CONQUERING LATIN AMERICA

PANDORA

IBCC
IB CASE COMPETITION

PROLOGUE

Gazing at the horizon from the porch of his Swedish summer residence, Anders Colding Friis was reflecting upon his first year with PANDORA. A year ago, he was standing on the same porch with an important decision to make. At that time, Anders was to decide on the path that would define the next years of his life. He thought of his past years in Scandinavian Tobacco Group (STG) and his fascination for the company and its employees. Anders could decide either to stay and steer STG through an upcoming IPO or settle out for a new journey. A journey that would prove to be one of the best decisions of his life. His adventurous spirit had throughout his life offered him guidance, and once again, he decided to trust it. Anders felt the excitement in the unknown – of what a new journey ahead could bring. In March 2015, Anders assumed the role as the new CEO of PANDORA.

For Anders, the uniqueness of PANDORA is captured in two fundamental dimensions. He has a deep fascination for the craftsmanship embedded in the jewellery and the strong focus on – and belief in – the underlying product. A fascination which is shared with PANDORA's founder, Per Enevoldsen. Together, they believe that PANDORA's success can be traced down to outstanding detail in the handcrafted pieces, which often includes the setting of more than a hundred stones one by one. While PANDORA's uniqueness is partly rooted in the products, the other dimension is what truly connects Anders with PANDORA. It is his source of inspiration and the foundation upon which PANDORA's future will be built. It is the employees. For Anders, it is all about working with dedicated and skilful people. Becoming the best version of one self and unifying diversity under one vision constitute the philosophy under which Anders is currently leading PANDORA to become the world's most loved jewellery brand.

Tremendous growth has been characterising Anders' first year as CEO of PANDORA. Growing revenue from DKK 11.9 billion in 2014 to DKK 16.7 billion in 2015, PANDORA has achieved results beyond expectation. What is achievable has been redefined within PANDORA. The success of PANDORA is attributable to two things according to Anders – having the right people and the right organisation. When taking over as CEO, Anders knew that some structural changes had to be enacted. He initiated a new organisational design, which enabled the management board to lead PANDORA together. Bringing together the right executive management team, PANDORA is now more capable than ever to become the world's most loved jewellery brand. Truly, while Anders was standing on his porch in Sweden, he was confident that he had the right people around him to lead PANDORA onto the next journey. A journey of conquering Latin America.

However, one thing kept Anders occupied. How could PANDORA establish Latin America as the fourth big region? With Europe, Middle East & Africa (EMEA), Americas and Asia being the three major regions within PANDORA, Latin America currently accounts for less than 5% of group revenue. Reflecting on the past year, Anders knew what potential PANDORA's next journey has. Being certain of the potential in the region, Anders was pondering the different options. Should PANDORA expand within existing markets or should they enter new markets? Should focus be on clusters, countries or cities? The numerous strategic considerations added up in his mind. Should PANDORA offer the full product assortment or only their cornerstone product, the charm bracelet? And how should PANDORA distribute the products – through concept stores, shop-in-shops, multibranded jewellery retailers, local distributors or eSTORES? Anders recognised the various opportunities for achieving the goal, recently defined by the board, for PANDORA's next journey.

Before meeting with the board of directors next week, Anders wanted to consult with PANDORA's trusted advisers for fresh perspectives with confidence that they have innovative and creative solutions. The question Anders intends to address concerns PANDORA's journey ahead:

"How can PANDORA conquer Latin America and increase revenue in the region from DKK 0.8[1] *billion in 2015 to an annual profitable revenue of DKK 2 billion by 2018?"*

[1]IBCC estimate based on annual report

COMPANY BACKGROUND

BECOMING THE WORLD'S MOST LOVED JEWELLERY BRAND

It all began 34 years ago in 1982. In a small jeweller's shop located in modest surroundings in Copenhagen, the Danish goldsmith Per Enevoldsen and his wife, Winnie, began the journey of what would one day become one of the world's largest jewellery companies. Founded with the fundamental purpose of offering women affordable luxury, PANDORA is now present in more than 100 countries across six continents. PANDORA's mission is to celebrate women by offering them the opportunity for personal expression through a universe of high-quality and contemporary jewellery at affordable prices. This mission is reflected in PANDORA's DNA, which has been the guiding foundation for a global expansion embodied in a total of 9,271 points of sale, more than 16,700 employees and DKK 16.7 billion in 2015 revenue. Since the beginning in 1982, PANDORA has truly been on a remarkable journey experiencing the transition from being a small family run business to a global and publicly listed company.

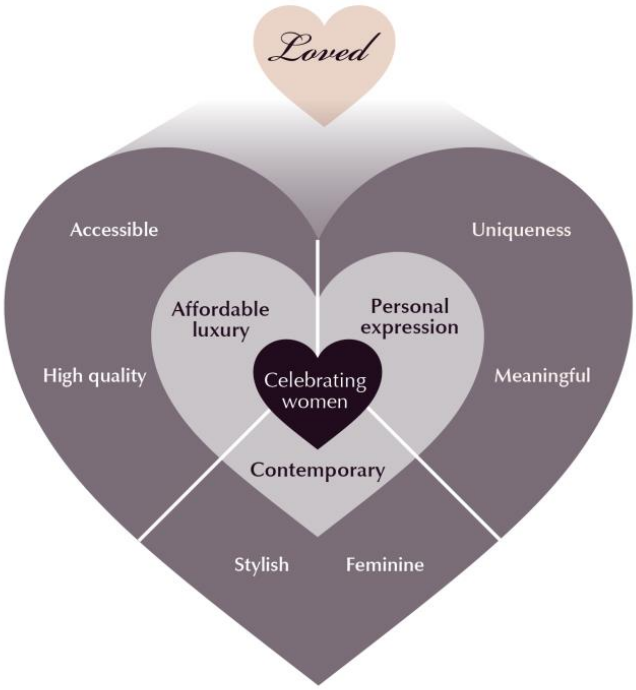
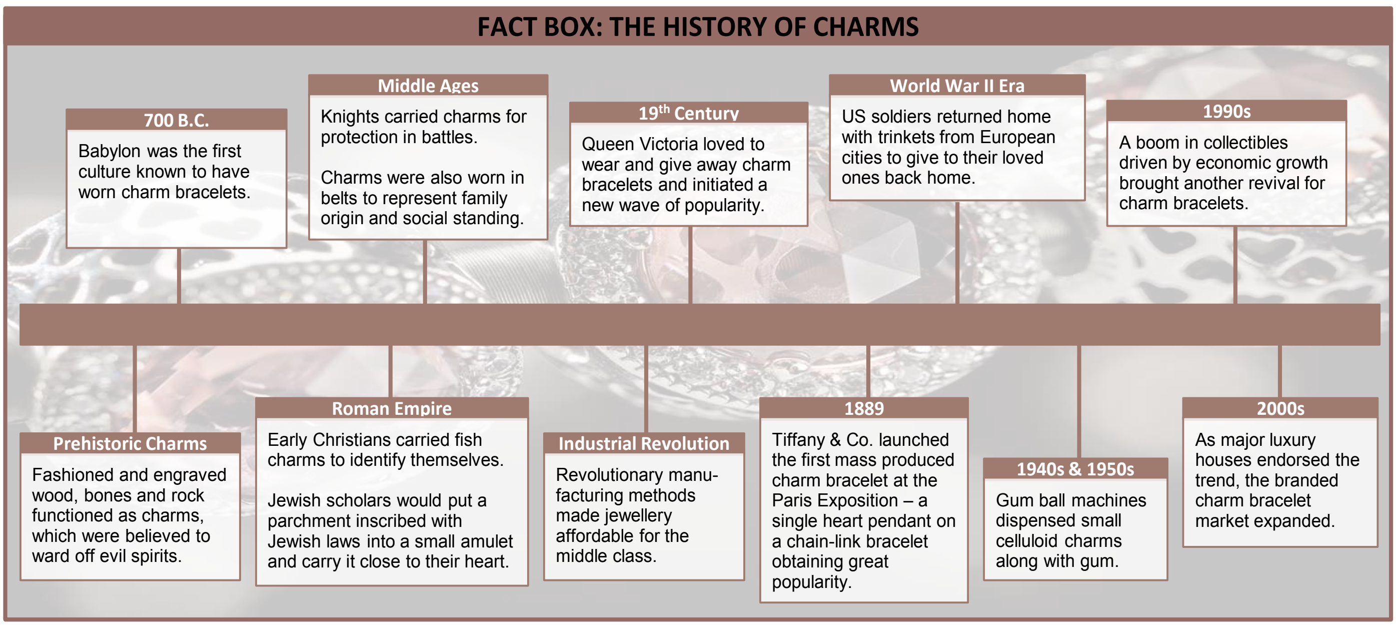


Figure 1: Brand DNA



THE CHARM BRACELET - AT THE HEART OF PANDORA'S COLLECTION

In 2000, PANDORA launched its charm bracelet concept, which was widely embraced by consumers. It encouraged a growth in demand and eventually initiated an international expansion by PANDORA. Rooted in a unique and patented functionality, the charm bracelet is a collectible concept. PANDORA's collection comprises more than 700 different charms and clips, which provides women with a vast amount of opportunities to express their personal moments and individual style. The charm bracelet concept is at the heart of PANDORA's collection and accounts for approximately 75% of PANDORA's total revenue.

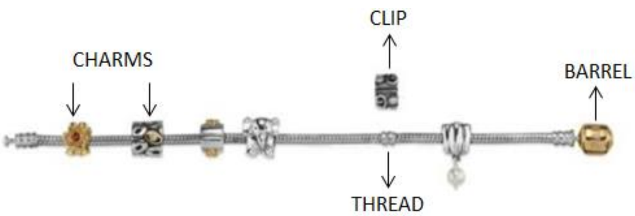


Figure 2: Charm bracelet functionality

A POLISHED VISION FOR A SPARKLING FUTURE

A lot has changed since the establishment of PANDORA. Initially a small family run jewellery shop based in Copenhagen, PANDORA is today a truly global company with offices and operations spanning the globe. PANDORA's global presence is facilitated by a vertically integrated value chain, ranging from in-house design and crafting to global marketing and direct distribution in most markets. As part of the journey, the private equity fund Axcel acquired 60% of PANDORA in 2008. Another defining milestone in the history of PANDORA transpired in 2010 where it became publicly listed on the NASDAQ OMX stock exchange in Copenhagen. While several defining events have taken place and shaped the history of PANDORA, the fundamental values upon which it was established have remained, reflected in the brand DNA. PANDORA has been built on a strong organizational platform – a platform capable of pursuing its vision of becoming the world's most loved jewellery brand. A platform capable of a new growth adventure. Indeed, it has been a remarkable journey since the beginning in a small jewellery's shop in modest surroundings with a vision laid out by a goldsmith and his wife.

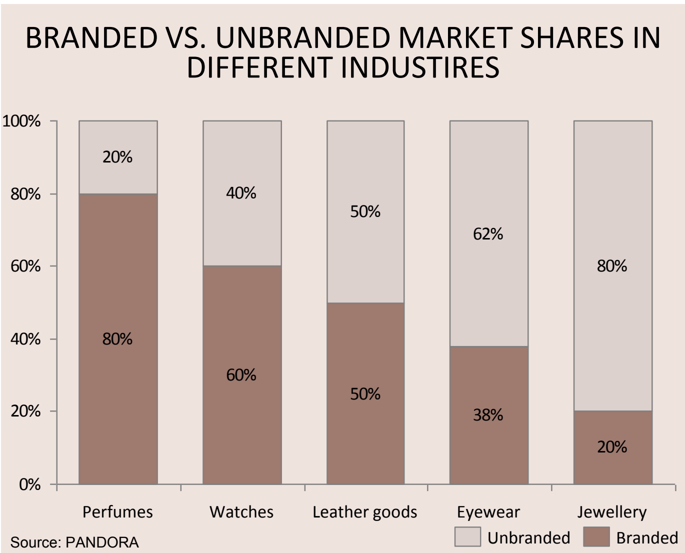
FACT BOX: PANDORA'S EXPANSION

1982	Per and Winnie Enevoldsen establish PANDORA (Populair Smykker)
1989	PANDORA starts manufacturing jewellery in Thailand
2000	The signature charm bracelet is launched
	PANDORA gets its current name
2003	PANDORA enters the American and Canadian markets
2004	PANDORA enters new, large markets, including Australia and Germany
2005	First large scale, fully-owned production facility in Gemopolis
2008	Private equity fund, Axcel, acquires 60% of PANDORA
2009	Subsidiaries establish in the UK, Hong Kong and Poland
2010	Public listing on NASDAQ OMX stock exchange in Copenhagen
	Acquires full ownership of distribution in Australia and CWE
2011	PANDORA takes over distribution in France
2012	PANDORA is certified by the Responsible Jewellery Council
2013	The PANDORA ESSENCE COLLECTION is launched
	Opens concept store no. 1,000
2014	PANDORA enters into a 10-year strategic alliance with The Walt Disney Company
	Ring sales reaches DKK 1 billion
2015	The PANDORA eSTORE operates in 14 countries

THE JEWELLERY INDUSTRY

A GLITTERING FUTURE FOR THE JEWELLERY MARKET

The jewellery industry is poised for a glittering future. Global sales are expected to grow at 5-6% annually towards 2020. Demand for jewellery products is higher than ever, but PANDORA must stay alert and responsive to market trends to avoid being outpaced by the global competition.



FACT BOX: BRANDED AND UNBRANDED JEWELLERY

Branded jewellery contains the logo or symbol of the company that crafted the piece and is usually sold in packaging, which also carries the mark of the company. In contrast, unbranded jewellery carries no logo or symbol indicating the crafter.

INTERNATIONALISATION AND CONSOLIDATION

In the 1980's, national apparel brands were leaders in their respective markets. Examples include C&A in Germany and Marks & Spencer in the UK. Today, most national brands have been outcompeted by international brands such as H&M and Zara. Lessons from the apparel industry imply that internationalisation is essential to survive in increasingly competitive markets. In 2015, only Cartier and Tiffany & Co. were ranked on the InterBrand's ranking of top 100 global brands, ranked 57 and 66 respectively. Swarovski and PANDORA have both improved their brand awareness since 2013, but brand awareness continues to be an important strategic parameter for future success.

THE GROWTH OF BRANDED PRODUCTS

Today, the branded share of the jewellery market is approximately 20%. This is expected to increase in the future and reach 30-40% by 2020. Jewellery is characterised by a low branded share of the total market when compared to other luxury goods markets. Within the fragrance and watch industries, the branded share comprises 80% and 60% of total market value, respectively. The growth in branded sales is expected to be driven especially by young consumers who turn to brands enabling self-expression and by emerging market consumers for whom luxury brands – especially Western ones – are sources of aspiration and symbols of an improving lifestyle.

A DIGITAL REVOLUTION

The distribution channels, which enabled jewellery companies to grow in the past, may prove to be inadequate in the future. With online retailing growing at impressive rates in most industries, it is expected that the online sale of jewellery will comprise 10-15% of total jewellery market value in 2020, up from around 5% today. The vast majority of this growth is expected to be driven by affordable, branded jewellery.

FAST FASHION

Fast fashion has disrupted the apparel industry within the past two decades, and it might have the same impact in the jewellery market. Zara's well-known supply chain enables rapid product introductions based on the latest consumer trends. In 2015, PANDORA invested in a new crafting facility, partly driven by a strategic focus on reducing lead times to ensure responsiveness to consumer preferences. Meanwhile in the design process, PANDORA is relying on the concept of 'design-to-data', which implies that sales information from their own and operated stores is analysed to unlock the latest consumer insights. By doing so, PANDORA is able to design superior products by ensuring agility in the entire value chain.

Additionally, it has become common for large apparel retailers to engage in partnerships with top designers. For example, H&M has co-developed products with Balmain, and GAP has launched products with Stella McCartney. Jewellery companies such as Swarovski and Thomas Sabo have launched designer collections, and Thomas Sabo has even experimented with crowd sourcing, where customers can propose designs. Last year PANDORA entered a partnership with Walt Disney Company in order to design, produce and sell a PANDORA Disney collection, which proved to be a success in North America, where it was exclusively launched.

The jewellery market offers exciting and promising trends for the future, and it is up to PANDORA to bridge their strategy with the consumers in order to fully capitalise on these opportunities.

CONSUMERS

UNDERSTANDING THE JEWELLERY CONSUMER

For PANDORA, it is all about offering the consumers the right products at the right place, time and price. Central for PANDORA is understanding the customer journey, which is the thoughts and behaviours of consumers from desire to purchase. Fundamentally, PANDORA distinguishes between three types of purchase: males gifting females, females gifting females and females buying for themselves.

In addition to the three purchasing occasions, PANDORA spends a great amount of effort to understand the consumer segments within the jewellery industry in order to tailor the right product offerings and marketing campaigns. Customers are differentiated by aesthetical preferences rather than age or income, which implies that the most central factor for understanding the purchasing decision is the customer's feelings about the product. Within the jewellery industry, five common segments exist. These are: The Sentimentalist, the Gifter, the Influencer, the Stylish Shopper and the Practical Shopper.

THE SENTIMENTALIST

A Sentimentalist is a consumer with a preference for high-quality jewellery, who attaches sentimental value to jewellery pieces. The Sentimentalist looks for timeless pieces that last, while the underlying reason behind the purchase is captured and expressed in the jewellery.

This person likes the idea of participating actively in the purchasing process through careful selection of materials, stones, style and product qualities.

THE GIFTER

The Gifter purchases jewellery with the sole purpose of giving a gift. This person does not possess a lot of knowledge about jewellery and is less involved in the selection process. Therefore, the Gifter relies on guidance from sales personnel in the selection process. The Gifters want to reduce uncertainty by choosing a trusted brand.

THE INFLUENCER

Central for the Influencer is a fundamental desire of showing and expressing different aspects of status. The Influencer purchases jewellery for others or herself to signal status, which implies that this person puts great emphasis on jewellery brands and selecting the right ones.

THE STYLISH SHOPPER

The Stylish Shopper admires jewellery for its ability to give an extra touch to a certain look. This person wears jewellery often and considers it to be part of an outfit, which can be mixed and matched to bring about different appearances and expressions. They wear many different kinds of jewellery and are thereby likely to purchase jewellery from many different brands.

THE PRACTICAL SHOPPER

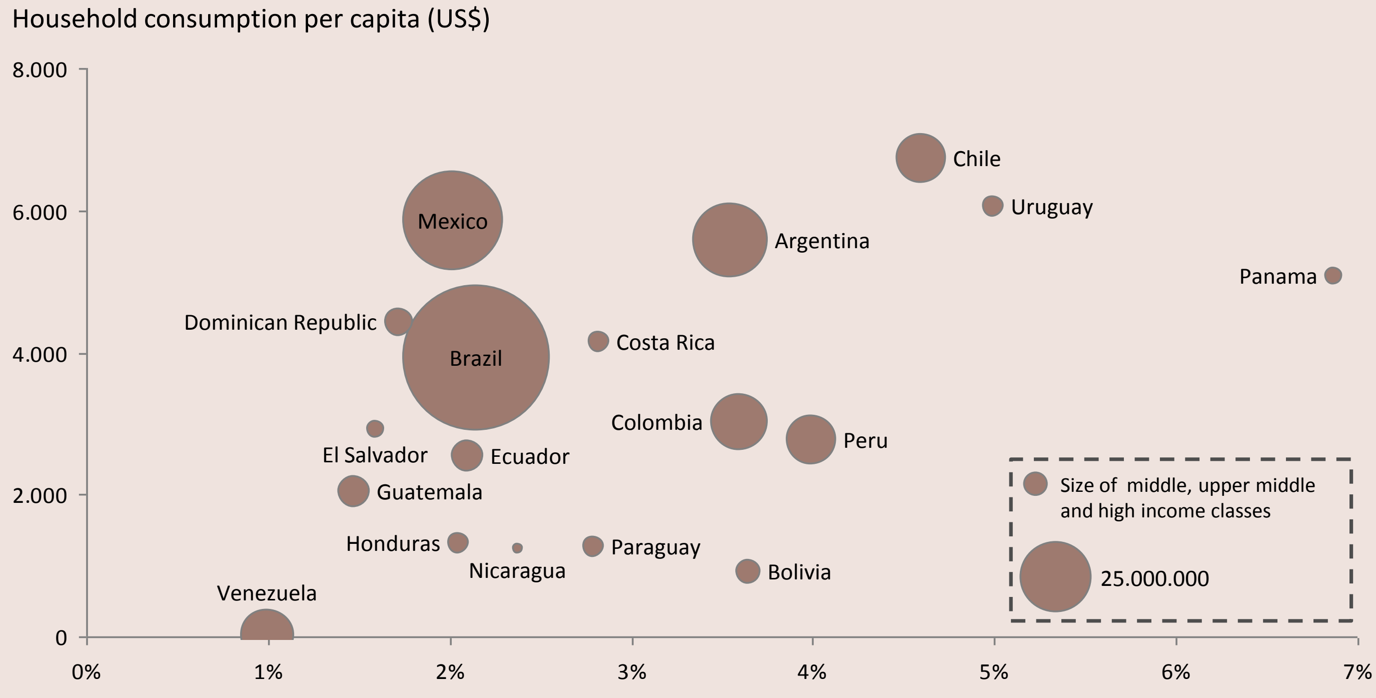
For the Practical Shopper, jewellery is a more low-key purchase. They prefer inexpensive jewellery but like to wear it every day. Less time is spent on selecting the jewellery brand and the selection process is usually short as less emotional value is attached to the different pieces.

LATIN AMERICA

LATIN AMERICA AND THE GROWING MIDDLE CLASS

Today, Latin America comprises 20 sovereign and 6 non-sovereign states. The combined population amounts to approximately 630 million people of which an increasing fraction enters the economic middle class every year. However, economic instability and inequality have been defining elements in shaping the 20th century in Latin America. The structural properties of many economies in Latin America have implied great vulnerability to external macroeconomic shocks. Through the first half of the 20th century, a high degree of wealth centralisation and lack of monetary integration facilitated an initially slow regional economic development. By 1960, the income distribution in Latin America was the worst globally. However, institutional transformations and increasing political stability brought a revolution in regional infrastructure, which eventually sparked a wave of economic growth. At the same time, governmental investments targeting public health resulted in declining mortality rates, which ultimately led Latin America to experience the highest population growth in the world by the 1950s. Eventually, the economic progress brought turning points, and by the 1970s, an agricultural modernisation reduced the urban-rural income gap, while overall wages improved. The foundation for a growing middle class was built. From a monetary point of view, the region has suffered from instability, which made inflation a central challenge through most of the 20th century. In the 1990s, major economies such as Mexico and Brazil devalued their currencies, which benefited export industries but also implied that many local firms defaulted on their foreign debt obligations. In 2001, the period of instability culminated when Argentina, which was among the world's ten wealthi-

HOUSEHOLD CONSUMPTION AND GROWTH BY COUNTRY



Source: World Bank
*Calculated as average growth rate from 2011-2014

est countries in the 1920s, went bankrupt. However, in the past 15 years, Latin America has exhibited strong economic growth, improving infrastructure and a growing middle class.

REGIONAL DEVELOPMENT

Consisting of 26 states, Latin America is comprised of various different cultures, each with its own unique history. Political instability has historically been an issue within the region, but vital progress has been made, which gradually opened the Latin American economies for international trade. The relative regional stability has promoted a political agenda primarily concerned with enhancing economic growth, fighting poverty and reducing economic and social inequality. However, while the political stability has improved, certain political factors continue to influence the region's business climate. On a regional level, factors such as corruption, inefficient bureaucracy and various regulations are still defining elements constituting the framework in which business is conducted. The individual nations are affected by these factors to a different extent, and certain nations experience country specific problems, which is reflected in the wide spread of rankings given on the ease of doing business within the region.

There are significant differences between countries when it comes to size – both in relation to landmass and population. Furthermore, different degrees of urbanisation have implications on distributional aspects of establishing presence within Latin America. While populations continue to increase and urbanisation remains a central characteristic, a recent development will become of increasing importance in the years to come. The rise of megacities. Such megacities are likely to constitute opportunities as well as difficulties when conquering Latin America.

Part of PANDORA's brand DNA is the element of being accessible for consumers. Affordable luxury has been a clear value proposition throughout PANDORA's journey. Established markets in Europe and North America have a consumer base with some of the highest degrees of purchasing power globally. However, Latin American nations have other income distributions. While the middle class is rising in Latin America, which is further enhanced by the increasing participation rates among women, interregional differences in income distribution continue to define national consumption patterns.

Additionally, the cultural circumstances of the Latin American countries influence consumer perceptions and consumption patterns. Latin America varies on the different cultural dimensions, which implies that

FACT BOX: ANCIENT LATIN AMERICAN JEWELLERY

Ancient Latin American civilisations are known to have worn jewellery with great symbolic value. Jewellery crafted from various precious metals, gemstones and rocks within ancient civilisations can be traced much further back in time than the birth of Christ. Evidence of jewellery can be traced back by approximately 5,000 years in the Latin American region. Among notable civilisations, the Mayans, Aztecs and Incas wore and crafted jewellery with distinct societal application.

In the earliest periods of Mayan civilisation (approximately 2000 BC), jewellery was crafted from bone, various stones, jaguar teeth and colourful shells. Later in Mayan history, gold was mined and was perceived as a precious metal along with silver, bronze and copper. Among the gemstones and constituents used by the Mayans, mother of pearl, amethysts, spondylus, jades and turquoises are known to have been worn. Feathers from rare animals were in some contexts perceived just as precious as gemstones.

By the early 13th century, the Incas wore gold to signal proximity to God and to represent social status. Priests and royal families wore gold on a daily basis, while the people was allowed to wear such jewellery during ceremonies and sacrificial rituals. Silver and copper were also perceived as precious metals and were used to identify the status of warriors through armor decorations.

In mid-14th century during the Aztec Empire, gold was reserved for nobility as it was a signal of power and wealth. The Emperor and his High Priests would almost be covered entirely in jewellery when making public appearances. Gold jewellery was decorated with jades, amethysts, opals and moonstone and often signalled proximity to God rather than wealth.

the role of jewellery and the underlying purchasing behaviours differ from PANDORA's currently established markets.

Climate differences also have implications, which PANDORA must consider. The pleasantness of shopping in air-conditioned shopping malls is greater in warmer and more humid countries, and shop-in-shops are therefore likely to be more successful in these markets.

While the potential in Latin America is unquestionable, certain macroeconomic indicators affect the feasibility aspect of Latin America as certain risk factors emerge. Foreign currency exposure establishes fluctuations in exchange rates as a central risk, which can have a great impact on financial performance when consolidating group accounts into Danish Kroner. Part of this risk is rooted in national inflation rates, where the 4-year average inflation rates span from 2.2% to 37.5% in the region.

OUTLOOK FOR LATIN AMERICA IN 2016

From 2004 to 2013, Latin America experienced strong economic growth and benefited from a high demand for commodities.

However, in 2015 the region suffered from stagnating growth rates and in 2016, the regional growth is forecasted to be less than 1%. Latin America has proven vulnerable to declining demand for agricultural goods as well as mining and metal products. The deceleration of the Chinese economy and the shift in its structural growth model from investment to consumption will continue to depress the demand for commodities and thus will not allow for a rapid recovery of commodity prices. However, in the medium-term, commodity prices are expected to rebound, which will positively affect the regional growth.

The overall outlook for the region masks large differences across countries. Whereas some countries are forecasted to enter recession in 2016, other countries are expected to show solid growth.

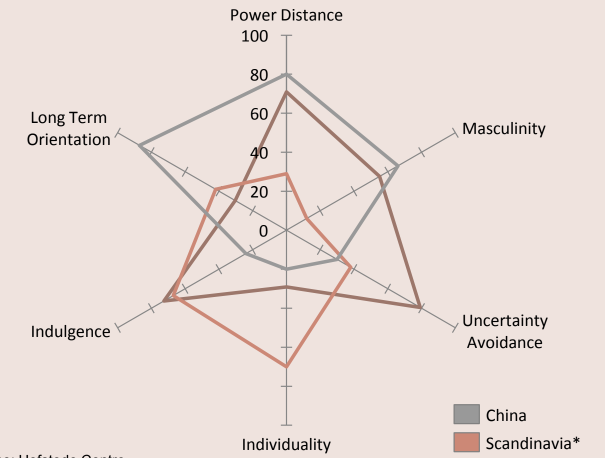
AN ESTABLISHED STEPPING STONE FOR A BIG LEAP

PANDORA's entry into Latin America began in 2004 by entering Mexico with additional entries in Latin American markets following over the next decade. By 2016, PANDORA's presence includes 14 of 26 Latin American states. With a strategic ambition of reducing dependency on individual markets by pursuing growth opportunities through expansions and entries in new markets, conquering Latin America remains a strategic objective to be accomplished.

The various points of sale are supplied from a regional distribution centre located in São Paulo, Brazil. In addition to brick and mortar points of sale, PANDORA recently launched an eSTORE in Brazil as the only market in the Latin American region.

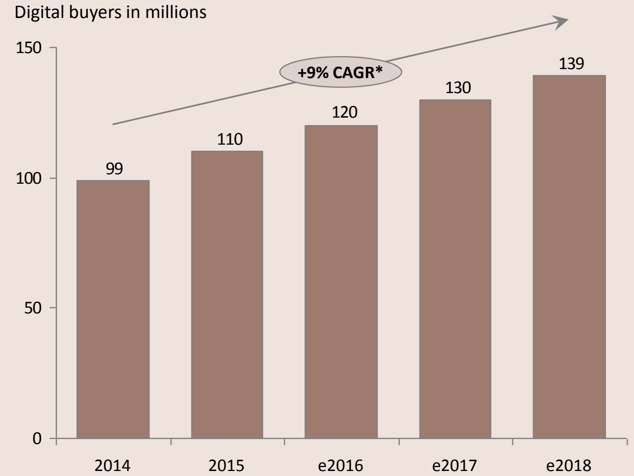
Despite differences within the region and remaining obstacles for conducting business, Latin America has developed the potential of becoming the fourth region for PANDORA.

COMPARATIVE CULTURAL DIMENSIONS



Source: Hofstede Centre
*Average weighted by population size

DIGITAL BUYERS IN LATIN AMERICA



Source: Statista Database
*CAGR: Compound annual growth rate

Income distribution Poor Low Middle Upper Middle High

Regional breakdown by country

Country	Marked if present	Females in 15-64[1] (Millions)	Income distribution[2] (% of total, 2011): Poor	Low	Middle	Upper Middle	High	Inflation (%, 4y avg.)	EDB[3] (World ranking)
Argentina		14.2	3	37	33	24	4	No data	121
Bolivia		3.3	18	54	19	8	2	6.5	157
Brazil	✓	72.9	7	44	28	16	5	6.1	116
Chile	✓	6.3	2	33	34	23	8	3.1	48
Colombia	✓	16.9	10	55	21	11	3	2.9	54
Costa Rica	✓	1.7	4	40	30	20	7	4.8	58
Cuba		4.0	No data					No data	x
Dominican Republic	✓	3.3	3	56	26	12	3	5.0	93
Ecuador		5.2	7	60	21	10	2	4.0	117
El Salvador	✓	2.1	12	62	18	7	1	2.2	86
French Guiana*		0.1	No data					No data	x
Guadeloupe*		0.1	No data					No data	x
Guatemala	✓	4.8	12	57	19	9	3	4.4	81
Haiti		3.3	No data					6.3	182
Honduras	✓	2.5	20	51	18	9	2	5.8	110
Martinique*		0.1	No data					No data	x
Mexico	✓	42.1	3	59	26	10	2	3.8	38
Nicaragua	✓	2.0	11	75	11	3	0	7.1	125
Panama	✓	1.3	7	47	26	15	4	4.6	69
Paraguay		2.1	8	49	27	13	3	4.9	100
Peru	✓	10.2	8	55	25	11	2	3.3	50
Puerto Rico*	✓	1.3	No data					No data	57
Saint Barthélemy*		No data	No data					No data	x
Saint Martin*	✓	No data	No data					No data	x
Uruguay		1.1	0	28	33	30	9	8.4	92
Venezuela	✓	10.2	6	49	30	13	2	37.5	186

* Not a sovereign state

1 Calculated by the following method: Population x Gender split (% females) x Share of population in age bracket 15-64. **Source: World Bank**

2 The five income groups live on: Poor (>$2), Low ($2.01-10), Middle ($10.01-20), Upper Middle ($20.01-50), High (>$50). All figures are in 2011 prices and converted to 2011 purchasing power parity dollars. **Source: Pew Research Center**

3 Ease of Doing Business measures business regulation that impacts business activity in 11 areas and ranks 189 economies. **Source: World Bank**

STRATEGY

THE FOUR-PILLAR STRATEGY GUIDES THE WAY

To fulfil the mission of celebrating women by offering them the opportunity for personal expression through a universe of high-quality and contemporary jewellery at affordable prices, PANDORA has designed four strategic pillars, which are: full jewellery product offering, one brand – targeted segments, branded retail excellence and a balanced global business.

FULL JEWELLERY PRODUCT OFFERING

Growing sales across the entire product portfolio is a central strategic ambition at PANDORA. While charms and bracelets comprise the majority of PANDORA's revenue, the wristwear category constitutes only 16% of the global jewellery market value. Growing the other jewellery categories thus offers the opportunity of growing sales while reducing the risk implied in relying heavily on a uniform product assortment.

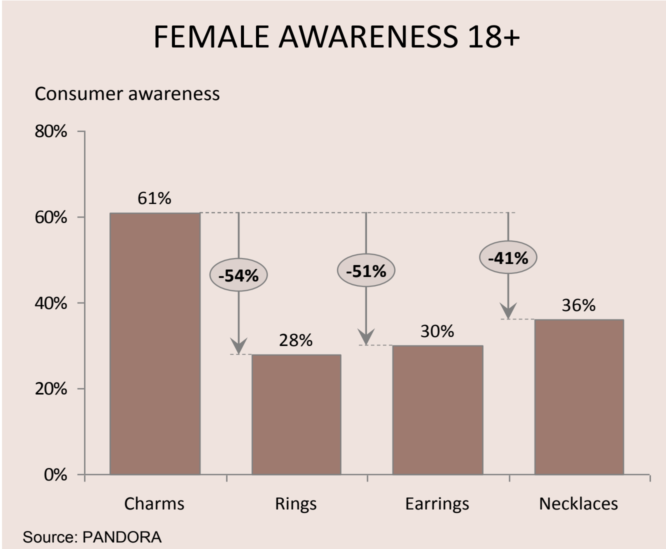
PANDORA is present in five product categories: charms, bracelets, rings, earrings and necklaces & pendants. Generating approximately 65% of the group revenue, charms is by far the largest product category at PANDORA. Still, rings, earrings and necklaces & pendants are growing and especially rings continue to comprise an increasing share of total revenue. However, while pursuing growth within these product categories, a central ambition is also to protect and develop the charms and bracelet category and prepare it for future competition. A fundamental challenge is that many consumers are only aware of PANDORA's charms. Hence, PANDORA is looking for ways to leverage brand awareness from charms into their other product categories. This challenge is formulated in the second strategic pillar, which is to grow one coherent PANDORA brand across the globe.

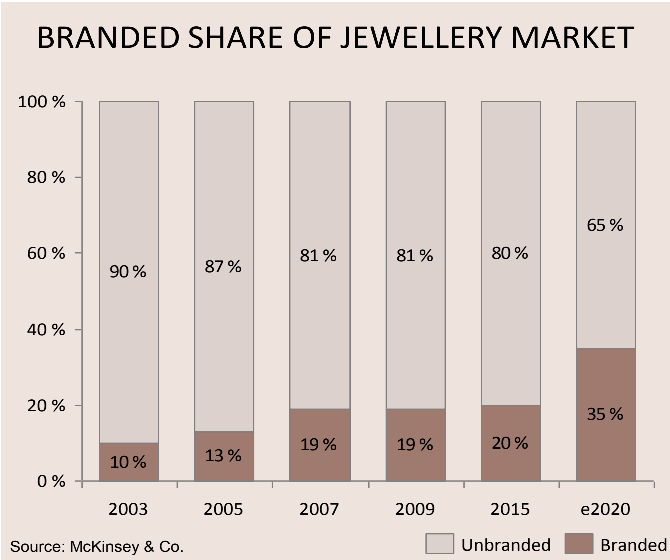
ONE BRAND – TARGETED SEGMENTS

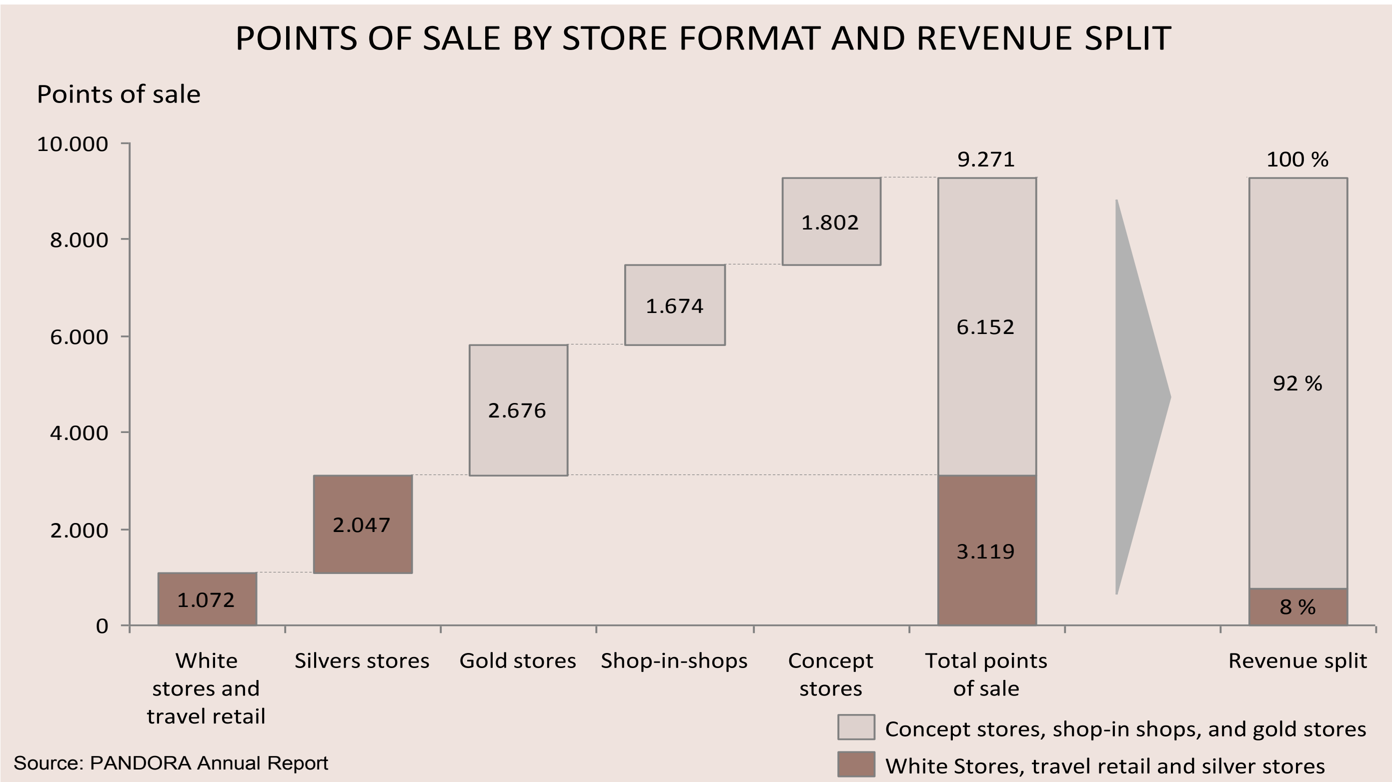
A branded approach in an unbranded industry is vital to PANDORA's global expansion. Compared to most other luxury good markets, the branded share of the jewellery industry is relatively low. However, the branded share is expected to increase to 30-40% by 2020.

With brand awareness having doubled between 2010 and 2015, PANDORA has performed above expectations on this strategic parameter. Visibility across all media platforms has been pivotal for PANDORA's journey towards becoming a global brand. With the ambition of spending approximately 10% of revenue on marketing, PANDORA is investing a large amount of resources in brand development.

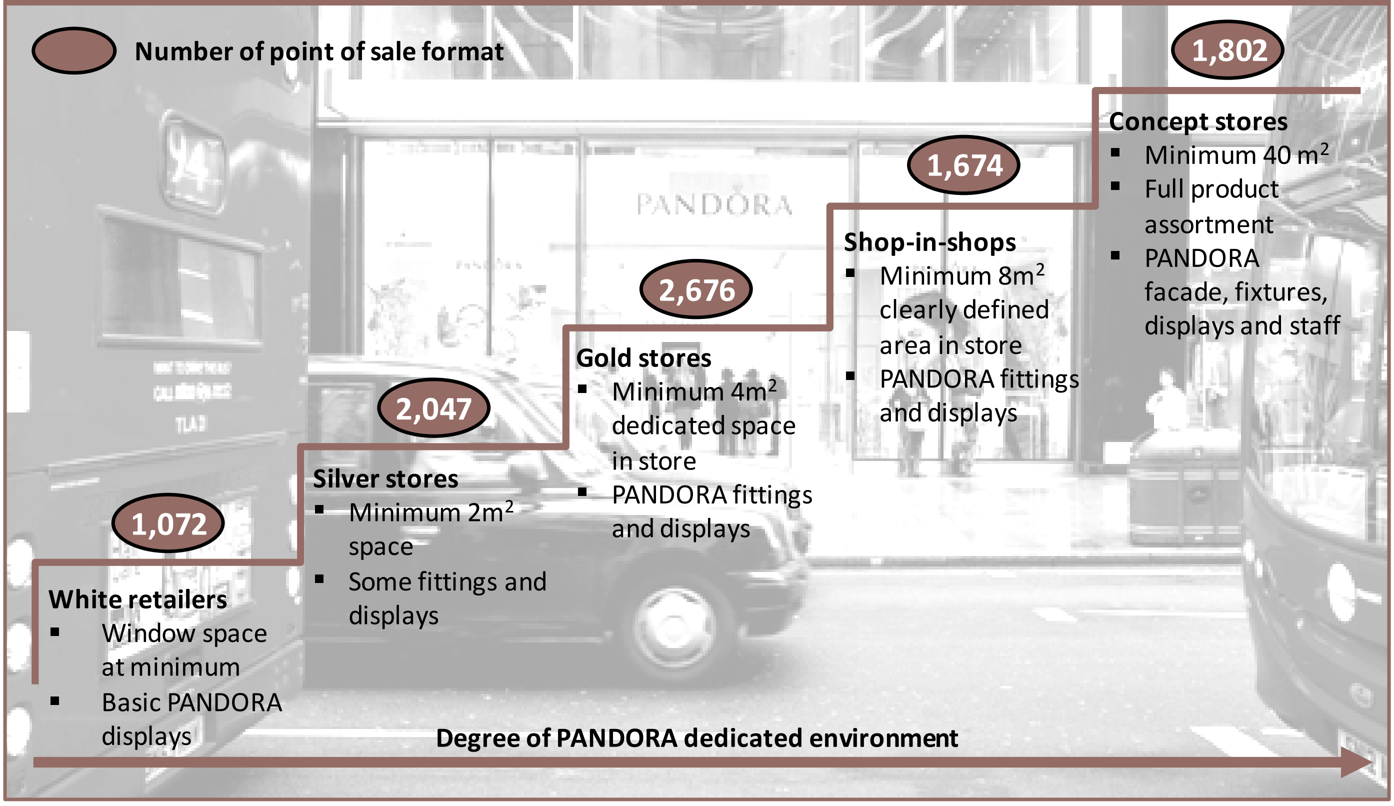
PANDORA is a global brand with a local relevance. Employing a tailored approach to targeted segments is an implicit part of PANDORA's business strategy. Despite the fact that PANDORA does not develop specific collections for specific markets, and does not intend to do so, there are differences between markets: PANDORA charms and rings are present in all major markets, whereas necklaces & pendants and earrings are only offered in established markets. Additionally, the retail strategy is tailored to each target market, which is specified in the third strategic pillar.







FACT BOX: PANDORA POINT OF SALE FORMATS AND BREAKDOWN



BRANDED RETAIL EXCELLENCE

A cornerstone in PANDORA's brand development is concept stores. These stores drive brand awareness and loyalty by creating a unique store environment, which provides the same brand experience to every customer, every time. Concept stores, shop-in-shops and gold stores account for 92% of PANDORA's group revenue, but only for 66% of PANDORA's points of sale. Gold stores, shop-in-shops and concept stores enable PANDORA to maintain a larger degree of control of their brand, while a larger part of the product assortment is offered. In concept stores, all staff receive sales training and have a deep knowledge within PANDORA's offerings. Within the last years, PANDORA has aimed to move sales in multibrand environments to sales in concept stores and shop-in shops (see fact box for store definitions).

BALANCED GLOBAL BUSINESS

Asia and Latin America are the two growth engines expected to fuel PANDORA's journey to become the world's most loved jewellery brand. With multiple growth opportunities, PANDORA is carefully selecting target markets based on both their current and future potential. Aggressive growth ambitions are an inherent part of the PANDORA culture. Yet, short term results are never pursued at the cost of long term profitability. Thereby, market entry strategies at PANDORA are targeted at identified sales potential in a way that is coherent with the global strategy.

BUSINESS MODEL

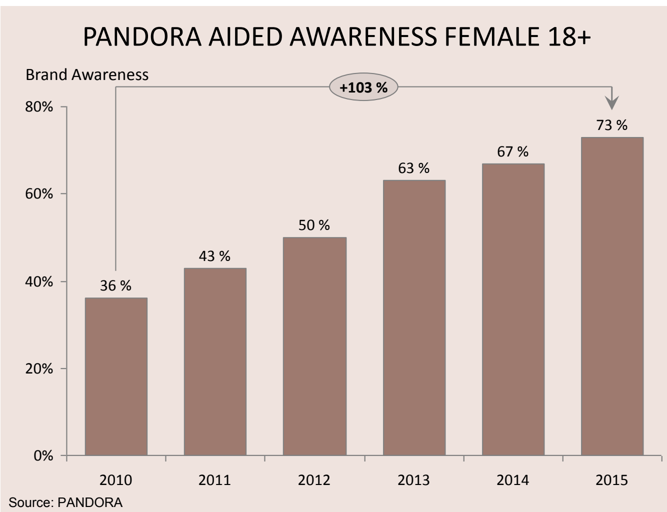
VERTICALLY INTERGRATED BUSINESS MODEL

PANDORA operates and manages a vertically integrated business model, from-in-house design and crafting to global marketing and direct distribution in most markets. Approximately two thirds of the 16,700 employees are craftspeople trained in-house to work at the crafting facilities in Thailand. This makes PANDORA a unique production company.

DEFINE, DESIGN AND DEVELOP

Creativity and beautifully designed products are the central catalysts fuelling PANDORA's journey towards new growth frontiers. Each collection is designed with inspiration from carefully defined themes ensuring a coherent collection with a unique, yet consistent, look. All campaigns, concepts and products must be in line with the brand DNA, requiring the jewellery pieces to be contemporary, affordable and allow for personal expression.

Located in Denmark, the product design and development function is carefully coordinating its activities with the next steps in the value chain: the crafting facilities in Thailand, and the distribution and sales functions around the globe. Such coordination ensures that new jewellery products are compatible with the production processes, and that they have strong commercial value.



SEVEN ANNUAL PRODUCT DROPS

In order to maintain innovation and relevance in the collections, PANDORA introduced a new launch concept in 2012. The entire value chain now revolves around seven annual collection launches. Christmas, Valentine's Day and Mother's Day are obvious occasions for new product launches and together with product drops in Spring, High Summer, Pre-Autumn and Autumn, they are comprising seven annual drops. The design team begins preparations for each launch well in advance.

To ensure that each launch has a modern and innovative feel, the design team remains updated on all aspects of consumer behaviour. This information is combined with sales data from concept stores to set the scene for an optimal product launch.

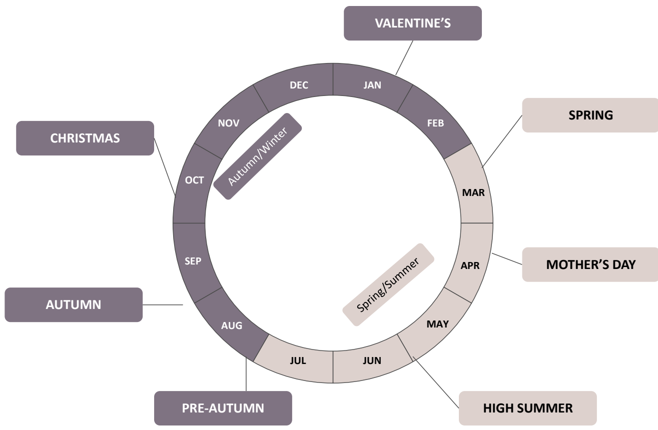


Figure 3: Seven annual launches (drops)

FORECAST AND PRODUCE

In 1989, PANDORA started manufacturing jewellery in Thailand, and today, PANDORA owns and operates several crafting facilities in Gemopolis outside Bangkok. From a skill-set and cultural perspective, Thailand has a strong history in fine jewellery crafting, and it was therefore decided by the founder, Per Enevoldsen, that all production should happen there. A decision that proved to be a key driver for the company's subsequent success.

Increasing global demand has caused PANDORA to produce at close to maximum capacity. Last year, PANDORA crafted more than 100 million pieces of jewellery – all hand finished in Gemopolis – and shipped them to more than 100 countries around the globe. In October 2015, PANDORA began the construction of what will become one of the world's most sophisticated clusters for jewellery crafting.

Located in Chiang Mai, Thailand, this new cluster is part of an ambitious expansion program, which will more than double the current capacity towards 2019 and require capital expenditures of approximately DKK 1.8 billion. Based on flow principles and with automation of certain production areas, the new facility will reduce lead time and thereby improve the operational performance of the value chain. Reducing lead-time from order receipt to delivery of products is important to secure rapid product introductions and the new crafting facility will be a key enabler for this aspect of commercial excellence. Optimised primarily for rings, earrings and more complex and sophisticated products, the Chiang Mai jewellery crafting cluster is preparing PANDORA for a future of increasing global demand across its entire product portfolio.

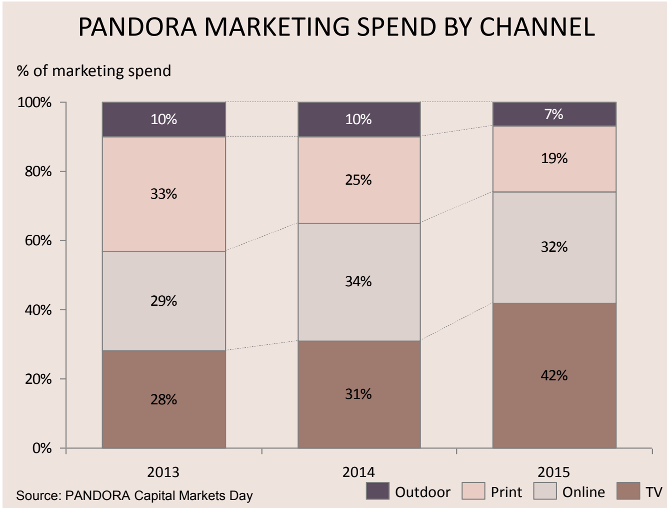
COMMUNICATE AND LAUNCH

Presence across all media platforms enables PANDORA to pursue a 360 degree marketing strategy. Within the past years, PANDORA has shifted its total marketing spend towards TV and online advertisement and away from outdoor and print media. In 2008, PANDORA appeared on television screens around the world with its very first TV advertisement campaign, and in August 2009, the first ever message was posted in the PANDORA Facebook community. With more than 7.7 million Facebook fans today, the marketing strategy has clearly been successful and is part of the reason why the PANDORA brand aided awareness among female adults has grown from 36% in 2010 to 73% in 2015.

SELL, REPLENISH, DISTRIBUTE AND SERVICE

PANDORA founder Per Enevoldsen had a dream that he would one day be able to travel the world and see a PANDORA store on every high street. Today, his dream is about to come true. Currently, PANDORA has 9,271 points of sale. The very first concept store opened in Hamburg, Germany, in 2006. Today, there are 1800 concept stores around the world.

PANDORA successfully operates eSTOREs in 14 countries. One of these stores was taken over when the distributor in Brazil was acquired in 2013 and it remains as a strategic ambition to operate eSTOREs in all major markets. Within Latin America, e-commerce is expected to grow at accelerating pace and the number of digital buyers is expected to grow from 110 million in 2015 to 139 million in 2018[2].



[2]Statista

REDUCE, REUSE, RECYCLE

From the very outset of PANDORA's journey, it has been ensured that responsible business practices define the value chain. By building collaborative and transparent relations with suppliers, PANDORA obtained access to quality materials. By providing employees with opportunities for personal development as well as a safe and secure working environment, PANDORA has been able to attract and retain skilled and innovative craftspeople. Finally, by facilitating the training and professional development of store staff, PANDORA has been able to convert products and marketing campaigns into sales.

The integrated business model provides full control of the entire value chain but also full responsibility. Full control enables PANDORA to respond quickly and decisively when new opportunities or requirements appear in the market – PANDORA's "respond-ability". Across the organisation, there is consensus that the integrated value chain has increased overall responsibility at the same pace as it has improved the product offering.

In 2015, the jewellery crafting setup in Thailand consumed 225 tonnes of silver of which 83% was recycled, resulting in minimal impact on the environment. Reusing gold and silver results in CO2 emissions of as little as 5% and 7% respectively compared to the emissions associated with mining[3], which enables PANDORA to minimise their environmental footprint. The high share of raw material recycling is combined with a large and strong network of certified suppliers. This ensures a supply chain, which is environmentally responsible and cost efficient at the same time.

With the belief that Corporate Social Responsibility (CSR) and the aspiration to offer high quality jewellery goes hand in hand, PANDORA believes the implemented CSR Policy guides the way towards new growth frontiers.

[3] The Ecoinvent Database Eco-Lab

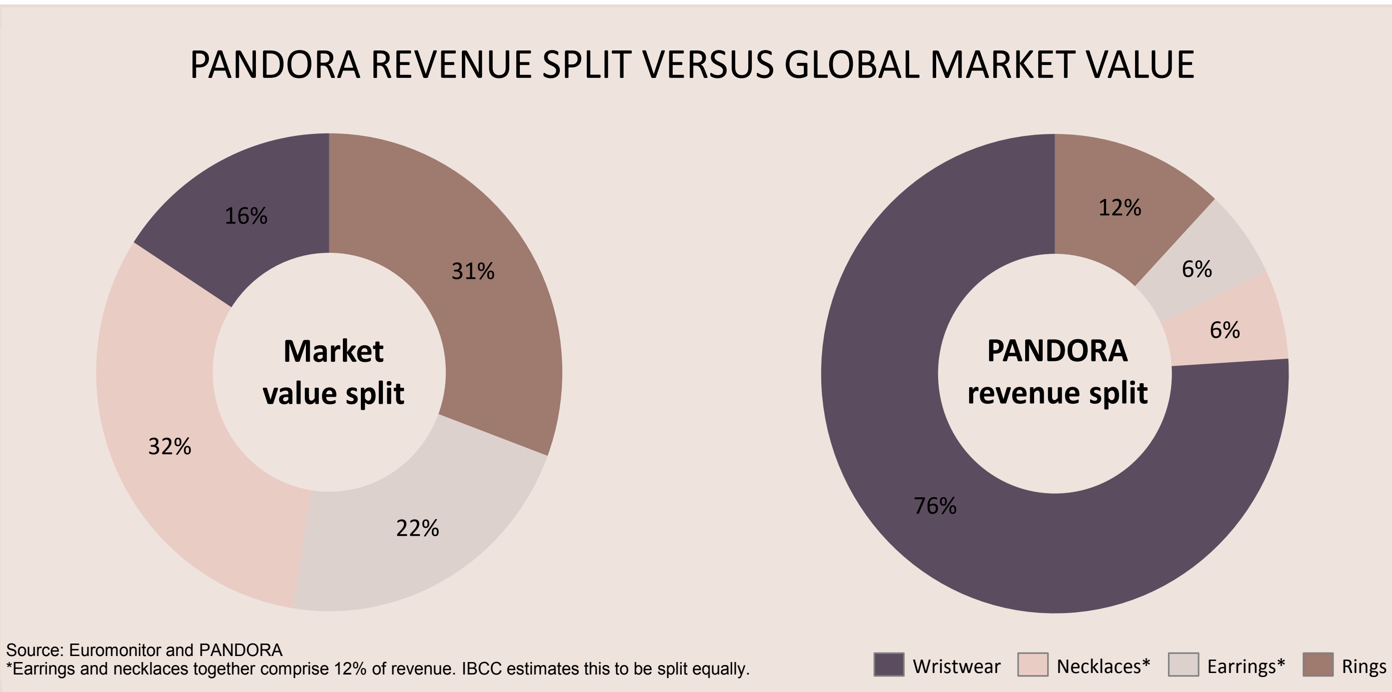
PRODUCT PORTFOLIO

A UNIVERSE OF JEWELLERY

Any PANDORA product begins its journey in Group Product in Copenhagen. Based on customer-centred product development, PANDORA focuses on new ways to meet customer needs and create increasingly satisfying customer experiences. With the end goal of developing products that deliver superior value to the customers, Group Product finds inspiration in creative themes. The feminine themes offer vast opportunities for personal expression.

Consistently designed from the strong brand DNA, PANDORA offers a wealth of charms, bracelets, rings, earrings and necklaces & pendants, allowing women to express their personal style. The PANDORA retail insight system provides PANDORA with sales-out figures for products in concept stores. This data is fed back into product design. If a certain design, colour or other characteristic performs particularly well, PANDORA can create a number of variations of that design for the next product launch. This process is known as "design-to-data". Since the process was introduced in 2012, the sale of new product launches has increased significantly. With the belief that all women have the same basic need for personal expression through unique and meaningful jewellery, PANDORA does not develop market-specific products, but instead relies on the same product portfolio for more than 100 countries, where they are currently present.

This is an implicit part of the four-pillar strategy and PANDORA does not intend to develop market-specific products for Latin America. However, as each country has its own, unique culture, consumer wants are shaped by the specific society, resulting in different consumer demands across the globe. As a result, PANDORA does not necessarily offer the full product assortment in every single market, but instead offers selected collections within the different product lines. Some products within a given product line may be a blockbuster in one market and less successful in another.



Source: Euromonitor and PANDORA
*Earrings and necklaces together comprise 12% of revenue. IBCC estimates this to be split equally.

CHARMS AND BRACELETS

The bracelets, uniquely designed with patented functionality, are available in sterling silver, 14k gold, leather and textile. They can be combined with more than 700 charms crafted from sterling silver, different shades of 14k gold and Murano glass . The collectible concept drives repeat self-purchase and gifting, which are contributing factors to the continued growth of charms and bracelets sales.

NECKLACES AND PENDANTS

PANDORA's range of necklaces and pendants covers various materials and designs. The offering consists of necklaces and pendants in sterling silver, 14k gold and two-tone.

EARRINGS

PANDORA's earrings concept provides the customer with a range of unique studs, hanging earrings and hoops, matching any occasion.

RINGS

PANDORA offers a large selection of rings, including stackable rings with gemstones, stones and cultured pearls, providing the consumer with wide possibilities to mix and match the pieces to fit any occasion. Rings currently account for 12% of group revenue. With the new emphasis on adoring fingers with multiple rings and wearing them in different ways, the wearer only needs to choose what style they prefer on any given day.

COMPETITION

The global jewellery market is a highly fragmented industry with no clear market leader. However, PANDORA is among the largest market players globally. In Latin America, PANDORA has almost doubled its market share since 2010, and is currently the fifth largest brand in the region, only surpassed by Vivara, H Stern, Tiffany & Co. and Swarovski.

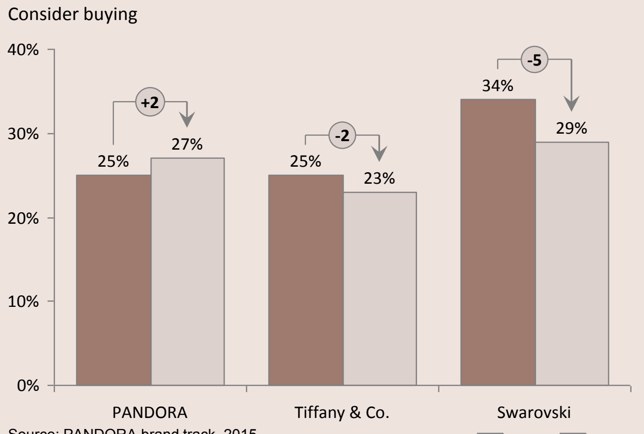
Success stories of other jewellery brands and apparel retailers might prove as important learning points for PANDORA when conquering Latin America.

VIVARA

The first Vivara store opened in the downtown area of São Paulo in 1962. Since then, Vivara has expanded to now cover all of Brazil. As a franchise system proved unsuccessful, Vivara has focused on expanding solely by opening its owned and operated stores. Like its main competitor, H.Stern, Vivara uses advertising campaigns in magazines and on television to increase brand awareness.

The company has also made significant use of celebrity endorsement in order to build their brand. Lately, Vivara has made a strong bet on online retailing, and some collections are launched through the online channel before being released in physical stores, such as the Vivara Life Secret collection.

CONSIDER BUYING OF SELECTED COMPETITORS



Source: PANDORA brand track, 2015
Note: Consider buying female 18+

H. STERN

With headquarters in Rio de Janeiro, H. Stern is a truly Brazilian jewellery company. Founded by the German immigrant Hans Stern in 1945, the company is based on an entrepreneurial spirit and an admiration of precious metals and beautiful gems. H. Stern offers four product lines: bracelets, rings, earrings and necklaces & pendants. In Latin America, H. Stern is present in Brazil, Argentina, Mexico and Peru.

TIFFANY & CO.

Tiffany & Co. is a high-end luxury brand offered at prices in the upper range. Consumers generally associate the Tiffany brand with high-quality gemstone jewellery, particularly diamond jewellery. Tiffany & Co. spends significant amounts on advertising in order to reinforce the brand's association with luxury, sophistication, style and romance. Tiffany & Co. offers rings, earrings, necklaces, charms and bracelets, but has a particular emphasis on engagement rings and wedding bands. It also offers men's jewellery such as cuff links.

Whereas Vivara and H. Stern are Brazilian companies, Tiffany & Co. is one of PANDORA's global competitors. In Latin America, Tiffany & Co. has a market share that is approximately 50% larger than the one of PANDORA, however, in recent years, PANDORA's growth in the region has outpaced the one of Tiffany & Co.

SWAROVSKI

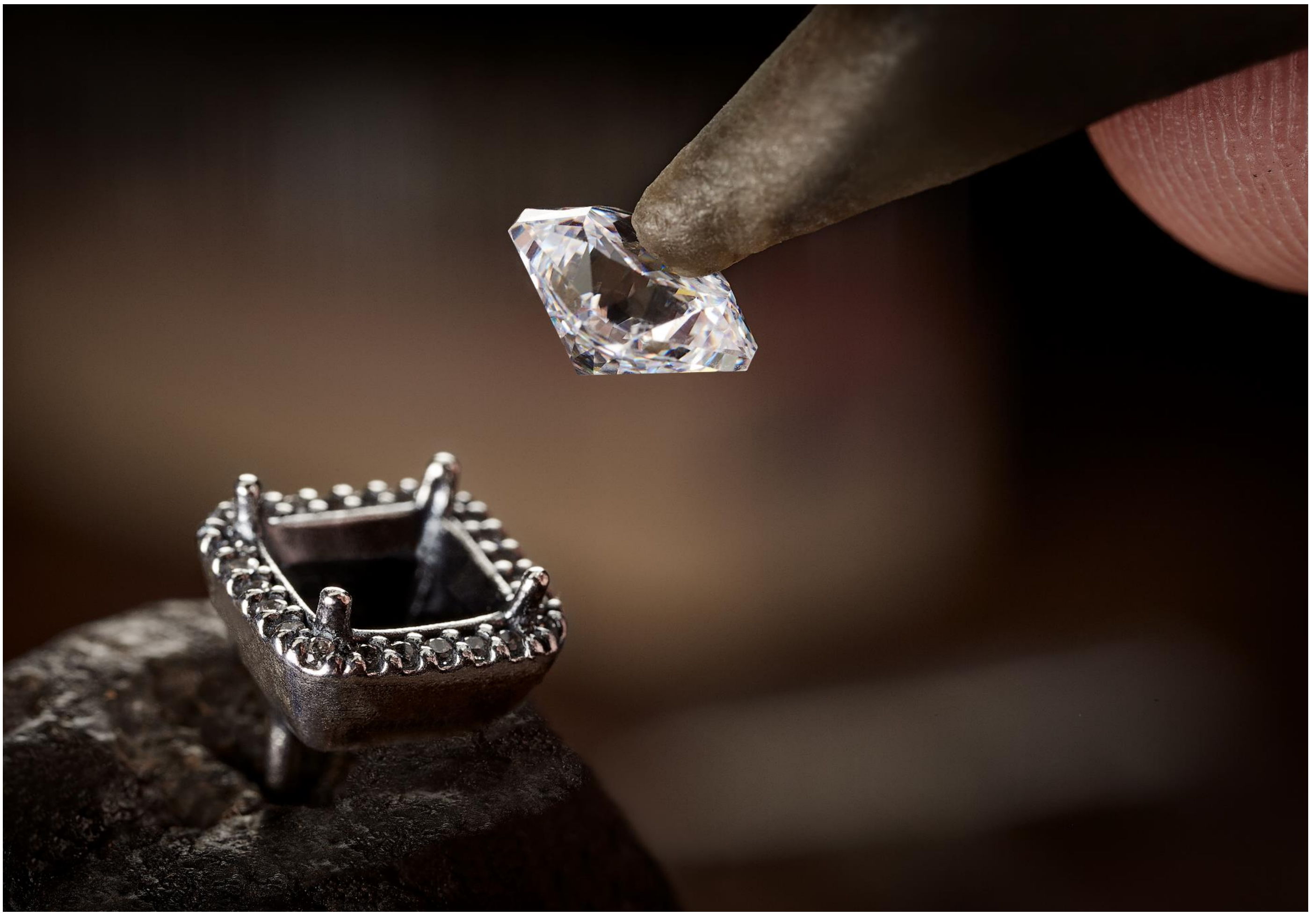
With strong market positions in especially Argentina and Mexico, Swarovski has positioned itself for future growth in Latin America. In 2014, Swarovski grew by 35% in Brazil and is slowly catching up with its competitors in this market. Just like Tiffany & Co., Swarovski is one of PANDORA's global competitors, but it is also a direct competitor in offering luxury jewellery at affordable prices.

EPILOGUE

While Anders considered the numerous potential approaches towards PANDORA's next growth journey, he thought of the elements, which enabled PANDORA to get this far in its vision of becoming the world's most loved jewellery brand. He knew that PANDORA was built on a strong platform – at platform right for the journey ahead. A platform based on the values of celebrating women by providing the opportunity for personal expression through affordable luxury. Anders had faith in the ability of his advisers to evaluate the various opportunities and develop the right recommendations concerning whether to engage in cities, countries or clusters. Additionally, the distribution format and product range were strategic parameters, which kept occupying his mind. Anders wanted to know whether certain store formats should be preferred over others, and whether it was advisable to engage in Latin America with the full product assortment or only part thereof. Anders knew that PANDORA had to stay innovative and creative to be able to compete in the jewellery market of tomorrow.

While reflecting on the journey ahead and the various ways in which PANDORA could meet the ambition and the objective of conquering Latin America, Anders reminded himself of something important. It had to be done right. It had to be in the spirit of a goldsmith and his wife.

Anders knew that plenty of work was ahead. Taking a last glimpse of the sun setting in the horizon, he took a deep breath before walking inside. He felt the excitement of receiving advice and ideas from trusted advisers. Advice that would bridge PANDORA's ambitions in Latin America with the four strategic pillars. While many chapters had formed the story of PANDORA, Anders knew the next chapter would be a defining one. A chapter which yet has to be written.



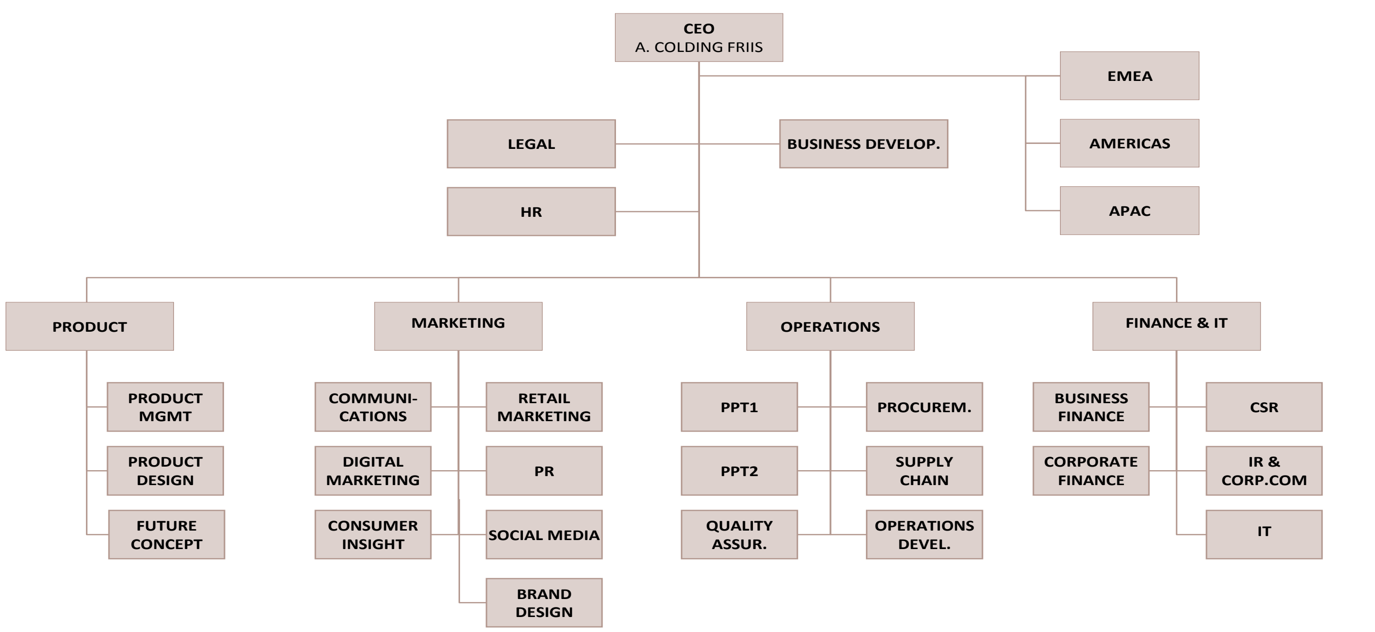
APPENDIX

Financial statements - 5-year overview

DKK million	2015	2014	2013	2012	2011
Consolidated income statement					
Revenue	16,737	11,942	9,010	6,652	6,658
Gross profit	12,193	8,8423	5,999	4,429	4,860
Earnings before interest, tax, depreciation and amortisation (EBITDA)	6,214	4,294	2,881	1,658	2,281
Operating profit (EBIT)	5,814	4,072	2,681	1,475	2,058
Net financials	-469	-200	61	4	311
Profit before tax	5,345	3,872	2,742	1,479	2,369
Net profit for the year	**3,674**	**3,098**	**2,220**	**1,202**	**2,037**
Consolidated balance sheet					
Total assets	13,311	10,556	9,275	8,414	8,051
Invested capital	8,255	6,080	5,976	5,900	5,923
Net working capital	925	434	1,009	1,277	1,327
Net interest-bearing debt (NIBD)	1,718	-1,121	-637	-183	209
Equity	**6,139**	**7,032**	**6,462**	**6,038**	**5,411**
Consolidated cash flow statement					
Cash flows from operating activities, net	3,384	4,322	2,428	1,339	1,823
Cash flows from investing activities, net	-1,296	-632	-543	-231	-364
Free cash flow	2,449	3,868	1,956	1,151	1,670
Cash flows from financing activities, net	-2,333	-3,259	-1,524	-943	-2,502
Net increase/decrease in cash	**-245**	**431**	**361**	**165**	**-1,043**
Growth ratios					
Revenue growth, %	40.2%	32.5%	35.4%	-0.1%	-0.1%
Gross profit growth, %	44.8%	40.4%	35.4%	-8.9%	2.9%
EBITDA growth, %	44.7%	49.0%	73.8%	-27.3%	-15.0%
EBIT growth, %	42.8%	51.9%	81.8%	-28.3%	-14.8%
Net profit growth, %	**18.6%**	**39.5%**	**84.7%**	**-41.0%**	**8.9%**
Margins					
Gross margin, %	72.9%	70.5%	66.6%	66.6%	73.0%
EBITDA margin, %	37.1%	36.0%	32.0%	24.9%	34.3%
EBIT margin, %	**34.7%**	**34.1%**	**29.8%**	**22.2%**	**30.9%**
Other ratios					
Effective tax rate, %	31.3%	20.2%	19.0%	18.7%	14.0%
Equity ratio, %	46.1%	66.6%	69.7%	71.8%	67.2%
NIBD to EBITDA, x	0.3	-0.3	-0.2	-0.1	0.1
Return on invested capital (ROIC), %	70.4%	67.0%	44.9%	25.0%	34.7%
Capital expenditure (CAPEX), DKK million	1.109	455	490	276	269
Cash conversion, %	**42.1%**	**95.0%**	**73.0%**	**78.0%**	**81.1%**
Share information					
Dividend per share, DKK	13.00	9.00	6.50	5.50	5.50
Total payout ratio (incl. Share buyback), %	135.8%	104.1%	63.7%	59.5%	31.9%
Earnings per share, basic, DKK	30.9	25.0	17.2	9.2	15.7
Earnings per share, diluted, DKK	30.7	24.7	17.0	9.2	15.7
Share price at year-end, DKK	**872.0**	**504.5**	**294.0**	**124.5**	**54.0**
Other key figures					
Average number of employees	**13,971**	**9,957**	**6,91**	**5,753**	**5,186**

Organisational overview

The PANDORA organisation



Hofstede's cultural dimensions

Country	Power distance	Individualism	Masculinity	Uncertainty avoidance	Long term orientation	Indulgence
Argentina	49	46	56	86	20	62
Bolivia						
Brazil	69	38	49	76	44	59
Chile	63	23	28	86	31	68
Colombia	67	13	64	80	13	83
Costa Rica	35	15	21	86		
Cuba						
Dominican Republic	65	30	65	45	13	54
Ecuador	78	8	63	67		
El Salvador	66	19	40	94	20	89
French Guiana						
Guadeloupe						
Guatemala	95	6	37	99		
Haiti						
Honduras	80	20	40	50		
Martinique						
Mexico	81	30	69	82	24	97
Nicaragua						
Panama	95	11	44	86		
Paraguay						
Peru	64	16	42	87	25	46
Puerto Rico						
Saint Barthélemy						
Saint Martin						
Uruguay	61	36	38	99	26	53
Venezuela	81	12	73	76	16	100
Latin America	**71**	**29**	**55**	**79**	**30**	**73**
Denmark	18	74	16	23	35	70
Sweden	31	71	5	29	53	78
Norway	31	69	8	50	35	55
Finland	33	63	26	59	38	57
Scandinavia	**29**	**70**	**12**	**38**	**42**	**67**
China	**80**	**20**	**66**	**30**	**87**	**24**

Blank fields indicate lack of data availability

Regional averages are weighted by population size

AUTHORED BY
Christoffer Breum Nielsen
Jakob Lyngsø Jørgensen

THANKS TO

PANDORA
Anders Colding Friis, CEO
Michael Schrøder, VP,
Business Development
René Thygesen, Consultant,
Business Development
Matilde Munk Lantto, Assistant,
Corporate Communications

ADVISOR
Katja Eberhardt,
The Boston Consulting Group

CASE TESTERS
Emil Dalgård
Katharine Bendt
Kristoffer Thygesen
Morten Jessen
Oliver Søe

GRAPHICAL ASSISTANCE
Victoria Thiis

PHOTOGRAPHY
Ture Andersen