MOODY'S RATINGS

Rating Action: Moody's Ratings assigns Baa2 rating to Pandora's new senior unsecured notes

21 May 2024

Paris, May 21, 2024 -- Moody's Ratings (Moody's) today assigned a Baa2 rating to Pandora A/S' (Pandora or the company) proposed €500 million senior unsecured notes due 2030. The outlook is stable.

The new euro-denominated fixed rate benchmark notes will be issued under Pandora's Euro Medium Term Notes programme. Pandora intends to use the new sustainability-linked notes issuance proceeds for general corporate purposes and repay outstanding short-term debt, including a short term loan facility of DKK2 billion as of 31 March 2024 (equivalent to around €268 million).

RATINGS RATIONALE

The Baa2 rating of the proposed notes issued by Pandora reflects their senior unsecured ranking and is in line with Pandora's senior unsecured issuer rating.

Pandora's Baa2 rating reflects (i) the company's strong global brand in the affordable jewellery market segment, (ii) its well diversified channel mix with a well-established direct-to-consumer (DTC) operations and a wide geographical reach, (iii) its highly cash generative business owing to high margins, comparing well with luxury peers, and reflecting its global scale, affordable price points and vertically integrated business model, (iv) its solid credit metrics for the rating category and prudent financial policy, underpinned by a low leverage (Moody's-adjusted gross debt/EBITDA) of 1.5x as of 31 March 2024, which is expected to stay at around the same level in the next 12-18 months (accounting for the proposed €500 million senior unsecured notes), and (v) its good liquidity and solid free cash flow (FCF) generation despite large shareholders' distributions.

The rating is constrained by (i) Pandora's single brand focus and its narrow product offering, which remains skewed to its iconic charms and carriers, (ii) its exposure to the fragmented and highly competitive jewellery market, (iii) its seasonal and cyclical activities, which currently face weak consumer demand, (iv) and its inherent exposures to fluctuation of precious metal prices (mainly silver and gold) and FX volatility, albeit mitigated by a continuous hedging.

Pandora has posted a strong trading performance in 2023 and again in Q1-2024, above expectations and despite the challenging macroeconomic conditions. The company confirmed its 25% EBIT margin target for 2024 (as reported by the company). Despite weak consumer sentiment and declining consumer spending, Moody's expects the company's sales and earnings to continue to grow by mid-to-high single digit percentage point in the next 12-18 months, reflecting the company's rollout of new concept stores, the launch of new collections including lab-grown diamond collections, its affordable value proposition and the recurring gift nature of its products.

Moody's believes Pandora's Pheonix strategy will support growth and will help diversify the company's product mix in the longer run. The company's long-term financial targets are to achieve an EBIT margin of 26-27% by 2026, a relatively high level compared to similar retail and apparel peers.

LIQUIDITY

Pandora's liquidity is good, supported by DKK934 million of available cash and access to DKK6.3 billion under its committed revolving credit facility (RCF) as of March 2024. The RCF has a total size of €950 million (or DKK7 billion) and matures in April 2028. Pandora's next significant debt maturity is in April 2028, when a €500 million bond will be due. Moody's expects Pandora to generate between DKK2.5 billion and DKK3.8 billion of FCF annually from 2024.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's view that the company's strategic plan will be successfully executed, which will support sales growth across products, channels and geographies in the next 12-18 months. Moody's expects the company's affordable positioning and gifting-oriented offering will support sales in the context of currently challenging macroeconomic landscape with weak consumer spending. The stable outlook also assumes the maintenance of strong margins and FCF generation, a prudent financial policy with low leverage and good liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Positive rating pressure is currently limited mainly by Pandora's narrow product focus on one jewellery category, notably charms and carriers. As the company has already strong credit metrics, any positive rating migration would be a function of Pandora's successfully delivering on its international growth objectives (incl. greater penetration in China), increasing business diversification (for example through lab-created diamonds), and building a further track record of a business model resilient to market troughs. Positive pressure would require some evidence of a successful execution in the company's strategy, which may be evidenced by high-single digit sales growth and sustained improvement in operating margins. Positive rating pressure would also require a longer track record of maintaining a conservative financial policy, including a sizeable cash buffer to mitigate any future unexpected shock to liquidity.

Negative pressure on the rating would develop if the company's operational and financial performance deteriorates, such that its Moody's-adjusted (gross) debt to EBITDA leverage trends above 2.0x for a prolonged period, especially if not sufficiently mitigated by sizeable cash on balance sheet. A deterioration in the company's margins, liquidity and more aggressive financial policies would also exert downward rating pressure.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Retail and Apparel published in November 2023 and available at https://ratings.moodys.com/rmc-documents/411013 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Pandora A/S is one of the largest jewellery retailers in the world, with revenue of DKK29.1 billion (around €3.9 billion) in the 12 months to 31 March 2024. The company has around 6,700 points of sale, including 1,926 directly operated concept stores, in more than 100 countries. The company's headquarters are in Copenhagen, Denmark, and it has been listed on the Copenhagen Stock Exchange since 2010. The company is mostly owned by institutional investors.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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Guillaume Leglise
Vice President - Senior Analyst
Corporate Finance Group
Moody's France SAS
21 Boulevard Haussmann
Paris, 75009
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Victoria Maisuradze
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
21 Boulevard Haussmann

Paris, 75009
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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