



Transcript

BRBY.L - Preliminary 2008 Burberry Group plc Earnings Presentation

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PRESENTATION

Kelly Lambrou - Burberry Group Plc , Head of Corporate Communications

Hello everyone and welcome. I just wanted to remind you that this will be webcast live so if you could kindly turn your cell phones off and BlackBerry's, I'd be grateful. Thank you.

Angela Ahrendts - Burberry Group Plc - CEO

Good morning and welcome to Burberry's full year results presentation. We're pleased with the progress we've made again this year in what's been some of the most challenging markets many of us have every worked through. In total, we grew revenue by 21%, or 7% on an underlying basis and adjusted profit before tax was GBP175 million.

We made strong financial progress. Our inventory was down 19% at constant exchange rates in the year, even with 14% space growth. Although this came at a cost to gross margin, I'm happy to see the resulting benefits to cash where we ended the year with a net GBP8 million.

We successfully renewed GBP200 million of banking facilities, giving us a very comfortable headroom for our operating needs. And we've also maintained our full year dividend.

Finally, we're well advanced with our GBP50 million cost efficiency program announced earlier this year, which will underpin and support profits in '09/'10.

We've been refining and executing our five key strategies, as I'll discuss a little later, and we absolutely believe that we're on the right course to steer through these turbulent times.

Above all, everything we do is to protect the Burberry brand and continue to build its momentum. Internally, we talk about the brand being our beacon. It is, after all, the brand that is ultimately responsible for most of the value created in a luxury business, and you can see the strength of the brand today reflected in the results we've achieved in this challenging environment.

So there's been a lot going on at Burberry in the last year and we're going to do things slightly different this morning. I'm going to take you briefly through the revenue highlights. Stacey will then go over the cost efficiency program and the financials. And then I'll come back and update you on what we've achieved strategically and operationally. And then of course Stacey and I will take your questions at the end.

So starting with revenue. As you can see at constant exchange rates, revenue was up 7%, although not surprisingly this slowed in the second half. Looking at the performance by channel, both Retail and Wholesale posted underlying growth for the year and for the first time, Retail represented over half of the annual Group sales.

Turning to our Retail business, underlying revenue was once again up double digits. All regions except Spain posted positive year-on-year growth at constant exchange rates. Comp store sales for the year were positive but as I mentioned earlier, the second half of the year from September was much tougher than the first.

Europe was the best performing region, posting double digit comp growth for the year, with the UK the standout market, due in part to the weak pound, which encouraged tourism.

In Asia, Korea was our strongest market; again currency encouraged customers to shop at home rather than traveling.

In the US where comps reversed in the second half, large flagship markets were slightly more resilient but still negatively impacted by promotions at department stores and our peers.

We continued to open new stores, adding nearly 50 points of sale or 14% more retail space. This did include a first store opening in Canada in Vancouver and we also opened five children's wear trial stores, two in the US and Middle East and one here in London, in Notting Hill.

I look forward to updating you on the progress of these trials and as I highlighted last year, we believe the children's wear has the potential to grow to be about 10% of Group revenue over the next four to five years.

This year, we expect to add a further 10% to 12% retail space, including the impact of the Burberry Middle East joint venture. We're starting to see some very attractive real estate opportunities coming to the table, where even with very conservative top line assumptions, the returns exceed our recently raised hurdle rates. Stacey will cover our capital expenditure plans shortly.

And turning to Wholesale, underlying revenue was up 2% for the year with all regions except Spain growing. In fact excluding Spain, Wholesale revenues were up double digits underlying. Revenue slowed in the second half as Wholesale customers around the world managed their inventories more tightly and cut back on the replenishment orders as consumer demand slowed.

Emerging markets continued to grow and I'll give you a bit more color on this shortly.

Looking forward to the first half of next year, based on the visibility we have from the autumn/winter '09 order book, we expect Wholesale revenues to be down about 15% at constant currency when you exclude our own actions. Some of these actions result in the cost efficiency program, which Stacey will detail later.

Others are ongoing initiatives such as the further rationalization of small specialty accounts and the conversion of Burberry Middle East from Wholesale to Retail. The important thing to note is that all of these are the right actions to take in terms of protecting the health of the brand, even at the expense of sales in the short-term.

As expected, underlying licensing revenue in the year was down 9% while reported revenue gained GBP5.1 million from currency. In Japan, where licensed products have a premium rather than a luxury positioning, the prime route to market is through the Japanese department stores. Royalty revenues slowed through the year as department store sales started to trend down high single digits and double digits from the third quarter. Japan represented nearly three-quarters of the underlying royalty decline.

For the current fiscal year we expect underlying royalty revenue to continue to come under pressure from weakness in Japan and the non-renewal of the final menswear licenses. This will be partially offset by our global product license initiatives where we've been working very closely with our partners on the evolution of their products, particularly eyewear and watches, to reflect the updated expression of Burberry's collections.

Burberry's strong, balanced geographic footprint enabled the Company to grow our Retail and Wholesale sales at constant currency by 8% in the full year and 3% in the second half. All markets grew, except Spain where sales were down 24% underlying in the year, now representing about 13% of sales, down from about 20% in '06.

We saw weakness in both the Retail and Wholesale channels, which we believe largely reflects the difficult economic environment overall in Spain, including the continued erosion of domestic independent retailers, where numbers are now down about 10% for spring/summer '09.

As you will have seen from the announcement this morning, we have written off all of the goodwill in the Spanish business, which feels prudent to us, given this background. As you know, a large part of our cost efficiency program also relates to Spain. Overall we've rationalized the workforce by about one-third this year alone.

Key initiatives which are underway include modernizing the supply chain, shifting much of the work to fully integrated suppliers who can handle the entire development and production process; streamlining operations, mainly in corporate and sales functions to reflect the lower level of sales in the market; and closing the underperforming Thomas Burberry brand after spring/summer '09 and implementing closer collaboration with key London executives to execute key product strategies. All of which will help improve sales and profitability in this important market.

Again, demonstrating the benefit of our diversity, we saw revenue growth in all product categories during the year. Women's and men's apparel both up mid-single digits underlying, non-apparel up double digits and our children's wear business up over 50%.

All categories benefited from brand initiatives such as centralized design and more coordinated marketing, as well as operational initiatives such as improved product flow, replenishment and sourcing.

So having reviewed our revenue, let me now hand over to Stacey.

Stacey Cartwright - Burberry Group Plc - CFO

Thank you Angela. Good morning everyone. Let me start by giving you the financial highlights for the year to March '09. As Angela has explained, revenue was up 21% to GBP1.2 billion. Adjusted profit before tax, which was slightly up in the first half, came under pressure in the second half as global luxury markets slowed, ending at GBP175 million for the year as a whole.

We had some major one-off adjustments during the year, which I'll detail later, resulting a small loss before tax. Adjusted diluted earnings per share were 30.2p, down only 4% in the year, helped by a lower underlying tax rate. And we're proposing a maintained full year dividend of 12p per share, which equates to a 40% dividend payout ratio.

This slide shows the main movements in profit from '08 to '09. There was a GBP11 million increase due to currency benefits. This is a welcome reversal, if you recall, after a hit to the profit and loss account of more than GBP13 million over the last two years. Retail/Wholesale profits declined by GBP31 million and Licensing was down too.

So as we did at the interims, let's look at the separate profit and loss accounts for Licensing and Retail/Wholesale. First, very briefly, on Licensing, with sales down 9% or GBP7 million on an underlying basis, a tight control on operating expenses held profits flat in reported terms, albeit down GBP5 million at constant currency.

Turning to Retail/Wholesale, revenue was up 23% reported. Gross margin as a percentage of sales was down 640 basis points for the year and I'll expand on this shortly.

We incurred Horseferry and SAP costs of GBP10 million, in line with guidance and this is the last time we'll be separately identifying these costs. Excluding these costs, operating expenses as a percentage of sales was down 220 basis points. Again I'll have a separate slide on this in a moment.

So overall Retail/Wholesale operating margin is 9.8% or 10.7% if you exclude the Horseferry and SAP costs.

So let me now look at gross margin. As you can see from the chart, the progress we've been making each year in improving gross margin reversed last year. Although we benefited from further sourcing gains and an increased proportion of revenue from the higher margin non-apparel category, these factors were more than offset by the cost of clearing inventory as full price sales came in behind plan.

The gross margin was impacted, especially in the fourth quarter, as we extended sale in many of our main line stores and had lower full price sales across the store network. We chose to adopt this approach, despite the hit to gross margin, as this leaves us with much less and a much cleaner inventory position, as well as, of course, a strong balance sheet.

As we look forward to '09/'10, we do expect an improvement in gross margin, weighted towards the second half. Remember we planned conservatively for the year and procured below that plan. With a more flexible supply chain in place now, we will chase inventory, should we need to.

With our new global planning function in place, we're buying fewer styles but with greater depth, which will also help the gross margin through leverage with suppliers, better sell-through and generally higher productivity of style.

And thirdly, we expect to see our higher gross margin Retail channel continue to increase its overall share of Group revenues.

And then finally, as I'll detail later, we expect to see around GBP15 million of benefits at the gross margin level from the cost efficiency program. All of which underpins our confidence of a recovery in gross margin as we move through this new financial year.

So looking at the equivalent chart now for operating expenses as a percentage of sales, as you're aware we've been investing in recent years in our people, our infrastructure and our stores, all of which have contributed to an increase in operating expenses as a percentage of sales in the last three years.

However, with the challenging economic environment in the year under review, we were very focused on managing costs. We continue to invest where appropriate in new and refurbished stores, as well as design, supply chain and the sales and service program, which Angela will talk about. This investment stands us in good stead for the future.

However, there was tight management of discretionary costs in areas such as headcount, travel and non-stock procurement. Some examples, we consolidated our travel to preferred hotels and airlines globally, saving over GBP1 million annually. We've consolidated our mobile phone providers globally. We've negotiated very cost efficient telecoms links between our main offices around the world. We've shifted away from more traditional print media to digital media with greater effectiveness and reach and at a lower cost. We've reduced the cost and amount of outbound packaging and we've even reduced the cost of the runway shows by over 20% by negotiating more aggressively with our suppliers.

In addition, as we mentioned at the interims, there's been a near GBP20 million reduction in bonus and share scheme costs. All of which contributed to this 220 basis improvement in our OpEx to sales ratio.

Now as you start to model '09/'10, please note that we would expect operating expenses as a percentage of sales to increase. Whilst there's about a GBP35 million benefit from the cost efficiency program, this will be offset by operating de-leverage. Remember we guided you to lower Wholesale revenues in the first half and most analyst models have negative Retail comps for the year as well.

Secondly, the shift from Wholesale to Retail adversely impacts the cost ratio whilst benefiting gross margin and thirdly, we'll again start to accrue for bonus and share scheme costs.

Before I look further down the income statement, let's just spend a couple of minutes on the cost efficiency program that we announced in the second half of '08/'09. This is, as planned, set to deliver savings of about GBP50 million to underpin or support our profitability in '09/'10 and beyond. We're very pleased with the progress we've made to date. Actions are well advanced, benefits are already coming through.

As you'll remember, there are two main parts for the program. First, that we've accelerated the benefits we're getting from the investments we've made in the supply chain, IT and infrastructure, which we've talked to you about over the last couple of years. For example, in supply chain we have, where appropriate, now changed the default so that we ship by sea instead of by air. We've consolidated distribution centers. We've further rationalized our supplier base to fewer, larger, more vertically-integrated suppliers.

And in terms of corporate processes, Angela talked to you in November about our new integrated planning function, which, using the data we now have from our global IT platform, is enabling many savings. We're focused on improving our inventory and raw materials management and eliminating excess write-offs, reducing sample costs and bringing down the number of styles and options, to improve efficiency and drive profitability. These initiatives will deliver a combined saving of GBP15 million to GBP20 million.

Secondly, cost reduction initiatives will deliver GBP30 million to GBP35 million of savings. Actions here include the restructuring of our Spanish operations and UK manufacturing, which we talked to you about in January. In addition, we've also closed our outerwear factory in the United States. We've announced the closure of a European showroom, whilst also continued tight management of discretionary expenses makes a significant contribution.

Overall, we've reduced Group global headcount by nearly 15%, with more than 800 employees having already left the business.

To help you build your models the financial impacts of the program are shown on this slide. First, the program will reduce sales by up to GBP50 million in '08/'09/'10, and you're starting to see the impact of this in the guidance that we've given you, for example, in first half Wholesale revenue.

Secondly, the benefits of around GBP50 million are broadly split 70% OpEx, 30% gross margin. Third, restructuring costs, as expected, will be around GBP60 million and we've charged GBP55 million of that through the profit and loss account in '08/'09, with the balance to come in '09/'10 as we complete the final few actions.

And finally, the majority of these are cash costs. You'll see from the cash flow shortly that we paid out GBP16 million in '08/'09 and there's a further GBP35 million of cash to come in the current year.

So now let's look at the income statement, which picks up the GBP181 million of adjusted operating profit that we've looked at. Our net finance charge was GBP6.2 million for '08/'09 and we'd expect the current year charge to be a little lower, reflecting both our better cash position at the start of the year, partly offset, of course, by the higher borrowing costs under our new banking facilities. This gives adjusted profit before tax of GBP175 million, in line with the guidance that we gave you back in November.

The other items, restructuring and non-cash impairment charges are then deducted and we have a tax credit this year. And both of these latter two I'll talk about on the next two slides. We then net off the minority interests relating to the joint ventures in the Middle East and Japan, giving a small attributable loss.

So as you saw from the announcement this morning, we also have had some major one-off items in '08/'09, which are summarized on this slide. So let me comment on the main ones; the restructuring charges related to the cost efficiency program were, as mentioned, GBP55 million. About GBP35 million of this is redundancy and other direct costs and the balance asset write-offs and provisions.

We took GBP116 million goodwill impairment charge, which essentially writes off all of the goodwill, previously held on our balance sheet relating to Spain. As that economy continues to be difficult, we felt this was a prudent approach. Please note that, of course, this is a profit and loss account charge only and has zero impact on cash.

Thirdly, we've taken a GBP13 million store impairment and onerous lease charge, which again is non-cash. As required by the accounting standards, we've looked at each store individually around the world, to see if the future projected cash flows covered the carrying value of the assets. This charge primarily relates to a very small number of stores, none of them flagships, out of around 400 directly operated points of sale and represents about 5% of our fixed assets.

And finally, as the London property market deteriorated, we've had to increase by GBP7.9 million the onerous lease provision on the other West End offices that we vacated when we moved into our new global headquarters, Horseferry House. And we've shown this alongside the related net profit of GBP15 million made last year on the disposal of the main Haymarket offices and showrooms.

Let me now turn to tax, which has a number of one-off components this year. In the year to March 31, '09 we had a tax credit of GBP11 million and that's made up of three components.

Firstly, a charge of GBP42 million on adjusted PBT of GBP175 million, and that gives an underlying effective tax rate of 23.8%, compared to just over 30% in 2008. This year-on-year reduction is primarily due to a different geographical mix of profits as we experienced the second half downturn in high tax jurisdictions, such as the US and Spain, whilst low tax jurisdictions, such as Hong Kong and Korea, picked up as an overall percentage of share of the Group profits.

Secondly, there was a tax credit of GBP20 million, relating to certain of the other items I've talked about, most notably reflecting the tax relief on the restructuring costs, but of course, no tax relief on non-cash impairment charges.

And finally, we had one-off tax credits totaling GBP33 million. Most importantly you should note from this that this will reduce cash tax payable by around GBP23 million in the first half of the new financial year.

Looking forward to '09/'10, we anticipate an underlying tax rate on adjusted PBT some 3% to 4% higher than what we're showing you here, although this again is very dependent on the ultimate mix of profits by region.

This slide shows our cash flow from operations, in a more user-friendly format I think than the one in the statutory accounts. Firstly, the GBP15.8 million charge is the cash element of the restructuring costs that I mentioned earlier.

Turning to depreciation, this is up year-on-year, primarily due to, of course, new stores, but also the impact of exchange rates. Accelerated depreciation on our old US offices as we moved into the new flagship headquarters and showrooms in the US at 444 Madison Avenue, as well of course, as the start of the depreciation on our Horseferry headquarters here in London. We expect depreciation to further increase in the current financial year to around GBP60 million, driven largely by the full year impact of the factors I've just mentioned.

And finally, we've already highlighted to you that we're delighted with the progress we've made on the inventory position, which finally finished the year down around GBP50 million at constant currency. We've managed our debtors aggressively during the year. And payables decreased at year end, as we continued to tighten our supply chain and essentially we received spring '09 product earlier and therefore paid our suppliers earlier.

Moving down the cash flow, in '08/'09 we spent GBP90 million on CapEx in line with guidance; this includes GBP23 million on Horseferry House. Now if we look at '09/'10, we expect to spend about GBP60 million, excluding anything on the Japanese joint venture; that's back in line with what we think is a more normal level.

FX raises overall spend year-on-year by about GBP3 million to GBP4 million and we believe there are good real estate opportunities, which we can now take, assisted, of course, by the strong financial health of the Company. Remember also that we've increased our hurdle rate for all ongoing investment appraisals; we started that last autumn. All projects must now exceed a 25% IRR.

Secondly, our teams have been very active in chasing better real estate terms on new and existing projects, which have opened up some good opportunities. Our store planning team is actively focused on reducing the cost of store fit-outs. And finally, as our cash generation was better than planned, we're able to resume some of the attractive projects we previously put on hold. And as you can see also from the slide, our cash tax payments were significantly lower, as you'd expect, given the reduced tax charge.

Total cash flow during the year. We've returned over GBP50 million to shareholders through dividends, but did no share buybacks. And with total cash inflow of GBP72 million, we've closed the year with a net cash position of just under GBP8 million.

And finally, this slide summarizes the guidance for '09/'10. In summary, we're planning on the basis that our markets remain tough, but believe that the strategies we're executing and evolving will deliver sustainable profit growth in the long-term.

Now, before I hand over to Angela, we'd like to show you a second half highlights DVD, illustrating much of what we were able to accomplish in this second half.

(Video playing)

Angela Ahrendts - Burberry Group Plc - CEO

So as I said earlier, we've been refining our five key strategies and we believe that these remain very valid and appropriate in charting us through the current economic uncertainty and will position Burberry as a stronger business, when we eventually emerge from this downturn.

So, let me update up on a couple of things we've been doing under each one of these initiatives. First, leveraging the franchise, which you may recall is about working cohesively as one global Company, or one pure brand. As you're aware, outerwear is the core of our business; it's our heritage, it's the category that drives the large customer base to our stores day in and day out. Outerwear now accounts for 60% of women's wear and about 40% of menswear sales, which significantly reduces the seasonal fashion risk in all of our product divisions.

Moving on, we've talked to you previously about how we build and balance our product strategies. Prorsum at the top of the pyramid, providing the DNA for the brand; London Collection in the center, what he or she wears for work; and Lifestyle, the base, what our customer wears on the weekends. And this year, we've refined our product and branding strategies even further as consumer preferences shift to more authentic, timeless and iconic items.

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Our runway shows, under Christopher Bailey, continue to receive tremendous reviews by fashion buyers and the media alike, and introduce a new younger fashion customer to outerwear and to the brand. We love this quote from the International Herald Tribune and think it best summarizes. "Bailey has given an absolute identity to Burberry that should be the envy of most brands today".

Our London Collection business also continues to perform well with new products including tailored suiting, shirts and ties in menswear, as the local licenses are reintegrated. And with the successful launch of the Burberry Beat Check branding, giving London now a distinct identity.

Internally, we talk a lot about Supercharging Lifestyle, which is over half of our apparel sales, contemporizing our assortments, as well as our iconic branding. Building out the proven Sport offer now across all product categories, culminating in a Sport fragrance launch for spring/summer '10. Accelerating the core denim offer, which is a key component in driving Lifestyle. And finally, from spring/summer '10, the Lifestyle ranges will be relabeled Burberry Brit, which we will further update you on later this year.

As a result of the branding strategies, larger department store customers are already allocating separate real estate to us for women's wear collections and Lifestyle.

At the same time, we continue to purify the brand's message and invest in enhanced consistency across all forms of its expression; whether it's Horseferry House, the new global headquarters, its twin at 444 Madison, our new American headquarters and showrooms, refurbished stores such as Knightsbridge or brand new stores such as Pittsburgh.

And exceptional marketing remains the key focus for us as well. Last year we held marketing as a percent of sales, but taxed our team to spend it much more effectively. And they did. Intensifying digital marketing; you might witness the use of social networking sites, Facebook, mySpace, Bebo to support the Burberry Beat fragrance for men's launch; blasting e-brochures to millions of customers instead of printing catalogues, significantly extending our reach, while also saving GBP750,000; and enhancing our big VIP program, especially in menswear; where Daniel Craig wore Burberry to the Royal Premiere of the most recent Bond film and Hugh Jackman wore exclusively Burberry when he presented at the Oscars this year.

Turning to non-apparel, this division was again our fastest growing, up 26% reported, 12% at constant currency. Non-apparel now accounts for 33% of Retail/Wholesale revenue and over the past three years, non-apparel sales have nearly doubled from GBP190 million to GBP370 million. Much of this has been driven by handbags and leather goods and this year, for example, we've continued to intensify shoes. As I mentioned last year, we believe that this category could account for about 10% of revenue in five years, up from its current low single digit percentage.

We're also very pleased with the early progress made by our Japanese joint venture, which will take our global accessories now into Japan. The team's been strengthened, the business plan's in place and earlier this year the team and I met with department store partners to share our new strategy and vision. And again, I look forward to updating you on our detailed plans in this market as the joint venture becomes fully operational.

But what I'd like to concentrate on this morning is the success we've also seen in our iconic branded programs. Last year, as the economy softened and consumer sentiment tended to shift, our strong merchants anticipated the switch from the It handbag to longer-lasting, timeless, classic core icons and in response, focused on further developing our iconic branding platform.

This included adding innovative new capsule groups to core heritage programs, as well as launching new variations, including the new Burberry Beat Check. The Burberry Beat collection in stores last November is currently one of our strongest selling programs and interestingly, the best selling style is the medium Lowry, which retails for GBP750 or about \$1,200; solidly, in the center of our pyramid.

In '08/'09, Retail for the first time represented more than half of annual Group revenue. As Stacey discussed, even with our increased hurdle rates and tighter control over capital, there are still great opportunities and we do plan to open a net 10 to 15 new mainline stores in '09/'10, biased towards Asia and Americas and including further trial children's wear stores, such as the one pictured here in Notting Hill in London.

One important driver of this will be SAP, combined with global integrated planning functions, which I talked about in November.

A second driver, which I'd like to touch on today, is what we're calling the Burberry Experience. Historically, our sales performance in terms of productivity per square foot has been below that of our luxury peers. Given that the sales and service experience is a key element in the customers' perception of the brand, this is something we felt we need to perfect in order to improve our productivity.

In the second half of last year, we piloted a training program to raise the knowledge and skill-set of our store staff. It covered must-know product training and how to best help customers, from the welcome to presenting the product, to closing the sale, all the way to the after-sales service program, and all monitored monthly by global mystery shoppers.

The response of our staff to this pilot has been exciting and the early results, in terms of Retail KPIs, have been encouraging, both for comp sales growth as well as units per transaction. So based on this successful trial, we're rolling out the Burberry Experience program to all of our Retail stores globally this year.

Our fourth strategy, investing in under-penetrated markets, namely America and emerging markets. As you know, the US became a very challenging market for all luxury players from the second half of last year. However, we believe there are good long-term growth opportunities in both Retail and Wholesale channels in the US. Last year, US Wholesale revenue accounted for only 7% of Burberry revenue, smaller than both European and Asian Wholesale.

We believe that department store discounting will be more controlled this year than last. For spring/summer '09, although inventory levels were still higher than demand, we didn't see the breadth and depth of discounting we saw before Christmas. And for autumn/winter '09 we know that Wholesale customers have taken a very conservative approach to buying, further diminishing the chance of future widespread promotions.

But most importantly, we believe we're gaining share in the best department stores. For example, in women's and men's our performance, clearer branding, new product categories like denim mean that we're increasing our retail square footage.

In non-apparel, we're also securing new and enlarged locations. And in new initiatives, such as children's wear and shoes, we're also expanding. For example, the number of children's wear doors in our top five accounts will double in two years.

The second part of under-penetrated markets is emerging markets which for us includes China, Eastern Europe, Russia, India and our Middle East JV. Emerging markets contributed 9% of sales in '08/'09 up from 6% previously, helped in part by the Burberry Middle East transaction.

As I mentioned in November, we continue to strengthen our organization with the relocation of our Asian President to Hong Kong; the appointment of a new SVP of emerging markets late last year; and just last week we announced the promotion and relocation of our VP US Wholesale to SVP Latin America where he will establish an office and expansion strategy in this high growth market.

Our franchise partners opened eight stores in the year just finished, with a further 15 or so planned in the current year. Christopher and I just returned from China where we attended the opening event for our new flagship store in Jing Bao Place in Beijing. And we're all excited by the potential in this market, particularly not only in new stores but in driving productivity increases across all doors.

And finally, our Burberry Middle East joint venture is making great progress. Again we've strengthened the team, opened four stores in the second half with an additional three to four more planned in the current year. And in this market, beyond Retail, we're also now in the position to accelerate our Wholesale distribution strategy.

Several partners including Harvey Nichols, Galeries Lafayette, Saks and Bloomingdales have, or are planning, stores in the region. As in other markets, we feel we can thoughtfully service these customers with specific shop-in-shops while continuing to grow our own consumer base.

And finally, Stacey covered a lot of the actions that sit under operational excellence, in the shape of the cost efficiency program. I'll give you a brief update on our global IT program, supply chain and logistics.

The SAP implementation continues to progress on plan. The US went live in April and now over 80% of our total mainline stores are running SAP. As you know, Europe was the first region to go live on the Retail system and the team did a terrific job. Although they're still learning, they've now been live for over a year and are finding many benefits around increased visibility and speed of analysis.

In areas such as better planning, now we have a common IT language between the regions, Group planning as well as the product divisions; better pricing and mark down decisions helped by the analysis of margins all the way down to the SKU level; and true profitability by channel, product and location.

And I would emphasize this is really only the beginning. There's a very long tail of benefits to come from this IT investment as our teams become more proficient and as the global implementation is finally completed.

We also continue to make progress on our supply chain and logistics initiative, much of which I updated you on last November. We continued to move to larger more vertically integrated suppliers, 70% of which are now working on an FOB model. Supplier numbers have been reduced significantly to now about 100 from over 240 three years ago. Our regional distribution hub strategy rolled forward and the global carrier program and the shift from air to sea freight is well underway, contributing a few million pounds of savings.

Having invested heavily in supply chain IT and infrastructure, it's great to see the accelerated benefits now come through. Were it not for these, we wouldn't be in as strong a position today.

So in summary, Burberry aspires not only to be a great brand but also a great Company and we feel we've made strong progress in the past year or so. In corporate responsibility, to improve practices in line with Burberry's values; in sustainability, by thoughtfully reducing Burberry's environmental impact, the relocation to new energy efficient headquarters, decreasing air shipments as well as air travel; while empowering the intellectual creativity of young people through the Burberry Foundation which is now live in key cities globally.

And looking forward, Burberry plans to stay the course strategically. The brand has never been better positioned. Our momentum is still strong and our strategies have proven effective. Burberry's 150-year heritage and the authenticity of core products stand the business well amid the uncertainty.

At the same time, we approach '09/'10 with caution. Sales are planned conservatively and the expense structure has been rationalized with an ongoing focus on costs. Management though is maintaining flexibility and intensely monitoring the business to respond to unanticipated changes.

This exceptional united dynamic team remains optimistic with a strong belief that together, Burberry can prosper.

So thanks very much and Stacey and I will now take your questions.

QUESTION AND ANSWER

Erwan Rambourg - HSBC - Analyst

Hi good morning, Erwan Rambourg. Three questions if I can. Firstly on gross margin, you mentioned you were looking to increase gross margin this year. Excluding the GBP15 million from restructuring, would that still be the target? And can you help us understand where the deterioration comes from? Is it a shift from full price to outlets or is it just the fact that you've kept being on sale within your full price stores?

Second question is on price and what your strategy on potential price increases would be globally. But then also specifically on countries where currencies have collapsed like the UK and Korea.

And then thirdly, can you just come back on this Burberry Brit label; simply to understand if potentially it may be a replacement for Thomas Burberry but with a global approach versus a country approach? Or is it something totally different? Thank you.

Stacey Cartwright - Burberry Group Plc - CFO

Okay, if I start with gross margin, I think you had two questions in there, Erwan, about the rebound for '09/'10 and what were the major components of '08/'09. Bluntly, the biggest aspect in '08/'09 and this second half is the clearance of inventory and clearly we've done that very effectively. We told you back in April that we'd reduced inventory by over GBP30 million which is a little bit of a teaser, it's actually GBP50 million and I'd much rather be in that position than sitting on that extra GBP50 million of inventory right now. So that's the major factor.

In terms of how we rebound into '09/'10 it's all those levers that I talked about in the presentation and you should expect that rebound to be more second half weighted. Clearly, as Angela said, there's still some excess inventory that's in our pipe, in Wholesale accounts pipe for spring/summer '09. Autumn/winter '09 is a much cleaner position. Pricing?

Angela Ahrendts - Burberry Group Plc - CEO

I would say that from a pricing strategy standpoint, you can absolutely assume that market by market, where we've got visibility, we will take advantage of increasing prices wherever we can, when appropriate, but it's a very, very sensitive topic. We've got teams in the planning organization now that monitor what our peers do market by market and we prefer to be a fast follower versus the first one out of the gate, if you will, when it comes to increasing prices. But we are on top of it.

And from the Brit label standpoint it is absolutely not a new label whatsoever. Historically, we've had 90% of our apparel product carrying one label. And we're simply, now that the London Collection has its own branding - it's called the Burberry Beat branding, it was a lot of the black and white and grey check that you saw on the images, the response has been just sensational the last couple of months. So it can stand alone now and go very head on head with a number of peers that are losing market share in that area, for both men's and women's. And understand too, this is as the men's licenses, most of which were tailored dress shirt and neckwear licenses, come in-house. So the Beat branding goes across men's and women's.

So Burberry London, now the tailored part of the line, is strong enough to stand on its own. Now you've got the casual component of the line. So we're simply re-labeling the casual component Burberry Brit. And you might recall that one of our strongest fragrances historically has been called Burberry Brit.

Lisa Rachal - Redburn Partners - Analyst

Hi, Lisa Rachal from Redburn Partners. Three questions, first on supply chain. I think that the Beat Check response has clearly been very, very positive. In fact, many of your top US stores say that they're actually out of stock or almost out of stock of the medium sized Lowry bag. So just out of curiosity, how much better equipped are you to handle those kind of stock-outs based on much better than expected sales today than, for example, three years ago, after all of your investments in SAP? Or is that still a benefit to come? And how quickly do you think you can get back in stock?

And then secondly, with respect to the problematic regions, you said that fourth quarter '09 showed some signs of hope in the US. I'm wondering now, halfway through first quarter '10, do you feel that those signs of hope are continuing or was that more of a temporary phase of positive improvement?

And then also if you could just comment on Japan and Spain. Is it fair to say that Japan's getting worse and Spain maybe not yet stabilizing, but not getting significantly worse?

And then third, in terms of looking at Retail like-for-likes, how should we think about the base for this upcoming year with respect to the positive effect of promotions last year? Was there a very significant positive effect in your view on Retail like-for-like and does that mean that the underlying like-for-like may have been a fair bit lower? Thank you.

Stacey Cartwright - Burberry Group Plc - CFO

Where do you want to start?

Angela Ahrendts - Burberry Group Plc - CEO

Well I don't really want to take the Retail one.

Stacey Cartwright - Burberry Group Plc - CFO

I'll take that one. The Retail like-for-like, let's work backwards then. Retail like-for-like, I think most analysts seem to have projected a modest but nonetheless decline in like-for-like sales for '09/'10. And I think our view is that that's as good an assumption as any to put out there right now. It is still very uncertain out there, so yes that's a good planning assumption and it's one of the reasons why, when we talked about operating expenses next year, we talk about this de-leverage impact. Bear in mind we've given you what's going to happen to Wholesale sales in the first half, we've told you what's happening to Licensing sales and despite the fact that we've got some great space growth to add on, there is likely to be an underlying negative like-for-like number.

Angela Ahrendts - Burberry Group Plc - CEO

From a supply chain standpoint, in terms of reacting quickly and getting back into things, I would tell you that's probably our greatest asset in terms of -- I always talked about how entrepreneurial this team is and how fast they are. And so I would tell you that we were able very quickly to get goods off boats into the air etc. Probably the biggest challenge though is actually getting the department stores to place the reorders for them. So that one we've not quite mastered yet.

In terms of the US and signs of hope, honestly it's too early to tell. It really is. It's not as volatile as it was before, but it's still pretty consistently tough. There are certain markets like the flagship markets that tend to outperform but it's not getting any worse. But we're not seeing a lot of green shoots yet.

Stacey Cartwright - Burberry Group Plc - CFO

And then you had Japan and Spain as well. So I think your assessment is right. Japan, over the course of the last two or three months, you've seen the department store statistics, negative trends into the teens now. And you're absolutely right in terms of Spain, it's not getting any worse but again we haven't bottomed out to the point where we're now seeing an uplift.

Angela Ahrendts - Burberry Group Plc - CEO

Yes, and the only thing I would add though in all of the markets is I think that everybody has much greater control over their business than they did six or eight months ago and I think that's probably the healthiest. I think inventories are more in line, I think that -- I just think everyone's got a much better handle. And so I think from that standpoint, things will only get better.

Nick Coulter - Numis Securities - Analyst

Hi, Nick Coulter from Numis. Just to follow up on the question on the US and your comments on the department store mark-down environment and some sort of signs of improvement or rationality. Is that just purely lower levels of stock commitments or what are the drivers there?

Angela Ahrendts - Burberry Group Plc - CEO

I'm not understanding the question.

Nick Coulter - Numis Securities - Analyst

Well you're saying there's a more disciplined mark-down environment in the US department stores or signs thereof. What's driving that more disciplined environment? Is it lower stock commitments from the department stores or are there other factors at play?

Angela Ahrendts - Burberry Group Plc - CEO

It's a great question. I think it's probably a combination. Saks probably wasn't really happy having their name all over the Wall Street Journal for weeks on end in terms of being the one to start the promotions and I think got a lot of pressure from luxury players all over the world. So I think that people still did things but I think they did it more discreetly. They did it through friends and family cards and you didn't see the blanket breadth of promotions if you will.

So for spring, I will tell you that inventories were still high. Everyone knew that going in, and [noughts] from Saks, anyone would tell you that. But they knew that they had gone too far, too fast I think, for fall. So they were just more discreet. You will see -- you're seeing it actually now as fall starts to come in, that's where really they've procured a significant amount less. And then they've also not allowed the buyers throughout the spring season to really reorder at all. They're walking business in some cases, due to lack of reorders. So I think it's more choice on not to do it as they did before.

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Nick Coulter - Numis Securities - Analyst

So should we expect quite an aggressive clearance season for spring/summer? Or is it just they are much better at getting the stock away.

Angela Ahrendts - Burberry Group Plc - CEO

In America you're already in it, you had the full spring season, so everything's already marked down in America. And it was only about two weeks' difference in the timing year-over-year.

Nick Coulter - Numis Securities - Analyst

Okay, thank you.

Angela Ahrendts - Burberry Group Plc - CEO

Great. Well thank you very much.

Stacey Cartwright - Burberry Group Plc - CFO

Thank you everyone.

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