

# PANDORA AMERICAS

MAY 17, 2017



PANDORA

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# INTRODUCTION TO SCOTT BURGER



2013-Present President, Americas  
2012-2013 President, North America  
2009-2012 Chief Financial Officer  
2007-2009 Chief Operating Officer



2005-2007 Chief Financial Officer



2004-2005 Sr. Director, Financial Planning & Analysis  
2000-2004 Director, Operations Finance



1997-2000 Implementation Manager

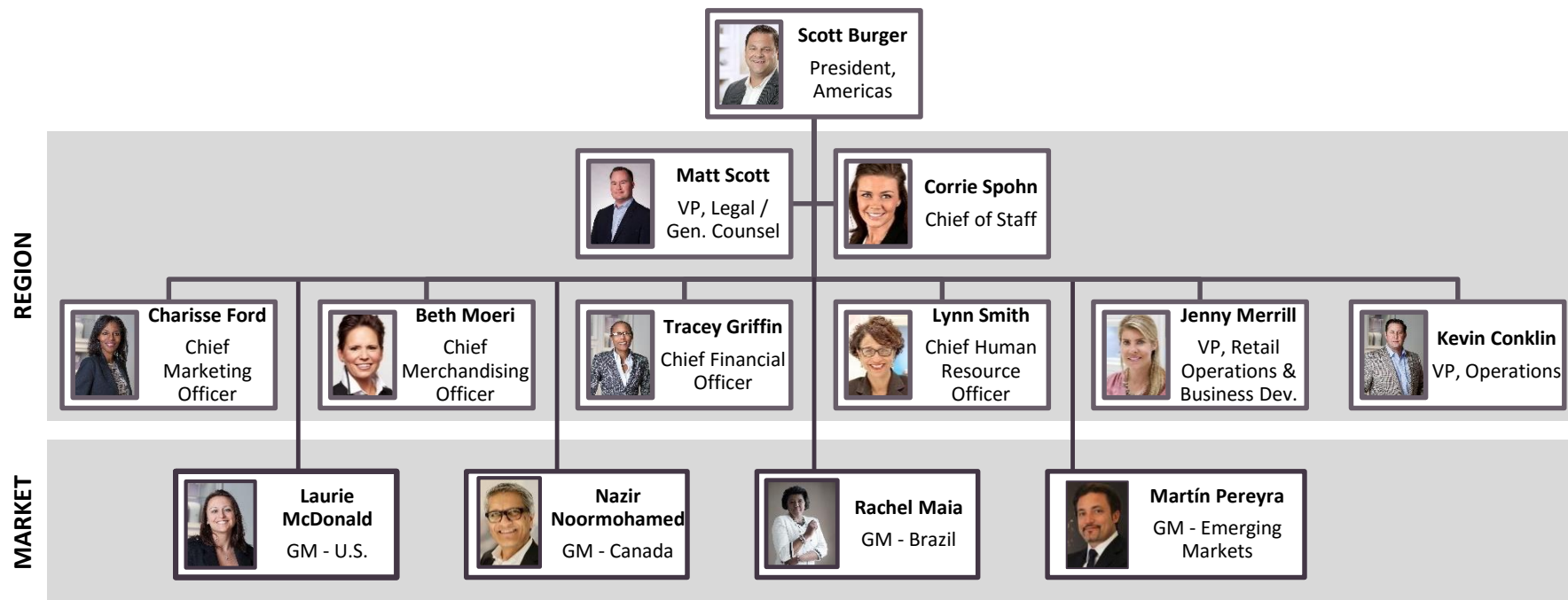


1996-1997 Investment Banking Analyst

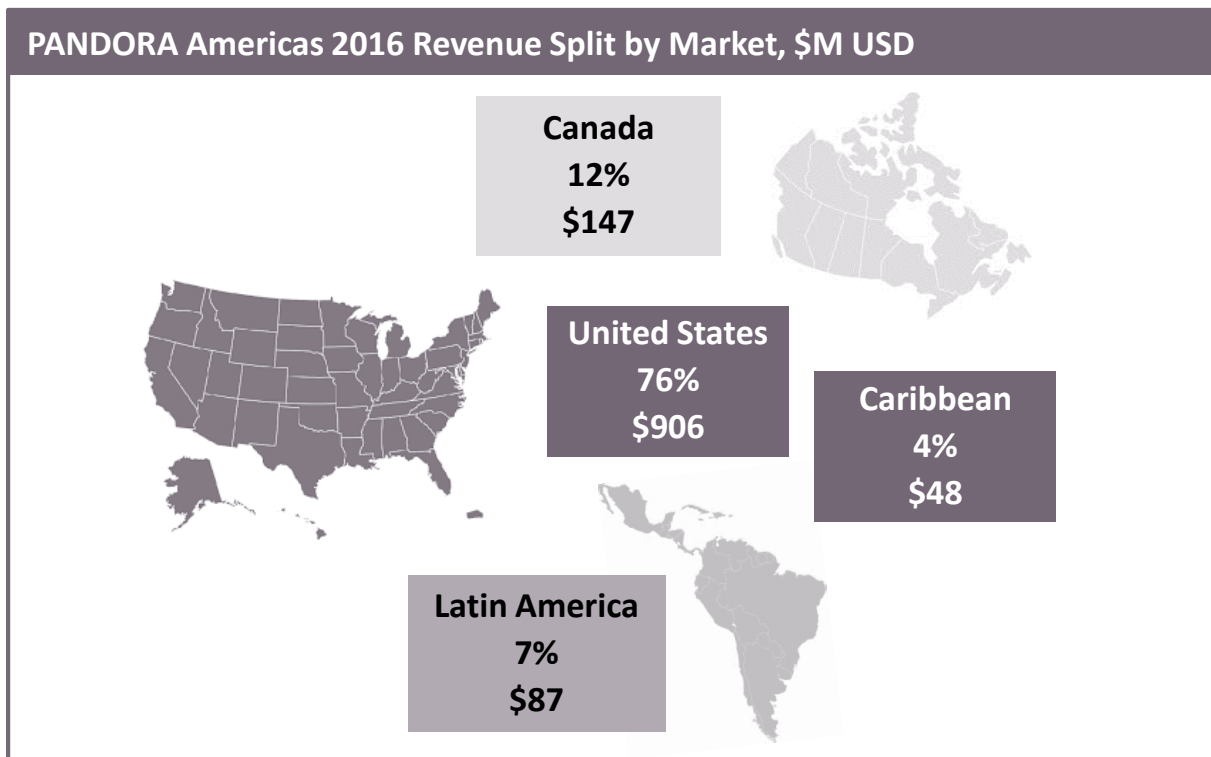


Scott lives with his wife and six children in the suburbs of Baltimore, Maryland.

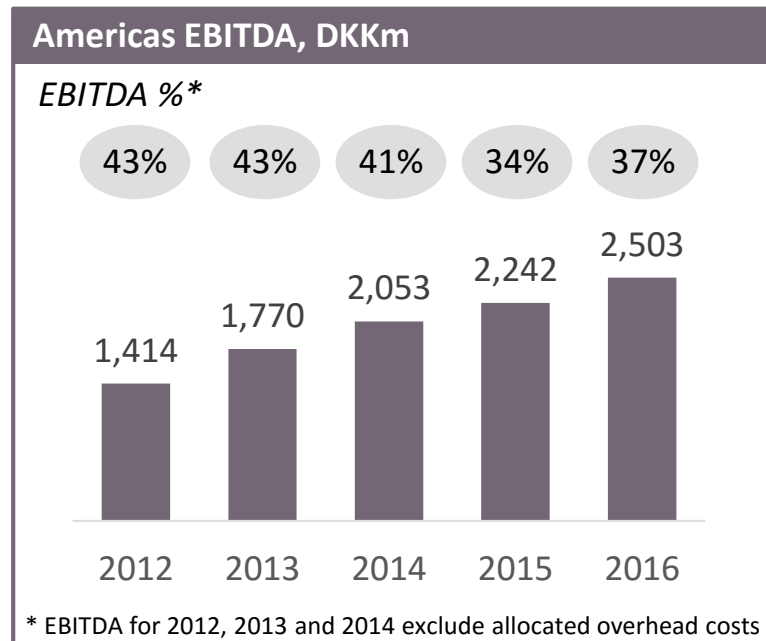
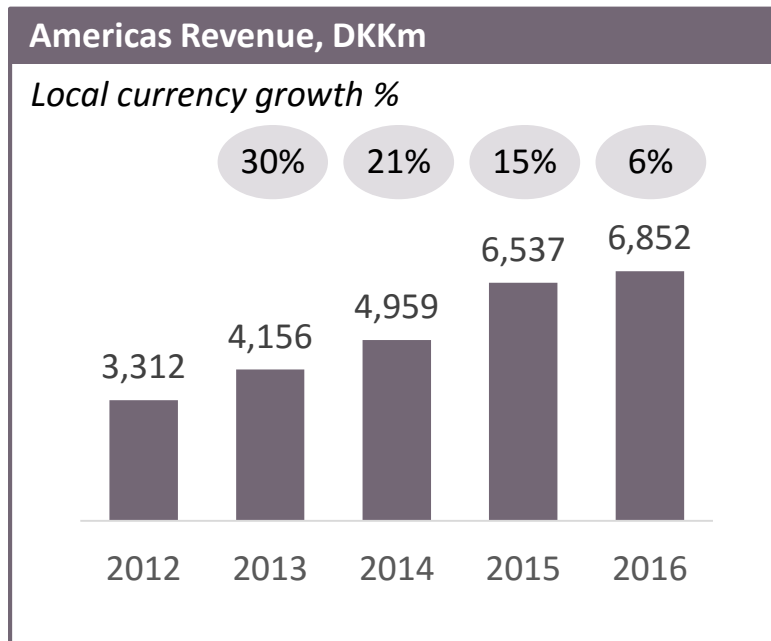
# PANDORA AMERICAS IS LED BY A REGIONAL TEAM AND FOUR MARKET GENERAL MANAGERS



## PANDORA AMERICAS IS COMPRISED OF A BALANCE OF DEVELOPED AND GROWTH MARKETS



## PANDORA AMERICAS HAS DELIVERED CONSISTENT REVENUE GROWTH SINCE 2012



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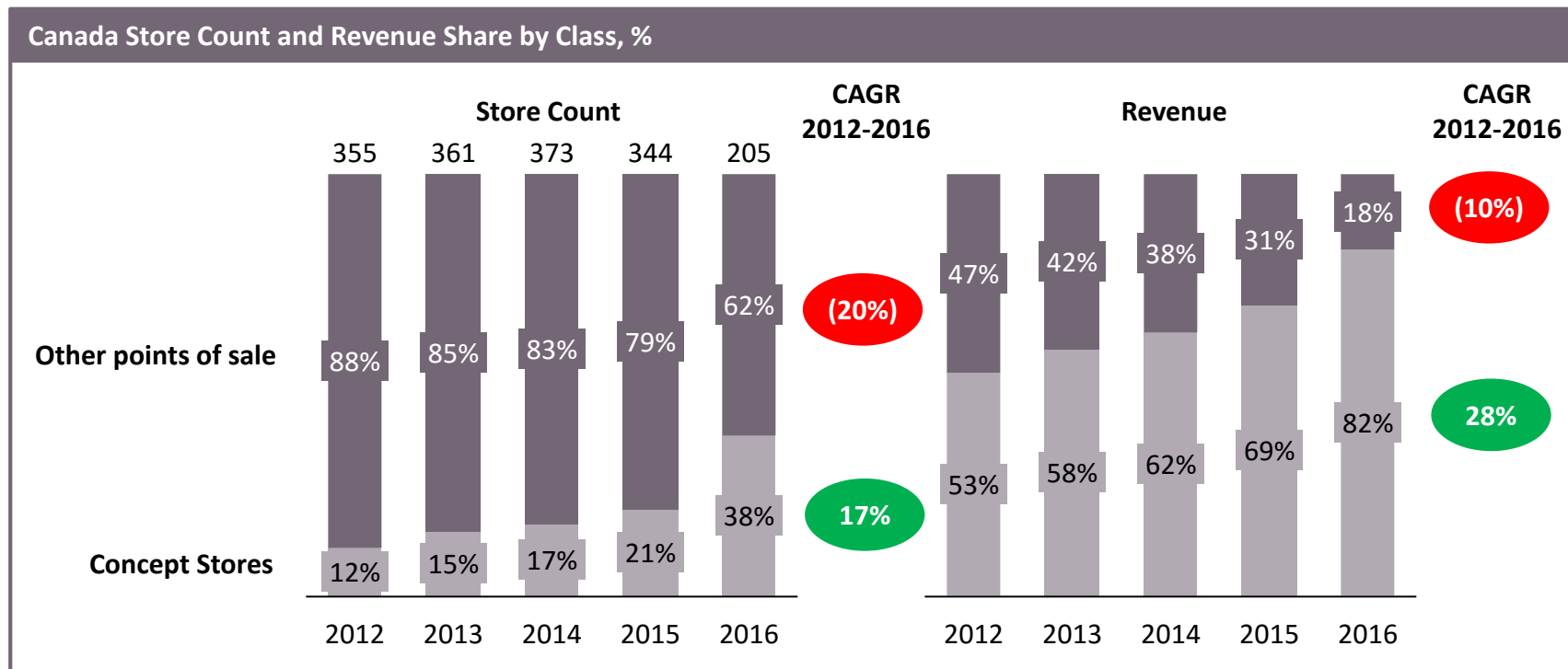
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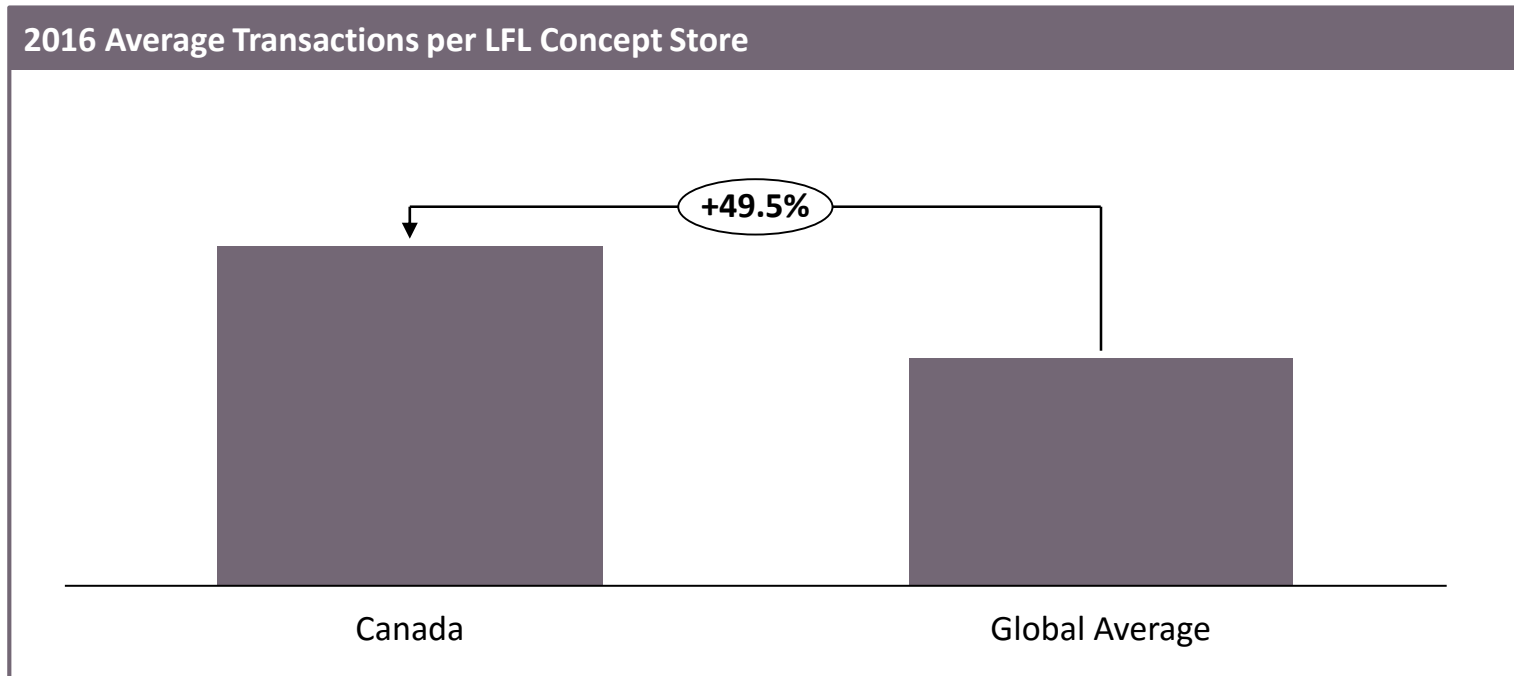
Q & A



# CANADA'S NETWORK HAS BEEN SHIFTING TO CONCEPT STORES, WHICH NOW ACCOUNT FOR 82% OF TOTAL REVENUE



## PANDORA CONCEPT STORES IN CANADA ARE HIGHLY PRODUCTIVE



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## PANDORA CANADA CHALLENGES AND OPPORTUNITIES

### Challenges

- Increasingly **competitive environment**
- **Network growth** becoming limited
- **Maintain high per door productivity** as network grows

### Opportunities

- **Expand owned and operated** concept stores
- Continue **branded POS expansion**, including e-store
- Continue **expansion to become a full jewelry brand**

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## PANDORA AMERICAS IS EXPANDING IN LATIN AMERICA

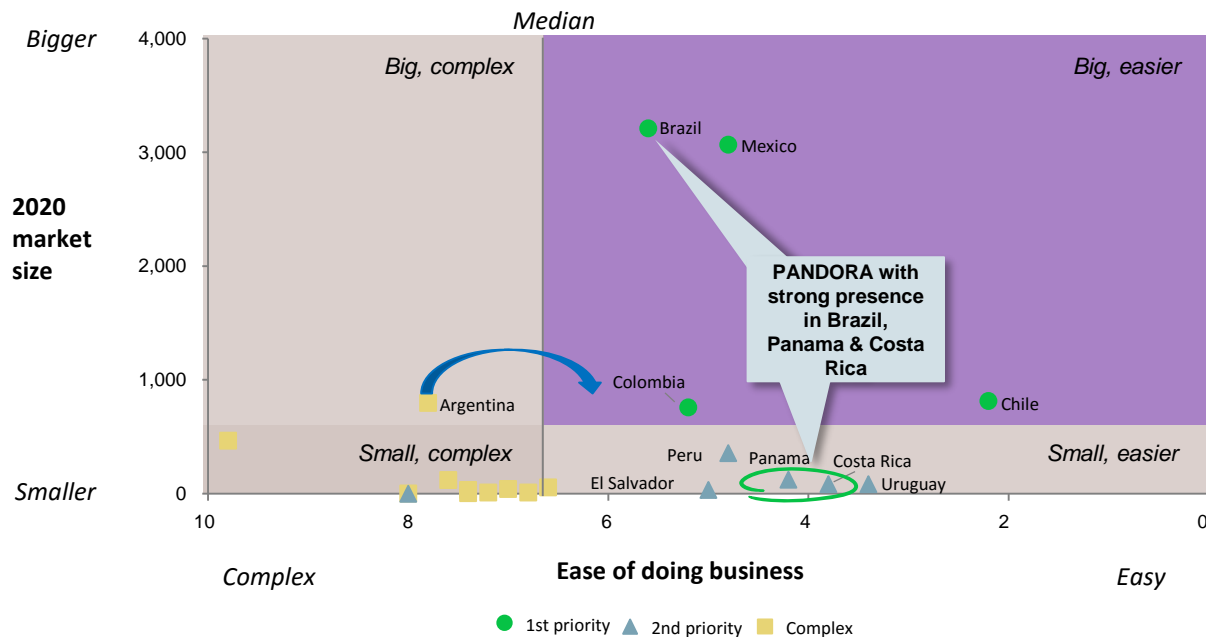
- The **addressable jewelry market in Latin America is expected to be \$10B by 2020**, with 6 markets representing 90% of the market
- Results in Brazil and consumer research in Mexico suggest **the PANDORA brand is highly relevant to the Latin American consumer**
- Leveraging learnings from Brazil, **PANDORA will expand in 6 priority markets through a branded network of O&O stores and with a select number of partners**
- **As LATAM expands, PANDORA will be conscious of political and economic challenges and hire local talent** to mitigate these and other executional risks
- Next steps are to **staff an Emerging Markets (EM) team** to drive the expansion plan and **establish a physical market presence** in Panama City, Panama

# LATIN AMERICA IS FORECASTED TO BE A ~\$10B JEWELRY MARKET BY 2020

	Country	Est. 2015 Market Size, \$M	Projected CAGR <sup>1</sup>	Estimated 2020 Market Size, \$M	
	Brazil	3,000	1.4%	3,210	 PANDORA Priority Markets
	Mexico	2,540	3.9%	3,070	
	Argentina	650	4.2%	800	
	Chile	650	4.7%	820	
	Colombia	630	3.7%	760	
	Venezuela	500	(1.2%)	470	
	Peru	260	6.3%	350	
	Ecuador	110	1.6%	120	
	Panama	90	7.2%	130	
	Costa Rica	70	4.8%	90	
	All other	220	2.3%	250	
<b>Total Latam</b>		<b>~\$8.7B</b>	<b>2.9%</b>	<b>~\$10.1B</b>	

# PRIORITY MARKETS FOR PANDORA ARE BRAZIL, MEXICO, COLOMBIA, ARGENTINA, PERU, AND CHILE

## Latin America Prioritization Matrix



## WE EVALUATED LOCATIONS FOR A PANDORA OFFICE AND SELECTED PANAMA CITY, PANAMA

### PANDORA Latin American office selection

**After evaluating several alternatives, Panama City was selected as the ideal location:**

- ✓ Exposure to Latin America market and consumers
- ✓ Strong pool of ex-pat and local talent
- ✓ High-connectivity to most Latin American markets, including Mexico
- ✓ Access to free-trade zone
- ✓ Other large multi-national companies have successfully built out Latin Americans operations from Panama, including Under Armour and Heineken





## FOUR FACTORS SHOULD POSITIVELY INFLUENCE PANDORA'S SUCCESS IN LATIN AMERICA



Positive **brand perception**

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Strong **other jewelry awareness**

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Limited **competitive intensity**

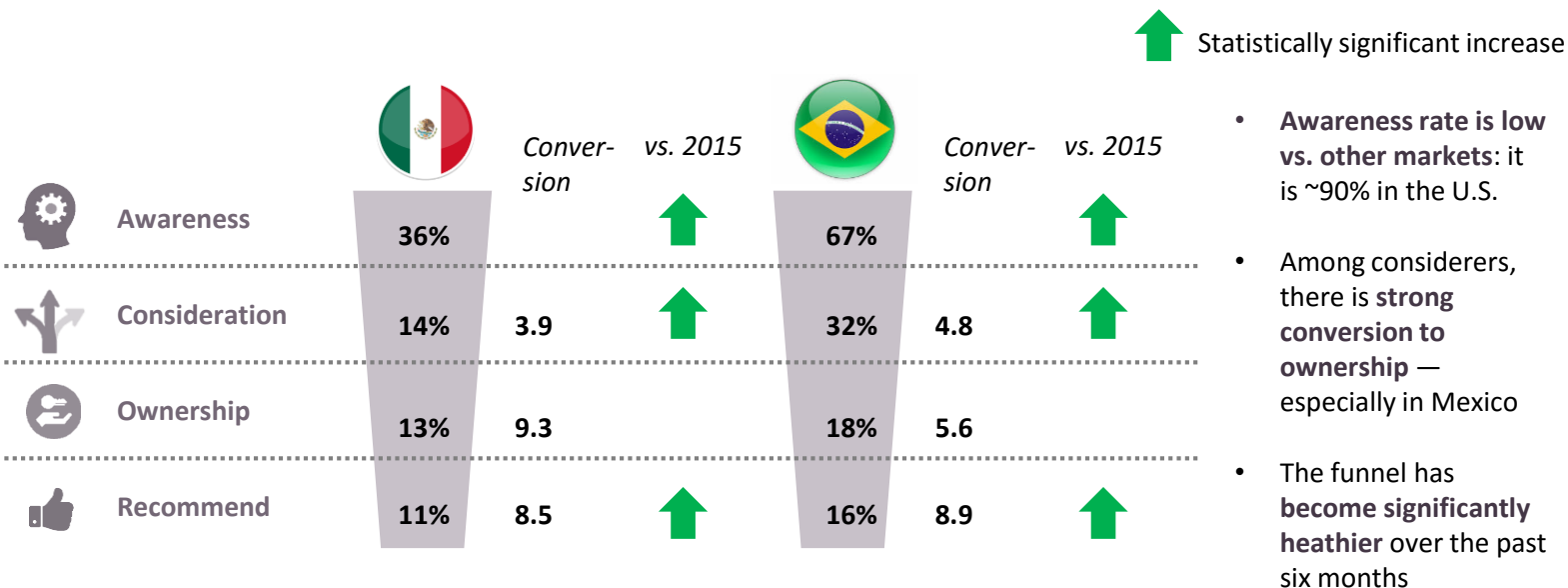
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Significant **network expansion opportunity**

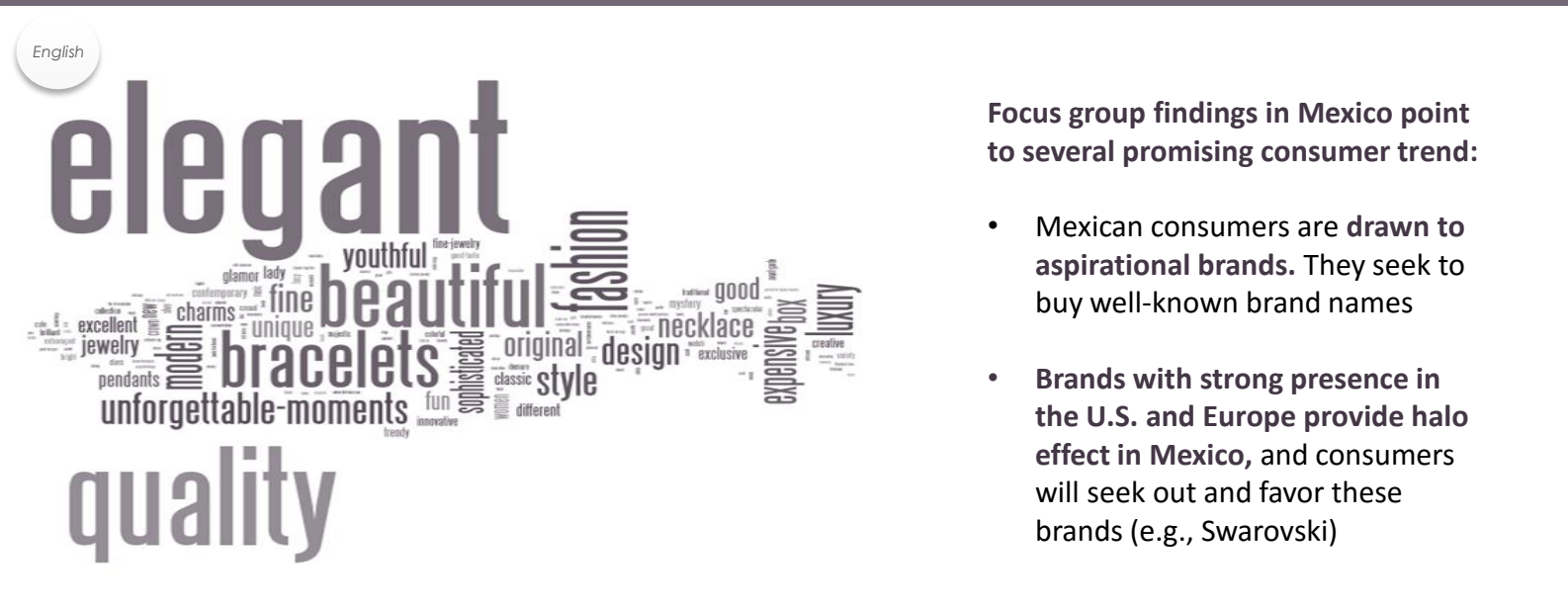
# PANDORA IS VIEWED FAVORABLY IN MAJOR LATIN AMERICA MARKETS

## Mexico Brand Funnel Summary, Q2 2016



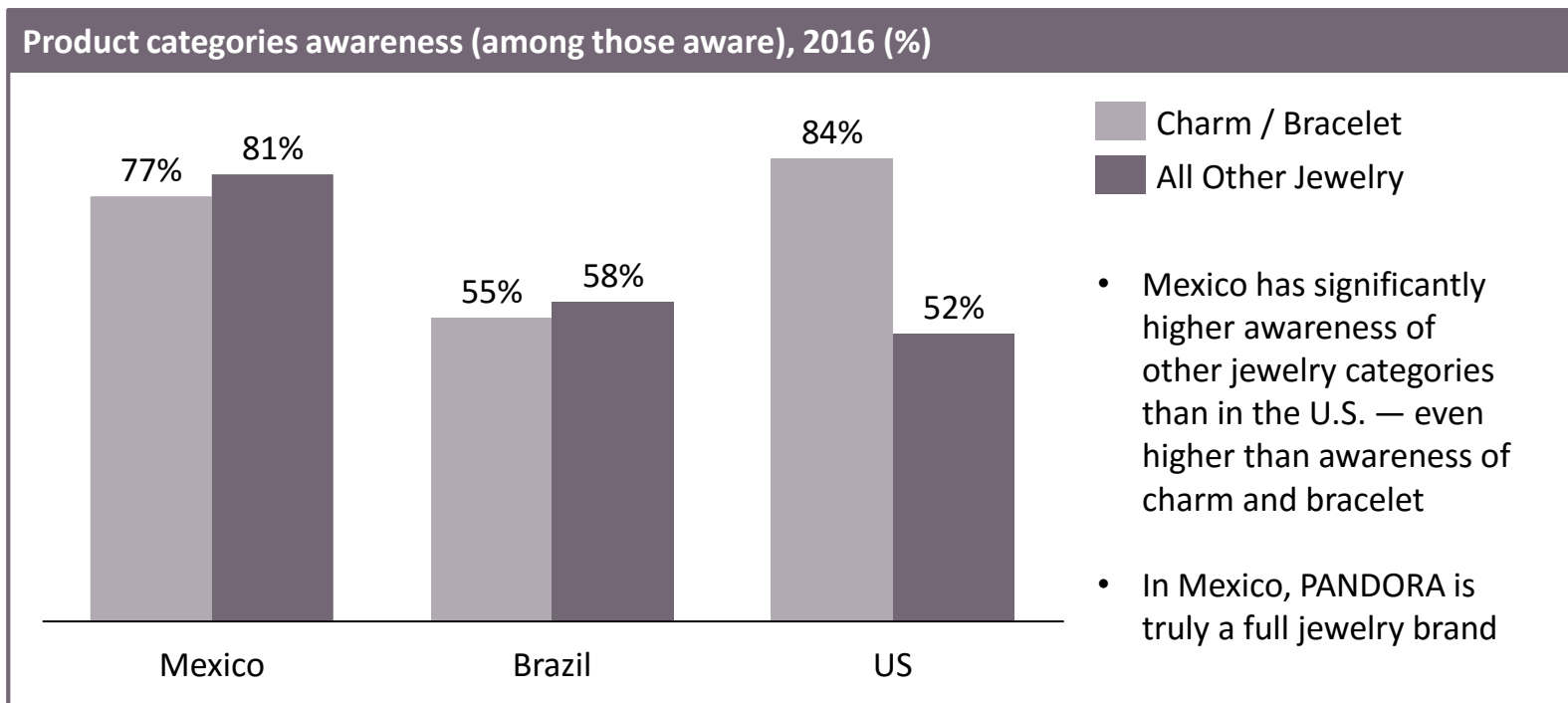
# PANDORA'S BRAND IS EXTREMELY RELEVANT WITH THE LATIN AMERICA CONSUMER

## PANDORA Word Association, Q2 2016



- Focus group findings in Mexico point to several promising consumer trends:
- Mexican consumers are **drawn to aspirational brands**. They seek to buy well-known brand names
- **Brands with strong presence in the U.S. and Europe provide halo effect in Mexico**, and consumers will seek out and favor these brands (e.g., Swarovski)

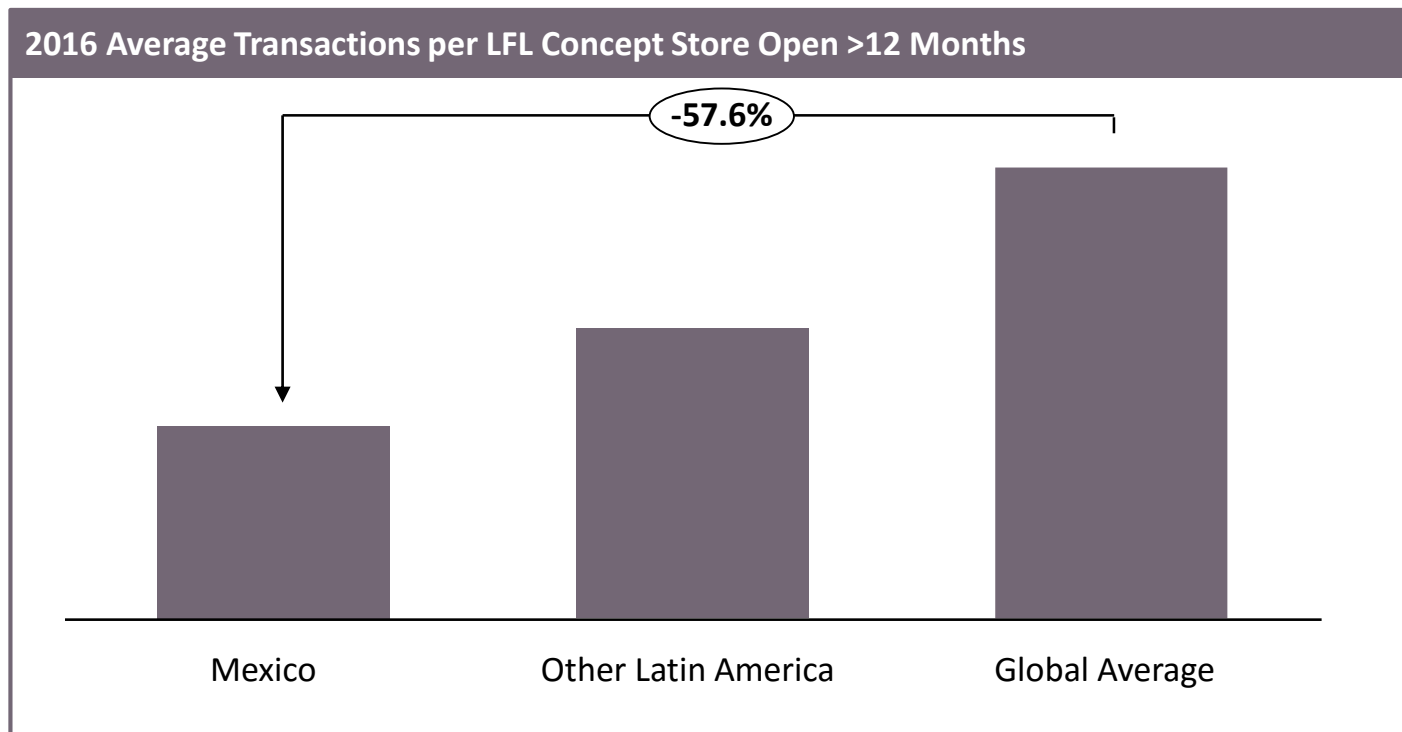
## THE LATIN AMERICA CONSUMER VIEWS PANDORA AS A FULL JEWELRY BRAND — UNLIKE IN THE U.S. WHERE WE ARE KNOWN FIRST FOR CHARM



## THERE ARE FEW REGIONAL PLAYERS AMONG THE COMPETITORS IN LATIN AMERICAN MARKETS

	Established local competitor(s)	Established regional player(s) <sup>1</sup>
Brazil	VIVARA  GUERREIRO MORANA	 H:stern
Mexico	Daniel Espinosa JEWELRY   BIZZARRO	 H:stern TOUS 
Chile	Local players focused on higher end jewelry	 TOUS
Colombia	 CANO LUIS ALBERTO CANO	TOUS 
Peru		H:stern  TOUS

IN ADDITION TO NETWORK EXPANSION,  
THERE IS SIGNIFICANT HEADROOM TO INCREASE  
TRANSACTIONS IN EXISTING STORES



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## PANDORA LATIN AMERICA CHALLENGES AND OPPORTUNITIES

### Challenges

- **Economic headwinds in Brazil** have slowed momentum and near-term outlook is uncertain

### Opportunities

- **Expand owned and operated** concept stores
- Continued focus on **other jewelry growth** to leverage perception as “full jewelry brand”
- **Store productivity remains low** vs. global average, indicating awareness (traffic) and in-the-store opportunities

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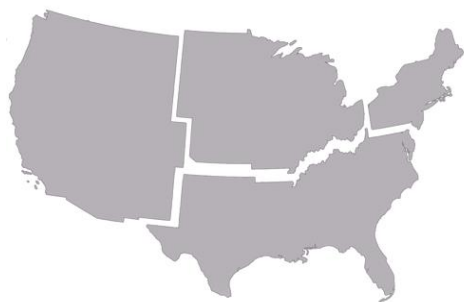
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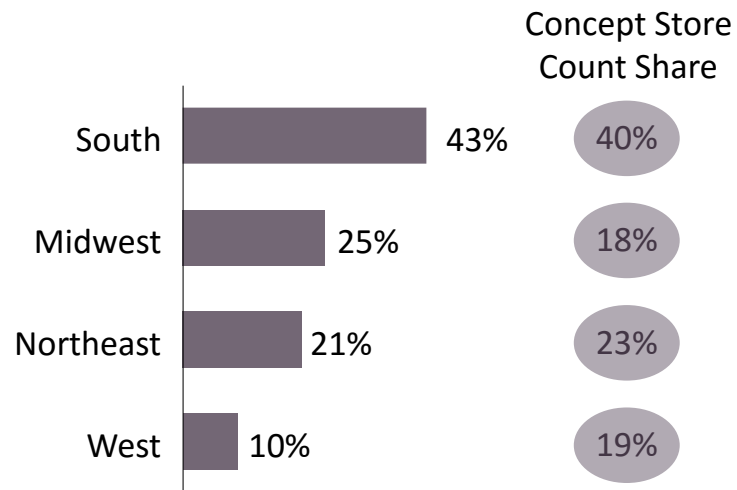
## THE UNITED STATES IS COMPROMISED OF 50 STATES AND 1 FEDERAL DISTRICT– WHICH ARE CLASSIFIED INTO 4 PANDORA TERRITORIES

### United States PANDORA Territories



- Northeast
- South
- Midwest
- West

### Ranked Territories, Share of External Net Sales



## THE U.S. IS A LARGE MARKET WITH SOME REGIONAL VARIATIONS

### Top 3 metropolitan areas

- New York City
- Philadelphia
- Boston
- Houston
- Dallas/Fort Worth
- Atlanta
- Chicago
- Columbus
- Detroit
- Los Angeles
- Phoenix
- San Diego

### Apparel and Accessories Stores Traffic, 2016 YOY %<sup>1</sup>

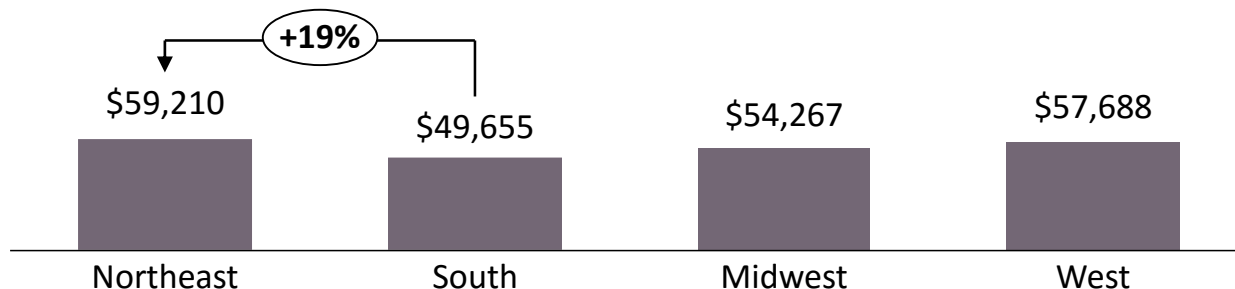
(6%)

(8%)

(7%)

(5%)

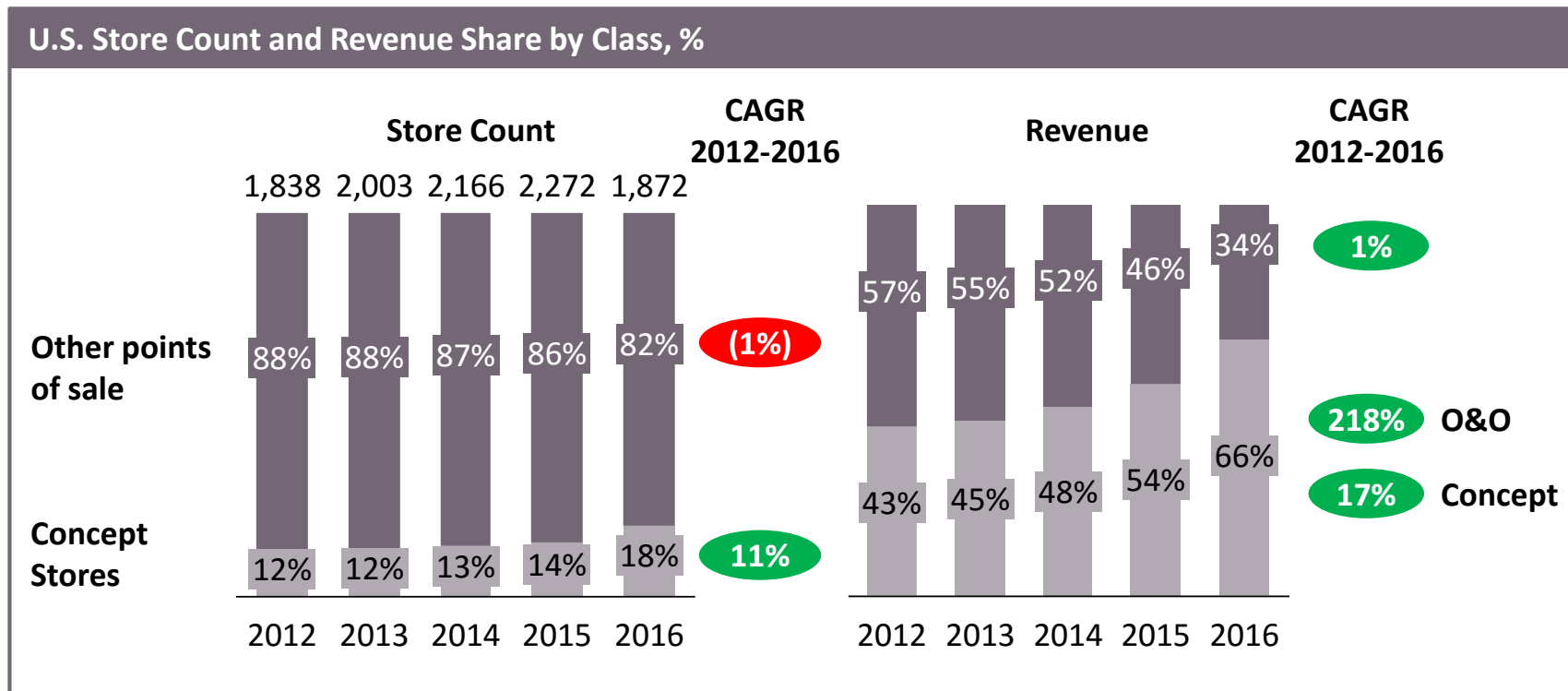
### Average household income, \$USD<sup>2</sup>



<sup>1</sup> ShopperTrak, Full Year 2016

<sup>2</sup> U.S. Census data 2014

# THE U.S. HAS BEEN FOCUSED ON EXPANSION OF CONCEPT STORE SHARE AND REVENUE, INCLUDING OWNED STORES



## PANDORA IS FACING RETAIL HEADWINDS IN THE U.S., BUT IS WELL-POSITIONED TO RESPOND



Changes in **consumer spending**

.....



Too much retail space

.....



Very **promotional** environment

.....



Acceleration of **e-commerce**

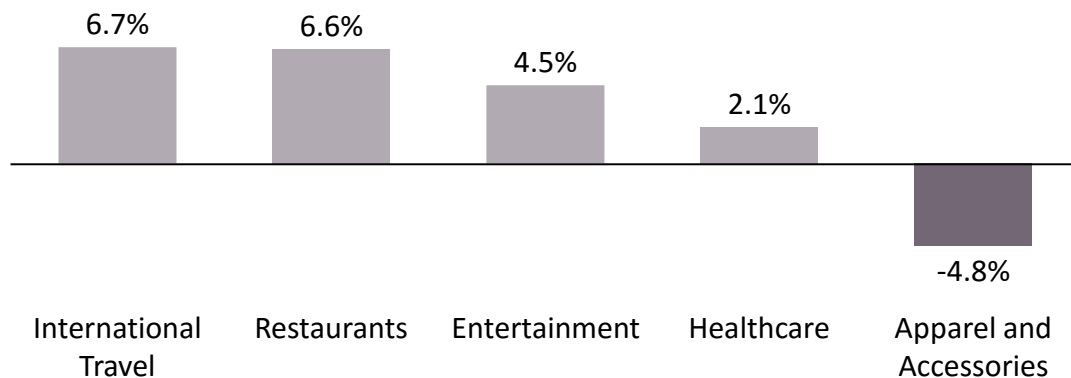
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Normalization of the charm category

## FIRST, U.S. CONSUMERS ARE SPENDING MORE ON TRAVEL AND EXPERIENCES WHILE NEGLECTING APPAREL AND ACCESSORIES

Change in U.S. Consumer Spending, 2015 - 2016



### Implications

- PANDORA's competitive set includes industries beyond jewelry — and these industries are putting a squeeze on apparel / accessories spending
- While overall U.S. economic picture is largely positive, shifting consumer mindsets on spending and value are pushing retailers to rethink old strategies

# TO MAINTAIN MOMENTUM, PANDORA IS FOCUSED ON THE IN-STORE EXPERIENCE

## Key Initiatives: Delivering Best-in-class In-store Experience

1

### Consumer experience survey introduced



Consumer survey has **garnered over 30,000 responses** in the U.S. since launch February 1, 2017.

Survey results are **integrated into daily coaching and store performance management.**

2

### Updated sales process to be rolled out across network



**Updated selling process** based on consumer research and survey data will roll out later this year.

In trial period YTD, new process generated **conversion lift of 2 points vs. control stores.**

3

### Cleaned up network with ~600 multibrand closures in 2016



**Cleaning up network** supports consistent PANDORA experience in all doors.

## TO FURTHER PROTECT IN-STORE EXPERIENCE, ALL JARED LOCATIONS WERE UPGRADED TO SHOP IN SHOPS IN 2016

Before remodel

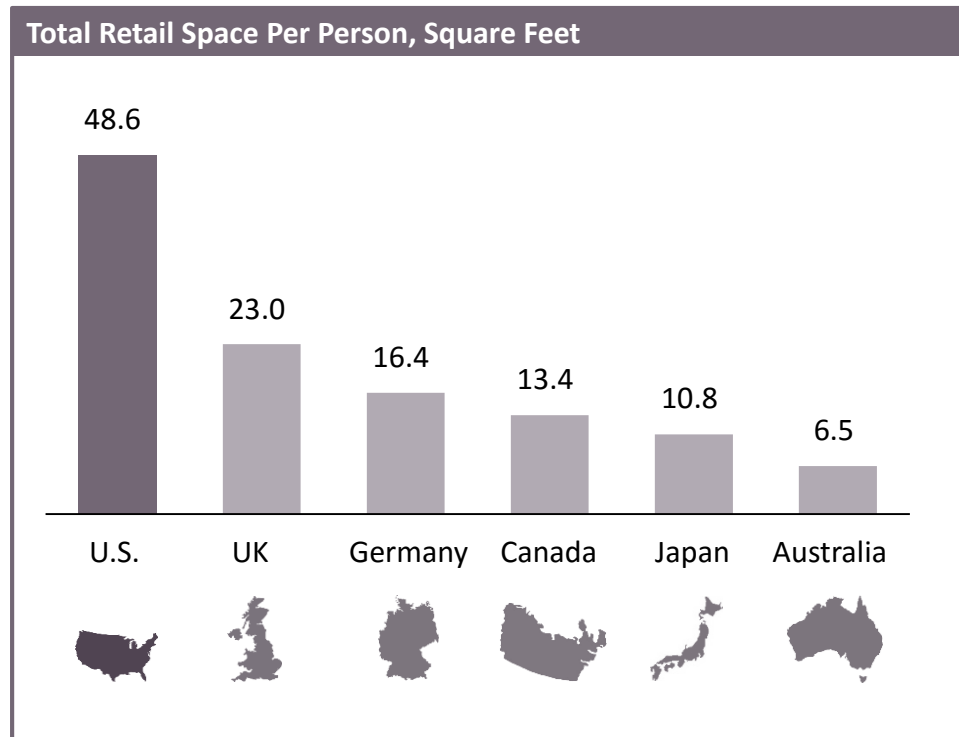


After remodel



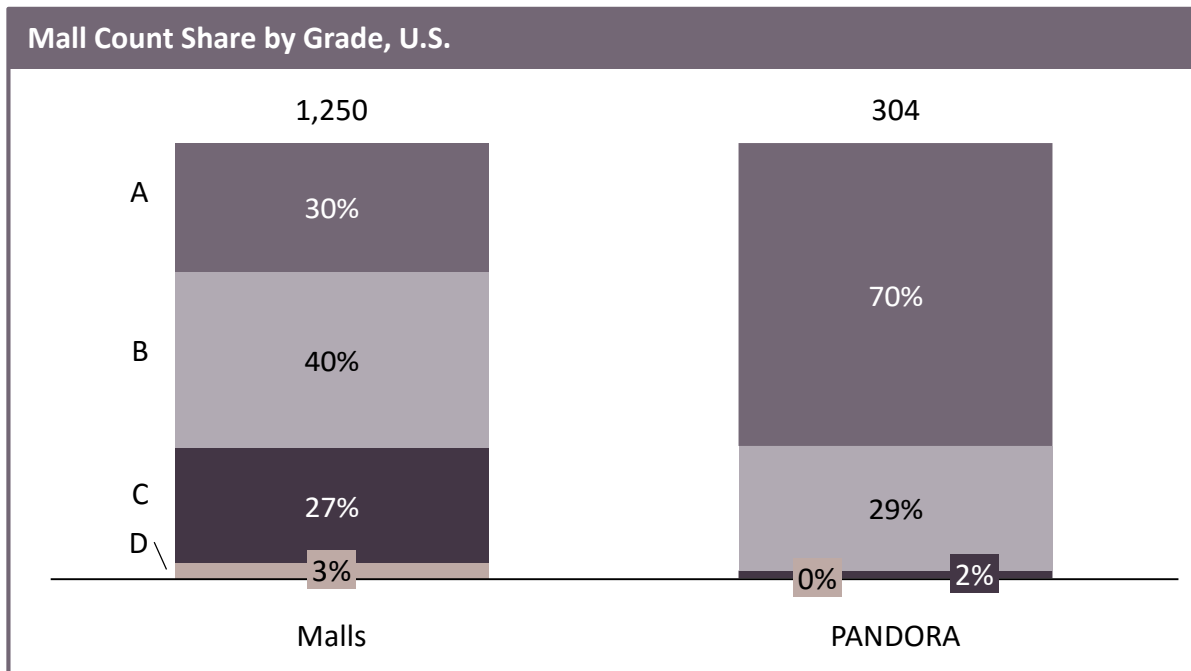
- 222 upgrades were completed in total
- Certified PANDORA Specialists in all Jared locations will use branded selling and merchandising techniques

## SECOND, THE OVERALL PACE OF U.S. RETAIL STORE CLOSURES IS ACCELERATING DRIVEN BY HIGH RETAIL SPACE PER PERSON





## CLOSURES, HOWEVER, ARE CONCENTRATED IN “C” AND “D” GRADE MALLS, WHERE PANDORA HAS MINIMAL PRESENCE



### Implications

The nation's worst-performing malls — those classified in the industry as C-rated and D-rated (~30% of malls according to Green Street Advisors) — will be hit the hardest by the store closures. **These mall tiers have very little overlap with PANDORA's Concept Store base**

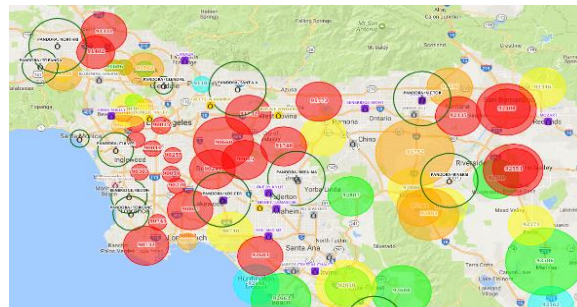
## IN FACT, PANDORA HAS CONTINUED TO IDENTIFY STORE OPENING OPPORTUNITIES IN THE U.S.

### PANDORA considers several factors when evaluating potential locations

- Leverages national shopping center database with over 30,000 centers
- **Consults existing unit performance scorecard to determine opportunity**
- Generates Potential New Site Report that includes:
  - **Revenue estimation** based on triangulated model
  - **Complete demographic and lifestyle segmentation data**
  - **At Risk / Cannibalization** estimate of revenue impact of proposed units on existing units

### Example: Los Angeles, CA

- Analysis identified several potential concept store locations in addition to 12 current locations
- Red sections on map represent locations with largest revenue opportunities



## THIRD, THE U.S. PROMOTIONAL ENVIRONMENT IS GROWING INCREASINGLY SATURATED

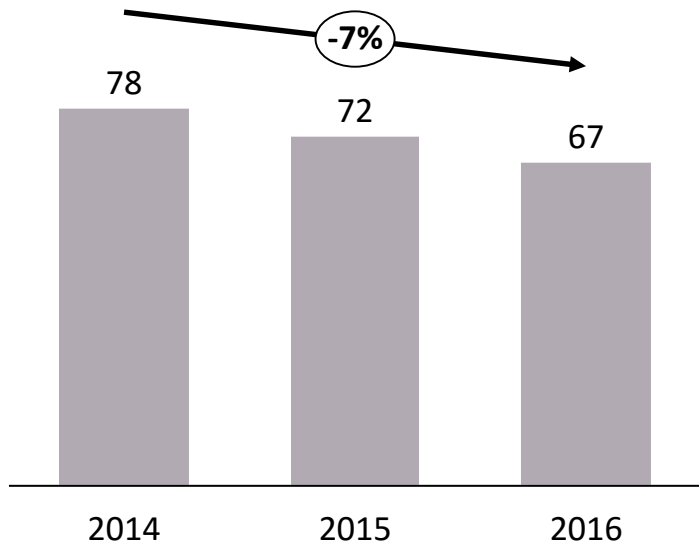
### PANDORA Americas Competitor and Analogue Promotions



- 70% of U.S. consumers expect to see markdowns of 30% or more when shopping everyday
- One-third of all U.S. shoppers visiting retailers were looking for 100% of their purchases to be made on sale
- 50% of consumers assert that they only buy jewelry when there is a promotion
- Large mall retailers like Gap and J.Crew are running always-on promotions with thresholds over 50% off

## IN THIS ENVIRONMENT, PANDORA HAS REDUCED PROMOTIONAL DAYS

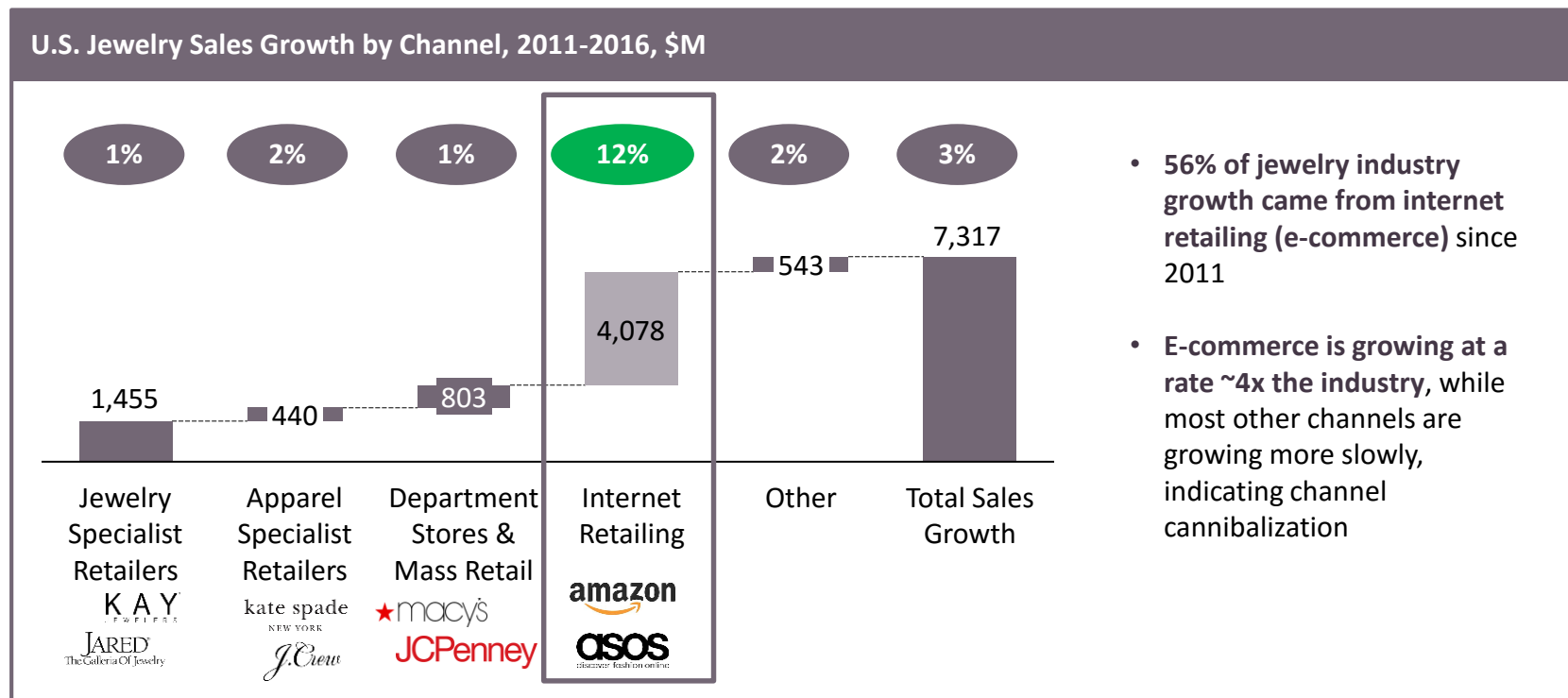
### Promotional Day Count



### Key Actions

- **Tested different promotional concepts** to drive consumer interest — for example, substituting annual Bracelet Event for category agnostic Save More tiered promotion
- **Accelerated pace of other jewelry growth through category-focused promotions**
- **Experimenting with targeted offers** to specific groups of consumers, including charm consumers, during full-price times instead of full-scale promotions
- **Shortened promotions** based on analysis of historical sales and traffic patterns

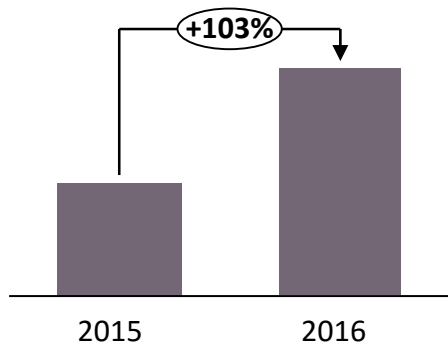
## FOURTH, E-COMMERCE IS GROWING QUICKLY AND CANNIBALIZING TRADITIONAL RETAIL



## FOR PANDORA, THE E-STORE REPRESENTS A GROWTH OPPORTUNITY AS IT ATTRACTS NEW AND HIGHER-SPEND CONSUMERS

### e-Store LFL performance

In this first year of operations, the e-Store has **more than doubled** in size



### Establishing an Omnichannel will help to grow this valuable population

- ~2% of active in-store customers over the past year went on to make an e-store purchase
- The remaining ~98% of our e-store customers have been newly attracted to PANDORA without first making an in-store purchase
- When consumers do shop both channels, **they are more valuable:**



Spend **21%** more in-store



Have **25%** larger baskets on each trip

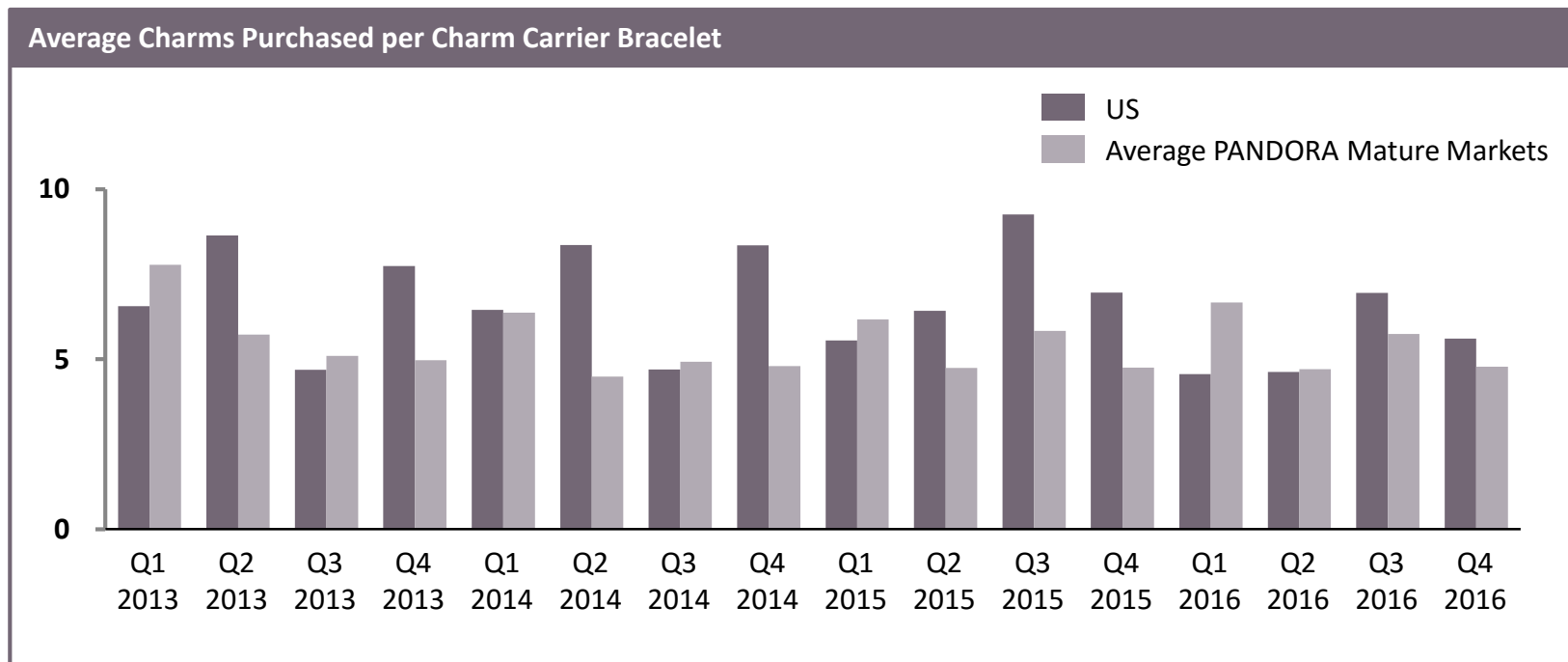


Shop **8%** more often in-store



**58%** of omnichannel shoppers purchased non-core products vs. 54% for retail-only consumers

FINALLY, U.S. HISTORICALLY SKEWED HIGHER IN CHARMS PER BRACELET, BUT WITH LESS NEWNESS IN RECENT DROPS, IS RETURNING TO GLOBAL AVERAGE



# WITH LESS NEWNESS IN RECENT DROPS, PANDORA U.S. HAS TAKEN STEPS TO STABILIZE CHARM BUSINESS

## Key Charm Initiatives

1

### Engaging charm and bracelet campaigns



**Accessorize Who You Are** campaign in February used an in-store quiz to match consumers to style profiles. This generated **24% LFL growth in the U.S. supported by 9% traffic growth**

2

### Increased focus on incremental gifting occasions



**Limited edition Graduation Charm** was released in April and is on pace to meet 100% sell-through. Bridal charms will be released for Summer and support focus on **bridal gifting**

3

### Targeted marketing approach focused on charm purchase



Initiative is targeting **high-value consumers with relevant messaging** through digital, social, and mail channels



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## PANDORA U.S. CHALLENGES AND OPPORTUNITIES

### Challenges

- **Evolving consumer spending environment**
- **Challenged traffic environment** exacerbated by **rise of e-commerce** and **store closings**
- **Heavily promotional** retail environment
- **Less newness** in recent PANDORA drops

### Opportunities

- Continued **growth in other jewelry business** — rings, earrings, and necklaces
- Continued **innovation to drive charm**
- Continued momentum as we **integrate consumer-facing initiatives**: experience survey, sales process, and upgrades / remodels
- Significant **growth potential in owned channels, O&O and e-Store**, harnessing omnichannel shopper

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