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Conference Call Transcript

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PRESENTATION

Angela Ahrendts - Burberry Group plc - CEO

Good morning. I'm very pleased with the consistent progress Burberry's made again this year. This marks the eighth consecutive quarter of double-digit revenue growth and a second year of double-digit operating profit growth. This growth has been very balanced across regions, product divisions and both the retail and wholesale channels. In total, we grew revenue by 18% on an underlying basis and adjusted operating profit by 14%. If we exclude licensing, retail and wholesale revenue is up 20% and operating profit up 23%.

We continued to evolve the front end of our business, increasing the top end of our product pyramid in men's, women's and non-apparel, opening a record number of Burberry retail stores globally, solidifying our presence in key markets like America and again significantly growing our non-apparel segment. We also continued to strengthen our back of house infrastructure and processes, specifically in IT, supply chain and logistics. And all of this was achieved in an external environment that became increasingly challenging during the second half.

So today Stacey Cartwright, our CFO, will review the financial outturn. I'll then give you a strategic and operational review of the year and, as we did at the interims, we'll give you further insight into what's behind the growth. Today, I'll cover more specifically our childrenswear and our non shoe initiatives. And then Andy Janowski, our Senior Vice President of Global Supply Chain, will update you on the progress we've made in sourcing and manufacturing. Stacey and I will then take your questions. But first, let me turn over to Stacey.

Stacey Cartwright - Burberry Group plc - CFO

Good morning, everybody. I'll start by giving you the financial highlights.

So, revenue was up 17% to GBP995m. That's just under the GBP1bn mark. Adjusted operating profit was up 11% on a reported basis. And adjusted EPS was up just below that, at 9%, due to a higher interest charge year on year and the non repeat of last year's transfer pricing benefit

on the tax rate. We're proposing a 14% increase in the full year dividend, to GBP0.12 per share. And this results in a 38% payout ratio, consistent with our stated objective of progressively moving to 40%.

At constant exchange rates, revenue last year grew 18%, with both retail and wholesale growing by 20% year on year, a very strong performance. As Angela will explain later, this has been driven by the initiatives we've been talking to you about over the past two years, so our centralized design, our product innovation, more frequent flow of new goods to stores, replenishment and the more synchronization of our marketing with the in-store collection.

So let's look at retail sales first. These grew by 20% at constant currency. Within this, comparable store growth was 8% for the year. But as you're aware, this slowed in the second half, as the economic environment became more challenging and trading became more volatile. We did see double-digit growth in the U.S., although this slowed slightly in the fourth quarter of the year, and positive comparable store growth in both Asia and Europe. And during the year we opened a record number of stores, with a 12% increase in average space, and we expect to add about the same space in the new financial year.

With revenue up 20%, we're delighted with the performance of our wholesale business, where there is real momentum. We delivered 17% growth in the second half last year, 16% in the first half of the year under review and 25% in the second half, and we're looking for around 10% growth in the first half of the '08/'09 year. This reflects the beneficial impact of our retail strategies on the way in which we deal with wholesale partners as well. By region, the U.S., Europe and emerging markets grew strongly.

As expected, licensing revenue was up 3% on an underlying basis. The weakness of the yen reduced our reported profits by just over GBP5m, although the stronger euro in the second half did partly compensate for this. There was modest growth in Japan, as we continue to learn more about that market. We had good growth from global product licensees where, as Angela will explain, we're working closer with our partners. And this was offset by GBP1.7m of planned non-renewal of certain licenses.

As you can see from this chart, we saw good double-digit growth from most of our regions, in America which we view as an under-penetrated market, in Europe as the brand momentum builds, in Asia where we're seeing the early benefits of integrating the region under one management team and in the rest of world, primarily emerging markets, where consumers from these high demographic regions continue to respond to our products and our store openings.

As you're aware, recently Spain has been a difficult market. We've not been excluded from this. Furthermore, we're not planning any improvement in this market over the next year. Not only is this market one of the most challenging, we also don't have the relative comfort of a luxury positioning there. So, consequently, we're seeing comparable store sales down year on year, the wholesale order book now down double digit and there's continued gradual erosion of the multi-brand accounts, who are our biggest wholesale customer by type. We believe, overall, we're performing in line with our premium peers.

We've been implementing a series of initiatives in Spain over the course of the last couple of years and this last year have increased the level of focus and activity here. Let me give you three specific initiatives.

So, first the domestic product assortment. Our global heads of menswear and womenswear are meeting with the Spanish team more regularly, to help evolve the product offer to more closely reflect global branding and bestsellers. Second, we're working more closely and sharing supply chain successes. Andy himself has been working with the team on specific initiatives, such as a global program for sourcing woven shirts. And third, we continue to upgrade the in-store presentation and distribution of our brand, this year converting over 20 childrenswear and babywear corners to retail shop-in-shops. And finally, childrenswear is one of our biggest opportunities and we're strengthening our existing team in Spain to help capitalize on this, so redeploying their assets to this key Group growth initiative.

As you can see from this slide, adjusted operating profit increased by 14% on an underlying basis, moving from GBP185m to GBP206m, the latter after a GBP5m currency hit. Retail and wholesale profits were up 23%, whilst licensing was broadly flat. So, just as we did at the interims, let's look at the separate P&L accounts for licensing and retail/wholesale.

So, first, licensing. This table clearly shows how exchange rates have reduced both revenue and profit by GBP3.5m in the year to March '08. For '08/'09, we're expecting broadly flat licensing revenue on an underlying basis, but there should be a modest favorable impact from the yen exchange rate, as we've covered forward at a slightly better rate than in '07/'08. And of course, the strength of the euro should also help reported growth.

This slide summarizes the retail/wholesale P&L account. Revenue is up 19% reported, gross margin up 160 basis points in the year and there's been a further increase in operating expenses as a percentage of sales, reflecting the investment in retail and the corporate infrastructure. So, overall, this gives us a 30 basis point improvement in operating margin for the year.

So, for gross margin. For the year as a whole, gross margin increased by 160 basis points. Most of this gain came from merchandising and supply chain wins and Andy will explain later how the teams have delivered this. We've also been helped by the continued strong growth in non-apparel, a higher gross margin category than apparel. However, the gross margin increase in the second half of the year was a more modest 40 basis points, reflecting the impact of retail sales less than expected, with proportionately more inventory sold during the normal sale periods.

If we look forward into '08/'09, we expect a further improvement in gross margin from supply chain savings, although not at the rate experienced during '07/'08, and this offset in part by the continuing impact of reducing excess inventory.

Operating expenses as a percentage of sales increased by 130 basis points for retail and wholesale combined. About two-thirds of our costs are incurred in the regions and here we saw an improvement in the OpEx ratio. And this reflects the leverage impact of the 19% sales increase and was achieved despite costs associated with a record store opening program. This has allowed us to reallocate resources and step up the necessary investment in the global infrastructure during the year. Here, we've been building a platform capable of supporting the growth that this Company can deliver, with particular investment in the supply chain and IT, design and merchandising, upgrading Group functions and adding warehouse and distribution capacity.

Looking forward to '08/'09, there are two known one-off items which will impact our operating expenses and are already in guidance and implicit, therefore, in your consensus forecasts. First is around GBP6m of double-running costs associated with our move to Horseferry House, our new global headquarters and showrooms, which will be first half weighted. And the other is around GBP4m of SAP-related costs, which will be charged in operating expenses rather than below the line. Together, these will add around 1% to our OpEx ratio.

There will be a further increase in corporate costs as a percentage of sales, partly reflecting new investment in areas such as design and the supporting supply chain for new product categories, with the annualization of the costs added in '07/'08. But beyond that, we also expect to see continued operating leverage in the regions, again, after the impact of store openings and store refurbishments.

So, now, let's look at the rest of the income statement below the GBP206m adjusted operating profit. The main thing I would like to highlight is the net finance charge of GBP6m, reflecting higher average borrowings during the course of the year, and that gives us profit before tax of GBP195.7m, up from GBP156m last year.

And finally, a 30.9% reported tax rate for the year, in line with last year's underlying rate of 31%. You may remember that last year's reported rate of 29.5% included a one-off transfer pricing benefit of 1.5%. This year's 30.9% reported rate adjusts to 30.1% on an underlying basis, once you adjust for the tax payable on the disposal of our headquarters property.

Now, moving on to cash flow, this slide shows our cash flow from operations, moving first to look at the GBP123m on inventory. The largest part of this is a one-off step change in stock levels to support the changes in the business model, including the addition of new markets with April and October floor sets and holding inventory for replenishment, both of which we've talked about before. The second largest part is inventory to support the double-digit growth in the business and new product initiatives, such as children's and shoes, both of which need strong replenishment programs to compete. And this growth will be an ongoing factor. The third and smallest component is as a result of retail sales being lower than expected in the second half, as we've previously flagged. We expect to profitably clear this inventory in the coming year. And net cash inflow from operations still came in at over GBP100m; that's GBP110.2m.

Moving down the cash flow, I would highlight here the capital expenditure of GBP49m, marginally below our previous guidance of GBP50m to GBP55m, reflecting a short delay in some store projects relative to budget.

In the year to March '09, we're expecting to spend around GBP90m to GBP95m on CapEx, with a broad split as shown here. There's one-off spends relating to the fit out costs of Horseferry House, which will be around GBP20m, almost all of which will be incurred in the first half. This of course is fully funded by the GBP28m we received this year from selling our Haymarket headquarters.

Excluding this, our normalized annual spend is around GBP60m, but as I said on the previous slide, we did under-spend relative to that run rate this year. And so in '08/'09 we're expecting to spend a similar amount on new stores as we did this year, but we'll be catching up on the refurbishment spend, which would normalize out at around GBP20m a year. This year we have two particular high profile stores, in Beverly Hills and Knightsbridge, that will be completed over the summer.

Within the other CapEx number of GBP25m, we've investment in our physical infrastructure, including, for example, IT spend in Asia, an area of under-investment in the past where we now need to purchase new PCs and servers, for example.

And finally, from this slide you can see that we have returned nearly GBP90m worth of cash to shareholders, either in the form of dividends or a share buyback, leaving us with GBP64m of net debt at the end of the year. And over the last four years we've returned nearly GBP500m of cash to shareholders, running with a target of a cash-neutral balance sheet at the year-end.

The Board believe it's now appropriate to add a modest amount of debt to the balance sheet, aiming for a year-end debt position of up to about GBP100m. This will enable us to return any funds not required for investment in the business to shareholders, through share buybacks. And of course, as we'll have higher average borrowings in '08/'09, we'd also expect a higher interest charge of around GBP10m.

And finally, this slide summarizes the guidance we've given for '08/'09. One final point to note is that exchange rates, which have reduced our reported operating profit by some GBP14m in the last two years, are now moving in our favor from a translational point of view. And there is a slide in the appendix which shows the sensitivity of our earnings to the euro and dollar rate.

In summary, we're planning on the basis that our markets remain tough and volatile, 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, which illustrates much of what we were able to accomplish in the half.

Operator

There will now be a five-minute interval while this video is being shown.

Angela Ahrendts - Burberry Group plc - CEO

I hope you found the DVD insightful. We think it's important and it highlights for you the solid global infrastructure that gives us the ability to scale our strategies. And it shows you the reality of our retail and our non-apparel strategies worldwide and the wonderful energy and brand momentum that Christopher, the design, merchandizing and marketing teams continue to create.

So, as many of you know, Burberry has five key strategic themes that continue to guide and focus the teams worldwide. During 2007/2008 we were intensely focused on the execution of these strategies and this morning I'll briefly update you on our progress.

Let's turn first to leveraging the franchise, which you may recall is our strategy about working as one company and one brand, through a pure luxury filter. With total revenue up 18% for the year, this shows the continued momentum of the Burberry brand, driven in large part by the consistency of our strategies, the focus of our teams and the constant innovation throughout the business. As you can see from the slide, there was double-digit growth in each of our product categories, our largest, women's business, up 14%, menswear up 10%, our non-apparel up 39% and our smallest division, childrenswear, up 52%.

There's innovation across each of our product divisions, specifically in our core categories. In outerwear, for example, the launch of packables gave us a new seasonals program that plays well in our high-growth warm weather climate. In the London Collection we increased and refined the more technical tailoring offer. And in Lifestyle, the launch of Burberry Sport is appealing to a younger, more contemporary customer base.

We also continually innovate our icons. The Prorsum horse now anchors everything we do as a company, from the backdrop for the runway shows to the cover of the annual report. While every season sees the introduction of new trench coat strategies, from the tiny trenches for spring to the little black trench coats for fall. And we continually innovate our coveted check, the most recognizable of the Burberry icons. You might note the new megacheck crinkle scarf, which is also featured in advertising for The Beat fragrance.

We also partner with our licenses, to continually innovate their specialist categories. Witness the success of the new fragrances, Brit Sheer as well as The Beat, further innovation in eyewear and timepieces, while the non-renewal of certain menswear licenses enables us to create a more modern and consistent global menswear offer. I'm also thrilled with the way we're working more closely with our Japanese partners, to innovate and integrate our business model there. I've been to Tokyo three times in the past year and each time, with our regional president Pascal Perrier,

we learn more, we understand one another better and we make further progress, not only with our products but on a future vision for the brand in this valuable market.

So, a further example of working as one company, one brand, we see the opportunity in childrenswear, as we leverage our apparel expertise and our supply chain investment across the Group. Childrenswear's a large but very fragmented sector, with growth coming from the high end of the market in luxury, infant and childrenswear. Burberry, with its broad reach, has had a relatively small childrenswear business, which has been a mixture of in-house and mostly licensed product, but now we're leveraging proven apparel and outerwear strategies to develop and accelerate this category further.

First, we've agreed to take in-house the right to distribute childrenswear in certain markets, including the United States and all of our retail stores worldwide. Secondly, we're building out our existing small team. We've added sector expertise in the categories of design, merchandizing and supply chain. And as you'd expect, we're developing a childrenswear product pyramid. So about 10% to 20% of the assortment will be runway inspired, or mini-me versions we call it, 30% to 40% will be synergistic with outerwear and the London and Lifestyle collections, reflecting the design details, color palettes and elevated branding, with the balance being childrenswear-specific products such as infants and baby gifts.

And we're also applying our proven operational strategies to childrenswear, such as monthly flow and replenishment. And lastly, the marketing and advertising for childrenswear is also now orchestrated centrally and is therefore consistent with the global campaign. This brand synergy allows children's to further benefit from the overall brand momentum.

We'll use both the retail and wholesale channels to push growth here. We already have good childrenswear businesses in Spain and Korea, which we'll continue to expand. We're testing our first freestanding store in Hong Kong, which opened in Lei Gardens in March of '08, and have two new locations planned in both the Middle East, as well as two in America. Our U.S. wholesale partners are rapidly expanding, as we offer a more comprehensive collection.

To date, these strategies have led to good growth, with total revenue up 50% in '07/'08 and the autumn/winter '08 order book up threefold. We see the potential for this fourth product division to be 10% of our overall sales in the next five years.

Our second strategy is focusing on and investing in under-penetrated high-growth non-apparel categories. We had another very strong year in non-apparel, where sales increased by 39% on an underlying basis to now contribute 32% of revenue, up from 28% last year. To support this growth in new product category development, we continued to evolve our management structure, business model and supply chain.

As you know, luxury handbags were our initial focus and we've seen great growth in this area. In 2007/2008 they accounted for 40% of our handbag sales in our own stores, from almost nothing two years ago. Along with luxury handbags, our creative teams also continue to add further innovation in our core iconic check programs. For example, they've created seasonal capsule collections in our high-margin Haymarket and Nova core ranges, which represent half of our total handbag business. Modernizing, elevating and adding excitement to these core programs and continuing to deliver double-digit growth in this area is key.

We've also applied these strategies and diversified our large scarf business, which makes up 15% of our total non-apparel sales. Historically, this category was more dependent on solid and classic check programs. We've complemented this core business with new large-scale checks, such as the exploded house check and the mega check, while adding innovative techniques, new shapes and styles.

And we've applied these same luxury branding strategies to further broaden and balance our shoe assortments. Our sales of shoes more than doubled in the year, but I'll go into more detail shortly. In non-apparel, we're allocating additional resources to trending categories such as jewelry, belts and men's accessories, and testing new categories such as luggage.

Our non-apparel business is also benefiting from a strong focus in marketing and PR. For example, of the 32 spots used in the spring/summer advertising campaign, nearly all featured non-apparel and seven were purely dedicated to only this category. All of which means we're on track towards doubling our non-apparel business over the intermediate term, as I mentioned last May.

So, how have we doubled sales in women's shoes the past year? As you know, the footwear market's very large, with high growth potential as the category continues to trend from a fashion perspective. And much like the luxury handbag evolution, the consumer demand is for high profile, luxury brands in this category.

Today, our shoe business is relatively small, between 5% to 10% of our total non-apparel sales in our own retail stores. We believe the brand is under-represented, with luxury peers having shoe businesses several times the size of ours. Shoes are a natural brand extension for us, leveraging

our outerwear heritage, completing our ready-to-wear looks and complementing our design concepts in non-apparel. Typically, once you're successful in luxury handbags, you can also transfer these strategies and skills to footwear. This gives us the expertise and confidence to scale this opportunity to compete against our luxury peers.

So, how do we plan on capitalizing on this? First, we built a strong, experienced shoe-specific team, from design and merchandizing and planning in London to operational executives in a small office in Florence, who source and inspect our shoes. They're truly functional experts with highly technical skills and an intimate knowledge of the footwear supplier base in Italy and around the world. We've also strengthened our selling teams, both in the U.S. and Europe wholesale, a key opportunity for us, as well as in our own retail stores. And importantly, with all the design team centralized in London, there's a clear cohesion between our shoe designs and the seasonal fashion messages.

Secondly, we've significantly evolved our product offer. Historically, women's footwear was dominated at the casual base of the pyramid. In spring/summer '07, nearly 50% of the sales came from espadrilles, flip-flops and sneakers. Only one of our top 10 styles retailed for than GBP300. Our top three selling styles all sold for less than GBP100 and all were sourced in Asia.

In the last two seasons we've rounded out and added excitement to the offering at the base, elevating the design and construction of the core and adding new commercial ranges, such as ballets and drivers. We've also applied our apparel and handbag merchandising best practices, such as monthly flow and core replenishment programs. And within each of the shoe concepts, we've applied our product pyramid, as we do in our luxury handbags and our outerwear.

We have more styles in Prorsum, which provide the design inspiration throughout the pyramid, as well as the editorial and PR coverage. We've strengthened the London Collection significantly, so for spring/summer '08, at wholesale value, the London Collection or the center of the pyramid accounts for half of our shoe sales, up from a third a year earlier. While innovating our core casual offer, often with new check concepts. And we've leveraged our Italian supplier base now. This slide is just one small example of what happened with the classic wellie. Notice, in the London Collection, where we introduced a range of riding boot styles and wellies at the top of the pyramid, with studs and medallions and buckles that were featured on the runway.

Again, as we've successfully done within outerwear and luxury handbags, we've been focusing our marketing resources to also support our growth in shoes. As you can see from this slide, we feature shoes on the runway and then in a consistent way, across all consumer touch points, including advertising in-store and online.

These strategies resulted in sales of shoes at wholesale more than doubling in '07/'08, albeit from a small base, while retail sales in our stores in the U.S. and Europe were up over 80%. With this, our average unit retail price increased 20% again this year. Future growth will continue to come from further intensification of the product pyramid, increased penetration in our own stores, for example, all of our new stores will now offer a shoe section. And our wholesale partners are buying more aggressively into our footwear offer, as our retail sell-throughs increase and we flow more fresh receipts.

Finally, corporate initiatives such as replenishment will also drive the growth and profitability in this high-trending category. And once we've perfected women's shoes, our teams are prepared to then launch men's and children's shoes. We believe that shoes could represent 10% of our sales in five years.

Our third strategy is to accelerate retail-led growth. The most important component of this strategy, however, is creating a more dynamic culture and retail mindset, away from our traditional wholesale routes. Our retail sales were up 20% in the year, as we increased the productivity of existing stores, renovated high-traffic stores and opened 30 new stores in key markets, nearly three times as many in the prior year. 20 of these were directly operated stores and 10 were funded and opened by our franchise partners. Some were in established luxury markets like Florence, where we had no presence. Some were strategically positioned in high demographic markets, such as Aspen, Colorado or St. Petersburg, Russia. And additional stores were clustered in existing proven markets, such as Boston, Los Angeles and Hong Kong.

Looking forward, we expect to open roughly the same number of stores in '08/'09, in America, where as we discussed in November we make a high return on the investment, in Europe where we have opportunity in performing countries such as Italy and Germany, and in emerging markets such as China, India and South Africa.

As Stacey explained, we're continuing to invest in store refurbishments, especially in high-profile locations. Not only do these stores have the new proven aesthetic, they also have a more productive layout, higher capacity fixtures and give space, wherever possible, to new product categories such as shoes and childrenswear. Finally, we continue to test and refine new store formats, such as our small icon format and our first childrenswear stores.

Our fourth strategy is to continue to focus on and invest in under-penetrated markets. We saw solid growth in emerging markets, where sales grew by over 50% during the year, especially in key markets of China, the Middle East and Russia. As we discussed in November, North America also remains a substantial opportunity for us. Sales in the year just finished grew by 26% at constant currency, with over 20% growth in the retail channel, including double-digit comp store sales growth and exceptional growth in wholesale during the year, up about 40%.

Despite the slowdown in the U.S. economy, we believe it's appropriate to continue to thoughtfully invest in this large, very familiar market, be it new stores, store refurbishments or adding functional expertise into wholesale to leverage new product categories. To support this investment and keep Burberry top of mind with luxury customers, we're closely targeting our marketing and PR spend, featuring the full brand expression.

Let me give you just one example of what we've planned in Los Angeles later this year. We're investing heavily here in the second half. We're re-launching our refurbished Beverley Hills flagship store, our third most productive store in America. We're doubling our store size of South Coast Plaza, one of the most productive luxury malls in America. And we've recently opened a small footprint store in the Beverly Center in Los Angeles, while also increasing our penetration in key wholesale doors in that market.

To ensure we get a high rate of return on this investment, we've developed an intense and targeted local PR and marketing strategy. In addition to our monthly global campaigns in magazines such as Vogue and Vanity Fair, coincidentally, at the same time that both stores reopen, we're also planning personal appearances by Christopher to our LA stores as well as the nearby Neiman Marcus flagship on Rodeo Drive. We're also, coincidentally, sponsoring the Vanity Fair portrait exhibition at the Los Angeles County Museum of Art and hosting a high-profile launch party that evening. And we'll feature Burberry Outdoor exclusively on billboards like Sunset Boulevard during this time period, to further raise brand awareness and excitement in this lucrative luxury market. In this market alone, we'll nearly double our business in one year.

Our final strategy is to pursue operational excellence, evolving and integrating our back-of-house operations globally, to reduce complexity and cost throughout the Group. As I flagged in November, the second half of last year was an intense period of activity, especially with our SAP implementation. As we expected, it's not been a painless exercise, especially during this high-growth phase. Not only is there a huge learning curve with SAP, but we're still resolving typical daily data, people and process issues. We do see very early benefits feeding through and Andy will illustrate more shortly. As the chart here shows, we have built the core SAP system and deployed it in key central functions and in Europe retail operations. The rollout to Hong Kong is underway, with the U.S. and much of Asia to follow in the second half.

Along with SAP, we continue to finalize our regional distribution hub strategy and we recently implemented our new global carrier agreements, which will save about GBP2m per annum by leveraging our scale, as well as significantly improving our speed to market and service levels. We're also very excited to now be fitting out our new global headquarters and showroom at Horseferry House, Westminster, London, and look forward to welcoming you there later this year.

Finally, another key project under operational excellence has been to create a world-class supply chain. And it gives me great pleasure to invite Andy Janowski, our Senior Vice President of Global Supply Chain, to update you on the terrific progress we're making in sourcing. This is another opportunity for you to hear from another senior member of our team and I look forward to introducing you to others over time.

Andy joined us nearly two years ago from the Gap, where he had worked for many years, including a period of heading their Florence office for all product categories. At Burberry, he's helped build our first supply chain strategy, now been in full implementation for a year, and is achieving excellent results, which I'll let him share. But I'd also be remiss if I didn't mention what a brilliant partner to Christopher, Stacey and I that he is, as we integrate and leverage Burberry globally. Please join me in welcoming Andy.

Andy Janowski - Burberry Group plc - SVP Global Supply Chain

Thank you, Angela, for the introduction, as well as for the opportunity to speak to all of you today.

As you well know, the back end of our business was often a second priority in the history of Burberry. In the evolution of our brand, we rightly prioritize the front end and we're all thrilled that the worldwide demand for Burberry product gets stronger every day. But we also want Burberry to be recognized as much for our operational expertise as we are for our world-class design. And our supply chain platform must be strong enough to support the growth we are seeing.

Before I go on to the detail, as you saw from Stacey's earlier slides, we do spend nearly GBP400m a year on purchasing finished goods, on which we delivered a significant improvement in the gross margin in 2007 and 2008.

So, in the last few years since I have joined, what have we done? It's really quite simple. Everyone on my team knows that we are focused on three clear and strategic objectives every single day. Number one, to improve quality and strengthen our luxury positioning via product integrity. Number two, to improve on-time delivery of our product to our own stores and to our wholesale customers. And number three, to improve gross margins.

A good example of this work we did, almost on my first day here, was to support the luxury handbags initiative. Thanks to the great designs, we saw phenomenal increase in the demand for luxury bags, up many fold from our original order of 2,000 bags. At that time, we only had one small supplier and the scale of the reorders was simply too much for them to handle, as I believe Angela and Stacey talked to you about this, this time last year.

So, what we did was to increase the number of suppliers in Italy from one to five, and now we have vendors in place that are able to continue to grow with us as the business expands that have quality luxury credentials and expertise, and that are able to deliver on time and that, importantly, have delivered us margin benefits. All of which has enabled the profitable growth of our luxury handbag offer that Angela has already mentioned.

So, after that baptism of fire in late 2006, we set about building a strategic vision for a global supply chain. Historically, we had a very traditional and somewhat old-fashioned supply chain. We sourced by gender. There was little overlap of suppliers. Of the 50 or so womenswear suppliers and of the 40 or so menswear suppliers, we only had 20 in common. And quite often our buyers would compete for capacity in the same factory, rather than leveraging our scale. We designed and sourced regionally, rather than as a global organization. And prior to SAP, we had no consolidated reporting system for purchase orders to give us global visibility, and were therefore not buying as efficiently as possible.

Our historic sourcing model was CMT, or cut, make and trim, in which Burberry bought the raw materials and then distributed them to our manufacturers. This often resulted in great delays. For example, often the factories in Italy were unable to ship our garments because we had mistakenly not sent them enough of something as simple as tissue paper from our U.K. warehouse to pack the product.

Finally, we tended to use a large number of suppliers who were just too small to support our growth. We've made a very concerted effort to streamline all of these legacy operations, to simplify and to clearly focus on our three key objectives every day.

So, how have we changed our organization? Organizationally, the team was very fragmented, split by gender as opposed to how we are now organized, which is by product pyramid, by Prorsum, by London Collection and by Lifestyle, with specific teams dedicated to outerwear, non-apparel and to shoes. We've added functional experts to the team who have tremendous experience in global sourcing and quality and raw material management, many of whom are from our luxury peers.

From a quality perspective, our long-time approach has been to inspect product at the last stage in our distribution center. We've changed that quality control mentality to a much more strategic position of quality assurance. We've invested in a technical services function to focus on fit and construction. And we've shifted our attention to building quality into the product from the very beginning, instead of waiting until the last minute when the products are already made and shipped and into our DC, which at that point is clearly too late.

We've also linked our disparate logistics functions, our logistic teams from all over the world and are creating a global logistics team. We are focused on improving service, leveraging costs and reducing our transit times, so that we get our products to our customers faster.

So, when I started, there was a very small team. By March 2009, however, we will have over 100 people in the central supply chain team. Roughly half are transferred from other parts of Burberry and the other half are new hires. In addition, we will have nearly doubled the size of our QA team in two years, to enable the approach that I just spoke about. One area we have seen a positive impact is on fit. Inconsistency of fit used to be our number one complaint. Now, it is no longer an issue, which helps both sales as well as brand loyalty.

Building these teams is absolutely crucial to delivering our supply chain gains, and I'm thrilled with our performance to date. But we do contribute to the increase in operating expenses that Stacey referred to earlier.

Part of our success has been due to partnering with the right manufacturers. In the last year, we have carefully analyzed our supplier relationships and as a result we are no longer working with some vendors who we may have outgrown. On the other hand, we have also started with some new relationships with some new suppliers who are vertically integrated, manufacturers who have the ability to support our growth, to deliver on time and to ship direct. Over 10% of our supplier base is new to us in just this last year alone.

We've also made a very strategic decision to move to a fully factored model, in which our manufacturers manage their own supply chains and are empowered to procure raw materials, under our specifications, as they need them. This is resulting in a more efficient chain and improvements in on-time delivery. For example, in the past a manufacturer of a Burberry jacket would have to call off buttons from our DC in the U.K., which had been shipped to the U.K. from another supplier, counted in, then counted back out again. And obviously, that's a lot of additional time, cost and complexity. Now, that same jacket manufacturer will order buttons direct from an approved Burberry supplier, cutting several stages and both time and money out of the chain.

Additionally, in order to further support these partnerships with our vendors, we have strengthened our sourcing offices in Italy, in Turkey and in Hong Kong, making communication that much easier. All of these initiatives have taken time out of the supply chain. So, for example, for our autumn/winter 2008 product ranges which we are starting to deliver to our customers right now, products have arrived into our DCs from our suppliers about six to eight weeks earlier than they did in the past.

This is another example of the change in the business model which Stacey spoke about earlier, in relation to our increase in inventory levels, but it also enables us, for the first time in 152 years, to actually ship to our customers on time. And by fulfilling more orders on time, revenue will benefit as we receive fewer cancellations and more reorders.

This earlier receipt of product is also due in part to SAP, which has enabled us to ship direct from our suppliers to the U.S., instead of having everything channeled via our distribution center in the North of England.

Internally, we have developed a very clear sourcing strategy to support our product pyramid. In order to enable our luxury positioning to deliver on time and to maximize margins, we are working with the design and merchandizing teams to align our manufacturing base with the appropriately positioned product. In other words, we continue to source the Prorsum collection in Italy. Our London collection is sourced primarily in Europe, while our Lifestyle product is currently sourced in Eastern Europe and in Asia. For your reference, only about 10% of our production is currently in Asia and we don't expect this to change.

You may also recall that we manufacture about 15% of our products in our own factories, mainly the iconic trench coats. This leaves the majority of our other purchases in Europe predominantly in Italy. This strategy allows us to protect and further develop our luxury position, but yet also allows us to maximize margin-enhancing opportunities.

So, in summary, we've done a tremendous amount in the last 18 months and we still have a long way to go in modernizing our supply chain. In order to do so, I have taken what I like to call a strategic but yet back to basics approach. Along with my leadership team, we are passionate about attracting and keeping world-class talent. We're focused on improving our internal disciplines and attention to detail, which is helped by SAP, giving us global visibility of demand and inventory. And this approach will enable us to support the changing business model at Burberry, by keeping the pipeline on track, by delivering new products on a monthly basis, by replenishing best-selling products faster and by supporting both our Company's organic growth as well as new product categories.

As Angela and Stacey have mentioned in previous announcements, our gross margins have been improving, partly as a result of the focus as well as the investment that we have made in the supply chain. In the year to March 2008, we've benefited from several operational changes, new hires, functional experts, realignment of the organization and new suppliers, vertically integrated manufacturers, as well as SAP. And we have delivered over GBP10m of supply chain gains, in large part driving the gross margin increase of 160 basis points.

Looking forward to 2008 and 2009, and now with the team securely in place, we are ready to tackle the next critical phase within the supply chain, which entails continued refinement of the manufacturing base as well as a focus on global logistics. This will deliver further gains to the gross margin, although, as Stacey said, not at the same rate as 2007/2008, but will also help us to build a platform for sustainable and profitable growth for Burberry.

Thank you very much.

Angela Ahrendts - Burberry Group plc - CEO

So, in conclusion, I'm thrilled with the progress that we've made again this year as we continue to build a track record of delivering consistent sales and profit growth, with the aim being to create shareholder value. 2006/2007, my first year, was very much about transition. This past year, as the external environment became more challenging, we focused on execution. And looking forward to '08/'09, we remain very mindful of global economic conditions and will evolve our strategies and focus our teams on delivery.

With the sector strong and our wonderful brand momentum, I'm confident about Burberry's ability to outperform our peers. As I said in November, we have a world-class management team with an entrepreneurial culture that's flexible to respond to the changing external environment. We also have many initiatives under our own control that will continue to improve our performance. And just leveraging our supply chain, Andy and his team are a prime example.

And most importantly, we believe our complexity will now become our competitive advantage. We have a more balanced product portfolio with large outerwear, men's and women's apparel and non-apparel businesses. In each highly competitive category, we will continue to aggressively grow market share. We also have a more balanced channel mix, with competency and strength now in both the wholesale and retail channels, not to mention the strong relationships we've built with our license partners. And we have a much broader geographical foundation, with best-in-class local experts on the ground, from the immature U.S. where we're still playing catch-up to the high-growth emerging markets.

And everywhere I go, I'm constantly amazed and excited by how large the Burberry brand perception and our world-renowned icons play versus our actual size. This, along with our amazing entrepreneurial-driven management team and culture, give me the confidence in the many global opportunities that exist for Burberry to continue to deliver long-term sustainable profitable growth.

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

QUESTION AND ANSWER

Warwick Okines - Deutsche Bank - Analyst

Hi. Warwick Okines from Deutsche Bank. Three questions. Are you expecting to have your regional DC hubs in Asia and Europe up and running this financial year? Shall I do all three?

Stacey Cartwright - Burberry Group plc - CFO

Do you want to get them all out, Warwick, and then we'll come back?

Warwick Okines - Deutsche Bank - Analyst

Yes. Secondly, have you begun to reduce your HQ costs in Spain, because you previously said that the staff numbers were similar to the U.K. numbers?

And then, thirdly, can you just give us a rough split of the 39% non-apparel sales growth between volume and value, please?

Stacey Cartwright - Burberry Group plc - CFO

Okay. I'll pick up on the regional hubs point first of all. I think you saw, on Angela's slide, she talked about how the U.S. we already have our regional hub in existence, so that's been operational during the majority of '07/'08. The next phase will be the Asia regional hub, which should be operational during the course of '08/'09. And then Europe will follow on thereafter.

In terms of our headquarter costs in Spain, obviously Spain is quite a challenging market for us. You heard us talk earlier about how we are looking to reallocate some of the resources there. So, one of the examples is, to build a global childrenswear business, we know we have expertise and resource all ready on the ground in Spain and we have the opportunities, if you like, to reuse the assets there, to reuse the people, to help us grow that business more strongly going forward. So that's the best example of how we're dealing with the Spain costs.

Angela Ahrendts - Burberry Group plc - CEO

There are two things I would add on Spain that we've also been doing, though, is we have been integrating a lot of the back-end pieces of the business back to the U.K., whether it be marketing or IT or human resources, and you should assume that we've taken a pretty aggressive stance with their advertising and marketing funds.

Stacey Cartwright - Burberry Group plc - CFO

And then the last point, I think, Warwick, was on non-apparel, the question.

Warwick Okines - Deutsche Bank - Analyst

Yes, just a split between the volume and value growth in the 39%.

Stacey Cartwright - Burberry Group plc - CFO

When you say value growth, what we've obviously been doing is moving the pyramid up. So a large part of what we've been doing is the average unit retail, because we've been adding in the middle and the top part of the pyramid. So I haven't got a specific split for you, but you can assume that the majority is through the average unit retail.

Warwick Okines - Deutsche Bank - Analyst

Would the shoe 20% number that you give be reasonably reflective of the other non-apparel products?

Angela Ahrendts - Burberry Group plc - CEO

Yes. The average unit retail price increase year over year, yes.

Warwick Okines - Deutsche Bank - Analyst

Great. Thank you.

Angela Ahrendts - Burberry Group plc - CEO

Don't feel compelled. It's okay.

Luca Cipiccia - Goldman Sachs - Analyst

Hi, good morning. Luca Cipiccia from Goldman Sachs. Just three questions, please. First is on the retail performance. You mentioned like how in the second half of last year some of the underlying growth wasn't as strong as you were hoping. If you could give us an idea on how things are tracking so far, the type of volatility that you are seeing, as well as how does that compare with the outlook or project that you have for the year.

Secondly, on your retail expansion in the U.S., I was wondering whether you're also seeing that as an opportunity to possibly accelerate, should more attractive opportunities at better prices come up right now, given the environment.

And thirdly, on your inventory outlook and growth, you mentioned again that there is a radical shift in the business model and that's driving the growth. But how -- for how long should we see that disproportionate growth compared to sales continue over the next few years? Thank you.

Angela Ahrendts - Burberry Group plc - CEO

I'll take the retail expansion one. Just quickly, in the U.S., I made mention of these regional teams that we have in each of the different markets. And I will tell you we have a couple of hundred people on the ground in New York and the gentleman who negotiates our real estate has been with us nearly 30 years, so phenomenal team, strong team. And absolutely, should the market open up, I think that we're poised in a much better position than a lot of our peers to take advantage of the market. And we're familiar with the market and the brand, with our modern classic positioning, if you will, just plays so strongly in that market.

Stacey Cartwright - Burberry Group plc - CFO

I think the first question was a thinly disguised question about current trading, which obviously we can't comment on. The only thing I would say, of course, though, is that we are confirming consensus today. So that should give you some reasonable confidence in terms of our expectations and outlook here.

And then I think your last point was on inventory. And what we tried to do was to articulate the three component parts of the inventory increase, obviously the shift in the business model, the fact that we now hold replenishment stock and it's replenishment across many fronts. It's obviously - you're looking at your raw materials, work in progress, finished goods, across all of your product categories. So that's quite a big shift. Plus, of course, the shift in the calendar, where we're now delivering the monthly floor sets at the appropriate points, including an April floor set. That will stay, so that one-off uplift will stay within the numbers.

We then have the other two component parts, which is the business growth, and that's obviously not just what you're seeing in the revenue numbers today, but the fact that we're building the new product categories like childrenswear, like shoes. We'll be holding replenishment for those categories. Again, business growth should continue to be a feature in terms of moving those numbers year on year. And the area that will come down next year is obviously where we've held the smaller element of the inventory gain, where we've held stock above and beyond what we actually delivered in terms of retail sales. That will simply be cleared profitably through our normal clearance routes this next year.

Melanie Flouquet - JP Morgan - Analyst

Yes, hi. Melanie Flouquet at JP Morgan. Could you -- actually, I have four questions, sorry. The first one is regarding non-apparel. You were kind enough to give us an idea of how shoe wear would grow as a percentage of your total revenue. Could you give us an idea of how the total non-apparel is expected to grow from the 32% base that you've reached today, including, of course, shoe wear within it?

The second question is regarding savings. If I understood well, there was a GBP10m benefit on gross margin linked to sourcing and supply chain improvement out of the GBP20m Atlas project, I suspect, gain that you were expecting this year. Could you help us quantify what the actual impact would be on both gross margin and OpEx of these projects going forward? I know you're not splitting them out separately now, but at least the scope of the improvement.

The third question is regarding Japan. You hinted to a lot more cooperation and also an Asian head now out there. So I was wondering how you would see this evolving moving forward, given the size of the Japanese business.

And fourthly, sorry, on the price structure, your pyramid, where are you by product categories right now, i.e. mainly womenswear and leather goods, and where would you expect this to move? So, in other words, you have quite a lot of growth coming from product categories. Can we expect further growth from price point still or is your structure now -- how far is it? Thank you.

Angela Ahrendts - Burberry Group plc - CEO

Okay. I'll take the first one from a non-apparel. And I will tell you that we share with you the penetration of a specific product category, but I'm not going to tell you that our end game is to get non-apparel to 80%, 90% of the business. I alluded at the end of the presentation how I truly believe that our complexity is really our competitive advantage, if you want to start comparing us to our luxury peers. I know that the perception has always been that we're more apparel, we're more high risk, less insulated, but I don't feel that way in this environment. So, it's less about penetration, if you will, of non-apparel. We've been very focused on it, which is what allowed us to gain internally, but outerwear is also up significantly.

I shared with you the womenswear business up 14%, menswear up 10%. The more we grow children's, it'll eat into that overall penetration. So it's really -- to me, it's more about having this amazing balanced portfolio of different product categories that all represent the Burberry brand. I did say a year ago that, based on where our non-apparel business was and our tiny shoe business, no jewelry business, no belt business, that I did believe over the course of five years we could double our non-apparel business from the base that we were at. And I mentioned today that we are on track to do that.

If I stay on the product piece and jump down to your fourth question, which was on the pricing structure of our product hierarchy, we shared very early on how we were going to run the business with this very disciplined product pyramid, if you will. And we said over the course of five years that our aim would be to play it 10% to 15% at the top of the pyramid, 30% to 40% in the center and 50% to 60% at the base. And you might remember we historically were playing at about 80% at the base of the pyramid.

So, I can't give you specifics, but I will tell you I think we're about 40% to 50% of the way there. We're not completely where we want to be, but we're making great progress with our average unit retail prices. Successfully trending up, taking prices up and getting the retail sell-through are two totally different things. So, the fact that we've been able to get that average unit retail up and still achieve the growth I think is a real testament to the strategy.

Stacey Cartwright - Burberry Group plc - CFO

Picking up on the savings point, Melanie, you mentioned the GBP20m, obviously, that we've delivered from Atlas, from SAP. Just to remind that that's a cumulative number. Essentially, we delivered GBP6m in the previous year and an incremental GBP14m this year. And Andy's targeted savings, i.e. what he's delivered this year, GBP10m, contributed to that overall GBP14m. So, we're still in where we said we'd be, which is that around two-thirds of the savings come from the gross margin and about one-third through the expenses line.

Angela Ahrendts - Burberry Group plc - CEO

And the third question was -- I didn't mention a Japanese head. I actually mentioned the President of our Asian region, which we put in place about a year ago. So we now run the business by four different regions. We have a President of our Europe region, President of Americas, President of all of Asia, as well as then a Head of our Spanish business. And by putting him in place, he had lived in Japan, he speaks fluent Japanese, so he's been building a very close relationship. And we've got an office on the ground there with 20 some odd people, but he's just been really helping take the dialogue to a totally different level.

So, there's nothing to report today other than I will tell you that the relationship is closer than it's ever been, on a top-to-top basis and throughout the organization. And it's no secret that their growth is relatively stalled in the market, so they're very open to potential opportunities to get their business on the grow again.

Antoine Colonna - Merrill Lynch - Analyst

Antoine Colonna from Merrill Lynch. Good morning. Three follow-up questions. The first one is you alluded to the further gross margin improvement coming in the current fiscal year. Could you try and dissect a little bit for us the underlying key components of that improvement, at least in qualitative terms, between the distribution mix, the price mix, of course infrastructure upgrade impact, so we get a better idea of how it moves going forward?

Secondly, could you tell us how we should interpret the Board's decision to optimize further the balance sheet?

And lastly, coming onto the retail profitability, I know you don't disclose specifically the profitability of the retail channel, but could you give us a little bit of color on how, overall, the profitability of retail ex-Atlas has progressed in March '08 compared to March '07? Thank you.

Stacey Cartwright - Burberry Group plc - CFO

Starting with the gross margin improvement, I think the biggest impact in '08/'09, Antoine, will be the continued work that Andy and his team are able to do with the merchants across the business, in terms of sourcing benefits. We have what we can now regard as a bit of a competitive advantage, in that we're coming from further behind than some of our peers are, so we've got margin opportunities on the table. And the reason that we're saying that you won't see it all come through at the same rate as you did in '07/'08 is just remember what's happened to the euro this

year so, if you like, our opportunity to still grow the gross margin, despite the fact that the euro rates are moving against us. So, again, I'd go back to I think that places us in a much better position than potentially some of our peers. So less, if you like, from anything in terms of pricing and the like. We will see benefits. We talked about, from a carrier point of view, we're reducing our costs of carriage from both inbound and outbound, which will obviously improve our numbers next year as well. But the vast majority will be through the sourcing mix.

In terms of the second question, I think, was around the background to now moving away from a broadly cash-neutral cash position and moving to putting a modest amount of debt on the balance sheet and holding up to around GBP100m, we've said. Really, just remember the history. We've come from a position where we used to have around GBP200m of cash on the balance sheet. About four years ago, we stated our intention to pay that back through a share buyback program, to move to cash neutral. We've held that position for the last three years, and really against the backdrop of a huge amount of change that's been going on in the business. So we're not just talking about the business model changes that we referred to earlier. We're talking about the implementation of SAP, the reconfiguration of the supply chain, so many moving parts that then was not the right time to think about putting leverage onto the balance sheet. And whilst we're not saying we're though it and we're at the end of it, we have broken the back of a lot of those changes, which is why we feel that now is the right time to, as I say, put a modest amount of debt onto the balance sheet.

And then the last question, retail profitability, you're absolutely right, we don't disclose it. And as much as anything else, Antoine, it is a very difficult piece of work to pull together when you do not have SAP rolled out globally. So we're only partway through the rollout. So don't think of it as an objection to disclosing retail profitability. It's actually it takes my poor finance team hours and hours and days and days and weeks to try and pull that analysis together, so that's the reason.

Angela Ahrendts - Burberry Group plc - CEO

The other thing I will add, though, Antoine, directionally, is a brand like Burberry that has already opened stores in the less profitable flagship markets. So, as we roll out into the other markets, there's a quicker, higher level of profitability, whether that's in America, whether that's in Europe. And Asia is a very high rate of return on any of those stores. So that gives you a little regional direction.

From a product standpoint, outerwear is one of our highest margin categories and it's trending up high. You also have non-apparel that's a slightly higher margin category, as that penetration increases. So I think you've got very positive movement, if you will. And we did not, despite the promotional environment in America, we did not change our promotional timing at all, nor did we change the percentage off, everything remained relatively the same. So, just to give you some direction.

James Isenwater - Deutsche Bank - Analyst

It's Jamie Isenwater from Deutsche Bank. Two questions, please. Angela, you mentioned that you were surprised by the size of the brand relative to, I suppose, reported sales. So I was wondering whether you can give us any more color on how you can take greater control of the non-consolidated sales.

And also, just a follow-up on the new net debt target, if we can call it that, I was just wondering whether you could tell us what financial metrics that's based on. Thank you.

Angela Ahrendts - Burberry Group plc - CEO

I like how you've mixed those two together, because I actually was not referring to Japan when I made the comment on how I'm constantly amazed at how -- I actually ended up at a -- you go to one conference a year, if you will, and I was really put in my place as I sat around the table with companies that were 10 times the size of Burberry. Yet I was invited and they really didn't know that Burberry was the size that it was. And it just -- it amazed me, after about 48 hours, how senior executives around the world perceived the Burberry brand and it just -- it gave me further confidence in the opportunity. But having nothing to do, really, with Japan, if you will.

And I'm not prepared right now. I said from day one Japan would be phase three. We've got a lot on our plate right now, between Spain and some of the other initiatives that we're working on. So -- and you probably know better than I do how long it takes with any dialogue in that market at all. So right now I'm just thrilled that the relationship and the partnership's gone to a whole new level, but nothing else there to report.

James Isenwater - Deutsche Bank - Analyst

But outside of Japan, is there any other news -- there's many other products and markets where you don't take full control of your value chain. So are there any other smaller opportunities that we should look for over the coming years?

Angela Ahrendts - Burberry Group plc - CEO

Nothing specifically, right now. What I did say last November was that I think I got asked the question on acquisition and I said that I felt that there was greater opportunity right now to acquire our own brand back throughout the world. So, whether that's through all of the ancillary licenses that we've been bringing in-house, whether that's in certain markets that we could potentially do business in ourselves or partner closer with our franchise partners. You should assume that there's conversations going on, on all fronts, as it relates to the Burberry brand.

Stacey Cartwright - Burberry Group plc - CFO

And just picking up your question about the new net debt target, what we're seeking to do is to position ourselves prudently between, if you like, a peer group of luxury players and where a more aggressive retailer might be pitched. So it's not saying there's a specific EBITDA type of measure here, but we're looking qualitatively at the range of possibilities and saying we think GBP100m of net debt is the right positioning for now.

James Isenwater - Deutsche Bank - Analyst

Thank you.

Yasuhiro Yamaguchi - UBS - Analyst

Yamaguchi from UBS. When do you expect cash flow to turn positive?

Stacey Cartwright - Burberry Group plc - CFO

In terms of our operating cash flow, we're a very cash-generative business. Obviously, this year you've had the step-up in working capital and inventory as a result of the change in the business model. Next year, you'll have the impact of higher CapEx than we've been typically running at. But even once you've stripped that out, you'll see that we'll still be throwing off net positive cash next year, which allows us the opportunity to embark on share buybacks as appropriate.

Yasuhiro Yamaguchi - UBS - Analyst

In other words, is it fair to interpret that your spending on the CapEx, as well as inventory growth, is going to come to a halt and the ongoing operation is going to generate more cash and there will be more budget for buybacks or distributions in the form of dividends?

Stacey Cartwright - Burberry Group plc - CFO

We already throw off a lot of positive cash. And as I said, if you just strip out the CapEx and the one-off step-up in inventory, you're into a very positive cash flow generation going forward that gives us the opportunity, as you say, for share buybacks. The dividend policy, just to be clear, we've already moved progressively to this 40% dividend payout ratio, which is where we expect to stay.

Angela Ahrendts - Burberry Group plc - CEO

But I wouldn't -- right now, we are investing in the business where the opportunities are available. And we're going to continue to push for high growth, because we think the brand is owed that in many markets around the world. So, from a CapEx standpoint, from a store renovation and from new stores, we're getting a wonderful return on that investment. So we're going to -- as long as we continue to do that, we will continue to fuel that growth and make those investments.

Great. Well, thank you so much again for attending. I appreciate it. We'll see you in July. Thank you.

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