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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the PANDORA Q1 Report 2017 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Magnus Jensen, Head of Investor Relations. Please go ahead, sir.

Magnus Thorstholm Jensen *- Pandora A/S - Head of IR and VP*

Thank you. Good morning, and welcome to PANDORA's conference call regarding our Q1 2017 results that we announced this morning. My name is Magnus Jensen from PANDORA Investor Relations team and with me I have CEO, Anders Colding Friis; and CFO, Peter Vekslund.

As per the agenda outlined on Slide 2, Anders will present the highlights for the quarter before Peter will talk you through the Q1 numbers in more detail. Following the presentation, we will be very happy to take any questions you might have.

Before I hand 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, President and Member of Management Board*

Thank you, Magnus. And good morning to everyone, and thanks for listening in on the call this morning.

Following the strong performance we achieved in 2016, we are now well into 2017, with the expectations maintained of double-digit full year revenue growth. As expected and previously communicated, the first quarter of the year has started with high single-digit growth, mainly due to a couple of expected headwinds and a strong first quarter of 2016.

We are pleased to report good sales growth and strong profitability in spite of a challenging retail environment, and we continued to make good progress through our strategic initiatives.

Now let me run you through some of the Q1 highlights on Slide #4.

Revenue for the quarter was DKK 5.2 billion, which is an increase of 9% compared to first quarter last year or 8% in local currency. The growth was primarily driven by continued strong performance in our owned retail business as well as an overall very strong performance in Asia-Pacific. The retail climate in the U.S. remains difficult, which was reflected in our performance in the U.S. for the quarter.

The profitability of our business continues to be strong. And even though we decided to increase the marketing expenditure of around 30%, the EBITDA margin for the quarter was held stable at 36.4% compared to 37.1% in first -- in Q1 last year.

We remain high cash generative and delivered free cash flow of DKK 1.2 billion, of which we plan to return the majority to our shareholders. As we communicated at the time of the 2016 annual report, we'll start paying out quarterly dividends. This is something you should expect for the years to come. And for the first quarter of '17, we returned DKK 1 billion in dividend to our shareholders.

Turning to Slide 5. We remain confident in our full year guidance for 2017, which is unchanged. Revenue is expected to be in the range of DKK 23 billion to DKK 24 billion. Assuming current exchange rates, we now expect the impact from currencies on revenue to be insignificant. This compares with the early expected tailwind of around 1%.

We expect to sustain a strong full year EBITDA margin at around 38%. And as previously communicated, at significantly lower margin for the first half compared to the second half.

We will continue to build our store network and expect to add more than 275 new concept stores, of which roughly half are expected to be PANDORA owned stores, while the remaining 50% is expected to be split roughly 50-50 between franchise and third-party distributor concept stores.

Moving on to the next slide. In addition to delivering on the numbers for the first quarter, we've also continued to make progress on a number of our strategic initiatives to support the future development of the company.

Most important, we started commercial production in our new crafting facility in Thailand. This reinforces our position as the leading jewelry manufacturer in the world and crucially provides us with sufficient capacity to meet the increasing demand for our products. Additionally, we target to reduce lead times to less than 4 weeks for all products in 2019 compared to the 6 weeks we have today. We've already achieved a lead time for our [simple] products in our new facility of around 3 weeks.

One of the essential growth drivers for our business going forward is to move into other product categories as we continue to make progress towards becoming a full jewelry brand. We have successfully penetrated the ring market in the last couple of years, and since 2016 we've improved our focus on earrings category, while also introducing new concepts into necklaces and pendants. Revenue from all 3 categories increased with more than 40% in the quarter to 25% of group revenue. Going forward, we will continue this journey.

Our effort to improve our global store network continues. And during the quarter, we added 58 new concept stores while closing 300 other points of sales. Furthermore, to increase the control with our network, we added net 62 PANDORA owned stores, which strengthened our PANDORA owned retail platform, which is now 38% of our revenue. Additionally, we will take over distribution in Belgium and South Africa in the second half of the year, adding around 30 concept stores to our own regional network.

Finally, in order to reduce risk and ensure we reap the full potential of all the regions in which we operate, we continue to develop a more geographic balanced global business.

I am very pleased that we have increased the revenue contribution from Asia to 17% of group revenue in the first quarter of '17 compared to 4% revenue in contribution in the full year of 2013.

During the quarter, we established a hub in Panama to increase our focus on Latin America. And as you know, we have started distribution in India, one of the largest jewelry markets in the world, where we opened our first store in April.

Moving to Slide 7. I would like to share a couple of thoughts on our U.S. business and the retail environment in which we operate.

One-offs aside, which include timing of shipments, the underlying revenue in the U.S. increased to single digits for the quarter.

Looking at the drivers behind this development, we can divide them into external and internal factors.

Starting with the environment we operate in, the mall traffic in the U.S. continued to be weak and impact performance. We have done extensive analysis in our store network in the U.S., and we found that it has the right positioning and quality with no current risk of closing. In fact, an average U.S.-based concept store has a 30% higher sales-out revenue relative to the group average, indicating that we have a healthy and profitable network across the U.S. In addition, 19% of our stores are located in the higher quality A and B malls. Going forward, we'll continue to be very selective in our store openings. And obviously, we will closely monitor the mall traffic development and adjust our strategy if needed.

Simultaneously, to reach as many consumers as possible in the best possible way, we are strengthening our online offering and are improving the consumer experience. One of our key initiatives is to merge our PANDORA.net site with the eSTORE, which is currently in process.

Aside from the external factors, we've also identified some internal challenges.

Starting with our product, it has become evident for us that our assortment had less novelty, particularly in the U.S. context. And this becomes more clear to us with the Valentine's collections, which probably came too close to some of the former designs and consequently impacted particularly revenue from Charms.

Following the change we've made to the organization in connection with project Agility, we are now in a situation where we are able to react faster to such issues. Consequently, we have decided to add a number of innovative products to our launch plans already this year.

Another important part of our consumer interaction is our promotion strategy. We have assessed that our recent promotions have not been attractive enough, given the very promotional-driven environment in which we operate. For instance, we increased the minimum purchase to get a free bracelet from USD 100 to USD 125 in our March promotion, which resulted in a significant drop in revenue from this particular promotion. To address the issue, we will make our promotions more attractive going forward and also use them to a higher extent to support our largest category, the Charms.

We do believe that these initiatives will strengthen our U.S. business and supplement our performance in this difficult retail environment.

And with this, I'll hand over to Peter for a more detailed review of the numbers. Peter, please.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Thanks, Anders, and good morning, everyone.

Turning to the next slide, we take a look at our 3 channels. Revenue growth for the quarter was mainly driven by PANDORA-owned retail, which increased revenue by 39%. Growth in retail was driven by a healthy like-for-like development of 8% as well as an increase in our owned and operated store network through both new stores and acquisitions. Part of the increase was driven by our eSTORE, from which revenue increased by 63%. The eSTORE represented 6% of total revenue for the quarter.

Revenue from the wholesale channel decreased 7% for the quarter, as both concept stores and other points of sale saw a decrease. This was mainly driven by a difficult retail environment in the U.S. and U.K. as well as a negative impact from acquired stores, which is now accounted for as PANDORA-owned retail. The decrease was partially offset by good development in revenue from our third-party distributors, which was driven primarily by Spain and a number of distributor markets in Asia.

Now please turn to the next slide, where I'll talk you through the performance in each of the 3 regions.

Starting with EMEA. The region generated revenue of DKK 2.2 billion, corresponding to an increase in local currency of 9%. The main growth driver was a continued strong performance in Southern Europe, with France and Italy increasing revenue with 15% and 23%, respectively. Growth was driven by a continued good momentum as well as addition of a total of 44 new concept stores in the 2 countries.

Revenue in the U.K. increased by 2% in local currency, which was mainly driven by an increase in the store network. However, the increase was partially offset by a negative growth in the existing store network. This was mainly due to a difficult retail environment in the U.K. as well as the lower sales from our Valentine's Day collection compared to last year.

In Germany, we continued to see a positive development in our concept store network, from which revenue increase was 6%. However, as we have closed around 170 other point of sales in the last 12 month, revenue in Germany as a whole decreased 6%.

Please turn to Slide 10. Americas reported revenue of DKK 1,693,000,000, a decrease of 9% in local currency. Revenue in the U.S. decreased 10% in local currency. However, impacted by a number of factors in the quarter. As we highlighted in the full year call, we expected a number of headwinds to materialize for the U.S. in the first quarter of the year. This includes the closure of other point of sales in Q4 2016, the selling to Garrett in Q1 2016 and timing of shipment between quarters. Excluding these factors, growth would have been low single digit in local currency in the U.S. for the quarter. This was positively impacted by the store expansion in the U.S., which was offset by negative like-for-like sales in the U.S., mainly driven by the difficult mall environment as well as some internal challenges which were highlighted earlier by Anders. Like-for-like sales growth in our owned retail business was minus 3% and included a positive development in the eSTORE.

Now turning to Slide 11. We delivered very strong performance in Asia-Pacific, an important growth region for us. Revenue in the region totaled DKK 1,268,000,000, up by 40% in local currency. Asia-Pacific contributed with 25% of total reported revenue, up from 19% in Q1 2016.

Revenue in Australia increased 18% compared to Q1 last year and was driven by continued strong momentum, including the addition of 11 new concept stores in the last 12 month. In one of our most developed markets, we were pleased with this performance in Australia.

We continued to deliver strong growth in China. Revenue represented 8% of group revenue for the quarter and increased 125% compared to Q1 last year. The increase was driven by a continued strong demand for our products, especially Charms and Bracelets as well as the addition of net 59 PANDORA owned concept stores in the last 12 month. We opened 20 new stores in Q1 alone, which means that we now expect to open close to 50 stores in China during 2017, adding around 12 new cities in total to our distribution.

Now please turn to Slide 12, which looks at our 5 product categories.

Growth for the quarter was primarily driven by Rings, Earrings and Necklaces and Pendants, which all grew by more than 40% due to our increased focus on these adjacent categories.

Revenue from Charms increased 1% in local currency, driven by a positive development in Asia-Pacific, negatively impacted by headwinds in both EMEA and Americas. Revenue performance from Charms in the 2 regions was affected by the less novelty in the Valentine's Day collection compared to 2016 as well as our decision to increase marketing and promotions around the other jewelry categories.

Meanwhile, revenue from Bracelets decreased 7% in local currency. This was due to less novelty in the category compared to Q1 2016 as well as a very strong bracelet performance in Q1 2016, where revenue from Bracelets increased by 70%. Additionally, revenue from bracelets in the U.S. was impacted by a less successful bracelet promotion at the end of the quarter.

Moving on to Slide 13.

Gross margin for the quarter was 73.3% compared to 74.6% last year. The decrease was mainly driven by a headwind from FX of around 0.5 percentage point as well as a negative impact of around 1 percentage point driven by product mix. The latter is not related to the shift towards other product categories, as we typically recognize the same gross margin across categories, but rather that we have seen a takeoff in PANDORA Rose following the global launch last year. Additionally, the ramp-up of the new crafting facility in Thailand had a slightly negative impact. On the positive side, the increased share of revenue from the retail channel had a positive impact of around 0.5 percentage point.

The EBITDA margin for the quarter was 36.4% compared to 37.1% in Q1 2016. The development was driven by the planned increased in marketing spend, taking marketing expenses up to 8.7% of revenue compared to 7.3% last year.

Looking at the margin across the regions. The margin in Americas was negatively impacted by the mentioned one-offs and the increased marketing spend. This was offset by an improved EBITDA margin in Asia-Pacific, mainly driven by strong top line performance. The EBITDA margin in EMEA was more or less unchanged.

Please turn to Slide 14. The operating working capital for the quarter was 14.2% of the preceding 12-month revenue, a decrease of 0.2 percentage point compared to the same time last year and an increase of 0.5 percentage point compared with operating working capital at the end of Q4 2016. The increase compared to Q4 last year was due to slightly higher inventories and lower payables. This was partly offset by a decrease in trade receivables as a percentage of sales.

Q1 CapEx was DKK 210 million compared to DKK 274 million in the same quarter last year. The decrease was mainly due to temporarily fewer investments in Thailand. The total CapEx related to Thailand is still expected to be around DKK 500 million in 2017.

Free cash flow for the quarter was DKK 1,182,000,000 compared to DKK 1,356,000,000 last year. The decrease was mainly driven by the change in payables. Our net interest-bearing debt-to-EBITDA was 0.4, which is in line with our overall capital structure policy and unchanged compared to the same quarter last year.

And with this, I'll hand over to Anders, who will summarize this quarter's performance.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you, Peter.

So to summarize, we are satisfied with the quarter's result. We delivered good sales growth and a strong profitability and we are delighted with the strong contribution made by our own retail business.

I'd also point to the performance in our important growth markets, particularly Italy, France and China, where we again recorded high sales growth. We do see challenges in the U.S., mainly related to the changes in the retail environment, but we believe that the initiatives we are taking will help to strengthen our U.S. business.

Our profitability remained strong. We maintain good margins and remain highly cash generative.

On top of this, we are also delighted to start commercial production at our new crafting facility in Chiang Mai. This is an important milestone for our business and will enable us to further capitalize on our market-leading product design and branded manufacturing capabilities.

Finally, we reiterate that we are on course to deliver on our full year guidance for 2017, and we expect to further expand our global footprint with more than 275 new stores.

Thank you very much for listening and we'll now take questions. Operator, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question today from Chiara Battistini from JPMorgan.

Chiara Battistini - *JP Morgan Chase & Co, Research Division - Co-Lead, European General Retail*

The first one, on your like-for-like of 8%, I was just wondering, how much of the 66% growth of online is actually going into this like-for-like of 8%? Because I guess it's not all of it, given that China is not part of that and China is outgrowing the rest of online. And following that, because if I try to actually calculate an implied like-for-like for the physical stores, I still end up in a positive territory for the physical stores. So could you please confirm if my calculations are actually correct? And the second question on your full year guidance, clearly, you're guiding to a big acceleration from quarter 2 onwards and H2. Can you please remind us the drivers of this acceleration for the remainder of the year versus quarter 1, please? And finally, in light of the recent moves on the raw materials in the last month, would you be able to give us an initial color on the potential gross margin impact for next year, please?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you very much, Chiara, for your question. I will take your middle question. I think the other 2 questions are sweet spot for Peter. If you look at our full year guidance, that is, of course, based on the transparency that we see, remember that we had a couple of one-off instances in the first quarter, and we also had a very, very strong first quarter last year. So the plans that we have built for the remaining part of the year is what is giving us the expectations of our guidance of double-digit growth for the total year and DKK 23 billion to DKK 24 billion. You can also say that if you want to look into the fourth quarter, remember we had a number of stores which were closing in that quarter. Of course that had a direct impact there, so it will be something which will support the development this year. And then, Peter?

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Yes. Chiara, on your question on the like-for-like of 8%, the global like-for-like for owned and operated, including the eSTORE, you're right that the China numbers will only roll into the like-for-like number in Q4 of this year. So currently, China e-commerce is not included in the like-for-like number. And also, your ballpark calculation of deducting e-commerce from the like-for-like number and then ending up still with a positive like-for-like for the physical stores, that is also -- both are correct. On the gross margin impact, due to changes in commodity prices, we have initially said that, in ballpark figures, around 1 percentage point negative impact in 2018, and that is still what we see today. It is as it has been, ballpark figures.

Chiara Battistini - *JP Morgan Chase & Co, Research Division - Co-Lead, European General Retail*

So can you actually confirm actually, as of today, gross margin should be up next year rather than down versus the [target] that you have already secured for 2017, please?

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

The gross margin for next year, we have given some insight on the impact of commodities, but the rest and gross margin, we would revert to when we give our guidance for 2018.

Operator

Our next question comes from Anne-Laure Bismuth from HSBC.

Anne-Laure Bismuth - *HSBC, Research Division - Analyst*

It's Anne-Laure Bismuth from HSBC. I have three questions. So the first one is, with the 9% in Q1, you need 14% growth on operations in the next 3 quarters to meet the lower end of your full year '17 guidance. Can you confirm that Q2 will be at least up 14%? My second question is on the receivables. So receivables are up 10% versus Q1 '16 in spite of full sale sales down 8%. Why is that? And my last question is, you have closed 70 point of sales in Q1 in Germany. When the streamlining of the distribution channel there will be completed?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you. I will take the first and the last question, and I think Peter will answer the second question. If you look at it, our guidance stands where it stands, between DKK 23 billion and DKK 24 billion for the year. And that also means that the underlying development has to be around the figure you gave, maybe even a little bit higher. So we can confirm that, that is our guidance for the year, and that is what we expect of today. If you look at Germany, we have closed some point of sales. We still have some unbranded point of sales in Germany, and those will be evaluated over time. And the way we think of it is that some in general across the world might be turned into shop-in-shops and others will be closed down, and that's the evaluation that we are doing, but there is still something to be done. That, of course, affected the numbers for the first quarter in Germany. And if we look at our concept stores, which is our majority of the business in Germany, we saw a 6% growth.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

On the question on trade receivables, we have included in the deck for the teleconference detailed calculations of this. You're right that trade receivables is up if you compared to same quarter last year, but then down compared to year-end. The number for days sales outstanding calculated as our receivables to last 3 months of wholesale revenue is 42 days. And if you look over the last couple of quarters, that is the level that day sales outstanding have been in, plus or minus. And operating a global company with operations in as many countries as us, there will be small fluctuations. If you wanted a bit more detail, I can say that markets like Italy and France, which is predominantly wholesale markets with both franchisees and also multi-branded accounts, they make up a bigger share as they are growing as well as they have slightly higher credit terms compared to other markets and PANDORA in general. So overall, a very healthy level on the accounts receivables.

Operator

Our next question comes from Lars Topholm from Carnegie.

Lars Topholm - *Carnegie Investment Bank AB, Research Division - Co-head of Research of Denmark and Financial Analyst*

A couple of question on my side. Just to continue the question on receivables, it's our understanding that credit terms have been extended in the U.K. I wonder if you can comment on that. Then a second question. You mentioned in the presentation that you are looking at improving your promotions and also the product novelty. I wonder if you can comment on to what extent this is a quick fix where we should expect results already in Q2. How should we look at this? And then a final question, if I may. Can you comment on the development, the first 40 days here into Q2?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you very much, Lars. I'll start with the last question, and I guess you know the answer. So no, we can't. I'll do the product, and then Peter, he is -- he will continue with the receivables. If you look at our promotions, what we related to, what we can see is, and let's take the U.S. market as the example, because that's where we can see it. We had this year a promotion in the last part of the quarter. We had told you that we want [indiscernible], and of course, promotions is something where you have to find the right balance. What we tried to do this quarter was that we actually made our offer a bit softer, so we asked consumers to pay $125 instead of $100 to participate and that, as we saw it, was also part of the impact. At the same time, the total U.S. market have gone more promotional. We have, and this is more anecdotic, we have people coming in to our stores asking what's on promotion. And if there's nothing on promotion, they leave again. So that's the environment that we are looking at in the U.S. In that, we have to be relevant with our promotions. So what we are saying is that, we are probably not going to make them weaker for the remaining part of the year, but stay as strong as we've gone -- been historically.

When we look at the product launches, our reflection on the Valentine collection was that we probably had done a little bit too much of the same. Now the Valentine collection is one where you easily fall into that trap, because there's a lot of hearts in our collection (inaudible). Over the year, we do expect to see a pickup of the development, and we have new products coming in. And then we just wanted to relate back to the fact that, a year ago, a little bit more than a year ago, we changed our organization. We had a project that we also talked to you about called Agility, where the purpose of that was to make our sales a bit more agile. That actually means that some of the concepts we are working on will already be in the market this year.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

And Lars, on your question on the U.K. receivables and payment terms and the like, overall timing of shipments and moving is somewhat difficult, because what is it that it's being compared to? Expectations, franchise partner's expectations last year and so on. Our key concern, that is to make sure that we have the right inventories in the stores. And what we have also talked about earlier is that, due to some of our payment terms being current month plus 30 days, we rarely sell anything in the last part of the quarter. And what we did in the U.K. was, as you said, we did extend some credit terms again to make sure that we have the right inventories in the stores in the U.K. The impact on revenue is limited for the quarter.

Operator

Our next question comes from Michael Rasmussen from ABG.

Michael K. Vitfell-Rasmussen - *ABG Sundal Collier Holding ASA, Research Division - Analyst*

Three questions, please. Coming back to the U.S. market and on promotions, can you give us a little bit of insight into -- is this something which is going to impact margins, maybe not on a group basis, but just the divisional margins, and how large your sales are (inaudible) being sold on the promotions in the U.S.? Secondly, staying on the U.S. In terms of the new upcoming product launches, first of all, how many new products are you kind of fast tracking to the market here in Q2? And do you have similar plans in the second half? My final question, also on the U.S. You acquired 18 concept stores in the quarter. Please, what is the impact full year on that number from those stores? And what is the Q1 impact?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

I'll do the two first, and then Peter will revert with the last one. If we look at the U.S. promotions, actually what we expect is to just stay on the margins, so don't expect it to have any margin impact. We tried to actually make our offer a little bit weaker in the first quarter, and it didn't work, so we'll just be back to where we were. Be rest assured that we're not going to go too far into this, because we think that promotions is a very important tool, especially in building our new categories: the Rings, the Earrings and the Necklaces, but we don't want to be too extensive. If you look at our promotional level in PANDORA, I can assure you that it's pretty low compared to anything that you would see in apparel in general. So don't expect anything on margins based on this. If we look at the upcoming product launches, it is going to be products that we put into the market over the next 3 quarters. Of course, there is a limit to how much we can do, because it's not like we have a big facility standing ready to do this. But I think that what has encouraged us is actually the fact that, within the organization, we can do and launch things during the year. I don't want to go into the details of it because we want it to be a surprise to the consumers when you get into the stores, but it is a representation which will both have Bracelets, it will have Charms, it will also have Rings and the other categories. And it will be some novelty, and we'll be happy to share with you when we put it into the market what the exact products are.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Yes. And Michael, on your question on the acquisition of 18 stores in the U.S. in Q1, the impact on revenue in Q1 is rather limited, around DKK 15 million. And for the full year, we expect an impact of around DKK 100 million.

Operator

Our next question comes from Elena Mariani from Morgan Stanley.

Elena Mariani - *Morgan Stanley, Research Division - VP*

The first one for me would be a bit broader. So clearly, the market is concerned that your growth, both top line and margins, is mainly generated by the channel shift and your push towards retail. Are you concerned around your like-for-like normalization? And overall, perhaps there's a little bit of sellout weakness if you take into account all the rest of the distribution network? And what is the normalized level of like-for-like that you would budget for, for the future? Secondly, versus the beginning of the year, what was actually surprising to you? So was the U.S. market much worse versus what you were expecting or is this pretty much in line? I'm just trying to figure out which part of the weaknesses that you've mentioned right now is something that we should continue to expect in the future and in the next few quarters? And thirdly, a question on Charms. So how do you expect to balance growth between Charms and the other categories? Obviously, Charms are generally generating recurring revenues because people go back into your stores, while perhaps it might not be the same for Earrings and Necklaces. So how do you expect the balance across products to evolve over time? And how do you think this is going to sustain your growth profile?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

So if we look at your first question, we see that the development of the -- it was around the market -- sorry, I can't -- can you just repeat your question? I didn't write it down. I'm sorry.

Elena Mariani - *Morgan Stanley, Research Division - VP*

I'm sorry. It's about the fact that the market is currently concerned about the quality of your growth right now. So I was wondering what your thoughts are around that. And what is a good normalized level of like-for-like that you would foresee for the future or perhaps what you would budget on, once also the growing regions right now are going to start to normalize at some point?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Got it totally, Elena. Sorry for that. Well, we can see that, in total, we see, of course, there are some challenges in a couple of our markets. We see the retail environment in the U.S; we also see some impact from Brexit in the U.K. Clearly, those 2 things are impacting everybody and also PANDORA. If we look at a normalized development as a like-for-like growth measurement, I think we've given a number like 3% previously and that would be a good number in a well-developed market. But of course, if the underlying market is difficult, it will also affect us. So that would be a number out there. If we go a little bit into surprises, I think that we had hoped that our promotion in the first quarter in the U.S. would be doing a little bit better than it did, so that was a surprise to us if we look at the -- that side of it. I think another surprise that we had in the quarter was the very, very nice development we saw in China with the growth of 125%. We also saw continued development in Australia. And even though we see that Chinese consumers are [meeting] us there, we also find that, that is very nice to see.

If we look at our different categories, the thinking we have, in general, around our development of our assortment is that we'd like to have our core Charms and Bracelets developing over time, and then we'll add the new categories to it. It's such so that we see that -- I think, historically, we could see that people started buying a bracelet and a charm and then they return to fill up their charm bracelet. We don't see the same direct link today, but we actually see in some of the markets that people, they enter into our universe buying a ring or a pair of earrings, and then they get into the PANDORA story and they might eventually end up buying a bracelet. So I think that the root into the brand of PANDORA is getting a bit more complex and actually interesting. So we do believe that we, by having the other categories, are attracting new consumers. Maybe I can just point out one last thing, which is if we look at our new necklace concept with a locket, we actually have replicated the concept of the Charms, and we've seen that take quite some traction where you can put a number of different small miniature charms into your locket. So the channels -- sorry, the different categories of jewelry works well together.

Elena Mariani - *Morgan Stanley, Research Division - VP*

One just brief follow-up. It's still about the U.S. market. So you mentioned that, excluding all the one-offs, growth was probably flattish in the quarter. Is this the sort of organic growth that we should expect in the next 3 quarters as well? And is there any of these one-off factors that are going to affect also the upcoming quarters? I'm just thinking about how to look at this market in the next few months.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

I think that we also had some sales to Jared in the second quarter, so that is also going to affect us there. I think that the way we look at it is, we do not expect the U.S. market to miraculously improve over the next couple of quarters. I think that the environment we are working in now is probably also going to be the environment for the quarters to come. And I think that's what we can comment on. I think Peter has a comment as well.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Yes. Just on the one-off to be expected in Q2. Just to summarize what we have said earlier is that Jared, that will impact around 60 due to the start-up of the shop-in-shops last year. Then we have the timing of shipments and (inaudible) stores of around 90. And then the store closures that we did in Q4, the lost sale into those accounts, around 40. So those are the 3 buckets of one-offs to be expected in Q2.

Elena Mariani - *Morgan Stanley, Research Division - VP*

And so versus the minus 5% that you had quantified for Q1, how much would that be for Q2?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Obviously, (inaudible) the revenue.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

(inaudible) and then calculate into a percentage based on the expected Q2. So that will not go into.

Elena Mariani - *Morgan Stanley, Research Division - VP*

Sorry. I think I didn't understand your answer. So in terms of like impact over the total organic growth, how much would you quantify these numbers with? Just because you gave an indication for Q1, so I was curious to see whether you have something similar to share with us for Q2.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

I think that what we can say is that these are rough numbers that we have. And then, of course, you have to have an assumption of the revenue, and I think that is something that we can talk about next time we meet.

Operator

Our next question is from Piral Dadhania from Royal Bank of Canada.

Piral Dadhania - *RBC Capital Markets, LLC, Research Division - Analyst*

I have a couple, please. Firstly, on your PANDORA Rose. I think that, that acted as a headwind to your gross margin in the first quarter to the tune of around 100 basis points. Could you just remind us what the mix of PANDORA Rose is as a proportion of the total? And I just, for my own benefit, I presume that's Rose Gold product which carries a lower gross margin? So that clarification would be helpful. And then just thinking about the Charms revenue evolution in the first quarter as well. I think it grew 1% organic. Obviously, that number is inclusive of all the space expansion. So are you able to quantify what the underlying Charms like-for-like did in the first quarter, excluding any inventory build for the new space that you have opened in the period? And yes, that's it for me.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you very much. I'll take the first and Peter will take the second quarter -- question. If we look at PANDORA Rose, we have not disclosed any numbers of exactly the size of it, and I don't think that we would like to do that. But it is true. It is a product which comes with a less of a kind of gross margin. You can -- if you want to think a ballpark number, it's less than 10% of our revenue. But we did have a strong quarter for Rose. And one of the things that we are very happy with this is the way that it has been received around the world. As you know, we launched it globally in the last quarter of last year. So I think that's what we can say, and I think Peter will take the other question.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Yes. On the Charms question, around the flat growth in Charms, we'll not start giving further detail and breaking down the growth. The flattish number was impacted, as Anders alluded to, on the somewhat weak Valentine's collection with less newness compared to what we have done historically. And also, most of the one-offs that we have mentioned is related to Charms.

Operator

Our next question comes from Hans Gregersen from Nordea.

Hans Gregersen - *Nordea Markets, Research Division - Director, Food and Beverage*

Four questions. You mentioned in the report that you're building new Central American regional office. Can you just share some thoughts why you're doing that at this point of time? And is that a signal of improving trading outlook for you? Secondly, the third-party distribution seems to be growing quite nicely compared to the rest of the group. Can you give some insights into why? Then net working capital, there's a lot of movements here, both on directed trade payables, but also (inaudible) Can you explain to us more in detail why there's such negative development in specialty...

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

There was an interruption in our end in the middle of your question on net working capital, maybe you can just repeat it.

Hans Gregersen - *Nordea Markets, Research Division - Director, Food and Beverage*

Yes. Net working capital, you have trade payables and other payables. There's quite opposite movements here. Can you give a little bit of insight into why? But also, why tax payables are seeing a quite negative development? And then, finally, if we look on Rings, Earrings and neck wear, based on the guidance you're giving for 2017, how large a proportion of total sales do you expect those 3 categories to account for?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you very much, Hans. If I start with the Central American office, I think that Peter will elaborate on a couple of the others. We have seen -- actually, we've had a few stores in Mexico for a while, and we've seen a very, very nice development in those stores. That's why you can say if we are to look at how we have attacked it historically, we've actually done it out of the U.S. Now we don't believe that we can do a good -- we can make a good development of that region out of the U.S., so that's why we said we want to have a cluster like we have in Europe. We have different clusters. We want to have a cluster in Latin America, so we can develop from there. And we see good opportunities and potential in developing a number of the markets in Latin America. We have a strong business in Brazil. We see Mexico being interesting. We see Chile. We see Peru. We see Argentina. So there is a number of good countries to get into in that. And we see that done best from a office in Panama. So that's why we opened this. If we look at our different categories, we feel committed to continuing the development. We haven't given any numbers of an exact development. But clearly, we want them to grow more than the rest of the assortment as we want to build ourselves into a full jewelry brand. We had a very, very good start of the year with 25% of revenue. I'm not saying that's going to be the number for the year, but over time, expect that part to grow. And then I think Peter will take the 2 other questions.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

On the question on net working capital and payables in general, a couple of impacts on that. Due to the change in dividend payouts going from one annual dividend to 4 quarterly, then the dividend withholding tax is less this year compared to prior years. Also earlier, we have the...

Hans Gregersen - *Nordea Markets, Research Division - Director, Food and Beverage*

Peter, sorry, Peter, how much is that?

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

I mean, you can calculate the dividend of DKK 1 billion and then take out the dividend tax which we pay to the Danish tax authorities of around 1/4 of that. Then on the acquisitions, we had acquired Singapore and Macau, and there was a payable for that acquisition. We have now paid that. And finally, there's a bit of mix related from the capacity expansion in Thailand, where the last reporting period had quite some outstanding payables due to that construction. We are now ramping up on the AAA in Gemopolis, so this will pick up again. So lot of details on that, if you -- and tomorrow, I'm sure you can reach out to the IR team afterwards on these details.

Hans Gregersen - *Nordea Markets, Research Division - Director, Food and Beverage*

And then third-party distribution, please?

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Yes. Third-party distribution, that is, among others, Asia where we have some distributors.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

And also, Spain.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

And also Southern Europe, including Spain.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Where they've done well.

Operator

Our next question comes from Kristian Godiksen from SEB.

Kristian Godiksen - *SEB, Research Division - Analyst*

Yes. A couple of questions from my side. Firstly, could you indicate the like-for-like for the physical stores in the U.S. as the eSTORE now makes up a significant higher share of the base compared to the old like-for-like metric? Secondly, I was wondering if you could add some flavor on the like-for-like in terms of the high end and low end of your revenue guidance for the full year. And then, Anders, I mean, I noticed that you mentioned that a normalized like-for-like was fair to assume around the 3% level and not the usual 3% to 5% level. Could you please elaborate on that, or whether I didn't get the full?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Yes. I think the last question was very much to me. Well, where we are right now, if you look at the U.K. and the U.S., I think that, especially U.S. where we have a number, 3% would be a nice number. So that was why I chose to use that. I think that still in a normalized environment, we would be hitting 3% to 5%, so we haven't changed anything on that. I think that when we look at the other like-for-like numbers, Peter, he would very, very much like to comment on that, I can see.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

Yes, I can do that. So on our reported like-for-like number of 8%, including the eSTORE, obviously if you deduct the eSTORE of that number, the like-for-like for the physical stores would be lower. That goes for the global number as well for the U.S. number. And we'll not go into details on the exact calculation of that. On like-for-like and guidance and so on, that is not a level of detail we'll start sharing.

Kristian Godiksen - *SEB, Research Division - Analyst*

Okay. But then maybe a follow-up on the guidance. Maybe could you give some flavor or add some color on the moving parts you're looking into, whether to end in a low-end range of the guidance range compared to the high-end range of the guidance range. Which kind of parameters is it we're looking at?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Thank you very much, Kristian. I think that our guidance would stand between DKK 23 billion and DKK 24 billion, and I think that is as close as we'll get today.

Operator

Our next question comes from Frans Hoyer from Jyske Bank.

Frans Hoyer - *Jyske Bank A/S, Research Division - VP of Equity Research*

I come back to the issue of novelty and putting more novelty into the shops. Over the rest of the year, are you able to quantify in some way how much of a change this is going to be? I was thinking in terms of percent of SKUs or something. And also, with regard to the U.S., merging the 2 eSTOREs that you have there -- platforms that you have there, could you talk a little bit more about that and explain what -- how that is going to affect the business?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Very happy to. I will -- if I take the first question you have, Frans, we -- well, it is a small number of SKUs. I think that what is really important for us is that we can see there is a need for novelty. And I think that's something which is even more pronounced in the U.S. People go into stores and ask what's new. So for that reason, it's not a question of how big a number quantity, but more the quality of it, and we have something that we can talk about. So think in the terms of it is a relatively low number of SKUs, but it will be some SKUs which we believe that the consumers will see as novelty to our assortment. And then I think Peter would answer the other question.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

In terms of the eSTOREs, if you as a consumer goes online and start searching for PANDORA, you can end up in 2 places. You can end up in our .net or you can end up in our eSTORE. If you end up in the .net, you can look at all our beautiful products, but you cannot buy them. You need to then click and get to the eSTORE. Just that one click actually makes us lose quite some consumers to the eSTORE. So what we are doing is merging the .net with our eSTORE. So there's one portal for our consumers to looking and buying PANDORA products.

Frans Hoyer - *Jyske Bank A/S, Research Division - VP of Equity Research*

Do you have a feeling for how much you've lost on that account?

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

No.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

There is no way we can evaluate that. We see a very, very good development in our eSTORE that we are very happy with, but we are, of course, also looking at how we can do this better. And there's a number of things that we can do over the years to strengthen our performance in that. We've also talked previously about omni-channel where we need to have some new IT systems in place to be able to capture that part. But we do believe that it's also, in the future, going to be an important part of our business.

Operator

We will take our next question from Klaus Kehl from Nykredit Market.

Klaus Kehl

Three questions, if I may. First of all, Rings, Earrings, Necklaces are growing very strongly in this quarter and we're now starting to see a meaningful shift in the product mix. I was just hoping that you could confirm that there aren't any major differences in the gross margins across the groups. That would be my first question. Second question would be that, you have raised your marketing spend quite a lot in Q1, and I guess it's for various campaigns around the world. I was just wondering whether that had any impact on your sales in Q1 or you, all else equal, would expect the impact to come later on during the year. And finally, Asia and China is doing extremely well in this quarter, at least compared to my expectations. Is there anything extraordinary in this quarter, perhaps the numbers are impacted by Rose, for instance, or yes, any other comments?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

Klaus, thank you very much for your questions. If we start with the Rings and the Earrings and all the other products, they have the same contribution margin as our Charms, so there is no difference and no shift in that. The only thing which would shift if we sell more Rose, that has a slightly lower margin and also more gold, but our sales of gold is relatively limited. It's mostly silver. But same profit -- gross margin across.

If we look at the marketing spend, I think there are 2 things we have to divide this into. There's, of course, the ones which is more promotional, which is linked to our promotion today, will have a direct impact on our revenue. And then we have the building of the brand over a longer period of time. What we've seen is that our awareness, but also our recommendation with our consumers have increased over time, and that is what we are driving with our marketing efforts. We have a new execution of our campaign, which we launched in the first quarter -- in the later part of the first quarter, which is called DO. And to give that some focus, we actually added some spending behind that. I think that what you should expect us is to continue developing and growing our brand funnel, and in that way, strengthening our brand. So the easy or short answer to your question, expect this to come over time. If you look at the overall spending on marketing, we expect that to be as it has been in previous years. We'll just spread it out a little bit more. If you look at Asia and China and the development in the quarter, one thing you should be aware of, which has a big impact on us, is the Chinese New Year. So the Chinese New Year is in the first quarter and has a substantial impact on the business in China and in Asia in general also.

Klaus Kehl

Okay. And what about Rose in Asia? Has it been a big success?

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

It has been there. I think that Rose is a success across the world, also in Asia.

Operator

We will take our follow-up question now from Chiara Battistini from JPMorgan.

Chiara Battistini - *JP Morgan Chase & Co, Research Division - Co-Lead, European General Retail*

Sorry, actually, I registered, but my question has been asked and answered already. Maybe if I can just confirm one thing. I know you don't comment on current trading, but just to confirm that you are reiterating guidance as of what you know as of today.

Peter Vekslund - *Pandora A/S - CFO, EVP and Member of Management Board*

That is confirmed. Yes, absolutely.

Anders Colding Friis - *Pandora A/S - CEO, President and Member of Management Board*

So thank you very much, operator. And ladies and gentlemen, thank you for listening into the call today and for your questions. As I've said, we started the year as planned. We have delivered good sales growth, made strong progress against our strategic initiatives. We are on track to realize our ambition to become the world's most loved jewelry brand and look very much forward to updating you on our progress when we announce our Q2 results in August. Thank you for joining us today.

Operator

Okay. Thank you. That will conclude today's conference call. Thank you for your participation. You may now disconnect.