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Company Announcement
14 September 2021

A new chapter of growth
Pandora announces financial targets

In connection with the company's Capital Markets Day, Pandora today announces new financial targets and provides further insights into its growth strategy, Phoenix.

Highlights

- Pandora enters a new chapter of growth with significant value creation potential
- Wide range of growth opportunities in or close to the existing core business will drive EBIT margin expansion and continued strong cash generation
- Pandora targets organic growth of 5-7% CAGR during 2021-2023. Total revenue growth CAGR is expected to be 6-8%, lifting revenue to DKK 24.8-26.2 billon in 2023
- EBIT margin is expected to increase to 25-27% in 2023
- Pandora also increases share buyback program by DKK 3 billion (see company announcement no. 650)
- Pandora invests DKK 1 billion in expanding manufacturing capacity by around 60%. To strengthen supply resilience, the majority of the capacity will be built in Vietnam

Alexander Lacik, President and CEO of Pandora, says:
"We are very pleased to confirm that Pandora is back on the growth track. We have vast untapped opportunities in our existing core business and they will drive long-term sustainable and profitable growth. Our objective is to be the largest and most desirable brand in the affordable jewellery market. And we have a strong foundation to deliver on that objective."

New insights into the Phoenix strategy
On 4 May 2021, Pandora announced the completion of its turnaround programme, Programme NOW, and provided a high-level overview of its new growth strategy, Phoenix. Phoenix is focused on the significant opportunities in Pandora's core business and has four pillars aiming at delivering sustainable and profitable revenue growth: Brand, Design, Personalisation and Core Markets.

Today, Pandora shares further details from the Phoenix strategy:

- Pandora sees ample opportunities to grow its core markets. The long-term ambition is to double revenue in the US and triple revenue in China, both from 2019 levels
- Pandora will personalise its customer experience by implementing a number of omni-channel features. The company will also launch a new store concept

- As the world's most recognised jewellery brand, the ambition is to fuel brand desirability and extend reach to win with Gen Z and Millennials
- Pandora has three clear brand and design priorities: Drive the core (Moments), fuel with more platforms and establish dedicated support models for each platform ("launch and leverage")
- Pandora will continue building for a digital future. Today, 75% of Pandora's transactions are direct-to-consumer, and leveraging customer data will fuel future growth
- To meet expected demand and increase our risk resilience, Pandora will expand its manufacturing capacity by around 60% or 80 million pieces of jewellery annually. A new facility with capacity of around 60 million pieces will be built in Vietnam, while additional capacity of around 20 million pieces will be added at existing sites in Thailand. Total investment around DKK 1 billion
- Pandora will continue its sustainability leadership and announces new ambitious decarbonisation targets and an inclusion and diversity strategy (see separate press release). The new commitments include:
    - Reduce greenhouse gas emissions by 50% across own operations and value chain by 2030 from a 2019 baseline. The target has been approved by the Science Based Targets initiative. Pandora also commits to become net zero by 2040
    - i) Ensure gender balance in all hiring and promotions. ii) Have 1/3 women in leadership (VP level and above) by 2025 and full gender parity no later than 2030. iii) Spend 30% of branding content budget with suppliers owned by women or underrepresented groups

More details are available in the Financial appendix.

Event information
Pandora's Capital Markets Day runs from 13.00 to approximately 17.00 CEST today. Presentation materials will be available on the websites below from approximately 09.00 CET.

Live stream
A live stream can be accessed via Pandora's website: https://pandoragroup.com/investor

Q&A session
It will be possible to ask questions at the end of the event. Please dial in using one of the below phone numbers. The Q&A session will begin at approximately 15.45 CEST, and the lines will open 30 minutes prior. Please note the phone numbers below are only to be used for asking questions at the end of the event.

- DK: +45 35 44 55 77
- SE: +46 85 66 42 651
- UK: +44 33 33 000 804
- US: +1 631 913 1422

PIN code for all countries: 895 88 016#

Financial appendix

Pandora today presents new financial targets towards 2023:

- Organic growth CAGR 2021-2023 of 5-7%
- EBIT margin expansion towards 25-27% in 2023

As a supplement to the overall financial targets, Pandora has created this financial appendix.

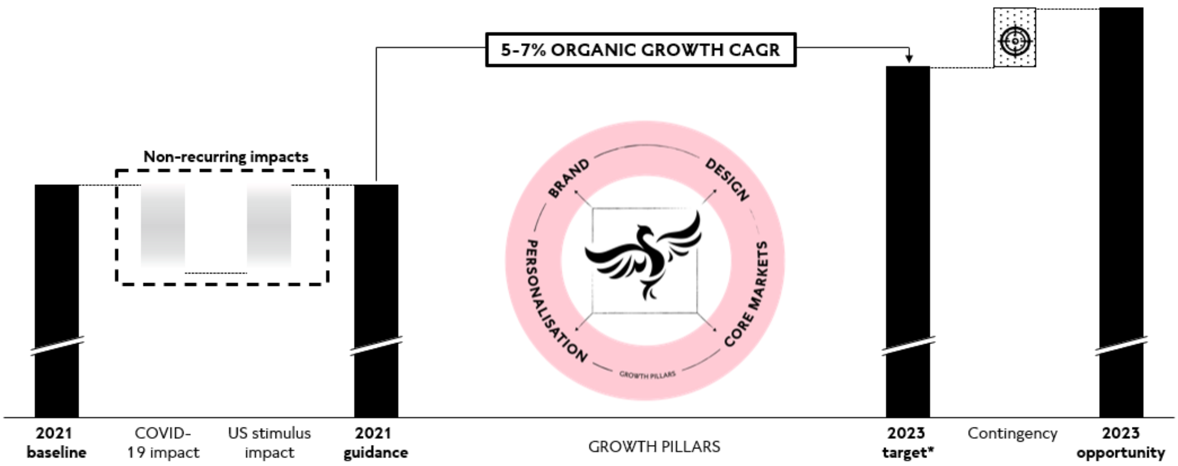
Revenue
The 2023 targets are build using the guidance for 2021 as the baseline. As previously communicated, the baseline is impacted by two opposing factors related to COVID-19:

1) Temporary store closures: The 2021 guidance is based on the assumption that COVID-19 will negatively impact organic growth by -6% vs 2020 (the net impact of revenue lost in stores temporarily closed and the partial pick-up of lost revenue in online stores).

2) US stimulus packages: The US stimulus packages have driven an unusual high market growth in 2021. It is expected that the unusual high growth in 2021 will turn into headwind in 2022. In H1 2021, Pandora realised an organic growth in the US of 65% vs 2019 and a sell-out growth of 58% vs 2019. These growth rates were a step change from H2 2020, and should be seen in the context of a DKK 2.0 billion revenue base in H1 2019.

The net impact of these two elements for the full year 2021 is associated with significant uncertainty. At this point in time, Pandora assumes that the net impact for the full year is immaterial. This may change depending on the COVID-19 development and whether the unusual growth in US continues throughout H2 2021.

The illustration below is the same as presented in the Financial section at the Capital Markets Day, but adding the non-recurring impacts from COVID-19 and US stimulus packages:



As also shown above, Pandora sees the gross opportunities to be well above the 2023 target, as illustrated by the "Contingency" building block. Pandora do not provide a number for the gross opportunities towards 2023. The growth pillars of the Phoenix strategy are interlinked and they cannot be viewed as individual incremental growth pillars. The growth opportunity in the US, for example, include network expansion.

Pandora sees ample opportunity for growth in all key markets. And most importantly, Pandora sees an opportunity to grow its core business (Moments platform) – this is the number one priority. At the same time, Pandora will add new platforms, such as Pandora ME and Pandora Brilliance with the aim of driving incremental revenue growth. This will be executed within the framework of the "*Enduring Concept Platforms (ECP's)*" where Pandora has chosen to target 5 ECP's. New platforms are low risk opportunities and when going to market, Pandora will introduce them in steps to test, learn and adjust before potentially scaling up. New platforms are concepts with the opportunity to become at least 5% of reported revenue.

Geographically, the highest potential for growth is in US and China. The network footprint in these markets are underpenetrated. Additionally, the Pandora brand is not as strong as in UK, Italy and Australia, and Pandora see a potential to drive revenue growth through higher brand awareness in these two markets. The long term ambition is to double the revenue in US and to triple the revenue in China using 2019 as a starting point. Markets like France and Germany also represent an opportunity for growth, as brand awareness in these markets also lack behind UK, Italy and Australia.

Pandora expects around 1-2% of revenue growth per year coming from network expansion, please see further details below.

Pandora expects to add around 1% revenue per year coming from forward integration, in line with the guidance for 2021. Please see further details below.

This will take total local currency growth to around 6-8% CAGR through 2023.

Using foreign exchange rates per 1 September 2021, Pandora estimate a positive CAGR of 0.2% (+0.4% impact in 2022) from foreign exchange rates. In absolute numbers, Pandora targets a revenue between DKK 24.8-26.2 billion in 2023.

Gross margin
Pandora will continue to deliver an industry leading gross margin. Pandora expects a slightly lower to flat gross margin during the target period. In the 2023 targets, Pandora expects a drag on gross margin from commodity and FX of around -0.5pp compared to 2021: tailwind from FX of +0.3pp on margins and a drag from commodities of -0.8pp.

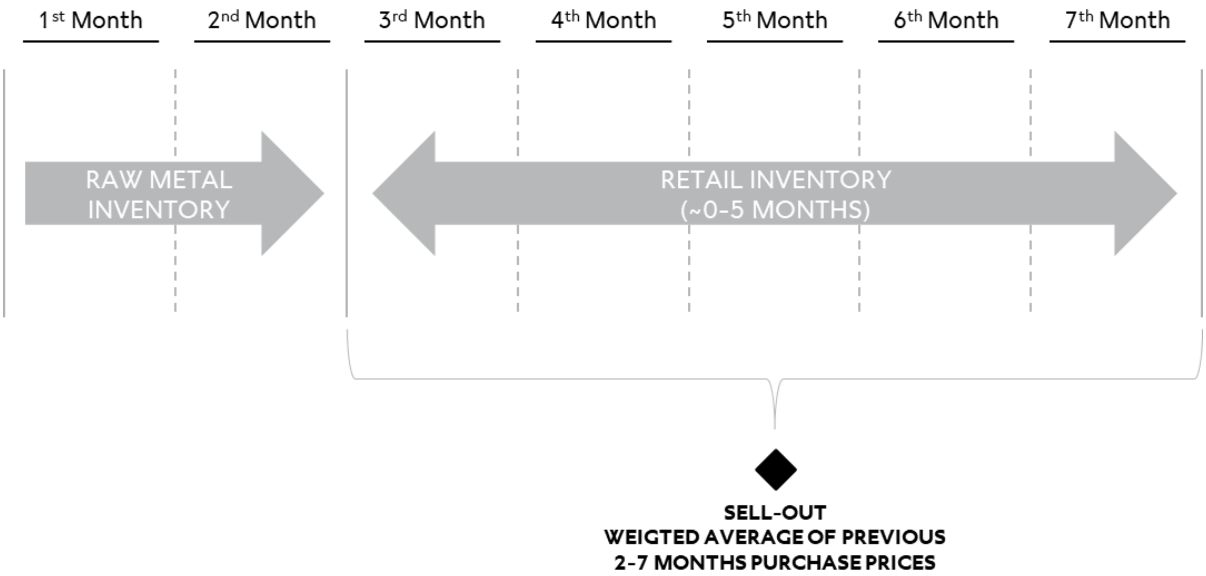
The negative impact will be realised already in 2022. Please see below for more details on commodities and FX.

The drag from commodities and FX on the gross margin, will be partly offset by three factors:

- Continued cost savings
- Leverage from higher production volumes spreading out overhead on more units
- Slight channel mix support from higher retail revenue

Commodities
It is the policy of Pandora to ensure stable, predictable raw material prices. Based on a rolling 12-months production plan, the general policy for Pandora is to hedge at least 70% of the expected

purchases. Purchases are hedged from 1 to 12 months forward with a hedge ratio target that decreases with time to maturity. The time-lag from use in production to impact on Cost of sales is usually 2-7 months.



OPEX
Pandora expects operating leverage to drive a margin expansion of 2-3pp in the two coming years lifting the 2023 EBIT margin to between 25% and 27%.

The operating leverage will come from Sales & Distribution and Administration costs, while Marketing costs will remain around 13-15% of revenue.

Tax rate
Pandora expects the tax rate to be around 22-23% in the target period 2021-2023, in line with previous years.

Network expansion
Pandora expects to open 100 to 150 net new concept stores in mainly US and China towards 2023. This is equivalent to a revenue growth of around 1-2% per year.

Pandora sees a strong business case in opening new stores. CAPEX per new store remains around DKK 1.5-2.0 million in line with historical levels (also for the new, upcoming store format) leading to a payback of around 1 year. New stores are also margin accretive for Pandora.

The target of 1-2% of revenue growth per year from network expansion also include the part of takeover of franchise partners in which Pandora do not pay any goodwill. These takeovers are considered organic revenue and is included in the organic growth target. This is different to takeovers where Pandora do pay goodwill, as these takeovers are not organic revenue and will be reported as forward integration, see below.

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Forward integration
Pandora will continue to assess potential takeovers based on potential, performance, operational set-up and scale. Over the next two years, forward integration is expected to add around 1% of revenue growth per year. These takeovers are considered as business combinations after IFRS 3 and are not included in organic growth.

When a franchise concept store is taken over, the revenue markup is 1.8x to 2x. The takeover is accretive from an absolute EBIT point of view, but the increased operational costs from rent, salaries etc. have a slightly dilutive impact on the EBIT margin. Furthermore, there is a temporary drag on the gross margin, as Pandora in most circumstances will buy back the inventory at or just below wholesale prices (as opposed to Pandora's own cost of goods sold). At a forward integration equivalent to around 1% revenue p.a., the temporary drag on the gross margin amounts to around DKK 85 million annually. For the avoidance of doubt, the 2021 guidance also includes a temporary drag on the gross margin at this level.

CAPEX
CAPEX is expected to be between 6-7% of revenue in 2022 and 2023. The long term sustainable level remains at around 5% of revenue. CAPEX in 2022 and 2023 is expected to be split as follows:

- Stores - ~40-50% of CAPEX
- Production - ~20-30% of CAPEX
- Digital and IT - ~30-40% of CAPEX

The expected net 100-150 new concept stores in total during 2022 and 2023 has a CAPEX of DKK 1.5-2 million per store. Furthermore, Pandora will introduce a new store concept in 2021 to be rolled out during the coming years. Pandora will continue to refurbish existing stores on an ongoing basis and has a backlog following COVID-19 and as Pandora has held back on refurbishments while awaiting the new store concept.

Pandora will increase manufacturing capacity in order to meet expected demand as well as to increase supply resilience. The total investment amounts to around DKK 1 billion of which around DKK 0.6 billion will be invested during 2022 and 2023.

Finally, Pandora will continue to invest in its digital capabilities and IT infrastructure including a new ERP system. The investment required for the new ERP system is still subject to investigation. At this point in time, Pandora expects the investment to be between DKK 0.5 billion and DKK 1.0 billion.

Working capital
Pandora has significantly improved both the working capital and the net working capital during the last couple of years, and expect the strong performance to continue. Pandora targets a mid-single digit operating working capital going forward and a low-single digit net working capital (% of annual revenue).

Return on invested capital (ROIC)
Pandora is asset light and the ROIC is expected to end above 45% in 2021. In the years to come, further ROIC expansion is expected, as Pandora sees an EBIT margin expansion while continuing to be asset light and drive working capital efficiencies.

Cash conversion
Pandora will continue to be highly cash generative in the future as well. The long-term cash conversion potential is still expected to be 70-75% on average. This means that the EBIT generated essentially turn into cash apart from taxes paid.

Capital structure policy and cash distributions
Pandora maintains the current capital structure policy of Net Interest-Bearing Debt-to-EBITDA of between 0.5x and 1.5x. This also means that Pandora aims to continue to distribute cash to investors through a mix of dividends and share buybacks. Pandora targets an annual dividend yield of 2%, while the remaining cash distribution will be through share buybacks.

Foreign exchange rates
The majority of Pandora's revenue is denominated in USD, CAD, AUD, GBP, CNY and EUR. A substantial portion of Pandora's costs relates to raw materials purchased in USD. In addition, Pandora incurs costs denominated in THB with no offsetting THB revenue. Changes in the exchange rate of these currencies versus DKK will result in changes to the translated value of future EBIT and cash flows.

It is Pandora's policy to hedge foreign currency risks related to the risk of declining net cash flows resulting from exchange rate fluctuations. It should be noted that realized FX hedges are not recognized in operating profit (EBIT) but under Financial Items. In the 2023 targets, Pandora expects a tailwind on the EBIT margin of around +30bp compared to 2021. The positive impact will be realised already in 2022. At the spot FX rates as of 1 September 2021, Pandora expects to see the following positive impacts in 2022-2023 compared to the guidance for 2021:

	Average 2021e	**2022-2023**	
FX ASSUMPTIONS AND IMPLICATIONS	FX Rates	FX Rates	2022 Y-Y Financial Impact
USD/DKK	6,2330	6,2927	
THB/DKK	0,1974	0,1946	
GBP/DKK	8,6165	8,6604	
CNY/DKK	0,9635	0,9730	
AUD/DKK	4,6947	4,6221	
REVENUE (DKKm)			~75 to 125
EBIT (DKKm)			~75 to 125
EBIT margin			~0,30%

About Pandora
Pandora is the world's largest jewellery brand. The company designs, manufactures and markets hand-finished jewellery made from high-quality materials at affordable prices. Pandora jewellery is sold in more than 100 countries through 6,700 points of sale, including more than 2,600 concept stores.

Headquartered in Copenhagen, Denmark, Pandora employs 26,000 people worldwide and crafts its jewellery at two LEED certified facilities in Thailand using mainly recycled silver and gold. Pandora is committed to leadership in sustainability and has set science-based targets to reduce greenhouse gas emissions by 50% across its own operations and value chain by 2030. The company is listed on the Nasdaq Copenhagen stock exchange and generated sales of DKK 19.0 billion (EUR 2.5 billion) in 2020.

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