

## Pandora second quarter results 2020

Operator

Welcome to the Pandora interim financial report for the second quarter, the first six months 2020. For the first part of the call, all participants will be in listen-only mode and afterwards there will be a question and answer session. Today, I am pleased to present Michael Bjergby, Vice President of Investor Relations, Treasury and Tax. Please go ahead.

0.00.21

Michael Bjergby

Yes, thank you, operator and good morning everyone. Welcome to the conference call for Pandora's Q2 results. My name is Michael Bjergby and I am head of the Investor Relations team and with me today here at the head office in Copenhagen I have the usual team with me, CEO Alexander Lacik, CFO Anders Boyer and the hard-working IR guys, Christian and Mikkel. The Q&A session will be at the end of the call. As usual, please limit your questions to two at a time. Pay notice to the disclaimer on slide 2 and I will jump quickly through that to slide no. 3 and hand over to Alexander. Alexander, please.

0.00.59

Alexander Lacik

Thanks Michael. Good morning everyone and thanks for joining today. At our last earnings call, global economies were in the midst of an unprecedented situation with changes I think rarely seen before. The world is still very uncertain and we have probably not seen the full consequences of COVID-19 yet. Sales recovery in the second quarter was faster than we expected. We still expect a period higher than normal uncertainty in the months to come.

We managed Pandora through the crisis with the highest integrity and a long-term focus. Tough decisions had to be made to protect cash and profitability but without compromising the health and safety, jobs and our employees' salaries. But when there is change, that also means there might be opportunity. I am very proud of how this organisation has shown agility and determination. We have generated tremendous e-commerce growth and we have found creative ways of operating while physical stores have been impacted. When markets reopened, all companies had to consider how aggressive they wanted to re-enter. We leaned more on the accelerator and less on the brakes. We are operating in a quite fragmented industry and our scale advantage and P&L structure means that we can invest heavily in market share gains when opportunities arise like the one we have just experienced.

Given the unusual circumstances we are satisfied with the progress. Sell-out growth so far in quarter 3 is around -10% versus last year. This has to be considered as reasonably strong. As a fair amount of stores are still closed, we are operating with reduced hours and the limitations of social distancing.

The sales recovery here in Q3 has not been as clear as in Q2. We are seeing an effect of new surges and local lockdowns so uncertainty continues to be high, which we will discuss in more details later.

Please move to the next slide.

Management attention in Q2 was to a large extent on crisis management but we maintained our long-term focus and ambitions to improve the fundamentals. Programme NOW is progressing as planned and successful initiatives have now become part of our normal routine. We are therefore rescoping the focus of Programme NOW with fewer and sharper priorities for the final stretch.

The new executive leadership team is in place and operating in the new organisational structure which we implemented during the quarter. We can already see an effect on decision-making, corporation and best practice sharing globally.

Fundamentally, we are as such moving in the right direction. The primary objective of the programme is that we keep our brand relevant and exciting for consumers. Despite the current disruptive environment, our key brand metrics are still indicating that the brand momentum is solid and improving.

Please turn to the next section. The health and safety of our customers and employees has been and remains our top priority during this pandemic. This had to be balanced with the need to protect cash and profitability. Of the number of different initiatives, I would like to emphasise the work that we have done with Unicef, a long-term partnership that we kicked off last year. During the C-19 pandemic, we have supported Unicef in helping children and societies in developing countries where C-19 is a critical health risk because of the limited health care capacity.

To raise awareness, we have cooperated with the family of Bob Marley to re-record a very relevant song called One Love and we have donated US\$ 1 million to the cause, matching the same amount from public donations.

Now turn to slide 7.

During the second quarter, we made three significant decisions. First, we ensured to keep investing sufficient marketing effort behind the brand momentum created during Programme NOW. Secondly, we decided to keep in store staff on the payroll and using the down time to improve our selling skills and training and improving our knowledge about the products.

Finally, we designed a comprehensive come-back plan for the day when markets would reopen. We have the financial muscle and P&L structure to increase spend across markets to build on the brand momentum and ultimately to win in the retail and gifting space.

More recently, we have been preparing for the heavy trading season that is coming up. Things like social distancing guidelines or even changed consumer behaviour require us to reconsider how we can offer both a safe and excellent consumer experience. We are currently running a track of 11 ideas and collect feedback across markets to come up with global best practices. The key thoughts range from how we can better serve consumers outside the ordinary store environment, for example virtual shopping assistance, through to temporarily expanding floor space via pop-up stores for instance.

Please turn to the final slide of this section. So where are we today? Since March, physical stores open faster than expected with only around 10% of the stores closed by end of July. Recently, however, we have seen local COVID-19 surges and new local lockdowns leading to a small increase in closed stores.

Currently, we are hovering just above 10%. As examples, we are temporarily closed in Victoria, Australia, and each week we find new places that are going up and down. The situation is still uncertain and somewhat unpredictable and we monitor the development closely.

Turn to slide 10 for some comments on the more fundamental development. Programme NOW was initiated in late 2018 to improve the health of Pandora. We have progressed well but there is still work to be done. Several of the initiatives such as the data driven media spend are now rooted in normal day-to-day operations. Programme NOW consists of three tracks instead of four. The commercial reset track has

been taken out because promotional dependency is much lower. The inventory position and the number of DVs of our assortment is at a much healthier level and we will keep it this way. From a brand perspective, updated initiatives focus on how to make spending even more effective and we have a special task in China, which I will come back to. Overall, I believe we have reached somewhat of an inflection point. We see early results of our initiatives, and now we will continue to push hard on the rescope focus areas.

Next slide please.

You know that I like this slide. These are important lead metrics that measures how our brand momentum develops. Despite COVID-19, we are having laser focus on the health of the brand. We decided to decrease the media investment during the lockdowns in traditional media, but we have still managed to maintain a solid momentum. As expected, key brand metrics are impacted by the situation but they still indicate a better momentum than before the re-launch.

We have already stepped up the media level again close to pre-C-19 levels and we will continue to invest hard for the remainder of the year since we know this drives our business.

Go to the next slide. The exceptionally strong online growth of 176% speaks for itself. This is an important endorsement of the work that we are doing on digital. It is also an endorsement of other brand initiatives. We are as a brand able to excite our consumers to take them from offline to online. The improvement is driven by both higher traffic but also higher conversion rates.

Trends continue to be healthy in all the main markets, even after the physical stores have re-opened. There is no doubt that online is going to be important in this last quarter of the year. We are already now increasing capacity to be able to handle significantly higher volumes than what we have been used to in the past.

Go to slide 13, please.

I wanted to provide you with some quick and encouraging data of our end-of-season sale running globally from week 22 through 30. Notice that this is partly Q2 and partly Q3. The clear direction, or learning if you may, is an increase of our full-price sales compared to last year. There are two main drivers of this. First, our inventory position is generally speaking very healthy so we did not have a lot of DVs that actually had to be cleared out and our full-price products seem to resonate. Secondly, it shows our improved brand momentum. We can drive conversion rate with our brand proposition without using the promotional doping. This is important given the competitive retail environment that we are experiencing in the re-opening phase.

Next slide, please.

The strategic reorganisation has taken us one step closer to a finalised product development strategy. This is anchored with the newly established global business units under Carla.

One business unit, Moments and Collaboration, focuses on the core rejuvenating the platform and making it exciting. The second business unit oversees all other product categories and upstream platform development efforts. What we have done since the brand relaunch has mainly been focused on getting our core back in shape.

The Moments platform is almost 70% of the business so it is critical. Again this quarter, we saw that charms performed in line with the whole business. However, the Moments platform shall not be our only platform.

In the long run, we need more legs to stand on. And this means more consistent platform building, which could for instance build on concepts like Pandora Me.

It also means innovations within other categories, not just “me too” products but long-term well invested concepts that can be unique and iconic in the industry. We will provide you with more information on the formal product developments strategy when we are ready. But this is progressing at full speed right now.

Flipping to slide 15.

One of the things that has worked well both for our revenue and our brand is the collaborations and influencer work done since our re-launch. Harry Potter, Millie Bobby Brown but also the work with our influencer Muses are injecting new energy and excitement into the brand.

We have recently activated Pandora Me in early July, which has led younger and new consumers alike to the brand. Now we have entered a new partnership with Lucasfilm which entails 11 Star Wars charms and one Star Wars bracelet, which will be available from early October. We are very excited about this collaboration. Very cool charms of Chewbacca, Yoda and the other legendary characters.

The next slide will be the last from my side before I hand it over to Anders. We have all been discussing China in great detail over the last year. China is the world's largest jewellery market and Pandora has a market share of less than 1%. We are building a solid plan to change the direction. We are already in execution mode with Jacques, our new China MD leading the journey. Fixing fundamentals start with organisation and culture. This is the enabler for any turnaround. With increased capacity in the organisation, we will start focusing on the functional execution where we see a lot of low-hanging fruits. Low-hanging fruits in how we market our products, partners we choose for media, our merchandising approach and finally the online and retail experience.

However, with improved operational performance, we are probably only a third of the way. The critical job is to build a brand. Pandora is not very well known in China. At least not for anything unique. In that sense we are starting from a clean slate. We will not treat China very different from any other market. Pandora is a brand built on self-expression, collectability while being affordable.

Consumer research in China has confirmed that our position is highly distinctive and relevant. I don't expect this to be a quick fix but I am confident that we can get substantially bigger market share in China in the years to come.

This concludes my review of Programme NOW and I will hand it over to Anders.

Anders Boyer

Thank you, Alexander and good morning everyone. And please turn to slide 17 and an update on the cost programme. Since the outbreak of C-19, our approach to managing cost has obviously changed because with lower sales in the second quarter, focus in the quarter has not just been on structural cost savings but also on short-term cost management.

But this slide only shows the structural cost savings as part of Programme NOW and not the short-term C-19 related savings. And we have of course taken many short-term cost measures in the second quarter. But we have also continuously executed on optimising the underlying cost structure of the business and we have progressed quite well across all cost buckets on this slide and therefore we today re-confirm our run-rate target of DKK 1.4 billion by the end of 2020. And that means that we will see around DKK 200 million incremental cost saving in 2021 compared to this year.

Please turn to slide 19 and a short update on some of the second quarter numbers. As we already disclosed in early July, revenue and earnings were weak in the quarter but ironically they were at the same time better than what we had originally expected. And seen in the light of the circumstances of C-19, there are three things that we want to emphasise.

First I just want to repeat that the online sales basically exploded to 176% growth in the second quarter and the reason I repeat this is that it is a critical fact, both in case of new lockdowns but also for our long-term development and ambitions of the online business. Secondly, the positive EBIT margin speaks to the resilience of our business. Even during a one-of-a-kind crisis like C-19. And last, cash flow was very positive and is also a testimony to the resilience of our business and this means that we ended the quarter with a quite conservative debt level.

Then please turn to the next slide and a breakdown of the revenue growth. Understanding the revenue development in the second quarter is all about C-19. As you can see on the revenue bridge here, the decrease in organic growth of 38%, and that is the dark grey box, is purely a result of the decline in sell-out following the C-19 outbreak. And that is the large pink box saying -39.

Obviously, we cannot separate hot and cold water and we don't know what the revenue would have been without C-19 but I think it is fair to say that for most of the -39 in that pink column, we can blame on C-19.

Changes in the store network and forward integration had basically no revenue impact in the quarter. The overall second quarter revenue development is probably of less interest or rather I know it is of less interest but the interesting thing is what happened during the quarter and until today and sell-out growth did improve throughout the quarter from being around -70 back in March and until today where, as Alexander said, we have in the last 6 weeks been around -10. I will talk a little bit more about that in the guidance section in just a minute.

On a more technical note, I will comment on the small +1% box that says Channel mix and other. That is the difference between the organic growth and sell-out growth because some of you might have expected there would be a larger difference due to the channel mix of the sell-out but the reason why this is not the case is partly because we don't include sell-out data for all multi-brand dealers in sell-out and hence as probably most of you know, they are not included in that sell-out number, the -39, but they are obviously included in the organic growth and this can then cause some differences. And secondly, some of our partners have naturally held back on their purchase orders in the second quarter in order to manage cash. And on that latter point, we have seen that trend reversing in July where there has been quite a healthy sell-in to our partners.

Then please turn to slide 21. The main driver of the decrease in EBIT margin is clearly deleverage coming from the revenue decline as per the first pink box here on the slide. We have managed Opex quite effectively I think and ended with Opex being 15% below last year and in that number, we have government subsidies in there which reduce the Opex by around DKK 110 million in the quarter. But when we see a sudden and significant revenue drop like this, we cannot avoid that the bottom line is hurt in the second quarter.

The second pink box from the left is what we call non-recurring adjustment of production volumes and this is referring to the shutdowns of our productions in Thailand which we decided to do to manage inventory during the quarter. And that impacted cost of sales by around DKK 18 million or around 3 percentage points in the quarter and this is a non-recurring effect by the way.

And excluding these non-recurring costs, the gross margin would have been around 78% in the quarter and thereby a 2 percentage points increase compared to the second quarter of last year.

Then please turn to the next slide. We thought that it would be appropriate to include a few comments on the increase in raw material prices that we have seen recently. Our exposure to silver and gold combined was around DKK 1.5 billion last year so based on a silver price of 28 per ounce, we will see a drag of around 4 percentage points on the gross margin compared to 2019. I know that the slide here says \$ 25, that is the starting point – I was just quoting the silver price as of this morning which was just around 28.

As you probably know, we are hedging around 70% of the next 12 months' use of silver and combined with the time lag from when we use silver in production until it hits the P&L of 2-4 months, this means that the majority of the impact from the recent increase will not be seen until mid-2021. We also benefited or will be benefiting a bit from the decrease in the Thai baht that we have seen during the first part of the year because half of our costs of sales is paid in Thai baht as you can indirectly see on the slide here. The exposure to Thai baht was around DKK 2.5 billion in 2019. And there are also other opportunities for us to improve the gross margin and those are things that we will do despite the increase in metal prices and that includes the cost reduction as part of Programme NOW but there are also other potential measures like product design which can come into play in a situation like this. But net/net, the big increase in silver and gold prices is likely to have a negative impact on the margin from mid-next year if the prices continue to be at this higher level.

Then please turn to the next slide, 23. In the second quarter, we were able to deliver a very strong positive cash flow despite a negative reported EBIT. And this was driven by many different cash initiatives during the crisis but also a return of excess cash of too much tax that we paid in 2019. Working capital ended at a record low 2.8% of revenue and inventories have been managed and receivables decreased well in line with lower revenue in the quarter and Capex was also more than 40% below last year but as we have said during the last two quarters, we will see that working capital will increase during the second half of the year, not least in the third quarter as we are stocking up ahead of the Q4 trading season and this will be a drag on the cash flow in the second half. Longer term we still see that we can manage the company with a working capital level in the high single digit per cent of revenue.

Our leverage, the net interest-bearing debt to EBITDA, was around 1.1 by the end of the quarter and well within our capital structure policy and far from the covenant threshold in our loan facilities. So this finishes the second quarter review and I will now go to slide 25 and the guidance.

Today we are 7½ months into the year and there is no doubt that the uncertainty is reduced compared to 3 months ago when we withdrew the guidance but with that said, the situation continues to be highly uncertain and despite this elevated uncertainty and in adherence with government rules for companies listed in Denmark, we have released new guidance for 2020. And the guidance is based on very specific assumptions and you can almost consider the guidance as one possible scenario for 2020 based on assumptions about C-19. And there are five really important C-19 assumptions behind the guidance as you can see here to the right on the slide.

First of all, we assume that there will be no material lockdowns like what we saw during the spring. We do assume, however, that there could continue to be a few local lockdowns as we are currently seeing in Australia. Thirdly, we assume that the number of open stores will gradually increase and plus/minus essentially the whole network will be open by the end of the third quarter. And then we assume that the macro-economic and consumer spending will not worsen materially compared to where we are now. And last, we are assuming that the social distancing will have a negative impact, not least in the fourth quarter in the physical stores.

And based on these specific assumptions, we are guiding on the same parameters as before and that means organic growth and the EBIT margin excluding restructuring costs. And as you can see to the left here, the organic growth in 2020 is expected to be between -14 and -20% and the EBIT margin is expected to be in the range of between 16 and 19% and we know that these are quite wide ranges and we have chosen that deliberately because we would like to start wide and then as the second half of the year progresses, we can narrow in the guidance. This also means that we may continue providing more regular updates to the market than we would do in a normal year. Like what we did back in July 8th when we came with the Q2 trading update.

Then moving on to slide 26. The interesting component of the guidance is what the full-year guidance implies for the second half of the year. That is what we have shown here and organic growth is expected to be between -5 and -15 in the second half with an EBIT margin being between 20 and 24% and the organic growth guidance is compared to a sell-out of revenue development so far in the third quarter of about -10 and should be seen in the light of the current stalling of the gradual improvement that we saw until July due to the renewed C-19 impact. July revenue development was slightly better than the -10 and August so far has been slightly worse. But we should stress that this is a very, very short time horizon to extrapolate too much on. And the guidance should, just repeating that, also be seen in the light of our expectation that social distancing will have a negative impact on the business in the peak season in the fourth quarter. The question is just how much.

Please also note that the profitability will be skewed towards Q4 as usual but likely even more this year than in prior years and we would also like to emphasise that in this scenario with this guidance, we will continue to invest in the brand in the third and the fourth quarter and we will continue to invest in building the organisation during the last two quarters of the year. We would also like to mention that we see a high likelihood that our partners, our wholesale partners, will buy the Q4 stock as late as possible given the C-19 uncertainty and this may lead to a shift of revenue from the third quarter into the fourth quarter causing a phasing effect that will be negative for the third quarter and equally positive for the fourth quarter.

Finally, we have as you can see to the right here updated what we call the guidance building blocks and I am just calling out two of those. As you can see here, we are narrowing the expectations for the net store closures, now expect around 50 closures net for the year and then we are reducing our Capex guidance again by another DKK 100 million to around DKK 0.6 billion, DKK 600 million for the year.

And with this I will leave the word to Alexander and slide 27.

0.30.03

Alexander Lacik

Thank you, Anders. Quarter 2 was a quarter which will not be forgotten from many different angles. I am very proud of how our organisation has managed through a difficult period with the highest level of integrity. The sales recovery in the quarter has been very clear. I think Pandora's business model has proved its resilience delivering positive EBIT margin and solid positive cash flow in the quarter. We are still executing on the underlying health of the business and Programme NOW has been re-scoped to reflect this and finally I think we have provided what I consider sensible financial guidance based on some very specific assumptions.

On these remarks, we will now open for the Q&A session. Operator please.

0.30.49

Operator

Thank you. If you wish to ask an audio question on your telephone keypad you may do so by pressing 01. If you wish to withdraw your question you may do so by pressing 02 to cancel. Again, 01 on your telephone keypad if you wish to ask an audio your question. Our first question comes from Lars Topholm from Carnegie. Please go ahead.

0.31.13

Lars Topholm

Yes. Two questions from my side. I do have more but then I will jump into the line again. So one of the tricky things is of course, as you referred to Anders, it is difficult to separate hot water from cold water but we are all curious what the real underlying trend is. Given what you are seeing in August, I assume lockdowns matter whether it is in a market where you have an e-store or where you don't have an e-store so specifically on the run rate you are seeing in August of slightly worse than -10%, can you maybe give some colour on which countries are locked down now and to what extent you are able to capture revenue online in those markets and maybe also give some colour on the momentum in some of those markets that have not experienced new lockdowns like Continental Europe, maybe also some comments on US if you see momentum improving there. And then a second question which goes to your increased online share of revenue. Again, in some of those markets that are more back to normal, what is the online share now compared to what it was before COVID-19 and you have of course now been closing down some stores. In that context, what is your experience in terms of being able to keep the customer when you close down a store and if online is capturing a bigger share of revenue on a more permanent basis, which thoughts does that give you regarding the necessary size of your physical network? Thanks.

0.33.08

Alexander Lacik

I can start off on your first question, Lars. I think we have to zoom out and not get bogged down too much in what is happening in the last two or three weeks because on that basis it is frankly impossible to understand the momentum of the business and I would go as far back as you know when we started kind of turning the corner somehow in Q4 into Jan.-Feb. Then I think we have a big pause button. We can see quite a linear comeback from the store closures to the store re-openings. There is obviously the mixed shift between on and offline, which we will talk more about and then I think the way I look at it is the stores let us say momentum in the first few weeks here is strictly speaking due to external factors so – and then, you know, trying to dissect this is very difficult because also if I compare to last year, the trading conditions I mean the environment is just different so it is quite a tough question to give a very precise answer on. I think when we look at it, we see that the momentum that we started gearing up behind Programme NOW I would say as markets reopen, we kind of have the feeling that we are coming back to that momentum. Now of course with these flare-ups like we see in Melbourne for instance or Belgium recently, Hong Kong recently, it will have some short-term impact and therefore looking on it week by week it might drive you to the wrong conclusions, quite frankly. So I think we need to stay a little bit at a higher level. I don't know, Anders if you have some more colour to that

0.34.53

Anders Boyer

I think it is six weeks so far in the third quarter, we have to be quite careful and only a few weeks since the spikes of COVID-19 increased but one thing we can say is by looking at the -10% for the first six weeks of the third quarter, that comes in a period where around 10% of the stores being closed but we can't just say whether that means that without those stores being closed, it would have been flat. But I think a couple of points there - with the stores that we have closed currently is more skewed towards market where online is less than in our key markets. Latin America, the Philippines, some Eastern European markets so there is no doubt that it has an impact that will be bigger than if it had been the stores in the UK that were closed where the online share of business is much bigger. So of the 10% negative sell-out in the first six weeks, it



has an impact with 10% of the stores being closed. Then secondly, I think we should as we have touched upon just recently that China is an issue and was that in the second quarter as well and then if you then use that to dissect the -10% for the first six weeks, you will get towards a point where you say that means for the remaining markets which obviously include the seven big markets that we report on, you are getting to a better number that is not -10% but better than that. I think that is how far we can go.

0.36.50

Lars Topholm

Are any of them growing, Anders, without being specific?

0.36.56

Michael Bjergby

I think yes we can say that there are some growing and some are not but we will not put any precise numbers on that.

Lars Topholm

And then online?

0.37.11

Alexander Lacik

Second question Lars. I think it is way too early to make any massive conclusions on the network. It is obviously a question which we look at closely. I think that the main decision we have made is to increase the capacity for the e-commerce so we essentially are readying the business to handle double the volume from what we had last year. I think that is the only major decision we have made so far. It is also clear that in places where you only have e-commerce or sales as a total business, it is lower versus where you have e-commerce plus a physical store. Now what the exact equation will look like, it is probably fair to say that in the future, we will have somewhat less physical stores than we have today. How many and how fast it will go, I think we will just have to monitor the situation. I keep reminding people of that. Our network is quite light-footed in terms of the length of our lease contracts. The CAPEX per individual store is not huge. So we can be quite light-footed if that is required so we will keep coming back to this question when we get a bit smarter about it, I mean, of course we will let you know.

0.38.33

Lars Topholm

Thank you very much for answering my questions.

0.38.37

Operator

Thank you. Our next question comes Magnus Jensen, SEB. Please go ahead.

0.38.45

Magnus Jensen

Hi, this is Magnus here. Thank you for taking my questions. Also two questions from my side. The first one goes to the second half. In your report you say that you had this out of stock situation in Q4 last year. How much of a tailwind could that be for Q4 this year? The second question is to your store concept. I mean you spent some time re-developing your concept but it sounds like from what you are saying, Alexander, that it has not really worked. Could you give some thoughts about what has gone wrong and also maybe what are some of the learning you learned and what you plan on going forward with the new concept design for your concept stores? That is my two questions. Thank you.

0.39.31

Hi Magnus, it is Anders here. On the first question without being too specific and it is not because I don't want to answer it on the out-of-stock situation but there is no doubt, it had an impact last year and I think we talked about that when we announced the full-year numbers and when we tried to quantify it back then, I think we said it could be a couple of percentage points that it hit us last year because of our out of stock situation so give and take some impact.

0.40.10

Alexander Lacik

Hi Magnus, on the store concept I mean when we set out to do this, we were expecting kind of what other special the retailers would expect behind a refurb we would expect, I don't know, a sales increase of let us call it 10 percentage points which we have seen in some places and not in others so the picture has not really been conclusive and before I push the button on what very likely might be one of the biggest Capex investments I will be making when I am running Pandora, I need some more certainty. I think that is the point. We have some positive learnings about the store environments, you know, the look and feel so we kind of got the big thumbs up from consumers in all the geographies that we have done. We have also changed the way we merchandise in the stores and the idea behind that was to drive commercial rates and basket size up. We have not really – at least not conclusively – been able to say that this way of merchandising has led to this contribution of driving sales. So kind of from a look and feel standpoint, yes we could spend the money but from a purely return on investment standpoint, it looks like not the most attractive option in front of me. Next step is - I mean there is plenty of learning of course we have these stores up and running. We are not starting from scratch. We did plenty of consumer research so we know which points we are trying to address. And it may also be that execution might differ depending on the size, location and let's say mission of that trip. We have some stores that are based more for tourism. We have some shops which are more for the local shopper. So it might not be just one solution that is going to cater to all tastes here. There is a new team that is set up. There is a new leader of that team that comes from the retail side. In the past I think maybe we had a bit too many marketeers leading that work so we are now balancing that out with some more operational thoughts so we are trying to marry the good conceptual insight and experience together with a bit more of a hard-nosed operating mindset - because the challenge is actually not so much when you have low traffic periods then probably it can work but when you get into these big spikes like Mother's Day, Black Friday, Christmas shopping when the volume of customers is of a very different nature I think the current execution does not really cater for that to be operationally effective so we need to sort that out. So we hope to have some new tests running or at least some beta tests running by the end of this year hopefully so we have some views coming through early next year.

0.43.06

Magnus Jensen

Thank you.

0.43.11

Operator

Our next question comes from Chiara Battistini, J.P. Morgan. Please go ahead.

0.43.18

Hello, hi. Thank you for taking my questions. The first one would be on the – on your guidance for the second half of the year and basically assuming this 10% decline continuing for the rest of the year and at the same time you are assuming actually potentially the situation continues to improve, are you being conservative there in your assumptions given the lack of visibility at the moment or are you also factoring in the fact that the base from last year are getting tougher from the second, from September as you start comping your brand re-launch last year? That would be the first question. And the second question is on

silver and you talked about some mitigating actions for.. to counter after the impact from the latest move of silver prices. Can you expand a little bit more on these mitigating actions and would those also include price increases next year? Thank you.

0.44.20

Anders Boyer

Hi Chiara, it's Anders here. On the guidance for the second half of the year, it is a very valid question, I think we have spent quite some time about how to think about the guidance in an environment like this. So I think a couple of reflections. I think one is that when we look at the trading for the first six weeks of the third quarter and combine that with the level of uncertainty and the 10% of the stores being closed, I think it is indicating that we are still underlying well on the way in our transformation. I think as – was it Lars Topholm who used the phrasing “it is difficult to separate hot and cold water” – that is clear but we think that underlying we are seeing a good momentum. Having said that, the business environment is needless to say highly uncertain and we want it to reflect that in the guidance. So I think you should see the guidance as a reflection of the uncertainty in the market in general and not as an uncertainty about Pandora and about how we specifically perform. If the market is there, if the traffic is there on the streets, I think we are confident that our revenue will follow. If traffic is not on the street, consumer demand is not there for C-19 reasons, then we will be impacted as well. So we decided to guide around the current performance of -10 as the mid-point so we both see a potential to end the second half 5 percentage points better than where we are currently or 5% worse compared to where we are currently. And maybe one way to talk about this, what would happen if we ended at the low point of the guidance, the -15% organic growth for the second half of the year and that would be again mainly a consequence of external factors as we see it. First, it would be the current worsening of momentum that we see driven by C-19 surges and local lockdowns. We do not know how this will impact consumer sentiment, obviously that is a big unknown. And secondly, as we are going into the Q4 peak trading season, that will be impacted even more so by social distancing compared to what we already are seeing. And we are taking a lot of mitigating factors as Alexander mentioned but this is a new situation for us. We have not tried it before, nobody has tried it before and we will just have to see how that plays out. And then on the sort of comparison base, the Q4, as you know, last year is net/net a more difficult comparison base than what we have seen so far this year despite the out of stock situation that Magnus asked about just a second ago, the net/net the fourth quarter is a more tougher comparison base compared to the first three quarters of the year. And then I think we should also – last, long answer here – but mention that the improvement that we have seen in the revenue development during the last months and also in the third quarter, we do not know if there was some type of rebound in consumer spending just after the lockdowns and whether consumers redirected money, say, for summer holidays etc., travelling towards this discretionary spending and all of that – lot of words here – ended up saying that we think that a reasonable guidance will be to guide around the current trading level. But as mentioned, it is likely that we will keep updating the market as we progress and maybe also before the official Q3 trading statement is due in early November.

And then on silver. Silver prices have been almost stable, you can say, for 7-8 years compared to what has happened during recent weeks and months and when a massive increase in prices happens like we have seen here, of course you have to think very creatively and I think we can't give you a full answer yet but I think net/net, it is fair to assume that there will be, even after mitigating actions, it will have an impact on the gross margin and EBIT margin going one year forward, assuming that the prices remain at this hopefully elevated level. But we are looking into all parameters of what drives the gross margin including product mix, what kind of products you are promoting and focusing on in our campaigns, we are looking at product design like what Pandora also did 8-9 years ago when the silver prices were also high in 2011 I think it was and we are also looking at pricing even though the way that we set prices is not a cost plus base pricing and I think many of us know painfully that that has been sort of an experiment with increasing prices in the past

with no success but of course, we will have to ask ourselves the question again when you have such a massive increase in COGs as we see here.

0.51.24

Chiara Battistini

Thank you. Just a follow-up on this last point that for the time being, you are not seeing yourself passing on this increase to your consumers for the time being?

0.51.35

Alexander Lacik

I think, as Anders said, I mean in the last few years, there has been a focus on the higher price point options in our assortment which led to traffic and brand engagement to go down so I think we have learned a lesson now as a company twice in the past so we are not going to jump into that trap. As Anders says, though, I mean if prices remain at this level or even move beyond, of course, like any sensible business, we would have to take a look at it. But I am super sensitive to making sure that we remain an affordable option for people out there so that is, you know, you shouldn't read into this that we are just going to pass it on. There is going to be a lot of sweat before we get to that point.

0.52.20

Chiara Battistini

Perfect, very clear. Thank you very much.

Operator

Thank you. Our next question comes from Fredrik Ivarsson from ABG. Please go ahead.

0.52.32

Fredrik Ivarsson

Thank you. Hi guys, thanks for taking my questions, a couple of ones from me as well, starting on the 8% like-for-like in the open stores you report, obviously that is driven by quite hefty growth in the e-store. Just curious on whether you would be willing to give us a ballpark figure on how many stores that includes in that calculation? That was my first question and the second one on online which obviously grew quite significantly. You are talking about securing some additional online capacity. I think, Alexander, that you said doubling capacity? Does that imply that you essentially assume 100% sales growth online in Q4? Thanks.

0.53.23

Michael Bjergby

Hello, thank you Fredrik. If we start with the first one, then no, we will not provide the number of stores exactly included into this number because it is not a number that we believe that you should interpret on. Of course you can see like in UK, the 12 first weeks, stores were completely closed and then in the last 2 weeks, they were open with reduced traffic. So of course, in that number, you will have a significant like-for-like number around 100%. So we don't think this is the right number to look at if you look at the underlying business and you should rather look at the number of stores that are closed now, 10% closed and the -10% and see how those compare. I think this will be a better way of trying to track the underlying business even though this is difficult. So we will refrain from commenting too much on this number as we don't think that it is meaningful unfortunately. Anders, maybe you can comment on number 2?

0.54.15

Alexander Lacik

I can take number 2 on online. So we are doing a number of things to strengthen our e-commerce business. I mean, you go back a couple of years here and e-commerce was like a non-factor. Now it is most definitely a factor and actually it did help the company quite a lot during Q2 so on one hand, we are improving our ability to forecast online because in the past, the forecasting area was you hovering a couple of points up or down but when the growth rate ten-doubles, I mean, it is just difficult to manage from a supply chain standpoint so that is one aspect. We also know that this surge in demand drove a lot of unhappy customers so we were also changing service providers and our own protocols to service customers better. And then the third point is obviously we are going to redirect a bit more of our marketing investment towards the things we have now learned over the last let's say 6 months that drive the e-commerce trading harder so we will kind of push more towards digital drivers.

And then to your final question on capacity, yes, we are more than doubling the capacity and that is again, when the year started, we had a conversation on whether the budget for the year should be 10 % growth on e-com or 30% growth. We ended up with now 176% so you can imagine that the supply chain was nowhere near ready to deal with this and it is not an automated handling in the DCs, it's manual work, it is somebody going and picking small pieces together, putting it in an envelope and sending it off so you double that volume, you need more people, that is the simple way to solve it right now. Whether we get into automation in the future, that's a different discussion. So we are just gearing up to be ready. I am not even sure that the 100% is going to be enough to be perfectly honest but that is the most current conversation we are having internally. Some markets, it may be sufficient, some other, it may not. So you cannot take that 100% to kind of put in your excel spreadsheets and say that is the e-commerce growth. I don't know. It is certainly going to be a lot more than it was last year and that is kind of how we are building it and I just hope that the 100% capacity that we are building now is going to be sufficient.

0.56.46

Fredrik Ivarsson

That is perfect, thanks.

Operator

Our next question comes from Anne-Laure Bismuth from HSBC. Please go ahead.

0.57.00

Anne-Laure Bismuth

Yes hi, it's Anne-Laure Bismuth from HSBC. So my two questions are first on the I would to come back on the online performance especially in a comparison to the performance for the Q3 to date through the -10% I just wanted to know if you can share more comments about the performance in online during that Q3 to date and are we to compare the 176% online with what you have been doing in Q2 and my second question is about the partnership for the launch of the Star Wars collection on 1 October what are you planning in terms of marketing? Do you plan to launch a select evidence online and what do you plan in terms of partnership, collaboration, how you handle next year? And what do you plan in terms of product launches for Q4? Thank you.

0.58.05

Anders Boyer

On the online growth for the first weeks of the third quarter, what we can say is that it is below 176% but it will still be a number that in a normal year, that would be visible so it is still significant growth but obviously, as the store openings are progressing, it comes down but it is still well above where we would normally be and that is also why, as Alexander said, that we are building capacity or buying this insurance premium so to speak, building extra capacity to continue coping with significant online growth for the rest of the year.

0.58.54

Alexander Lacik

Okay. In terms of the partnerships, so there is going to be, I mean we divide now the marketing initiatives essentially in three size packages, not very creative, it is either small or it is medium or it is large. And then you could think of the small packages as quite limited exposure in terms of windows and media, the large packages is full-on national launch with TV and the rest of it and Star Wars would fall in the latter category so that is going to be a very strong programme. I mean, we also have the Harry Potter from last year to cycle so it was very, very successful. This initiative has tested in a similar way with consumer tests that we have done before so we have a lot of conviction that it's going to be another strong collaboration programme. Then you had a question on collaborations for next year, we don't talk about, some of this is kind of in the works so it's a bit sensitive so we normally do not disclose the next year's programmes when it comes to the collab. In terms of product launches, Star Wars is one of the kind of key things that are coming in the back half. We are also going to make a big push behind the 20-year anniversary. You know, we have been drip feeding in these top charms each month but we are going to make a big push behind, I think it's in September when the company then or the brand actually turns 20 years officially. So I think those are the main points and then there are a few other bits and bobs but you know that is probably what is worth talking about in this environment.

1.00.39

Anne-Laure Bismuth

Thank you.

Operator

Our next question comes from Frans Høyer, Handelsbanken. Please go ahead.

Frans Høyer

Thank you very much. Question regarding Q2 and the full price like-for-like sales trends, if you are able to quantify that, I gather that clearance sales were down significantly and adjusting for that, your like-for-like in Q2 would have been better and of course, not sure what clearance sales, how important were they in going into Q3 and Q4, probably not much in Q4 I guess but maybe you could talk about those issues?

1.01.36

Alexander Lacik

Let's see, so the numbers that we quoted in the presentation, as you said, they straddled Q2 and Q3 so it's not a clear-cut quarter assessment. If I take that period, the overall sell-out was flat give or take to last year. However, within that, we saw quite some shifts which is the reason I mentioned it because we had, last year I think we put something like 600 DVs on the clearance in the summer and now we put I think it was around 230 or 240 so a significantly lower amount of DVs which is obviously the result on one hand from the inventory kind of management in general that we have been much more tight on and secondly, we made an assortment reduction during last year if you remember, we went from 1,800 DVs to 1,200 DVs. So actually we have less crap in the tail so therefore, we should also expect, so my need for these kind of clearance sales becomes less. Now of course, I have the merchandising organisation jumping up and down, being nervous about not hitting their targets because you know any salesman, lots of discounts make life easy for sales but it is not necessarily what we want to do. So therefore, I was quite pleased to see that the volume was halved on what sold through on clearance but was more than picked up or was picked up essentially by full-price sales so from a health of the brand, that is brilliant because we are managing to convert people not on the basis of sales or clearance but on full price and you can also do the math from a margins standpoint, it is obviously a lot more attractive to sell full price than clearance sales. So there is a

number of different really important underlying health attributes to that period which was the reason I mentioned it in the presentation.

1.03.31

Frans Høyer

Yeah, that makes sense, thank you. You also mentioned that there is a, well, you are addressing the product development strategy and there is a need to supplement the Moments concept with new concepts. Could you talk a little bit about that, what it is you want to add to the spectrum, so to speak, which Moments does not offer?

1.03.58

Alexander Lacik

I think if you look at my peers, my global peers in the same category globally, there is hardly anyone of them that only lives off one major platform. Most of these companies, they have 3, 4, 5 or 6 different platforms and these are kind of enduring platforms so they are there for years and years and years, similar to Moments. You kind of hit the strike with consumers and then you just need to keep it fresh which is I think where Pandora went wrong. Somewhere there was a belief that you couldn't keep Moments fresh which is what I think the first job we had done here is to reinject energy into Moments and consumers are responding so that is brilliant. We now need to complement this with a few others and we are a little bit too early in the curve for me to disclose anything. When I have something interesting, then you can rest assured, I will share that with you guys.

1.04.50

Frans Høyer

Okay, thank you very much.

Alexander Lacik

Thanks

Operator

Our next question comes from Omar Saad from Evercore. Please go ahead.

1.05.01

Omar Saad

Good morning, thank you for taking my question. My first question, actually I wanted to follow up on the last one. Maybe if you could expand a little bit on your product development. It sounds like a reorganisation around the two different business units. Maybe a little bit of context, why you are making these changes, what was broken in the product development process before, is there something in the process itself and then how do you think or how should we think about – how this all affects the kind of flow of product newness going forward? And then I have follow-up on the loyalty programme. Thanks.

1.05.40

Alexander Lacik

You can look at this from many different ways. You can have a look at the organisation and say are the people good or bad but actually, when I came in a year and a half ago, you just look at the outcomes. And you saw that from a result standpoint, our new innovation was not helping this company to drive growth. And that became quite problematic because the whole organisational setup was geared to focus on new product innovation so if the outcome is that you don't get any growth and the only thing that the organisation is busy doing is trying to drive growth on that, then there is something clearly wrong. Then there are a couple of other things which also led to the reorganisation that we put in place in April but the

core of this was to ensure that we have an organisation that is much more working from the outside in. So meaning that we actually tried to understand what consumers like or don't like or even try to second guess what they might like but for that, you need a different organisational setup and that is what this GBU structure is there to do, it is essentially decipher what is going on from the outside with help of both qual and quant methods, turn that into insights, from that kind of filter that through a product strategy so that we kind of stay within the confines of what we think Pandora should be working on and then that eventually then drops into the product development people and the crate is on that side of the fence. In the past, you could probably characterise this by that this first filter wasn't even here, we didn't do any of that work so it was much more about the product development organisation trying to sort out those questions and arguably, they are good at creative but they are not particularly analytical so that is kind of what we have added is a bit more science to the art and then hopefully that combination of science and art is what is going to lead to better predictability in the numbers that we generate and also that we deliver products that people are actually interested in. And I think you can see some of the early inklings of this looking at Pandora Me for instance, I think that is based on some quite profound consumer insights which has delivered some interesting results for us and we can do a lot more in that space to give one example. Did that answer your question?

1.08.11

Omar Saad

This is very helpful context, thank you. You know, along those lines, if you think about the loyalty programme using data, adding science, as you mentioned, to the art. You know what role is the data and your loyalty programme in terms of giving you consumer insights, is that a big piece of it or are you doing other studies using consultants? And is there a way to kind of ramp up that data analytics in terms of the product development process in those connections you have with consumers? Thanks.

1.08.44

Alexander Lacik

Yeah, so there are a couple of different steps so one is when you are trying to just identify opportunities, okay? Loyalty means that you have already kind of got them in the fold and now are trying to figure out how more to do good things and actually two quite different aspects of the whole puzzle. So on the first piece when it comes to generating new insights in terms of where to go with our product innovation, I think here we are using more let's call it traditional methods to start with. You know, they are tried and tested methods of how we approach this. Maybe not in the jewellery industry but outside I mean the FMCG world that I come from, this is like bread and butter so we are just trying to take some of these methods, align them to kind of the type of environment we are operating in and then start running it. On the other hand, then when it comes to data, I mean we announced I think a few months back that we are investing heavily in creating a data hub here in Copenhagen. So in the past, we had small pockets of resources around the globe. I have knocked all of that down with the exception of China because there is a different ecosystem there and then pulled all those resources into Copenhagen to create a tech hub here and these guys, they live and breathe of data and that data we will use in terms of being better merchants, in terms of kind of the loyalty aspects that you were talking on and then eventually, I hope we will also crack a method on how we can scrape those insights and use that for product development. There are quite few companies that are mastering this today and we have still some ways to go to finalise the building of the tech hub but I think in the future, you should expect that we will propel some of our insights through the data that we gather. I mean, we have an amazing touchpoint. We touch – I am not sure that these are unique visitors but we have roughly 500 million visitors to our stores, either off or online and today, we actually only use a fraction of that data to drive this business which is crazy if you think about it. We should really be able to be super precise on what we do. But we come from a history of being quite analogue so this is not just to put the tech in, we also need the culture and the people that know how to manoeuvre in this new environment but that is kind of the direction that Pandora is taking so we want to lead in the tech space as a company.



1.11.23

Omar Saad

Thank you.

Operator

Our next question comes from Silky Agarwal, Citi. Please go ahead.

1.11.35

Silky Agarwal

Hi, I have two questions please. So the first one on the level of marketing investments in second half. I understand that it would be up Y/Y. What is the level of spend we are talking about here in your base case revenue scenario? And the second one on gross margin, I will come back to that.

1.12.01

Anders Boyer

On the level of marketing spending in the second half, I am not saying that it necessarily will be above last year but in percentage, probably yes, in percentage of revenue, but in absolute terms, I think you should more think about it as in line with last year but remember, last year going into Q3 and not least Q4, we were already upping our spending at that point in time.

1.12.30

Alexander Lacik

Yeah and the only other thing I would add to that is that media rates have changed somewhat this year due to COVID as well so even if we spend 100, you might actually get a bit more bang for the buck this year. Now, this varies country by country, it varies by the media mix you have of course but that is something I am driving very hard. As I said in the presentation, COVID is a problem but with problems also come opportunities which you need to run hard after and that is one of them that we are trying to chase.

1.13.05

Silky Agarwal

Thank you. Then the second one on the gross margin. I understand that the second quarter gross margin was around 78% if I strip out the COVID-19 related restructuring charges. Given the impact from silver prices will not be felt in second half, do you think that is a sustainable level for second half?

1.13.30

Anders Boyer

On the gross margin going into the second half, we will be – and I am also looking at Mr. Treasury here, Michael, but we will be comping a – having a higher silver price in Q3 and Q4 in the COGs than what we had last year. I think if we go back to the, I am just thinking aloud here, going back to the guidance when we made that in February originally, we said that we would have headwind from silver prices and the Thai baht of around 1.5 percentage points and that is mainly coming in the second half of the year but again, that is not coming from the recent price increases but from what happened previously so in other words, to answer your question more directly, I think there will be some headwind on the gross margin in the next couple of quarters comparing to the underlying gross margin in the second quarter.

1.14.30

Silky Agarwal

Very clear, thank you.

Operator

Our next question comes from Lars Topholm from Carnegie. Please go ahead.

Lars Topholm

Yes, just a follow-up question regarding lease costs. So I assume the current climate gives an opportunity to renegotiate leases. I wonder to what extent you are doing that, what impact it has short term but also if it has any long term implications that are meaningful when looking at your sales and distribution costs going forward? Thank you.

1.15.12

Anders Boyer

Maybe I can start here, as part of the reorganisation that was designed and implemented, we also established a global network management unit and there was a new senior vice president, a new role, with a gentleman who joined us there just before the summer holidays and the gentleman who has come into that role he has done similar work in the past and I think long story short, there is clearly an opportunity to take a different approach to our leases, both from how they are structured, how do we think about the fine print of the clauses in such an agreement but also rent levels and then of course with what happens currently in the world and in retail for other companies, there is an opportunity to reduce that and that is a part of it if we looked at slide 17 in our cost savings programme, there is some white space in the Harvey Ball on retail expenses there and part of that is clearly on opportunities to lower our rent across the world. It will take time, some you can renegotiate before the lease expired and some we are probably better off waiting until the lease expires, it will come step by step and as Alexander said, fortunately we are not locked into 10 year leases but on average, it is fairly short-term leases so that gives us an opportunity to sort of step by step realise those savings. We are not putting a number on yet but there is definitely an upside. We are spending around just shy of DKK 2 billion per year on leases.

1.17.30

Alexander Lacik

Yes, I think one of the observations this team, the new team had was that they probably think we should try to get into shorter leases even than we have currently so we have that flexibility also coming back to your earlier question, Lars, on you know how we are going to adjust the network. So if we sit in too long leases, then that of course makes us less flexible so that might be worth for us in some locations to consider. I think we will take a much harder stance as well in the lease negotiations, we might even ditch some locations in the negotiations in order to make sure that we actually get some more relief than what we have experienced with some people today.

1.18.17

Lars Topholm

Thank you very much.

Operator

Our next question comes from Piral Dadhania, RBC. Please go ahead.

1.18.28

Piral Dadhania

Thank you, good morning everybody. So I was just wondering if you could help us understand the sort of mood amongst franchisee partners? Obviously, they had significant store closures through the second quarter period with no e-commerce offset though as you think about the structural shift of revenues from an offline environment and online environment, how does that change the dynamic and the relationship between Pandora, the business and the franchisee operators of physical stores? Any insight there would be

most helpful. And then secondly just around some of the comments you made on current trading which you say is running -10, very encouraging to hear that improvement through the last few months but are you seeing any big differences between your physical retail concept stores and wholesale or franchisee operated concept stores or even just across channels more regularly excluding e-commerce? Just curious about whether any particular channel is under- or overperforming as we go into the third quarter. Thank you.

1.19.42

Alexander Lacik

I will start with your second question. So what we saw was when the environments opened up, our stores performed better in the first couple of months even and we kind of write that to the fact that we did not send our staff away so they were still on the payroll largely speaking whereas a lot of the franchisees obviously furloughed or terminated their people so it took them longer to kind of get the teams back on whereas we valued the fact that we had very experienced people in our stores, it takes quite some time to train people in this particular- it's not a very transactional way of selling that we do on Pandora so that seemed to have paid off quite nicely. Now, when we sit here today, broadly speaking, our partners perform at the same level as us so it just took them a while to catch up. In terms of the franchise sentiment, I mean clearly, the cost structure of franchisee versus Pandora is very, very different. I mean, we carry a heavier fixed cost burden versus these guys, they have the lease which to a larger degree many of them like many retailers didn't pay initially, they sent their staff home and we then also look at our receivables, they are paying the bills to us which would suggest that at least they still stand, quite a few of them have had decent balance sheets from what we have gathered. So right now, I am not getting a lot of phone calls and in fact, I am not getting a single phone call from franchise partners that are struggling. That is not to say that they aren't but it hasn't reached that type of level. And most of these people were shut down for 6-8 weeks so it looks like there is resilience to cover that type of a period at least. I don't know, Anders, if you have some additional perspective.

1.21.56

Anders Boyer

I think I will just repeat, I think it is important not to look at the second quarter numbers and taking that as an interpretation that structurally, that the partners are performing worse, just repeating in the third quarter so far, the stores have been performing the same, no matter who operates them, whether it is us or our partners and again, if we look at our cash flow in the quarter, you can also see that despite the significant hit that we have all had in the second quarter but the partners even more so because they are operating physical stores only, then our receivables have been brought down quite nicely so as Alexander said, they have had cash and decent balance sheets and then last, I think in the prepared notes in the beginning of the call here, we also said that we have seen very nice sell-in coming into July in the start of Q3 here and again, that is a pull from the partners and not something we are pushing in but a pull from the partners seeing that we have good brand momentum, saw the good brand momentum in Jan-Feb of this year but also seeing that we are actually doing better and doing quite well here coming out of the crisis in the second quarter.

1.23.37

Michael Bjergby

And just the final technical addition to explaining the numbers in Q2 was that the first markets that opened were China and Germany and these are clear O&O markets whereas the franchisee markets, Italy and UK, opened relatively late in the quarter.

1.24.00

Piral Dadhania

Great, thank you.

Operator

Our next question comes from Chiara Battistini from J.P. Morgan. Please go ahead.

1.24.12

Chiara Battistini

Hi, thank you, just a quick follow-up question. On your e-commerce performance in Q2, I was just wondering and also according to the data that you see, do you think that your e-commerce performance was boosted over supported by maybe taking market share within the gifting market, within the gifting options and also given that maybe in other categories, the purchasing was less viable in a way so I was wondering if you took market share within gifting and how you see this evolving as the lockdown has been lifted? And actually just a clarification also on your comments now on the sell-in in July being strong. Just wondering, was the sell-in in July actually ahead of the sell-out or was it in line with the sell-out completely? Thank you.

1.25.11

Alexander Lacik

On your first question, whether we took market share gains in gifting, I just wish I had that data. That would be incredibly difficult. First of all, it is difficult to gauge e-commerce shared performance to begin with. I mean, Amazon doesn't reveal it, Tmall you can scrape it but other than that, we have our own DTC and of course, we don't share our DTC performance with anybody so in fact, there is no database which would help answer your question. So I think I will only say that I wish I did but I don't have any facts to back it up and we can't build a business on wishes so that, I cannot.

Chiara Battistini

Fair enough.

Alexander Lacik

The second question maybe I will direct to Michael.

1.25.58

Michael Bjergby

No, so whether the sell-in was higher than sell-out, I think how you can see it in the numbers was that the organic growth was sort of clearly better than sell-out growth, yes, so as you would expect.

1.26.09

Chiara Battistini

Sorry, the organic growth was better than the sell-out growth?

Michael Bjergby

Yes, exactly.

Chiara Battistini

Thank you.

Operator

Thank you. There appears to be no further questions so I will hand back to our speakers for any other remarks.

1.26.28

Alexander Lacik

Well, first of all, thank you for joining us. As I said in my closing remarks, Q2 was truly strange. I know that a lot of your questions really are trying to decipher what is the underlying momentum of this brand, especially given the fact that we came out of or are in the midst of a turnaround. We are doing our best to try to kind of lay the land but hopefully, things normalise and stabilise a bit and then we can be a bit more precise on the momentum. We have some indicators that I mentioned that the brand seems to be healthy and of course, everybody is taking a toll in Q2 but our sense is that we have come strong out of the gates in pretty much every market except China, as we talked about, so I think we kind of look to the future with some energy and passion and belief that the Programme NOW is going to continue yielding and I think on that note, we will close the call. Thank you for listening.

Anders Boyer & Michael Bjergby

Thank you.