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PNDORA.CO - Q3 2016 Pandora A/S Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Q3 report 2016 conference call. Today's conference is being recorded, and at this time, I would like to turn the conference over to Mr. Jensen, Head of Investor Relations.

Magnus Jensen - *PANDORA A/S - Head Investor Relations*

Thank you, and welcome to PANDORA's conference call in connection with our Q3 2016 results which we announced earlier today. My name is Magnus Jensen from PANDORA's investor relations, and with me today are PANDORA's CEO, Anders Colding Friis, and CFO, Peter Vekslund.

In accordance with the agenda on slide 2, Anders will present some of the highlights for Q3, before Peter will walk you through the numbers in more detail. Finally, Anders will conclude the presentation, and following, we'll be happy to take any questions you might have.

Before handing over to Anders, I kindly ask you to pay attention to the disclaimer on page 3.

Anders, please.

Anders Colding Friis - *PANDORA A/S - CEO*

Thank you, Magnus. Now please turn to slide number 4.

Following a strong first half of 2016, we continued the positive development into the second half of the year. For the first nine months of 2016, we've now increased revenue in local currency with 27%, which is a bit better than last year's 25% for the comparable period.

For the third quarter, revenue increased 18%, or 21% in local currency, to DKK4.6 billion. All three regions continued the positive development, especially EMEA and Asia Pacific, which increased 25% and 47% respectively in local currency. The US continued the solid development with 8% growth and 3% like for like, whereas Latin America continued to be impacted by the weak macro environment.

All the individual product categories increased with double-digit growth for the quarter supported by a continued relevant product offering, including the autumn collection launched during the quarter.

Revenue from our concept stores, including the eSTORE, increased 26% compared to the third quarter of 2015, and during the quarter, we opened 90 new concept stores. The eSTORE generated 3.1% of Group revenue for the quarter compared to 2.5% in third quarter of 2015.

The like-for-like sales growth for the Group, excluding the eSTORE, was 4%, and EMEA and Asia Pacific continued the positive trend, whereas Americas' like-for-like sales for the quarter was flat.

In general, Americas impacted by difficult retail environment and some markets were in negative territory for the quarter. However, the like-for-like in the US was a positive at 3%.

As eSTORE is becoming an increasing share of revenue, we've decided to include the eSTORE in our like-for-like numbers going forward. In the third and fourth quarter of this year, we will provide regional and Group like-for-like with and without eSTORE. And then, starting from the first quarter of 2017, we'll only give like-for-like numbers including PANDORA's eSTORE, as that is also how we operate the business internally.

The Group like-for-like, including eSTORE, was 5%.

EBITDA for the quarter increased to DKK1.8 billion, and corresponded to an EBITDA margin of 39.9% compared to 37.2% in the third quarter of 2015. The improvement was primarily driven by a higher gross margin as well as operational leverage in a number of key markets.

The free cash flow was DKK577 million compared to DKK263 million in third quarter of 2015; and during the quarter, we bought back shares of around DKK1.2 billion as part of our DKK4 billion share buyback program for 2016.

Now please turn to slide number 5.

Before turning to our regional revenue development, I'd like to focus specifically on China which is becoming an increasingly important market for PANDORA.

China, which is expected to be the biggest fashion retail market in a couple of years, is already the world's largest jewelry market with a value of around $100 billion. Furthermore, the country has more than 100 cities with more than 1 million inhabitants, making China a very interesting market for PANDORA.

To date, 6% of our revenue is generated in China, and is increasing fast, with more than 100% growth in the third quarter. Part of the growth is driven by the fact that we are opening new stores. This year, we'll open around 40 new concept stores, and the other part is our like-for-like sales growth, which for many quarters has been extremely strong, and was 40% this quarter.

One of the key drivers for growing like-for-like sales in a new market like China is awareness. Awareness from our consumers is increasing, and our latest statistics show that around 55% of the women in the larger cities in China now know about PANDORA. That is coming from only 35% a year ago.

Another sign of increasing popularity can be measured on a social media platform like the Chinese WeChat where our followers increased tenfold in the last year to around 140,000.

What is very encouraging is that our best-performing stores are spread across China and not only driven by the Tier 1 cities. In fact, we see very strong sales coming from [Tianjin] in the north, Chengdu in the west, Guangzhou in the south; and, of course, Shanghai and Beijing. In other words, we see a broad acceptance and interest in the PANDORA brand across China.

In terms of our store rollout, we currently target primarily Tier 1 and Tier 2 cities, and in 2016, we entered four new cities in China. As you can see from the map to the right, we are broadly based in China, with the majority of our stores on the east coast, of which most are in Beijing and Shanghai. We will, as said, open around 40 stores this year, which is also what we expect for the coming years.

Finally, we launched online on Chinese TMall this October, which provides a further avenue for our consumers in China to purchase PANDORA.

Going forward, we expect to continue opening stores at a controlled but ambitious pace, with focus on prime locations, while improving average store performance by increasing awareness as well as our in store execution.

With that, please turn to slide number 6.

Americas reported DKK1.5 billion in revenue, an increase of 6% in Danish krone as well as in local currency, compared to third quarter of 2015. The like-for-like sales growth for the quarter was flat as the positive development in North America was offset by negative like-for-like development in Latin America driven by Brazil and the Caribbean Islands. However, including our eSTOREs, like for like in the Americas would have been 2%.

The overall growth in the region was driven primarily by the US which generated revenue of DKK1.1 billion, corresponding to 8% growth in Danish krone, or 9% in US dollars.

Despite the difficult retail environment, the US delivered like-for-like sales growth of 3% for the quarter driven by a flat to positive development in all major US regions. Growth was supported by a successful Save More Spend More (sic) campaign launched in September, as well good progress in the US eSTORE. Furthermore, 31 new concept stores were opened in the last 12 months.

As part of the strategy to focus on the branded sales channels, we have decided to close around 700 multi-branded stores in North America in October. We expect that the revenue impact from taking back inventory from the closed multi-branded stores is around DKK150 million, which will be accounted for as a provision in the fourth quarter of 2016.

Furthermore, there will, of course, not be any revenue realized in the stores in the fourth quarter of 2016. In the fourth quarter of 2015, this number was around DKK150 million.

Like-for-like in Canada was high single digit, while revenue was unchanged compared to the third quarter of 2015. The flat revenue was primarily driven by the decision to close more than 100 multi-branded retailers in October 2016 in Canada, and as a result, we had limited sell-in in Q3 ahead of the closures.

Revenue in EMEA was DKK2.2 billion and increased 18% in reported revenue, or 25% in local currency. The EMEA concept store like-for-like growth was 5%, or 6% including the eSTOREs. Excluding the third-party distributors, which include Russia, the EMEA like-for-like development would have been around 10%.

Compared to the earlier quarters, we saw a slowdown in the like for like in EMEA which was primarily a consequence of the slowdown in the like for like in the UK, which represents almost 40% of the EMEA like-for-like number.

Reported revenue in the UK increased 16% in local currency, but decreased 3% in Danish krone, heavily impacted by the depreciation of the British pound. Growth in the UK in local currency was primarily driven by the positive performance in our existing store network, as well as the addition of net 38 concept stores.

Like-for-like growth was in the range of 3% to 5% as we saw a slowdown in the like-for-like growth for the quarter. The low like-for-like is a natural consequence of the UK becoming increasingly developed, but also likely from cannibalization due to the sizeable increase in the number of concept stores in the UK.

Italy and France continued to perform very well, and revenue in the two countries increased with 70% and 35% respectively compared to the third quarter of 2015. The growth was primarily driven by like-for-like growth, double digit in Italy, and high double digit in France.

On this note, let me just shortly clarify that with low double digit, we mean growth in the teens, and high double digit means growth above 30%. Everything between is just labeled double-digit growth.

Revenue in Germany decreased 13% for the quarter. But excluding provisions related to product returns as we clean up the network in Germany, revenue increased 6%. Growth was driven by low double-digit, like-for-like sales growth, partly offset by the closure of around 250 multi-branded stores in the last 12 months.

Revenue in Asia Pacific increased with 46%, or 47% in local currency, to a total of DKK882 million, while like-for-like sales increased 7%. The slowdown in like for like compared to earlier periods was a natural consequence of the lower like-for-like growth in Australia which went from high double-digit to low double-digit growth. Australia makes up more than 50% of Asia Pacific like for like.

Australia revenue increased around 30% compared to third quarter last year driven by low double-digit like-for-like growth, which continues to be driven by very high brand awareness in perception, as well as strong in-store execution. Furthermore, 12 new concept stores were opened in the last 12 months.

Revenue in China increased around 120% compared to last year, and represented around 30% of revenue in Asia Pacific for the quarter.

Finally, revenue in Hong Kong was up 5% in local currency and generated around 15% of the revenue for the region. However, like for like in Hong Kong was negative, primarily due to the number of new stores opened in the last 12 months, as well as the general decline in traffic due to the economic environment in the area.

Now please turn to slide number 7.

With only a couple of months to go in 2016, we are on track to meet our full-year revenue guidance of more than DKK20 million, however, with an expected headwind from currency of around 4% compared to 3% when we reported in August.

Furthermore, as we draw closer to the end of the year we are comfortable in being a bit more precise on our EBITDA guidance, which means we now expect to be around 39% from previously stated about 38%. The vision is primarily based on a better than expected ability to cope with increasing product complexity as well as marginally higher than expected operating leverage.

CapEx and tax expectations are unchanged, whereas we upgrade the expectations to net number of new concept stores to more than 325.

With this, I give the word to Peter, who will give you some more details on the numbers.

Peter Vekslund - *PANDORA A/S - CFO*

Yes. Thank you, Anders, and please turn to slide 8.

For the quarter, revenue from concept stores and shop-in-shops increased 26%. The branded stores contributed with 76% of revenue, up 5 percentage points compared to Q3 2015. Revenue from PANDORA owned stores increased 43%, and represented 32% of the revenue compared to 26% a year ago. The increase was driven by a good performance in our stores and eSTOREs, as well as the addition of 123 new owned and operated concept stores.

The eSTORE represented 3.1% for the quarter compared to 2.5% in Q3 of last year. Compared to Q2 2016, we saw a small decline in the share of revenue from the eSTORE from 4.4%. This was mainly related to the UK, which was negatively impacted by the weaker British pound, as well as the US where the Save More Spend More campaign was not offered on the eSTORE.

Revenue from multi-branded stores decreased 9% for the quarter primarily due to the more than 1,300 store closings primarily in the US, Italy, Germany and Spain. In the US, 208 were related to the upgrade of Jared stores.

Please turn to slide 9.

In Q3, we added net 90 new concept stores to a total of more than 2,000 concept stores globally. Out of the 2,000 concept stores, 563 is PANDORA owned and operated.

Shop-in-shops increased with 160 new stores for the quarter, of which 110 was related to Jared upgrades. During October, Jared finalized the last upgrades, and have now upgraded 222 multi-branded stores to shop-in-shops in total.

Please turn to slide 10.

Revenue from charms increased 10% for the quarter and represented 58% of revenue. Growth in charms was impacted by single-digit negative growth in the US primarily due to lower revenue from the Disney collection, which primarily consists of charms.

Excluding Disney, charms revenue in the US would have increased around 10% compared to Q3 last year. Revenue from charms in Asia Pacific increased around 40%, whereas charms in EMEA increased 10%.

Bracelets increased with 35% for the quarter, and once again driven by a number of new bracelets introduced in the first three quarters of the year, including eight new bracelets in Q3.

Rings generated revenue was DKK686 million, corresponding to 11% growth. Rings in EMEA and Asia Pacific increased with around 25% and 50% respectively, while rings revenue in Americas for the quarter was impacted by the decision not to repeat a ring campaign in North America which was launched last year in the beginning of October, and instead, we focused on earrings.

Revenue from other jewelry, which contained earrings and necklaces, increased with 67% for the quarter. As a consequence of our increased focus, revenue from earrings increased around 100% compared to Q3 2015, supported by among other things the aforementioned earring promotion in North America. Revenue from earrings for the quarter corresponded to 6% of total revenue compared to 4% in Q3 of last year.

Finally, revenue from necklaces increased with 40%.

Please turn to slide 11.

Gross profit was DKK3,464 million, corresponding to a gross margin of 75.1% compared to 74% last year. The increase was mainly driven by a tailwind from favorable raw material prices having a positive impact of roughly 1 percentage point, and an increase in revenue from owned and operated stores also with a positive impact of around 1 percentage point.

Production complexity as well as unfavorable exchange rates had a negative impact of approximately 0.5 percentage point each. Furthermore, the gross margin in Q3 2015 was impacted by approximately minus 1 percentage point due to the takeover of distribution in China.

Regarding the raw material prices, our expectations for 2017 and 2018 are unchanged based on current prices, and we expect a headwind of in very rough numbers around 1 percentage point for 2017, and a headwind of around 2 percentage points for 2018 and onwards, both compared to the full-year 2016; and, of course, under the assumption that commodity prices stay unchanged.

Sales and distribution expenses increased 16% to 20.3% of revenue compared to 20.6% one year ago. The increase was primarily driven by the increase in activity, as well as more owned and operated stores. The decrease in percentage of revenue was primarily driven by operating leverage, particularly in Southern Europe and China.

Marketing expenses was DKK360 million and unchanged compared to Q3 2015. As a percentage of revenue, marketing expenses was at 7.8% for the quarter compared to 9.2% in Q3 2015. Part of the reason for this decrease in ratio is that we now have a higher share of owned and operated revenue which compared to wholesale revenue, demands a lower marketing spend relative to revenue.

Administrative expenses for the quarter increased 17% to DKK451 million, equal to 9.8% of revenue, compared to 9.9% for Q3 2015. The absolute increase was primarily due to ongoing higher IT expenses as well as an increase in headcount, particularly in IT.

Now please turn to slide 12.

The Group EBITDA for the quarter was DKK1,842 million, up 27% compared to same quarter last year, equal to a margin of 39.9%. Americas increased the EBITDA margin by 0.9 percentage point to 35.7%. The increase was primarily driven by improved gross margin.

EBITDA margin in EMEA was up 2.5 percentage points to 43.9%, primarily driven by higher gross margin supported by operating leverage in the region due to the higher revenue primarily in Southern Europe.

The EBITDA margin for the Asia Pacific region increased 7.4 percentage points to 37.3%. The increase was driven by operational leverage, particularly in China, which improved the EBITDA margin with around 2 percentage points. Furthermore, the margin for Q3 2015 was negatively impacted by roughly 5 percentage points due to the takeover of distribution in China.

Please turn to slide 13.

The operating working capital at the end of the quarter corresponded to 19.8% of the preceding 12-month revenue, an increase of 4 percentage points compared to the end of last quarter. The increase was primarily due to higher inventories as well as trade receivables.

The inventory increase was primarily due to more owned and operated stores, as well as a planned inventory buildup ahead of the Christmas collection. Comparing to Q3 2015, the increase was mainly due to Q3 last year being a bit too low, whereas we now have a very healthy inventory level.

The increase in receivables was due to revenue in the third quarter being skewed towards the end of the quarter, particularly in the US, with the success of the Spend More Save More campaign. And similar to last year, we have allowed extended credit terms ahead of Christmas in selected markets.

Comparing to Q3 2015, the increase was mainly related to a higher share of revenue from Italy, which is one of the countries that allows extended credits ahead of Christmas.

Q3 CapEx was DKK324 million compared to DKK384 million in the same quarter last year. CapEx for the quarter was primarily related to the opening of owned and operated stores, investments in Thailand, as well as IT infrastructure projects.

We ended Q3 with a total interest bearing debt of DKK4.8 billion and a net cash position of DKK438 million. Our net interest bearing debt to EBITDA at the end of the quarter was 0.6, which is in line with our capital structure policy.

And with this, I will hand over to Anders who will summarize the quarter.

Anders Colding Friis - *PANDORA A/S - CEO*

Thank you, Peter. So please turn to slide number 14.

So in summary for the third quarter, revenue increased 18%, 21% in local currency, driven by all regions and categories. We continued the rollout of concept stores with the addition of 90 new concept stores during the quarter. Online presence was established in Canada and China. Gross margin was 75.1%; the EBITDA margin 39.9%. We had a free cash flow of DKK577 million, and the revenue guidance [intact]. EBITDA now expected to be around 39%.

So all in all, a second quarter for PANDORA where all of our employees across the world [have] done a remarkable job.

We're now open for any questions to the quarter. Operator, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Kristian Godiksen, SEB Equities.

Kristian Godiksen - *SEB Equities - Analyst*

A couple of questions from me, please. Maybe firstly if you could explain the discrepancy of 6.5 percentage points between the sales-out like-for-like growth of 4%, excluding the eSTORE, and the 10.5% for the organic growth.

The way I see, you have -- some of the discrepancy is 1 percentage point is from the eSTORE, and then 2 percentage points is due to the difference in the weighting of the distributor markets. So maybe if you could explain what the remaining 3.5 percentage points is.

That would be my first question.

Secondly, when should we expect an annualization of the O&O store openings in Hong Kong, and hence expect the like-for-like growth to reverse and be positive?

That would be the second one.

And the third one, you mentioned that operational leverage on sales and distribution from the existing networks was more than 2 percentage points primarily due to Southern Europe and China. But I guess what about Germany? That should also contribute significantly, I would assume, as it's primarily an O&O market and you have generated double-digit like for like in Germany.

Thank you.

Anders Colding Friis - *PANDORA A/S - CEO*

Thank you, Kristian, for your questions.

I think that some of the calculations that you're trying to do is actually, we have to say, quite impossible, because we are comparing apples and pears. When we talk about one-half of our organic growth, or one-half of our growth coming from organic, we look at our -- the sales into the stores and sales out of the stores which has been open for more than 12 months. We can't build that based on the like-for-like numbers. And I think we've tried to give a little bit of flavor on the reason for that in this quarter.

If you compare a couple of markets in Asia which is, I think, a good example, you have an Australian market which is representing more than 50% of our like-for-like numbers. And then you have another market, which is China, which is a little bit more than 10% of our like-for-like numbers. Those two numbers are from a business perspective equally big now, but when you build our like-for-like numbers, you get very, very different results.

If I should take another example then, look at Russia. Around 10% of our total stores are in Russia, but the Russian market is only representing again roughly in the regional weight in EMEA 15%.

So, therefore, you can say that it is very difficult to build this, and I think this quarter is probably the best example why it is not possible.

Kristian Godiksen - *SEB Equities - Analyst*

Okay.

Anders Colding Friis - *PANDORA A/S - CEO*

And then I think you will take the --

Anders Colding Friis - *PANDORA A/S - CEO*

As to the annualization in Hong Kong, we have opened six concept stores in the last 12 months and two concept stores in Q3. So I'd say all concept stores in Hong Kong will be in the like-for-like numbers in Q1/Q2 next year.

The question around operating leverage, again, it is primarily due to Southern Europe, being Italy and France and also China. And you mentioned Germany. Germany is, however, only 10% of the revenue in EMEA, whereas Italy is 25%, so reason being that the revenue in the countries where we see leverage is way bigger than in Germany.

Of course, as we have said, we are working to increase the revenue in Germany, and that will give some leverage, but it takes a bit of time in Germany.

Kristian Godiksen - *SEB Equities - Analyst*

Okay. Just maybe just one follow-up. So on the like-for-like sales-out compared to the organic growth, which metric is the one you think we should focus on then?

Anders Colding Friis - *PANDORA A/S - CEO*

Well, I think that it's meaningful to look at both, actually. The only thing is that with the weight that we have, just for the sheer mathematics of it, a market like the UK or a market like Australia gets a very, very heavy weight whereas a market like China gets very little weight.

So I think it's of course interesting to follow the like-for-like numbers, but clearly, if you look at how the business is developing, it is important to look at the 21% that we have in growth for the quarter, and that is the really important number.

Kristian Godiksen - *SEB Equities - Analyst*

Okay. Maybe just one final household question. Am I correct to assume that the new O&O stores impacted EBITDA margins negatively by 1 percentage point? As you're right; the gross margins improved 1 percentage point but sales and distribution increased to 2 percentage points. And what should we expect going forward from that as the store base also increases?

Peter Vekslund - *PANDORA A/S - CFO*

You're right on the numbers you mentioned and what to expect forwards. Again, an average owned and operated store, same margin as the rest of our business, will be variations between the markets. The stores we're opening in China we see a pretty fast ramp-up and also very healthy EBITDA in those stores.

Kristian Godiksen - *SEB Equities - Analyst*

Okay. So basically, just to get a feel for that, so already now Chinese stores, once they've been open in 12 months, they should be margin neutral, or are they margin-accretive?

Anders Colding Friis - *PANDORA A/S - CEO*

There's differences, you can say. So, yes, they are doing well and we've actually seen a very good development in China. If you look at another market like Germany, of course, as we are building it, we don't have the same margins. Go to another place in the world like Brazil, we will never get to those margins. So I think that there is a good basket of different opportunities in different markets.

Kristian Godiksen - *SEB Equities - Analyst*

Okay. Thanks a lot.

Operator

Michael Rasmussen, ABG.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

Three questions from my side also. First of all, if you could add a little bit more details on the marketing costs, both the level we saw in the third quarter, i.e., below 8% of revenue. Should we expect this to continue into 2017 as the O&O share I would expect to continue to grow?

And then my second question is on the UK. Am I right in my assumption that charm sales are actually declining in the UK right now?

And then finally on the US and the Q4 provisions. What kind of margin assumptions should we have on the DKK150 million?

Thank you.

Anders Colding Friis - *PANDORA A/S - CEO*

I'll do the first one.

Marketing costs, as we see it, of course varies from quarter to quarter; and depending on how much trading there is in the fourth quarter is relatively big for us.

Clearly, as we increase our share of owned and operated, it will have a little bit of a percentage-wise deflation on the marketing. But I think that when you look at it for modeling purposes also in the future, we will do our utmost to make sure that we keep a good relationship to our consumers, so still expected to be in the 9% to 10% area.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

Okay. So no leverage on (multiple speakers).

Anders Colding Friis - *PANDORA A/S - CEO*

You asked -- and the charms in the UK, yes, they decrease in Danish currency.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

But what about in local currency? It seems like that category is slowing a little bit versus the other categories in the UK.

Anders Colding Friis - *PANDORA A/S - CEO*

In local currency they are increasing slightly.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

Okay.

Anders Colding Friis - *PANDORA A/S - CEO*

And then, the last question was about the US provision that Peter will (multiple speakers).

Peter Vekslund - *PANDORA A/S - CFO*

Yes. Around the US provision, just to the numbers, it's DKK150 million for taking back inventory. If you apply the average Group margin of that, then that will probably be a good assumption for that, and that would be booked in Q4 as well, so [right in] the announcement.

Then the stores we are closing last year in Q4, they had a revenue of around DKK[150] million. And, of course, we do the closings in order to have that revenue in some of our concept stores. How much, time will tell as Q4 develops.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

Great. Thank you very much.

Operator

Chiara Battistini, JPMorgan.

Chiara Battistini - *JPMorgan - Analyst*

First question on your full-year guidance for the -- for sales. On my calculation, that implies that Q4 growth should be broadly in line with the Q3 growth, although the [concept] (inaudible) and you have this negative impact from the closures in the US. So I was wondering whether you could give us more color on what drivers of acceleration is that you're expecting to take place in Q4, please.

Then overall on the US, could you please spend some -- or give us more color on the US market generally? And it's great to see your like for like still tracking on positive like for like, even without online, which is a stronger performance versus some of your listed peers. Could you please maybe tell us what you're doing back there or differently from peers in the US, please?

And finally, a clarification on your guidance for the gross margin pressure from raw materials. You mentioned that this has not changed versus what you gave us at Q2, although raw materials have got cheaper versus Q2. So I was wondering why the guidance has not changed on that, please.

Thank you.

Anders Colding Friis - *PANDORA A/S - CEO*

Thank you, Chiara.

First, our full-year guidance. We expect to do more than DKK20 billion and that is our full-year guidance. And clearly, what we can see is that there are, of course, small deviations also in currency, but that is the number we have for you at this time.

Peter Vekslund - *PANDORA A/S - CFO*

And maybe just adding, if you do the calculation on Q4, you could say our above DKK20 billion in revenue guidance, if you go exactly on DKK20.0 billion, that implies an 11% growth in Q4, but it is a guidance above DKK20 billion for the full year.

Chiara Battistini - *JPMorgan - Analyst*

But with more FX pressure in Q4 compared to Q3?

Anders Colding Friis - *PANDORA A/S - CEO*

Sorry. Could you repeat that?

Chiara Battistini - *JPMorgan - Analyst*

With more FX pressure; this 11% is including FX pressure. Correct?

Peter Vekslund - *PANDORA A/S - CFO*

Yes. Overall you are right that the full-year currency impact is around 4%, and the prior quarters have been just below 4%; 1% in Q1, 5% in Q2, and 3% in Q3. So a bit more pressure on currency in Q4. That's right.

Anders Colding Friis - *PANDORA A/S - CEO*

But still we stay above DKK20 billion.

Thanks for the comments on the US. We're also very happy with the development that we see with the 3% increase in like-for-like numbers. And if we look at it, we see a good development across the US; so we have a good development in all the different parts of the country. If we look at what is it that is supporting us, I think that in the US we've seen, not least in this quarter, a strong development in our rings. And -- sorry; earrings. And that has, of course, supported it.

So I think that what we can do is that we can move into some of the newer categories and we can see good traction.

Now remember that earrings is actually the biggest segment in jewelry in the US, so that's of course good support for us.

And then on the guidance of raw material, I'll leave that with you.

Peter Vekslund - *PANDORA A/S - CFO*

Yes. On the raw materials, you are right. Raw materials prices they go up and they also go down a bit; and recently they have been declining a bit.

However, the guidance we have given is in round numbers; it's around 1 percentage point negative next year and around 2% in 2018. That is round numbers and you need to get to the decimals to have the impact of the recent changes in raw material prices.

Chiara Battistini - *JPMorgan - Analyst*

Okay. Understood. Thank you.

Maybe can I just follow up on the organic growth for the quarter 4? Are you expecting any acceleration versus Q3; anything that is going to turn more positive and driving faster growth in any of the regions that is implied in the guidance?

Anders Colding Friis - *PANDORA A/S - CEO*

I think that what we see is that we expect that with the product offering and the Christmas collection that we are putting out in the market, we expect that to be well received. We can also see that the Rose collection that we have now put into a broad -- to all our markets has been very well received. So we are encouraged with the development that we're seeing, and that's also why we expect to be able to stay with our guidance.

Chiara Battistini - *JPMorgan - Analyst*

Great. Perfect. Thank you very much.

Operator

Lars Topholm, Carnegie.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Just a couple of questions. So Latin America and Russia are clearly two of the geographical areas dragging down Group like for likes. Can you give us some flavor as to what Group like for like would have been if we strip out these two? And related to that, when will these headwinds in Latin America and Russia be in the comps?

Then a clarification question. Anders, you mentioned that when you claim something grows double digit, it's more than growth in the teen and less than 30%. So when you write like for likes in Germany, Italy and France grew double digit, does that mean each of these markets grew in the 20s, or how should I look at that?

And, yes, that's basically it for now.

Anders Colding Friis - *PANDORA A/S - CEO*

Well, let's start with Latin America and Russia.

Russia, I think we know where that is. It has been a situation in Russia for a year now where we've seen negative like-for-like numbers, so we are in the fourth quarter coming negative numbers.

Now what we don't see is a big change in the financial or economic environment in Russia, and that, of course, will be something that potentially could support our development.

In Latin America, or rather you can say there are two areas where we have challenges, and that is Brazil; and also especially because we have a lot of stores there in Puerto Rico. And in Russia, we can see that -- sorry; in Puerto Rico, it is around 15% of the like-for-like number totally in the Americas.

What we see is that we don't see a stabilization yet in Brazil, but hope to see that soon, whereas when we talk about Puerto Rico, it's about them having a debt problem that has to be solved by support from the US Congress as Puerto Rico is part of US territory without being a state. So hopefully, when the election is over, there will be an option for them to get a little bit support and thereby also change the market dynamics a bit.

Maybe just saying that Russia is 15% of the like for like in EMEA, but as we also know, just about or around 1% of our sales for the Company.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Based on that information, is it correctly calculated that your like for likes in Latin America is down around 20% and Russia down between 30% and 35%?

Anders Colding Friis - *PANDORA A/S - CEO*

I don't think we can be that specific, Lars.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Is it a wrong calculation?

Anders Colding Friis - *PANDORA A/S - CEO*

I think you are exaggerating numbers here, but anyhow, I don't think we give exact numbers for that.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Okay. But Latin America, when is that in the comps?

Anders Colding Friis - *PANDORA A/S - CEO*

That would be in the comps --

Peter Vekslund - *PANDORA A/S - CFO*

Say in Brazil, we opened 25 stores in the last 12 months out of 82. So say over the next year, then one-third of the stores will roll into the like for like.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Okay. Thank you very much.

Operator

Elena Mariani, Morgan Stanley.

Elena Mariani - *Morgan Stanley - Analyst*

A couple of follow-up questions from me, please. One is on marketing again.

It looks slightly weird to me that marketing as a percentage of sales is down so much in the quarter. And if we had assumed a slightly higher percentage of sales, clearly, our EBITDA margin would be a bit below. So could you explain a little bit better the reason why you require a lower marketing spend in owned and operated stores?

And then you're saying that you have an unchanged guidance of marketing as a percentage of sales of between 9% and 10%. Is this specifically for 2016, or is this for the medium term? So how should we think about that also in the fourth quarter, please?

The second question is around the full-year guidance on sales. So you've increased your planned number of openings for the year but guidance is unchanged. Should we assume that perhaps you expect a lower like for like in Q4, so you're somehow compensating with new store openings?

And then the third question is again about the US. You're saying that you've had a bit of slowdown in charms in the US market; you did a Disney collection. Can you give us further color on that one?

And also, on the change in promotions, this time we had an impact from rings. Should we expect something in the upcoming quarter, or anything that we should note on that front or in any other markets?

Thank you very much.

Anders Colding Friis - *PANDORA A/S - CEO*

Well, we'll try. Lots of good questions here. Let me start with the marketing.

If we look at this year, we expect to -- and we don't have a guidance but we have an indication, and indication is around 9% this year for marketing as a percentage of our revenue.

Maybe relating to the owned and operated and franchise and our guidance on marketing, when we do an owned and operated stores, we will actually double our revenue, and that would mean that the percentage would, if you just had the same number, be halved.

So therefore, as we move a little bit further into owned and operated stores, we expect the overall spend on marketing to go down a little bit. At the same time, what we do is we do what we find is relevant. I can assure you that we are not holding back on marketing. We do everything that we find is meaningful. And also, going into the fourth quarter this year, this will be at a time when the spending is going to increase a bit, because this is where we really need to make sure that we get a good communication to our consumers.

I hope that clarified the marketing question (multiple speakers).

Elena Mariani - *Morgan Stanley - Analyst*

Sorry. One slight follow-up on this one. So if this percentage over sales should come down, so you're saying that overall your medium-term guidance in unchanged, so how should we tie up the two things? Sorry. I'm just trying to understand this better.

Anders Colding Friis - *PANDORA A/S - CEO*

What I'm saying is that this year we expect marketing to be around 9% of our revenue. And then I say next year we haven't made our plans for that and we haven't said anything about it, but I think that you should probably think -- we've said historically around 10%, and I think that what you should expect is between 9% and 10%.

But it's also driven by how we develop in different markets. Take China as an example, or for that sake, Germany. We're rebuilding in Germany and we are building in China. And clearly, we want to make sure that we do some extra spending in those areas to make sure that our brand stands as strong as possible.

We can see already now in China, for instance, that the work we've done so far has paid off with an increase in our awareness in the market, and that's clearly something that we will continue developing over time. But we will spend the necessary funds on marketing and building our brand.

Elena Mariani - *Morgan Stanley - Analyst*

Great. Thank you.

Peter Vekslund - *PANDORA A/S - CFO*

Then I can take the question regarding concept store openings and impact on full-year guidance.

So first of all, we have a guidance of above DKK20 billion and opening additional 25 stores which some of them are owned and operated, some are franchise stores, but there are also some distributor stores. And distributors, they operate a central warehouse for the country.

So there's a big variety on revenue on those, and the openings are coming late in the year. So there is, of course, some impact, but not a lot.

On the other hand, we also close the 700 unbranded point of sales in the US, which brings down the full-year -- will have an impact on the full-year revenue. So these two elements work in opposite directions.

Anders Colding Friis - *PANDORA A/S - CEO*

And then you ask about the slowdown. Now, clearly, when we look at charms, when we look at our charms sales in the US, last year, we had the novelty impact of Disney, and that we don't have to the same extent this year. And that, of course, has an implication for our sales.

Then rings and then earrings change from quarter to quarter, and one of the things that we've previously said which is very important for us is that we don't become too predictable in our promotions, and that's why we change them around.

So if we look at rings, last year in the beginning of the fourth quarter, we had a ring promotion and we sold in towards that in the third quarter. And that, of course, gave us quite some extra sales in the US for rings in the third quarter of last year. This year the same promotion is on earrings, and that means that we've sold in a good bit of earrings to the stores prior to that.

So that will change from quarter to quarter and I think that when we look at the development of our categories, we have to look at it over a slightly longer period of time.

Elena Mariani - *Morgan Stanley - Analyst*

Thank you very much.

Operator

Antoine Belge, HSBC.

Antoine Belge - *HSBC Global Research - Analyst*

So the first question for me is on the like for likes. They were a bit below 5% for the first time. What's your long-term view about like for like? Is it still around a mid-single-digit number? And especially Asia being below 10%, is it something normal for you?

My second question relates to the UK. I think you mentioned the word cannibalization from stores impacting like for likes. So is it something you're happy with, or is it something that you are intending to tackle maybe by streamlining the store network in the UK?

And finally, regarding your new facilities in Thailand, you mentioned some tax exemptions. So how is that going to impact your tax rates going forward?

Thank you.

Anders Colding Friis - *PANDORA A/S - CEO*

Like for like what you're asking is how do we see this. Well, I think that what we have indicated also previously is that over time we would expect our like for likes in more developed markets to be more normalized.

I think we've used numbers like 3% to 5% previously. It can be a little bit lower, it can be a little bit higher. But I think it's just giving a framework of what we expect in more developed markets. And as we are seeing more of our markets being more developed, clearly, that is going to have a slightly higher impact on our numbers also going forward.

I think that when you look at Asia Pacific specifically, you can say that's where we have this bias with two markets, Australia and China, which is actually in our total revenue of exactly the same size, but Australia in the like for like is representing more than 50% and China around 10%.

So that gives a little bit of the bias and, of course, not a total representation of how our sales is there.

When we look at the UK, we are actually pretty happy with the cannibalization in the fact that what we want to do is to develop a good and strong footprint. And maybe the best example we've had historically is actually Hong Kong where we were running out of retail capacity. We built a lot of new stores. We got into negative like-for-like numbers. But at the same time, we saw our Hong Kong business continuing healthy growth in a very difficult environment.

It is a little bit the same thing that you'd see with the UK. In the UK, we have opened stores. Some of them are closer located to existing stores which are like-for-like stores, and that will have an impact.

But we are still committed to building the right network, and we will not, at any time not open a store because we want to keep the like-for-like numbers at a certain rate. So we will do what is right for the business going forward.

When we look at our new facility in Thailand, it is correct that we have the same BOI arrangement for the new facility as we have for our existing facilities. The reason why we continue developing in Thailand is because when you get right and good and skilled labor so that is the driver of that, and it has no impact on our expectations for our tax rate as it is actually the environment that we are already operating within in Thailand.

Antoine Belge - *HSBC Global Research - Analyst*

Okay. And maybe a follow-up. I think I was very interested by the strong [increasing] from the [wellness] with the Chinese customers. Is that --? I think also an impact on sales to Chinese consumer abroad. So maybe could you give maybe a evolution of how much Chinese spending abroad represent of your total sales and how that has evolved versus maybe one or two years ago?

Peter Vekslund - *PANDORA A/S - CFO*

I don't think we have a number for that. Clearly, the Chinese they love to shop when they are travelling, and there's no news on that. And we see them also visiting us in Australia. We don't have a number for this.

I think one of the things that I find is quite interesting with PANDORA is that our tourist sales in general was relatively low. And so it's mostly locally based, and I think that what we see in China is also very, very strong locally-based sales.

Antoine Belge - *HSBC Global Research - Analyst*

Thank you.

Operator

Klaus Kehl, Nykredit Markets.

Klaus Kehl - *Nykredit Markets - Analyst*

Three questions from my side as well.

The first question is, when I look at the online sales, it seems to me that it's declining compared to second quarter of 2016. Is there any particular reason for this?

THOMSON REUTERS

And secondly, a couple of questions related to your net working capital. It's now on the rise and has been that for quite a while. And I understand that you are building up inventories ahead of Christmas, but could you give us any indications for where it could end, end of the year?

And in that respect, also you mentioned extended credit lines in some markets, and I believe that you mentioned Italy. But could you elaborate on that point as well?

Thank you very much.

Anders Colding Friis - *PANDORA A/S - CEO*

This is a sharp observation that our online sales was actually 4% in the second quarter and 3% in this quarter. It will fluctuate over the year, and it's going to be very interesting to see how we are going to end up in the fourth quarter.

I think there's one big reason, and that is the Buy More Save More (sic) campaign that we had in the US was not available online. So I think that's one thing.

And the other thing, and that's just a reflection on the British pound, it has gone down and, of course, that also means that our sales transferred into Danish currency is a little bit less.

So that's it, and I think Peter will take the --

Maybe I should say one thing about our inventories and then Peter can cover the rest.

We are very happy with the fact that we have now -- historically we've been struggling to have enough inventory going into the fourth quarter. Now we have a good support from our manufacturing facilities. So I'm personally very happy with the fact that we have good inventories and we can cover the needs from all our consumers around the world.

So Peter will give you a little bit more flavor on that.

Peter Vekslund - *PANDORA A/S - CFO*

And maybe starting on the receivables, just to start with our standard terms of payment, and that is a running month plus 30 days which gives day sales outstanding of, say, in the [45] plus or minus category.

In Q3 in Italy, we gave some extended Christmas terms to make sure that the stores, our franchisees, they have the right stock or inventory ahead of Christmas. All that is being paid before Christmas, and it's only granted, of course, to good customers with a proven payment record. And historically, we have had to close zero losses on debtors.

In terms of the inventories, as Anders said, we are happy on the inventory level that we have in Q3. And also, if you look historically at the numbers, then inventory to cost of goods sold, also inventory to revenue, that ratio has either been pretty stable or declining if you look at the percentage of sales.

So overall, no concern on inventory or receivables from our side.

Klaus Kehl - *Nykredit Markets - Analyst*

Okay. So just a follow-up. So you say the extended credit lines, that's only related to Italy, no other markets?

Peter Vekslund - *PANDORA A/S - CFO*

In Q3, it's primarily Italy. In Q4, we will grant that also in a couple of more markets, including the US.

Anders Colding Friis - *PANDORA A/S - CEO*

And US is also -- you can say we had a very, very good strong campaign just by the end of the quarter, so the replenishment in the stores, of course, were done slightly before the quarter ended, and that of course goes into the receivables. So we will see fluctuations like that.

Klaus Kehl - *Nykredit Markets - Analyst*

Okay. Thank you very much.

Operator

Piral Dadhania, RBC.

Piral Dadhania - *RBC Capital Markets - Analyst*

If I could just start with your revised margin guidance. I presume that that includes the dilution we're going to get from the buyback of inventory in the US and the potential lost sales in the US market which you've quantified at DKK150 million each. So I guess the revised 39% EBITDA margin, the way I look at it suggests an even higher underlying margin upgrade on the basis that there is some dilution from that buyback. So can I just confirm that the revised guidance is inclusive of all those US moving parts?

Anders Colding Friis - *PANDORA A/S - CEO*

Confirmed.

Piral Dadhania - *RBC Capital Markets - Analyst*

Okay. Fair enough. Thank you very much.

And then just secondly, just thinking about the US store closures that you guys have announced this morning, am I right to think that 700 store closures out of a network of broadly 1,500 or so multi-brand points of sales, that is, is roughly one-half of the network? I was just curious as to what the rationale behind such a material change in your distribution strategy in the North American market, what's driving that; and if you could just provide some more color on the rationality behind that decision.

Anders Colding Friis - *PANDORA A/S - CEO*

I think the rationale behind the decision is that we want to have a good branded network also in North America, and what we have been aiming at is taking out the stores which are either unbranded or not branded to the level that we want it to be. So those are the stores that we have chosen to close.

Now at the same time, we have also over the year upgraded the Jared stores to shop-in-shops, so they are taken out of that number and then put into shop-in-shops which we believe is a good representation of our brand.

So what we've seen across the world is that the stronger we stand with our branded -- with branded representation in retail, the stronger development we see in our brand. So that is the rationale behind it, and I can say now we have the chance to do a bit more in the US so we believe that we've done good cleaning up this year in North America.

Peter Vekslund - *PANDORA A/S - CFO*

Just in terms of the numbers, you are right that this is around one-half of the unbranded stores in both Canada and US that we are closing.

We will, as we have said, focus on concept stores and shop-in-shops, but also in some markets we will have gold stores, which is also a branded environment, because there's basically not enough people in a given city to hold a concept store. But the silver and the white accounts, those we are closing in all markets.

Piral Dadhania - *RBC Capital Markets - Analyst*

Okay. Understood. And just a clarification. Will all those closures take place in the fourth quarter of this year, or will some of this spill over into next year?

Anders Colding Friis - *PANDORA A/S - CEO*

It will be done in the fourth quarter.

Piral Dadhania - *RBC Capital Markets - Analyst*

Okay. Brilliant. And then just finally, are you able to give any comments on current trading since October? Obviously, as someone else mentioned, the comparatives do get a bit tougher in the fourth quarter for you. I just wonder if there are any early indications around the like-for-like evolution if possible.

Thank you very much.

Anders Colding Friis - *PANDORA A/S - CEO*

I think the only thing we can say is that we feel comfortable with the guidance we have of more than DKK20 billion this year.

Piral Dadhania - *RBC Capital Markets - Analyst*

Brilliant. Thank you.

Operator

Frans Hoyer, Jyske Bank.

Frans Hoyer - *Jyske Bank - Analyst*

On the like-for-like sell-out calculation that you do, how many percent of your sales do these shops included to that calculation actually cover? Is it round the 50% mark I think you've mentioned before?

Anders Colding Friis - *PANDORA A/S - CEO*

No. It's more like the 90% mark. When you look at the like-for-like numbers from our concept stores, it would be about 90% of all the stores.

Frans Hoyer - *Jyske Bank - Analyst*

Not just your own concept stores but all concept stores?

Anders Colding Friis - *PANDORA A/S - CEO*

All franchise and our own.

Frans Hoyer - *Jyske Bank - Analyst*

Yes. Understood.

Okay. A question regarding the Rose collection. Just could you expand a bit about how that rollout globally has worked and where you see this developing in the future? Is it here to stay? It is a rather novel concept at PANDORA.

Anders Colding Friis - *PANDORA A/S - CEO*

The answer is we are very happy with the development that we've seen. We started in the US. As this is a plated product, we wanted to make sure that the consumers got it, but also that we didn't get any reclamation on it. We haven't seen that. And we did it in the UK and now we've done it in the rest of the world. And the first indications we are getting is that we are getting some healthy support from the launch of it.

It is a collection that we expect will stay with PANDORA and it gives us an opportunity to also more on colors in our collections, but also in the stores. So this is something that we believe will stay with us and we are happy with the good start we've had.

Frans Hoyer - *Jyske Bank - Analyst*

Have you ever told us about how big Rose is in the States?

Anders Colding Friis - *PANDORA A/S - CEO*

No. We've said it's a meaningful contribution to our revenue, and what I can say is that it's also a meaningful contribution in the new areas where we have introduced it.

Frans Hoyer - *Jyske Bank - Analyst*

Okay. And then finally, just coming back to the US and the upgrading of the stores network to focus on branded stores, how much --? Is this the end of it so to speak, this initiative, or would you expect there is more work to do along those lines?

Anders Colding Friis - *PANDORA A/S - CEO*

I think that we will at all times make sure that we have the right representation. And let me take the UK as an example. In the UK, we've seen that we've had opportunities to open more concept stores, and in that connection of course to close some more of the unbranded and semi-branded stores.

So it is an evolution that will continue, but I think that we are taking a very, very good and important step forward with the closure of the 700 stores.

Frans Hoyer - *Jyske Bank - Analyst*

Thanks very much.

Operator

Kristian Godiksen, SEB.

Kristian Godiksen - *SEB Equities - Analyst*

Just a couple of follow-ups from my side. Can you maybe comment a bit on the magnitude of margin contribution we should expect from your new facility in Lamphun starting January 1?

Secondly, are there any structural reasons for concept stores openings for next year and the coming years not being more than 300 as you have done so for the last couple of years?

And then thirdly, could you comment a bit on the drag on your margin from FX movements into 2017 as the Thai baht has depreciated compared to Danish krone? And you will continue to see some headwind on the top line from some of the other currencies, the Thai baht, where you have a very high margin.

Thanks.

Anders Colding Friis - *PANDORA A/S - CEO*

We are very happy with our new facility in Lamphun. We expect one of the things that we will get out of that is that we will actually be able to cut our lead time, and that is the focus point we have. Remember that our products are hand finished and we still need hands to finish it, so don't expect to get a lot of productivity gains out of that.

The concept stores, what was the question? That was --

Kristian Godiksen - *SEB Equities - Analyst*

Why is --?

Anders Colding Friis - *PANDORA A/S - CEO*

The number of concept stores, we are very happy with the fact that we have given you a little bit of insight into 2017 and 2018, and we believe that we can still open stores. We stand by the number we had between 200 and 300 at this time.

One of the things which is important for us is that we do not get ahead of ourselves. We want to continue opening quality stores around the world, so this is the number that we see right now.

Peter Vekslund - *PANDORA A/S - CFO*

Yes. And as to exchange rates and impact on 2017, we will, of course, get back to that in connection with our full-year guidance in February next year.

Kristian Godiksen - *SEB Equities - Analyst*

Okay. And then maybe just a last follow-up then on the Lamphun facility. The reduced lead time, will that then reduce the inventory, or will it just be that faster reaction to the market. Or how should we -- what are the positives?

Anders Colding Friis - *PANDORA A/S - CEO*

Fast reaction to the market.

Kristian Godiksen - *SEB Equities - Analyst*

Okay. Thank you.

Operator

Chiara Battistini, JPMorgan.

Chiara Battistini - *JPMorgan - Analyst*

It's a very quick one. I just wanted to be 100% sure. The closure of the stores, of the doors in the US, the DKK150 million, plus the DKK150 million, it will be DKK300 million lower sales in Q4 2016. Is that correct in the US?

Anders Colding Friis - *PANDORA A/S - CEO*

Yes, anything else being equal. But we do hope that some of the people who would otherwise have bought in these stores will find their ways to some of our beautiful concept stores and buy there. So the DKK150 million, yes. The other DKK150 million we hope that some of the people will find their way and buy it in other beautifully branded PANDORA stores.

Chiara Battistini - *JPMorgan - Analyst*

Understood. So it's not going to be hopefully a DKK300 million impact on sales.

Anders Colding Friis - *PANDORA A/S - CEO*

Where is consumers' loyalty? Is that to the brand or is that to the stores? And, of course, there's probably a few people who are very focused on the stores so we might lose some of it, but we do believe that we have some brand loyalty will make some of the customers come to one of our concept stores, or maybe buy online.

Chiara Battistini - *JPMorgan - Analyst*

Okay. Perfect. And if I may also add, what -- can you help us with the impact on the gross margin from the takeover of these inventories? Any help would be really appreciated.

Thank you.

Peter Vekslund - *PANDORA A/S - CFO*

The takeover -- on the gross margin, expect the -- on the DKK150 million is for buyback of inventory; expect around the Group gross margin when calculating the impact.

Chiara Battistini - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Lars Topholm, Carnegie.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Actually, two questions, because I think you forgot to answer my question on like for likes in Italy, Germany and France, if all three were growing between 20% and 30% like for like.

Then a follow-up, you mentioned, Anders, that you were going to extend credit in the US during Q4. I wonder if you can say why you are doing this. Is this a temporary thing or a permanent thing? And the change goes from what to what?

Thank you.

Anders Colding Friis - *PANDORA A/S - CEO*

No. I think what I said in the US was that we had a very successful campaign, the Spend More Save More campaign, which meant that the refurbishment of the stores were very close to the end of the quarter, and that of course increased our receivables. So just to clarify that, that was the reason.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

So there's no change to any credit terms in the US.

Anders Colding Friis - *PANDORA A/S - CEO*

No.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

And then Italy, France and Germany?

Peter Vekslund - *PANDORA A/S - CFO*

Just on the credit terms, you can [check] up people that have gotten extended credit terms because when we open stores and when we open new accounts, and so on, we do extend credit terms.

Anders Colding Friis - *PANDORA A/S - CEO*

But we have had no changes.

Peter Vekslund - *PANDORA A/S - CFO*

But no changes in what we have done in the past many years on this.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Okay.

Peter Vekslund - *PANDORA A/S - CFO*

On the like for like, let me just summarize. So single digit from zero to 10; low from 11 to 20; double from 21 to 30; and then high double digits from 31 and above.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

So that means Italy, France and Germany each grow 21% plus. Right?

Peter Vekslund - *PANDORA A/S - CFO*

What we have said is that Italy, double digit; France, high double digit; and Germany low double digit.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Okay. Thank you.

Operator

Sherri Malek, Bank of America.

Sherri Malek - *BofA Merrill Lynch - Analyst*

I have three questions. Firstly on -- in the way you've done in North America, and obviously for the right reasons, this closure of multi-branded stores, could it be the case that we see an acceleration in other parts of the world going forwards?

That's my first question.

Secondly, on the launch on Tmall, I know it's very early days, but I am curious to know what the reception has been so far. Has it exceeded expectation, or should it just be a quite gradual ramp up online.

And finally, on the product collection, you've clearly been benefiting from a strong reception to Disney and to Rose. Do you think novel collections like these will become an ongoing part of the business in order to sustain brand momentum and ultimately keep driving traffic into the stores?

Anders Colding Friis - *PANDORA A/S - CEO*

Let me start with the first question.

North America, you can say we've done closures around the world for a very long period of time, and I think that where we have done a lot historically, we're getting closer and closer to the point where we have the right number.

Will there still be some in the years to come? Yes, there will. But we've really done a lot over the years, and I think the step we've taken in North America is a very big step for us, and I think it's exactly the right thing to do. So less in the future, but there will [still] be some.

If we look at Tmall, we have done a sub-launch, which means that we haven't done any extensive promotions on that and we want to make sure that it works first. So we are happy with the fact that it works, and we've also seen customers there buying PANDORA products, but we don't have any news. It's very, very early days.

For us, it's not that important whether people buy online or they buy in a physical store. We actually enjoy them coming into our physical stores. What we think is important for us is that they have the choice between the two different channels.

If we look at our product collections, we will, of course, always look at what can we do [of] novelties, which is important and interesting for the consumer. Let me say, if we look at Disney as an example, I think you should look at that as a one-time thing. It's not so that we will do anything with Hello Kitty or anybody else in the future. We will stick with Disney. It is meaningful for us and we think that is the corporation we will [have].

On the other hand, if we look at Rose, our product team are very creative, which we are very happy with, and they are, of course, looking at how can we continuously put our product which will resonate with women around the world.

So that is something which is ongoing and we will hopefully see new great things also in the future. We try to stick to the fact that we want to be in front of the curve in our product offering.

Sherri Malek - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much.

Operator

Michael Rasmussen, ABG.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

I just had a couple of follow-ups. The first one is on the 25 additional store openings. Which split should we expect in terms of owner operated and franchise? And I would assume these mainly impact revenues in 2017.

Second follow-up question is on Canada. You've seen quite a big step in like-for-like improvement. What exactly has happened here? Have you done something specifically, or do you think it's market driven?

Thank you.

Anders Colding Friis - *PANDORA A/S - CEO*

Well, I think that we are very happy with the numbers we had in Canada; and, of course, it changes a bit from quarter to quarter, based on the product offering. We saw some good development also based on the campaigns we did in Canada in the quarter. So we will see that, especially in a very well developed market as Canada, so just happy with the development.

I think that what we also talked about is last time that we saw some of the stores in the network which was not doing so well. I think some of that has been rectified and is also supporting the development.

But we'll continue developing the stores and, of course, having relevant campaigns and products, and that is the driver of it.

And I think you will --

Peter Vekslund - *PANDORA A/S - CFO*

On the concept store opening, the 25 additional that we have announced, that's a little bit in all markets. So no changes to our overall split on regions and no changes to the around one-third which is owner-operated of the store openings.

Michael Rasmussen - *ABG Sundal Collier - Analyst*

Thank you very much.

Operator

Thank you. There are currently no more questions in the queue at this time. I will now turn the call back to your host for any closing or additional remarks.

Anders Colding Friis - *PANDORA A/S - CEO*

Thank you very much for your participation today. It's been a pleasure and wish you all a great day.

Thank you very much.

Operator

Thank you, ladies and gentlemen. That will conclude today's conference call and you may now all disconnect.