

PANDÖRA



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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

Continued brand momentum drives strong performance

- COVID-19 creates elevated uncertainty about 2021

Highlights

- Pandora delivered a strong finish to the year with 4% organic growth in Q4 2020 despite COVID-19 lockdowns. 10% of the stores were temporarily closed during Q4
- Online organic growth was 104% and online contributed 32% of total revenue
- The strong Q4 performance resulted in full year organic growth of -11%, which is ahead of the guidance provided in November 2020 (“-14% to -17%”). China, as expected, underperformed
- COVID-19 causes elevated uncertainty to the trading environment in 2021. Excluding COVID-19 impact, Pandora expects underlying revenue growth to resume in 2021
- The successful Programme NOW transformation is nearing its conclusion. A new strategy is being prepared with focus on growth based on our existing core business. Further details will be announced later in the year
- Pandora enters 2021 with a strong cash position and is well positioned for the year ahead

The strong performance in Q4 is evidence that the initiatives under Programme NOW are generating brand momentum, improving brand relevance and driving retail metrics. Underlying trading continues to indicate that the top-line is stabilizing and Pandora is gradually getting ready to change focus from transformation to growth. It should be noted though that the negative impact from temporary store closures in Q4 appears to have been (partially) offset by a non-recurring positive impact from discretionary spend on certain categories, such as jewellery.

In 2021, Pandora expects to return to top-line growth. In the absence of COVID-19 impact, Pandora would have guided “above 14%” organic growth (equal to “above 2%” versus 2019). Including an assumed -6% impact from COVID-19, the organic growth guidance is “above 8%” (equal to “above -3%” versus 2019). The EBIT margin is expected to be “above 21%” including a negative impact of around -2pp from COVID-19.

Alexander Lacik, President and CEO of Pandora, says:

The year that passed was truly challenging - from at least three different angles. First, Pandora is in the middle of its turnaround program. Secondly, the impacts of COVID-19. Finally, we entered a complete change of our organisation and operating model. Despite these significant disruptions, we managed to navigate the business to a very strong performance, leading to market share gains in many markets. I am proud of the resilience, agility and commitment the whole Pandora team has shown during these trying times. We continue to invest strongly in building the brand desirability, digital capabilities and operational excellence - all which will be key foundations as we gradually move from transformation to growth mode.

Financial overview (excl. restructuring costs)

	Q4 2020	Q4 2019	FY 2020	FY 2019
Sell-out growth incl. temporarily closed stores, %	1%	-5%	-12%	-8%
Organic growth, %	4%	-1%	-11%	-8%
Revenue, DKK million	7,891	7,956	19,009	21,868
Gross margin, %	75.7%	78.4%	76.5%	77.4%
EBIT margin, %	31.8%	35.3%	20.4%	26.8%

FINANCIAL HIGHLIGHTS

DKK million	Q4 2020	Q4 2019	FY 2020	FY 2019	FY 2021 guidance
Key financial highlights					
Organic growth, %	4%	-1%	-11%	-8%	"Above 8%"
Sell-out growth incl. temporarily closed stores, %	1%	-5%	-12%	-8%	
Total like-for-like sales out, % ¹	6%	-4%	1%	-8%	
Gross margin excl. restructuring costs, %	75.7%	78.4%	76.5%	77.4%	
EBIT margin excl. restructuring costs, %	31.8%	35.3%	20.4%	26.8%	"Above 21%"
Consolidated income statement (reported)					
Revenue	7,891	7,956	19,009	21,868	
Earnings before interest, tax, depreciation and amortisation (EBITDA)	2,896	2,862	4,999	6,148	
Operating profit (EBIT)	2,212	2,302	2,684	3,829	
Net financials	96	-27	-190	1	
Net profit for the period	1,794	1,741	1,938	2,945	
Financial ratios					
Revenue growth DKK, %	-1%	1%	-13%	-4%	
Revenue growth, local currency, %	4%	-1%	-11%	-6%	
Gross margin (reported), %	75.4%	75.8%	75.6%	72.7%	
EBITDA margin (reported), %	36.7%	36.0%	26.3%	28.1%	
EBIT margin (reported), %	28.0%	28.9%	14.1%	17.5%	
Effective tax rate, %	22.3%	23.5%	22.3%	23.1%	
Equity ratio, %	37%	24%	37%	24%	
NIBD to EBITDA excl. restructuring costs, x	0.5	1.1	0.5	1.1	
Return on invested capital (ROIC), %	25%	27%	25%	27%	
Cash conversion incl. lease payments, %	171%	120%	183%	133%	
Operating working capital, % of last 12 months revenue	-2.1%	3.1%	-2.1%	3.1%	
Stock ratios					
Total pay-out ratio (incl. share buyback) ² , %	-	34%	65%	147%	
Dividend per share, DKK ³	-	9.0	-	9.0	
Quarterly dividend per share, DKK ⁴	-	-	-	9.0	
Earnings per share, basic, DKK	18.5	18.0	20.0	30.3	
Earnings per share, diluted, DKK	18.4	18.0	19.9	30.1	
Consolidated balance sheet					
Total assets	19,984	21,571	19,984	21,571	
Invested capital	10,540	14,268	10,540	14,268	
Operating working capital	-391	684	-391	684	
Net interest-bearing debt (NIBD)	3,151	9,019	3,151	9,019	
Equity	7,389	5,249	7,389	5,249	
Consolidated statement of cash flow					
Cash flow from operating activities	4,062	3,204	5,975	6,775	
Capital expenditure – total	124	184	491	822	
Capital expenditure – property, plant and equipment	78	143	369	556	
Free cash flow incl. lease payments	3,780	2,760	4,908	5,075	

¹ Like-for-like excluding stores which have been temporarily closed in 2020 due to COVID-19 (2019: excluding Hong Kong SAR in Q3 and Q4 due to the extraordinary turmoil in the market).

² Excluding sale of Treasury shares amounting to DKK 1.8 billion in Q2 2020.

³ Proposed dividend per share for the year.

⁴ Paid quarterly dividend per share for the period.

COVID-19

Managing peak trading season under COVID-19 restrictions

Despite a new lockdown wave in Q4 2020, Pandora delivered positive revenue growth. Pandora had prepared thoroughly to meet the peak trading season demand under COVID-19 restrictions with motivated store staff, actively managing fresh inventory, and continuing a strong media and marketing push.

To manage the uncertainty from new COVID-19 restrictions, Pandora implemented initiatives to:

1. Accommodate peak traffic into physical stores through a combination of increasing available store space and decreasing transaction time in an already fast transaction environment. Initiatives included opening of around 100 temporary pop-up shops minimising queues and traffic.
2. Stretch peak trading periods for Black Friday and Christmas over longer time.
3. Transfer traffic from offline to online by enhancing digital offerings and media planning. Specific initiatives such as remote shopping assistants and accelerated omni-channel roll outs in mature online markets like US and UK supported the business in Q4.

The traffic into owned physical stores is down by around 60% compared to Q4 2019. But the quality of traffic is better, leading to a materially higher conversion rate while also indicating that more consumers enter the stores with a purpose to buy during the pandemic. The organic growth of the online channel was 104% in Q4 2020 driven by an improvement in traffic.

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.

In our best judgement it appears that the jewellery category has been less impacted than many other luxury segments. Reasons are likely that consumers have spent less on travel and other related services due to COVID-19 restrictions. Revenue has therefore been impacted by two opposing factors, on one hand store closures/limited opening hours possibly countered by some discretionary spend on certain categories, such as jewellery.

The recent increase in COVID-19 infections has led to numerous new restrictive government guidelines and lockdowns for retail stores around the globe. These guidelines entail, among others, that all Pandora stores in the UK and Germany are temporarily closed as at end January 2021. On average, around 10% of the physical stores were temporarily closed during Q4 2020. However, as at end January 2021 around 30% of physical stores were temporarily closed and more than 30% were open but operating at reduced openings hours. COVID-19 continues to create elevated uncertainty about the financial performance in 2021.

UPDATE ON PROGRAMME NOW

The two-year turn-around programme announced in November 2018 is nearing its conclusion. During the last two years, Pandora has taken a major step forward in transforming the company and reassert its industry lead. The top-line is stabilising and marks the readiness for the next phase.

The ensuing turnaround plan, Programme NOW, was designed around four transformation objectives to create the needed stabilisation of the business: brand relevance, brand access, cost reset, and commercial reset.

The performance in Q4 confirm that the initiatives under Programme NOW continue to generate momentum, improve brand relevance and drive retail metrics, as trading continues to indicate that the top-line is stabilising and Pandora is gradually getting ready and poised to change focus from transformation to growth. Later in the year, Pandora will present a new strategy outlining the initiatives to be taken to embark on the next era of growth.

The key focus areas in the second stage of Programme NOW

Turnaround objectives	 Brand Relevance	Data-driven growth and personalisation
		Win in China
	 Brand Access	Omnichannel capabilities
		New store concept
	 Cost Reset	Cost Reset continuation

Brand Relevance – Brand gaining further momentum through turbulent times

Pandora continued to invest in marketing activities in Q4 exploiting its favourable cash position gaining brand momentum and increased share of voice.

Pandora invested heavily in media across all channels ranging from TV campaigns and digital adds to personalised e-mail marketing. Pandora saw strong result of its personalised e-mail marketing targeting which continued to deliver record results showing triple digit revenue uplifts in the peak period of Black Friday.

On 1 October 2020, Pandora launched its product collaboration with Lucasfilm with 11 Star Wars charms and one bracelet. Star Wars has been performing in line with expectations with some regional differences and especially in the US the collection has been well received. The share of business is roughly in line with the performance of Harry Potter following its 2019 launch and is an example of how Pandora uses collaborations to boost energy and excitement around the brand.

China continue to be highly challenging, as expected. The new Management in China continue to make operational improvements, while preparing the new growth plan. Performance in China is not expected to improve in the short term until ongoing initiatives take effect.

Brand Access – New operating model proves effective

The new operating model announced early 2020 showed clear positive effects during Q4. The strategic reorganisation has brought Pandora closer to consumers and ensures a more consistent global execution of product and marketing concepts, enable faster decision-making, better collaboration in the company and improves management of inventory.

A key enabler of the success seen online is the establishment of the Digital Hub in mid-2020. The digital initiatives have gained significant momentum resulting in faster code roll-out to sites, personalisation as well as accelerated implementation of the omnichannel capabilities. Website speed – which is instrumental to conversion – has also been a focus area and Pandora saw average page loading time below 3 seconds during the peak trading period, more than 40% down from early 2020.

It has been key for Pandora to manage social restrictions in Q4 while still providing our consumers with a great shopping experience. Several initiatives were implemented to manage this by offering virtual queuing in stores, virtual shopping assistance online, virtual try-ons and added around 100 pop-up stores to increase selling space. Additionally, Pandora implemented click-and-collect in most stores in US and UK, and offered curbside pick-up in the US.

Late 2020, Pandora established a new team to drive the future physical store concept. The focus for the new team will be to improve both the customer experience as well as the store productivity compared to the existing concept. One of the design principles is that CAPEX per store should not be materially different from today. Having said that, it should be noted that the fleet age is increasing and an increase in CAPEX related to store refits should be expected once the new concept is ready for roll-out, expectedly in 2022.

Cost Reset – Completion of DKK 1.6 billion cost reduction programme

During the past two years, the Cost Reset target has been increased from originally DKK 1.2 billion to DKK 1.6 billion p.a. Exiting 2020, the target has been reached. The successful cost reduction programme will, as communicated in Q3, continue after Programme NOW with a dedicated Cost Reset team to fully manifest the cost culture and continue to leverage cost reduction opportunities throughout the company. The run-rate impact in the calendar year 2021 of the cost reduction initiatives already delivered will be DKK 350 million.

The Programme NOW restructuring costs amounted to DKK 1.2 billion in 2020, in line with the guidance. In Q4 2020, Pandora incurred DKK 296 million restructuring costs. Q4 2020 marks the last quarter with restructuring costs separated out from the underlying business performance.

QUARTERLY OVERVIEW OF PROGRAMME NOW RESTRUCTURING COSTS

DKK million	Q4 2020 reported	Restructuring costs	Q4 2020 excl. restructuring costs	Q4 2019 reported	Restructuring costs	Q4 2019 excl. restructuring costs
Revenue	7,891	-	7,891	7,956	-	7,956
Cost of sales	-1,941	-21	-1,920	-1,924	-203	-1,721
Gross profit	5,950	-21	5,971	6,032	-203	6,235
Sales and distribution expenses	-1,943	23	-1,966	-1,881	-21	-1,860
Marketing expenses	-1,117	-65	-1,052	-1,052	-67	-985
Administrative expenses	-678	-234	-444	-797	-212	-585
Operating profit (EBIT)	2,212	-296	2,508	2,302	-503	2,806

YEAR-TO-DATE OVERVIEW OF PROGRAMME NOW RESTRUCTURING COSTS

DKK million	FY 2020 reported	Restructuring costs	FY 2020 excl. restructuring costs	FY 2019 reported	Restructuring costs	FY 2019 excl. restructuring costs
Revenue	19,009	-	19,009	21,868	-	21,868
Cost of sales	-4,634	-159	-4,475	-5,966	-1,016	-4,950
Gross profit	14,375	-159	14,534	15,903	-1,016	16,919
Sales and distribution expenses	-6,345	-112	-6,234	-6,457	-198	-6,259
Marketing expenses	-2,810	-93	-2,717	-2,847	-151	-2,696
Administrative expenses	-2,536	-834	-1,702	-2,770	-660	-2,110
Operating profit (EBIT)	2,684	-1,197	3,881	3,829	-2,025	5,854

COMMERCIAL REVIEW

Back to positive growth in Q4 2020

Q4 2020 started with most of the stores being open. During the quarter, however, the COVID-19 lockdowns increased with Germany and UK mostly affected. All markets were generally impacted by restrictions from social distancing. To accommodate this, Pandora initiated several commercial initiatives in Q4 to mitigate the risk from COVID-19 lockdowns, which contributed positively to the strong performance of 4% organic growth. Traffic was, as expected, negative in the physical stores partly offset by double digit growth in conversion rates. The total sell-out growth was positive at 1% following the strong online performance where both traffic and conversion rates continue to grow by high double digits. Pandora's strong brand position was maintained and one third of all Google searches for branded jewellery globally in Q4 2020 was for Pandora.

Both Global Business Units showed good performance in Q4 2020. *Moments and Collabs* generated 1% sell-out growth while *Style and Upstream Innovation* generated 1% sell-out growth.

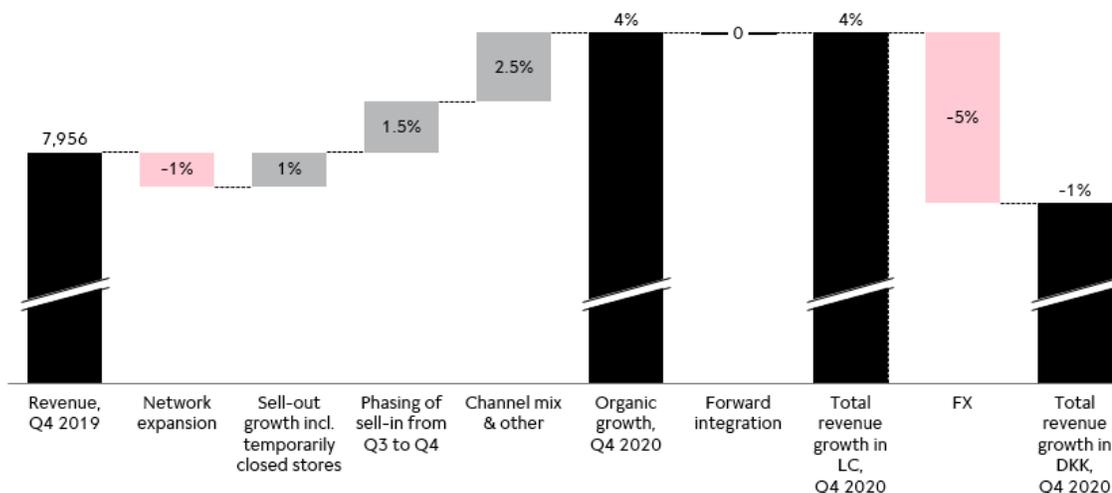
Organic growth was negatively impacted by approximately -1pp from the closure of 80 stores compared with Q4 2019.

Accelerated by the impact of lockdowns and social restrictions in physical stores, the channel mix skewed heavily towards online. This created a positive impact on revenue converting wholesale sell-in to sell-out in the online channel.

The stores owned by wholesale partners generally performed in line with Pandora owned stores and ended the year with healthy inventory levels.

REVENUE GROWTH COMPOSITION

DKK million, %-p growth (approximately)



REVIEW OF REVENUE BY CHANNEL

Pandora owned retail generated organic growth of 11% driven by very strong online store performance offsetting the impact from COVID-19 related lockdowns in physical stores.

Pandora's wholesale partners performed roughly in line with Pandora owned concept stores in Q4 in terms of sell-out. Sell-in to wholesale partners picked up in Q4 following a cautious inventory approach in Q3, as well as phasing of sell-in timing.

QUARTERLY REVENUE DEVELOPMENT BY CHANNEL

DKK million	Q4 2020	Q4 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out ¹	Organic growth	Local currency growth	Share of revenue
Pandora owned² retail	5,525	5,216	10%	16%	11%	12%	70%
- of which concept stores	2,725	3,644	-	-	-23%	-21%	35%
- of which online stores	2,533	1,307	-	-	104%	104%	32%
- of which other points of sale	266	264	-	-	3%	7%	3%
Wholesale	2,143	2,480	-14%	-10%	-9%	-10%	27%
- of which concept stores	1,182	1,434	-	-	-11%	-14%	15%
- of which other points of sale	961	1,046	-	-	-5%	-5%	12%
Third-party distribution	223	261	-14%	-10%	-10%	-10%	3%
Total revenue	7,891	7,956	1%	6%	4%	4%	100%

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

² Pandora does not own any of the premises (Land and buildings) where stores are operated. Pandora exclusively operates stores from leased premises.

YEAR-TO-DATE REVENUE DEVELOPMENT BY CHANNEL

DKK million	FY 2020	FY 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out ¹	Organic growth	Local currency growth	Share of revenue
Pandora owned retail²	13,426	14,181	-3%	10%	-3%	-2%	71%
- of which concept stores	7,321	10,619	-	-	-30%	-29%	39%
- of which online stores	5,483	2,782	-	-	103%	103%	29%
- of which other points of sale	622	780	-	-	-22%	-18%	3%
Wholesale	4,949	6,725	-27%	-13%	-24%	-25%	26%
- of which concept stores	2,714	3,843	-	-	-26%	-28%	14%
- of which other points of sale	2,235	2,882	-	-	-21%	-21%	12%
Third-party distribution	634	962	-27%	-13%	-33%	-33%	3%
Total revenue	19,009	21,868	-12%	1%	-11%	-11%	100%

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

² Pandora does not own any of the premises (Land and buildings) where stores are operated. Pandora exclusively operates stores from leased premises.

REVIEW OF NETWORK DEVELOPMENT

The total number of concept stores was almost unchanged from Q3 to Q4 2020. Compared to Q4 2019, 80 stores have been closed, mainly in UK, Germany and Latin America following an overall pruning of the network.

Number of points of sale	Q4 2020	Q3 2020	Q4 2019	Growth Q4 2020 /Q3 2020	Growth Q4 2020 /Q4 2019
Concept stores	2,690	2,689	2,770	1	-80
- of which Pandora owned ¹	1,382	1,379	1,397	3	-15
- of which franchise owned	797	809	856	-12	-59
- of which third-party distribution	511	501	517	10	-6
Other points of sale	4,402	4,463	4,657	-61	-255

¹ Pandora does not own any of the premises (Land and buildings) where stores are operated. Pandora exclusively operates stores from leased premises.

REVIEW OF REVENUE BY KEY MARKETS

The *US market*, Pandora's largest market generating 25% of total revenue, delivered very strong performance in Q4 2020, driven by the successful execution of key trading events and utilisation of omni-channel features. The Star Wars collection had a strong release on the US market while efforts to extend the Black Friday trading period mitigated peak traffic bottlenecks and boosted November performance above expectations. The impact on physical stores from lockdowns, opening hours restrictions and social distancing requirements were alleviated by omni-channel initiatives, including curb-side delivery and virtual try-on, bringing sell-out growth to 22%.

The *UK market* was challenged by lockdowns in physical stores throughout large parts of the quarter, yet still managed to bring growth through leveraging strong online capabilities. Most physical stores were closed throughout November and after a short reopening at the start of December, closed again. Digital initiatives helped stimulate online performance with targeted e-mails proving particularly effective in activating customers. Overall sell-out growth was slightly positive supported by triple-digit online growth.

The *Chinese market* performance was unsatisfactory with sell-out decreasing by -25%, despite Singles' Day generating some momentum. As previously communicated, the core issue in China is that Pandora is perceived as a mainstream jewellery brand. Consumer perception must be changed to focus on Pandora's key brand strengths. Functional execution continues to improve step by step while the longer term growth plan is being built. Performance in China is not expected to improve in the short term.

Despite COVID-19 challenges, both the US and Germany delivered positive sell-out growth for the full year. UK and Australia also delivered close to flat sell-out for the full year.

QUARTERLY REVENUE DEVELOPMENT BY KEY MARKETS

DKK million	Q4 2020	Q4 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out	Organic growth	Local currency growth	Share of revenue
UK	1,345	1,295	1%	11%	9%	10%	17%
Italy	825	854	-12%	-7%	-3%	-3%	10%
France	494	494	1%	8%	1%	1%	6%
Germany	418	390	5%	21%	7%	7%	5%
US	1,982	1,792	22%	23%	20%	20%	25%
Australia	537	439	19%	24%	24%	24%	7%
China	322	424	-25%	-25%	-23%	-23%	4%
Total top-7 markets	5,922	5,688	-	-	-	-	75%
Total revenue	7,891	7,956	1%	6%	4%	4%	100%

YEAR-TO-DATE REVENUE DEVELOPMENT BY KEY MARKETS

DKK million	FY 2020	FY 2019	Sell-out growth incl. temporarily closed stores	Like-for-like sales-out	Organic growth	Local currency growth	Share of revenue
UK	2,960	2,861	-2%	19%	5%	6%	16%
Italy	2,021	2,272	-16%	1%	-11%	-11%	11%
France	1,154	1,169	-4%	10%	-1%	-1%	6%
Germany	1,014	963	4%	17%	5%	6%	5%
US	4,505	4,677	1%	17%	0%	0%	24%
Australia	1,120	1,118	-2%	7%	2%	2%	6%
China	1,261	1,970	-35%	-33%	-35%	-35%	7%
Total top-7 markets	14,036	15,030	-	-	-	-	74%
Total revenue	19,009	21,868	-12%	1%	-11%	-11%	100%

PROFITABILITY

STRONG EBIT MARGIN IN A DIFFICULT ENVIRONMENT

The EBIT margin excluding restructuring costs was 31.8% in Q4 2020, down from 35.3% in Q4 2019. As illustrated in the bridge below, the EBIT margin was negatively affected by around 2pp due to costs of a one-off nature: a) higher transaction costs per sale resulting from initiatives to accommodate widespread COVID-19 restrictions through peak trading and b) non-recurring costs related to among others write-off of intangible assets (design rights).

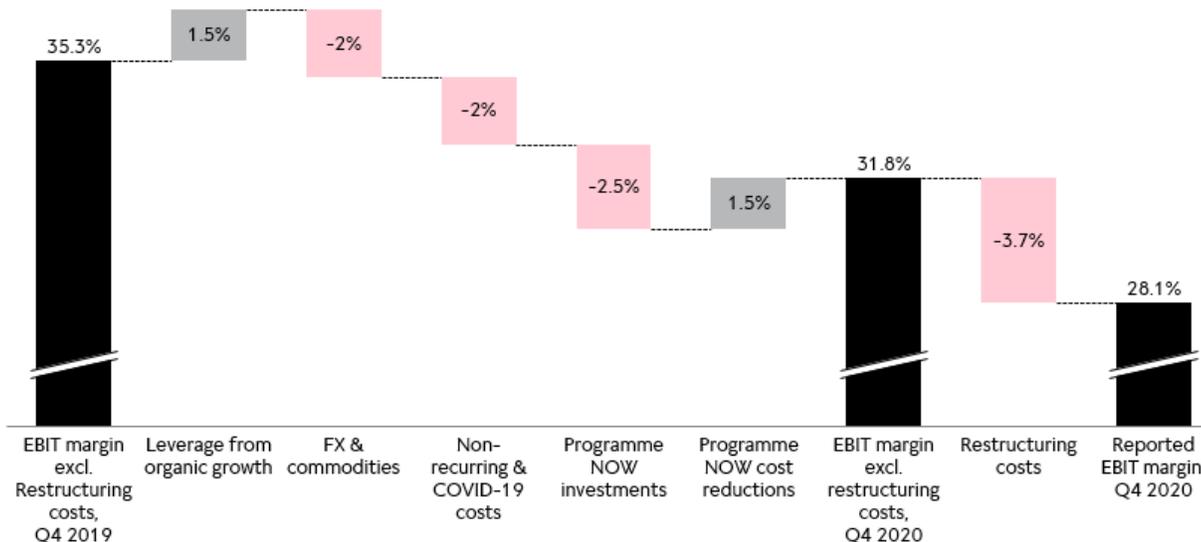
The incremental EBIT margin leverage from the 4% top-line growth was offset by adverse foreign exchange development and rising commodity prices. The adverse impact from the development in foreign exchange rates came mainly from depreciation of the GBP and USD against the Danish krone which was partly offset by a positive effect from weakening of the THB. Combined with higher silver and gold prices, it led to a total headwind of -2pp.

The Cost Reset initiative under Programme NOW continue to generate year-over-year cost reductions. In Q4, the savings amounted to DKK 125m. The cost savings were reinvested in driving top-line growth through marketing, data driven growth and other commercial initiatives, all to support the strong execution in Q4.

EBIT excluding restructuring costs was DKK 2,508 million this quarter. A total of DKK 296 million restructuring costs were incurred of which DKK 21 million impacted cost of sales and DKK 275 million impacted operating expenses.

EBIT-MARGIN DEVELOPMENT

%-p growth (approximately)



GROSS MARGIN

In Q4 2020, the gross margin excluding restructuring costs was 75.7% compared with 78.4% in Q4 2019. The underlying gross margin in the individual channels is roughly unchanged. The decline was driven by a) higher silver prices and adverse foreign exchange development (combined -1.5pp) and b) a non-recurring write-down as mentioned above (-1pp).

In the quarter, the gross margin was also impacted by two opposing channel mix effects. On the one hand, the gross margin was supported by a higher share of retail versus wholesale. This is, however, more than offset by the significant increase in the online channel where the gross margin is slightly lower than O&O stores, as freight cost is recognised in cost of sales. This negative channel mix effect was largely offset by cost reductions and improved manufacturing efficiency.

COST OF SALES AND GROSS PROFIT

DKK million	Q4 2020	Q4 2019	Growth	Share of revenue Q4 2020	Share of revenue Q4 2019	FY 2020	FY 2019	Growth	Share of revenue FY 2020	Share of revenue FY 2019
Revenue	7,891	7,956	-1%	100.0%	100.0%	19,009	21,868	-13%	100.0%	100.0%
Cost of sales	-1,920	-1,721	12%	-24.3%	-21.6%	-4,475	-4,950	-10%	-23.5%	-22.6%
Gross profit excl. restructuring costs	5,971	6,235	-4%	75.7%	78.4%	14,534	16,919	-14%	76.5%	77.4%
Restructuring costs	-21	-203	-90%	-0.3%	-2.6%	-159	-1,016	-84%	-0.8%	-4.6%
Gross profit incl. restructuring costs	5,950	6,032	-1%	75.4%	75.8%	14,375	15,903	-10%	75.6%	72.7%

OPERATING EXPENSES

Total operating expenses excluding restructuring costs was DKK 3,462 million in Q4 2020, up 1% compared to Q4 2019 or 5% in constant foreign exchange rates. As a result of the re-organisation announced in the first quarter of 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 retroactively from 1 January 2020 and the comparative figures have not been restated. The impact of the change in Q4 2019 would have been approximately DKK 80 million. Administrative expenses adjusted for the reclassification decreased by 7% in constant foreign exchange rates coming from cost reset initiatives. Adjusted Sales and distribution expenses increased by 5% in constant foreign exchange rates. Marketing expenses increased by 11% in constant foreign exchange rates as part of our continued efforts to drive relevance of the brand and a deliberate choice to gain share of voice in a competitive fourth quarter. Government subsidies amounted to approximately DKK 36 million in the quarter.

OPERATING EXPENSES

DKK million	Q4 2020	Q4 2019	Growth	Share of revenue Q4 2020	Share of revenue Q4 2019	FY 2020	FY 2019	Growth	Share of revenue FY 2020	Share of revenue FY 2019
Sales and distribution expenses	-1,966	-1,860	6%	24.9%	23.4%	-6,234	-6,259	0%	32.8%	28.6%
Marketing expenses	-1,052	-985	7%	13.3%	12.4%	-2,717	-2,696	1%	14.3%	12.3%
Administrative expenses	-444	-585	-24%	5.6%	7.4%	-1,702	-2,110	-19%	9.0%	9.6%
Total operating expenses excl. restructuring costs	-3,462	-3,430	1%	43.9%	43.1%	-10,652	-11,065	-4%	56.0%	50.6%
Restructuring costs	-276	-300	-8%	3.5%	3.8%	-1,038	-1,009	3%	5.5%	4.6%
Total operating expenses incl. restructuring costs	-3,738	-3,730	0%	47.4%	46.9%	-11,691	-12,074	-3%	61.5%	55.2%

CASH FLOW & BALANCE SHEET

CONTINUED STRONG FREE CASH FLOW IN Q4 – RECORD LOW WORKING CAPITAL

The free cash flow was strong again in Q4 2020 and ended at DKK 3.8 billion adjusted for IFRS16 (including payments related to leases) corresponding to a cash conversion of 171%. 2020 thereby became the second consecutive year with cash conversion above 100%. Besides a continued solid development in operating working capital, the strong free cash flow was driven by a lower tax payment than Q4 2019, and a lower CAPEX level helped by limited physical store openings, relocations and refurbishments as well as initiatives taken to protect cash in an uncertain environment.

The operating working capital ended at -2% of revenue – a historical low. Inventories dropped following the strong Q4 performance and wholesale Trade receivables ended at a low 23 Days Sales Outstanding, down from 36 by the end of 2019. As previously mentioned, Pandora do not consider the current working capital level sustainable. In 2021, Pandora plans for a higher inventory level in order to decrease the risk of disruptions in the supply chain as well as decrease the risk of stock-outs. Additionally, a lower level of trade payables should be expected in 2021 as one-off restructuring costs disappear.

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

Share of preceding 12 months' revenue	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Inventories	10.3%	13.7%	11.6%	10.1%	9.8%
Trade receivables	4.6%	3.2%	3.1%	5.1%	7.5%
Trade payables	-16.9%	-12.7%	-11.9%	-11.0%	-14.2%
Total	-2.1%	4.2%	2.8%	4.2%	3.1%

Net working capital – operating working capital plus other receivables and payables as well as provisions - ended at DKK -1.4 billion following the development seen in the operating working capital.

NIBD to EBITDA excl. restructuring costs was 0.5x by the end of December. This is well below the covenant threshold (4.25x) and in the low end of the capital structure policy (NIBD to EBITDA between 0.5 and 1.5x). Available liquidity amounted to DKK 10 billion by the end of Q4 2020, of which DKK 3 billion is cash.

Pandora enters 2021 with a strong cash position and is well positioned for a year with continued elevated uncertainty related to COVID-19.

FINANCIAL GUIDANCE

2021 FINANCIAL GUIDANCE: STABILISING THE TOPLINE

In 2021, Pandora expects to reach an important milestone: returning to top-line growth after three years of decline. In the absence of COVID-19 impact, we would guide for slightly positive organic growth in 2021 versus 2019. However, we expect 2021 will be impacted by COVID-19 and performance therefore remains highly uncertain.

Including an assumed -6% COVID-19 impact on organic growth in 2021, Pandora guides as follows:

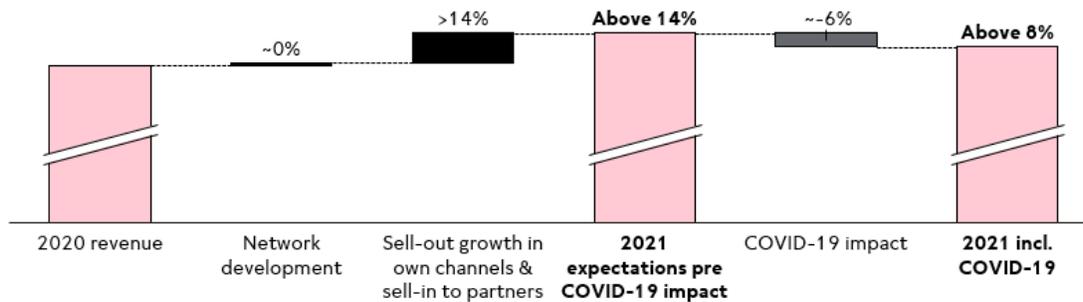
	Excluding impact from COVID-19	Official 2021 Guidance Including impact from COVID-19
Organic revenue growth	Above 14% (Above 2% versus 2019)	Above 8% (Above -3% versus 2019)
EBIT margin	Above 23%	Above 21%

Excluding the assumed COVID-19 impact in 2021, the guidance represents more than 2% organic growth compared to 2019 and an EBIT margin above 23%.

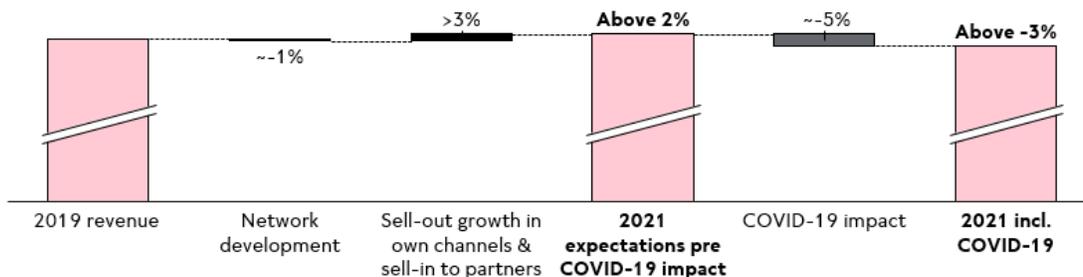
REVENUE GUIDANCE

The organic growth guidance can be illustrated as follows:

2021 vs 2020



2021 vs 2019



The guidance is based on the assumption that approximately 25% of the stores will be temporarily closed during the first half of 2021 and that organic growth will be negatively impacted by around -16% in the first half (around -6% full year impact). For the second half of 2021, it is assumed that there are no significant store closures and that COVID-19 related store restrictions will have limited impact.

The guidance is also based on the assumption that the positive impact seen in late 2020 of reallocation of consumer spending away from travelling and services towards gifting and discretionary goods was not larger than the negative impact from temporary store closures.

Pandora expects that China will remain a drag on total revenue growth in 2021 and that revenue in China for the year will be well below 2019. China remains top priority and a significant growth opportunity for Pandora.

Forward integration is expected to add around 1% revenue in 2021. Furthermore, we expect headwind from foreign exchange rates of approximately -1% taking total revenue growth in DKK to above 8% in 2021.

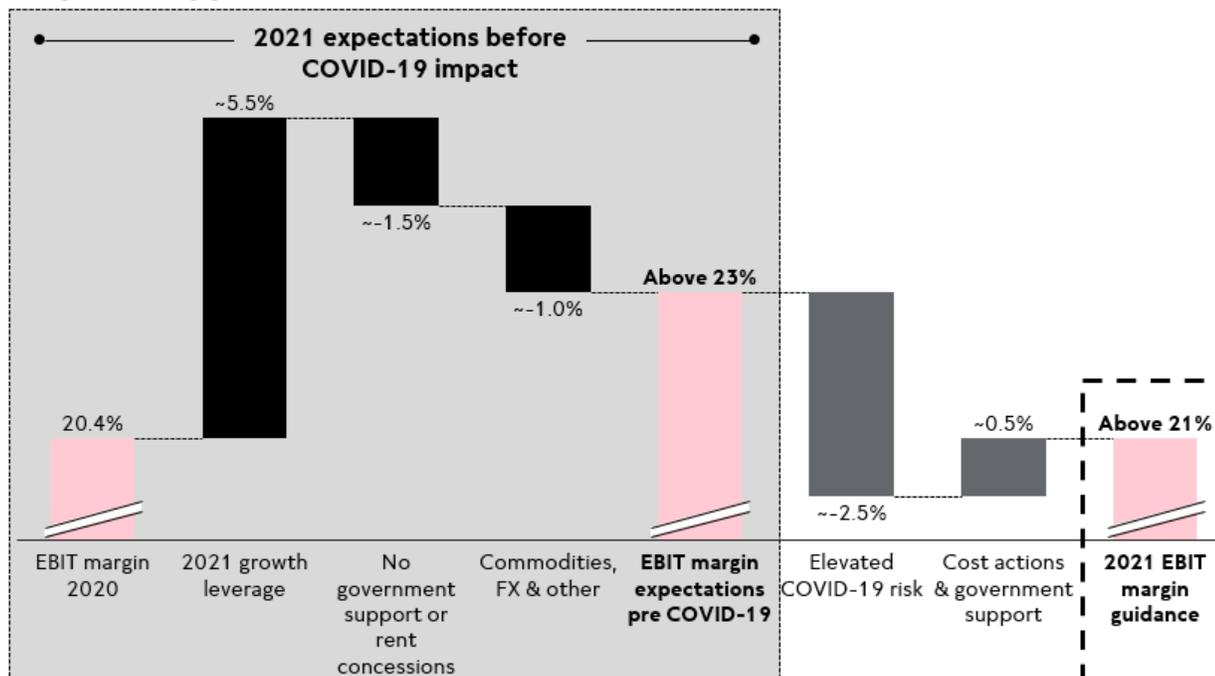
PROFITABILITY GUIDANCE

The 2021 EBIT margin is expected to be “above 21%” including negative COVID-19 impact of around 2pp. The building blocks in the guidance are illustrated in the bridge below. It shows there is significant positive operating leverage in the business model. In the EBIT margin guidance for 2021, however, this is not directly visible due to continued COVID-19 headwind and higher commodity prices.

The quarterly phasing of the EBIT-margin obviously depends on the COVID-19 development. As in prior years and in line with normal seasonality, Q4 is expected to be by far the most profitable quarter of the year.

Full year 2021 EBIT margin guidance bridge

%-points approximations



2021 GUIDANCE – OTHER PARAMETERS

CAPEX for the year is expected to be in the range of DKK 1.0-1.2 billion. This includes investments in Pandora's physical stores, the crafting facilities in Thailand as well as digitalisation and technology. No major changes to the overall concept store network are expected in 2021. The effective tax rate is expected to be 22-23%, in line with 2020.

CAPITAL STRUCTURE POLICY AND CASH DISTRIBUTION

Entering 2021, Pandora's leverage is 0.5x EBITDA and thereby in the very low end of the capital structure policy. Based on the guidance, Pandora is – everything else equal and in the absence of cash distribution – likely to end 2021 with a leverage close to 0. This is a strong position to be in and would under normal circumstances allow for significant cash distribution to the shareholders in 2021.

Due to the unprecedented situation caused by the pandemic and the elevated uncertainty following this, Pandora will postpone further cash distribution until the pandemic is under sufficient control. Pandora stresses that the capital structure policy is unchanged. While we await a more stable and predictable situation, Pandora will preserve the cash and be ready to distribute it in an accelerated manner later on. In order to prepare for a potential re-initiation of cash distribution later in 2021, Pandora will ask the shareholders at the Annual General Meeting in March 2021 to authorise the Board of Directors to potentially pass one or more resolutions to distribute extraordinary dividends up to a total amount of DKK 15 per share until the next annual general meeting.

FOREIGN EXCHANGE ASSUMPTIONS AND IMPLICATIONS

FX ASSUMPTIONS AND IMPLICATIONS	Average 2020	3 February 2021	
	FX Rates	FX Rates	2021 Y-Y Financial Impact
USD/DKK	6.5422	6.1891	
THB/DKK	0.2091	0.206	
GBP/DKK	8.3890	8.4378	
CNY/DKK	0.9476	0.9582	
AUD/DKK	4.5069	4.7129	
REVENUE (DKKm)			-200 to -250
EBIT (DKKm)			~100
EBIT margin			~0,5%

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.

In Q4, Pandora finalised accounting of its full greenhouse gas emissions profile, covering its own operations (Scope 1 and 2 emissions) and the rest of the value chain (Scope 3 emissions). The numbers are being assured in Q1 2021, after which Pandora will begin to develop its science based target, an initiative that will solidify Pandora's commitment to mitigating climate change risks.

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 USD 3.4 million in total, including a USD 1 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.

OTHER EVENTS

OTHER IMPORTANT EVENTS IN Q4 2020 AND AFTER THE REPORTING PERIOD

No subsequent events have occurred after the balance sheet date that required adjustment to or disclosure in the consolidated financial statements.

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.

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

2020 DEVELOPMENT

REVENUE

Total revenue decreased by 11% in local currency to DKK 19,009 million in 2020 compared with 2019. Organic growth was -11% and negatively impacted by COVID-19.

GROSS PROFIT AND COSTS

Reported gross profit was DKK 14,375 million in 2020 (DKK 15,903 million in 2019), resulting in a gross margin of 75.6% including restructuring costs (72.7% in 2019). Gross profit excluding restructuring costs ended at DKK 14,534 million in 2020 (DKK 16,919 million in 2019) with a corresponding gross margin excluding restructuring costs of 76.5% (77.4% in 2019).

Operating expenses excluding restructuring costs decreased to DKK 10,652 million in 2020 (DKK 11,065 million in 2019), corresponding to 56.0% of revenue (50.6% in 2019). The decrease in OPEX come from a favourable development in foreign exchange rates of DKK 0.2 billion, further supported by cost reductions implemented during the COVID-19 pandemic and Programme NOW. Rent concessions have been recognised in the profit and loss statement in Q4 under Sales and Distribution expenses.

EBIT

EBIT excluding restructuring costs in 2020 was DKK 3,881 million – a decrease of 34% compared with 2019, resulting in an EBIT margin of 20.4% (26.8% in 2019). In 2020, EBIT including restructuring costs was DKK 2,684 million (DKK 3,829 million in 2019) corresponding to an EBIT margin of 14.1% (17.5% in 2019).

NET FINANCIALS

Net financials amounted to a cost of DKK 190 million in 2020 versus DKK 1 million in 2019. Net financials have been impacted by non-cash revaluations of intercompany balance sheet items in foreign currencies as well as higher interest expenses than last year.

INCOME TAX EXPENSES

Income tax expenses were DKK 556 million in 2020 (DKK 884 million in 2019), implying an effective tax rate for the Group of 22.3% (23.1% in 2019).

NET PROFIT

Net profit in 2020 was DKK 1,938 million (DKK 2,945 million in 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: +1 631 913 1422

Please use PIN: 767 70 245#

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

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 7,000 points of sale, including more than 2,600 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, Pandora employs around 26,000 people worldwide of whom more than 11,400 are located in Thailand, where the Company manufactures its jewellery. Pandora is publicly listed on the Nasdaq Copenhagen stock exchange in Denmark. In 2020, Pandora's total revenue was DKK 19.0 billion.

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FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

DKK million	Notes	Q4 2020	Q4 2019	FY 2020	FY 2019
Revenue	3,4	7,891	7,956	19,009	21,868
Cost of sales		-1,941	-1,924	-4,634	-5,966
Gross profit		5,950	6,032	14,375	15,903
Sales, distribution and marketing expenses		-3,060	-2,933	-9,155	-9,305
Administrative expenses		-678	-797	-2,536	-2,770
Operating profit		2,212	2,302	2,684	3,829
Finance income		185	70	316	351
Finance costs		-89	-97	-507	-351
Profit before tax		2,308	2,276	2,494	3,829
Income tax expense		-514	-534	-556	-884
Net profit for the period		1,794	1,741	1,938	2,945
Earnings per share, basic, DKK		18.5	18.0	20.0	30.3
Earnings per share, diluted, DKK		18.4	18.0	19.9	30.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million	Q4 2020	Q4 2019	FY 2020	FY 2019
Net profit for the period	1,794	1,741	1,938	2,945
Other comprehensive income:				
Items that may be reclassified to profit/loss for the period				
Exchange rate adjustments of investments in subsidiaries	-128	-96	-609	226
Fair value adjustment of hedging instruments	-7	-12	206	1
Tax on other comprehensive income, hedging instruments, income/expense	11	-24	-13	-27
Items that may be reclassified to profit/loss for the period, net of tax	-124	-132	-416	200
Items not to be reclassified to profit/loss for the period				
Actuarial gain/loss on defined benefit plans, net of tax	6	-	6	-
Items not to be reclassified to profit/loss for the period, net of tax	6	-	6	-
Other comprehensive income, net of tax	-118	-132	-410	200
Total comprehensive income for the period	1,676	1,609	1,528	3,145

CONSOLIDATED BALANCE SHEET

DKK million	Notes	2020 31 December	2019 31 December
ASSETS			
Goodwill	10	4,247	4,416
Brand		1,057	1,057
Distribution		1,110	1,140
Other intangible assets		529	831
Total intangible assets		6,943	7,445
Property, plant and equipment		2,054	2,585
Right-of-use assets	11	3,007	4,010
Deferred tax assets		764	675
Other financial assets		244	290
Total non-current assets		13,012	15,006
Inventories		1,949	2,137
Trade receivables	8	870	1,643
Right-of-return assets		62	73
Derivative financial instruments	6,7	351	187
Income tax receivable		83	467
Other receivables		745	1,004
Cash		2,912	1,054
Total current assets		6,972	6,565
Total assets		19,984	21,571
EQUITY AND LIABILITIES			
Share capital		100	100
Treasury shares		-93	-1,964
Reserves		750	1,167
Dividend proposed		-	836
Retained earnings		6,632	5,110
Total equity		7,389	5,249
Provisions		370	278
Loans and borrowings	11	2,066	7,962
Deferred tax liabilities		368	235
Total non-current liabilities		2,804	8,476
Provisions		29	53
Refund liabilities		654	753
Contract liabilities		82	71
Loans and borrowings	11	3,996	2,069
Derivative financial instruments	6,7	119	115
Trade payables		3,211	3,095
Income tax payable		382	438
Other payables		1,317	1,251
Total current liabilities		9,790	7,846
Total liabilities		12,595	16,322
Total equity and liabilities		19,984	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	-	-	-	-	-	1,938	1,938
Other comprehensive income, net of tax	-	-	-577	161	-	6	-410
Total comprehensive income for the period	-	-	-577	161	-	1,944	1,528
Share-based payments	-	14	-	-	-	76	90
Purchase of treasury shares	-	-431	-	-	-	-	-431
Sale of treasury shares	-	2,288	-	-	-	-509	1,779
Dividend paid	-	-	-	-	-836	11	-825
Equity at 31 December	100	-93	535	215	-	6,632	7,389
2019							
Equity at 1 January	110	-3,469	913	54	920	7,891	6,419
Net profit for the period	-	-	-	-	-	2,945	2,945
Other comprehensive income, net of tax	-	-	199	1	-	-	200
Total comprehensive income for the period	-	-	199	1	-	2,945	3,145
Fair value adjustments of obligation to acquire non-controlling interests	-	-	-	-	-	19	19
Share-based payments	-	13	-	-	-	-8	5
Purchase of treasury shares	-	-2,583	-	-	-	-	-2,583
Reduction of share capital	-10	4,075	-	-	-	-4,065	-
Dividend paid	-	-	-	-	-1,794	38	-1,756
Dividend proposed	-	-	-	-	1,710	-1,710	-
Equity at 31 December	100	-1,964	1,112	54	836	5,110	5,249

CONSOLIDATED STATEMENT OF CASH FLOW

DKK million	Notes	Q4 2020	Q4 2019	FY 2020	FY 2019
Operating profit		2,212	2,302	2,684	3,829
Depreciation and amortisation		684	560	2,315	2,319
Share-based payments		15	6	70	20
Change in inventories		682	670	-96	1,284
Change in receivables		-373	-460	869	-65
Change in payables and other liabilities		1,252	829	724	808
Other non-cash adjustments		52	-20	-155	-20
Interest etc. received		-	9	3	13
Interest etc. paid		-81	-43	-247	-178
Income taxes paid		-382	-650	-192	-1,233
Cash flows from operating activities, net		4,062	3,204	5,975	6,775
Acquisitions of subsidiaries and activities, net of cash acquired	9	-6	-5	-12	-148
Purchase of intangible assets		-38	-47	-130	-272
Purchase of property, plant and equipment		-89	-164	-374	-540
Change in other non-current assets		14	24	19	66
Proceeds from sale of property, plant and equipment		11	2	13	18
Cash flows from investing activities, net		-109	-192	-484	-877
Acquisitions of non-controlling interests		-	-	-42	-311
Dividend paid		-	-	-825	-1,756
Purchase of treasury shares		-	-600	-431	-2,583
Sale of treasury shares		-	-	1,778	-
Proceeds from loans and borrowings		4	875	5,861	5,626
Repayment of loans and borrowings		-1,654	-2,805	-9,073	-6,088
Repayment of lease commitments		-261	-291	-839	-1,138
Cash flows from financing activities, net		-1,910	-2,822	-3,571	-6,250
Net increase/decrease in cash		2,044	191	1,920	-352
Cash at beginning of period ¹		874	866	1,054	1,387
Exchange gains/losses on cash		-6	-3	-62	19
Net increase/decrease in cash		2,044	191	1,920	-352
Cash at end of period¹		2,912	1,054	2,912	1,054
Cash flows from operating activities, net		4,062	3,204	5,975	6,775
- Interests etc. received		-	-9	-3	-13
- Interests etc. paid		81	43	247	178
Cash flows from investing activities, net		-109	-192	-484	-877
- Acquisition of subsidiaries and activities, net of cash acquired		6	5	12	148
Free cash flow incl. IFRS 16 (excluding repayment of lease commitments)		4,041	3,052	5,747	6,213
Free cash flow excl. IFRS 16 (including repayment of lease commitments)		3,780	2,760	4,908	5,075
Unutilised committed credit facilities		6,998	2,345	6,998	2,345

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 2020.

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 Q4 2019 would have been approximately DKK 80 million and for full year 2019, it would have been approximately DKK 350 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. For the definitions of other alternative performance measures used by Pandora which are not defined by IFRS, refer to note 5.6 in the consolidated financial statement in the Annual Report 2020.

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.

All significant accounting estimates and judgements are consistent with the description in the Annual Report 2020 and to which we refer.

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, each responsible for the end-to-end performance of products. One Global Business Unit will have the responsibility mainly for core collections, including Moments and Collabs, while the other Global Business Unit will drive the newer collections and innovations. The comparative figures for 2019 have been restated to reflect the new segments.

The two operating segments both include 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 at gross profit as presented in the table below.

SEGMENT INFORMATION

DKK million	Moments and Collabs	Style and Upstream Innovation	Group
Q4 2020			
Revenue	5,469	2,422	7,891
Cost of sales	-1,384	-557	-1,941
Gross profit	4,085	1,865	5,950
Operating expenses			-3,738
Consolidated operating profit (EBIT)			2,212
Profit margin (EBIT margin)			28.0%
Restructuring costs			-296
Profit margin (EBIT margin) excl. restructuring costs			31.8%
Q4 2019			
Revenue	5,533	2,424	7,956
Cost of sales	-1,359	-565	-1,924
Gross profit	4,174	1,859	6,032
Operating expenses			-3,730
Consolidated operating profit (EBIT)			2,302
Profit margin (EBIT margin)			28.9%
Restructuring costs			-503
Profit margin (EBIT margin) excl. restructuring costs			35.3%

DKK million	Moments Collabs	Style and Upstream Innovation	Group
FY 2020			
Revenue	13,059	5,950	19,009
Cost of sales	-3,253	-1,381	-4,634
Gross profit	9,806	4,569	14,375
Operating expenses			-11,691
Consolidated operating profit (EBIT)			2,684
<i>Profit margin (EBIT margin)</i>			14.1%
Restructuring costs			-1,197
<i>Profit margin (EBIT margin) excl. restructuring costs</i>			20.4%
FY 2019			
Revenue	15,095	6,774	21,868
Cost of sales	-4,150	-1,816	-5,966
Gross profit	10,945	4,958	15,903
Operating expenses			-12,074
Consolidated operating profit (EBIT)			3,829
<i>Profit margin (EBIT margin)</i>			17.5%
Restructuring costs			-2,025
<i>Profit margin (EBIT margin) excl. restructuring costs</i>			26.8%

REVENUE DEVELOPMENT IN THE KEY MARKETS

DKK million	Q4 2020	Q4 2019	Growth in local currency	FY 2020	FY 2019	Growth in local currency
UK	1,345	1,295	10%	2,960	2,861	6%
Italy	825	854	-3%	2,021	2,272	-11%
France	494	494	1%	1,154	1,169	-1%
Germany	418	390	7%	1,014	963	6%
US	1,982	1,792	20%	4,505	4,677	0%
Australia	537	439	24%	1,120	1,118	2%
China	322	424	-23%	1,261	1,970	-35%

NOTE 4 – Revenue from contracts with customers

REVENUE BY CHANNEL

DKK million	Q4 2020	Q4 2019	Growth in local currency	FY 2020	FY 2019	Growth in local currency
Pandora owned retail*	5,525	5,216	12%	13,426	14,181	-2%
Wholesale	2,143	2,480	-10%	4,949	6,725	-25%
Third-party distribution	223	261	-10%	634	962	-33%
Total revenue	7,891	7,956	4%	19,009	21,868	-11%

*Including revenue from Pandora online stores. Pandora does not own any of the premises (Land and buildings) where stores are operated. Pandora exclusively operates stores from leased premises.

REVENUE BY PRODUCT CATEGORY

DKK million	Q4 2020	Q4 2019	Growth in local currency	FY 2020	FY 2019	Growth in local currency
Charms	3,936	4,095	1%	9,646	11,395	-13%
Bracelets	1,614	1,554	9%	3,751	4,216	-8%
Rings	1,113	1,125	5%	2,774	3,113	-8%
Earrings	580	563	8%	1,319	1,487	-9%
Necklaces & Pendants	649	620	10%	1,519	1,658	-6%
Total revenue¹	7,891	7,956	4%	19,009	21,868	-11%

Goods transferred at a point in time	7,861	7,930		18,939	21,799	
Services transferred over time	30	26		70	70	
Total revenue	7,891	7,956		19,009	21,868	

¹ Figures include franchise fees etc., which are allocated to the product categories. Q4 2020 DKK 40 million, Q4 2019 DKK 30 million, FY 2020 DKK 129 million and FY 2019 DKK 87 million.

The use of sales channels for the distribution of Pandora jewellery depend on the underlying market maturity and varies within markets but is consistent when viewed between segments.

NOTE 5 – Seasonality of operations

Due to the seasonal nature of the jewellery business, higher revenue is historically realised in the second half of the year.

NOTE 6 – Financial risks

Pandora’s overall risk exposure and financial risks, including risks related to commodity prices, foreign currency, credit, liquidity and interest rates, are described in the disclosures in note 4.4 in the consolidated financial statements in the Annual Report 2020.

When COVID-19 forced many countries in lockdowns during early Spring 2020, Pandora decided to take a prudent approach and build further liquidity reserves. 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 (DKK 1.8 billion net proceeds). 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. Having said that, it should be noted that Pandora has material liquidity reserves and can withstand a global lockdown of the majority of physical stores even if it might continue throughout 2021.

Current outstanding committed loan facilities (end of December 2020)

	Amount (DKK million)	Maturity date	Drawn amount (DKK million)
Revolving Credit Facilities ¹	6,998	May 2022	0
Club Deal	2,976	December 2021	2,976
Total	9,975		2,976

¹ Provided that Pandora extend or refinance the term loan.

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 13).

See note 4.5 to the consolidated financial statement in the Annual Report 2020.

NOTE 8 – Trade receivables

DKK million	2020	2019
	31 December	31 December
Receivables related to third-party distribution and wholesale	600	1,086
Receivables related to retail revenue sales	270	557
Total trade receivables	870	1,643

NOTE 9 – Business combinations

No acquisitions, to an extent of significance to Pandora, were completed in 2020.

ACQUISITIONS

DKK million	FY	FY
	2020	2019
Other intangible assets	-	1
Property, plant and equipment	4	13
Inventories	4	70
Assets acquired	8	84
Non-current liabilities	2	-
Other current liabilities	1	2
Liabilities assumed	3	2
Total identifiable net assets acquired	5	82
Goodwill arising on the acquisitions	2	59
Purchase consideration	7	140
Cash movements on acquisitions:		
Consideration transferred regarding previous years ^{1,2}	5	12
Deferred payment (including earn-out)	-	-5
Net cash flow on acquisitions	12	148

¹ In 2019, consideration paid related to acquisitions was final payment for acquired stores in the UK in the amount of DKK 10 million and in the US in the amount of DKK 2 million.

² The deferred payment of DKK 5 million related to the store acquisitions in Mexico in 2019 is paid in 2020.

Acquisitions after the reporting period

No significant acquisitions took place after the reporting period.

NOTE 10 – Goodwill

DKK million	31 December 2020	31 December 2019
Cost at 1 January	4,416	4,278
Acquisition of subsidiaries and activities in the period	2	59
Exchange rate adjustments	-170	80
Cost at the end of the period	4,247	4,416

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

NOTE 11 – Assets and liabilities related to leases

Amounts recognised in the balance sheet:

RIGHT-OF-USE-ASSETS

DKK million	31 December 2020	31 December 2019
Property	2,975	3,972
IT	5	2
Cars	18	21
Other	10	16
Total right-of-use assets	3,007	4,010

Out of the total decrease of DKK 1 billion in right-of-use-assets in the period 1 January – 31 December 2020, the DKK 1.4 billion relates to depreciation and currency exchange movement, partially offset by a net increase of DKK 0.4 billion as a result of the reassessment of the extension options and execution of termination options (DKK -0.4 billion) and renewals of lease contracts (DKK 0.8 billion).

LEASE LIABILITIES

DKK million	31 December 2020	31 December 2019
Non-current	2,066	2,804
Current	993	1,012
Total lease liabilities	3,059	3,816

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 – 31 DECEMBER

DKK million	1 January – 31 December 2020	1 January – 31 December 2019
Property	1,190	1,105
IT	1	1
Cars	11	12
Other	5	7
Total depreciation on right-of-use assets for the period	1,208	1,125

OTHER ITEMS RELATING TO LEASES

DKK million	1 January – 31 December 2020	1 January – 31 December 2019
Interest income from sub-leases	1	1
Interest expense	-97	-106
Total interest for the period	-96	-104

Costs recognised in the period for short term and low value leases were DKK 33 million. Expenses are recognised on a straight line basis.

Total cash outflow relating to leases was DKK 1,164 million for the period. This comprises of fixed lease payments in scope of IFRS 16 in amount of DKK 839 million, variable lease payments in amount of DKK 196 million, interest paid in amount of DKK 96 million and short term and low value leases in amount of DKK 33 million. Variable leases and short term and low value leases are not included in the lease liabilities.

Due to COVID-19 the repayment of certain fixed leases is deferred by approximately DKK 52 million. In addition Pandora has received rent concessions from the landlords amounting to DKK 112 million.

Pandora decided to apply the practical expedient 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 amendments to IFRS 16 are described in the note 1.2 in the Annual Report 2020.

As a result, rent concessions have been recognised in the profit and loss statement in 2020 amounting to DKK 112 million under Sales and Distribution expenses.

DKK 52 million rent was deferred meaning that rent payments are postponed as per agreements with landlords. Overall financing cash flow is positively impacted by DKK 164 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 2020.

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 this 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

	Q4 2020	Q3 2020	Q4 2019	Growth Q4 2020 / Q3 2020	Growth Q4 2020 /Q4 2019
Other points of sale (retail)	235	232	207	3	28
Other points of sale (wholesale)	3,602	3,655	3,812	-53	-210
Other points of sale (third-party)	565	576	638	-11	-73
Other points of sale, total	4,402	4,463	4,657	-61	-255

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 Q4 2020 /Q3 2020	Growth Q4 2020 /Q4 2019	Number of concept stores O&O	Growth O&O stores Q4 2020 /Q3 2020	Growth O&O stores Q4 2020 /Q4 2019
	Q4 2020	Q3 2020	Q4 2019			Q4 2020		Q4 2020
UK	217	217	230	-	-13	139	-	13
Italy	146	146	148	-	-2	107	-	-
France	121	121	122	-	-1	77	-	-
Germany	138	139	146	-1	-8	134	-1	-6
US	403	401	402	2	1	154	1	-4
Australia	122	123	128	-1	-6	38	1	-1
China	234	236	237	-2	-3	222	-3	-4
All markets	2,690	2,689	2,770	1	-80	1,382	3	-15

¹Includes 7 key markets measured on revenue for FY 2020. 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 Q4 2020	Hedged Q1 2021	Hedged Q2 2021	Hedged Q3 2021	Hedged Q4 2021
Gold price	1,744	1,651	1,823	1,872	1,785
Silver price	17.22	21.03	21.23	23.75	23.32
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 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 31 December 2020, which are expected to materially impact the Group's financial position.

QUARTERLY OVERVIEW

DKK million	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Key financial highlights					
Organic growth, %	4%	-5%	-38%	-14%	-1%
Sell-out growth incl. temporarily closed stores	1%	-2%	-39%	-17%	-5%
Total like-for-like sales out, % ¹	6%	1%	8%	-11%	-4%
Gross margin excl. restructuring costs, %	75.7%	78.1%	74.9%	77.4%	78.4%
EBIT margin excl. restructuring costs, %	31.8%	17.2%	1.1%	15.3%	35.3%
Consolidated income statement					
Revenue	7,891	4,070	2,876	4,172	7,956
Earnings before interests, tax, depreciations and amortisations (EBITDA)	2,896	1,045	325	733	2,862
Operating profit (EBIT)	2,212	467	-198	204	2,302
Net financials	96	-24	-28	-234	-27
Net profit for the period	1,794	343	-175	-24	1,741
Financial ratios					
Revenue growth, DKK, %	-1%	-8%	-39%	-13%	1%
Revenue growth, local currency, %	4%	-5%	-38%	-14%	-1%
Gross margin, %	75.4%	78.2%	73.0%	75.4%	75.8%
EBITDA margin, %	36.7%	25.7%	11.3%	17.6%	36.0%
EBIT margin, %	28.0%	11.5%	-6.9%	4.9%	28.9%
Effective tax rate, %	22.3%	22.5%	22.5%	22.5%	23.5%
Equity ratio, %	37%	30%	29%	19%	24%
NIBD to EBITDA, excl. restructuring costs ² , x	0.5	1.1	1.1	1.3	1.1
Return on invested capital (ROIC) ² , %	25%	22%	16%	22%	27%
Cash conversion incl. lease payments (excl. IFRS 16), %	171%	98%	N/A	-134%	120%
Operating working capital, % of last 12 months revenue	-2.1%	4.2%	2.8%	4.2%	3.1%
Stock ratios					
Total payout ratio (incl. share buyback) ³ , %	-	-	-	N/A	34%
Consolidated balance sheet					
Total assets	19,984	18,932	18,859	19,529	21,571
Invested capital	10,540	12,544	12,864	13,810	14,268
Operating working capital	-391	801	535	899	684
Net interest-bearing debt (NIBD)	3,151	6,862	7,391	10,178	9,019
Equity	7,389	5,682	5,473	3,632	5,249
Consolidated statement of cash flow					
Cash flow from operating activities	4,062	776	1,082	55	3,204
Capital expenditure (CAPEX), DKK million	124	117	121	129	184
Capital expenditure, tangible assets (CAPEX), DKK million	78	97	100	94	143
Free cash flow incl. lease payments (excl. IFRS 16), DKK	3,780	457	943	-272	2,760

¹ Like-for-like excluding stores which have been temporarily closed in 2020 due to COVID-19 (2019: excluding Hong Kong SAR in Q3 and Q4 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 of Directors and the Executive Management have reviewed and approved the interim financial report of Pandora A/S for the period 1 January – 31 December 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 31 December 2020 and of the results of the Pandora Group's operations and cash flows for the period 1 January – 31 December 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, 04 February 2021

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.

