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Research Update:

Pandora Affirmed At 'BBB' On Positive Management And Governance; Outlook Stable; Proposed Sr Unsecured Notes Rated 'BBB'

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PRIMARY CREDIT ANALYST

Valentina Guerra
Paris
+ 33 1 4075 2565
valentina.guerra
@spglobal.com

SECONDARY CONTACT

Abigail Klimovich, CFA
London
+ 44 20 7176 3554
abigail.klimovich
@spglobal.com

Rating Action Overview

- Pandora A/S plans to issue €500 million senior unsecured notes under its €1.5 billion Euro Medium Term Notes (EMTN) program, the proceeds of which it will use to repay its outstanding Danish krone (DKK) 2 billion term loan maturing in 2025 and for general corporate purposes.
- We expect Pandora to grow about 8% on average over the next two years, as the group pursues its expansion in underpenetrated markets, such as the Americas and Asia, and continue to benefit from its appealing low budget charms and carrier design concept in more mature markets, while increasing its investments to diversify in other jewelry categories.
- We think that Pandora's conservative financial policy and strong governance practices, and the consistent track record of its management team, allow the company to balance profitability and strategic investments with shareholder distributions, alongside advancing its social and environmental agenda, which we believe positively distinguishes the company in promoting the long-term interests of its various stakeholders.
- We have revised our management and governance (M&G) assessment on Pandora to positive from neutral.
- We therefore affirmed our 'BBB' long-term issuer credit rating on Pandora and assigned our 'BBB' rating to the company's proposed €500 million senior unsecured notes.
- The stable outlook reflects our expectations that, over the next 24 months, Pandora will continue expanding its earnings, preserve its adjusted EBITDA margins of above 30%, and generate solid free operating cash flow (FOCF) after leases of about DKK4.8 billion annually, such that adjusted debt to EBITDA remains stable at about 1.3x and FOCF to debt remains above 40%.

Rating Action Rationale

The proposed issuance has a neutral impact on our credit metrics, thanks to Pandora's conservative financial policy and EBITDA expansion over the past year. Despite the €500 million (DKK3.7 billion) addition to financial debt from the proposed senior unsecured notes, we believe that Pandora will respect the commitment set by its conservative financial policy target of a net leverage ratio below 1.5x, including its reported lease liabilities. This is thanks to the revenue and EBITDA expansion the company benefitted from over the course of 2023. Solid revenue growth in the Americas, combined with a strong like-for-like performance in more mature markets, such as the EU, allowed the company to offset the drag from China and report revenue of DKK28.1 billion in 2023, compared with our expectations of DKK27.5 billion for the same year. The revenue expansion translated into a 5% absolute EBITDA expansion, to DKK9.1 billion, broadly in line with our expectations of DKK8.9 billion. While moderate price increases and a prudent approach to operating costs allowed the company to manage inflation on general, administrative and personnel costs and marketing expenses have absorbed the increased flow from higher revenue, as Pandora continues with its campaign of repositioning its brand as a full jewelry maker over the next three years. We believe that these dynamics will continue in 2024 and, therefore, we forecast about 8% revenue growth and about DKK9.8 billion of absolute EBITDA in 2024, while profitability will remain in line with 2023 at about 33%.

We believe that FOCF after leases generation will remain strong, despite a higher interest burden and higher capital expenditure (capex). The proposed issuance will provoke a rise in adjusted interest and financial costs to about DKK850 million in 2024, from DKK770 million in 2023. On top of this, we forecast about DKK1.6 billion capex in 2024 and DKK1.8 billion in 2025. These are dedicated the expansion of the new manufacturing plant in Vietnam, the 100-175 store openings planned for the year, and the gradual roll-out of the new Evoke 2.0 store concept to the global base of stores. Nevertheless, we forecast FOCF after leases of DKK4.8 billion in 2024 and DKK5.4 billion in 2025, thanks to a solid EBITDA generation and limited working capital consumption during the year, as the company normalizes its inventory position further. This will enable the company to pursue its expansionary projects and the acquisition of franchised partners, while continuing to service debt timely and pursuing shareholders distributions.

Solid governance practices and conservative financial policy support the group's creditworthiness. Pandora's sound board composition with a large majority of independent board members, good reporting and communication standards, and the absence of a controlling shareholder lead us to deem the group's governance practices as robust. The independence of its shareholding base and of its board of directors ensure Pandora's ability to adhere to its conservative financial policy and balance its profitability and cash flow generation with long-term strategic priorities and shareholder distributions. Moreover, over the past few years, Pandora has made significant progress in advancing toward its environmental, social, and governance (ESG) targets. These include the switch since 2023 to exclusive use of recycled silver and gold in its production, the reduction of carbon emission in the group's supply chain, and the inclusion of diversity targets in the composition and remuneration of its leadership team. This is a reflection the Pandora's focus on long-term sustainability, maintenance of brand appeal among ESG-conscious consumers, and ensured relevance in incorporating underlying societal changes into its business model. Consequently, we revised our management and governance score to positive from neutral, reflecting our view that robust management and governance practices represent a credit strength for Pandora.

Outlook

The stable outlook reflects our view that Pandora will continue to expand its revenue and EBITDA, while maintaining its adjusted EBITDA margin stable at above 30% and annual FOCF after leases above DKK4.8 billion over the next 24 months. We also expect the company to maintain its conservative financial policy, translating into an adjusted debt-to-EBITDA ratio of less than 1.5x at year-end.

Downside scenario

We could lower the rating if:

- The company significantly underperforms our forecast such that its organic revenue declines, its EBITDA margin falls from its historically stable level, or cash generation weakens. This could happen if worsening macroeconomic conditions weigh on consumers' discretionary spending and the overall performance of the gifting and jewelry segment, or if the company's flagship product line starts losing appeal among its customers; or
- The company shifts to a less conservative financial policy through higher-than-expected dividends or acquisitions, leading to adjusted debt to EBITDA of more than 1.5x or FOCF to debt below 40%.

While not part of our base case, a negative rating action could follow a low-probability, high-impact disruption at its manufacturing facilities in Thailand, which we consider a moderately high-risk country.

Upside scenario

A higher rating would be contingent on the company broadening the cohort of its end customers and meaningfully expanding its product lines, while maintaining its profitability margins. In addition, we would expect the group to diversify its manufacturing footprint and maintain a conservative financial policy with consistently robust credit metrics and ample earnings conversion to cash flow.

Company Description

Pandora is one of the world's largest affordable jewelry manufacturers and retailers by volume of sales. In 2023, it reported DKK28.1 billion (about €3.8 billion) of revenue and DKK9.8 billion (about €1.3 billion) of EBITDA. The company operates two business units:

- Core (78% of total sales in 2023), encompassing the company's flagship product--their bracelets with charms--including those realized in collaboration with global brands such as Disney, Marvel, Harry Potter, Keith Haring, and others; and Pandora ME, focusing on younger generations.
- Fuel with more (22% of total sales in 2023), grouping three product lines: Timeless, offering classical pieces of jewelry; Signature, with jewels inspired by the Pandora logo; and Pandora Lab-Grown Diamonds.

Pandora operates in more than 70 countries on six continents, with most revenue generated in the U.S. (30%), U.K. (15%), and Italy (10%), and the rest diversified across Western Europe, the Middle East, Africa, Australia, and the Americas. The company's manufacturing facilities are located exclusively in Thailand, although a Vietnam facility has recently been completed and will become operational in 2026.

Pandora is listed on the Nasdaq Copenhagen Stock Exchange. As of May 19, 2024, the two largest shareholders were Blackrock (holding 10.9% of the total outstanding voting rights) and Parvus Asset Management (5.1%).

Our Base-Case Scenario

Assumptions

- U.S. real GDP to grow at about 2.5% in 2024 and 1.5% in 2025. We expect eurozone real GDP to grow modestly at about 0.7% in 2024, before growing 1.3% in 2025. We expect Latin America's economies to be more resilient, with real GDP growth of 1.6% and 2.4% in 2024 and 2025, respectively. We also expect China's real GDP to increase 4.6% in 2024 and 4.8% in 2025. In our opinion, the jewelry market depends on macroeconomic conditions and consumer disposable income, given they are discretionary products, but somewhat protected by the recurring nature of celebrations such as birthdays and anniversaries.
- Total revenue growth of about 8% in 2024 and 2025, driven by a significant store expansion strategy, particularly in North America and Asia, and positive like-for-like growth in other areas.
- Adjusted EBITDA margin of 33% in 2024 and 2025, in line with 2023, thanks the company's ability to moderately raise prices and cover potential headwinds on higher costs for raw materials, energy, and transportation, offset to some extent by higher marketing investments in the brand's desirability.
- Working capital outflow of about DKK58 million in 2024 thanks a normalization of the level of inventory, and neutral thereafter.
- Total capex of about DKK1.6 billion in 2024 and DKK1.8 billion in 2025, as the company continues investing in the expansion of production capacity, store refurbishments and new openings.
- Acquisitions of franchised partners of about DKK500 million in 2024 and DKK300 million in 2025.
- Dividends and share buybacks of about DKK5.5 billion in each of 2024 and 2025.

Key metrics

Pandora A/S--Forecast summary

	--Fiscal year ended Dec. 31--				
(Mil. DKK)	**2022a**	**2023a**	**2024e**	**2025f**	**2026f**
Revenue	26,463	28,136	30,403	32,872	34,993
EBITDA (reported)	8,717	9,118	9,837	10,721	11,559
Plus/(less): Share-based compensation	87	105	140	140	140

Pandora A/S--Forecast summary (cont.)

	--Fiscal year ended Dec. 31--				
(Mil. DKK)	2022a	2023a	2024e	2025f	2026f
EBITDA	8,804	9,223	9,977	10,861	11,699
Less: Cash interest paid	(446)	(675)	(851)	(788)	(789)
Less: Cash taxes paid	(1,790)	(1,832)	(1,641)	(1,819)	(1,981)
Funds from operations (FFO)	6,568	6,716	7,485	8,254	8,930
Capital expenditure (capex)	1,191	1,488	1,628	1,837	1,975
Free operating cash flow (FOCF) after leases	2,188	4,789	4,871	5,305	5,791
Debt (reported)	4,525	7,286	10,612	10,513	10,413
Plus: Reported lease liabilities debt	3,063	3,881	4,402	4,408	4,774
Plus: Incremental lease liabilities debt	1,473	1,111	1,546	1,420	1,269
Plus: Pension and other postretirement debt	62	81	81	81	81
Less: Accessible cash and liquid Investments	(707)	(1,327)	(3,524)	(2,930)	(2,822)
Debt	8,416	11,032	12,757	13,491	13,716
Adjusted ratios					
Annual revenue growth (%)	13.1	6.3	8.1	8.1	6.5
EBITDA margin (%)	33.3	32.8	32.8	33.0	33.4
Debt/EBITDA (x)	1.0	1.2	1.3	1.2	1.2
FFO/debt (%)	78.0	60.9	58.7	61.2	65.1
EBITDA interest coverage (x)	25.4	12.6	11.8	13.9	15.0
FOCF/debt (%)	37.5	52.7	46.4	47.6	50.7

All figures include S&P Global Ratings adjustments' unless stated as reported. a--Actual. e--Estimate. f—Forecast. DKK--Danish krone.

Liquidity

We assess Pandora's liquidity as adequate. We estimate that cash sources will cover liquidity uses by about 1.5x over the 12 months started April 1, 2024, and remain above 1.5x over the subsequent 12 months even if EBITDA declines by 30%. We view the group's risk management as generally prudent in the context of an adequate assessment. That said, we consider Pandora unlikely to be able to absorb high-impact, low-probability events without the need for refinancing.

We expect principal liquidity sources over the 12 months started April 1, 2024, will include:

- Cash on the balance sheet of about DKK934 million;
- DKK6.4 billion available of its DKK7.1 billion revolving credit facility (RCF);
- About DKK3.7 billion from the proposed issuance of the €500 million senior unsecured notes;
- Working capital inflows of about DKK42 million; and
- Forecast cash funds from operations of DKK6.6 billion.

We expect principal liquidity uses over the same period will include:

- Debt maturities of about DKK2.1 billion;
- Maintenance, refurbishment, and growth capex of DKK1.7 billion;
- About DKK1.5 billion of intra-year working capital swings; and
- About DKK5.5 billion of dividends and share buybacks.

Covenants

Pandora's RCF facility agreement requires the group to maintain a consolidated net leverage position of below 2.5x. The covenant is calculated on a quarterly basis. We expect Pandora to comply with this financial maintenance covenant over our forecast period, with adequate headroom at about 70%.

Environmental, Social, And Governance

Governance factors are now a positive consideration in our credit rating analysis of Pandora. In our view, the independence, composition, and effectiveness of the board are a key credit strength of the group and limit the risk appetite for debt-financed operations or larger shareholder distributions. The group's strong governance practices are reflected in the consistency between targets and execution. We also note a positive management's track record in adjusting strategy to the prevailing market conditions, while adhering to a financial policy of a net leverage ratio below 1.5x, and consistent and transparent communication with the market participants. In our opinion, this demonstrates the soundness of the company's financial policy framework and balanced approach to the interests of various stakeholders such as consumers, suppliers, creditors, and shareholders.

Environmental considerations continue to be neutral in our credit risk assessment of Pandora and we consider their exposure similar to that of other jewelry retailers that we rate. We acknowledge that Pandora has made progress in improving the sustainability of its operations. In December 2023, the company switched its production to 100% recycled silver and gold and reduced the carbon footprint of its value chain by 27% compared with 2019. This was achieved thanks to the increased use of renewable energy to power its manufacturing facilities in Thailand.

Social factors are a neutral consideration. Jewelry retail is a labor-intensive industry and Pandora, with vertically integrated operations in developing countries, is exposed to human rights risks. The company ensures a constant dialogue with employee representatives in Thailand facilities and relies on third-party social audits to ensure its human rights policy complies with the UN Guiding Principles on Business and Human Rights. Pandora is also committed to creating an inclusive workplace and increasing the share of women in the leadership team to 40% by 2027, after achieving the target for the board in 2023.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2024, the capital structure comprised:

- Senior unsecured credit lines, of which DKK740 million was drawn;

- A DKK646 million amortizing bank loan;
- About DKK1.8 billion of uncommitted money market line;
- A DKK2 billion bilateral term loan; and
- DKK3.7 billion of unsecured notes (€500 million issued in 2023 under its € 1.5 billion EMTN program).

All these are issued by Pandora and rank pari passu.

The proposed €500 million senior unsecured notes the group will issue under its current €1.5 billion EMTN program and will use the proceeds to repay the DKK2 billion term loan and fund general corporate purposes. The notes benefit from a negative pledge, rank pari passu with Pandora's other senior unsecured debt, and are not subject to material subordination to other instruments.

Analytical conclusions

We rate the proposed senior unsecured notes with expected maturity in 2030 'BBB', in line with the long-term issuer credit rating on Pandora. We have not identified significant elements of subordination risk in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/--
Business risk:	Fair
Country risk	Low
Industry risk	Intermediate
Competitive position	Fair
Financial risk:	Minimal
Cash flow/leverage	Minimal
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Neutral (no impact)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Tear Sheet: Pandora A/S, Nov. 20, 2023
- Pandora A/S, April 5, 2023
- Research Update: Danish Fine Jewelry Retailer Pandora A/S Assigned 'BBB' Rating; Outlook Stable; Proposed €500 Million Notes Rated 'BBB', Feb. 28, 2023

Ratings List

New Rating	
Pandora A/S	
Senior Unsecured	BBB
Ratings Affirmed	
Pandora A/S	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB