DISCOUNTED CASH FLOW VALUATION OF PANDORA A/S

ANANTAPORN LAPSAKKARN

A THEMATIC PAPER SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2018

Thematic paper
entitled
DISCOUNTED CASH FLOW VALUATION OF PANDORA A/S

was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
January 6, 2018

……………………..…...………......
Mr. Anantaporn Lapsakkarn
Candidate

....
Asst. Prof. Nareerat Taechapiroontong,
Ph.D.
Advisor

....
Asst. Prof. Piyapas Tharavanij,
Ph.D.
Chairperson

....
Duangporn Arbhasil,
Ph.D.
Dean
College of Management
Mahidol University

....
Assoc. Prof. Tatre Jantarakolica,
Ph.D.
Committee member

ACKNOWLEDGEMENTS

I wish to take this opportunity to express my gratitude to individuals who supported me throughout my Master degree program.

I would like to show my warm thanks to my advisor, Ajarn Nareerrat Taechapiroontong, and Asst. Prof. Piyapas Tharavanij for their valuable advice and precious time given for my study and paper. They helped me learn and understand more about relative and discounted cash flow valuations, and I would not have completed this paper without all their support.

My great thanks and appreciations also go to all of my friends and classmates, who always support and encourage me during my study

Most importantly, I am greatly indebted to my mom, Ms. Suda Promnoi for her life-long support in any way to bestow this journey to be proudly achieved. At last, I would like to thank Mr. Bhon Wongsrisakul for being confident, corporation, and broad-mindedness through the completion of the project.

Anantaporn Lapsakkarn

DISCOUNTED CASH FLOW VALUATION OF PANDORA A/S

ANANTAPORN LAPSAKKARN 5949010

M.M. (FINANCIAL MANAGEMENT)

THEMATIC PAPER ADVISORY COMMITTEE: ASST. PROF. NAREERAT TAECHAPIROONTONG, Ph.D., ASSOC. PROF. TATRE JANTARAKOLICA, Ph.D., ASST. PROF. PIYAPAS THARAVANIJ, Ph.D.

ABSTRACT

This thematic paper demonstrated how to value the stock price of PANDORA A/S which applied the concept of discounted cash flow to firm model, creating a forecast and calculating a reasonable valuation of the firm's share price and at the end making a decision whether to buy/hold/sell the company's stock.

Pandora A/S is a Denmark-based company engaged in the design, manufacture, and marketing of jewelry. Its product offering is divided into five categories: charms and bracelets, earrings, rings, watches, and necklaces and pendants. The company had very impressive growth rate during the past 5 years. Moreover, the company had invested in the new factory at Lamphun which worth than 1.8 Billion DKK and started the commercial production in early 2017 which will increase the production capacity to reach 200 million units/year. The new investment is expected to support their expansion strategy and deliver better earnings for the company

The result from this paper shows the value of PNDORA share price is expected to be valued at 16% higher than the current share price. Additional with the potential growth and their strong business model. This result leads to my recommendation of "Hold/Buy".

KEY WORDS: PNDORA/ Discounted Cash Flow/ Jewelry Industry

60 pages

CONTENTS

CONTENTS (cont.)

CONTENTS (cont.)

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

BV	Book Value
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
COGS	Cost of Goods Sold
D/E	Debt/ Equity
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes and Depreciation
EPS	Earning Per Share
EV	Enterprise Value
GDP	Gross Domestic Product
N/I	Net Income
NOPAT	Net Operating Profit after Taxes
NOWC	Net Operating Working Capital
P/E	Price/ Earnings
QoQ	Quarter on Quarter
ROA	Return on Assets
ROE	Return on Equity
SG&A	Selling, General and Administrative Expense
SWOT	Strength, Weakness, Opportunity and Threats
YoY	Year on Year

CHAPTER I
INTRODUCTION

1.1 Highlights

1.1.1 Strong revenue growth

The company revenue growth astonishingly. In 2016, Group revenue was DKK 20,281 million or increase 21% compared with DKK 16,737 million in 2015. The continued growth in revenue was driven by all regions. In terms of CAGR, the company revenue CAGR was 36.8%

1.1.2 High and stable Gross margin and EBITDA margin

As we know, to increase Gross margin, a company need to choose whether increase their price or reduce their cost. For Pandora, it tends to be latter. Due to the vertical integration, which allows them to manage almost all of their supply and value chain. Therefore, Pandora can control their cost of production. Ultimately, they can maintain high and stable Gross Margin as well as EBITDA margin. This figure also reflects their cost managed during the risen of silver price in 2012. Despite the increase in the silver price Pandora still maintain the impressive Gross Margin and EBITDA margin.

1.1.3 High Dividend pay-out and share buyback

Since 2013, the company aggressive paid dividend and buy back stock to favor the investor. In 2016 Pandora paid 5.5 billion DKK in total for their dividend payout and stock buyback program. In 2017, the company plans to changes dividend payout policy, they will pay 9 DKK/ share for every quarter, given that the investor will get 36 DKK/ share in total on 2017

1.1.4 High investment in the factory

The new crafting facility in Thailand is setting new standards for the jewelry industry in terms of scale and speed – and is one of the most environmentally friendly jewelry-crafting facilities ever built. The total investment is DKK 1.8 billion. The new facility opened internally in October 2016, with commercial production beginning in early 2017. This investment will increase the company production capacity from current 122 million units/ year to reach 200 million units/ year on 2019. Due to the factory investment, this capacity increase should be able to cover the production demand until the end of 2026

1.1.5 Strong no. of brand shop expansion

In 2017, PANDORA plans to continue to expand the store network and expects to add more than 275 new concept stores during the year of which roughly 50% are expected to be opened in EMEA, 25% in Americas and 25% in the Asia Pacific. PANDORA expects around half of the concept store openings to be PANDORA owned stores, which is in line with the Company's intentions to increase the owned and operated retail footprint. The shop expansion also align with their strategy as the concept store will help them to increase both control and margin over the 3rd parties shop. Base on their plan we expect the firm will have 2,413 concept stores in total at the end of 2017

Table 1.1 Overall share summary

Market Profile	
52 Week Price Range	540.50-937.50
Average Daily Volume	780,826
Dividend yield (Estimated)	4.41%
Share Outstanding (DKK million)	112.51
Market Capitalization (DKK million)	80,594
Institutional Holding	41.80%
Insider Holding	0
Book Value per share	52
Debt to Total Capital	53.24%
Return on Equity	89%
* Exchange rate (DKK/THB)	5.19

Figure 1.1 Price movement

Source: Bloomberg

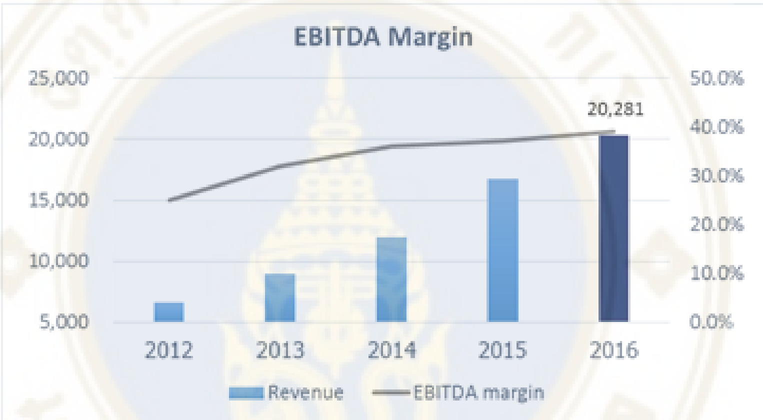


Figure 1.2 EBITDA Margin

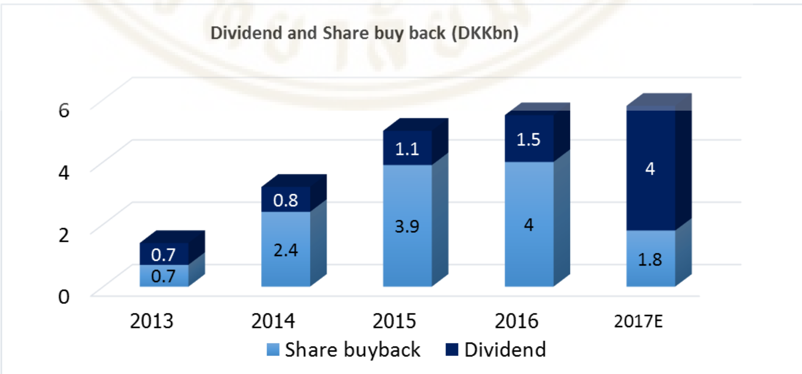
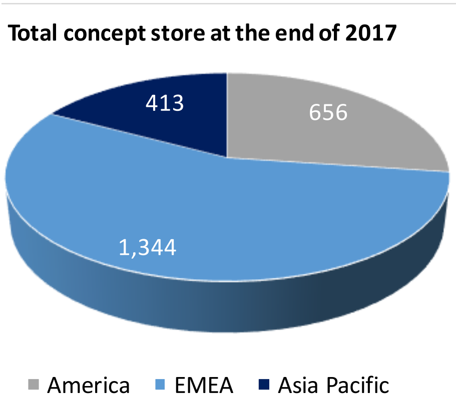


Figure 1.3 Dividend and Share buyback



	America	EMEA	Asia Pacific	Total
Total concept store at the end of 2017	656	1,344	413	2,413
No. of concept store in 2016	588	1,206	344	2,138
Increase of concept store in 2017	68	138	69	275

Figure 1.4 Total Concept store at the end of 2017

Date: 21 December 2017

Ticker: CPH: PNDORA

Recommendation: Hold/Buy

Price: 659 DKK

Target Price: 762 DKK

Upside: 15.6%

1.2 Business Description

Pandora A/S is a Denmark-based company engaged in the design, manufacture, and marketing of jewelry. Its product offering is divided into five categories: charms and bracelets, earrings, rings, watches, and necklaces and pendants, among others. Its products are made of gold, silver, leather, and textile. Among others. The Company's products are sold globally through such points of sale, as concept stores, shop-in-shops, gold stores, silver stores, white and travel retail stores, third-party stores and a number of unbranded boutiques. The Company is present in more than 70 countries in such geographical regions, as Europe, the Middle East, Africa, North America, South and Central America and the Asia Pacific.

1.2.1 Company Strategies

In order to become the world's most loved jewelry brand, Pandora has designed their strategy around four strategic pillars. These form the basis of their work, and they are convinced that they can achieve their aspiration by executing on these pillars in all they do.

1.2.1.1 Full Jewelry offering

PANDORA offers a full assortment of jewelry. Charms and Bracelets are still their strongest products and they will continue to protect and grow this category. At the same time, however, they are continuing to develop other jewelry categories, one at a time.

To strengthen this strategy, Pandora tries to diverse and increase their sales to other accessories. in the example, they successfully built their Rings category over the last few years On 2016, rings made up 13% of their total revenue. They also expand their product line to the earring. Approximately10% of new product launched in 2016 are earring and this could benefit with their sales and future growth.

Their product is Consumer- centric design, innovation and produces high skill crafting in Thailand. To strengthen their front-end design process in 2016 to increase innovation and customer-focus in our designs. This included creating two new departments – Commercial Innovation and Product Innovation

Their launching strategy is seven product launches a year, arranged around traditional fashion and gift-giving seasons, to ensure consumers have a constant variety of new PANDORA products to choose from their launching 7 times per year. This launching strategy also plays the significant role in their growth.

1.2.1.2 One brand – Targeted Segments

They maintain one brand across the globe that is instantly recognizable and known to offer a full range of jewelry products. However, they also employ a segmented approach that addresses consumers in a more targeted way. The PANDORA brand is unique. Through their employee, products, stores, the marketing they have created a brand that not only celebrates the individuality of every woman but also lets her express this uniqueness in her own special way.

To preserve the strength of the brand and ensure they maintain a unique connection with consumers, they maintain one brand across the globe that is instantly recognizable. However, they target group of women between 18 and 49 years of age is broad, and there are several different consumer segments within this target group, each with individual characteristics. As each of the main markets has identified primary consumer segments, as well as secondary consumer segments that represent their strongest growth opportunities Pandora also adopt a segmented approach to a marketing campaign to target each group of customers.

On the previous year, they strengthen their marketing team by established a Marketing Board, that includes our regional marketing vice presidents. The Marketing Board meets regularly to ensure that they will capture feedback, listen to the customer need and understand the difference of the customer in each market

They spent 9% of their revenue in 2016 to marketing campaigns and channel. They increase their online advertising through social media in order to connect, interact and engage with their customer. Additionally, they also enhanced CRM by continuous online engagement via a variety of social media platforms such as Facebook, the PANDORA Club, and Instagram.

1.2.1.3 Branded Retail Excellence

They offer their consumers a unique PANDORA shopping experience through excellent retail execution. In some cases, stores are run by franchisees; in other cases, they own and operate stores their selves. Since their goal is to ensure the consumers will have a unique PANDORA shopping experience they invested a lot in their Branded store and Concept store network. Their concept stores have been designed to show their universe of jewelry at its best. From window displays to product zones and interaction with sales staff, the entire experience reinforces Pandora brand. As they have expanded their concept store, the customer could visit these stores in most shopping malls in the world.

The brand store allows them to have full control over the consumer shopping experience, and this also has the significant impact on their sales. In 2016, sales from the brand store increased 5% compared with 2015. From all of above benefit, Pandora will continually increase brand store. On the other hand, we could expect that Multibranded stored which historically been an important part of their strategy in the beginning period will be decreased

1.2.1.4 Balanced global business

They ensure balance in their geographical footprint by sustaining strong performance in developed markets while also increasing their revenue share in new and emerging markets. As the global jewelry market expected to continually grow. Pandora ensures they have a balanced global business in which they grow their presence in new markets while also increasing revenue in developed markets such as China, Italy, and France.

This strategy also reflects on their 2016 performance, as they increase their group revenue in the Asia Pacific to offset the decrease of sales in Americas region. The increase of sales support by the growth of middle class in China which is the important emerging market for Pandora. In fact, China is the world's largest jewelry market. To show they effort, in 2016, they opened a total of 44 new concept stores, entering five new cities as well as the eSTORE to capture more customer from the mainland.

Despite the sales decreased, US remains their largest market in terms of revenue, and PANDORA has extremely high brand awareness among US consumers. In order to further strengthen their sales and brand image, they upgraded more than 200 of their established shop and opened 264 brands stored in 2016.

The other important market is Italy; one of the largest jewelry markets in Europe, but it remains fragmented. This market is the huge opportunity for them to strength and expands their brand. In 2016 they opened 23 concept stores, giving them to have a total network of 75 concept stores at the end of 2016

1.2.2 Product Portfolio

Currently, their product could be separated into 3 subcategories. Ranking by share 1st is Bracelets and Charm, Ring, Other Jewelry (Necklace and Earring). However, Pandora try to diversify their portfolio by increasing the share of another product category as shown in Figure 1.5 to reduce the sales concentration in Bracelets and Charm category

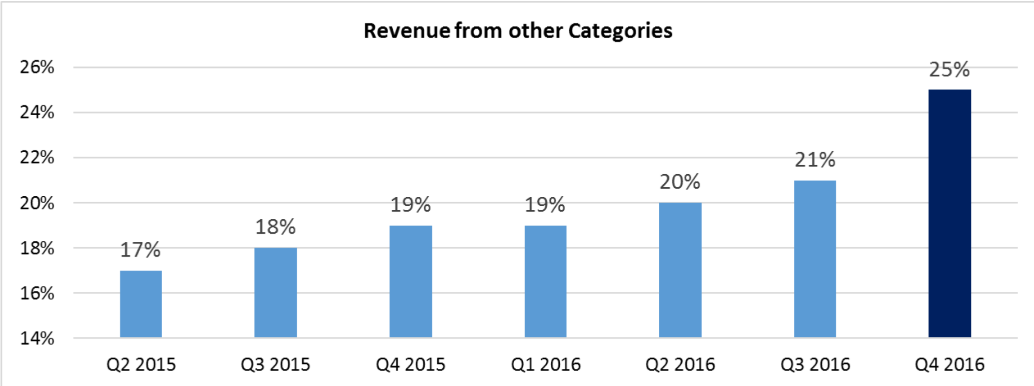


Figure 1.5 Revenue from other Categories

Source: Pandora Annual Report

Brace and Charm, this product has been the original product line of their brand which makes they become a famous brand all over the world. The concept of brace and charm allow them to get the repeat customer. Once the customer purchases the Pandora brace, they will continue to buy (at least) several charms. As the concept of a product that "Charm" will be the storyteller. Hence customer could combination their charms to make their Brace and Charm unique.

Since, they aware of the rapid change of fashion trend, Pandora continually offer the new and innovative collection of charm to their customer. At the end of 2015. Pandora launched the PANDORA Rose collection globally as well as the introduction of the Disney collection in the Asia Pacific.

Additionally, Charm is considered as the valuable, easy and safe gift to the Pandora owner. Hence, they could boost up their sales during gift-giving seasons and special occasions around the year

Rings, to strengthen their brand and as a part of their "FULL JEWELRY PRODUCT OFFERING" strategy. Pandora included the ring in their portfolio since 2013. Ring sales increased by 28% in 2016, and this product becomes the 2nd rank of sales in their portfolio

Other Jewelry, in 2016, they had a special focus on earrings. They increase their marketing campaign to increase the customer awareness. Out of a total of 426 new products which were launched in 2016, 46 were earrings. Revenue from earrings accounted for 5% of their total sales, an increase of around 80% compared with 2015.

The other products are Necklaces and Pendants which made up 5% of their total revenue in 2016, compared with 3% in 2015

1.3 Macro-Economic Analysis

After the financial crisis in 2008, the global economy becomes more stable. The average expected annual real growth until 2020 will be 3-4%. The main factors are including the lower commodity and fuel price, combination of these lower input price provide a boost up in aggregate demand and global growth.

We expect the growth rate in emerging market will be more than 4% which fuel by 2020-Seven group, the fast-growing markets China, Malaysia, Chile, Peru, Mexico, and the Philippines. In additionally the high-potential Sub-Saharan Africa markets will be a big contribution to the global economy. On the other hand, the growth in an advanced market expected to be 2%. This conservative figure is due to the uncertain situation in the European Union.

However, there are some of the negative factors that we need to including it for consideration, in the example the turmoil of politics between some big countries will have significantly affected with sustainable growth. The other main consideration in global climate, especially the huge natural disaster in major countries. Some of it create a huge impact and slow down the potential growth

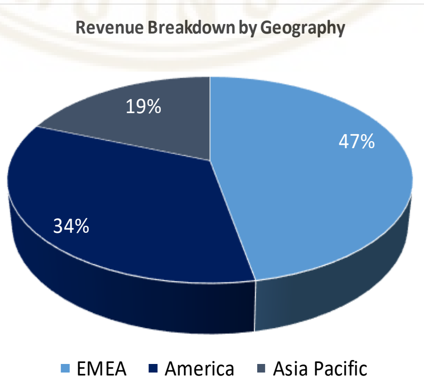


Figure 1.6 Revenue Breakdown by Geography

Source: Pandora Annual Report

1.3.1 EMEA

EMEA is Europe, Middle East, and Africa. The region classification for a division of an international company that operates in Europe, the Middle East, and Africa. The total estimated population of the EMEA region is between 2.1 and 2.2 billion people occupying the land from the most northern parts of Europe all the way to the southern tip of Africa. EMEA makes up about $27.5 Trillion in Gross Domestic Product every year. This is about 38% of the world GDP. Base from both figure, we could say that EMEA is one of the very important markets and any firm shouldn’t ignore this potential market.

For Pandora. EMEA is the biggest source of company revenue as it represents DKK 9,556 million almost half of the firm revenue in 2016. The growth of the revenue in this market is about 33% in local currency. The strong revenue and growth are driven by major markets in this region.

Starting by PANDORA’s largest market in Europe, UK is accounting for 28% of the revenue of EMEA or DKK 2,704 million, it was 25% growth (in the local currency) from the previous year. Growth in the UK was driven by a positive sales-out performance, as well as the expansion of the store network, including net 33 new concept stores opened in 2016, taking the total number of concept stores to 228. The real GDP growth in England is expected to be 1.4% and inflation(CPI) around 2.8% on 2017-2018. The low GDP is affected by the uncertainty situation on Brexit and low household spending power from higher inflation and sluggish wage growth.

Next is Italy, representing around 20% of revenue from EMEA, increased 54% compared with 2015. The development was primarily driven by a strong performance in the existing store network, supported by the addition of net 23 concept stores to a total of 75 at the end of 2016.

Revenue in France and Germany represented around 10% of revenue, the increase was primarily driven by a strong like-for-like performance in concept stores from EMEA and increased by 59%

1.3.2 America

The US remains Pandora largest single market, delivering 25% of our total revenue in 2016. they also have a strong presence in the Canadian market with 78 concept stores and making up 12% of revenue in the region. There is still great untapped.

As part of their expansion, they opened net 264 branded stores, including net 27 concept stores. Pandora closed net 829 multibranded stores including an upgrade of their presence in more than 200 stores run by the US jewelry chain Jared to shop-in-shops. This strengthening of the PANDORA brand is certainly working. Data from ShopperTrak Market Intelligence shows footfall traffic to US malls was 6.9% lower in 2016 compared with 2015. Despite this slow traffic to US malls, they delivered 5% growth in 2016, with both our physical stores and their eSTORE, which opened in 2015, performing well.

On 2016 revenue in the Americas was DKK 6,852 million in total or increase 5% from 2015. The increase was driven by continued growth in North America, while revenue from Latin America decreased due to a difficult business environment. During 2016, the number of branded stores in the Americas increased by net 302 to a total of 1,484 stores, while net 957 of PANDORA's multi-branded stores were closed in the same period.

The GDP growth rate of America is around 2% or above during the couples of years. This will support the growth of Pandora in US market. Additionally, with the increasing of Pandora Concept store, they should be able to increase the brand awareness and boost up firm margin in US market

1.3.3 The Asia Pacific

The Asia Pacific was the fastest-growing region of Pandora in 2016. However, this region still holds significant potential. In many countries in the region, Pandora presence is still limited, including large jewelry markets such as China.

China is the world's largest jewelry market, with an estimated value of around DKK 700 billion. This makes it an important emerging market for PANDORA. The brand awareness is of high importance for Chinese consumer and in 2016 Pandora concentrated on growing their presence and brand awareness across the country. They plan to open around 40 new concept stores in China every year and will continue to do so for the next couple of years. In 2016, They opened a total of 44 new concept stores, entering five new cities. In addition, they opened an eSTORE and entered into an agreement with Alibaba Group to sell their products on its Tmall.com website. These efforts are clearly working. In 2016, aided brand awareness among women increased to 53% in Beijing and Shanghai, compared with 35% in 2015, and their revenue grew by 175%. All this has given them a strong foundation in China. But China still holds great potential for PANDORA, and They will continue to expand over the coming years at a controlled but ambitious pace. The economic outlook for China is pretty well. As their GDP continually increase at two digits over the decade and still have potential growth in the further coming years. One of the upside factors is the transition from manufacturing and investment to the consumption-driven country will give benefit to the jewelry business. Also the increasing of medium class in China who tend to spend more on the luxury product than their predecessor. This group of people will be one of the very important targets customer for Pandora.

Beside of the major country like China, Asia Pacific also includes a number of developed markets and they continued to grow in these markets in 2016. Australia, for example, saw revenue grow by 37%, benefit from the increase of 11 concept stores and driven by increasing sales in all product categories. Revenue in Australia, constituting around 40% of revenue from the Asia Pacific. The economic outlook for Australia is pretty well. As the consumption expenditure in Australia is account for 57% of the total gross national turnover of goods and services. Beside of this figure, the average total consumption expenditure growth since 1987 is about 3%. Given these figures, we could understand that Australia is one of the big consumption driven country. This reflects the potential opportunity for the Pandora to growth in this market.

1.4 Industry Analysis

The global fine jewelry market is estimated to be worth approx. EUR 250 billion (DKK 1,860 billion) in 2016, and it has grown at some 5%+ CAGR historically. As of today, it remains a fairly local and fragmented business. The top-10 players capture less than 15% of the total market

The jewelry industry is still shined in future. Annual global sales of EUR 148 billion (DKK 1,100 billion) are expected to grow at a healthy rate of 5 to 6 percent each year, totaling EUR 250 billion by 2020. Jewelry consuming was dampened by the global recession and now seem to be recovered. But the industry is as dynamic as it is fast growing. So, jewelry players can't simply do business as usual and expect to grow; they must be alert and responsive to important trends and developments or the risks and competitors.

According to the analysis of publicly available data, studied companies' annual reports, and interviewed 20 executives at global fine-jewelry and fashion-jewelry companies and industry associations performed by McKinsey's. The research indicates that five trends that shaped jewelry industry:

1. Internationalization and consolidation,
2. The growth of branded products,
3. A reconfigured channel landscape,
4. "hybrid" consumption
5. Fast fashion.

1.4.1 Internationalization of brands and industry consolidation

Today, many national brands have been outpaced by international brands such as Zara and H&M. Others have built or expanded their international presence. Hugo Boss's sales outside Germany, for example, grew from 50 percent of its total sales in 1990 to more than 80 percent today. Apparel has become a truly global business. And it is expected that jewelry to follow a similar path. Today, the jewelry industry is still primarily local.

The ten biggest jewelry groups capture a mere 12 percent of the worldwide market, and only two—Cartier and Tiffany & Co.—are in Interbrand's ranking of the top 100 global brands. The rest of the market consists of strong national retail brands, such as Christ in Germany or Chow Tai Fook in China, and small or midsize enterprises that operate single-branch stores.

Industry experts expect that a lot of national or regional jewelry brands will join the ranks of top global brands by 2020 - Swarovski is an example. In addition, some local brands will almost certainly become known globally as a result of industry consolidation:

international retail groups will acquire small, local jewelers. Some industry observers project that the ten largest jewelry houses will double their market share by 2020, primarily by acquiring local players.

1.4.2 Growth of branded jewelry

Branded items already account for 60 percent of sales in the watch market. While branded jewelry accounts for only 20 percent of the overall jewelry market today, its share has doubled since 2003 (Exhibit 1). Industry experts believe branded jewelry will claim a higher share of the market by 2020, but their views differ on how quickly this shift will occur. Most expect that the branded segment will account for 30 to 40 percent of the market in 2020.

The research identified three types of consumers driving the growth of branded jewelry:

- "New money" consumers who wear branded jewelry to show off their newly acquired wealth (in contrast to old-money consumers, who prefer heirlooms or estate jewelry)
- Emerging-market consumers, for whom established brands inspire trust and the sense of an upgraded lifestyle—a purchasing factor quoted by 80 percent of our interviewees
- Young consumers who turn to brands as a means of self-expression and self-realization

In the past, most of the growth in branded jewelry came from the expansion of established jewelry brands, such as Cartier and Tiffany & Co., and new entrants such as Pandora and David Yurman. By contrast, future growth in branded jewelry is likely to come from non-jewelry players in categories such as high-end apparel or leather goods companies like Dior, Hermès, and Louis Vuitton—introducing jewelry collections or expanding their assortment.

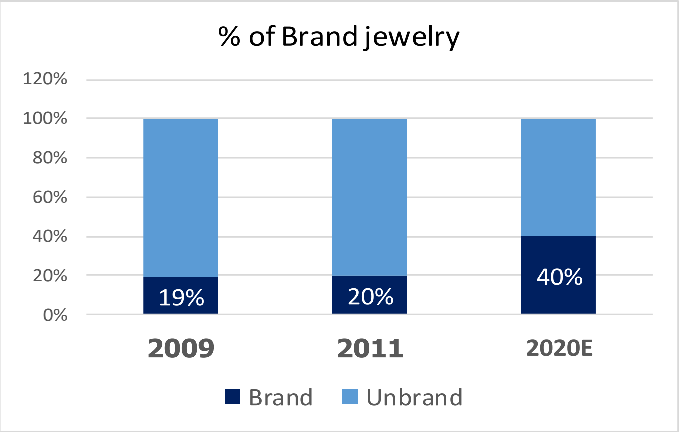


Figure 1.7 Percentage of Branded jewelry

Source: McKinsey & Company

1.4.3 Reconfiguration of the channel landscape

In all major markets over the past decade, online sales of apparel have grown at double-digit rates; in the United Kingdom, for instance, online sales now account for 14 percent of total apparel sales, up from approximately 1 percent in 2003. Today, online jewelry sales are only 4 to 5 percent of the market, with substantial variations across regions, brands, and types of jewelry. The industry experts believe this number will reach 10 percent by 2020 for fine jewelry and won't grow much beyond that. Their rationale: most consumers prefer to buy expensive items from brick-and-mortar stores, which are perceived as more reliable and which provide the opportunity to touch and feel the merchandise. This is a crucial factor in a high-involvement category driven by sensory experience. As for fashion jewelry, the industry experts predict a slightly higher online share of sales, in the neighborhood of 10 to 15 percent by 2020.

Jewelry manufacturers can use digital media as a platform for conveying information, shaping brand identity, and building customer relationships. According to a recent McKinsey survey, two-thirds of luxury shoppers say they engage in online research prior to an in-store purchase; one- to two-thirds say they frequently turn to social media for information and advice. The offline landscape is also evolving. In apparel, mono-brand stores have been gaining ground and some multibrand boutiques; department-store sales are stagnating. The same is happening in jewelry. Pandora, for example, quadrupled the size of its store network in just four years—from 200 locations in 2009 to more than 800 in 2012. In 1990, there were just 2 Swarovski boutiques; by 2012, there were 860.

Jewelry players might consider focusing on mono-brand retail, which gives them more control over their brands, closer contact with consumers, and higher margin potential. Another potentially promising channel is multibrand boutique chains that provide a carefully curated assortment of brands and products as well as a unique shopping experience.

In light of this trend, fine jewelers might consider introducing new product lines at affordable prices to entice younger or less affluent consumers, giving them an entry point into the brand. Alternatively, fine-jewelry players could decide to play exclusively in the high end and communicate that message strongly through its advertising, in-store experience, and customer service. A brand like Harry Winston, for instance, is very clear about what it stands for; a lower-priced offering would be dissonant with its image and dilute its brand.

1.4.4 Fashionability and acceleration

Fine jewelry has so far been immune to the effects of fast fashion, but the same can't be said of the fashion-jewelry market. An example of fashionability: H&M, as part of its guest-designer collaborations, introduced a flamboyant jewelry and accessories collection by Vogue Japan editor Anna Dello Russo in December 2012, with item prices ranging from €20 to €300. And an example of acceleration: Beeline, a German branded jewelry player, is adding hundreds of new items to its assortment every month.

In the fast-fashion world, flexible companies with adaptive business systems reap disproportionate rewards. Innovative jewelry players will emulate fast-fashion apparel companies: they will react to trends quickly and reduce their product development cycle times. Doing so will require closer collaboration with partners along the entire value chain, from suppliers to designers to logistics providers. The evolution of the apparel industry provides an interesting template for how the jewelry industry might develop. To what degree the two industries will mirror each other remains to be seen, but it seems likely that the jewelry market of 2020 will be highly dynamic, truly globalized, and intensely competitive. Those jewelry companies that can best anticipate and capitalize on industry-changing trends, particularly the five described above will shine brighter than the rest.

Base from "A multifaceted future: The jewelry industry in 2020" from McKinsey & Company, they expected Jewelry market to grow at a healthy clip of 5 to 6 percent each year, totaling €250 billion by 2020. Currently, only 20% of the jewelry market is branded (in contrast to watches, leather goods, and eyewear, which are significantly higher). This could mean, in the Jewelry business there is some potential growth by seizing market share from unbranded. Since, jewelry market is a fragment, a combination of the local and international brand. Therefore, instead of competing with each other, this should consider as the opportunity for the international brand to gain their market share from local and unbranded jeweler

1.4.5 Brand Position

In Jewelry market, we could break down it into 3 main segments. 1st segment is affordable price level which price tag less than $1,500 Pandora has operated in this segment. The 1st segment is considerate as the biggest part of Jewelry business as it accounts for 57% of total market. The 2nd segment is Luxury, which price tag ranging from $1,500 - $10,000 and the 3rd segment is high-end jewelry which price above $10,000

Below perceptual mapping demonstrates the brand position of Pandora and their peers. This only includes "Affordable segment" and "Luxury segment", since, high-end jewelry focus on different target customer, and beyond the scope.

Within "Affordable segment" Pandora has continually increased their brand awareness, from 36% in 2010 and reach 73% in 2015 more than twice time in only 5 years. According to the information shown on company financial report. Their brand recognition is rank 2nd highest globally, higher than their competitors Tiffany & Co and Cartier

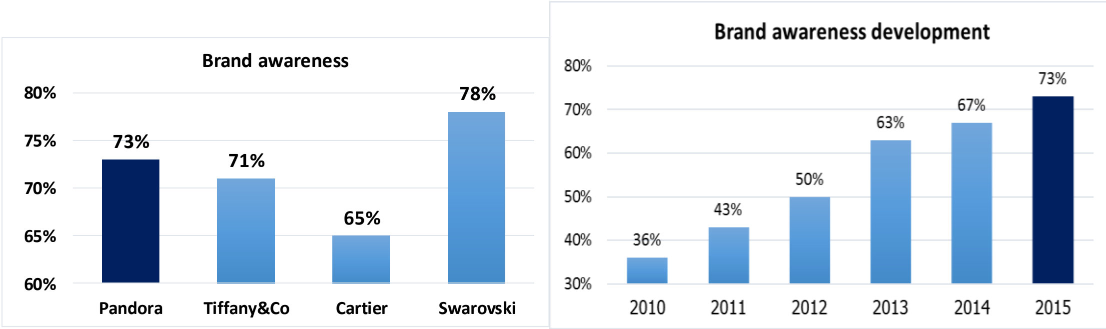


Figure 1.8 Brand awareness development

Source: Pandora Annual Report

1.5 Competition Analysis

Women constitute half the world's population, the demand for jewelry is always there in any geography or culture. And, going by the demand for luxury goods, the jewelry and watches industry comes next to the apparel industry.

The report titled "Global Luxury Jewelry Industry Situation and Prospects Research report 2017" forecasts good growth for the luxury jewelry industry thanks to rising exports of jewelry from India and China. In the economic growth of the developing countries including India, the jewelry industry plays a vital role. It generates a lot of work for the people who have associated with it apart from contributing substantially to the country's GDP.

The luxury jewelry industry's growth avenues have been broadened with the increasing use of jewels in other luxury products such as watches, bags, and apparels. Thus, the rising indirect market for luxury jewelry is expected to give a further boost to the luxury jewelry industry.

The luxury jewellery industry has a competitive landscape where some of the major players are: Bulgari, DAMIANI, De Beers Diamond Jewellers, FJD, FOLLI FOLLIE JAPAN LTD, Georg Jensen, GUCCI Group, Harry Winston, JOAQUIN BERAO JAPAN, MUSEO, Richemont, San Freres S A, Tiffany & Co, UNO A ERRE JAPAN, URAI

1.5.1 Pandora's Competitive position

Vertical integration, by using vertical integration, they can manage almost all of their supply and value chain. The benefit of integration can demonstrate as below

- Allow them to control the cost of goods sold especially during the period that the commodity price rises
- Improve product quality, due to the fact that all of factories and R&D lab are owned by them, they can closely monitor and improve product quality
- Fast to change and implement a new strategy, this one of very important benefit from their integration. Most of the companies which outsourcing production will face the delay response in change or implement as it related to many stakeholders. Vertical integration can reduce this complexity and allow the company to agile with the change
- Shortening lead time in each process, as all of their plant and R&D lab locates in Thailand. In fact, all of their factories located in the North of Thailand. This geography concentrate allows them to shorten the lead time in each of process.

Strong brand, as we know, the brand is one of a big important asset for the firm, especially in the luxury goods. The brand power can affect product position, sales price and mark up. PANDORA has a very strong brand, especially in the brace and charm market, which they're considered as the biggest player in the market. Their product was sales globally and continually expansion. Additionally, they also expand their product line to another kind of accessories. This not only expands their product category but also strengthen their brand.

As the nature of global jewelry market is a fragment, including with a lot of small and local brand which striving and try to build up their brand name. Due to tiny resources and negotiate power the small brands are facing a challenge from both supplier and customer. On the other hand, the global brand like Pandora has benefited from their customer base and negotiate power over the supplier.

When we compare with the similar player like Folli Follie, Pandora seems to be more recognized in the jewelry market and well known than their competitors.

The high quality of craftsman product, the quality product, and trust is one of the keys to maintaining customer loyalty. As Pandora control all of the production process by vertical integration. They could easier to control the product quality than the competitors who use outsourcing. The other main factors are their employee and skillful craftsmanship at the North of Thailand, they are a lot of silver factory there. So, this means they will be able to recruit the high experience staff locally. Pandora has very high product quality, as they received the Quality Best Practices Award from the European Society for Quality Research Responsible Jewellery Council, ISO 9001 (Quality Management) and ISO 50001 (Energy Management. Additionally, their consumer return rate is also very low level (about 3%)

Repeat purchases from their business model, this is one of biggest competitive of their product and business model. Especially in their main product Brace and Charm. Once, the customer buys the bracelet, they tend to spend more on the charm. As the concept of the product that the charm is a storyteller. Customer will buy more charm in the special event or occasionally around the year. In fact, many customers collect different type of charms to change and combine it to make their bracelet become unique. By this kind of concept and business model, Pandora also gets benefit from their non - target group. They can buy it as an ideal gift to the Pandora owner There also has some of the very impressive figures, even after 10 years from the first bought, customer tend to repeat buy Pandora product

1.5.2 Peer Comparison

Folli Follie Commercial Manufacturing and Technical SA, formerly Duty-Free Shops an Operating Duty-Free Shops and Large and Small Scale Industrial Operations Technical and Commercial SA Corp Co, is a Greece-based company engaged in the fields of jewelry manufacturing, department stores operation, as well as in apparel and footwear industry.

It operates in the following business segments: Jewelry-Watches-Accessories, Department Stores, and Retail-Wholesale. The Jewelry-Watches-Accessories segment deals with the design, manufacturing, processing, and marketing of jewelry, watches and other similar fashion accessories like handbags, belts, and sunglasses, among others. The Department Stores segment operates department stores, under the brand name Attica. The Retail-Wholesale segment includes wholesale of clothing, shoes, accessories, and fragrances, as well as retail sales of footwear, clothing accessories for mono-brand/ and multi-brand retail apparel, footwear-accessories, and perfumes.

In addition, Folli Follie has a strong presence in the travel retail market with points of sale in numerous airports duty free shops around the world, such as Beijing, Hong Kong, Seoul, Athens, Vancouver, Taipei, Hawaii and Guam among others, whereas Folli Follie products are also available in-flight in major international airlines, such as, Cathay Pacific, Air China, China Eastern, Qantas, China Airlines, EVA Airlines, ANA Airlines, Korean Airlines, Qatar Airways, United Airlines etc. Folli Follie opened in 2014 a flagship store in Haitang Bay, Hainan Island, China, the world's largest duty-free shopping center.

FolliFollie's product line and category:

- Jewelry
- Bags
- Watches
- Accessories

Tiffany & Co. is a holding company that operates through its subsidiary companies. The Company's principal subsidiary, Tiffany, and Company (Tiffany) is a jeweler and specialty retailer. The Company's segments include Americas, Asia-Pacific, Japan, Europe and Other. Through its subsidiaries, the Company designs and manufactures products and operates TIFFANY & CO. retail stores around the world, and also sells its products through Internet, catalog, business-to-business and wholesale operations.

The Company also sells timepieces, leather goods, sterling silverware, china, crystal, stationery, fragrances, and accessories. The Americas segment includes the sale of Company-operated TIFFANY & CO. stores in the United States, Canada, and Latin America. As of January 31, 2017, the Asia-Pacific segment included 85 Company-operated TIFFANY & CO. stores. As of January 31, 2017, the Japan segment included 55 Company-operated TIFFANY & CO. stores. Tiffany was founded in 1837 when Charles Lewis Tiffany opened a store in downtown Manhattan. Today, more than 300 TIFFANY & CO. stores serve customers around the world.

Tiffany was founded in 1837 when Charles Lewis Tiffany opened a store in downtown Manhattan. Today, more than 300 TIFFANY & CO. stores serve customers around the world.

Tiffany & Co's product line and category:

- Engagement
- Watch
- Jewelry
- Fragrance
- High jewelry
- Home and Accessory

Cartier is the largest part of Richemont's "jewelry houses" this segment represents more than 50% of the total sales of Richemont group. Also, its non-watch jewelry segment was the highest-growth category for the company. Cartier is one of a big player in luxury segment their product placement at a higher position than Pandora from the customer perspective.

Compagnie Financiere Richemont SA (Richemont) is a Switzerland-based jewelry company. The Company's segments include Jewelry Maisons and Specialist Watchmakers. The Jewelry Maisons segment includes businesses, which are engaged in the design, manufacture, and distribution of jewelry products.

The businesses include Cartier, Van Cleef & Arpels and Giampiero Bodino. Its Specialist Watchmakers segment includes businesses whose primary activity includes the design, manufacture, and distribution of precision timepieces. The businesses in the Watchmakers segment include Piaget, A. Lange & Sohne, Jaeger-LeCoultre, Vacheron Constantin, Officine Panerai, IWC Schaffhausen, Baume & Mercier and Roger Dubuis. The Company's other operating segments include Montblanc, Alfred Dunhill, Lancel, Chloe, Purdey, Shanghai Tang, Peter Millar, investment property companies and other manufacturing entities.

Cartier's product line and category:

- Jewelry
- Leather good
- Engagement
- Eyewear
- Accessory
- Fragrance

Swarovski is an Austrian producer of crystal headquartered in Wattens, Austria. The company is split into three major industry areas: the Swarovski Crystal Business, that primarily produces crystal jewelry and accessories; Swarovski Optik, which produces optical instruments such as telescopes and binoculars; Tyrolit, a leading manufacturer of grinding, sawing, drilling, and dressing tools, as well as a supplier of tools and machines. Today, Swarovski Crystal Business is the highest grossing business unit with a global reach of approximately 2,800 stores in around 170 countries, more than 27,000 employees, and a revenue of about 2.6 billion euros (in 2016).

The Swarovski Crystal range includes crystal glass sculptures and miniature, jewelry and couture, home decor, and chandeliers. It is best known for its small animal figurines, which have loyal and longstanding collectors and fans All sculptures are marked with a logo. The original Swarovski logo was an edelweiss flower, which was replaced by an S.A.L. logo, which was finally replaced with the current swan logo in 1988

Swarovski designs manufacture and markets crystals, genuine gemstones & created stones and finished products such as jewelry and accessories, beauty products, and lighting. Our diverse product portfolio also incorporates precision optical instruments such as telescopes and binoculars, grinding, drilling and sawing tools, and industrial lighting. Other activities include Swarovski Entertainment, the company's film division, which collaborates with exceptional talent and industry partners to develop, finance, and produce original and artistically accomplished feature films, Swarovski Kristallwelten, a dazzling interactive crystal experience in Wattens, Austria, and the Swarovski Crystal Society and publications and apps, that illuminate the many different facets of the Swarovski business

Swarovki's product line and category:

- Jewelry
- Accessory
- Watch
- Decorations

Figure 1.9 **Competitive Positioning**

1.6 Investment Summary

1.6.1 Strong Revenue and EBITDA growth

In 2016, Group revenue was DKK 20,281 million or increase 21% compared with DKK 16,737 million in 2015. The continued growth in revenue was driven by all regions. In terms of CAGR, the company revenue CAGR is 36.8%. Beside of the revenue growth, EBITDA of the firm is also higher than their peer. Their EBITDA/ Sales have increased the since 2012 and stable during a couple of previous years

1.6.2 Huge Dividend pay-out and share buyback

Since 2013, the company aggressive paid dividend and buy back stock to favor the investor. In 2016 Pandora paid 5.5 billion DKK in total for their dividend payout and stock buyback program. In 2017, the company plans to change dividend payout policy, they will pay 9 DKK/ share for every quarter, given that the investor will get 36 DKK/ share in total on 2017

1.6.3 High gross profit margin

Pandora had higher gross profit margin compared with its peer. One of the main reason might be the benefit from their vertical integration which allows them to have cost controlling across their supply chain. Starting from the source of raw material to the production line. Also, their forward and options contract that they use to hedging commodity prices, as Silver and Gold are the main part of their cost using these financial instruments allow them to reduce the effect from cost fluctuation of the raw material

1.6.4 Strong business model

The combination of Pandora 4 strategic pillars plays an important role in their business model. Starting from the Full Jewelry offering and One brand target segment these strategies not only help them to maintain the sales growth but also reduce the revenue concentration in Charm & Brace which tend to slower growth in the long run. Next is Branded Retail Excellence, the increasing number of the brand store allows them to have full control over the consumer shopping experience, and this also has the significant impact on their sales and profit. The last one is Balanced global business, by sustaining strong performance in developed markets while also increasing their revenue share in new and emerging markets. This integration will support fundamental of the firm from various perspectives

1.6.5 Plenty room for opportunities

As we mentioned in the previous part. Jewelry market is fragment; the big companies will have high market power. Since only 20% of jewelry is brand, it has plenty of the opportunity for the international brand to gain their market share from the local and unbranded jeweler. Base from research by McKinsey & Company, the proportion of brand-named jewelry is expected to reach 40% in 2020. Additionally, the product expansion to other jewelry types will help them to increase their customer base while maintaining sales with their existing customers

CHAPTER II
FINANCIAL STATEMENT ANALYSIS

2.1 Highlights

2.1.1 Revenue growth

Pandora generated revenue of DKK 20.3 billion in 2016. This was aided by strong double-digit growth in all four quarters and, in total, revenue increased by 21% compared with 2015.

Revenue growth was driven by good performances across all geographical regions. The Americas increased revenue by 5%, EMEA by 27% and Asia Pacific by 46%. In addition, revenue from all product categories experienced positive growth, driven by new as well as existing products. Around half of our revenue growth in 2016 can be attributed to the expansion of our store network, which included the addition of net 336 new concept stores in 2016. Together with the closing of multi-branded stores, this gave us a stronger and much more branded store network compared with the beginning of the year.

Table 2.1 Revenue growth

CONSOLIDATED INCOME STATEMENT	CMS 2016	CAGR	Year 2016	Year 2015	Year 2014	Year 2013
Revenue	**100%**	**32%**	**21%**	**40%**	**33%**	**35%**
Cost of sales	-25%	23%	11%	29%	17%	35%
Gross profit	75%	36%	25%	45%	40%	35%
Sales, distribution and marketing expenses	-29%	29%	24%	52%	29%	15%
Administrative expenses	-10%	23%	20%	32%	36%	6%
Operating profit	37%	50%	27%	43%	52%	82%
Finance income	2%	26%	290%	500%	-92%	27%
Finance costs	0%	-11%	-85%	158%	102%	-17%
Profit before tax	38%	51%	43%	38%	41%	85%
Income tax expenses	-8%	56%	-3%	116%	48%	88%
Net profit for the year	**30%**	**50%**	**64%**	**19%**	**40%**	**85%**

2.1.2 Improvement in gross profit margin

In 2016, the gross margin shows 75% compared with 73% in 2015. The increase was mainly driven by a tailwind from more favorable raw material prices (approximately 1.5 percentage points) and an increase in revenue from PANDORA owned stores (approximately 1.5 percentage points). An increase in production complexity had a negative impact of approximately 1 percentage points. Additionally, as a positive one off, PANDORA reclaimed duties regarding prior years in the Americas region (approximately 1 percentage point).

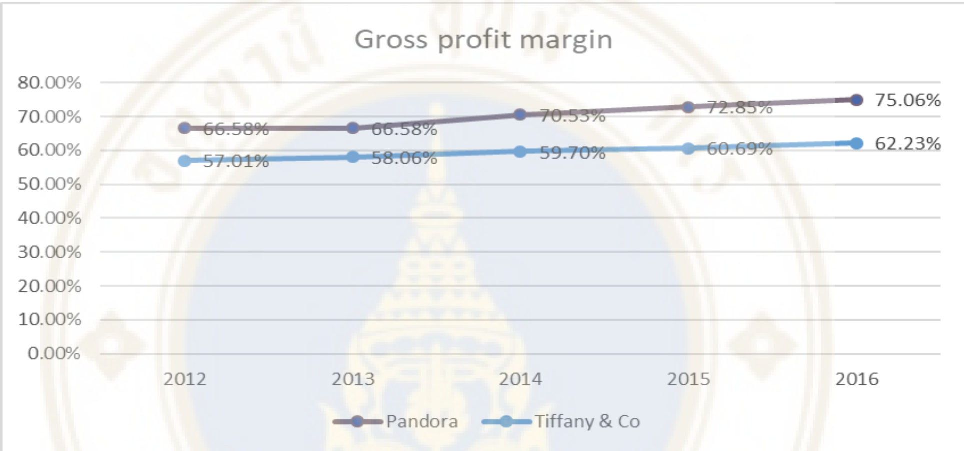


Figure 2.1 Gross profit margin

2.2 Key financial ratio analysis

2.2.1 ROA and ROE

The continuously increase in the ROA and ROE of Pandora is mainly from treasury share buy-back activity. From the high profit margin, Pandora returns the profit in from of dividend and share buy-back, this causes the level of equity lower than other competitors and reflects in significantly high in the ratio. When we compare with Tiffany & CO, both ROA, and ROE of Pandora significantly higher in every year

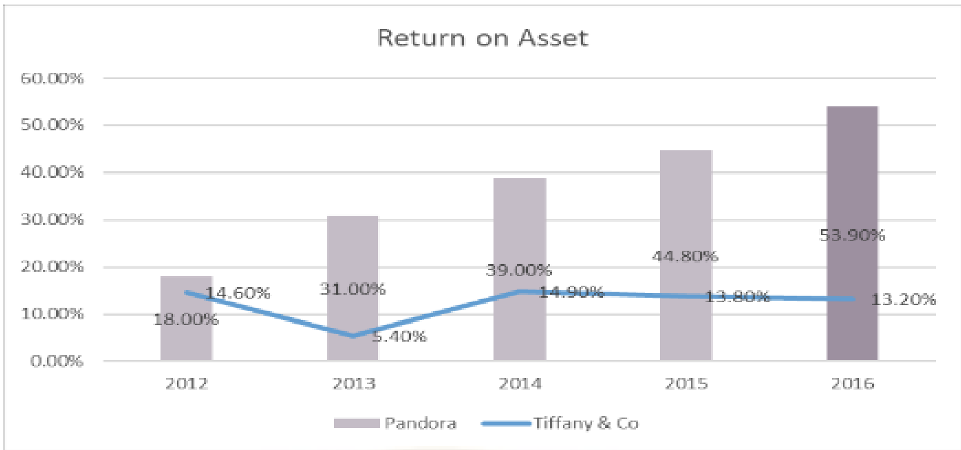


Figure 2.2 ROA

Source: Eikon Financial Analysis | Thomson Reuters

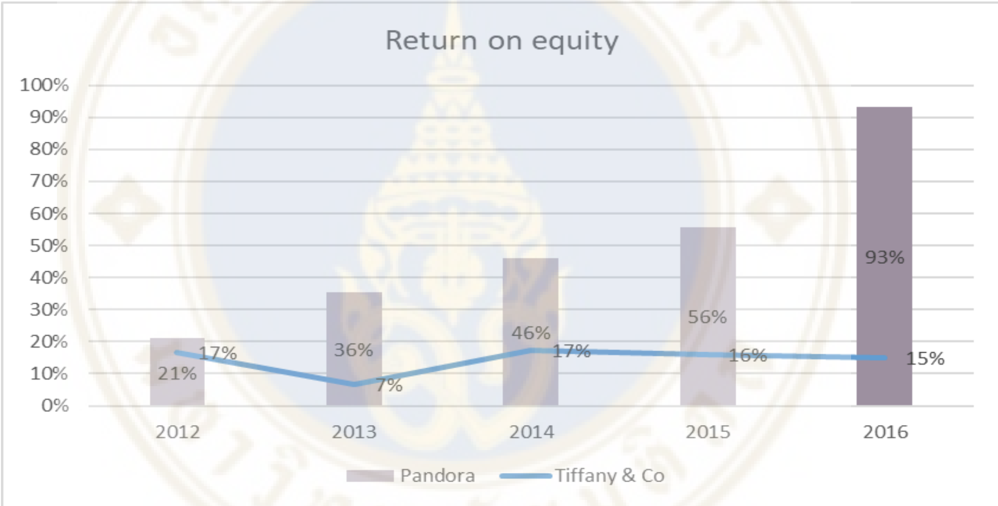


Figure 1.3 ROE

Source: Eikon Financial Analysis | Thomson Reuters

2.2.2 Current Ratio and DE ratio

Tiffany has a better current ratio from its cash on hand and significantly low of trade payable as it use the loan as a source of the fund in working capital which is different from Pandora.

The Company's fund is from its own equity. Therefore the D/E ratio of the Company is very low comparing to the competitors. Only temporary fund from bank loan during the investing period. The Company tends to have a medium-term loan (3-5 years) so the D/E ratio suddenly rise.

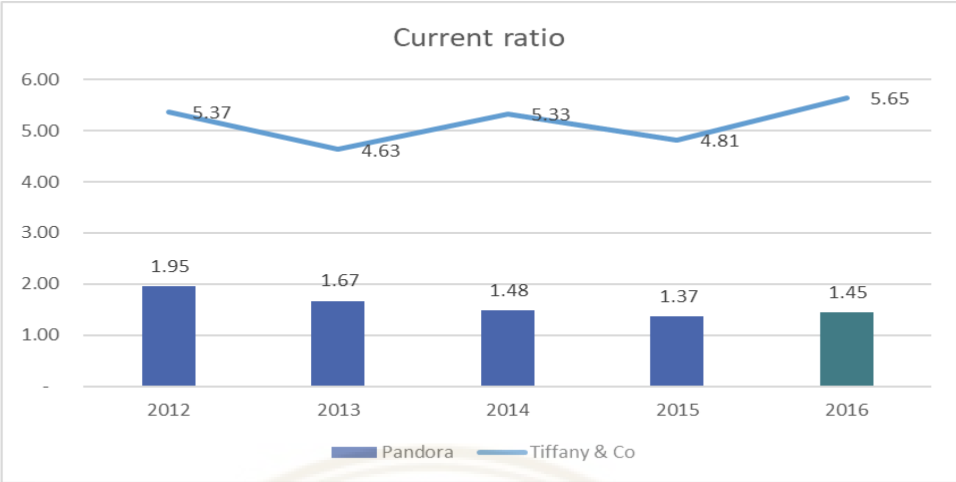


Figure 2.4 Current Ratio

Source: Eikon Financial Analysis | Thomson Reuters

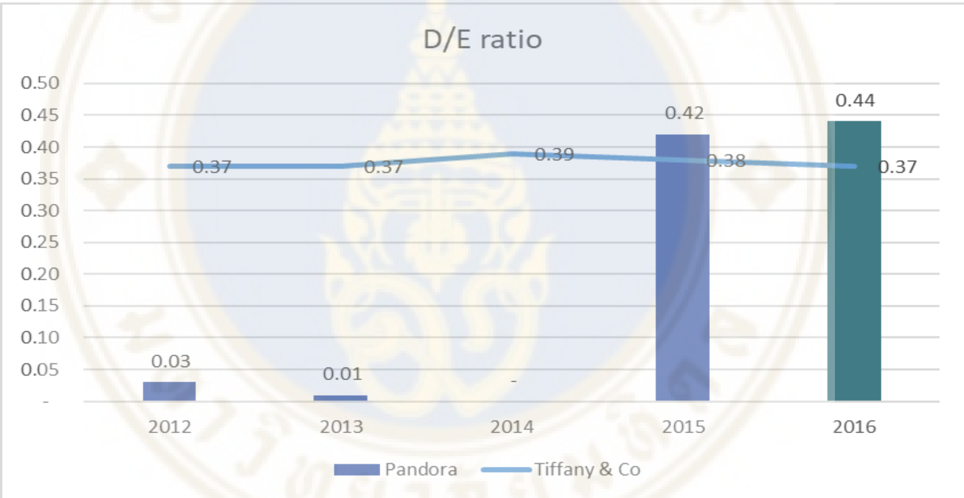


Figure 2.5 D/E Ratio

Source: Eikon Financial Analysis | Thomson Reuters

2.2.3 Days Inventory Outstanding and Days Sales Outstanding

Pandora has a very high turnover of account receivable from direct sell to end customers and high inventory turnover from attractive and affordable products. Given that both Days Inventory Outstanding and Days Sales Outstanding of Pandora is significantly lower than Tiffnay&Co

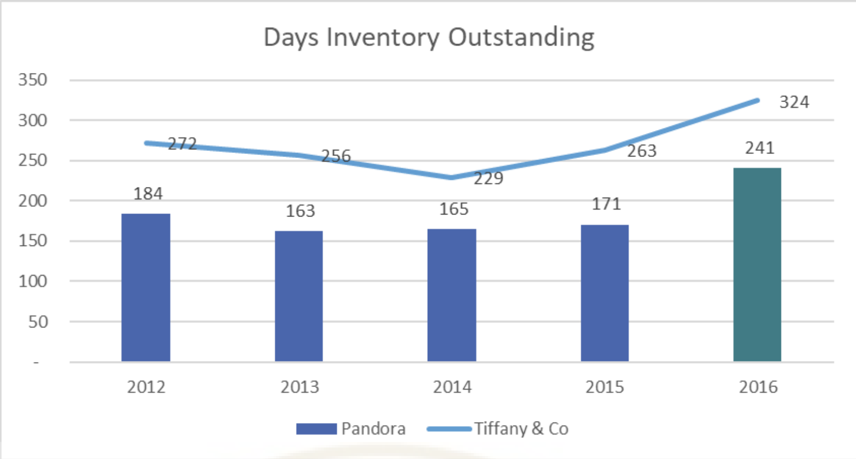


Figure 2.6 **Days Inventory Outstanding**

Figure 2.7 **Days Sales Outstanding**

2.3 Investment Risk and Downside Possibilities

Table 2.2 Risk Matrix

	Insignificant	Minor	Moderest	Major	Critical
Almost Certain			Copycat product	- Decrease of POS in US - Fashion Risk	
Likely				Currency risk	Change in Raw material price
Moderest			Brand position		
Unlikely					Geopolitical risk
Rare					

2.3.1 Financial Risk

Raw material price, due to the fact that Silver and Gold is one of the large parts of their Cost of Goods sold. Even though the firm can maintain high margin during the higher price by hedging and vertical integration, but in the time with high fluctuation, this cost might affect badly with the firm. The raw material risk is the risk of fluctuating commodity prices resulting in additional production costs. The most important raw materials are silver and gold, which are priced in USD. Currently, Pandora uses several different financial tools to minimize the risk, based on a rolling 12-month production plan, the policy is for Group Treasury to hedge around 100%, 80%, 60% and 40% of the risk for the following 1-3 months, 4-6 months, 7-9 months and 10-12 months respectively

However, as it’s shown on the chart, commodity price tends to fluctuate over the time and the hedging tools like Swap or Option can be minimized short-term risk (1-12 months) only.

Currencies risk, Since, company sold their product globally, they have to deal with the many different currencies, for example, USD EUR AUD JPY CNY. They also have large cost in Thailand which is THB currency. This means the currency fluctuation will affect their revenue and also profitability. Although the firm tries to minimize the risk by using forward and option (similar method as raw material). However, this kind of tools can reduce only the short-term risk. The significant change in main currency like USD or EUR will hurt the firm badly.

Table 2.3 Company hedging strategy

Months ahead	Commodity	All major Currencies
1-3	90-100%	90-100%
4-6	70-90%	70-90%
7-9	50-70%	50-70%
10-12	30-50%	30-50%

Source: Pandora Annual Report

2.3.2 Operational Risk

Geopolitical risk, all of their production facilities located in Thailand if they face the natural disaster or any incident. Their production plan will ultimately be affected, also the other part of the supply chain as well. Although the north of Thailand is usually safe from the natural disaster and political issue. However, the company should have some of the contingency plans in the worst case scenario as all of their factories located in the same area and they mainly rely on their production capacity.

2.3.3 Strategic risk

Huge decrease Point of Sales in US and EMEA, As America is one of the biggest single markets for Pandora, this market represents 25% of total revenue in 2016. The sharply decrease the number of the point of sales from 3,020 to 2,365 place or 22% decrease from 2015 will have effected with their sales and growth in the coming years. This significantly drop might have an effect on their customer base in the US as well

The other main market is EMEA which have a big decrease in the number of the multibranded shop. Although they have many concepts store around EMEA. However, we need to concern about it as the biggest source of revenue relies on this region. A small change of growth in this region will have a big impact on the firm revenue.

Table 2.4 Store Network and number of Points of Sale

STORE NETWORK,
NUMBER OF POINTS OF SALE

	2016	2015	Growth
Concept stores	**1,206**	**1,033**	**173**
- hereof PANDORA owned	341	298	43
- hereof 3rd party distributors	496	425	71
Shop-in-shops	**908**	**791**	**117**
- hereof PANDORA owned	80	85	-5
- hereof 3rd party distributors	366	322	44
Multibranded	**2,853**	**3,710**	**-857**
- hereof 3rd party distributors	1,020	1,184	-164
Total points of sale	4,967	5,534	-567

STORE NETWORK,
NUMBER OF POINTS OF SALE

	2016	2015	Growth
Concept stores	588	501	87
- hereof PANDORA owned	98	79	19
- hereof 3rd party distributors	-	-	-
Shop-in-shops	896	681	215
- hereof PANDORA owned	-	-	-
- hereof 3rd party distributors	-	-	-
Multibranded	881	1,838	-957
- hereof 3rd party distributors	-	-	-
Total points of sale	2,365	3,020	-655

Source: Pandora Annual Report

Brand position, one of the biggest doubt is their brand position. As their concept is affordable jewelry, they will face difficulty if they want to lift up their brand to be a premium brand in the future. In fact, during the rose of commodity price, Pandora designed to increase their price and move to a higher position, but they faced with the huge drawback from this idea and they stick with the affordable price since then.

2.3.4 Other risk

Fashion risk of their main product (Charm and Bracelet). Since bracelet and charm are the main revenue share in their portfolio (77%) We concern about how long that Pandora can maintain their popularity. Even though Pandora trying to increase their sales in the other jewelry but it is still such a low portion of their portfolio and we also not sure about their success in this product categories. We could say, their growth and revenue mainly rely on the brace and charm business, any changing of the trend will have a huge effect on the firm value as well as their share price

The copycat product, especially their main product charm and brace. Since their product is easy to duplicate. We can easily find the similar product or copycat product from all around the world. Actually, if we type “compatible charm for Pandora” on the google we will see plenty of silver charm which could be used with the Pandora brace with 5 times lower price than the original one. As the jewelry product, their profit mainly from the mark up from brand premium, in Pandora case we should worry about the charm which gives the firm competitiveness from repeat sales to their existing customer. Therefore, the copycat of this product category will have a huge negative impact on the firm competitiveness, growth and ultimately drop their sales and share price

CHAPTER III
COMPANY VALUATION

3.1 Methodology

We use the FCFF method, because it takes into account the fundamental component of the firm such as the ability of the firm to generate free cash flow, Working of capital and also the Capital expenditure. To make the valuation to be more accurate we use the H model to valuation Pandora stock price.

3.2 Key Assumptions

3.2.1 Revenue and growth rate

Based on the historical data, Pandora had very high growth since 2013, the 5 years average growth was 25.85% which is significantly higher than the peers

However, in 2016 the growth dropped sharply from 40% in 2015 to 21.17% in 2016. Additional with the sales target from management 23 Billion DKK or 14% growth, we expected the firm will slowly decrease their growth year by year and reach the stable stage on 2022.

To find the growth rate each year we plot the regression line from High to Stable growth rate and divide it with the transition period. The length of transition period we use the historical pattern of Tiffany&Co and Cartier which is about 3-4 years.

Table 3.1 Average growth

Pandora	25.85%
Compagnie Financiere Richemont SA	10.46%
Tiffany & Co	9.83%
Follie Follie	6.59%

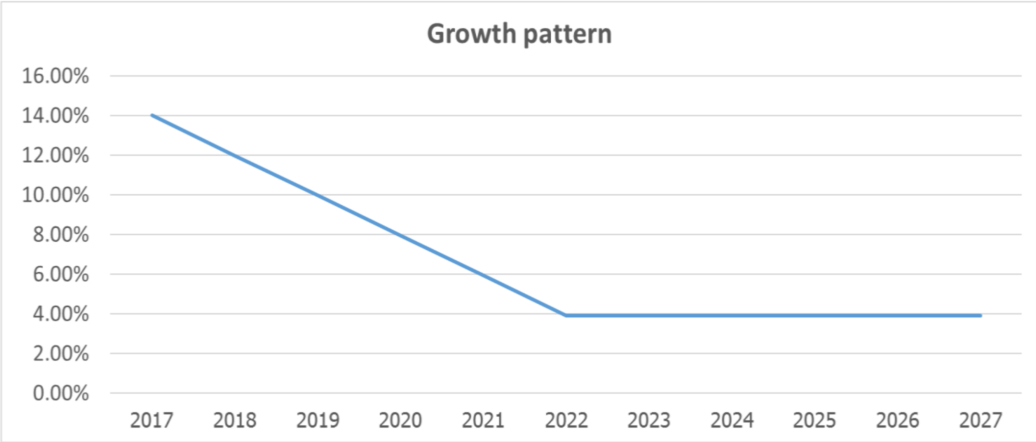


Figure 3.1 Growth pattern

To cross-check the data, we use historical revenue of Pandora since 2009 and then using forecast function from Microsoft Excel to find the forecast revenue on 2017-2021

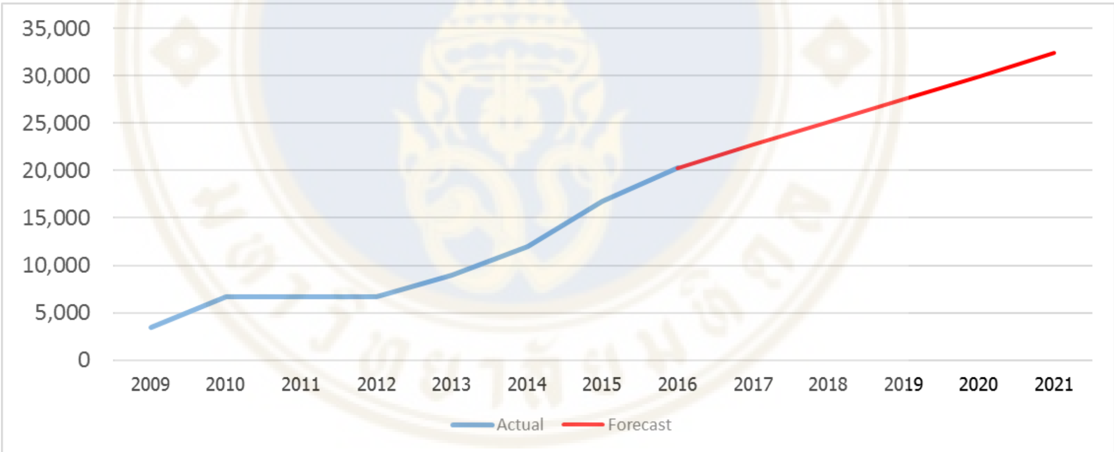


Figure 3.2 Growth forecast

Then we compare it with our estimated growth. To see the relation of these 2 data we plot the scatter chart and find the correlation. The result is very impressive with a very high correlation (99%). Hence we presume this information should be reliable.

Table 3.2 Comparison of growth rate and correlation of estimated growth

	2017	2018	2019	2020	2021
Forecast growth from Excel	11.94%	10.67%	9.64%	8.80%	8.09%
Estimated growth	14.00%	11.98%	9.96%	7.94%	5.92%
Correlation of 2 data	**99.36%**				
Analyst consensus	13.10%	11.50%	10.10%	6.51%	

To estimate the stable growth rate we use, an average of long-term GDP from 2 sources of information. OECD and PWC report "The long view How will the global economic order change by 2050" Then we average it and multiply by the percentage of revenue in each region

After we get weighted GDP from all of 3 regions, then we add 1.8% which is target inflation to get the stable growth rate

France		
OECD	**PWC**	**Avg**
2.09%	1.60%	1.84%

Italy		
OECD	**PWC**	**Avg**
1.94%	1.00%	1.47%

UK		
OECD	**PWC**	**Avg**
2.47%	1.90%	2.19%

GDP	
AVG EMEA	**1.83%**
UK	2.19%
Italy	1.47%
France	1.84%
Revenue %	47%
America	**2.00%**
Revenue %	34%
AVG ASIA PACIFIC	**3.0%**
China	3.31%
Australia	2.63%
Weight GDP	2.10%
Inflation	1.80%
Stable growth	**3.90%**

Figure 3.3 Stable growth rate

3.2.2 Cost of Sales

The average cost of Sales of Pandora from 2012-2016 is 29.7% lower than every peer in the group. However, as we know that the price of Silver which is the majority cost of Jewelry firm have significantly drop during last 3 years and this low Cost of Sales might be a temporary and won't be the last longing over the time. To find the forecast and silver trend we use historical silver price since 1968-2016 additional with the forecast price from Reuter from 2017-2020. Then we use forecast function on excel to see the trend of silver price and it shows slight increase year by year.

Therefore, we expected the silver price will slightly increase and this means the Cost of sales of Pandora will slightly increase each year as well. We expected the Cost of sale of Pandora will slightly increase 1-2% every year and reach the industry average 37% on 2024

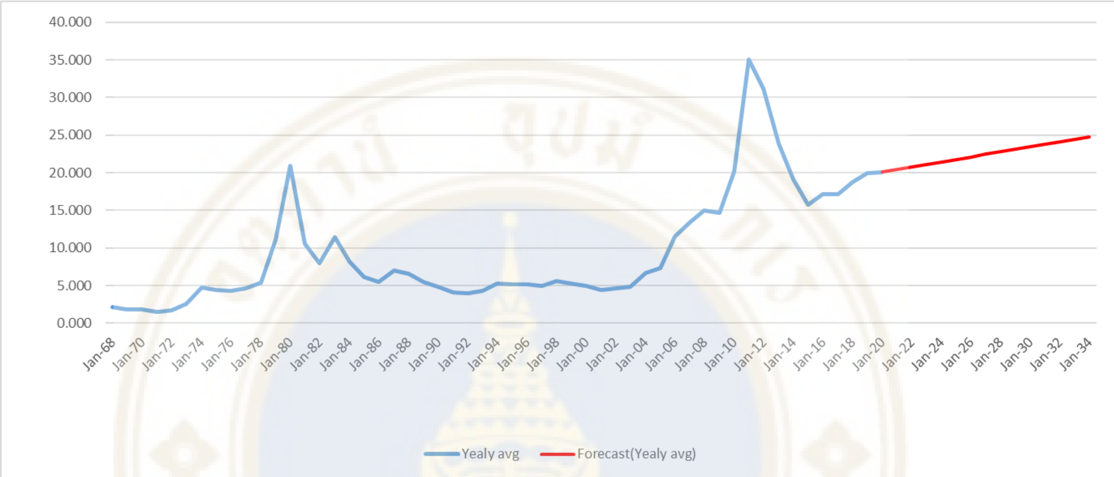


Figure 3.4 Silver price Forecast

Table 3.3 Cost of sale Forecast

Assumption	2017	2018	2019	2020	2021	2022	2023	2024
Cost of sale	28.00%	30.00%	31.00%	32.00%	34.00%	35.00%	36.00%	37.00%

3.2.3 Sales and Administration cost

The average 5 years Sales and Administration cost of Pandora is around 37% similar rate with the peers. However, since 2012 the number of staff and cost increase significantly as they expansion by their own concept store. Additionally, the increase in their advertisement and sales promotion. We expected their Sales and Administration cost will increase over the time and reach 47% in the long run

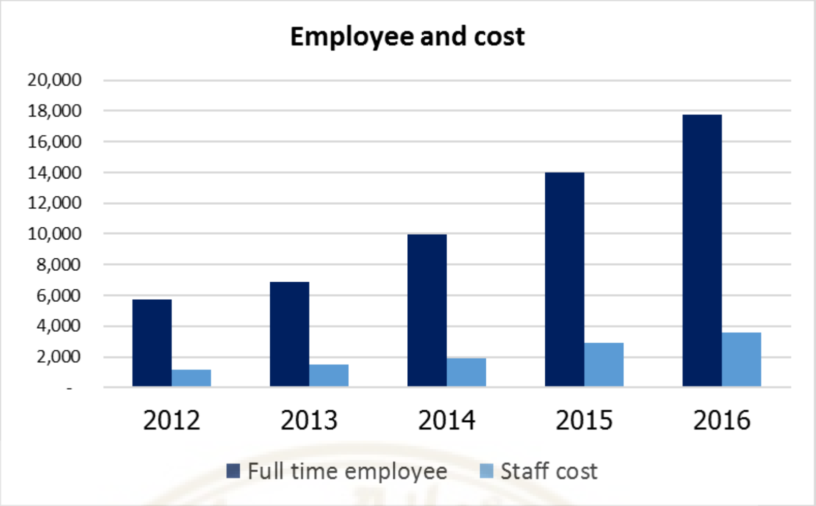


Figure 3.5 Number of employee and cost

Source: Pandora Annual Report

3.2.4 Capital Expenditure

The average 5 years Capital Expenditure from 2012-2016 is 5.2% of revenue. In 2017 Pandora management expected 5% of revenue as the CAPEX. We use this figure for 2017. However, starting from 2018 we expected them to spend more on CAPEX as their expansion strategy. Hence, we use 6% as the constant rate for the firm CAPEX

3.2.5 Working Capital

Working Capital is Inventory plus Account Receivable deduct Account Payable of the firm. The average 5 year from 2012-2016 of Working Capital is 19% revenue We expected the firm will maintain the similar proportion of Inventory, Account Receivable and Account Payable. However, as they plan to increase the sales and expand their concept store shop. We expected Pandora will increase their Working Capital each year to 24% of the sales similar to their peers

3.2.6 Weighted Average Cost of Capital (WACC)

In order to find WACC of the firm, we start from finding the cost of Debt by using interest expense on 2016 divide by Net interest-bearing debt on 2015 which was 4.27%. The corporate tax rate in Denmark is 22%. Then we get after-tax cost of debt equal 3.33%

Table 3.4 Cost of Debt

	Value
Interest expense	82.00
NIBD 2015	1,921.00
Kd	**4.27%**
Kd after tax	**3.33%**

The 2nd step, we use CAPM method to find the Cost of equity. Using beta from Reuter, 10 years Danish Government Bond yield as the Risk-Free rate and Market Risk premium from Damodaran website. Then we get Ke at 6.15%

Table 3.5 Cost of Equity

Ke = Rf + beta x (Rm - Rf)

	Value	Remark
Rf	0.477%	10 years Danish Government Bond yield
Beta	0.99	From Reuter
Market Risk premium	5.730%	Damadoran website
Ke	**6.15%**	CAPM method

The last step is finding the proportion of Debt and Equity of the firm capital structure. We use the market value of debt and market cap at 20 Dec'17. Then we get We equal 92% and Wd equal 8%

Base from above data, WACC of Pandora is 5.92%

Table 3.6 WACC

Wd	8.0%
We	92.0%
Kd	4.27%
Tax rate	22.00%
Kd after tax	3.33%
Ke	6.15%
WACC	**5.92%**

3.3 Discounted Cashflow Valuation

With above assumptions, we get a target price of Pandora A/S at 762 DKK/ Share 16% higher than 659 DKK, the actual market price per share as of 20 Dec 2017

Table 3.7 DCF table

CONSOLIDATED INCOME STATEMENT	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	23,120	25,890	28,469	30,729	32,548	33,818	35,137	36,507
Cost of sales	- 6,474	- 7,767	- 8,825	- 9,833	- 11,066	- 11,836	- 12,649	- 13,508
Depre	- 482	- 400	- 492	- 591	- 696	- 804	- 917	- 1,034
Gross profit	16,165	17,723	19,151	20,304	20,786	21,177	21,571	21,966
Sales, distribution and marketing expenses	- 6,936	- 8,026	- 9,395	- 10,141	- 10,741	- 11,160	- 11,595	- 12,047
Administrative expenses	- 2,543	- 3,107	- 3,701	- 4,302	- 4,557	- 4,734	- 4,919	- 5,111
EBIT	6,686	6,590	6,055	5,862	5,488	5,283	5,056	4,807
Income tax expenses	- 1,471	- 1,450	- 1,332	- 1,290	- 1,207	- 1,162	- 1,112	- 1,058
NOPAT	5,215	5,140	4,723	4,572	4,281	4,121	3,944	3,750
Add: Depre	482	400	492	591	696	804	917	1,034
Less: Capex	- 1,156	- 1,553	- 1,708	- 1,844	- 1,953	- 2,029	- 2,108	- 2,190
Less: change in WC	- 1,576	- 796	- 664	- 625	- 726	- 459	- 484	- 510
FCFF	2,965	3,191	2,843	2,695	2,298	2,437	2,269	2,083
Terminal value								107,157
	2,965	3,191	2,843	2,695	2,298	2,437	2,269	109,240
Total Enterprise Value	**89,076**							
Add: Non operation Assest	**3,150**							
Less : Debt Outstanding	**6,450**							
Total Equity Value	**85,776**							
Total share outstanding	**113**							
Share price (per DKK)	**762**							

3.4 Sensitivity and scenario analysis

Base from our analysis, there are some of the factors that can affect the target price (i.e. Terminal growth rate, Cost of sales, CAPEX and WACC. In order to measure the effect with a stock price, we use sensitivity analysis

The result shows that WACC has the most impact on the stock price. However, as Denmark is one of the stable countries. Cost of Debt, Market risk premium, and Cost of equity are very low. Also the stable of the capital structure of Pandora. We expected WACC will be stable over time. Therefore, we choose terminal growth and cost of sales as the variables which tend to fluctuate over the time to conduct the scenario analysis

One of the important factors which could dramatically affect the cost of sales is the price of Silver and Gold. Due to the fact that firm could effectively hedge only short term. The longer perspective will fluctuate and hard to predict

After using the scenario analysis, the expected stock price is 822 DKK/Share and there is 25% probability that the price will be lower than the current price (659 DKK/

Share). They also show the possibility of high upside that the price could be over 1,700 DKK/ Share. However, we don't think the firm can be growth at 4.49% and reduce the cost of sales to 31.45% in long run. This situation should be considered as the temporary event, not the long-term perspective.

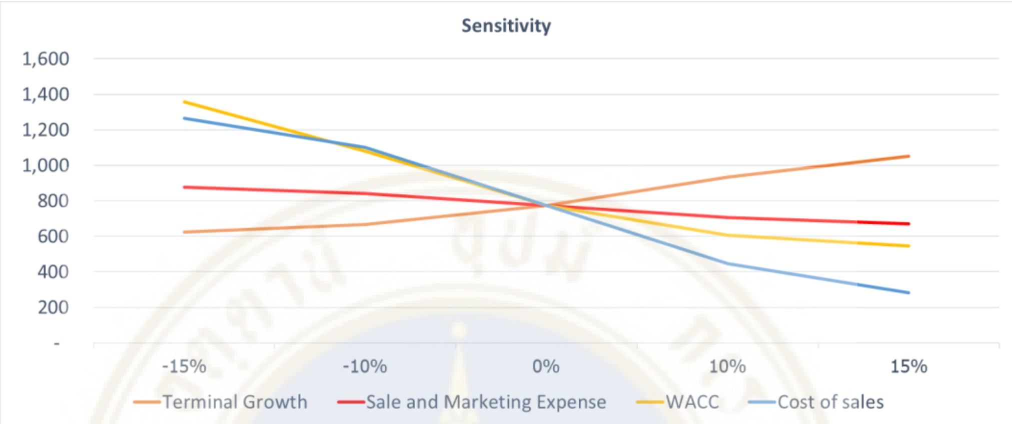


Figure 3.6 Sensitivity graph

Table 3.8 Two ways sensitivity analysis

		Cost of sales				
Share price	762	31.45%	33.30%	37.00%	40.70%	42.55%
Terminal growth	3.32%	995	868	614	361	234
	3.51%	1,066	929	655	381	244
	3.90%	1,255	1,091	762	434	270
	4.29%	1,534	1,330	921	513	309
	4.49%	1,736	1,503	1,036	570	337

Table 3.9 Scenario Summary

Scenario Summary	Current Values:	Best	Good	Default	Bad	Worst
Changing Cells:		5%	20%	50%	20%	5%
Terminal growth	3.90%	4.49%	4.29%	3.90%	3.51%	3.32%
Cost of sales	37.00%	31.45%	33.30%	37.00%	40.70%	42.55%
Result Cells:						
Stock price	762	1,736	1,330	762	381	234

E(Stock price)	822
SD(Stock price)	389
Coefficient of variation	0.47
Prob(Stock price< 914 Dkk)	25%

CHAPTER IV
DATA

4.1 The Business Structure

There are no major shareholders holding more than 5% of the share capital and the voting rights in PANDORA Listed on NASDAQ OMX Copenhagen on October the 5th, 2010.

Table 4.1 Major Shareholders and Free-Float

Trading Symbol	PNDORA
Identicication number/ISIN	DK0060252690
GICS	25203010
Number of Shares	112,507,391
Sector	Apparel, Accessories & Luxury Goods
Segment	Large
Share capital	112,507,391
Nominal value	1
Free float (incl. treasury shares)	100%

			
Anders Colding Friis President, Chief Executive Officer Nationality: Danish Residence: Denmark	**Peter Vekslund** EVP, Chief Financial Officer Nationality: Danish Residence: Denmark	**David Allen** President, EMEA Nationality: Australian Residence: Denmark	**Kenneth Madsen** President, Asia Pacific Nationality: Danish Residence: Hong Kong
			
Minna Philipson SVP, Chief Marketing Officer Nationality: Swedish Residence: Germany	**Scott Burger** President, Americas Nationality: American Residence: The US	**Stephen Fairchild** SVP, Chief Creative Officer Nationality: American Residence: Belgium	**Thomas Touborg** SVP, Group Operations Nationality: Danish Residence: Denmark

Figure 4.1 Management Board

4.2 CORPORATE GOVERNANCE

PANDORA’s aim regarding good corporate governance is to ensure transparency and accountability and that the Company meets its obligations to shareholders, customers, consumers, employees, authorities and other key stakeholders to the best of its ability in order to maximize long-term value creation. PANDORA intends to exercise good corporate governance at all times and to assess our practices according to the corporate governance recommendations of the Danish Committee on Corporate Governance. As a publicly listed company, PANDORA is subject to the disclosure requirements laid down by Nasdaq Copenhagen, which has included the recommendations in its ‘Rule Book for Issuers of Shares’. The Danish corporate governance recommendations were updated in May 2013 with minor revisions in 2014, which do not impact PANDORA’s reporting. In 2016, PANDORA chose to deviate partly from Clause 3.4.6 as the Chairman of the Nomination Committee is not the Chairman of the Board. At PANDORA, the Nomination Committee elects a chairman, who must be either the Chairman or one of the Deputy Chairmen of the Board. The Chairmanship is handled in cooperation between the Chairman of the Board and the Deputy Chairmen and thus, in practice, the Deputy Chairman represents the Chairman of the Nomination Committee.

4.2.1 Board of Directors And Executive Management

Powers are distributed between the Board of Directors and the Executive Management and independence exist between these two bodies as is normal practice in Denmark. The Board of Directors is elected at the Annual General Meeting and all Board members are up for election every year. The Executive Management is appointed by the Board.

The Executive Management handles day-to-day management, while the Board supervises the work of the Executive Management and is responsible for the general strategic direction. The primary tasks for the Board are to ensure that PANDORA has a strong management team, an adequate organizational structure, efficient business processes, an optimal capital structure, transparent bookkeeping and practices, and responsible asset management. The composition of the Board must be such that, at any time, the consolidated competencies of the Board enable it to supervise PANDORA’s development and diligently address the specific opportunities and challenges faced by PANDORA.

The Board and the Executive Management together develop the Company's overall strategies and oversee that the competencies and resources are in place to maximize the likelihood of PANDORA achieving its objectives. Furthermore, the Board oversees the financial development of PANDORA and the related planning and reporting systems.

4.2.2 Board Activities In 2016

During 2016, the Board held eight ordinary Board meetings.

The total attendance rate was 94%. In 2016, the primary focus area for the Board was continued growth, geographic expansion, product diversification (full jewelry brand), IT, expansion of manufacturing footprint and organizational development of the Company. The Board has established an Audit Committee, a Remuneration Committee, and a Nomination Committee. The Board appoints Committee members and the Committee chairman. The Committees' terms of reference are disclosed via the Company's website.

4.2.3 The Audit Committee

The current members of the Audit Committee are Birgitta Stymne Göransson (Chairman), Anders Boyer-Søgaard, Andrea Alvey and Michael Hauge Sørensen. The Audit Committee reviews and assesses PANDORA's financial reporting and audit process as well as internal control systems and evaluates the adequacy of control procedures. More specifically, the duty of the Audit Committee is to supervise the following areas:

- financial reporting process
- internal control and risk management systems
- independent audit In 2016, the Audit Committee met seven times and had an attendance rate of 93%. The main activities in 2016 were:
- meetings with the Executive Management and independent auditors to review the audited annual report
- meetings with the Executive Management to review quarterly financial statements, the key accounting policies, and significant accounting estimates
- review of the adequacy and effectiveness of PANDORA's internal controls and risk management systems

- review of significant risks of PANDORA
- re-assessment of the need for an internal audit function and approved implementation of a Governance, Risk & Compliance function
- recommendation for the selection of independent auditors, including evaluation of independence, competencies, and compensation
- the Audit Committee's annual self-assessment

4.2.4 The Remuneration Committee

The current members of the Remuneration Committee are Peder Tuborgh (Chairman), Christian Frigast, Allan Leighton, Bjørn Gulden and Andrea Alvey. The main duties of the Remuneration Committee are:

- to prepare recommendations to the Board on the pay and remuneration policy applicable to the Board and the Management Board, including the Executive Management with respect to fixed and variable pay components
- to submit proposals to the Board for the total individual pay and remuneration package of the Board members and PANDORA's executive managers
- to verify that the information about remuneration in the annual report is true, accurate and adequate The Remuneration Committee met four times in 2016 and had an attendance rate of 90%. The main activities were the annual review of the remuneration policy and guidelines on incentive payments as well as approval of the company's overall wage regulation. The Committee also performed a review of the Long-Term Incentive Programme.

4.2.5 The Nomination Committee

The current members of the Nomination Committee are Christian Frigast (Chairman), Peder Tuborgh, Anders Boyer-Søgaard, Ronica Wang and Per Bank. The Nomination Committee assists the Board in fulfilling its responsibilities with regard to the:

- description of the qualifications and competencies required for members of the Board and the Executive Management
- nomination of candidates for approval by the Board to fill vacancies on the Board and the Executive Management

- self-evaluation of the Board
- assessment of the performance of the Executive Management and the cooperation between the Board and the Executive Management
- succession planning for top executive positions

In 2016, the Nomination Committee met twice and had an attendance rate of 80%. The main activities were the annual self-evaluation, development of a Board composition assessment tool to ensure the competencies and experiences represented on the Board are aligned with PANDORA's strategic objectives, and an in-depth analysis of the qualifications and competencies required for members of the Board and the Executive Management.

4.2.6 Board self-evaluation

The Board conducts an annual self-assessment to constantly improve the performance of the Board and its cooperation with the Executive Management. The chairman of the Nomination Committee directs the assessment process. The assessment is carried out by each Board member completing a questionnaire followed by a Board discussion where improvement areas are defined and agreed upon. Once a year, the CEO must perform an assessment of the individual members of the Executive Management. Among the topics covered in the Board, self-assessment are Board composition, the nomination process, and competencies of the Board. Also covered are, for example, the Board's involvement in financial management and control, risk management, the efforts and time spent on strategic discussions, cooperation with the Executive Management, personal contributions and committee work.

The self-assessment conducted in 2016 identified the following strengths and development areas for the Board. In general, the Board demonstrates appropriate and broad industry knowledge and includes a diversity of experience and backgrounds well fitted to PANDORA's business and strategy. The Board structure and committee work are effective, and the Board considers itself to be sufficiently involved in financial oversight. The primary focus points for 2016/2017 are a continuation of growth, geographical expansion, talent management, strategy, expansion of manufacturing footprint, IT and improvement of the strategy-related processes around Board meetings.

4.3 SWOT Analysis

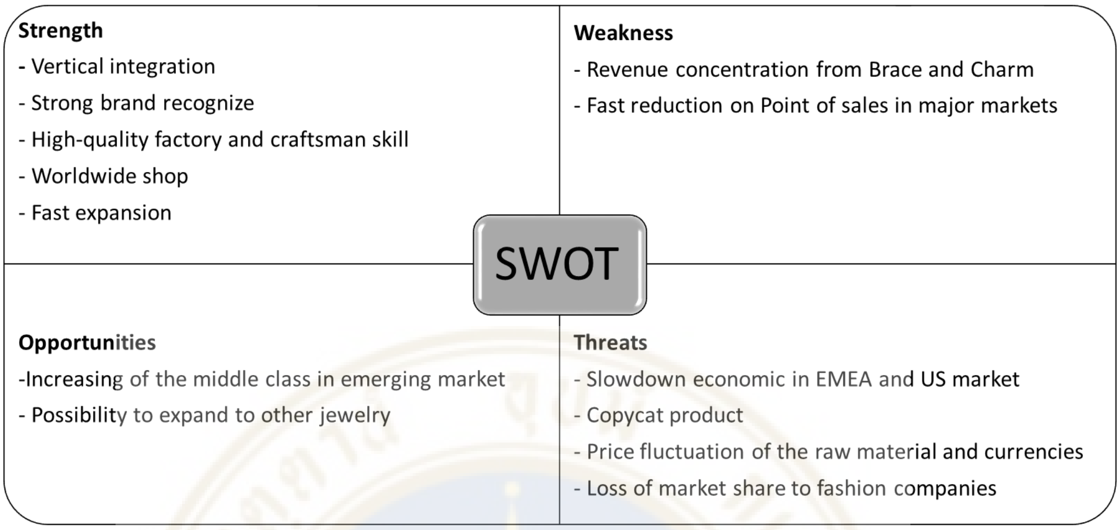


Figure 4.2 SWOT Analysis

1. Strength, the first strength is vertical integration which allows them to have the control over the main part of supply chain and enjoy the higher margin comparing with their peers. Next is the strong brand recognition. As we mentioned before, Pandora brand awareness continually increases in the global market. This strength will benefit not only the main product but also the other products in their portfolio. The other is High-quality factory and craftsman skill, as they heavily invest in both tangible and intangible assets. This not only increases their production capacity but also help them to have more new products launching, as their factory located in the North of Thailand where is a plenty of silversmiths, Pandora will be able to employ high skill employees with lower cost than in some other developed countries. Next is their worldwide shop as a part of their expansion. Base on the company information, on 2016 Pandora have 4,967 Point of Sales around the world, this high number of POS allows the customer to reach them in almost all of the major cities around the globe.

2. Weakness, the charm, and brace seem to be the most selling product in their portfolio. Combination of their sales is 77% of total revenue on 2016. This concentration also makes some drawback when the firm tries to increase their product portfolio. Although they try to increase the revenue from other jewelry like the ring and earring. However, the proportion is still very low compared with their main product. Given this situation,

Pandora revenue and growth mainly rely on Brace and Charm, which we doubt about their popularity in the long run. One of the big weakness is the fast reduction of POS as they try to decrease the 3rd parties and replace with concept store. This concept is a very good idea. However, the sharply decrease POS in the major markets will have an effect on their sales and growth. During 2016 they close 957 POS in the US and 857 POS in EMEA. They might have some augment as they increase concept stores at the same time. It shouldn't have a big effect if they slightly decrease the 3rd parties and building their concept store at the same time. But one of the big questions is how long they will need to recover their POS and how much money the firm need to spend for this self-expansion, also the increase of administration cost which will hit their bottom end.

3. Opportunities. One of the main opportunities of Pandora is the increasing of the middle class in emerging market which tends to spend on the luxury product than their predecessors. China as one of the big jewelry market in the world, the increase of middle class and increase of consumer will fuel both jewelry and luxury market at least in the next couple of years. Brazil and Latin America are also one of a good potential market for expansion. Their increase of "new money" will not only increase the firm revenue but also help Pandora to diversify their revenue from the developed market, which tends to slow down in the following year. The other opportunity is possible to expand to other jewelry. If we see the historical data of the firm, we will recognize that Pandora tries to expansion to the other jewelry. However, they also have many another kind of jewelry that still not include in their portfolio and expected them to expand to that kind of product. In this case, we didn't limit it to type but also material as well. We notice that most of the Pandora jewelry is silver base and some few stones. Although they launched some of the gold and rose gold collection, it was very low proportion compared with the Silver collection. Therefore, we could expect Pandora to increase their product line in both type and material.

4. Threats, the main threat of Pandora could be from slowdown economic in EMEA and US market. Starting from EMEA which is the biggest source of their revenue. Since, EMEA combining with many countries, some of them still maintain high GDP growth. Unfortunately, the majority of Pandora's sales come from European countries which face the slowdown down in economic like UK and Italy. The combination with Brexit, the European tend to need a longer period to recover from their downturn.

One of the other important threat is a copycat product. In fact, most of the jewelry product was easy to duplicate with a very cheap price. Especially from China where they have a lot of jewelry factory. Supporting by 3D printing technology, almost all factory can produce imitate product with comparable quality. In case of Pandora, we concern about the charm which one of the most selling product and the main source of revenue. Currently, we can find plenty of charm which compatible with Pandora brace and absolutely cheaper than the original one. Next is price fluctuation in raw material and currency. Due to the fact that majority of the cost of sales of the firm come from raw material like silver and gold. The fluctuation of these precious metal will have a dramatic effect on the firm's cost. The exchange rate as well, most of Pandora cost is USD and THB. However, their revenue mainly from various currencies EUR, AUD, USD, CNY. The change in currency again DKK will not only impact the revenue but also the growth and cost structure of the firm. Pandora using many different financial products like forward, option and swap contract to minimize the risk. Anyway, most of these tools can minimize only short-term risk. In the long horizon, it's not only hard to predict but also hedging the risk. The last main threat is losing their market share to both jewelry and fashion company. Since Pandora position in an affordable range which has the highest portion in jewelry market (around 57%). It's obvious that they will face with many competitors within the same range, also many fashion companies who try to enter to jewelry market.

4.4 Five Forces Analysis

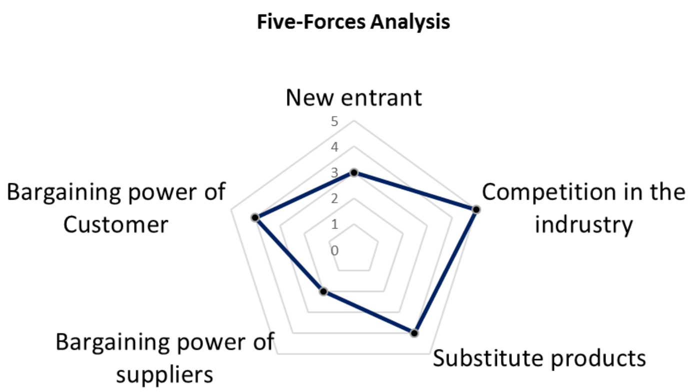


Figure 4.3 Five Forces Analysis

After we analyze related data and information, we summarize each threat as below

1. The threat of new entrants is a medium force, as jewelry market is a fragment and easy to join as the newcomer. Small companies and local shops can set up with a small amount of fund. Some of them might act as a retailer who buys a product from local factory and sales to both local and international customers. However, this group of players is not considered as the main threat. Since they have a low customer base and relatively low brand power. On the other hand, the big fashion and appearance brand should be considered as the main threat of Pandora, as they have a big fan and strong customer base.

2. The threat from Competition in the industry is very strong, jewelry market is highly competitive. The existence international brand and competitors have their customer base and brand loyalist. Base from the information from McKinsey & Company report, Jewelry market should be on the same trend but moving at a faster pace than the past.

3. The threat of substitutes product is strong, most of the jewelry could be replaced with similar one as they have common feature and trend could be changed easy and rapid pace. However, brand value is something that can’t imitate. This allows a big brand like Pandora to sales their product which has high emotional value to the loyalty customer.

4. Bargaining power of suppliers is low, Pandora getting benefit from vertical integration. Hence, they can manage almost all of their supply and value chain. This integration is not only allowing Pandora to control their cost but also improving their product quality and shortening the lead time in each process. As the high volume buyer, they also have strong negotiation power over the local suppliers.

5. Bargaining power of buyers is high. The customer has plenty of choices to choose jewelry, the cost of switching product is low. However, Brace& Charm which is the biggest sales in their portfolio still have some competitive edges as they’re the biggest player in this segment and their customer tend to repeat buy additional charm over the time.

4.5 Income Statement

Table 4.2 Projected Income Statement

CONSOLIDATED INCOME STATEMENT	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
Revenue	20,281	23,120	25,890	28,469	30,729	32,548	33,818	35,137	36,507	37,931	39,410	40,947
Cost of sales	-5,058	-6,474	-7,767	-8,825	-9,833	-11,066	-11,836	-12,649	-13,508	-14,034	-14,582	-15,150
Gross profit	15,223	16,647	18,123	19,643	20,896	21,482	21,982	22,487	22,999	23,896	24,828	25,797
Gros margin	75.1%	72.0%	70.0%	69.0%	68.0%	66.0%	65.0%	64.0%	63.0%	63.0%	63.0%	63.0%
Sales, distribution and marketing expenses	-5,838	-6,936	-8,026	-9,110	-10,141	-10,741	-11,160	-11,595	-12,047	-12,517	-13,005	-13,513
Administrative expenses	-1,981	-2,543	-3,107	-3,701	-4,302	-4,557	-4,734	-4,919	-5,111	-5,310	-5,517	-5,733
Operating profit	7,404	7,167	6,990	6,833	6,453	6,184	6,087	5,973	5,841	6,069	6,306	6,552
Finance income	328	100	100	100	100	100	100	100	100	100	100	100
Finance costs	-82	-164	-	-	-	-	-	-	-	-	-	-
Profit before tax	7,650	7,103	7,090	6,933	6,553	6,284	6,187	6,073	5,941	6,169	6,406	6,652
Income tax expenses	-1,625	-1,563	-1,560	-1,525	-1,442	-1,383	-1,361	-1,336	-1,307	-1,357	-1,409	-1,463
Net profit for the year	6,025	5,541	5,530	5,407	5,111	4,902	4,826	4,737	4,634	4,812	4,996	5,188
Earnings per share, basic (DKK)	52.80	43.29	45.33	46.22	45.64	45.81	47.31	48.84	50.37	55.31	60.93	67.38
Earnings per share, diluted (DKK)	52.50	43.04	45.07	45.95	45.38	45.55	47.05	48.56	50.08	54.99	60.59	67.00

4.6 Balance sheet

Table 4.3 Projected Balance Sheet

ASSETS	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
Goodwill	2,571	2,653	2,653	2,653	2,653	2,653	2,653	2,653	2,653	2,653	2,653	2,653
Brand	1,057	1,091	1,091	1,091	1,091	1,091	1,091	1,091	1,091	1,091	1,091	1,091
Dirstribution network	184	190	190	190	190	190	190	190	190	190	190	190
Distribution right	1,061	1,095	1,095	1,095	1,095	1,095	1,095	1,095	1,095	1,095	1,095	1,095
Other intangible assets	893	921	921	921	921	921	921	921	921	921	921	921
Total intangible assets	5,766	5,949	5,949	5,949	5,949	5,949	5,949	5,949	5,949	5,949	5,949	5,949
Property, plant and equipment	1,767	2,255	2,921	3,599	4,268	4,908	5,491	6,016	6,480	6,882	7,219	7,487
Deferred tax assets	946	910	879	860	815	785	778	771	761	790	820	852
Other financial assets	250	281	312	339	365	392	413	442	490	545	592	636
Total non-current assets	8,729	9,396	10,060	10,747	11,398	12,034	12,630	13,178	13,680	14,166	14,580	14,924
Inventories	2,729	3,431	4,117	4,677	5,212	5,865	6,273	6,704	7,159	7,438	7,728	8,030
Derivative financial instruments	161	-	-	-	-	-	-	523	2,112	4,289	6,104	7,758
Trade receivables	1,673	2,312	2,589	2,847	3,073	3,255	3,382	3,514	3,651	3,793	3,941	4,095
Income tax receivables	142	137	132	129	122	118	117	116	114	119	123	128
Other receivables	754	860	963	1,058	1,142	1,210	1,257	1,306	1,357	1,410	1,465	1,522
Cash	897	849	940	1,024	1,102	1,183	1,245	1,334	1,478	1,643	1,786	1,919
Total current assets	6,356	7,588	8,740	9,736	10,652	11,631	12,274	13,496	15,871	18,692	21,148	23,451
Total assets	15,085	16,984	18,800	20,483	22,050	23,665	24,904	26,675	29,551	32,858	35,728	38,375

EQUITY AND LIABILITIES	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
Share capital	117	112	107	102	97	92	87	82	77	72	67	62
Share premium		-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-4,334	-4,500	-4,050	-3,645	-3,281	-2,952	-2,657	-2,391	-2,152	-1,937	-2,131	-2,344
Reserves	1,181	1,339	1,497	1,655	1,813	1,971	2,129	2,287	2,445	2,603	2,761	2,919
Dividend proposed	1,007	926	894	875	830	799	791	785	775	804	999	1,038
Retained earnings	8,823	9,480	10,428	11,685	13,080	14,652	16,481	18,544	20,793	23,406	25,814	28,163
Total equity	6,794	7,357	8,876	10,672	12,539	14,562	16,831	19,307	21,938	24,948	27,511	29,838
Provisions	101	115	129	142	153	162	168	175	182	189	196	204
Loans and borrowing	3,008	846	1,215	1,396	1,416	1,283	642	-	-	-	-	-
Deferred tax liabilities	393	378	365	357	339	326	323	320	316	328	341	354
Other payables	393	448	502	552	595	631	655	681	707	735	764	793
Total non-current liabilities	3,895	1,788	2,210	2,446	2,503	2,402	1,789	1,176	1,205	1,252	1,301	1,351
Provisions	1,004	1,145	1,282	1,409	1,521	1,611	1,674	1,739	1,807	1,878	1,951	2,027
Loan and borrowing	3	3,386	2,834	2,094	1,416	855	275	-	-	-	-	-
Derivative financial instruments	256	297	306	303	294	281	249	227	235	244	254	264
Trade payables	1,622	1,387	1,553	1,708	1,844	1,953	2,029	2,108	2,190	2,276	2,365	2,457
Income tax payable	547	526	508	497	471	454	450	446	440	457	474	493
Other payables	964	1,099	1,231	1,353	1,461	1,547	1,607	1,670	1,735	1,803	1,873	1,946
Total current liabilities	4,396	7,840	7,714	7,364	7,007	6,702	6,285	6,191	6,408	6,658	6,917	7,186
Total liabilities	8,291	9,627	9,924	9,810	9,510	9,103	8,073	7,368	7,613	7,910	8,218	8,538
Total equity and liabilities	15,085	16,984	18,800	20,483	22,050	23,665	24,904	26,675	29,551	32,858	35,728	38,375

4.7 Statement of Cash Flow

Table 4.4 Projected Cash Flow statement

	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
Profit before tax	7,650	7,103	6,860	6,712	6,363	6,130	6,071	6,023	5,941	6,169	6,406	6,652
Finance income	-328	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
Finance costs	82	164	231	221	190	154	116	50	-	-	-	-
Depreciation, amortisation and impairment losses	518	482	539	629	726	829	935	1,046	1,161	1,280	1,404	1,533
Share-based payments	76	86	97	110	124	140	158	179	202	228	258	292
Change in inventories	-206	-702	-685	-561	-534	-654	-408	-431	-455	-279	-290	-301
Change in receivables	-327	-745	-380	-354	-310	-250	-174	-181	-188	-195	-203	-211
Change in payables and other liabilities	327	433	410	468	410	330	230	239	249	258	268	279
Other non-cash adjustments	241	-496	366	384	464	552	609	154	-191	-387	-181	258
Interest etc. received	3	-	-	-	-	-	-	-	-	-	-	-
Interest etc. paid	-43	-164	-231	-221	-190	-154	-116	-50	-	-	-	-
Income tax paid	-1,462	-1,536	-1,486	-1,463	-1,367	-1,327	-1,330	-1,321	-1,299	-1,379	-1,432	-1,486
Cash flow from operting activites, net	6,531	4,525	5,619	5,825	5,776	5,651	5,992	5,609	5,319	5,595	6,130	6,914
Acquisition of subsidiaries and activities, net of cash acquired	-210											
Divestment of business	-											
Purchase of intangibles	-344	-405	-544	-598	-645	-684	-710	-738	-767	-797	-828	-860
Purchase of property, plant and equipment	-825	-751	-1,010	-1,110	-1,198	-1,269	-1,319	-1,370	-1,424	-1,479	-1,537	-1,597
Change in other non-current assets	-75	-31	-30	-28	-26	-27	-21	-29	-48	-55	-48	-44
Proceeds from sales of property, plant and equipment	31	-	-	-	-	-	-	-	-	-	-	-
Cash flows from investing activities, net	-1,423	-1,187	-1,584	-1,736	-1,870	-1,980	-2,050	-2,138	-2,238	-2,331	-2,412	-2,501

	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
Dividend paid	-1,507	-1,007	-926	-894	-875	-830	-799	-791	-785	-775	-804	-999
Purchase of treasure shares	-4,000	-3,600	-2,835	-2,552	-2,296	-2,067	-1,860	-1,674	-2,152	-2,325	-2,770	-3,281
Proceeds from loans and borrowings	3,777	3,721	1,816	941	844	805	279	583	1,500	-	309	-
Repayment of loans and borrowings	-3,373	-2,500	-2,000	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500	-	-309	-
Cash flows from financing activities, net	-5,103	-3,386	-3,945	-4,005	-3,828	-3,591	-3,880	-3,383	-2,938	-3,099	-3,574	-4,281
Net increase/decrease in cash	5	-48	91	84	78	81	62	89	144	165	144	132
Cash at 1 January	889	897	849	940	1,024	1,102	1,183	1,245	1,334	1,478	1,643	1,786
Exchange gain/lossess on cash	3											
Net increase/decreae in cash	5	-48	91	84	78	81	62	89	144	165	144	132
Cash at 31 December	897	849	940	1,024	1,102	1,183	1,245	1,334	1,478	1,643	1,786	1,919

4.8 Common size analysis

Table 4.5 Income Statement

	Pandora A/S					Tiffany & Co
CONSOLIDATED INCOME STATEMENT	**Year 2016**	**Year 2015**	**Year 2014**	**Year 2013**	**Year 2012**	**Year 2016**
Revenue	100%	100%	100%	100%	100%	100%
Cost of sales	-25%	-27%	-29%	-33%	-33%	-38%
Gross profit	75%	73%	71%	67%	67%	62%
Gross margin	**75.1%**	**72.9%**	**70.5%**	**66.6%**	**66.6%**	**62.2%**
Other operating income	0%	0%	0%	0%	0%	0%
Sales, distribution and marketing exper	-29%	-28%	-26%	-27%	-31%	0%
Administrative expenses	-10%	-10%	-10%	-10%	-13%	-44%
Operating profit	**37%**	**35%**	**34%**	**30%**	**22%**	**18%**
Profit before tax	38%	32%	32%	30%	22%	17%
Income tax expenses	-8%	-10%	-6%	-6%	-4%	-6%
Net profit for the year	**30%**	**22%**	**26%**	**25%**	**18%**	**11%**

Table 4.6 Balance Sheet

Consolidated Balance sheet	Pandora A/S					Tiffany & Co
ASSETS	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012	Year 2016
Total intangible assets	38%	41%	46%	50%	53%	1%
Property, plant and equipment	12%	9%	7%	5%	6%	18%
Total non-current assets	**58%**	**58%**	**58%**	**59%**	**62%**	**30%**
Inventories	18%	18%	16%	16%	16%	42%
Trade receivables	11%	10%	11%	10%	11%	4%
Cash	6%	7%	11%	7%	4%	18%
Total current assets	**42%**	**42%**	**42%**	**41%**	**38%**	**70%**
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Pandora A/S					Tiffany & Co
EQUITY AND LIABILITIES	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012	Year 2016
Total equity	**45%**	**46%**	**67%**	**70%**	**72%**	**59%**
Loans and borrowing	20%	18%	0%	0%	2%	17%
Total non-current liabilities	26%	23%	5%	5%	8%	28%
Provisions	7%	7%	6%	5%	6%	2%
Trade payables	11%	10%	8%	6%	3%	2%
Total current liabilities	29%	31%	29%	25%	20%	12%
Total liabilities	**55%**	**54%**	**33%**	**30%**	**28%**	**41%**
Total equity and liabilities	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

4.9 Trend and Growth analysis

Table 4.7 Income statement – trend

CONSOLIDATED INCOME STATEMENT	CMS 2016	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012
Revenue	100%	121%	140%	133%	135%	100%
Cost of sales	-25%	111%	129%	117%	135%	100%
Gross profit	75%	125%	145%	140%	135%	100%
Sales, distribution and marketing expenses	-29%	124%	152%	129%	115%	100%
Administrative expenses	-10%	120%	132%	136%	106%	100%
Operating profit	37%	127%	143%	152%	182%	100%
Finance income	2%	390%	600%	8%	127%	100%
Finance costs	0%	15%	258%	202%	83%	100%
Profit before tax	38%	143%	138%	141%	185%	100%
Income tax expenses	-8%	97%	216%	148%	188%	100%
Net profit for the year	30%	164%	119%	140%	185%	100%

Table 4.8 Income statement - growt

CONSOLIDATED INCOME STATEMENT	CMS 2016	CAGR	Year 2016	Year 2015	Year 2014	Year 2013
Revenue	**100%**	**32%**	**21%**	**40%**	**33%**	**35%**
Cost of sales	-25%	23%	11%	29%	17%	35%
Gross profit	75%	36%	25%	45%	40%	35%
Sales, distribution and marketing expenses	-29%	29%	24%	52%	29%	15%
Administrative expenses	-10%	23%	20%	32%	36%	6%
Operating profit	37%	50%	27%	43%	52%	82%
Finance income	2%	26%	290%	500%	-92%	27%
Finance costs	0%	-11%	-85%	158%	102%	-17%
Profit before tax	38%	51%	43%	38%	41%	85%
Income tax expenses	-8%	56%	-3%	116%	48%	88%
Net profit for the year	**30%**	**50%**	**64%**	**19%**	**40%**	**85%**

Table 4.9 Balance sheet - trend

ASSETS	CMS 2016	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012
Total intangible assets	38%	106%	112%	105%	103%	100%
Property, plant and equipment	12%	143%	174%	143%	105%	100%
Total non-current assets	58%	113%	127%	112%	105%	100%
Inventories	18%	116%	140%	113%	113%	100%
Trade receivables	11%	123%	123%	124%	95%	100%
Cash	6%	101%	79%	165%	201%	100%
Total current assets	42%	114%	125%	117%	118%	100%
Total assets	**100%**	**113%**	**126%**	**114%**	**110%**	**100%**
EQUITY AND LIABILITIES	**CMS 2016**	**Year 2016**	**Year 2015**	**Year 2014**	**Year 2013**	**Year 2012**
Share capital	1%	96%	95%	98%	100%	100%
Share premium	0%	NA	0%	98%	100%	100%
Treasury shares	-29%	104%	155%	363%	1942%	100%
Reserves	8%	115%	140%	356%	31%	100%
Dividend proposed	7%	67%	139%	132%	115%	100%
Retained earnings	58%	116%	117%	136%	144%	100%
Total equity	**45%**	**111%**	**87%**	**109%**	**107%**	**100%**
Loans and borrowing	20%	128%	0%	0%	0%	100%
Total non-current liabilities	26%	126%	629%	96%	71%	100%
Provisions	7%	103%	143%	144%	102%	100%
Loan and borrowing	0%	1%	2570%	20%	700%	100%
Trade payables	11%	122%	165%	149%	246%	100%
Total current liabilities	29%	108%	135%	132%	138%	100%
Total liabilities	**55%**	**116%**	**204%**	**125%**	**118%**	**100%**
Total equity and liabilities	**100%**	**113%**	**126%**	**114%**	**110%**	**100%**

Table 4.10 Balance sheet – growth

Consolidated Balance sheet						
ASSETS	**CMS 2016**	**CAGR**	**Year 2016**	**Year 2015**	**Year 2014**	**Year 2013**
Total intangible assets	38%	6%	6%	12%	5%	3%
Property, plant and equipment	12%	39%	43%	74%	43%	5%
Total non-current assets	58%	14%	13%	27%	12%	5%
Inventories	18%	20%	16%	40%	13%	13%
Trade receivables	11%	16%	23%	23%	24%	-5%
Cash	6%	27%	1%	-21%	65%	101%
Total current assets	42%	18%	14%	25%	17%	18%
Total assets	**100%**	**16%**	**13%**	**26%**	**14%**	**10%**
EQUITY AND LIABILITIES	**CMS 2016**	**CAGR**	**Year 2016**	**Year 2015**	**Year 2014**	**Year 2013**
Share capital	1%	-3%	-4%	-5%	-2%	0%
Share premium	0%	-100%	0%	-100%	-2%	0%
Treasury shares	-29%	227%	4%	55%	263%	1842%
Reserves	8%	16%	15%	40%	256%	-69%
Dividend proposed	7%	9%	-33%	39%	32%	15%
Retained earnings	58%	28%	16%	17%	36%	44%
Total equity	**45%**	**3%**	**11%**	**-13%**	**9%**	**7%**
Loans and borrowing	20%	111%	28%	0%	0%	-100%
Total non-current liabilities	26%	53%	26%	529%	-4%	-29%
Provisions	7%	21%	3%	43%	44%	2%
Loan and borrowing	0%	-19%	-99%	2470%	-80%	600%
Trade payables	11%	65%	22%	65%	49%	146%
Total current liabilities	29%	27%	8%	35%	32%	38%
Total liabilities	**55%**	**37%**	**16%**	**104%**	**25%**	**18%**
Total equity and liabilities	**100%**	**16%**	**13%**	**26%**	**14%**	**10%**

4.10 Key financial ratio

Table 4.11 Key financial ratios

	Year 2016	**Year 2015**	**Year 2014**	**Year 2013**	**Year 2012**	**Tiffany & Co Year 2016**
Profitability						
Gross Margin	75.1%	72.9%	70.5%	66.6%	66.6%	62.2%
EBITDA Margin	39.1%	37.2%	36.0%	32.0%	24.9%	23.2%
Operating Margin	36.5%	34.7%	34.1%	29.8%	22.2%	18.0%
Pretax Margin	37.7%	31.9%	32.4%	30.4%	22.2%	16.9%
Effective Tax Rate	21.2%	31.3%	20.0%	19.0%	18.7%	34.1%
Net Margin	29.7%	22.0%	25.9%	24.6%	18.1%	11.1%
DuPont/Earning Power						
Asset Turnover	1.43	1.40	1.20	1.02	0.81	0.78
x Pretax Margin	37.7%	31.9%	32.4%	30.4%	22.2%	16.9%
Pretax ROA	53.9%	44.8%	39.0%	31.0%	18.0%	13.2%
x Leverage (Assets/Equity)	2.22	2.17	1.50	1.44	1.39	1.69
Pretax ROE	118.3%	81.2%	57.4%	43.9%	25.8%	22.8%
x Tax Complement	0.79	0.69	0.80	0.81	0.81	0.66
ROE	93.2%	55.8%	45.9%	35.5%	21.0%	15.1%
x Earnings Retention	0.83	0.59	0.65	0.63	0.41	0.51
Reinvestment Rate	77.6%	32.8%	29.8%	22.4%	8.5%	7.7%

Table 4.11 Key financial ratios (cont.)

	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012	Tiffany & Co Year 2016
Quick Ratio	0.83	0.79	0.92	1.02	1.15	2.24
Current Ratio	1.45	1.37	1.48	1.67	1.95	5.65
Times Interest Earned	322.0	583.0	1,019.0	536.4	59.0	15.7
Cash Cycle (Days)	121.0	118.8	144.7	190.3	273.3	550.4
Leverage						
Assets/Equity	2.22	2.17	1.50	1.44	1.39	1.69
Debt/Equity	0.44	0.42	0.00	0.01	0.03	0.37
% LT Debt to Total Capital	30.7%	26.9%	0.0%	0.0%	2.4%	21.2%
Operating						
A/R Turnover	8.4	8.7	7.4	5.6	4.9	18.5
Avg. A/R Days	43.7	42.0	49.5	65.7	74.1	19.8
Inv Turnover	2.0	2.2	2.2	2.1	1.5	0.7
Avg. Inventory Days	184.0	162.7	165.1	170.7	241.0	530.6
Avg. A/P Days	106.8	85.9	69.8	46.1	41.7	0.0
Fixed Asset Turnover	13.50	17.18	19.77	18.60	14.77	4.29
WC / Sales Growth	(0.3%)	(3.7%)	(4.8%)	(4.0%)	8.3%	2.9%
Bad Debt Allowance (% of A/R)	1.9%	1.1%	1.5%	2.0%	2.0%	5.1%
ROIC	60.5%	43.9%	42.7%	32.4%	18.3%	10.1%
Revenue per Employee (DKK)	DKK1,277,905.5	DKK1,398,946.8	DKK1,416,019.4	DKK1,423,043.5	DKK1,216,198.9	DKK2,286,904.2

Source: Eikon Financial Analysis | Thomson Reuters

REFERENCES

John Hawksworth, Rob Clarry, & Hannah Audino. (2017). *The Long View How will the global economic order change by 2050*. Retrieved from http://www.pwc.com/gx/en/world-2050/assets/pwc-the-world-in-2050-full-report-feb-2017.pdf.

Linda Dauriz, Nathalie Remy, &Thomas Tochtermann. (2013). *A multifaceted future: The jewelry industry in 2020*. McKinsey &Company

Nicola Pianon, Olivier Abtan, &Federico Bonelli. (2017). *The True-Luxury Global Consumer Insight 4th Edition*. The Boston Consulting Group

OECD. (2017). *GDP long-term forecast*. Retrieved from https://data.oecd.org/gdp/gdp-long-term-forecast.htm#indicator-chart

Pandora. (2012-2016). *A/S Annual Report*. Retrieved from http://investor.en.pandora.net/annuals.cfm

Paul Laudicina & Erik Peterson. (2015). *Global Economic Outlook 2015-2020, Beyond the New Mediocre?*. ATKearney Global Business Policy Council

Paul Laudicina & Erik Peterson. (2015). *Stategic Issue Assessment 2020-Seven Growth Economies*. ATKearney Global Business Policy Council

Phil Ruthven AM. (2017). *Australia's 2017-18 Outlook*. IBISWorld Newsletter .

Thomson Reuters Eikon. (2017). *Market Data and Financial Benchmark*. n.p.

Tiffany & Co. (2016). *Tiffany&Co Annual Report*. Retrieved from http://investor.tiffany.com/annuals.cfm