

Pandora Interim Financial Report for the third quarter/first nine months 2020 Nov. 3, 2020, 11AM CET transcript.

[00:00:00] Good morning, everyone, and welcome to the conference call for Pandoras Q3 results. I am Michael Bjergby from the Investor Relations Team and I am sitting in the Copenhagen head office with the usual team, strictly at least one metre part, our CEO, Alexander Lacik, our CFO Anders Boyer, and the IR team Christian Møller and Mikkel Johansen. There will be a Q&A session at the end of the call, as usual. Please limit your questions to two at a time and get back into the queue if you have more questions. Pay notice to the disclaimer on slide two and we can jump directly to slide number three. Alexander, please go ahead.

[00:00:36] Thank you, Michael. And good morning, everyone, and thank you for joining the call today.

[00:00:41] It was an eventful last week where COVID-19 escalation led to new significant restrictions on our store network. Most important for us, Belgium, France and the U.K. ordered our stores to temporarily close. We will come back to this, but I want to start somewhere very different. The key takeaway should be that Pandora is turning around. We have not yet fully turned around, but the progress is undeniable, despite the current trading conditions. We are focussed on building and investing in our brand momentum, while at the same time obviously navigating the pandemic. Five out of our seven key markets generated positive sell out growth in Q3. The only exceptions were France, which was flat, and China. Our online business almost doubled and accounted for more than 20 percent of sales in the quarter. Very strong numbers compared to historic performance. On top of this, we saw that the trends from the second half of Q3 continued into October where we achieved plus eight percent sell out growth. This gives us confidence in the brand development, but we are also realistic. The recent increase in C-19 infections and new lockdowns create new challenges, which we have to manage carefully. Next slide, please. When I joined Pandora, we structured Programme NOW around three pillars: brand relevance, brand access and costs. Today we yet again increase our cost reduction ambitions, increasing the annual run rate target with 200 million kroner to 1.6 billion. This is a significant achievement and it showcases the right mindset and culture in our company. With increased cost target, there also come increased restructuring costs. But I'm very pleased that we can confirm today that the restructuring part of the Programme NOW will be finalised in 2020, despite the disruptions from C-19. There will consequently be no restructuring cost in 2021. Our reorganisation is showing great results from faster decision making, best practise sharing and closer collaboration. Amongst other things, it's improving conversion rate both on- and offline. This is both about operational efficiencies, improving simple things like efficient merchandising, smart media choices, optimising stock availability. But it's also about securing sufficient growth initiatives for the future. Please turn to slide six and the COVID-19 section. In the last quarter we saw gradual recovery from C-19 and we ended the quarter with only five percent of stores being temporarily closed. However, the recent surges of C-19 has changed the trajectory. The latest government guidelines entails that we will have 18% of our stores temporarily closed on Thursday. This is clearly a violation of our financial guidance assumption of "less than 10 percent of physical stores to be temporarily closed for the rest of the year." And this will come back with more comments on the financial guidance. But it should be clear to everybody that this escalation makes trading in November and December more unpredictable. The important thing to keep in mind during these unusual times are the following. In Jan and Feb, before the first wave of C-19, and in August through October before the second wave, we saw a very positive sales development. C-19 will create noise

for a while, but it doesn't change that we're turning around and that the underlying business is improving. Please turn to the next slide. When COVID-19 escalated in March, we focussed on ensuring cash, cost and balance sheet. This work became the foundation for commercial comeback, leveraging our scale and financial health. This has been key to our performance in Q3. We showed agility and readiness in the reopening phase, motivated store staff, fresh product assortment, healthy inventory management and a consistent media push. With these deliberate efforts, we have enjoyed a stronger share of voice in media as well as in more traffic. But Q3 is already history. We are going into the peak months of Q4 with in-store operations. Our big question mark and a pressure on the open stores will be at a very different level. This is when our long preparations will come to be tested. More comments on this on the next slide. Black Friday closes and kicks off the peak trading season. At this time of the year, our stores are normally completely full of customers and we typically have queues outside the stores. These are the conditions that we have to combine with social distancing and an escalation of COVID-19. We have the liquidity and balance sheet firmly in place for long, sustained period of lockdowns, and we have the financial firepower to execute when commercial opportunities arise, just like we did in the first half of the year. We have introduced 11 new initiatives to ensure a safe and efficient customer experience. These initiatives can be divided into four different objectives. The first one is reducing the transaction time.

[00:06:02] Average transaction time in December is normally shorter than other periods throughout the year, but we need to cut this even more. Increasing selling space, moving traffic from off- to online and finally flatten the peak trading periods. One example is the implementation of video-based selling. The customer connects with a live Pandora in one of our dark stores through a new chat and the virtual selling platform. It's a technology that allows customers to get the needed advice as well as closing the deal. A great example of how digital tools can support both safety and revenue. We are prepared for Q4 with pragmatic initiatives, but the uncertainty is still significant. This is why we also have to be agile and flexible as the trading unfolds.

[00:06:52] Please turn to the Programme NOW section starting on page 10. The slide shows the quick overview of Programme NOW; the initiatives were rescoped earlier in the year. We have seen significant results from better use of data and personalisation. I'll come back to this in a minute. In China, during Q3, we concluded a revamping of our management. I see the turnaround in China happening in three major steps. The first is to get a new leadership team in place. Second, to secure the daily operations, including getting a robust infrastructure in place. And finally, to develop a strategic roadmap on how we address the underlying issues. We are in a significantly better place, for point one and two. The work on phase three has, to a degree, been done in parallel. Specifically, we have concluded on the brand position. We are now developing execution to make this come alive. As I've said before, this will be a multi-year journey, but so far we are progressing at a very good pace. Please flip to the next slide. A few words on the retail metrics as this is important to understand, the C-19 dynamics and the drivers of our performance. Generally speaking, the basket has not changed much compared to pre-COVID. Average selling price and units per transactions remain fairly stable. But we see large changes in the traffic and conversion. Traffic is almost down 50 percent in the physical stores, with some variations across markets. The traffic is, not surprisingly, of much higher quality as there are fewer casual browsers. At the same time, the organisation is doing a great job. Converting this traffic in some markets to higher conversion rate is in fact fully offsetting the lower traffic. In the US, sell out growth was positive in the physical stores. Online traffic is up almost 30 percent and the conversion rate is similarly strong, creating the significant growth. Some markets, like the UK, where

the consumers are used to shopping online, the channel grows at triple digit rates. At the other end of the spectrum, we have Italy, where online growth appears more normal and consumers are showing a preference for physical shopping despite COVID. One final comment is that the online performance has improved towards the end of October as the physical stores were increasingly impacted by restrictions. Moving on. This is an important slide for me because it gives you concrete data regarding the health of the brand momentum. We're all trying to separate underlying performance from COVID-19 effects. The sell out growth for key market shows a picture that cannot be argued with. Something has clearly happened to the brand as you see its broad based growth. Three of our largest markets, the US, the UK and Germany, generate very solid double digit growth. This is delivered in an environment where we face various restrictions in terms of physical stores. With France showing zero percent sell out growth, six of the seven key markets are either flat or in positive territory. China is clearly underperforming, though this is in line with our original expectations pre C-19.

[00:10:13] It may look strange that the group is declining by two percent when these seven markets are performing so well. This is partly explained by LatAm, where most stores have been closed throughout Q3. LatAm dragged the growth down by three points and we also saw other large markets outside of the top seven, such as Spain and Canada being severely impacted by C-19. The combined sell out growth for the top seven key markets alone was plus seven percent. Finally, it should be noted again that the performance has continued throughout October, which was plus eight. This is clearly strong performance and we are encouraged about it. We are aware that it does come on top of a relatively soft comparison base from last year and there's clearly more work ahead to ensure solid and consecutive performance before we finally declare that Programme NOW is finished. Next slide, please. A clear driver behind the performance in Q3 is our organisational effectiveness following the reorg we started in April earlier this year. A very good example is the digital hub that has been instrumental in developing and implementing new initiatives to manage COVID-19. By establishing the hub, we have invested in significantly stronger capability as well as expanding capacity. The first tangible evidence can be seen in the new omnichannel features, which were developed at record pace as part of our Q4 fast response efforts. Another important change is a new global business units sitting under our CMO, Carla Liuni. They will be instrumental in both defining a new innovation strategy as well as developing a 360 marketing programme to go along with that. Finally, they own the end-to-end view for the various platforms to secure growth both in the base and in the new products. I think we've made strong progress quickly in this space. Next slide, please. Slide 14 outlines our launch tactics in Q3 called Launch and Leverage. So what do we mean by this? It's a fundamental decision on how we manage product launches. In the past, Pandora's approach was inspired by fast fashion, launching new products every month, giving them four weeks of attention before turning to something new. But Pandora is not fast fashion. Our average customer visits us twice per year. We need to make a proposition and collections consistent and recognisable, ultimately to build long-lasting, iconic platforms like Moments, which, by the way, is a very good example of a platform that we've built and invested in for over 20 years. It is still recognisable and highly relevant amongst our customers. In Q3, we have leveraged and extended the success of Pandora: me and Harry Potter with good success. Both collections were launched last year. We launched and leveraged instead of launch and leave. Our product launches and campaigns in September also had more focus on based products under one consistent theme. This makes us less exposed to the success of our new launches because we campaign new products alongside base products that we know are performing. The base business represents almost 80 percent of our sales. Please turn to my last slide before handing over to Anders. I'd like to mention some of the work we're doing with the

workstream that we call data-driven growth. First of all, we stepped our efforts up to capture more data, as this will be the bedrock for driving data-driven growth. Today, we capture close to 70 percent of all buying customers' emails in the US. This is a breakthrough statistic, if you would, in a historical perspective. One way we're using this is to drive our email marketing. Historically, this has not been a source of revenue growth for Pandora. But while email marketing only contributes to roughly 100 million Danish kroner, it's improving rapidly. The growth this year is over 150 percent built on more personalised emails. This is clearly a step in the right direction and is an indication of the future potential for improved CRM data. Admittedly, this is an area where Pandora can clearly improve further. Now I leave the word to Anders. Please.

[00:14:38] Thank you, Alexander. And good morning, everyone. And please turn to slide 16. I'm very pleased with how things are progressing in our Cost Reset programme. When we started out the journey back in early 19, we set a cost saving target of 1.2 billion kroner and early on we upgraded that to 1.4 billion and now we are creating it to 1.6 billion. And that's a pretty big achievement by the organisation. The higher savings have been identified pretty much across all cost types where and with the largest savings we are finding in cost of sales or production costs, where we continue to improve efficiencies and simplify processes on the back of the production of the product assortment that we did last year. And other improvements in the other pocket at the lower part of the slide here, where we have identified further cost improvements in media, as an example, where we leverage our global scale and are running several centres. And you should recall that the cost targets only include permanent cost reductions so that 1.6 billion kroner target does not include the short-term cost measures we have done as part of C-19. Then please turn to Slide 18 and a short review of the financial performance in the third quarter. As announced in early October, our financial performance in Q3 was better than initially expected and that goes both for the top line, the bottom line and cash flow as well. And I'll quickly go into each of these on the following slide. So starting with Slide 19 and revenue breakdown. The organic growth was minus five for the for the third quarter and better than expected due to a better sell out performance. And the organic growth includes roughly minus one percent negative impact from network changes, as you can see, to the far left of the chart here. That's a result of a permanent closure of 32 concept stores compared to last year. Another building block in the quarter is the lower sell in versus sell out as illustrated in the pink box just to the left of the organic growth column, the dark grey column in the middle of the chart here. And that represents the effect from franchisees who I would say understandably manage inventory more tightly in these uncertain times. And this part of the revenue page should, of course, give a similar positive effect here in the fourth quarter. And as you can see, there's no impact from forward integration during the quarter. Then please turn to slide 20 and the margin. We generated an EBIT margin of 17.2 percent in the quarter, and that's a quarter that was impacted by C-19, obviously. And I think it's worth noting that the EBIT margin was only 150 basis points below last year when we filter out the impact from foreign exchange and commodity prices. This despite the C-19 impact in the quarter. Having said that, obviously the margin was down compared to last year and net that was entirely due to the deleverage effect that we see as a consequence of the five percent organic revenue decline, on the top line. In the 150 basis points impact from commodity and foreign exchange, the major part actually comes from foreign exchange in the quarter. The increase in the silver prices that we saw during the second half of nineteen is still not hitting fully through the P&L due to the hedging combined with a few months of time lag from production until costs hit the P&L. In the prior quarters, you have seen that the cost reductions we are achieving are more or less reinvested into the business and driving the top line. And that's also the case here in the third quarter. We continue to invest. And this includes, for example, strengthening of global functions,

establishment of the digital hub, establishment the global business unit teams, as well as investing in several digital and online initiatives. And then please turn to the next slide. The cash flow in the third quarter, we continue to generate quite a strong free cash flow and a high cash conversion. The operating working capital remained at a low mid-single digit level, in percent of the last 12 months of revenue. And we saw quite a nice reduction in trade receivables. But I would also like to highlight what we're writing in the lower right-hand corner off the slide here, that our net working capital remained at just around zero in the third quarter. And then I should also mention that our leverage ratio was 1.1 and that that is well within our capital structure policy and far below the covenant that we have, the covenant threshold that we have in our loan facilities. So that completes the third quarter Financial Review. And then I'll go to slide twenty three and a couple of comments on the on the guidance. In the trading statement that we made back in early October, we updated the financial guidance for 2020 and the guidance was based on very clear and tangible assumptions about C-19. And the most important assumptions were that, first of all, that there will be no material lockdowns, and secondly, that less than 10 percent of the physical stores would be temporarily closed for the rest of 2020. And with the recently announced lockdowns, both assumptions no longer hold true. There have been material lockdowns and approximately 18 percent of the store network will be closed in November. So that's obviously well above the 10 percent threshold included in the guidance. Nobody knows how the pandemic will spread during the coming days, the coming weeks, and what this means in terms of potential further lockdowns. Under such uncontrollable and external factors, you could say that it would be quite natural to suspend the guidance. But as some of you know, most of you know, we are obliged by the Danish FSA to provide financial guidance. And this is part of the reason why we are not suspending the guidance. Due to the unpredictable development, we have also decided that we would not try to guess or speculate in the C-19 development with regards to geographical, expansion and duration, because we will not be right anyway. So we have decided not to change our financial guidance and the fact is that we will probably be able to deliver on the guidance if there will be no new restrictions other than what has been communicated, announced already and assuming that the current restrictions are fully lifted when they are supposed to end, and that will mean around December 1 for both France and the UK, for example. And the fact that we see that we can deliver on the guidance within these assumptions is based on the strong performance in October and our ability to take consumers online when stores closed down in key markets such as the UK. And then you can ask, do we think that is realistic, that there would be no other lockdowns? And what has been announced so far? No, probably not. But we cannot outline a better or more realistic scenario. And we are just guiding based on the fact as of this morning when we released the announcement. So additional or longer lockdowns clearly represent a significant downside risk to our guidance. And it's not unlikely that we will have to suspend our guidance if more lockdowns will be announced in the near future. And also, there's more clarity about the external environment. Please turn to the next slide, 24. As we've said a couple of times already, October has started out well and continuing the path that we saw from September. But, and that is an important but, we will see weakening already from this week, obviously, as lockdowns take effect. Secondly, you should recall that October is a small month compared with November and December and just above around, just about 20 percent of the quarterly revenue. And thirdly, the peak trading season has not yet started and we do not yet see the full implications from social distancing yet. So the implicit fourth quarter guidance on top line is ranging between minus four and minus 13 percent organic growth and between 25 and 29 percent EBIT margin. And these ranges are obviously wide with less than two months of the trading left. However, this clearly signals the level of uncertainty that we are facing. Given that we've just announced that October sales growth was plus eight and organic growth in the same ballpark, then the implicit

guidance range for November and December is an organic growth of between minus eight and minus 19 percent, roughly. As Alexander mentioned, we are changing our restructuring cost guidance to 1.2 billion kroner. And to understand that change, it should be noted or recorded that the 2020 guidance for restructuring costs before C-19 broke out was 1.3 billion kroner. Then we reduced it to one billion when C-19 broke out as we deliberately slowed down certain cash heavy Programme NOW initiatives. So the change in restructuring cost up to 1.2 billion is mainly related to two factors into the bigger part relates to initiation of projects that were put on hold due to C-19. And then there's a part that's related to execution of the higher cost target that we've just announced. All of the building blocks to our guidance are confirmed compared to the guidance provided in the second quarter report. So that concludes my part of the presentation and I'll leave the word to Alexander.

[00:26:13] Thank you, Anders. Before heading to the closing remarks, I wanted to share some highlights of our new products. As you know, we launched the Star Wars collaboration collection in October, bringing some iconic and really beloved characters to the market. And we have seen some very good early results, in particular in the US Now we are about to launch the annual Christmas collection. This will be a refresh of our base offering and keeping the assortment fresh and interesting.

[00:26:43] The Christmas collection fits very well with our current assortment and will be supported by our collaborations such as Disney and Star Wars. Lastly, I'd like to highlight that we're launching a collars collection in January next year. This is another step to personalise and express yourself through jewellery. It's a collection that will have a broad range as all product categories will be available in colours. Now, go to the next slide for my closing remarks. Q3 was a good quarter and we are pleased with the sell out performance and the EBIT margin given the circumstances. We've had a good start to Q4, but as Anders mentioned, the uncertainty related to lockdowns remains high. We will continue to stay agile and flexible as the quarter evolves, and we'll navigate through new challenges imposed by C-19, just like we did earlier this year. At the same time, we continue to improve the fundamentals of Pandora. The cost savings and brand results of Programme NOW are encouraging and important. With those remarks, we'll now open for the Q&A session.

[00:27:51] Thank you. If you do wish to ask the question, please press 0-1 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 0-2 to cancel. Our first question is from Silky Agarwal from Citi. Please go ahead. Your line is open. Hi. Morning, everyone. So I have two questions, please. One, on October, could you share some colour on how many stores were roughly closed in October, and also a bit of colour on the market? So, which markets? I believe the top seven markets are still outperforming, but importantly, I was looking for some colour on China. Did you see any month on month improvement in China? And also what was selling well? I believe the performance was led by chance, but just wanted to confirm this. And on several prices. They have developed favourably over the past two months. So I was looking to see if you are planning to update or provide more colour on the 21 and 22 gross margin impact. I think your original guidance was around 400 basis, in fact, based on silver prices around 26 dollars. Thank you.

[00:29:05] So before the lockdowns, I mean, I think in early August, we were kind of cruising towards 10 percent and then that kind of came down. So I think the quarter ended roughly at five percent, uh, closed. It should also be remarked that roughly, I think it's 25, 30 percent of the store network also operates with a limited opening hours. And that's in

various parts of the world. Then your second question was on China. The way I would characterise China is before COVID happened, I think we spoke, and had the expectation for the year that China would be down 20 to 25 percent, kind of given that the run rate trends over there. Then we've had COVID in the middle and now we're kind of back to roughly that level.

[00:29:52] So it's in the 20-25 region, let's say. And then I think I'll hand it to Anders on the silver price topic.

[00:30:04] Yeah. As I said on the gross margin impact, there are a number of factors impacting the gross margin. If you look at it on a run rate perspective going forward, the bigger one obviously being commodity prices, silver being the biggest, the biggest part of that. But and as we write in the announcement, everything else equal, if silver prices stays where they are, they will be at roughly 300 basis points, negative impact from higher silver prices mid next year on watch. But there's a couple of other factors going, going the other way. One of them being the cost reduction programme. There will still be some tailwind from, the Programme NOW cost reduction programme going into next year. That would be a bit of tailwind from the Thai Baht which we are not seeing actually in the numbers yet, here in the third quarter. But there will be some tailwind from that from Q4 on watch. So net, I don't think you should expect that we can offset the 300 basis points headwind from higher commodity prices, but we can offset a decent chunk of it. But not all of it on a run rate basis.

[00:31:33] I just want to make sure that we answer the first question. Right. So in October, it has been approximately five percent that we're closed.

[00:31:41] Thank you.

[00:31:44] Our next question is from Lars Topholm of Carnegie. Please go ahead.

[00:31:50] Yes, congrats with an excellent quarter, a couple of questions, of questions from me, so I just wonder the eight percent like for like growth you recorded in October, that's roughly 10 percentage points better than Q3. If I want to have a feel for where that improvement comes from, should I just roughly add 10 percentage points to the Q3, like for like gross for each of your key markets, are there some picking up more, others picking up less? That was the first question. The second question goes more to how you handle this temporary store closure situation when you have to sell in your Christmas collection. How do you decide whether to ship inventory to two stores to e-stores or physical stores and the stores are closed? Is the risk that if they open again in early December, they won't have the right inventory? How do you manage this? Thanks.

[00:32:55] So, this is Michael speaking, I think I'll start with the next question. The first question, because we have we do not want to provide too many comments on the current trading. But what we say is important here is that actually the top seven key markets were already around this, plus eight. They were plus seven actually in Q3. So I would say that the best way to give an indication of this is that the top seven key markets are performing in line with Q3. And then what we've seen is actually the rest that are performing better. For example, Latin America opening up in October compared to Q3. So Latin America was a significant drag on Q3 and not to the same extent in October. So you should look at the rest then some of the top seven key markets go up.

[00:33:43] And on your second question.

[00:33:48] I mean, this is obviously a conundrum, right? Because you're kind of trying to second guess where the next shop is going to close. So we've been doing all sorts of scenario planning here. But I think there are a couple of things which we have done.

[00:34:02] First of all, we have taken our inventory position up in general so that, that's one. And we've tried to hold up a larger portion of that increase back in our DCs, which then allows us to float it to where it needs to go. So that's one point. As you know, we've also added, you know, extra ecommerce in DCs, in particularly in the US, but also here in Europe. So then then you have another point of inventory essentially to manage. And then what we've done with this increased inventory, we focussed that on the top 500 DVs. So it's a lot less seasonal dependent. So even if, you know, the stores would be closed for a period of time, I can still sell this inventory. This is the best, best performing part of our inventory. And of course, then the biggest unknown is the new items. But actually we don't have that many new items. I mean, Star Wars collection was already launched. The other collection that's being launched in Christmas is kind of more a refresh of the base. So it's not a high risk inventory from that standpoint. And that, you know, and then we just have to be very agile. There's actually a daily conference call with all the countries and DCs and the supply chain to manage the situation and move stuff around. So but, of course, when you get very short notice and shut stores, then, of course, there's very little you can do with inventory that sits in in those stores.

[00:35:38] In that context, Alexander, I mean, a typical French store or would get a negative cash flow from Mother's Day more or less until Black Friday?

[00:35:54] So if you either are unable to give them the right inventory or for that matter, if they're not allowed to open in December, would that put some of your franchises into more severe financial trouble and to have a plan ready for that?

[00:36:12] I don't think we have anything in the drawer so far. What we experienced in the second quarter was that the franchisees were very quick on their feet to kind of manage their cost situation. What we've understood from the UK now is that the government is going to put up a similar type of support to business operations, as they did in Q2. So on that basis, probably less so. But I mean, it's true that given kind of, where the volume sits distributed in a year, this is the most important part of the year for not just for the franchisees, but also for us. So if we're into severe lockdowns in this period, of course, it's going to put strain on the system. But so far, if you look at it from the kind of country by country place I think it would be, UK is probably the one which is in a higher risk profile because the US, they've had a good run in Q3. The franchise partners had a very good performance and there the stores aren't necessarily closed.

[00:37:23] France is, as you know, predominantly an O&O market for us. So then you're left with UK that, you know, let's see if they can reopen after four weeks or not. But it's clearly something we keep on our radar.

[00:37:41] Perfect. Thank you. Very good. And again, congratulations.

[00:37:48] Our next question is from Annelaure Bismuth of HSBC. Please go ahead.

[00:37:56] Yes, hi, good morning. I have two questions and actually hear this question. I try not to mention the conferences growth plan to reduce the pollution in China. So I just wanted to know if you can give some example of concrete actions that you have that you

will take and you have already taken in order to rebuild the ground momentum in China. And given your comment about the performance in October. So it seems that China has also improved and in line with the performance of the sell out growth that you mentioned for the 7 markets. And I'm just wondering, in terms of online performance, so what is the exposure of the Chinese market to online? Thank you very much.

[00:38:47] OK, so as I mentioned, I see China as a three step rocket, and what tangible outcome so far is that we have a new management team in place and the last people came on board in the quarter so that, you know, they need to kind of gel in and get their act together. Then the second piece, which I mean, Jack has been working on since he joined, is to improve just our operating discipline, let's say, and start to untangle some of the infrastructure there and getting that in shape. So far, I would not think that we have done anything that you could put under the third pillar, which is more the kind of relaunch of the brand, if you may. That's work that's still to come. I think we've done the base work on analysing what's wrong. So I think we have a good grip on what's wrong. And I think we have a pretty good idea on how to fix it. And now this new team needs to get, you know, get together and start working on that execution. But I wouldn't expect that to have any material impact until into next year, to be honest with you. So now it's more about just doing good operational basics, which, you know, is also not insignificant, given kind of the starting point we had in China. And then from memory last year, Q4 was also starting to become quite soft in China. So I think that the baseline to which we're trading against is quite soft. So I wouldn't write, you know, too much to the October performance. Of course, it's good that it's not deteriorating more. But I don't think we, you should not look at that number and say, now the guys have sorted out China.

[00:40:22] This is going to take some time.

[00:40:28] Thank you. And what is the exposure to online in China?

[00:40:35] Roughly 20 percent, across, essentially, it's through Tmall, we have a tiny bit DTC, but, you know, frankly, insignificant as a couple of orders a day it is not meaningful. So Tmall, 20 percent is kind of the way to think about it currently.

[00:40:54] Thank you so much.

[00:40:58] Next question is from Magnus Jensen from SEB. Go ahead, your line is open.

[00:41:05] Thank you very much. Yes, two questions for me as well. First on your online business, which is doing really well these days, and you say that you are prepared for, you said earlier at least, that you are prepared for around 100 percent growth online. Given that we are looking at lockdowns now both in U.K. and France, but potentially maybe also other places, growth could easily go up to 100 percent, again, as you saw earlier in the year, under the lockdown period. What would happen if you ended up with more than one percent growth? How will you be able to deliver on that? That's my first question. The second question is in terms of your market spend compared to competition, because one of the things you say that has been driving your improvement is clearly marketing, but also that you over the COVID 19 period, have been able to spend more than your competition because of your very good cash position. Is there any way that you can sort of illustrate for us how much more you have spent on marketing compared to competition and how much that means for your improvement?

[00:42:14] That's my true question. Thank you.

[00:42:18] I can give you a solid answer on the first one. The second one is a bit more difficult.

[00:42:23] Let's see if we can figure something out. But so we actually have a little bit more capacity than 100 percent. I think it's to the tune of 130, whatever. But what actually means is it's 100 percent capacity to deliver on the customer promise. OK, so I can deliver more, significantly more, but it's just going to take a little bit longer time for me to ship it to you. OK, because the kind of bottleneck we have is in the picking and packing. The bottleneck is not the inventory. The bottleneck is not logistics. The bottleneck is how many people physically can pick and pack. And that's kind of where we ramped up. We have more packing space. We have more people trained to run. All the systems are running. So that's all kind of done. So the only thing is they can pack. And I'm just making up a number here. Let's say that unit can pack a thousand orders per day. If that goes to 4000 orders, well, they can still pack them, but it's just going to take a longer time. And therefore, today, if you order from us, you should expect to get it in two to three days. Generally speaking, across the world. That two to three days may go to five and six days and it may go to two weeks. So the more the volume shifts online, the longer time it will be before we can actually deliver it. And of course, the sensitivity here is around Christmas, because if I ordered a Christmas gift, it's no good for that to turn up two days after Christmas. So I think that's what it's all about. So we can absorb more than 100 percent, but it's just going to then start encroaching on the customer promise. Then on your second question is an incredibly complicated question, because there is not even a proper report today that says what my share of voice is in terms of media. I have it for a few markets. It's not standardised. The agencies are not providing this. It becomes a bespoke report that we order.

[00:44:23] But anecdotally, what we've seen in the quarter is that our share of voice has significantly improved versus the same period the prior year. But more than that is not really meaningful to get into because it's just not robust enough. But again, we can just see the outcomes in terms of the like for like performance, which has been very, very strong. So that that's as much as I can say.

[00:44:52] That's OK. Thank you.

[00:44:57] Our next question is from Fredrik Ivarsson from ABG. Please go ahead.

[00:45:03] Thank you very much, few from me as well. Following up on Magnus's question there. When you talk about online capacity, how are you considering click and collect there? I mean, hopefully stores can open up by the Christmas or holiday season, but Black Friday could obviously be more difficult in terms of click and collect. I'm just curious about that. That's my first one.

[00:45:33] Well, I'm not sure how to answer. I mean, we have click and collect, up and running in essentially and all of US and I think now is also in all of UK. But of course, if the store is closed then it doesn't really help. I'm not sure how to answer your question in a different way.

[00:46:00] It's alright, maybe if you could just shed some light on the on the share of click and collect versus deliveries in those two countries. So, well, U.K. just started.

[00:46:15] So that's a little bit early. But in the US, we've had it up and running and the industry is what it's been up and running for a while.

[00:46:21] Click and collect typically ends up being somewhere around for four or five percent of the business. That that's kind of where it gets to. But of course, the only other thing I would say in the US is also we have kerbside delivery.

[00:46:35] So people call to the store and then they come to the parking lot and then we conclude the transaction in the parking lot. But that's a US phenomenon. We don't see that anywhere else in the world.

[00:46:47] That's clear. Thanks for that. And second question on performance per market, you obviously report very strong growth and in most of the key markets. But if my math is correct, it looks like all other markets were down around 25 percent in the quarter. And then I think Michael said that those markets have now improved. And I'm curious to hear whether those improvements on the back of just markets reopening or if you also sort of redirected your marketing efforts to get those markets going.

[00:47:24] We can share the answer between me and Michael. I mean, I think we mentioned that LatAm was obviously closed to a large degree during the quarter, which pulled it down. Spain because of, you know, tourists are staying at home, which is also maybe part of explanation why Germany is on fire, because the Germans are staying at home and they're not advocating vacationing down there. And of course not. The entire story network is kind of skewed towards tourism in Spain. It's I think is roughly a third of the stores are more tourists. So, of course, that the volume has gone down and they've had to revert more back into the local customer.

[00:48:04] What else?

[00:48:07] And then we have, I think that that those are kind of the major points. Right.

[00:48:13] And then we have the rest of Asia outside of China, which has also improved, also opened up like Philippines. But yeah, if you look at just mainly the number of those closed and they were a bit higher than they were 10 percent in Q3 and there were let's say around five percent in October. So that alone is also a contributor.

[00:48:42] Our next question is from Klaus Kehl of Nykredit. Please go ahead.

[00:48:47] Yeah, hello. Two questions from my side as well. First of all, if I look at the cost programme, you have now raised the target to 1.6 billion. And as far as I understand, around 1.25 billion are included in the numbers for both '19 and '20. So could you just confirm that there will be an extra delta in the next year of around three hundred and fifty million? Or maybe not a Delta, but at least a cost saving of three hundred and fifty million next year? That would be my first question.

[00:49:23] Hi, Klaus. Yeah, your math is right, so just around 350 million incremental cost savings next year on top of 2020.

[00:49:35] OK, and then my second question goes for your implicit guidance for Q4. And what strikes me is that last year in Q4, you had an even margin of around 35 percent. Your implicit guidance is 25 to 29 percent. So that's a drop of six to 10 percentage points. And you dropped three percent in Q3. So if we just exclude all the lockdowns that we've seen

recently, then it seems to me that you must have included a lot of execution cost or something in your guidance for Q4 or alternatively, you have a buffer at least on the earnings side. Could you comment on that?

[00:50:21] And you are right, I think we spoke a bit about that at the second quarter release as well, that we do see that we need to spend more money to drive the same revenue in the fourth quarter due to the C-19 situation. We need to have basically a full store staff, even though that we expect the revenue to be down compared to last year, because simply it will be more cumbersome to do the transactions in the stores outside of the stores. We will have, if I remember right, is it one hundred and twenty... no it's five hundred and fifty additional, pieces of selling space around the world, additional space that we have rented to be sort of nearby existing stores. But we've been able to sort of expand the selling space so that that comes with, comes with a cost, as well. So that is, so we don't, I think another way to answer it is that we don't see a structural decline in the margin. What we do on these of unusual times that we have, it would cost us more OpEx to drive the, the revenue in Q4. So that's why we see that. So that 25 to 29 percent EBIT margin, in the in the fourth quarter.

[00:51:50] OK, excellent, thank you very much.

[00:51:53]

[00:51:56] Next question is from -Karina Shooter, from Goldman Sachs. Please go ahead.

[00:52:02] Hi, everyone, thank you for taking my questions. For the first one, is online, which has clearly been accelerated due to COVID. And you mentioned some interesting online initiatives on the call, like virtual selling through dock stores. And are you thinking differently about distribution longer term or is it still too early to say that? My second question is on product category performance, and it looks like China is the worst performing category in Q3, while necklaces and earrings showed positive organic growth in the quarter. Should we expect to return to core category outperformance in Q4 helped by the new Star Wars and Christmas collection? Thank you.

[00:52:43] So, on your first question, I think it's way too early to see any kind of significant changes. You can also look at when we reopen stores after the second quarter that in most countries we saw consumers flooding back to the stores. So this whole notion that that people are saying, you know, the retail is dead and everything is going to go online, I just don't subscribe to that, at least not based on the facts that we have experienced so far. But they have to live together in a good symbiotic way, I should say. So if you have a poor e-commerce presence and only a store environment, then it will suffer. That's what we are experiencing in LatAm, for instance, where we didn't have a proper e-commerce trading platform, for instance. And maybe the consumer behaviour is lagging a little bit behind more developed countries. And therefore you see a much bigger hit up to the top line when we only have stores and then they are closed and it's kind of difficult. And then on the other side of the spectrum, you have the UK, which shifts much quicker to online, but still it's roughly a third of the total revenue. So even in the most developed, let's say, Pandora geography, it's kind of hovering around that third 30 percent.

[00:54:03] And then on your second question, how much of that performance we have in is on the organic versus the like for like. You cannot see the like for like but it is correct also from a life like perspective that charms were performing year over year, slightly worse, but this is mainly a focus area. We did focus on the on the base products and especially in the

campaign so far in August and September. This was focussed on the, on the necklaces and earrings.

[00:54:35] Right, thank you.

[00:54:40] Our next question is from Frans Høyer of Handelsbanken, please go ahead.

[00:54:47] Hello, can you hear me?

[00:54:54] Yes.

[00:54:57] I'm sorry. Just a question on the dynamic in terms of voice and how you're going to tactically to adapt one's peers to return and increase their spending on advertising. Will you, will you keep the distance? Will you keep your highish voice or i.e. spend even more than you do now, or is it going to, is that gap going to disappear? Secondly, you mentioned the possibility or the plans to do some video based selling in the stores. And I was wondering if that's a concept that could also be used online. Is that on your, on your radar? And then finally, if I may, a third question regarding franchisees pulling out. It looks like there is a little bit of that going on. And what's on your radar? What can you see? How are the franchisee's plans in terms of closing for the stores?

[00:56:09] On your first question on share of voice, I mean, this is highly speculative, but one would probably assume that when the competition kind of gets into more stabilised position, the ones that survive, I should say, because there will be casualties in this. Of course, we should expect that they will put but, uh, you know, uh, put up a tougher fight that there is no doubt in my mind. But I do think it's not just about the money you spend. It's also what you do with the money, how you kind of target people, where we're getting much cleverer on our spending. We're targeting the right customers. So coming back to this idea of data driven growth, that's one area where we're getting much, much more targeted in in our advertising spend. So one and the other one, which we shouldn't forget, is about brand momentum. You know, once the train is moving, it's not as expensive to keep it moving versus when you have to restart it. So, um, so I you know, I hope that we can maintain a gap, but it will not be as big as it is today of that. You know, that would be almost naive to make that statement in terms of video based selling in stores. We've done, I think we had like 140 different ideas on how to offset the social distancing. This one didn't make it to the final list. So I think out of the 11 that finally went to market, I mean, this was one of them that kind of didn't cut it for various reasons because we also had to make choices. This was a quite slow, because you need to kind of line up all your systems. You need to get screens in all the stores. You know, we've equipped the staff around the world with what is it, with 1500 iPads, uh, in order to improve the kind of cash transaction. That in and of itself was a challenge. So then you can imagine if you want to install things. So we had to be very pragmatic on what can we actually execute, because the point was we need to get this stuff tested. And in the stores before October and when this exercise started, we were in June. So your question is a very good one. But we just said this is a great idea, but we will not be able to execute this fully. So we dropped it.

[00:58:29] It might come back in the future then. On the franchisees pulling out, I think maybe you, uh, are getting that impression by looking at the stores that are closing, both the 25 stores that have been closed from second quarter to the third quarter and the 32 stores that have closed year over year. And if you look at it the other way around, it is true that that the stores that are closed are either the franchise operator or distributor stores. But if you look at specifically the third quarter here, then whether the stores are because

too big a bucket of stores that are closed amongst franchisees is nine in Russia from memory. I was just trying to look in the appendix that we have uploaded and nine from Russia. And in Russia, that's for four percent of the stores in Russia, something like that. And we do have a tail of stores in Russia that that our partner had decided to close down. And then there's a chunk in in Latin America where I think two things. One is that Latin America was much harder hit by the pandemic than and for a long, prolonged period compared to many other parts of the world. And there are some markets in Latin America where the margin is lower than what we see in other parts of the world. That also goes for our own business in Brazil, that, uh, the margin. I think that that is not just for Pandora, but for many businesses. They have a lower margin, uh, operating in Brazil than elsewhere in the world. So I don't think that that's two points. That's no. Uh, so secular trended. And secondly, we should also recall this is just around one percent of the total number of stores that net closed down over the last or the last year, uh, just around one percent. So no, no, no change in that momentum in in on the radar in the next couple of quarters, I think as Alexander said earlier, the partners see the same thing as we do, that there is some temporary noise, pretty hefty noise from C-19. But underlying things, things are clearly improving.

[01:00:57] OK, thank you very much.

[01:01:02] Our next question is from Omar Saad from Evercore ISI. Please go ahead. Your line is open.

[01:01:09] Thank you for taking my questions, very nice quarter. Congratulations. Given the backdrop, especially, you know, I wanted to ask a little bit about the underlying dynamic behind the strong sales you're experiencing. Can you tell if it's new customers coming to the brand or existing ones returning and spending more? Is it more older consumers, younger consumers, people buying for fashion, or is it more the collector types? And then also on gifting versus self-purchases? There a dynamic going on there. Then also would love more details on China, the state of the brand there, and updated thoughts on how to approach the market.

[01:01:45] Thanks.

[01:01:47] A brilliant question, and in fact, this time around, we can actually two degree answer it, because in the US we have now actually we're collecting enough data to give us a solid view. And I think the encouraging thing in the US is on one hand, we are not dropping out the existing customer base at the pace that we used to.

[01:02:09] And we are managing to attract plenty of new customers as well. And the new customer we are attracting, it's kind of driven typically behind the type of initiatives that you drive in the quarter. Pandora was, uh, was a big topic, uh, which obviously then drives, uh, to a slightly younger audience than what we would have on average. So I think and that's a good, good dynamic. Then on your other questions on self-purchasing and I don't have enough data yet to be able to answer that is a very, very specific question. Normally, the way we gather this data is, you know, once a year you make a survey, uh, this is not a fluid data capture that we have in terms of who's new and who's existing. As we, as we mature into using that this data like we've created, then we might be able to give a better answer on that. But I think the important thing is we are holding on to the existing customer or, you know, lapsed users that are coming back as well as new customers. So those are two very important aspects. Then your question on China? Um, I think the answer on China is that unfortunately, um, a market entry back in, I think it's 2016, which was positioned wrongly.

And we've spoken about this in a couple of previous calls. Um, so with that in mind, we went back to the Chinese consumers and asked them, you know, would the, uh, the positioning that we have applied everywhere else in the world, would that be relevant and interesting for you? And the clear answer, both in qualitative research as well as well as in quant research, confirmed that, yes, it's distinctive, it's relevant and it's interesting. Bring it on. So once you've kind of confirmed that the strategic intent in China, now we're kind of discussing and working on it. OK, how do we execute on that? And that's what I keep coming back to. That's going to take a little bit of time just before, you know, I can slap on a piece of advertising is not going to turn the trajectory immediately. This is going to have to be consistent. The way we show up in our stores to type of assortment, we, uh, sell how we merchandise it, um, to windows. We're showing the advertising where and to what degree we're showing. Uh, so there's a number of aspects to this programme. But we will come back in and I think a quarter or two we will detail out a bit more specifics on the on the China plan.

[01:04:45] Great, thank you. Best wishes for the holidays.

[01:04:50] Our next question is from Peter Testa from One Investment. Please go ahead.

[01:04:55] Hi, thanks very much for taking the questions and a couple of questions, please, online, when you talk about 100 or 130 percent increase in capacity. Is that basically Q4 and Q4? So peak on peak? And to what extent is the pick and pack the risk for COVID given density constraints that may arrive then on the click and collect initiatives going forward? Can you just talk a bit about what might be driven by? It needs a spending on it that might drive introduction of service and deepen the online experience. And then just one question on the wholesale. You talked about wholesale timing shifting from Q3 to Q4. Was that already ordered in October or is that still to come?

[01:05:37] Thank you.

[01:05:39] So on your first question, the 100 to 130 percent capacity increase is versus prior year. So prior year, we were already, you know, improving the performance on the e-commerce business as a share of the business, let's say. Um, so that's in relation to two days within this. Of course, what we experienced in the first round was that, um, the way you actually execute the picking and packing in terms of the space, the way you organise the teams is very different from the way you could have done it in the past. So now it's organised themselves. So you belong to a team. You can only move in certain spaces in the warehouse so we don't get cross contamination. We have protocols for when there is an incident on how quickly we clean, because now it's a matter of hours to sort this out, to keep the operation running. We've also, um, we have more sites now as well. So if one site shuts down, like take North America, for instance, there is one down in Texas, there's one in Canada and one in Maryland. They're all connected. So if one would go down, then we can continue ordering. You can still place the order in, you know, in the in the gate, so to speak. And then we will manage to service from different warehouses across the continent. So there's a lot of work that's gone on just to get the operation running on the click and collect roll out. This is partly dependent on the, um, POS system that that sits in the stores. Um, so the unfortunate thing is we have because of a very decentralised way of running Pandora in the past, we've ended up with different tech platforms around the world. Uh, so I think we have, I don't know, four or five different POS systems around. So once we've concluded a rollout in one country, we can't just lift that experience and dropping in on another country that we need to go in and then becomes a little bit bespoke. This is partly also why we're looking at, you know, streamlining all those systems

so we can move much, much quicker. I see Anders is dying to say something here as well. So, um, so there is a global rollout plan, but it is a little bit slow because of the different systems. So we unfortunately cannot scale. But over time we're looking to move to at least one or two platforms only when it comes to POS in order to then also enhance, um, you know, speed or enable, I should say, uh, upgrades, new features, et cetera. Because every time now it's still quite cumbersome. And on the wholesale points, I can confirm that.

[01:08:22] So the, uh. So the law was still in then sell out that we saw in Q3 that's already reversing, uh, here in the first part of Q4. So that means also that the, uh, organic growth was a bit better then sell out the eight percent sell out in the month of October.

[01:08:46] That's great, thanks for the answers.

[01:08:51] Our next question is from Lars Topholm of Carnegie. Please go ahead.

[01:08:56] Yes, a follow up question from Alexander in your opening remarks, you said Programme NOW is now in place and there will be no restructuring costs in 2021. So I just wonder if that is now done. What comes next? Are you thinking at some stage launching a completely new strategy? When would that be? What would focus be able to go from turnaround to growth or how should we think about it? Thank you. Yeah.

[01:09:28] It's a very good question. So in the background, we've been actually working on what comes after Programme NOW, as we obviously should, because we've also said that Programme NOW we thought would be roughly a two year exercise. And we're coming to the end of that. And I think with the results we're getting, we're getting more and more comfortable that, you know, we can hopefully soon kind of raise the flag and say Programme NOW is done. Um, we are halfway through having agreed the kind of new platform, let's say, with the board. So it is a little bit premature for me to detail out anything today. But I think a reasonable expectation should be that somewhere in the first half of next year, we would invite four capital markets day where we are going to share our thoughts on where and where to take the company next. But I think, you know, you should probably not expect a major revolution. I think the company has been promising that in the past. And that's probably what we're going to repeat. You know, we have a solid base. We know how to operate this business. There's still plenty of room to grow, as we're showing now. Uh, so there's still lots and lots of opportunities within the existing business. But I'll probably stop there and then we need a little bit more time to, uh, to finish that work. Of course, it's been a bit cumbersome during COVID to, on one hand, manage a crisis and then on the other thinking about what happens in a few years from now. But I think where we're progressing well in that space, but we still need a little bit of time before it's finished.

[01:11:09] Thank you, Alison. There are no further questions at this time. Please go ahead, because.

[01:11:19] OK, so before closing to call, I would actually like to take the opportunity to thank Michael, this is his last quarter with us. He will be moving on to another company, which we're sad about. But, you know, on the other hand, we're happy. He's a great guy. You've been a major component in helping Pandora in the turnaround. It's been a, um, you know, working to rebuild trust for Pandora comes through being honest, a no nonsense, transparent approach. And I think everybody on the call, which are your working colleagues to a degree, would agree with me. We wish you all the best.

[01:11:58] And thank you very much for the contribution to Pandora. And on that note, we'll close the call for today.