

No. 815

Company Announcement

5 October 2023

Pandora confirms ambitious growth journey ahead

At the company's Capital Markets Day, Pandora today provides an update of its successful Phoenix strategy and announces new financial targets.

Highlights

- The Phoenix strategy, launched in 2021, is yielding clearly positive results. Investments in the brand, store network, organisation and people are paying off
- Therefore, Pandora now initiates the next chapter of Phoenix: scaling up investments to accelerate revenue growth
- Pandora will also deliver EBIT margin expansion and continue providing strong cash returns to shareholders
- To build the position as a full jewellery brand in the affordable luxury space, Pandora will increase investments in brand desirability and the store network
- Pandora is advancing on its ambitious sustainability targets and will continue to dedicate significant resources to lead the industry on sustainability. The company is on track to shift to 100% recycled silver and gold by 2025, and is spearheading the use of lab-grown diamonds

New Financial Targets

- Pandora targets organic growth of 7-9% CAGR from 2023-2026, comprising of 4-6% LFL growth and network expansion of around 3%
- EBIT margin target of 26-27% by 2026, up from "around 25%" in 2023
- Revenue is thereby expected to reach DKK 34-36 billion in 2026, up DKK 7-9 billion from the expectation of around DKK 27 billion for 2023. EBIT is expected to reach DKK 8.8-9.7 billion by 2026
- Pandora's asset-light business model is expected to lead to DKK 16-17 billion free cash flow generation from 2024-2026. Pandora aims to return DKK 14-17 billion in cash to shareholders during 2024-2026
- The combination of solid growth, margin expansion and cash returns leads Pandora to target mid-to high-teens EPS CAGR from 2023-2026

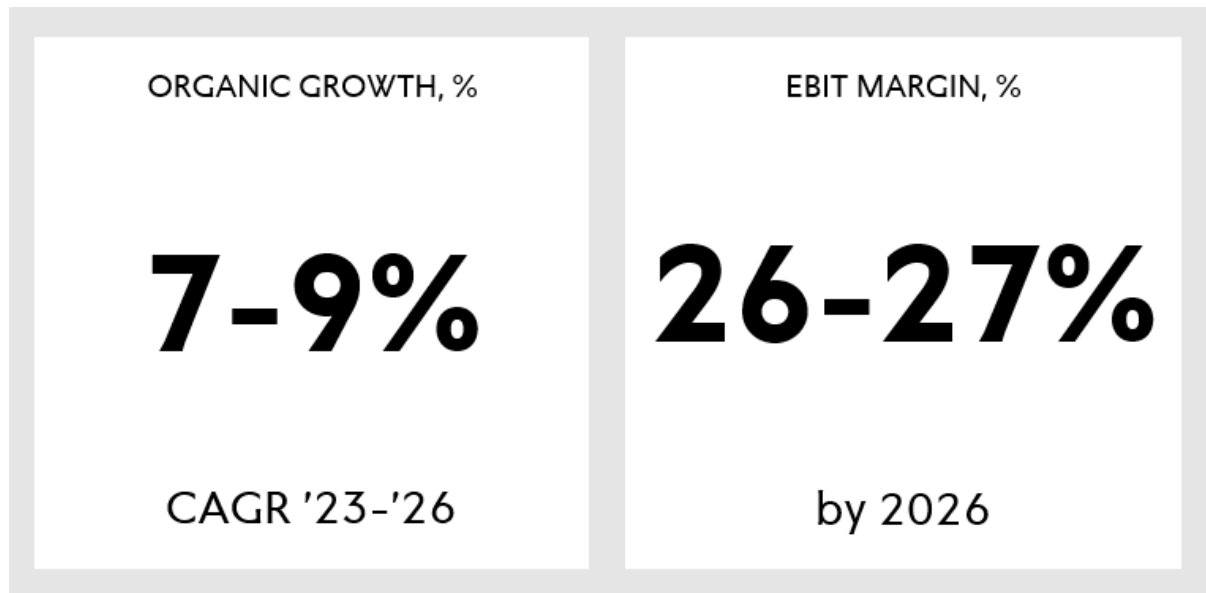
Alexander Lacik, President and CEO of Pandora, says:

"Looking back at the past few years, we are proud of our achievements. We have fundamentally changed how we work, and the organisation is much stronger. It's clear that Pandora is a very different company today. This solid foundation combined with a proven strategy that will build Pandora into a full jewellery brand, now allow us to lift our growth target to 7-9% organic revenue CAGR. It's time to take Phoenix to the next level and our new financial targets reflect our confidence in the future."

Phoenix yielding positive results, next chapter of growth initiated

At the Capital Markets Day in 2021, Pandora initiated its current Phoenix strategy focused on the significant growth opportunities and building on Pandora's existing core assets. The Phoenix strategy centres on the four interlinked growth pillars of Brand, Design, Personalisation and Markets. Over the past two years, Pandora has relentlessly executed on the strategic vision and navigated external headwinds, and - based on the mid-point of the current 2023 guidance - Pandora is on track to deliver on the financial targets announced in 2021. The first two years of execution on the Phoenix strategy have fundamentally strengthened Pandora's core.

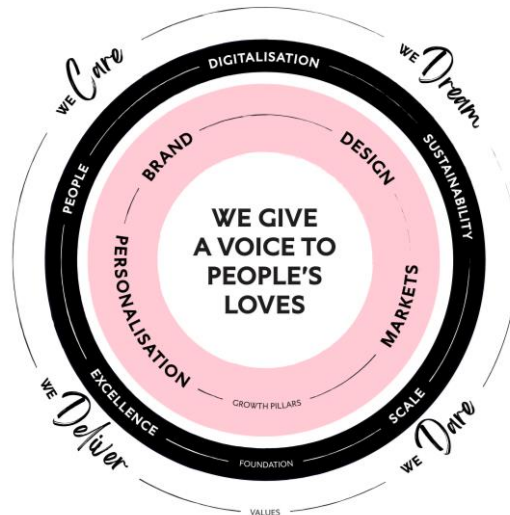
Pandora will now look to elevate performance to the next level as it embarks on the next chapter of the Phoenix strategy. Pandora therefore announces the following new financial targets:



The new organic growth target represents an upgrade relative to the first chapter of Phoenix and comprises of a targeted LFL growth CAGR of 4-6% (up from 3-5%) and a higher contribution from network expansion of around 3% CAGR (up from 1-2%). The higher growth targets reflect Pandora's improved operating model alongside a range of current and new initiatives which will be scaled up to accelerate growth. When combined with an expected 1% annual revenue impact from forward integration, the targets add up to 8-10% local currency CAGR over 2023-2026. Pandora is therefore targeting DKK 34-36 billion revenue by 2026, up from the expected around DKK 27 billion for 2023 based on the mid-point of the 2023 guidance.

The new EBIT margin target of 26-27% equals 100-200 bp of margin expansion compared to the 2023 guidance. The EBIT margin target will be delivered while accelerating investments in current and future growth - underpinning Pandora's ability to leverage its current infrastructure to drive growth.

The building blocks of the Phoenix strategy are unchanged. Now, Pandora today updates its key priorities across the four major strategic growth pillars as outlined below:



Brand: Transforming the perception of Pandora into a full jewellery brand

Since the inception of the Phoenix strategy, Pandora has established strong foundations for its brand with strong brand equity across most major markets, being a truly cross-generational brand with industry-leading awareness. This also entailed a step up in marketing to support the journey towards a full jewellery brand through dedicated support models for each jewellery collection. This is starting to yield positive results and Pandora will now significantly step-up efforts here.

The next phase will look to elevate brand desirability with a refreshed marketing strategy that aims to accelerate growth through transforming the perception of Pandora into a full jewellery brand across accessible price points. The refreshed strategy will drive greater brand penetration through strategically broadening the product assortments to new and underserved categories and aesthetics. To drive ongoing relevance and brand heat, Pandora will also be restaging the brand starting in early 2024 with new campaigns that will elevate desirability whilst clearly showcasing Pandora's identity as a full jewellery brand. New campaigns will also centre around product icons and drive greater relevance through stronger cultural activations and collaborations. Pandora has already started on this journey with new global brand ambassadors and the latest Diamonds campaign.

Pandora will also be taking a significant step-up in elevating the in-store consumer experience with around 60% of Pandora's owned & operated stores to be transformed into the new Evoke 2.0 concept by 2026. The new Evoke 2.0 store concept marks a notable milestone in positioning Pandora as a full jewellery brand. While Pandora's previous store concept has been successful in driving and building out the Moments platform, the new Evoke 2.0 concept better utilises all space to effectively show all of Pandora's collections in a more intuitive and engaging experience. The new store concept will also be another major pillar in driving greater brand desirability.

Design: Strategically broadening the assortment

Since 2021, Pandora has reinvigorated the core Moments platform through ongoing innovations, such as the new studded chain, whilst fueling with more. The strategic vision in Design remains consistent as Pandora will continue to drive growth within Moments whilst accelerating growth in other platforms.

To fully unleash the potential of the product portfolio, Pandora will be redefining the core under a new design aesthetics framework. The Moments collection and Pandora ME will still be reported separately but be categorized under the segment labelled the "Core" to highlight the similar design aesthetics between the two collections (charms & carriers). All remaining collections will be categorised under "Fuel with more" where Pandora will continue to cater to different design aesthetics ("Modern Classics" or "Lab-Grown Diamonds") to target both existing and new consumers. Within this, Pandora's Timeless and Signature collections will be accompanied by a new collection: PANDORA ESSENCE. PANDORA ESSENCE will be launched in 2024 and expands Pandora's offering into the aesthetic space of organic, fluid and natural to further attract new consumers to the brand.

Within Lab-Grown Diamonds, Pandora recently took notable strides through the expansion of its assortment with three new collections which are now available in more than 700 stores across US, Canada, UK and Australia. The new collections added fresh design aesthetics through new cuts, original settings, and everyday essential styles. Pandora will be taking its mission to democratize diamonds to the next level and is today announcing a new financial ambition of generating DKK >1 billion revenue from Diamonds by 2026.

Collaborations have been a successful tool for Pandora in generating ongoing buzz for the brand. Collaborations will now stretch across all of Pandora's platforms, including Lab-grown diamonds. Pandora's latest collaboration, Games of Thrones, was launched late September 2023 and there is an exciting pipeline of partnerships ahead.

Markets: Vast growth opportunities across geographies – and accelerated network expansion

As witnessed over the past two years, Pandora has a diversified global footprint with growth opportunities across its entire geographical footprint. With a strengthened operating model Pandora now has the capacity to target growth opportunities across a wider range of geographies. As a result, the previous growth pillar of 'Core Markets' has accordingly been renamed 'Markets'. In countries where Pandora already has a high market share, such as UK, Italy and Australia, Pandora expects LFL to grow steadily, maintaining its leading position while leveraging the full jewellery brand position to further build market share. For the less penetrated markets of US, Germany, France, China and Rest of Pandora, the company expects to increase market share and sees potential for consistent, higher LFL growth.

The white space opportunities to expand Pandora's store network are vast. As communicated at the Capital Markets Day in 2021, Pandora's own analysis shows that there are 7,000 viable locations for new Pandora stores across markets where Pandora has an owned and operated presence today. Pandora will be accelerating its network expansion. Through 2024-2026, Pandora targets net 225-275 additional concept store openings and net 175-225 Pandora owned shop-in-shop openings. Through this highly predictable revenue stream Pandora expects around 3% CAGR organic revenue contribution annually over 2023-2026. All new stores will be under the new format, Evoke 2.0, from 2024 onwards.

At the 2021 CMD, Pandora set out a target to double the US business relative to the 2019 base (DKK 4.7 billion). Since then, Pandora's has made good progress towards the target with US revenue at DKK 7.9 billion in 2022. Through a combination of solid LFL growth, network expansion and forward integration, Pandora expects to surpass the original target by 2025 with revenue in excess of DKK 9.4 billion. Pandora's market share in the US remains at low single-digit levels and Pandora sees ample growth opportunities in the US beyond 2025.

In 2021, Pandora highlighted a long-term ambition to triple revenues in China relative to the 2019 base (DKK 2.0 billion). After a prolonged period of COVID-19 disruption, Pandora recently took the initial steps in relaunching the brand in Shanghai. Pandora continues to see significant long-term growth potential in China but building a sizeable business in China will be a longer journey than originally anticipated. Pandora will be tracking development of the brand relaunch closely and rebuild the business, step by step.

Pandora's unique operating model allows for the brand to be efficiently scaled up in new or underserved markets. Pandora will now be taking initial steps in entering new markets or expanding into underserved areas such as South Korea, Japan and India. The financial targets announced today do not include potential revenue from an expanded footprint in these countries.

Personalisation: Leveraging our unique access to data and empowering store teams to drive LFL

Personalisation is at the heart of Pandora's brand DNA. Leveraging customer data and improving the digital experience plays a key role in this. With the Phoenix strategy, Pandora has made significant strides in transforming its retail execution and digital transformation. Through the new "My Pandora" loyalty programme, personalized marketing, and customisable products Pandora is consistently attracting new customers and fostering stronger customer relationships. Pandora will continue with the rollout of "My Pandora" which is currently deployed in three countries and expected to be available in all major markets by 2026. Engraving services have been a recent addition to Pandora's in-store experience and after reaching 350 stores in 2022 the service has been significantly scaled up and will reach 850 stores worldwide by the end of 2023 with a further roll-out in the years to come. Pandora has witnessed an uplift in LFL within the stores offering engraving.

Pandora's investments in its people and particularly store colleagues are paying off. Pandora's owned and operated stores have shown a notable outperformance vs. its partners in terms of LFL which is partly attributable to these investments. Pandora will now look to elevate the focus on one of the most basic, but biggest drivers to deliver a personalized, world-class customer experience: the store teams. Pandora's store colleagues play a unique role in that they constitute a true sales force well beyond handling transactions. In line with this, Pandora's People strategy will intensify attention on store sales colleagues, with a particular focus on store managers, given the direct correlation between store manager seniority and in-store performance.

Sustainability

Industry leadership on sustainability is a key foundational pillar of our Phoenix business strategy that will support our long-term growth ambitions, lower our impact on the planet, and create positive outcomes for people and communities touched by our business.

We have set bold sustainability targets and expressed our desire to lead the transformation of the industry by showing that beautiful, crafted jewellery goes hand in hand with sustainable business practices.

We are on track to halve emissions across our full value-chain by 2030 as part of our ambitious science-based target. Since 2019, we have cut total emissions by 6%.

Raw materials are the largest contributor to our value chain emissions, and we are working with our suppliers to reach our goal of using 100% recycled silver and gold by 2025. This will be central to fulfilling our climate ambition and is also key to our circularity agenda.

In 2021, we set a target to reach gender parity in senior leadership by 2030 (VP+). Since then, we have shown strong momentum – jumping several percentage points each year. With around a third of senior leadership positions now held by women, we expect this strong progress to continue.

To help us achieve our targets, we have significantly scaled up our resourcing on sustainability, with subject matter experts embedded in key parts of our business. By embedding sustainability across our business and truly integrating it into business operations and decision-making, we will not only be on a clear path to achieve our targets, but create a brighter future in and outside of Pandora.

Event information

Pandora's Capital Markets Day runs from 11.00 to approximately 18.00 BST today, with live streamed presentations from 13.15 BST. Presentation materials will be available on the website below from approximately 12.00 BST.

Live stream

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

Summary of new financial targets

More details on the financial targets are available in the Financial appendix.

	2023 targets <i>From 2021-2023</i>	2026 targets <i>From 2023-2026</i>
Group revenue	DKK 25-26 billion by 2023	DKK 34-36 billion by 2026
LFL CAGR	+3% to +5%	+4% to +6%
Organic growth CAGR	+5% to +7%	+7% to +9%
Local currency CAGR	+6% to +8%	+8% to 10%
EBIT margin	25% to 27% by 2023	26% to 27% by 2026
Free cash flow	DKK 11.5 billion '21-'23	DKK 16-17 billion '24-'26
Total cash returns		DKK 14-17 billion '24-'26

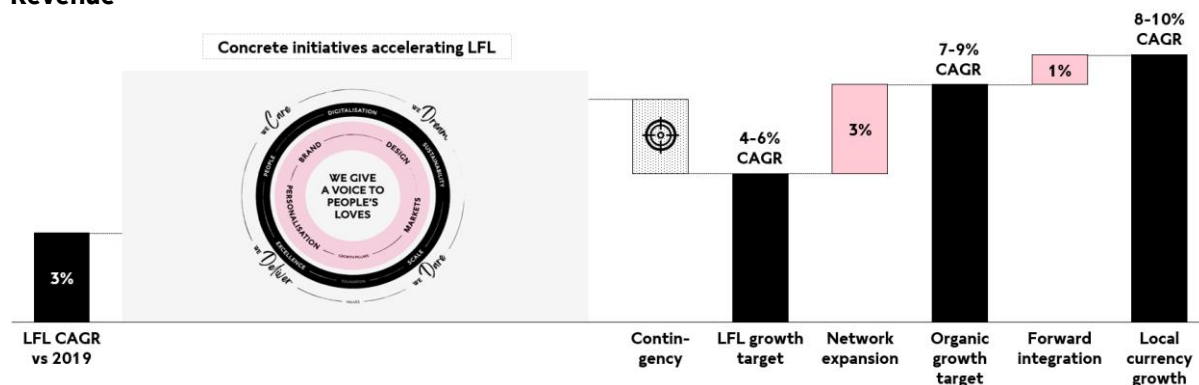
Financial appendix

Pandora today presents new financial targets towards 2026:

- Organic growth CAGR of 7-9% (2023-2026)
- EBIT margin expansion to 26-27% in 2026

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

Revenue



Since 2019, Pandora has grown at a LFL CAGR of 3%. This growth level has been delivered despite macroeconomic headwinds. Based on Pandora's performance since the launch of Phoenix and based on the accelerated investments in growth, Pandora is confident in targeting an accelerated LFL growth during 2024-2026.

The gross growth potential of all initiatives is above the 2026 target, as illustrated by the "Contingency" building block above. The fact that a "Contingency" exist also means that Pandora is not dependent on succeeding with one single growth initiative or succeeding in one specific market.

As mentioned under the markets pillar above, Pandora sees broad-based geographical opportunities across its diversified footprint. Looking at the growth by collection, Pandora will continue to drive solid LFL within its Moments platform with a targeted LFL CAGR of low/mid-single-digit. At the same time, other platforms will contribute with incremental revenue and accelerate growth further. Pandora ME and Modern Classics are expected to contribute to growth with a targeted LFL CAGR of mid/high-single-digit. Within Lab-grown diamonds, Pandora aims to drive revenue above DKK 1 billion by 2026.

Pandora targets a 3% organic growth CAGR from network expansion, please see further details below.

Pandora expects to add around 1% revenue per year coming from forward integration. Please see further details below. This will take the total local currency growth CAGR to around 8-10%.

Using foreign exchange rates per 25 September 2023, Pandora estimate a negligible positive impact (approximately DKK 60 million) from foreign exchange rates on reported revenue.

The 2026 revenue targets are built using the mid-point of the guidance for 2023 as the baseline. In absolute numbers, Pandora targets a revenue between DKK 34-36 billion in 2026 (based on foreign exchange rates per 25 September 2023).

Gross margin

Pandora's gross margins have been on an upward trend over the past years reflecting continued cost reduction initiatives, fewer promotions/price increases and channel mix. Pandora will continue to deliver an industry leading gross margin. Pandora expects the gross margin to continue its upwards trend with further support from channel mix, price increases and efficiencies.

In the 2026 targets, at the current spot rates, Pandora expects headwind on gross margin from commodity and foreign exchange rates of around -0.1pp compared to 2023: tailwind from foreign exchange rates of +0.2pp and a drag from commodities of -0.3pp. The impact will mainly be realised already in 2024. Please see below for more details on commodities and foreign exchange rates.

EBIT

The EBIT margin is targeted to be 26-27% by 2026. This corresponds to an EBIT of DKK 8.8-9.7 billion (based on foreign exchange rates as of 25 September 2023). As mentioned already, Pandora will scale up investments to capture the growth opportunities at hand and accelerate current and future growth. This includes, for example, investing in the restaging of the brand and establishing Pandora as the go-to brand for lab-grown diamonds. The targeted EBIT margin expansion of 1-2pp is therefore expected to be delivered during the later part of the 3-year target period.

Phoenix leverages the existing infrastructure of Pandora to drive growth. This enables Pandora to invest in current and future growth opportunities whilst driving margin expansion at the same time. Network expansion is expected to drive around 1pp of the margin expansion. Depending on where LFL ends in the targeted range and depending on how much Pandora need to invest to drive current and future growth, Pandora targets up to 1pp of additional margin expansion from operating leverage.

Tax rate

Pandora expects the tax rate to be around 24-25% in the target period 2024-2026. This is an increase from previous years - ending 2022 at 23% and targeting a range of 23-24% for 2023 - due to the Pillar Two tax rules released by OECD, which will be implemented in 2024.

Net financial expenses

At current interest rate levels and targeted leverage levels, Pandora expects total net financial expenses to be around DKK 775-950 million annually between 2024-2026.

Network expansion

Pandora is targeting to open net 225-275 additional concept stores and 175-225 net Pandora owned shop-in-shops over 2024-2026. Most of the stores are planned to open in North America and Latin America. The organic revenue growth contributed by network expansion is expected to be 3% annually on average. In absolute terms, this corresponds to around DKK 2.5 billion in annual incremental revenue and around DKK 1 billion EBIT from 2026 onwards. This does not include expansion into new geographies such as India, South Korea and Japan.

Network expansion is based on a strong financial business case and is a low risk initiative which is accretive to margins and returns. All openings from 2024 onwards will be in the EVOKE 2.0 store design and the majority will be Pandora owned and operated stores.

The number of store openings in any given year depends among others on when the right location becomes available. At this point in time, Pandora expect the number of store openings to be roughly evenly distributed over the three years, potentially a bit faster in 2024.

Forward integration

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

CAPEX

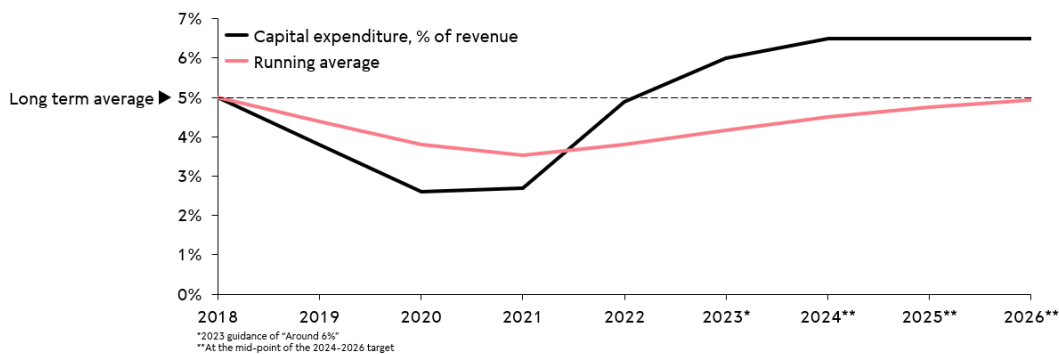
CAPEX is expected to be between 6-7% of revenue in 2024-2026. The CAPEX split on average over the 2024-2026 time frame is estimated as per below:

- Network refurbishment: ~35%
- Network expansion: ~20%
- Digital and other: ~25%
- Manufacturing: ~20%

Refurbishment of existing stores is the single largest CAPEX bucket during 2024-2026. There is a backlog of refurbishment following a deliberate decision to postpone refurbishment of stores to the extent possible since 2018 in preparation for the new store concept, EVOKE 2.0. The long-term sustainable CAPEX level remains at around 5% of revenue. Pandora expects CAPEX to revert to this level as the backlog of refurbishment clears and manufacturing expansion in Vietnam is completed.

As illustrated below, Pandora has been running below the 5% long-term sustainable CAPEX level since 2018, mainly driven by the beforementioned refurbishment backlog. Pandora now expect to run slightly above for the next 3 years with the average CAPEX spent since 2018 converging towards the long-term sustainable CAPEX level by 2026.

CAPEX run-rate: 2018-2022 actuals and 2023-2026 assumes midpoint of guidance/target



Working capital

Pandora is targeting a mid-single digit net working capital (% of annual revenue by year-end) in 2023-2026.

Return on invested capital (ROIC)

Pandora is an asset light company with high returns. Despite increased investments into strategic initiatives, Pandora continues to see high ROIC ahead, targeting around 45% in 2024-2026.

Cash conversion

Pandora will continue to be highly cash generative in the future as well. The cash conversion target from 2024-2026 is in the 65-70% range due to temporarily elevated CAPEX. The long-term cash conversion potential is still in the 70-75% range. This means that the EBIT generated essentially turn into free cash flow apart from taxes paid.

Capital structure policy and cash distributions

Pandora confirms its current capital structure policy of Net Interest-Bearing Debt-to-EBITDA of between 0.5x and 1.5x by the end of the year.

During 2024-2026, Pandora expects to generate DKK 16-17 billion free cash flow. On the assumption that leverage will end 2026 around 1.0-1.2x then Pandora will distribute around DKK 14-17 billion cash to shareholders during 2024-2026. The high-end of the proposed cash distribution range reflects broadly unchanged leverage for Pandora by the end of 2026 vs. the leverage at the end of 2023 (2023 guidance of "slightly above the mid-point"). The low-end reflects leverage going back down to being around the mid-point of the capital structure policy by the end of 2026.

The DKK 14-17 billion cash returns will be distributed through a combination of dividends and share buybacks. Pandora follows a progressive dividend policy and expects to increase the dividend per share notably during the next 3 years. The remaining cash distribution will be through share buybacks. The exact split between dividend and share buy backs will be based on the ongoing dialogue with shareholders.

Commodities

It is Pandora's policy to hedge at least 70% of the expected silver and gold purchases during the next 12 months. At the spot silver price of USD 23.6/Oz as of 25 September 2023, Pandora expects a net headwind towards 2026 of -30bp on the gross margin and EBIT margin from higher silver and gold prices. On a run-rate basis, Pandora has a sensitivity of around -30bp margin to a +1 USD increase in the price for one ounce of sterling silver.

Foreign exchange rates

The majority of Pandora's revenue is denominated in USD, CAD, AUD, GBP, CNY, MXN 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 exchange rate risks related to net cash flows. It should be noted that realized gain or loss on foreign exchange hedges are not recognized in operating profit (EBIT) but under Financial Items. In the 2026 targets, Pandora expects a tailwind on the EBIT margin of around +20bp compared to 2023. The positive impact will mainly be seen in 2024.

At the spot foreign exchange rates and commodity prices as of 25 September 2023, Pandora expects to see the following impacts:

FOREIGN EXCHANGE AND COMMODITY ASSUMPTIONS AND IMPLICATIONS – As of 25 September 2023

	Average 2023	Average 2026	2024-2026 Total Financial Impact
USD/DKK	6.93	7.01	
THB/DKK	0.20	0.19	
GBP/DKK	8.54	8.57	
CNY/DKK	0.98	0.96	
AUD/DKK	4.59	4.51	
CAD/DKK	5.15	5.21	
MXN/DKK	0.39	0.41	
Silver/USD (per ounce)	22.66	23.5	
REVENUE (DKK million)			<i>Approx. +60</i>
EBIT (DKK million)			<i>Approx. -20</i>
EBIT margin (foreign exchange)			<i>Approx. +0.2pp</i>
EBIT margin (commodities)			<i>Approx. -0.3pp</i>

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 more than 6,500 points of sale, including more than 2,500 concept stores.

Headquartered in Copenhagen, Denmark, Pandora employs 32,000 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 revenue of DKK 26.5 billion (EUR 3.6 billion) in 2022.

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