Pandora – Second Quarter Results 2019

Welcome to the Pandora interim report for the second quarter and first 6 months of 2019. 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. Today, I am pleased to present Michael Bjergby, Vice President of Investor Relations, Treasury & Tax. Please begin your meeting.

0.00.24
Michael Bjergby
Yes, good morning everyone and welcome to the conference call for Pandora's Q2 results just released this morning. My name is Michael Bjergby from the Investor Relations team and with me today here at the head office in Copenhagen, I have our CEO Alexander Lacik, CFO Anders Boyer and my IR colleagues Brian and Christian. There will be a Q&A session at the end of the call. I would like you to limit your questions to two at a time and please get back into the queue if you have additional questions.

First of all, please pay attention to the disclaimer on slide 2 and then let me hand over to our CEO Alexander who will start with the highlights of Q2 on slide no. 3. Alexander.

0.01.08
Alexander Lacik
Thank you Michael and good morning everyone. I joined Pandora during Q2 and it has been an important quarter in shaping the last details of the Brand relaunch. We prepared ourselves to effectively execute on a new journey for the Brand and for the company. In Q2, we delivered financial results in line with our plans although the numbers were not great. Like-for-like was -10% and EBIT margin was 22.9%.

Some of the more encouraging highlights of the quarter are first that we start to see visible signs from the financial effects of Programme NOW. Secondly, we saw substantial uptake of the growth in online stores compared to Q1. The performance in the online stores was driven by acceleration at Tmall in China, continued strong growth in the US and a pickup in the important UK online store driven by increased marketing spend. This brings me to the third positive highlight of the quarter: Our marketing pilots in Italy and UK. The pilots have driven improvement in traffic and like-for-like and it does give confidence.

As a company, we do have the financial firepower to scale up our investments significantly if needed. We are maintaining our financial guidance. It clearly assumes a pickup in performance in Q4. On the right side of the slide, we have outlined the key initiatives which we will roll out in 2019 as part of the brand relaunch. This is only the start of our journey to improve our brand relevance and more will come in 2020. There is no quick fix in improving brand relevance. It is something that will build over time.

Okay, enough of the highlights. Let's move to slide 5 and a deep dive on Programme NOW and the brand relaunch. On slide 5, I have created a slightly new way of looking at Programme NOW. It is more explicitly focused on the core aspects of our turnaround actions. Programme NOW consists of many workstreams. This way, we ensure to channel them towards fewer and more focused end goals. The key to stabilising like-for-like and protecting our industry-leading margins is to step-change brand relevance. This is the single most important objective.

The initiatives of Programme NOW are unchanged but now going to three overall objectives. Number one, Brand Relevance, making sure that consumers are interested in our brand. Two, Brand Access, how we make sure to close the deal, and thirdly, Cost Reset, how we operate efficiently as a company. At a future stage, we will move on from a turnaround mindset and think in more transformational terms. The initiatives in the bottom of the slide, the Commercial Reset, are instrumental to implement short-term in order to secure the long-term health of our business.

I want to highlight two important workstreams that have recently been added to this framework. First one being product development and secondly, network assessment. These are fundamental strategic workstreams and we intend to shed more light on these in connection with our full year results of 2019.

Now, let’s turn to the brand relaunch. On the next two slides, 6 and 7, I will focus on the new brand positioning. After this, I will give a review of what we are doing as part of making this come alive for our consumers.

Moving on to slide 6. Since the launch of the Moments platform in year 2000, Pandora has built the most well-known jewellery brand in the world by allowing consumers to emotionally connect with their jewellery through co-creation and self-expression. The diagnosis of Programme NOW pointed at four key executional issues including blurred brand experience and weak initiatives on charms collecting. These four issues have caused Pandora’s main proposition to drift over time and therefore, the brand relevance has suffered. However, old data clearly suggests that buying bracelets as well as collecting is still in demand. The model is not broken. We just need to deliver better on today’s consumer preferences.

A new company purpose – we give a voice to people’s loves – will guide our journey towards improved brand relevance. Pandora gives to consumers a unique proposition to emotionally connect with the purchases and self-expressions of loves, not necessarily only the romantic love but for loves for people, places, passions and more. This is very different from most other jewellery brands that are more prestige and trend-driven.

Please move to the next slide. Our significant consumer research has confirmed that the core concern of Pandora is not characterised necessarily by age, income bracket or other generic metrics. Instead, what is significant is that the Pandora consumer is characterised by desire to emotionally connect with their jewellery. The Pandora propositions are key emotional needs where we stand out in the market and which we address with our brand relaunch. Things like craftmanship, playfulness and self-expression. We are managing our increased brand relevance with initiatives that ensure we both cater for our core consumer and make us relevant and interesting for new consumers, preferably coming from the younger age groups.

While the initiative should not be divided strictly into purpose, the early initiatives of the brand relaunch including the new company purpose, launch of the Autumn collection, use of our global influences of all ages, change of store concept and our charms collecting innovations cater for our core consumers. The October initiatives that follow hereafter including collaboration with Millie Bobby Brown is expected to be more exciting for potential new consumers. I will clarify this further in the slides to come.

Now, let's dig into the details in actions. The brand relaunch will commence on 29 August reaching our consumers at all touchpoints. The initiatives are many but put into these categories on the slide: A new visual identity, new concept store design, refreshed look and feel of our online stores and marketplaces, new global influencer programme with 7 highly relevant brand ambassadors with a broad reach, new product launches and collaborations. These are all part of the brand relaunch which will come together supported by a significant increase in media investments across key markets.

Moving to the next slide. August has already been an eventful month. In the first week, we announced a partnership with Millie Bobby Brown. She was featured in TIME's top 100 influential list and is a strong ambassador for new collections to capture younger new consumers. Last week, we announced a partnership with Warner Brothers to introduce a collection of Harry Potter themed jewellery. There is no doubt that this is going to be a big launch for Pandora users as well as Harry Potter fans around the globe.

Moving to the actual brand relaunch. Here, you should notice the new Pandora logo, the monogram and the introduction of Pink as a market colour. All of it part of a refresh of Pandora's visual identity. Indeed recognisable but more modern and contemporary and with a clear story behind the details. Also part of the brand relaunch is a redesigned online store which will improve the shopping experience. This small picture clearly doesn't justify the significant changes we are making and therefore, I can only encourage you to visit our online stores at the end of August and please, do place an order.

Our Autumn collection will also launch late August and it is the largest launch of the year. The launch includes the O carrier, which is a charms-carrying pendant for necklaces, and focuses on collecting and therefore fits well into the new company purpose, catering to our core consumers. For marketing pilots and changed focus in Italy, we have also observed good results from reactivation of base products instead of focusing on newness. We are going to balance our future efforts back to both base products and newness instead of primarily on the latter which has been the strategy in recent years. All of this will be kicked off by a global PR event in LA with more than 400 guests from across the globe including the press. I will be there myself and it is going to be an exciting and creative event which will create a lot of attention amongst consumers. Among others, our PR team is going to paint a street and 5 buildings pink in the middle of LA. Yep, you heard me right.

Moving on. The first store with the new concept has already gone live in the UK in Leicester and more will follow in the coming months in UK, China and Italy. I still see this as a test and trial. I would like to have data and objective assessments before we make the significant investments that are required to refurbish the global store network. With that said, we will have impactful visual merchandising in other stores that are not refurbished to signal positive change for our shoppers. The design principle has been to optimise the store layout to make an intuitive consumer flow, allowing for self-discovery and collecting. Early feedback from consumer testing of the new concept store design suggests a more welcoming and enjoyable experience that fits better into today’s retail environment.

In October, our Drop 8 will see the launch of Pandora ME. The focus is on a new charms and bracelet concept aimed at a younger consumer. Millie Bobby Brown will fund this launch and help us reaching our target audience. Before the Christmas season kicks in, Pandora will launch the Harry Potter products and finally, in the right-bottom corner, we are also going to launch another partnership that we have signed but decided not to disclose just yet.

Summing up. We are running into some very hectic months with a lot of commercial activities playing out. It is going to be exciting and create many interesting learnings for our future journey. We have worked hard on qualifying the many different aspects of the programme, yet, as always, surprises will happen. Our focus is on execution and being quick to learn and adapt as we go. This concludes my review of the upcoming brand relaunch.

I will not turn to focus on Q2 and our progress on Programme NOW in the quarter. In Q2, we worked on assessing how an increased investment in media could support a stronger traffic flow to our stores. We basically doubled media in UK and Italy with encouraging results. The most significant impact was on increased traffic which was converted into strong like-for-like improvement. We saw a return on ad spend of around 2x which implies that the investments are profitable and even EBIT margin neutral. The pure math of this confirms one element of our Programme NOW diagnosis: Pandora is underinvesting in the media. With these results, it is clear that media investments are strengthening the business short- and long-term. We have immediately decided to significantly increase the investments in a number of key markets in the second half of this year.

Please turn to the next slide where I will talk about another important priority, not only for Pandora but for me personally. Our franchise partners have been instrumental in building the Pandora business as we know it today and they are clearly still important drivers of the business. Pandora has been criticised for not catering enough for the relationship with our franchisees and maybe rightfully so. However, as outlined on this slide, we have taken a number of important initiatives to strengthen this. We have agreed on the omnichannel approach, we are collaborating on the brand relaunch, change incentive programmes to align objectives and finally, we are helping the franchisees to improve quality and quantity of their inventory.

I personally met with the Franchise Council in connection with the JCK conference in the US. Our board of directors and leadership team of Pandora also discussed current business with Alan Zimmer, the Chairman of the US Franchise Council in June in Baltimore. Alan Zimmer is indeed positive and he has approved use of some statements he made in connection with our business discussions. The statement in the bottom of that slide proves that we are continuing to build on the relationship and it is being noticed.

Next slide please. I will make this quick. We are on track in lowering our promotional dependence and we saw roughly 32% fewer promotion days in Q2 compared to last year. We still do large promotions and these can be both deep and broad. But it is important for us that consumers do not see Pandora on sale all the time. This is what creates the perception of the discounting pattern. As we are also cleaning up in product assortment and inventory, the need to clear products can constitute an operational dilemma for our promotional strategy in 2019. But we are finding pragmatic solutions and we are satisfied with the direction. Improving inventory, slimming product assortment while at the same time reducing our promotional independence substantially.

Next slide please. Since 2015, we have continuously added more designs to our global assortment than we have discontinued. This process has led to a too broad assortment with a long tail of products with very low productivity. It is evident that we have not been able to increase revenue by adding complexity and breadth to the assortment. Therefore, we have tested our hypothesis that a simplified product assortment could lead to improved sales. It turned out to indeed be the case in many of the stores so we have decided to simplify our global assortment significantly with an ambition to have a lower assortment breadth and less duplication. We will spend the next two years to get back to a strong and productive core. The assortment simplification entails restructuring costs, primarily non-cash and impacting COGS. This was all from me for now. Let me hand over to Anders and the last part of the commercial reset on slide 15. Anders, please.

0.15.03
Anders Boyer
Thank you, Alexander. We have now initiated the inventory buyback programmes from our wholesale partners and the programmes have been very well received and both we and our partners are looking forward to this clean-up and the expected improvement in sell-out. We have chosen to expand the programme above what we have guided previously and there are two reasons for this. First of all, and as you know, it is an important premise for the commercial reset initiative in Programme NOW that we exit 2019 with healthier inventory levels in the channel and a much better balance between sell-in and sell-out going into 2020. That is the important starting point for the expansion. And secondly, our data simply shows that a higher amount of slow-moving units and thereby a need to expand the programme in order to deliver on that important starting point. And the expanded programme will result in additional restructuring costs and I will come back to that later on.

And then please turn to slide 16 on cost reductions. We are quite happy with the progress on the cost reductions. We are very well on track to meet total run-rate savings of DKK 1.2 billion by the end of next year, by the end of 2020. And if you compare the Harvey balls, the circles shown here on the slide with what we showed back in May, there has been fast progress across the five categories and you can also see that if you read the more detailed bullet points on the slide. And in essence, the message from us is that nothing is left untouched. We are on a constant hunt for cost savings to protect the margin and reinvest in driving our top line. And with that, we will leave the update on Programme NOW but there is no doubt that the impact of Programme NOW will be increasingly visible for you in the months and quarters to come.

So now, let's go to slide 18 and an update on our Q2 performance. And this slide 18 outlines or gives an overview of the performance and I will dig into a couple of details on the following slides in just a second. But the financial result in Q2 was weak. There is no other way to look at it. Like-for-like of -10% and organic growth of -7%. But the results were as expected. The EBIT margin ended at 22.9% and that is a small sequential improvement to the first quarter despite slightly lower revenue and the additional marketing investment in UK and Italy.

So let's dig into a couple of details first on slide 19 and the organic growth. The primary driver of the negative organic growth in the quarter was the -10% like-for-like and that is quite clear when you look at the chart here on slide 19. The other important driver was the network expansion that added 5pp coming from another 183 concept stores that we had by the end of the second quarter. The organic growth improved sequentially to -7% compared with -12% in the first quarter despite a similar like-for-like level and that improvement comes from the pink box that you see just to the left of the black organic growth bar on the slide here. In the first quarter, we saw a significant reduction of inventory in the wholesale channel driven among others by the reductions of the sell-in packs and that led to a total negative impact of 8pp in the first quarter and in the second quarter, it is -2 as you can see on the slide here. And this means that in the second quarter, organic growth is higher or less negative if you like than like-for-like and that is also expected to the case for the second half of 2019.

And then please turn to slide 20 and the EBIT margin bridge. The EBIT margin declined 3.4 pp compared to the second quarter last year and in the first quarter of this year, the decline was 5.7%. We see a significant positive effect from the cost reductions and that is a plus of 4pp on the margin and that is the first pink bar on the bridge here, the waterfall. But this is offset by additional investments in driving the top line and not least the deleverage which is quite significant given that like-for-like is -10%. And the decrease in the EBIT margin hides a couple of positive stories and one of them is the increasing gross margin and the gross margin ended at the highest level ever in the second quarter and we actually see an opportunity to take it even higher going forward through among others further cost reductions and lower discount levels and other levers. So all in all, we are happy with the progress although the second quarter numbers are weak.

Then please turn to slide 21 and a brief comment on cash conversion. This continues to be quite a good story. The cash conversion in the second quarter was very high as you can see and we saw the net working capital actually even going below the 10% threshold and it ended at 9.4% of revenue in the second quarter and that is the lowest level that we have ever seen. There is a little bit of technicality helping us in this number in the second quarter because the restructuring costs are incurred in the quarter but payments happen later on and hence if we are adjusting for the restructuring costs, the underlying business would have had a bit higher level of working capital. So we don't think that a single-digit net working capital level below 10% is sustainable in the long term but on the other hand, we do see that we can clearly operate well below the 15% mark which we communicated as a benchmark back at the Capital Markets Day in January 2018.

So, let's move to the final section of agenda and that is the full-year guidance starting on slide 23. The main parameters of the financial guidance for 2019 are unchanged. Organic growth of between -3% and -7% and an EBIT margin before restructuring costs between 26% and 28%. It is a broad range with only 4.5 months left of the year but we should recall that we still have the important brand relaunch and all the activities following that ahead of us. The guidance continues to assume that the brand relaunch will have a positive impact on like-for-like and the guidance also continues to assume that like-for-like could be down to high single-digit negative in 2019. And below these headline parameters, there are a couple of changes that I just wanted to highlight to the guidance assumptions. As we mentioned back in the Q1 announcement, we have identified 50 stores to be closed and some of these will be closed in 2019 and therefore, we now expect net 50 concept store openings versus previously 75. And as we just mentioned, we are taking a couple of further important restructuring actions to take Pandora to a healthier level. There are two things. One, we are expanding the inventory buy-back programme and two, we are significantly simplifying the product assortment and restructuring costs are therefore expected to increase by DKK 0.5 billion to now up to DKK 2.0 billion. Approximately half of the increase relates to the product assortment simplification and that is a non-cash item and of the total DKK 2 billion in restructuring costs, around DKK 0.5 billion, 25%, are expected to be non-cash.

At the same time, we are adjusting the CAPEX guidance down as we are expecting less investments required to conduct the brand relaunch, opening fewer stores and less IT CAPEX and consequently, the CAPEX guidance is adjusted down by DKK 2-300 million to between DKK 1.0 and 1.2 billion. And the implied expectation on free cash flow from this is thereby roughly unchanged because the cash part of the additional restructuring cost is offset by the lower CAPEX level.

So turning to the last slide 24 before we get to the Q&A session. This slide is meant as a visual aid on how to bridge the second half of the year to our full-year guidance and on like-for-like, the math and logic is quite simple. We had -10% like-for-like in the first half and therefore, we need to deliver between -8% and -3% like-for-like in the second half in order to deliver on the highest or the lowest end of our guidance respectively. And this improvement of like-for-like is all about the brand relaunch and the activities that follow after the brand relaunch later this month and including the marketing investments that we are doing. But at the same time, it should be recalled that the like-for-like comparison base in the third and fourth quarters becomes a bit easier than it was here in the second quarter of this year. But it should also be clear that if we reach the better end of the implied like-for-like guidance range for the second half, our brand relaunch must be considered quite successful.

On the EBIT margin, the margin uplift required in the second half of 2019 is very much about understanding Q4 so let me just put a few words on understanding the bridge for Q4. We always see a margin uplift in the fourth quarter, that is kind of inherent in the business and in the Q4 of last year, Q4 of 2018, the margin uplift was 6pp compared with the first three quarters of the year. In the fourth quarter of this year, the uplift will be higher. That is implicit in our margin. And there are three main building blocks to understand that uplift. First of all, in 2018, we saw a sequential decline in growth during the year and the reverse is guided for this year for 2019. Secondly, our gross margin was depressed, you can call it, or declined throughout the second half of 2018 due to the increased product complexity and the negative impact from the acquisitions that we did last year. But in 2018, the gross margin declined by 240 bps in the second half of the year. In the second half of 2019, you should expect an increase of the gross margin. And third, Q4 of last year was negatively impacted by additional provisions and consultancy expenses that dragged up the admin expenses last year and that is not expected to be the case this year. But whether we end up in the highest end or lowest end of the EBIT margin guidance is a direct function of revenue development following the brand relaunch and we hope this explains our guidance and what we need to deliver in the remainder part of the year.

We are excited and we hope that you are too, the brand relaunch is in just 9 days and we are counting down. This concludes our presentation and we can now start the Q&A session. Operator, thank you.

0.28.49
Operator
Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from the line of Magnus Jensen of SEB. Please go ahead, your line is open.

Magnus Jensen
Thank you guys, it's Magnus here. I have two questions. The first one goes to the two new initiatives that you are going to launch during the second half of the year, Harry Potter and Millie Bobby Brown. I think both could be seen as targeting a much younger consumer than what we have seen you target before so could you elaborate a bit on the position to do these partnerships? And secondly to that, I understand that you expect the Halo effect to the older consumer, at least for the Millie Bobby Brown initiatives. Is this something that you see other brands do successfully? My second question is regarding the like-for-like development. So, can you comment on how it has been developing through the quarter? And also, if you would do that, it would be interesting to hear how the first 6 weeks of Q3 have been delivering. Thank you.

0.30.05
Alexander Lacik
Hello. Maybe I will address your first question. I think, if we speak about Pandora ME, that is clearly targeted at a younger audience and it has been designed for that, it has been qualified like that and it also suggests in the research that those are the people that are responding really well, at least at a conceptual stage to this initiative. And in order to kind of speak to that audience, we are using Millie Bobby Brown as a social influencer if you may. Harry Potter, actually, there are many different audiences when you think about Harry Potter. So, the first generations that were there when the Harry Potter books came are now a little bit older, so they are probably in their mid-30s and above. So as we have done quite extensive research in fact on this initiative, we see that this spans not just the younger audiences but in fact is also very positively received in the concept testing amongst, let's say, our core audience. So that probably addresses those. In terms of Halo effect, I am not sure that the Millie Bobby Brown necessarily has a huge Halo effect. She is going to be used mostly on digital types of mediums where we are trying to target a little bit younger audience so I don't think that there is going to be a massive overlap there but you know we will learn as we go I suppose is the right way to think about it. And I should also mention that in addition to Millie Bobby Brown, because that has kind of been in the press recently, we have another 6 strong global influencers that have been part of a revamped key influencer programme

in the company and they probably cater more to the core audience that we have for Pandora. And maybe I will hand the like-for-like to you, Anders.

0.31.55
Anders Boyer
Yeah, thanks for the question, Magnus. On like-for-like, I think we are throughout the year or so until date, we have been trading at +/- this -10% level and we hadn't really expected to see any structural changes, bigger changes until sometime following the brand relaunch and all the activities that follow during the year. But we should recall that the brand relaunch only starts sort of two thirds into the third quarter so for all practical purposes, the uplift that we are looking for is something that is going into the later part of the year. But it is clear, we are looking very much forward to talking about the specifics and the details and the reaction from consumers when we meet in 3 months' time.

Magnus Jensen
Thank you very much guys.

0.32.58
Operator
Our next question comes from the line of Lars Topholm of Carnegie. Please go ahead, your line is open.

Lars Topholm
Yes, I have a couple of questions but I will start with two. So, Alexander, you highlighted strong Tmall sales in China in Q2. I wonder what is happening in Q3 because my understanding is you are now stepping up or have stepped up the marketing spend in China but your August Tmall revenue is down by 31% to date even though you were Super Brand of the Day so the first question is if you can add some comments on the fact that Chinese growth slowed from Q1 to Q2 and it looks as if it is going to do the same in Q3. And then the second question goes to the US where you also saw a deterioration from Q1 to Q2 and I think it is a public secret it continued into Q3 so here the question is, you made a replacement of your US management earlier this quarter. Do you see any quick fixes you can make to turn the tide in the US or how should we, what are your sort of expectations to see from a new US management? Thanks.

0.34.21
Alexander Lacik
I think it is way too early to give comments on the recent 10 or 20 days of trading in China so we will have to come back on that. And in terms of the brand relaunch, it hasn't really started from that sense in China yet so this is all ahead of us to be honest with you. And there will be, online there will be swings from one week to the other depending on what goes on, so I think you have to look a bit more on the longitudinal trends and that is why we make the comment in the release that throughout the year, we have seen positive indicators in terms of traffic conversion rates and those metrics which are important to us. Your second question on the management changes, first of all, management changes happen. Laurie she has been there with the business for 15 years so these things happen every now and then, that's changing. I don't think there is any quick fix to this

business to begin with, whether that is changing personnel so I would not write too much into that. I think the programme we have in place generally speaking that we have mentioned in this call is the real programme that we should be expecting delivering some movements in the US. And currently, Sid is heading up the US business so if you are kind of looking at it from a risk mitigation standpoint, there is no problem there.

0.35.56
Lars Topholm
In the presentation, this is regarding US just to quickly follow up. You mentioned a significant reduction in promotional activity and I think, Alexander, you even said Pandora shouldn't be on sale every day but in your US e-store, today, around one third of your entire collection is for sale at a discount. How does that fit into your strategy of becoming less promotional? It is basically close to an all-time high discount level. How do you see that?

0.36.30
Alexander Lacik
First of all, this year is a transitional year, okay? So we come from some bad practices from the past – that I think is important to say. Secondly, we have reduced the number of days in the US overall by I think it's 36% in Q2. We had a summer sale that wasn't doing very well. I think we had an inventory there which was probably not very attractive if we compare it to other places in the world where we have had sales. So I think as we kind of go forward, the strategy is unchanged. We should move the brand to be less dependent, significantly less dependent on promotional impacts. There is also business reality when I have inventory that I try to clear it as and when that is pertinent but that is also why we are trying to reset the business this year by making a huge investment in taking back inventory that is not good with reducing the assortment to get out of unproductive aspects. But this is a journey, Lars, I mean, it is not just flicking on a switch and moving from one place. Trust me, if I could, I would. And we will be very transparent with how we are progressing in this phase so there should be nothing surprising in this phase.

0.37.54
Lars Topholm
Thank you very much. I have some more questions but I will jump back into the Q&A queue. Thank you very much for now.

0.38.03
Operator
Our next question comes from the line of Morten Eismark of ABG Sundal Collier. Please go ahead, your line is now open.

Morten Eismark
Thank you and thank you for taking my questions. First question, you have quite clearly built a retail position in the past couple of years, perhaps losing some focus on Pandora core in the process. Have you discussed returning O&O stores to high-quality franchisees, existing or new, and is it your impression that they are ready to step in? That is my first question. The second question is that off the top of my head, if I remember, you mentioned that you only saw 20 concept stores

being unprofitable globally, has that picture changed after the first half performance? Those were my two questions for now. Thank you.

0.38.52
Alexander Lacik
So, on your first question on returning O&O stores, I think there is a much bigger question on the table, it is who do we want to be as a retailer and what type of footprint should we have on offline and omni as it were. What we have communicated, I believe, in conjunction with the May meetings was that we are starting a network assessment which we plan to share with the shareholders and capital markets alike in the Q4 results which will probably early February. So, as part of that, we are looking at all sorts of options on what the future could look like so I think that is the answer for now. Then in terms of your second question on had we seen further profitability deterioration in our store network and in our owned and operated, we have not seen that. So that picture still holds.

Morten Eismark
Okay perfect, thank you, I will jump back to the queue as well. Thank you.

0.39.54
Operator
Our next question comes from the line of Lars Topholm of Carnegie. Please go ahead, your line is open.

Lars Topholm
That was a surprisingly short Q&A queue, it seems. I had a question on your investments and they are actually two questions, so regarding the global store upgrade, you mentioned significant investments. So, I wonder how much your share is going to be – just in ballpark figures, and then how we should see the phasing of that. And then regarding the lower CAPEX guidance for this year, is that a change in CAPEX projects or is it simply a different phasing so the lower CAPEX this year means investments are just moved into 2020? Thank you.

0.40.46
Anders Boyer
This is Anders here. I can take those questions. On the CAPEX related to the new store concept, there is a couple of building blocks there. One is that the cost per store on the new concept versus the old is give and take the same. It usually starts, in the first store, by nature it is more expensive, and you test and learn and get smarter but we expect the cost per store to be the same once we are over sort of the learning curve. But then exactly what that means in terms of how fast we will do the refurbishment, you can – there are two sort of extremes. One is that we will just do it as and when the store should be refurbished anyway. That would mean that it would take us, let's say 5 years in order to get a roll-out globally. The other is where we will see a very nice impact on retail KPIs, it could both be traffic conversion in the stores that we have refurbished, then we will do it faster. And where we end up in between there, we will have to wait and see in the quarters to come. And then on CAPEX, I think you should expect that this is mostly a question of phasing between the years but obviously, as the number of concept store openings have slowed down,

that does give us a structurally lower level but the level that we are guiding now for 2019 shouldn't be considered a new lower level.

0.42.33
Alexander Lacik
I will just add some flavour on the first question. We as an organisation have a capacity of refurbing roughly 500 stores per annum so without them, you know, you can accelerate that but you cannot bring in more races from the outside but that is kind of so then you can do your own math on when it comes to our own network, how quickly we could do if we chose to go all-in.

0.42.56
Lars Topholm
But compared to the CAPEX level we are seeing this year, looking at 2020, 2021, 2022, should we expect a step change in CAPEX or will it stay around the current level with the knowledge you have today?

0.43.14
Anders Boyer
That is still too early to say how fast – and I think the big joker in that equation is the new concept store roll-out, the CAPEX related to that and how fast we will do that, I think we will have to wait a bit before we comment on that. But if we do it and accelerate it, there is a reason for it and that reason should be good retail metrics in the stores that we have refurbished.

0.43.46
Lars Topholm
Okay, then one final question if I may. The accelerated marketing investments for the second half of the year, can you say something about which markets will be affected from when? Just so I can get my model right.

0.44.02
Alexander Lacik
It is our top 11 markets and it is going to start from September roughly and kind of be spread throughout the remaining 4 months because it varies a little bit by market but it is the usual suspects if you may so you have US, Canada, we have UK, Italy, Germany, France, Spain. Then we had Hong Kong but given the kind of unrest, we are kind of waiting and seeing a little bit on that. Obviously, Australia is part of the pack. China is actually not part as a significant investment yet because the media model in China is somewhat different from, let's call it, the more traditional markets. So there, we are still qualifying some additional aspects. So that is a decision which we may or may not take later during the second half. I am not sure I made 11 there, I didn't keep count. But those would be the main markets. We can come back separately to you to detail out those 11.

0.45.07
Lars Topholm
That is perfect. Thank you for answering my questions.

0.45.10
Operator
Our next question comes from the line of Georgina Johanan of J.P. Morgan. Please go ahead. Your line is open.

0.45.18
Georgina Johanan
Good morning everyone. Thanks for taking my call and it is just a follow-up really and apologies if I have not quite understood but the incremental marketing investment that you are calling out today may I just clarify that this is incremental to the uplift that you had already disclosed? So if previously you were talking about roughly DKK 500 million more Y/Y, what sort of quantity Y/Y are we talking about now and how is that being funded? Where is the offset because of course you have not changed your full-year guidance in any way? Thank you very much.

0.45.58
Anders Boyer
A relevant question. Thank you for that. It is an incremental uplift compared to the original guidance. Originally, we said that we expected to spend another DKK half a billion, DKK 500 million in different kinds of marketing top line initiatives and that number is now DKK 800 million and then obviously you all say: Well, you are keeping the revenue guidance unchanged and you are keeping the EBIT margin guidance unchanged so where is that coming from? And it is – the offset is a gross margin. We do see a bit better gross margin as we speak of here in Q2 but also for the remaining part of the year and it is not directly related to the cost reset of the NOW programme but general efficiency in our factories in Thailand so the bigger part of the offset is gross margin.

0.47.02
Georgina Johanan
Thank you very much.

0.47.05
Operator
Our next question comes from the line of Magnus Jensen of SEB. Please go ahead. Your line is open.

0.47.13
Magnus Jensen
Thank you. Just one more question from my side. Charms were only down 2% for the quarter. I see it in reported numbers but is there any chance that you will share how the underlying like-for-like was in charms? You shared that on earlier quarters. Thank you.

0.47.32
Anders Boyer
Magnus, it is Anders here. It is a good catch – but the underlying it is an unreported revenue. It is a fairly big swing in charms revenue growth in the quarter but like-for-like is pretty much the same

as we saw in Q1 so this is due to all the other impacts that we have from change of inventories in the channel and that does not go.. the store openings, that does not go directly into like-for-like.

0.48.10
Magnus Jensen
Thank you very much.

Operator
Our next question comes from the line of Silky Agarwal of Citi. Please go ahead. Your line is open.

Silky Agarwal
Good morning everyone. I have two questions please. The first one coming back on charms. Happy to see that charms and bracelets are kind of improving quarter on quarter but if I look at other categories, they seem to have deteriorated. Do you think that because your additional marketing investments are now focusing on the arrival of your corporate acts, the other categories will continue to suffer in the medium term? And secondly, coming back on China. I understand that you are trying to now adopt a wait and see-approach for China marketing investments whereas earlier you guided that you would put in additional marketing investments in China as early as Q2 so what is the reason behind curtailing China investments apart from this media – different media model that you have cited. Do you think that you need to focus more on online in that market rather than additional stores? What exactly is the vision for your China performance? Thank you.

0.49.20
Alexander Lacik
Okay, I mean, it is clear that the focus back on charms and bracelets does, you know, I shouldn't say hinder but it puts a little bit less attention to the other segments so we are kind of working through that but let us not forget that 70 odd % of the total business sits in bracelets and charms so I need to have that part of the portfolio humming and if it comes at the expense of some of the other adjacents in the meantime, I think that is kind of a priority call we just have to live with whilst we are figuring that part out. I should also mention as we did in the presentation that we are reducing the assortment quite dramatically, which means that we are trying to also get to a more productive entire assortment, not just charms and bracelets so that should probably help us going forward. I think on China, you know we have announced that we are going to continue going into cities where we have pure white space so that might still be relevant. We are trying a couple of different retailing models actually in those places so that is probably one area. I do think we have to remember that the brand is actually at a very different place in China from the maturity standpoint compared to pretty much most of our other markets so if you look at our unaided awareness as it were, it is relatively low still so that would suggest that we have to continue marketing this brand hard in order to drive general awareness so that is probably the right answer in China, to keep building this brand. We cannot really compare if we take a mature market like Australia or the UK or even the US for that matter. They are in a very different stage so I think that is some work which we can conclude on. Online is on fire clearly so we will keep developing that even more so there are a couple of different pilots that we have been doing over the last six months which sequentially we are rolling out so I think China is just a lot more work generally speaking to keep building the business.

0.51.39
Silky Agarwal
Thank you so much. Just a quick follow-up. So if I think of your space gross reduction net 50 concept stores you still have the plans, China plans intact in terms of new openings, in terms of the number of stores?

0.51.51
Alexander Lacik
I think what we have said and which still holds is that we have plenty of white space as I mentioned in China as well as in South America. So where we have obvious business cases, we will keep opening stores. There is no reason not to, I mean, we have.. our network is very profitable so you know and I keep saying this you know. Brand access is important when you play the mass market game like we do. But you should expect from your standpoint that China and Latin America, probably they are focus areas for us. Not elsewhere at this point in time.

0.52.28
Silky Agarwal
Thank you.

Operator
Our next question comes from the line of Klaus Kehl of Nykredit. Please go ahead. Your line is open.

0.52.39
Klaus Kehl
Yes hello, a question related to Italy and the UK. You have highlighted a couple of times that you have seen improved like-for-like as you have increased your marketing but could you talk a little bit about the monthly trends in the quarter and yeah what I am actually looking for is whether you have seen any kind of improvement throughout the quarter and related to Italy and the UK? And then my second question is again we talked a lot about marketing but what is it exactly that you are changing? Is it your online marketing? Is it TV ads? Yeah, what is it that you are doing differently apart from spending more money? That would be my questions.

0.53.24
Alexander Lacik
A good question. So what we did if I start there was everything else equal you just doubled the media investment, okay? And we went for media choices which were kind of what we call high funnel choices, i.e. media choices which drive broad scale reach because the objective was to see whether we could actually positively influence the traffic into the stores. Just for perspective, the online business in Italy is minuscule so the game in Italy is really about foot traffic. Full stop. So that is kind of what we try there. Of course, in the UK, which is at the very other end of the spectrum when it comes to e-com, you have got a much, much stronger uplift on the e-com business so and we could see you know because we tracked this literally on a day-by-day basis and you saw that on e-com I mean that responds literally immediately as you start kind of cranking up

the volume on your media so there was a very clear line let us say crack in the line in both Italy and the UK as we started dialling up the media and then that media investment ran for roughly four weeks give or take. The other aspect, we also saw that by investing at this high level, you also got an ad stock effect so it kind of kept on carrying for a few more weeks even when the media was kind of back to a much lower level so our RY calculation focuses strictly on those four weeks but in fact, the impact could be seen beyond that. I think that is as much detail as I would like to share when it comes to kind of in-quarter trading in a particular market because of course there are other factors influencing it so it is not strictly science to tease it out but that was also the reason why we made such a big increase in media investments in order to really make sure that that was the discretionary item.

0.55.26
Klaus Kehl
Okay, thank you.

Operator
Our next question comes from the line of Morten Eismark of ABG Sundal Collier. Please go ahead. Your line is open.

0.55.37
Morten Eismark
Thank you and just a quick question on the Harry Potter deal. Warner Brothers has quite a number of brands under their umbrella. Does the deal cover only Harry Potter or have you discussed expanding into other brands? Secondly, you start off with some twelve DVs. What are the DV ramp-up plans here? And just thirdly, can you confirm that the deal is global from the beginning? Thank you.

0.56.05
Alexander Lacik
So it is only Harry Potter for now. We only have those twelve DVs at this stage of the game and we obviously have to assess whether this performs or not so I think you might see us in the future not you know ramming in hundreds of DVs when we do various initiatives. We are going to be a bit more guarded so we don't end up with an assortment issue again. And as I said, it is a global deal from the beginning.

0.56.42
Morten Eismark
Short and sweet. Thank you very much.

Operator
Our next question comes from the line of Piral Dadhania of RBC (Royal Bank of Canada). Please go ahead. Your line is now open.

0.56.53
Piral Dadhania

Hi, good morning everyone. So if I could just start maybe on the reduced option counts that you guys are planning by the end of 2020. Will there be any change to the price architecture of the overall assortment or to what extent will you build out the entry price points or should we expect any material sort of change in the composition from a pricing perspective there? And secondly just coming back to the marketing pilots you have run in both the UK and in Italy. Could you perhaps give us some indication around the customer composition of the uplift in traffic that you are seeing both online and offline? Do you have any visibility on the extent to which those customers that are buying or coming into your stores are new versus existing? And are you in a better place now to be able to track that from a CRM perspective given all the things we have heard in terms of building up the IT and CRM database in the last 12 months? Thank you.

0.57.55
Alexander Lacik
So on your first question on the reduced assortment. It is not going to take until 2020 to rearrange the architecture. This is something actually we are trying to address in the back-up of this year already. We have for some reason left the opening price points and here I am talking about anything from 19 to 39 in whatever currency you pick. We have kind of lost that space, largely, you can actually look – when you look at our internal metrics, this is where a big portion of our like-for-like issues stem from. It is kind of vacating those opening price points so that is something which we are trying to address as we speak and of course, that is partly with what we have in front of us but then as we go forward, this is obviously going to be part of the product strategy to make sure we develop products against that. Pandora ME would be another example where we have consciously gone after designing something which kind of can hit opening price points for a particular target audience. On your second question, in Italy specifically, we do not have that CRM data. I think Italy is relatively far behind. In the UK, I have not seen any data which would suggest whether this is more new people coming in or not. I think it is a very good point. But I don't have that data point to share with you here.

0.59.26
Piral Dadhania
Okay, thank you.

Alexander Lacik
Just on that, the important one though was that it did drive traffic, you know, because it could have also been that conversion rates changed or you know UBTs or any average order values but you know the discretionary item here was traffic so that was the killer KPI here which delivered.

Piral Dadhania
Sure, thank you.

Operator
And there are no further questions this time. Please go ahead speakers.

Alexander Lacik

Okay and on that note, I thank you for your interest in Pandora. We hope to be bringing interesting news to all of you in the future quarterly reports. Thank you and goodbye.