Nordea

Equity Research

15 November 2010

Pandora

Industry (GICS): Textiles, Apparel & Luxury Goods
Denmark

Buy

Target price (0-12M): DKK 370
Share price (close): DKK 312

Key info

Bloomberg	PNDORA DC
Reuters	PNDORA.CO
Free Float	43%
Market cap. (bn)	EUR 5.44/DKK 40.54
Company website	www.pandora.net

Nordea Markets – analysts

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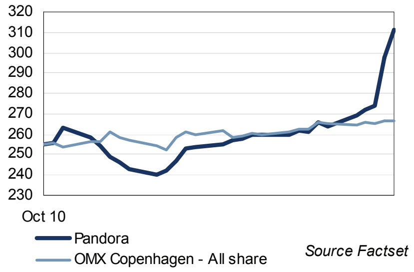
Absolute and relative performance (1Y)



	-1M	-6M	YTD
Absolute	22.4%	22.2%	22.2%
Relative	17.9%	14.6%	-3.7%

Source: FactSet

Estimate changes

	2010E	2011E	2012E
Total Revenue	n.a.	n.a.	n.a.
EBITDA	n.a.	n.a.	n.a.
PTP	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.

A unique growth case

Pandora is, we believe, attractively positioned in the high-growth sweet spot of the global jewellery market with an exciting opportunity to leverage its products and brand further globally. Given its unique growth prospects along with the significant potential for cash returns, we initiate coverage with a Buy rating and a target price of DKK 370 per share.

Revenue to reach more than DKK 10bn by 2012

We forecast revenue and EBITDA to triple from 2009 to 2012 driven by the penetration of new markets (China, Italy, Central & Eastern Europe and Russia), an upgrade in the quality of distribution to branded space and the potential to leverage the brand further and diversify the product range.

Significant potential for cash returns

We estimate that Pandora could return up to DKK 7bn to shareholders by 2012 or DKK 50 per share, even if leverage remains at a conservative 1x net debt/EBITDA. We expect management to focus on cash returns as acquisition opportunities are not on the strategic agenda.

A "category killer" product concept with a unique production set-up

The group's core product concept – charm bracelets and charms – has distinct "category killer" features and provides an attractive value proposition for both retailers and consumers, in our view. We believe the production set-up and scale represent a significant barrier to entry and ensure industry-leading EBITDA margins around 40%.

Risks

Key risks include: economic downturn, copycat products, soaring metal prices, FX, the ability to manage growth and the risk of changes in consumer taste.

Buy – target price of DKK 370 per share

We initiate coverage of Pandora with a target price of DKK 370 per share, which is in line with peer group 2011 P/E multiples. With strong revenue growth and earnings progression – and more to come – we foresee continued strong share price performance for Pandora.

Numbers

DKKm	2009	2010E	2011E	2012E
Total revenue	3,461	6,486	8,614	10,695
EBITDA	1,572	2,696	3,444	4,276
- margin	45.4%	41.6%	40.0%	40.0%
EBIT	1,424	2,439	3,273	4,172
- margin	41.1%	37.6%	38.0%	39.0%
Pre-tax profit	1,189	2,289	3,089	4,058
Net profit from cont oper	1,005	1,877	2,533	3,328
Shareholders' equity	1,451	3,875	5,754	8,187
Net debt	2,151	2,006	619	-1,073
Net gearing	130%	52%	11%	n.m.
Net debt/EBITDA	1.4	0.7	0.2	n.m.
Free cash flow	858	816	2,110	2,632
No. of shares (m)	130.1	130.1	130.1	130.1

Source: Company data and Nordea Markets

Per share data and multiples

DKK and %	2009	2010E	2011E	2012E
EPS (adj.)	8.04	16.35	20.75	26.12
- growth	173%	91%	37%	31%
DPS	1.54	4.97	6.80	8.92
BVPS	11.1	29.8	44.2	62.9
P/E (adj.)	n.a.	19.1	15.0	11.9
EV/Sales	n.a.	6.6	4.8	3.7
EV/EBITDA	n.a.	15.9	12.0	9.3
EV/EBIT	n.a.	17.6	12.7	9.5
P/BV	n.a.	10.5	7.0	5.0
Div. Yield	n.a.	1.6%	2.2%	2.9%
FCF Yield	n.a.	2.0%	5.2%	6.5%
ROE after tax	103.2%	69.5%	52.5%	47.6%
ROIC after tax	40.1%	52.9%	57.1%	66.8%

Source: Company data and Nordea Markets

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Investment case

Investment case

Leading player in fastest growing segment in jewellery industry

Pandora has rapidly established itself as a leading player in the fastest-growing segment of the jewellery industry – the affordable luxury segment – and has successfully built up a good record in major markets including the USA, the UK and Germany. Significant success in these and other markets means that Pandora's revenue base is well diversified geographically.

The cornerstone of the company's success is the core product concept (the charm bracelet and charms), which delivers an attractive value proposition for retailers (repeat sales and high inventory turnover) and end-consumers (price/quality).

Given the company's control of the value chain from production to distribution, as well as its production scale, the company is able to deliver industry-leading EBITDA margins above 40%.

We believe the key attractions of the investment case are:

Unique growth profile

Significant growth potential

In our view, Pandora is attractively positioned in the sweet spot of the global jewellery market with a unique opportunity to benefit from key growth trends in the industry: affordability, branding and individual design.

We believe the main growth drivers are:

- **New markets**. While Pandora is already a geographically diversified company, the group is still only in the early stages of entering a number of potentially major markets including China, Central & Eastern Europe, Russia, Brazil, Italy and France.

  In our view, Pandora is likely to be able to take significant market share in these by introducing its proven successful product concept and leveraging on experience gained from the penetration of other large Western countries including the USA, Australia, the UK and Germany.

  The Chinese market in particular presents a significant growth opportunity, in our view (launch in Q4 2010). Revenue in Asia (excluding Australia and New Zealand) is still at a low level compared with the 30%-45% average among peers for the region.

- **Distribution upgrades.** Improved distribution quality by increasing the share of branded sales through the upgrade of multi-brand stores to branded selling space (concept stores, shop-in-shops and gold retailers). The upgrade process represents a material growth driver for Pandora as sales per store are significantly higher in the company's branded selling space.

- **Leveraging the brand.** As Pandora continues to build a global brand, there is an opportunity to capitalise further on its position by diversifying the product offering to include other jewellery and adjacent categories (watches, sunglasses, etc).

Material cash returns likely

Given Pandora's significant growth profile, high margins, cash conversion and conservative leverage (1x net debt/EBITDA at H1 2010), we believe the group has the scope to return a material amount of cash to shareholders over the coming years.

High cash return potential

Based on our forecasts and management's target of a dividend payout ratio of approximately 35% and an optimal leverage ratio of less than 1.5x EBITDA, we believe Pandora could return up to DKK 7bn in total to shareholders by 2012 or DKK 50 per share if leverage is maintained at 1x EBITDA.

Strong board and management team

We see the newly appointed board, especially Chairman Allan Leighton, as a significant positive for the investment case. In our view, the diverse experience of the board members and their individual records suggest a strong focus on corporate governance in the future.

Right management team in place to execute on significant growth opportunities

The combination of CEO Mikkel Vendelin, who has spearheaded the remarkable growth at Pandora in recent years, and strong regional managers provides us with comfort that Pandora has the right team to execute on the significant growth opportunities. We also note that the incentive schemes are aligned with investor interests and that executive management is required to hold shares worth five times their annual salary at any point in time.

Unique production infrastructure and scale

Unique production infrastructure and scale

In our view, Pandora's production platform and scale are a significant competitive advantage that will be difficult for competitors to replicate. At the same time, the platform ensures that Pandora is able to deliver a unique value proposition (price/quality) to consumers at a low cost.

Industry leading margins

Industry-leading margins exceeding 40% in recent years…

Through its unique production set-up and wholesale distribution strategy, Pandora has managed to achieve industry-leading margins exceeding 40%, even through a period of significant investment in building the group's global footprint and during a global economic downturn.

…and margins are likely to remain on attractive levels

While margins are likely to fluctuate depending on the success of the group's geographical expansion, product range diversification and general competition, we still believe that margins are likely to remain at very attractive levels given the vertical integration of the value chain and economies of scale in the production of Pandora's main products.

A "category killer" product concept

In our view, Pandora's "category killer" product concept – the charm bracelet and charms – has a number of very attractive features, including ensuring repeat sales and that it is also likely to bolster sales of related products.

Core product ensures repeat sales as well as bolsters sales of related products

In addition, the charm bracelet represents high volume turnover and, consequently, quick inventory turns, which, along with the low capital intensity, provides retailers with a very attractive proposition and compelling returns on investment. This is very much highlighted by the great success in ramping up its point-of-sales (PoS), which now total 10,386 points globally.

Initiating coverage with Buy and a target price of DKK 370 per share

We initiate coverage of Pandora with a Buy rating and a target price of DKK 370 per share. The strong Q3 2010 results clearly confirm our view that revenue growth will be significant in the coming years, which will bring further earnings progression.

Our valuation in based on 2011 P/E multiples for hard global luxury companies excluding Bulgari, which we view as the most appropriate peer group. As long as Pandora continues to deliver significant EPS growth, there is room for a solid share price performance. We note that 2012 multiples indicate an even higher target price.

Risk factors

Global economic conditions

An economic downturn would impact demand for jewellery

Pandora has delivered remarkably high growth rates during the economic downturn of recent years. However, Pandora would still likely be impacted by a new economic downturn as consumer spending would decrease, impacting the demand for jewellery. The recent development in Australia, where revenue is under pressure because of tough market conditions, indicates that Pandora will be hurt more by an economic downturn as its market share grows.

Threat from new entrants and copycats

Pandora has established itself as the leading brand in the fast-growing charm bracelet area of the jewellery industry. Its high margins and solid growth rates have led to new market entrants and should continue to do so. Pandora already sees a high number of imitations and copycats and this might continue, which could put pressure on future growth and margins.

Building a strong brand and increasing the branded selling space, in combination with the strong production setup in Thailand, should partly offset these threats.

Commodity prices

Fluctuations in commodity prices also represent a risk

Fluctuations in commodity prices also represent a risk, in our view. In 2009, 93% of COGS was raw material costs with silver and gold accounting for the majority. Although Pandora uses hedging to decrease short-term volatility in raw material costs, we believe rising commodity prices represent a risk to margins as the group may not be able to compensate for such through price increases. The current silver spot price is 43% above the 2010 hedge and the current gold spot price is 19% above.

FX

Pandora is well diversified geographically and therefore is exposed to fluctuations in a number of different currencies. While the group is, to some degree, naturally hedged for the USD, management also uses hedging to increase short-term visibility. The group has high exposure to the USD, the GBP and the AUD.

Ability to handle growth and maintain margins

Another risk factor relates to Pandora's ability to manage its significant growth rates and still maintain its margins. The H1 2010 earnings development highlights that expansion is costly and that it adds costs throughout the organisation. Given better established corporate structures, a global mindset and a strong management team, we believe Pandora should be able to handle its growth, as it has done historically.

Changing consumer taste

Change in consumer taste could threaten core product sales and consequently, revenue

A potential change in demand for the charm bracelet concept, such as end consumers changing their jewellery taste, also represents a risk, in our view.

2010 year-to-date, 83.8% of revenue has stemmed from the sale of charms and silver and gold bracelets, so a large reduction in demand for charm bracelets and charms could result in a significant decrease in revenue.

Pandora has been successful for ten years, which reduces the risk of the charm bracelet concept being just a fad. The captivity elements of the product should also ensure ongoing sales of charms to existing consumers despite a change in consumer preferences among potential consumers.

New market entries

While Pandora has been very successful in entering a number of large Western markets, there is a risk that the group may not be able to replicate its success in new markets, owing perhaps to different end-consumer preferences, local partners, lack of "first mover advantage", cultural or other issues.

Risk that other jewellery will be unsuccessful

A key driver in Pandora's strategy is the expansion into other jewellery collections and products in adjacent product categories. Other jewellery represented 10% of revenue in 2009, of which some was leather bracelets, (related to the charm bracelet concept). In H1 2010, Pandora saw its highest growth rates in other jewellery, but there is a risk that this development is not sustainable.

Low corporate tax rate

Low corporate tax rate could be a risk, but we believe it is likely to be extended to 2019

Pandora has a low corporate tax rate until at least 2012 as a consequence of tax exemption in Thailand. This has been recognised by the American tax authorities, but there is a risk that this will not continue with either the US or the Danish tax authorities. Pandora targets to have its exemption extended to 2019, but an agreement with the Thai authorities has not yet been signed. This represents a risk.

Legal challenges

Pandora is currently involved in a court case with Lise Aagaard, the owner of its competitor, Trollbeads. The case regards royalty payments in relation to Pandora's Murano glass beads: Pandora previously agreed to buy glass beads designs from Lise Aagaard. The agreement also states that Pandora is to pay Lise Aagard royalties for using other Murano glass design even though the glass beads are not designed by Lise Aagaard.

Pandora has questioned this agreement and has won the case in the Danish High Court, but Lise Aagaard has appealed it, referring the case to the Supreme Court. The potential royalty payment over the coming 20 years represents DKK 385m, according to Lise Aaagard Holding. This calculation assumes increasing sales of glass beads for the next 20 years compared with the 2008 level (royalty payment of USD 0.56 per Murano glass bead sold). The payment per glass bead is regulated by European inflation on jewellery and watches. Including 2009, Lise Aagaard has received DKK 32m in total in royalty payments.

Limited historical data and aggregated revenue numbers

Limited historical data reduces the understanding of historical development

A risk in relation to investing in Pandora is the limited historical data, which reduces the understanding of the historical development in the company. There is limited data on the historical growth rates in different countries, including the development in the early markets of Denmark, Norway, Sweden and the Netherlands.

Pandora discloses a number of different revenue splits, but on an aggregated level. It would increase the understanding of the development in each market if more information was given per country.

Company summary

Third-largest jewellery brand worldwide (by retail value)

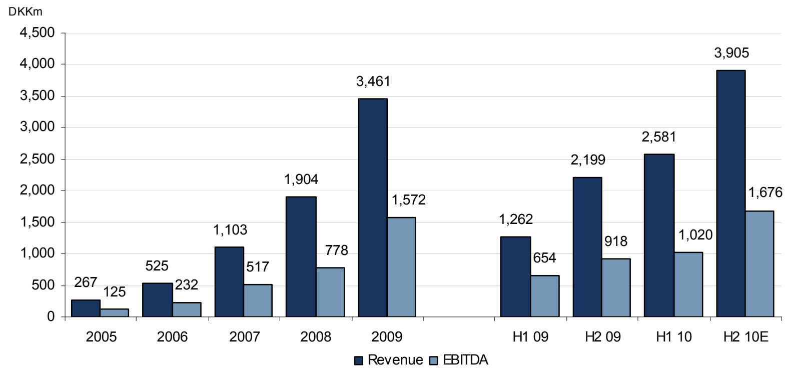
Overview

Pandora is the third-largest jewellery brand worldwide (by retail value) and is strongly positioned in the fast-growing affordable luxury jewellery industry. The company's vision is to become the world's most recognised jewellery brand.

Pandora was established in 1982, but its tremendous success is built on the introduction of the charm bracelet concept in 2000, which has brought significant revenue growth and industry-leading margins. In 2009, the charm bracelet concept represented 89.2% of revenue. January to September 2010, revenue grew by 109% to DKK 4,369m with an EBITDA margin of 41.8%. For 2010, Pandora has issued guidance for DKK 6.2bn in revenue with an EBITDA margin of at least 40%. This includes structural changes related to the full impact of the acquisition of the German distributor.

In 2008, Danish private equity company Axcel acquired 60% of Pandora. Since then, Pandora has acquired its most important distributors and 91% of revenue year-to-date has been generated from direct distribution markets.

Revenue and EBITDA development (DKKm)



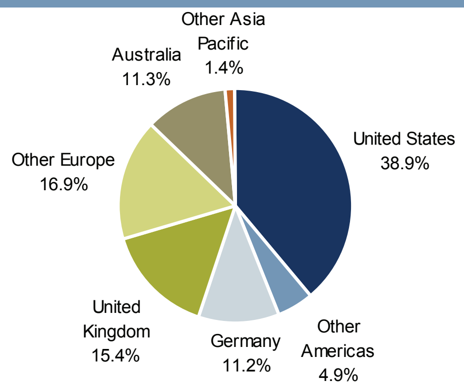
Note: Only numbers for 2008 and 2009 are under IFRS. 2008 numbers covers 12 months. 2005-07 is pre-acquisition data and is not comparable with 2008 and 2009 data.

Source: Company data, Wipec Holding A/S, Pandora Production Co. Ltd and Nordea Markets

Presence in 47 countries through 10,386 points-of-sale worldwide including 329 concept stores and 866 shop-in-shops

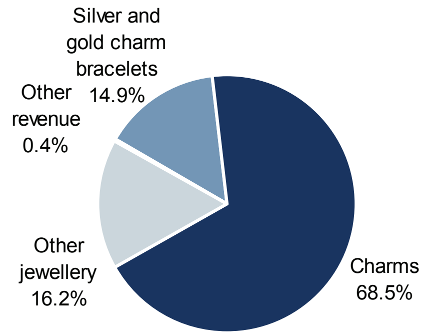
In 9M 2010, the USA represented 39% of revenue, while Europe accounted for 44% of revenue (dominated by Germany and the UK). Pandora's position in Australia is very strong, and here Pandora generated 11% of revenue in 9M 2010 (19% in 2009). By the end of Q3 2010, Pandora was distributing its products in 47 countries through 10,386 points-of-sale worldwide including 329 concept stores and 866 shop-in-shops.

Geographical revenue split – 9M 2010



Source: Company data

Revenue split by product – 9M 2010



Source: Company data

Company history and structure

Company history

Established in 1982

Pandora was established in 1982 by goldsmith Per Enevoldsen and his wife Winnie as a jewellery store in Copenhagen, but gradually the business turned fully to wholesaling. In 1989, jewellery production was established in Thailand to ensure scale and a better quality/price offering.

In 2000, the company introduced its successful charm bracelet concept. This has been the key driver of the company's success over the past decade.

Private equity company Axcel acquired 60% of Pandora in March 2008

In March 2008, Danish private equity group Axcel acquired around 60% of Pandora for DKK 2bn. Axcel has initiated a consolidation of the company, acquiring distributors in the USA, Australia and Germany and taking over distribution in the UK. Axcel has streamlined Pandora, including establishing a professional organisation structure, improving distribution and focusing on building the brand.

Pandora has a highly scalable production and has gradually expanded its production capacity to keep up with demand. In 2009, the company experienced full capacity utilisation at its two factories. A third factory recently opened and a fourth has just been opened (Q4 2010). The construction of a fifth production facility has just been initiated.

Pandora was successfully listed via an IPO in October 2010. At the same time, it acquired the remaining Australian and German minorities.

Key historical dates for Pandora

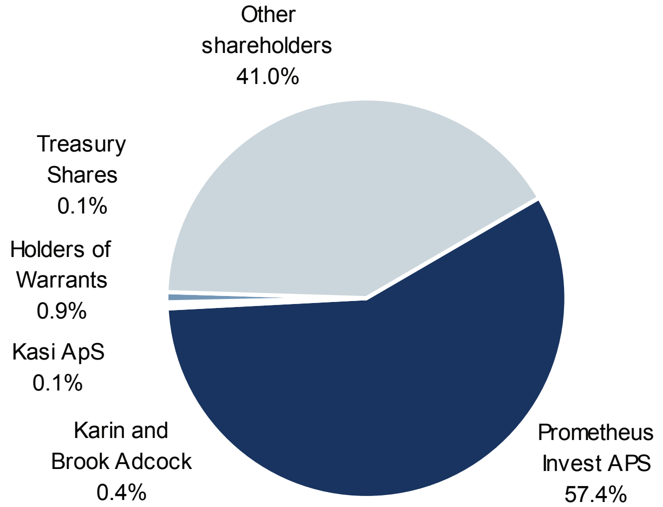
Date	Description
1982	Founded by goldsmith Per Enevoldsen and his wife Winnie
1987	Full attention on wholesaling
1989	Established own production in Thailand
2000	The charm-bracelet concept launched
2003	US subsidiary established
2005	Larger production facility established in Thailand
Mar-08	Axcel acquires 60% stake
Mar-08	The US distributor acquired
Aug-08	Second production facility established in Thailand
Jan-09	UK subsidiary established
Jul-09	60% of Australian distributor acquired
Jan-10	51% of German distributor acquired
Mar-10	Third production facility established in Thailand
Oct-10	IPO
At IPO	Acquisition of Australian and German minorities
Q4 10	Fourth production facility established in Thailand

Source: Company data and Nordea Markets

Ownership structure

Following the IPO, Pandora is controlled by Prometheus Invest APS, which owns 57.4% of the shares. Free float is 42.6%.

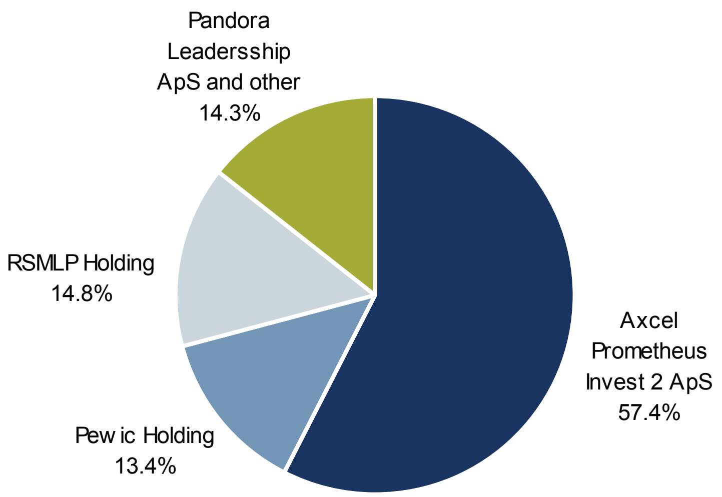
Ownership structure



Source: Company data

Prometheus Invest ApS is controlled by Axcel, which owns 57.4% of the shares. Pewic Holding is controlled by the founding Enevoldsen family. 64.8% of Pandora Leadership ApS is also owned by the Enevoldsen family. RSMLP Holding is the original owner of the American distributor.

Ownership structure of Prometheus Invest ApS



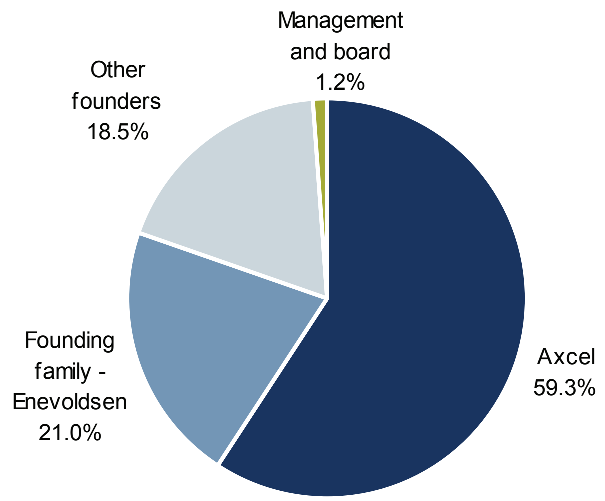
Source: Company data

Pre-IPO ownership structure

Ahead of the IPO, Pandora was fully owned by Prometheus Invest ApS, a company controlled by Axcel. Following management incentive programmes, Axcel owned 59.3% of Prometheus Invest ApS (ahead of the Pandora IPO).

The founding Enevoldsen family owned 21.0% of Pandora Invest ApS. Founder Per Enevoldsen works for Pandora as Managing Director for Production. Other founders owned 18.5%. Management and the board owned 1.2%.

Pre-IPO ownership structure



Note: Pandora was owned by Prometheus Invest ApS. The chart shows the ownership structure of Prometheus Invest ApS.
Source: Company data

Dividend policy and leverage

Targeting a payout ratio of approximately 35% of net profit

Pandora aims to have a dividend policy targeting a payout ratio of approximately 35% of net profit.

Pandora targets a capital structure of net interest-bearing debt of less than 1.5x 12-month rolling EBITDA at the time of IPO.

Given the strong cash generation in the company and its low debt, it is likely that dividends will be higher than implied by the financial targets.

Dividend policy and leverage

Dividend policy	Leverage
Targeted pay-out ratio of approximately 35% of net profit	Target at IPO capital structure of <1.5x net debt / EBITDA Primary proceeds to fund minority buyouts, Long term incentive programme and UK bonus payment

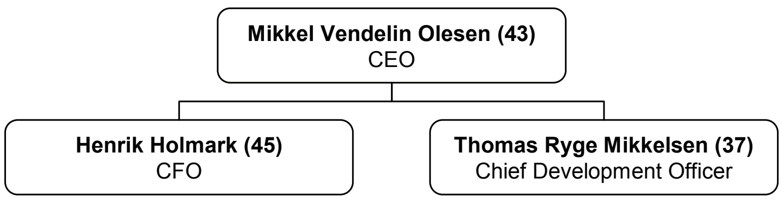
Source: Company data

Organisation and management

Axcel acquisition triggered management restructuring

When Axcel acquired the majority stake in Pandora, it also established a new management team. Prior to the acquisition, founder Per Enevoldsen was the CEO of the company.

Pandora's executive management



Source: Company data

Although relatively new, the management team has driven the strong development in recent years

The management team for Pandora is relatively new, but the team has still been the driver behind the strong development seen in recent years, during which Pandora has expanded its global position and established a global organisation. In total, the management team consists of 16 members.

Executive management profiles

Mikkel Vendelin Olesen (43)	• **CEO since September 2008** • Currently member of the Board for Svendsen Sport A/S, Eva Denmark A/S • Former Chief Operating Officer and executive management member for IC Companys, appointed director at IC Companys in 2004
Henrik Holmark (45)	• **CFO since February 2009** • Former partner in Ernst & Young Advisory Services, CFO of Zensys A/S and Group Finance Manager at IC Companys
Thomas Ryge Mikkelsen (37)	• **CDO since March 2008** • Currently member of the Board for Prokura A/S, and TCM Invest A/S • Former Associate Director at Axcel and Management Consultant at Accenture

Source: Company data

Incentive programmes for management

Pandora has established an incentive programme for management and the board. On top of a fixed salary, the incentive programme includes share-based performance and warrants.

Management incentives

Employee and management incentive plan	• Incentive plan covers up to 60 managers and key employees • In addition to base salary and annual cash bonus • Targets for the long-term incentive plan (LTIP) are set on a 3 years forward basis • Bonus payout is determined by both group sales and EBITDA performance • Bonus is granted in share options with 2 year vesting period • Executive management required, at any given point in time, to retain ownership corresponding to 5x yearly base remuneration
Board members incentive plan	• New Board members to invest 1 year gross board remuneration at IPO • Chairman to invest an incremental 50% of yearly gross Board remuneration • In addition, a Chairman bonus scheme depending upon future earnings • All equity as per above locked-up until retirement

Source: Company data

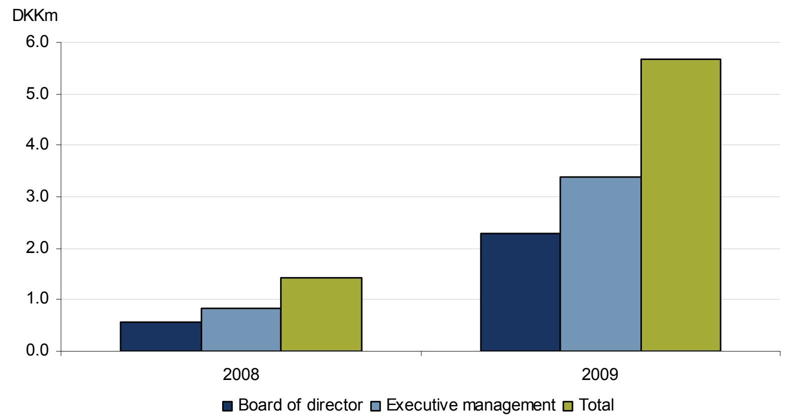
Management is incentivised by the requirement that executive management must retain ownership corresponding to 5x their annual base remuneration.

Incentive programme includes share-based performance…

Share-based payment before IPO

Management and the board received share-based payments in both 2008 and 2009, in total amounting to DKK 1.4m and DKK 5.7m, respectively in 2009.

Share-based payment (DKKm)



Source: Company data

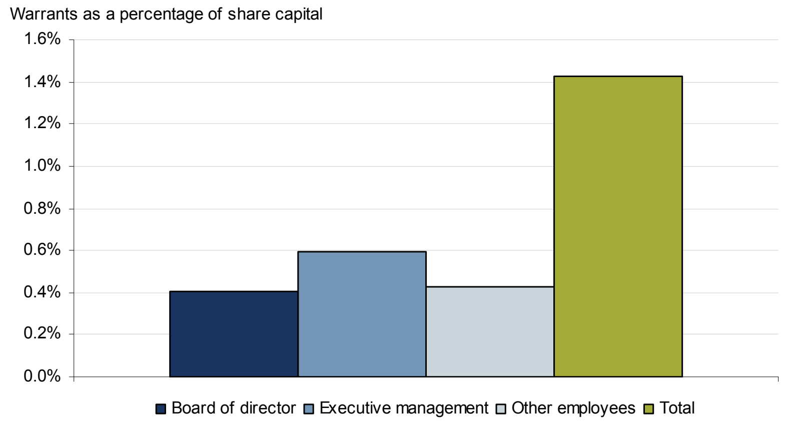
Warrants

...and warrants granted in 2008

Management and the board were granted warrants in 2008, enabling them to buy shares at the IPO.

The warrants represented 1.4% of the outstanding shares when they were granted. As a consequence of a capital increase in 2009, the warrants were diluted and represented 0.36% of share capital at end-2009. Pandora's share capital has recently been increased again. However, in relation to the IPO, the holders of the warrants received bonus shares in line with the level of dilution, so warrants still represented 1.4% of the shares at the time of the IPO.

Warrants as a percentage of share capital



Source: Company data

Because of tax considerations the holders of the warrants sold 35% of the shares received from the warrants at the IPO. After the sale of these shares, the holders of the warrants have 1.2m shares from the warrants. The distribution is listed in the table below.

Number of shares received from warrants after 35% have been sold

Name of holder	No. of shares
Torben Ballegaard Sørensen	275,906
Mikkel Vendelin Olesen	270,008
Henrik Holmark	215,613
Thomas Ryge Mikkelsen	161,873
Tobias Toft	86,507
Thomas Nyborg	53,739
Erik D. Jensen	53,739
John White	32,113
Ulrik Thaysen	16,384

Source: Company data

Strengthened Board of Directors

New Chairman and Deputy Chairman of the Board

In connection with the IPO, Pandora has strengthened its Board of Directors. The board now consists of eight members, including Chairman of the Board Allan Leighton and Deputy Chairman Torben Ballegaard Sørensen.

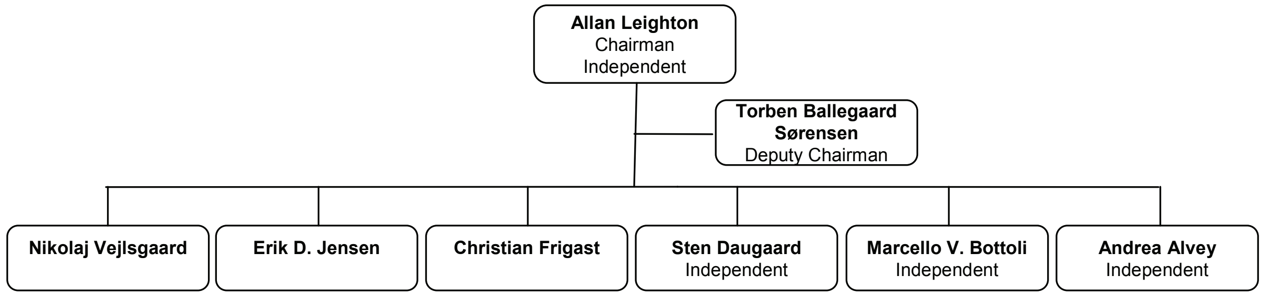
Allan Leighton has a very strong record after successfully heading up the turnaround of Royal Mail and leading the strong market share gain of Asda Group in the UK until its sale to Wal-Mart. He brings great international knowledge to the company, which should help the further expansion of Pandora.

Before the IPO, the board consisted of four members, including former Chairman (and now deputy) Torben Ballegaard Sørensen.

Board represents both continuity and new international team members

Through its new Board of Directors, Pandora has established a very strong team that reflects both continuity and new team members with a strong international record.

Current Board of Directors



Source: Company data

Board member profiles

Allan Leighton	• **Member of the Board since 2010** • Currently President of Loblaw Companies, Deputy Chairman of Selfridges & Co and George Weston, and non-executive Director of BSkyB Group • Former Non-executive Chairman of Royal Mail, President and CEO of Wal-Mart Europe, CEO of Asda Group plc
Torben Ballegaard Sørensen	• **Member of the Board since 2008** • Currently Chief Executive Officer of Investeringsselskabet af 1. Juli 2008 and Chairman of the Board for Cat Management, Bang & Olufsen Icepower, Realfiction,Cat Seed, Thomas, Tajco Group and Cat Forsknings- og Teknologipark; holds numerous directorships incl. Lego, Electrolux • Former CEO of Bang & Olufsen and Egmont Fonden
Andrea Alvey	• **Member of the Board since 2010** • Currently President of Kitabco Investments • Formerly Group Finance & IT Director and Director of Global Business Development in Body Shop International
Marcello V. Bottoli	• **Member of the Board since 2010** • Currently Non-executive Director of Ratti, International Flavour & Fragrances and True Religion Apparel • Former President and CEO of Samsonite Corporation, Chairman and CEO of Louis Vuitton Malletier, EVP and member of the Executive Committee of Reckitt Benkiser
Sten Daugaard	• **Member of the Board since 2010** • Currently Chief Financial Officer of LEGO and members of the Board of Directors of LEGO Systems • Former CFO and Management Board member of SGL Carbon AG, CEO of LTU International Airways
Erik D. Jensen	• **Member of the Board since 2008** • Currently Chairman of the Board of Directors in Gens, PBInge, PBI Holding, Royal Scandinavia, Royal Scandinavia II and Kærup Erhvervspark, holds numerous directorships • Former CEO of Royal Scandinavia, has held various chairmanships in the past five years
Nikolaj Vejlsgaard	• **Member of the Board since 2008** • Partner in Axcel, Deputy Chairman of Georg Jensen; holds numerous directorships • Has held numerous chairmanships and directorships in the past
Christian Frigast	• **Member of the Board since 2010** • Managing Director of Axcel, member of the Board of Royal Scandinavia, Noa Noa, Torm and DVCA • Has held numerous chairmanships and directorships in the past

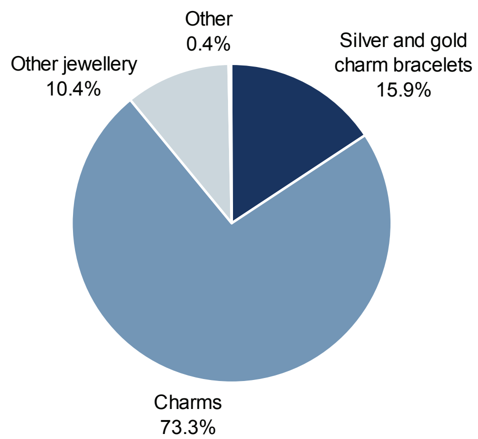
Source: Company data

Product offering

Revenue dominated by charm bracelets concept

Pandora's revenue is dominated by the charm bracelets concept, which generated 89.2% of revenue in 2009. Other jewellery represented 10.4% of revenue.

2009 revenue split by products



Source: Company data

In 2009, all product categories delivered significant growth, but growth in charms still outperformed the other products

In 2009, all product categories delivered significant growth, but growth in charms still outperformed the other products. However, in 2010, Other jewellery delivered the highest growth rates and in Q3 it represented 20% of revenue. It is worth noting that up to one-third of Other jewellery's revenue in H1 2010 was generated by leather bracelets, which are associated with the original charm bracelet concept, whereas the percentage of Other jewellery revenue being leather bracelets in Q3 2010 should be lower.

Revenue split by products (DKKm)

Revenue (DKKm)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	2008 10m	2009
Silver and gold charm bracelets	104	87	128	233	207	211	235	266	551
Charms	432	526	611	968	882	925	1,184	1,165	2,537
Other jewellery	48	59	82	170	137	205	365	220	359
Other revenue	3	3	4	3	12	2	4	7	14
Total revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**1,658**	**3,461**
Revenue growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
Silver and gold charm bracelets					99%	143%	84%		107%
Charms					104%	76%	94%		118%
Other jewellery					185%	247%	345%		63%
Other revenue					300%	-33%	0%		100%
Total revenue					**111%**	**99%**	**117%**		**109%**
Revenue distribution	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
Silver and gold charm bracelets	18%	13%	16%	17%	17%	16%	13%	16%	16%
Charms	74%	78%	74%	70%	71%	69%	66%	70%	73%
Other jewellery	8%	9%	10%	12%	11%	15%	20%	13%	10%
Other revenue	1%	0%	0%	0%	1%	0%	0%	0%	0%
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

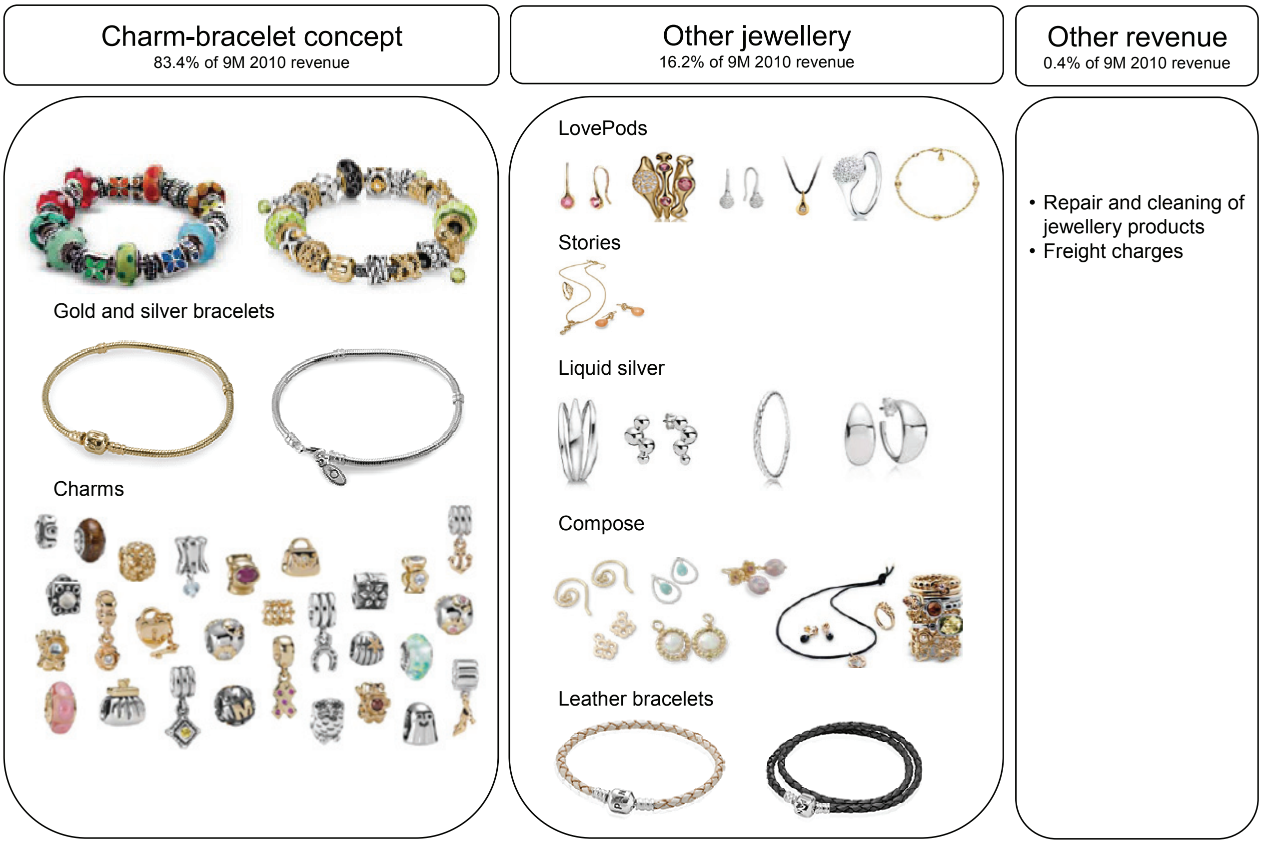
Source: Company data

Aiming to leverage the product collection fully

We are likely to see fluctuations in the percentage of revenue stemming from Other jewellery. We believe this business benefits from a growing importance in the established markets; however, strong growth in new markets is likely to have an initially negative effect on the percentage of revenue from Other jewellery as the charm bracelet concept will be used to spearhead new market penetration.

Pandora's ambition is to continue to grow charm bracelet revenue while also expanding the product range with other jewellery to leverage the product collection fully. The recent development shows that Pandora continues to grow its charm bracelet revenue sharply, but that Other jewellery is also gaining in importance.

Pandora's product offering



Source: Company data and Nordea Markets

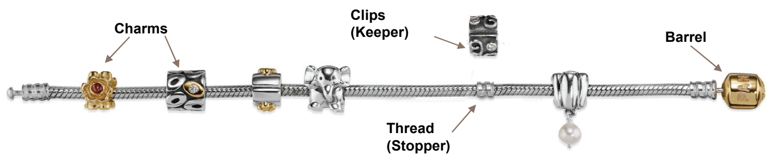
Captivity of charm bracelet concept

Pandora's success has been driven by its charm bracelet concept. We very much favour the captivity elements of the concept, which ensures repeat charm sales for several years after a bracelet has been bought. In our view, this increases short-term revenue visibility.

Charm bracelet concept ensures repeat sales, increasing short-term revenue visibility

The concept enables an individual woman to design a completely unique charm bracelet that expresses her personality. The basic concept is the sale of a bracelet, which afterwards can be equipped with up to 25 charms.

The Pandora charm bracelet



Source: Company data

The bracelet is the starting kit

The consumer becomes attached to the bracelet and the concept itself, enhancing brand loyalty

The sale of bracelets is very important for Pandora as it works as a starting kit for the consumer. When the bracelet is bought or received as a gift, there is a high likelihood that the consumer will afterwards buy several charms. There is low probability that the consumer will switch to competing brands once a bracelet has been purchased as the consumer is attached to the bracelet and typically prefers to have the original product. However, charms from some competitors also fit onto the Pandora bracelet.

Each charm is meant to represent special occasions or feelings, which the consumer associates with the individual charm as well as with the Pandora brand. For Pandora, the latter offers the potential for cross-selling of other products as well. The company has been trying to benefit from this through the collections introduced in recent years and the recently introduced watches. Sunglasses will be introduced in 2011.

Membership and addiction

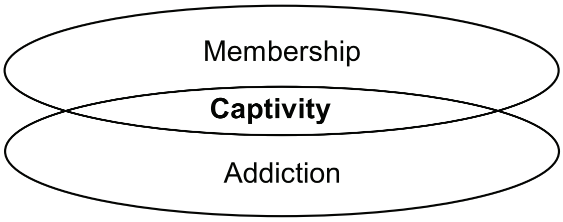
The bracelet can also be seen as a membership to the Pandora charm bracelet community, where consumers compare products. Pandora has established an online Pandora club, focusing on the charm bracelet concept. Currently, there are more than 1,000,000 Pandora club members.

We believe there are some elements of addiction to the charm bracelet concept. Some consumers need to buy new charms to show to friends and especially other members of the Pandora universe. This enables repeat sales.

The most loyal consumers have several bracelets and a high number of charms, which are mixed for different occasions.

Captivity induces repeat sales

Captivity through membership and addiction



Source: Nordea Markets

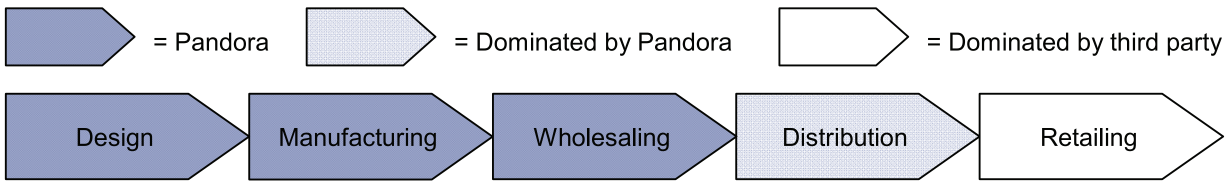
In our view, the membership and addiction of the products capture the consumer, thus securing the sale of several charms.

Vertically integrated

91% of revenue is generated in markets where Pandora controls distribution

Pandora has a vertically integrated business model in which the company designs, manufacture and wholesales its products. Recently, it has acquired several of its distributors so that 91% of revenue is generated in markets where Pandora controls the distribution. Spain is now the only larger market with a third-party distributor. Brazil and France are third-party distribution markets where Pandora could potentially have sizeable revenue.

Value chain for Pandora



Source: Company data

Vertical integration sets Pandora apart from many of its charm bracelet competitors

The vertical integration is different from many of its direct charm bracelet competitors, which often do not have own manufacturing or do not control distribution (likely handled by agents). Vertical integration is similar to luxury good producers, which often have a high level of vertical integration in which retailing is often owned by the company.

Efficient and scalable production

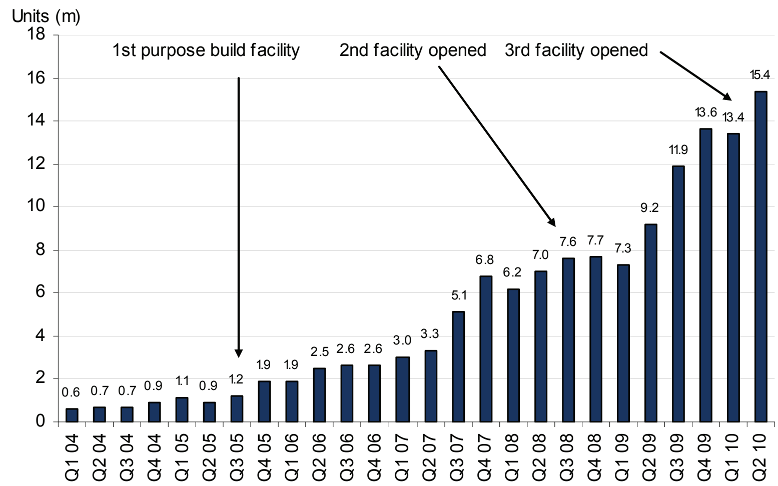
A key competitive advantage for Pandora is its efficient and scalable production. Its jewellery is produced in Thailand in the company's own production facilities. Production has been ramped up significantly to meet the strong sales of the charm bracelet concept in particular.

Produced 42 million units in 2009

In 2009, Pandora produced 42 million units. In Q2 2010, 15.4 million units were produced, which represents 67% growth y/y. This high growth illustrates the production ramp-up as well as the solid demand.

Q1 production is typically below average, owing to extended holiday in Thailand, as can be seen from the chart below.

Production (million units)



Source: Company data

With the recently opened fourth facility, Pandora should be able to increase production further. The company recently decided to expand production to a fifth facility, which should increase production capacity even further.

Plant construction takes around 16 months; after construction, the factories are equipped with machinery.

Production size

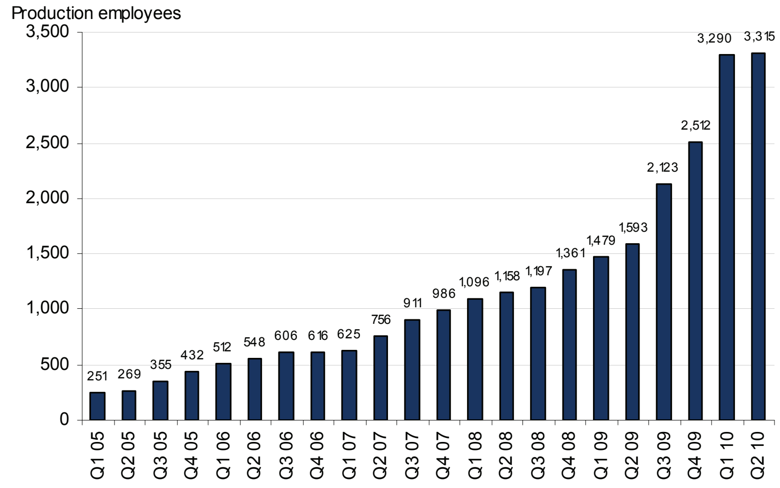
Production facility	Square meters	Fully ramped up
Facility 1	6,000	2005
Facility 2	3,200	2009
Facility 3	3,200	2010
Facility 4	7,000	2011
Current size	**19,400**	
Facility 5 (Q4 2011E)	10,000	2012
End 2011 size	**29,400**	

Source: Company data and Nordea Markets

3,500 production employees in Thailand

Production ramp-up takes time as it requires adequate staffing and training. All staff training is done internally. There are currently around 3,500 employees in the production facility in Thailand.

Employees in the production area

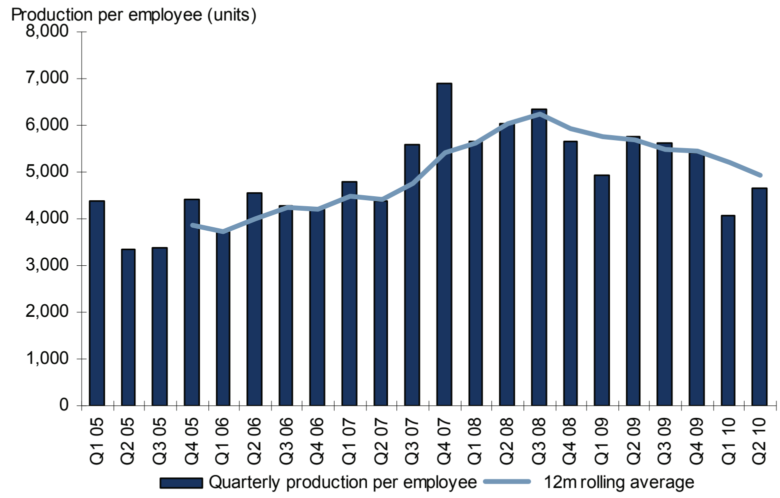


Source: Company data

Recent ramp-up in staffing

The ramp-up in staff has been higher than the increase in production lately, as highlighted by average unit production per employee. This is owing to training to prepare for the third and fourth production facilities, but also to an increase in other jewellery, which is more complex to manufacture than charm bracelet units.

Average unit production per employee



Source: Company data and Nordea Markets

Key competitive advantage for Pandora is its scalable and efficient in-house production

We believe a key competitive advantage for Pandora is its scalable and efficient in-house production. Production is order-driven, and the vertical integration, in our view, enables shorter lead times than for competitors, which rely on third-party suppliers. This should enable Pandora to respond faster than competitors to changes in consumer demand.

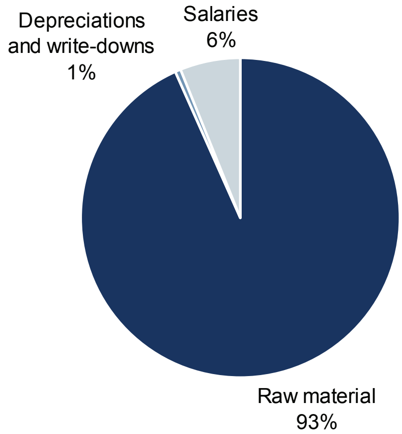
The production in Thailand enables low production costs, which is one of the foundations for Pandora's very high margins, we believe. Low production costs also enable competitive end-user prices.

Risk to margins through changes in raw materials prices

It is interesting to note that 93% of production costs relates to raw material costs. Consequently, the biggest risk to gross margins is increases in raw material prices, which Pandora may not fully be able to pass on to retailers and consumers. Another risk is changes in foreign exchange rates. Production costs are closely linked to the USD, whereas sales are in a number of different currencies. However, the large USD sales exposure offers something of a natural hedge.

According to management, it is difficult to raise prices for entry products (such as the cheapest silver charms), while price increases are easier for the more expensive products. However, Pandora successfully raised its prices by 10% in the UK and by 15% in the USA in spring 2010 without an impact on sales. Pandora usually raises its prices twice a year.

Distribution of production costs – 2009



Source: Company data

Staff costs are lower than the average in Western Europe, thanks to production location in Thailand and standardised production processes

It can be argued that the low staff costs are a consequence of low craftsmanship, but we believe they mainly reflect the benefits from low salaries in Thailand compared with, for example, Western Europe. Pandora also benefits from standardised production processes. According to our calculations, annual staff costs are around DKK 33,000 per production employee, which is significantly below the cost level in Western Europe.

Production salaries

Production salaries	**2008 10m**	**2009**
Production salaries (DKKm)	35.1	64.3
Average staff in period	1,239	1,927
Average salary (DKK)	28,328	33,371
Average salary annualised (DKK)	**33,994**	**33,371**

Source: Company data

Pandora could see significant wage inflation, but we believe the risk is low

Pandora could experience significant wage inflation as is the case currently in a number of emerging markets. As salaries are quite a low percentage of production costs, we believe wage inflation is a low risk from an overall perspective.

Strategy

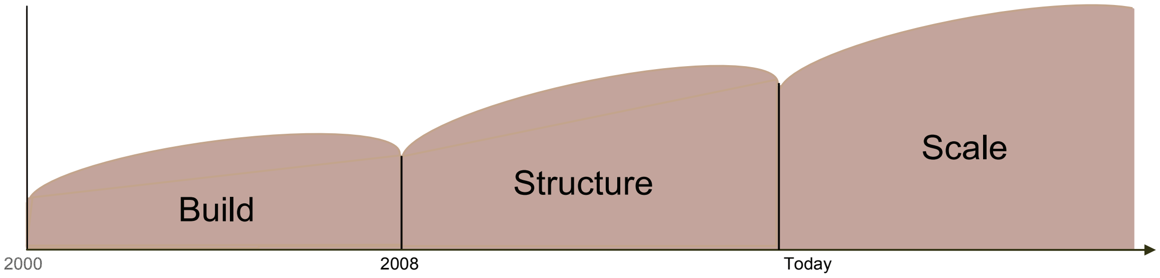
Development in strategic focus

Focus is currently on building the brand to capitalise on the expanded product range

Pandora's strategic focus has shifted over time. When charm bracelet sales started to take off, there was attention on expanding this product offering and penetrating new markets. When Axcel became the majority owner of the company, focus shifted towards the corporate platform and the establishment of a more professional corporate structure with a centralised organisation, global systems and consolidated distributor base. Focus is now on building the brand to capitalise on the expanded product range.

Increased brand focus in Pandora goes hand-in-hand with focus on scale through the product range, global marketing, branded sales channels, new market entry and a stronger organisation.

Pandora's journey



	2000–2008	2008–Today	Today–
Products	Drive growth through charms and charm bracelets	Introduce complementary jewelry collections	Capitalise on our product offering
Distribution & Marketing	Employ mainly third party distributors and local marketing	Consolidate distributors in-house up to currently 90% of revenue	Implement global marketing
Sales channels	Increase third party retail footprint	Be more selective in retail footprint with launch of branded retail space	Focus on branded sales channels
Geographies	Drive entry into new markets through distributors	Enter markets with high growth potential	Tailor approach to new markets
Organisation & Systems	Build with local management and ownership structures	Centralise organisation and implement systems and controls	Expand and fine-tune systems and controls
Focus	Product	Platform	Brand

Source: Company data

Four growth drivers to achieve vision

Vision to become the world's most recognised jewellery brand

Pandora's vision is to:

Become the world's most recognised jewellery brand.

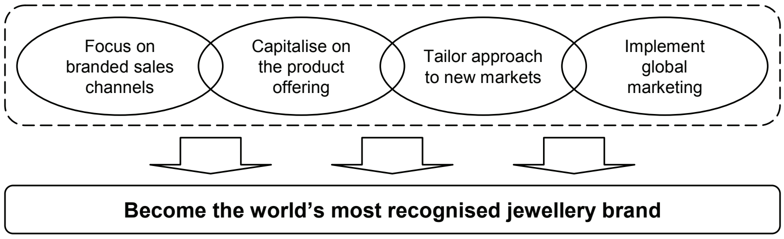
This is to be achieved through four growth drivers:

- Upgrade of sales channels
- Products
- New markets entry
- Global branding

Upgrade of sales channels is needed

In our view, new markets entry and sales channels upgrades represent the largest growth potential. We believe an upgrade of the sales channels is needed to capitalise on the broader product range.

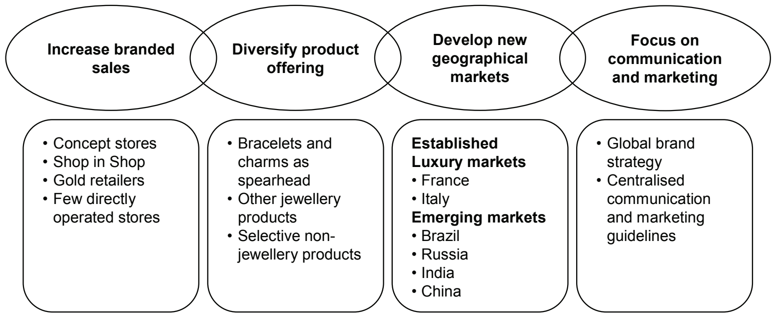
Key growth drivers



Source: Company data

To achieve its ambition to become the world's most recognised jewellery brand, Pandora has undertaken a number of initiatives for each of the four growth drivers. These are shown below.

Initiatives to become the world's most recognised jewellery brand



Source: Company data and Nordea Markets

Focusing on branded sales channels

Business model is based on wholesaling…

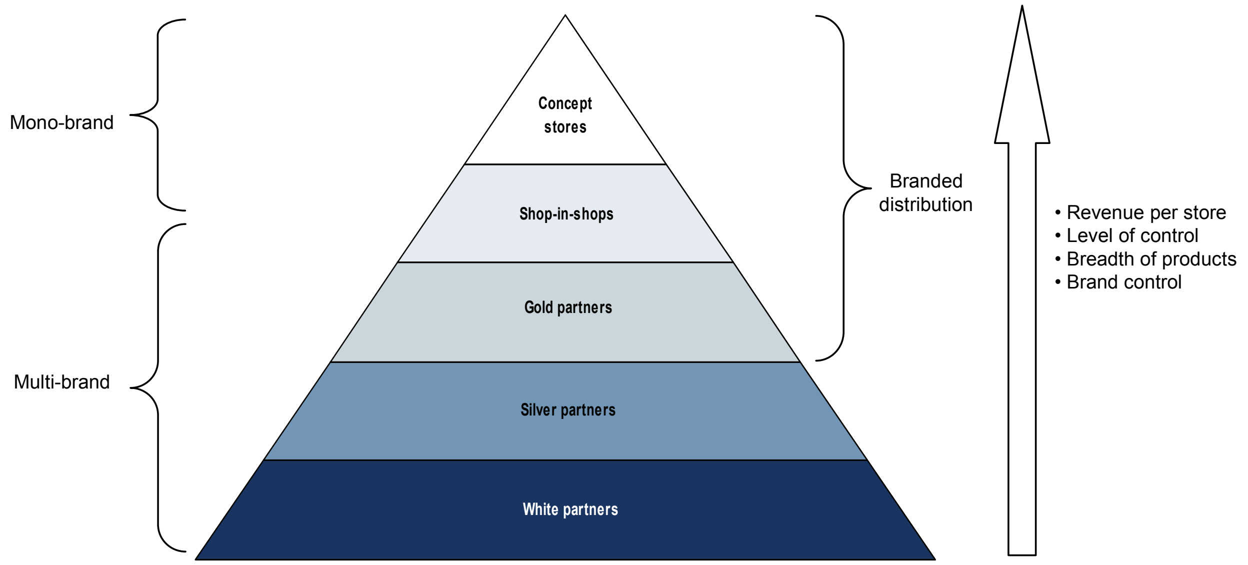
Pandora's business model is based on wholesaling. The strategy is to expand the branded sales channels, which is the most important growth driver, according to Pandora. Branded sales channels are concept stores, shop-in-shops and gold retailers (Pandora's largest multi-brand wholesale retailers). The focus on branded sales involves store upgrades of existing multi-brand retailers while attracting franchisees who will open concepts stores and shop-in-shops.

…not to be a retailer

Pandora's strategy is not to be a retailer, as this ties up capital and reduces the speed of expansion. For investors, this is an attractive value proposition as it enables high cash returns to shareholders.

The focus on branded sales channels involves an upgrade of existing multi-brand retailers from white and silver partners to gold partners and shop-in-shops, as well as increasing the number of concept stores and shop-in-shops through franchisees.

Different distribution channels

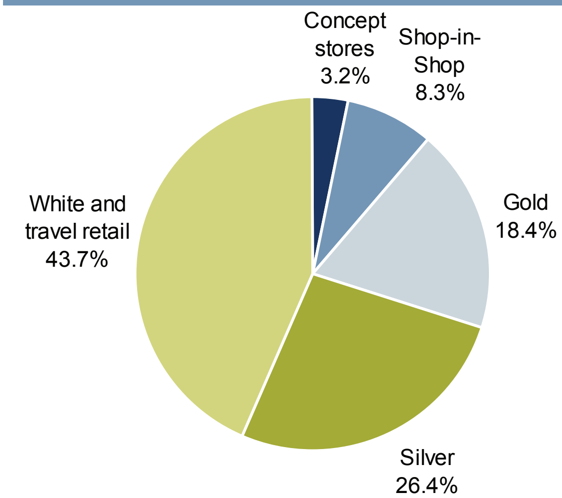


Source: Company data

10,386 stores at end-Q3 2010

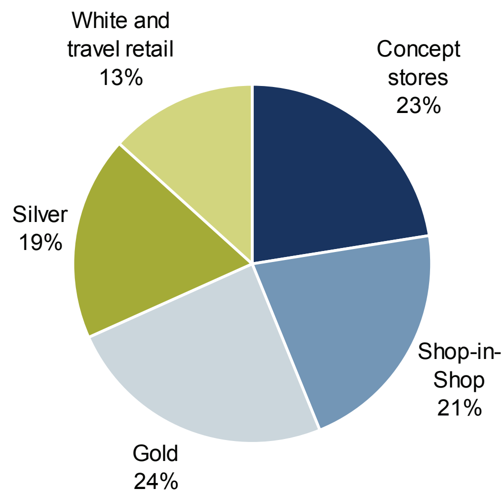
At the end of Q3 2010, Pandora sold its products through 10,386 PoS. Distribution originates from traditional wholesaling to multi-brand stores, but focus is on increasing the share of branded sales. This includes an ambition to increase the importance of concept stores and shop-in-shops stores, which increases revenue per store while simultaneously providing better control of distribution and especially brand positioning (all concept stores and some shop-in-shops are mono-brand stores). It also enables a broader product offering, which is important as Pandora focuses on leveraging its product offering.

Sales channels' PoS split (direct distribution end-H1 2010)



Source: Company data and Nordea Markets

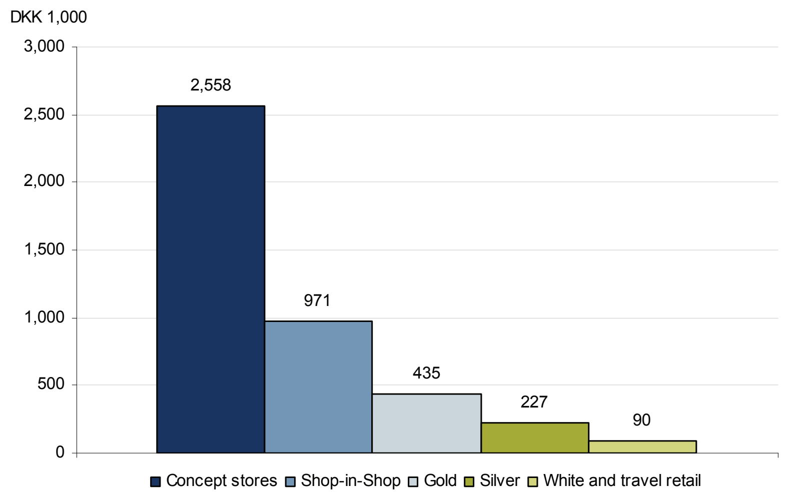
Sales channels' revenue split (direct distribution H1 2010)



Source: Company data and Nordea Markets

The worldwide points-of-sales are currently dominated by white, silver and gold partners, which are traditional multi-brand retailers. However, there are 1,195 concept stores and shop-in-shops, which have significantly higher revenue per store than white partners owing to their significantly larger selling space and a wider product offering. This is highlighted in the following table, where the average concept store generated revenue for Pandora of DKK 2.6m in H1 2010, while DKK 90,000 was generated by the average white dealer.

Revenue per average store for different store formats in H1 2010 (DKK 1,000)



Note: Revenue per store type is based on markets with direct distribution. Numbers are calculated as revenue per store format divided by average of end-2009 and end-H1 2010 stores.
Source: Company data

Pandora defines concept stores, shop-in-shops and gold partners as branded space, and by the end of Q3 2010, this represented 26% of total PoS. However, in markets with direct distribution, branded space contributed 68% of revenue but constituted only 30% of the number of PoS in H1 2010. This highlights the higher revenue potential for branded versus unbranded PoS.

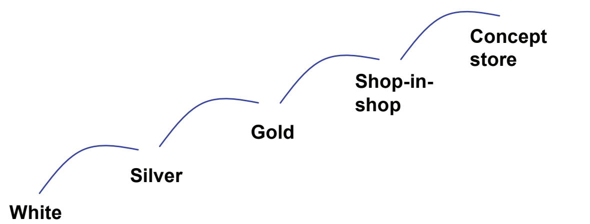
Ambition to establish more concept stores and shop-in-shop based on franchise partners

The company's ambition is to establish more concept stores and shop-in-shop based on franchise partners (not all shop-in-shops are franchisees). For the traditional multi-brand jewellery stores, its ambition is to expand the share of sales space by upgrading existing partners from white partners eventually to gold partners or even shop-in-shops or concept stores. The company also aims to add gold partners to its multi-brand distribution.

In our view, this transformation of partners is especially important for Pandora to succeed in reducing its dependence on its charm bracelet collection by leveraging other jewellery and expanding into new product areas.

The concept stores stock the full product line, whereas white partners only have one to three collections, mainly the charm bracelet collection.

Indicative initial investments required by partners



Initial investment (EUR 1,000)	10	15	30	65	325

Note: Investment figures are indicative. The initial investment includes full starter kit including inventory, furniture, lightning, flooring and trays. For concept stores, box preparation is included.
Source: Company data

Characteristics for different store types

	Concept store	Shop-in-Shop	Gold	Silver	White
No. of stores	240	623	1,408	2,104	5,557
Selling space	40-100 m^2	8-15 m^2	4-5 m^2	+2 m^2	At min window space
Collections	Full product line	4-5	4-5	3	1-3
Account Manager visits	+12 per year	12 per year	12 per year	6 per year	4 per year
Merchandiser visits	+12 per year	12 per year	12 per year	6 per year	4 per year

Source: Company data

Introducing new products

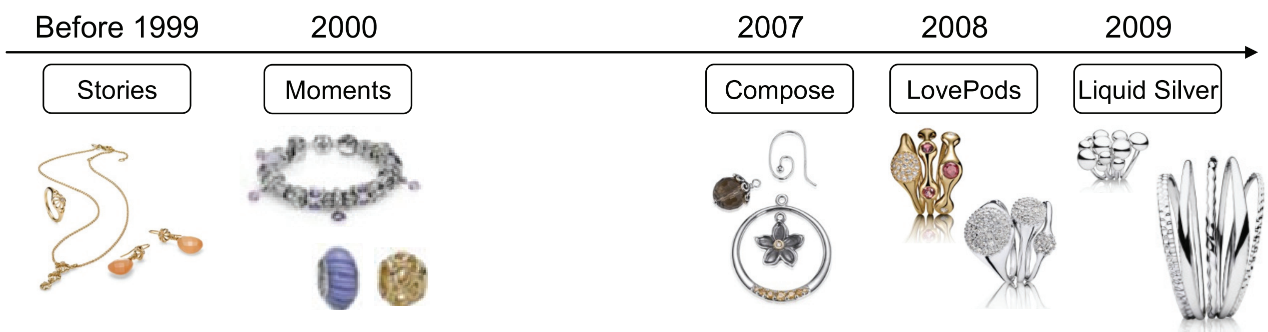
Expanded product offering since 2007

Before 1999, Pandora introduced its Stories collection. In 2000, Pandora introduced the charm bracelet concept, which is still its cornerstone product. The charm bracelet concept is part of the Moments collection. Since 2007, the product range has been broadened through the introduction of a number of new collections.

In 2007, the Compose collection was introduced and since then, LovePods and Liquid Silver collections have also been launched.

Pandora now has five collections that it expects to maintain.

Broadening the product offering by introducing new collections



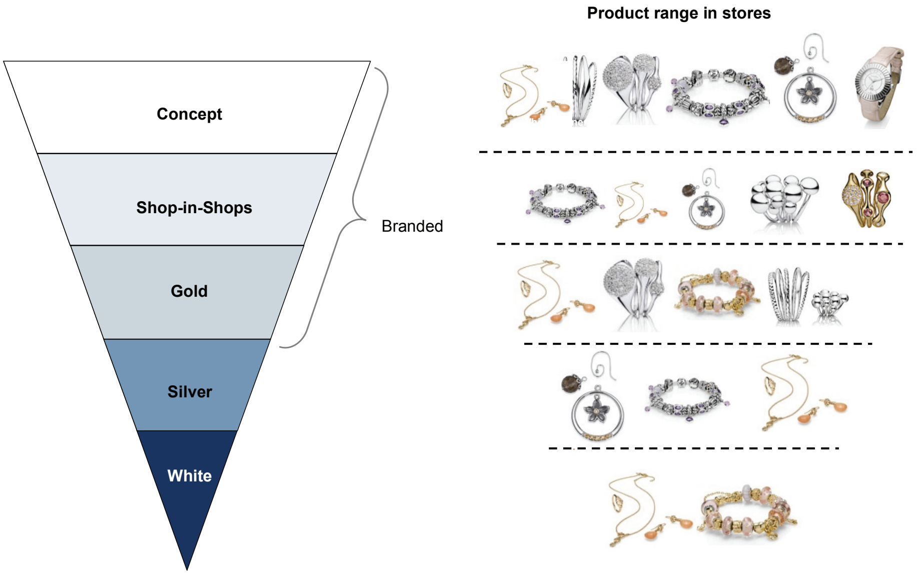
Source: Company data

Aim to increase share of consumers' spending on jewellery

By expanding the product range, Pandora's intention is to increase its share of its consumers' spending on jewellery. And by broadening its range, Pandora should be able to target a wider consumer group, enabling the company to deepen its penetration in existing markets. New products are also an important step in reducing the company's dependence on the charm bracelet concept. This concept (from the Moments collection) will remain an important part of the business and will be used as the spearhead to enter new markets.

The focus on introducing new products goes hand in hand with the upgrading of distribution towards branded sales. If a retailer upgrades to a new format, he is able to carry a wider range of Pandora products, as illustrated in the following charts.

Product range for different store formats

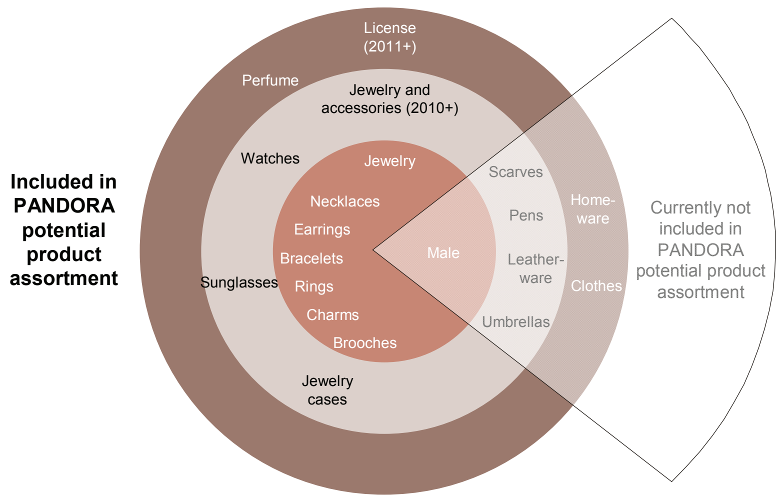


Source: Company data and Nordea Markets

Moving into adjacent product categories

Pandora's ambition is to expand its product range further by moving into adjacent categories to jewellery. In autumn 2010, Pandora introduced its first Swiss-made watches and it will follow these with a sunglasses collection in spring 2011.

Company-indentified potential expansion opportunities



Source: Company data

New products only available in concept stores

Introducing products in adjacent product categories supports Pandora's strategy of building up branded space, as the new products will only be available in the concept stores.

The new products will be sourced from other producers, meaning that Pandora will not benefit from its own efficient production setup and high quality. This is highlighted by the fact that the introduction of sunglasses has been postponed from this year until 2011 because of quality problems.

Lower margins are possible on adjacent products

A potential risk from moving into adjacent products is that competition in these segments with strongly established players is tough. We believe watches will carry lower gross margins than the current products owing to the tougher competition and sourcing, whereas it appears that sunglasses should realise approximately the same margins.

Entering new markets

Pandora's business model includes ongoing entry into new markets. The charm bracelet concept was launched in Scandinavia in 2000, but since then, the company has entered a number of new markets. The concept is still successfully being introduced in new markets as well.

The company's intention is to continue this positive development by entering new markets. The many market launches in 2009 suggest that expansion will be seen at rapid speed. Pandora is still set to leverage on the newly introduced markets.

Historical and future entry of new markets

Before 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Denmark		Finland	USA	Germany	UK	Portugal	Ireland	France	Hungary	Ukraine	India (E)
Sweden		Netherlands	Canada	Australia	Spain	Luxembourg	Jamaica	Dominican Republic	Cyprus	Serbia	Japan (E)
Norway				Belgium		Austria	Fiji	Guatemala	Slovakia	Croatia	
				Greece		St. Kitts and Nevis		Israel	Estonia	Slovenia	
				Iceland		New Zealand		St. Lucia	Czech Republic	Russia (E)	
				Mexico		Switzerland		Panama	Poland	China (E)	
									South Africa	Italy (E)	
									Hong Kong		
									Singapore		
									Chile		
									Honduras		
									Brazil		
									Costa Rica		

Source: Company data

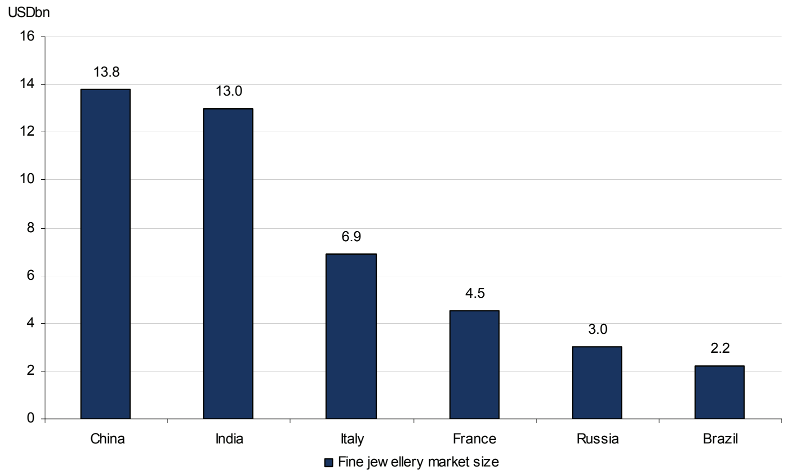
France, Italy, Brazil, Russia, China and India offer the greatest potential

The new markets with the largest potential, according to Pandora, are France, Italy, Brazil, Russia, China and India. For France and Italy, Pandora has indicated its specific target markets (USD 2.0bn and USD 2.8bn, respectively), but it has not made this available for the others.

A large fraction of the markets in India and China is disorganised, but we feel that China in particular still represents considerable potential.

China could become a very large market

Market size and target market in key new markets



Source: Company analysis of third-party commissioned data

Pandora tailors its approach to each new market

Pandora's strategy is to tailor its approach to entering each new market. In some markets, including France and Italy, focus is on multi-brand retailers, while in others, such as Russia and China, it targets a roll-out of concept stores and shop-in-shops.

Different market approaches, as highlighted by Italy and China

Italy	China
• Focus on multi-brand retailers • Opened PoS in 147 independent multi-brand stores in the first quarter of operations (Q3 2010) • Sales channel relying on traditional independent jewellers, with a total of 18,000 doors • Penetrate traditional independent jewellers and aim to sign up several large department or jewellery store chains	• Roll-out of concept stores • Signed up with 4 partners and aims to sign with a total of 5-8 master franchise partners • Marketing will focus mainly on events around store openings, daily local newspaper and social media – and collaborate with a fashion magazine on a nationwide campaign • Price point in China will be 10-20% higher than in Europe

Source: Company data and Nordea Markets

In some markets, third-party distributors are used (Brazil, Spain and France), while other markets are addressed via direct distribution.

We believe Pandora is following the right strategy in tailoring its approach. Focus on multi-brand stores in traditional jewellery markets and to focus on branded space in emerging markets make good sense.

We are a little surprised, however, by its decision to continue the expansion of third party-distribution in some markets, including Brazil and France, where Pandora ought to have the strength to penetrate the market itself through proper staffing.

Tailored approach to entering new markets

	Traditional high spend luxury markets	Emerging markets
Sales channels	• Establish footprint through multi-brand retailers • Selected use of concept stores and SIS	• Roll-out of concepts stores to build brand • Strategic selection of multi-brand retailers
Distribution	• Direct distribution with strategic use of third-party distributors in selected markets • Strategy depends on Pandora's local knowledge of market, proximity and market structure	
Products	• Charm-bracelet concept to form the spearhead, when entering all new markets • Complemented by a selected range of other collections	
Marketing	• Ensuring "One Global Brand" • Aligned marketing and media strategy	

Source: Company data and Nordea Markets

Implementing global marketing

Global approach to marketing

Pandora has a global approach to marketing, with high attention to applying marketing and communication consistently throughout all markets. Its aim is to build brand awareness, as this is crucial to enabling the company to diversify away from its high dependency on the charm bracelet concept and into other collections and adjacent products.

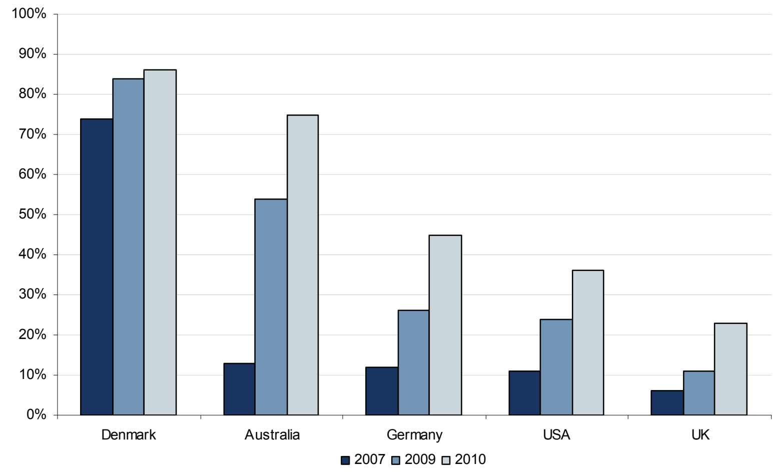
9.5% of revenue spent on marketing in H1 2010

In 2009, Pandora spent 8% of its revenue on marketing. This has increased to 9.5% of revenue in H1 2010. Local spending by distributors and stores comes in addition to that.

Building brand awareness

Pandora focuses on building brand awareness in its main markets. As demonstrated in the following chart, brand awareness is improving, which should enable Pandora to sell more charm bracelets and charms as well as help it to expand with its other collections and products (such as watches and sunglasses).

Aided Pandora brand awareness in key markets



Source: Company analysis of third-party commissioned data , GfK, IUM and Nordea Markets

In general, Pandora benefits from increasing its brand awareness. This is clearly demonstrated by the strong development in Australia and Germany, which is also reflected in high brand awareness.

Weak development in Denmark, although current roll-out of concept stores could revitalise the market

Denmark has the highest awareness of the Pandora brand. Although specific numbers have not been provided, we believe the development in Denmark has been somewhat weak with modest growth rates. If so, this shows that high brand awareness does not necessarily lead to high sales.

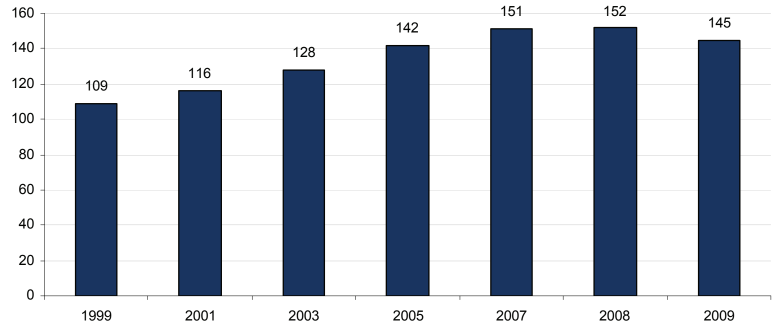
Market description

Market size

Global market for fine jewellery worth USD 145bn

The global market for fine jewellery was worth USD 145bn in 2009. Fine jewellery is defined as jewellery made of solid precious metals, sometimes with precious or semi-precious stones. From 1999-2007, CAGR was 4.2%, but given the financial crisis, growth was modest in 2008 and the market declined in 2009. In 2010, we believe the market has returned to growth, as highlighted by the solid growth rates reported by luxury good companies. Average organic growth in Q2 2010 for the luxury industry was 13%.

Global fine jewellery market (USDbn)



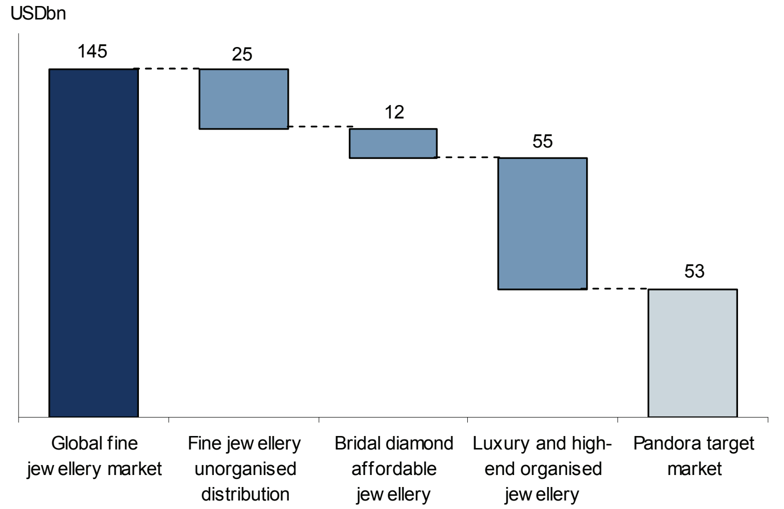
Source: Company analysis of third-party commissioned data

USD 25bn of the global fine jewellery market is within unorganised distribution, which primarily relates to particular countries in the Far East. These markets have a significantly different distribution setup from that typically used by Pandora. Hence, the unorganised distribution part of these markets is of limited interest to Pandora. The same can be said about the luxury and high-end jewellery market, which does not match Pandora's product offering. Pandora does not target the bridal diamond market as it does not fit its current product offering.

Pandora addresses a global market worth USD 53bn

Pandora's strategy is to address the affordable luxury market. It addresses USD 53bn or 37% of the global market. We estimate that Pandora had a market share of around 3% in this market in 2009.

Pandora targets a market worth USD 53bn



Source: Company analysis of third-party commissioned data

Demand drivers

Economic growth is an important demand driver

We believe there are a number of key demand drivers in the jewellery industry. Most important is economic growth, as jewellery sales are quite cyclical. In addition, the industry is benefiting from the booming demand in Asia, while branded products and affordable luxury gain market share. Self-purchasing women represent a growing part of the consumer group.

Demand drivers in the jewellery industry

Source: Company analysis of third-party commissioned data

Asia offers future growth potential

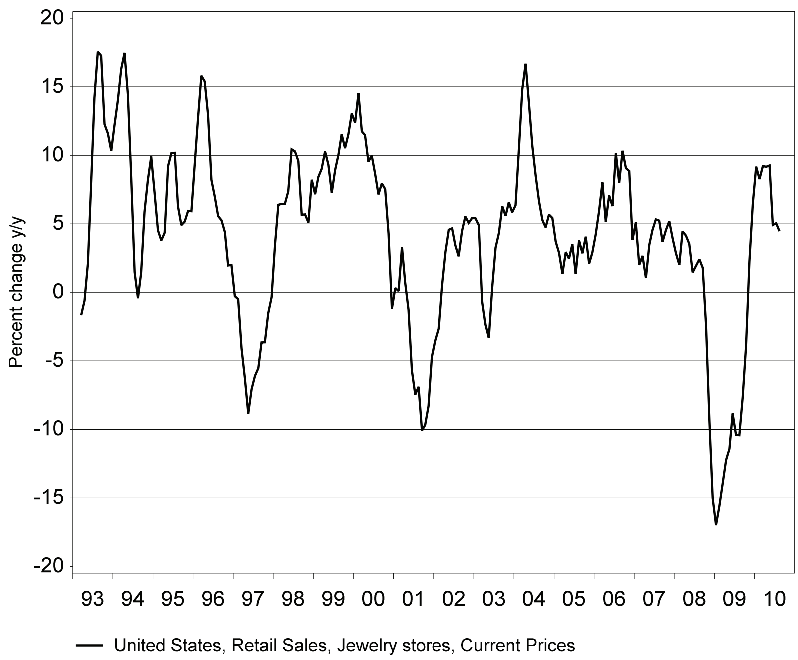
In our view, Pandora will benefit from renewed economic growth as well as being a branded product in affordable luxury. Its current presence in Asia is limited, but does offer future growth potential.

Cyclical industry hurt by tough market conditions

The jewellery and watch industry is highly cyclical as consumers hold back on spending in tough times

The jewellery and watch industry is highly cyclical as consumers hold back on spending in tough times. In general, watches are more cyclical than jewellery as watches have a greater dependence on male consumers and wholesale. The cyclicality of these products is highlighted by the development in the USA, where revenue growth in jewellery stores was down sharply in 2001 and especially during the recent financial crisis in 2008-09. So far this year, growth has returned in the USA as consumer sentiment has improved.

Historical revenue growth in jewellery stores in the USA



Source: EcoWin and Nordea Markets

General distributors taking market share from jewellery stores

Looking at the historical growth rates in the graph above, it appears that growth rates are trending down, which is likely attributable to jewellery stores losing market share to general distributors.

The cyclicality of the jewellery and watch industry is also illustrated by the historical development for some of Pandora's listed peers. In 2004-07, revenue growth was significant, while most companies experienced a considerable dip in revenue in 2009 as the economic downturn kicked in.

Revenue growth for Pandora's main listed peers

Revenue	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR
Jewellery and watches											
LVMH watches and jewelry (EURm)	614	502	552	502	500	585	737	833	879	764	2.5%
Tiffany (USDm)	1,668	1,607	1,707	2,000	2,205	2,395	2,648	2,939	2,860	2,710	5.5%
Richemont jewellery maisons (EURm)		2,179	1,994	1,808	1,938	2,227	2,435	2,657	2,762	2,688	2.7%
Bvlgari jewellery (EURm)		288	294	308	343	368	402	460	448	402	4.3%
Swatch watches & jewellery (CHFm)							3,723	4,456	4,547	4,187	4.0%
Signet (USDm)						3,154	3,559	3,665	3,344	3,291	1.1%
Links of London (EURm)								67	78	85	12.7%
Other											
Hermes (EURm)		1,227	1,242	1,230	1,331	1,427	1,515	1,625	1,765	1,914	5.7%
Richemont (EURm)	3,684	3,860	3,651	3,375	3,671	4,308	4,827	5,302	5,418	5,176	3.9%
Burberry retail (GBPm)		499	594	676	716	743	850	995	1,202	1,280	12.5%
Gucci Brand (EURm)			1,576	1,497	1,903	1,806	2,101	2,175	2,206	2,266	5.3%
Revenue growth y/y	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	
Jewellery and watches											
LVMH watches and jewelry (EURm)		-18%	10%	-9%	0%	17%	26%	13%	6%	-13%	
Tiffany (USDm)		-4%	6%	17%	10%	9%	11%	11%	-3%	-5%	
Richemont jewellery maisons (EURm)			-8%	-9%	7%	15%	9%	9%	4%	-3%	
Bvlgari jewellery (EURm)			2%	5%	11%	7%	9%	14%	-3%	-10%	
Swatch watches & jewellery (CHFm)								20%	2%	-8%	
Signet (USDm)							13%	3%	-9%	-2%	
Links of London (EURm)									17%	9%	
Other											
Hermes (EURm)			1%	-1%	8%	7%	6%	7%	9%	8%	
Richemont (EURm)		5%	-5%	-8%	9%	17%	12%	10%	2%	-4%	
Burberry retail (GBPm)			19%	14%	6%	4%	14%	17%	21%	7%	
Gucci Brand (EURm)				-5%	27%	-5%	16%	4%	1%	3%	
Average		**-6%**	**4%**	**0%**	**10%**	**9%**	**13%**	**11%**	**4%**	**-2%**	

Source: Company data and Nordea Markets

Return of consumer demand should benefit Pandora

Benefiting from renewed jewellery growth

Pandora is set to benefit from renewed growth in the jewellery industry. The main listed jewellery peers have all reported solid growth rates this year, demonstrating that consumer demand has bounced back after a sluggish development in 2009.

The return to revenue growth is attributable to a combination of renewed consumer demand as well as store replenishment at third-party retailers.

Growth has returned to the jewellery industry in 2010

		Revenue growth y/y		
Company	**Report**	**Reported**	**Adjusted**	**Adjustment**
LVHM watches & jewelry	Q2 2010	23.6%	n.a.	
Bulgari jewellery	Q2 2010	24.3%	n.a.	At comparable FX rates
Tiffany	H1 2010	15.0%	7.0%	Comparable store sales growth
Signet	Q2 2010	1.7%	4.5%	Same store sales growth
Links of London	H1 2010	1.3%	3.9%	Organic growth
Swatch watches and jewellery	H1 2010	31.0%		

Source: Company data and Nordea Markets

In 2010, Pandora should benefit from replenishments

We find it very impressive that Pandora was able to deliver 82% revenue growth in 2009 despite very tough market conditions. In 2010, market conditions should boost revenue, which is also underpinned by 109% revenue growth in 9M 2010. In both 2009 and 9M 2010, Pandora benefitted from structural changes, which resulted in 23% growth in H1 2010 and 13.8% growth in Q3 2010. In 2009, revenue in some markets declined, which to some extent was the consequence of inventory reductions. In 2010, Pandora should instead benefit from replenishments.

Activity currently limited in Asia-Pacific

Asia represents significant growth potential

Excluding the strong development in Australia, New Zealand and Fiji, the company's business activity in Asia-Pacific is limited. Including New Zealand and Fiji, Other Asia-Pacific (excluding Australia) was DKK 60m in 9M 2010.

In 2009, Pandora entered Singapore and Hong Kong and it expects to enter China this year (a test shop is in operation). Asia, especially China, represents significant untapped market potential for Pandora as the market gains in importance for the jewellery industry and delivers solid growth rates versus established markets.

Asia is a very important market for luxury good producers

High revenue potential in Asia-Pacific market

The large potential in Asia is highlighted by the geographical revenue split among luxury good producers. For most companies, Asia-Pacific represents 30%-45% of current revenue. This includes Japan, which has historically been a key luxury goods market. Excluding Japan, Asia-Pacific represents 20%-30% of total revenue for luxury goods producers.

Geographical revenue split at luxury good producers

Revenue split	Europe	North America	Japan	Asia Pacific	RoW	Total	Year
Gucci	33%	19%	14%	33%	1%	100%	2009
Richemont	41%	14%	12%	34%		100%	2009/10
Hermes	39%	15%	21%	22%	2%	100%	2009
LVMH watches and jewelry	36%	18%	12%	17%	17%	100%	2009
LVMH	35%	23%	10%	23%	9%	100%	2009
Swatch	45%	8%		44%	2%	100%	2009
Tiffany	12%	52%	19%	16%	1%	100%	2009
Burberry	44%	27%		24%	5%	100%	2009/10
Bulgari	38%	12%	19%	23%	8%	100%	2009

Note: The specific split for each company may not represent the same countries, eg for some companies, North America covers Americas or just the USA.
Source: Company data and Nordea Markets

Revenue growth during recent economic crisis remained strong in Asia

Revenue growth rates during the crisis in 2009 were also very strong in Asia-Pacific, where most luxury goods producers reported positive growth rates while other markets declined.

Revenue growth y/y in recent full financial year

Revenue growth y/y	Europe	North America	Japan	Asia Pacific	Asia	Oceania	RoW	Total	Year
Gucci	-5%	-2%	-4%	18%			17%	3%	2009
Richemont	-11%	-20%	-10%		18%			-4%	2009/10
Hermes	2%	11%	4%	32%			-23%	8%	2009
LVMH watches and jewelry	-13%	-18%	-13%		-8%		-13%	-13%	2009
LVMH	-9%	-1%	-1%		14%		-1%	-1%	2009
Swatch	-14%	-22%			-2%	0%	0%	-9%	2009
Tiffany	-13%	-11%	-4%	4%			10%	-5%	2009
Burberry	-2%	5%		18%			31%	6%	2009/10
Bulgari	-17%	-27%	-23%		4%		12%	-14%	2009

Note: The specific split for each company may not represent the same countries, eg for some companies, North America covers Americas or just the USA.
Source: Company data and Nordea Markets

The strong development in Asia-Pacific is also highlighted by like-for-like growth at constant exchange rates for Hermes, as shown in the table below. Here growth has been double-digit in recent years, even during the financial crisis. The table also shows the negative growth in the Japanese market, where demand for luxury goods plummeted.

Like-for-like growth at constant exchange rates for Hermes

Growth at constant exchange rates	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	2007	2008	2009
France	12%	10%	6%	3%	-4%	5%	2%	8%	15%	13%	26%	11%	10%	3%
Europe (excluding France)	12%	15%	2%	-2%	-6%	-6%	7%	11%	15%	25%	19%	17%	12%	2%
Total Europe	**12%**	**12%**	**4%**	**1%**	**-5%**	**-1%**	**4%**	**9%**	**15%**	**19%**	**22%**	**14%**	**11%**	**2%**
Japan	4%	0%	2%	-13%	-19%	0%	-18%	-7%	-2%	-2%	0%	3%	-3%	-11%
Asia-Pacific (excluding Japan)	22%	23%	19%	25%	18%	26%	33%	35%	47%	44%	35%	15%	22%	29%
Total Asia	**12%**	**10%**	**9%**	**2%**	**-2%**	**12%**	**5%**	**12%**	**23%**	**20%**	**19%**	**7%**	**8%**	**7%**
America	23%	25%	18%	1%	-5%	1%	7%	20%	25%	28%	20%	14%	15%	7%
Others	26%	-2%	-17%	11%	-41%	-17%	-1%	-28%	27%	-15%	5%	3%	5%	-24%
Total Revenue	**14%**	**13%**	**8%**	**2%**	**-5%**	**4%**	**5%**	**11%**	**20%**	**20%**	**20%**	**11%**	**10%**	**4%**

Source: Hermes and Nordea Markets

Pandora will enter Japan in 2011

Pandora has previously stated that it will not address Japan in the short term as it sees larger potential in other markets, but in the Q3 2010 report, it was announced that Japan will be entered in 2011.

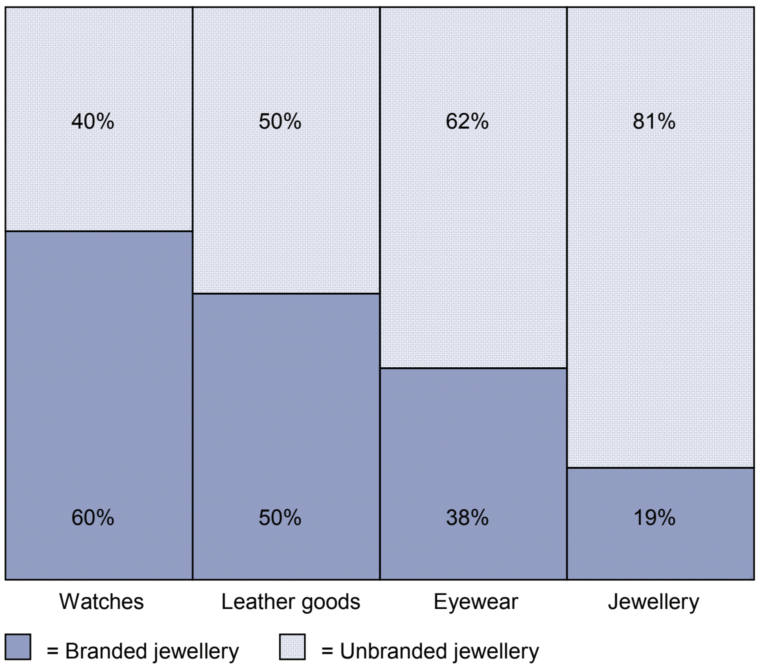
If Pandora is successful in Asia (including China), the market could be the same size as that of North America or even bigger.

Increased share of branded products

Jewellery industry is characterised by a high fraction of sales stemming from unbranded or semi-branded products including private label products

The jewellery industry is characterised by a high fraction of sales stemming from unbranded or semi-branded products (products with a brand, but with low consumer recognition) including private label products. The level of branded jewellery is estimated to be just 19% of the total market, which is significantly below the level for adjacent product categories.

Share of branded products in jewellery and adjacent product categories



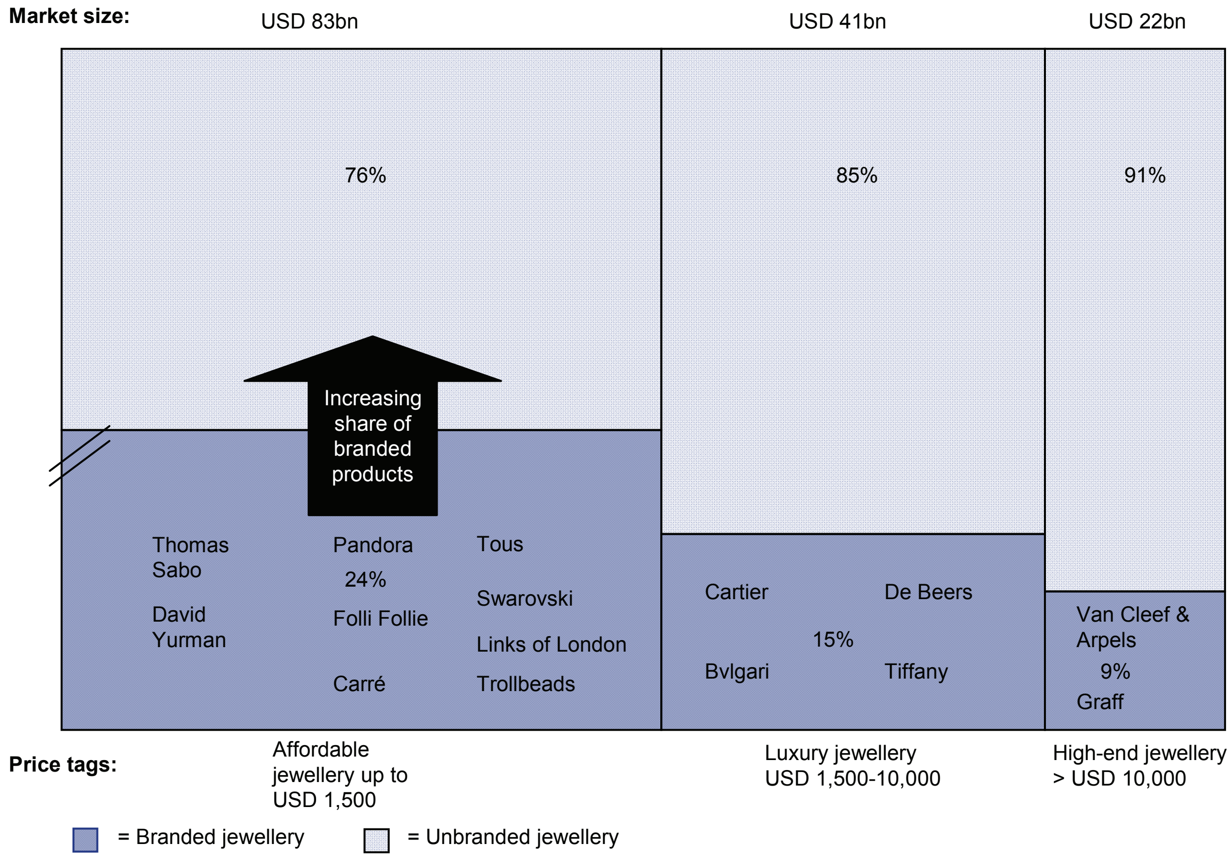
Source: Company analysis of third-party commissioned data

Strategic focus on growing a global brand makes sense

We believe branded products will play an increasingly more important role in the global jewellery industry, as has been the case for several other consumer products. In our view, this industry lacks the general consumer markets in terms of branding, which offer Pandora room for growing its market share further. In this respect, the strategic focus on building a global brand makes very good sense.

The graph below shows that the fraction of total jewellery sales stemming from branded products is highest in the affordable jewellery market. However, there should be room for more growth, and Pandora's focus on improving the quality of its distribution by increasing the share of branded sales should help this development and ensure improved branding.

Branded products have a low but increasing market share



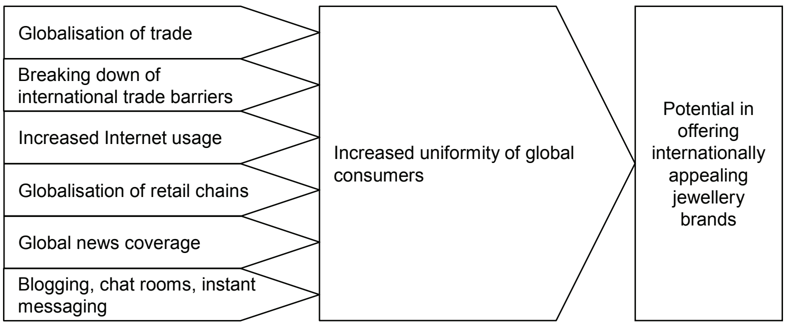
Source: Company analysis of third-party commissioned data and Nordea Markets

Potential for global jewellery brands

Increased uniformity of consumers enables a more global marketing approach

Pandora has established the most global presence of any charm bracelet producer. However, we believe there is potential for it to expand into even more markets. One of the reasons for our belief is the increased uniformity of consumers globally, as this offers potential for global jewellery brands in line with the development of other consumer products. The increased uniformity of consumers enables a more global marketing approach, which favours large companies like Pandora.

Increased uniformity of consumers offers potential for jewellery brands



Source: Nordea Markets

Jewellery industry is very fragmented

The jewellery industry is highly fragmented with many independent retailers and small chains. Only a few global chains (except for stores in the luxury jewellery industry) have been established: Folli Follie has 413 stores and Tous has around 400 stores. Links of London has 90 stores, half of which are in the UK.

Through a unified market approach and increased branded space, Pandora targets becoming the largest jewellery brand in the world. Thanks to its franchise-based concept stores and shop-in-shops, Pandora is indirectly established as one of the largest jewellery chains in the world.

Affordable luxury is gaining momentum

In several industries, the concept of affordable luxury has gained momentum as has the low-cost concept in other industries. In the table below, we list some of the "category killers" in several industries, where successful low-cost/affordable concepts have delivered exceptionally strong results.

"Category killers" in affordable luxury and discount

Furniture	Apparel	Consumer electronics	General	Jewellery
• IKEA	• Hennes & Mauritz • Inditex (Zara)	• Apple (iPod etc.)	• Walmart	• Pandora?

Source: Nordea Markets

Pandora benefits from global reach as well as innovative consumer product strategy

We do not claim that Pandora will be as successful as these other companies, but we believe that there are some similarities. We especially believe Pandora benefits from its global reach and its high attention to building a global brand in the affordable luxury segment of the industry as has been seen in the apparel industry with H&M and Inditex (its Zara brand). Improving the retail space should be valuable for building the Pandora brand.

Characteristics of "category killer" companies

Characteristics	Result	Pandora
Value for money	Category killer company	✓
Strong distribution model		(✓)
Successful branding		(✓)
Global reach		✓

Source: Nordea Markets

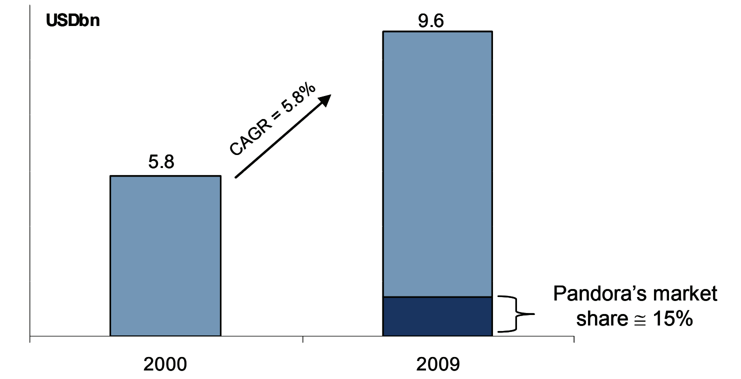
Improving retail space is valuable to building the brand

Compared with high-end jewellery and unbranded products, Pandora offers value for money, in our view. Pandora's wholesale distribution model is strong, but there is still considerable potential for improvement at the retail level, in building more branded retail space by upgrading the retailer base.

High growth in charm bracelet compared with general market

Pandora has benefited especially from its charm bracelet concept. In 2009, the total charm bracelet market represented USD 9.6bn, according to the company. Since 2000, CAGR has been 5.8% in the fine charm bracelet market, clearly exceeding the 2.8% growth in the general fine jewellery market. Pandora estimates it had a market share of 15% in this market at the retail level in 2009.

Fine charm bracelet market at retail level (USDbn)



Source: Company analysis of third-party commissioned data

Solid increase in charm bracelet demand in the past decade

Although charm bracelet concepts have been available for many years, there has clearly been a solid increase in demand in the last decade. This development has partly been driven by the success of Pandora.

The question is, of course, whether this development is sustainable. We believe there is generally improved demand for charm bracelets given the general focus on individualised jewellery. However, changes in consumer taste represent a cause for concern, which Pandora is well aware of and is seeking to mitigate by continually bringing new designs to the market and by complementing the highly successful charm bracelet concept with adjacent products.

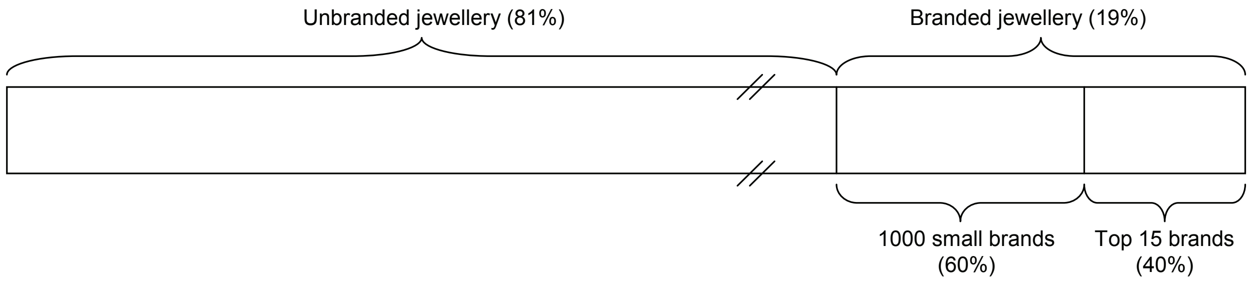
Competitive situation

A highly fragmented industry

Top 15 brands represent 40% of branded jewellery but only 8% of total market

The jewellery industry is highly fragmented with several players, a very large number of unbranded jewellery producers and more than 1,000 established brands. According to the company, the top 15 brands represent around 40% of branded jewellery sales but only 8% of the total market.

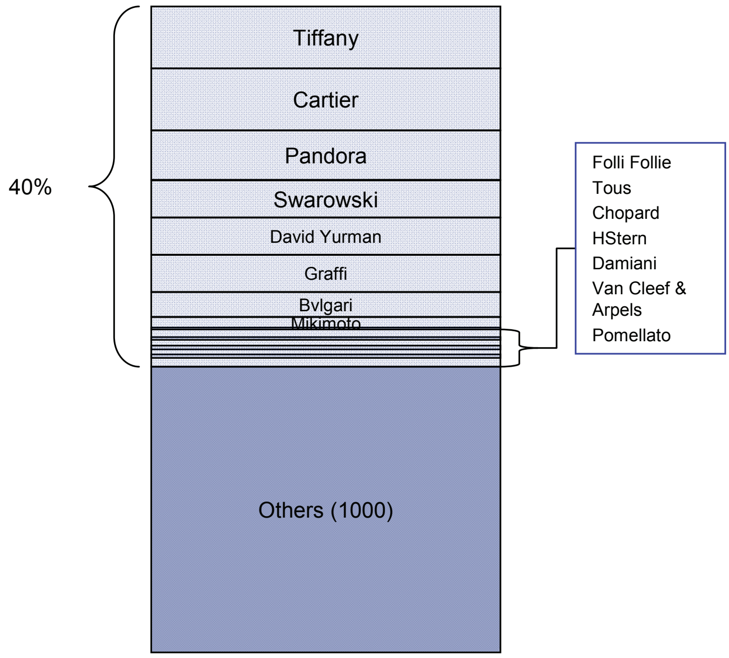
Market break-down of jewellery industry



Source: Company analysis of third-party commissioned data

The largest brands by retail value are Tiffany and Cartier followed by Pandora, Swarovski, David Yuman, Graff and Bulgari.

Market shares for branded jewellery



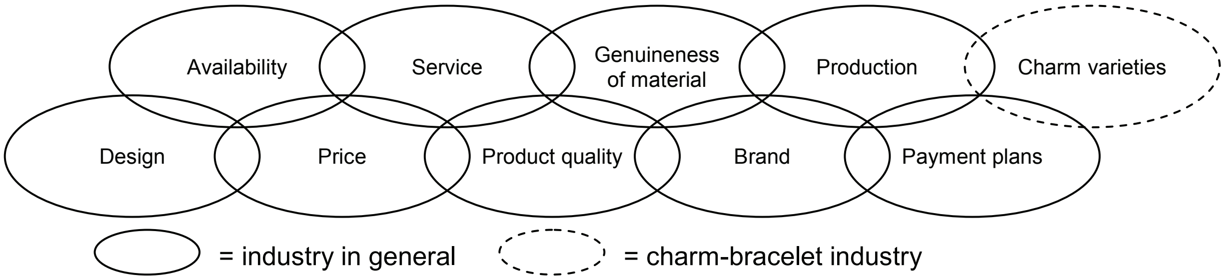
Note: Revenue at estimated retail value, jewellery categories only.
Source: Company analysis of third-party commissioned data

Competitive parameters

High number of competitive parameters

We believe there are many competitive parameters in the jewellery industry, the most important of which are brand, product quality, price and availability.

Competitive parameters



Source: Nordea Markets

Pandora is strong in availability…

Availability is a very important competitive parameter. Pandora has a very strong position with 10,386 points-of-sale, a global presence and an increasing amount of branded space.

…but slightly lacking in brand

In terms of brand, we view Pandora's positioning as medium because the company is still lacking somewhat in building a strong brand. However, we believe that it is moving in the right direction with its global marketing strategy.

Pandora's position

Competitive parameter	Pandora	Reason
Availability	Strong	Broad distribution with 10,386 points-of sales
Service	Medium	Dependent on retailer for multi-brand stores
Genuineness of material	Strong	All metail is genuine and no hollow products
Production	Strong	Efficient internal production setup in Thailand
Design	Strong	Unique charm-bracelet concept and new collections
Price	Medium	Above average charm prices. Value for money for new collections
Product quality	Strong/medium	No hollow products and products are hand-finished
Brand	Medium	Brand gains momentum, but still lower awareness than top brands
Payment plans	Low	No payment plans, but also relatively low ticket prices
Charm varieties	Medium	Broad charm offer, but not materially different from peers

Source: Nordea Markets

Compared with other charm-bracelet concepts, Pandora has high product quality

Compared with other charm bracelet concepts, Pandora has a high product quality, we believe, with no hollow products and all products being hand-finished. However, the level of craftsmanship should be lower than that offered by luxury good producers, but this is reflected in the prices.

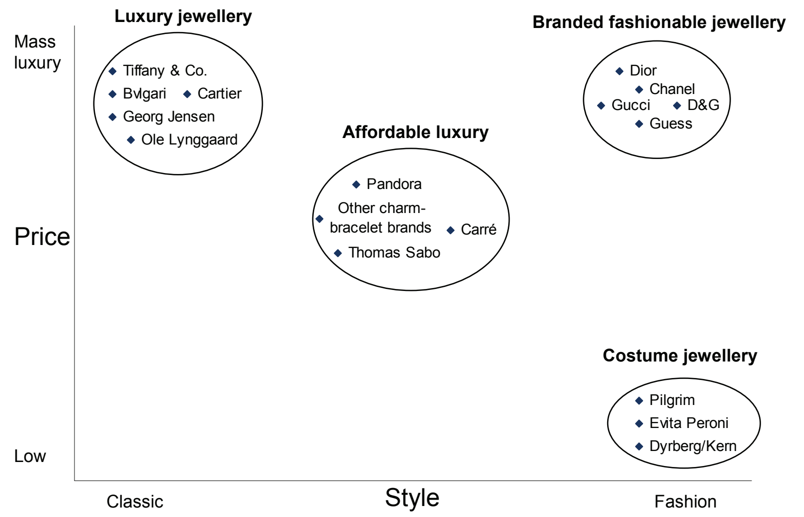
Positioning compared with peers

Pandora's ambition is clearly to establish itself as a well-known brand in line with Tiffany et al. This enables more staying power, but most importantly works as a defence against the increase in similar charm bracelet concepts.

We believe that Pandora has established a recognised brand, but that it still needs to improve this to become a strong brand.

Pandora has positioned itself in the attractive affordable luxury segment of the jewellery industry. From an overall perspective, the company competes with both fine and costume jewellery brands, but its main competitors are in the affordable luxury segment.

Market position



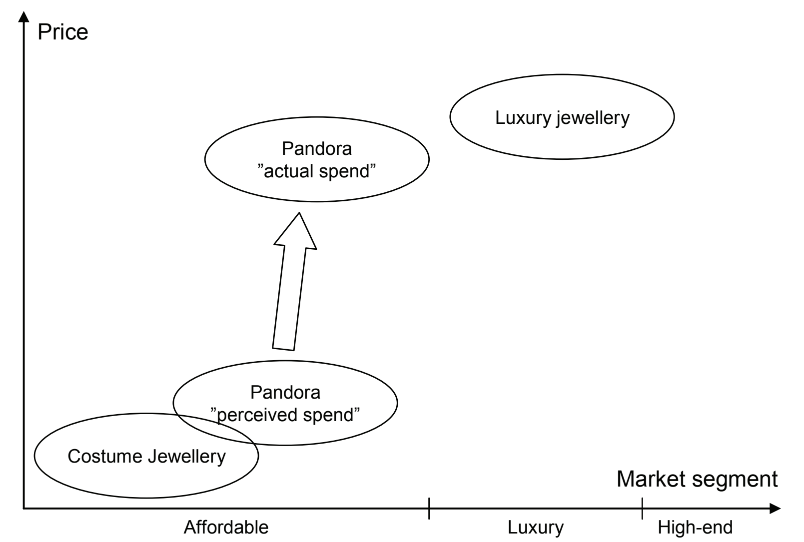
Source: Nordea Markets

Captivity ensures high full price

Pandora is able to address a wider consumer base than traditional luxury jewellery

Pandora is perceived as affordable luxury by consumers as each item is relatively cheap. However, the price for a full bracelet with 25 charms is fairly high – similar to the price for luxury jewellery. This relationship is one of the major advantages of Pandora, in our view, as it enables the company to address a wider consumer base than traditional luxury jewellery.

Price positioning



Source: Company data

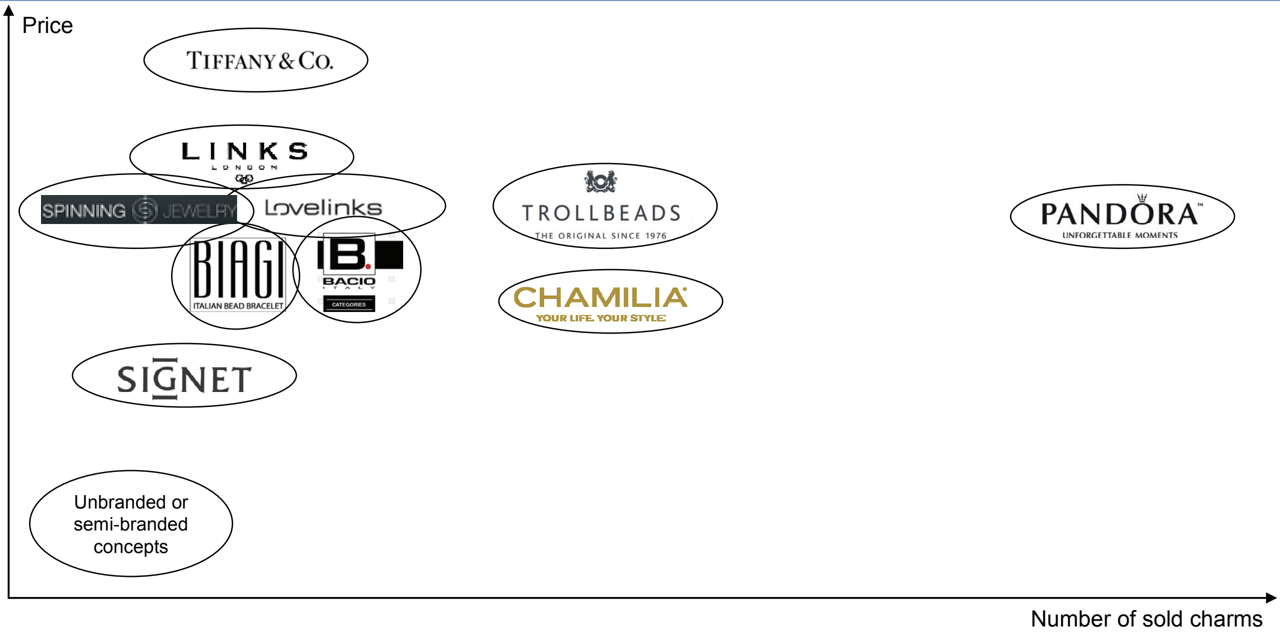
The most important sale for Pandora is the entry product – the bracelet – since this usually leads to ongoing sales of charms.

Charm-bracelet competition

There is a relatively high number of players in the charm bracelet industry. Pandora is by far the largest, followed by Trollbeads and Chamilia.

There are also many competing charm bracelet concepts, as established jewellers have launched their own collections and as new players enter the industry.

Overview of some charm bracelet producers

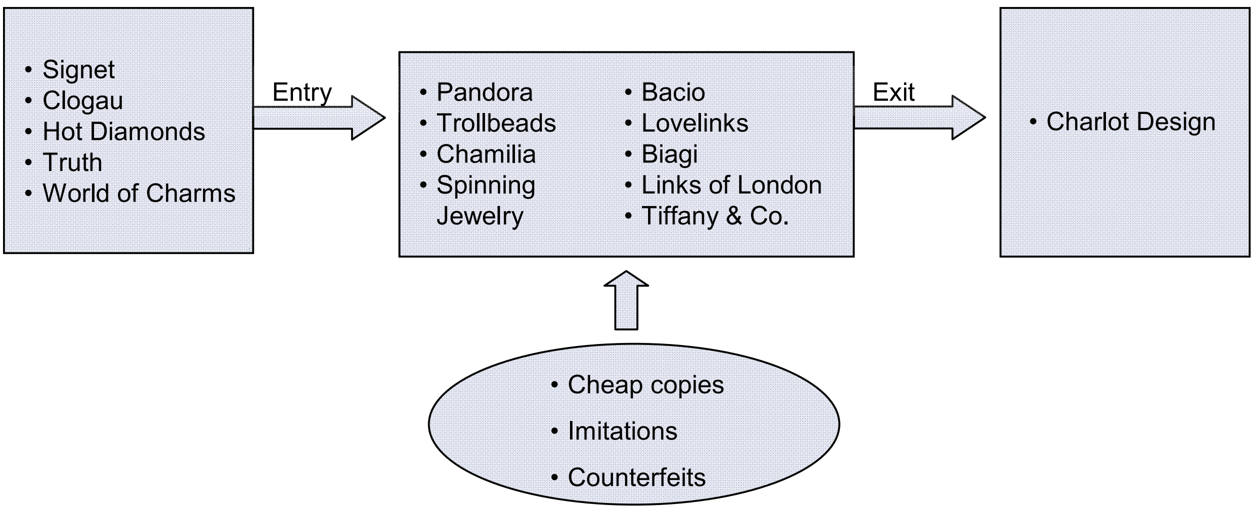


Source: Nordea Markets

More charm bracelet concepts likely to be launched

We expect more charm bracelet concepts to be launched, as the high earnings attract new players. However, some of these players are also likely to leave the industry again, as highlighted by the exit of Charlot Design.

Dynamics in the charm bracelet industry



Source: Nordea Markets

One of our concerns about Pandora is the risk that consumers might stop buying its product because of “charm overload”. Too many concepts and products may deflate the Pandora brand. The high number of market participants may also make it more difficult for Pandora to achieve the same market share in new markets as it has in countries where it had first mover advantage.

Internet copies and imitations represent an unfortunate risk

Pandora experiences competition from cheap copies, imitations and counterfeits. On the internet there are a number of sites offering Pandora charms and charm bracelets that are actually counterfeits. Pandora pays much attention to closing down these sites but this still represents a risk.

Overview of charm bracelet competitors

The global luxury good producers should be well covered, but the charm bracelet competitors are less known. In this section, we provide a basic overview of the main market participants. Most are unlisted, so available information is often limited.

Trollbeads – Lise Aagaard

Trollbeads is owned by Lise Aagaard, who claims to have invented the charm bracelet concept in 1974.

Lise Aagaard is the counterparty in an ongoing legal dispute over the fair value of the deal with Pandora for commissions on Murano glass charms.

Like Pandora, Lise Aagaard is a highly profitable business. No official revenue numbers are available, but EBITDA and EBIT are. Lise Aagaard Copenhagen is owned by Zen Capital, which discloses its gross profit.

The court papers related to the dispute with Pandora state that Trollbeads reported revenue of DKK 330m. We do not know which year this refers to, but we estimate it to be 2008. If this is correct, Lise Aagaard's EBITDA should be around 26%. This highlights the fact that the charm bracelet concept is highly profitable, but also that Pandora is more profitable than its main competitors, most likely as a consequence of its scale and efficient in-house production.

As can be seen from the table below, Lise Aagaard's EBIT has grown significantly. However, in 2009, the growth rate dropped, most likely owing to the economic crisis. Compared with Pandora, earnings in Trollbeads are significantly lower, indicating that Pandora is much larger.

Financial numbers for Trollbeads – Zen Capital and Lise Aagaard (DKKm)

Zen Capital	2005	2006	2007	2008	2009
Gross profit	19.2	41.3	65.2	101.6	120.0
Growth y/y		114.8%	57.9%	55.9%	18.1%
EBITDA			54.5	87.7	108.0
Growth y/y				61.0%	23.1%
Depreciations			1.8	2.4	2.0
EBIT	12.6	29.1	52.7	85.4	106.0
Growth y/y		131.8%	80.7%	62.1%	24.2%
Lise Aagaard Copenhagen	**2005**	**2006**	**2007**	**2008**	**2009**
Revenue estimate				330	
EBITDA	13.0	27.7	52.5	85.5	105.5
Growth y/y		113.7%	89.7%	62.9%	23.4%
Estimated EBITDA margin				25.9%	
Depreciations				1.3	1.3
EBIT	12.7	27.2	51.7	84.3	104.3
Growth y/y		114.1%	90.2%	62.9%	23.7%
Estimated EBIT margin				25.5%	

Note: Zen Capital is the holding company for Lise Aagaard Copenhagen, which is the company behind Trollbeads.

Source: Zen Capital, Lise Aagaard Copenhagen and Nordea Markets

Chamilia

Chamilia is one of Pandora's largest competitors in the charm bracelet industry. It has a strong presence in North America. Financial information is not available.

According to some information available through the internet, Chamilia's charms fit Pandora bracelets, which reduces switching costs. However, we believe that consumers will prefer matching products, so if Pandora sells a bracelet, it should still sell by far the majority of the related charms.

Links of London

Links of London is a main peer to Pandora, especially in the UK. Links of London has also introduced a charm bracelet concept, but this is only a small part of its business. The company has lower EBIT and EBITDA margins than Pandora and also delivers significantly lower growth rates. In Q2 2010 its development was somewhat weak with flat y/y revenue development and margin pressure. Links of London is owned by Folli Follie, which is listed in Greece.

As of the end of 2009, Links of London had 42 stores in the UK and 44 outside the country.

Income statement for Links of London (GBPm)

GBPm	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	2009
Revenue	**15.3**	**16.8**	**19.7**	**33.3**	**15.6**	**17.0**	**85.2**
Growth y/y					1.8%	0.8%	9.0%
Cost of sales	4	5.1	6.7	9.6	3.9	6.0	25.3
Gross profit	**11.4**	**11.7**	**13.1**	**23.7**	**11.7**	**11.0**	**59.8**
Gross margin	55.8%	69.5%	66.3%	71.2%	75.1%	64.6%	70.3%
Other income	0.0	0.1	0.0	-0.1	0.5	0.1	-0.1
Administration expenses	2.7	2.6	2.8	2.9	2.9	2.8	10.9
Sales expenses	8.2	8.2	8.0	10.4	8.1	7.8	34.8
EBIT	**0.5**	**1.0**	**2.3**	**10.3**	**1.2**	**0.4**	**14.1**
EBIT margin	3.0%	5.8%	11.7%	31.0%	7.7%	2.6%	16.5%
Organic growth (YTD)	**20.7%**	**20.0%**	**22.6%**	**22.4%**	**12.8%**	**3.9%**	**22%**
LFL growth					12.5%		
Depreciation	0.7	0.7	0.7	0.8	0.5	0.7	2.9
EBITDA	**1.2**	**1.7**	**3.0**	**11.1**	**1.7**	**1.2**	**17.0**
EBITDA margin	7.6%	10.1%	15.4%	33.3%	10.8%	7.0%	19.9%

Source: Folli Follie and Nordea Markets

Thomas Sabo

Thomas Sabo is one of Pandora's main competitors. Its charm bracelet collection appears to be a relatively small part of its business. Thomas Sabo has a strong position in Germany in particular. The company is privately held and financial data is not available.

Spinning Jewelry

Spinning Jewelry is owned by small Danish private equity company Deltaq, which acquired 67% of the shares in the company in October 2008. In 2008, around 80% of revenue was generated in Denmark, driven by its ring series called "Spinning Rings". In 2009, the company's dependence on Denmark declined to 55%, driven by solid exports.

Spinning Jewelry just downgraded its 2010 guidance and now expects revenue in line with 2009 (previously 30% growth y/y). It expects EBITDA of DKK 5m (down from DKK 10m-15m).

Production is in Thailand, but it has also recently established a factory in Vietnam. Margins are very low compared with Pandora.

Spinning Jewelry (DKKm)

Revenue	**2008**	**2009**
Denmark	50.2	55.2
Export	10.3	45.2
Total	**60.5**	**100.4**
Revenue growth y/y	**2008**	**2009**
Denmark		10%
Export		339%
Total		**66%**
Revenue distribution	**2008**	**2009**
Denmark	83%	55%
Export	17%	45%
Total	**100%**	**100%**
EBITDA		**14.9**
EBITDA margin		15%

Source: Spinning Jewelry and Nordea Markets

Lovelinks – Jens J. Aagaard/Aagaard-Bræmer Holding

Lovelinks is owned by the Danish jewellery company Aagaard-Bræmer, which was found in 1946 in Svendborg, Denmark. The company has around 140 employees and offers more than 20,000 products.

Compared with Pandora and Lise Aagaard, earnings are at a lower nominal level. Revenue numbers are not available. The most recent accounting numbers indicate that Aagaard-Bræmer also benefits from the good demand for charm bracelet concepts. Still, its growth rates appear to be significantly below those reported by Pandora.

Gross profit and EBIT for Lovelinks – Aagaard-Bræmer Holding (DKKm)

Aagaard-Bræmer Holding	**07/08**	**08/09**	**09/10**
Gross profit	69.8	70.0	72.2
Growth y/y		0.2%	3.1%
EBITDA	17.0	15.2	20.4
Growth y/y		-10.7%	33.7%
Depreciations and amortisations	4.9	6.0	6.2
EBIT	12.2	9.2	14.2
Growth y/y		-24.4%	54.2%

Source: Aagaard-Bræmer Holding and Nordea Markets

Bacio Italy

Bacio Italy is an Italian producer of charm bracelets. Unlike most other producers, Bacio is not produced in the Far East, but in Italy.

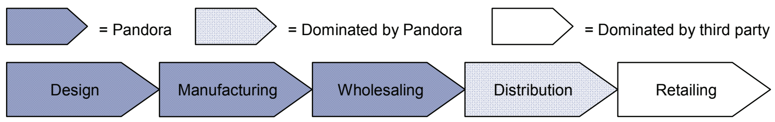
We estimate Bacio to be fairly small. Looking at its website, it appears that the company only has 12 employees.

Increased distribution power

Meeting consumers through third parties

Pandora's business model is based on third-party retailing dominated by multi-brand retailers, but with franchisees growing in importance through the growth of concept stores and shop-in-shops.

Business model



Source: Company data and Nordea Markets

67% of PoS are in Europe

As of the end of Q2 2010, Pandora distributed its products through 9,922 points-of-sale, of which 67% were in Europe. Looking at branded space, the distribution is more evenly distributed between geographies, with Europe representing 50% and the Americas 37%. The split on geographies by the end of Q3 2010 has not been provided.

Stores split by concept and geography (end-Q2 2010)

No. of stores	Americas	Europe	Asia-Pacific	Total
Concept stores	90	135	37	262
Shop-in-Shop	198	409	118	725
Gold	625	681	159	1,465
Silver	995	1,124	98	2,217
White	621	4,276	356	5,253
Total number of stores	**2,529**	**6,625**	**768**	**9,922**
Total branded	913	1,225	314	2,452
Store distribution to total	**Americas**	**Europe**	**Asia-Pacific**	**Total**
Concept stores	1%	1%	0%	3%
Shop-in-Shop	2%	4%	1%	7%
Gold	6%	7%	2%	15%
Silver	10%	11%	1%	22%
White	6%	43%	4%	53%
Total number of stores	**25%**	**67%**	**8%**	**100%**
Total branded	9.2%	12.3%	3.2%	24.7%
Store distribution in each geography	**Americas**	**Europe**	**Asia-Pacific**	**Total**
Concept stores	4%	2%	5%	3%
Shop-in-Shop	8%	6%	15%	7%
Gold	25%	10%	21%	15%
Silver	39%	17%	13%	22%
White	25%	65%	46%	53%
Total number of stores	**100%**	**100%**	**100%**	**100%**
Total branded	36%	18%	41%	25%
Store distribution in each concept	**Americas**	**Europe**	**Asia-Pacific**	**Total**
Concept stores	34%	52%	14%	100%
Shop-in-Shop	27%	56%	16%	100%
Gold	43%	46%	11%	100%
Silver	45%	51%	4%	100%
White	12%	81%	7%	100%
Total number of stores	**25%**	**67%**	**8%**	**100%**
Total branded	37%	50%	13%	100%

Source: Company data

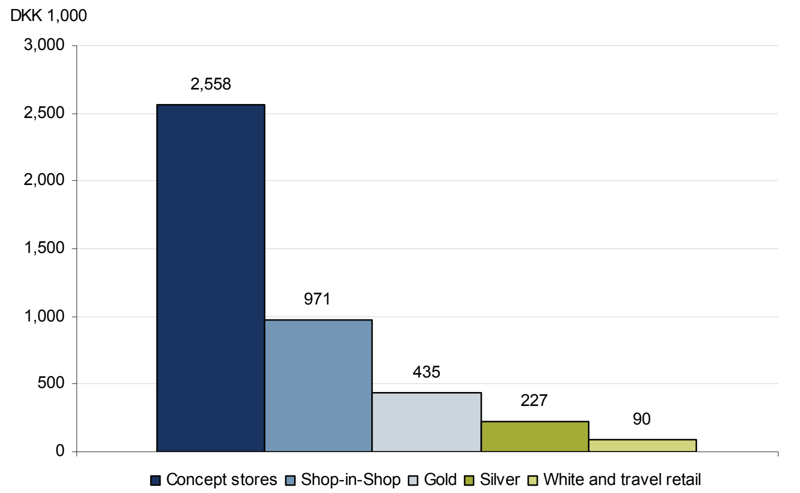
Store upgrades and expansion in branded space

Much higher revenue in branded

Pandora is highly focused on improving the quality of its distribution by increasing the share of branded sales by upgrading existing retailers and *stores than in unbranded stores*

having franchisees open concept stores and shop-in-shops. The branded stores carry significantly higher revenue per store than the unbranded stores, and so store upgrades and a mix-shift towards branded space offers growth potential for Pandora.

Revenue per average store for different store formats in H1 2010 (DKK 1,000)

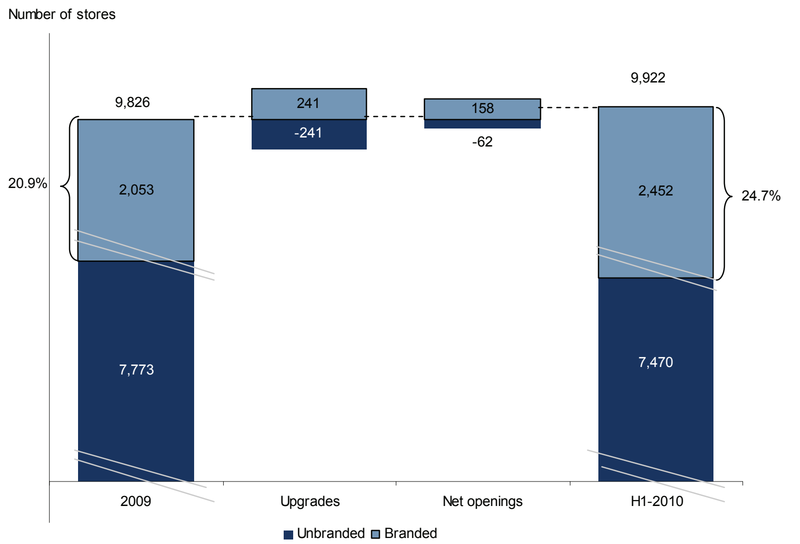


Note: Revenue per store type is based on markets with direct distribution. Numbers are calculated as revenue per store format divided by average of end-2009 and end-H1 2010 stores.
Source: Company data

In H1 2010, Pandora upgraded 241 stores to branded space and opened 158 new branded stores

The historical data for the different types of stores is limited to 2009. In H1 2010, Pandora markedly upgraded stores when 241 stores were upgraded to branded from unbranded space. In addition, net openings of branded space were 158 stores, while there was net closure of 62 unbranded stores.

Store upgrades and net store closures during H1 2010

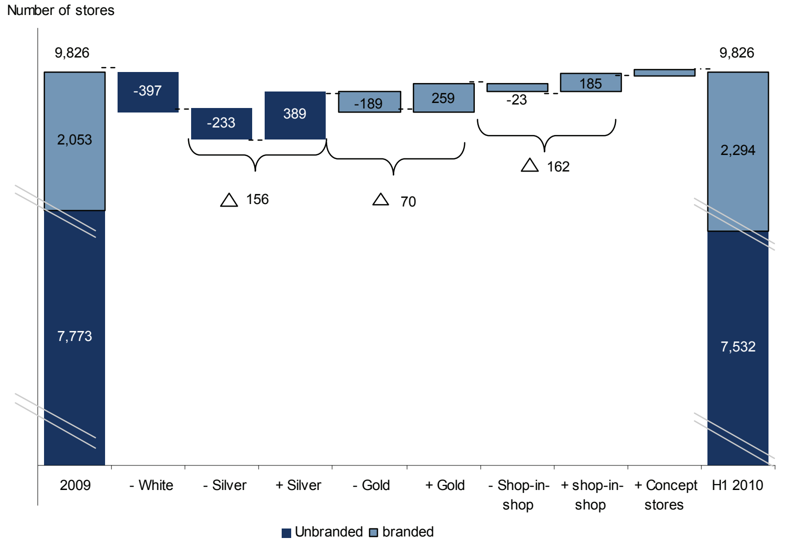


Source: Company data

Net decrease in white dealers in H1 2010

There was a net decrease in white dealers in H1 2010, while all other distribution channel types saw upgrades in the period. The highest level of upgrades was in shop-in-shops, which is positive, as these stores on average carry high revenue and help build the Pandora brand.

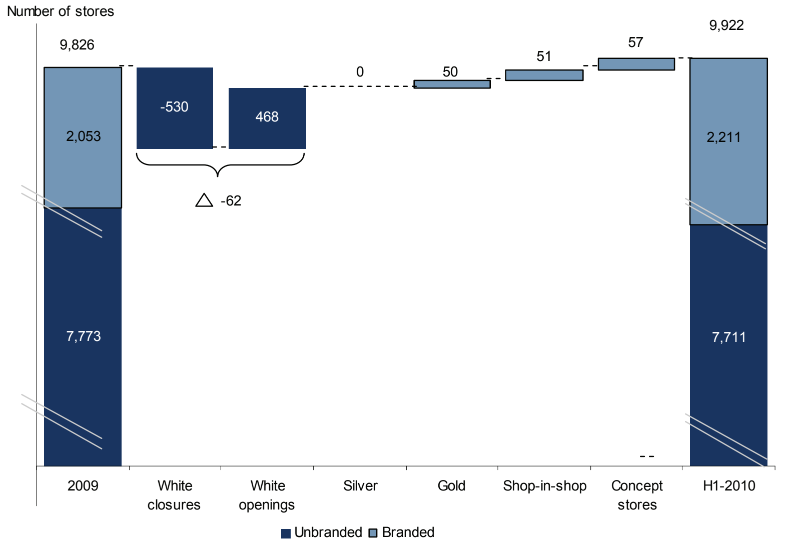
Upgrading of end-2009 PoS during H1 2010



Source: Company data

In terms of new PoS, Pandora saw a net increase of 96 stores in H1 2010, this in branded space, whereas there was a net decrease in unbranded space.

Rollout of new PoS in H1 2010



Source: Company data

Pandora accelerated the upgrading and opening of new stores in Q3 2010, as can be seen in the table below. Pandora added 67 concept stores in Q3 2010 alone, above the 66 total concept stores added in Q1 and Q2 2010. In total, Pandora increased the number of PoS by 464 in Q3 2010 compared with an increase of just 96 in H1 2010.

Development in upgrades and new stores in 2010 (number of stores)

Downgrades, upgrades and new stores	H1 10 number	Q3 10 number	9M 10 number
Downgrades	0	0	0
Upgrades	9	3	12
Closures	0	0	0
New	57	64	121
Change in concept stores	**66**	**67**	**133**
Downgrades	-23	-110	-133
Upgrades	185	115	300
Closures	0	0	0
New	51	136	187
Change in shop-in-shops	**213**	**141**	**354**
Downgrades	-189	-110	-299
Upgrades	259	115	374
Closures	0	0	0
New	50	59	109
Change in gold stores	**120**	**64**	**184**
Downgrades	-233	-89	-322
Upgrades	389	156	545
Closures	0	0	0
New	0	-13	-13
Change in silver stores	**156**	**54**	**210**
Downgrades	-397	-185	-582
Upgrades	0	0	0
Closures	-530	0	-530
New	468	323	791
Change in white stores	**-459**	**138**	**-321**
Total change	**96**	**464**	**560**

Source: Company data and Nordea Markets

Pandora has issued guidance that it will increase the number of PoS by at least 500 in H2 2010. The strong development in Q3 2010 should not be seen in Q4 2010, as Christmas is the most important season of the year in the jewellery industry and consequently few PoS will change status in the quarter. Some new PoS in new markets such as Italy should still be added, however.

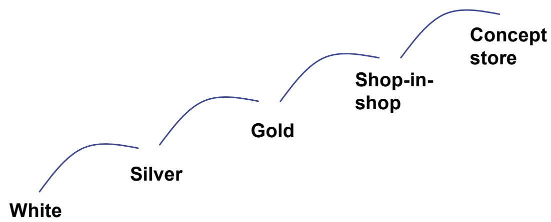
Standardised and modular approach to upgrading

Standardised and modular approach to PoS upgrading

Pandora has established a standardised and modular approach for PoS upgrading. The initial investments for the different store formats are very different; the initial investment to open as a white dealer (around EUR 10,000) is small, while it is more costly to open a concept store (around EUR 325,000).

Initial investment to open as white dealer (around EUR 10,000) is small, while it is more costly to open a concept store (EUR 325,000)

Indicative initial investments required by partners



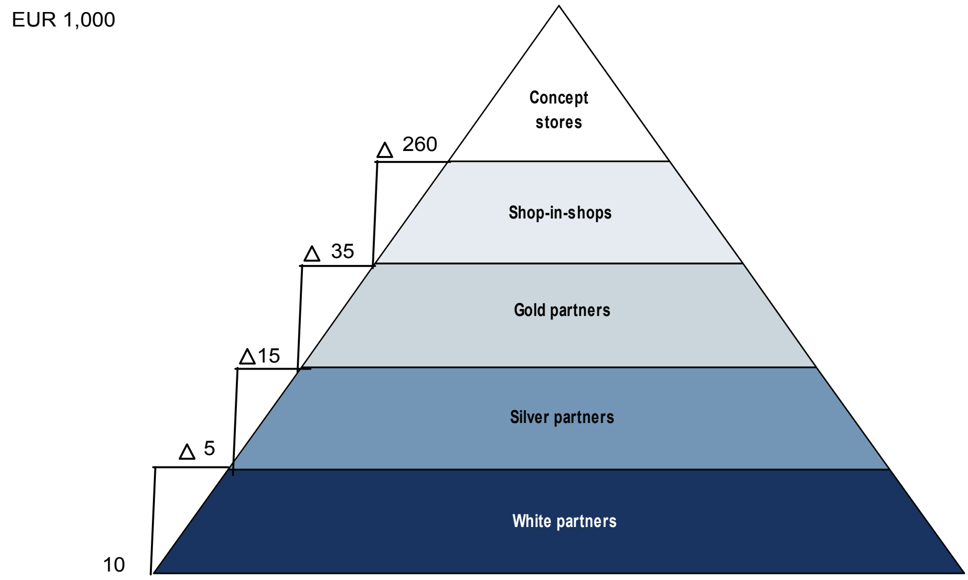
Initial investment (EUR 1,000)	10	15	30	65	325

Note: Investment figures are indicative. The initial investment includes full starter kit including inventory, furniture, lightning, flooring and trays. For Concept Stores box preparation is included.
Source: Company data

Modular approach makes initial investment easier to sell

However, the modular upgrading approach enables a Pandora partners to start out as a white dealer and then later upgrade to being a silver dealer (at a cost of around EUR 5,000) or move directly to becoming a gold dealer (around EUR 20,000) or even have a shop-in-shop or concept store. This modular approach makes it easier to convince partners to start out as dealers and also easier for them to upgrade.

Indicative investments for upgrading to the next retail format (EUR 1,000)



Source: Company data

H1 2010 store openings and upgrades offers large revenue potential

We estimate that the high level of store upgrades and store openings could give Pandora additional annual revenue of DKK 800m-900m.

Seasonality of business weights revenue towards H2

This estimate is based on the assumption that full-year revenue per store is twice the revenue of average H1 2010 revenue per store type in direct distribution markets. With some stores being upgraded and opened in third-party distributor markets, this could prove overly optimistic. On the other hand, the seasonality of the business should on average make H2 revenue higher than H1, given higher full-year revenue per store.

The calculation of revenue potential is highly uncertain and can thus only be used as an indication of the effect from store openings. The calculation does not reflect the potential cannibalisation on existing distribution from new openings.

Potential store capex (revenue) and full-year revenue effect from H1 2010 PoS changes

Downgrades, upgrades and new stores	Number	Per type (EUR 1,000)	Capex (DKKm)	Per type (DKK 1,000)	Revenue (DKKm)
Downgrades	0				
Upgrades	9	325	7	5,116	46
Closures	0				
New	57	325	46	5,116	292
Change in concept stores	**66**		**53**		**338**
Downgrades	-23	65	-6	1,942	-45
Upgrades	185	65	45	1,942	359
Closures	0				
New	51	65	12	1,942	99
Change in shop-in-shops	**213**		**52**		**414**
Downgrades	-189	30	-21	870	-164
Upgrades	259	30	29	870	225
Closures	0				
New	50	30	6	870	44
Change in gold stores	**120**		**13**		**104**
Downgrades	-233	15	-13	454	-106
Upgrades	389	15	22	454	177
Closures	0				
New	0	15	0	454	0
Change in silver stores	**156**		**9**		**71**
Downgrades	-397	10	-15	180	-71
Upgrades	0				
Closures	-530			180	-95
New	468	10	17	180	84
Change in white stores	**-459**		**3**		**-83**
Total change	**96**		**129**		**844**

Source: Company data and Nordea Markets

The high level of openings and upgrades in Q3 2010 also offers significant potential for future revenue growth, as illustrated by the calculation below.

Capex (revenue) and full-year revenue effect from Q3 2010 PoS changes

Downgrades, upgrades and new stores	Q3 10 number	Per type (EUR 1,000)	Capex (DKKm)	Per type (DKK 1,000)	Q3 10 capex	Revenue (DKKm)
Downgrades	0					
Upgrades	3	325	7	5,116	2	15
Closures	0					
New	64	325	46	5,116	51	327
Change in concept stores	**67**		**53**		**54**	**343**
Downgrades	-110	65	-6	1,942	-27	-214
Upgrades	115	65	45	1,942	28	223
Closures	0					
New	136	65	12	1,942	33	264
Change in shop-in-shops	**141**		**52**		**34**	**274**
Downgrades	-110	30	-21	870	-12	-96
Upgrades	115	30	29	870	13	100
Closures	0					
New	59	30	6	870	7	51
Change in gold stores	**64**		**13**		**7**	**56**
Downgrades	-89	15	-13	454	-5	-40
Upgrades	156	15	22	454	9	71
Closures	0					
New	-13	15	0	454	-1	-6
Change in silver stores	**54**		**9**		**3**	**25**
Downgrades	-185	10	-15	180	-7	-33
Upgrades	0					
Closures	0			180		0
New	323	10	17	180	12	58
Change in white stores	**138**		**3**		**5**	**25**
Total change	**464**		**129**		**103**	**722**

Source: Company data and Nordea Markets

Some store filling effect in both H1 2010 and Q3 2010 revenue

We also model the effect on Pandora's revenue from store filling as a consequence of the many upgrades and store openings. We assume that half of capex at all retailers bar concept stores will be booked as revenue at Pandora, as one of the main investments is inventory.

For concepts stores, we also assume that one-third of capex relates to inventory investments. EUR 325,000 also includes costs for white box preparation (one-third of capex) and furniture, lightning, flooring and trays (one-third of capex), which will not impact Pandora's revenue. To calculate the effect from an upgrade, we give the full capex effect to the new concept but deduct the capex of the old concept based on the modular approach to upgrading.

We estimate that DKK 130m or 5% of Pandora's H1 2010 revenue could be the consequence of store fillings

Based on the number of upgrades and store openings, we anticipate that around DKK 130m or 5% of Pandora's H1 2010 revenue could come from store fillings. However, as we do not know the level of store upgrades and openings in H1 2009, we cannot estimate the net effect on revenue compared with H1 2009. For Q3 2010 we estimate the PoS changes to represent around DKK 100m in revenue for Pandora, which is equivalent to 6% of revenue.

Attractive business case for retailers

With the strong demand for Pandora's products currently, Pandora offers an attractive business case for its retailers. This is highlighted in the table below, which shows that revenue per square metre and inventory turns for Pandora's retailers are significantly higher than for the industry in general.

Pandora offers attractive business case for retailers

	Independent jewellery store	Pandora
Square metres	170	2-3
Revenuer per m2 (USD)	6,500	> 50,000
Inventory turn/year	1	3-4
Gross margin	50%	55%
Marketing spend	4-6%	2.5% (5%)

Note: Numbers for Pandora are based on average US numbers for white, silver and gold dealers.
Source: Company data

The strong business case should enable Pandora to continue attracting new retailers in its strong performing markets.

The numbers above show the trend in the USA. The value proposition for retailers could be affected if market conditions change or the metrics shifts as Pandora matures.

Franchise versus directly-operated stores

Franchise agreements can be beneficial for rapid expansion…

Pandora's ambition is to expand its concept stores and shop-in-shop stores through franchise agreements. This approach offers the possibility to expand the store network rapidly as it requires few investments, while increasing control compared with traditional wholesaling. A franchise model potentially enables more dedicated store operators than for directly operated stores as the franchisee owns the store and thus sees a higher benefit from success. However, the franchise approach also has some built-in disadvantages, including lower control of brand management and more difficulties in relocating stores compared with the alternative of Pandora operating the stores itself.

The disadvantage of lower control of brand management for Pandora stems from its older markets in particular, where multi-brand white dealer distribution appears to be high. However, as stores are upgraded to branded space and more concept stores are opened, Pandora is set to increase the level of control, which we find positive. The stellar development in 2010 for upgrading is significantly improving Pandora's ability to control its brand.

Directly-operated stores vs. franchise concept

Directly operated stores	Franchise concept
Advantages • Full control over distribution • Greatest ability to manage brand • Store refurbishment is decided by company • Consumer proximity	**Advantages** • No investment is required • Dedicated operators with a clear economic interest in improving results • Possibility of rapid expansion • People management is done by franchisee
Disadvantages • Increases invested capital • More need for people management • Difficulties in finding qualified management	**Disadvantages** • Less control over brand management • More difficult to relocate stores

Source: Nordea Markets

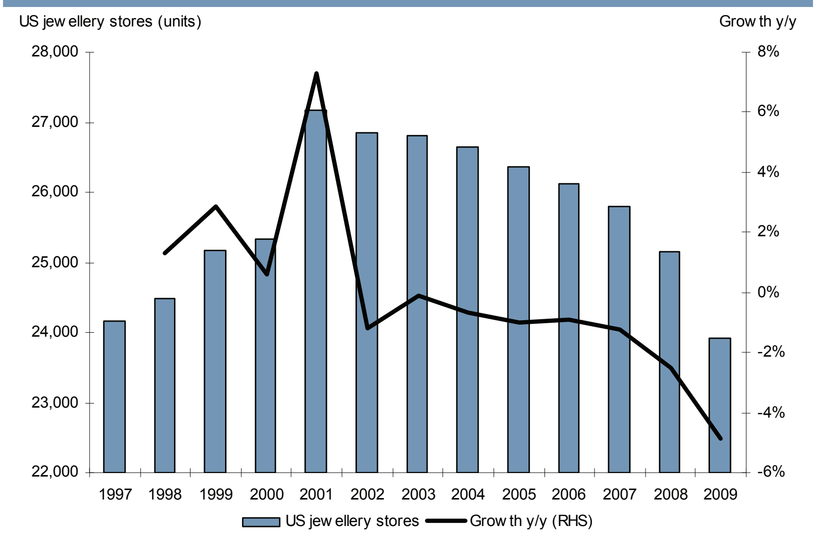
Distribution trends in jewellery

Foundation for Pandora's revenue is sale through jewellery stores

The foundation for Pandora's revenue is sale through jewellery stores. These are under pressure as general retailers and online jewellers increase their market share. This development is highlighted by the development in the number of US jewellery stores, which has declined every year since 2001 despite robust economic growth from 2004-08. The financial crisis has accelerated this development and we believe further closures will be seen in 2010.

The shaky outlook for traditional speciality stores in the USA means that these retailers are attracted to Pandora, as its products deliver solid growth and draws consumers to the stores.

Development in US jewellery stores (units)



Source: US Department of Labor and Nordea Markets

In 2009, specialty jewellery stores accounted for 46% of the total jewellery market

In 2009, specialty jewellery stores accounted for 46% of the total jewellery market, which is a decline from 49% in 2007. Pandora targets the traditional specialty jewellers, but the development shows that this segment of the market is decreasing. Consequently, it makes good sense to establish a branded network of concept stores and shop-in-shops.

Market shares in US jewellery market for different distribution forms

	2004	2007	2008	2009
Chain Jewelers (USD 100m+ sales)	12%	17%	15%	14%
Independent Jewelers	37%	32%	32%	32%
Total specialty	**49%**	**49%**	**47%**	**46%**
Chain Department Stores estimated	12%	11%	10%	10%
Mass Merchants estimated	10%	11%	11%	11%
TV Home Shopping estimated	4%	4%	4%	4%
Other (General, clothing ect. estimated)	20%	20%	23%	24%
Total non-specialty	**46%**	**46%**	**48%**	**49%**
Internet sales	3%	5%	5%	5%
Total	**100%**	**100%**	**100%**	**100%**
Market size (USD bn)	**57**	**62**	**60**	**59**

Source: Bureau of Economic Analysis, National Jeweler, Signet and Nordea Markets

Tough times for traditional specialty jewellery stores

The tough times for traditional specialty jewellery stores are also highlighted by the trend in the USA, where a number of larger players have closed down while the importance of others has been reduced.

Market shares in US specialty stores

	1999	2004	2007	2008	2009
Signet	4.9%	7.5%	9.0%	9.0%	9.4%
Zale	6.4%	7.8%	6.5%	5.8%	5.1%
Tiffany	2.8%	3.9%	4.9%	5.2%	4.7%
Blue Nile	0.1%	0.6%	1.0%	0.9%	1.0%
Finlay	0.0%	0.0%	0.7%	1.1%	Liquidated
Friedman	1.2%	1.5%	N.a.	Liquidated	
Whitehall	1.1%	1.1%	0.9%	Liquidated	

Source: Signet and Nordea Markets

Store expansion at peers

Peers drive revenue growth through store openings

Pandora's peers drive revenue growth through store openings, as highlighted in the table below. Although store expansion growth rates have come down as a consequence of the economic crisis, the level of stores continues to grow.

The highest growth rates have been seen for successful apparel retailers H&M and Inditex, while the modest growth at Signet highlights the tough market conditions for multi-brand jewellery retailers.

Store development for Pandora's peers

Number of stores	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**CAGR**
LVMH watches and jewelry					59	70	82	90	104	114	14.1%
Tiffany	119	126	131	141	151	154	167	184	206	220	7.1%
Hermes		206	217	256	273	289	291	309	323	325	5.9%
Cartier (Richemont)	205	211	212	212	224	236	246	257	275	283	3.6%
Bvlgari									263	273	3.8%
Pandora concept stores										**262**	
Pandora concept stores and SIS										**987**	
Growth y/y in number of stores	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	
LVMH watches and jewelry						19%	17%	10%	16%	10%	
Tiffany		6%	4%	8%	7%	2%	8%	10%	12%	7%	
Hermes			5%	18%	7%	6%	1%	6%	5%	1%	
Cartier (Richemont)		3%	0%	0%	6%	5%	4%	4%	7%	3%	
Richemont		19%	5%	-4%	9%	14%	7%	14%	4%	2%	
Burberry				10%	8%	66%	12%	26%	14%	5%	
Bvlgari										4%	
Gucci Brand stores		11%	10%	8%	6%	5%	6%	6%	11%	10%	
Average		**10%**	**5%**	**7%**	**7%**	**17%**	**8%**	**11%**	**10%**	**5%**	
H&M		13%	9%	12%	13%	12%	13%	13%	14%	14%	
Inditex						20%	16%	18%	16%	8%	
Signet							4%	4%	0%	-2%	

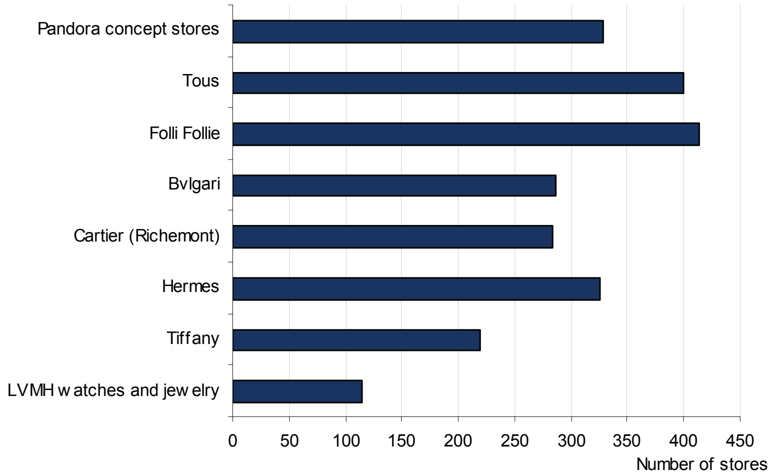
Source: Companies' data and Nordea Markets

Compared with its main peers, Pandora, through its franchise network, operates as many concept stores as the leading brands in the industry. Although store size and revenue per m^2 are significantly smaller at Pandora than its peers, it still highlights the speed of distribution expansion. The largest jewellery chain in the world is Signet with around 1,900 stores, with all of them in the USA and the UK.

Pandora, through its franchise network, operates as many concept stores as the number of direct-operated stores for leading brands in the industry, highlighting the speed of Pandora's distribution expansion

Signet remains the largest chain with around 1,900 stores

Pandora concept stores vs. large peers



Note: Due to scale, Signet is excluded from the graph. It has around 1,900 stores in the USA and the UK.
Source: Companies' data and Nordea Markets

Pandora has relatively high bargaining power

Pandora is an attractive partner for many multi-brand jewellery retailers compared with traditional jewellery. One of the main reason is that its products generate traffic in to the stores (according to Signet), which helps the sale of other products as well. Another key advantage is the fact that Pandora attracts female self-purchasers, a growing consumer group for the jewellery industry.

In a traditional multi-brand store a relatively high fraction of sales stems from unbranded goods. Here Pandora offers an advantage as it is well known, which should make sales easier. Pandora has emerged as a well-established brand with large marketing spending, which is highlighted by it being the eights most visible jewellery brand in the USA in 2009, according to the InDesign online magazine.

Advantages of Pandora over traditional jewellery

- Traffic generator in stores
- Attracts female self-purchasers
- High inventory turns compared to ordinary jewellery
- Professional marketing
- Established brand

Source: Industry sources and Nordea Markets

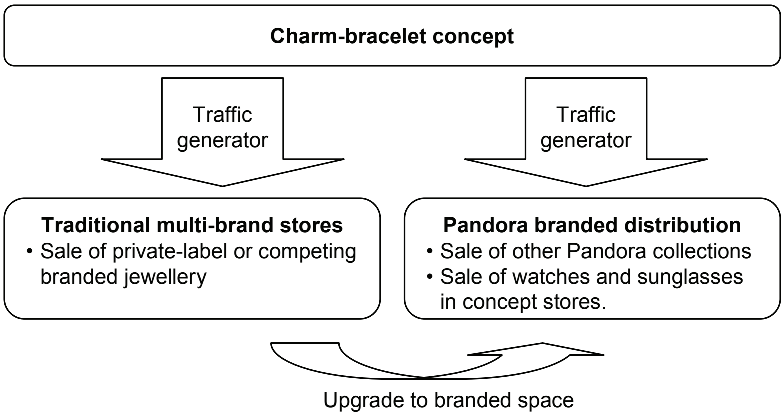
Building branded space for cross selling

Charm-bracelet concept attracts traffic to stores

For traditional multi-brand retailers, Pandora's successful charm bracelet concept attracts traffic to the stores. This is one of the key arguments for having Pandora's products, as it benefits existing sales.

By expanding the branded space, Pandora can capitalise on the traffic generated from the charm-bracelet concept to sell other collections and potentially products in adjacent product categories.

Branded space capitalising on traffic generation from charm bracelet concept



Source: Nordea Markets

We believe that Pandora is on track to capitalise on the product offering

We view this development as a potential solid growth driver for Pandora. The fact that Other jewellery had higher revenue growth than charm bracelets and charms in 2010 indicates that Pandora is on track to capitalise on the product offering.

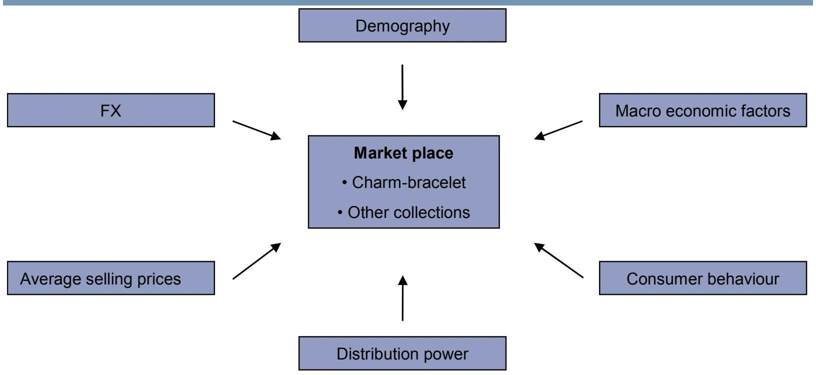
Basic revenue drivers and revenue development

Revenue drivers

In our view, Pandora's revenue in each market is dependent on a number of drivers that impact both charm-bracelet revenue and revenue for other jewellery collections.

Several revenue drivers

Revenue drivers



Source: Nordea Markets

Targets women aged 25-50 years with middle class income

The population size of a country defines the number of women in the market, where Pandora targets consumers aged 25-50 years with middle income.

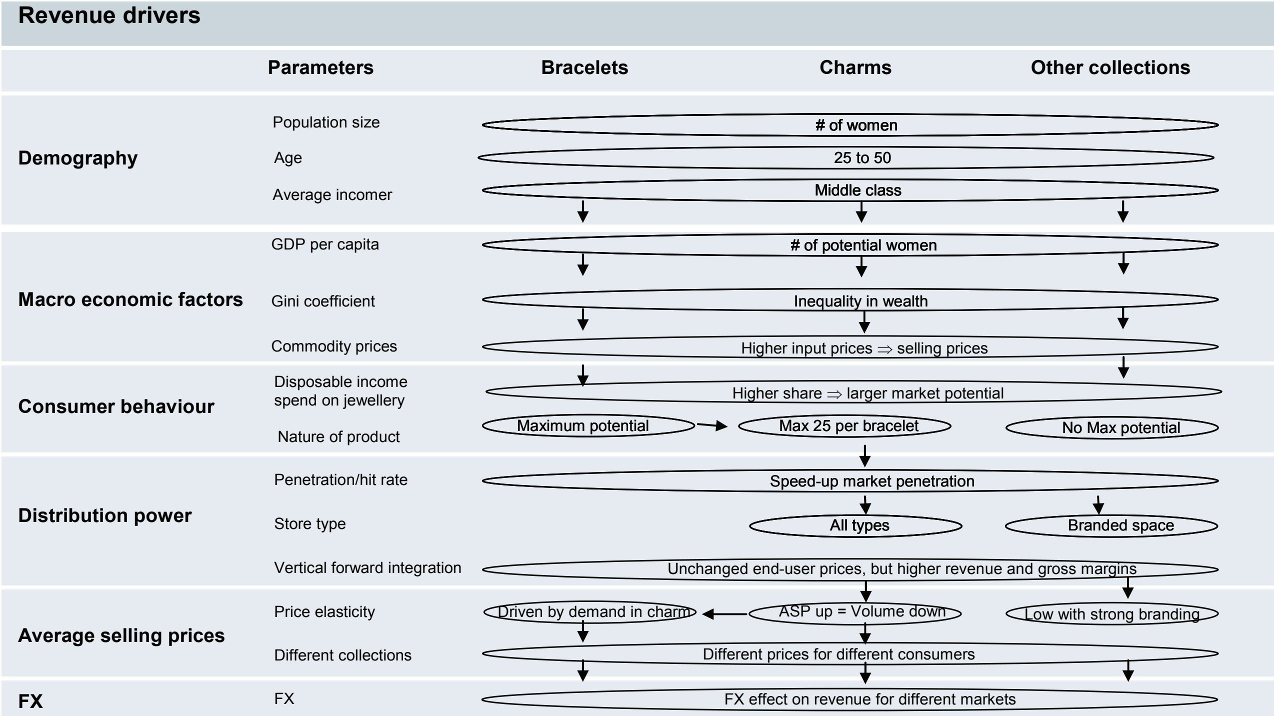
For each country, GDP per capita and the Gini coefficient (inequality in wealth) defines the number of potential consumers for Pandora. Metal prices also have an impact as the majority of costs are production costs and Pandora tends to raise its selling prices when commodity prices rise.

In each country, consumer behaviour impacts demand for jewellery. In some countries (eg Italy), a relatively high amount of disposable income is spent on jewellery, whereas it is low in other countries (eg the USA).

Nature of products gives rise to different demand patterns

For Pandora's different products, the nature of the products gives rise to different demand patterns. The consumer is likely to have at least one bracelet, which then will be filled with up to 25 charms. Other collections are more of a point sale, in which the consumer can potentially buy a high number of items for the other collections.

Revenue drivers impact demand in different ways



Source: Nordea Markets

Distribution power is an important revenue driver

Distribution power is an important revenue driver. The wider the distribution, the higher the market penetration and the hit rate at potential consumers. When distribution is broadened and improved, this speeds up market penetration. Store types also have an impact on revenue composition as the charm bracelet collection is sold in all store types; whereas when the level of branded space is increased, the sale of other collections accelerates.

The average selling price should rise when sales of other jewellery increase, as these in general have higher price points than charms and charm bracelets. The price elasticity of the products is dependent on branding. We believe Pandora benefits from improved branding; for example, prices have been raised 15% in the USA and 10% in the UK in 2010 and growth remains solid in these markets.

Pandora has a global reach and revenue is thus impacted by foreign exchange changes. Its strong position in the USA and the fact that raw materials are denominated in USD to some extent offer a natural hedge against changes in USD versus other currencies.

Basic view on revenue development

Currently, the majority of Pandora's revenue stems from the charm bracelet collection. The ramp-up of other collections is still in early phases.

Importance of other collections (from a revenue perspective) should increase going forward

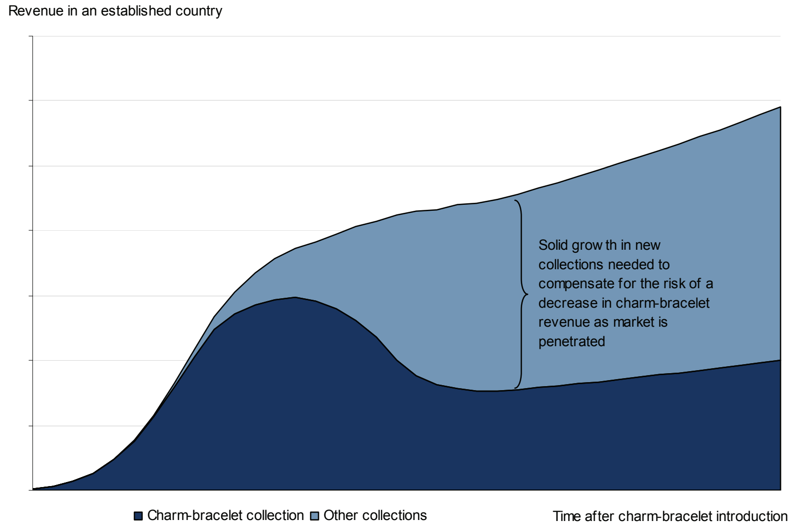
From an overall perspective, we believe a potential revenue development in an established market could be as illustrated in the graph below. Charm bracelet revenue currently comprises the majority of revenue, but going forward the importance of other collections should increase.

Development for the charm bracelet concept could potentially be as illustrated below. In the beginning, significant growth is prevalent as the concept successfully penetrates the market. At some point, the market for charms and charm bracelets is saturated, which slows the sale of charms and charm bracelets. Ultimately, revenue will again start to grow in line with general economic growth in the country. We explain these dynamics in depth below.

When charm bracelet revenue starts to show lower growth, Pandora's new collections are to take over to secure continued growth. The development for other collections depends on the strength of the brand and Pandora's distribution power. This is one of the reasons why Pandora's strategy of building its brand and improving its distribution appears to be the right approach.

Development of crucial other collections is dependent on Pandora's strength of brand and distribution power

Potential revenue trend in an established country



Source: Nordea Markets

Charm-bracelet revenue

An attractive feature of the charm bracelet concept is the fact that the sale of a charm bracelet ensures repeat sale of charms. This characteristic increases visibility as high sale of charm bracelets should lead to solid charms sale in the coming years.

Below we describe our view on the dynamics for the charm bracelet collection.

Sales pattern differs with each customer

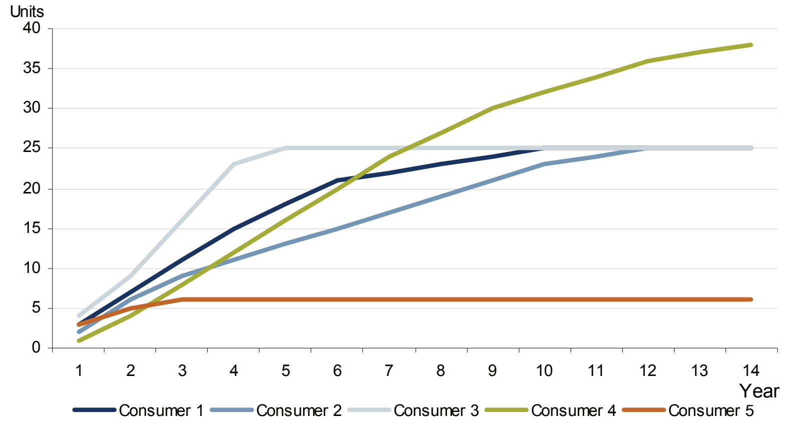
Sales to individual consumers

Sales of charms and charm bracelets should differ from consumer to consumer. This is illustrated in the graph below, in which we assume that each consumer buys a charm bracelet and a few charms in year one.

In the following years, the consumer adds a number of charms every year to the bracelet. Many consumers will fill up the bracelet with 25 charms, representing total sales of 26 units. Of course there will also be consumers that buy only a bracelet and just a few charms (consumer 5) as well as other consumers that buy more than 25 charms (consumer 4). The speed of charm sales will also differ (consumer 1-3).

Sales development by country should be similar

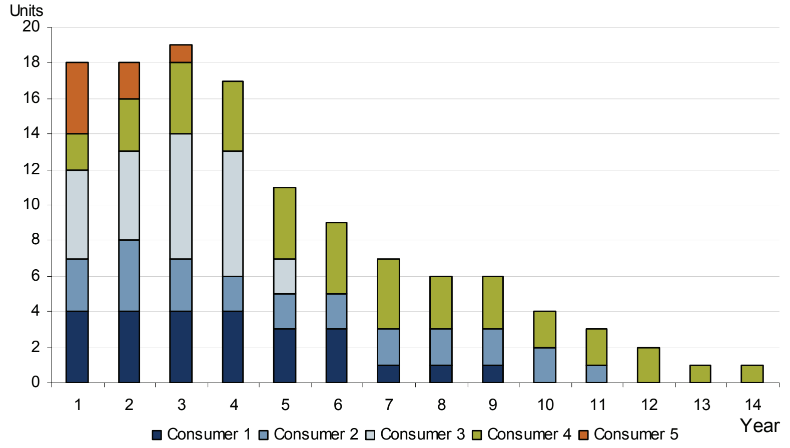
Suggested sales pattern to various consumer types

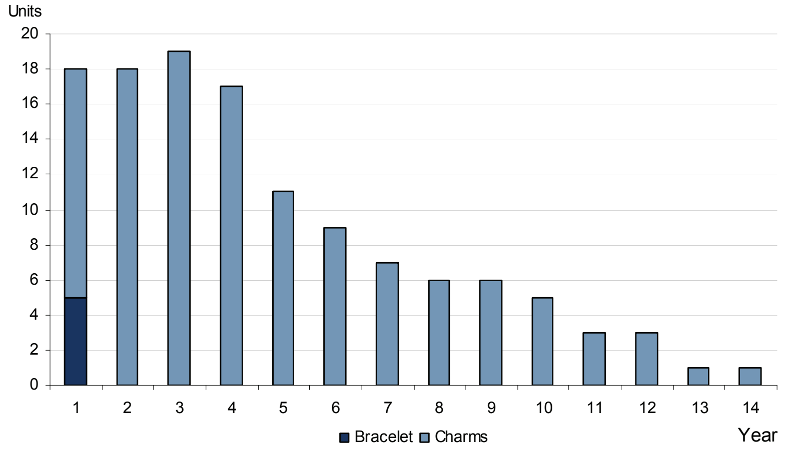


Source: Nordea Markets

The aggregated unit sales to these five consumer types yield annual units sales each year, as shown in the graphs below.

Aggregated unit sale for five consumers





Source: Nordea Markets

Aggregated charm bracelet sales

By country, sales development should be similar to the pattern above, but with the initial purchase of bracelets spread over several years.

Initial purchase of charm bracelets spread of several years

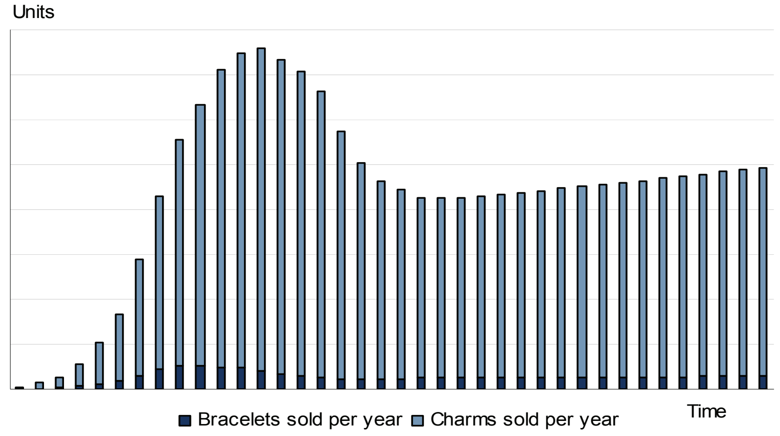
Based on that, we suggest a pattern for unit sales as the one illustrated in the table below. In the beginning, growth is strong as Pandora benefits from the sale of charm bracelets to new consumers combined with charm sales to both new and existing consumers.

The potential consumer base is eventually penetrated, which leads to lower unit sales. After a period with declining unit sales, volumes should again stabilise and then grow in line with population growth.

Initial growth is rapid…

…eventually tapering and then stabilising in line with population growth

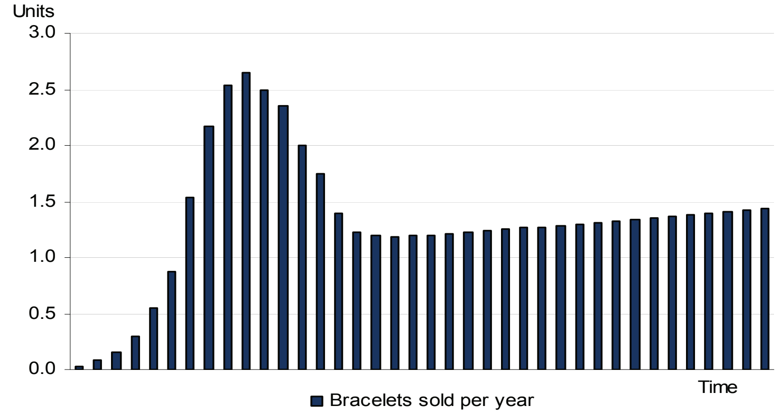
Annual units sale (potential in large market)



Source: Nordea Markets

Sales of charms are likely to peak later than bracelets, as the captivity element of the charm bracelet concept should secure ongoing charm sales to existing consumers.

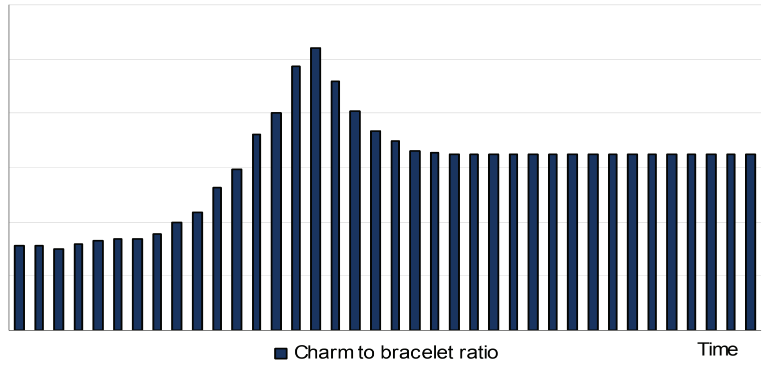
Annual bracelet sales (potential in large market)



Source: Nordea Markets

As the market matures and the growth in charm bracelet sales slows, the ratio between charms and charm bracelets increases, as illustrated in the graph below.

Charm to bracelet ratio



Source: Nordea Markets

The actual pattern for bracelet and charm sales is difficult to estimate, but the graphs above illustrate our basic view on the development as a market matures.

Other jewellery sales

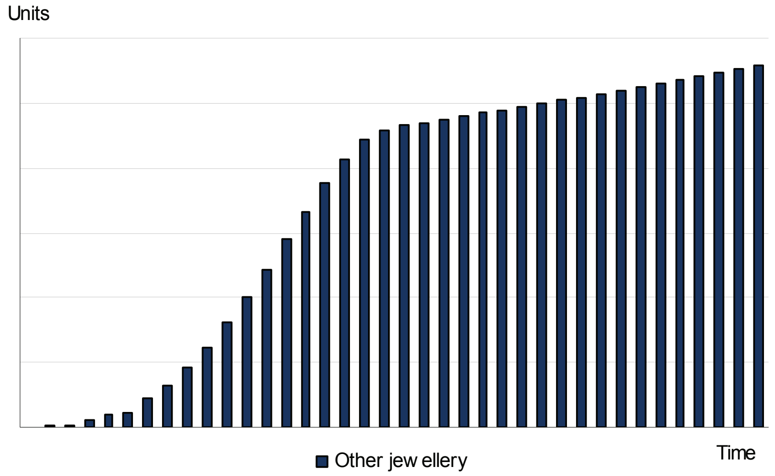
Captivity sales are not as prevalent in the sale of other jewellery

The sale of other jewellery at Pandora is more a point sale: a consumer decides to buy a piece of jewellery. It is unlikely to be the same level of captivity sales as for the charm bracelet concept. However, for several of Pandora's Other jewellery concepts, there are some collectible elements. For example, this is the case with the ring-upon-ring concept, for which the consumer is likely to collect and combine a number of different rings.

Other jewellery sales should be dependent on the success of the charm bracelet concept, as consumers that own a Pandora charm bracelet should be more likely to buy other Pandora jewellery. Most important, however, is Pandora's distribution power; an increase in branded space and upgrade of stores should lead to increased sales of other jewellery.

Sales of other jewellery are dependent on Pandora's distribution power

Sales of other jewellery (potential in large market)



Source: Nordea Markets

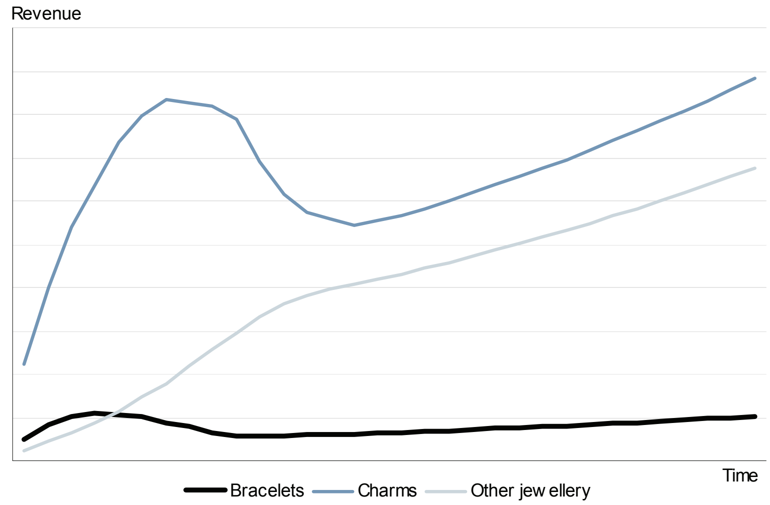
Unlike the charm bracelet concept, sales of other jewellery is likely to have a sales pattern that is more similar to traditional jewellery products, in which revenue increases as distribution is expanded. With a strong brand and high quality products at affordable prices, Pandora should be able to attract many consumers.

Total country revenue

In general, charms are the cheapest products followed by bracelets and then other jewellery. Consequently, the weight of Other jewellery to revenue will be higher than that for charms.

With the development above the revenue development in a market could be as highlighted in the graph below.

Revenue for different product categories (potential in large market)



Source: Nordea Markets

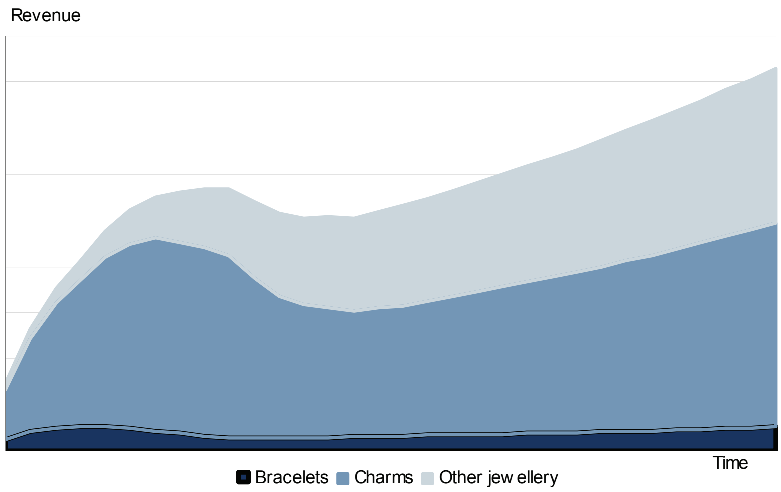
Weight of Other jewellery to revenue will be higher than that for charms

For several years, charm bracelet revenue will dominate the picture

For several years charm bracelet revenue will dominate the picture, but in time, Other jewellery will be an important product category. If charm bracelet revenue develops as described above, the growth in the Other jewellery product area will be crucial for future revenue.

Whether revenue from the Other jewellery product area will be able to more than offset the potential decline in charm bracelet revenue will depend on the speed and success of store expansion and the building of a strong brand.

Aggregated revenue (potential in large market)



Source: Nordea Markets

Impact from revenue drivers

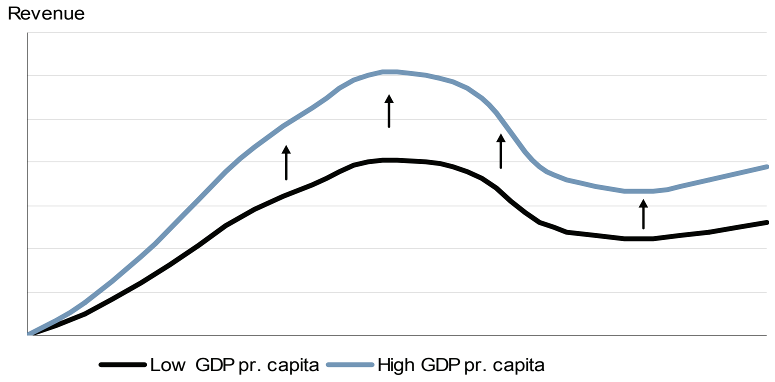
Revenue development in each market will be dependent on the revenue drivers.

GDP per capita and Gini coefficient

The higher the GDP per capita, the larger the market potential in a country. We also believe that the same is the case for the Gini coefficient: the lower the inequality in wealth in a country is, the higher the market potential. The latter is highlighted by Japan, which has a low Gini coefficient and is the largest luxury market in the world.

Higher the GDP per capita, the larger the market potential in a country

Revenue is impacted by GDP per capita (charm bracelet curves)



Source: Nordea Markets

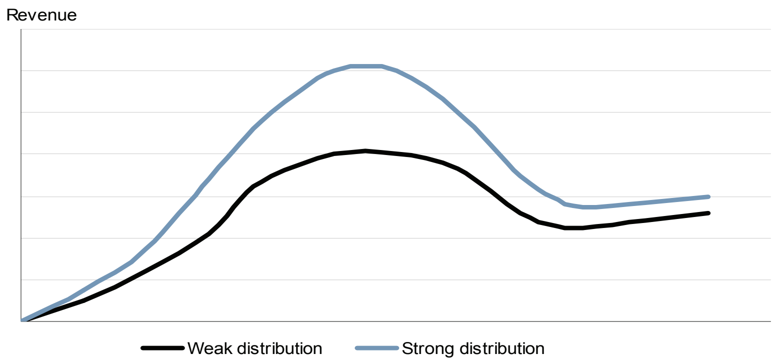
Distribution power

Pandora's strategy of increasing its distribution by upgrading its multi-brand retailers to branded space, roll-out of concept stores and shop-in-shops should boost revenue for both the charm bracelet concept and other jewellery.

Multiple positive impacts from stronger distribution

For charm bracelet revenue, the effect from stronger distribution should be two-fold. First, it speeds up market penetration, and second, it should also increase the consumer base, as the hit rate with potential consumers increase.

Charm bracelet revenue benefits from stronger distribution

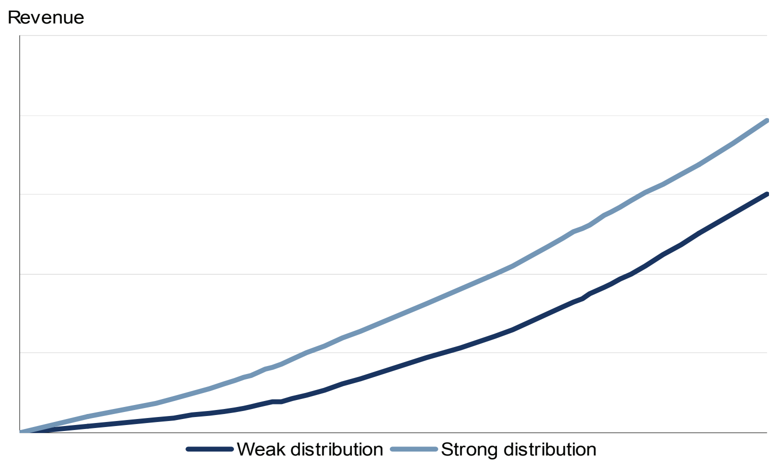


Source: Nordea Markets

For Other jewellery, the improved distribution power is even more important, as it accelerates the growth and gives a larger market share.

For other jewellery, the improved distribution power is even more important, as it accelerates the growth and gives a larger market share

Other jewellery revenue benefits from stronger distribution



Source: Nordea Markets

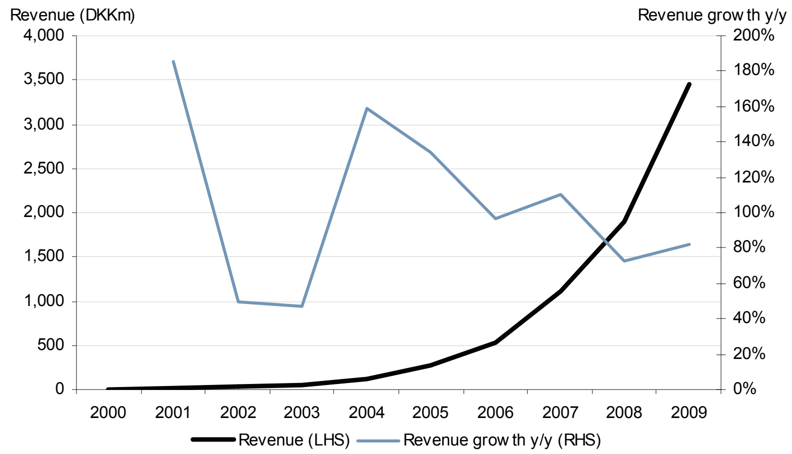
Financials

A successful growth story

Extremely strong revenue growth for several years, with 82% in 2009

Pandora has been highly successful since the introduction of the charm bracelet concept in 2000. It has delivered exceptional revenue growth for several years, including 82% revenue growth in 2009.

Pandora's historical revenue trend (DKKm)



Note: Pre-2008 numbers are not under IFRS; they are based on numbers from Pandora Production Co. Ltd., which did not comprise the current operations of Pandora and it thus not possible to compare before and after 2008.
Source: Court document from legal dispute with Lise Aagaard, company data (2008 and 2009) and Nordea Markets

Quarterly revenue

P&L (DKKm)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	2008	2009
Revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**1,904**	**3,461**
Growth y/y					111%	99%	117%	73%	82%

Source: Company data

Strong volume growth, a favourable mix and price changes and growth from acquiring distributors

The strong development has continued in 2010: revenue has increased 109% y/y driven by strong volume growth, a favourable mix and price changes and growth from acquiring distributors in Australia and Germany.

The structural changes with the acquisition of majority shareholder stakes in the distributors in Central Western Europe (CWE) and Australia has increased H1 2010 revenue by 23.0% y/y and Q3 2010 revenue by 13.8%. For 9M 2010, structural changes have increased revenue by 19%

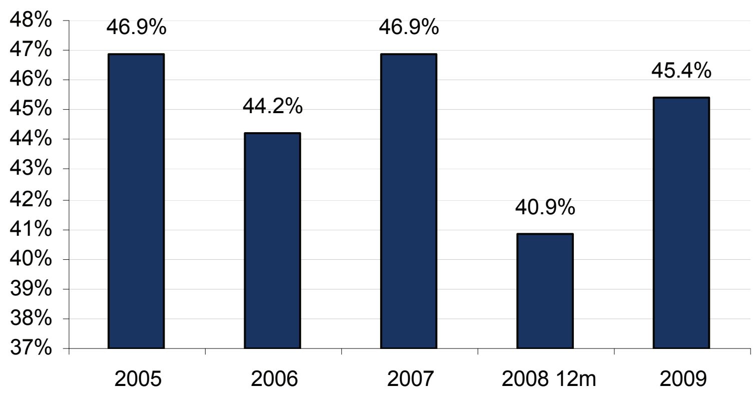
Underlying revenue growth in the first nine months has been impressive with 48% volume growth and 42% stemming from price and mix changes and positive currency effects.

Superior margins

Pandora has consistently been able to maintain high margins, as highlighted by EBITDA margins above 40% in every year since 2005.

EBITDA margins above 40% in every year since 2005

EBITDA margin trend

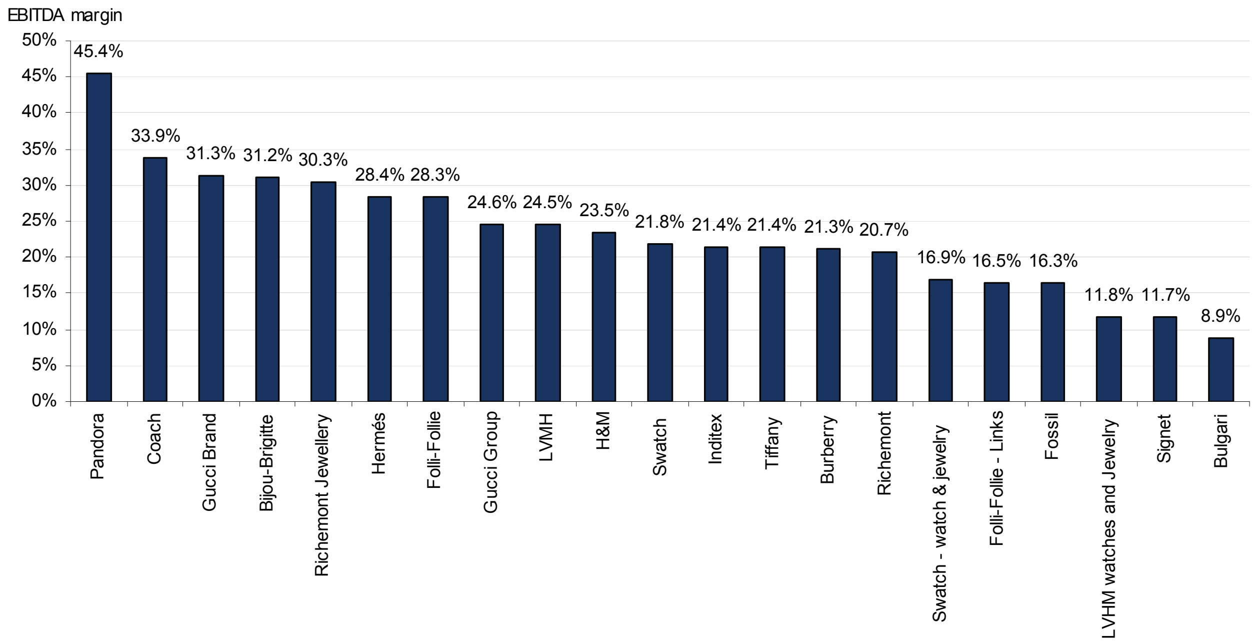


Note: Pre-2008 numbers are not under IFRS; they are based on numbers from Wipec A/S, Pandora Production Co. Ltd. The numbers before 2008 did not comprise the current operations of the group. It is not possible to compare before and after 2008.
Source: Court document from legal dispute with Lise Aagaard, company data (for 2008 12m and 2009) and Nordea Markets

Margins superior to all players in luxury goods industry

These margins are superior to all players in the luxury good industry as well as best in class among retailers, as shown in the graph below.

Most recent full-year EBITDA margins for Pandora and its large peers



Source: Companies' data and Nordea Markets

P&L overview

In 2009 Pandora generated revenue of DKK 3,461m with an EBIT margin of 41.1% and an EBITDA margin of 45.4%.

Pandora reported a 2009 gross margin of 71.4%, of which the largest cost component was raw materials, representing 29.0% of revenue.

Pandora's ambition is to maintain marketing spending as a high single digit percentage of revenue

Distribution costs represented 21.5% of revenue with both fixed and variable cost components. Pandora has stated that marketing spending was 8% of revenue in 2009. This level is a discretionary level, but Pandora's ambition is to maintain marketing spending as a high single-digit percentage of revenue. Amortisations of distribution rights were 3.4% of revenue as a consequence of recent acquisitions of distributors.

P&L overview and estimated incremental effect from revenue growth

Driver	Comments	Variable/fixed	2009 (DKKm) detailed	2009 (DKKm) aggregated	% of 2009 revenue detailed	% of 2009 revenue aggregated	10% revenue growth (volume)	Incremental effect
Revenue				**3,461**		**100.0%**	**3,807**	**346**
Raw materials	Primarily gold and silver	Variable	1,002		29.0%		1,102	100
Depreciations and write-downs	Related to factories	Fixed	7		0.2%		6.7	0
Salaries	Production staff	Variable	64		1.9%		71	6
Cost of goods sold				**1,073**		**31.0%**	**2,627**	**107**
Gain and losses on raw material derivatives	On average = 0			83		2.4%	83	0
Gross profit				**2,471**		**71.4%**	**2,710**	**239**
Gross margin				71.4%			71.2%	69.2%
Salaries		Fixed/variable	113		3.3%		119	6
Marketing	Based on company comment	Variable	277		8.0%		305	28
Depreciations ordinary		Fixed	9		0.3%		9	0
Depreciations distribution network	Depreciation on USA acquisition	Fixed	30		0.9%		30	0
Depreciations distribution rights	Depreciation on Australian acquisition	Fixed	77		2.2%		77	0
Other including transportation		Variable/fixed	237		6.9%		249	12
Total distribution costs				**743**		**21.5%**	**788**	**45**
Salaries		Fixed	118		3.4%		118	0
Depreciations		Fixed	25		0.7%		25	0
Other		Fixed	160		4.6%		160	0
Total administrative costs				**303**		**8.8%**	**303**	**0**
EBIT				**1,424**		**41.1%**	**1,618**	**194**
EBIT margin				41.1%			42.5%	56.1%
Depreciations				148		4.3%	148	0
EBITDA				**1,572**		**45.4%**	**1,766**	**194**
EBITDA margin				45.4%			46.4%	56.1%

Source: Company data and Nordea Markets

We have tried to calculate the incremental earnings effect of revenue growth. If 2009 revenue had been 10% higher driven by 10% higher volumes, we estimate that the marginal EBIT margin is around 56%. In this calculation we assume that marketing is variable, that 30% of distribution salaries are variable and that 50% of other distribution costs including transportation are variable. In case of 10% higher revenue driven by higher prices, we estimate the EBIT margin effect to be close to 100%.

Large margin expansion potential for Pandora, if it continues to deliver solid revenue growth

The margins highlight Pandora's large margin expansion potential, if it continues to deliver solid revenue growth. However, the level of margin expansion is dependent on the drivers behind the revenue growth. If growth is secured by entering new markets or buying distributors, it also increases the cost base, while more revenue in existing markets tends to have a more considerable margin effect.

In our view, Pandora is likely to have obtained margin expansion in successful markets such as the USA and Australia. We believe the ongoing investment in growth, continued geographical expansion and acquisitions and takeovers of distributors explain why Pandora has had a fairly stable EBITDA margin.

In relation to the Q3 2010 report, Pandora stated that distribution costs are highly variable, which indicates that the leverage effect is lower than in the calculation above.

Limited historical data

Pandora has provided limited historical financial data, which is a consequence of the fact that the global Pandora company was not established until Axcel acquired the majority shareholder stake and drove the acquisition of the American distributor in 2008.

Short history as global company limits amount of historical data

Since then, the Australian distributor was acquired in 2009 and the German distributor in 2010, which has continued to change the business structure. With the most recent acquisition, 91% of revenue is generated through own distribution, which significantly has improved the basis for consistent disclosure on metrics related to distribution.

Significant growth in new markets

Pandora provides geographical revenue on Americas, Europe and Asia-Pacific. The main markets – the USA, Germany, the UK and Australia – are disclosed separately, which gives further details about the geographical revenue development.

In its annual report, Pandora disclosed full-year 2009 numbers and for 2008, numbers from 7 March to 31 December. We have assumed that geographical revenue distribution for full-year 2008 was as for the last ten months.

All geographies except for Other Europe showed high growth rates in 2009

In 2009, Pandora reported 82% revenue growth. All geographies except for Other Europe showed high growth rates, when comparing 2009 revenue with estimated full-year 2008 numbers. What appears to be a decrease in Other Europe of 8% is primary the consequence of destocking in some markets including Spain and Portugal, where actual sell-out actually increased in 2009, according to Pandora. This is also supported by the very strong development seen in Other Europe in 2010, where the strong development in Q3 2010 in particular was driven by the development in Spain and Portugal.

Geographical revenue split (DKKm)

Geographical revenue split	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2008E**	**2009**
Americas	294	325	376	563	564	623	725	694	797	1,558
United States	279	304	351	525	505	549	644	646	743	1,459
Other	15	21	25	38	59	74	81	48	55	99
Europe	200	242	297	468	490	548	865	665	764	1,207
Germany	60	78	85	125	155	149	184	207	238	348
United Kingdom	65	88	106	213	151	191	333	91	105	472
Other	75	76	106	130	184	208	348	366	421	387
Asia Pacific	93	108	152	343	184	172	198	299	344	696
Australia	93	108	148	300	166	157	171	299	344	649
Other	0	0	4	43	18	15	27	0	0	47
Total	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**1,658**	**1,904**	**3,461**
Revenue growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2008E**	**2009**
Americas					92%	92%	93%			96%
United States					81%	81%	83%		50%	96%
Other					293%	252%	224%			80%
Europe					145%	126%	191%			58%
Germany					158%	91%	116%			46%
United Kingdom					132%	117%	214%			350%
Other					145%	174%	228%			-8%
Asia Pacific					98%	59%	30%			103%
Australia					78%	45%	16%			89%
Other	-	-	-	-	-	-	575%			-
Total					**111%**	**99%**	**117%**			**82%**
Revenue distribution	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2008E**	**2009**
Americas	50%	48%	46%	41%	46%	46%	41%	42%	42%	45%
United States	48%	45%	43%	38%	41%	41%	36%	39%	39%	42%
Other	3%	3%	3%	3%	5%	6%	5%	3%	3%	3%
Europe	34%	36%	36%	34%	40%	41%	48%	40%	40%	35%
Germany	10%	12%	10%	9%	13%	11%	10%	13%	13%	10%
United Kingdom	11%	13%	13%	16%	12%	14%	19%	6%	6%	14%
Other	13%	11%	13%	9%	15%	15%	19%	22%	22%	11%
Asia Pacific	16%	16%	18%	25%	15%	13%	11%	18%	18%	20%
Australia	16%	16%	18%	22%	13%	12%	10%	18%	18%	19%
Other	0%	0%	0%	3%	1%	1%	2%	0%	0%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Full-year 2008 numbers are calculated assuming a similar full year revenue distribution as in the last ten months of 2008. 2009 revenue growth is calculated using full-year 2008 numbers.

Source: Company data and Nordea Markets

High 2010 growth rates in all markets

Underlying growth is solid

The strong development continued in 2010, where all markets were up significantly. Other Americas and Other Europe in particular were up sharply. The latter is positive after the weak development in 2009. Here, part of the explanation could be restocking effects as well as Austria and Switzerland being reclassified from Germany to Other Europe, but still underlying growth should be solid.

Underlying local currency revenue in Australia was down in 2010

The only weak spot in 2010 has been the development in Australia

The only weak spot in 2010 is the development in Australia. Here, growth rates are up as a consequence of the mark-up effect driven by the acquisition of the Australian distributor. Excluding this, we estimate that H1 2010 revenue was fairly flat, but with a positive currency effect, implying that revenue in local currencies is down. In Q3 2010, organic revenue growth in Australia was -4.8%. This trend is somewhat concerning, but reflects Pandora's large market share in this market. Currently the Australian market is down, which also hits Pandora.

In our view, there could also be a risk that charm bracelet revenue is showing signs of maturity, although management has stated that the negative development has hit all product categories.

Strong Q3 2010 revenue partly explained by unusual sales

Pandora delivered very solid revenue growth in Q3 2010 and revenue of DKK 1,788m was 26% above our estimates. The strong development was especially driven by UK and other Europe.

Q3 2010 revenue was impacted by a number of factors, which are necessary to keep in mind in relation to forecasting development in Q4 2010:

- Some large customers this year received Christmas deliveries in Q3, whereas deliveries were in Q4 last year. This appears to be a consequence of difficulties in getting deliveries last Christmas, which triggered a request for earlier deliveries. This appears to be the case in the UK and Germany in particular.
- A high level of store openings in the quarter, which leads to high revenue driven by store fillings.
- Roll-out of the Ring-Upon-Ring concept, which creates a store-filling effect, will not be repeated in Q4 2010.

Other jewellery is gaining momentum

A key strategic target for Pandora is to broaden its product offering by introducing new collections

A key strategic target for Pandora is to leverage its current product offering and broaden the product offering by introducing watches and sunglasses. In our view, this is important as it means the company can profit from increased branding and the store traffic that the charm bracelet concept generates.

In 2009, Pandora delivered solid growth for all its product categories. Other jewellery had weaker growth rates than charms and charm bracelets despite the introduction of new collections.

However, since Q1 2009, the importance of Other jewellery has increased. From representing 8.2% of revenue in Q1 2009, Other jewellery represented 20.4% of revenue in Q3 2010. We consider this development as very positive as it suggests that Pandora has been successful with its strategy of expanding the product offering. The very strong development in Q3 2010 in particular relates to a successful roll out of the Ring-Upon-Ring concept, which has been supported by successful new display material as well.

We will likely see fluctuations in the percentage of revenue stemming from Other jewellery. We believe Other jewellery benefits from a growing importance in the established markets, while strong growth in new markets is likely to have a negative effect on the percentage as the charm bracelet concept will be used as the spearhead for penetrating new markets.

Revenue by product category (DKKm)

Revenue (DKKm)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	2008 10m	2009
Silver and gold charm bracelets	104	87	128	233	207	211	235	266	551
Charms	432	526	611	968	882	925	1,184	1,165	2,537
Other jewellery	48	59	82	170	137	205	365	220	359
Other revenue	3	3	4	3	12	2	4	7	14
Total revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**1,658**	**3,461**
Revenue growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
Silver and gold charm bracelets					99%	143%	84%		107%
Charms					104%	76%	94%		118%
Other jewellery					185%	247%	345%		63%
Other revenue					300%	-33%	0%		100%
Total revenue					**111%**	**99%**	**117%**		**109%**
Revenue distribution	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
Silver and gold charm bracelets	18%	13%	16%	17%	17%	16%	13%	16%	16%
Charms	74%	78%	74%	70%	71%	69%	66%	70%	73%
Other jewellery	8%	9%	10%	12%	11%	15%	20%	13%	10%
Other revenue	1%	0%	0%	0%	1%	0%	0%	0%	0%
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Charm-bracelet ratio	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
Charm-bracelet revenue ratio	4.2	6.0	4.8	4.2	4.3	4.4	5.0	4.4	4.6
ASP	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
ASP	**77**	**76**	**74**	**96**	**105**	**116**	**115**		**82**
Growth y/y					36%	53%	57%		
Volumes sold (m units)	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2009**
Volumes sold	**7.6**	**8.9**	**11.2**	**14.3**	**11.8**	**11.6**	**15.5**		**42.0**
Growth y/y					55%	30%	38%		
Production	**7.3**	**9.2**	**11.9**	**13.6**	**13.4**	**15.4**	**15.5**		**42.0**
Growth y/y					84%	67%	30%		
Change in stock	-0.3	0.3	0.7	-0.7	1.6	3.8	0.0		0.0

Note: Volumes sold for Q3 2009 and Q4 2009 are estimates. Production volumes for Q3 2010 are estimates
Source: Company data and Nordea Markets

Pandora does not disclose the volume sold per product category and it is thus not possible to calculate the charm bracelet volume ratio

Pandora does not disclose the volume sold per product category and it is thus not possible to calculate charm bracelet's volume ratio. However, the charm bracelet revenue ratio can be calculated. As bracelets on average should be more expensive than average charms, we believe the charm-bracelet unit ratio should be higher.

Charm bracelet revenue has been fairly stable in recent quarters except for Q2 2009, where it appears to be unusually high. However, the ratio is slightly up in Q3 2010, which we will keep an eye on going forward. Stable development in the ratio indicates that the charm bracelet volume ratio is unchanged as well as demonstrates that bracelet sales are still strong.

91% of revenue is generated through direct distribution

Acquisition of distributors has significantly increased percentage of revenue from own distribution

In 9M 2010, 91% of revenue, up sharply from 46% in 2008, was generated in markets where Pandora has its own distribution. This development is primarily driven by the acquisition of the distributors in Australia and Germany and the takeover of the distributor in the UK.

The only large remaining market with third-party distribution is Spain, which also includes Brazil. France is also a third-party distribution market while France and Brazil are smaller markets for Pandora; however, the latter markets have the potential to become key markets for the company.

Revenue by direct distribution (DKKm)

Revenue (DKKm)	H2 09	H1 10	Q3 10	9m 2010	2008 10m	2009
Own distribution		2,390	1,570	3,960	755	2,608
Third party distribution		191	218	409	903	853
Total revenue		**2,581**	**1,788**	**4,369**	**1,658**	**3,461**
Revenue growth y/y	**H2 09**	**H1 10**	**Q3 10**	**9m 2010**	**2008 10m**	**2009**
Own distribution						245.4%
Third party distribution						-5.5%
Total revenue						**108.7%**
Revenue distribution	**H2 09**	**H1 10**	**Q3 10**	**9m 2010**	**2008 10m**	**2009**
Own distribution		93%	88%	91%	46%	75%
Third party distribution		7%	12%	9%	54%	25%
Total revenue		**100%**	**100%**	**100%**	**100%**	**100%**
Number of stores	**H2 09**	**H1 10**	**Q3 10**	**9m 2010**	**2008 10m**	**2009**
Own distribution	7,529	7,539	7,944	7,944	2,913	7,529
Third party distribution	2,297	2,383	2,442	2,442	5,452	2,297
Total revenue	**9,826**	**9,922**	**10,386**	**10,386**	**8,365**	**9,826**
Store distribution	**H2 09**	**H1 10**	**Q3 10**	**9m 2010**	**2008 10m**	**2009**
Own distribution	77%	76%	76%	76%	35%	77%
Third party distribution	23%	24%	24%	24%	65%	23%
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Revenue per POS (DKKm)	**H2 09**	**H1 10**	**Q3 10**	**9m 2010**	**2008 10m**	**2009**
Own distribution		0.32	0.20	0.50	0.26	0.35
Third party distribution		0.08	0.09	0.17	0.17	0.37
Total revenue		**0.26**	**0.17**	**0.42**	**0.20**	**0.35**

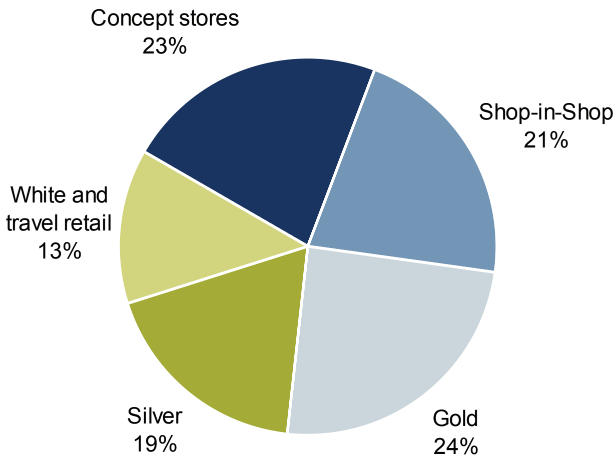
Source: Company data

For direct distribution, branded space represents 68% of revenue

Pandora has disclosed H1 2010 revenue split on retailer concepts for its branded distribution. Here branded space generates 68% of revenue, while only representing 30% of the number of stores, showing the significantly higher revenue per store for branded space. Consequently, upgrading the distribution towards branded space offers high potential for growth.

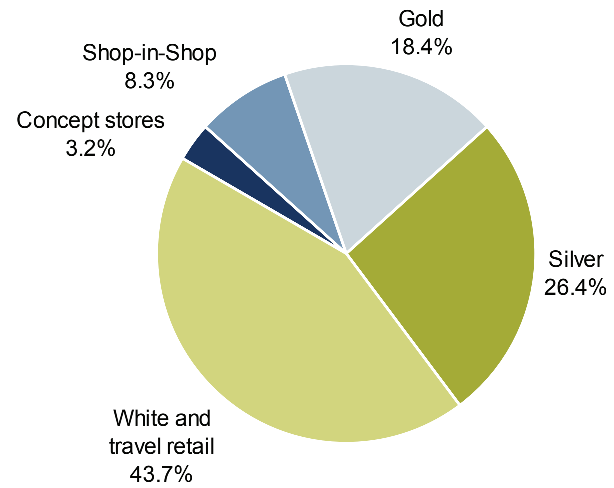
Significantly higher revenue per store for branded space

Revenue split on retailer concept for direct distribution markets (H1 2010)



Source: Company data

Direct distribution PoS on retailer concepts (H1 2010)



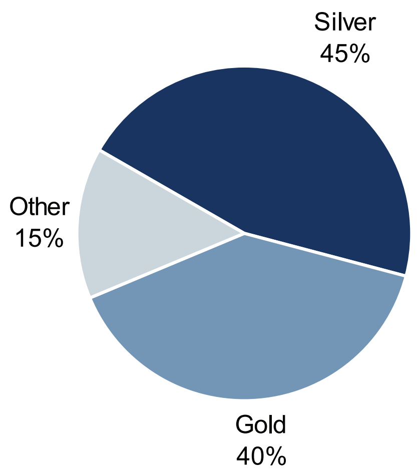
Source: Company data

Commodity prices

93% of cost of goods sold was raw material costs in 2009

Pandora is impacted by changes in raw material prices; 93% of cost of goods sold was raw material costs in 2009. According to our estimates, 45% of raw material costs were silver, while gold represented 40%.

Raw material cost split by estimated value of different components (2009)



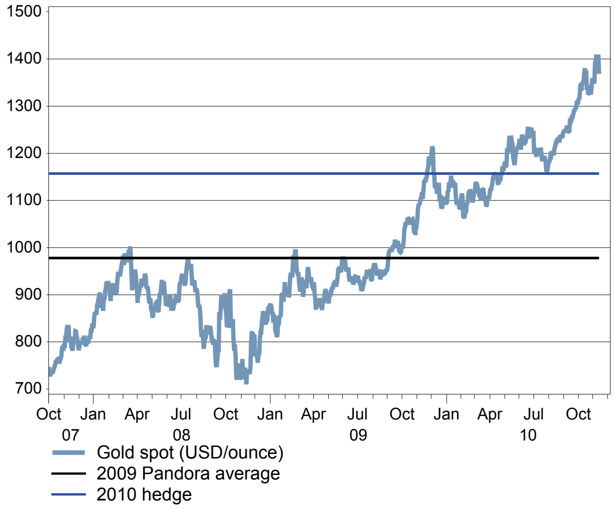
Source: Nordea Markets

High fraction of COGS stemming from raw material prices represents a risk factor for Pandora

The high fraction of COGS stemming from raw material prices represents a risk factor for Pandora. In case of raw material hikes, Pandora is highly dependent on its ability to raise prices, in order to maintain its high operating margins.

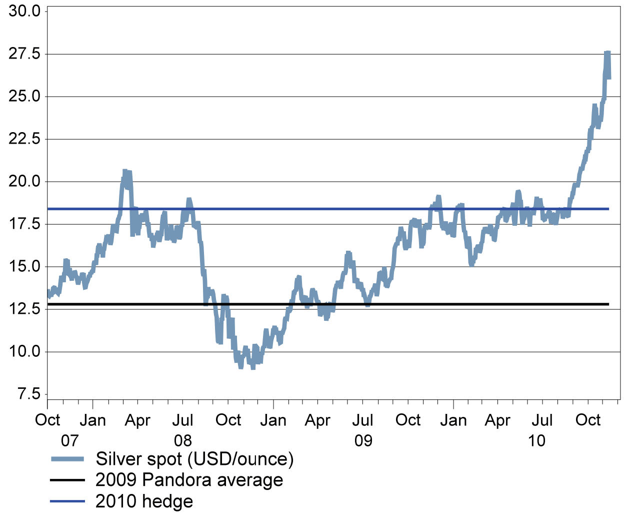
Other includes precious and semi-precious stones, water, electricity, etc.

Spot gold price with 2009 average and 2010 hedge



Source: EcoWin and Nordea Markets

Spot silver prices with 2009 average and 2010 hedge



Source: EcoWin and Nordea Markets

Current silver spot price is 43% above 2010 hedge; gold is 19% above 2010 hedge

In recent months the silver price has soared. The current silver spot price is thus 43% above Pandora's 2010 hedge of expected consumption, whereas it was in line with 2010 hedge in August 2010. This represents a key challenge for Pandora currently. It comes on top of a significant increase in Pandora's silver hedge, which for 2010 is 44% above 2009 hedges.

For gold, the current spot price is 19% above Pandora's 2010 hedge. For gold, the 2010 hedge level represents an 18% increase compared with 2009 prices.

The consequence of the sharp increase in commodity prices is that Pandora also will feel the heat from higher commodity prices in 2011 as Pandora is only partly hedged for H1 2011.

Increasing prices in H1 2010 did not impact demand, which is positive

In 2009, Pandora did not hike its selling prices, but given the sharp increase in raw material prices, the company raised its average selling prices by 15% in the USA and 10% in the UK in spring 2010. The strong development in H1 2010 in the USA and the UK indicates that this did not have an impact on demand, which we consider positive.

However, the large price increases in the UK and the USA in 2010 could make it more difficult for Pandora to raise its prices in 2011 to compensate for the soaring metal prices. Pandora had stated that current price levels for its entry price charms appears to be right and that it could be difficult to raise them further. Consequently, the sharp increase in silver prices represents the largest challenge for Pandora, in our view.

Selling prices need to be raised 8%-10% to compensate

According to our calculations, Pandora needs to raise its selling prices globally by 8%-10% to compensate for the soaring metal prices. It this happens, it will bring higher revenue, but have no effect on EBIT compared with a situation where metal prices were on a par with 2010 hedges. No matter what the higher commodity prices will lead to lower margins.

We illustrate this in the calculation below. We assume that for every DKK 100 sale out of a store, Pandora receives DKK 50. It will bring a gross profit of DKK 35.5 and an EBIT of DKK 18.0.

Global price increase required to compensate for soaring metal prices

	2010	Fixed prices	Effect from price increases									
Raw material price increase		31%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Price increase		0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
End-user price	**100**	**100**	**102**	**104**	**106**	**108**	**110**	**112**	**114**	**116**	**118**	**120**
Mark-up	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Pandora revenue	**50.0**	**50.0**	**51.0**	**52.0**	**53.0**	**54.0**	**55.0**	**56.0**	**57.0**	**58.0**	**59.0**	**60.0**
Raw material	13.0	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
Other	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
COGS	14.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Gross profit	**36.0**	**32.0**	**33.0**	**34.0**	**35.0**	**36.0**	**37.0**	**38.0**	**39.0**	**40.0**	**41.0**	**42.0**
Gross margin	72.0%	63.9%	64.6%	65.3%	66.0%	66.6%	67.2%	67.8%	68.4%	68.9%	69.4%	69.9%
Distribution costs	12.0	12.0	12.1	12.2	12.4	12.5	12.6	12.7	12.8	13.0	13.1	13.2
Admin costs	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
EBIT	**19.0**	**15.0**	**15.8**	**16.7**	**17.6**	**18.5**	**19.4**	**20.2**	**21.1**	**22.0**	**22.9**	**23.8**
EBIT margin	38.0%	29.9%	31.1%	32.2%	33.2%	34.2%	35.2%	36.1%	37.1%	37.9%	38.8%	39.6%
Raw material of COGS	93%	95%										
Other of COGS	7%	5%										
COGS in % of revenue	28.0%	36.1%	35.4%	34.7%	34.0%	33.4%	32.8%	32.2%	31.6%	31.1%	30.6%	30.1%
Distribution in % of revenue	24.0%	24.0%	23.8%	23.5%	23.3%	23.1%	22.9%	22.7%	22.5%	22.3%	22.2%	22.0%
Administration in % of revenue	10.0%	10.0%	9.8%	9.6%	9.4%	9.3%	9.1%	8.9%	8.8%	8.6%	8.5%	8.3%

Source: Nordea Markets

We calculate that average gold and silver prices are up 31% compared with 2010 hedges. It Pandora leaves its prices unchanged, its gross profit will decrease to DKK 32 and EBIT will decrease to DKK 15. If it raised is selling price by 9%, it will be able to maintain an unchanged EBIT of DKK 18.0. However, the gross margin and EBIT margin will decline as a result of this.

To leave the EBIT margin unchanged, Pandora needs to raise its selling price by 16%

To leave the EBIT margin unchanged, Pandora needs to raise its selling price by 16%, which will increase absolute EBIT to DKK 22 per share. In the calculations above, we assume that distribution costs will increase by 0.5% if prices are raised by 1.0% as we believe there should be some leverage effect in the distribution. However, we note that Pandora has indicated that distribution costs are highly variable.

USD depreciation has an offsetting effect on margins

The USD has depreciated against DKK in recent months, though it just has started to move upwards again. According to our calculations, the current USD/DKK spot is 6% below 2010 hedges. The great majority of production costs are USD denominated, as commodity prices are in USD. The Thai Bath has strengthened against the USD, leaving other production costs fairly unchanged compared with the situation before the USD depreciated.

We calculate that Pandora still needs to raise its global prices by 8%-10% to compensate for the higher commodity prices. We note that the gross margins could decline by one percentage point less than in the calculation above, where we have not taken the USD depreciation into account. In our calculations, we assume that 43% of revenue and 30% of opex are in USD. To simplify calculations, we do not take the AUD development into consideration.

Global price increase required to compensate for soaring metal prices including USD effect

	2010	Fixed prices	USD effect	Effect from price increases									
USD/DKK change			-6%										
USD revenue of total revenue			43%										
USD OPEX of total OPEX			30%										
Raw material price increase		31%		31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Price increase		0%		2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
End-user price	**100**	**100**	**97**	**99**	**101**	**103**	**105**	**107**	**109**	**111**	**113**	**115**	**117**
Mark-up	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Pandora revenue	**50.0**	**50.0**	**48.7**	**49.7**	**50.7**	**51.6**	**52.6**	**53.6**	**54.6**	**55.5**	**56.5**	**57.5**	**58.5**
Raw material	13.0	17.1	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Other	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
COGS	14.0	18.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Gross profit	**36.0**	**32.0**	**31.7**	**32.7**	**33.6**	**34.6**	**35.6**	**36.6**	**37.5**	**38.5**	**39.5**	**40.5**	**41.4**
Gross margin	72.0%	63.9%	65.1%	65.8%	66.4%	67.1%	67.7%	68.2%	68.8%	69.4%	69.9%	70.4%	70.9%
Distribution costs	12.0	12.0	11.8	11.9	12.0	12.1	12.3	12.4	12.5	12.6	12.7	12.8	13.0
Admin costs	5.0	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
EBIT	**19.0**	**15.0**	**15.0**	**15.9**	**16.7**	**17.6**	**18.4**	**19.3**	**20.1**	**21.0**	**21.9**	**22.7**	**23.6**
EBIT margin	38.0%	29.9%	30.8%	31.9%	33.0%	34.0%	35.0%	36.0%	36.9%	37.8%	38.7%	39.5%	40.3%
COGS in % of revenue	28.0%	36.1%	34.9%	34.2%	33.6%	32.9%	32.3%	31.8%	31.2%	30.6%	30.1%	29.6%	29.1%
Distribution in % of revenue	24.0%	24.0%	24.2%	24.0%	23.7%	23.5%	23.3%	23.1%	22.9%	22.7%	22.5%	22.3%	22.2%
Administration in % of revenue	10.0%	10.0%	10.1%	9.9%	9.7%	9.5%	9.3%	9.2%	9.0%	8.8%	8.7%	8.5%	8.4%

Source: Nordea Markets

Significant increase in opex

Pandora delivers high margins despite investing significantly in future growth and establishing a corporate structure that will be able to handle that growth.

Continues to deliver high margins…

In 2009 Pandora had an EBIT margin of 41.1%, which declined to 34.6% in H1 2010. 2009 saw a margin benefit of 2.4 percentage points as a consequence of gains on raw material derivatives (one-off), which explains part of the decline in 2010. However, in Q3 2010, EBIT returned strongly, which is likely a consequence of operational leverage as well as the effect from raised selling prices in the UK and the USA.

The underlying gross margin increased y/y in 2010, thanks to the integration of the activities in Australia and Germany. This lifts revenue but leaves cost of sales unchanged.

…despite significant increase in opex

In recent quarters, Pandora has had a significant ramp-up in operating expenses. This was partly driven by the acquisitions in Germany and Australia, which increases depreciations and general operating costs. However, it also reflects higher corporate costs as Pandora is establishing an organisation that will be able to handle future growth. There were also investments into expansion into new markets, which impacted opex.

Income statement (DKKm)

P&L (DKKm)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	2008 10m	2008	2009
Revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**1,658**	**1,904**	**3,461**
Growth y/y					111%	99%	117%	50%	73%	82%
Cost of sales	189	223	279	382	411	364	479	647		1,073
% of revenue	32.2%	33.0%	33.8%	27.8%	33.2%	27.1%	26.8%	39%		31.0%
Gain and losses on raw material derivatives	56	6	0	21	0	0	0	-19		83
% of revenue	10%	1%	0%	2%	0%	0%	0%	-1%		2.4%
Gross profit	**454**	**458**	**546**	**1,013**	**827**	**979**	**1,309**	**991**		**2,471**
Gross margin	77.3%	67.9%	66.2%	73.7%	66.8%	72.9%	73.2%	59.8%		71.4%
Distribution costs	102	114	225	302	299	345	409	290		743
% of revenue	17.4%	16.9%	27.3%	22.0%	24.2%	25.7%	22.9%	17.5%		21.5%
Administrative expenses	29	35	70	169	116	154	157	69		303
% of revenue	4.9%	5.2%	8.5%	12.3%	9.4%	11.5%	8.8%	4.1%		8.8%
EBIT	**323**	**309**	**251**	**541**	**412**	**480**	**743**	**633**	**738**	**1,424**
EBIT margin	55.0%	45.8%	30.4%	39.4%	33.3%	35.7%	41.6%	38.2%	38.8%	41.1%
Financial income	21	9	23	26	20	17	1	23		79
Interest rate										14.0%
Financial expenses	90	41	91	92	103	8	35	240		314
Interest rate										10.5%
PTP	**254**	**277**	**183**	**475**	**329**	**489**	**709**	**416**	**496**	**1,189**
Tax	39	45	30	70	59	88	128	110	140	184
Tax rate	15.4%	16.2%	16.4%	14.8%	17.9%	18.0%	18.1%	26%	28.3%	15.5%
Net income	**215**	**232**	**153**	**405**	**270**	**401**	**581**	**306**	**356**	**1,005**
Minorities	0	0	6	29	10	12	3	0	0	35
Group income	**215**	**232**	**147**	**376**	**260**	**389**	**578**	**306**	**356**	**969**
Depreciations	11	11	58	68	62	66	64	33	40	148
% of revenue	1.9%	1.6%	7.0%	5.0%	5.0%	4.9%	3.6%	2%	2.1%	4.3%
EBITDA	**334**	**320**	**309**	**609**	**474**	**546**	**807**	**666**	**778**	**1,572**
EBITDA margin	56.9%	47.4%	37.5%	44.3%	38.3%	40.7%	45.1%	40.2%	40.9%	45.4%

Source: Company data

Special items impact earnings in both 2009 and 2010

The decline in EBIT and EBITDA margins in H1 2010 highlights that it is costly to handle and invest in growth. However, there are also some special items that explain part of the decline.

Underlying gross margin in Q1 2010 was better than reported, while Q1 2009 was worse. Q1 2010 was impacted by a reversal of internal profit on inventory related to the German distributor. This effect reflects that Pandora already had booked earnings on inventories in Central & Western Europe, which then gave lower margin in Q1 2010 than usual. The same effect was seen in Q3 2009 from the Australian distributor, which makes this quarter look weaker than it actually was. We suggest that this negative effect will not impact margins in future.

Reported and adjusted earnings (DKKm)							
Adjusted earnings (DKKm)	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**
Revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**
Gross profit	**454**	**458**	**546**	**1,013**	**827**	**979**	**1,309**
Gross margin	77.3%	67.9%	66.2%	73.7%	66.8%	72.9%	73.2%
Adjustments							
Unrealises losses/(gains) on commodity derivatives	-47	3	3	21			
Reversal of internal profit on inventory			66	8	50		
Adj. gross profit	**407**	**461**	**615**	**1,042**	**877**	**979**	**1,309**
Adj. gross margin	69.3%	68.3%	74.5%	75.8%	70.8%	72.9%	73.2%
EBITDA	**334**	**320**	**309**	**609**	**474**	**546**	**807**
EBITDA margin	57%	47%	37%	44%	38%	41%	45%
Payment to former Dutch distributor				47			
Adj. EBITDA	**287**	**323**	**378**	**685**	**524**	**546**	**807**
Adj. EBITDA margin	49%	48%	46%	50%	42%	41%	45%
EBIT	**323**	**309**	**251**	**541**	**412**	**480**	**743**
EBIT margin	55%	46%	30%	39%	33%	36%	42%
Amortisation of distribution rights			39	39	46	46	46
Adj. EBIT	**276**	**312**	**359**	**656**	**508**	**526**	**789**
Adj. EBIT margin	47%	46%	44%	48%	41%	39%	44%

Source: Company data

Amortisation of distribution rights negatively impacted EBIT for the last five quarters

In the recent five quarters, EBIT was hurt by amortisation of distribution rights. In H2 2009, this was related to the acquisition of the Australian distributor, while in 2010 it was related to the acquisition of the German distributor. There are no further amortisations from the Australian acquisition, but for Germany, DKK 46m per quarter for the coming three quarters will be recorded.

Different margins between geographies

Margins have historically been highest in Asia-Pacific region

Pandora discloses EBITDA for its main geographies. Historically margins have been the highest in Asia-Pacific; this in our view was linked to Australia being a third-party distribution market, which in general carries higher margins. After the acquisition of the Australian distributor, margins have declined. However, this also relates to the costs of entering new markets in Asia-Pacific. The same goes for Europe, as a result of the German acquisition, costs related to expansions in Central & Eastern Europe, France, Russia and Italy. Despite of ongoing expansion, Europe delivered high margins in Q3 2010, which is very pleasing.

If Pandora is successful in China, we could see margins in Asia-Pacific increasing owing to scale. Price points in China will be 10%-20% higher than price points in Europe, which already surpasses those in the USA. However, the effect of this on margins will be offset by higher import duties (18%) than in the other main markets.

Strong momentum in the US market

Given the lowest prices in the USA, the fact that margins in Americas in 9M 2010 were above group averages is remarkable and highlights the robust momentum and the economies of scale in the market.

Revenue and EBITDA for main geographies (DKKm)

Geographical revenue split	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	2008 10m	2008E	2009
Americas	294	325	376	563	564	623	725	694	797	1,558
Europe	200	242	297	468	490	548	865	665	764	1,207
Asia Pacific	93	108	152	343	184	172	198	299	344	696
Total revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**1,658**	**1,904**	**3,461**
Growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2008E**	**2009**
Americas					92%	92%	93%			96%
Europe					145%	126%	191%			58%
Asia Pacific					98%	59%	30%			102%
Total revenue					**111%**	**99%**	**117%**			**82%**
EBITDA	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2008E**	**2009**
Americas	171	177	172	272	290	334	385	321	368	792
Europe	133	123	123	263	186	230	462	352	405	642
Asia Pacific	65	64	71	204	89	71	86	164	188	404
Unallocated costs	-35	-44	-57	-128	-91	-89	-126	-171	-183	-264
Total EBITDA	**334**	**320**	**309**	**611**	**474**	**546**	**807**	**666**	**778**	**1,574**
EBITDA margin	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**2008 10m**	**2008E**	**2009**
Americas	58.2%	54.5%	45.7%	48.3%	51.4%	53.6%	53.1%	46.2%	46.2%	50.8%
Europe	66.5%	50.8%	41.4%	56.2%	38.0%	42.0%	53.4%	53.0%	53.0%	53.2%
Asia Pacific	69.9%	59.3%	46.7%	59.5%	48.4%	41.3%	43.4%	54.8%	54.8%	58.0%
Unallocated costs to total revenue	-6.0%	-6.5%	-6.9%	-9.3%	-7.4%	-6.6%	-7.0%	-10.3%	-9.6%	-7.6%
Total EBITDA margin	**56.9%**	**47.4%**	**37.5%**	**44.5%**	**38.3%**	**40.7%**	**45.1%**	**40.2%**	**40.9%**	**45.5%**

Source: Company data

Low tax rate until 2012 is likely to be extended

In 2009, Pandora had a corporate tax rate of 15.5%, jumping to 18.0% in 2010. This tax rate is rather low given the composition of revenue, which we believe ought to warrant a tax rate of around 30%.

Explanation for the low tax rate is a consequence of exemption for Thai income tax and on dividends paid by Pandora production

The explanation for the low tax rate is a consequence of exemption for Thai income tax and on dividends paid by Pandora production. This is a consequence of the ongoing production expansions in Thailand. The current exemption runs until 2012, but Pandora aims to be granted new exemptions to 2019. Pandora has been granted this four times already, so it is highly likely that an exemption will be granted again.

Low debt despite acquisitions

Strong balance sheet

Pandora has a strong balance sheet with net interest-bearing debt of just DKK 2,021m by the end of Q3 2010 despite acquisitions of its distributors in the USA, Australia and Germany.

The main assets are intangible assets of DKK 4.4bn related to the many acquisitions. In relation to the IPO, Pandora has bought the remaining minorities in Australia and Central & Western Europe, which will impact the balance sheet in Q4 2010. This will reduce cash and short-term deposits by DKK 508m, while removing the minorities.

Balance sheet (DKKm)

Assets (DKKm)	**H1 09**	**Q3 09**	**H2 09**	**H1 10**	**Q3 10**	**2008**	**2009**
Goodwill	930	1,189	1,208	1,901	1,862	932	1,208
Brand	1,032	1,032	1,048	1,061	1,048	1,032	1,048
Distribution network	411	403	396	367	375	426	396
Distribution rights	898	900	884	1,217	1,064	900	884
Total intangible assets	**3,271**	**3,524**	**3,536**	**4,546**	**4,349**	**3,290**	**3,535**
Tangible assets	**134**	**199**	**205**	**291**	**304**	**115**	**205**
Deferred tax assets	10	24	76	73	67	29	77
Other non-current assets	1	7	21	47	42	1	21
Financial assets	**11**	**31**	**97**	**120**	**109**	**30**	**98**
Total non-current assets	**3,416**	**3,754**	**3,838**	**4,957**	**4,762**	**3,434**	**3,838**
Inventories	208	365	433	990	1,204	143	433
Trade receivables	275	380	622	555	998	332	622
Receivables from parent company	0	0	0	0	0	17	0
Other receivables	90	61	58	271	407	22	57
Tax receivable	22	66	41	50	53	28	41
Cash and short-term deposits	680	624	824	178	302	305	824
Current assets	**1,275**	**1,496**	**1,978**	**2,044**	**2,964**	**847**	**1,978**
Total assets	**4,691**	**5,250**	**5,816**	**7,001**	**7,726**	**4,282**	**5,816**
Liabilities (DKKm)	**H1 09**	**Q3 09**	**H2 09**	**H1 10**	**Q3 10**	**2008**	**2009**
Issued capital	0	1	1	126	126	0	1
Share premium	0	0	0	0	0	0.1	0.1
Foreign currency translation reserve	140	99	164	568	328	119	164
Other reserves	6	8	11	60	161	2	11
Retained earnings	753	899	1,275	1,620	2,198	306	1,075
Proposed dividends	0	0	0	0	0	0	200
Equity	**899**	**1,007**	**1,451**	**2,374**	**2,813**	**428**	**1,451**
Minorities	**0**	**168**	**197**	**622**	**578**	**0**	**197**
Subordinated loan from parent company	1,320	1,335	1,363	0	0	1,299	1,363
Interest-bearing loans and borrowings	1,304	1,331	1,340	1,337	1,346	1,395	1,340
Provisions	2	5	4	20	13	1	4
Deferred tax liability	575	596	559	621	540	586	559
Other debt				435	449		
Total non-current liabilities	**3,201**	**3,267**	**3,267**	**2,413**	**2,348**	**3,281**	**3,267**
Subordinated loan from parent company	27	32	37	0	0	16	37
Interest-bearing loans and borrowings	200	339	235	791	977	282	235
Provisions	31	40	64	113	95	23	64
Payables to parent company	0	0	0	34	0	0	0
Trade payables	39	61	106	152	187	30	106
Income tax payable	168	177	207	244	403	124	207
Other payables	126	159	253	258	326	97	253
Current liabilities	**591**	**808**	**900**	**1,592**	**1,988**	**573**	**900**
Total liabilities and equity	**4,691**	**5,250**	**5,816**	**7,001**	**7,727**	**4,282**	**5,816**
Revenue	1,262	1,262	2,199	2,581	1,788	1,904	3,461
Revenue 12m rolling	1,262		3,461	4,780	5,743	1,904	3,461
NIBD	**2,171**	**2,413**	**2,151**	**1,950**	**2,021**	**2,688**	**2,151**
NIBD excl. subordinated loan from parent company	824	1,046	751	1,950	2,021	1,372	751
NWC	**229**	**430**	**521**	**1,079**	**1,638**	**267**	**520**
Operating NWC	**444**	**684**	**949**	**1,393**	**2,015**	**445**	**949**

Note: All data are end of period data. 2008 numbers thus covers both 2008 10m and full-year 2008.

Source: Company data.

Inventories have risen as a percentage of revenue

In 2010 inventories have risen as a percentage of revenue as a result of the acquisitions of the Australian and German distributors. However, these acquisitions reduced trade receivables in H1 2010.

In Q3 2010, trade receivables increased significantly owing to the very strong revenue in Q3 2010, where a large fraction of deliveries appears to have been done by the end of the quarter. This should not be a cause of concern in our view, as the money will be collected during Q4 2010.

In Q3 2010, inventories also increased compared with Q2 2010, which at first appears a bit odd given the high level of sales. We believe this partly reflects metal price effects, but should primarily be a consequence of Pandora building inventories to secure that it will be able to deliver its goods in Q4 2010 and Q1 2011, which was not the case last year and led to a reduction in sales and fewer store openings than planned in Q1 2010.

The high inventories, in our view, also show that Q4 2010 revenue should be very strong as Christmas is the high season for the jewellery industry.

Operating net working capital (NWC) is up sharply in 2010 with an acceleration in Q3 2010 driven by an increase in trade receivables. Total NWC is also sharply, partly owing to an increase in Other receivables. DKK 77m of these come from a pre-payment in connection with the acquisition of the CWE distributor.

Current assets and liabilities to 12-month rolling revenue

% of 12m rolling revenue	Q3 09	H2 09	H1 10	Q3 10	2008 12m	2009
Inventories		12.5%	20.7%	21.0%	7.5%	12.5%
Trade receivables		18.0%	11.6%	17.4%	17.5%	18.0%
Other receivables		1.7%	5.7%	7.1%	1.2%	1.7%
Tax receivable		1.2%	1.0%	0.9%	1.5%	1.2%
Cash and short-term deposits		23.8%	3.7%	5.3%	16.0%	23.8%
Provisions		0.1%	0.4%	0.2%	0.1%	0.1%
Deferred tax liability		16.2%	13.0%	9.4%	30.8%	16.2%
Other debt		0.0%	9.1%	7.8%	0.0%	0.0%
Provisions		1.8%	2.4%	1.7%	1.2%	1.8%
Other debt		0.0%	0.7%	0.0%		
Trade payables		3.0%	3.2%	3.3%	1.6%	3.0%
Income tax payable		6.0%	5.1%	7.0%	6.5%	6.0%
Other payables		7.3%	5.4%	5.7%	5.1%	7.3%
NIBD		**62.1%**	**40.8%**	**35.2%**	**141.1%**	**62.1%**
NWC		**15.1%**	**22.6%**	**28.5%**	**14.0%**	**15.0%**
Operating NWC		**27.4%**	**29.1%**	**35.1%**	**23.4%**	**27.4%**

Source: Company data

Pandora has increased its investments in tangible assets

Pandora has increased its investments in tangible assets, which reflects the construction of the fourth plant in Thailand. Pandora is ramping up production to meet the strong demand for its products.

Investments in tangible assets (DKKm)

Capex (DKKm)	H1 09	Q3 09	Q4 09	H1 10	Q3 10	2008 10m	2009
Land and buildings						36	36
Plant and equipment						12	49
Construction in progress						0	18
Investments in tangible assets	**25**	**49**	**29**	**82**	**25**	**48**	**103**
% of revenue in period	2.0%	3.9%	1.3%	3.2%	1.4%	2.5%	3.0%

Source: Company data

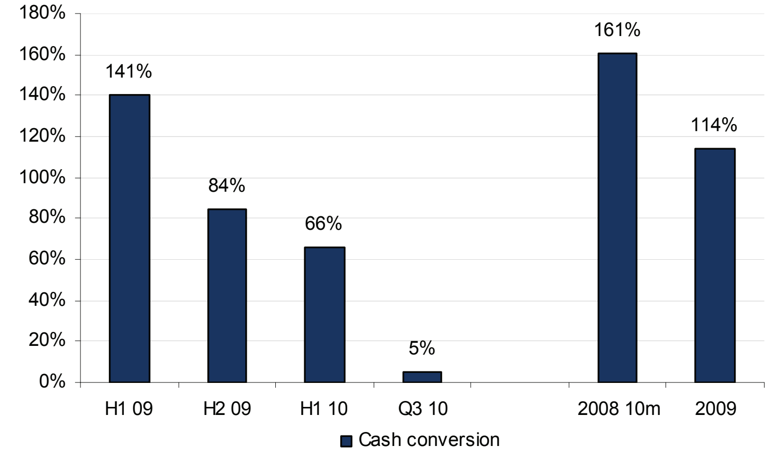
Strong cash conversion (but not in Q3 2010)

Thanks to high margins and limited investment requirements (as a consequence of the wholesale strategy), Pandora generates strong cash flow despite significant growth. Its cash conversion was impressive in the ten months of 2008 and full-year 2009 as a consequence of low investments. Despite accelerated investments in production ramp-up in Thailand and higher NWC from German and Australian acquisitions, Pandora had a cash conversion of 65.7% in H1 2010.

In Q3 2010, cash conversion was just 5.2%, which clearly was a negative surprise, but it relates to the high increase in trade receivables combined with the ongoing increase in inventories.

Cash conversion of 66% in H1 2010 but just 5% in Q3 2010

Cash conversion



Source: Company data

Cash flow statement (DKKm)

Cash flow (DKKm)	H1 09	Q3 09	Q4 09	H1 10	Q3 10	2008 10m	2009
EBIT	632	251	541	892	743	633	1,424
Depreciations/amortisations	22	58	68	128	64	33	148
Warrants	4	2	2	4	2	2	8
Adjustments, exchange rates, etc.	14	-1	4	8	115	58	17
Interest received	0	0	28	0	0	15	28
Interest paid	-97	-49	-92	-207	-20	-161	-238
Taxes paid	-35	-97	-104	-127	-59	-68	-236
Other	0	0	0	0	0	0	0
Cash earnings	**540**	**164**	**448**	**698**	**845**	**512**	**1,152**
Change in inventories	-68	-5	-66	-438	-207	54	-139
Change in receivables	-13	-43	-118	-24	-524	-231	-174
Change in trade receivables							
Change in other receivables							
Change in tax receivables							
Change in non-current provisions							
Change in other debt							
Change in current provisions							
Change in trade payables			199			55	199
Change in other current liabilities	97	26	-95	80	-65	3	28
Change in NWC	**16**	**-22**	**-80**	**-382**	**-796**	**-119**	**-86**
Operating cash flow	**556**	**142**	**368**	**316**	**49**	**393**	**1,066**
Acquisitions of subsidiaries, net of cash acquired	-1	-74	0	8	0	-2,924	-75
Purchase of intangible assets			-15				-15
Purchase of property, plant and equipment	-25	-49	-29	-82	-25	-48	-103
Proceeds from sale of intangible assets							0
Proceeds from the sale of property, plant and equipment						1	0
Purchase of other non-current assets	0		-14	-77	-20	0	-14
Cash flow from investments	**-26**	**-123**	**-59**	**-151**	**-45**	**-2,972**	**-207**
Free cash flow	**530**	**19**	**309**	**165**	**4**	**-2,578**	**858**
Capital contribution, non-controlling interest							0
Proceeds from selling warrants	1						1
Net change in borrowings	-158	-74	-112	-697	210	1,633	-344
Proceeds from subordinated loan						1,250	0
Dividends				-166	-74		0
Cash flow from financing	**-157**	**-74**	**-112**	**-863**	**136**	**2,883**	**-343**
Net cash flow	**373**	**-55**	**197**	**-698**	**140**	**304**	**516**
Cash and short-term deposits beginning of period	305	680	624	824	178	0	305
Net foreign exchange difference	2	-1	3	52	-16	0	4
Net increase in cash and cash equivalents	373	-55	197	-698	140	304	516
Cash and short-term deposits end of period	**680**	**624**	**824**	**178**	**302**	**305**	**824**

Source: Company data

Some historical data for the US and Germany

Pandora has provided historical numbers for the USA. To better understand the historical trend from the development in Central & Western Europe, we have looked at financial rapports from the former German distributor.

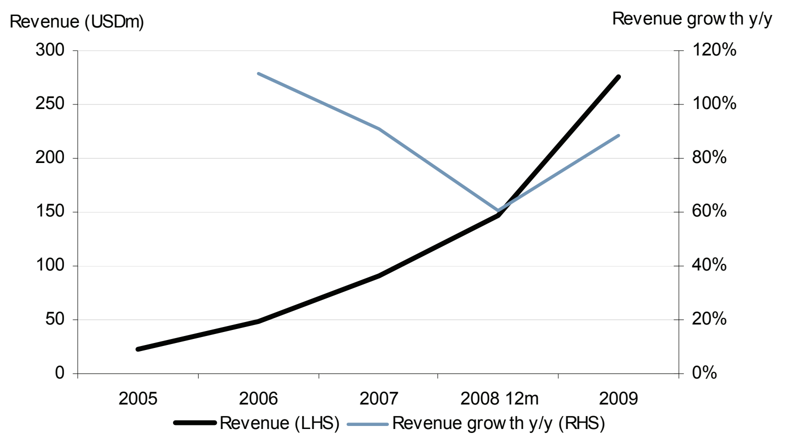
The USA has performed well

Pandora has been successful in the USA. Pandora entered the market in 2003 and has delivered solid growth rates every year.

The graph below shows the development for the US distributor. Growth rates in the USA have been solid and in 2009, the country generated USD 276m in revenue.

Historical revenue development in the USA (USDm)

Growth rates in the USA have been solid



Source: Company data

Store upgrades

The strong development has been a combination of like-for-like growth and store expansion. Pandora defines like-for-like as point-of-sales that have purchased jewellery for more than a year. It also includes the effect from store upgrades.

Revenue and store development in the USA (USDm)

Revenue (USDm)	2005	2006	2007	2008 12m	2009
Revenue	**22.6**	**47.8**	**91.2**	**146.3**	**276**
Growth y/y		111.5%	90.8%	60.4%	89%
Like-for-like growth y/y		26.1%	48.0%	24.0%	32%
Total number of stores	**1,355**	**1,721**	**1,727**	**2,089**	**2,315**
Growth y/y			0.3%	21.0%	11%
Average revenue per point-of-sale (USD)		**31,066**	**52,902**	**76,677**	**125,341**
Growth y/y			70.3%	44.9%	63%

Source: Company data

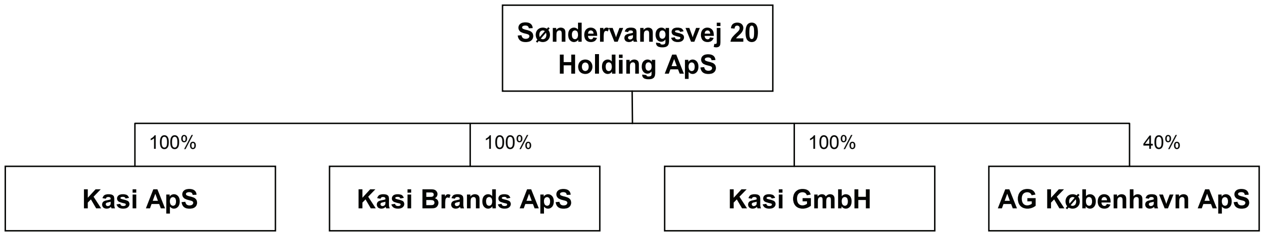
The trend highlights the attractive development Pandora experiences in many countries where each point-of-sales grow in size while the number of points-of-sales is being expanded.

High growth in Germany, but momentum is coming down

Kasi was the distributor serving the German, Austrian and Swiss markets. Pandora acquired 51% of Kasi in January 2010.

Søndervangsvej 20 Holding is the holding company for Kasi, as well as other activities not related to sale of Pandora products (including a football sponsorship, which was terminated in 2010). Søndervangsvej 20 was established in 2007, when Kasi Gmbh. also was established. In 2009 growth was strongest in Kasi Gmbh., which is why Søndervangsvej 20 is the best indicator of the underlying performance. However, for historical development, we look at Kasi.

Corporate structure in Søndervangsvej 20 Holding



Source: Company data

The table below shows the historical development for the former distributor. The numbers highlight the exceptional growth in the German-speaking countries with revenue more than doubling every year.

2007 only represented revenue for six months and despite that, growth at Kasi was 16%, showing strong underlying growth. In 2008, growth slowed as indicated by the fact that the comparison for 2008 growth is six-month only revenue in 2007.

Revenue more than doubling every year for German-speaking countries

Development for distribution in German-speaking countries

Kasi	04/05	05/06	06/07	2007 6m	2008	2009
Revenue	20.4	67.2	190.4	221.7	533	608
Growth y/y	240%	229%	183%	16%	140%	14%
COGS	8.9	33.2	104.6	118.3	260	368
Growth y/y		274%	215%	13%	120%	41%
Gross profit (Revenue-COGS)	11.5	34.0	85.9	103.4	273	241
Gross margin	56.6%	50.6%	45.1%	46.6%	51%	40%
Søndervangsvej 20 Holding	**04/05**	**05/06**	**06/07**	**2007 7.5m**	**2008**	**2009**
Revenue				224.8	572	712
Growth y/y					154%	25%
COGS				118.3	268	365
Growth y/y					127%	36%
Gross profit (Revenue-COGS)				106.5	304	347
Gross margin				47.4%	53.1%	48.7%

Source: Kasi Aps, Søndervangsvej 20 Holding and Nordea Markets

The development in Søndervangsvej 20 Holding reflects the development in Pandora, as its COGS of DKK 365m is close to the DKK 348m revenue reported by Pandora for Germany.

It is interesting that revenue growth at Søndervangsvej 20 is less than COGS growth, showing that underlying growth in Germany could be less than the number reported by Pandora. The development also shows that Søndervangsvej 20 in 2009 experienced a margin squeeze. However, this could be driven by activities unrelated to Pandora.

Growth through acquisitions

Acquisitions of distributors has consolidated the business

Through a number of acquisitions and takeovers, Pandora has consolidated the business by reducing the number of distributors. The most important have been the acquisitions of majority stakes in distributers in the USA, Australia and Germany as well as the takeover of the UK distribution.

Thanks to the acquisitions, Pandora now controls distributors in all main markets and in 9M 2010, 91% of revenue was generated in countries with direct distribution. The only large third-party distributor market that remains is Spain, which generated around 8% of 2008 revenue. That said, the importance of Spain has declined though it performed very strongly in Q3 2010. Strong growth in Brazil and France, third-party distributor markets, could increase the percentage of revenue outside own distribution.

Acquired subsidiaries

Sales subsidiaries	Country	Ownership	Acquired
Pandora Jewelry A/S	Nordic	100%	2008
Pandora Jewelry Inc./LLC	USA and Latin America	100%	2008
Pandora Jewelry Ltd.	Canada	100%	2008
Pandora Jewelry UK co. Ltd.	UK excl. Northern Ireland	100%	2008
Pandora Jewelry Asia-Pacific Ltd.	Asia-Pacific	90%	
Pandora Jewelry CEE sp zoo	CEE	86%	
Ad Astra Holding Ltd.	Australia, New Zealand and Fiji	60%	2009
Pandora Jewelry CWE	Germany, Switzerland, Austria and Holland	51%	2010
Ad Astra Holding Ltd.	Australia, New Zealand and Fiji	100%	At IPO
Pandora Jewelry CWE	Germany, Switzerland, Austria and Holland	100%	At IPO

Source: Company data

The cooperation with the former UK distributor was terminated in 2008 and this had full-year impact on reported 2009 revenue, while the acquisition of the Australian activities only had effect from 1 July 2009. The acquisition of the activities in Germany, Switzerland and Austria had no effect on 2009 revenue, so there will be a significant effect from this on 2010 numbers.

In H1 2010, revenue increased by DKK 290m as a consequence of acquisitions in Australia and Germany. In H2 2010, there will only be an impact from Germany.

Available data for recent acquisitions

Effective from	Country	Company	Ownership Old	Ownership New	Price (DKKm)	Option for remaining	Price for remaining
07-Mar-08	Holding etc.	Several	0%	100%	2,099		
07-Mar-08	America	Pandora Jewelry America	0%	100%	908		
01-Jan-09	UK	N.a.	0%	100%	N.a.	N.a.	N.a.
01-Jul-09	Australia etc.	Ad Astra Holding Ltd.	0%	60%	255	Yes	AUD 40m
05-Jan-10	Germany etc.	Pandora Jewelry CWE	0%	51%	0	Yes	N.a.
At IPO	Australia etc.	Ad Astra Holding Ltd.	60%	100%	200		
At IPO	Germany etc.	Pandora Jewelry CWE	51%	100%	385 + earn out		Earn out

CWE earn out: 49% x (3 x adjusted 2014 EBITDA – NIBD) – DKK 400m.

Source: Company data

At the IPO, Pandora bought the remaining shareholders' equity in Ad Astra Holding and CWE

At the IPO, Pandora bought the remaining shareholders' equity in Ad Astra Holding and Pandora Jewelry CWE. Pandora paid approximately DKK 200m for the Australian activities and DKK 385m for the German activities. The former German distributor has an earn-out for CWE. The formulate for calculating the earn our its:

- 49% x (3 x adjusted 2014 EBITDA – NIBD) – DKK 400m.

Acquisition of CWE and AUS minorities at time of the IPO

Minority interest	Structure	Price	Timing	Funding
Australia (40%)	• **Call Option** on the 40% of shares not owned in the event of IPO	• **AUD 40mm** at exercise of option	• In connection with IPO	• Primary proceeds
CWE (49%)	• **Call Option** on the 49% of shares not owned in the event of IPO • **Cash Payment:** Dividends to be paid when other shareholders are paid from the period of exercise of the option until 31 December 2014 • **Earn-out Payment** to be paid i March 2015	• **DKK 385mm** at exercise of option	• In connection with IPO	• Primary proceeds

Source: Company data

On the back of the acquisitions, Pandora will have a reduction in its cash position, while minorities will disappear. The CWE earn-out will be booked under Other Liability at NPV of the expected payment. The number will be adjusted every year; the net effect will be booked as a non-cash financial cost in the income statement.

Potential for future acquisition of distributors

Pandora still has a number of distributor markets that represent potential future acquisition targets. We suggest that the most important are Spain, France and Brazil.

Pandora still has a number of distributor markets that represent potential future acquisition targets

Potential acquisitions related to distributor markets

Distributor markets	
Belgium	Ireland and Northern Ireland
Spain	South Africa
Portugal	Singapore
France	Brazil
Greece	

Source: Company data

Remaining minorities

With the full acquisition of the minorities in Ad Astra Holding and Pandora Jewelry CWE, Pandora has few minorities left. These relate to the activities in Asia-Pacific and CEE. In 2010, these minorities' share of net results has been small. In the future, they will be more significant if Pandora becomes successful in these regions.

Minority interests

Sales subsidiaries	Country	Minority interest
Pandora Jewelry Asia-Pacific Ltd.	Asia-Pacific	8%
Pandora Jewelry CEE sp zoo	Central Eastern Europe (CEE)	14%

Source: Company data

Estimates

2010 and 2011 outlook

In its prospectus, Pandora provided some guidance for H2 2010 and 2011. In H2 2010, the company expected a net increase in (PoS) of at least 500. It expected to achieve revenue that is higher than in H1 2010 (DKK 2.6bn) with an EBITDA margin of at least 40%. 2010 guidance was specified with the Q3 2010 report. Pandora expects 2010 revenue of DKK 6.2bn and an EBITDA margin of 40% or above for H2 2010.

In Q4 2010, all employees will receive an IPO bonus, which will total DKK 91m. This is paid by Prometheus Invest ApS, so it will not have a net cash flow effect.

For 2011, Pandora expects to continue the store expansion and store upgrade. The number of points-of-sales should again show a net increase of at least 500, while the share of branded space through retailer upgrades continues to increase.

H2 2010 and 2011 outlook provided by Pandora

2010	2011
• Net increase of more than 500 PoS in H2 2010 • 2010 revenue of DKK 6.2bn • H2 EBITDA margin of 40% or above • EBITDA effect of DKK -91m from IPO bonus	• Further net increase of at least 500 PoS • Increase share of branded sales through upgrades of PoS

Source: Company data

Reflections on Q4 2010 revenue guidance

In the table below, we show different calculations for the development in Q4 2010 revenue. The current 2010 revenue guidance of DKK 6.2bn implies Q4 2010 revenue of DKK 1,831m, which represents 33% growth y/y (significantly below previous quarters) and 2% growth compared with Q3 2010.

Revenue pattern for 2009 clearly shows that Q4 is the most important quarter of the year, which relates to Christmas

The revenue pattern for 2009 clearly shows that Q4 is the most important quarter of the year, which relates to Christmas. If we apply the same growth from Q3 to Q4 in 2010 as 2009, Pandora should have full-year revenue of DKK 7,347m. However, we believe this is too high as there are some elements suggesting that the pattern should be different this year:

- Early Christmas deliveries to some large accounts in Q3 2010, which was not the case in 2009.
- A high level of store openings and upgrades in Q3 2010, which will not be repeated in Q4 2010.
- Store-filling effect from roll-out of Ring-Upon-Ring concept.
- Australia was very strong in Q4 2009, which will not be the case this year.

Reflections on Q4 2010 guidance and revenue pattern

									Guidance		2009 Q3-Q4 pattern		Previous Q4 estimate		New estimate	
DKKm	Q1 09	Q2 09	Q3 09	Q4 09	2009	Q1 10	Q2 10	Q3 10	Q4 10E	2010	Q4 10E	2010	Q4 10E	2010	Q4 10E	2010
Revenue	587	675	825	1,374	3,461	1,238	1,343	1,788	1,831	6,200	2,978	7,347	1,981	6,350	2,117	6,486
Growth y/y						111%	99%	117%	33%	79%	117%	112%	44%	83%	54%	87%
Growth q/q		15%	22%	67%		-10%	8%	33%	2%		67%		11%		18%	
EBITDA						474	546	807	673	2,500						
EBITDA margin						38.3%	40.7%	45.1%	36.8%	40.3%						

Source: Company data and Nordea Markets

It is worth noting that guidance is given with less than two months left of the year. Consequently, management should have a fairly good picture of Q4 2010 revenue, which should limit the upside somewhat to the guided number.

If we apply our previous Q4 2010 estimate to the reported 9M 2010 numbers, we reach 2010 revenue of DKK 6,350m. However given the strong Q3 2010 and despite special dynamics between Q3 and Q4, we find this a bit too conservative. Our Q4 2010 estimates for Other Europe in particular were very low.

Our new estimate for 2010 revenue is DKK 6,486m. It is worth noting that the CWE acquisition still impacts revenue in Q4, so in isolation that should bring revenue growth. With this and the strong development so far in 2010, we find guidance of just 33% growth y/y in Q4 2010 too conservative.

Estimate changes

We raise our revenue estimates by 9% to 16% for the coming years driven by higher estimates for the UK and Other Europe in particular. For Other Europe, we are very pleased with the strong development in Spain and Portugal after the decline in 2009 driven by restocking. We also take the swift store roll-out in Italy into consideration.

The many store openings and upgrades in Q3 2010 exceeded our estimate and though the geographical split was not provided, we estimate that this to a large extent relates to Europe, though the USA should also perform strongly.

We include a 6% general price increased in 2011E and a further 3% increase in 2012E to reflect the need to raise prices to compensate for the soaring metal prices.

We lift our EBITDA estimate by 11%-12% for 2010-12. The reason for the lower growth in earnings is that revenue is a consequence of the sharply rising metal prices, which we do no believe Pandora will be able to fully compensate.

Our silver price estimate is now USD 26.3 per ounce, up from 18.5 USD per ounce. To reflect the significant cost inflation, we lower our gross margin estimate, which is partly offset by lower opex to sales forecast.

Estimate changes

	New estimates			Old estimates			Estimate changes		
DKKm	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**
Total revenue	**6,486**	**8,614**	**10,695**	**5,964**	**7,616**	**9,237**	**8.7%**	**13.1%**	**15.8%**
- growth	87.4%	32.8%	24.2%	72.3%	27.7%	21.3%			
Cost of sales	1,838	2,670	3,422	1,721	2,285	2,817	6.8%	16.9%	21.5%
% of revenue	28.3%	31.0%	32.0%	28.9%	30.0%	30.5%			
Gross profit	**4,648**	**5,944**	**7,273**	**4,243**	**5,331**	**6,420**	**9.5%**	**11.5%**	**13.3%**
Gross margin	71.7%	69.0%	68.0%	71.1%	70.0%	69.5%			
Distribution costs	1,571	1,896	2,190	1,435	1,606	1,755	9.5%	18.0%	24.8%
% of revenue	24.2%	22.0%	20.5%	24.1%	21.1%	19.0%			
Administrative expenses	638	775	910	640	784	924	-0.3%	-1.2%	-1.5%
% of revenue	9.8%	9.0%	8.5%	10.7%	10.3%	10.0%			
EBIT	**2,439**	**3,273**	**4,172**	**2,168**	**2,940**	**3,741**	**12.5%**	**11.3%**	**11.5%**
EBIT margin	37.6%	38.0%	39.0%	36.3%	38.6%	40.5%			
Financial income	50	36	56	60	36	56	-16.7%	0.0%	0.0%
Financial expenses	200	220	170	190	210	170	5.3%	4.8%	0.0%
PTP	**2,289**	**3,089**	**4,058**	**2,038**	**2,766**	**3,627**	**12.3%**	**11.7%**	**11.9%**
Tax	412	556	730	367	498	653	12.3%	11.7%	11.9%
Tax rate	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%			
Net income	**1,877**	**2,533**	**3,328**	**1,671**	**2,268**	**2,974**	**12.3%**	**11.7%**	**11.9%**
Minorities	27	6	11	25	6	11	8.0%	1.1%	0.5%
Group income	**1,850**	**2,527**	**3,317**	**1,646**	**2,262**	**2,963**	**12.4%**	**11.7%**	**11.9%**
Growth y/y	90.8%	36.6%	31.3%	69.8%	37.5%	31.0%			
Depreciations	258	171	104	242	167	96	6.6%	2.4%	8.3%
% of revenue	4.0%	2.0%	1.0%	4.1%	2.2%	1.0%			
EBITDA	**2,696**	**3,444**	**4,276**	**2,409**	**3,108**	**3,837**	**11.9%**	**10.8%**	**11.4%**
EBITDA margin	41.6%	40.0%	40.0%	40.4%	40.8%	41.5%			
Revenue (DKKm)	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**
Americas	2,850	3,722	4,627	2,842	3,687	4,529	0%	1%	2%
United States	2,549	3,223	3,955	2,597	3,305	4,022	-2%	-2%	-2%
Other	300	499	671	245	382	507	23%	31%	33%
Europe	2,819	3,861	4,793	2,284	2,908	3,426	23%	33%	40%
Germany	684	779	849	692	773	881	-1%	1%	-4%
United Kingdom	998	1,306	1,572	870	1,083	1,207	15%	21%	30%
Other	1,137	1,776	2,372	722	1,052	1,337	57%	69%	77%
Asia Pacific	817	1,031	1,275	839	1,021	1,283	-3%	1%	-1%
Australia	717	785	807	741	780	819	-3%	1%	-1%
Other	99	246	468	98	241	464	1%	2%	1%
Total	**6,486**	**8,614**	**10,695**	**5,964**	**7,616**	**9,237**	**9%**	**13%**	**16%**
Revenue growth y/y	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**
Americas	82.9%	30.6%	24.3%	82.4%	29.7%	22.8%	0.5%	0.8%	1.5%
United States	74.7%	26.4%	22.7%	78.0%	27.3%	21.7%	-3.3%	-0.9%	1.0%
Other	203.5%	65.9%	34.7%	147.4%	55.9%	32.7%	56.2%	10.0%	1.9%
Europe	133.6%	37.0%	24.1%	89.2%	27.3%	17.8%	44.4%	9.6%	6.3%
Germany	96.5%	13.8%	9.0%	98.7%	11.8%	14.0%	-2.1%	2.0%	-4.9%
United Kingdom	111.3%	30.9%	20.3%	84.2%	24.5%	11.5%	27.1%	6.4%	8.8%
Other	193.8%	56.2%	33.5%	86.6%	45.7%	27.1%	107.3%	10.6%	6.4%
Asia Pacific	17.3%	26.3%	23.7%	20.5%	21.7%	25.7%	-3.2%	4.6%	-2.0%
Australia	10.6%	9.5%	2.8%	14.2%	5.3%	5.0%	-3.6%	4.2%	-2.2%
Other	111.7%	147.5%	90.1%	108.8%	145.4%	92.5%	2.9%	2.1%	-2.4%
Total	**87.4%**	**32.8%**	**24.2%**	**72.3%**	**27.7%**	**21.3%**	**15.1%**	**5.1%**	**2.9%**

Source: Nordea Markets

Revenue model

Pandora provides revenue for different geographical regions and product categories. We use geographies as the main revenue driver in our model, where growth for each geography is driven by the level of store upgrades and store openings. The reason for this approach is to reflect different stages for penetration for each main geography while also reflecting the benefits from the ongoing expansion toward more branded space.

Revenue estimates

Pandora has delivered stunning 109% y/y growth so far in 2010. We find it unlikely that revenue growth will be just 33% y/y in Q4 2010 as the CWE Germany in isolation should bring close to 10% revenue growth.

We note that the early Christmas deliveries appear to relate largely to the UK and Germany, which make us cautious on including significant q/q growth for these markets. For the other markets we still believe Pandora in Q4 2010 will be very positively impacted by:

- High seasonality in the jewellery industry; Christmas is the most important part of the year. Looking at 2009 numbers for Pandora, the pattern of seasonality appears to hold.
- Strong growth in all geographies, which should bring revenue growth throughout the year. Other Europe in particular should be a significant growth driver.
- Increased distribution power for Pandora. So far in 2010, the number of PoS has increased by 560, while the number of branded stores has increased to 26% of total PoS compared with 21% by the end of 2009. The number of the strongly revenue-generating concept stores has increased 67% during 2010.

Store estimates

The company expects a net increase of 500 PoS in H2 2010 and 2011

By the end of Q3 2010, Pandora's products were sold through 10,386 PoS. Of these more than 50% were white retailers. For H2, the company expects a net increase of more than 500 PoS, which should also be the case as well for 2011. The number of net openings and upgrades in Q4 2010 should be somewhat low compared to the first three quarters of 2010 as Christmas limits the changes in stores.

We foresee a positive development in the number of stores driven by:

- Ongoing opening of new PoS driven by high interest from potential franchisees and multi-brand stores to sell Pandora's goods. This is based on Pandora's ability to attract self-purchasing women, which generates traffic in stores. The high inventory turnover for Pandora's goods attracts multi-brand stores that are used to low inventory turnover.
- The expansion in Italy and France is targeted through traditional multi-brand stores, which should reduce the decline in white dealers.
- For some time, Pandora has been in the process of closing down unattractive accounts in the older markets, which we believe is starting to come to an end.
- Pandora will benefit from the many new markets entered in recent years, and CEE should represent a large potential for store openings.

Sustained increase in branded space is most important for future revenue growth

Most important for future revenue growth is our estimate of a sustained increase in branded space. This carries the largest potential, in our view, as branded stores have significantly higher revenue per PoS than traditional multi-brand jewellers. We estimate that branded space will represent 35% of stores in 2012, up from 21% by the end of 2009. We base this on:

- The strategy of upgrading existing multi-brand retailers towards branded space through the upgrade ladder has proven successful in 2010 and we believe this development will continue.
- The strong development for Pandora in a number of markets enables

Pandora to attract new franchisees, which will enable a further expansion of branded space.

- In CEE and China, focus is on expansion through concept stores and shop-in-shops. Typically, new markets start with many white retailers, but this will not be the case in these markets, which should increase the move towards branded space.

Estimates for store development (PoS)

No. of stores	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10E	H1 10	H2 10E	2010E	2011E	2012E
Concept stores	196	240	262	329	346	262	346	346	485	617
Shop-in-Shop	512	623	725	866	894	725	894	894	1,187	1,481
Gold	1,345	1,408	1,465	1,529	1,553	1,465	1,553	1,553	1,735	1,907
Silver	2,061	2,104	2,217	2,271	2,295	2,217	2,295	2,295	2,407	2,479
White and travel retail	5,712	5,557	5,253	5,391	5,433	5,253	5,433	5,433	5,241	5,056
Total number of stores	**9,826**	**9,932**	**9,922**	**10,386**	**10,521**	**9,922**	**10,521**	**10,521**	**11,055**	**11,540**
Total branded	2,053	2,271	2,452	2,724	2,793	2,452	2,793	2,793	3,407	4,005
Growth over period (PoS)	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**H1 10**	**H2 10E**	**2010E**	**2011E**	**2012E**
Concept stores		44	22	67	17	66	84	150	139	132
Shop-in-Shop		111	102	141	28	213	169	382	293	294
Gold		63	57	64	24	120	88	208	182	172
Silver		43	113	54	24	156	78	234	112	72
White and travel retail		-155	-304	138	42	-459	180	-279	-192	-185
Total number of stores		**106**	**-10**	**464**	**135**	**96**	**599**	**695**	**534**	**485**
Total branded		218	181	272	69	399	341	740	614	598
Growth over period (%)	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**H1 10**	**H2 10E**	**2010E**	**2011E**	**2012E**
Concept stores		22%	9%	26%	5%	34%	32%	77%	40%	27%
Shop-in-Shop		22%	16%	19%	3%	42%	23%	75%	33%	25%
Gold		5%	4%	4%	2%	9%	6%	15%	12%	10%
Silver		2%	5%	2%	1%	8%	4%	11%	5%	3%
White and travel retail		-3%	-5%	3%	1%	-8%	3%	-5%	-4%	-4%
Total stores		**1%**	**0%**	**5%**	**1%**	**1%**	**6%**	**7%**	**5%**	**4%**
Total branded		11%	8%	11%	3%	19%	14%	36%	22%	18%
Store distribution	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**H1 10**	**H2 10E**	**2010E**	**2011E**	**2012E**
Concept stores	2%	2%	3%	3%	3%	3%	3%	3%	4%	5%
Shop-in-Shop	5%	6%	7%	8%	8%	7%	8%	8%	11%	13%
Gold	14%	14%	15%	15%	15%	15%	15%	15%	16%	17%
Silver	21%	21%	22%	22%	22%	22%	22%	22%	22%	21%
White and travel retail	58%	56%	53%	52%	52%	53%	52%	52%	47%	44%
Total stores	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total branded	21%	23%	25%	26%	27%	25%	27%	27%	31%	35%

Source: Company data and Nordea Markets

We estimate that store expansion will be largest in Europe in 2010

For the remainder of 2010, we foresee a modest increase in the number of PoS as a consequence of the Christmas season, which limits the change in store status. However, the expansion in Italy should continue and some concept stores in new markets, including one in China and at least one in Russia, should be opened.

Store openings by geographies (PoS)

Stores by geography	Q4 09	Q1 10	Q2 10	Q3 10E	Q4 10E	H1 10	H2 10E	2010E	2011E	2012E	2013E
Americas	2,537	2,467	2,529	2,590	2,600	2,529	2,600	2,600	2,756	2,860	
Europe	6,516	6,697	6,625	7,016	7,137	6,625	7,137	7,137	7,489	7,831	
Asia Pacific	773	768	768	780	784	768	784	784	810	849	
Total number of stores	**9,826**	**9,932**	**9,922**	**10,386**	**10,521**	**9,922**	**10,521**	**10,521**	**11,055**	**11,540**	
Growth y/y	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10E**	**Q4 10E**	**H1 10**	**H2 10E**	**2010E**	**2011E**	**2012E**	**2013E**
Americas		-3%	3%	2%	0%	0%	3%	2%	6%	4%	
Europe		3%	-1%	6%	2%	2%	8%	10%	5%	5%	
Asia Pacific		-1%	0%	2%	1%	-1%	2%	1%	3%	5%	
Total number of stores		**1%**	**0%**	**5%**	**1%**	**1%**	**6%**	**7%**	**5%**	**4%**	

Note: Pandora only provides the store split on geographies on a half year basis.
Source: Company data and Nordea Markets

Solid revenue growth in the coming years

In 2011 and 2012, we expect ongoing revenue growth for all geographies

In 2011 and 2012, we expect ongoing revenue growth for all geographies. The highest growth rates are estimated to be in the new markets, whereas we are more cautious on the development in the mature markets.

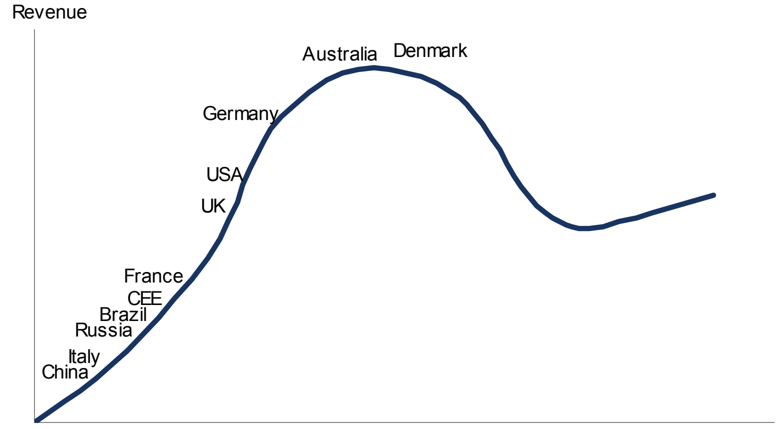
The graph below shows our basic view on Pandora's market penetration in different markets. We believe the Danish market has already peaked, but an increased focus on branded space could potentially reactivate this market.

In Australia, the market share is high and we believe this market is starting to be penetrated. Growth could still be fine in 2011 as 2010 has been negatively impacted by a destocking effect after weak Q4 2009 Christmas sales.

The UK and the US still offer good growth potential

The UK and the USA still offer good growth potential, but the largest future growth potential is in the new markets in CEE, France, Italy and China, where Pandora just has started its activities.

View on market penetration in different markets



Source: Nordea Markets

- The USA should benefit from a continued expansion in stores and branded space. However, Pandora's strong position in many states should lead to slowing growth.
- In Other Americas, Pandora benefits from its expansion into new markets, where it opens a relatively high number of concept stores. We expect this development to continue.
- In 2010, revenue growth in Germany is driven by the mark-up effect from the acquisition of CWE, whereas we estimate underlying organic growth to be 13%. We believe that the German market is starting to mature, but the ongoing upgrade of stores still secures growth.
- The UK currently benefits from strong demand in each store, store

upgrades and openings as well as a 10% price increase. The strong momentum is set to continue.

- Other Europe is set to deliver strong growth rates through a combination of entering new markets such as Italy, France, CEE and Russia as well as store upgrades in the existing markets, which enables Pandora to increase its revenue in Other jewellery. Other Europe is a key driver for future revenue growth, in our view.
- In Australia, tough market conditions and the already high market share make us a bit cautious on future growth, though 2011E will benefit from easy comparisons. For Q4 2010E, we expect a significant decline in organic revenue as Q4 2009 comparisons are very tough.
- Other Asia-Pacific is set to show the highest growth rates owing to a low existing base and that Pandora is tapping into the highly attractive Chinese market through concept store openings. It is too early to give Pandora the full benefit of the Chinese expansion, but this market clearly represents the largest future growth potential for Pandora. The fact that Pandora will start to distribute in Japan in 2011 should also help generate revenue growth, as Japan is a significant jewellery market.

Revenue by geographies (DKKm)

Geographical revenue split	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Americas	294	325	376	563	564	623	725	938	694	1,558	2,850	3,722	4,627
United States	279	304	351	525	505	549	644	851	646	1,459	2,549	3,223	3,955
Other	15	21	25	38	59	74	81	86	48	99	300	499	671
Europe	200	242	297	468	490	548	865	916	665	1,207	2,819	3,861	4,793
Germany	60	78	85	125	155	149	184	196	207	348	684	779	849
United Kingdom	65	88	106	213	151	191	333	323	91	472	998	1,306	1,572
Other	75	76	106	130	184	208	348	397	366	387	1,137	1,776	2,372
Asia Pacific	93	108	152	343	184	172	198	263	299	696	817	1,031	1,275
Australia	93	108	148	300	166	157	171	223	299	649	717	785	807
Other	0	0	4	43	18	15	27	39	0	47	99	246	468
Total	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**2,117**	**1,658**	**3,461**	**6,486**	**8,614**	**10,695**

Revenue growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Americas					92%	92%	93%	67%		96%	83%	31%	24%
United States					81%	81%	83%	62%		96%	75%	26%	23%
Other					293%	252%	224%	128%		80%	204%	66%	35%
Europe					145%	126%	191%	96%		58%	134%	37%	24%
Germany					158%	91%	116%	57%		46%	97%	14%	9%
United Kingdom					132%	117%	214%	52%		350%	111%	31%	20%
Other					145%	174%	228%	206%		-8%	194%	56%	34%
Asia Pacific					98%	59%	30%	-23%		103%	17%	26%	24%
Australia					78%	45%	16%	-26%		89%	11%	9%	3%
Other	-	-	-	-	-	-	575%	-8%		-	112%	147%	90%
Total					**111%**	**99%**	**117%**	**54%**		**82%**	**87%**	**33%**	**24%**

Revenue distribution	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Americas	50%	48%	46%	41%	46%	46%	41%	44%	42%	45%	44%	43%	43%
United States	48%	45%	43%	38%	41%	41%	36%	40%	39%	42%	39%	37%	37%
Other	3%	3%	3%	3%	5%	6%	5%	4%	3%	3%	5%	6%	6%
Europe	34%	36%	36%	34%	40%	41%	48%	43%	40%	35%	43%	45%	45%
Germany	10%	12%	10%	9%	13%	11%	10%	9%	13%	10%	11%	9%	8%
United Kingdom	11%	13%	13%	16%	12%	14%	19%	15%	6%	14%	15%	15%	15%
Other	13%	11%	13%	9%	15%	15%	19%	19%	22%	11%	18%	21%	22%
Asia Pacific	16%	16%	18%	25%	15%	13%	11%	12%	18%	20%	13%	12%	12%
Australia	16%	16%	18%	22%	13%	12%	10%	11%	18%	19%	11%	9%	8%
Other	0%	0%	0%	3%	1%	1%	2%	2%	0%	1%	2%	3%	4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company data and Nordea Markets

Continued growth for all product categories

We estimate that all product categories will continue to show good growth in coming years

We estimate that all product categories will continue to show good growth in coming years. We are very pleased with the development of Other jewellery throughout 2010 and believe it will continue to gain in importance as a consequence of leveraging the existing collections, launch of watches and sunglasses and an improved distribution, which should have a positive effect on sales for this product category as branded distribution carries more Other jewellery than unbranded stores.

We estimate that the charm-bracelet revenue ratio will start to increase from 2011 as more markets mature. However, a very successful expansion into new markets could change this development.

In 2010, ASP should increase significantly

In 2010, average selling price (ASP) should increase significantly as a result of acquisitions, price increases in the UK and the USA and a mix-shift effect from growth in other jewellery, which is on average more expensive than charms. In Q4 2010, we expect an ASP in line with Q3 2010 as the positive effect from Christmas sales comprising more expensive products will be offset by the high level of deliveries of other jewellery in Q3 2010 with the rollout of the Ring-Upon-Ring concept.

For 2011E and 2012E, we expect ASP to increase as a consequence of price increases to compensate for higher metal prices as well as the ongoing mix-shift towards other jewellery.

Estimates for revenue by product (DKKm)

Revenue (DKKm)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10E	2008 10m	2009	2010E	2011E	2012E
Silver and gold charm bracelets	104	87	128	233	207	211	235	292	266	551	945	1,085	1,241
Charms	432	526	611	968	882	925	1,184	1,418	1,165	2,537	4,409	5,944	7,380
Other jewellery	48	59	82	170	137	205	365	402	220	359	1,109	1,551	2,032
Other revenue	3	3	4	3	12	2	4	4	7	14	22	34	43
Total revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**2,117**	**1,658**	**3,461**	**6,486**	**8,614**	**10,695**
Revenue growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Silver and gold charm bracelets					99%	143%	84%	25%		107%	72%	15%	14%
Charms					104%	76%	94%	47%		118%	74%	35%	24%
Other jewellery					185%	247%	345%	137%		63%	209%	40%	31%
Other revenue					300%	-33%	0%	41%		100%	59%	55%	24%
Total revenue					**111%**	**99%**	**117%**	**54%**		**109%**	**87%**	**33%**	**24%**
Revenue distribution	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Silver and gold charm bracelets	18%	13%	16%	17%	17%	16%	13%	14%	16%	16%	15%	13%	12%
Charms	74%	78%	74%	70%	71%	69%	66%	67%	70%	73%	68%	69%	69%
Other jewellery	8%	9%	10%	12%	11%	15%	20%	19%	13%	10%	17%	18%	19%
Other revenue	1%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Charm-bracelet ratio	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Charm-bracelet revenue ratio	4.2	6.0	4.8	4.2	4.3	4.4	5.0	4.9	4.4	4.6	4.7	5.5	5.9
ASP	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
ASP	**77**	**76**	**74**	**96**	**105**	**116**	**115**	**115**		**82**	**114**	**124**	**127**
Growth y/y					36%	53%	57%	20%			38%	9%	3%

Source: Company data and Nordea Markets

Fifth factory creates additional production flexibility

In 2009, Pandora operated at full capacity utilisation

In 2009, Pandora operated at full capacity utilisation and still Pandora was not able to fully meet demand, which led to products being sold out before Christmas and problems in delivering enough goods in Q1 2010, which reduced the number of store openings.

In H1 2010 production was higher than sales, which should be a consequence of Pandora attempting to ensure it can meet demand in H2 2010.

Fourth and fifth factories increase capacity significantly

The fourth factory has just been opened and this adds further production capacity to meet the solid sales growth that Pandora experiences.

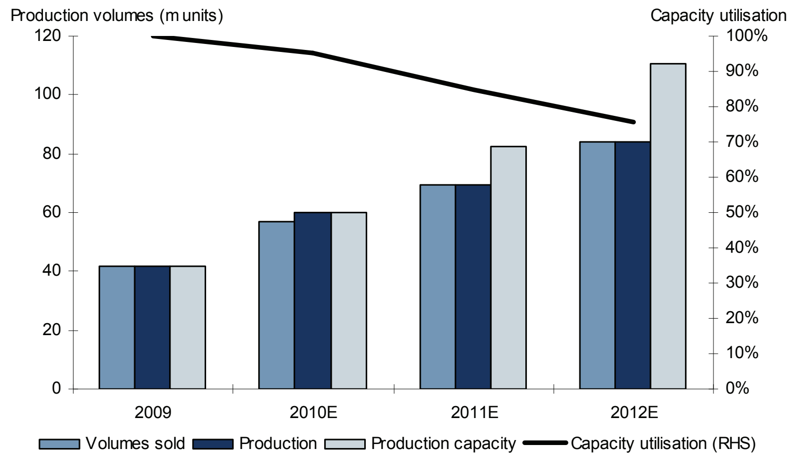
We have tried to estimate the production ramp-up based on the number of added m^2. This will not fully transfer into similar higher volumes because Other jewellery is more complex to manufacture and thus requires more production space, as we understand it. We also believe Pandora could use more space for existing production.

We assume that the fourth and fifth factories will add production capacity corresponding to two-thirds of the growth in production space.

High capacity utilisation should continue

With our sales volume estimates, we believe Pandora will continue to have a high capacity utilisation, while the fifth factory should increase production capacity significantly, offering Pandora more production flexibility. This also enables continued strong growth.

Estimated sales volumes, production and capacity utilisation



Source: Company data and Nordea Markets

Estimates for production and volume sold (million units)

Volumes sold (m units)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10E	2008 10m	2009	2010E	2011E	2012E
Volumes sold	**7.6**	**8.9**	**11.2**	**14.3**	**11.8**	**11.6**	**15.5**	**18.0**		**42.0**	**56.9**	**69.6**	**83.9**
Growth y/y					55%	30%	38%	25.9%			35%	22%	20%
Production	**7.3**	**9.2**	**11.9**	**13.6**	**13.4**	**15.4**	**15.5**	**15.5**		**42.0**	**59.8**	**69.6**	**83.9**
Growth y/y					84%	67%	30%	14%			42%	16%	20%
Change in stock	-0.3	0.3	0.7	-0.7	1.6	3.8	0.0	-2.5		0.0	2.9	0.0	0.0
Productions space (m2)										**9,300**	**12,400**	**19,400**	**29,400**
Growth y/y											33%	56%	52%
Production capacity										**42.0**	**59.8**	**82.3**	**110.6**
Growth y/y											42%	38%	34%
Capacity utilisation										**100%**	**95%**	**85%**	**76%**

Note: Volumes sold for Q3 2009 and Q4 2009 and Q3 2010 production numbers are estimates. Going forward no production numbers will not be provided
Source: Company data and Nordea Markets

Cost and earnings

For Q4 2010, Pandora has implicitly issued guidance for an EBITDA margin of around 37% or EBITDA of DKK 673m. This number is negatively impacted by DKK 91m relating to the IPO bonus of two months salary to all employees (excluding this, the EBITDA margin is guided to be 42%). Our estimate is for an EBITDA margin of 41.1%, which is above guidance as a consequence of revenue forecasts above guidance.

For 2011 and 2012, we foresee a decrease in the EBITDA margin as a consequence of the sharp increase in metal prices, which will reduce margins. Our estimates reflect some operational leverage effect on opex to sales. The development in 2010 so far highlights that it is costly to build up a global organisation and expand into many markets at the same time, which limits potential margin expansion, unless commodity prices come down again. We find visibility about the future development of operating expenses somewhat low.

Estimates for costs and earnings (DKKm)

P&L (DKKm)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10E	2008 10m	2008	2009	2010E	2011E	2012E
Revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**2,117**	**1,658**	**1,904**	**3,461**	**6,486**	**8,614**	**10,695**
Growth y/y					111%	99%	117%	54%	50%	73%	82%	87%	33%	24%
Cost of sales	189	223	279	382	411	364	479	584	647		1,073	1,838	2,670	3,422
% of revenue	32.2%	33.0%	33.8%	27.8%	33.2%	27.1%	26.8%	27.6%	39%		31.0%	28.3%	31.0%	32.0%
Gain and losses on raw material derivatives	56	6	0	21	0	0	0	0	-19		83	0	0	0
% of revenue	10%	1%	0%	2%	0%	0%	0%	0%	-1%		2.4%	0.0%	0.0%	0.0%
Gross profit	**454**	**458**	**546**	**1,013**	**827**	**979**	**1,309**	**1,533**	**991**		**2,471**	**4,648**	**5,944**	**7,273**
Gross margin	77.3%	67.9%	66.2%	73.7%	66.8%	72.9%	73.2%	72.4%	59.8%		71.4%	71.7%	69.0%	68.0%
Distribution costs	102	114	225	302	299	345	409	518	290		743	1,571	1,896	2,190
% of revenue	17.4%	16.9%	27.3%	22.0%	24.2%	25.7%	22.9%	24.5%	17.5%		21.5%	24.2%	22.0%	20.5%
Administrative expenses	29	35	70	169	116	154	157	211	69		303	638	775	910
% of revenue	4.9%	5.2%	8.5%	12.3%	9.4%	11.5%	8.8%	10.0%	4.1%		8.8%	9.8%	9.0%	8.5%
EBIT	**323**	**309**	**251**	**541**	**412**	**480**	**743**	**804**	**633**	**738**	**1,424**	**2,439**	**3,273**	**4,172**
EBIT margin	55.0%	45.8%	30.4%	39.4%	33.3%	35.7%	41.6%	38.0%	38.2%	38.8%	41.1%	37.6%	38.0%	39.0%
Financial income	21	9	23	26	20	17	1	12	23		79	50	36	56
Interest rate											14.0%	6.6%	4.0%	3.0%
Financial expenses	90	41	91	92	103	8	35	54	240		314	200	220	170
Interest rate											10.5%	7.8%	13.9%	19.2%
PTP	**254**	**277**	**183**	**475**	**329**	**489**	**709**	**762**	**416**	**496**	**1,189**	**2,289**	**3,089**	**4,058**
Tax	39	45	30	70	59	88	128	137	110	140	184	412	556	730
Tax rate	15.4%	16.2%	16.4%	14.8%	17.9%	18.0%	18.1%	18.0%	26%	28.3%	15.5%	18.0%	18.0%	18.0%
Net income	**215**	**232**	**153**	**405**	**270**	**401**	**581**	**625**	**306**	**356**	**1,005**	**1,877**	**2,533**	**3,328**
Minorities	0	0	6	29	10	12	3	2	0	0	35	27	6	11
Group income	**215**	**232**	**147**	**376**	**260**	**389**	**578**	**623**	**306**	**356**	**969**	**1,850**	**2,527**	**3,317**
Depreciations	11	11	58	68	62	66	64	66	33	40	148	258	171	104
% of revenue	1.9%	1.6%	7.0%	5.0%	5.0%	4.9%	3.6%	3.1%	2%	2.1%	4.3%	4.0%	2.0%	1.0%
EBITDA	**334**	**320**	**309**	**609**	**474**	**546**	**807**	**869**	**666**	**778**	**1,572**	**2,696**	**3,444**	**4,276**
EBITDA margin	56.9%	47.4%	37.5%	44.3%	38.3%	40.7%	45.1%	41.1%	40.2%	40.9%	45.4%	41.6%	40.0%	40.0%

Source: Company data and Nordea Markets

Pressure likely on gross margin owing to increasing commodity prices

Gross margin development

Pandora will, in our view, experience some pressure on its gross margin as a consequence of increasing commodity prices. Selling prices have been raised sharply in both the UK and the USA in 2010, which to some extent limits the room for further price increases. However, the positive for Pandora is of course that this dynamic hits the entire jewellery industry, which reinforces the push for price increases.

Because it is the price of silver that has risen sharply is likely to represent a larger challenge than if it was the price of gold. Pandora has stated that it is more difficult to raise prices for entry price products than those on more expensive products. These entry price products consist of silver.

The table below show the development in hedges. Numbers in bold are for quarters that are fully hedged. Pandora will feel the heat from higher metal prices in H1 2011E, but especially in H2 2011E.

Gold and silver hedges

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11E	Q2 11E	Q3 11E	Q4 11E	2009	2010	2011E	2012E
Gold hedge	**1,147**	**1,139**	**1,165**	**1,176**	1,246	1,344	1,366	1,376	**978**	**1,157**	1,333	1,376
Growth y/y	26%	25%	25%	21%	9%	18%	17%	17%		18%	15%	3%
Hedge versus spot	3%	-1%	-5%	-15%	-9%	-2%	-1%	0%	5%	-5%	-3%	0%
Silver hedge	**18.67**	**18.37**	**18.70**	**18.0**	23.0	22.4	25.4	26.3	**12.8**	**18.4**	24.3	26.3
Growth y/y	46%	44%	46%	41%	23%	22%	36%	46%		44%	32%	8%
Hedge versus spot	10%	0%	-2%	-31%	-13%	-15%	-4%	0%	-5%	-8%	-8%	0%

Source: Company data, Bloomberg and Nordea Markets

High marketing spending required to maintain brand development momentum

High marketing spending to build strong jewellery brand

Pandora's vision is to become the world's most recognised jewellery brand, which in our view necessitates a continued high level of marketing spending. In 2009, marketing spending was 8% of revenue and in 2010 it has so far been 9.5%. Pandora targets marketing spending close to 10% of revenue.

Earn-out impacts financial expenses by DKK 100m a year

Pandora has stated that the effect on financial expenses from the CWE earn-out is expected to be DKK 25m in 2010 and DKK 100m in 2011. We assume this will also be the case in the coming years until the payment of the CWE earn-out in 2015. We assume that the financial expense related to the earn-out will be tax deductable.

A low corporate tax rate for the coming years

Pandora should continue to benefit from its tax exemption in Thailand until 2012. We feel confident that the exemption will be prolonged until 2019, which is very positive given our forecast of strong earnings in coming years.

Geographical margin estimates

The Americas should continue to post the highest EBITDA margins in coming years

We expect the Americas to continue to post the highest EBITDA margins in coming years. Asia-Pacific has historically had high margins, but given the weak development in Australia, we are more cautious on margins for this region. From 2012, we expect margins in Asia-Pacific to increase as China gains in importance, which enables Pandora to better leverage the cost base in the region. In China, retail prices will be 10%-20% higher than those in Europe, but this will not bring higher margins owing to higher import duties (18%) than in Europe. In Q4 2010, EBITDA margins in all geographies will be depressed by the employee bonus.

Geographical revenue and EBITDA (DKKm)

Geographical revenue split	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10E	2008 10m	2009	2010E	2011E	2012E
Americas	294	325	376	563	564	623	725	938	694	1,558	2,850	3,722	4,627
Europe	200	242	297	468	490	548	865	916	665	1,207	2,819	3,861	4,793
Asia Pacific	93	108	152	343	184	172	198	263	299	696	817	1,031	1,275
Total revenue	**587**	**675**	**825**	**1,374**	**1,238**	**1,343**	**1,788**	**2,117**	**1,658**	**3,461**	**6,486**	**8,614**	**10,695**
Growth y/y	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Americas					92%	92%	93%	67%		96%	83%	31%	24%
Europe					145%	126%	191%	96%		58%	134%	37%	24%
Asia Pacific					98%	59%	30%	-23%		102%	17%	26%	24%
Total revenue					**111%**	**99%**	**117%**	**54%**		**82%**	**87%**	**33%**	**24%**
EBITDA	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Americas	171	177	172	272	290	334	385	465	321	792	1,474	1,833	2,259
Europe	133	123	123	263	186	230	462	449	352	642	1,327	1,776	2,205
Asia Pacific	65	64	71	204	89	71	86	105	164	404	351	438	561
Unallocated costs	-35	-44	-57	-128	-91	-89	-126	-150	-171	-264	-456	-603	-749
Total EBITDA	**334**	**320**	**309**	**611**	**474**	**546**	**807**	**869**	**666**	**1,574**	**2,696**	**3,444**	**4,276**
EBITDA margin	**Q1 09**	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10E**	**2008 10m**	**2009**	**2010E**	**2011E**	**2012E**
Americas	58.2%	54.5%	45.7%	48.3%	51.4%	53.6%	53.1%	49.6%	46.2%	50.8%	51.7%	49.2%	48.8%
Europe	66.5%	50.8%	41.4%	56.2%	38.0%	42.0%	53.4%	49.0%	53.0%	53.2%	47.1%	46.0%	46.0%
Asia Pacific	69.9%	59.3%	46.7%	59.5%	48.4%	41.3%	43.4%	40.0%	54.8%	58.0%	43.0%	42.5%	44.0%
Unallocated costs to total revenue	-6.0%	-6.5%	-6.9%	-9.3%	-7.4%	-6.6%	-7.0%	-7.1%	-10.3%	-7.6%	-7.0%	-7.0%	-7.0%
Total EBITDA margin	**56.9%**	**47.4%**	**37.5%**	**44.5%**	**38.3%**	**40.7%**	**45.1%**	**41.1%**	**40.2%**	**45.5%**	**41.6%**	**40.0%**	**40.0%**

Source: Company data and Nordea Markets

Capex of 2.5%-3.0% of revenue

We estimate that Pandora will have capex of 2.5%-3.0% of revenue in coming years; the high levels in 2010 and 2011 relate to plant constructions in Thailand. From 2012, we expect lower capex to sales as Pandora benefits from the significant plant expansions.

Investments in tangible assets (DKKm)

Capex (DKKm)	2008 10m	2009	2010E	2011E	2012E
Land and buildings	36	36	60	50	30
Plant and equipment	12	49	100	158	207
Construction in progress	0	18	40	50	30
Investments in tangible assets	**48**	**103**	**200**	**258**	**267**
% of revenue in period	2.5%	3.0%	3.1%	3.0%	2.5%

Source: Company data and Nordea Markets

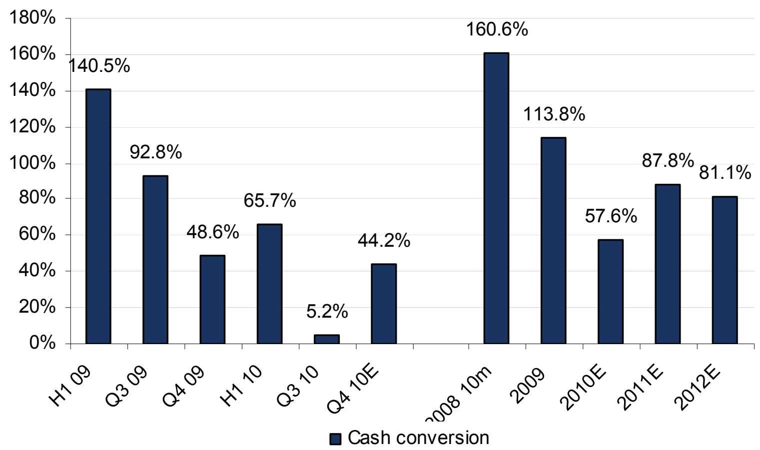
Combination of strong growth and high cash conversion very attractive for investors

Strong cash conversion

We estimate that Pandora will be able to improve its cash conversion going forward, as 2010 will be negatively impact by investments in the distribution activities and the build up of inventories.

We find the combination of strong growth and high cash conversion very attractive for investors.

Estimated cash conversion at Pandora



Source: Company data and Nordea Markets

NWC estimates

Higher level of own distribution and higher commodity prices should increase inventories compared with previous years

We estimate that Pandora will have an operating NWC of 32% to revenue going forward, which is below the 35% by the end of Q3 2010, which we find unusual. The higher level of own distribution will increase inventories to a higher level than in previous years. Inventories as a percentage of revenue are estimated to come up in the coming years as a consequence of higher commodity prices. Total NWC is estimated to be around 25% of revenue going forward.

Cash return potential of DKK 7bn in two years

We foresee very solid cash flow in Pandora for the coming years, which enables the company to potentially pay out significant dividends to its shareholders. With a pay-out ratio of 35%, we calculate that Pandora could be debt free by the end of 2011 (excluding the CWE earn-out).

At the IPO, Pandora targets a net interest-bearing debt of less than 1.5x 12-month rolling EBITDA. By the end of Q3 2010, the NIBD/EBITDA ratio was 1.0x.

Significant cash could be returned to shareholders by 2012

If Pandora intends to maintain its current conservative leverage with 1x NIBD/EBITDA and sticks to a pay-out ratio of 35%, we believe Pandora could return an accumulated DKK 7bn to shareholders by 2012 or DKK 50 per share.

Cash return potential at Pandora (DKKm)

DKKm	9M 2010	2010E	2011E	2012E
EBITDA	1,827	2,696	3,444	4,276
Free cash flow	169	816	2,134	2,676
Net interest bearing debt from balance shee	2,021	1,532	45	-1,747
CWE earn-out	449	474	574	674
Net interest bearing debt	2,470	2,006	619	-1,073
NIBD to 12m rolling EBITDA	1.0x	0.7x	0.2x	-0.3x
Potential cash return (DKKm)		**2010E**	**2011E**	**2012E**
35% pay-out ratio on prior year results			647	884
NIBD / EBITDA = 1				4,276
Net cash position pay-out				1,073
Accumulated pay-out potential				**6,881**
Number of share				130
Cash return potential per share				**53**

Source: Company data and Nordea Markets

Valuation

Buy with target price of DKK 370 per share

We initiate coverage of Pandora with a Buy rating and a target price of DKK 370 per share. This is based on 2011 P/E multiples for hard global luxury companies applied to our estimates.

We foresee solid revenue and earnings progression in coming years, which will be highly supportive for further share price increases, in our view. Pandora has compelling growth perspectives as it benefits from improved quality of its distribution in established markets, increased brand awareness, entry into new markets and broadening of the product offering.

Target price using peer group multiples

	Share price (DKK)	MV (DKKbn)	EV (DKKbn)	EV/EBITDA 2010	EV/EBITDA 2011	EV/EBITDA 2012	EV/EBIT 2010	EV/EBIT 2011	EV/EBIT 2012	P/E 2010	P/E 2011	P/E 2012	P/FCF 2010	P/FCF 2011	P/FCF 2012
Hard global luxury excl. Bulgari				11.8	10.7	9.3	14.7	12.9	11.1	22.4	18.9	16.6	25.9	22.3	19.4
P/E 2011 in line with peers	**370**	**48.1**	**50.4**	18.7	14.6	11.8	20.7	15.4	12.1	26.0	19.0	14.5	58.9	22.8	18.3
Current share price	**311.5**	**40.5**	**42.8**	15.9	12.4	10.0	17.6	13.1	10.3	21.9	16.0	12.2	49.7	19.2	15.4
Upside to current share price	**19%**														

Source: Bloomberg and Nordea Markets

The table above shows Pandora's multiples using the current share price and our target price on our estimates. Currently, Pandora trades on par with the peer group on 2011 EV/EBIT, while it trades at a discount to 2011 P/E. It trades at a discount on both multiples for 2012.

Compared to our valuation a few months ago, the valuation has come up as a consequence of a very strong share price performance for the peer group as well as our higher earnings estimates. We prefer Hard Global Luxury excluding Bulgari as our main peer group.

Given the large scenario ranges for the future development for Pandora, we believe Pandora is unlikely to trade on DCF valuation at this time.

Valuation overview

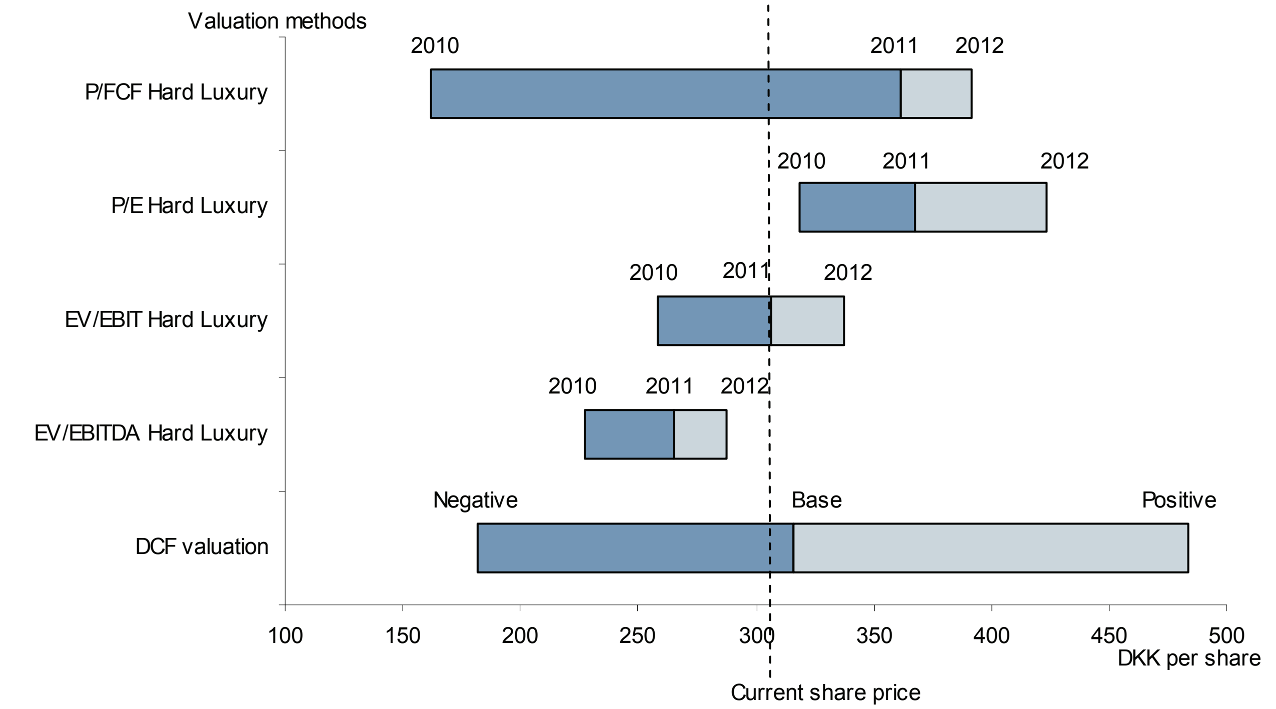
The main value driver in Pandora is near-term and medium-term revenue growth. The second most important value driver is the development in the company's medium-term and long-term EBITDA margins. It is also important to recognise the significant differences in capital structure, capital intensity and corporate tax rates between Pandora and its peers. For these reasons, our preferred valuation metrics are:

- Multiples: We believe EV/EBITDA, EV/EBIT, P/E and P/FCF multiples are relevant measures to value the company. To reflect the company's low financial gearing and tax rate, it would be most appropriate to use P/E multiples, in our view. We do not believe it is appropriate to use EV/sales multiples given Pandora's higher margins relative to peers.
- DCF: An absolute cash flow based valuation approach allows full flexibility to model Pandora's unique revenue growth potential as well as its EBITDA margin outlook and incorporate an appropriate sensitivity analysis. Furthermore, a DCF valuation allows a direct modelling of Pandora's specific characteristics on capital structure, capital intensity and tax. However, this valuation method is highly dependent on the development for Pandora, which is difficult to

estimate owing to the currently very high revenue growth.

As shown in the chart below and subject to the assumptions described below, we believe that the various approaches to valuation indicate a very wide valuation range.

DKK per share



Note: Hard luxury multiples excludes Bulgari.
Source: Nordea Markets

Pandora's multiples given different share prices

The table below provides an overview of multiples using our estimates and different Pandora share prices.

Multiples based on high and low valuation range and DCF valuation scenarios

Share price	MV	EV	EV/EBITDA			EV/EBIT			P/E			P/FCF		
(DKK)	(DKKbn)	(DKKbn)	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
250	**32.5**	**34.8**	12.9	10.1	8.1	14.3	10.6	8.3	17.6	12.9	9.8	39.9	15.4	12.4
260	**33.8**	**36.1**	13.4	10.5	8.4	14.8	11.0	8.7	18.3	13.4	10.2	41.5	16.0	12.9
270	**35.1**	**37.4**	13.9	10.9	8.7	15.3	11.4	9.0	19.0	13.9	10.6	43.1	16.7	13.3
280	**36.4**	**38.7**	14.4	11.2	9.1	15.9	11.8	9.3	19.7	14.4	11.0	44.6	17.3	13.8
290	**37.7**	**40.0**	14.8	11.6	9.4	16.4	12.2	9.6	20.4	14.9	11.4	46.2	17.9	14.3
300	**39.0**	**41.3**	15.3	12.0	9.7	16.9	12.6	9.9	21.1	15.5	11.8	47.8	18.5	14.8
310	**40.3**	**42.6**	15.8	12.4	10.0	17.5	13.0	10.2	21.8	16.0	12.2	49.4	19.1	15.3
320	**41.6**	**43.9**	16.3	12.8	10.3	18.0	13.4	10.5	22.5	16.5	12.6	51.0	19.7	15.8
330	**42.9**	**45.2**	16.8	13.1	10.6	18.5	13.8	10.8	23.2	17.0	12.9	52.6	20.4	16.3
340	**44.2**	**46.5**	17.3	13.5	10.9	19.1	14.2	11.2	23.9	17.5	13.3	54.2	21.0	16.8
350	**45.6**	**47.8**	17.7	13.9	11.2	19.6	14.6	11.5	24.6	18.0	13.7	55.8	21.6	17.3
360	**46.9**	**49.1**	18.2	14.3	11.5	20.1	15.0	11.8	25.3	18.5	14.1	57.4	22.2	17.8

Source: Nordea Markets

Adjustments for minorities and net interest-bearing debt

By the end of Q3 2010, Pandora's net interest-bearing debt was DKK 2,021m.

In addition to this, an earn-out with an estimated NPV of DKK 449m in connection with the acquisition of the minorities in CWE must be deducted. Over time, the nominal value of the earn-out will increase.

After the acquisition of minorities in CWE and Australia, the only remaining minorities are distributor minorities in CEE (14%) and Asia-Pacific (8%). We estimate the total value to represent DKK 275m based on our forecast for the development in Other Europe and Other Asia-Pacific. Pandora holds an option to buy these minorities in 2012 and 2013, respectively, but details have not been disclosed by Pandora.

Relative valuation

The very high revenue growth and exceptionally strong margins coupled with the relatively low product diversification make it difficult to find listed peers similar to Pandora for use in relative valuation. From a broader perspective, we believe Pandora has a fairly large peer group. However, the main difference between Pandora and almost all the peers is Pandora's high growth rates and its high margins, which have been achieved consistently during the financial crisis. In addition, Pandora at this time has a lower financial gearing and tax rate.

In the table below, we compare our peer group to Pandora on a number of key parameters. We believe that Pandora is superior to all peers on revenue growth and to most peers on margins. Although Pandora has a strong brand, we feel that a number of peers are better positioned globally.

The best direct peers from a product perspective are other producers of jewellery and watches (hard luxury), while the best peers in terms of business model are other wholesalers (Swatch, Richemont and Geox). H&M and Inditex are also relevant as these companies have revolutionised their industry, which is also the ambition at Pandora.

Positioning of peers in relation to Pandora

	Jewellery & watches	Brand strength	Similar business model	Global presence	China exposure	EBITDA-margin	Revenue growth
Pandora	Strong	Medium	Strong	Medium	moderate	Strong	Strong
Hard Global Luxury							
Bulgari	Strong	Strong	Medium	Strong	Strong	moderate	moderate
Richemont	Strong	Strong	Strong	Strong	Strong	Strong	Medium
Swatch	Strong	Strong	Strong	Strong	Strong	Medium	Medium
Tiffany	Strong	Strong	Medium	Medium	Medium	Medium	Medium
Soft Global Luxury							
LVMH	Medium	Strong	Medium	Strong	Strong	Medium	Medium
Burberry	moderate	Strong	Medium	Strong	Strong	Medium	Medium
Tod's	moderate	Medium	Medium	Medium	Medium	Medium	Medium
Polo Ralph Lauren	moderate	Strong	Medium	Strong	Strong	Medium	Medium
Hermes	Medium	Strong	Medium	Strong	Strong	Strong	Medium
Affordable Luxury							
Coach	moderate	Medium	Medium	moderate	moderate	Strong	Medium
Geox	moderate	Medium	Strong	Medium	Medium	Medium	Medium
Global Brand Retailers							
H&M	moderate	Strong	Medium	Medium	moderate	Medium	Medium
Inditex	moderate	Strong	Medium	Medium	moderate	Medium	Medium
Other peers							
Bijou Brigitte	Strong	moderate	Medium	moderate	moderate	Medium	Medium
Folli-Follie	Strong	Medium	moderate	Medium	Medium	Strong	Medium
Signet Jewelers	Strong	moderate	moderate	moderate	moderate	moderate	moderate
Luxottica	Medium	Strong	Medium	Medium	Medium	moderate	Medium

Strong Medium moderate

Source: Nordea Markets

Hard luxury companies are the best peers

The main peers to Pandora, in our view, are hard luxury companies, as they have a number of similarities to Pandora:

- the majority of revenue for these companies is generated in jewellery and watches;

- they have a global presence;
- they have high margins;
- and they, to some extent, have similar business models with vertical integration.

This description fits Richemont, Swatch, Tiffany and Bulgari. However, for relative valuation, investors should be cautious about using Bulgari multiples given the restructuring situation. The turnaround potential in Bulgari explains its higher multiples than its peers.

Compared with Pandora, hard luxury companies also have some advantages that could support higher multiples for these companies than for Pandora. These advantages include:

- globally well-established brands;
- established Asian (Japanese and Chinese) exposure;
- and long track records in their industries.

However, none of the hard luxury companies deliver Pandora’s superior revenue growth or its best-in-class margins, which could justify a premium valuation for Pandora.

Soft luxury companies are similar, except for product mix

Soft luxury companies are also relevant peers as they have similar characteristics as hard luxury companies. The main difference is the product mix, in which jewellery and watches represent a low percentage of revenue (less than 5% for LVHM and Hermes).

The highest valued peer, Hermes, commands exceptional valuation multiples, which is partly explained by Hermes’ high revenue resilience during the downturn. This brings similarities to Pandora, however, with the key difference that Hermes has already built a strong global brand within the luxury market, which Pandora aspires to mirror in the affordable luxury market.

Other affordable luxury companies

Coach, which has been very successful in the affordable luxury market with its handbags, also offers certain similarities. Like Pandora, Coach delivers high margins. However, contrary to Pandora, Coach has been hurt by the financial crisis, which has slowed revenue growth significantly. For 2010/11, Coach however expects double-digit revenue growth. In contrast to Pandora, Coach is less global.

Geox has been successful in affordable luxury with manufacturing and retailing of shoes. Its primary similarity to Pandora is the wholesale business model, as Geox derives 80% of its revenue from wholesale. However, in clear contrast to Pandora, Geox has been hit hard by the financial crisis and still struggles with weak revenue development.

Global brand retailers

H&M and Inditex have revolutionised the apparel industry with “category killer” concepts. We believe Pandora holds some of the same characteristics with its impact in the jewellery industry. H&M and Inditex are best-in-class global retailers. Although Pandora has a wholesale business, its franchise concept is built on similar ideas as those of H&M and Inditex.

Other peers

In our view, Pandora for different reasons, also has a number of other relevant peers.

Bijou-Brigitte, like Pandora, carries high margins. It manufactures and markets costume jewellery and accessories. Products are sold mainly through own stores in Europe. From an investor perspective, financial reporting is limited.

Luxottica sells eyeglass frames and sunglasses and thus operates in an industry adjacent to jewellery. Its most recognised brands are Ray-Ban and Oakley, but part of its business is also the licensed sale of eyeglass frames and sunglasses based on international fashion brands. Luxottica has relatively low margins.

Folli-Follie includes Links of London. One of its main activities is selling jewellery, and Links of London is a competitor to Pandora. It is important to note that Folli-Follie also has activities outside the jewellery industry.

Signet is the world's largest jewellery chain with a strong presence in Pandora's key markets in the USA and the UK. It is a distributor and thus has a significantly different business model to Pandora. Signet is one of Pandora's largest customers in the USA with its Jared stores.

Valuation multiples

Below is an overview of valuation multiples for Pandora's peer group.

Valuation multiples (adjusted to have the same financial year as Pandora)

	EV/EBITDA			EV/EBIT			P/E			P/FCF		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
Hard Global Luxury												
Bulgari	15.4	12.3	10.4	28.0	19.9	15.8	44.3	24.5	18.7	45.1	24.7	18.5
Richemont	13.1	12.3	10.8	16.7	14.7	12.8	24.7	19.7	17.2	29.0	25.9	n.a.
Swatch	12.4	10.7	9.3	14.7	12.5	10.8	20.6	18.0	15.9	23.9	20.0	19.4
Tiffany	9.9	9.0	7.8	12.8	11.4	9.7	21.8	19.1	16.7	24.7	20.9	n.a.
Average	**12.7**	**11.1**	**9.6**	**18.0**	**14.7**	**12.3**	**27.9**	**20.3**	**17.1**	**30.7**	**22.9**	**18.9**
Average excluding Bulgari	**11.8**	**10.7**	**9.3**	**14.7**	**12.9**	**11.1**	**22.4**	**18.9**	**16.6**	**25.9**	**22.3**	**19.4**
Soft Global Luxury												
LVMH	12.0	10.5	9.3	14.2	12.3	10.8	22.3	19.5	17.1	23.8	20.6	18.4
Burberry	12.6	11.1	9.3	15.4	13.5	11.4	28.2	20.7	17.7	30.1	21.7	n.a.
Tod's	11.4	10.0	8.9	13.9	12.2	10.7	21.3	19.2	17.1	22.5	21.1	18.7
Polo Ralph Lauren	9.0	8.4	7.7	11.2	10.4	9.5	20.2	17.7	15.4	18.4	15.5	n.a.
Hermes	21.3	18.9	16.9	24.4	21.6	19.5	39.0	34.7	31.3	50.2	40.9	35.7
Average	**13.3**	**11.8**	**10.4**	**15.8**	**14.0**	**12.4**	**26.2**	**22.4**	**19.7**	**29.0**	**24.0**	**24.3**
Average excluding Hermes	**11.3**	**10.0**	**8.8**	**13.7**	**12.1**	**10.6**	**23.0**	**19.3**	**16.9**	**23.7**	**19.7**	**18.5**
Affordable Luxury												
Coach	9.2	9.5	8.3	10.3	10.2	9.0	20.1	17.2	15.5	16.5	14.7	n.a.
Geox	6.9	6.4	5.7	10.2	9.3	8.1	18.8	17.0	14.4	18.8	16.9	14.0
Average	**8.1**	**7.9**	**7.0**	**10.3**	**9.8**	**8.5**	**19.4**	**17.1**	**15.0**	**17.7**	**15.8**	**14.0**
Global Brand Retailers												
H&M	12.0	11.1	9.7	13.7	12.8	11.3	19.3	18.2	16.0	21.9	20.9	n.a.
Inditex	10.8	9.6	8.2	14.2	12.5	10.7	21.3	18.9	16.7	17.8	16.1	15.8
Average	**11.4**	**10.3**	**9.0**	**14.0**	**12.7**	**11.0**	**20.3**	**18.5**	**16.3**	**19.9**	**18.5**	**15.8**
Other peers												
Bijou Brigitte	7.5	7.3	7.1	8.7	8.5	8.4	14.1	13.5	13.0	20.3	18.9	18.2
Folli-Follie	6.3	5.5	5.0	7.0	6.2	5.5	6.5	5.5	5.1	9.7	7.6	7.1
Signet Jewelers	7.1	6.2	5.2	8.4	7.2	5.8	16.3	13.8	12.2	14.8	14.4	n.a.
Luxottica	11.3	10.0	8.9	16.3	14.0	12.2	22.1	19.2	16.9	20.4	18.0	16.8
Average	**8.0**	**7.3**	**6.6**	**10.1**	**9.0**	**8.0**	**14.8**	**13.0**	**11.8**	**16.3**	**14.7**	**14.0**
Total average	**11.1**	**9.9**	**8.7**	**14.1**	**12.3**	**10.7**	**22.4**	**18.6**	**16.3**	**24.0**	**19.9**	**18.3**
Total average excl. Hermes and Bulgari	**10.1**	**9.2**	**8.1**	**12.5**	**11.2**	**9.8**	**19.8**	**17.1**	**15.1**	**20.8**	**18.2**	**16.0**
Total average excl. other peers	**12.0**	**10.8**	**9.4**	**15.4**	**13.3**	**11.5**	**24.8**	**20.3**	**17.7**	**26.4**	**21.5**	**20.1**
Total average ex. Hermes, Bulgari and other peers	**10.9**	**9.9**	**8.6**	**13.4**	**12.0**	**10.4**	**21.7**	**18.7**	**16.4**	**22.5**	**19.5**	**17.3**

Source: Bloomberg and Nordea Markets

Relative valuation overview

We base our valuation on hard global luxury excluding Bulgari as this is the peer group closest to Pandora, in our view. We believe P/E multiples are the best valuation method. Using 2011 P/E multiples for Hard Global Luxury peers excluding Buligari on our estimates indicate a fair value of DKK 370 per share. Using the 2012 P/E multiple for the peer group indicates DKK 426 per share, which reflects the solid earnings progression in Pandora.

Pandora has a wholesale model that requires low investments in fixed assets (stores) and thus low depreciations. This explains the relatively large difference between a valuation based on EV/EBIT and EV/EBITDA multiples, and is thus a key argument for using peer group EV/EBIT rather than EV/EBITDA multiples in the case of Pandora. Amortisation of distribution rights (which should be fully amortised after Q2 2011) has a negative effect on valuation in 2010 and 2011.

The higher valuation of Pandora using P/E instead of EV/EBITDA and EV/EBIT reflects Pandora’s low debt and its benefit from a low corporate tax rate as a consequence of the tax exemption status in Thailand. However, there is some uncertainty about the extension of the tax exemption beyond 2012, which is not reflected in the P/E multiple. On the other hand, Pandora’s earnings are reduced as a consequence of the CWE earn-out impact on net financials, which will not continue after 2015 (again, not reflected in the P/E multiple). Earnings for 2011 will also be impacted by the amortisation of distribution rights.

Our main argument against a multiple valuation approach on Pandora is the uncertainty about mid-and long-term development, whereas peers have long-proven business models based on very strong brands. However, in our view, Pandora is likely to trade at multiples currently, where we foresee a very strong performance in coming years.

We have also looked at P/FCF to reflect the strong cash flow generation at Pandora. However, this valuation method gives a very wide valuation range and we thus find it less relevant.

Relative valuation using Nordea’s Pandora estimates (DKK per share)

	EBITDA			EBIT			Net profit			Free cash flow		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
Nordea's Pandora estimates	2,696	3,444	4,276	2,439	3,273	4,172	1,850	2,527	3,317	816	2,110	2,632
Multiple	EV/EBITDA			EV/EBIT			P/E			P/FCF		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
Hard Global Luxury	246.0	276.5	298.2	322.5	353.1	377.9	398.2	396.4	438.7	194.3	373.0	384.8
Hard Global Luxury excl. Bulgari	227.2	265.5	289.0	260.3	308.7	339.8	320.2	369.5	425.7	164.2	363.2	393.9
Soft Global Luxury	257.2	295.1	326.5	281.1	336.8	381.4	374.5	436.3	505.4	183.8	390.6	492.8
Soft Global Luxury excl. Hermes	215.6	247.8	273.2	241.1	288.8	324.4	328.9	376.3	431.6	150.6	321.8	376.9
Affordable Luxury	149.9	193.3	212.7	177.0	230.2	258.2	277.9	334.4	383.7	112.8	258.0	286.2
Global Brand Retailers	218.9	257.0	278.8	246.1	303.0	336.4	291.0	361.9	418.6	126.7	302.1	321.6
Other peers	149.1	175.5	199.5	173.8	210.4	240.5	211.9	254.7	302.7	104.4	240.7	285.5
Total average excl. Hermes and Bulgari	191.9	226.0	249.4	219.1	266.0	297.9	284.1	335.0	387.9	132.8	297.3	326.5
Total average excl. other peers	231.4	267.9	293.0	272.4	320.2	354.4	354.1	396.9	452.8	167.3	351.2	408.0
Total average ex. Hermes, Bulgari and other peers	207.4	244.4	267.5	235.6	286.2	318.7	310.4	364.2	418.9	143.1	317.9	351.1
High	257.2	295.1	326.5	322.5	353.1	381.4	398.2	436.3	505.4	194.3	390.6	492.8
Low	149.1	175.5	199.5	173.8	210.4	240.5	211.9	254.7	302.7	104.4	240.7	285.5

Source: Bloomberg and Nordea Markets

Valuation premium or discount

Applying peer group multiples to our Pandora estimates gives a fairly broad valuation range. There are, in our view, arguments for applying both peer group premiums and discounts on Pandora.

Arguments for peer group valuation premiums and discounts

Valuation premium	Valuation discount
• High revenue growth • Superior margins • Large potential for new stores and retailer upgrades • Untouched by economic downturn • Category killer concept • Proven ability to penetrate new markets • Untapped Chinese market offers large potential • Repeat sales through charm-bracelet concept	• Risk of change in consumer taste • High dependence on charm-bracelet concept • Risk of limited success of new products • Unproven track record in China • Margin sustainability • Limited historical data • Weaker brand than established luxury brands

Source: Company data and Nordea Markets

The main argument for a valuation premium is the very high revenue growth with superior margins at Pandora. In addition, Pandora has performed remarkably well during the economic downturn. If Pandora is truly a sustainable category killer, the potential is high, as reflected by the ongoing successes of best-in-class retailers such as Inditex and H&M. Furthermore, the low exposure to China represents large untapped potential.

Arguments for a valuation discount comprise the high dependency on the charm bracelet concept, which could become out of favour or be a product that does not appeal to Asian consumers as strongly as in markets already penetrated. However, the captivity elements of the product should still secure high revenue for several years. The transformation towards a lower dependency on the charm bracelet concept by further leveraging the other existing jewelry collection and adjacent products has just begun and it is uncertain whether Pandora will succeed. The development through 2010, however, indicates that Pandora is on track to increase the revenue share of Other jewellery. Owing to limited historical data and because Pandora is a relatively new company with a relatively new brand, a valuation discount to global hard luxury could be motivated.

On the basis of the above, we apply neither a valuation discount nor premium to Pandora versus its peer group.

DCF valuation

Pandora's business model generates significant cash flow. Hence, the company is well suited for a DCF valuation.

Revenue growth and EBITDA margins are the main cash flow drivers for Pandora. There is, however, significant uncertainty as to how these develop over time, which gives a very wide range for input to the DCF valuation. Given the large uncertainty about the future, we believe Pandora is less likely to trade on DCF valuation than on peer group valuation at this time.

Overall, we identify three main drivers of Pandora's revenue growth going forward:

1. <u>Growth in existing markets through branded sales channels:</u> Upgrading of existing multi-brand retailers across all existing markets and an increasing number of branded PoS should strengthen the brand and drive higher sales productivity. Overall revenue per door increases with branded sales as the higher m^2 per store allows more Pandora products to be shown. This is a key driver for short-term and mid-term revenue growth.

2. <u>Successful entry into new markets:</u> Pandora has only recently entered the two large traditional luxury markets Italy and France through independent multi-brand retailers. In addition, several high potential

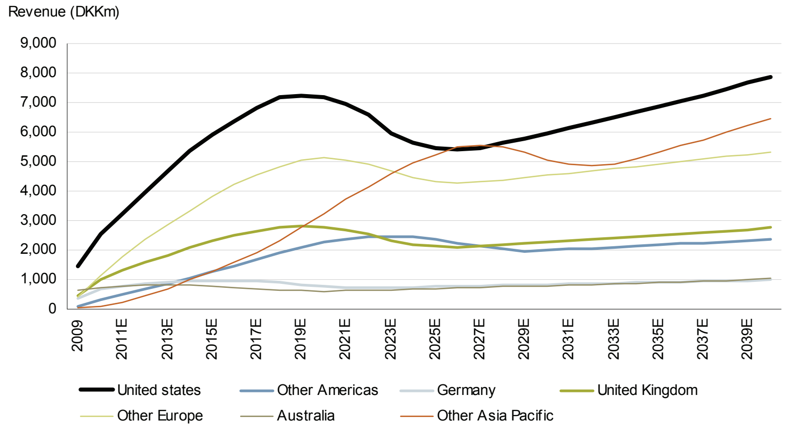
emerging markets (eg China, Russia and India) hold untapped potential and the opportunity to capitalise on fragmented distribution. Compared with its peers, Pandora has a low proportion of revenue in Asia (excluding Australia).

3. Leveraging the product offering: An increased share of branded sales should support the possibility of leveraging all existing collections and adjacent products. Pandora has seen good momentum in its other jewelry collections, which comprised 20.4% of revenue in Q3 2010, up from 10.4% in 2009. Diversifying the product range is a key medium-term revenue driver, in our view, in order to compensate for the likely effect of maturing charm-bracelet revenue (product life-cycle theory).

In our base scenario, we factor in success with entering new markets and upgrading the distribution quality in the key markets by expanding with new stores and upgrading existing ones towards branded stores. The latter was confirmed by the strong Q3 2010 development in terms of PoS openings and upgrades.

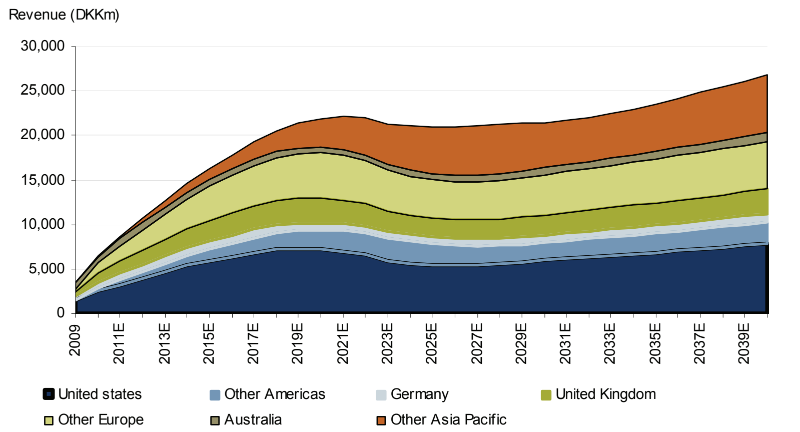
A key driver for future growth and the sustainability of the business is Pandora’s ability to expand the product offering. The very strong development for Other Jewellery in Q3 2010 and the apparent success of the Ring-Upon-Ring concept make us increasingly optimistic that Pandora will have success with other products, which should mitigate the potential reduction in charm-bracelet revenue in each market as markets mature.

Revenue per geography in base case (DKKm)



Source: Nordea Markets

Aggregated revenue curve in base case (DKKm)

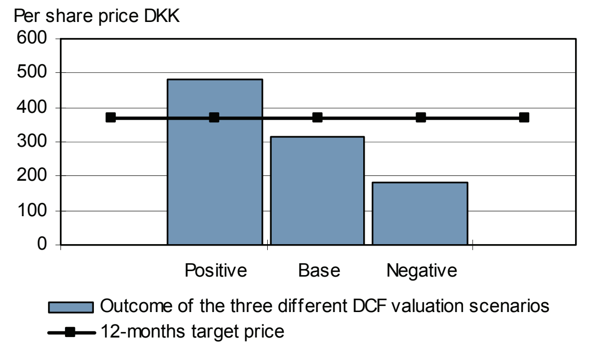


Our base case scenario points to a fair value of DKK 316 per share, which reflect solid revenue growth in the coming years but also a cautious approach to the development in each market over time as the charm-bracelet revenue matures.

If Pandora is able to maintain solid revenue growth and succeeds in fully leveraging the brand into other products, our valuation points to a fair value of DKK 484 per share. With the current solid revenue growth and great outlook for coming years, we believe investors increasingly will look to this valuation, which will be supportive for a further strong share price performance.

Should Pandora fail to enter new markets successfully and is unable to benefit from other jewellery, we estimate a fair value to be DKK 182 per share.

DCF valuation



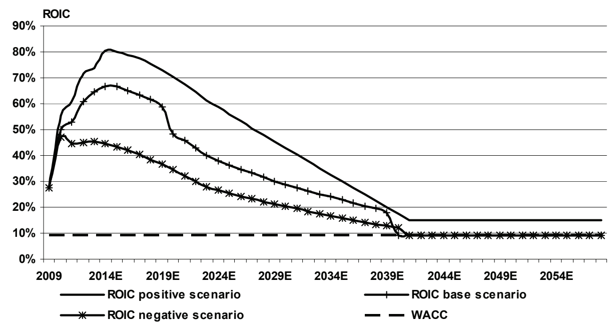
Source: Nordea Markets

WACC

Beta calculation			
Beta asset	1.20	Beta debt	0.10
Equity weight	90%	Debt weight	10%
Beta equity	**1.32**		
WACC calculation			
Risk free interest rate	3.6%	Risk free interest rate	3.6%
Market risk premium	4.5%	Debt risk premium	1.5%
Beta equity	1.32	Tax rate	18.0%
Cost of equity	**9.6%**	**Cost of debt**	**4.2%**
Equity weight	90%	Debt weight	10%
WACC	**9.0%**		

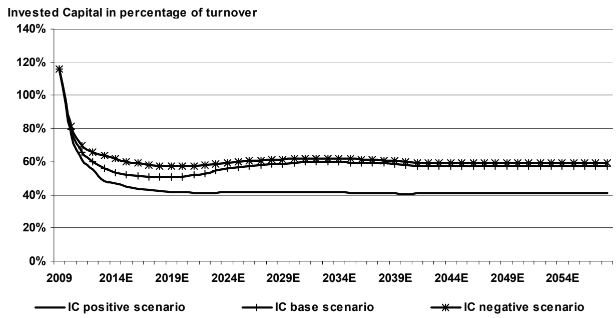
Source: Nordea Markets

ROIC and WACC



Source: Nordea Markets

Invested capital in % of turnover



Source: Nordea Markets

DCF valuation - positive scenario

DKKm	2008	2009	2010E	2011E	2012E	2013E	…	2023E	2024E	…	2040E	After 2040E
Total revenue	**1,904**	**3,461**	**6,832**	**9,565**	**12,434**	**14,300**	…	**31,873**	**32,822**	…	**50,874**	
- growth		81.7%	97.4%	40.0%	30.0%	15.0%	…	3.0%	3.0%	…	2.6%	2.6%
EBIT	**738**	**1,424**	**2,705**	**3,825**	**5,098**	**6,149**	…	**11,155**	**11,005**	…	**5,087**	
- margin	38.8%	41.1%	39.6%	40.0%	41.0%	43.0%	…	35.0%	33.5%	…	10.0%	8.5%
Depreciation	**40**	**148**	**271**	**190**	**121**	**142**	…	**574**	**589**	…	**865**	
- % of total revenue	2.1%	4.3%	4.0%	2.0%	1.0%	1.0%	…	1.8%	1.8%	…	1.7%	1.7%
Capital expenditure	**2,972**	**207**	**206**	**287**	**311**	**357**	…	**797**	**812**	…	**1,043**	
- % of total revenue	156.0%	6.0%	3.2%	3.0%	2.5%	2.5%	…	2.5%	2.5%	…	2.1%	2.3%
Net working capital	902	520	1,793	2,347	3,142	3,003	…	6,693	6,893	…	10,684	
- % of total revenue	47.3%	15.0%	26.2%	24.5%	25.3%	21.0%	…	21.0%	21.0%	…	21.0%	21.0%
Change in net working capital		**-381**	**1,273**	**554**	**794**	**-139**	…	**195**	**199**	…	**271**	
Taxes paid	**68**	**236**	**478**	**650**	**893**	**1,091**	…	**3,347**	**3,301**	…	**1,526**	
- % of EBIT	9.2%	16.5%	17.7%	17.0%	17.5%	17.7%	…	30.0%	30.0%	…	30.0%	30.0%
Free cash flow		**1,510**	**1,020**	**2,525**	**3,221**	**4,980**	…	**7,391**	**7,281**	…	**3,112**	
Invested capital	**4,336**	**4,014**	**5,221**	**5,872**	**6,856**	**6,933**	…	**13,155**	**13,578**	…	**20,675**	
- percentage of turnover	228%	116%	76%	61%	55%	48%	…	41%	41%	…	41%	41%
ROIC		**27%**	**55%**	**61%**	**72%**	**74%**	…	**61%**	**59%**	…	**18%**	**15%**

Enterprise value DKKm	**65,820**	**Enterprise value per share DKK**	**505.8**
+ Cash - interest bearing debt DKKm (end 2009)	-2,151	+ Cash - interest bearing debt per share DKK	-16.5
- CWE earn-out (end 2010)	-449	- CWE earn-out (end 2010)	-3.5
+ Associated companies - minorities DKKm (end 2009)	-275	+ Associated companies - minorities per share DKK	-2.1
Market value DKKm	**62,945**	**Market value per share DKK**	**483.7**

DCF valuation - base scenario

DKKm	2008	2009	2010E	2011E	2012E	2013E	…	2023E	2024E	…	2040E	After 2040E
Total revenue	**1,904**	**3,461**	**6,486**	**8,614**	**10,695**	**12,660**	…	**21,327**	**21,056**	…	**26,787**	
- growth		81.7%	87.4%	32.8%	24.2%	18.4%	…	-3.2%	-1.3%	…	2.6%	2.6%
EBIT	**738**	**1,424**	**2,439**	**3,273**	**4,172**	**5,028**	…	**6,616**	**6,321**	…	**2,006**	
- margin	38.8%	41.1%	37.6%	38.0%	39.0%	39.7%	…	31.0%	30.0%	…	7.5%	7.3%
Depreciation	**40**	**148**	**258**	**171**	**104**	**125**	…	**347**	**354**	…	**466**	
- % of total revenue	2.1%	4.3%	4.0%	2.0%	1.0%	1.0%	…	1.6%	1.7%	…	1.7%	1.7%
Capital expenditure	**2,972**	**207**	**206**	**258**	**267**	**317**	…	**533**	**526**	…	**549**	
- % of total revenue	156.0%	6.0%	3.2%	3.0%	2.5%	2.5%	…	2.5%	2.5%	…	2.1%	2.2%
Net working capital	902	520	1,702	2,114	2,702	3,217	…	5,488	5,417	…	6,918	
- % of total revenue	47.3%	15.0%	26.2%	24.5%	25.3%	25.4%	…	25.7%	25.7%	…	25.8%	25.8%
Change in net working capital		**-381**	**1,182**	**412**	**588**	**515**	…	**-182**	**-71**	…	**178**	
Taxes paid	**68**	**236**	**431**	**556**	**730**	**893**	…	**1,985**	**1,896**	…	**602**	
- % of EBIT	9.2%	16.5%	17.7%	17.0%	17.5%	17.7%	…	30.0%	30.0%	…	30.0%	30.0%
Free cash flow		**1,510**	**877**	**2,218**	**2,690**	**3,430**	…	**4,627**	**4,323**	…	**1,142**	
Invested capital	**4,336**	**4,014**	**5,144**	**5,643**	**6,394**	**7,100**	…	**11,639**	**11,740**	…	**15,517**	
- percentage of turnover	228%	116%	79%	66%	60%	56%	…	55%	56%	…	58%	58%
ROIC		**27%**	**50%**	**53%**	**61%**	**65%**	…	**40%**	**38%**	…	**9%**	**9%**

Enterprise value DKKm	**44,011**		
+ Cash - interest bearing debt DKKm (end 2009)	-2,151	+ Cash - interest bearing debt per share DKK	-16.5
- CWE earn-out (end 2010)	-449	- CWE earn-out (end 2010)	-3.5
+ Associated companies - minorities DKKm (end 2009)	-275	+ Associated companies - minorities per share DKK	-2.1
Market value DKKm	**41,136**	**Market value per share DKK**	**316.1**

DCF valuation - negative scenario

DKKm	2008	2009	2010E	2011E	2012E	2013E	…	2023E	2024E	…	2040E	After 2040E
Total revenue	**1,904**	**3,461**	**6,230**	**7,787**	**8,956**	**9,851**	…	**15,241**	**15,264**	…	**19,221**	
- growth		81.7%	80.0%	25.0%	15.0%	10.0%	…	0.0%	0.2%	…	2.6%	2.6%
EBIT	**738**	**1,424**	**2,305**	**2,726**	**2,955**	**3,251**	…	**3,505**	**3,394**	…	**1,922**	
- margin	38.8%	41.1%	37.0%	35.0%	33.0%	33.0%	…	23.0%	22.2%	…	10.0%	7.5%
Depreciation	**40**	**148**	**248**	**155**	**96**	**127**	…	**274**	**274**	…	**327**	
- % of total revenue	2.1%	4.3%	4.0%	2.0%	1.1%	1.3%	…	1.8%	1.8%	…	1.7%	1.7%
Capital expenditure	**2,972**	**207**	**198**	**234**	**224**	**246**	…	**381**	**378**	…	**404**	
- % of total revenue	156.0%	6.0%	3.2%	3.0%	2.5%	2.5%	…	2.5%	2.5%	…	2.1%	2.2%
Net working capital	902	520	1,635	1,911	2,263	2,503	…	3,922	3,928	…	4,964	
- % of total revenue	47.3%	15.0%	26.2%	24.5%	25.3%	25.4%	…	25.7%	25.7%	…	25.8%	25.8%
Change in net working capital		**-381**	**1,115**	**276**	**352**	**241**	…	**5**	**7**	…	**127**	
Taxes paid	**68**	**236**	**408**	**463**	**517**	**577**	…	**1,052**	**1,018**	…	**577**	
- % of EBIT	9.2%	16.5%	17.7%	17.0%	17.5%	17.7%	…	30.0%	30.0%	…	30.0%	30.0%
Free cash flow		**1,510**	**833**	**1,908**	**1,958**	**2,314**	…	**2,342**	**2,265**	…	**1,142**	
Invested capital	**4,336**	**4,014**	**5,079**	**5,433**	**5,913**	**6,272**	…	**8,937**	**9,048**	…	**11,495**	
- percentage of turnover	228%	116%	82%	70%	66%	64%	…	59%	59%	…	60%	59%
ROIC		**27%**	**47%**	**45%**	**45%**	**45%**	…	**28%**	**27%**	…	**12%**	**9%**

Enterprise value DKKm	**26,491**	**Enterprise value per share DKK**	**203.6**
+ Cash - interest bearing debt DKKm (end 2009)	-2,151	+ Cash - interest bearing debt per share DKK	-16.5
- CWE earn-out (end 2010)	-449	- CWE earn-out (end 2010)	-3.5
+ Associated companies - minorities DKKm (end 2009)	-275	+ Associated companies - minorities per share DKK	-2.1
Market value DKKm	**23,616**	**Market value per share DKK**	**181.5**

Source: Nordea Markets

Scenario analysis on margin development

With regards to the future development in Pandora's EBITDA margins, we identify the following main drivers:

- operational leverage;
- selling price development;
- product mix and gross margin;
- and raw material and FX exposure.

As pointed out earlier in this report, Pandora's business model should offers significant operational leverage, though expansion in new markets is costly and brings increases in distribution costs. Consequently, revenue growth should be supportive of margin increases going forward.

In existing markets, Pandora has historically been able to increase its selling prices. Obviously, higher selling prices on existing products would be supportive of margins. In addition, Pandora benefits from higher scale as seen in the USA, which will also be the case in other countries as revenue grows. The company expects to be able to charge higher prices in new markets such as China, but the margin effect will be limited as a consequence of higher import duties than in other countries.

On the other hand, we see a medium-term/long-term risk that the high economic profits currently earned on charm bracelets and charms could attract attention from more fierce competitors and/or retailers launching private label versions and/or a shift in consumers' taste, leading to reduced selling prices and consequently some margin pressure.

Looking at the margins of some of Pandora's peers, it appears that some of the new product categories (eg watches) that Pandora has entered or plans to enter carry lower profitability.

Finally, significant raw material and FX exposure will always be strong and exogenous margin drivers for Pandora. Currently the development in commodity price is a key focus area, as this is likely to bring margin compression in 2011 and 2012, in our view.

In the table below, we calculate the effect of changing the margin assumptions in our base case scenario. If Pandora is able to maintain its industry-leading margins, this has a significant effect on valuation.

Valuation per share dependent on the pace of EBITDA margin decline

		Annual EBITDA margin decrease from 2026					
		0.0%	**0.5%**	**1.0%**	**1.5%**	**2.0%**	**2.5%**
Annual EBITDA margin decrease from 2016 to 2026	**0.0%**	384	375	367	359	350	342
	0.5%	358	350	342	333	325	
	1.0%	333	324	**316**	308	299	
	1.5%	307	299	291	282		
	2.0%	282	274	265			
	2.5%	256	248				
	3.0%	231					

Source: Nordea Markets

Scenario analysis on market risk premium and beta asset

Asset beta and equity weights are the main fundamental assumptions behind our WACC calculation. We choose an asset beta of 1.2 to reflect the company's operational risks and an equity weight of 90% to reflect our assumptions about the long-term capital structure. The table below shows a sensitivity analysis using our base scenario DCF valuation as an example based on different asset beta and equity weight assumptions.

Share price sensitivity table

		Beta asset				
		1.0	**1.1**	**1.2**	**1.3**	**1.4**
Market risk premium	**4.00%**	362	348	335	322	310
	4.25%	353	339	325	312	300
	4.50%	345	330	**316**	303	291
	4.75%	336	322	308	295	282
	5.00%	329	313	299	286	274

Source: Nordea Markets

Reported numbers and forecasts

Income statement										
DKKm and %	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Total revenue	0	0	0	0	0	1,904	3,461	6,486	8,614	10,695
- growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	81.7%	87.4%	32.8%	24.2%
Gross profit	0	0	0	0	0	0	2,471	4,648	5,944	7,273
- margin	n.m.	n.m.	n.m.	n.m.	n.m.	0.0%	71.4%	71.7%	69.0%	68.0%
EBITDA	0	0	0	0	0	778	1,572	2,696	3,444	4,276
- margin	n.m.	n.m.	n.m.	n.m.	n.m.	40.9%	45.4%	41.6%	40.0%	40.0%
EBITA	0	0	0	0	0	738	1,424	2,439	3,273	4,172
- margin	n.m.	n.m.	n.m.	n.m.	n.m.	38.8%	41.1%	37.6%	38.0%	39.0%
EBIT	0	0	0	0	0	738	1,424	2,439	3,273	4,172
- margin	n.m.	n.m.	n.m.	n.m.	n.m.	38.8%	41.1%	37.6%	38.0%	39.0%
Net finance	0	0	0	0	0	0	-235	-150	-184	-114
Pre-tax profit	0	0	0	0	0	496	1,189	2,289	3,089	4,058
Taxes	0	0	0	0	0	-140	-184	-412	-556	-730
Net profit, continuing operations	0	0	0	0	0	356	1,005	1,877	2,533	3,328
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit to equity	0	0	0	0	0	356	969	1,850	2,527	3,317
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	2.73	7.45	14.21	19.42	25.49
EPS (adj.)	n.a.	n.a.	n.a.	n.a.	n.a.	4.60	8.04	16.35	20.75	26.12

Balance Sheet										
DKKm	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Goodwill	0	0	0	0	0	932	1,208	1,862	1,862	1,862
Other intangibles	0	0	0	0	0	2,358	2,327	2,389	2,267	2,237
Tangible assets	0	0	0	0	0	115	205	379	588	781
Shares associates	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	29	77	67	67	67
Other non-interest bearing non-current assets	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	0	0	0	0	1	21	21	21	21
Non-current assets	**0**	**0**	**0**	**0**	**0**	**3,434**	**3,838**	**4,718**	**4,805**	**4,969**
Inventory	0	0	0	0	0	143	433	1,200	1,680	2,139
Accounts receivable	0	0	0	0	0	332	622	1,038	1,292	1,604
Other current assets	0	0	0	0	0	67	99	395	345	428
Cash and cash equivalents	0	0	0	0	0	305	824	605	992	2,484
Current assets	**0**	**0**	**0**	**0**	**0**	**847**	**1,978**	**3,238**	**4,309**	**6,655**
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	**0**	**0**	**0**	**0**	**0**	**4,282**	**5,816**	**7,956**	**9,114**	**11,624**
Shareholders equity	**0**	**0**	**0**	**0**	**0**	**428**	**1,451**	**3,875**	**5,754**	**8,187**
Minority interest	**0**	**0**	**0**	**0**	**0**	**0**	**197**	**0**	**6**	**17**
Deferred tax	0	0	0	0	0	586	559	540	540	540
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	0	0	0	0	0	2,694	2,703	1,337	1,037	737
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	1	4	19	26	32
Other long-term liabilities	0	0	0	0	0	0	0	474	574	674
Non-current liabilities	**0**	**0**	**0**	**0**	**0**	**3,281**	**3,267**	**2,370**	**2,177**	**1,983**
Short-term provisions	0	0	0	0	0	23	64	100	100	100
Accounts payable	0	0	0	0	0	30	106	195	258	321
Other current liabilities	0	0	0	0	0	221	459	616	818	1,016
Short term interest bearing debt	0	0	0	0	0	299	272	800	0	0
Current liabilities	**0**	**0**	**0**	**0**	**0**	**573**	**900**	**1,711**	**1,177**	**1,437**
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**0**	**0**	**0**	**0**	**0**	**4,282**	**5,816**	**7,956**	**9,114**	**11,624**
Net interest bearing debt	0	0	0	0	0	2,688	2,151	2,006	619	-1,073
Net working capital	0	0	0	0	0	291	589	1,822	2,240	2,834
Invested capital	0	0	0	0	0	3,695	4,329	6,452	6,957	7,715

Source: Company data and Nordea Markets

Cash flow statement

DKKm	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
EBITDA	0	0	0	0	0	778	1,572	2,696	3,444	4,276
Change in NWC	0	0	0	0	0	-119	-86	-1,203	-412	-588
Adj due to change in group structure	0	0	0	0	0	58	17	123	0	0
Change in Provisions	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	0	0	0	2	8	81	0	0
Gross operating cash flow	**0**	**0**	**0**	**0**	**0**	**720**	**1,511**	**1,697**	**3,033**	**3,688**
Net financials	0	0	0	0	0	-149	-226	-244	-108	-58
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	0	0	0	0	0	-68	-236	-431	-556	-730
Net operating cash flow	**0**	**0**	**0**	**0**	**0**	**503**	**1,050**	**1,022**	**2,369**	**2,900**
CAPEX	0	0	0	0	0	-48	-103	-200	-258	-267
Proceeds from sale of assets	0	0	0	0	0	1	0	0	0	0
Other	0	0	0	0	0	-2,924	-90	-6	0	0
Free cash flow	**0**	**0**	**0**	**0**	**0**	**-2,469**	**858**	**816**	**2,110**	**2,632**
Dividends paid	0	0	0	0	0	0	0	-200	-647	-884
Other investments / divestments	0	0	0	0	0	0	0	0	0	0
Share issues / buybacks	0	0	0	0	0	0	0	600	0	0
Net change to group borrowing/repayments	0	0	0	0	0	2,883	-344	-838	-1,100	-300
Other	0	0	0	0	0	0	1	-597	0	0
Change in cash	**0**	**0**	**0**	**0**	**0**	**414**	**515**	**-219**	**363**	**1,448**

Key ratios

Per share data	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	2.73	7.45	14.21	19.42	25.49
EPS (adj.)	n.a.	n.a.	n.a.	n.a.	n.a.	4.60	8.04	16.35	20.75	26.12
DPS	0.0	0.0	0.0	0.0	0.0	0.0	1.5	5.0	6.8	8.9
BVPS	n.m.	n.m.	n.m.	n.m.	n.m.	3.3	11.1	29.8	44.2	62.9
Key ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.9	16.0	12.2
P/E (adj.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.1	15.0	11.9
P/BV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.5	7.0	5.0
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.6	4.8	3.7
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.9	12.0	9.3
EV/EBITA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17.6	12.7	9.5
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17.6	12.7	9.5
Dividend yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0
FCF yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	0.1	0.1
Payout ratio	n.m.	n.m.	n.m.	n.m.	n.m.	0.0	0.0	0.1	0.3	0.3
Profitability	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
ROE after tax	n.m.	n.m.	n.m.	n.m.	n.m.	166.3%	103.2%	69.5%	52.5%	47.6%
ROIC after tax	n.m.	n.m.	n.m.	n.m.	n.m.	47.6%	40.1%	52.9%	57.1%	66.8%
Credit metrics	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Interest coverage	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-4.8	-12.4	-15.0	-24.9
Net debt / EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	3.5	1.4	0.7	0.2	n.m.
Leverage	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Equity ratio	n.m.	n.m.	n.m.	n.m.	n.m.	10.0%	24.9%	48.7%	63.1%	70.4%
Net gearing	n.m.	n.m.	n.m.	n.m.	n.m.	628.5%	130.5%	51.8%	10.7%	n.m.
Capital expenditure	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
CAPEX/Depreciation and amortisation	n.m.	n.m.	n.m.	n.m.	n.m.	-1.20	-0.69	-0.78	-1.51	-2.57
CAPEX/Sales	n.m.	n.m.	n.m.	n.m.	n.m.	0.03	0.03	0.03	0.03	0.03
Working capital ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Inventory turnover (days)	n.m.	n.m.	n.m.	n.m.	n.m.	27	46	68	71	73
Receivables turnover (days)	n.m.	n.m.	n.m.	n.m.	n.m.	64	66	58	55	55
Days sales outstanding (days)	n.m.	n.m.	n.m.	n.m.	n.m.	6	11	11	11	11
Price and shares	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Share price year end (/current)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	312	312	312
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40,540	40,540	40,540
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42,815	41,428	39,736
Number of shares in issue, year-end (m)	0.0	0.0	0.0	0.0	0.0	130.1	130.1	130.1	130.1	130.1
Diluted number of shares, year-end (m)	0.0	0.0	0.0	0.0	0.0	130.1	130.1	130.1	130.1	130.1
Weigthed average number of shares (m)	0.0	0.0	0.0	0.0	0.0	130.1	130.1	130.1	130.1	130.1
Weighted average number of shares (diluted)	0.0	0.0	0.0	0.0	0.0	130.1	130.1	130.1	130.1	130.1

Source: Company data and Nordea Markets

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Date	Change of	To	From
15 Nov 2010	Recommendation	Buy	n.a.
15 Nov 2010	Target	DKK 370	n.a.

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Potential to 12-month target price (X)	
Strong Buy	X > 25%
Buy	10%< X < 25%
Hold	0%< X < 10%
Sell	-15% < X < 0%
Strong Sell	X < -15%

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Strong Buy	9%
Buy	56%
Hold	26%
Sell	9%
Strong Sell	0%

As of 1 October 2010

Distribution of recommendations (transactions)*

Recommendation	% distribution
Strong Buy	24%
Buy	52%
Hold	19%
Sell	5%
Strong Sell	0%

As of 1 October 2010

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