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Transcript:
Interim Financial Report for the second quarter/first six months of 2023

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Bilal, Aziz, VP, Investor Relations & Treasury: [00:00:00] Good morning, everyone, and welcome to the conference call for Pandora's second quarter results for 2023. I am Bilal Aziz from the Investor Relations Team. I am joined here by our CEO, Alexander Lacik, CFO Anders Boyer, and the IR team. As usual, there will be a Q&A session at the end of the call. If you could kindly limit yourself to two questions at a time, then that would be great.

Bilal, Aziz, VP, Investor Relations & Treasury: [00:00:21] Please pay notice to the disclaimer on slide two and turn to slide three. I will now turn over to Alexander.

Alexander Lacik, CEO: [00:00:28] Thank you, Bilal, and welcome everyone. Let me start by sharing some key highlights from our second quarter. As you all know, we have been presented with many external headwinds over the past year, but we have consistently delivered solid results. Q2 is yet another marker on our positive journey and is a testament to the Phoenix strategy. The organic growth in the quarter ended at +5% with our like-for-like accelerating to +2%. Driving This performance has been good progress on our strategic initiatives. You'll notice that we delivered another quarter of strong growth across Pandora ME and Timeless. Meanwhile, our in-store execution continues to excel. It's clear all the investments we made in our retail platform are truly paying off. We also continue to demonstrate a rock solid P&L structure below the top line. Our gross margins have continued to expand and are still being supported from our pricing actions taken at the end of last year. And of course, this all feeds into a solid EBIT margin and a very attractive cash profile. You would have noticed that we initiated the second tranche of our planned share buyback of up to 5 billion DKK. We are on track on returning the highest cash distribution to shareholders in Pandora's history. Now let's move to slide four, please.

Alexander Lacik, CEO: [00:01:52] Given our solid performance so far this year, we are raising our revenue guidance. We now expect organic growth at +2% to +5% versus previously at -2% to +3%. The low end of the guidance would require notably weaker trading conditions to what we see today. I appreciate this range is still somewhat wide, but we remain mindful of the uncertain macroeconomic environment and will continue to update you as we move ahead into Q4. For the EBIT margin, our guidance remains unchanged at around 25%. We remain firmly on track for this despite fuelling the business with more investments into future growth initiatives. With regards to current trading, we have started Q3 well. In the first six weeks, like-for-like trading is up mid-single digit percent levels versus the same period last year. I'll give a few health warnings, though. This has been helped by stronger than expected traffic during the summer season and it's only six weeks of data in still rather uncertain environment. We expect some of these trends to moderate. However, we are encouraged with underlying trading trends within our business. Now let's move to slide six, please.

Alexander Lacik, CEO: [00:03:15] Before addressing the details of our Q2 performance, it's worth reminding everyone on what drives our performance, which is the Phoenix strategy. You all probably used to this Phoenix wheel by now, but Q2 was another great example of how brand design, core markets and personalisation sets us up for sustainable growth. I'll now give you more flavour on what that looks like when put into action. Next slide, please.

Alexander Lacik, CEO: [00:03:42] I often get asked on some of our major brand campaigns, and I just wanted to show you here that there isn't just one answer to that. We have numerous ways to engage our consumers across the globe. This can be through celebrities, influencers or through some of our brand ambassadors, such as our new ambassador in France. The point I am getting across here is that we have a large marketing toolbox available to us and we know how to use it. This matters through the entire year, and especially during big trading events such as Mother's Day that we just had in Q2. When I joined Pandora, it was imperative that we built a strong brand with high desirability. We will continue to build on this good work and will share some further thoughts with you at the Capital Markets Day later this year. Now, when good brand activations combined with good designs, that is when we thrive. That leads me nicely onto the next slide.

Alexander Lacik, CEO: [00:04:38] As you all probably know, Moments is the core of our business. It's a unique captive business model. When we sell more bracelets to consumers, then we know the consumers will come back for more charms over the course of at least 24 months. This secures a highly profitable and recurring revenue stream into the business. The key here is that we keep innovating to keep the platform fresh and relevant. I spoke last quarter about our new iconic studded chain bracelet, which offered a totally new design and texture. That has continued to do very well, driving solid incremental growth within bracelets. We now combine this with plenty of other new charms and base products, which resonated very well in Q2, whether it was the bee charm or the sun and moon rings, we continue to have a very healthy base business in Moments. This helped drive the sequential improvement in Q2 for the platform where like-for-like growth ended flat. Next slide, please.

Alexander Lacik, CEO: [00:05:37] What a stable and healthy core allows us to do is continuously invest in our new platforms and further recruit new customers into Pandora. We then take these customers through the entire brand journey and retain them for a long time. I am happy to report that this strategy continues to work. Pandora ME had another strong quarter with 17% like-for-like growth, which once again was relatively broad based. I've always said growth in here will not be linear, but it's encouraging to see our increased focus here is driving solid results. Timeless, which is our second biggest platform, also reported another solid quarter with plus 7% like-for-like growth. Again, this was broad based and helped by a strong product offering across Mother's Day. Some of the bestselling Q2 products you can see on this slide. Finally, performance in our Diamonds platform was stable and in- line with our expectations. Some of you would have noticed our announcement this morning on our future plans for Diamonds. So, let's speak about that in a bit more detail. Next slide, please.

Alexander Lacik, CEO: [00:06:43] It should come as no surprise that we continue to remain very excited about the future of lab grown diamonds for Pandora. We started our journey here just over two years ago through an initial pilot test in the UK and then a further rollout across select stores in North America. We have already learned a lot. And see, this is a big opportunity to transform the brand. We are now taking the next steps in our journey with a significant expansion of our product assortment. This will include three new collections, which will be launched in a few weeks' time at the New York Fashion Week. The new collections feature more classical designs while still carrying a Pandora twist. This will give us a wider appeal than our initial rather narrow range. This will be accompanied by an exciting new marketing campaign which will centre on Pandora's key ideology democratising diamonds. Keep an eye out for that. Finally, we will also be taking the next steps in our geographical rollout with plans to launch the platform across Australia, Mexico and Brazil within the third quarter. Our diamond jewellery continues to set the bar for the future of luxury when it comes to sustainability. Our diamonds have a CO2 footprint approximately 5% that of similar size mined stones, and we set them in 100% recycled silver and gold. As I said, this is an exciting journey for us and will continue to elevate our offerings here. Next slide, please.

Alexander Lacik, CEO: [00:08:12] Let's now take a closer look at the specifics of the second quarter. We delivered 5% organic growth with robust like-for-like growth of 2%. It's now the fifth straight quarter where we delivered solid results despite the weak macroeconomic backdrop. One of the main reasons for this is that we have continued to invest into our brand, product, and organisation. I've already spoken about the first two, but I also wanted to highlight another data point of Pandora's performance within our owned and operated stores. This remains very healthy at the +4% like-for-like in the quarter, and it's a testament to our investments in retail excellence and a reflection of how we become strong operators of our own brand. We will continue to work closely with our partners to help them narrow the performance gap so it's closer to that being delivered in our own stores. Now let's move on to the next slide to take a look at the growth in our key markets.

Alexander Lacik, CEO: [00:09:07] Let's start with our biggest market, the US, which delivered -4%, like-for-like a small but important sequential improvement compared to Q1. Our performance here was helped by strong execution with better conversion rates on higher traffic. Similar to the last quarter, there is still a notable performance gap between our partner stores and Pandora owned and operated. However, this did begin to narrow, and we will continue to work with our partners closely. We are of course, not immune to the wider consumer uncertainty in the US. However, we have a good commercial pipeline ready for the second half of the year and we will continue to push the brand hard. Next slide, please.

Alexander Lacik, CEO: [00:09:47] The performance in our key European market was stable. The UK continued to remain resilient despite the weak consumer backdrop. Germany continues to be very strong at +11% like-for-like with good growth across all platforms. This market continues to offer good long term structural growth for the brand. Elsewhere, Italy and France remained stable at -5% like-for-like each. Next slide, please.

Alexander Lacik, CEO: [00:10:12] In Australia, our performance remained stable as well at -5%, which reflects the weak consumer sentiment. I'll expand on China on the next slide, but after three years of consistent declines, we turned into positive like-for-like growth at 5%, albeit of a weak COVID impacted base. Finally, in rest of Pandora, we continue to see strong, broad based growth. There was a strong double digit contribution from many markets, including Portugal, Poland, and Turkey. Growth in Mexico and Spain also to continue to remain very solid. Next slide, please.

Alexander Lacik, CEO: [00:10:48] Circling back on China. After reporting positive like-for-like growth in Q2, I am also happy to report that after three years we have taken the first steps in relaunching our brand in the two cities of Shanghai and Beijing. The relaunch has centred on positioning the brand around our Moments platform, and we have used a targeted local marketing strategy. It's very early days still, but we have seen a pickup both in store and online traffic across both cities. We will follow up with further data as we move ahead. But it's important to reiterate that this will be a gradual journey for us, and we will learn and evolve as we move ahead. Next slide, please.

Alexander Lacik, CEO: [00:11:26] Network expansion continues to play a significant role in our value creation today and tomorrow. We saw 4% organic growth contribution in Q2 from network additions carried out over the past year. This follows from already 3% we delivered in Q1. We continue to have ample opportunity here and therefore now are targeting 75 to 125 new concept store openings this year, up from the 50 to 100 which we guided for previously. On top of this, you should still expect a further 50 to 100 Pandora operated shop in shops/kiosks. To remind you once again, we create immense value from the expansion of our store network. You can see on the slide the financial impact, our numbers would see if we were to meet a mid-term ambition of 600 stores that were mapped back in '21. We don't think the story stops there and we'll update you later in the year on our plans to take this further. Next slide, please.

Alexander Lacik, CEO: [00:12:26] Finally, I want to give you a quick update on our new store concept, Evoke 2.0. We highlighted that we opened our first store of the new concept in Italy in April, and since then we have opened a further six to a total of seven for the quarter. This includes a brand new store in Copenhagen Airport, which is on this picture that you see here. This new store concept serves two core purposes. The first one is to elevate the brand, and the second positioning Pandora as a full jewellery house. We plan to roll out a total of 40 of these this year, and I am confident this will mark a step change in the way consumers engage with our brand. Although early days, the data from new stores which have been up and running has been encouraging. And on that note I will hand over to Anders for a closer look at the numbers.

Anders Boyer, CFO: [00:13:13] Thank you Alexander, and good morning or good afternoon to everyone on the call. Please turn to slide 19. The key message for the quarter from a financial point of view was that we delivered a robust top line, and our profitability metrics remain strong. As usual, I'll do a quick deep dive on revenue and EBIT on the following slides. So, here I'll just pick out some of the other KPIs. On the gross margin that continued to strengthen and increase 170 basis points to 78.1% in the second quarter. And there are multiple drivers for this strength. But you should take away that the underlying foundations of our profitability remain very solid and are the reasons for the upward trend over the past few years. The gross margin included a 30 points drag from foreign exchange and commodities, but that was then more than offset by the positive underlying drivers. I mentioned back at the Q1 announcement that you should think about 77.5% gross margin as an indication for the rest of the year. But now you can assume around 78% as the latest indication for the gross margin for the remaining part of the year. As a reminder, the increase in working capital reflects purely the deliberate increase in inventories that we did last year. And you can see that in our numbers that this decision works out well and feeds into the good like-for-like performance that we are seeing in our own stores. On a sequential basis, our inventory level was again broadly flat. And for the full year of '23, we also expect it to be broadly flat in- line with what we communicated back in the last quarter. Worth noting is the improvement in the cash conversion in the quarter compared to last year, and that also mainly reflects that we now have the inventory position that we want. Finally, I would like to remind that the slight increase in leverage reflects the higher shareholder distributions which we decided to pay out in order to move up from the low end of our capital structure policy by year end to around the midpoint by year end. And in- line with typical seasonality, our leverage will peak in the third quarter. And then before falling back towards the midpoint in the fourth quarter. Then go to the next slide, 20, please.

Anders Boyer, CFO: [00:15:55] Now, here, I'll take a closer look at the revenue performance in the quarter. Organic growth came in at 5% in the second quarter. And let me just take you through the key building blocks in the bridge. First of all, like-for-like growth was +2% in the quarter and that was an acceleration versus Q1 and above the high end of the old like-for-like guidance. Secondly, we saw another quarter with solid contribution of +4% from network expansion. And as we promised back in the last quarter, this became more visible in the overall group numbers for organic growth. Despite that, we still see some headwind of 1% from sell-in and phasing to partners and other revenue drivers. If we then go to the next slide, please.

Anders Boyer, CFO: [00:16:50] On the EBIT margin, the key message is consistent with that of Q1, and that is that profitability remained solid and in- line with our expectations with all underlying drivers progressing as planned. In the underlying margin in Q2, we saw positive impacts from the like-for-like growth, network expansion, and price increases, and this was then offset by the planned investment and the phasing of costs this year, as well still having some headwind from foreign exchange and commodities. As a reminder of what we said in connection with the full year announcement, the EBIT margin in the first three quarters of this year is expected to be below 2022. And this then obviously imply that Q4 should be above 2022 in order to achieve the full year EBIT margin at broadly in- line with last year. And that is exactly the way to think about it. This is all simply cost facing and planned investment which we control. So, that means that as long as revenue comes in, in- line with the guidance, we will deliver the full year EBIT margin guidance that we have laid out. As part of this, it's also worth noting that foreign exchange and commodities will be a tailwind in the fourth quarter after being a headwind for the first three quarters of the year. Now then please move on to the guidance on slide 23.

Anders Boyer, CFO: [00:18:30] As Alexander already mentioned, we have upgraded our revenue guidance. So, I'll just quickly remind you of our thinking and where we stand today. We have started the year better than expected with 1% of like-for-like in the first half of '23, and that is above the high end of the old guidance. On top hereof current trading in the third quarter so far has seen a broad based pickup in like-for-like and we expect that pickup in current trading to moderate somewhat after the holiday season. But the underlying trends remain encouraging. Against this, we still have a macroeconomic environment that remains highly uncertain. And based on those factors, we have updated the financial guidance for organic growth to between +2% and +5% versus previously -2% to +3%. And as you can see in the bridge, the upgrade in the guidance is mainly driven by the increase in our like-for-like assumptions where we now see between flat and +2% like-for-like growth for the full year. So, there is a few points we want to reiterate here. First of all, on the low end of the guidance. Getting to the low end would require a notable worsening of macro and trading conditions during the remaining part of 2023. Secondly, on the high end of the guidance. We started the third quarter well, and we have plenty of Pandora specific initiatives to be excited about for the remaining part of the year. And we therefore acknowledge that there could be an upside risk, if you can call it a risk, but an upside risk to the high end of the guidance on a good day. Visibility is, however, low. Q4 is ahead of us and Q4 is our biggest quarter of the year, as you know. So, we prefer to be prudent. But let's see how we progress and then we will continue obviously, to update you on our thought process as we go through the year. And then you go to slide 24, please.

Anders Boyer, CFO: [00:20:48] On the EBIT margin, the guidance remained unchanged at around 25%. Q1 and Q2 were both in-line with our expectations, and we are on track to deliver a broadly flat margin versus last year. And there is a reminder of what we said earlier on: The guidance this year accounts for an extra element of flexibility. And in short, that means that if macro hits harder and growth would land towards the low end of the guidance, then we will take cost actions that can keep the margin at around 25%. And if growth lands towards the upper end of the guidance, we will then have the flexibility to invest even more in current and future growth. And you can see that dynamic already playing out where we have increased our Phoenix investments in what we communicated today in order to fuel future growth even more. And this is being funded through, among others, operating leverage. And on this slide we have laid out the updated building blocks for the margin guidance. But I am not going to go through that. But I can take questions, if any, when we get to the Q&A. And with that, I'll now hand it back to Alexander.

Alexander Lacik, CEO: [00:22:07] Thank you, Anders. Now, before I wrap up, I just want to remind you of our Capital Markets Day on the 5th of October in London. I promise you this will be a great, great meeting, great discussions, and we will have an opportunity to update you on the Phoenix strategy as well as the financial outlook for the years to come. We have sent out the invites and hope to see most of you there in person and for any details, do get in touch with our investor relations functions. Next slide, please.

Alexander Lacik, CEO: [00:22:34] So to conclude, we are very pleased with delivering yet another solid quarter. It's very clear that Phoenix strategy is yielding positive results and will push ahead with our execution. The many initiatives to look forward to ahead of us, including the expansion of assortment in our Diamonds platform, to mention one. Our P&L structure remains strong as ever, and we have upgraded our revenue guidance to reflect a robust trading year to date. With that, we can now open for Q&A.

Operator: [00:23:04] Thank you. If you do wish to ask a question, please press five star on your telephone keypad. To withdraw your question, you may do so by pressing five star again. There will be a brief pause while questions are being registered. The first question will be from the line of Kristian Godiksen from SEB. Please go ahead. Your line will now be unmuted.

Kristian Godiksen, SEB: [00:23:37] Thank you. So, I'll start out with the two initial questions. So, first of all, maybe to you Anders, maybe you could comment a bit on the EBIT margin bridge guidance. Maybe you can comment a bit on why you don't upgrade the guidance. Based on you upgrade the revenue growth guidance and maybe comment specifically on the operating leverage, which I know you actually lower marginally despite both having positive leverage in Q1 and Q2. And also, obviously you have operating leverage underlying in the business. I still hope that you do. And then secondly, maybe comment a bit more regarding the significant difference in the like-for-like for your own stores compared to franchisees of the 9% point and obviously having a huge impact on your group like-for-like business or reported. And then what are your considerations regarding the initiatives to help franchisees or maybe acquire underperforming franchisees as this has been a trend for quite some time now. Thank you.

Anders Boyer, CFO: [00:24:51] All right. Thanks Kristian, maybe I can start out on the first question. We have decided to invest even more in driving growth. So, kind of using the upgraded top line guidance to fuel even more growth. And that goes into an even stronger Diamonds campaign that you notice in just a few weeks onwards when we come with the expanded assortment by late August. It also goes into a number of other brand initiatives. So, it's not big money. I think as you can see, we have upgraded the Phoenix investments by 20 basis points on the full year, but still. And that is kind of the dynamic that we saw all the way from the outset that could play out this year and exactly why we framed the guidance that we did. But that to your point does absolutely not mean that there's not operating leverage in the business. And it's a good call out that the midpoint of the operating leverage is zero. Despite that we are guiding for positive revenue growth and that requires a little bit of surgery, so to speak, to understand. And then you need to think about the size of the operating leverage which depends on the sources of growth. So, that is quite some different on the operating leverage, whether top line growth comes from like-for-like, network expansion, sort of pure sell-in to partners or forward integration. So, I think in the past, we have indicated that operating leverage from like-for-like could be around 25 basis points per point of top line growth. Network expansion and opening up new stores is 10 to 15 basis points. Forward integration is margin neutral-ish, while sell-in is around 45 basis points or so. Given that when we sell-in to partners comes with a very high incremental margin with very little OPEX on our side. And then if you apply that math to the different components of the organic growth this year, you will get to around that the operating leverage is actually flat-ish because we have this decline in sell-in to the franchise partners. That has a temporary impact on the margins. So, I am happy to take you through that in more detail if you need on a separate call. But that is the logic in it. But underlying, clearly, there's operating leverage in the business. Nothing has changed. The Phoenix strategy builds on the existing infrastructure of the business. that is step number one. Then, as always, there's a step number two, where we might decide to reinvest some of that operating leverage in fuelling even more top line growth. But it's two different decisions, so to speak.

Kristian Godiksen, SEB: [00:28:23] Yeah, that makes total sense. So, you could have split the operating leverage, so to say, in two pillars. Obviously one with the underlying operating leverage and then all these moving parts regarding the mix with the various channels, and that is a positive. And that is offset by you reinvesting in growth initiatives and systems and stuff like that.

Anders Boyer, CFO: [00:28:46] Yeah.

Alexander Lacik, CEO: [00:28:48] On your second question the delta between owned and operated, and franchisees, you are correct to point out that there is a performance delta. And normally we say within plus +-2% points, it's not something that we pay too much attention to because there are ups and downs by local market. But now that gap is wider. It's particularly pronounced in France and Australia. In the US in the quarters sequentially actually close, it's only a 4% points delta right now. But the underlying reasons are quite straightforward. Our franchise partners are more than often small business entrepreneurs. They read the newspapers, they're nervous about the macro-economic situation. So, they are tight on their cash. And that has an impact both on the level of inventory and renewal of inventory that they engage with. And secondly, the amount of staff hours that they put in place. So, those are the two main drivers of that. Of course, we are in conversation with all of them trying to help make different decisions. But ultimately, they own the store. They own the P&L. So, it's frustrating to see that we are leaving money on the table. But as we have seen in the US, there are ways forward where we can help close that gap and we continue working our way through that. Then whether this should accelerate the forward integration has been and continues to be when contracts run out, then we engage. We do not knock down doors and acquire stores ahead of when those contracts remain. It's important that we have many partners around the globe. We want to have strong relationships with these guys. If they, on the other hand, knock on our door, say we want to have a discussion a transaction, yeah, we'll sit down and look at that as any other business transaction. But it doesn't change the pace of change here.

Kristian Godiksen, SEB: [00:30:48] Okay, that makes complete sense. And so just to make sure. So, the initiatives you did in the US that you have seen had a positive impact in the second quarter just sequentially. I guess those are the initiatives that you are implementing now in France and Australia.

Alexander Lacik, CEO: [00:31:03] There are different circumstances in each country. So, yes, we are taking some of those insights, but it's not always applicable. So, we have a wide toolbox that we're working with here.

Kristian Godiksen, SEB: [00:31:16] Okay. Thanks a lot.

Operator: [00:31:20] Thank you Kristian. The next question will be from the line of Martin Brenø from Nordea. Please go ahead. You line will be unmuted.

Martin Brenø, Nordea: [00:31:29] Thank you for taking my questions. And hats off to both of you for another set of solid results here. So, I'll start with you, Alexander. When we hear the consumer goods companies, they're basically falling over each other to tell us how weak the US is. And based on the statistics that I can see, the US jewellery sales were down maybe 10% year-over-year. And yet you see this sequential improvement on a like-for-like basis only being down 4%. And as you say, you have a toolbox that you are implementing. Can you maybe give some more colours on what you think is working and maybe give some examples on that? That would be very helpful. And then just on the guidance for you Anders. If I understand you, implicit organic growth guidance correctly, you implicitly expect organic growth to be -3% to +3% in H2. And if you maintain current momentum through Q3, you will guide for organic growth of maybe -4% to +2% in Q4. Given that you are seeing high single digit growth right now, organic growth, even the high end is suggesting a material deceleration. I mean, you basically expect it to decelerate by 6 or 7% points in Q4 given that the momentum is maintained. So, what is it that may hold you back from being more positive in the high end? Especially, when taking into account of the European fire that you had last year that should help your organic growth. Thank you.

Alexander Lacik, CEO: [00:33:08] Hi, Martin. So, on the US. First of all, as you know, how the market exactly is doing, is there are many different data sources, and they all point to different directions. But essentially all of them are putting North America, and by the way, many other of our core markets in a negative space. And kind of the triangulation we land at is that we are doing less bad than the market. Whether that is a percentage point or not, I cannot put my hand in the fire on that. But clearly we are outperforming the market. This is driven by two factors. One is we have an improved traffic flow and we're doing better on conversion. Those are the kind of outcomes, let's say. The reason for that is I think the marketing activities that we're doing, the focus on Moments is certainly helping. I do believe also that the fact that we are now planting more flags in the US is driving brand awareness. So, we can see in our brand metrics that the brand is healthier than, you know, sequentially improving the health of the brand. We keep investing in advertising. So, there's nothing, you know, magical. It's kind of doing what we need to be doing. And then there's been some work that is been happening in the background. We reorganized our sales organization last year. I think that is kind of now working much, much better than it used to do. So, those are some of the benefits of these structural changes that are going on in the background. So, this is not a magic bullet. It's just, you know, chugging away on our core fundamentals, really.

Anders Boyer, CFO: [00:34:46] Thanks for the question, Martin, on the implied guidance for the second half of the year. And within that implied guidance for the second half, given where we're trading so far in Q3, sort of halfway through the quarter, you can also implicitly think that the guidance would assume a lower growth in Q4, despite exactly as you say, that comps is getting easier in the second half of the year. So, compared to the current trading, obviously just repeating what we said, the key driver is that we do think that there's a temporary pick up in traffic that we have seen during the holiday season and some of that is going to ease off post the holiday season. If that assumption is not holding true, then we're in a different situation, clearly. But I think the way to think about the guidance is that the shape of the guidance is impacted by the situation that the world is in with higher inflation compared to where we have been in the past, at least interest rates going up. So, the way we think about it is that macro is a downside only for the remaining part of the year. There's no upside to the macro. At best, it remains as it is, so so, not great, but not a global recession either. So, macro being a downside only. So, had we been sitting here today and in a normal macroeconomic situation, normal situation for the consumers around the world, we would have been guiding differently. And based on what we have been seeing for the last couple of months. And that is not just about the low end, because the low end of the guidance is clearly driven by macro, that is very obvious. But we also have been thinking about the high end in a different way, given that we are, as you can do a little bit of math saying that the underlying like-for-like that we're seeing is at the very high end of the updated guidance. And given that we're moving into a territory where easier comps in the second half of the year, had we not had this situation for the consumers around the world due to the macro. We would have been guiding in a different way. And that was why we are proactively, as I said in the voiceover that there might be an upside risk to the guidance. It's probably too much to hope for at this point in time. But at least we have been able to upgrade the guidance quite significantly at this point in time. And then we'll have a chat again in early November when we have the Q3 numbers under the belt and see how things have been developing.

Martin Brenø, Nordea: [00:37:59] that is very clear. Thank you so much, Alexander and Anders. I'll jump back in the line. Thank you.

Operator: [00:38:06] Thank you Martin. The next question will be from the line of Lars Topholm from Carnegie. Please go ahead. Your line will be unmuted.

Lars Topholm, Carnegie: [00:38:16] Yes. Congrats with a good quarter. A couple of questions from me. One goes for margins and I am not asking you to guide for next year, but you are in Q4, as I understand, you are going from a situation where margins are down versus '22 to then becoming up versus 2022. that is at least what you guide for. And that is, of course, driven by your mitigation of high input costs. Looking into the first couple of quarters of next year, should we similarly expect margins to be higher than the 2022 level? Or are there anything you can point at today which makes the opposite situation more relevant? That is the first question. The second question goes to current trading, where it's quite clear that you sell-out growth is up mid-single digit. But to get some granularity on that, can you comment on whether these extra three percentage points sell-out performance versus Q2 is broadly based? Or are the individual markets doing incrementally much better, much worse? And likewise, can you comment on the contribution from store expansion and forward integration also for the last six weeks so we can get a hint of the organic growth, not just the sell-out growth? Thank you.

Anders Boyer, CFO: [00:39:57] I can take the very, very last piece of the question. The way to think about it is that with mid-single digit like-for-like, then organic growth is equivalently higher based on the 4% points of network expansion that we are guiding. So, you should add that there's pluses and minuses each month depending on exactly when we opened stores last year and/or during the last 12 months. But you should add those 4% points here and then you'll get to a high single digit organic growth for the last six weeks. So, that is a six weeks of data, but good data.

Alexander Lacik, CEO: [00:40:43] So, maybe if I continue on that before you get to guiding for next year. So, the current trading, as you said Lars, is mid-single digit. It's broad based. It's essentially full price, so there's very little promotional activity in this number, at least if I compare year on year. It's driven by traffic more than anything. And we think, and this is why we also put this cautionary statement in my opening, is we believe that this is very much driven by, let's call it like an unexpectedly high traffic versus what we had expected or what we see in a normal summer period, let's say. And we believe that this is maybe because people are cash strapped, maybe they have shortened their vacations, I don't know. But clearly, we have more people walking into our stores. And this is true everywhere. And of course, engaging with the brand, so it's traffic driven. And we also think, as I think Anders pointed out, that this will probably ease off, if indeed it is domestic tourism that is kind of reversed back home, then this will ease off towards the back end of the quarter. But we shall see. Underlying the business is super healthy. So, I think that is all I say on this.

Bilal, Aziz, VP, Investor Relations & Treasury: [00:42:04] Then with regards to your first question, Lars, and I will refrain from making comments for 2024 just yet. But in seven weeks we will be hosting a Capital Markets Day in London and we'll walk through our thought process on our mid-term margin ambition very, very clearly over there as well. So, thank you.

Lars Topholm, Carnegie: [00:42:22] Thank you very much. I'll jump back in line.

Operator: [00:42:28] Thank you, Lars. The next question will be from the line of Michael Rasmussen from Danske Bank. Please go ahead. Your line will be unmuted.

Michael Rasmussen, Danske Bank: [00:42:38] Yeah. Thank you very much. First, if you could just comment a little bit on the Pandora ME like-for-like momentum. Obviously in the past it has been rather bumpy, but I am now happy to see that it has stabilized at the double digit growth in the past two quarters. Can you share any light in terms of going forward, both in terms of product launches but also in terms of availability in the Evoke 2.0 store formats and so on? Obviously, this is fairly interesting in terms of bringing in younger customers to the brand going forward. So, that is my first question. My second question is on lab based diamonds. First part of that is, are you seeing any increased competition in that category? And secondly, you in the past talked about staff training being a bit of an issue in terms of the sell-out. Is this now being fixed, i.e., is the staff that you have in stores well trained to sell-out this product? Thank you.

Alexander Lacik, CEO: [00:43:44] Hi. So, I said it many, many times. And the comment goes, not just for Pandora ME. It goes for all the collections outside of Moments. There is not going to be a linear progression on this. It's going to come and go depending a little bit on the focus in the quarter, which initiatives we have, the amount of media investment and whatnot. So, that is the first point. But what I've always said is, it's important that we can see a sequential good improvement in the trajectory. So, if I see sequential downfall, well, then I have a big issue. that is not what I am seeing on me. What's been driving it on the Q1 and Q2 is there are two major differences versus the past is. I think in Germany they did a better execution than anywhere else in the world. So, they have a larger size of the business. Incremental, I should say, of the business. And we have tried to replicate a little bit of the approach that they've taken in stores in terms of how you merchandise it, how you display it and which trays, where it comes in the selling process, and when you introduce it. So that is an operational excellence topic. And the second one is that we have started to put even more, let's say, charms into this equation. In the past we only had like I think 15, let's say pendants and dangles and charms. And that assortment is now widening and we're going to continue to widen this and mimic more and more of the Moments platform, which in effect has a few bracelets and a vast choice of charms that you can apply. And eventually we're also going to make them interchangeable so that you can take Moments, charms and put on a linked bracelet and vice versa. So, it's going to kind of float between the two. Then I need to correct you. It is not about a younger audience. The aspirational design audience is a little bit younger, but the actual people that are buying it is the same average Pandora customer. Now, we have some indications that part of that volume goes as a gift to a younger audience. So, maybe there is a slight overweight of Gen Zs in the users of the bracelet. But as such is, what we have come to learn is, it's in the smack in the middle of the existing audience. Then on Diamonds. Has the competition increased? I think the competition in the diamond industry has always been super stiff. So, the new thing here is that Pandora entered into that space. That, in my mind, it hasn't changed. We obviously have a different pricing and promotion strategy than many other players in this space, at least from what we see in the UK and the US is where they go in with a quite high, let's call it list price and then they do deep discounting at periods in the year. We have taken a different path where we have a very good value proposition every day of the year and then we don't promote this at all. And with that it means that I am competitive 365 days a year, not the odd promotional periods like my competition does. So, it's a bit like comparing bananas with apples in a way. Staff training. There will not be a day when I say that my staff is fully trained, that day doesn't exist. Partly also because we have, you know, turnover rates to deal with in our stores like other people that are in retail. So, it's a continuous staff training exercise. Are we better today than we were a year ago? Yeah, of course we are. So, we keep putting a lot of emphasis on this. But yeah, so I think in our key stores we have well trained staff, but as I said, we need to constantly keep training people.

Michael Rasmussen, Danske Bank: [00:47:47] Great. Thank you very much and the best of luck going forward. Thank you.

Alexander Lacik, CEO: [00:47:51] Thank you.

Operator: [00:47:53] Thank you, Michael. The next question will be from the line of Klaus Kehl from Nykredit. Please go ahead. Your line will be unmuted.

Klaus Kehl, Nykredit: [00:48:04] Yes. Good morning. Most of the interesting questions have already been asked, so a boring question related to your net financial items. They are pretty high again here in Q2. Could you elaborate a bit on what to expect for the full year and perhaps also into '24? That would be my question. Thank you very much.

Anders Boyer, CFO: [00:48:29] Thank you, Klaus. It's not a boring question. I think it's a very relevant question. So, happy to try to answer that. Yeah. So, financial expenses are clearly going up for a couple of reasons, three reasons mainly, one being that we are leveraging the company up a little bit, still well within the capital structure policy but up year-over-year. So, the absolute amount of DKK debt is up. And then obviously, interest rates have been going up and that is also visible year-over-year in the second quarter. And then thirdly, with the IFRS 16. As we open up or run more and more stores ourselves, the interest component of those capitalized leases is hitting into the P&L. And starting with that latter piece, that is double up year-over-year with a combination of more stores, higher interest rates and if we look at full year numbers, that is to the tune of a quarter of a billion every year of implied interest rates on the leases, 250 million DKK. And then on the interest rate on the loans, bank debt, the bond, is just to the tune of 400 million DKK per year, including all the fees that is related to that. So, 400 plus, 250. And then specifically, depending on how foreign exchange rates develop, there might be gains or losses on derivatives, on foreign exchange contracts. I think so far this year, we have had we expect 40 to 50 million DKK of net losses on hedging contracts. So, that will take you to a total of just around 700 million DKK. So, net net financial expenses for 2023. I hope that helps.

Klaus Kehl, Nykredit: [00:50:42] Yeah. So, just to sum up. So, you are saying net financials to the range of 700 million here in '23. And then a good estimate for '24 would be in the range of 600 to 650 based on current interest rates. Would that be a fair conclusion?

Anders Boyer, CFO: [00:51:02] That is a fair conclusion.

Klaus Kehl, Nykredit: [00:51:05] Okay, great. Thank you very much.

Operator: [00:51:10] Thank you, Klaus. The next question will be from the line of Thomas Chauvet from Citi. Please go ahead. You line will be unmuted.

Thomas Chauvet, Citi: [00:51:22] Good morning, everyone. Thank you for taking my question. The first one. Anders, maybe on your comment about like-for-like when you said it could be upside to the top end of a guidance on a good day, would that be driven more by the economy? So, lower inflation, rates coming down, or Pandora specific initiatives? And which markets do you think would drive that good day? Do you feel it's probably easier for some markets that are negative, like-for-like to turn positive? So, I think the US, France, Italy to drive that good day on the contrary capitalize on your strongest markets at the moment, particularly Germany. And secondly on silver prices. Could you update us on how silver prices and hedging would impact 2024 gross margin? Silver spot prices are now 15% below the peak of May when you reported Q1. Thank you.

Anders Boyer, CFO: [00:52:23] Hi, Thomas. Thanks for those two questions. I'll take the first one and then Bilal might take the last one. But yeah, there's obviously several potential sources if we should get to that point that there might be upside to the guidance. I am not a macro expert, but I think it's too much to hope for to get an upside from the macro side. That is not what sort of consensus from a sort of GDP forecast, a macro forecast, is saying, so I wouldn't bang on that. So, if and then it happened, I would say that it's from the range of all of the initiatives that we are driving or what we see right now with the pickup in traffic is not just a sort of a temporary thing driven by changes in holiday patterns, but more structural. That remains to be seen when we get a month or two further down the road.

Bilal, Aziz, VP, Investor Relations & Treasury: [00:53:37] And then just following up on your second question, Thomas. So, on current spot, we basically expect it to be broadly flat right now for next year. So, no tailwind or headwind as it stands right now.

Thomas Chauvet, Citi: [00:53:52] Thank you very much, thanks.

Operator: [00:53:53] Thank you, Thomas. The next question will be a follow up from the line of Kristian from SEB. Please go ahead. Your line will be unmuted.

Kristian Godiksen, SEB: [00:54:06] Thank you. So, just two follow ups from me. So, maybe if you could comment a bit more on the expected impact from these additional collections within the Diamonds by Pandora, and maybe also give some more colour on why we have chosen the three additional markets being Australia, Mexico and Brazil. And then secondly, more of a household question, but now that you ramp up more of the Phoenix investments due to the additional growth, when do you expect these investments to expire based on the Phoenix runs until 2026. Thank you.

Alexander Lacik, CEO: [00:54:51] Okay. So, on the impact of the collections, I would say it sits in the guidance. We don't comment specifically on forward targets on specific launches, but I think the broader answer would probably be the feedback we have from some customers is they kind of like the idea of Pandora selling diamonds. They like the kind of narrative around it. They like the value proposition. But that one design with the infinite symbol that we had in the first pass didn't go for everyone's liking. So, you will see in the new collections that are coming up that has a much broader appeal. So, we hope to be able to increase the conversion rate of people that are being exposed to these collections. Then the reason for Australia, Brazil and Mexico. First of all, we pick markets where we think the brand is strong. Australia is one of the strongholds of Pandora since many years and the diamond market is rather interesting in Australia. So, that is one reason. And of course, it always goes with the fact that we have a strong organization in place that can execute. Mexico and Brazil is going to be a little bit of a lighter investment this year, and we're going to go invest more money on it in Q1 of next year. But Brazil and Mexico, the brand has been pegged towards a slightly more affluent customer than what we would typically target in, let's say, Europe or US for that matter. So, we think that it can be an interesting view for them to kind of be exposed to this proposition. It's also true that in Brazil and Mexico, the lab grown diamonds isn't a big thing yet. So, they could also be one of the first movers advantage. So, it's a more classical market there. So, those would be the reasons why we picked those.

Kristian Godiksen, SEB: [00:56:53] Let me just before Anders go on, can I just ask one follow up? Is it still the expectation or is it the expectation that you want to broaden the Diamonds by Pandora collection to all of your markets?

Alexander Lacik, CEO: [00:57:13] It's not a question mark. We have always said that we will end up with a global footprint on this. Whether it's going to be in every single of the 100 markets in which Pandora is sold, that remains to be seen because a number of these markets we have distributors, so yet again, would be a different type of execution consideration for us. But certainly, in the larger main markets of Pandora, we definitely will roll out. Time and country, as always, I will not disclose because as you started off by asking, it is a very competitive space and I have no reason to give away my cards too early in this game. So, yeah.

Kristian Godiksen, SEB: [00:57:53] Okay. Thank you.

Anders Boyer, CFO: [00:57:55] And then the last question. I got a little bit of time to think about how I should reply to that. Because it's not a simple answer, but I'll try to give a couple of comments and hopefully that helps. Because it's not one size fits all storyline about the Phoenix investment. So, on the one end of the extreme, you can have investments like in the new ERP platform, SAP platform that we're building, that will go on for a couple of years more, at least from a CAPEX point of view, and then a tail of depreciation from a cash perspective that goes on for a couple of years and then it stops, so to speak. And then right now, obviously it has a margin hit because we spend money on developing that new necessary platform. So, that is on the left part of the of the range. And then on the other part of the range, you have investments like store openings. That is what we call a good OPEX because it comes with EBIT on a top line and EBIT on basically day one. So, even though we're investing a lot of money there, that hasn't got a margin impact. It actually has a positive margin impact, but it's not diluting the margin. So, that is on the other end of the extreme. And then in between, you have mainly marketing media spending. That is a very big, big bucket that sits in the middle where some of the investments that we're doing right now that dilute the margin is pushing a lot on Diamonds when we come with the expanded range later in the month. Obviously, that is supposed to fund itself at a point in time. So, in a way, you can argue that is never going to tail off because we will continue investing behind driving our positioning ourselves as the leader in within lab grown diamonds globally. But from a margin perspective, the dilution should disappear even though we keep investing because top line follows. Otherwise, we're not going to invest. So, it's not a straightforward answer. But the way to think about it, the majority of what we're investing in Phoenix, is a big chunk of marketing media. So, there's a lot of flexibility in it. In a in a way, you could say, you could stop it with a few weeks of notice if you want. You can also ramp it up quite fast. So, there's a lot of flexibility in that. And then the other big chunk from a number's perspective is the investment into the store network, opening up new stores that were just talking about. But there's also a big chunk that we are accelerating as we speak, which is refits. As you know, while we have been waiting for 4 years on Evoke 2.0, we have been holding back quite a lot on the refurbishing new stores. Now, we are ramping up and we have quite a backlog of stores that looks a bit tired and that needs to be refurbed and that will lead to incremental CAPEX on that specific bucket in the years to come. But all of this, going back to what Bilal said a bit early on, we will talk about in just about seven weeks, we will add the Capital Markets Day in London. Then we'll give you more insight on all of that long, long answer. How does that play out net net? When we look at investments, OPEX, CAPEX and not least the EBIT margin for the next couple of years when we hopefully meet in London.

Kristian Godiksen, SEB: [01:02:01] That sounds great. We definitely will. So just, that was very helpful. But so next year, I know you are not guiding for or 2024 and unless you give some more on the CMD. But basically on the EBIT margin bridge, we shouldn't expect to have the Phoenix investments included next year because I guess the cost you mentioned, they will be limited incremental cost in '24 versus 2023. And then obviously it seems like we will need to wait a bit to have the Phoenix investments as a positive when some of the ERP system and stuff like that goes out. Is that the way the way to understand it?

Bilal, Aziz, VP, Investor Relations & Treasury: [01:02:46] Yeah. Just coming back here. We'll refer back to you at the Capital Markets Day. You know, there's many pluses and minuses, as always, to think about, so we'll refrain from committing just now and we will comment in seven weeks.

Kristian Godiksen, SEB: [01:03:01] Okay, that sounds great. Look forward to it. Thank you, guys.

Operator: [01:03:06] Thank you, Kristian. The next question will be a follow up from the line of Martin from Nordea. Please go ahead. Your line will be unmuted.

Martin Brenø, Nordea: [01:03:15] Hi. Thank you again for taking some more questions from me also. I just see that you write that you've seen a pickup in traffic in July in China following the initial relaunch steps. Just wondering if that is also been converted into sales or if it's just people browsing the stores? And maybe also just on China, you are giving it a shot, which I completely appreciate. And I guess it's been a long journey just to get to this point. So, just wondering at what stage you would be considering changing focus a little bit away from China if the plan is not going as expected as you have multiple low penetrated markets where the brand seems to be perceived quite strongly. So, that is the first question. And then just on the second question, I would like to understand on the marketing costs, in absolute numbers, it's 5% below the level last year, but you had this major media tender, I think it was in second half of 2022, which should mean that advertisement costs should be contained or maybe be even down a little bit more. So, just wanted to confirm that you have reinvested the money that you had saved on this media tender contract here in Q2 would be very helpful. Thank you.

Alexander Lacik, CEO: [01:04:39] On China, I think we have three weeks of data, so I am actually just going not to comment on that. When we see that the CMD, we will detail out what the first initial learnings are, because I don't want to draw conclusions on that. So, there's been some pickup, but it's early days. When will we give up on China? We won't. We'll just figure out a way to do it. So, if this first pass doesn't work, then we'll retool and try again. And try again and try again. If you know me. I don't give up. Because there is good business to be to be made in China eventually. But it doesn't preclude us from entertaining other geographies. that is kind of how we run the P&L of the company. So, that is not a limitation as such. The way to think about the marketing line that you see there is a combination of working-media and non-working-media. Non-working-media are fixed costs like agency fees, copy development and whatnot. And working-media is the money we spend with the broadcasters, etcetera. The impact of the investment is similar to last year, so that is the headline. So, whilst in absolute I spend a bit less, I also have a lower rate card prices, which means that the impact that I am generating is actually similar to last year. It may vary from country to country, but broadly speaking, globally we are having the same impact. So, yeah, that's it. And then the investment we put elsewhere. So, that is okay.

Martin Brenø, Nordea: [01:06:22] Okay. Thank you very much. Can I just follow up quickly just on Mexico and Spain, I think that is been a tremendous story that you've seen, especially in Mexico. It blossomed right there the sales. So, the slowdown that you've seen in the recent quarters, just tougher comps based on very fast growth in 2022. Is there anything to flag in these markets?

Alexander Lacik, CEO: [01:06:45] I mean, as I think we said in the last quarter, you can't expect any market to grow to the sun. I mean, eventually growth rates will moderate. And it depends a little bit on what sits in the comp base as well from quarter to quarter. So, that is it. It's a healthy business. So, there's nothing strange to report. And the same is true for Spain.

Martin Brenø, Nordea: [01:07:05] Okay. Thank you.

Operator: [01:07:09] Thank you, Martin. The last question will be a follow up from the line of Lars from Carnegie. Please go ahead. Your line will be unmuted.

Lars Topholm, Carnegie: [01:07:20] It's actually just a household question. So, your trade receivables are up 20%, but your revenue from the wholesale channel is down by 20%. I just wonder why those two movements are opposite. Thanks.

Anders Boyer, CFO: [01:07:42] Hi, Lars. From a DSO perspective, we are a little bit up versus last year, but I would need to go look at the exact phasing of revenue within each month. Of course, there might have been a difference in whether revenue gets in April, May or June compared to April, May or June last year, which might impact it. But let me just get back to you to you separately on that one. Because if you look at it from a DSO calculation, the market by market, we are actually flat year-over-year.

Lars Topholm, Carnegie: [01:08:27] Yeah, but the problem is in retail sales, I assume you don't trigger a trade receivable, so I shouldn't relate it to total revenue. I should relate it to wholesale revenue because that is the revenue that causes a receivable, I assume.

Alexander Lacik, CEO: [01:08:44] Hang on. But it's not entirely true. Because there are places where in our O&O, actually the mall operator takes the money first and then we get it after 30 to 60 days, depending on the country. So, it's not strictly like that.

Lars Topholm, Carnegie: [01:09:03] We can take it bilaterally, that is fine.

Anders Boyer, CFO: [01:09:07] But if you go down in note seven in the company announcement, you can see the breakdown between partner sales and retail revenue. So, and especially, for example, in Mexico, that is part of where we are operating quite a few of the stores through mall operators. Even though it's our store, the mall collects the money on our behalf. And we have been opening up a lot of new stores in Mexico. But me let us just get back to give you exactly the right answer because if we look at the DSO market by market, it is very healthy. So, it must be in that mix.

Lars Topholm, Carnegie: [01:09:49] But let's take it offline. And the note seven compares end of year to 30th of June. So, the season doesn't really explain anything. But let's take it on the side, that’s fine. Thank you very much, guys.

Operator: [01:10:08] Thank you Lars. If there are no further questions, I will hand it back to the speakers for any closing remarks.

Alexander Lacik, CEO: [01:10:14] I would just like to thank you for the attention. we have had a fantastic quarter and, you know, see you in London very soon.