper-end sales and earnings objectives for 2023.

ESG CONSIDERATIONS

Pandora's Credit Impact Score of CIS-2 reflects Moody's view that ESG attributes have a neutral-to-low impact on the company's rating. Pandora's high Environmental (E-4) and moderate Social (S-3) risks exposures are mitigated by its strong governance practices.

The company's environmental risks are high and mainly relates to Physical Climate Risks. The company's production facilities are largely concentrated in Thailand (Baa1 stable), notably in Bangkok, which is prone to rising sea levels and heat stress. Pandora is also exposed to Carbon Transition and Natural Capital risks, as it uses silver and gold in its jewellery products, mining of which is an energy-intensive process. But the company already uses recycled silver and gold (61% in 2022) and aims at reaching 100% by 2025. Pandora's Social risks exposure incorporates changes in customer shopping behavior. Customers are increasingly mindful of how precious metals are sourced, whether they are considered conflict free and how the labor force is treated within the supply chain. However, Moody's believes that Pandora's fully integrated model enables the company to better control its supply chain and to directly oversee working conditions.

Pandora's governance risks are neutral-to-low (G-2), reflecting the company's overall sound governance practices. The company had a weaker operational execution in 2017/18 but has displayed a meaningful recovery since 2020, despite the pandemic and a challenging macroeconomic environment currently, supported by an experienced management team. In addition, Pandora has a very low level of funded debt and has a track record of maintaining a low net leverage below or around 1.0x (as reported by the company, including leases), which illustrates a prudent financial policy.

LIQUIDITY

Moody's considers Pandora's liquidity as good, supported by DKK794 million of available cash and access to DKK6.7 billion under its committed revolving credit facility (RCF) as of 31 December 2022. Pandora's RCF has a total size of €950 million (or DKK7 billion) and matures in April 2027. Pandora's next debt maturity is in December 2023, when a DKK3 billion term loan will be due and Moody's expects Pandora to refinance this debt in a timely manner. Moody's expects Pandora will generate between DKK3 billion and DKK5 billion of FCF per year from 2023.

STABLE OUTLOOK

The stable outlook reflects Moody's view that the company's strategic plan will be successfully executed, which will support sales growth across channels and geographies in the next 12-18 months. Moody's expects the company's affordable positioning and gifting-oriented offering will support sales in the context of currently challenging macroeconomic landscape with high inflation. The stable outlook also assumes the maintenance of high margins, good FCF generation, a prudent financial policy with low funded debt and good liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure is currently limited mainly by Pandora's narrow product focus on one jewellery category, notably charms and bracelets. As the company has already strong credit metrics, any positive rating migration would be a function of Pandora's successfully delivering on its international growth objectives (incl. greater penetration in China), increasing business diversification (for example through lab-created diamonds notably), and building a further track record of a business model resilient to market troughs. Positive pressure would require some evidence of a successful execution in the company's strategy, which may be evidenced by high-single digit sales growth and sustained improvement in operating margins. Positive rating pressure would also require a longer track record of maintaining a conservative financial policy, including a sizeable cash buffer to mitigate any future unexpected shock to liquidity.

Negative pressure on the rating would develop if the company's operational and financial performance deteriorates, such that its Moody's-adjusted (gross) debt to EBITDA leverage trends above 2.0x for a prolonged period, especially if not sufficiently mitigated by sizeable cash on balance sheet. A deterioration in the company's margins, liquidity and more aggressive financial policies would also exert downward rating pressure.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Consumer Durables published in September 2021 and available at https://ratings.moodys.com/api/rmc-documents/74987. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Pandora A/S is one of the largest jewellery company in the world, with revenue of DKK26.5 billion (around €3.5 billion) in 2022. The company operates 6,527 points of sales, including 1,653 directly operated concept stores, in over 100 countries. The company's headquarters are in Copenhagen, Denmark, and it has been listed on the Copenhagen Stock Exchange since 2010. The company is mostly owned by institutional investors. As of end February 2023, Pandora had a market capitalisation of around €8.4 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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