Pandora

Transcript: Q2 2022

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John Bäckman, Investor Relations: [00:00:02] Good morning, everyone. Welcome to the conference call for Pandora's Q2 2022 results. I'm John Bäckman from the Investor Relations Team. I'm joined here in Copenhagen today by our CEO Alexander Lacik and our CFO, Anders Boyer. And the rest of the IR team, Kristoffer Malmgren and Adam Fuglsang. There will be a Q&A session at the end of the call. As usual, please limit your questions to two at a time and then kindly get back into the queue if you have additional questions.

John Bäckman, Investor Relations: [00:00:28] Slide two please. Please pay a notice to the disclaimer on slide two and then turn to slide three and Alexander, please go ahead.

Alexander Lacik, CEO: [00:00:38] Thank you, John, and welcome everyone who are joining us today. I'm happy to start out by saying that we have had another record revenue quarter. In fact, it's the third consecutive record quarter. Compared to clean base in 19, the organic growth in Q2 was 17%. This despite China dragging down the growth by seven percentage points. In fact, halfway into the year we can say that we have performed very well and managed to absorb significant headwinds in a number of areas, including COVID restricted China, seizing our business in Russia and Belarus, high inflation and cost pressure on energy and raw. We consider the growth to be of high quality, underpinned by strong performance in our core Moments platform. The execution of our growth strategy, Phoenix, is progressing very well. As you know, we are unfolding a number of strategic initiatives, including things like network expansion, new store concept development and a new customer loyalty program – just to name a few. These are all on track. Our business model continues to deliver profitable and cash generating growth. In the quarter EBIT margin landed at 22.1% and the underlying EBIT margin development was strong. Overall, and in spite of the macro headwinds, trading in the quarter was in line with our plan, and we are on track to deliver as guided. Today we're also proud to announce the launch of lab-created diamonds in North America. This is also our first collection set in 100% recycled silver and gold. The launch is a transformative move, both in terms of business and sustainability.

Alexander Lacik, CEO: [00:02:24] Now let's move to slide four, please. Well, key takeaway from this slide is that our guidance remains unchanged. For the full year of 22, organic growth is expected to be in the 4-6% range, while EBIT margins are expected to be 25-25.5%. We'll provide a more detailed perspective on our assumptions later in the call. There is no doubt that there is elevated uncertainty in the world around us, but we believe we can navigate this within our guidance.

Alexander Lacik, CEO: [00:02:57] Slide six, please. Before we dive into the Q2 results, I'd like to give a brief update on the four main building blocks of our growth strategy, Phoenix. We're executing strongly, which confirms the potential ahead of us. The first and most important growth pillar is driving higher brand desire. We continue to see solid traction during key gifting periods, most recently Mother's Day and this is an encouraging sign of brand relevance. Collaborations with other big brands such as Disney is a way to build awareness and drive brand desirability more. Finally, the brand experience we offer in our concept stores and online is of course, essential to drive higher brand desire. Today, our customers enjoy the shopping experience, and we believe it sets us apart in the affordable luxury segment. We continue to evolve the shopping experience. Secondly, in the design pillar, the focus is on driving the core while fuelling the brand with more. Pandora Moments is the core of Pandora and continues to show its vitality. It delivers solid growth helped by innovations such as the new model collection, for instance. To fuel the brand with more, we last year relaunched Pandora ME and today we are fuelling with even more with the launch of our lab-created diamonds in North America, the world's largest diamond market. But more on that a little bit later. Moving on, the third growth pillar is personalization. Here, we're improving the omnichannel experience to offer consumers a more personalized path to purchase journey. Our online channel performance continues to be very good. The testing of our new store concept is well underway, and the launch of our new customer loyalty program in France is off to a strong start. The fourth and final pillar is about growing our core markets. This includes both increasing our network and growing the existing one. As we will talk more about later, our network development is starting to become more visible in the numbers driving profitable growth.

Alexander Lacik, CEO: [00:05:08] Slide seven, please. As you know, Moments, including collaborations, is today 75% of our business. And it's our clear ambition to continue to grow it. As part of the Phoenix growth initiatives, we're also creating new platforms alongside Moments with the launch and leverage mindset. This means we're putting more support behind new initiatives than we did in the past, with the aim that a new platform should reach at least 5% of revenue. We have announced two new platforms our lab-created diamonds collection, Pandora Brilliance, which I will go in more details with shortly and Pandora ME. ME is aimed at Gen Z, which has gained solid traction in continental European markets but still need to gain stronger traction in, for instance, US and UK. It's clear that establishing new and enduring platform takes time to model with test markets works well, as we have done with Brilliance in the UK as the platforms develop and mature, we are closely monitoring the progress to adjust as we go, as well as assessing the true potential.

Alexander Lacik, CEO: [00:06:15] Next slide, please. Our largest platform, Moments, was our key driver of growth in Q2, delivering a 4% sell-out growth versus 2021 and 11% versus 19. The performance was supported by strong Mother's Day trading. Moments was also supported by collaborations, not least the new Marvel collaboration with Disney. Collabs continued the very strong traction from Q1 and was up 34% in Q2 versus last year. There are more products from the Marvel Universe launching later this year.

Alexander Lacik, CEO: [00:06:50] Next slide, please. As I mentioned today, we announced that we're launching Diamonds by Pandora in North America. It will be traded under the category name Diamonds by Pandora. And this is to mark that we anticipate further collections to be launched under the larger umbrella concept. This is another important milestone on our mission to democratize the jewellery market, of which diamonds is a significant part. We have generated important learnings from a UK test launch and that's really helped us sharpen the North America launch plot. We're very excited about this opportunity. The diamond jewellery is a 600 billion DKK market globally and lab-created diamonds are a growing part of that. North America is not only where we have our largest geographical presence, it's also the largest market for lab-created diamonds. We believe we have a unique position with our retail footprint, brand awareness and understanding of our customer base. Diamonds by Pandora will be available in 269 stores in North America and online starting August 25. Prices will start at 300 USD, with stones from 0.15 up to 1 carat. There are two things which I'd like to highlight with this launch. First, we're bringing a very attractive design to our customers at an accessible price point. We continue to focus on the self purchaser rather than the bridal market, and we believe our concept is far more unique in this space. Secondly, this launch marks significant progress on our strategic ambition to be a low carbon and circular business and leading our industry in sustainability. The diamonds are grown, cut and polished using only renewable energy, and it's also the first collection set in 100% recycled silver and gold from Pandora. All of this results in a very low carbon footprint. Our diamonds have a carbon footprint of only 5% that of a mined diamond. In the press release we sent out this morning. You can see additional data points on the strong sustainability profile. I think we're helping set the bar for the jewellery industry when it comes to sustainability and show where the industry can go in the future.

Alexander Lacik, CEO: [00:09:06] Next slide, please. Now. let's have a look at our core markets. Our use business continued to deliver strong growth versus 19. As expected, it's down versus 21. These were comping the unusual effects from last year's stimulus checks. We have said all along that we expect the US market to slow down this year and that was included in our guidance. Our key European markets had very strong growth in Q2 and all of them delivered double digit growth versus 21. France and Germany represent great growth opportunities for Pandora since our market share is well below that of more established markets like Italy and UK, for instance, Australia was up three points versus 21, and we expect Australia to be a bigger source of growth in the second half of the year, since they were severely impacted by COVID 19 during that period of last year, hence cycling a weaker base. China was weak as expected and severely impacted by reduced traffic due to COVID 19 restrictions. Now let's have a quick look at the rest of Pandora.

Alexander Lacik, CEO: [00:10:12] On the next slide, please. Rest of Pandora accounts for 28% of the overall business and had an organic growth in the quarter of 26% versus 21. The biggest markets here are Spain, Mexico and Canada. And I want to give you a bit more colour on these markets, since they represent good opportunities for future growth. Spain had revenue of almost quarter of a billion DKK in the quarter equal to France in 21. Spain had revenue of 900 million, but trending higher this year. Last year, we converted 44 franchise shop-in-shops to Pandora owned with very good results. Mexico had revenue in the quarter of 185 million, which is more than China, in fact, and delivered 49% organic growth in the quarter versus 21. Mexico is approaching an 800 million DKK of revenue in the year, and we still have an opportunity to expand our network. In Q2, we open up 25 shop-in-shops in LatAm, of which 13 actually were in Mexico. Canada delivered 44% organic growth in the quarter. We have strong opportunities here as well to grow our market share in brand awareness.

Alexander Lacik, CEO: [00:11:26] Next slide, please. At the Capital Markets Day last year, we told you about how developing the network is an important source of revenue growth. I want to follow up on this since we're starting to see meaningful, incremental revenue from our network expansion and forward integration. We expect to open net 100 to 150 stores until 23. And store openings are EBIT margin accretive. The stores we opened in 21 are now tracking at roughly 40% EBIT margin in the first half of 22. There's also a short payback of roughly one year on the CAPEX investment and new lease contracts are in most cases quite flexible and include regular break clauses. Forward integration added 1 percentage point to revenue in Q2, mainly driven by store acquisitions in the US. We always assess potential takeovers on a case by case basis. If we do a deal, it's roughly EBIT margin neutral and has a short payback.

Alexander Lacik, CEO: [00:12:27] Next slide, please. As mentioned, one of the key growth pillars in our strategy is personalization. Creating a true omnichannel experience. As part of this, we are testing a new store concept called Evoke. So far, we are opening up 12 stores across five of our key markets being US, China, UK, Italy and Germany. It's still early days, but we can see that customers spend more time in the store, and this obviously opens up for more engagement opportunities with our sales staff. The new stores have outperformed during peak periods and the sellout growth in the new stores is also slightly higher than in other stores. This indicates to us that Evoke concept works very well. We are planning to open up 35 more Evoke stores in the second half of the year, and then we'll scale it further in the next year.

Alexander Lacik, CEO: [00:13:21] Next slide, please. Before I hand it over to Anders, I would like to comment on another key enabler in the personalization journey, our new customer loyalty program called My Pandora. We told you about the launch in France last quarter and so far it has showed strong results. Roughly quarter of a million consumers have already signed up and more than 60% of them have already made a purchase. While it's early days, we have also noted improvement in basket size, which is up by 18% and units per transaction up by 27%. Now these data points will need more time to mature, but clearly early days the business case continues to seem very sound. We get access to quality consumer data more effectively, and this allows for creating a stronger bond to the brand. We can personalize our marketing activities and also target our media efforts much better. Finally, My Pandora is also a key enabler in developing our omnichannel experience both on- and offline, as it actually allows our store staff to easily identify consumer interest and purchase history. We will launch My Pandora in more markets in 2023. And on that note, I hand over to Anders for a closer look at the numbers.

Anders Boyer, CFO: [00:14:37] Thank you, Alexander. Then please go to slide 16. The key message for our second quarter financials is that they were in line with our expectations. I'll cover a bit more on revenue and EBIT on the following slide, so on this slide, I'll just give a few comments on some other KPIs. Our gross margin remained strong at 76.4% in the quarter, and that's despite 180 basis points of headwinds versus last year from commodity prices and the temporary drag from forward integration that we have made. And when I say that, then it also means that the gross margin on a run rate basis should be higher than in the second quarter when we look forward. You probably remember that during the last quarters, we have deliberately built inventories to mitigate the risk of supply chain disruptions, and we did that in the second quarter as well. We are now broadly where we want to be on inventory levels, but we do expect inventories to increase a bit further in the third quarter as usual as we prepare for the peak trading season in Q4. And the decision to increase inventories, will of course have a temporary negative impact on the cash conversion. We have received some questions about whether some of the higher inventories represent a risk going forward on discounting, I think we should address that upfront as a clear no. The choice that we have built is on our high runners. So this is, sort of, a net working capital question only if I can put it like that. Alexander already told you about the investments that we're making in our business as part of Phoenix and that is also visible in the in the CAPEX level, as you can see on the slide here. Then CAPEX is double up in % of revenue versus last year. And then just finally, I would like to highlight a number which is not on this slide and that's the announced share buybacks and the dividend that we will be doing in 22. And the total pay-out to shareholders that we have announced equals around 10% of our current market cap.

Anders Boyer, CFO: [00:17:13] Then go to the next slide, please. Slide 17. That's the revenue performance in the second quarter that we have on this slide. As you know, we guide on organic growth and it came in at three points in the second quarter - that's the black bar in the middle of this bridge. And as Alexander, that equals 17% organic growth versus 19. The organic growth was driven both by sell-out of two points - that's the first light grey box on the bridge here. And network expansion, adding two points also to the growth. As Alexander mentioned, growing the network is a core part of the Phoenix strategy and it is becoming visible in the numbers. As you know, we have ceased business in Russia and Belarus and this drags down the organic growth by around one point in the second quarter to get a bit a couple of other minor factors. Forward integration also supported revenue growth by one point is mainly stores in the US. And the one point shown here as forward integration is the part of forward integration where some kind of goodwill is paid and therefore it is not included in the organic growth. And then finally the one you right in the bridge here to get to the 10% total reported revenue growth, then you can see that that's quite some foreign exchange tailwind of six points in the quarter.

Anders Boyer, CFO: [00:18:49] Then go to slide 18, please, the EBIT margin bridge. There's quite some moving parts in this EBIT margin bridge in the quarter, but the key measures that we want to pass on is what we have in the dotted box in the middle here showing that there's a slight improvement in the underlying EBIT margin versus the second quarter of last year. And that improvement came from a combination of operating leverage and from some gross margin efficiencies, which was then partially offset by our continued reinvestment in in the business. And this is, in essence, how we see our business as you know, there's some operating leverage as we grow, leverage on our cost base and then we reinvest some of that, or all of that, leverage in strengthening the business and driving future growth. Outside of the dotted box, we have isolated some temporary factors impacting the margin growth last year to the left and this year to the right. And if you look at the elements to the left, I want to give just a comment on the bucket that's called net impact of store closures and US stimulus. Last year, the EBIT margin was impacted by these opposing factors that last year lifted the EBIT margin by roughly net 1%, due to the elevated growth based on the US government stimulus packages that we saw last year. Obviously it's not exact science and you should view this one point as directional only, but there's no doubt that net net it's a drag on the EBIT margin compared to last year. Then if you look at the elements to the right, that's the temporary factors this year, then most importantly, there is a drag from forward integration as we bought back inventory at wholesale value. And this is, as most of you probably know, a 3-6 months temporary drag when we take over partner store.

Anders Boyer, CFO: [00:21:08] Let's go to slide 20, please, and the guidance, the 22 guidance. The second quarter trading was in line with our plan and we keep our guidance unchanged. And then I just want to stress what Alexander already said, that the macroeconomic outlook obviously is associated with elevated uncertainty. The overall guidance is unchanged, but we have made some smaller tweaks to the underlying sources of growth, and I'll just give a comment on that. On the one hand, we have increased the guidance from network expansion from 1-2 points last quarter to 2 points. And then on the other hand, we see a slightly lower selling to the partner channel, and that includes the fact that we have ceased the business in Russia and Belarus, but there's also a couple of other smaller factors. But as you can see, it's in the roundings and decimals and between minus one point and zero impact on the organic growth this year. We've also made some smaller changes to the directional growth assumptions - that's the assumptions that you can see in the pink box on the slide here. And the short version of the assumptions in the pink box is that we have adjusted the growth assumptions for the US down a touch, and then we have the assumptions for the rest of Pandora is up a touch, but the total is the same. The guidance is unchanged. Another thing we just want to highlight sort of ahead of the second half of the year is that the sources of growth in the second half will be different than in the first half of the year. There will be some shift in which countries are contributing to growth. Europe will obviously be comping a more normal second half of 21 without COVID closures. And then on the other hand, Australia will have quite easy comps due to the lockdowns, especially in the third quarter of last year. And then China will also be facing easier comps, but will still be a drag on the total Pandora growth in the second half of the year.

Anders Boyer, CFO: [00:23:34] Then let's move to the EBIT margin on slide 21. The EBIT margin guidance is unchanged as well. The fourth quarter will be the most profitable quarter of the year in line with normal seasonality, and that should probably not be a surprise. But I want to highlight that due to a bit of facing on both revenue and cost, the Q4 margin is expected to be a relatively stronger than last year. And the third quarter margin a little bit lower. And reality is more like normal, if you look back in the past, and not just back to last year, then the seasonality we are getting into is actually just more normal for Pandora, but I just wanted to highlight that.

Anders Boyer, CFO: [00:24:22] Then slide 22, and the implied guidance for the rest of the year. The 4-6% organic growth for the full year implies organic growth for the rest of the year of between -1 and +2. That's what you can see in the upper part of the slide. And then in the lower part, you can see that this is equal to between 12 and 16 points versus 19 in the second half of the year. There's just two things we wanted to mention here. First of all, and this is important, the lower end of the guidance is most likely to come into play only if we see a further worsening of the macroeconomic environment. Secondly, we want to highlight that in terms of growth versus 19, then the third quarter is expected to be lower than Q4. And this is also what we saw last year where the Q4 growth was 6 points higher than the third quarter. And then, as you can see in the first bullet about EBIT margin on the slide here, then the implied EBIT margin for the rest of the year is 27-28% and thereby a roughly 50-150 basis points above last year. And with that, I'll hand it back to Alexander and please go to slide 24.

Alexander Lacik, CEO: [00:25:55] Thanks, Anders. So quickly summarize. Q2 was the third straight quarter with a record revenue, which we're very pleased with. Execution of our strategy Phoenix is progressing well with many initiatives. We saw profitable growth in the quarter and we left our guidance unchanged, as Anders just went through, despite the challenging business environment. We are launching Diamonds by Pandora in North America, an important milestone on our mission to democratize the jewellery market. And finally, I'm delighted to share with you that we found our new Chief Marketing Officer to help us achieve our growth ambitions. Mary Carmen brings standout experience in building, expanding and turning around global consumer brands. And I'm confident that she will be a key contributor doing just that. She'll be joining us later in the fall. And on that note, we're ready for the Q&A session. Operator, please go ahead.

Operator: [00:26:56] Thank you. If you have a question for the speakers, please press five star on your telephone keypad. To withdraw your question, please press five star again. We will have a brief pause while questions are being registered. The first question is from the line of Fredrik Ivarsson from ABG. Please go ahead your line will now be unmuted.

Fredrik Ivarsson, ABG: [00:27:27] Thank you very much. Hey Alexander and Anders. I've got two questions to Anders, I believe. And first one on the inventory level. You stated you plan to increase that in Q3 further, which will probably take you to some 17% as a share of sales. Where do you expect that ratio to sit in the end of Q4? That's my first question. And then the second one on the margin guidance, because in Q1, you helped us a little bit to quantify the headwinds from inflation. Have you done any changes to those assumptions? And reason for asking is partly that raw material prices are down, I guess, 6-7% since then. So I would expect some tailwinds from lower raw mats since you weren't fully hedged for especially Q3 and Q4. That's the second question.

Anders Boyer, CFO: [00:28:25] And thank you, Fredrik, for those two questions. Maybe let me just start with the last one. In Q1, we said that there will be a total of 200 million kronor in half inflation impact and half as of extraordinary costs. And the extraordinary cost was related to the ceasing of business in Russia and Belarus. And then the other 50 million kroner was related to the COVID 19 measures in Thailand. But on the first pocket, the 100 million DKK of costs, it's true that the energy prices and some raw material prices are down a bit. But the big one, silver, or the big one.. two ones, silver and gold, we're hedging, sort of, roughly one year forward, so the decline that we've seen in silver prices, which is the main metal that we've seen since I guess it was in June or July that it started, will only help us from the middle-ish 23 going forward. But just elaborating a touch on that with the silver prices in our guidance for this year, and that numbers again fixed because of the hedging that we're doing, is just about 25 USD. And with the current silver price just a tot above 20, when I looked at this this morning, $20, then that gives $5 of tailwind as a run rate in a year's time. And that's almost 150 basis points of margin tailwind compared to 2022 on a run rate basis, so it is meaningful money. But net net for this year, the 100 million DKK that we announced back in May is pretty much unchanged. Then on the inventories, you should expect that inventories by the end of this year is lower than the number that we are sitting with going out of Q2. We are already building up and producing ahead of peak season going out of the second quarter. We will continue doing that in the third quarter and then we will sell a lot of that during the fourth quarter as as usual. So I think we will end with an inventory level that is in percent of revenue is higher than last year. We will.. but not into the 16.9 level that we saw going out of the second quarter.

Fredrik Ivarsson, ABG: [00:31:19] Perfect. Thanks, Anders. Very clear.

Operator: [00:31:25] The next question will be from the line of Martin Brenøe from Nordea. Please go ahead your line and I'll be unmuted.

Martin Brenøe, Nordea: [00:31:32] Hi. Thank you so much for taking my questions and congrats with another record quarter. I have two questions and then I'll jump back in the line, please. The first question would be, can you comment on anything on the momentum in the quarter? Or perhaps, you have previously said something about, you know, I guess you got... july numbers, so any comments on current trading would be highly appreciated. Then my second question would be, you have so many things going on right now, and I guess that you cannot spend your management time on everything on equal basis. So can you just help me understand what's taking most of your time and your resources at the moment? Thank you.

Anders Boyer, CFO: [00:32:16] I'll start out, Martin. Thanks for those two questions. Yeah. On the momentum current trading, then we don't see any major signs of a softening consumer sentiment. All of our retail metrics, if you go through them basket size, including that traffic conversion, are staying in tact, so that's important to say. And, of course, when we go out this morning and confirm our guidance, we have both taken the momentum going out of the second quarter into consideration. We've taken the trading in July into consideration. We have taken the trading all of all the way up until yesterday into consideration - that's important to say. And then I think we would like to stress that we have specifically set that in order to end in the low end of our guidance, we need to see a worsening of the environment compared to where we are today. I hope that helps.

Martin Brenøe, Nordea: [00:33:32] It does. Thanks.

Alexander Lacik, CEO: [00:33:33] Hi, Martin. It's Alexander. Here is a great question. I got and got the same question from the board yesterday. So it's top of mind. But in simple terms, it's very much what we laid out in the Phoenix strategy. There's a huge focus on the base platform. So, Moments and the innovation and execution of our Moments platform. That is the kind of number one priority for us. Second priority, I would say, is the introduction of the Diamonds by Pandora in North America. That's been a big focus because it's an important step for us. Third, as we alluded to in the presentation of Pandora's network development, which includes opening new stores, relocating to better locations of existing network, as well as there's been a fair amount of activity on forward integration recently. Fourth point is we continue the digital development and there are two strands to that. One is the consumer facing like the loyalty program, which I mentioned, and then there's enterprise development, when it comes to ERP and a few of our kind of core systems that that we are still working on upgrading. And I think what's different this year probably from the last, let's say 18 months or so, is that last year we were thinking a lot on what comes after Programme NOW, and of course, that eventually led up to the Phoenix program. Now, my sense is that we moved much more into focusing on execution of the Phoenix program. So we're very restrictive in adding new things to the list, but we're focused on delivering the stuff that we have in front of us. And if you remember from the Phoenix program, we said they were kind of four growth pillars. So we're kind of doubling down on those and really not trying to get distracted with, you know, M&A is one topic, obviously, which is always out there, but we've kind of refrained from that, and now we're focused on on executing the Phoenix plan. I don't know if that helps, but that's kind of what I would see from my vantage point.

Martin Brenøe, Nordea: [00:35:40] It's very clear. Thank you so much, Alexander. I'll jump back in the line. Thank you.

Operator: [00:35:47] The next question will be from the line of Lars Topholm from Carnegie. Please go ahead. Your line will now be unmuted.

Lars Topholm, Carnegie: [00:35:55] Yes. A couple of questions on my side. One goes to slide 10, because one way of expressing temporary store closures is, of course, what percentage of stores were closed. But I get slightly concerned when I look at organic growth and how many more open stores you have in the quarter. I mean, an example, if 60% of German stores were closed in Q2 last year, it means Q2 this year, mathematically, you have 150% more open stores, but your organic growth is only 8%. In Italy, mathematically, you have 20% more open, so you only grow 15%. And likewise in France you have 89% more open stores, but only grow 13%. And in France you are in fact down versus 2019. So I wonder if there's something I'm missing or your like-for-like is contracting significantly in these markets. And then a question on what you just mentioned, Anders, on your full year guidance, just to make sure I understand it correctly: If macro deteriorates, there could be downside to guidance or is it if current trading deteriorates, i.e., is guidance based on current trading continuing unchanged? And that connection, what should we specifically expect for the US where, if I look at last year, your peak was probably in Q2, does that mean we should assume that the US momentum has trust in Q2 and now should improve? Thanks.

Alexander Lacik, CEO: [00:37:52] On the first question Lars, we would have to get into an exercise which maybe we can do in a separate call. There are a couple of assumptions one need to now be mindful of, because traffic obviously will shift between physical stores and online, as you know, and that varies in different countries to varying degree. So just kind of assuming there's a linear relationship between a store open or closed and the revenue will sit in there, probably isn't entirely correct. So, but I mean, it's a more complex question than to answer here. We certainly do not see like-for-like crash like you hinted. I think that, it's you know, it's sound growth that we're experiencing in continental Europe - of course helped by the fact that some of the stores were closed last year. But it's not as simple as taking those percentages that you threw back at us. But I'm happy to kind of have that in a separate session, so we can try to do some some intelligent math on that.

Lars Topholm, Carnegie: [00:38:57] I understand that. Alexander, if I can just maybe ask in a less complex way, if I just take your revenue in Italy and France, then in Italy you are now 18% up versus Q2, 19. Previous quarter, you were 32% up versus the same quarter, 19. In France, you're minus four. You were plus 16 in the previous quarter. So, full respect of shifts between channels, etc. But why shouldn't I interpret those numbers as if you're losing momentum at least in those two markets?

Anders Boyer, CFO: [00:39:40] Let me start out with Germany, which is probably the most extreme. It is true that organic growth in Germany was 18%. In Germany last year, which saw quite some high sell-in to a partner that we operated with - a franchise partner that had an operating with an online business. We have been scaling that down this year. But if you actually look at sell out organic growth in Germany was 18 but actually look at sell-out year-over-year in Germany it was plus 42. And that number is maybe easier to relate to when you look at the store numbers and closures in Germany last year. And if you go sort of through each of the countries like that, there's sort of specific stories like that. And it is quite cumbersome still to do year-over-year comparisons, not least due to the pandemic impact last year. But again, Germany being the one that that stands out the most. In France, we actually been doing quite okay in our own channels in the second quarter - the partner channel less so. We did have one of our larger partners that ran into some issues, and I think it was actually fraud issues in his business, and that impacted that business getting to a.. I don't know whether it was a complete standstill, but it is very low level growth from sell-in and organic growth perspective in the second quarter that impacts the number that we have sitting on slide number 10. But, overall, I think all of these numbers is in line with what we have expected. That's why we go out and actually confirm the guidance today and specifically on Europe. What we do with the guidance today, we are notching that up a little bit, US down a bit as I said and then Europe and the rest of the world up a bit. So all of this is exactly in line with our with our plans. What is the.. that was current trading. That was the other question. I should probably qualify a bit what I said around the macro we... There's already a bit of a macro headwind built into the guidance that we have shown in that pink box on slide number 20 that's already sitting there. So.. it would have to be a very visible and significant change in the macro environment in order for us to point towards the lower end of the guidance. I think it will probably be.. it would be quite a change compared to what we see in Q2 and going out of Q2 and after Q2, it will have to be quite a change to the trading environment before we look towards the low end of the guidance.

Lars Topholm, Carnegie: [00:43:19] That's fair Anders, and of course, I understand you can't tell us everything. I'm just still a little uncertain. I mean, I understand current trading is part of why you guide as your guide. I would still be extremely curious to know if current trading is better or worse or on par with what you saw in Q2, because that makes us better able to sort of define what we think instead of just penciling in what you guys say - with all respect, of course. So I wonder, if you can give some comment on current trading versus Q2, if it's better or worse or in line.

Anders Boyer, CFO: [00:44:00] If you go back to the Q1 announcement, then what we said, we guided 0-2 points of organic growth for the rest of the year - meaning, Q2-3-4. We have.. a notch above that in the realized numbers for Q2, but we keep the comment unchanged. And that means basically that we are trading around that a couple of points plus in terms of organic growth. Q3 might be a notch below that. Q4 a notch above that. But we are just in that territory exactly like what we said when we came with the Q1 announcement three months ago. And then you asked about the US. The comp base is the most difficult one in the quarter that we have behind us now in the second quarter. And just refreshing my mind online here. But if you look at the US organic growth last year in Q2-3-4, it was in sort of round numbers, it was 80% growth in Q2 versus 19. Just around 60 the third quarter and 40 in Q4. So the comp base is becoming a little bit easier as we go through the year in the US.

Lars Topholm, Carnegie: [00:45:28] Anders, I'm really.. it's probably me being incredibly stupid here, but I still don't understand the answer to my question about current trading. I understand what you say about what you imply for the rest of the year, but the question is: Has current trading been better or worse or in line with Q2?

Anders Boyer, CFO: [00:45:49] What I just said is that it's in line with Q2 and in line with what they said all the way back in Q2. And we're been trading around this that we have guided 0-2% organic growth in both Q2-3-4. And that's what we delivered in the second quarter, and that's that's where we are heading.

Lars Topholm, Carnegie: [00:46:11] Crystal clear. Thank you very much, guys, for taking my questions.

Operator: [00:46:18] The next question will be from the line of Silky from Citi. Please go ahead. Your line will now be unmuted.

Silky, Citi: [00:46:28] Hi. Thank you for taking my questions. I have two questions, please. The first one on the promotional environment. Could you give us some color on how promotional activity evolved, particularly in the third quarter so far? We saw some good level of discounts, particularly on your US website. So I wanted to understand how that promotional activity has evolved in third quarter so far. And the second one is on pricing. You alluded to small price increases in your previous conference call. So have you passed on any slight price increases? Or have there been any meaningful changes in the mix? Any color there would be helpful. Thank you.

Alexander Lacik, CEO: [00:47:17] I think we need to be careful in these calls of entering into the quarter in which we're trading. I know what you're asking, but it's you know, this is a Q2 announcement, so I will have to just bear that in mind. So you will have details on Q3 trading when we come to the Q3 announcement. But the promotional in general, if I look at the first half of the year, we are not increasing our promotional. We are in fact continuing to detox in a couple of places. So in general, if I would do a global assessment, we probably have less promotional pressure overall so far this year. And then on pricing, as we said in the last call, we'd be looking to make some surgical moves and we have done a few, but it's on a limited amount of items at.. we're not touching opening price points that, you know, so that's part of our strategy. It's important for us to remain an affordable brand. So therefore and also, as Anders said, the cost increase on the supply side is not major. So we don't feel pressured to pass on big price increases like, you know, we're reading about newspapers, some other companies and brands are forced to do. We do not have that type of pressure. So staying staying with kind of a strategic pricing strategy is important. And we have made some surgical moves on certain items. Typically the, you know, a little bit higher priced items, a little bit more of the complex items.

Silky, Citi: [00:48:58] Thank you. Just to follow up on promotional activity. So when you say that you are facing less promotional pressure, are you talking about the number of days or the intensity, i.e. the magnitude of promotion?

Alexander Lacik, CEO: [00:49:12] I mean, we have.. the promotional calendar nowadays is a bit more, let's say, standardized across, whereas in the past there was a lot of different things going on across the globe. With our global merchandizing function, we have now tried to be a bit more fact based around what works and what not. So in general it's.. the intensity is similar to last year, give or take, but the number of days in a few geographies have been reduced.

Silky, Citi: [00:49:43] Thank you.

Operator: [00:49:48] The next question will be from the line of Klaus Kehl from Nykredit. Please go ahead your line will now be unmuted.

Klaus Kehl, Nykredit: [00:49:56] Yeah. Hello. Klaus Kehl from Nykredit. A question related to this Diamonds by Pandora. And I guess it's a pretty interesting product and it's a big market that you can tap into. But I must say that at least I have some problems when I try to think about what this could turn into or what, let's say, the next two or three years. So could you give us any feedback from retailers or consumers in the US? And yeah, anything you could share with us to get a feeling for what this could turn out to be? Thank you very much.

Alexander Lacik, CEO: [00:50:37] Yeah. So of course, we haven't launched it yet in the US, so there's no consumer feedback other than what we've done in the research phase a year and a half ago. So I don't have any kind of live data from that. Then we have, of course, from our franchise partners and some of the wholesale partners that that will carry the line. So there's some feedback that we have received, but there's nothing, you know, out of the ordinary I would say. There's been more discussion on, let's say, the business model, given the inventory level that, you know, the value of the inventory is a little bit different than from the normal Pandora business. There's been some conversations on how we can manage that in a smart way. But that's kind of on the back rooms conversations. From an expectation, I mean what we've said for any of our new platforms, our expectations is for that to be sustainable, it needs to hit around about 5% share business. This is not exact science, but at that level we'd have critical mass for the collection to, you know, so that we can afford supporting it with marketing, supporting it with the appropriate amount of space in the stores and appropriate attention from the organization, let's say. Some collections will get there faster than others. So that's kind of a general statement. Then if we look at the diamond market, I mean, there's Bain study suggesting that the size of the global market is roughly 84 billion or the 600 billion Danish that I was mentioning. Of that the largest market in the world is the US. Here there are some different data points flying around, but it's at least a third, if not more, of that 84 sits in the US. And of that piece today, there's a 6-8% of the market is in lab-created diamonds. If you then look at the growth rates in the last two years. Lab created diamonds have been growing at a 3x clip that of mined. So what all of that tells us is that there's a there's a sizable market already established out there. It's growing fast. Based on the research which we've done, we've seen that in particular millennials and even younger generations, they think the aspect of the sustainability profile or emissions profile, if you may, is something that features as they think about entering this category. So I think those are kind of the macro reasons, if you may, from our side, suggesting that this is a very interesting space to play. And I'd like to also point out that the diamond market historically has been focused and geared towards the bridal and engagement market. So that's that's a crowded space, which is one of the reasons we've kind of gone a little bit to a different place where we are focused on the self purchaser. So we don't think that a woman has to wait for the guy to get on his knee and pass the rock and then make his eternal commitment. That market, of course, is there, and it's been there for a long time. We are more kind of appealing to the women that want to manifest, you know, good things in life on their own. They're not dependent on that. And that's the concept which we know resonates really well with our audience. So I hope that helps to clarify. It's a big ambition. We're jumping on a horse in the race that seems to be be running faster than the other ones. And then we'll see how it goes.

Klaus Kehl, Nykredit: [00:54:31] Great. Thank you very much.

Operator: [00:54:36] As a reminder, please press five star on telephone keypad to ask a question. The next question will be from the line of Frederick Wild from Jefferies. Please go ahead. Your line will now be unmuted.

Frederick Wild, Jeffries: [00:54:48] Good morning, Alexander and Anders, and thanks for all that. First off, I'm very sorry to return to the talk, but on this current trading in Q3. I guess, could you confirm on relative underlying trends versus 2019 in recent weeks. Could you just confirm that there's been no substantial change in momentum on the underlying basis in the US, Europe and China as major markets? And secondly, I guess, for Q2, the increase in marketing as a percentage of sales versus 2019 seems to have stepped up quite substantially versus Q1. So is that a good guide for the remainder of the year for the marketing spend? Thank you.

Alexander Lacik, CEO: [00:55:30] I can knock off the last question first. So I think we've had this question before. You cannot look at the market spending quarter by quarter. That's not how we build our plans. We build annual plans and they will be shifts depending a little bit when different activities, different calendar affects, different initiatives when they fall. So the guide that we have given in the past that we'll be cruising around the 13-15% mark of revenue still holds. It may be a little bit high in some some quarters and a little bit lower and others. But there's no there's no strategic change in that respect.

Anders Boyer, CFO: [00:56:06] I'll give it another.. thanks for the question. I'll give it another shot on the current trading. The guidance that we have given this morning is between minus -1 and plus +2% organic growth for Q3 and Q4. And as I just said, in order to end in the low end of that range, something new would be need to happen compared to where we are currently trading. And if you add those two statements together that also.. then you say, well, then you are currently trading more like +2, which is correct.

Freddie Wild, Jeffries: [00:56:46] Great. Thank you.

Operator: [00:56:53] The next question is from the line of Erwan from HSBC. Please go ahead. Your line, all the unmuted.

Erwan, HSBC: [00:57:04] Hi there. Thank you very much for taking my questions. So first of all, on the US, can you talk about consumer demand and what you're seeing in terms of differences in demand, either by price point or by products or by regions within the US? Where are the weak areas and what are the stronger areas? And then the second question is around gross margin. I think you were quite clear on the fact that we'd see benefits from raw material prices more in 23 than this year. But can you talk about the outlook for gross margin in H2 relative to what you mentioned about promotional activity possibly FX, raw material prices, anything else in terms of moving parts for H2 to understand where the gross margin can end up at? Thank you.

Alexander Lacik, CEO: [00:57:56] So I can take the first part there on on the US. So, and I just like to take us back one step, last year, of course, we had the stimulus checks, we got an abnormal growth in the market, which everybody is fully aware of. And we have all along said that we expect the market to decline coming into this year, you know, because the stimulus money isn't simply there. And then, of course, then what we look at, we track retail metrics, things like traffic, conversion rates, basket size, UPT, average price. And then we also look a little bit geographically how this pans out. What you can see on the US data, I'm talking Q2 specifically, we have seen a decline in traffic which today.. weather I can attribute that to inflation or whether this is the lack of stimulus checks, you know, I don't know. My guess would be that it's more related to the lack of stimulus checks, but there may be a component of inflation in there. If I look at kind of the performance in other parts of the world, which also are faced with, not necessarily the stimulus check, but the inflationary pressures, we can't really see anything in our data so far that would suggest that that's creeping in. So my assumption is right now that the US is more an effect of the lack of the, let's say the comp of the stimulus checks. And generally speaking all the other metrics are quite strong, then geographically it's not any major variations, to be honest, in the quarter, then we would have to look at that over a slightly longer period of time. So there's nothing there really that that kind of goes in any strange direction, if you may. So US is somehow performing as we expected.

Erwan, HSBC: [00:59:53] And just maybe a follow up. Looking at the lack of stimulus checks this year versus last year. Presumably that probably helped the entry level last year. Is it fair to assume that the higher price points are more resilient this year than the entry level price points?

Alexander Lacik, CEO: [01:00:10] I don't see any changes in the.. and that's not just for the US, because that was one of the things we also said, okay, if there's a recession, maybe people are still buying a gift, but they're going for, you know, something that's a little bit less priced in the assortment. I can't see that in Europe nor in the US, to be honest. And we have some data, I think was.. is that Bank of America? That was talking about share of wallet, which suggested, and this is also for the most recent period, which suggested that, in fact, you know, our customers continues to spend the proportion that they used to spend inside our shops, and in fact, in there's even some month where it's increasing a touch. But I wouldn't write too much about that.. I mean, at least we can say that we are minimally holding our own.

Erwan, HSBC: [01:01:00] Alright, okay.

Anders Boyer, CFO: [01:01:03] Then to your question about the gross margin for the rest of the year, if I heard you right. So.. the factors to have in mind, when looking at the gross margin for the rest of the year, is foreign exchange and commodity prices, and they actually go in each of their direction. So, for the.. perhaps quite some headwind from silver prices during the last number of quarters. So roughly two points of headwind from silver and gold in Q1 and Q2. That will gradually disappear during the rest of the years so being roughly one point of drag in Q3 and then being close to zero drag in Q4 year-over-year. But on the other hand, we've had some help from foreign exchange in the first part of the year that would actually also then go down in Q3 and Q4, offsetting some of the easier comps on silver and gold prices. And if you add that up, net net, you should expect to see a gross margin for the rest of the year that's flat to slightly up. And then when we get into next year, and as the hedging on silver prices expire, then sort of come mid-next year, then we will step by step see the upside from lower silver prices if the silver price stays where it is currently.

Erwan, HSBC: [01:02:36] Very useful. Thank you very much.

Operator: [01:02:41] The next question will be from the line of Karina Shooter from Goldman Sachs. Please go ahead. Your line will now be unmuted.

Karina Shooter, Goldman Sachs: [01:02:48] Hi there. Thank you very much for taking my question. I'd like to ask around the sales by category. I don't believe you've disclosed it in terms of, you know, sales by bracelets, charms, etc., since the second quarter of last year. Could you just give us some color around that in terms of how they're performing? And just as an extension, can you talk about the recurring element of sales in your business? For example, someone buying a bracelet and then buying a charm going forward? Is that something you see as a potential support and if there's any potential macroeconomic uncertainty going forward? Thank you.

Alexander Lacik, CEO: [01:03:24] Yeah. So I mean, first of all, the reason we are talking about the platforms is because that's kind of how we try to drive the business. Just so kind of you get a sense in the past the company was very much focused on product, and we've switched that because that's, kind of, is quite limiting the way you run your business now. But we do have these numbers here, just see.. So if you look at the charms, this is quarter 2 this year versus prior year. So then you can see a growth of 9% on the charms, bracelets is down by 2 points, rings is kind of flattish, earrings is up 7, necklaces and pendants is +1. Yeah. So there you go. But the way we look at it is when you jump into the to the Moments platform, eventually you'll end up buying a bracelet with charms. So.. to actually look and evaluate that the soundness of that business, you should look at it combined. What of course we are always very, you know, focused on it to make sure that we put more bracelets on people's wrists because that, you know, that's kind of the anchor for the Moments platform. So, these are the numbers so far that I just mentioned. And versus 2019, I think this was up double digits, the Moments platform. So it's a very vital platform. Now our job is, because it's a discretionary purchase, it's really up to us to market and sell and explain and push every product actually inside our assortment. But but as I said, 75% of our business sits in the Moments platform and it's very healthy, so. Then the frequency on charms. The only meaningful way to look at that is actually to draw out the line over like a two year period. Otherwise it is not particularly meaningful. You can't read proper trends, if you go down on an individual basis, and there we haven't seen, from memory, the last piece I saw, we sell between 5 and 7 per bracelet. You know what we call carriers. We have we also have in our assortment, obviously, bracelets that don't.. you can't wear charms, so you have to strip that out of the math and then look at the kind of Charm carrying bracelets, because that kind of indicates the business model on Moments and that that is very sound. So on the short term, you know, I can just look at the number of charms that we're selling, which is which is growing healthy. So one would assume that that the business is doing well. I hope that explains it a bit.

Karina Shooter, Goldman Sachs: [01:06:23] That's really clear. Thank you.

Operator: [01:06:27] As there's no further question at this moment. I will now hand it back to the speakers for any closing remarks.

Alexander Lacik, CEO: [01:06:36] Yeah, I mean, I think we've done a good session here. We are pleased with the quarter. We stay within the guidance. We found a new CMO. We're launching Diamonds by Pandora into the largest diamond market in the world. The business is solid. Phoenix is working really well, so I think it's another quarter which we're very happy with. And on that note, thank you for the attention.