



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Pandora

Ticker	PNDORA-DK		2022A	2023E	2024E	2025E	2026E
Price	823 kr	Hedgeye EPS	53.67 kr	55.41 kr	60.05 kr	64.68 kr	66.39 kr
Market Cap	68.21 bn	Street EPS		55.89 kr	65.36 kr	74.49 kr	86.53 kr
Enterprise Value	84.11 bn	Variance		-1%	-8%	-13%	-23%
Short Interest		P/E		14.9x	13.7x	12.7x	12.4x
Debt/EBITDA	1.1x	Target P/E		12.0x	11.0x	10.0x	10.0x
Sell Side Target	846 kr.	Implied Price		664.86 kr	660.56 kr	646.79 kr	663.87 kr
Return to SS Tgt	3%	Price Variance %		-19.2%	-19.7%	-21.4%	-19.3%

HEDGEYE EDGE | Making the Wrong Strategic Moves

Pandora is a very high margin niche retailer of charms and charm bracelets. It has higher Gross Margins than Tiffany, and is good at what it does. But the problem is that the company is trying to 'take the brand upstream' by selling gold jewelry and diamonds. This isn't going to end well. The company is chasing growth, instead of protecting its very valuable core. It should slow growth, protect margins and working capital, and use excess cash (which there could be a lot of) to buy back stock. But it's not. It's going far out on the fashion curve, which likely will lead to a more promotional business model, which will take down its gross margins. In all our years of covering retail, we can point to maybe 3 brands that have successfully gone upstream (RH being one of them). Most fail miserably. If it succeeds, this could be a great long, but we don't think Pandora has the name or the brand to make this strategy work -- especially in a category that's overconsuming by 40% vs 2019 levels. With a botched strategy and category mean reversion, our 23% EPS variance might prove light.

NEAR-TERM (TREND) | Quick Pop In Growth, With Increased Spend

After beating consensus for Q2 revenue, the company raised organic FY guidance to +2-5% from the prior -2% to +3%. The company cited better traffic trends into Q3. The company is expecting an acceleration into the third quarter with lower growth in Q4. Digital and marketing spend continue to be a key expense line in order to grow brand awareness and market share. The company is investing in changing its brand perception and expanding its offering to cover all of the jewelry space.

KEY RISKS TO THE CALL | Buying Back Franchises

The company is aggressively buying back in retailers that franchised out the Pandora name to operate as either a stand-alone Pandora store or as a boutique. More often than not, these deals are very accretive. Now, if it fills the stores with the wrong fashion-forward product, there's a problem. But an accelerated cadence of franchise repo's presents a risk to our model.

COMPANY DESCRIPTION

Pandora designs, manufactures, and sells jewelry. The company grew popularity through its charm business. Now it is working to expand its offering to span all aspects of jewelry. The company operates under three models: owned retail, franchise, and third-party POS. Over the last few years it has been increasing the owned retail portion of revenues.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	26463 kr	26881 kr	27948 kr	29566 kr	30830 kr
YY % Change	13%	2%	4%	6%	4%
Gross Margin %	76.3%	77.1%	75.5%	74.4%	73.4%
EBIT Margin %	25.5%	24.6%	23.7%	23.1%	22.0%
EBITDA	8803 kr	8676 kr	8666 kr	8870 kr	8787 kr
Net Debt	6794 kr	9169 kr	7086 kr	5093 kr	3259 kr
Net Debt/EBITDA	0.8x	1.1x	0.8x	0.6x	0.4x
FCF/Share	35 kr	58 kr	66 kr	68 kr	69 kr