

**Pandora**

**Transcript: Annual Report 2021**

**Date & Time: 09 February 2022 at 11.00 CET**

**John Bäckman, Vice President, Investor Relations, Treasury & Tax:** [00:00:01] Good morning, everyone, and welcome to the conference call for Pandora's Q4 results. I'm John Bäckman from the Investor Relations Team. I'm joined here in Copenhagen by our CEO, Alexander Lacik, and our CFO, Anders Boyer, and the rest of the IR team, Kristoffer Malmgren and Adam Fuglsang. There will be a Q&A session at the end of the call. As usual, please limit your questions to two at a time and kindly get back into the queue if you have additional questions. Slide 2, please. Please pay notice to the disclaimer on Slide 2 and then turn to Slide 3. Alexander, please go ahead.

**Alexander Lacik, CEO:** [00:00:39] Thanks, John, and welcome everyone who are joining the call today. As you already know, from my pre release of the results in January, we had a record revenue and sell out in Q4. We're very pleased that the growth was of high quality, broad based and profitable. I want to start today by expanding a bit on this. Our growth was driven by our largest platform, Moments, and by solid online performance. Moments had another strong quarter, growing 12% compared to Q4 of 2019. Online revenue nearly doubled versus 19. The growth was also broad based across all our key markets except China. Our largest market, US, continued the strong performance we've seen throughout 21. And we're confident that Pandora continued to outperform the market in Q4. This is a testimony to the operational and commercial improvements we've made in the last couple of years. The growth was also profitable, delivering a 25% EBIT margin in 21, which is up 5% points from 2020. This exceeded the guidance and in absolute terms, EBIT was up 50% versus 2020. Q4 is by far our biggest quarter. Looking around us, we can definitely note that competitive activity is picking up as market conditions continue to stabilize. Despite this, we delivered strong profitable growth. Our model is clearly working and Pandora is well placed for future growth. Now let's move to slide 4, please. The strong results in 21 is the base for our guidance and for our targets. We expect to continue delivering sustainable and profitable growth.

**Alexander Lacik, CEO:** [00:02:29] For 22, organic growth is expected to be in the 3 to 6% range. Anders will soon give more detailed perspective on our assumptions behind this. EBIT margin is expected to be in a range of 25 to 25,5%. This is driven by top line growth turning into operating leverage. We also reconfirm the targets from a capital markets day of 5 to 6% CAGR growth. And EBIT margin of 25 to 27%. Please note two things here, first, that we reconfirm the targets despite the stronger 21 base. And also note that we raised the absolute revenue target for 23 by another 2 billion kroner or 7% compared to the estimate we set out at our Capital Markets Day. We'll also continue the distribution to our shareholders through both the proposed dividend and a new share buyback program running to February next year. Now, please turn to slide 6. Before we dive into Q4, I would like to remind you of the four main building blocks in our growth strategy, Phoenix. Our strategy execution is off to a strong start, which confirms the potential ahead of us. First, our brand is the most widely recognized jewelry brand in the world, and we will keep investing in this unique position. Our focus is on growing the brand penetration. Secondly, design driving our core the Moments platform is the number one priority for us, and I'm happy to say that the Moments continue to deliver strong growth.

**Alexander Lacik, CEO:** [00:04:09] We also want to fuel the brand with more. We have relaunched Pandora Me, which outperformed the initial launch back in 19. Pandora Brilliance that we test launched in the UK is gearing up for global rollout. The third growth pillar is personalization. Here we are improving the omnichannel experience to offer consumers a more personalized path to purchase journey. Our online channel is already seeing phenomenal performance, so the starting point is very strong. Additionally, we have started to test launch our new store concept. It's early days, but the results so far are promising. The fourth and last growth pillar is about growing our core markets. We're going to increase and optimize our network and expect to open 50 to 100 concept stores in 2022. US is on track with exceptional performance in 21, while China remains weak and we plan to reposition the brand later this year, when conditions stabilize. Slide 7, please. We place sustainability at the core of our company. This is not only the right thing to do. It's also about future proofing our business. We aim at being a low carbon business, drive circularity principles in everything we do, and act as an example of what it means to be inclusive, diverse and fair. Our objective is to halve carbon emissions across the full value chain by 2030 and to be a net zero carbon business by 2040. We've taken important new steps last year by announcing climate targets which are approved by the science based target initiative.

**Alexander Lacik, CEO:** [00:05:53] This guarantees that our targets match our share of the reductions needed to keep global warming below 1,5 degrees Celsius, As per the Paris Agreement, currently we are among the most ambitious in our industry. We also continue to drive circular innovation in 21. We launched our first collection using only lab created diamonds, and we continued our quest to use only recycled silver and gold in our jewelry by 2025. We also introduce new bags and boxes that are easier to recycle with less plastic content and a 60% lower carbon footprint. To foster an inclusive, diverse and fair culture, we have launched a comprehensive strategy addressing gender and underrepresented groups. We will not only be working within our own organization, but also evolve the way we market our products, and the partners that help us bring our brand to our consumers. We are committed to continue our support of the global aid organization, UNICEF. Our partnership has entered its third year and since 19 we have donated close to 6 million US dollars to this cause. Slide 8, please. Moments is our largest platform and was our key key growth driver in Q4, delivering 12% sellout growth versus 19. The Moments Christmas collection was very well received by our customers. We keep innovating Moments to activate the platform and generate solid outcomes. Last quarter, we told you how Moments Wearing Occasions such as key rings and bag holders drove incremental revenue.

**Alexander Lacik, CEO:** [00:07:35] In Q4, we tested engraving in selected stores across Italy, US and Canada. In Italy, we also tested online engraving with very good results. I would also want to highlight, Timeless, our second largest core platform, which delivered 4 billion in revenue in 21, up almost a billion from prior year. Next slide, please. Quarter four was the first key consumption period for Brilliance since we launched in the UK in May of last year. Before Q4, Brilliance had been positioned as a self-purchase targeted at Millennials only. We slightly shifted our marketing activities towards gifting, which gave us very encouraging results. As we have said before, the UK pilot was about getting insights to sharpen a further rollout. We've reached a high single digit market share of the lab created diamond market. This is encouraging for the future rollout. In 2022, we will start the sequential global rollout and we will tell you more about this closer to the launch date. Next slide, please. The relaunch of Pandora Me attracted very large interest in social media, and so far after only one quarter, we see that Pandora Me is off to a promising start. First, the relaunch outperformed initial launch back in 19. Share of revenue doubled in Q4 compared to 2020. The growth was propelled on one hand

by an influx of new customers, roughly one third. On the other hand, we saw a fair amount of lapsed users come back to add more Pandora jewelry to their collections.

**Alexander Lacik, CEO:** [00:09:13] Age profile differed across markets. During the Christmas period, we experienced a high level of claimed gifting, which may suggest parents buying to their children. We will need a few more quarters to understand the exact impact on our core target: the Gen Z's. Mid-term, we continue to target a minimum 5% share of business from Pandora ME. Next slide, please. Now, let's have a look at our core markets. As I've said, we're happy to see broad based growth in Q4. Our key European markets continue the strong performance in quarter four, even though COVID 19 escalated during the quarter. Combined, our key European markets delivered 10% sellout growth in Q4 versus 2019. Germany and Italy more than doubled online revenue. Australia started Q4 with around 30% store closures and improved gradually through the quarter. We know that there's a lot of interest in what happens to revenue growth in 22, due to the very strong growth rate in the US last year. Therefore, we'll share a brief insight into Jan trading. So organic growth in Jan was 23%. You should remember, though, that we had 30% of our stores closed prior year, so it's an easier comp. And growth in January should be above the fiscal year guidance for 22. But we're happy with the start of the year, and trading in January is obviously supporting that Pandora is back on the growth track.

**Alexander Lacik, CEO:** [00:10:41] Next slide, please. Our largest market, US, continued the strong growth in Q4 and had exceptional performance throughout 21. The strong performance in the US actually started well before 21 and before the stimulus packs. Importantly, when comparing to external market data, such as MasterCard SpendingPulse, we see that Pandora outgrew the market in 21. The jewelry market has historically grown 3% per year. In 21, it grew 35 to 40% versus 19, and Pandora grew 51%. So we outgrew the market by 10 to 15 points. This is a testimony to the efforts and investments we've made over the last couple of years, both on the commercial and operational side. We are confident that Pandora will continue to outperform the market in the US also in 22. Our long term ambition is to double the US business versus 2019, and 2021 certainly gave us a head start. Next slide, please. Our business in China remains challenged, and the growth continued to be negative. It is probably noteworthy that China only represented 2% of our quarter four revenue. Therefore, having a very marginal impact on group numbers. The traffic continued to be significantly impacted by COVID 19 restrictions, even though stores were formally open. Therefore, we further delayed

the planned investment in repositioning the brand in China into 2022. The good news is that Pandora was the largest brand in fashion jewelry on Tmall for the first time since entering China.

**Alexander Lacik, CEO:** [00:12:25] We continue to see significant opportunities for Pandora to grow in China. Next slide, please. The record revenue in Q4 was supported by strong marketing investment. We spent over 16% on marketing in Q4. This level is a touch higher than the 13 to 15% we've spoken about before. The reason in Q4 was that we put some extra firepower behind the Pandora Me launch while ensuring strong support for the base business. Once new initiatives like Pandora Me reach more of a steady state, marketing investment should come in line with the growing levels. Given the high gross margin levels, return on investment is very good, even at slightly elevated investment ratios. It's clear that our efforts in marketing are paying off and our brand momentum is strong. This continues to be the driving force of revenue growth, which in turn drives EBIT margin. For unaided awareness, our leading as well as relative position remains intact. In Q4, we maintain our number one position in 5 out of 7 markets. As we spoke about in the Q3 release, there seems to be an industry decline during COVID. We can only speculate about the reasons for this, but the restrictions around physical retail and the consequent traffic declines paired with generally lower category advertising spend are likely drivers. As you know, we use search volume as a proxy for initial customer engagement. Our global share of search was close to 30% of the Google searches for branded jewelry.

**Alexander Lacik, CEO:** [00:14:03] Pandora ranked number one in share of search in 6 out of 6 key markets. This is roughly three times the next closest competitor. These results come at the back of strong creatives, as well as an agile approach to keep content fresh and relevant. Overall, we continue to stay top of mind as well as engaging with our consumer base. It's clear that as conditions have continued to normalize, we see more activity around us. But the investments we've made during the pandemic, especially in our internal capabilities, will continue to cement our leading position. Next slide, please. Before I hand it over to Anders, I want to comment on our digital results. We have a strong digital foundation and investments in digital continue to drive growth. Our online revenue almost doubled versus 2019. As expected, it was down versus Q4 2020, when more stores were temporarily closed. We keep investing in digital, and in Q4 we tested online engraving in Italy, which saw a 7% share of online revenue from only 4 items. We continue to expand our omnichannel features. As an example, last

quarter we rolled out click and collect in Australia. In the US, the click and collect share of online revenue was 21% in December, while in Australia it reached 26%. Very strong numbers proving Pandora has the right model to cater for our customer needs. Now I'll hand it over to Anders to take you a bit more in detail through the numbers.

**Anders Boyer, CFO:** [00:15:43] Thank you, Alexander. Please go to slide 17. You already heard about that, we said Record-Breaking revenue and had a solid EBIT margin in Q4. So on this slide, I'll rather focus on a couple of the other financial highlights. Our gross margin was unchanged versus Q4 of last year, just around the 76%. And that's despite an 80 basis point drag from higher commodity prices and foreign exchange rates. And we managed to offset that drag through a combination of lower discounts or higher net prices, cost efficiencies and leverage. On the net working capital, we ended the year at minus 5%. It's actually better than what we had expected, and it's now the the third year in a row with negative net working capital. This year in 22, we do plan to continue to build inventory to mitigate potential disruptions in the supply chain, and this will pull the networking capital closer to the zero mark. It's also worth noting that our leverage is still very low despite the shareholder cash returns we've made in 21. And as you know, over the last couple of years, we have reduced the net working capital by around 3 billion kroner or so, and the lease liabilities have decreased by around 1 billion kroner. And these two factors have combined decreased leverage by around 0,5 times EBITDA. And it contributes to that we ended at only 0.4 times EBITDA by the end of 21.

**Anders Boyer, CFO:** [00:17:23] And in this connection, I want to highlight the legal limitation on financial leverage in Pandora. Capital distribution to shareholders are by law, limited to the free reserves in the parent company, and that's not new. And the free reserves by the end of last year amounted to 7.5 billion kroner in the parent company. And when you combine that with the lower net working capital and our asset light business model, it currently impacts the possibility to increase leverage into the upper part of the leverage range, saying, above one times EBITDA in leverage. It doesn't change that we are highly cash generative business and we're able to continue a very competitive distributions to the shareholders every year. It's just that there's certain restrictions on increasing the leverage. Finally, I would like to highlight that our ROIC, return on invested capital, was 59% in 21 and that the full year earnings per share doubled compared to 22. Let's go to slide 18 and the revenue bridges. These are the bridges for the quarter for Q4, and in the top bridge we are comparing to the clean base back in 19 without

any pandemic impact, and in the lower bridge it's a year over year bridge. And essentially both bridges are telling the same story, being that Pandora is growing and that the major growth driver is sell out. And the story is not much longer than that, really.

**Anders Boyer, CFO:** [00:19:15] But there is two of the smaller buckets I just wanted to comment on today. And there's a box called "takeovers" with one point of impact both versus 19 and versus 20. And that impact is stores where we have taken them over, typically at the end of the franchise contract with no payment of goodwill. And then afterwards, we continue operating them directly in Pandora. That's the same as opening up new stores, and it counts in organic growth. And the other bucket, I wanted to comment on, is "network expansion". That's the first building block in the bridges. It shows a net zero impact versus last year, and this is an area where you will see a change here in this year in 22, as we start tapping into that network expansion opportunity, the white space we have around the world. And then please go to slide 19. And here we're showing the EBIT margin bridge, and the key message is that on this slide is what we have shown in the dotted box in the middle of the bridge. And first of all, our operating leverage is unchanged and it still sits there in the in the Q4 EBIT margin bridge. But as Alexander mentioned, in this quarter we have invested extra in the brand in media and deliberately increased our marketing spend to stay on top of mind with consumers in a competitive fourth quarter.

**Anders Boyer, CFO:** [00:21:00] And therefore, the underlying EBIT margin is flattish versus last year, versus Q4 of 2020. Now I think let's go to the guidance on slide 21. There's actually a number of comments I want to make on on this slide. The first point is that that with our growth guidance for 22 and combining that with the reconfirmation of our growth target back from the Capital Market Day, we are sending a couple of signals today that we firmly believe that Pandora is back on a growth track. Now on the on the 22 guidance and the 3 to 6% organic growth where we end up in that range depends to a large extent on the US market, as well as the potential impact from COVID 19 this year. And we know that especially the US can make it hard to interpret the guidance for 22, and we have therefore added a table here at the bottom showing how to think about the guidance. In the lower end of the range of the guidance, the three points of growth, we have assumed a low single digit negative impact from COVID 19 on trading - specifically in this year.

**Anders Boyer, CFO:** [00:22:35] For the US, we expect in the lower end of the guidance that the general overall US jewelry market will decline by up to 20%. So basically going down to the historical trend line that is on the graph that Alexander went through. While we will continue to outgrow the market in 22, and growth in the Pandora US is expected to be negative mid to high single digits in the low end of our guidance range. In the top end of the range, to the right of that box below the bridge, we assume no to limited negative impact from the pandemic on the trading this year. For the US, we still expect the overall US jewelry market to decline. Let's call that around 10 points down, while Pandora US will deliver around flat organic growth in 22. In both scenarios, we expect the rest of the world, so everything outside of the US to deliver positive high single digit organic growth. And just for clarification, that growth number in the rest of the world that includes the tailwind from the pandemic impact that we had last year in 21. So that sits in within that high single digit growth number. All of this is obviously directional, indicative only. There's many ways to deliver on this guidance. There's many ways to Rome, but hopefully it gives you a flavor of our thinking about the performance for this year. There's a couple of important messages to take away from this slide, 21.

**Anders Boyer, CFO:** [00:24:20] First of all, we expect to keep growing the top line, even though the biggest market, the US, maybe temporarily declining after a really strong 2021. Secondly, we want to stress that no matter what happens to the underlying overall jewelry market in the US, we expect to grow faster than that, like we've done for the last several quarters. And last but not least, it should be recalled that even though the US may be declining mid to high single digit in 22, it still corresponds to a low to mid-teens CAGR versus 2019. So on the EBIT margin next slide 22, we guide for an EBIT margin of between 25 and 25.5%. And in this range, there's still an underlying operating leverage. But as we said back at the Capital Market Day, there will be some silver price headwind in 22, which keeps the EBIT margin expansion down this year. And next year, in 23, the operating leverage should also be more visible in the reported EBIT margin. There's a lot of debate in the media about cost inflation, and in general, we are not that exposed to inflationary pressure across the P&L. This is, of course, something on freight as an example in and also in pockets of employee cost.

**Anders Boyer, CFO:** [00:25:59] But we expect that continued cost savings will mitigate that inflationary pressure, and that's why you don't see that as a separate negative building block on the bridge on this slide. Then moving on to Slide 23, and let's have a look at what we



communicated back at the Capital Market Day in September and how we look at it now. First of all, as Alexander said, we're pleased to reconfirm the 5 to 7% organic growth CAGR for 22 and 23, and we reconfirmed that the growth target, despite the fact that the base in 21 revenue ended much stronger than expected. So as Alexander mentioned, it means that today we raise the absolute revenue target for 23 to between 27 and 28.1 billion kroner, as you can see to the right in the bridge here. And that's an increase of 2 billion kroner, or 7%, compared to the old target. We also reconfirm the EBIT margin range of 25% to 27%, next year in 23. Where we end in that range is mainly driven by operating leverage and the silver prices, and then to some extent, the foreign exchange rate levels also. On Slide 24, we went back to the Capital Market Day presentation in September, and then we picked up this slide again, because we wanted to talk about earnings per share for a second.

**Anders Boyer, CFO:** [00:27:50] At the Capital Market Day, we said that earnings per share is set to grow in the high teens in 22 and 23. And we wanted to repeat that message today. We ended 21 at an EPS of 42 kroner. And then you can calculate that our targets means that we will be approaching 60 kroner earnings per share in 2023, so next year. And that's what we illustrated to the to the right on this slide. Then, racing to my final slide, Cash distribution, on slide 25. As Alexander mentioned upfront, we are continuing the cash distribution to our shareholders and we have ample liquidity at low leverage and the board proposed a 16 kroner per share dividend in 22 and that's equivalent to the 2% yield based on the share price at the end of last year and in line with our capital allocation guideline that we communicated at the CMD. On top, here we also announced a new share buyback program amounting to 3.3 billion kroner, which will run from today until early February next year. And all in all, this amounts to around 7% cash distribution of the current market cap. And with that, I'll leave it to Alexander.

**Alexander Lacik, CEO:** [00:29:13] Ok, so we move to slide 27. Thanks, Anders. Well, to summarize, Q4 was a record revenue quarter for us and the growth was of high quality. As I said, driven by Moments and online, it was broad based with growth in all key markets except China and profitable. Demonstrating that there is strong operating leverage in our model. Moments is growing. We are promising results from the new growth platforms. Execution of Phoenix is well on track. So when we look ahead, we're comfortable that we'll continue to deliver sustainable and profitable growth. And we drive for these financial results while we still set the bar high to be low carbon, circular and inclusive and diverse business. We want to lead

our industry when it comes to sustainability. So all in all, very strong ending of the year that clearly showed the strength of our operating model, and we're looking forward to 22 with great confidence. Now we're ready for the Q&A session. And I will say up front, one of the more popular question is when I'm going to launch Brilliance and in which country. You can save that question because the answer is, I'm not going to tell you until I get much closer to that point in time. And in any case, let's open for questions now.

**Operator:** [00:30:38] Thank you, ladies and gentlemen, if you do wish to ask a question, please press zero one on your telephone keypad now. If you wish to withdraw your question, you may do so by pressing zero two to cancel. Once again, if you have a question for the speakers, please press zero one on your telephone keypad now. Our first question comes from the line of Fredrik Ivarsson from ABG Sundal Collier. Please go ahead. Your line is now open.

**Fredrik Ivarsson, ABG Sundal Collier:** [00:31:08] Thank you very much. Good morning, Alexander, Anders and John. First the question on Brilliance and I want to ask about the launch date, but you say 40% online share in the UK, which is in line with the other categories. Can you confirm that the online margins for Brilliance is significantly higher, given that the AOB is like 10 times higher than the average?

**Alexander Lacik, CEO:** [00:31:36] Uh, sorry, I'm not sure I follow your logic. Why would it be different?

**Alexander Lacik, CEO:** [00:31:43] The consumer price is the same.

**Fredrik Ivarsson, ABG Sundal Collier:** [00:31:47] Right, but the average order value is 10 times higher than the average, so the unit economics should be quite strong when it comes to the Brilliance online business.

**Anders Boyer, CFO:** [00:31:59] The 40% that we are mentioning is revenue. It's not from a unit perspective.

**Alexander Lacik, CEO:** [00:32:08] The share of business,

**Anders Boyer, CFO:** [00:32:09] Yeah, so the 40% of Brilliance revenue is online like for our overall revenue. So, the classic Pandora online revenues is 40% of our business as well in UK.

**Fredrik Ivarsson, ABG Sundal Collier:** [00:32:23] Yeah, I got that. Maybe we can discuss it offline instead as it might be a bit technical. Never mind. I'll skip that question and jump to the other one. On the assumption for the markets, excluding the US. And if I do my math correct, it seems like you're assuming 22 versus 19 growth somewhere between 3 and 5%, which seems very prudent to me. So, so why are you that conservative when it comes to the other markets? Shouldn't they grow at least high to double digit?

**Anders Boyer, CFO:** [00:33:03] Yeah, I'm just making that math as well on my own. One thing you should remember in that number, there's also China sits in that, that obviously drags it drags it down somewhat in that number. But I think if you look at the the high single digit year over year, rather than on a on a 3 year comparison, the high single digit obviously include the tailwind from from COVID 19. If you call that just in round numbers, 5 points of tailwind, then you say, then it's only, let's say, up to 4 points on top of that, which I think you can argue that that should be achievable.

**Fredrik Ivarsson, ABG Sundal Collier:** [00:33:55] Yep, yep, I agree. Thank you very much, that's my question.

**Operator:** [00:34:04] Our next question comes from the line of Antoine Belge from BNP Paribas. Please go ahead. Your line is now open.

**Antoine Belge, Exane BNP Paribas:** [00:34:13] Yes. Good morning, it's Antoine Belge, BNP Exane. Two questions, first of all, regarding the US markets, is it possible for you to quantify the sales uplift that you are going to get from buying back quite a number of stores in the US and then shifting from wholesale to retail? And actually, I consider that's part of my question, like how many of the store openings that you're planning overall are going to be in in the US? My second question relates to the basis of comparison issue, and... like to shift away from that big focus on the US. If we look at the other like 65% of your business, which countries you think have really a basis of comparison effect due to COVID or or underperformance, I think you

could leave aside maybe China, but I'm thinking maybe about LATAM and part of Europe, which are the markets where it's quite the opposite to the US. You have really easy comps.

**Anders Boyer, CFO:** [00:35:26] I'm sorry, I'm just having a bit of a technical issue here, Antoine. This is Anders. I can start on the first one on the US market and the sales uplift. That does not count in the organic growth that piece, unless we don't pay, any goodwill. But you've probably seen that has been some news out there that we have made a letter of intent with one partner in the US and that would not count as as organic growth, but only in the total revenue growth in the US. But it is true on the on the store openings, the way to think about the guidance for 22 is that the US is a big chunk of that - of the store openings that we have planning for this year. So if you think about that 1 to 2% of network expansion for the overall group, let's call that 250 to 500 million kroner at quite a decent chunk of that is US. I'm... just doing an example, if we call that 300 million kroner of that, if that was the US, that alone would contribute, let's say around 5 points of revenue growth in the US in 22, and is part of the reason why we're saying that we are going to grow faster, faster than than the market.

**Antoine Belge, Exane BNP Paribas:** [00:37:08] Okay. Maybe just as a clarification, so the calculation you made was just on the new openings, not including the buyback of these stores from a franchisee?

**Anders Boyer, CFO:** [00:37:25] The first piece was about the forward integration, because that does not count in the guidance, does not count in organic growth, because it's... from an IFRS perspective, it's considered M&A. So it goes outside of the organic growth calculation.

**Antoine Belge, Exane BNP Paribas:** [00:37:42] Ok.

**Alexander Lacik, CEO:** [00:37:47] And in terms of easier comps, it's probably going to come from Europe and the first half of the year where we had more of the store closures last year. You know, as a generic statement.

**Anders Boyer, CFO:** [00:37:58] Yeah, we had 30% of the stores on average closed in Q1 of last year. That was, to a large extent, Europe. So when you look on the quarterly growth profile, I

think you should should expect that Q1, at least from a comp perspective, is easier than the remaining quarters.

**Antoine Belge, Exane BNP Paribas:** [00:38:22] Okay. And in regards to the European markets, the other one that are, you know, in your top 7. Because, you know, you still have like 25%, which is, you know, other than this top 7. And within that, it seems that the basis of comparison of the two year stack wasn't that great in 2021. So that's why I had mentioned LATAM, which was just saying that there are also other European markets in that 25%.

**Anders Boyer, CFO:** [00:38:54] Yeah, I think the biggest market in that European market, in that bucket, would be Spain - that falls just out of out of the top, top markets that we are communicating. So there's also a... Spain as a big one, then Eastern Europe or Poland is a fairly big market that falls into that bucket as well.

**Antoine Belge, Exane BNP Paribas:** [00:39:15] Thank you very much.

**Operator:** [00:39:21] Our next question comes from the line of Lars Topholm from Carnegie. Please go ahead. Your line is now open.

**Lars Topholm, Carnegie:** [00:39:28] Yes, a couple of questions on my behalf as well. One goes for the US where you are seeing a normalization in January, which means flattish. And of course, I do understand if you open stores, you will get some US growth from that. But still, if I look at comps, your comps in the US will be significantly harder, especially over the summer and early autumn. So I just wonder what the reasons are you are so confident that if you already down to flat, your US deterioration will not become much more significant. Is it based on expectations to specific product releases such as Brilliance and a new collaboration on top of Disney and Harry Potter and Star Wars? Or is it because of better execution or what do you see driving that? And then to your 2023 targets, which which you specify, which I think is great. In the original targets, there was a contingency on top of the growth targets by lifting the target, are you sort of eating that contingency or is it still there and what is it? And the growth guidance also implies that your organic growth should accelerate in 2023 versus 2022. I just wonder if you can put some words on why growth will accelerate next year? Thanks.

**Alexander Lacik, CEO:** [00:41:16] So on on the first one, I mean, I'm not going to get into specifics, but of course it's driven by the business plan, which we have in place, largely speaking. That I think is the biggest, biggest explanation, really.

**Anders Boyer, CFO:** [00:41:34] Yes. And specific on the store openings, it's still a pipeline that's being built up. So there's little impact from store openings yet. I think the majority we will, in general, we will see from the second quarter onwards on store openings. And we are assuming in the midpoint of the guidance that the US growth will slow down a little bit further on a year over year comparison.

**Lars Topholm, Carnegie:** [00:42:06] Ok.

**Anders Boyer, CFO:** [00:42:07] And on the, 23. Yeah, the contingency, I would say, upside still sits there. You can argue that we've eaten a little bit into it given the head start we've got in 21 with fast US growth, but it still sits up there and you can say it's also part of the reason why we can reconfirm the targets. Despite having a much stronger 2021 base. And the ingredients in that contingency is essentially just all the growth drivers. But it's just a question of how many of those are realized on the same time. So if we got into 23 and both US keeps being on fire, China has not just stabilized but started growing. Moments is a... Sorry Brilliance is something that is... can be measured as part of revenue. Pandora Me has become a platform. Moments continues growing. If all of that happens at the same time, then you start sort of realizing the contingency next year. But I think we shouldn't rely on that. But you're right, let's say, if we're guiding 3% to 6% for this year, then implicitly, then the organic growth guidance for next year would be higher.

**Anders Boyer, CFO:** [00:43:40] You can calculate it in difference ways. But you can say that if we deliver 3 points of growth this year, in the low end of the guidance, then we should deliver at least 7% organic growth next year just to get to the low end. And I think that's an acceleration, but I think it should also be kept in mind that if we deliver 3% this year, that's because we have had a Q1 headwind of COVID 19 and hopefully that pandemic is not going to hit us next year so that let's call that two points, that two points should come again... come back next year from a growth perspective and make it easier to to get to 7% of organic growth. But I think the the range to think about next year, if it's 3% to 6% this year, it will be 6% to 8%

next year to deliver at 5% to 7% CAGR. So an acceleration, but where COVID 19 could be part of it if that materializes here in the first part of 22.

**Lars Topholm, Carnegie:** [00:44:49] So, to sum this up. Of course, none of us knows exactly what will happen in 2023. But but in terms of those targets, they are not in your mindset, more or less conservative when they were when you announced them back at the Capital Markets Day?

**Anders Boyer, CFO:** [00:45:11] I think that if can start out here and then I'll look at my boss and see whether he he agrees to what I'm saying. But I think on the one hand, we are getting... what is that 10 months into... 8 months after we announced the Phoenix strategy initially. So now we have executed on it, we can see that some things are working, most things are working. Some things not yet like like China, but obviously getting more comfort that we are on a solid growth track. I think that's the element that gives us more comfort that, yeah, that it actually works. And we have had quite a number of quarters now where, behind all the noise from the pandemic, we are growing. So I think from that point, I think it feels more solid. But obviously, you can argue that given that we ended up much higher in 21, then getting to the high end of the 5% to 7% growth range, you can argue, has become a little bit tougher because it's the same percent, but it's on a 1.1 billion kroner higher starting point. But net net, I think I would say that given that we are executing quarter by quarter, most of what we have... of our growth drivers are working, I think it feels a little bit more comfortable.

**Lars Topholm, Carnegie:** [00:46:43] Yeah, thank you very much for taking my my questions.

**Operator:** [00:46:50] Our next question comes from the line of Anne-Laure Bismuth from HSBC. Please go ahead. Your line is now open.

**Anne-Laure Bismuth, HSBC:** [00:47:01] Yes, hi. So I have two questions. The first one is on the launch of the new concept stores, so you mentioned that it was still at the early stage and new launches in Q4 and Q1. But where did you launch this new concept store? Where do you plan to launch it in 22? And how many stores, concept stores, do you plan to roll out the new concept store format? And the second question is about China. So, you, what are the key actions that you are planning to take in 22 to reposition the brand in China? What will you do

differently and do you plan to push a marketing expenses on this market? And which leads to another question about the marketing spending that we need to plan for 22. Do you plan to be at the top end of the 13% to 15% of group sales in 22? So do you plan to be at at the top end of the range, around 15%? Thank you very much.

**Alexander Lacik, CEO:** [00:48:04] Hi. So we have launched three stores, one in Milan, one in London Enfield and one in Guangzhou in China, which was launched at the very end of December. So we have three. Of course, the China one is very early days, but the other two were launched to essentially... we wanted to pressure test them in peak and that's the reason from an operational standpoint, they work much better than the previous attempt, let's say, to renew the store. So that's what gives us quite a bit of confidence. And then the plan is to roll out another 10 in the months to come. And there's going to be some in Germany. There's US, I think there's a few more in China and from memory there might be another one in the UK. So a spread of countries to continue testing it, so 3 plus 10. And on the basis of those, then we have a plan for Q3 to start a global rollout. But that's obviously dependent on whether we can confirm the early reads from from the stores. And we should remind ourselves when we tried the previous attempt. We initially also had very good positive results. And then after a while we figured out that it wasn't really working from an operational standpoint. It was a bit more expensive to run the stores, and we couldn't really see any particular uplift in conversion rates or any of the kind of retail metrics.

**Alexander Lacik, CEO:** [00:49:41] And the fear was also that the way it was organized in the previous edition, we had some difficulties with selling new collections. So this iteration that we have out there now, that's one of the, let's say, most important aspects is, on one hand, be able to deal with the traffic volume at peak. And the other one is that new collections will be much easier to identify, you know, so it's a bit more of a self select type of idea. Then your other question is on China. Last year, I think we highlighted that we were intent on spending up towards of 200 hundred million kroner. Of course we spent a little bit of that because there were some fixed costs in, you know, lining up celebrities etc. But then the big kind of component of that is Media spend. And that, of course, we didn't do, given the conditions. Right now, I'm also not keen on spending that money, simply put, because of this zero tolerance policy that is still prevailing. So the conditions are very unpredictable in terms of if I



spend the money, I actually don't know whether that city is going to be open or not tomorrow. So the return on investment would be very, very, you know, let's say, risky.

**Alexander Lacik, CEO:** [00:51:02] And then on the ratio, if we end up spending this 200 million, the ratio is going to be well above the 15% most likely. But I think that 200 million was something we had in our head last year with, you know, this all depends on when we can actually pull the trigger on the plan. And the way to think about the plan, which we continue to keep working on, is more of a China for China, so in terms of assets, it's now shot exclusively with Chinese talent. It's shot in China. The core idea of the concept is still the Pandora, the global Pandora. It is just that it's kind of localized to fit with the conditions in China, we're looking at expanding the assortment with a bit more China inspired items, let's say, and many different pieces to the puzzle, but that's kind of the way to think about the relaunch. So let's hope that after maybe the Olympics, those restrictions are going to ease a little bit. That's me speculating. I don't know. But if that's the case, then we would relatively quickly go to market with our plan. So it kind of sits in the drawer, but I'm just sitting on it for now.

**Anne-Laure Bismuth, HSBC:** [00:52:22] Thank you.

**Operator:** [00:52:27] Our next question comes from the line of Elena Mariani from Morgan Stanley. Please go ahead. Your line is now open.

**Elena Mariani, Morgan Stanley:** [00:52:34] Hi, good morning, I've got two questions as well. The first one is on the moving parts between gross margin and EBIT margin in your guidance for fiscal year 22 and 23. Based on what you have disclosed today, is it fair to assume that you know the embedded gross margin guidance for 22 implies at least a 50 basis points decline year on year. Given the headwinds that you're experiencing on the commodity side and then what would be the outlook in step four 23 and still part of this question, what is the underlying assumption for cost inflation and you know, for where the single cost line items are going to end up? And if I understood correctly, you are not including these 200 million related to China marketing investments into the guidance. So if you decide to spend that money, that's going to be incremental. So this is overall question number one. And question number two is more on the top line into 2022. You were very kind to give us a sort of indication of what you expect across the various regions. Do you have a view on how the different channels are going to

evolve into 2022? So retail versus wholesale, and in particular I was interesting to get your view on how the online segment you think is going to develop. Do you think it's feasible to assume that you're going to remain at about 25% of total sales online during the year? Thank you.

**Anders Boyer, CFO:** [00:54:14] That was a clever way to ask two questions, Elina. It's Anders here. I'll start on the first piece, on the gross margin and EBIT. I think from now on until all the way to 23, I think it's fair to assume that the gross margin will be roughly flattish, give and take. But you're right, there will be a bit of headwind from the sort of technical factors from commodities and FX this year in 22, a half a point, 50 basis points. But that actually, when looking into next year, that should reverse again, at least based on the current FX prices and silver prices that should go the the other way around. So a little bit of headwind this year, a little bit of tailwind in 23 on the gross margin. So like in prior years, we don't really see any big underlying structural changes to the gross margin, as a roughly unchanged. So that also means that what drives the EBIT margin both this year and next year will mainly be changes in the OPEX ratios and leverage on the OPEX base. Not so much this year, but more next year. So if and when we move upwards in the 23 guidance range on the EBIT margin, that will mainly be the leverage on the OPEX base driving that. We do have included some investments on China in the guidance for this year, but exactly how we play it out and the pocket of Media money that we're sitting on, what goes to China, what goes to other opportunities that might look more attractive, that's something that we play quite dynamically as as we go.

**Anders Boyer, CFO:** [00:56:17] But we do plan for embarking on the repositioning of the brand in 22 and that is included in the guidance and the EBIT margin guidance for the year. On the inflation, we have it baked in from all of what we see on the pockets where there are some unusual movements on cost levels, that is included in the guidance. So we have remained an elevated level on freight cost as an example. It's not a very big part of our P&L, but it has some impact and we assume that that continues unchanged. And then we have assumed that there are some pockets on salary costs around the world where levels are also increasing more than what we've seen historically. That goes on retail from our retail colleagues in a couple of markets around the world, among others. But that also is sitting in here. But we have not sort of communicated about this specifically in our EBIT margin guidance because it's not something that drives a point down on the EBIT margin, but it's a bit more in the business as usual

category. That's why we haven't... Fortunately for us, but it's bit more like business as usual. And then on channel revenue, yeah.

**Alexander Lacik, CEO:** [00:57:58] I mean, the online, I mean, seems to be migrating depending on whether the stores are open or closed. What we can say is there is a permanent higher ratio of online transactions in a couple of the markets, which used to be very low, namely, Italy, France, Australia. UK seems to kind of have nudged up just a touch. I think we've seen quite a bit of movement in the US, but it is quite dynamic. It can fluctuate from 30% of our revenue down to 2021. So I'd say if I'm a betting man, I'd guess that next year, or this year, 22, will be somewhere in the range of 25 give or take. That's probably a reasonable expectation. Then on the wholesale mix?

**Anders Boyer, CFO:** [00:58:50] I think it's safe to say now that we have less COVID impact in 22 will probably mean that the online share of revenue will be flattish to a bit down, as you say, compared to, I think that's one dynamic. And then the continued combination of a little bit of forward integration and the store openings, mainly being Pandora stores will continue shifting a few points of revenue towards being retail rather than partners and distributors.

**Elena Mariani, Morgan Stanley:** [00:59:28] Perfect. That was very clear. Thank you very much.

**Operator:** [00:59:35] The next question comes from Martin Brenøe from Nordea. Please go ahead. Your line is open.

**Martin Brenøe, Nordea:** [00:59:42] Hi, Alexander and Anders, congratulations with another set of solid results. I have two questions, if I may. First of all, you have had a solid start to the year; by your assessment, how much of that is driven by promotional activity in the beginning of the month and how much is driven by sales up to Valentine's Day, if you can say anything about that? My second question is regarding the EBIT margin targets for 2023. So the 2022 EBIT margin guidance is already in the low end of your two year target. And as far as I understood on your answer to the question, Anders, it includes the China investment of around 200 million Danish crowns. Hence adjusting for this, you would have an EBIT margin above 26 already into 2022. So what sort of your holding you back from lifting the low end of your EBIT margin guidance for for 2023? Thanks.

**Alexander Lacik, CEO:** [01:00:37] I mean, I can take the first one. From a promotional intensity standpoint, it is similar to prior year. And I say similar because the mix was a little bit different, we had more stores closed, but then it happened online last January. But it's not a... this is not the major driver of the results.

**Anders Boyer, CFO:** [01:00:58] Yeah. And then on the EBIT margin, Martin, it's true we're already in the low end of that range. And... Sorry starting with the China investment that is in the guidance for 2022. And you could think about it as around a couple of 100 million kroner as what it takes to get that repositioning of the brand going. And then after that further Media spending should drive, that's the assumption, should start driving top line as well. So it doesn't dilute the EBIT margin further. And then you can say, well, if there's nothing like that in 2023, you should see the EBIT margin going up, at least based on an isolated impact from China. And that's right. I think what's quite important for us is that we want to... a couple of points here. One is that we want to keep flexibility to invest in driving the top line. Now we have done a little bit of test launch of Brilliance in the UK.

**Anders Boyer, CFO:** [01:02:15] But as we go broader, we want to make sure that we have sufficient muscle and room to push Media behind new platforms. Brilliance. Pandora Me. Maybe other platforms at a point in time, so it might be... Well in 22, another way to look at it, we spend money behind getting China going. Next year, it might be that as Brilliance go broader that's where the next level of investments go. But everything else equal, the... I guess the bottom line is that with the development that we've seen since the Capital Market Day in September, the higher end of... rather the low end of the 25% to 27% range EBIT margin next year has become less likely. I guess that's one way to put it. And that with the leverage that we see next year, top line growth, we should be crawling up in that range, but let's see a little bit too early to talk about where yet.

**Martin Brenøe, Nordea:** [01:03:28] Thank you. Makes sense. Very clear.

**Operator:** [01:03:34] Our next question comes from the line of Klaus Kehl from Nykredit. Please go ahead. Your line is not open.

**Klaus Kehl, Nykredit:** [01:03:40] Yes, hello. Perhaps a bit of a boring question, but could you tell us a little bit what is happening to your net financials in Q4? And could you give us any input for what would be reasonable to expect in 22, assuming flat currencies from here? That would be my question. Thank you.

**Anders Boyer, CFO:** [01:04:06] It's not a boring question at all. It's OK. And it's actually a quite natural question to ask. On a normal day, our net financials are quite limited. We have a bit of interest cost, but these days, with very low interest rates, there's not a lot of impact. So the majority of the cost that sits in financial items is gain and loss on derivatives. And the way that mechanics works is that we're hedging roughly 70% of the annual cash flow in the major currencies. And if a foreign exchange rates go up like the pound recently, the operational day to day transaction when we sell products in the UK, the higher FX impact that that goes into EBIT as part of normal consolidation of the numbers. And that's what we see in Q4. That's a positive impact on EBIT just from translating the business around the world. But initially, when that pick up happens, you get basically an equivalent loss below the line from what you have hedged on our pound revenue, our sterling revenue, you get losses on the foreign exchange contracts below the line. So specifically in Q4, from memory, we had around, uh, 200-250 million kroner FX gain above EBIT from the pure translation. And then we have a 167-170 million kroner. Just looking at my colleagues here, 167 million kroner of losses on FX contracts below the line. So what we are hedging is... the net P&L, the net result, but because of the IFRS and FX accounting, it ends on two different lines, so to speak. So but going forward, and it can go both ways depending on whether foreign exchange rates goes one or the other way. But going forward the net financial should be much lower.

**Klaus Kehl, Nykredit:** [01:06:33] Okay, great. Thank you very much.

**Operator:** [01:06:39] Our next question comes from the line of Grace Smalley from JP Morgan. Please go ahead. Your line is now open.

**Grace Smalley, JP Morgan:** [01:06:45] Hi, thank you. This is Grace Smalley from JP Morgan. Two questions from me, please. So firstly, on inflation, I guess more from the consumer perspective, how do you expect your consumer to react to the current cost of living and inflation concerns, perhaps across your different regions? And how do you see that impacting demand for jewelry

and then Pandora in particular? And then my second question would be more promotional activity. I know your results recently have benefited from lower promotions and higher full price selling. Could you comment on what your outlook embeds regarding the promotional environment going forward and whether you expect promotions to normalize? Thank you.

**Alexander Lacik, CEO:** [01:07:30] Hi. I mean, it's anybody's guess on what's going to end up with consumer sentiment. I would say that currently you would read that into the 3% to 6% organic growth guidance. That's our view if you want the number on it. If you then look back a little bit historically when there's been inflation or, let's say, pressure, this segment that we sit in, which is kind of, let's call it mid-priced, seem to have suffered a little bit less than others. But is that going to repeat itself? You know, time will tell. I don't think it's going to be a huge drama if I'm perfectly honest. At least that's not what the Pandora brand has experienced in the past. Now, in terms of promotional activity, if we back up the tape, you know, during the, let's call it, the bad days around here, a few years back then we were doing, I don't know, 230 days a year with promotions. We've now pared that back. I think we're cruising 110-ish give or take. Change depends on country, but thereabouts. So I think we've reached a pretty sensible baseline. The strategy has been the same through the program now and then continues for now is we kind of put the bet around the big key trading periods being Valentine's Day, Mother's Day, you know, Black Friday and the Christmas trading. Those are the big windows in which, you know, we play to win. Outside of that, we really want to kind of keep promotional activity and I should say price promotional activity to an absolute minimum. It doesn't mean we can't promote the brand, you know, and there are many other ways to promote the brand than just dropping price. So, you know, from a baseline standpoint, I think we're pretty decent shape across the board. We took some some cleanup activity this last fall, both in the US and France and a few places where, you know, we juiced it a little bit last year when we came out of the pandemic closures, but that's been cleaned up during this fall. So I think current levels are probably a good, steady state level for me.

**Grace Smorely, JP Morgan:** [01:09:45] Thank you very much.

**Operator:** [01:09:47] Our next question comes from the line of Karina Shooter from Goldman Sachs. Please go ahead. Your line is now open.

**Karina Shooter, Goldman Sachs:** [01:09:58] Thank you for taking my question. My question broadly relates to Q1 and you've put out a fairly strong growth figure for January. And I was just thinking about how we should think about that as we go through the following months of the quarter. Last year, you put out monthly updates for January and February so we can see the progression there. And it looks like March has an implied year on year growth of around 30% last year, but obviously on a two year stack basis, it does look like the March comp does get a bit easier. Just to get your perspective on how you see sales sort of progressing throughout the quarter and what we should bear in mind in terms of the comp base. And related to that as we head into Valentine's Day. How are you looking at that relative to last year and versus 2020, and is there anything we should be aware of in terms of differences in strategy? Thank you.

**Alexander Lacik, CEO:** [01:10:51] I mean, first of all, I think we need to be very careful of providing, you know, detailed monthly guidance going forward. So I'll leave, you know, whatever verbiage Anders would like to put on that. When it comes to Valentine's Day. I think last year we had a very strong Valentine's Day, you know, and our strategy has not changed, which means, you know, we put proper Media behind it. We have some very good product initiatives. That's no secret. You can go out and have a look at them in the stores today. So, so we'll see how that whole thing pans out in the next time we speak. But that's it for my end.

**Anders Boyer, CFO:** [01:11:32] I think the way to think about the comp base specifically in Q1 and, Alexander as you said, you should be careful... there's always tons of explanations when you go down to look at things on a weekly basis or monthly basis. But the pandemic impact was step by step, getting a little bit easier as we went through Jan, Feb, March, April last year. So from that perspective, the comp base is easiest in January.

**Karina Shooter, Goldman Sachs:** [01:12:06] Thank you.

**Operator:** [01:12:13] Our next question comes from the line of Thomas Chauvet from Citi Research. Please go ahead. Your line is now open.

**Thomas Chauvet, Citi Research:** [01:12:19] Thank you, and good morning, Alexander and Anders. Thomas Chauvet from Citi. Two questions please. The first one on Brilliance, I guess the positive were several pretty high ASP at 500 pounds, self-purchase, gifting, new categories with

rings. What are the learnings that may have disappointed you in the UK experience and that may drive some form of prudence in the upcoming global rollout? And still on Brilliance, if we just and your guidance, if we assume a roll out in key markets, so US, Italy, France, Germany and Australia in the coming months and the UK is still on, that could be easily 300 400 million turnover this year, so that would be close to 2% points organic growth impact. Is Brilliance included in your 3% to 6% organic growth guidance, or perhaps the low end of guidance at plus 3%, assumes almost no impact of Brilliance, maybe because of a delayed rollout? And secondly, on the tax rate, it was 22,6% in FY21, if I'm not mistaken. At the CMD, you had guided for that range 22% to 23% during the course of Phoenix. Now the 22% guidance has been raised to 23%, 24%. So what? What is driving the slight increase and is 23%, 24% also guide for next year? Please. Thank you.

**Alexander Lacik, CEO:** [01:13:46] So I can start off on on Brilliance. I think that first of all, I mean, we designed this initiative to appeal to self purchasers and let's call them millennials and Gen X. And what we have on a positive note, we have probably got a bit more gifters than we had initially anticipated, versus self purchasing, but we still got a good chunk of self purchases. So that's also why we changed a little bit the program going into Q4 from a marketing standpoint to reflect this split a little bit. So that was a let's call it a positive surprise. I think where we didn't do a good enough job was across a number of stores in the UK. I think the visual impact of Brilliance was not up to scratch. So going into... only this year in the UK, that's an area which we need to improve and going into, you know, the rollout markets, that definitely something which we will pay a great deal more attention to, just to talk about something. Then in terms of your speculation, the only thing I will say and I'll repeat myself, it's going to be a sequential global rollout, which means I'm not going to, you know, roll into many markets in one go at this point in time. So and I'll stop there, otherwise I'll trip myself up. But that's it. So whatever we've planned for this year, you should assume sits already within our guidance. And then I leave the tax question with happy hearts to Anders.

**Anders Boyer, CFO:** [01:15:36] And thanks, Thomas, for the question on the tax rate. As a three smaller buckets that contribute to why the tax guidance for this year's is a point higher than what we previously have said. And one is that there's new regulation that says that cost in Panama that's incurred by a Danish company cannot be deducted. We have our LATAM head quarter, cluster headquarter in Panama, so that has a cost, meaning that's expenses that we



can't deduct for for tax purposes. So that is one and obviously something that we look into. But at least for this year, it's going to hit us. Then there's a tax regulation in China, that means that you cannot deduct marketing expenses that exceeds 15% of revenue in China. And we do plan without revealing too much to spend more than 15% of China revenue on Media, on marketing. So there are some non deductible expenses there as well for a while. While we reposition the brand and then withholding taxes on upstreaming dividends for our subsidiaries is a little bit higher than what we've seen in the last couple of years.

**Anders Boyer, CFO:** [01:17:05] So on the first two pieces, Panama, we might be able to do something about that at a point in time, it is not sort of an easy fix. China should disappear again at a point in time, so it might be that we can go back to the 22% to 23% at a point in time. The question mark there, that's the new OECD 15% minimum tax rules coming into effect and how that plays out, because that might impact the lower effective tax rates that we have in Thailand, and have had for the last many, many years. So depending on how that plays out, so it could go actually both ways if we look look ahead, depending mainly on how the old OECD rules are being interpreted. But it's not big money as such. Worst case, I think the OECD rules could be another plus 1 point on the effective tax rate, something like that. But because in far of the most countries where we operate, we're above that 15% already. It's only Thailand, where we have a special set up.

**Thomas Chauvet, Citi Research:** [01:18:21] Thank you.

**Operator:** [01:18:21] Thank you, our next question comes from the line of Lars Topholm from Carnegie. Please go ahead. Your line is now open.

**Lars Topholm, Carnegie:** [01:18:34] Yes. Just a brief additional household question, so your lease obligations are down by a little over 400 million. I wonder if that gives any indications of how sales and distribution costs are going to develop going forward, please?

**Anders Boyer, CFO:** [01:18:58] That is a good line of thinking. There's a couple of questions in that. It shouldn't impact our sales and distribution costs as such, because the bigger part of the decreases are related to that we're getting more flexible leases. There's a bit more leases, where that's variable and then still hit sales, sales and distribution costs, but doesn't sit on the

balance sheet. We're getting also more frequent break options. So even though we might make the five year lease, we have options to go out of it more frequently in between and then that also means that we don't need to take it on the balance sheet. Having said that, I think going back to the cost inflation discussion that we've touched upon a couple of times today, this is one of the areas where we see the opposite effect currently, where we actually have been able to take rentals down in the leases that have been up for negotiation this year. So that that piece will result in lower sales and distribution costs. We have actually seen some quite decent decreases during 21 on the leases that have been renegotiated. Not big, big money. From memory we have around 2 billion kroner of lease costs, store lease costs per year in the P&L. And on the ones that we are negotiating, there's a decent reduction. So which might mean that over time, it could be a bit more visible in the P&L, actually. If we continue at that rate of reductions on the leases that we are renegotiating. But it's still in 21, it's been a fairly, relatively smaller part of the lease portfolio that has been up for renegotiation.

**Lars Topholm, Carnegie:** [01:21:08] So, that's... Sorry, Alexander?

**Alexander Lacik, CEO:** [01:21:11] No. But I mean, this... kind of the success of these lease negotiations vary wildly between countries. Like if you take US, it almost goes the other way around because that market has been on fire. And then you take other markets where retail has been very soft. And of course, the starting point for conversation is different. And then finally, China, where we are weak, it's been, you know, a weak position to go in when you don't have much to negotiate with. So it really varies country by country.

**Lars Topholm, Carnegie:** [01:21:43] And that leads to two follow ups on that topic. So in this exercise of potentially renegotiation all leases. How many percent of the store base have you had discussions with and how many are still left to talk? And then to you, Anders, what is a decent reduction, in your view?

**Anders Boyer, CFO:** [01:22:09] Yeah, yeah. I knew that was coming. But on average, our store leases are five year-ish sort of. And then with break up options in between. So if everything was linear, it would be sort 1/5 every year. But it's been, and I actually can't remember that number, but someone less than than that in 21.

**Alexander Lacik, CEO:** [01:22:30] From memory we renegotiated 200 contracts last years.

**Anders Boyer, CFO:** [01:22:36] Yeah, yeah.

**Alexander Lacik, CEO:** [01:22:36] So so yeah, but it is. Yeah. Now and the answer to your second question is never enough. And I have a lot of landlords listening to this call. Yeah, but that's one answer. The other answer is that we would like to change the setup so, you know, move a bit more to variable components versus the fixed components. And then there are other aspects of the contract. So it's not only about the actual lease cost. So there's a big premium in my mind on the flexibility that Anders was talking about so that we have a very, let's say, quick footed, if I use that language, approach when it comes to our distribution setup versus in the past, we were locked in for a long, long period of time where break lease clauses were bad for us, so that we can respond in catchment areas where traffic is moving elsewhere or we make different choices. Maybe we need larger stores or whatever it may be. So, so it's not only about the the the kind of rental cost, as such. I think that's probably too one-dimensional versus the business case for us.

**Lars Topholm, Carnegie:** [01:23:55] But it's correctly understood that these negotiations could be sort of a factor reducing cost inflation not just from 2021 to 2022, but also in the years after?

**Anders Boyer, CFO:** [01:24:13] Yeah. That's on a like for like basis that's a reasonable assumption, then we'll open new stores, etc. that goes the other way. But on the same store basis, that's a reasonable assumption.

**Lars Topholm, Carnegie:** [01:24:26] Thank you very much, guys.

**Operator:** [01:24:32] Thank you. We currently have no further questions, I will hand back to the speakers for any final remarks.

**Alexander Lacik, CEO:** [01:24:36] Ok, so thank you very much for all your good questions. And I knew the Brilliance was hidden in there, Lars, so I did note that, don't worry. We enjoyed these sessions with you guys. And of course, on the back of the results which we brought to the table



today, it's a little bit, you know, it's a good place to be for Pandora. We're looking forward for the year and then speak to all of you, you know, soon in different forms. Thank you very much for today.