

Pandora 1Q15: Sparkling results

Pandora A/S released an excellent set of results on Tuesday with 1Q15 Group revenue coming in at DKK3.55bn (exchange rate is c. DKK1:\$0.15), a 36.8% YoY increase, or 22.3% YoY in local currency terms. Revenue from the Americas segment increased by 34.4% (+12.8% YoY in local currency), while Europe rose by 33.2% YoY (+28.5% YoY in local currency) and Asia Pacific rocketed 55.6% YoY (a 34.9% YoY increase in local currency terms). Revenue from the company's concept stores accounted for 54.9% of the total and increased 47.4% YoY. Pandora also said that it plans to continue expanding its store network and now expects to add more than 325 new concept stores in 2015 vs the previously expected more than 300.

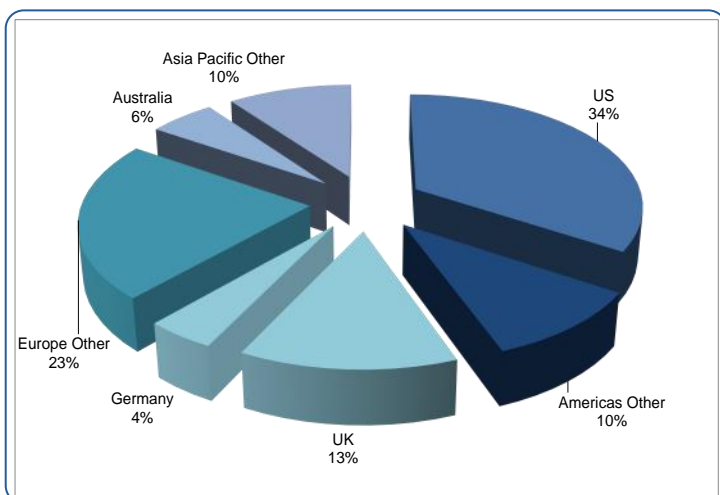
Pandora said that its gross margin increased to 71.1% in 1Q15 vs 69.1% in 1Q14. EBITDA rose 39.3% YoY to DKK1.31bn for the quarter, corresponding to an EBITDA margin of 36.8%, vs 36.1% in 1Q14. Net profit came in at DKK383mn, negatively impacted by additional tax expenses and finance costs of DKK385mn, compared to a net profit of DKK704mn in 1Q14. Free cash flow was DKK990mn vs DKK1.5bn in 1Q14. During the period under review, Pandora bought back 943,668 of its own shares at a total value of DKK569mn. This is part of its ongoing DKK3.9bn share buyback programme, corresponding to 0.7% of the total share capital.

Another knock-out quarter from Pandora A/S, with the company raising its revenue guidance for the full year to more than DKK15bn from more than DKK14bn (implies >26% revenue growth for full year). According to Pandora's CEO Anders Colding Friis, the upward revision was mainly driven by exchange rate changes. He indicated that Pandora experienced "...a tailwind in the exchange rates, especially in relation to the US dollar", adding that "... it is also clear that the business is doing well in general, and this helps to strengthen our faith in a good 2015,". Notably, consensus is currently forecasting DKK15.25bn for the full-year and we think there could be upside to this forecast given that the first quarter is tracking well ahead of this annualised growth rate. We highlight that the company has guided to a higher tax rate (30%) due to a settlement for prior years with the Danish tax authorities which will suppress statutory earnings; we would imagine Pandora will present an adjusted earnings number excluding this.

Our forecast for HEPS is DKK34/share for FY15 (+37% YoY) – similar to consensus – and we believe the risk to this figure is on the upside. We expect a further round of earnings upgrades on the back of these results. Pandora trades at 20x our current FY15 EPS forecast, and is up more than 3x from our initial purchase price (~DKK220). It forms 4.7% of our off-shore High Street equity portfolio.

Sean Ashton

Distribution of revenue by country, 1Q15:



Source: Company data, Anchor Capital



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