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## Conference Call Transcript

BRBY.L - H1 2010 Burberry Group plc Trading Update Conference Call

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*Deutsche Bank Securities - Analyst*

**Allegra Perry**

*Nomura International plc - Analyst*

**Erwan Rambourg**

*HSBC Global Research - Analyst*

**John Guy**

*RBS - Analyst*

**Katharine Wynne**

*Investec - Analyst*

**Denis Weber**

*Evolution Securities - Analyst*

**Melanie Flouquet**

*JPMorgan - Analyst*

**Rogério Fujimori**

*Credit Suisse - Analyst*

**Thomas Chauvet**

*Citigroup - Analyst*

## PRESENTATION

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**Operator**

Good day, ladies and gentlemen. Welcome to the Burberry first half Trading Update conference call. For your information, today's conference is being recorded.

At this time, I would like to turn the conference over to Stacey Cartwright, Chief Financial Officer. Please go ahead, ma'am.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Good morning, everyone, and welcome to Burberry's first half trading update call. With me this morning is Fay Dodds, our Investor Relations Director. As usual, I'm going to provide a brief summary of our performance, and then we will both be happy to take your questions.

Now before I start, we do know that modeling Burberry this year is more complicated than usual due to both the Spanish restructuring and the Chinese acquisition, so let me just remind you of the changes that we've made.

So first of all in Spain, as we've already said, all our numbers for the current financial year will strip out the Spanish operations that are affected by the restructuring. We've already given you the restatement of last year's interim and full year numbers on this basis, and all of my comments this morning are also excluding Spain.

Secondly, China; the acquisition of our Chinese Retail operations was effective from September 1, where 43 of the 50 stores transferred across, with the remaining seven stores expected to transfer in the coming months.

As China moves from Wholesale to Retail, it impacts our revenue by channel. You can already see the effects in the first half for just the one month since acquisition in that we've added 4 percentage points to Retail, and reduced Wholesale coincidentally by 4 percentage points; and the impact will be much greater in the second half of this year and the first five months of next year, until the anniversary of this channel shift. So as we have done this morning, we'll continue to give you numbers and guidance including and excluding China.

I hope these comments are helpful and, of course, Fay and Charlotte are around all day if you need further explanation.

So turning to the first half, we're delighted to have delivered sales up 21% reported, or 17% at constant exchange rates. Retail sales grew 20% underlying, of which China contributed 4%, new space 7%, and comparable store sales growth was 9%, led by Europe and Asia Pacific.

So starting in the second half of last year, we introduced strategies to drive margin rather than just comparable store growth. We wanted to increase replenishment, further improve our inventory management, pursue an iconic pricing policy, and shorten mainline sale periods and, therefore, leave less inventory available to the outlets.

This has led to better quality sales growth in the first half. Mainline stores delivered double digit growth in both Q1 and Q2 consistently, and there was a material improvement in gross margin.

Wholesale; revenue was up 21% if you exclude China. This was slightly above our guidance of high teens, reflecting higher in-season reorders and lower cancellations. We're particularly pleased with our performance in Travel Retail and the US department stores, where we continue to outperform other brands. Remember that Europe, which is still our largest Wholesale region, continues to be impacted by the ongoing planned rationalization of small specialty accounts, which are not brand-enhancing.

In Licensing, underlying revenue declined by 3%, as we continued to proactively address the legacy issues, including the non-renewal of both the final menswear licenses and the Japanese leather goods license.

In the first half, we also made further progress on our five strategic themes.

Under leverage the franchise, our digital initiatives, especially around the runway shows are generating real returns. We partnered with media organizations around the world to live-stream our shows to audiences in over 150 countries globally, resulting in a 400% increase in the audience thus far. As the number one luxury brand on Facebook, we've also got nearly 2 million Facebook fans.

Under non-apparel development, this division now accounts for 40% of sales for the first time, exhibiting strong growth in both Retail and Wholesale channels, and all product categories.

Under retail-led growth, we've opened a record 20 mainline stores in the first half in locations as far reaching as India to Brazil, Dubai to Singapore, and London Heathrow's Terminal 5.

In under-penetrated markets, the acquisition of our Chinese operations was the clear highlight of the half. There we have a strong management team in place, the integration is going well, and even before we can introduce a lot of our own retail and operating disciplines, the business is trading strongly. For example, the comparable store growth in the first half for these acquired stores was over 25%. And of course, this isn't reflected in our 9% comparable store sales growth for the Group for the half, and won't be seen in our comp numbers until the anniversary of the acquisition next September.

And finally, under operational excellence, SAP was deployed in Korea and Taiwan in the half, and the team is now preparing for implementation in China in this next year.

We've also this morning, as is our normal practice, given guidance for the rest of the year.

Under Retail, we're now expecting around a 25% increase in average selling space for the second half. About 15 percentage points of this will be in China, both the acquired stores and those that we open ourselves.

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Under Wholesale, although total revenue at constant FX will be down, this is entirely due to China moving from Wholesale to Retail. Excluding China, we're expecting underlying Wholesale revenue growth of around 10%, a pleasing performance, as demand had already recovered in the second half of last year.

And we've also slightly increased our guidance for full year Licensing income, now forecast to be down only mid single digits, whereas previously we'd said down between 5% and 10%. This has been driven by a better than expected performance from fragrances and watches.

So as Angela said in her quote this morning, the momentum at Burberry continues in terms of the success of our strategies and our sales and margin progression. Overall, this has resulted in a good first half performance.

Looking ahead, bear in mind that both sales and margin comps are tougher in the second half, and that we've flagged how we are continuing to invest in the business, be it via CapEx, which is nearly doubling this year, or operating expenses, which are planned to be around 50% of sales. And as we outlined in May, we're also continuing to proactively clear up legacy issues to further enhance the brand.

Mindful of these factors, we're currently expecting adjusted profit before tax for the full year to be in the top half of market expectations. To be clear on this, we believe the current range of forecasts, excluding exceptional items and Spain losses, is between around GBP240 million to GBP270 million.

So with that overview, we're pleased to now take your questions.

## QUESTION AND ANSWER

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### Operator

Thank you. (Operator Instructions). We'll pause for a brief moment in order to allow a queue to assemble.

Our first question today comes from Warwick Okines of Deutsche Bank. Your line is on.

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### Warwick Okines - Deutsche Bank Securities - Analyst

Yes, good morning. Two questions, please.

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### Stacey Cartwright - Burberry Group Plc - CFO

Hi, Warwick.

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### Warwick Okines - Deutsche Bank Securities - Analyst

The first is on the space growth in the second half coming from China, that 15 percentage points. Could you just give us an indication of how that splits between acquired stores and new openings?

And secondly, the 50% OpEx guidance you talked about for Retail/Wholesale excluding Spain, does that include the impact from China firstly? And also, could you just confirm that that's likely to be higher than 50% in the first half, just because of the weighting of costs?

Thanks.

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### Stacey Cartwright - Burberry Group Plc - CFO

Yes, okay, so I'll pick up the OpEx number and then let Fay come in on space growth with China.

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In terms of OpEx, we said it will probably be a tad higher than the 50% in the first half, and a little bit lower in the second half, but broadly around 50% reflecting, as we've said previously, the investment that we're making in certain markets like India, joint venture losses there; the initial investments going into Brazil; and, of course, the continuing investment now in our non-apparel JV.

In terms of space growth in China, I don't know how much more we want to break it down. Bear in mind, we are going to be giving you quite a lot more detail when we come out in November.

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

Yes, I think what that 15% reflects is the 50 stores that we've acquired, and then on our own, we'll be opening between five and 10 stores in the current year. So clearly, the bulk of it relates to the 50 stores that will be acquired.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

Okay, thanks. And sorry, just on that 50% OpEx, is that inclusive of China, please?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes, yes it is.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

Great. Thanks a lot.

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**Operator**

Our next question today comes from Allegra Perry of Nomura. Your line is now open.

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**Allegra Perry - Nomura International plc - Analyst**

Oh, yes; hello, good morning. I have three questions, please.

The first one, I was just wondering, in terms of product performance, you called out large leather goods. I was just wondering if you could give us an update on the ratio between small leather goods to large leather goods, given this is something you've flagged in the past you wanted to increase.

Secondly, if we could have an update perhaps on the outlets and how many you've closed, and perhaps how far along you are in that process.

And then lastly, perhaps an update on the Japan non-apparel JV, please.

Thank you.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Okay. In terms of the large leather goods/SLG ratio, we're making small progress, Allegra, but nothing that we'd want to flag as being a breakthrough at this point in time. Yes, we are pushing on it, but nothing specific to report at this stage other than a modest improvement.

Outlets; I really don't want to say anything about outlets, because we talk directionally about having fewer larger outlets going forward. There's clearly an internal program that we're following and we don't really want to say much more than that, because there's a lot of change that needs to happen within the portfolio. Suffice to say, we're still at the early stages of that rather than the final stages.

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And the Japan non-apparel JV, I think we've got 10 shop-in-shops in our --

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

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**Stacey Cartwright - Burberry Group Plc - CFO**

Sorry, 11 shop-in-shops. We've obviously opened one since I last looked; we've got a couple of standalone stores there, and that's all progressing nicely.

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**Allegra Perry - Nomura International plc - Analyst**

Okay, and if I could go back to the outlets for just a minute. From that comment, I guess, is it fair to assume then that the US may continue to have a slightly lower than average growth going forward in the next few quarters?

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**Stacey Cartwright - Burberry Group Plc - CFO**

No, we've talked about clearly the US has been impacted in this half because, like the rest of the Group, we've got less product flowing through to the outlets, so the US had a few more. But we'll start to anniversary that very shortly. The US you do have to remember is probably the most uncertain of the economies out there. I'm sure you're hearing that from other luxury players as well that the strength and recovery is more Asia and European focused.

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**Allegra Perry - Nomura International plc - Analyst**

Okay, thank you very much.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Thanks.

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**Operator**

Our next question today comes from Erwan Rambourg of HSBC. Your line is now open.

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**Erwan Rambourg - HSBC Global Research - Analyst**

Yes, hi; good morning again.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Hello, Erwan.

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**Erwan Rambourg - HSBC Global Research - Analyst**

Three questions, I think you won't be surprised.

I just wanted to follow up on Allegra's --

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**Stacey Cartwright - Burberry Group Plc - CFO**

You hold back until you've got three, don't you, Erwan?

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**Erwan Rambourg - HSBC Global Research - Analyst**

Just to follow up on Allegra's question on outlets. The softness you've seen in comps in the US, is that just down to outlets underperforming, or is there anything else going on differently in the US versus the rest of the world?

The second question is on price. You've been clear about the fact that the sale period is shorter, that you have an iconic product pricing strategy. I'm just wondering in terms of the existing product, what type of price increases have you been able to put through, and how does this differ by region?

Maybe another way of looking at it, can you comment on how ASP has evolved in H1 this year versus last year?

Third question would be on China. I think you mentioned that sales density in China was below the global average. Is this down to traffic? And do you know when this will basically converge towards the global average?

And just on the side, I'm wondering if the market now fully factors in China in the figures, or do you still see people out there who haven't updated figures for China?

Thank you.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Okay, I'm trying to get back to the first question, which again was a follow-up on outlets, and particularly, you're asking about the US performance.

Clearly, less focus on outlets, the US has had more outlets proportionally than anywhere else in the world, has impacted the US disproportionately. That said, I go back to my earlier comment that the US economy seems to be somewhat more -- less predictable, if you like. It is the outlets that have pulled down the US numbers rather than mainline, but nonetheless, we are more cautious perhaps on the US than the other two major regions.

You talked about pricing. The average selling price, our average unit retail, as we call it, is up double digits, but that's as much down to what we call price value as simple price increases, Erwan. So we talk about how we are evolving the product offering. Even some of the iconic handbags, it's the way in which we're adding trims and hardware, the same with the outerwear that allows us the opportunity to put the higher price points through, and from a consumer's perspective, that's a value-add because of the added components in the offering.

So that continues to be a feature. I don't think we want to talk about percentages per se, because very often it's not wholly like-for-like product, but we are watching and nudging margins as we bring each of the product offerings to market.

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**Erwan Rambourg - HSBC Global Research - Analyst**

But just going back to your previous comment, am I right in thinking that you have more flexibility to increase prices in Asia and Europe than you do in the US then?

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**Stacey Cartwright - Burberry Group Plc - CFO**

We look strategically at each market, Erwan. I don't think we really want to get caught on what that means as we go into each market, but we are looking at what the opportunities are. So --

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**Erwan Rambourg - HSBC Global Research - Analyst**

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Okay.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Leave us with that one.

In terms of China, I think we've talked about the fact that the productivity in the China stores is not at the level that we enjoy across the rest of the Group, but more particularly when you benchmark against the rest of Asia. And we've flagged that there have been specific reasons for that, not least of which is the way in which our previous partner ran the stores on less inventory than we would put into the stores.

Now we have done the buy for autumn/winter '10. We did that many, many months ago in anticipation of having completed the acquisition by now. So the right levels of inventory, the right merchandising mix is now flowing into those stores, and we believe that we'll see the -- an even better improvement in performance as a result.

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

And you asked about whether we think forecasts include China. And I think of the 22 analysts, that follow us, we believe the vast majority have now included China.

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**Erwan Rambourg - HSBC Global Research - Analyst**

Okay, very clear. Thanks a lot.

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**Operator**

Our next question today comes from John Guy of RBS. Your line is now open. Please go ahead.

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**John Guy - RBS - Analyst**

Oh, yes; good morning.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Morning, John.

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**John Guy - RBS - Analyst**

Morning. I've got a couple of questions. Erwan did a pretty good job of knocking out a few of my key questions, but --

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**Stacey Cartwright - Burberry Group Plc - CFO**

(Inaudible) three.

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**John Guy - RBS - Analyst**

But with regards to just the average selling price, I know that that was up; I think you commented in the first quarter up 8%. And I appreciate that you're obviously driving up the offering and improving the mix, but could you just talk about how the actual ASP moved up again into the second quarter?

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And with regards to China, just wondering what the sales are as a percentage of the Group excluding Hong Kong, and how that compares with, say, three years ago?

And also, I know it's early days trading-wise, but are there any comments that you could make around Burberry Black Label in Hong Kong, please?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Okay. I'll start with the last one first, and in Burberry Black Label in Hong Kong is just a pilot test store; it's just one store just to test the reaction to that product outside of the Japanese market. We're delighted with how the store has kicked off, but it is only one test store and nothing more to say on it at this stage.

I'll go back to the average selling price for Q2. The average unit retail across the Group up into double digits, but up into double digits, again, back to the fact that we've got far less in the way of product in the outlets as a proportion of the mix, and we've got more replenishment product. We've been driving for that value-add within existing product offerings, within large leather goods and outerwear. So all of that increasing the average unit retail, as well as obviously the recovery in Prorsum, which at the very high end, you're selling a lot of Aviator jackets, for example, at GBP2,000/GBP2,500, so that's certainly helping the AUR very nicely.

Then I think the last question was China as a percentage of [Group] sales.

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

Last year, it was low to mid single digit as a percentage. Clearly, as you transfer that from Wholesale to Retail, you can increase that quite significantly, and we would expect also the underlying organic growth in China to be higher than elsewhere around the world. So you're moving that up to quite a significant percentage as you look through to 2012.

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**John Guy - RBS - Analyst**

Can I just come back on the -- so, therefore, on the implication on the ASP then for the second quarter, that means it's effectively doubled given where the first quarter was. And then as regards to -- you also made a comment actually on the headline, talking about gross margin moving up 400 basis points for the half. I know that you don't typically comment on where your gross margin is going, given this is just a sales update, but is there anything to add to that?

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**Stacey Cartwright - Burberry Group Plc - CFO**

No, first of all, on the average unit retail point, we're talking about where we were versus last year. Remember again, the second quarter includes quite a lot of promotional markdown activity, so you can't really just draw those comparisons about Q1 versus Q2. We're simply giving you the growth in Q1 and the growth in Q2, not relative to the respective quarters.

And then your second question, John, was around --?

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**John Guy - RBS - Analyst**

Just on the headline I saw with regards to gross margin, yes.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes, what we've said is we can see the consensus out there for the first half is for a gross margin improvement of about 400 basis points.

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**John Guy - RBS - Analyst**

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Okay.

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**Stacey Cartwright - Burberry Group Plc - CFO**

We are confident that we'll beat that but, clearly, we'll be giving you the full details when we come back mid-November with the full financials.

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**John Guy - RBS - Analyst**

Thank you very much indeed.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Right. Thanks, John.

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**Operator**

Our next question today comes from Katharine Wynne of Investec. Your line is open.

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**Katharine Wynne - Investec - Analyst**

Yes, good morning. I just wanted to follow-up on the US looking at the Wholesale side and whether the uncertain economic background that you talked about is affecting your expectations in terms of department store orders there; and perhaps if you could update us on the success of the dual branding effort in that market.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes. I think we're pretty clear that we continue to outperform in the US department stores when you look at our performance sell-throughs versus the performance of the stores more generally. It is meaning that the conversations are opening up in terms of getting us more space for the Burberry London and the Burberry Brit line. Nothing like a breakthrough to report at this stage, but we are comfortable that the conversations are moving in the right direction.

We're also comfortable that within the projection that we've got for the second half and the 10% growth there for Wholesale, that the US again, we're gaining market share versus others.

Remember that Wholesale growth contains four component parts. So you've got the US department stores, other department stores growing nicely; you've got the franchised stores growing nicely, both in terms of adding new stores and greater productivity in existing stores; you've got travel retail predominately in Asia growing nicely; but you have got us continuing to chip away at and clean up those specialty stores in Europe.

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**Katharine Wynne - Investec - Analyst**

Thank you.

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**Operator**

Our next question today comes from Denis Weber of Evolution Securities. Your line is open.

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**Denis Weber - Evolution Securities - Analyst**

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Yes, morning.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Morning, Denis.

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

Morning.

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**Denis Weber - Evolution Securities - Analyst**

Hi. Most of my questions have been answered. I think two maybe left. One would be, could you give us an update on Asia outside of China, so Korea and how the rest is doing?

And then maybe also I was just wondering about an update just on the tax guidance for the full year.

Thanks.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Thanks. Okay. Well, tax, we're talking about a range of around 28%, so no change to guidance there.

And Asia outside of Japan doing very nicely. We've called out specifically Hong Kong within the release; Taiwan has done extremely well. Korea is still performing nicely, albeit remember we've had about three years now of solid double digit growth, so it's perhaps not as stellar as it was, but it's still performing very strongly. I'm trying to think what other markets are worth calling out.

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

I think that's it and then there have been some good store openings in the first half, so Marina Bay Sands in Singapore. We've got a flagship store opening in Sydney in the second half. There's a lot of investment going into that region.

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**Denis Weber - Evolution Securities - Analyst**

Do you have a growth rate for Korea by any chance or --?

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

It's -- in terms of comps, it was high single digit, but as Stacey said, that is on two years of very strong growth.

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**Denis Weber - Evolution Securities - Analyst**

Right, okay. And how much is Korea now of total sales, if I might ask?

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

About a third of Asia, last year.

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**Denis Weber - Evolution Securities - Analyst**

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Okay. Thanks very much.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Thanks, Denis.

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**Operator**

Our next question today comes from Melanie Flouquet of JPMorgan. Your line is on.

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**Melanie Flouquet - JPMorgan - Analyst**

Yes, good morning again. Sorry, I was wondering whether you could confirm a few things or actually clarify them. On the US, you said this was a most uncertain macroeconomic environment. Are you seeing something specific that would illustrate this; monthly volatility, traffic conversion or anything that you can share with us on this and how this has evolved recently?

On your average unit retail price, you mention it's up double digit in H1. I'm trying to reconcile this with your like-for-like sales growth which are up 9% over the period. So I was wondering whether you can comment on volumes and notably on traffic and conversion, again on a global basis and what was under pressure within the drivers of total like-for-likes; and notably, whether this is all outlet driven or whether you're actually seeing volumes also not quite as strong across the board.

And lastly, on emerging markets, can you give us an update on your exposure to emerging markets' consumer base? You did make some comments on the Chinese traveler being a very big part of your UK sales, so I was wondering whether you can share with us a little bit more on the statistics of what the emerging markets' consumer base represents now including the traveler.

Thanks a lot.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes, okay. Well, I think the first one was around the US and us just calling out that that's a somewhat more uncertain environment, and all we mean by that is where we see very strong consistent comparable store sales growth out of Asia and Europe, in the US, it's a little more intermittent. We have seen consistent performance within the department stores and us outperforming, but we're simply saying that in terms of the economic outlook, probably the US is the one that we wouldn't say is consistently back.

In terms of average unit retail, yes, units are down, but that is because, as we keep saying, we've had less inventory flowing into the outlets, so therefore where the unit reduction is predominately within the outlets.

And then in terms of emerging markets, the consumer base there, yes, we've got very strong growth from the Chinese traveler traveling across the European markets; you've got strong growth from Russia and Middle Eastern customers, etc. It's not just the Chinese; you've got South American customers trending up into the States. It's just a reflection of the global nature of the brand now.

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**Melanie Flouquet - JPMorgan - Analyst**

And if we look at your -- on a global basis, could you tell us what your total exposure is to these travelers?

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**Stacey Cartwright - Burberry Group Plc - CFO**

No, because all we get is anecdotal information back, Melanie. We do not have -- I think we've said this before, we haven't got robust CRM data across all of the markets. We pick it up selectively market-to-market.

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**Melanie Flouquet - JPMorgan - Analyst**

Okay. You don't have tax returns or anything that would help you to identify what your --?

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**Stacey Cartwright - Burberry Group Plc - CFO**

We do in the major markets, and that's where we can pull out for example that the Chinese is leading the way in London but followed very quickly by Russian and Middle Eastern tourists, but it's all done on an ad hoc basis.

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**Melanie Flouquet - JPMorgan - Analyst**

And when you say it's leading in London, how much of the UK is the Chinese traveler now are we talking about?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Well, we're very London-centric remember.

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**Melanie Flouquet - JPMorgan - Analyst**

Yes.

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**Stacey Cartwright - Burberry Group Plc - CFO**

There's not much exposure outside of London for Burberry.

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**Melanie Flouquet - JPMorgan - Analyst**

And so how big is -- would be the Chinese out of that?

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**Stacey Cartwright - Burberry Group Plc - CFO**

About 30% of our London sales.

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**Melanie Flouquet - JPMorgan - Analyst**

And then the Russian?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Russian comes behind that. I'm not going to go into the micro of exactly what level they are, but they're pretty big behind Russia, and Middle East are the next highest.

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**Melanie Flouquet - JPMorgan - Analyst**

And when you plan forward, have you still planned for lean inventories in outlets moving forwards, or should we expect still the price and the mix to be favourable but the units potentially still down in H2. or are we annualizing this by H2?

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**Stacey Cartwright - Burberry Group Plc - CFO**

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Well, remember, we had a 1,400 basis point improvement in gross margin in H2 last year, and that was part of this improvement in inventory levels. You saw we took over GBP100 million out of inventory in the period up to March 31, '10. So essentially, this has already started. A large part of that was reflected in the second half of last year. First half of this year is a continuation of those trends, but because we had a big gross margin deterioration in the previous second half-year, it's not that you're going to see a 1,400 basis point bounce-back in this first half.

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**Melanie Flouquet - JPMorgan - Analyst**

Okay, but here in H2, are you going to still have inventories down, or were you clean by the end of last year, would you say?

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**Stacey Cartwright - Burberry Group Plc - CFO**

We were clean as -- we were pretty clean as at the end of March '10, so we talked about having already taken out over GBP100 million.

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**Melanie Flouquet - JPMorgan - Analyst**

Yes.

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**Stacey Cartwright - Burberry Group Plc - CFO**

And therefore inventory moving forward, you'd expect it to move more in line with sales growth. Obviously, we're hoping to cut it back so it's not at the same percentage, but it will be looking at an increase.

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**Melanie Flouquet - JPMorgan - Analyst**

Thanks a lot.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Thanks, Melanie.

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**Operator**

Our next question today comes from Rogerio Fujimori of Credit Suisse. Your line is on.

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**Rogerio Fujimori - Credit Suisse - Analyst**

Hello, everyone.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Hi, Rogerio.

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**Rogerio Fujimori - Credit Suisse - Analyst**

Hi, there. Just one question on European wholesale. Is the -- how much left for the cleanup of these more specialty accounts? Something that we should factor in fiscal '12 as well?

Thank you.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes. We continue to rationalize. We've had over 800 specialty accounts across Europe. We've been cleaning up at the rate of 100 or 200 a year, and you can see us continuing to chip away at those really over this next year as well. So yes, it will have an impact.

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**Rogério Fujimori - Crédit Suisse - Analyst**

Thank you.

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**Operator**

(Operator Instructions). We will take our next question today from Warwick Okines of Deutsche Bank. Your line is on.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

Hi, again. Just a couple of follow-ups on Europe in line with the previous questions. Could you actually just try and quantify the impact, the drag on wholesale from the cleanup in the European specialty accounts?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

And secondly, what -- roughly what proportion of sales in Europe do you think are to tourists? And specifically, do you think that tourist is driving all of the growth in Europe, or are you seeing underlying growth in the domestic consumer?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Okay. In terms of -- the first question, Warwick, you were on the impact of --?

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

The closure of the specialty account?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes.

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**Fay Dodds - Burberry Group Plc - Investor Relations Director**

It's a small percentage.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes, low single digit percentage point impact on our growth.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

Okay.

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**Stacey Cartwright - Burberry Group Plc - CFO**

In terms of the drag. Tourist sales in Europe, well, a lot of the tourist sales in Europe are to Europeans, so I'm not sure where this question is going, because there's a large part of what you see in London for example that is down to French and Italians and everything else in the same way as when you go to Paris, you'll find Italian shopping there. So I don't know whether you mean tourist sales as in tourists from outside of Europe, or tourists more generally.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

Yes, I was more interested in the domestic European consumer and whether that is a driver of the growth in your reported European sales.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Yes, definitely. The Italian strength that we've seen is being driven to a large part by the Italian consumer. The French growth is being driven by the French consumer buying the brand. I wouldn't say that there's a huge amount of drive for the London stores that's coming from the British luxury consumer. There we are seeing that it's more from outside of the region.

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**Warwick Okines - Deutsche Bank Securities - Analyst**

Okay. Thanks a lot.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Thanks, Warwick.

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**Operator**

Our next question today comes from Thomas Chauvet, Citigroup. You're on.

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**Thomas Chauvet - Citigroup - Analyst**

Good morning, again. Can you remind us the CapEx guidance for this year and maybe what would be your best estimate for next year? And how much would China represent as a percentage of total CapEx next year?

And my second question on Internet and digital media. How big do you think is Internet as a percentage of your total sales, and I mean not just your own operation, but also I see increasingly your brand being distributed through eCommerce website of notably your US department stores' clients and Wholesale customers. So the total Internet sales including your Wholesale client, do you have a way to track that? Do they report this information to you?

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**Stacey Cartwright - Burberry Group Plc - CFO**

Okay. The first question I think was on CapEx this year and next. So CapEx at GBP130 million. That is pre any update for China. We are -- we will clearly update more formally in November, but because we've said we'll be adding around 50 stores over the next five years in China, you can expect us to be adding maybe GBP10 million or GBP20 million a year for the China element besides. So we'll be more formal about that when we come back in November.

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Internet digital as a percentage of sales, yes, that's not really how we're looking at this, Thomas, in that we're looking at digital as another way of the same consumer choosing to shop with Burberry, and they may well come into our physical stores and buy using the tablets, the iPads in store, or they may do their research online and then be driven in to the physical stores.

At the moment, we would see the Internet as simply being a low single digit percentage of our sales. It's not something we're looking to track so formally though, because as I said, we see this as being a more rounded multi-channel experience for the consumers, and there will be a blurring of lines according to where they do their research and where they do their final purchase.

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**Thomas Chauvet - Citigroup - Analyst**

Okay, thank you.

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**Operator**

As we have no further questions at this point, I would like to hand the call back over for any additional or closing remarks.

Thank you.

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**Stacey Cartwright - Burberry Group Plc - CFO**

Well, thank you everybody for listening. In conclusion for the first half, the momentum at Burberry continues as we execute our well-proven strategies to drive long term sustainable growth. We're looking forward to speaking to you again on November 16, which is when we'll be publishing our interim results.

Thanks very much.

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**Operator**

Ladies and gentlemen, this will conclude today's conference. Thank you for your participation. You may now disconnect.

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