

Pandora
Interim Report for the third quarter/first 9 months 2019
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Operator

Welcome to the Pandora interim report for the third quarter, first 9 months, 2019. For the first part of this call, all participants will be in listen-only mode and afterwards, there will be a question and answer session. Today, I am pleased to present Michael Bjergby, Vice President, Investor Relations, Treasury & Tax. Please begin.

Michael Bjergby

Thank you and good morning everyone and welcome to the conference call for Pandora's Q3 results. My name is Michael Bjergby from the Investor Relations team and with me today here in the head office in Copenhagen, I have our CEO Alexander Lacik, CFO Anders Boyer and Christian Møller from the IR team. There will be a Q&A session at the end of the call. I kindly ask you to limit your questions to two at a time and get back into the queue if you have additional questions. First of all, please pay attention to the disclaimer on slide 2. With that done then let me now hand over to our CEO Alexander and slide no. 3. Go ahead, Alexander.

0.01.01

Alexander Lacik

Thank you, Michael and good morning everyone. It is less than 80 days since we presented our Q2 results. At the time, we outlined our plans and actions for the Brand relaunch. We have indeed executed exactly as communicated and we have seen the first early results. Performance in September and October shows early signs of traffic improvement in most markets. This gives us confidence that we will see a continued improvement into Q4 and that we are pulling the right levers for long-term success. So, in our view, Programme NOW is on track. We are confident in the direction and the long-term potential of this business. Pandora is becoming more cost efficient, our business platform is strengthening and we are developing our brand at a completely different speed than in the past. Before getting into the details, let me start with a brief review of the Q3 performance on slide 4.

We launched many commercial initiatives in the quarter. To say that we are busy is an understatement. Note this that it all started roughly 8 weeks ago so it is still very early days by any standard. The initiatives therefore also had limited effect in Q3 and I will come back to this. Q3 financials were impacted by some of our deliberate actions to improve the fundamentals of this business. That is what we call the commercial reset. Promotional reductions hit our like-for-like severely but also helped the gross margins as you will see in the P&L. We also improved inventory with our partners which again has a negative short-term impact. Lastly, we have updated our financial guidance. We would like to exit 2019 with balanced inventory levels and this is the primary driver of the downward adjustment of the organic growth. The new guidance for organic growth is partly outside of the original range. We still expect like-for-like to be negative high single-digit and that is unchanged and the EBIT margin is narrowed within the previously guided range. The last bullet on the right-hand side is important for me. We continue to find new pockets of savings opportunities so, as a consequence, we are upgrading our cost reduction targets as we see a lot of potential for efficiencies and we push very hard to become fitter during our turn-around. The next step for us is to move from just cost projects to a cost culture so we secure this for the long term. I leave Q3 with this and go more into Programme NOW, moving to slide 6.

We are executing with very high speed on Programme NOW. Enhancing the brand relevance of Pandora is the no. 1 priority in our turnaround. With the Brand relaunch, we have established the foundation for the future direction. We create small successes in different markets and we are heading in the right direction.

Of course, changing the brand perception is not a quick fix. During the quarter, we have initiated a new product development strategy which we will share more details with you early next year. The implications of the strategy are expected to come alive in late 2020 and in 2021 given the 12-month development timelines we have. On brand access, cost reset and commercial reset, we are progressing very well and results are showing. The deliberate actions of the commercial reset hurt our short-term financial performance but it is unquestionably the right thing to do. We will exit 2019 in much better shape on key areas with less dependence on promotions, more balanced inventory levels and a more efficient product assortment. With this, let's move onto slide 7, please.

The Brand relaunch was kicked off with the global PR event in LA. We created new energy around the brand with good media coverage and high online engagement. We have also conducted a number of other activities to improve brand perception. Most of these initiatives are aimed at the longer term. Turning to the right-hand side of the slide, in Q2 we have tested increased media investments in Italy and UK which we have discussed before. Based on the results, we have expanded this to all major markets except China where the media market is different. The investment focus on brand building and the newest product launches. The sole objective of the media investment is to generate more traffic. This makes it very simple to evaluate and I will come back with a deep-dive review further on. I have no doubt that short-term and long-term investments in the brand are required and will pay off. It is a pleasure to see how our events are creating excitement as we are investing more than ever before. Now let's move to the early learnings from the new store concept.

We are rolling out per plan. So far, we have opened 4 fully refurbished stores in the UK and Italy. There is also a pop-up store in the new town style of New York and finally, our first experience store in Shanghai. To get a fair assessment of performance of the new stores, we should look at Leicester and Birmingham where we have a reasonable time horizon – and I say reasonable because it's roughly 8-10 weeks – results in those two stores look encouraging. Both traffic and sales have improved. Importantly, though, consumers are providing us with very good feedback. They tell us that the expression of the store is more welcoming and they like the new high impact element such as the charm bar. We continue to optimise the concept and over the next three months, we are looking to open another 6 stores. When we have sufficient data, we will evaluate the global roll-out. We expect to be in a position to do that somewhere in the beginning of 2020.

Please turn to slide 9 for a few comments on products. One learning from the Programme NOW diagnosis was that Pandora has not done enough to drive charms collecting. We are category leaders in charms which represent 50% of our revenue and, in fact, are part of the DNA of Pandora. I find it absolutely necessary to direct even more efforts toward this category than we have done in the recent years. The O-carrier, which you see depicted on the slide, was part of the Autumn collection and is performing really well. This innovation proves to us that charms can be worn in different ways and can be expanded to other categories than bracelets. The first customer transaction is typically one O-carrier, a necklace and two charms. This makes units per transaction of O-carrier on par with snake bracelets. The O-carrier is one of the top sellers of the Autumn launch.

In October, we launched Pandora ME. The idea was to offer the charms bracelet concept at an attractive price point. This initiative has been primarily driven through digital channels faced by Millie Bobby Brown. Early results are very encouraging and drive charms sales at a significantly higher ratio than for instance Essence and Reflexions in the past. Those two things tell me that when Pandora brings relevant innovation to the market, we get a very positive reaction from the consumers. So again emphasizing the need for upgrading our product strategy.

Finally, we believe we have a solid Q4 line-up that will change and support the like-for-like trajectory. Frozen 2 and UNICEF products have already been launched last week and we will further amplify collaborations with the Harry Potter collection coming soon. The Christmas drop has also received very good focus group feedback so all in all, a better line-up for this important trading period than we have had for a long time.

On the next slide, I will have a look at the results of our media investment. This is maybe the most important slide in the entire presentation. What we would like to do is to provide you with an understanding of the issues we are facing when we have reduced promotional activities. It also illustrates the core reason for why we expect an improvement in Q4 and beyond. As a reminder, decline in store traffic has been the major driver of our like-for-like decline since 2018. Looking at the charts for the three key markets, there is a very consistent pattern. In the weeks where we are not cycling promotional activity, there is a clear improvement in traffic development since the Brand relaunch. In the three key markets on the chart, we basically have stable traffic development in our concept stores when the trading weeks are comparable. Look at UK in the middle of the chart as an example. In week 36, immediately after our Brand relaunch, we saw traffic into stores improving. From week 37-39, the traffic declined by some 20% as we cycled the late-season sale that we conducted in 2018. This year, we ran a 3 for 2 sale in week 39 and 40 which gave a more fair comparison. Getting into week 41 and 42, we saw clear improvement with clean comparisons. And you see the same pattern for these three markets and of course for the other markets that we are not sharing here today.

I am now turning to the next slide to focus on China. We have doubled our revenue since buying back the distribution in 2015. We have continued to open stores at a high pace to build a strong distribution alongside a strong eCommerce business through Tmall. China's performance in Q3 was disappointing. There is no other way around that. This was fundamentally driven by weak trading during Chinese Valentine's Day in August. During the last year, we have experienced strong growth on Tmall. On the other hand, we have weak traffic development into our store network, -30% less than prior years. To some degree, we have offset this with significantly improved conversion rates, limiting the like-for-like impact. But clearly, we have a more structural challenge in China. We believe there are a few areas that need more attention. The consumer research we have done shows that our brand position is unclear if we compare it to other successful Pandora markets. Our media model, both the amount and execution, has not delivered the type of brand awareness built nor traffic into the stores as required. We are also evaluating the quality of our retail network as part of the larger corporate assessment which we have discussed and will be shared in Q1. We have initiated a comprehensive plan to rejuvenate the brand and now go to market strategy. There is no quick fix to these challenges. It requires a more embedded commercial engine and possibly a different investment approach. We will work our way through this and find the right approach for growing in China like we have done in other markets.

Before handing over to Anders, I will provide a few comments on the commercial reset on slide 12. The commercial reset is an important initiative. It does hurt us short-term but we are doing what is right for our business in the long run. Q3 was the quarter where we reduced promotions the most. We reduced a number of promotion days by around 41%. As an example, US went from 27 days to 9 days of promotions so it was a very different environment for the Pandora consumer in the US. As you know, we have also initiated an inventory buy-back programme. In North America, the broader programme will be completed in early 2020. This covers my part today. I will now hand over to Anders. Anders, please.

0.13.04

Anders Boyer

Thank you Alexander. Please turn to slide 13 for just a few words on the cost programme. We continue to progress well on the cost initiatives under Programme NOW and as you have seen, we have increased our

targets this morning both for the calendar year 2019 and for the 2020 run-rate and the new 2020 target of DKK 1.3 billion is equal to 6% of revenue so it is a large cost programme that we are running. I would like to highlight that the second cost category on this slide, the retail expenses where we have progressed better than expected by standardising marketing materials and managing hours available, labour hours in the stores and also taken the first step in renegotiating selected lease agreements. And we will continue to leave no stones unturned as we hunt for more cost savings to protect our margins and reinvest in the business.

And that concludes the review of Programme NOW and on slide 15, I will just give a couple of highlights on the Q3 financials. You probably know these numbers by now so I will just leave you with two comments on this slide, the first of those being that the cost structure of Pandora is transforming and the gross margin is increasing as you can see in the numbers today as we are becoming more efficient, administration costs and our sales and distribution costs are flattening out or even decreasing and we are pushing cost towards the line that really drives top-line and the brand. And you can also see that marketing is up 60% Y/Y in this quarter. Secondly, the cash flow continues to be strong and also being a testimony to the efforts that we are doing in Programme NOW and the underlying strength of the business.

So let's go into a little bit more details on the revenue for the third quarter on slide 16. The largest driver for the decline in organic growth is the commercial reset and as you know, these are all measures that we are deliberately choosing to do and are of a one-off nature. So the promotional reduction impacted revenue by around -4% in the quarter, the change of the payment terms in Italy around -3% and then the decline of sell-in to wholesale around -2%. So in total, around 9-ish percentage points impact from the commercial reset in the quarter. And the decline of sell-in to the wholesale was mainly driven by North America and this continued inventory decrease was in fact larger than what we had expected. You may have noted that I say -2 for the sell-in decline but the pink box here, just to the left of the middle of the waterfall to the left of the organic growth shows -3 and that difference of 1 percentage point is related to Hong Kong which impacted organic growth by 1 percentage point but it is not included in the like-for-like number of -10 in this waterfall. So like-for-like excluding Hong Kong was -10% which overall was quite close to our expectations except for China where the performance is disappointing as Alexander has already explained. I will just give a few words on the change of payment terms in Italy. This has a fairly large impact in the quarter and it is another measure that we are taking to clean up the business and ensure that sell-in and sell-out is matching better going forward. It is pure timing and the revenue will come back in this quarter that we are sitting in now, in Q4. But obviously, it hurts both revenue and the margin in the third quarter.

Moving onto slide 17 and the EBIT margin bridge versus last year. The EBIT margin excluding restructuring costs was down just below 4 percentage points compared to Q3 of 2018 and that is mostly driven by the deleverage resulting from the lower revenue. We have reduced costs by just around DKK 300 million in the quarter or 6% of revenue and as you can see in the waterfall here, we have basically reinvested everything in the business to drive both the long-term health of the business and also revenue on the bit shorter term horizon. I would also just like to highlight the restructuring costs in the quarter which amounted to DKK 1.1 billion and which led to a negative reported EBIT. This is obviously a massive number and the largest part of the restructuring cost is in cost of sales, COGS, due to the inventory buy-back programme and the write-downs related to the product assortment simplification. Our expectations for the restructuring costs in the full-year 2019 are unchanged up to around DKK 2 billion.

Then on slide 18, just a brief comment on cash flow. The cash flow generation was strong again in the quarter despite the negative reported EBIT. Free cash flow was DKK 1.1 billion and adjusted for IFRS 16, it was just around DKK 0.8 billion. And as you can see, the operating working capital continued to be below the 10% mark and ended at 8.6% of revenue and is probably the lowest that we have ever seen in the

company and only half of the level we were at last year. There is a little bit of technicality supporting the low working capital number also in this quarter because the trade payables are higher than normal due to the one-off restructuring cost. We still see that the business can be managed with an operating working capital at a low double-digit percentage of revenue and thereby below the 15% target that was mentioned at the Capital Markets Day in early 2018. And you should also notice that the inventory buy-back programme had a large P&L effect in Q3 but little or basically no cash effect in the third quarter.

So the final point on the agenda is the full-year guidance starting on slide 20. And on slide 20, you can see our updated organic growth guidance and the dotted boxes on the slide here represent changes to the original guidance. Organic growth is now expected to be between -7 and -9 for the year compared to previously between -3 and -7. And as you can see with these dotted boxes, the change is driven by a larger impact from inventory reductions in the wholesale channel combined with fewer store openings and a different phasing of the openings than we had initially expected. And thirdly it should also be noted that the turmoil in Hong Kong drags down the organic growth a bit on the full year compared to the expectations. So even though there is only 2 months left of the year, the range of outcomes for 2019 remains somewhat wide, both due to the fact that November and December are very large trading periods but elevated further, due to the fact that we are in the middle of a turnaround.

It is obviously never fun to downgrade the organic growth guidance but the drivers of the downgrade are to some extent non-recurring. Taking down inventory and thereby having lower sell-in than sell-out is a consequence that we are managing the business for the long run and in a somewhat ironic way, you can actually say it represents an upside to 2020 revenue once sell-in and sell-out converts again. And we would also like to say that we could easily take off the pressure on sell-in and push less hard to reduce inventories in the wholesale channel and thereby support the organic growth in 2019 but it is not the way we want to manage Pandora. We are confirming our like-for-like guidance despite the challenges that we are seeing in China and we have said repeatedly that performance is very much about Q4 and Q4 is very much about a couple of key weeks from late November and through December. So we are indeed heading towards some very exciting weeks where we expect to see improved performance based on among others the improvement in traffic into the store which we have seen since the Brand relaunch.

And then finally, let's turn to slide 21 and the EBIT margin guidance. The full-year EBIT margin guidance has been narrowed to the lower half of the original guidance and is now between 26-27% and you can kind of see this as a mechanical consequence of the lower organic growth which obviously has a dilutive effect on the margin and then that's partly offset by the additional DKK 50 million in cost savings. And besides the EBIT margin, we have also updated the CAPEX guidance to around DKK 1 billion from previously between DKK 1 and 1.2 billion and lastly, we have updated the effective tax rate to between 23-24 and that change of the tax rate guidance is actually a result of our restructuring effort and the significant decline in our own inventories which has a technical impact on our tax added values, it is pure timing and it doesn't affect our future expected effective tax rate for the company. That is all from me and on the financial guidance and I will now hand it back to Alexander and slide 22.

0.24.17

Alexander Lacik

Thank you Anders. I wanted to close this presentation by summarising where I think we are. So, we have started the journey to turn this business around and this is clearly in the very beginning of that so if you think of it as a book, we have turned to a new blank page and we are writing the first few sentences. What is really important now is that consumers actually take notice of our efforts. So this is and remains our key focus. Programme NOW as such with all the elements we just reviewed is on track. We are seeing some early positive signs of the efforts and in particular, the change in traffic trajectory is a clear positive vote by consumers. This is manifesting itself in improved like-for-like performance. Since the brand relaunch, we

are experiencing better like-for-likes. If we exclude China, the like-for-like comparison would have moved from -10 to -5 in October. So clearly very early signs, it's a few weeks of trading but it is important that we are actually getting a positive response. Q4, in particular Christmas trading, will remain a challenge to overcome. While uncertainty remains, we are at least starting off from an improved position versus prior years with better products, better marketing and we have a strong investment in media. So net net, I think this will be a bumpy ride for sure but taking hold of positive drivers remain our focus to turn this thing around. And with those words, I would like to open up the Q&A session. Operator, please go ahead.

0.26.02

Operator

Thank you. Participants, if you wish to ask a question, please press 01 on your telephone keypads now. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Our first question comes from the line of Elena Mariani of Morgan Stanley. Please go ahead, your line is open.

0.26.22

Elena Mariani

Hi, good morning Alexander and

Anders, this is Elena Mariani from Morgan Stanley. Two questions from me, please. The first one: I would like to go back to what you said was the most important slide of your presentation about the improvement in traffic because one thing that is not clear to me is how could you say that the tests that you have done in terms of marketing, changes in approach and incremental investments in Italy and in the UK have been successful? Because your like-for-like has deteriorated sequentially in Q3 and even if you exclude the impact from the lower – the reduced number of promotional days, it feels that from an underlying perspective, things haven't improved. So, what gives you confidence that what you are doing in terms of key marketing initiatives is the right thing to do? And this is also linked to China; I think originally you had said that you wanted to improve the marketing investments there. But what has changed there and why now suddenly you are seeing more structural issues in the market? How long do you think it is going to take to fix that? And what is your overall assessment of what it takes for the brand to be competitive in the market? And then the second question is a little bit broader and is about the medium-term. Now you have been quite a few months into the restructuring of the brand and perhaps you have a little bit more visibility or at least you have a better idea of how long it is going to take to turn the brand around. I think we are all having a hard time in understanding what could be the medium-term trajectory of the brand; I think your full-year 2019 guidance is fully understood. My question is: What do you think could be a realistic trajectory for the top-line, the like-for-like recovery, and also what would be your early assessment of a sustainable margin for this brand excluding all the restructuring and all the initiatives on promotions that you have been taking so far? This would be very helpful to understand, at least to have a broad idea of what you think 2020 could look like or let's say 2022 could look like. Thank you.

0.28.55

Alexander Lacik

Okay, we will try to answer as much as we can. The first thing I would just like to remind you of is it is 6-8 weeks. So if you are trying to plot a course on the basis of one observation point, it is highly likely you will end up in the wrong place. So I would just like to remind ourselves of that. So what we are looking at here on the charts is we were trying to kind of line up clean weeks as it were, so where there is no promotional distortion because promotions do distort the picture quite dramatically as we have demonstrated. And what you see across these 3 here and another 10 which sit underneath is we see the same pattern everywhere. Where there is a clean week comparison, we can see that the traffic trajectory is very different in a positive direction and that gives us the confidence that there is something driving that and that would then be believed at least initially be mostly pushed by the increased investment in media. All these other things are more kind of hitting you once you enter the store. So that's probably what gives us that

confidence as we kind of dive into the kind of absolute traffic numbers which we are not sharing here today but we have just seen the outcomes here. Then I think your second question is on China. I think China is – there are a couple of different things. The underlying structural like-for-like development in China is not on fire, let's put it like that. We have seen a declining or a weak traffic into the physical store network since last year and I think the number is something like -30%. We are contracting that with conversion rates which are up 15 so essentially, you are taking out half of that impact. And then the other piece which is driving is our Tmall business is really strong. Year-to-date that is up 24% like-for-like and in fact, in September, it was up almost 50% so that business is kind of pulling in a lot of our consumer base. So I do think that there is some structural softness in China. We have done quite a lot of consumer research which would also kind of suggest that the positioning of the Pandora brand in China is somewhat weaker than in our other big markets and we are working through exactly how to address that and clearly then the media landscape in China, which I have touched on before, is different from let's call it the Western markets where TV is not such a factor and if you look back over the – let's say you go back 2-3 years in time and you look at things like unaided awareness, that has somehow flattened out which then would suggest to me that it's not generating the type of response we are looking for and again, we would have to deep dive on understanding that and I think the third piece is I think in general in China we are seeing a little bit of a softer category development, we have some few data points but they are more anecdotal than anything from competition which would also suggest that you know China has been quite a rough ride in the last few months. And within that, I think we have said that we have to take a look at our store network, whether we are placed in the exact correct places, you know, that market is more dynamic, I find, than maybe in some other of the Western World countries. And then on your final question, what is the kind of game plan coming to a positive.. I think in February, Anders spoke about that we expect 2019 and 2020 to most likely be in the negative territory in terms of like-for-like. If, let's say that on the assumption that some of these things that we have now experienced are going to continue yielding, then we should be in a positive territory in the out years. Whether that is going to be in 2021 or not, I don't have enough data to give you a very strong point of view at this stage of the game. Then looking at the earnings model question which you raise – you know, our gross margins are actually increasing as you see so there is nothing there that suggests that part of the equation is weakening and if we can kind of get hold of the like-for-like development, then I mean you can do the math yourself. We should be in a very strong position to kind of deliver EBIT margins somewhere around the current territory would be my view. But again, we are not making any hard statements of that just as yet. I don't know, Anders, if you have anything to add? Okay.

0.33.50

Elena Mariani

Thank you very much.

Operator

Thank you. Our next question comes from the line of Magnus Jensen of SEB. Please go ahead, your line is open.

Magnus Jensen

Hello guys, Magnus here from SEB. I have two questions for you. The first one is the one I always ask you guys, it is on the charms like-for-like, so you report the charms are down 14% in the reported growth but what was the underlying like-for-like in the category if you would like to share that as you have done before? And then my second question goes to the reduction of the inventory at franchisee levels. I mean, even in this quarter, you bought back a lot of old inventory from your franchisees and yet, they continue to reduce their inventories even further and this is in a period where you are relaunching the brand and introducing a lot of interesting new products including for instance Pandora ME. Could you share your view on this? And aren't you worried that you are going to end up with too low inventories at your franchisee

levels? And finally, could this be a sign that some of your multi-brand retailers are maybe phasing out our products?

0.34.58

Alexander Lacik

So on the first question, I think the charms like-for-like is in a similar territory as the organic growth number if I am not mistaken.

0.35.10

Michael Bjergby

But we don't provide the organic growth number either but in essence, what you should address in line with what we have seen in Q1 and Q2 so negative mid-teens basically so that has not changed and the pattern is the same.

0.35.33

Anders Boyer

And then, hi Magnus, on the inventories – I think there are a couple of things at play here, I think – just exactly like the entire discipline of managing inventories is much higher on the agenda for Pandora as part of the turnaround, I think exactly the same is happening for our partners that when you have been in a period of time where revenue has been declining a bit if you sit operating a store or a few stores, then you get into naturally focusing more on also managing your balance sheet because it has a direct cash impact. So I think what we are seeing is compared to the outset of the year when we made the guidance back in February is that the level of weeks of cover, the level of inventories a store can be operated with is probably a bit lower than what was our assumption at the outset when we made the guidance 8 months back, 9 months back. And then on the multi-brand – as you know, the data on the multi-brand is less sharp than what we do have for concept stores but we do expect that the like-for-like, if you had such a measure for multi-brands, is a little bit worse than for the group average. But we are not seeing a de-listing, I think that was the word you used, as a general thing at all among multi-branded partners.

0.37.08

Magnus Jensen

Okay, thank you. Just a short follow-up. So I am not really sure, is this your decision or is it the franchisees' decision that they are reducing inventories even further?

0.37.16

Anders Boyer

That is – actually you could say it's both. We have decided that we don't want to push. We want the partners to pull inventories from us when they need it and meaning that we want to make sure that our sell-in to the partners is guided by not something we decide to sell into them but it's guided by the sell-out from their stores.

Magnus Jensen

Okay, thank you. That is good to hear. That is all for now.

0.37.49

Operator

Thank you. Our next question comes from the line of Antoine Belge of HSBC. Please go ahead, your line is open.

0.37.57

Antoine Belge

Yes hi good morning, it is Antoine Belge at HSBC. Two questions. First of all, I think you mentioned the lack of local relevance for certain products. Is it something that products like the O-carrier is already addressing? Or is it something that you will address at a later stage and I don't know if you could give sort of an example of your products which are different in a specific country? My second question relates to China and then I fully understand that it's too early to talk about 2020 but whatever level of margins or profit you had initially or at least 2 months ago regarding 2020 is it fair to say that with the work that needs to be done in China, I think you mentioned retail adjustment etc. that there will be cost or that we should adjust our estimates for the fact that in China there are specific issues on top of the, I would say, the overall store repositioning of Pandora.

0.39.13

Alexander Lacik

When it comes to the product strategy, I think the O-carrier is a great example of how we can expand the usage of charms outside of the bracelet. But specifically on your question on the new product strategy, I mean, we are working through it as we speak and when we have bolted that one, then the actual development work takes place. And from concept through to ready product in our world, we are looking at roughly a 12-month cycle and we can fast-forward some things but on average, that is the kind of timeline we are looking at. So I would not be expecting any kind of major changes until maybe late 2020 that you could derive out of this different way of thinking about it. Then on China, I am not entirely sure what your question is – or are you asking if we are going to spend more money based on the comment around the store network, is that your question? Just so I am clear.

0.40.17

Antoine Belge

Yeah, I mean I guess you mentioned the October developments which are obviously quite negative and I would expect, I mean my view and maybe I am wrong is that they are below your expectations so maybe – I mean that specific issue in China is coming on top of what you had planned in terms of investments and on OPEX so basically that we again – I understand that it is way too early for you to give an overall 2020 guidance but compared to our previous estimates, it is fair to say that we have to ... you know then it's our job to do estimates but in other words there is a downgrade to EBIT to be made for 2020 on the back of what is likely to happen in China that you will probably announce at a later stage but it is already clear that the situation needs some adjustment.

0.41.16

Anders Boyer

Maybe I can try to give you some flavour on that question. As we are keeping our guidance for 2019 on like-for-like and EBIT margin unchanged, I think that's the starting point and as always, there are plusses and minuses but specifically, we are on the EBIT margin within the guidance that we set from the outset of 2019. Obviously, on an isolated basis, we are not where we want to be in China, but the group margin, we are still tracking within the range for 2019 so I think you should think more on China as more about working differently and spending the money that we are already spending in a different way rather than a big group margin impact.

0.42.07

Antoine Belge

Okay. Thank you. Maybe just a follow-up on the cost savings, you are saying that you found new areas for cost savings. Could you give maybe a few specific examples on where you are going to gain these 50 million this year and then more in 2020?

0.42.27

Anders Boyer

Yeah. If you have the presentation in front of you, on slide 13 in the Q3 presentation, in that we have indicated where we are with the Harvey Balls to the right on where we are pretty progress-like in admin expenses so if you look at sort of the incremental impact next year from a money perspective, it's COGS, it's the cost in the stores and IT, that is where you will see the bigger incremental impact in 2020 compared to 2019. So that is the first one. The second one where we have upgraded the guidance a bit compared to previously is on the retail expenses. We have taken the target up there from previously and then on admin expenses. That's the two buckets where we have upped it a bit. And specifically on retail, I think we have actually made better progress and faster progress than what we had expected and you can also see that in the numbers in Q3, that our sales and distribution expenses are actually down compared to last year, despite the fact that we have 113 more owned and operated concept stores this year and I think that is a good data point in looking at where we have made pretty decent progress in the cost programme.

0.44.00

Antoine Belge

Thank you, very helpful.

Operator

Thank you. Our next question comes from the line of Silky Agarwal of Citi. Please go ahead, your line is open.

0.44.15

Silky Agarwal

Good morning everyone, I have two questions please. One is on the performance of the new products. I saw in the press release you mentioned that the Autumn collection which was launched in 29 August is still flat. I mean, do you think this is in line with your internal projections given it's the new collection and you should probably have had positive like-for-like development on that collection at least? And secondly, it's related to this, in terms of your performance in new pilot stores, I mean do you have any additional data which you could possibly share in terms of how these new stores have performed or the online growth, postal ??? relaunch on the website? Thanks.

0.45.00

Alexander Lacik

So when you look at the drop 7, as we call it, you are correct in saying that is flat versus prior year. I think you put that in the context of I think the previous 6 or 7 drops have been double digit negative versus kind of the prior comparative base. So for us, this is a step in the right direction and obviously going to the future, our growth will to a degree be dependent on managing to actually grow behind the drops but versus let's say the most recent 12 months back drops, this was a step in the right direction. And I think in terms of the new stores, I would just like to caution this, I mean we have some data points but again, it's 6-8 weeks, I mean I think Birmingham has been up 6 weeks, is a very short timeframe to be perfectly honest with you. We see like-for-like as up, traffic is up, we see dwell-time is up so people spend more quality time in the stores etc. but again, we need a few more months to kind of come back with a more conclusive picture. When it comes to the like-for-like performance on online, I think up until the relaunch, we were trading at roughly from memory 20 odd percent growth globally. In the month of September, this was only 12 or so from memory and this is 100% correlated with the reduction or the severe reduction of promotions, so again, looking at the performance of that, you would have to go to clean weeks, as we look, and there we can see a better performance. We know that what we call the PDP rate, so you know product views, which is eventually when you are looking on a site, you need to get people to the product site because from there, essentially you click the purchase and we see that there is a quite significant shift in

people that are getting to the PDP which is largely driven by the fact that the site loads much quicker than in the past. So we know that conversion rate is very closely linked to the load rate. So, you know, again as I said: Early days but the signals we have or the indications we have are that literally every single aspect of Programme NOW has generated some positive indication for us and I think that is the important one to take hold of. Is this perfect? Is this at an end-stage? No. As I said: First chapter, first paragraph, but it is a positive one.

0.47.47

Silky Agarwal

Thank you. Just a quick follow-up. So is it fair to say that the performance, the improvement that you have seen in October is largely led by these new products and also you know these new stores and online-driven.

0.48.05

Alexander Lacik

It is 4 weeks of trading we are discussing. I think the key driver is that we see improved traffic. And that is really the key point because as we, I think, said somewhere in the material, the reason for the like-for-like decline for Pandora is traced back to traffic, not conversion rates, not UPT or average or development.. or any of that, those metrics, it is purely driven by less people coming through the door. And what we are experiencing post the relaunch and especially in the clean weeks as we talked about, then we have more people coming through our door than we used to have and that is the most important diagnostic KPI at this point in time. So to answer your question, yes, that is the driver.

0.48.48

Silky Agarwal

Thank you

Operator

Thank you. Our next question comes from the line of Klaus Kehl of Nykredit Markets. Please go ahead, your line is open.

Klaus Kehl

Yep, hello, two questions from my side as well. First of all, your capital structure is still rather strong. So all else being equal, would it be reasonable to expect a new share buyback in 2020 or should we expect increased CAPEX in new stores next year? That is my first question. And secondly, we have talked a little bit about – or quite a lot about this improvement you have seen in October. But just to clarify, is there any particular markets that have seen this improvement or is it across the board? That would be my questions.

0.49.37

Anders Boyer

Hi Klaus, it's Anders here. I can start out with the first question on the capital structure. Yeah, it is clear that we are generating a lot of cash still, from that perspective, nothing has really changed and even though we are not guiding on 2020 yet, I would be very surprised if there is not a decent amount of dividend and share buyback in 2020 as well. And on the CAPEX in new stores, that is actually a good question. The way to think about it is that long-term, it does not change our CAPEX level because once we are up and running at full speed and gotten practicing on building the new stores, the cost is the same as for the existing stores, so that's around DKK 2 million per new store that we are opening. Initially, it will be more expensive and that was also the case when we developed the current concept some years back, that it takes a little bit of practicing before we get the cost down but long-term, the cost is the same. Then specifically for the transition period, the level of CAPEX actually depends on how strong a pick-up do we see in the traffic into the stores, conversion and like-for-like in the stores that we refurbish so on the one hand, you can say of all

the materials to refurbish the new stores when we would do it anyway, then it doesn't have an impact in big numbers on CAPEX and then on the other hand, if we see a strong pick-up in the retail metrics in the stores that we refurbish, we may want to accelerate the refurbishment even ahead of where you need it physically and where we end up within those ranges, we will have to see, get some months or quarters of data and as we said, I think we put into the company announcement that sometime during the first half of 2020, we will conclude on how fast we want to roll out the new concept.

0.51.59

Alexander Lacik

Okay, and your second question on which markets are driving the improved October performance, and there are a couple of points I would like to share. First of all, I mean it's a broad improvement across numerous markets. If we look at the 4 out of our top 7 are in flat to negative low single-digit territory and in particular, the large European markets are performing really well. China and Australia would probably be on the kind of other side of that spectrum but that's kind of the perspective we can provide.

0.52.31

Klaus Kehl

So did you say that a couple of large European countries are in a very positive territory?

Alexander Lacik

No, they are performing better in the flat to negative low single-digit territory.

Klaus Kehl

Okay. Got it. Thank you very much.

0.52.51

Operator

Thank you. Our next question comes from the line of Frans Høyer of Handelsbanken. Please go ahead, your line is open.

Frans Høyer

Hi, thank you. Coming back to the inventory levels at franchisees and I wonder if you could tell us how much visibility do you actually have of franchisees' inventories and their sell-out and how can you make the distinction between inventory reductions with franchisees that are of the healthy inventory clean-up variety that you mention and how much is in fact franchisees losing face?

0.53.44

Anders Boyer

Thank you Frans, it's Anders here, I can start out on the visibility. On the concept stores, the franchise concept stores, we have very good visibility on their sell-out and also on their inventories. We get data for all of the franchise and distributor operated concept stores every week so every Thursday afternoon, the global management team sits together looking at the like-for-like data across channels and markets including the concept stores that are operated by partners. So there, we have very, very high visibility. But then when you move into shop-in-shops and multi-branded, it is less structured. Obviously, it is also a smaller percentage of revenue and spread across many, many points of sale but for the majority of the revenue, we have reasonably good – on like-for-like, very good insights. And then on the healthy versus non-healthy, again, we have quite good insights on the level of inventories in the franchise operated concept stores and what is slow-moving and what is fast-moving and the weeks of cover and obviously also the individual countries and managers have a very frequent dialogue with the partners and there is no doubt that they obviously have felt like-for-like and revenue decreasing during the last couple of years and

thereby earnings as an average being less than what it has been in the past and that obviously makes you as a business manager focusing also more on the balance sheet and cash flow and thereby inventories and that is what I think is taking the weeks of cover, not just in our own stores but also among partners down to a much lower level than what it has been in the past.

0.56.00

Frans Høyer

And so you can see that it needs further reduction and this is the reason for your downward adjustment? You basically decided that inventories need to come down further and you can still service the shops even from your own inventories or directly from production? Is that how we should think about this? It is really that you can make do with much lower inventories than you have assumed so far?

0.56.31

Anders Boyer

We have seen countries and markets where the weeks of inventories that you have sitting in the store or in your small warehouse had been in the 30-40 weeks which is absolutely not necessary to run a shop. So best practice for companies like us mid-teens weeks of cover if you have good systems, good replenishment, algorithms, you can run a store like this and that goes for our own stores as well, let's say mid-high teens weeks of cover and historically, we as in Pandora have been way far away from that and that goes as an average also for our partners.

0.57.22

Frans Høyer

And so these weeks to cover is going to come down further during Q4?

Anders Boyer

Yeah. I think it will get down a bit further and then because our aim from the outset has been that as a broad average when we exit 2019, then we are where we should be in terms of inventories in the wholesale channel so we can like stop talking about this because we are looking forward to that point in time as well.

0.57.54

Alexander Lacik

Just a perspective, it is a bit of a mathematical answer to your question actually because the way it is calculated is on forecasted future sales. So as you get into a period like Christmas where we do a significantly higher proportion of sales then technically, you know, you would have to load up inventory and as you are getting out, you will have a slightly higher starting point. So this fluctuates throughout the year so when we say that you can run a store on 12 weeks, that's an average. That would not be sufficient to service the Christmas period for instance, then you would run out of stock. So it is a bit of a dynamic. If you had a completely flatline consumption pattern, then yes, you can make that statement but because we have such a back-loaded year so if you look at these numbers, you wouldn't find the number we are quoting.

0.58.46

Frans Høyer

But there was a run-off in inventories in Q3 and you would probably need to replenish those inventories with franchisees during Q4 in order not to run out of product for Christmas?

0.59.00

Alexander Lacik

The other point which we are not really talking about, we are now only talking about the quantity of the inventory position. The other aspect of this is also the quality of the inventory position so a large portion of what we are kind of taking back has been inventory which is not really sellable. It has been there, it's been discarded for quite some time back and it's not moving so that is part of the equation as well. So I think the starting point this year in the US was we sat on, what, 50 weeks of cover and we would hope that next year the same point in time we would be down to like 25 or even less which will be a much more of a healthy position. And that whole journey means that I am selling in significantly less versus what is actually being sold out even when like-for-likes are in slightly negative position like the US.

0.59.51

Frans Høyer

Yeah, okay. And the transition then from inventory run-off to stable inventories would be, I mean that would look different in your P&L, I suppose. Just one more question on the promotional, the reduction in your promotional activity. How much of a drag was that on like-for-like in Q3?

1.00.17

Alexander Lacik

I think – first of all, it's not perfect science, I wish it was but let's call it educated views on this would be that roughly 4 points could be attributed to this but again, if you are in a steady state business, it's easier to be more precise on that question. When it's a bit on a sliding slope, then it's always the question what is the increment and not but roughly 4 points at a global average. I think if you look specifically on the US, it would probably be a higher number given the severity of the pull-back and maybe even UK would be a slightly higher number. But on average globally, we gather it's roughly 4 points.

Frans Høyer

Okay, thanks very much.

1.01.00

Operator

Thank you. Our next question comes from the line of Morten Eismark of ABG Sundal Collier. Please go ahead, your line is open.

1.01.05

Morten Eismark

Thank you and good afternoon gentlemen. Just a quick question here, can you remind us, do you have in place or do you plan to reintroduce some permanent stock balancing with franchisees where they can return unsold inventory minus of course a handling fee to regulate buying behaviour? The point of my question is of course that we don't end up in these big cleaning operations and of course assuming that general Pandora sell-in versus sell-out culture is more healthy going forward than we have seen in the past year or years. That is the first question. The second question, just circling back to the promotional effect. So in ballpark figures, would it be fair to say that the reduction in promotional activities cancel out the extraordinary marketing efforts you did in those key markets? Again, ballpark figures, or how should we view this?

1.02.00

Anders Boyer

Hi Morten, it's Anders here. On the inventory, one of the aims of the commercial reset is that we should avoid having the need for a structured permanent programme where inventories are being returned to Pandora and in fact, as of now, the only markets where we have a structured programme in place is North America. We don't have that in the rest of the world. So with the reduction of the sell-in packs that we

started doing early this year and with the measurement being focused on like-for-like, also for the partner stores, not sell-in, we are trying to put ourselves in a position where we are not structured in a way or operating in a way where we consistently build up too high inventories that have to be taken back every now and then. That is the aim.

1.03.10

Alexander Lacik

On your second question, I mean, it's really a crystal ball question. I wish it was as easy that we could you know decouple those things and say isolated effects. Broadly, maybe, you are correct but if you kind of pushed me hard and said show me the numbers, I don't sit on those numbers. It is very – you know, I could extrapolate what we experience behind the media uptake in the UK, in Italy. Then I can say that this is what an average promotion should deliver but then we have promotion fatigue, we have a like-for-like played by fewer consumers coming in general into the stores, the assortment might be different so there are so many components here so it's really difficult to put a very definitive answer. But broadly, you are probably right. Somewhere in that ballpark is probably right.

1.04.03

Morten Eismark

That is very clear and I of course respect that this is not an absolute science, of course. Anders, just circling back two rounds so the point is, as you highlighted earlier, if you can sit and watch your sell-out and I guess you also monitor your sell-in on an SKU level in your concept stores and you can monitor the sell-out on SKU level each and every Thursday – nevertheless, we still ended up in this situation and again, I know the past is past but you will probably never get 100% correct the product mix both in terms of volumes and geographical mix so there will be excess inventory or slow movers going forward and I understand this is a permanent thing in the North American business but it could also be interesting to see if it's something that should be introduced globally outside then just using alternative channels for flushing out. Is that something you would plan to look into?

1.05.04

Anders Boyer

It is actually more the other way around that we look at it – the ideal operating model is more like what we have outside the Americas, what we are seeing, the way we are operating in the countries in EMEA and APAC where we have bigger partner networks that we are setting ourselves off as a structured need, we don't have a need for return programmes and we have actually been operating pretty much like that in EMEA and APAC for long and now we are doing this one-time exercise but then the entire aim has been that we are set up in a way that it is not something where we need to do sort of structured programmes that will be anywhere visible in the numbers going forward but you are absolutely right because you don't have 100% precise forecasting accuracy but the ones where you are not hitting right, hopefully you can get rid of most of that through your biannual sales.

1.06.22

Morten Eismark

Alright, fair enough. Thank you.

1.06.23

Alexander Lacik

One additional comment. The fact that we are going to reduce the SKU assortment from 1,800 DVs Down to 1,300 also means that we are focusing more on the productive aspects. So of course, the wider assortment you have, the longer the tail is, I mean that's just arithmetic so that in and of itself should help curtail that kind of unproductive part of the assortment.

1.06.48

Morten Eismark

Okay, thank you. Very clear, thank you.

Operator

Thank you. Our next question comes from Piral Dadhania of RBC Capital Markets. Please go ahead, your line is open.

1.07.00

Piral Dadhania

Hi, morning everyone. So firstly if I could just confirm what you said around the US like-for-like in October. I don't think you said it in your initial comments but did you confirm it was slightly negative in the October month? That would be helpful. And then secondly just around the traffic slide that you presented on page 10. Is it fair to assume that the like-for-like evolution broadly follows the traffic evolution for the clean weeks that don't have promotional noise in the base period or are there any deviations that you can flag at this early stage of the turnaround? Thank you.

1.07.45

Alexander Lacik

So I will probably start with the number two question because you are right. We have not seen, if you go back in let's say the last one or two years, there is a quite good correlation between like-for-like performance and traffic because our conversion rates are relatively stable, the average order value and the units per transaction are also very stable so that correlation factor is very high so in clean weeks, that is probably a good proxy I would say.

1.08.17

Anders Boyer

And on the – Hi, Piral, it's Anders here. On the October like-for-like in the US, Alexander commented on it before and said that 4 out of the 7 markets were at flat like-for-like or low single-digit negative. The US is more like mid-single-digit negative but better than in Q3. But if you look at slide 10 in the deck with the weekly numbers, you can also see that in the US, we also still in October, which is week 40-43 if I remember right, we were in quite a number of those weeks comping a promotion last year so that still hurts the US in the month of October.

1.09.04

Piral Dadhania

Yeah, that makes sense Anders. Okay, so just coming back to the other point around the relationship between traffic and like-for-like. If we then take those clean weeks perhaps and coming back to a question that was asked, I think one of the first questions, is it fair then to assume that the sort of the sustainable clean run-rate for the like-for-like in the business with a small injection of new product is a low to mid-single-digit sort of trajectory? Is that sort of the way we should think about the medium-term?

1.09.38

Alexander Lacik

Yeah, that's probably the best proxy we have sitting here today. As I also mentioned, if you are navigating and you take one degree wrong course today, you know, in three weeks, you will end up in the wrong continent, so I will just be cautioning you a little bit. But you know with the data set we have in front of us, that is probably not a crazy assumption, that is probably the way I will think about it.

1.10.01

Piral Dadhania

Okay, brilliant. And sorry, just one more thing that just occurred to me. I think you flagged Pandora ME as being a good example of a successful launch. I just wanted to sort of take a step back and get your views on whether you believe that is a function of a better marketing strategy or whether it is a function of lower price points which are resonating better with consumers. Do you have a view as to what is driving the more successful response in that collection?

1.10.32

Alexander Lacik

This is a loaded question when you are asking a marketer whether the product guys have done a good job or I have done a good job in my marketing campaign but nevertheless, I think the driver of this was also confirmed with the research before we actually did this. It is hitting that price point which sits sub 100, you know, pick your currency pretty much. That is what is driving it and I think that in and of itself manifests the fact that we do have a price elasticity on this brand which we need to be conscious about. I don't know if you have participated in our previous discussions where I have spoken about the fact that kind of part of our issue I think as a brand is that we have drifted away from being in these opening price points and being affordable. That is what consumers would kind of tell us, that well, it is not as affordable as it used to be and therefore, I kind of sit on the fence for a while. So I think Pandora ME is a great example when you hit kind of the right value equation that actually we see strong following into the brand. And that is important to me because it does tell something about this whole debate on whether the Pandora brand is broken, nobody is interested, that you know this would kind of somehow suggest something differently.

1.11.51

Piral Dadhania

Okay. Yeah, I mean, we have heard this before. So, if you for example expand the entry price point offer, how does that affect the gross margin? Are those lower price point products gross margin neutral? Or is there a slight dilution implied?

1.12.08

Alexander Lacik

So on this specific one, it is not dilutive and if you actually look through our charms portfolio, the lower priced charms actually operated a higher gross margin because they are much easier for us to manufacture. So if you have a charm which is purely moulded silver versus something where you have to set a lot of stones and maybe paint enamel and all of those things, they typically could be a little bit of a drag on the GM but we are now talking in small increments. But generally speaking, no, the answer is Pandora ME is not dilutive to our gross margin profile.

1.12.47

Piral Dadhania

Okay brilliant, thank you, very clear.

Operator

Thank you. The next question comes from the line of Magnus Jensen of SEB. Please go ahead, your line is open.

1.12.59

Magnus Jensen

Hello guys, just one small question from me. You said there was sort of a one-off effect on your free cash flow from Programme NOW due to some of the restructuring costs. How much is that?

1.13.14

Anders Boyer

On the operating net working capital, it is actually not that much. There is some but the majority of the one-off restructuring cost is booked on other payables and not trade payables but in total of the DKK 1 billion in one-offs in the quarter, DKK 750-800 of that is non-cash in the quarter so much of the DKK 1 billion does not have any cash impact in the quarter. Some of that will then have cash impact going into Q4, mainly the inventory programme. Does that answer your question, Magnus?

1.14.05

Magnus Jensen

Yeah, it's fine. Thank you.

Operator

Thank you. Our next question comes from the line of Lars Topholm of Carnegie. Please go ahead, your line is open.

Lars Topholm

Yes, hello gentlemen, a couple of questions on my side. The first on the October like-for-like of -7, just to compare apples to apples, isn't it fair to assume China was also a 2% drag in Q3 given it's just north of 10% of sales and like-for-like was -16 and isn't it also true that comps in Q4 are 4 percentage points easier than in Q3? At least if I look at the like-for-like run-rate last year. And then finally, is Hong Kong out of the 7%? Because if that is case, you could actually argue that factoring in Hong Kong, you go from -11 to -8 on a comp which is 4 percentage points easier. So how confident are you you have a real underlying improvement in momentum? And then question number 2 goes to the fact you are reducing sell-in packages. I know you had some issues with producing the plated products so I wonder what is the status on that and what is the risk that in managing sell-in more tightly, you are going to experience more order backlogs than you have currently? Those were my questions.

1.15.41

Anders Boyer

Alright Lars, it is Anders here. I will try to start out on the first part of the question with the October like-for-like, the -7. The way that the impact from China in October is bigger than in Q3, and you can of course do the numbers in different ways but the way that I look at them, the -16% like-for-like in Q3, the -16% that China had, then that is 6 percentage points worse than the group average and assuming that like China, the like-for-like weight is 10 percentage which is probably, that is plus/minus okay, then it drags down the group like-for-like in Q3 by the tune of 60 basis points or so. So the drag from China is clearly bigger in October than we saw in Q3 but it was also a drag in Q3. Then on the Q4 comp, you are absolutely right, the like-for-like last year went from -3 in Q3 to -7 in Q4. So we have an easier comp getting into Q4 and that is obviously, it is not the eternal truth to look at 2-year comps but it is a factor and that is clearly also part of why we do expect a better like-for-like here in the fourth quarter than what we have seen in the first three quarters of the year. And then – and there was probably something else that I have missed, that I haven't answered on the... Sorry, what was that question? Yeah, in October, that -7, Hong Kong is still out because we see that the level of turmoil is at a level where like-for-like gets into ridiculous numbers like in Q3 where it was -53, so that is still adjusted in that number.

1.18.10

Operator

Okay, thank you. Our next question comes from the line of...

1.18.18

Michael Bjergby

No sorry, we just need to finalise the last question on the order backlog. It is correct that we have a larger order backlog currently than we had in the past and this goes mainly for the plated products but also for some of the silver products that have been high runners. So that is correct. We expect it to be solved later this year sort of towards the end of the year but hopefully, it will have no impact on sell-in.

1.18.50

Operator

Okay, apologies. So our next question comes from the line of Klaus Kehl of Nykredit Markets. Please go ahead, your line is open.

1.18.57

Klaus Kehl

Yeah, just a question about Italy. You say that the sell-in in Italy has been affected quite a lot by these declining credit days in Q3 but have you seen that sell-in in the Italian market has started to normalise here in Q4 or is it something that you hope for in let's say the latter part of the quarter?

1.19.24

Anders Boyer

That is a fair question, Klaus, but the sell-in, I would almost tend to say have to happen because otherwise, the Christmas products are not in the stores. So we are very confident when we are saying that this is a timing issue between Q3 and Q4 directly related to a change of payment terms. So simply, essentially saying rather than selling what is going to be sold out during Christmas, rather than selling that in September, we do that when it makes commercial sense and that is in Q4.

1.20.01

Klaus Kehl

So in other words, it has taken place already?

Anders Boyer

Yes, some has but we are still only in early November so not everything has been shipped but that will happen in the weeks to come.

Klaus Kehl

Okay. Great, thank you.

1.20.25

Operator

Thank you. And we have one further question in the queue, that is a follow-up from Lars Topholm of Carnegie. Please go ahead, your line is open.

Lars Topholm

I hope this time, the moderator won't interrupt me before we have ended the discussion. But my question on the order backlog was also what can you from a management perspective do to avoid a situation where order backlog problems increase when you reduce the sell-in package size? Thanks.

1.21.02

Anders Boyer

Within our own stores, merchandising is a very important piece of that puzzle. Until – I think it was March 1 this year or Spring this year – we didn't have a global merchandising function and that is a very important piece of getting that up and running and everything that goes into the forecasting, sorry the merchandising function like also building up proper and stronger forecasts. Then we also with the simplification of the product assortment that we are doing, that will also help our forecast when we are having 600 fewer SKUs to divide the sale across once we have been going through that reduction. Then we obviously all the time have to make sure that we don't go too far in our inventory reductions, inventories have come down very significantly Y/Y and we have to make sure that at least that we don't reduce inventory faster than our internal merchandising and forecasting processes can handle that and that is something that we have to be quite aware of. And then the ... we can probably also make sure that we have a bit more production buffer between the first half and the second half of the year where we do have quite a skewed production level and that making sure that we have the right level of OEM suppliers that can handle production amounts if they end up being bigger than what we had forecasted. We are sort of between first half and second half, the production level has historically been 45/55, it's actually probably even a little bit more skewed this year and that is inherently difficult to plan and you do need a certain level of OEM suppliers to balance that out.

1.23.40

Lars Topholm

Okay, thank you very much Anders. And now, moderator, you are free to cut me off. Thank you.

1.23.50

Operator

Thank you. And as there are no further questions, I will hand back to our speakers for the closing comments.

1.23.58

Alexander Lacik

Okay. Thank you for taking the time with us today. As we said, this is the first chapter in a long journey. Quarter 3 has been extremely busy with lots of ins and outs. I can appreciate that there are many, many movements in the P&L and those things so I think as we get into the future hopefully we have less of those kind of one-off items recurring and we have a slightly more stable baseline to operate from. But on that note, I'll probably wish you a merry Christmas for those of you that I won't see before then. Thank you very much.