**Pandora**

**Transcript:**
**Interim Financial Report for the third quarter/first nine months 2022**

**Date & Time:**
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**Operator:** [00:00:00] Welcome to the Pandora Interim Financial report for the third quarter, first nine months of 2022. For the first part of this call, all participants will be in listen only mode. And afterwards there will be a question and answer session. Speakers, please begin.

**John Bäckman, Vice President, Investor Relations, Treasury & Tax:** [00:00:17] Thank you. Good morning, everyone. Welcome to the conference call for Pandora's third quarter 2022 results. I am John Beckman from the Investor Relations Team. I'm joined here in Copenhagen by our CEO, Alexander Lacik, our CFO, Anders Boyer, and the IR team, Bilal Aziz, who is taking over from me, plus 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 kindly get back into the queue if you have additional questions.

**John Bäckman, Vice President, Investor Relations, Treasury & Tax:** [00:00:47] Go to slide two, please. Please pay notice to the disclaimer on slide two and then turn to slide three. Alexander, please go ahead.

**Alexander Lacik, CEO:** [00:01:01] Thank you, John, and welcome, everyone who are joining the call today. Q3 was another solid quarter. Compared to a clean base in 2019, our organic growth in the quarter was 13%. This is despite China dragging down the growth by 8 percentage points. The growth was driven by our main product platform Moments, which continues to deliver. The launch of our lab created diamonds collection in North America was well received. This is our first collection set in 100% recycled silver and gold. The launch is a transformative move, both in terms of business as well as sustainability. I will talk more about this later. All in all, the execution of our growth strategy, Phoenix is progressing very well. As you know, we're unfolding a number of strategic initiatives, including network expansion, more personalized marketing approach, a new store concept, and a new customer loyalty program, just to name a few. These are all on track. On top, our business continues to deliver profitable growth in the quarter, EBIT margin landed at 18.6%. As previously communicated, the Q4 2022 EBIT margin is expected to be stronger than last year. But Anders will talk more about this in the guidance for Q4 a little bit later. I should say that the trading in Q4 so far has been in line with the Q3 performance and thereby also in line with the upper end of the implied guidance for Q4. I'm sure many of you will have heard that we had a fire in our European distribution center just over a week ago. Fortunately, no one was injured and all of the inventories unharmed. Our team in Hamburg is working hard to bring operations back to normal. In the meantime, we have inventory in the stores and we can also ship directly from Thailand. So despite the fire, we're well prepared for Black Friday and the peak trading season with a very exciting product lineup. Assuming that the distribution is back to normal in 3 to 4 weeks counting from October 30, we expect some but manageable financial impact in Q4 2022 and all within the financial guidance for the full year of '22.

**Alexander Lacik, CEO:** [00:03:20] Now let's move to slide four, please. Our guidance remains unchanged and we are on track to deliver on the expectations. For the full year of '22, organic growth is still expected to be in the 4 to 6% range, while EBIT margin is expected to be 25% to 25.5%. I think it speaks to the strength of our business model that we are so far able to navigate the elevated uncertainty in the markets and stay within our guidance.

**Alexander Lacik, CEO:** [00:03:51] Slide five, please. I know a lot of you want to ask us about 2023 and our expectations to a potential recession. It's a bit early to talk about '23, and we don't see a global recession creeping into our numbers yet. But I want to tell you how we are positioned to meet such a scenario should it materialize. Despite the rising macro uncertainty and the tense geopolitical situation, we have so far seen only limited shifts in consumer behavior. We are confident that our position in affordable gifting will support good financial performance even during a potential recession. Our starting point is strong. We have a favorable margin structure, strong cash generation, low financial leverage and a conservative capital structure. In 2020, when the pandemic hit the hardest and we had significant store closures, organic growth was down 11% and we still generated a 20% EBIT margin and almost 5 billion DKK in free cash flow that year. We are obviously taking prudent cost measures to protect our profitability, but we believe our strong starting point enables us to invest and accelerate, for example, our network expansion during a potential recession and come out stronger.

**Alexander Lacik, CEO:** [00:05:14] Slide seven, please. Before we dive into the Q3 results in more detail, I want to give a brief update on the four main building blocks of our growth strategy, Phoenix. We are executing well, which confirms the potential we have ahead of us. The first and most important growth pillar is driving higher brand desire. Our brand is strong. We are the most recognizable jewelry brand in the world. One important indicator of brand strength is the fact that we have kept on growing during the last couple of years despite a significantly lower promotional level. This clearly suggests a healthy brand desire. We have recently implemented a global price increase on a select number of items. I'll come back to this point later. Secondly, in the design pillar, the focus is on driving the core while fueling the brand with more. Pandora Moments is the core of Pandora and continues to deliver solid growth. It's helped by innovations such as the Marvel Collection, where we recently launched Spider-Man. Last year we relaunched Pandora ME and this year we have taken our Diamonds by Pandora to the world's largest diamond market, North America. 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 more personalized path to purchase journeys through the use of data. We are getting wiser every day on how to communicate and optimize our dialog with consumers. With the use of data, we can design and create consumer centric journeys supporting our top line growth. The fourth and final pillar is about growing our core markets. Other than a purely geographic lens, we also include a network and channel development in this pillar. On one hand, we keep improving the quality of our existing network through relocations to better locations, as well as the work to develop a new store concept. On the other hand, we continue to fill in white space as well as selective forward integration. As we will discuss later. Our network development is becoming more visible in the numbers driving profitable growth.

**Alexander Lacik, CEO:** [00:07:24] Slide eight, please. Our sustainability priorities are integrated into the Phoenix strategy. Sustainability is one of the foundational elements of the strategy, and we see that it supports our growth ambitions and align our actions with our values. Our three strategic priorities are low carbon business, circular innovation and an inclusive, diverse and fair culture. The launch of diamonds by Pandora in North America on August 25 marked an important step towards our ambitions to become low carbon and circular. The lab created diamonds have a footprint of 5% that of a mined diamond. On top of this, it's the first collection made with 100% recycled silver and gold. This is a major milestone on our sustainability journey. I believe the launch points to the future of luxury and we're committed to drive this important transformation.

**Alexander Lacik, CEO:** [00:08:22] Slide nine, please. We have a very clear value proposition. A key pillar of the brand promise is to offer affordable hand-finished jewelry. Aligned with this, we have created a global pricing architecture which broadly can be likened to a rhombus. The bottom sharp end reflects our opening price points. As I mentioned before, we have in the last few years successfully reduced the promotional level, thereby indirectly increasing prices. Now Pandora has implemented a more traditional list price increase after successful testing earlier this year. We have increased prices on select items in North America. Similar price increases were implemented globally in early Q4. We have focused on items where we've identified a more favorable elasticity profile. It is very important to stress that we have not changed our opening price points or prices on items of strategic importance. We will continue to protect the strong value perception of the brand. You can think of this as stretching the rhombus architecture with the anchor point remaining intact. On average, prices were raised by 4% across the portfolio. The change was rolled out in October, so it's a bit early to conclude on the full impact.

**Alexander Lacik, CEO:** [00:09:42] Slide ten, please. We are very pleased that Moments continue to deliver solid growth. This is the number one priority in the Phoenix strategy, even though the platform already accounts for 70% of our business today. Growth in the third quarter was fueled by our Disney collaboration, where especially Winnie the Pooh and Friends have performed very well. On top of growing moments, we also want to fuel the brand with more product platforms. Our lab created diamond collection Diamonds by Pandora is the latest example. Let's have a closer look at the launch.

**Alexander Lacik, CEO:** [00:10:16] On the next slide, please. We launched the Diamonds by Pandora in North America on August 25 as I mentioned. It's off to a good start. To remind you all, we have a selective distribution approach, which means approximately 270 stores across North America, as well as online sell this collection. We have reached approximately 3% share of total business. And in the stores offering the collection, it reached a 5% share of business.

We have a fair amount of stores trading at 10% share of business or more, while the bottom 80 stores are around about 2%. This shows the concept has strong potential. Our short term opportunity is to improve the salesmanship, in particular in the bottom 80 stores. The US market for lab created diamonds is ten times that of the UK market. So we're very excited about this opportunity. The launch is another important milestone on our mission to democratize the jewelry market, of which diamonds are a significant part. We're also stretching the brand here. Diamonds by Pandora sell at 15 times the average selling price for Pandora products in the US. As I mentioned earlier, we gained a lot of attention when it comes to the sustainability profile of this collection, in particular the relatively low carbon emission profile compared to mined diamonds. We grow the diamonds with renewable energy and they are set in recycled silver and gold. For one carat gold ring this brings us to carbon footprint, similar to a pair of jeans. And of course, the ring lasts a good bit longer than the jeans. We are ready for a very important fourth quarter and have added a two carat ring to the collection. We believe this will be popular with consumers leading up to the holidays.

**Alexander Lacik, CEO:** [00:12:05] Next slide, please. Now let's have a look at our core markets. As you know, we are well diversified geographically. Let's begin with our US business, which continues to deliver strong growth versus 2019. As expected, it is down versus '21 since we are 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. Europe is a bit of a mixed bag. UK and Germany deliver positive sellout growth. This is thanks to consistent and solid operational effectiveness. France is more or less flat year on year. There are two opposing drivers in this business. On one hand, we have continued to significantly reduce the promotional pressure, which certainly shows up in the short term sales performance. On the other hand, we have been stepping up our marketing efforts, which we see yielding in particular strong progress in terms of unaided awareness. This now must work its way into consideration and purchase metrics, which compared to the promo changes, have a somewhat longer lag time. We see this as a good investment into the brand equity and remain focused on unlocking the potential in this market. In Italy, we see that the macroeconomy is impacting consumers willingness to spend. We record very healthy traffic into our stores, but conversion rates and units per transaction are a bit softer. As mentioned, we have only seen limited shifts in consumer behavior on a global level. But Italy is the exception. Australia was up 40% versus last year due to temporary COVID 19 closures in '21. China was weak as expected and severely impacted by traffic into stores being down 62% versus '21. again due to COVID 19 restrictions.

**Alexander Lacik, CEO:** [00:14:00] Next slide, please. Before I hand over to Anders, I want to reiterate the network opportunity for Pandora, which I also highlighted in our Q2 conference call. Our baseline for growth is strong with a very profitable and cash generative store network. In addition to this, we see an opportunity to expand the store network in areas where we don't have a Pandora store today. As we said at the Capital Markets Day last year, we see great untapped opportunities in making our brand more accessible in many of our core markets. We've carried out an extensive analysis of the real estate network in our top 40 markets. We have mapped 13,000 locations and as a starting point, we have a plan to open new stores in the best 600 locations of those in the years to come. Our network expansion is starting to be visible in numbers here in 2022.

**Alexander Lacik, CEO:** [00:14:51] Next slide, please. We expect to open net 100 and 150 stores until 2023. As you can see on this slide, the number for '22 store openings are driving incremental and profitable growth. There's 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. If a recession hits, store opening is an area where we might lean in harder. As access to good locations could open up, it goes without saying that the deals must be very attractive before we engage. We're very focused on expanding the network with quality. And on that note, I hand over to Anders for a closer look at the numbers.

**Anders Boyer, CFO:** [00:15:36] Thank you, Alexander. Please go to Slide 16. The key message for the quarter is that the financials were in line with expectations and that we are trending in the upper end of the guidance. I'll cover revenue and EBIT on the following slides. On this slide, I'll just give a comment on the few other KPIs. On the gross margin, as you can see on the slide here, it's above last year at 76.7% and the gross margin in the quarter includes around 140 basis points of temporary headwind from the forward integration that we have been doing during the last couple of months. Net working capital ended significantly above last year and cash conversion was a 0% in the quarter. This is mainly driven by higher inventories and I'll come back to that on a separate slide in a while. But what I want to stress here, however, is that the future cash generating capacity in Pandora is unchanged and that we expect to be highly cash generative in the fourth quarter as usual. And then also just want to highlight a number which we have not put on the slide here, and that's the planned payout to the shareholders that we will be doing here in 2022. And those payouts equals around 13% of our current market cap.

**Anders Boyer, CFO:** [00:17:04] Then please go to Slide 17. Let's look at have a look at the revenue performance here in the quarter. Organic growth came in at 3% and that's the black bar that you have in the middle of of the bridge on the slide. That's the same growth as we saw in the second quarter. And that means that we are keeping up pace on a sequential basis. On a on a three year stack versus '19, then the organic growth came in at 13% and that's down from the 17% that we saw in the second quarter as we had expected and all also pointed out when we did the second quarter announcement back in August. Going back to the year over year organic growth of plus three then as you can see in the bridge here, it was driven by sellout of 1 point of growth and then network expansion, adding 3 points to the growth. And as Alexander mentioned, then, growing the network is a core part in our Phoenix strategy and it is really visible in the bridge here and in the growth in the quarter. And then as you know, we have ceased the business in Russia and Belarus early this year and that drags down the organic growth by around one point here in the third quarter.

**Anders Boyer, CFO:** [00:18:28] Then please go to the next slide 18, and this is the EBIT margin bridge. And the key message here is what we put in the box, the dotted box in the middle, showing that the adjusted comparable EBIT margin continues to be strong and is roughly unchanged or slightly up versus the third quarter last year. Outside of the dotted box, we have isolated the temporary effects for both last year and this year. And if you look at the elements to the right, then we've just put in one element to call out for the EBIT margin this year, and that's the temporary effects from the forward integration that I mentioned just before, dragging down the EBIT margin by 140 basis points in the quarter and excluding that effect, the EBIT margin in the third quarter this year would have been 20.0%.

**Anders Boyer, CFO:** [00:19:27] Then please go to Slide 19. We have added this slide because we wanted to make sure that the message on our inventory is crystal clear. As you can see on this slide, our inventory is up 2.2 billion DKK since the end of last year, and that's a deliberate and planned increase in our inventory. First of all, we have been building inventory ahead of peak trading season, and there's nothing unusual about that. Secondly, we have deliberately added a risk premium, so to speak, to cater for COVID 19 and potential supply chain disruptions. So the key message that we want to put forward is A, that the inventory composition remains very healthy and B, that we see a low risk of markdowns on the inventory. Another way to look at what's sort of happening in the on the inventory in Pandora is in terms of weeks of cover and inventories by the end of this year. Not by the end of the third quarter, but by the end of '22 are expected to be around 4 billion DKK, and that corresponds to a week's of cover of around 30 weeks. And that's three weeks up from 27 by the end of 2021. And that three weeks increase partly reflects the risk premium that I just talked about and partly a decision to increase availability of individual SKUs in our product portfolio, because availability has a direct impact on the conversion rates and thereby on our revenue.

**Anders Boyer, CFO:** [00:21:22] Then please go to Slide 21 and a few comments to the guidance. The the third quarter trading was in line with our plan. And the key message here is that we keep our organic growth guidance unchanged. The low end of the guidance range assumes that the trading conditions will worsen during the remaining seven to eight weeks of '22. And obviously the macroeconomic outlook is indeed associated with elevated uncertainty.

**Anders Boyer, CFO:** [00:21:54] And then please go to the next slide. And the EBIT margin bridge. The EBIT margin guidance is also unchanged. And the fourth quarter will be the most profitable quarter of the year as usual, and in line with normal seasonality. As we communicated early on the fourth quarter, EBIT margin is expected to be relatively stronger than last year. And the third quarter margin was correspondingly lower, and that's due to both phasing on revenue but mainly on the cost side between the two quarters.

**Anders Boyer, CFO:** [00:22:34] Then please go to Slide 23 before handing back to Alexander. Then let's have a look at what the guidance implies for the rest of the year in Q4. The 4 to 6% organic growth for the full year implies an organic growth for Q4 of between -3 and +2. And that's what you can see in the upper part of the of the slide in the middle. And then in the lower bridge, you can see that this equals between 11 and 17% organic growth versus 19 here in Q4. And just to repeat myself, then the upper end would be, of the guidance would be an acceleration from 13% percent growth on a three year stack in the third quarter to 17% here in Q4. And the lower end scenario assumes that trading conditions will worsen during the remaining part of Q4 due to the macroeconomic environment. And then I'll just finish off with a comment on the recent fire that we had in our European distribution center. As Alexander said, we are still assessing the financial impact of the fire. But given that peak season is coming up, then the speed of reestablishing operation in the European distribution center is of course very important and every day counts. But assuming that the center is back to normal operation in 3 to 4 weeks counting from October 30, then we expect some but manageable financial impact in Q4. In addition to the some top line impact, there will of course be a range of extra costs due to the fire. And then the insurance coverage obviously plays a role in the financial impact here in Q4 and that's both in terms of covering the extra costs as well, as well as covering lost revenue or the lost gross profit. But net net, we expect the impact of the fire to be manageable and within the financial guidance for 2022. And with that, I'll hand it back to Alexandre and Slide 25.

**Alexander Lacik, CEO:** [00:25:09] Thank you, Anders. So to summarize, Q3 was another a good quarter for us. Execution on Phenix is progressing well with great momentum on many strategic initiatives. We're ready for peak trading with an exciting product line up, which amongst other things include Spider-Man in the exciting Marvel collection and the new two carat lab created Diamond Ring in the US. We are on track to deliver, as I said, the guidance for '22. We are confident that our position in affordable gifting will support financial performance even during a potential recession. But having said that, we are taking a number of precautionary steps to protect the profitability during times of uncertainty. And before I hand it over to the operator for the Q&A session, I will point out that I do not have a crystal ball. I know this morning I've spoken to a number of journalists. They all asked the same question, what's going to happen ahead of us? I don't know. We will speak to what we see and we're happy to share those metrics with all of you. But as much as we wish we knew, we don't know exactly what the future holds for us, but we're ready to go. The operator, please.

**Operator:** [00:26:20] Thank you. If you wish to ask a question, please dial zero one on your telephone keypad. Now to enter the queue. Once your name is announced, you can ask your question. If you find your question is answered before it's your turn to speak. You can dial at zero two to cancel. And our first question comes from the line of Chiara Battistini of JPMorgan. Please go ahead. Your line is open.

**Chiara Battistini, JP Morgan:** [00:26:44] Hello. Hi. Thank you very much for taking my question. The first question is on the inventory, please. And I appreciate the bridge that you are provided.

But I was just wondering, on the seasonal build up from Memory, it seems to be a much bigger build up ahead of trading versus what I remember from previous years. So maybe could you please share some more color around that? And then how should we be thinking about what you mentioned about the 30 weeks cover in context of your expectations for next year's revenue, please? And the second question on price increases that you've implemented, I appreciate it's still quite early to comment on the reaction of the consumer, but I was wondering if there is any early signal that you can discuss and talk about somewhat in the last month of how the consumer has received these increases and also whether you're planning more for next year, please. Thank you.

**Anders Boyer, CFO:** [00:27:43] Thanks, Chiara, for those questions. On the inventories, it's true that the seasonal build is a bit bigger than last year and it links into the comment action on your second part of your question about the weeks of cover that we have seen that we can increase availability a bit more than where we have been operating in the past. So we are also ahead of the peak season building up a bit more inventories than we've done in recent years to make sure that we are pumping up the availability across our SKUs and a little bit more than what we've seen in across the year, but not least during the Q4 of the last couple of years. And then, of course, as you kind of point out, you can do try to do a bit of math. If we say 4 billion DKK of inventory by the end of this year and 30 weeks of cover. And it's deliberate that we are giving you round numbers on the inventory. But we want to explain that we have deliberately as part of our S&OP process and merchandizing discussion, decided to increase the weeks of cover by a few weeks because we see that it implies very low risk of additional inventory writedowns, but actually helps us to increase availability and thereby increase conversion across our network and thereby revenue. But the other reason for putting out the 4 billion DKK round number, is that we want to make it clear that we will see a very, very nice cash conversion here in the fourth quarter. That's not unusual, but we will, given that the cash conversion for the first three quarters of the year has not been good, so to speak, due to higher inventories. We wanted to stress that that we will see a very healthy cash conversion here in Q4.

**Alexander Lacik, CEO:** [00:30:06] On the pricing. So a couple of things. So first of all, it's roughly one third of of the assortment that we've touched. As I mentioned, we have not touched opening price points. We have not touched critical aspects of the assortment where we know customers are more sensitive. And we ran a little bit of test different cells earlier this year to try to kind of eke out where elasticities would allow for some price action. And those are the pieces that we have moved now. It's four weeks in and you know, it's October numbers. We haven't hardly closed the October book, so I haven't had time to actually analyze this item by item to be perfectly honest with you. But I would also not expect any major. I haven't heard anything back. You know, markets are quite quick to give me a call if they're unhappy. So silence means it's good. But I would give you a rain check on this one and come back when we have some more robust results. And that probably also then answers your last question. And are we planning anything for next year? I think we would want to see that this sticks across the globe before we make any major additional moves on pricing. So I think that's kind of where we are.

**Chiara Battistini, JP Morgan:** [00:31:30] Thank you very much. And just just a small follow up on the price increases. This was an action that was taken globally or have you seen any region or any country behaving a bit differently around it or nothing to call out at this point?

**Alexander Lacik, CEO:** [00:31:44] No, I mean, so the way we did it, we did it in three tranches in the US. So we're kind of feeling our way into this. And that happened over late of Q2 in stages. And then we kind of did the whole thing globally in the beginning of October. So, it's way too early to call out anything today.

**Chiara Battistini, JP Morgan:** [00:32:11] Great. Thank you.

**Operator:** [00:32:14] Thank you. Next question comes from the line of Lars Topholm of Carnegie. Please go ahead. Your line is open.

**Lars Topholm, Carnegie:** [00:32:21] This is a first congrats with another good quarter. Two questions from me. One is you mentioned that if you are going to see bigger recessionary impacts. You have a sort of cost action plan ready. I just wonder if you can put some words on what kind of costs you would be looking to reduce and which kind of investment you would be looking to face differently if that happens. Then the second question goes to the comment you made on slide 14 in your presentation of adding 600 stores and thus creating 1.5 billion in incremental EBIT at low risk. That would everything else equal at close to 200 bps to your EBIT margin. So, if we take the guidance from this year and that should bring you up to around 27%.

I know your long term margin target is for 2023 and clearly we are talking beyond that. But I just wonder if you can confirm that calculation then maybe can comment on in addition to what you get from store expansion, should we still expect some kind of leverage if you grow on a same store sales basis also? And should we assume there will be less of a drag from forward integration long term? Basically, I'm trying to imply your margins should it's up towards the 30% point rather than the 27% point. Did that question make sense? It got a bit complicated, but if you can comment on that, please.

**Alexander Lacik, CEO:** [00:34:12] We'll try and I will see where we get to. So on, maybe I'll can start on the cost containment. So it's just to be clear, it's not like we are sitting in our hands waiting for the recession before we pull these levers. We're acting on that now so that we kind of stay fit, if you get the analogy. So we have renegotiated all of our media contracts globally, which is something that's good for us. And we have over the last few years, as you know, as we've been trying to rebuild the Pandora engine, we've added a lot of projects throughout the entire value chain. But of course, what ended up happening here is in many of those instances, there was not resources in place or capabilities in place to actually execute on those programs. So we've added people and we've added money, and that's a little bit kind of the modus operandi that we've had for the last two years. Now, looking into the future and making some kind of broad based view on things might get a little bit harder coming into the future. We've said that we are not going to add any more new projects and therefore we're not going to add incremental funding to that nor incremental headcount against that. So essentially we're saying we have a whole slew of great things that Pandora wants to do. But right now we're pacing ourselves a little bit and we're moving some of these projects out in time. And therefore we need to manage the projects that we have on hand with the existing resources. And by that there's an active cost containment. Now, should the world turn up sunnier than we believe, then we may kind of put some of these back into the pond. I also want to stress that we're not now only focusing on short term in that kind of project basket. We have things that are good to continue building the long term health of the company as well as, of course, some of those short terms. So it's not we're just kind of stopping to do the important building blocks of the future of the company. So one example could be that we launched the loyalty program, which we spoke about in Q2. And then of course, there was a plan to do a very fast global rollout. So now we say, well, maybe we don't do the rollout next year. We stay maybe in the one or two countries where we've spent the focus on continue furthering that because we can do that with the existing team. And then as we see how the world shapes up, then we can decide to put the foot on the accelerator or not. I'll probably stop there and then maybe hand it over to Anders to try to unwind your network question.

**Anders Boyer, CFO:** [00:37:02] just building on what Alexander said on your first question. We've had the idea of a potential some macro weakness recession starting building earlier this year. We've had discussions in the leadership team and then obviously as the situation develops, it's become more and more concrete. So that is quite a decent range of concrete initiatives that we are looking at. I think in this context we have talked about before that we have been running a couple of zero based budgeting exercises. For those of you who have been at a business school somewhere in the world, you are familiar with that terminology. We have done that initiative some time back we have been running a global media tender just been completed. We think we have some opportunities in our point of sales material cost as one of the things that we're looking into. On the production side, there's some things that we are looking into on exactly how do we sort of design the products. Is there a smarter way to design them, so to speak, from a cost perspective without impacting consumer perception. Some of this you can say, well, that's normal business, but we have of dedicated and even more attention given what's happening happening around us. But then on to your second question, and I'm actually kind of happy that you ask the question, because that's why we put it into the presentation, because I think it's a super strong position to be in to have a network that's that wide as it already is, that big. The footprint that we have. And then still we can open up a decent range of of new stores with a very, very healthy financial profile and even being margin accretive to your to your point compared to the group EBIT margin. So you're right, just taking this lever growth lever that we're writing on slide 14, that would translate into everything else equal as a higher EBIT margin. Once we have opened up those 600 new stores. That is step number one. Well an higher EBIT margin. Then of course, there might be there will be separate discussions as part of the annual planning on to what do we want to invest in driving future growth, driving the top line going forward. But it's two separate decisions. Step one, it falls to the bottom line. And then step two, of course, what do we need to invest to drive stable, consistent top line growth in the years to come? But that's for our sort of future guidance discussions.

**Lars Topholm, Carnegie:** [00:40:04] Thank you very much for answering my questions.

**Operator:** [00:40:09] Thank you. Our next question comes from the line of Antoine Belge of BNP Exane. Please go ahead. Your line is open.

**Antoine Belge, BNP Exane:** [00:40:17] Yes. Hi. Good morning. It's Antoine. I have two questions. First of all, I'd like to come back on this EBIT margin accretion from new stores. In the past, previous management was not executing that well on store openings. So what has changed? I know that you had hired some experts on real estate and things like that. So any sort of granularity and what gives you the confidence that this 40% numbers can be a proxy for the future? And also, are there any general sort of impacts? I don't know that for some reason the US market could be more profitable. And my second question is on the gross margin. You highlighted that there was a 140 basis point headwind from forward integration, but yet the overall margin grew by 120 basis points. So if you could maybe quantify the main other drivers that were positive.

**Anders Boyer, CFO:** [00:41:30] Thanks, Antoine. For those questions. On the operations of the stores that we are opening and are taking over from our partners. It is true that during the last couple of years, as part of both program now, but also the last reorganization that we did in March '20, a bit more than two years back, we established a couple of new sort of centers of expertise centered around both managing the network and operating the stores. Two new functions. In general, and I think this is one of Alexander's favorite topics as well, I think we're actually getting really, really strong in operating the stores. We have and also see that in general, when we take over stores from from our partners, in many cases, most cases, we can actually run them across the different retail metrics, even even better with the expertise that has been built up over the last number of years. So there's two teams that has been built up. A dedicated network management team that oversees the network and constantly works with where we want to be located on which street, in which mall, on what floor in the mall, and on that floor. Where exactly is the right place for us to be and know how to negotiate with landlords and run that as a very, very tight machine around the large network that we have on both concept stores, but increasingly importantly also across other types of stores, shop-in-shops, kiosks. And then we have a retail excellence team as well reporting into our CCO, Martino, sharing best practices across our network on exactly how do we actually execute in the stores, which is a sort of super, super important topic as well.

**Alexander Lacik, CEO:** [00:43:50] Just just to add, I mean, I think we've also added resources locally of a very different caliber. So this has become a priority because it sits in the Phoenix strategy and the key items in Phoenix, that's where we kind of try to put our best foot forward. And I think this is another example where when we standardize the metrics across the globe, we can leverage our scale. So here in this instance, we're leveraging insights across the globe quickly, so we know where we get the best bang for the buck. So I think we're just much, much smarter operators in this space. And I wasn't here, when you talk about the history. So normally I stay away from making comments on that because it's not fair. But my sense is that our approach now is much more driven by a high quality outcome versus just quantity, which I suspect there was a little bit of that going on. Also, if I look at some of the locations that we have in our network, you know, we're in the right mall, but we're definitely not in the right place. That we're not making those type of deals anymore. So either we get the right location with the right terms or we walk. So so that's the strength of having a much more professional operation in control of this.

**Anders Boyer, CFO:** [00:45:08] And on your question about the gross margin. There is always quite some moving parts in the gross margin. But if I should just make it simple, then if you go back to the third quarter of last year, Thailand was quite hard hit by the pandemic and we spend quite a lot of money in securing operations in Thailand to avoid being being hit by too much by the pandemic or ultimately lockdown. So and that's 120 basis points of headwind that we had last year that we don't have this year, and that probably the most tangible and biggest piece in the equation of why gross margin is up versus last year.

**Antoine Belge, BNP Exane:** [00:45:59] Let me just say thanks for providing that granularity, but maybe just on FX and commodities on the gross margin. Is it really too small to call out this quarter? And then there are the remaining parties is really like a accumulative number of different drivers.

**Anders Boyer, CFO:** [00:46:22] It's a fair question. We had to drag from a net drag from foreign exchange and commodities of 70 basis points in the quarter. And that's I think from memory it's actually about zero on FX and then all the drag is higher silver prices. So the 70 basis points is higher silver price. So that tracks the other way. And then the last component on why the gross margin is still up then is mainly a question of channel mix that we have a bit on average a bit more in our own channels revenue this year. And then there's the constant work that we are doing on the efficiencies plays a bit of role. Also, there's not any sort of impact yet on from the ASP increases. That's still bits and pieces in Q3 that we can talk about when we get to Q4, whether that's a gross margin impact.

**Antoine Belge, BNP Exane:** [00:47:27] Thank you.

**Operator:** [00:47:32] Thank you. And our next question comes from the line of Martin Brenøe at Nordea. Please go ahead. Your line is open.

**Martin Brenøe, Nordea:** [00:47:41] Hi, Anders and Alexander, Thank you for taking my question and congratulations on yet another strong performance in a very difficult environment. I have two questions, if I may, and I'll jump back in the queue. As you also said, you want to operate in the affordable luxury segment. And I completely appreciate that it's early stage with the price increases. But you obviously have done a lot of research on this. And I was just curious if you could provide some details on sort of what's the full scope of further price increases just down the line, if you can share your thoughts on that. And then just looking into Q4 that really a lot of retail companies that unlike you, have been hit by a shift in consumer sentiment while having really large inventories. Do you see any risk that competition for the consumers attention will be extra difficult this year? And I would like to hear just how you plan to navigate in that very difficult environment. Thank you.

**Alexander Lacik, CEO:** [00:48:39] So on the pricing, as I think I said to Chiara is it's too early to say what we can do going forward because one thing is to do the kind of small sell testing where you get indications. Another thing is to go global. Then then you'll see the full impact of it. So I think we simply need to kind of see how it works in the next, I don't know, a month or two, and then then we'll take a stance. Now, I think it's also important to note that you can take pricing opportunistically to drive revenue and profit, but we want to be very careful of kind of cooking up the value equation of Pandora because we know when we did in the past, consumers react and they react with their feet. And losing a customer with the lifetime value that we create with our business model is just not the right thing to do. So, you can be a penny foolish and pound smart or the other way around? Sorry, I don't get that correct, but you get the drift. So so I think when we meet next time, then we will have some robust data points. You should know me by now that we work on data. So that's kind of how we run the company. But the products that we moved pricing on suggested in the testing that we had done that they had a lot lower elasticities than, let's say the opening price was because we obviously tested that as well just to kind of, let's say, reconfirm our views prior and it still holds holds true. So it's important that we allow people to come into the brand. Then they will have the opportunity to choose. And that's typically what ends up happening over time. Then on the inventory, I mean, one thing to say is where we increase our inventory position is on our high runners, which means that if I don't sell it now, I'll sell it at some point. So this is not the type of inventory that maybe we had in the past where we over produced or over bought new items and then the new items flopped and then they were out of season whatever. And then you end up with having to kind of go to end of season sales type of activities. If you've noticed in the last three years, our end of season sale keeps getting smaller and smaller because we simply have less and less inventory that we want to get rid of at rock bottom pricing. So I think our merchandizing efforts in this space are really yielding a lot of good benefits for us.

**Martin Brenøe, Nordea:** [00:51:18] Can I just. It was actually more to your sort of. It's not so much your inventory levels. It's more sort of looking at sort of the retail industry in general having really high inventories. And I'm guessing that I'm myself is a little bit worried that, you could see that the other retail companies would, really just dump prices in order to get consumer attention and that could sort of affect your holiday sales. I don't know if you have any sort of thoughts on that.

**Alexander Lacik, CEO:** [00:51:48] I mean, here I'm on purely speculative ground, but all I can say is that the efforts in terms of marketing activity as well as promotional activity in the next 6 to 7 weeks is very competitive. So I actually don't think this is the ... unless they of course, they go half price or they do something completely nuts. Well, you know, that's what they will do. I will not follow down that path because I'm conscious about making sure we keep our brand healthy and desirable. So we're trying to win this on, having a competitive level of promotion. But we're not going super deep. We want to win this with good designs and with a good customer experience being present and with good innovation. That's the retort. So, no, I will not go down that rabbit hole. I think it's wrong.

**Martin Brenøe, Nordea:** [00:52:41] Okay. Thank you. Thank you very much.

**Operator:** [00:52:46] Thank you. Our next question comes from the line of Piral Dadhania of RBC. Please go ahead. Your line is open.

**Piral Dadhania, RBC:** [00:52:54] Thank you. Morning. I just have one follow up and it's on the marketing spend, which I think is down about 140 basis points year on year. Could you maybe just give a bit more color as to what the rationale behind that is? I think you mentioned in your earlier comments that you've renegotiated some of your contracts with your partners. So maybe how much of that decrease year on year and relative to sales comes from cost savings and how much of it comes from an actual step down in marketing spend? And then just are you still reiterating your full year marketing spend corridor, which I think is between 13% and 15% of sales? The reason I ask it is because in the third quarter you've obviously launched the Brilliance product in the US. So the anticipation was that would be supported by a step up in marketing spend, but actually it's gone the other way. So any color on that would be greatly appreciated. Thank you.

**Alexander Lacik, CEO:** [00:53:53] As I've said in the past, the 13% to 15 is kind of a ballpark number. It's an annual number. It will move between the quarters. So we are not changing any of that. Part of the saving is being reflected in the Q4 spending. So even though I spend in absolute less actually my output, let's say in terms of TRPs or GRPs is whichever measure you want to use is still going to be at a very competitive level. Then the only other thing I would say is, if you compare year on year, we launched diamonds only in the US in Q3, not global. What we have in the base is a global launch support for Pandora ME last year which was an elevated spend. So we kind of comparing apples with bananas when you compare one country versus the globe. But I think that from a modeling standpoint and from a strategic standpoint, 13% to 15% is we will remain at that level because I think that's the correct level by the look of it. In fact, we could even probably spend a bit more, if I'm to believe all the modeling that I see. But right now being prudent, that's the corridor in which we will play.

**Piral Dadhania, RBC:** [00:55:11] Okay. Thank you.

**Operator:** [00:55:15] Thank you. Our next question comes from the line of Michael Rasmussen at Danske Bank. Please go ahead. Your line is open.

**Michael Rasmussen, Danske Bank:** [00:55:23] Yeah. Thank you very much. Firstly, I would like to ask into the Pandora Diamonds launch where you talked about 50% of consumers are new to Pandora. Could you just talk a little bit about who they are, where they're coming from? And are you seeing any repeat purchases maybe into other Pandora products? My second question is just on the CAPEX guidance. So you now expect the 5% of revenue is down from 6%. Should we also expect this lower going forward also with the new stores and so forth in plan? Or if you could just add a bit of color on that, please. Thank you.

**Alexander Lacik, CEO:** [00:56:08] So I'll start on the Diamonds. I mean, we're seven weeks in. So I think I wish we had repeat purchase after seven, eight weeks. We typically don't have that even on our Moments platform. So that's probably a little bit early. If you look at the profile and again, bear with me, the data set is is relatively short in time. We see that the profile of the customer if you take UK, the midpoint was a millennial and then it went up age from there. So we went kind of Gen X part of this is obviously the purchaser might not be the end user. So it could be, men were buying to women that that's always the complexity we have. What we've seen so far in US, is that the midpoint remains the millennial, but actually it's going younger. So it's going towards the Gen Z, which I think is quite interesting. It's not surprising if I look at the research which suggested that the younger generations, particularly Gen Zs and younger millennials, were more aware of lab created diamonds and also much more open to this idea, if I compare to older generations. So the kind of profile we're seeing in the first seven, eight weeks supports that, that research that is a younger cohort coming through. And that's pretty much all we know at this stage.

**Anders Boyer, CFO:** [00:57:41] And then, Michael, on your question on the on CAPEX, this is pure timing and phasing between the years so there's no sort of structural or permanent change in the capital level. So what we said back at the Capital Market Day and a bit more than a year ago still stands. So the reason from going from 6% to 5%, there's a little bit of phasing on our investment in manufacturing. There's little bits and pieces on the network as well the store network, not so much the new stores but more on the timing of refits. And then that's actually also when you look at it from a percent of revenue, that's a bit of FX in it as well because the revenue is up because of a stronger dollar. And so that actually dilutes the percentage at a little bit. So it's in the decimals. But no structural change on the CAPEX level.

**Michael Rasmussen, Danske Bank:** [00:58:54] Right. Thank you for clarifying and certainly interesting on the the new Pandora clients coming in the door.

**Operator:** [00:59:03] Thank you. Our next question comes from the line of Frederick Wild at Jefferies. Please go ahead. Your line is open.

**Frederick Wild, Jefferies:** [00:59:10] Well, good morning, everyone. A couple of questions from me all on current trading. Please. So when you say current trading in line with Q3, does that mean the plus 3% year on year organic growth or is it plus 13% versus 2019? That would be helpful. Thank you. And then in terms of details, are the trend similar across regions or have you seen any major differences in the bulk of Q3 or I guess the year to date and any incremental trading down or mix impact, maybe more volumes from people coming in, but a lower price point? Just a little bit of color about what you're seeing would be really, really helpful. Thank you.

**Anders Boyer, CFO:** [00:59:50] Thanks. I can start out with a couple of comments. One is, on the current trading. When we comment on it, actually a good clarification, we talk about year over year. When we say that it's in line with Q3. Because actually, when you look at it versus '19, there's a couple of other sort of dynamics at play because on a three year stack, then the organic growth and sellout growth last year actually developed in different directions. Let me just find the numbers hang on a second. But it's year over year when we're saying that we're trading pretty much in line with the 1% sellout growth and 3% organic that we saw Q3. But then look at it from a sellout and organic growth versus 2019, as I said in one of the slides, then if we keep trading like what we've done for the first number a couple of weeks or five weeks or so of Q4, then we would see an acceleration on the organic growth in Q4. So even though it's same speed year over year, it will mean an acceleration towards 17% organic growth versus ’19 here in Q4, but actually also an acceleration from a sell out perspective, given that if you go back and look at last year, if you go back to the numbers that we disclosed last year, then the sellout growth between '21 and '19 last year went from 9% in Q3 to 12% in Q4. So if we have flat sort of year over year here in Q4, that actually would mean an acceleration also on the sell out growth versus versus 2019. So there are a lot of numbers to keep track of. But most importantly, it's a comment on our year over year trading. But I think we're hesitant to go into more details about looking at it on a country by country level. It's now just five weeks in, but there's no shifts in the pattern compared to what we saw in Q3. The most important maybe being that Australia obviously now comping a lot of lockdowns in Q3. That's not the case for Q4. So the Q4 numbers will look different because it's a very different base in Q4 of '21.

**Frederick Wild, Jefferies:** [01:02:56] Thank you very much.

**Operator:** [01:02:59] Thank you. Our next question is from the line of Klaus Kehl at Nykredit. Please go ahead. Your line is open.

**Klaus Kehl, Nykredit:** [01:03:07] Yes, Hello. Two questions related to Diamonds by Pandora. First of all, could you talk a little bit about whether the launch in the US has been supported by a lot of marketing in the quarter? And secondly, what kind of margins are you seeing for this product? That would be my two questions.

**Alexander Lacik, CEO:** [01:03:32] So it is an interesting framing, a lot of marketing. If you ask the US team, they think they want more money versus what I'm willing to give them. I think they've had a sufficient amount to generate the awareness required. It is less than what we had in the UK because of course trading conditions are a little bit different this year than last year, but it's been I think it's been a decent amount of money supporting the launch. The other thing which we learned last year also that roughly half of the awareness build is generated by the impressions when people are either passing our stores or when they are inside our stores. So if you look at the quality of execution this year, we spent more money on stronger in-store. First of all, the windows are better. And also the way it's been merchandised in the store in those US stores have been, I think, of a much higher quality. So half of that journey I think we've done just by being better in the store. But it's a sufficient amount of spend that we put against it.

**Anders Boyer, CFO:** [01:04:44] And then on the on the margin in the diamonds business, the gross margin, if we start out there, is below our classical business, if you can call it that, and more into the low to mid 50s of gross margin. So let's call that 20 points below the classical business, at least this is where we're starting out. And then once we have the diamond business scaled up, so to speak, and a bit more than eight weeks in after after launch then our target is to run it at an EBIT margin at group level and above. So at least as an EBIT margin neutral on a group level and hopefully a little bit accretive on a group level. So it's a different margin profile than if you look at the Moment business, a timeless and Pandora ME. But from a percentage point of view, obviously the per unit, the absolute amount are bigger much bigger than sort of average product sold in our classical business. So that means that Q3 and Q4 as we ramp up and start it is margin diluting also on the on the bottom line. But that's deliberate and as planned and a price, so to speak, we are willing to pay to venture into a very, very attractive and interesting space for us where we do see that we have growth opportunities in the years to come.

**Klaus Kehl, Nykredit:** [01:06:35] Great. Thank you very much.

**Operator:** [01:06:39] Thank you. And our next question comes from the line of Louise Singlehurst at Goldman Sachs. Please go ahead. Your line is open.

**Louise Singlehurst, Goldman Sachs:** [01:06:47] Hi. Good morning, everyone. Thank you for taking my questions. Firstly, just on I suppose it's more qualitative, but is there anything across your retail partners that you're seeing, anything you know, obviously all very concerned about a slowdown. The business is behaving much, much more strongly and very robust, as you mentioned, going into year end. But it's great to see. But is there anything that you can sense or you've been having discussions with wholesalers? It was a little bit more cautionary and I suppose it's really relative versus three months ago versus the beginning of the year. And then secondly, a couple of follow ups on the inventory. I wonder, Anders, if you can just give us a little bit of a color on the split between the seasonal and the carryover. You know, what's new and what's the evergreen in there? Obviously, there's a big difference in the performance between Moments and ME within that category as well. And then the second follow up on inventory, is it possible to help us think about any impact from forward integration in Q4 just for the gross margin purposes and modeling there? Thank you.

**Alexander Lacik, CEO:** [01:07:56] So on your first question on partners, I mean, if I look at where we have the larger partner networks, that would be US and Australia. I had the opportunity to go down and meet them and I met the kind of franchise counsel that we have in place there. And you know, they're having a pretty good comeback. Of course, the prior year was was hard due to all the COVID closures, but this year they're having a positive run at it and they're actually performing quite well. So I think it's more positive signals than anything else. And in the US, of course, last year they had a record breaking year. So they had a very, very good year, as did we of course. In the US this year a little bit slower. But again, this was anticipated and I think everybody's managing their cost structures. So we're not getting any any, let's say, hard or harsh conversations with them. I mean, this was all expected. So nothing really on that front. And those are the two main kind of franchise networks worth talking about.

**Anders Boyer, CFO:** [01:09:09] Yeah, the questions on inventory and forward integration, starting with the last one. We had the 140 basis points of drag in Q3. It would be a bit lower in Q4. And I was actually just trying to look it up so I could give you a precise answer, but I can't find it, so it will be on the top of my head. But it will be a little bit lower in Q4 than the 140 basis point. So in the third quarter. And then on the composition of the inventories, by far the majority of the inventory is on high runners. So some products, if we don't sell it in Q4 we're going to sell it in Q1 or Q2 next year. So that's also why I would go out and stress that we see that the risk of markdowns is quite limited, given that we're not a fashion fashion jewelry company. I don't know whether that helps, but the majority is on the sort of the top 500 SKUs in the company is by far the majority of our inventory.

**Alexander Lacik, CEO:** [01:10:24] Yeah, I mean, just the way we buy this internally is actually two different streams because we do the assessment on the new items based on research and then we buy according to that. And then the evergreens, that's more an arithmetic calculation looking at the churns and there's much more math going into that. So I think our position on that is is very, very high. But I don't think that we've ended up with a lot of stuff in our end of season sale in the last, let's say, three or four times that we've done it with with newness that that flopped, that that's kind of become quite rare.

**Louise Singlehurst, Goldman Sachs:** [01:11:08] But really helpful. Thank you. Can I just ask if there's much of an impact from tourism in Europe? My final question, given currency. Thank you.

**Alexander Lacik, CEO:** [01:11:17] So I think that now I don't have the numbers top of my head, but the French business is not so dependent on tourism. If I compare to Spain, for instance. So Spain, they had a good comeback this year. I think they initially they thought that we would get like 70% of the tourism back. I think it's closer to 90 or thereabouts. So it's almost back to '19 in Spain and in France wasn't huge. And Italy also isn't a huge part of the business. I think it's actually the Spanish business that's mostly affected, but that seemed to be coming back. On that note, though, I mean, it's interesting, if you look at Australia, for instance. There versus '19, they're down 80% on tourism actually. So in Australia, there's a much, much bigger impact on tourism not yet being back to the good old levels, but I think Europe is in decent shape.

**Louise Singlehurst, Goldman Sachs:** [01:12:21] Very helpful. Thank you.

**Operator:** [01:12:25] Thank you. And our next question comes from the line of Lars Topholm of Carnegie. Please go ahead. Your line is open.

**Lars Topholm, Carnegie:** [01:12:32] Yes. Just two very quick follow up question. One on the lab made diamonds. Should we assume it's launched in new markets in 2023? And a second question, Anders, I just did reverse engineering. You said 4 billion of inventories year end and it is 30 weeks of sales. Assuming an unchanged gross margin. That would imply 30 billion in revenue next year. So you derive at the same number or where do I get it wrong? Thanks.

**Alexander Lacik, CEO:** [01:13:07] That's part of our, I suppose, our guidance conversation when we get to February. So it is a little bit early to. To cover that point, even though I know it's an interesting question.

**Lars Topholm, Carnegie:** [01:13:20] Of course that's fair enough.

**Alexander Lacik, CEO:** [01:13:23] Letting the arithmetic to Anders.

**Anders Boyer, CFO:** [01:13:25] On the full 4 billion that it's deliberate that we don't put a decimal on the number that we have provided out there so you can. So it doesn't have to be 4.0. But when we obviously when we sit now November 8 and look at production for the rest of the year, we constantly look into next year and flex production up and down. And we can do that with fairly short notice. So always sort of steering towards ending out the year with sort of give and take 30 weeks of 30 weeks of cover. I think the other other things you'd have to take into consideration when you look at it is that the weeks of cover is on the finished goods only, which is a decent part of the inventory, but it's not all of the inventory. It's you also have the raw materials, the point of sales material that sits in those numbers. So of course that also plays into how we would translate the 4 billion into exactly what would that means. Reverse engineering to a revenue growth number. So all translating into I'm not going to say something about revenue for next year yet, but we just wanted to send the signal that inventories will be much lower. Obviously that's not big magic, but it will be much lower by the end of this year. And then we are manning toward a slightly higher weeks of coverage on the finished products, which is a part of the inventories.

**Lars Topholm, Carnegie:** [01:15:07] It makes sense. Thank you very much.

**Operator:** [01:15:11] Thank you. Next question comes from the line of Martin Brenøe at Nordea. Please go ahead. Your line is open.

**Martin Brenøe, Nordea:** [01:15:19] Hi. Thank you. And yeah, I'll try to do it quick as well. And just first of all, can you share any sort of data on how the launch trajectory looked like for the Diamonds by Pandora was it more of a big bang in the first week or was it slowly accelerating through the quarter, or how did that look like? And also just in terms of the Q4 guidance, the implicit Q4 guidance, how should we think about the price volume mix? Because as I understand it, the price hikes were not previously baked into the guidance. So does that implicitly mean that you actually expect a 4% lower volumes in Q4 versus previous expectations? Or just some color on that would be great. Thank you.

**Alexander Lacik, CEO:** [01:16:11] So on the launch trajectory, what we've seen is I mean, of course there was a bit of a hike, the one or two weeks when you launch. And then what we see is a slow sequential buildup week by week as we improve our execution. As I mentioned, the bottom 80 stores, if I can move them from being 2% share business to the average of five, well, that average will obviously move if I move these up. But we see kind of a slow, slow build happening week in, week out. There was one exception when we ran a promotion, we did not run a price promotion on the diamonds. So then that you had a little bit of a slower trajectory that one or two bit. But then it came straight back when we were back to kind of normal operation. So I think that's a positive sign of the business.

**Anders Boyer, CFO:** [01:17:06] And then on your question about ASP increases and Q4, I think you're right, Martin. When we go back to the original guidance earlier this year. We had not included a general ASP increase in the guidance. Having said that, there's a caveat to that, and that is that we had assumed that we would do price increases or price changes on the new product introductions that we're doing during the year, not on the existing products but on the new products. And then we had assumed that we would be doing price changes in more volatile economies like Turkey, Argentina, other countries with kind of hyperinflation like environment. But not the more broader price increase was just not reflected in there. We'll see how it plays out. But as Alexander said, obviously we have been looking quite a lot into making the price adjustments on products where we see we would see a decent price elasticity. But if you try to do the math, then on a just on the top of my head here, if if we assume the price elasticity would be 1, then obviously revenue impact would be zero-ish, but then it would translate into a just around, let's call it 100 basis points of EBIT margin. Once it has full effect, it won't have full effect in Q4 yet. But on a run rate basis that a price elasticity of 1 will give us around 100 basis points of EBIT margin accretion from the 4% ASP increase. We will talk more about it in early February when we come up with the Q4 numbers, obviously.

**Martin Brenøe, Nordea:** [01:19:03] Okay. Okay. Thank you so much. And congratulations again. Thank you.

**Operator:** [01:19:09] Thank you. Our next question comes from the line of Fredrik Ivarsson at ABG. Please go ahead. Your line is open.

**Fredrik Ivarsson, ABG:** [01:19:17] Thanks so much. Morning, Alexander and Anders. I just have one question and sort to come back on the current trading. But since you've been giving us your assumptions on the US market before, it would be helpful to understand where you're heading there. So when you say you're heading towards the upper end of the guidance, does that also mean flat in the US, which I suppose is your best case scenario?

**Anders Boyer, CFO:** [01:19:43] I think we would be hesitant to go into by market Q4 comments. But what we did put in writing in the company announcement is that when we started out the year we put in a table to help you guide us through to how to think about the US and the rest of the world. Pandemic laid and also the war. And of course, and we gave a range for the US. We gave a range for the rest of the world. And obviously then as you go through the year and if you just try to take those ranges and then apply it, does that implicitly mean for Q4, you obviously get to some pretty crazy, wide ranges. And that's what just where we called out that the lower end or the bad end of the of the range for US doesn't look very meaningful because that would require a significant deceleration in here in Q4. I think it's down to -20% organic growth, what we would need to get to and that's not in the cards. Definitely not in the cards.

**Fredrik Ivarsson, ABG:** [01:20:59] Thanks. That's helpful.

**Operator:** [01:21:03] Thank you. And we have one further question in the queue. That's from the line of to the class of us. Please go ahead. Your line is open.

**Tobias Klaholz, DWS Investment GmbH:** [01:21:11] Thanks for taking my questions. First, how was your view and your visibility on the inventory levels at your distribution and channel partners? And is there any difference in the composition there? Because you talked about like you are mainly focusing on high runner products. Do we have any liability there? And second, do you see any benefit of downsizing from higher income customers which are new to Pandora? I mean, apart from like obviously the Diamonds of Pandora collection, but also for your core products? Thank you.

**Alexander Lacik, CEO:** [01:21:47] I don't fully understand the first question, so I'll answer the other one and then we can think about whether we got the right question. We do not see or. Let me put it like this. We do not record down trading because we don't ask customers if they, you know, instead of buying Cartier, they came to us. That would be quite an offensive moment in the selling process. Where we kind of look at is the number of new customers coming into the business, which we can see when our business grows. It's partly a reflection of having enough inflow. We have a higher inflow of new customers than we have an outflow, which kind of you always have this in and out. But where they come from. We don't really, you know, we don't have a continuous track on that. Then we would have to do a dipstick measure, which, you know, maybe we should do a couple of months into to next year. We have never done that before. But I would say that it's highly speculative. I would love for them to do so. But I don't I simply don't know.

**Anders Boyer, CFO:** [01:22:51] And if I got your other question right, then I can try to give an answer and then see if I actually answered the question. But the inventory, we do have some visibility into the inventories among our partners. It's not as for online to the same extent in the same way in our own stores. But obviously we do have some visibility. And I think the short message is that the inventory, since we did the clean up in '19 as part of program now inventory has been healthy and good among our franchise partners. I think in general they're running with a little bit lower weeks of cover than than we are, and they have been doing that. And this is not a new thing, but a little bit lower coverage, but thereby also a bit lower availability, a little bit more out of stock than what we are running with. But in the bigger picture, healthy inventories and sort of quite similar to what we have in our own concept stores and the shopping shops.

**Unidentified Analyst:** [01:24:00] It's perfect. That answer my question. Thank you.

**Operator:** [01:24:04] Thank you. And as there are currently no further questions in the queue I'll hand back to our speakers for the closing comments.

**Alexander Lacik, CEO:** [01:24:10] Okay. Well, first of all, thank you everybody for joining the call. As we said, you know, we're quite pleased with Q3 now entering the last part of the race for the year. So, you know, well stocked up. Plenty of good initiatives out there. So let's see how it lands finally. And I also like to thank John. This is his last appearance with us. He's spent his last two years in a quite difficult space with COVID and our inflation and war and what have you. So we've kind of camped out here and did some I think some good work on the brand. So I wish you the best in the future. Thank you very much. And on that note, I close the call for today. Thank you.