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Conference Call Transcript

BRBY.L - Q3 2010 Burberry Group plc Trading Update and Interim Management Statement Conference Call

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Conference Call

CORPORATE PARTICIPANTS

Stacey Cartwright

Burberry Group Plc - EVP and CFO

Fay Dodds

Burberry Group Plc - Director of Investor Relations

CONFERENCE CALL PARTICIPANTS

Erwan Rambourg

HSBC Global Research - Analyst

Thomas Chauvet

Citigroup - Analyst

John Guy

RBS - Analyst

Rogério Fujimori

Credit Suisse - Analyst

Luca Solca

Sanford C. Bernstein - Analyst

Fraser Ramzan

Nomura - Analyst

Melanie Flouquet

JPMorgan - Analyst

Katherine Wynne

Investec - Analyst

Kate Calvert

Seymour Pierce - Analyst

PRESENTATION

Operator

Good day, and welcome to the Burberry third quarter trading update and Interim Management Statement conference call. This call is being recorded.

At this time, I'd like to hand the conference over to Stacey Cartwright, EVP and Chief Financial Officer. Please go ahead, madam.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Good morning, everyone, and welcome to Burberry's third quarter trading update call.

Apologies we're a few minutes late coming on. We understand that there were quite a lot of people all dialing in literally at one minute to nine, so we just wanted to make sure everybody got through.

With me this morning is Fay Dodds, our Investor Relations Director. As usual, we're going to be providing a brief summary of our performance and then we'll be happy to take your questions.

Before I start, just to remind you of two things; all my comments this morning will exclude the discontinuing Spanish business; and secondly, as regards China, the business transferred from Wholesale to Retail from September 1, which does impact our numbers this morning.

So in what we suspect will be a strong quarter for the sector, we are delighted with our performance; total sales up 27% at constant currency, up 30% reported. What's particularly pleasing is the consistency of our growth across both Retail and Wholesale in all four product divisions and all three major regions. This to us illustrates the strong response from consumers to our product marketing and service initiative, and all facilitated, of course, by the investment we've made in our infrastructure, be it supply chain, IT, planning, or a more dynamic approach to replenishment.

Retail sales grew 36% underlying, China contributing 14%, new space 8% and comparable store sales 14%. In line with our strategy, mainline stores performed better than that 14% average.

Asia Pacific and Europe again delivered double-digit comp growth, and were joined this time by the Americas, where our trading stance in this third quarter was similar to that of last year. You'll remember that in the first half, we did shorten our sale period compared to the previous year, which did impact sales but, of course, helped growth margin.

Average selling price per unit increased again, reflecting a higher penetration of outerwear and large leather goods. Prorsum, shoes and men's accessories also grew strongly.

In Wholesale, the important news is that we've increased our second half revenue guidance, so that's up from an increase of around 10% to now an increase of around high teens percentage. This excludes the impact of China and represents an upgraded sales guidance for Wholesale of GBP10 million, and that's split pretty evenly between the three major regions.

This clearly results from strong consumer demand, and has been facilitated by ever improving replenishment capabilities, which has enabled us to fulfill higher in-season orders.

Q3 Wholesale revenue up 35%, excluding China, benefited from deliveries being skewed from Q4 into Q3. Wholesale customers took more stock before the quarter end, as they planned to bring spring/summer collections in earlier and pulled the inventory forward in response to strong demand; and finally, Licensing, where we still expect full-year revenue to be down by mid single digit percentage.

The third quarter decline of 7% at constant currency is consistent with this, reflecting timing differences and the growth in global product licenses offset by the planned termination of menswear licenses and, of course, the Japanese non-apparel licenses.

So in the third quarter, we've also made further progress on our five strategic themes. We've under-leveraged the franchise. We continue to focus on digital marketing to extend our region awareness. Social media plays a key role. We've had over 1 million unique visitors to our artofthetrench site, and over 2 million views on YouTube. We currently have 3.8 million Facebook fans.

Under non-apparel development, continued innovation drove growth across all categories, especially shoes, up by 60% in Retail, with a renewed focus on scarves leading to outperformance there too. And under Retail-led growth, we've opened seven mainline stores from China to Brazil, India to Italy.

In under-penetrated markets, our Chinese operations performed very strongly, with comparable store sales growth of over 30% in the quarter in those acquired stores. And three more of the acquired stores transferred across, and we opened a further three during the quarter, one of which was the Beijing flagship that Pascal showed you an image of when we spoke to you in November. So we now have 53 stores under our direct control in China.

And finally, under operational excellence, as I've already mentioned, our investment in supply chain, IT, planning and replenishment enabled us to respond more effectively to strong consumer demand, something we simply couldn't have done a couple of years ago.

So as Angela said in her quote this morning, the team delivered strong consistent sales growth by channel, product and region. We're now expecting adjusted profit before tax for the current financial year to be at the top end of market expectations, and we read the range for adjusted PBT as GBP250 million to GBP290 million.

And finally, just an early word or two about 2011/12. As with others in the sector, we do face some challenges, such as raw material price increases and, of course, tough comps following such a strong 2010/11.

We also intend to continue our pay-as-you-go approach to investment. Even though we've not yet completed our budgeting process, we have lots of opportunities to invest in order to sustain the momentum in the business, with the focus next year moving to our store portfolio, having

invested in recent years in our infrastructure and, of course, this year in digital. And as we look forward to discussing our plans for next year in more detail in April and May with you, we'll do that as we normally do at that time.

So with that, we'll now be pleased to take your questions, so we'll hand you back to the operator.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). We'll now take the first question from Erwan Rambourg from HSBC. Please go ahead.

Erwan Rambourg - HSBC Global Research - Analyst

Yes, hi; good morning again. Erwan Rambourg, HSBC; three quick questions, if I can.

Firstly, I was wondering if you can come back on the Brit store footprint, because I remember initially you started this in the US. I was wondering where you're at today. You mentioned you've opened a store in Milan. I'm just wondering what the visibility is on that rollout and how it can support business in the future.

Secondly, just coming back on the License revenue; way down slightly by termination of menswear and non-apparel in Japan. How long will it take to actually terminate the cleaning of residual license arrangements?

And then thirdly, as you were mentioning, you were comfortable with the higher end of expectations and upgrading your own expectations. Presumably, that will generate more cash than what you initially planned. I was just wondering what you would envisage to be doing with that cash in terms of investing behind the business or returning cash to shareholders.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. Well, I think the first question was on the Brit store footprint. So as you know, we've got -- I think it's four stores now in the Americas and then one in Europe. We've always talked about these as being nice pilots. Nothing more to say at this stage, other than the fact that we're pleased with how they've performed so far; but nothing more to add just yet.

Second question was on how long is it going to take us to clean up the licenses. Well, you'll remember that within the Licensing number, there's two-thirds of it which represents Japan, and within that, one-third of that is non-apparel.

And clearly, as we're looking to do more with the global collection on non-apparel, we're looking to manage the transition of those existing non-apparel licenses in Japan in a very controlled fashion. So you'll see activity really over the course of the next two years or three years continue in terms of cleaning up there.

Fay Dodds - Burberry Group Plc - Director of Investor Relations

In terms of the menswear, we're pretty much at the end of it.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes.

Fay Dodds - Burberry Group Plc - Director of Investor Relations

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So it's hopefully the last time --

Stacey Cartwright - Burberry Group Plc - EVP and CFO

We'll even mention the menswear licenses.

Erwan Rambourg - HSBC Global Research - Analyst

So it's more the non-apparel Japanese transition which will take a bit longer.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

It will take another two years or three years to --

Erwan Rambourg - HSBC Global Research - Analyst

Right, okay.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

To flow through.

In terms of the higher end of the expectations and generating lots of cash, what to do with it, we have talked about continuing to invest in the business. So you saw us ramp up capital expenditure this year. We just talked about a focus on the store portfolio for next year. So I think it's fair to assume that we'll be putting investment back in in terms of CapEx.

No plans to resume at this stage a share buyback. We talk about how the Board keeps this under regular review. We're quite happy to maintain a fairly prudent balance sheet for the time being.

Erwan Rambourg - HSBC Global Research - Analyst

Thank you very much. Thanks.

Fay Dodds - Burberry Group Plc - Director of Investor Relations

Thanks, Erwan.

Operator

The next question comes from Thomas Chauvet from Citigroup. Please go ahead.

Thomas Chauvet - Citigroup - Analyst

Good morning again, Stacey and Fay; three questions. The first one on gross margin. I know it's not an earnings call, but could you perhaps give us an update on your gross margin expectation for the second half in the light of these 3Q numbers?

You obviously have a favorable channel mix in Retail and Wholesale, and you mentioned also mainline stores outperformed outlet; perhaps product mix as well in the ongoing operational efficiency. So that's my first question.

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Secondly, on pricing, you've mentioned an increase in ASP thanks to outerwear and large leather goods. Could you give us an idea of year on year what this average increase is and is there a region that stands out within the Group?

And thirdly on Spain, can you give us an update on how the transition is progressing from local to global collection? I understand you'll have a small contribution in FY'11 in terms of turnover. And also remind us how many points of sales you're going to close at El Corte Ingles?

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. The first one I think, Thomas, was on gross margin, and I think we've said before that this second half, we're expecting a more modest increase in gross margin versus that that you've seen in both the first half and, of course, the second half last year when we put on 1,400 basis points improvement. I think the way people have interpreted that is probably 100 basis points/150 basis points of gross margin improvement. Based on today's numbers, we may be a tad better than that.

Your second question around pricing, the average selling price, fair to assume that within that 14% comp, half of that is down to volume and half of that is down to average selling price. And remember, the way that we relate to that, that is about driving the mix. It's about adding value in terms of the offering to the consumer in terms of the trims, or whatever. It's not -- that is not about a pure price increase.

And then the third question was around the Spain transition to global. That is going extremely well.

Autumn/winter '10 was the last collection for that local domestic collection. So spring/summer '11, as we speak, we're just about to be rolling out the global product into a far reduced number of [doors], and the 80 El Corte Ingles doors are dropping to less than 20.

Thomas Chauvet - Citigroup - Analyst

Okay. Thank you very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay.

Operator

The next question comes from John Guy from RBS. Please go ahead.

John Guy - RBS - Analyst

Yes, good morning; several questions.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Hi, John.

John Guy - RBS - Analyst

Hi. Just one on the like-for-like contribution coming through from the Winter Storms' view; got any idea as to what the LFL uplift was on that capsule?

And with regards to the hedging rates as well, just wondering if you'd give us an update in terms of where you stand on hedging going forward.

Thanks very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. Like-for-like contributions for Winter Storms, we're not really looking to call out specifically, because the whole point about these capsule collections, whatever, is they're now forming part of the monthly flow, so it's not something that we're going to talk about specifically. April Showers we talked about specifically because that was a reaction to having inventory shortages in store, and it was something that we scurried to do that we wouldn't -- and, therefore, we wouldn't otherwise have had these sales had we not scurried. Winter Storms was planned in so forms part of the ongoing activities of the business.

In terms of hedging rates, well, our stance remains, as it always has been, that before we go into any season, we are hedging around 80% of our expected purchases for the expected sales. And we've done that for autumn/winter '11 already because we opened market for autumn/winter '11 back in November and, therefore, we price accordingly as well so that we're making sure that we're maintaining or improving margins off the back of what we've hedged at. So policy remains unchanged.

John Guy - RBS - Analyst

Okay. And just as one final one with regards to the OpEx. As a percentage of sales, are you still looking to maintain that rate at around the 50% mark?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, we are.

John Guy - RBS - Analyst

Okay, great. Many thanks.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thank you.

Operator

Next question comes from Rogerio Fujimori from Credit Suisse.

Rogerio Fujimori - Credit Suisse - Analyst

Hello, everyone.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Hi, Rogerio.

Rogerio Fujimori - Credit Suisse - Analyst

Stacey, regarding your comment about the shift in terms of the investments from infrastructure into store portfolio focus, what does that mean to basically your medium-term guidance of 10% space increase in the medium term?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

It's not so much on the space increase, it's also -- it's as much about making sure that the portfolio is up to standard, Rogerio, and that we've got the right refurbishments, we've got the right flagship locations. So don't think of it as necessarily being space growth, but more something which will help underpin productivity gains.

Rogerio Fujimori - Credit Suisse - Analyst

Thanks. And with regards -- and in Retail inventories going into 4Q versus last year, any color?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Probably just a couple of things to factor in. We have talked previously about inventory moving more in line with sales growth percentages, but probably two things just to factor in.

One is obviously we've made the China acquisition in the year, so we've got the China-acquired inventory to add in. And then we have mentioned previously that the previous franchisee ran the stores with very low levels of inventory. We've been making sure that the stores are fully stocked, so there's a disproportionate increase for that.

And clearly, with the success that we've had with replenishment sales and in-season reorders, we're making sure that replenishment stocks are run at a little higher level than they were previously. But other than that, nothing significant to call out.

Rogerio Fujimori - Credit Suisse - Analyst

That's great. Thank you very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Rogerio.

Operator

Next question comes from Luca Solca from Bernstein.

Luca Solca - Sanford C. Bernstein - Analyst

Yes, good morning. I have two questions. One is about the consumer mix. When you look at your consumer mix today in the midst of what seems to be a broad-based geographic recovery, do you see a different participation from the emerging markets' clientele than you were seeing six or some months before?

And two, connected to that, as you're now more active in China for a longer amount of time, were there any unexpected findings that you found in that market or that would require any fine-tuning of your initial plans?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. Consumer mix in terms of emerging market clientele; I think it's fair to say, I'm sure you're hearing this from other players as well that, clearly, the Chinese, Russian, Indian, Middle Eastern, South American consumers are becoming ever more important in our base. That said, we've still got a lot of European consumers. This is the beauty of being a global luxury brand; we've got very broad appeal across all the markets.

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In terms of China, are there any unexpected findings? Not yet. But clearly, it's still early days. We only acquired the business back in September. We've got a fantastic team on board who are already starting to drive out improvements, which is great to see. But we're not going to be rolling out SAP, for example, into the China business until the autumn, so there's a lot of operational improvement still to come.

Luca Solca - Sanford C. Bernstein - Analyst

Could you possibly quantify the contribution of emerging market consumers to your European sales?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

We don't have a full CRM database, Luca, so all we pick up is anecdotally in certain markets. So in London, for example, you'd say that there's a large dominance of that luxury consumer. It's not the domestic consumer shopping in London; it is the Chinese, the Russians, the Middle Eastern customers, and a lot of Europeans coming in. But we can only do that anecdotally in certain markets.

Luca Solca - Sanford C. Bernstein - Analyst

I understand. Thanks very much.

Operator

(Operator Instructions). We'll now take the next question from Fraser Ramzan from Nomura.

Fraser Ramzan - Nomura - Analyst

Hi there.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Hi, Fraser.

Fraser Ramzan - Nomura - Analyst

Hi; just a few questions. First of all, I suppose it's following upon what Luca asked. If you look at the Americas and Europe, outside of areas where there is strong tourism, how broad-based are you seeing the strength in demand at the moment? So that's the first question.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, the stores in the secondary markets, as well as the London, Paris, New York stores, are largely performing strongly as well, so that is -- it's broad-based, rather than just being driven by the tourism.

Fraser Ramzan - Nomura - Analyst

Okay. And then just on returns, you talk about investing more in the year ahead. Could you remind us how you think about the returns you're looking for on that capital?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, we've got a 25% IRR hurdle rate that we look for on all new investments.

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Fraser Ramzan - Nomura - Analyst

Right. So it's that kind of hurdle you'll be imposing on your pay-as-you-go investment?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes.

Fraser Ramzan - Nomura - Analyst

Fine. And then final question's really on operating expenses. Given the strong AUR in the period, do you feel you could have done a bit better on operating expenses?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Again, remember, we are adopting this pay-as-you-go approach, and there are legacy things to be cleaned up. And, therefore, that's one of the reasons why we still expect the OpEx number to be coming in at around 50%.

Fraser Ramzan - Nomura - Analyst

What kind of issues do you run up against in the quarter? When you had that strength in demand, what sort of things do you find? Is it distribution? Is it store staff?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, it's being purer about our distribution; turning off certain wholesale accounts, for example, that aren't appropriate for the brand. You may end up with some costs of doing all that, but it's the right thing to do for the brand.

Fraser Ramzan - Nomura - Analyst

Okay. Thanks very much.

Operator

Next question comes from Melanie Flouquet from JPMorgan.

Melanie Flouquet - JPMorgan - Analyst

Yes, good morning. It's Melanie Flouquet.

Fay Dodds - Burberry Group Plc - Director of Investor Relations

Hi, Melanie.

Melanie Flouquet - JPMorgan - Analyst

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Good morning -- at JPMorgan. I have three questions actually, if I may. The first one is on the US. In the last call, you had flagged the US as particularly volatile. It looks like this quarter has been much stronger for Americas for you in comparison to the previous quarter. So I was wondering whether you could share with us a few highlights on that market.

That's my number one question.

The number two question is, can you remind us of your key Japan apparel deadlines with regard to your negotiation on volumes with Sanyo Shokai and when that's lifting up again in terms of months? I think it was in March '12 at some point?

And actually, I'll start with these two. Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. I think, yes, we had pulled out that the US was somewhat more inconsistent than some of our other markets and, clearly, coming into the third quarter, we weren't sure how things were going to pan out and what was going to happen with the US department stores, and how people were going to approach sale time. Actually, things held up quite nicely for us. I don't think there's any specific factors we can pull out there rather than the fact that it held up better than it might have done.

In terms of the Japan apparel deadlines, you will recall we put up a calendar chart, a chart that showed you by each calendar year from here between now and 2015 what the various thresholds were in terms of output that our Japan apparel licensee needs to hit. And the first of those where he's actually having to produce to those levels is for calendar year 2011, so we're in that right now.

Melanie Flouquet - JPMorgan - Analyst

And the uplift is what; 10%?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

I think we didn't give you numbers specifically on that chart, but you can probably get the ruler out if you want to dig out the old chart and see what he needs to do; yes.

Melanie Flouquet - JPMorgan - Analyst

But there isn't a specific month when this [hurdle] shifts up?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

No, it's basically for the calendar year 2011 versus calendar year 2010.

Melanie Flouquet - JPMorgan - Analyst

Okay. And, sorry; on the US, given the swing, because you've just reported plus 19% versus a plus 8% in H1, could you comment whether this was at your own stores; whether -- how Wholesale versus Retail content? Or was this [drift] --?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Wholesale was the stronger performer, but we were still up double-digit like for like in US mainline as well.

Melanie Flouquet - JPMorgan - Analyst

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Okay. And, sorry; for my third question, it was about your replenishment. Clearly, you've done very well at this specific improvement in your supply chain, and that's driving quite a lot of supplies on a quarterly basis into your Wholesale numbers. Could you tell us how far you think you've gone already into shifting basically into having early in the season shipments to your retailers? Are you halfway done; two-thirds done? How can you -- how can we look at this moving forward into -- when we plan?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes. We've got a lot, lot better. As I said, we couldn't have done this a couple of years ago. We have got a lot, lot better. But I would say we're probably only at six out of 10 in terms of how efficiently we're handling that.

Melanie Flouquet - JPMorgan - Analyst

Okay.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

We haven't yet systemized it to the degree that we would like to.

Melanie Flouquet - JPMorgan - Analyst

Thanks a lot.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. Thanks, Melanie.

Operator

Next question comes from Katherine Wynne from Investec.

Katherine Wynne - Investec - Analyst

Yes, hello. Actually, Melanie's asked a couple of my questions. But perhaps if you could just give us a broader feeling on trends in the Japanese market; the performance of the JVs there.

And secondly, I was interested if you'd be prepared to quantify the difference between mainline and outlet stores' performance within the like for like.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay, I'm going to let -- I'll let Fay pick up Japan, and I'll pick up the relative like-for-like performance. We haven't -- we never call out specifically what is mainline versus outlet, because otherwise, we'll just get pulled into such a degree of analysis. But what was very pleasing about this quarter was that mainline was quite a bit stronger than that 14% that you saw. And it was part of the deliberate strategy on our part of having less inventory flowing to outlets, so outlet sales were dampened as a result.

Katherine Wynne - Investec - Analyst

Could you perhaps quantify the decline in the amount of inventory you sent to outlet?

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Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes. No, Katherine, I don't think we can. Just directionally, it's a lot less than it was.

Fay Dodds - Burberry Group Plc - Director of Investor Relations

In terms of Japan, if you look at the Japanese department store numbers, which is still a good indicator for the apparel side, well, I think they're just less worse. They're kind of flat year on year having been running down double-digit for a considerable time.

And in terms of the non-apparel joint venture, we opened a couple more concessions in the third quarter. That takes us to two mainline stores and 13 concessions. We continue to learn a lot about that market and test.

Katherine Wynne - Investec - Analyst

Thanks very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Katherine.

Operator

Next question comes from Kate Calvert from Seymour Pierce.

Kate Calvert - Seymour Pierce - Analyst

Good morning. Two questions from me. The first question is, could you give more detail on the changes to your fragrance license? When is it now due to be completely renegotiated?

And the second question on China; you indicated that you hadn't come across any unpleasant surprises. How about positive surprises? Is the like for like running ahead of where you thought it might be?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. I'll pick up China first, and then let Fay pick up the technicalities of this fragrance license change. Positive surprises; I think just very pleased that the team have got into action as fast as they have done. So firstly, deal with the most immediate issue, which is making sure that we had enough inventory in the stores, and they've managed to unclog the pipeline and make sure that inventory is getting through. And the team are working very closely together.

So we talked about having built a shadow organization even in advance of the acquisition, with a particularly seasoned executive coming on board to be our general manager for China. He's building a great team around him. They're interfacing very well with the regional head office in Hong Kong. So just very pleased with how it's gone in these early days.

And then the fragrance license?

Fay Dodds - Burberry Group Plc - Director of Investor Relations

Yes. In terms of the fragrance license, in the dying days before Christmas, we reached an agreement with Inter Parfums to basically extend certain terms of the license by one year. so the license now terminates in December 2017. And importantly for us, our right to buy the license,

which was going to terminate December 2011, now terminates December '12. So it was really just an extension of quite a lot of terms by a year to give us flexibility as we work with Inter Parfums.

Kate Calvert - Seymour Pierce - Analyst

Okay. Thanks very much.

Operator

There is a follow-up question from Melanie Flouquet from JPMorgan.

Melanie Flouquet - JPMorgan - Analyst

Yes, hi. Sorry, I have a follow-up question on your systems. Clearly, you've done a lot to improve your supply chain over the past four to five years. You've focused on replenishment, on speed to market with your Winter Storms, Summer Storms -- summer collection, etc., and identifying the best sellers in general. What's next? Do you have a big theme that's going to be important for your business?

You mentioned that you don't yet have a good CRM system, so would that be something that you would be looking at? I know you said that CapEx in infrastructure wouldn't be a big focus, but what is the next project?

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, and don't forget, Melanie, we've also been investing in digital.

Melanie Flouquet - JPMorgan - Analyst

Yes, of course.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Which you've got sort of systems, or what the drag on the IT team has been, has been very much driving the digital charge as well; and our new platform there that you'll hear more about and we'll be unveiling over the coming weeks and months.

In terms of what next, yes, it's really everything else that you would expect us to have. So we talked about replenishment and the fact that we haven't yet got that as systemized as we would like, so that's a big thing to come. And you're right, there's stuff to do with understanding the consumer better, classic CRM. There's what does that look like for Burberry; how should we tackle that.

Melanie Flouquet - JPMorgan - Analyst

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Melanie.

Operator

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We now have a follow-up question from Fraser Ramzan from Nomura.

Fraser Ramzan - Nomura - Analyst

Thanks very much. Yes, just coming back on a couple of things. First of all, you mentioned the refocus towards the retail stores. Should we take away from that that you are expecting any kind of significant increase in CapEx next year? I appreciate you're still in the budgeting process, but just directionally, are we heading north?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

As I say, I wouldn't expect it to head south, and it may be a little bit more; so, yes.

Fraser Ramzan - Nomura - Analyst

Okay. And then secondly, on a couple of things you mentioned, raw materials and the tough comps; how should we be thinking about raw materials at this point in time? You've got good average unit retail growth, so can it be absorbed in mix and all your other initiatives, such as replen that you're pushing forwards with?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

That's obviously what we're striving to do. It's still early days. And we talked previously about the fact that our supply chain operation is at an earlier stage of maturity than maybe some of our peers, which gives us more leverage to be able to work with there. But it really depends on where raw material input costs settle, because there's only so far you can take that before it starts to impact everybody, us included.

Fraser Ramzan - Nomura - Analyst

Yes. I guess since you last updated us, there's been quite a spike late November and into December. And is that what you're picking up on; that things --?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, exactly. There's only so much our team can do, and then we need to be looking at what are the other mitigants out there. So it's just a live topic. There's nothing specific we can update you on, other than the fact that we do think we're in a better position than most of our luxury peers.

Fraser Ramzan - Nomura - Analyst

And does that drive an increased focus, for example, on the operating expense line?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

I think it drives an increased focus on everything. So you'd be expecting us to be focusing on the OpEx line anyway. We keep talking about this pay-as-you-go approach to investment and cleaning up legacy issues, and raw material price increases are another factor in the mix. Underneath all of this, we just want to keep progressively adding to our EBIT margin percentage, so we need to be balancing up all of the competing influences.

Fraser Ramzan - Nomura - Analyst

Thank you very much.

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Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Fraser.

Operator

We now have a follow-up question from John Guy from RBS.

John Guy - RBS - Analyst

Yes, thanks. Just one follow-up, please. Just with regards to Burberry Black, I know I asked the question last quarter and it was pretty early days. Another few months have rolled by. Is there anything you can say in terms of how Burberry Black is progressing in Asia? And are there any intentions to roll this out?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Nothing further to update, John. So we've got our one little pilot store in --

Fay Dodds - Burberry Group Plc - Director of Investor Relations

(Multiple speakers) in the last quarter.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, and I'm very pleased with how the consumer reacts to that line in the region. So, yes, that's all at the moment.

John Guy - RBS - Analyst

So just on Black, what's the difference relative to, say, Brit or London in terms of average pricing within the Black store?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Well, it's a different offer, remember; so it's not about it's a different price point, it's a different offer. So Black Label is appealing to the young Japanese Asian male because it's got a very contemporary look to it, it's smart, it's got a particular contemporary cut. It's for the Japanese and Asian male and what he wears to work. So it's a different offer.

John Guy - RBS - Analyst

Thanks very much indeed.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

All right. Thanks, John.

Operator

(Operator Instructions). There are no further questions at this time.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Well, in conclusion, everybody, for the third quarter, we believe the team delivered strong consistent sales growth and we're looking ahead with confidence.

So thank you very much for your attention, and we look forward to speaking with you all again on April 19, which is when we'll be publishing our second half update.

Thanks very much.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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