

Company Announcement No. 609

Interim Financial Report Q3 2020

3 November 2020



PANDORA

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The Pandora Double Hoop T-bar Necklace



The Pandora Signature collection



The Pandora Passions collection



Our Equity Story

Pandora is a cross-generational brand with unmatched recognition that gives a voice to people's loves. Our jewellery is crafted and hand-finished to the highest ethical and environmental standards at our state-of-the-art crafting facilities in Thailand and made to inspire women to collect, create and combine genuine jewellery at affordable prices.

With business fundamentals intact and by executing on our turnaround roadmap, Programme NOW, Pandora will return to sustainable growth and maintain industry-leading margins. A strong cash generation and an attractive cash return will remain.

EXECUTIVE SUMMARY

Brand momentum drives strong underlying performance

- **Recent COVID-19 escalation creates new uncertainty about the peak season trading**

Highlights

- Continued progress on the Programme NOW transformation and the underlying turnaround of the business. Sell-out growth in Q3 of -2% and organic growth was -5%. Online organic growth was 89% and accounted for 21% of revenue in the quarter
- Q4 started in line with the trends from the second half of Q3, and October sell-out growth was +8%
- With the recent COVID-19 lockdowns, Pandora’s assumptions behind the financial guidance are no longer fulfilled. Due to the uncertainty related to the current and future escalation of COVID-19, it is not considered meaningful to make new assumptions and announce an updated financial guidance. At this point in time, Pandora does not change the guidance but the recent lockdowns and potential further COVID-19 escalation represent a clear downside risk
- Announced lockdowns so far entail that approximately 18% of the physical stores will be temporarily closed in November

The performance in Q3 2020 is a solid indication of the continued brand turnaround with five out of the seven key markets generating positive sell-out growth despite COVID-19. The performance demonstrates that the Programme NOW initiatives are driving traffic and engagement with the brand. The new organisational structure, including a global merchandising structure and best-practice sharing, supported a material conversion rate improvement, both online and offline. Digital initiatives and the cost program also progressed well.

Alexander Lacik, President and CEO of Pandora, says:

“Pandora continues to adapt to the challenges posed by the COVID-19 pandemic and our priority remains the safety and well-being of our employees and consumers. Pandora has shown resilience and agility during the pandemic and the double-digit growth in the US and the UK in Q3 signals that we are turning the business around. We are now facing a period with new lockdowns, but we are prepared to navigate through the heightened uncertainty, and we have the financial strength to sustain a prolonged period with lockdowns.”

Financial overview (excl. restructuring costs)

	Q3 2020	Q3 2019	9M 2020	9M 2019
Sell-out growth incl. temporarily closed stores, %	-2%	-11%	-20%	-11%
Like-for-like (excl. closed stores), %	1%	-10%	-2%	-10%
Organic growth, %	-5%	-14%	-19%	-11%
Revenue, DKK million	4,070	4,415	11,118	13,912
Gross margin, %	78.1%	78.6%	77.0%	76.8%
EBIT margin, %	17.2%	20.2%	12.3%	21.9%

FINANCIAL HIGHLIGHTS

DKK million	Q3 2020	Q3 2019	9M 2020	9M 2019	FY 2019	FY 2020 guidance
Key financial highlights						
Organic growth, %	-5%	-14%	-19%	-11%	-8%	-14% to -17%
Sell-out growth incl. temporarily closed stores, %	-2%	-11%	-20%	-11%	-8%	
Total like-for-like sales out, % ¹	1%	-10%	-2%	-10%	-8%	
Revenue growth, local currency, %	-5%	-13%	-19%	-8%	-6%	
Gross margin excl. restructuring costs, %	78.1%	78.6%	77.0%	76.8%	77.4%	
EBIT excl. restructuring costs	702	891	1,373	3,048	5,854	
EBIT margin excl. restructuring costs, %	17.2%	20.2%	12.3%	21.9%	26.8%	17.5% to 19%
Operating working capital, % of last 12 months revenue	4.2%	8.6%	4.2%	8.6%	3.1%	
Capital expenditure (CAPEX)	117	254	367	638	822	
Capital expenditure, property, plant and equipment (CAPEX)	97	154	291	413	556	
Free cash flow incl. lease payments	457	758	1,128	2,314	5,075	
Cash conversion incl. lease payments, %	98%	N/A	239%	152%	133%	
Dividend per share, DKK ²	-	-	-	-	9.0	
Quarterly dividend per share, DKK ³	-	-	-	9.0	9.0	
Earnings per share, basic, DKK	3.6	-1.1	1.5	12.2	30.3	
Earnings per share, diluted, DKK	3.6	-1.1	1.5	12.2	30.1	
Ratios						
Effective tax rate, %	22.5%	22.5%	22.5%	22.5%	23.1%	
Equity ratio, %	30%	19%	30%	19%	24%	
NIBD to EBITDA excl. restructuring costs, x	1.1	1.5	1.1	1.5	1.1	
Return on invested capital (ROIC), %	22%	26%	22%	26%	27%	
Total pay-out ratio (incl. share buyback), %	-	N/A	872%	311%	147%	
Other financial highlights						
Consolidated income statement						
Revenue	4,070	4,415	11,118	13,912	21,868	
Gross profit	3,183	2,747	8,425	9,870	15,903	
Gross margin, %	78.2%	62.2%	75.8%	70.9%	72.7%	
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,045	520	2,103	3,285	6,148	
EBITDA margin, %	25.7%	11.8%	18.9%	23.6%	28.1%	
Operating profit (EBIT)	467	-198	472	1,526	3,829	
EBIT margin, %	11.5%	-4.5%	4.2%	11.0%	17.5%	
Net financials	-24	44	-286	27	1	
Net profit for the period	343	-119	144	1,204	2,945	
Consolidated balance sheet						
Total assets	18,932	21,968	18,932	21,968	21,571	
Invested capital	12,544	15,571	12,544	15,571	14,268	
Operating working capital	801	1,869	801	1,869	684	
Net interest-bearing debt (NIBD)	6,862	11,333	6,862	11,333	9,019	
Equity	5,682	4,237	5,682	4,237	5,249	

¹ Like-for-like is calculated excluding stores that have been temporarily closed.

² Proposed dividend per share for 2020.

³ Quarterly dividend per share for 2020, paid in 2020.

COVID-19

Commercial comeback

While countries around the world were in lockdown during the first half of the year, Pandora chose to prepare for a strong commercial comeback by leveraging its scale and robust financial position. The commercial plan was based on ensuring available and motivated store staff, actively managing fresh inventory, and continuing a strong media and marketing push. These decisions have produced encouraging results, as consumers have returned to stores. Pandora has benefitted from readiness and media intensity and has taken market share in a highly fragmented industry.

The new operating model implemented in April 2020 is proving effective with faster and better alignment between clusters and global functions. It has resulted in better merchandising and best-practice sharing, which has supported the conversion rate both online and offline.

Consumers have generally returned to physical stores faster than expected, showing continued preference for physical engagement with the brand and the products. The traffic into physical stores is still down almost 50% compared to Q3 2019, but the quality of the traffic is better leading to materially higher conversion rate. The organic growth of the online store was 89% in Q3 2020 driven by an improvement in the conversion rate and continued triple-digit growth in the large UK online store.

The recent increase in COVID-19 infections has led to numerous restrictive government guidelines and lockdowns for retail stores around the globe. These guidelines entail, among others, that all Pandora stores in the UK, France and Belgium are or will be temporarily closed. With the lockdowns announced as of 2 November 2020, approximately 18% of the physical store network will be temporarily closed and an additional 24% of the network will be operating at reduced opening hours.

Preparations for peak trading period under COVID-19 restrictions

Pandora is facing an extraordinary uncertain trading period with significant pressure on all sales channels with lockdown of societies and stores operating under COVID-19 restrictions. To manage this uncertainty, Pandora has implemented initiatives to achieve three overall objectives:

- Accommodate peak traffic into physical stores through a combination of increasing available store space and decreasing transaction time in an already fast transaction environment. Pandora has run 11 pilots of initiatives across the globe and concluded global best practices to be implemented across markets
- Stretching peak trading periods over longer time through a combination of tactical promotion strategies and pro-active management of media push during the targeted period
- Transfer traffic from offline to online by enhancing digital offerings, media planning and providing other incentives for consumers to access the Pandora brand online

Financial implications

With the encouraging sales performance in the re-opening phase, Pandora has quickly adjusted its services and cost base. Following a highly extraordinary second quarter, Pandora's cost base was at a more normalised level in Q3 although COVID-19 restrictions led to higher structural costs per transaction due to cleaning requirements, digital initiatives and other necessary measures to accommodate trading in the COVID-19 environment. OPEX in Q3 2020 decreased slightly compared to Q3 2019 mainly driven by Programme NOW cost reductions including cheaper media and other cost efficiencies. Government subsidies amounted to approximately DKK 75 million in the quarter.

The performance of Pandora's wholesale partners has generally picked up during the third quarter and franchise concept stores are performing roughly in line with O&O concept stores. Pandora's trade receivables from wholesale partners continued to develop satisfactorily in Q3 2020. The health of inventories continues to be good. In preparation for the peak trading period, inventory levels increased as planned during Q3.

Driven by healthy positive free cash flow both in the second and the third quarter, Pandora's leverage ratio (NIBD/EBITDA before restructuring costs) was 1.1x by the end of September, close to the middle of Pandora's leverage range as per the capital structure policy. Available liquidity amounted to DKK 7.5 billion by the end of Q3 2020. Although liquidity is ample and the leverage is well within the capital structure policy, Pandora will not re-initiate cash distribution to shareholders in 2020 due to the continued high uncertainty related to COVID-19.

ESG UPDATE

Environment

As announced in Q2 2020, Pandora has committed to be carbon neutral in its own operations by 2025, and to use only recycled silver and gold in its products by 2025. Already this year, Pandora will use 100% renewable energy in its crafting facilities. Pandora is also exploring other ways to drive circular innovation. In Q3, Pandora launched a company-wide assessment of its packaging materials to identify further potential to reduce environmental impacts of the product lifecycle.

Social

In 2020, Pandora rounded off the first year of its partnership with UNICEF. Pandora has launched a series of new products as part of its 'Charms for change' initiative in support for UNICEF, raising more than DKK 20 million in total, including a DKK 6 million donation to UNICEF's COVID-19 relief efforts. Pandora has initiated a Human Rights Impact Assessment in September to identify the company's most salient human rights impacts and opportunities to mitigate potential negative impacts across the value chain. Pandora is also conducting a company-wide initiative to better understand and incorporate the views and needs among employees and consumers regarding inclusion and diversity.

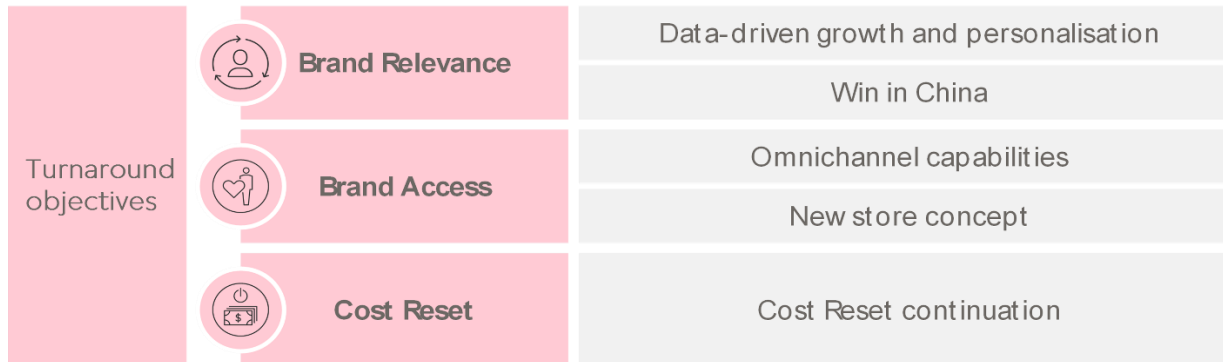
Governance

In Q3 2020, Pandora launched a new governance and oversight body that will oversee the implementation of the company's Responsible Sourcing Programme. This new Responsible Sourcing Committee will further strengthen supplier performance and ensure that suppliers meet Pandora's high social and environmental standards. The Committee adds to Pandora's existing Sustainability Board overseeing the entire portfolio of strategic sustainability initiatives.

UPDATE ON PROGRAMME NOW

The initiatives under Programme NOW continue to generate momentum, improve brand relevance and drive retail metrics. Pandora has initiated preparations to launch an updated strategic direction once the Programme NOW objective to stabilise the topline has been conclusively achieved.

The key focus areas in the second stage of Programme NOW



Brand Relevance – Leveraging COVID-19 opportunities to win consumer desire

Since stores began to reopen globally, Pandora has exploited its favorable cash position to gain share of voice and create brand awareness by increasing media spend across all channels ranging from TV campaigns, digital ads to e-mail marketing. E-mail marketing has performed particularly well during the quarter, proving the effectiveness of data-driven marketing initiatives.

A new “launch and leverage”-approach was applied across product launches in Q3 2020. In July, the Pandora ME platform and the Harry Potter collaboration were reactivated, and in August and September new product collections were launched with focus as much on base products as newness in the campaigns and merchandising. The objective of the “launch and leverage” concept is to properly invest in successful product collections and in time build long-term and recognisable platforms.

On 1 October, Pandora launched its product collaboration with Lucasfilm with 11 Star Wars charms and one bracelet. The collection is off to a good start accounting for 9% of global revenue in the first week of sales. The “Baby Yoda”-charm is the current top-seller.

In Q2, Pandora announced its first steps to improve the business in China. During Q3, the Win in China workstream has continued to progress well. Rebuilding the cluster organisation is a key enabler to turn around the brand in China. This has been implemented alongside operational improvements such as ensuring healthy inventory in high-performing stores, aligning store staff incentives and enhancing merchandising execution. Functional execution has started to gradually improve with Chinese Valentine’s Day performing decently. A more comprehensive mid-term growth plan focused on rebuilding the brand position is currently also being executed by the Chinese management team.

Brand Access – Continued strong Online growth and encouraging recovery in the physical store network

Pandora's consumers continue to respond positively to the efforts made since last year, where the online store development kicked off with a significant design and back-end overhaul.

With the recent establishment of the Digital Hub and the impact of the reorganisation, the digital initiatives have gained significant momentum affecting important areas such as faster code roll-out to sites, personalisation and stronger merchandising. Moreover, the Digital Hub has been instrumental in implementing the omnichannel capabilities together with the respective markets. In the US, more than 275 stores offer click-and-collect, and most UK O&O stores now also offer click-and-collect. To overcome some of the social distancing challenges in Q4, the roll-out of the "Endless Aisle" capability (Go-In-Store-Buy-Online) is being accelerated to cover the major markets in Europe as well as Australia.

A new team has been created to drive Pandora's future retail store design concept. The initial new store design was appreciated by consumers but the overall sales performance was not in line with expectations. The renewed focus will be to optimise and redesign the in-store consumer journey.

Cost Reset – Cost reduction run-rate target increased to DKK 1.6 billion (up from DKK 1.4 billion)

Pandora raises its cost savings target with DKK 0.2 billion to DKK 1.6 billion. It has been decided to continue with a dedicated Cost Reset team in Pandora also after Programme NOW to manifest the cost culture and continue to leverage cost reduction opportunities.

QUARTERLY OVERVIEW OF PROGRAMME NOW RESTRUCTURING COSTS

DKK million	Q3 2020 reported	Restructuring costs	Q3 2020 excl. restructuring costs	Q3 2019 reported	Restructuring costs	Q3 2019 excl. restructuring costs
Revenue	4,070	-	4,070	4,415	-	4,415
Cost of sales	-888	4	-892	-1,668	-721	-946
Gross profit	3,183	4	3,178	2,747	-721	3,469
Sales and distribution expenses	-1,457	-24	-1,433	-1,543	-162	-1,381
Marketing expenses	-637	-6	-631	-718	-28	-690
Administrative expenses	-621	-209	-412	-684	-177	-507
Operating profit (EBIT)	467	-235	702	-198	-1,089	891

YEAR-TO-DATE OVERVIEW OF PROGRAMME NOW RESTRUCTURING COSTS

DKK million	9M 2020 reported	Restructuring costs	9M 2020 excl. restructuring costs	9M 2019 reported	Restructuring costs	9M 2019 excl. restructuring costs
Revenue	11,118	-	11,118	13,912	-	13,912
Cost of sales	-2,693	-138	-2,555	-4,042	-813	-3,228
Gross profit	8,425	-138	8,563	9,870	-813	10,683
Sales and distribution expenses	-4,402	-135	-4,267	-4,576	-177	-4,400
Marketing expenses	-1,693	-28	-1,665	-1,795	-84	-1,711
Administrative expenses	-1,857	-600	-1,257	-1,973	-448	-1,525
Operating profit (EBIT)	472	-901	1,373	1,526	-1,522	3,048

COMMERCIAL REVIEW

Continued improvement during Q3 2020

The revenue performance continued to improve in Q3 2020 as traffic slowly came back into physical stores combined with a very strong conversion rate and continued significant online growth. The total sell-out growth was -2%.

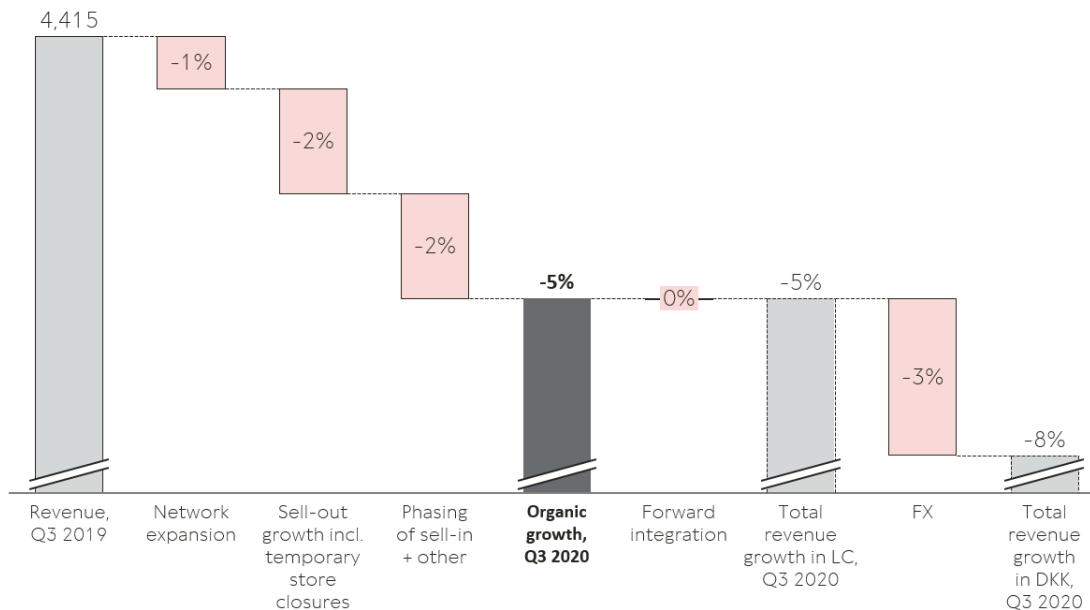
In the new Global Business Units structure, Moments and Collaborations generated -4% sell-out growth while Style and Innovation generated +4% sell-out growth.

In the quarter, Pandora re-activated the Pandora ME and Harry Potter collections in July followed by the launch of new design variations in the Pandora Signature collection in August and new design variations in Pandora Passions & People collection in September. Pandora's base products such as the signature Moments bracelet, the elegance clip and the dream catcher charm continued to perform strongly with the overall base performance generating positive sell-out growth. Newness (products launched in 2020) comprised 21% of the revenue in Q3 2020. As expected, Newness generated negative sell-out growth considering the brand relaunch in Q3 2019 and a significant larger number of new DVs launched in that period.

The organic growth was -5% in the quarter driven by -2% sell-out growth. The network development impacted the organic growth by around -1% as net 32 concept stores have permanently closed compared to Q3 2019. Additionally, the sell-in to wholesale partners and particularly to third-party distributors was lower in September compared to last year reflecting a more cautious inventory approach by partners ahead of the Q4 peak season in the wake of COVID-19.

REVENUE GROWTH COMPOSITION

DKK million, %-p growth (approximately)



REVIEW OF REVENUE BY CHANNEL

Pandora owned retail generated positive sell-out growth and organic growth of +3%. The organic growth in physical concept stores was -13% growth, which was more than offset by the strong positive online growth.

Sell-out growth for wholesale partners was generally in line with the performance of Pandora owned concept stores but organic growth for multi-brand partners and third-party distributors was impacted by a cautious inventory approach.

QUARTERLY REVENUE DEVELOPMENT BY CHANNEL

DKK million	Q3 2020	Q3 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out ¹	Organic growth	Local currency growth	Share of revenue
Pandora owned retail	2,799	2,783	4%	5%	3%	4%	69%
- of which concept stores	1,836	2,168			-13%	-12%	45%
- of which online stores	841	455			89%	89%	21%
- of which other points of sale	122	160			-25%	-19%	3%
Wholesale	1,113	1,383	-11%	-5%	-16%	-17%	27%
- of which concept stores	640	758			-11%	-13%	16%
- of which other points of sale	473	625			-22%	-22%	12%
Third-party distribution	158	249	-11%	-5%	-34%	-34%	4%
Total revenue	4,070	4,415	-2%	1%	-5%	-5%	100%

¹ Like-for-like and sell-out growth for wholesale and third-party distribution is based on consolidated estimation

YEAR-TO-DATE REVENUE DEVELOPMENT BY CHANNEL

DKK million	9M 2020	9M 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out ¹	Organic growth	Local currency growth	Share of Revenue
Pandora owned retail	7,901	8,966	-11%	5%	-11%	-11%	71%
- of which concept stores	4,596	6,975			-34%	-33%	41%
- of which online stores	2,950	1,475			102%	102%	27%
- of which other points of sale	356	516			-34%	-30%	3%
Wholesale	2,806	4,245	-35%	-14%	-33%	-33%	25%
- of which concept stores	1,532	2,409			-35%	-36%	14%
- of which other points of sale	1,275	1,836			-30%	-30%	11%
Third-party distribution	410	701	-35%	-14%	-41%	-41%	4%
Total revenue	11,118	13,912	-20%	-2%	-19%	-19%	100%

¹ Like-for-like for wholesale and third-party distribution is based on consolidated estimation

REVIEW OF NETWORK DEVELOPMENT

In Q3 2020, the total number of concept stores decreased by 25. The number of Pandora owned concept stores increased net by 6 reflecting some franchisee takeovers in the UK.

Number of points of sale	Q3 2020	Q2 2020	Q3 2019	Growth Q3 2020 /Q2 2020	Growth Q3 2020 /Q3 2019
Concept stores	2,689	2,714	2,721	-25	-32
- of which Pandora owned	1,379	1,373	1,379	6	0
- of which franchise owned	809	828	833	-19	-24
- of which third-party distribution	501	513	509	-12	-8
Other points of sale	4,463	4,539	4,729	-76	-266

REVIEW OF REVENUE BY KEY MARKETS

Pandora's performance in *the US market* was strong with double-digit positive sell-out growth despite continued reduced opening hours in the vast majority of physical stores. The performance was driven by strong double-digit sell-out growth in the online store but also positive sell-out growth in the physical stores. Traffic into Pandora stores was clearly outperforming general mall and jewellery industry traffic driven by successful efforts in the re-opening phase. The data-driven marketing initiatives have also been successful using increased personalisation and improved CRM data.

The UK market generated 17% sell-out growth despite material COVID-19 restrictions for the physical store network. The positive sell-out growth was driven by the online store which continues to deliver significant triple-digit organic growth, supported by innovative digital solutions to provide virtual assistance with Pandora staff through the website.

The performance in the *Chinese market* reflects the ongoing turnaround of the business. The sell-out growth was -23% which is not satisfactory but in line with expectations. The performance in the physical stores improved sequentially which is a positive indication of the early results of the improved store execution. The COVID-19 restrictions in the physical stores in China are limited and there are no social distancing requirements. The online store did not perform as strongly as it did in Q2 2020 where the large online trading period around 618 (18 June) was highly successful for Pandora.

QUARTERLY REVENUE DEVELOPMENT BY KEY MARKETS

DKK million	Q3 2020	Q3 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out	Organic growth	Local currency growth	Share of revenue
UK	617	522	17%	18%	17%	19%	15%
Italy	484	471	1%	1%	3%	3%	12%
France	222	202	0%	1%	10%	10%	5%
Germany	233	188	23%	23%	24%	24%	6%
US	901	868	18%	22%	9%	9%	22%
Australia	225	195	6%	22%	16%	16%	6%
China	350	491	-23%	-22%	-26%	-26%	9%
Total top-7 markets	3,031	2,937	-	-	-	-	74%
Total revenue	4,070	4,415	-2%	1%	-5%	-5%	100%

YEAR-TO-DATE REVENUE DEVELOPMENT BY KEY MARKETS

DKK million	9M 2020	9M 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out	Organic growth	Local currency growth	Share of revenue
UK	1,616	1,567	-5%	27%	3%	3%	15%
Italy	1,196	1,418	-19%	6%	-16%	-16%	11%
France	659	675	-8%	11%	-2%	-2%	6%
Germany	597	573	3%	14%	4%	4%	5%
US	2,523	2,884	-12%	13%	-12%	-12%	23%
Australia	584	679	-15%	-5%	-12%	-12%	5%
China	939	1,546	-38%	-36%	-38%	-38%	8%
Total top-7 markets	8,114	9,342	-	-	-	-	73%
Total revenue	11,118	13,912	-20%	-2%	-19%	-19%	100%

PROFITABILITY

EBIT MARGIN BETTER THAN EXPECTED

In Q3 2020, the EBIT margin excluding restructuring costs was 17.2% compared to 20.2% in Q3 2019. The 3pp decline compared to Q3 2019 was mainly a result of deleverage due to the revenue impact of COVID-19 as well as an adverse effect from raw materials prices and foreign exchange rates.

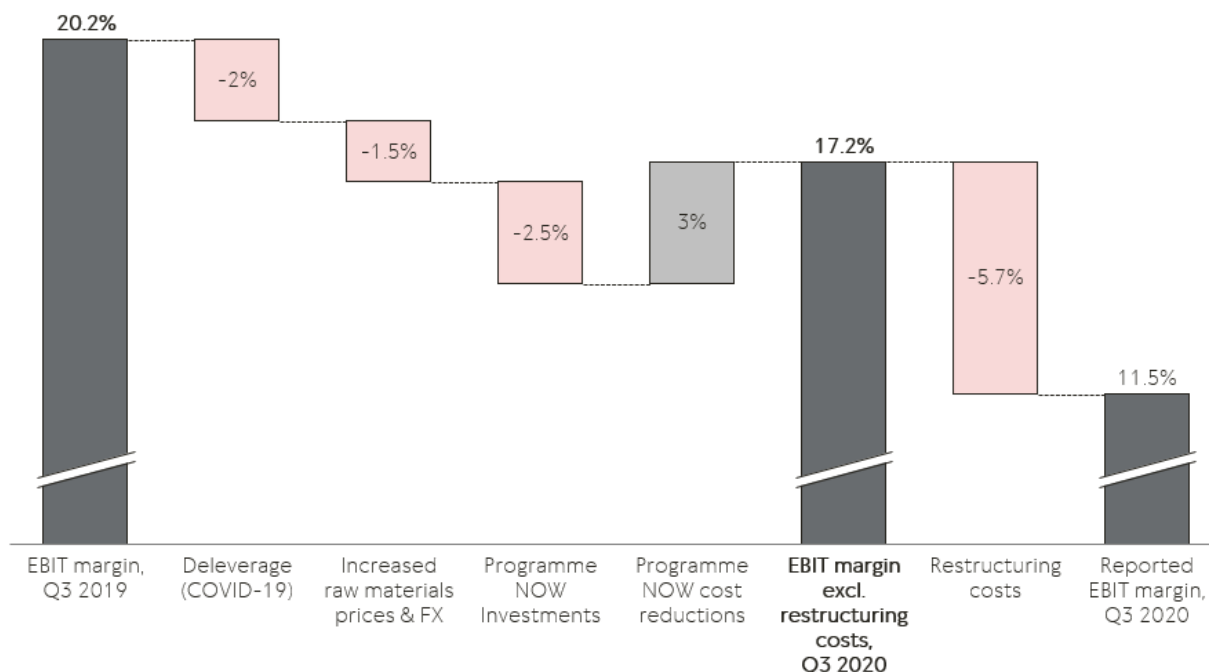
Programme NOW cost reduction initiatives had significant momentum in Q3 2020 leading to year-over-year cost reductions of around DKK 125 million. Most of the cost reductions were reinvested in driving brand momentum, strengthening the organisational setup and improving data-driven marketing capabilities as part of the commercial Programme NOW initiatives – all aiming at first stabilising the top-line and then forming the basis for renewed growth.

Raw materials and foreign exchange development impacted the EBIT margin by approximately -1.5pp. The largest contributor was the depreciation of USD followed by a smaller impact from depreciation of CAD, CNY, PLN and others.

EBIT excluding restructuring costs was DKK 702 million. Restructuring costs was DKK 235 million. The restructuring costs incurred in the quarter are mainly related to the execution of the cost reduction projects and consultancy expenses. The positive restructuring costs on cost of sales are related to a reversal of previously provisioned costs, which did not materialise.

EBIT-MARGIN DEVELOPMENT

%-p growth (approximately)



STRONG GROSS MARGIN DESPITE ADVERSE COMMODITY AND FX DEVELOPMENT

Gross margin excluding restructuring costs was 78.1% corresponding to a 0.5pp decline from 78.6% in Q3 2019. The gross margin was negatively impacted by the foreign exchange development and the increase of raw material prices but partly offset by continued strong cost reduction initiatives and a healthy full-price sales ratio. Gross profit excluding restructuring costs was DKK 3,178 million in Q3 2020 (DKK 3,469 million in Q3 2019).

COST OF SALES AND GROSS PROFIT

DKK million	Q3 2020	Q3 2019	Growth	Share of revenue Q3 2020	Share of revenue Q3 2019	9M 2020	9M 2019	Growth	Share of revenue 9M 2020	Share of revenue 9M 2019
Revenue	4,070	4,415	-8%	100.0%	100.0%	11,118	13,912	-20%	100.0%	100.0%
Cost of sales	-892	-946	-6%	-21.9%	-21.4%	-2,555	-3,228	-21%	-23.0%	-23.2%
Gross profit excl. restructuring costs	3,178	3,469	-8%	78.1%	78.6%	8,563	10,683	-20%	77.0%	76.8%
Restructuring costs	4	-721	-101%	0.1%	-16.3%	-138	-813	-83%	-1.2%	-5.8%
Total gross profit incl. restructuring costs	3,183	2,747	16%	78.2%	62.2%	8,425	9,870	-15%	75.8%	70.9%

OPERATING EXPENSES

Total operating expenses excluding restructuring costs were DKK 2,477 million in Q3 2020 down from DKK 2,578 million in Q3 2019. Due to the re-organisation, approximately DKK 70 million have been re-allocated from Administrative expenses to Sales and distribution this quarter. The operating expenses decreased by 4%, compared to Q3 2019 as a net result of Programme NOW cost reduction initiatives and investments in the transformation.

Sales and distribution expenses adjusted for re-allocation were virtually unchanged from Q3 2019 reflecting Retail cost reduction initiatives but offset by higher transaction costs due to COVID-19 guidelines. Marketing expenses decreased, mainly due to cost savings from lower media cost per unit and the fact that the brand was relaunched during Q3 2019. Administrative expenses adjusted for re-allocation decreased by 6%, reflecting Programme NOW's re-allocation of costs towards investments that drive the brand and revenue growth.

OPERATING EXPENSES DEVELOPMENT INCLUDING DEPRECIATION AND AMORTISATION

DKK million	Q3 2020	Q3 2019	Growth	Share of revenue Q3 2020	Share of revenue Q3 2019	9M 2020	9M 2019	Growth	Share of revenue 9M 2020	Share of revenue 9M 2019
Sales and distribution expenses	-1,433	-1,381	4%	35.2%	31.3%	-4,267	-4,400	-3%	38.4%	31.6%
Marketing expenses	-631	-690	-9%	15.5%	15.6%	-1,665	-1,711	-3%	15.0%	12.3%
Administrative expenses	-412	-507	-19%	10.1%	11.5%	-1,257	-1,525	-18%	11.3%	11.0%
Total operating expenses excl. restructuring costs	-2,477	-2,578	-4%	60.8%	58.4%	-7,190	-7,635	-6%	64.7%	54.9%
Restructuring costs	-239	-368	-35%	5.9%	8.3%	-763	-709	8%	6.9%	5.1%
Total operating expenses incl. restructuring costs	-2,716	-2,945	-8%	66.7%	66.7%	-7,953	-8,344	-5%	71.5%	60.0%

CASH FLOW & BALANCE SHEET

STRONG CASH FLOW DESPITE INVENTORY BUILD-UP AHEAD OF PEAK TRADING SEASON

The free cash flow was strong again in Q3 2020 and ended at DKK 0.5 billion adjusted for IFRS16 (including payments to committed leases) corresponding to a cash conversion of 98%. The cash conversion for 9M YTD 2020 is 239%. Besides a continued solid development in operating working capital, the strong free cash flow was driven by a relatively low CAPEX level, helped by limited physical store openings, and few relocations and refurbishments.

Sequentially (compared to Q2 2020), the operating working capital increased by around DKK 0.2 billion as Pandora as planned increased Inventories to prepare for the peak Q4 trading periods. The increase in Inventory was partly offset by continued high Trade Payables levels as Pandora has successfully negotiated longer payment terms with a number of suppliers. As previously mentioned, the current Trade Payables level is not long-term sustainable.

OPERATING WORKING CAPITAL AS A SHARE OF THE LAST 12 MONTHS' REVENUE

Share of preceding 12 months' revenue	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Inventories	13.7%	11.6%	10.1%	9.8%	13.0%
Trade receivables	3.2%	3.1%	5.1%	7.5%	5.8%
Trade payables	-12.7%	-11.9%	-11.0%	-14.2%	-10.2%
Total	4.2%	2.8%	4.2%	3.1%	8.6%

Net Working Capital – operating working capital plus other receivables and payables as well as provisions - ended close to 0 for the third quarter in a row.

NIBD to EBITDA excl. restructuring costs was 1.1x by the end of September, which is well below the covenant threshold (4.25x) and in the middle of the capital structure policy. The liquidity situation is very healthy and has continued to improve. Pandora has committed facilities amounting to DKK 7.5 billion available by the end of the quarter. Pandora's committed facilities will decrease by DKK 2.1 billion by the end of 2020 as short-term bank loans mature.

FINANCIAL GUIDANCE

RECENT COVID-19 ESCALATION CREATES SIGNIFICANT UNCERTAINTY ABOUT THE FULL-YEAR 2020 RESULTS

Pandora re-instated its 2020 financial guidance in the Q2 2020 Interim Report to adhere to the legal obligations outlined by the Danish FSA (Finanstilsynet). The financial guidance was adjusted in early October and assumed, among others, no major lockdowns and that less than 10% of physical stores would be closed due to COVID-19. With the lockdowns in the UK, France and Belgium and general very restrictive government guidelines across Europe, the most important assumptions behind the guidance are no longer fulfilled.

Due to the uncertainty related to the current escalation of COVID-19, it is currently not considered meaningful to announce updated assumptions and an updated financial guidance. Based on the current trading and the currently announced COVID-19 lockdowns, Pandora maintains the financial guidance but the recent escalation of COVID-19 and potential further escalation represent a clear downside risk. Once there is more clarity on the COVID-19 lockdowns - including duration and geographical escalation - Pandora will immediately publish updated information.

Consequently, Pandora will closely evaluate the current trading and financial guidance on an ongoing basis. Due to these extraordinary circumstances, Pandora will also, when relevant, release current trading statements to the capital markets.

Financial guidance for 2020 (unchanged)

- Organic growth: -14% to -17%
- EBIT margin: 17.5% to 19.0%

Total sell-out growth for 2020 is expected to be roughly equal to the organic growth.

The cost reduction initiatives of Programme NOW continue to be executed at a solid pace with additional cost potential uncovered. The 2020 run-rate cost reduction target is increased from DKK 1.4 billion to DKK 1.6 billion. DKK 50 million hereof is expected to materialise in 2020.

Programme NOW restructuring costs are now expected to amount to DKK 1.2 billion in 2020 compared to previously around DKK 1 billion (and DKK 1.3 billion before wave 1 of COVID-19), mainly driven by re-initiation of initiatives which were slowed down during wave 1 as well as costs required to realise the higher cost reduction target. The healthy progress of the Programme NOW initiatives means that the formal restructuring programme will be completed in 2020 despite COVID-19 disruptions. Consequently, there will be no further Programme NOW restructuring costs after 2020.

Pandora expects around 50 net permanent store closures in 2020 (unchanged). CAPEX in 2020 is still expected to be approximately DKK 0.6 billion and the effective tax rate is also still expected to be between 22-23% for the full year.

By the end of Q3, Pandora had DKK 4.6 billion in drawn debt and DKK 10 billion in available committed facilities which will not expire before 31 December 2021. Pandora thereby has ample liquidity for 2021 and can sustain a 70% revenue decline in 2021 compared to 2019.

Foreign exchange assumptions and implications for 2020

	Average 2019 FX Rates	2 November 2020 FX Rates	2020 Y-Y financial impact
USD/DKK	6.669	6.390	
THB/DKK	0.215	0.205	
GBP/DKK	8.517	8.268	
CNY/DKK	0.966	0.955	
AUD/DKK	4.636	4.503	
REVENUE (DKKm)			-500 to -525
EBIT (DKKm)			~ -300
EBIT margin			-1.1pp

Raw materials exposure

Silver prices remain well above the levels seen during the last 5 years. Pandora has hedged 70% of the next 12 months' expected use of silver and gold in the production. The price surge since Q2 2020 will consequently not have any material impact on the financial results in 2020. Pandora is pursuing a number of cost and commercial mitigating actions, but a net negative impact on the gross margin should be expected from mid-2021. At the current silver price of USD 24 per ounce, the run-rate impact on the gross margin from increase in raw material prices is around -3pp before potential mitigating actions compared to 2020.

OTHER EVENTS

OTHER IMPORTANT EVENTS IN Q3 2020 AND AFTER THE REPORTING PERIOD

On 1 October 2020, Pandora launched a capsule collection of Star Wars–inspired jewellery in collaboration with Lucasfilm. The collection consists of 11 charms and one bracelet of beloved characters and symbols.

FINANCIAL CALENDAR 2021

The financial calendar lists the expected dates of publication of financial announcements and the Annual General Meeting in the 2021 financial year for Pandora A/S.

04 February 2021	Annual Report for 2020
11 March 2021	Annual General Meeting
04 May 2021	Interim Financial Report for the first quarter of 2021
17 August 2021	Interim Financial Report for the second quarter/first six months of 2021
03 November 2021	Interim Financial Report for the third quarter/first nine months of 2021

OTHER EVENTS

YEAR-TO-DATE DEVELOPMENT

REVENUE

Total revenue decreased by 19% in local currency to DKK 11,118 million in Q3 YTD 2020 compared with Q3 YTD 2019. Organic growth was -19% and negatively impacted by COVID-19.

GROSS PROFIT AND COSTS

Reported gross profit was DKK 8,425 million in Q3 YTD 2020 (DKK 9,870 million in Q3 YTD 2019), resulting in a gross margin of 75.8% in Q3 YTD 2020 including restructuring costs (70.9% in Q3 YTD 2019). Gross profit excluding restructuring costs ended at DKK 8,563 million in Q3 YTD 2020 (DKK 10,683 million in Q3 YTD 2019) with a corresponding gross margin excluding restructuring costs of 77.0% (76.8% in Q3 YTD 2019).

Operating expenses excluding restructuring costs decreased to DKK 7,190 million in Q3 YTD 2020 (DKK 7,635 million in Q3 YTD 2019), corresponding to 64.7% of revenue in Q3 YTD 2020 (54.9% in Q3 YTD 2019). The decrease of OPEX is the result of cost reductions implemented during the COVID-19 pandemic and as part of Programme NOW. Rent concessions have been recognised in the profit and loss statement in Q3 under Sales and Distribution expenses.

EBIT

EBIT excluding restructuring costs for Q3 YTD 2020 was DKK 1,373 million – a decrease of 55% compared with Q3 YTD 2019, resulting in an EBIT margin of 12.3% in Q3 YTD 2020 (21.9% in Q3 YTD 2019). In Q3 YTD 2020 EBIT including restructuring costs was DKK 472 million (DKK 1,526 million in Q3 YTD 2019) corresponding to an EBIT margin of 4.2% (11.0% in Q3 YTD 2019).

NET FINANCIALS

Net financials amounted to a loss of DKK 286 million in Q3 YTD 2020 versus a gain of DKK 27 million in Q3 YTD 2019. Net financials have been impacted by non-cash revaluations of intercompany balance sheet items in foreign currencies. The revaluations are impacted by the weakening of most currencies against DKK.

INCOME TAX EXPENSES

Income tax expenses were DKK 42 million in Q3 YTD 2020 (DKK 349 million expense in Q3 YTD 2019), implying an effective tax rate for the Group of 22.5% for Q3 YTD 2020 (22.5% in Q3 YTD 2019).

NET PROFIT

Net profit in Q3 YTD 2020 was a gain of DKK 144 million (DKK 1,204 million in Q3 YTD 2019).

CONTACT

CONFERENCE CALL

A conference call for investors and financial analysts will be held today at 11.00 CET and can be joined online at www.pandoragroup.com. The presentation for the call will be available on the website one hour before the call.

The following numbers can be used by investors and analysts:

DK: +45 35 44 55 77

UK (International): +44 33 33 000 804

US: +1 855 85 70 686

Please use PIN: 381 59 994#

Link to webcast: <https://streams.eventcdn.net/pandora/2020q3>

ABOUT PANDORA

Pandora designs, manufactures and markets hand-finished and contemporary jewellery made from high-quality materials at affordable prices. Pandora jewellery is sold in more than 100 countries on six continents through more than 7,100 points of sale, including around 2,700 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, Pandora employs around 28,000 people worldwide of whom more than 12,300 are located in Thailand, where the Company manufactures its jewellery. Pandora is publicly listed on the Nasdaq Copenhagen stock exchange in Denmark. In 2019, Pandora's total revenue was DKK 21.9 billion.

For more information, please contact:

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FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

DKK million	Notes	Q3 2020	Q3 2019	9M 2020	9M 2019	FY 2019
Revenue	3,4	4,070	4,415	11,118	13,912	21,868
Cost of sales		-888	-1,668	-2,693	-4,042	-5,966
Gross profit		3,183	2,747	8,425	9,870	15,903
Sales, distribution and marketing expenses		-2,094	-2,261	-6,095	-6,372	-9,305
Administrative expenses		-621	-684	-1,857	-1,973	-2,770
Operating profit		467	-198	472	1,526	3,829
Finance income		61	128	132	281	351
Finance costs		-85	-83	-418	-254	-351
Profit before tax		443	-154	186	1,553	3,829
Income tax expense		-100	35	-42	-349	-884
Net profit for the period		343	-119	144	1,204	2,945
Earnings per share, basic, DKK		3.6	-1.1	1.5	12.2	30.3
Earnings per share, diluted, DKK		3.6	-1.1	1.5	12.2	30.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million	Q3 2020	Q3 2019	9M 2020	9M 2019	FY 2019
Net profit for the period	343	-119	144	1,204	2,945
Other comprehensive income:					
Items that may be reclassified to profit/loss for the period					
Exchange rate adjustments of investments in subsidiaries	-263	240	-481	322	226
Fair value adjustment of hedging instruments	129	-39	213	13	1
Tax on other comprehensive income, hedging instruments, income/expense	-10	8	-24	-3	-27
Items that may be reclassified to profit/loss for the period, net of tax	-144	209	-292	332	200
Items not to be reclassified to profit/loss for the period, net of tax	-	-	-	-	-
Other comprehensive income, net of tax	-144	209	-292	332	200
Total comprehensive income for the period	199	90	-148	1,536	3,145

CONSOLIDATED BALANCE SHEET

DKK million	Notes	2020 30 September	2019 30 September	2019 31 December
ASSETS				
Goodwill	10	4,282	4,418	4,416
Brand		1,057	1,057	1,057
Distribution network		71	101	94
Distribution rights		1,047	1,047	1,047
Other intangible assets		674	864	831
Total intangible assets		7,131	7,488	7,445
Property, plant and equipment		2,154	2,670	2,585
Right-of-use assets	11	3,058	4,196	4,010
Deferred tax assets		997	1,033	675
Other financial assets		262	314	290
Total non-current assets		13,603	15,700	15,006
Inventories		2,619	2,835	2,137
Trade receivables	8	607	1,256	1,643
Right-of-return assets		56	58	73
Derivative financial instruments	6,7	440	313	187
Income tax receivable		79	117	467
Other receivables		655	822	1,004
Cash		874	866	1,054
Total current assets		5,330	6,268	6,565
Total assets		18,932	21,968	21,571
EQUITY AND LIABILITIES				
Share capital		100	100	100
Treasury shares		-93	-1,364	-1,964
Reserves		874	1,299	1,167
Dividend proposed		-	-	836
Retained earnings		4,800	4,203	5,110
Total equity		5,682	4,237	5,249
Provisions		289	245	278
Loans and borrowings	11	5,083	6,963	7,962
Deferred tax liabilities		343	359	235
Other payables		1	4	1
Total non-current liabilities		5,715	7,571	8,476
Provisions		31	37	53
Refund liabilities		614	622	753
Contract liabilities		58	60	71
Loans and borrowings	11	2,653	5,191	2,069
Derivative financial instruments	6,7	193	226	115
Trade payables		2,425	2,222	3,095
Income tax payable		529	404	438
Other payables		1,031	1,397	1,250
Total current liabilities		7,535	10,159	7,846
Total liabilities		13,251	17,730	16,322
Total equity and liabilities		18,932	21,968	21,571

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Treasury shares	Translation reserve	Hedging reserve	Dividend proposed	Retained earnings	Total equity
2020							
Equity at 1 January	100	-1,964	1,112	54	836	5,110	5,249
Net profit for the period	-	-	-	-	-	144	144
Exchange rate adjustments of investments in subsidiaries	-	-	-481	-	-	-	-481
Fair value adjustments of hedging instruments	-	-	-	213	-	-	213
Tax on other comprehensive income	-	-	23	-47	-	-	-24
Other comprehensive income, net of tax	-	-	-458	166	-	-	-292
Total comprehensive income for the period	-	-	-458	166	-	144	-148
Share-based payments	-	-	-	-	-	55	55
Share-based payments (exercised)	-	14	-	-	-	-14	-
Share-based payments (tax)	-	-	-	-	-	4	4
Purchase of treasury shares	-	-431	-	-	-	-	-431
Sale of treasury shares ¹	-	2,288	-	-	-	-509	1,778
Dividend paid	-	-	-	-	-836	11	-826
Equity at 30 September	100	-93	654	220	-	4,800	5,682
2019							
Equity at 1 January	110	-3,469	913	54	920	7,891	6,419
Net profit for the period	-	-	-	-	-	1,204	1,204
Exchange rate adjustments of investments in subsidiaries	-	-	322	-	-	-	322
Fair value adjustments of hedging instruments	-	-	-	13	-	-	13
Tax on other comprehensive income	-	-	-	-3	-	-	-3
Other comprehensive income, net of tax	-	-	322	10	-	-	332
Total comprehensive income for the period	-	-	322	10	-	1,204	1,536
Fair value adjustments of obligation to acquire non-controlling interests	-	-	-	-	-	17	17
Share-based payments	-	-	-	-	-	-11	-11
Share-based payments (exercised)	-	13	-	-	-	-13	-
Share-based payments (tax)	-	-	-	-	-	17	17
Purchase of treasury shares	-	-1,983	-	-	-	-	-1,983
Reduction of share capital	-10	4,075	-	-	-	-4,065	-
Dividend paid	-	-	-	-	-1,794	38	-1,756
Dividend proposed	-	-	-	-	874	-874	-
Equity at 30 September	100	-1,364	1,235	64	-	4,203	4,237

¹ On 5 May, Pandora initiated an accelerated book-building for the sale of 8 million treasury shares, which was carried out on the same day generating approximately DKK 1.8 billion in gross proceeds.

CONSOLIDATED STATEMENT OF CASH FLOW

DKK million	Notes	Q3 2020	Q3 2019	9M 2020	9M 2019	FY 2019
Operating profit		467	-198	472	1,526	3,829
Depreciation and amortisation		578	719	1,630	1,759	2,319
Share-based payments		10	6	55	14	20
Change in inventories		-496	-85	-778	614	1,284
Change in receivables		26	-312	1,242	394	-65
Change in payables and other liabilities		284	1,208	-528	-21	808
Other non-cash adjustments		66	-18	-207	-	-20
Interest etc. received		-	1	2	3	13
Interest etc. paid		-68	-40	-166	-135	-178
Income taxes paid		-90	-72	190	-584	-1,233
Cash flows from operating activities, net		776	1,209	1,913	3,571	6,775
Acquisitions of subsidiaries and activities, net of cash acquired	9	-	-1	-6	-143	-148
Purchase of intangible assets		-30	-89	-92	-225	-272
Purchase of property, plant and equipment		-122	-97	-284	-375	-540
Change in other non-current assets		-4	5	5	42	66
Proceeds from sale of property, plant and equipment		3	3	2	16	18
Cash flows from investing activities, net		-153	-179	-375	-686	-877
Acquisitions of non-controlling interests		-	-56	-42	-311	-311
Dividend paid		-	-860	-826	-1,756	-1,756
Purchase of treasury shares		-	-535	-431	-1,983	-2,583
Sale of treasury shares		-	-	1,778	-	-
Proceeds from loans and borrowings		-	703	5,857	4,751	5,626
Repayment of loans and borrowings		-319	-	-7,419	-3,282	-6,088
Repayment of lease commitments		-234	-311	-579	-846	-1,138
Cash flows from financing activities, net		-554	-1,059	-1,662	-3,428	-6,250
Net increase/decrease in cash		69	-30	-124	-543	-352
Cash at beginning of period ¹		826	890	1,054	1,387	1,387
Exchange gains/losses on cash		-21	7	-55	22	19
Net increase/decrease in cash		69	-30	-124	-543	-352
Cash at end of period¹		874	866	874	866	1,054
Cash flows from operating activities, net		776	1,209	1,913	3,571	6,775
- Interests etc. received		-	-1	-2	-3	-13
- Interests etc. paid		68	40	166	135	178
Cash flows from investing activities, net		-153	-179	-375	-686	-877
- Acquisition of subsidiaries and activities, net of cash acquired		-	1	6	143	148
Free cash flow incl. IFRS 16 (excluding lease payments)		691	1,070	1,707	3,161	6,213
Free cash flow excl. IFRS 16 (including lease payments)		457	758	1,128	2,314	5,075
Committed credit facilities (30 September 2020)		7,500	3,495	7,500	3,495	1,800

¹ Cash comprises cash at bank and in hand.

The above cannot be derived directly from the income statement and the balance sheet.

ACCOUNTING NOTES

NOTE 1 – Accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board (IASB) and adopted by the European Union and additional Danish disclosure requirements for interim financial reporting of listed companies.

The accounting policies applied are consistent with the accounting policies set out in the Annual Report 2019, except for accounting policies related to:

- Operating segments, as described in note 3
- Government Grants, which are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a deduction in reporting the related costs, for which it is intended to compensate, and as these costs are expensed
- Covid-19-Related Rent Concessions – Amendment to IFRS 16 Leases, as described in note 11

Due to rounding, numbers presented throughout this report may not add up precisely to the totals and percentages may not precisely reflect the absolute figures.

After the reorganisation announced on 4 March 2020, the cost of certain functions in the markets previously recognised under Administrative expenses is reclassified to Sales & Distribution expenses. This change has been applied prospectively from 1 January 2020 and the comparative figures have not been restated. The impact of the change in Q3 2020 was DKK 70 million and for the first nine months of 2020, it was approximately DKK 250 million.

Pandora presents financial measures in the interim report that are not defined according to IFRS. Pandora believes that these non-GAAP measures provide valuable information to investors and Pandora’s management when evaluating performance. Since other companies might calculate these differently from Pandora, they may not be comparable to the measures used by other companies. These financial measures should therefore not be considered a replacement for measures defined under IFRS. Apart from the ‘Sell-out growth’ which is defined as like-for-like but not adjusting for temporarily closed stores, for the definitions of other alternative performance measures used by Pandora which are not defined by IFRS, refer to note 5.6 to the consolidated financial statement in the Annual Report 2019.

New standards, interpretations and amendments adopted by Pandora

Pandora has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year beginning on 1 January 2020. The implementation of these new or amended standards and interpretations had no material impact on the financial statements for the quarter apart from the amendment in IFRS 16. Pandora decided to apply the practical expedient issued by IASB for all contracts with rent concessions occurring as a direct consequence of COVID-19 and where it meets all conditions of the practical expedient. The effect of the amendment and its impact on financial statements is presented in note 11.

NOTE 2 – Significant accounting estimates and judgements

In preparing the interim financial report, Management makes various accounting estimates and assumptions, which form the basis of presentation, recognition and measurement of Pandora’s assets and liabilities.

Pandora will continue to monitor the impact of COVID-19 on assets and relevant contracts, especially in case of new material lockdowns.

For information on liquidity risk, please refer to note 6.

NOTE 3 – Segment information

As part of Pandora’s reorganisation, the reportable segments have been reorganised as of Q2 2020 in two Global Business Units: Moments, Charms and Collaborations and Style, New pillar development and upstream innovation. The two Global Business Units are responsible for the end-to-end performance of products. The comparative figures for 2019 were restated to reflect the new segments.

The two operating segments includes all channels relating to the distribution and sale of Pandora products.

Both segments derive their revenue from the types of products shown in the product information. For information on revenue from the different products and sales channels reference is made to note 4.

Management monitors the profitability of the operating segments separately for the purpose of making decisions about resource allocation and performance management. Segment results are measured as gross profit as presented in the table below.

SEGMENT INFORMATION

DKK million	Moments, Charms and Collaborations	Style, New pillar development and upstream innovation	Group
Q3 2020			
Revenue	2,749	1,322	4,070
Cost of sales	-613	-275	-888
Gross profit	2,135	1,047	3,183
Operating expenses			-2,716
Consolidated operating profit (EBIT)			467
Profit margin (EBIT margin)			11.5%
Restructuring costs			-235
Profit margin (EBIT margin) excl. restructuring costs			17.2%
Q3 2019			
Revenue	2,985	1,430	4,415
Cost of sales	-1,122	-546	-1,668
Gross profit	1,863	884	2,747
Operating expenses			-2,945
Consolidated operating profit (EBIT)			-198
Profit margin (EBIT margin)			-4.5%
Restructuring costs			-1,089
Profit margin (EBIT margin) excl. restructuring costs			20.2%
9M 2020			
Revenue	7,590	3,528	11,118
Cost of sales	-1,869	-824	-2,693
Gross profit	5,721	2,704	8,425
Operating expenses			-7,953
Consolidated operating profit (EBIT)			472
Profit margin (EBIT margin)			4.2%
Restructuring costs			-901
Profit margin (EBIT margin) excl. restructuring costs			12.3%
9M 2019			
Revenue	9,562	4,350	13,912
Cost of sales	-2,791	-1,251	-4,042
Gross profit	6,771	3,099	9,870
Operating expenses			-8,344
Consolidated operating profit (EBIT)			1,526
Profit margin (EBIT margin)			11.0%
Restructuring costs			-1,522
Profit margin (EBIT margin) excl. restructuring costs			21.9%

REVENUE DEVELOPMENT IN THE KEY MARKETS

DKK million	Q3 2020	Q3 2019	Growth in local currency	9M 2020	9M 2019	Growth in local currency	FY 2019
UK	617	522	19%	1,616	1,567	3%	2,861
Italy	484	471	3%	1,196	1,418	-16%	2,272
France	222	202	10%	659	675	-2%	1,169
Germany	233	188	24%	597	573	4%	963
US	901	868	9%	2,523	2,884	-12%	4,677
Australia	225	195	16%	584	679	-12%	1,118
China	350	491	-26%	939	1,546	-38%	1,970

NOTE 4 – Revenue from contracts with customers

REVENUE BY CHANNEL

DKK million	Q3 2020	Q3 2019	Growth in local currency	9M 2020	9M 2019	Growth in local currency	FY 2019
Pandora owned retail*	2,799	2,783	4%	7,901	8,966	-11%	14,181
Wholesale	1,113	1,383	-17%	2,806	4,245	-33%	6,725
Third-party distribution	158	249	-34%	410	701	-41%	962
Total revenue	4,070	4,415	-5%	11,118	13,912	-19%	21,868

*Including revenue from Pandora online stores

REVENUE BY PRODUCT CATEGORY

DKK million	Q3 2020	Q3 2019	Growth in local currency	9M 2020	9M 2019	Growth in local currency	FY 2019
Charms	2,062	2,321	-8%	5,710	7,300	-21%	11,395
Bracelets	801	856	-3%	2,137	2,662	-19%	4,216
Rings	591	629	-3%	1,661	1,988	-16%	3,113
Earrings	280	286	1%	739	925	-19%	1,487
Necklaces & Pendants	337	323	8%	871	1,038	-15%	1,658
Total revenue¹	4,070	4,415	-5%	11,118	13,912	-19%	21,868
Goods transferred at a point in time	4,055	4,401		11,078	13,868		21,799
Services transferred over time	15	14		40	44		70
Total revenue	4,070	4,415		11,118	13,912		21,868

¹ Figures include franchise fees etc., which are allocated to the product categories. Q3 2020 DKK 29 million, Q3 2019 DKK 24 million and FY 2019 DKK 87 million.

Local products not sold globally make up less than 5% of total sales. The use of sales channels for the distribution of Pandora jewellery depend on the underlying market maturity and varies within the segments but is consistent when viewed between segments.

NOTE 5 – Seasonality of operations

Due to the seasonal nature of the jewellery business, higher revenue and earnings are historically realised in the fourth quarter of the year.

NOTE 6 – Financial risks

Pandora’s overall risk exposure, including risks related to commodity prices, foreign currency, credit, liquidity and interest rate, are described in the disclosures in note 4.4 to the consolidated financial statement in the Annual Report 2019.

The COVID-19 lockdowns during the first half of 2020 severely impacted the profitability and thereby cash generation for Pandora. The liquidity risk was mitigated by the establishment of a new Club Deal amounting to DKK 3 billion and the sale of 8 million Treasury shares in May 2020. An overview of the current committed facilities can be seen below.

In case the pandemic continues for an extended period and results in renewed major lockdowns or otherwise materially impacts consumer demand, this will obviously impact the financial risks facing Pandora, including liquidity and credit risks.

The risk of renewed major lockdowns was already taken into consideration in the additional funding established in May 2020.

Current outstanding committed loan facilities (end of September 2020)

	Amount available (DKK million)	Maturity date	Drawn amount (DKK million)
Revolving Credit Facilities	7,500	May 2022	0
Club Deal	2,978	December 2021	2,978
Bilateral term-loans	1,621	December 2020	1,621
Total	12,099		4,599

NOTE 7 – Derivative financial instruments

Derivative financial instruments are measured at fair value and in accordance with level 2 in the fair value hierarchy (IFRS 7).

See note 4.5 to the consolidated financial statement in the Annual Report 2019.

NOTE 8 – Trade receivables

DKK million	2020 30 September	2019 30 September
Receivables related to third-party distribution and wholesale	424	892
Receivables related to retail revenue	183	365
Total trade receivables	607	1,256

NOTE 9 – Business combinations

No acquisitions, to an extent of significance to Pandora, were completed during the first nine months of 2020. The deferred payment for the 2019 store acquisitions in Mexico (DKK 5 million) was paid in 2020.

Acquisitions after the reporting period

No significant acquisitions took place after the reporting period.

NOTE 10 – Goodwill

DKK million	30 September 2020	30 September 2019
Cost at 1 January	4,416	4,278
Acquisition of subsidiaries and activities in the period	-	59
Exchange rate adjustments	-134	81
Cost at the end of the period	4,282	4,418

Impairment testing of goodwill was performed in Q2 2020 after the change in the operating segments in Pandora. All the assumptions used are as described in the Annual Report 2019.

The calculations of the recoverable amounts of CGUs or groups of CGUs are based on the following key assumptions:

Discount rates reflect the current market assessment of the risks specific to each CGU or group of CGUs. The Group discount rates have been estimated based on a weighted average cost of capital for Pandora. The rates have also been adjusted to reflect the market assessment of any risk specific to each group of CGUs. The EBIT figures used in the impairment test are based on a high level estimate for 2021 based on expected current year performance in order to reflect the risk and uncertainty caused by COVID-19.

A 2% growth rate is applied as an estimate of the expected average inflation in the forecast and terminal period. As such no real growth is applied to the terminal period when calculating the recoverable amounts.

NOTE 11 – Assets and liabilities related to leases

Amounts recognised in the balance sheet.

RIGHT-OF-USE-ASSETS

DKK million	30 September 2020	30 September 2019
Property	3,030	4,158
IT	1	1
Cars	17	20
Other	9	17
Total right-of-use assets	3,058	4,196

Out of the total decrease of DKK 0.9 billion in right-of-use-assets in the period 1 January – 30 September 2020, the DKK 1.0 billion relates to depreciation and currency exchange movement, partially offset by a net increase of DKK 0.1 billion as a result of the reassessment of the extension options in Q1 (DKK -0.3 billion) and renewals of lease contracts (DKK 0.4 billion).

LEASE LIABILITIES

DKK million	30 September 2020	30 September 2019
Non-current	2,105	2,955
Current	980	1,052
Total lease liabilities	3,085	4,007

Lease liabilities are recognised in loans and borrowings in the balance sheet.

Amounts recognised in the income statement

RECOGNISED DEPRECIATION ON RIGHT-OF-USE ASSETS CHARGED TO THE INCOME STATEMENT FOR THE PERIOD 1 JANUARY – 30 SEPTEMBER

DKK million	1 January – 30 September 2020	1 January – 30 September 2019
Property	879	823
IT	1	1
Cars	8	9
Other	4	5
Total depreciation on right-of-use assets for the period	892	838

OTHER ITEMS RELATING TO LEASES

DKK million	1 January – 30 September 2020	1 January – 30 September 2019
Interest income from sub-leases	1	1
Interest expense	-70	-80
Total interest for the period	-70	-79

Costs recognised in the period for short term and low value leases were DKK 30 million. Expenses are recognised on a straight line basis.

Total cash outflow relating to leases was DKK 807 million for the first 9 months. This comprises of fixed lease payments in scope of IFRS 16 (DKK 579 million), variable lease payments (DKK 128 million), interest paid (DKK 70 million) and short term and low value leases (DKK 30 million). Variable leases and short term and low value leases are not included in the lease liabilities.

Due to COVID-19, the repayment of the fixed leases is deferred by approximately DKK 83 million. In addition, Pandora has received rent concessions from the landlords in the amount of DKK 88 million.

Amendment to IFRS 16 Leases

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 pandemic-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 pandemic-related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021)
- There is no substantive change to other terms and conditions of the lease.

Pandora is applying the practical expedient to IFRS 16 Leases for all contracts with rent concessions occurring as direct consequence of COVID-19 and where it meets all conditions of the practical expedient.

As a result, rent concessions have been recognised in the profit and loss statement in Q3 2020 amounting to DKK 88 million under Sales and Distribution expenses.

DKK 83 million rent was deferred meaning that rent payments are postponed as per agreements with landlords. Overall financing cash flow is positively impacted by DKK 171 million due to rent relief and rent deferrals.

NOTE 12 – Contingent liabilities

Reference is made to note 5.1 to the consolidated financial statements in the Annual Report 2019.

NOTE 13 – Related parties

Related parties with significant interests

Other related parties of Pandora with significant influence include the Board and the Executive Management of the Company and their close family members. Related parties also include companies in which the persons have control or significant interests.

Transactions with related parties

Pandora did not enter any significant transactions with members of the Board or the Executive Management, except for compensation and benefits received because of their membership of the Board, employment with Pandora or shareholdings in Pandora.

NOTE 14 – STORE NETWORK, OTHER POINTS OF SALE DEVELOPMENT

	Q3 2020	Q2 2020	Q3 2019	Growth Q3 2020 / Q2 2020	Growth Q3 2020 /Q3 2019
Other points of sale (retail)	232	227	197	5	35
Other points of sale (wholesale)	3,655	3,706	3,899	-51	-244
Other points of sale (third-party)	576	606	633	-30	-57
Other points of sale, total	4,463	4,539	4,729	-76	-266

NOTE 15 – STORE NETWORK, CONCEPT STORE DEVELOPMENT¹

	Total concept stores					O&O concept stores		
	Number of concept stores	Number of concept stores	Number of concept stores	Growth Q3 2020 /Q2 2020	Growth Q3 2020 /Q3 2019	Number of concept stores O&O	Growth O&O stores Q3 2020 /Q2 2020	Growth O&O stores Q3 2020 /Q3 2019
	Q3 2020	Q2 2020	Q3 2019			Q3 2020		
UK	217	216	231	1	-14	139	12	12
Italy	146	146	148	-	-2	107	-	-
France	121	121	120	-	1	77	-	2
Germany	139	138	148	1	-9	135	2	-7
US	401	403	396	-2	5	153	-3	-1
Australia	123	123	127	-	-4	37	-1	-1
China	236	236	234	-	2	225	-	2
All markets	2,689	2,714	2,721	-25	-32	1,379	6	-

¹Includes 7 key markets measured on revenue for FY 2019. All markets with 10 or more concept stores can be found in the Excel appendix uploaded on www.pandoragroup.com

NOTE 16 – Commodity hedging

It is Pandora’s policy to hedge at least 70% of the Group’s expected consumption based on a rolling 12-months production plan. The below table illustrates the timing of the use of the silver for production, i.e. excluding the time lag effect from inventory to Cost of sales (when the product is sold). The time-lag from use in production to impact on Cost of sales is usually 2-4 months.

HEDGED AND REALISED PURCHASE PRICES (AT USE OF THE SILVER AND GOLD FOR PRODUCTION)

USD / OZ	Realised in Q3 2020	Hedged Q4 2020	Hedged Q1 2021	Hedged Q2 2021	Hedged Q3 2021
Gold price	1,602	1.712	1,747	1,832	1,896
Silver price	18.65	17.31	20.99	20.44	24.06
Commodity hedge ratio, %	Realised	70-100%	70-90%	50-70%	30-50%

Pandora has also opportunistically hedged additional silver during the COVID-19 pandemic where the silver prices were very low. As this was an opportunistic approach in addition to the hedging policy, Pandora terminated the position at a gain of DKK 49 million which will impact Cost Of Sales, mainly in the Q1 2021 and Q2 2021. This gain is not reflected in the hedging purchase prices in the table above.

NOTE 17 – Subsequent events

Other than as described in “Other events” in the Management review, Pandora is not aware of events after 30 September 2020, which are expected to materially impact the Group’s financial position.

QUARTERLY OVERVIEW

DKK million	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Key financial highlights					
Organic growth, %	-5%	-38%	-14%	-1%	-14%
Sell-out growth incl. temporarily closed stores	-2%	-39%	-17%	-5%	-11%
Total like-for-like sales out, % ¹	1%	8%	-11%	-4% ¹	-10% ¹
Revenue growth, local currency, %	-5%	-38%	-14%	-1%	-13%
Gross margin excl. restructuring costs, %	78.1%	74.9%	77.4%	78.4%	78.6%
EBIT excl. restructuring costs	702	33	638	2,806	891
EBIT margin excl. restructuring costs, %	17.2%	1.1%	15.3%	35.3%	20.2%
Operating working capital, % of last 12 months revenue	4.2%	2.8%	4.2%	3.1%	8.6%
Capital expenditure (CAPEX)	117	121	129	184	254
Capital expenditure, property, plant and equipment (CAPEX)	97	100	94	143	154
Free cash flow incl. lease payments	457	943	-272	2,760	758
Cash conversion incl. lease payments, %	98%	N/A	-134%	120%	N/A
Ratios					
Effective tax rate, %	22.5%	22.5%	22.5%	23.5%	22.5%
Equity ratio, %	30%	29%	19%	24%	19%
NIBD to EBITDA excl. restructuring costs ² , x	1.1	1.1	1.3	1.1	1.5
Return on invested capital (ROIC) ² , %	22%	16%	22%	27%	26%
Total payout ratio (incl. share buyback) ³ , %	-	-	N/A	34%	N/A
Other financial highlights					
Consolidated income statement					
Revenue	4,070	2,876	4,172	7,956	4,415
Gross profit	3,183	2,099	3,144	6,032	2,747
<i>Gross margin, %</i>	<i>78.2%</i>	<i>73.0%</i>	<i>75.4%</i>	<i>75.8%</i>	<i>62.2%</i>
Earnings before interests, tax, depreciations and amortisations (EBITDA)	1,045	325	733	2,862	520
<i>EBITDA margin, %</i>	<i>25.7%</i>	<i>11.3%</i>	<i>17.6%</i>	<i>36.0%</i>	<i>11.8%</i>
Operating profit (EBIT)	467	-198	204	2,302	-198
<i>EBIT margin, %</i>	<i>11.5%</i>	<i>-6.9%</i>	<i>4.9%</i>	<i>28.9%</i>	<i>-4.5%</i>
Net financials	-24	-28	-234	-27	44
Net profit for the period	343	-175	-24	1,741	-119
Consolidated balance sheet					
Total assets	18,932	18,859	19,529	21,571	21,968
Invested capital	12,544	12,864	13,810	14,268	15,571
Operating working capital	801	535	899	684	1,869
Net interest-bearing debt (NIBD)	6,862	7,391	10,178	9,019	11,333
Equity	5,682	5,473	3,632	5,249	4,237

¹ Like-for-like is calculated excluding stores that have been temporarily closed. Like-for-like in Q3 2019 and Q4 2019 excluding Hong Kong SAR due to the extraordinary turmoil in the market.

² Ratios are based on 12 months' rolling EBITDA and EBIT, respectively.

³ Excluding sale of Treasury shares amounting to DKK 1.8 billion in Q2 2020

MANAGEMENT STATEMENT

The Board and the Executive Management have reviewed and approved the interim financial report of Pandora A/S for the period 1 January – 30 September 2020. The consolidated interim financial statement, which has not been audited or reviewed by the Company's auditor, has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the EU, and additional requirements in the Danish Financial Statements Act.

It is our opinion that the consolidated interim financial statement gives a true and fair view of the financial position for the Pandora Group at 30 September 2020 and the results of the Pandora Group's operations and cash flow for the period 1 January – 30 September 2020.

Further, in our opinion, the Management's review gives a fair view of the development in the Group's activities and financial matters, results of operations, cash flows and the financial position as well as a description of material risks and uncertainties that the Group face.

Copenhagen, 03 November 2020

EXECUTIVE MANAGEMENT

Alexander Lacik
Chief Executive Officer

Anders Boyer
Chief Financial Officer

BOARD

Peter A. Ruzicka
Chair

Christian Frigast
Deputy Chair

Andrea Alvey

Birgitta Stymne Göransson

Isabelle Parize

Marianne Kirkegaard

Ronica Wang

Catherine Spindler

DISCLAIMER

This company announcement contains forward-looking statements, which include estimates of financial performance and targets. These statements are not guarantees of future performance and involve certain risks and uncertainties. Therefore, actual future results and trends may differ materially from what is forecast in this report due to a variety of factors.

PANDÖRA
Something about you

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