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P: Nick Hawkins;Cenkos Securities;Analyst
P: Rogerio Fujimori;Credit Suisse;Analyst
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P: Assad Malic;Credit Suisse;Analyst
P: Peter Farren;Bryan Garnier & Co.;Analyst
P: Warwick Okines;Deutsche Bank;Analyst
P: Operator;;

+++ presentation
Operator: Good morning, and welcome to Burberry Group's first quarter trading update and interim management statement.

My name is Ene and I'll be your coordinator for today's conference. For the duration of the call you'll be on listen-only, and at the end of the call you'll have the opportunity to ask questions. (Operator Instructions).

I'm now handing you over to Stacey Cartwright, EVP, Chief Financial Officer, to begin today's conference. Thank you.

Stacey Cartwright: Good morning, ladies and gentlemen. With me this morning is Fay Dodds, our Investor Relations Director. As usual, I'm going to provide a brief summary of our performance and then we'll take your questions.

Please note that all our comments this morning exclude the Spanish operations affected by the restructuring announced earlier this year. When we report our interim results in November and our prelims next May, we will be excluding these losses from Spain from our adjusted profit numbers.

So to help you build your models, in the pack today, we've given you a restatement of last year's first half, and remember you'll find the full-year numbers on this basis in the prelim announcement that we published in May.

So now turning to the first quarter, we delivered a strong start to the year. Total revenue up 30% reported; 24% underlying. Retail sales were up 16% underlying, with 10% comparable store sales growth. And this was driven by the consistent execution of our strategies, including product innovation, particularly in outerwear and non-apparel; digital initiatives to drive awareness and traffic; and the more frequent flow of new products to stores.

We spoke to you at our prelims about April Showers, which went from design to store in three months and contributed to our strong comparable store sales growth.

We're especially pleased with our Retail performance as it was achieved in a period where we significantly reduced mark-down activity to further purify the brand. We continued to push replenishment, enabled by the IT and planning investments that we've made; we've implemented an iconic pricing policy where key heritage styles in non-apparel and outerwear are never marked down.

Around the world, sale periods started later, were much shorter, and offered lower discounts. And please note that this new trading pattern had the greatest impact on the US in the quarter because as is the norm in that market, their sale period started as early as mid-May last year. So as a result, the Americas grew low single-digits, whilst Europe and Asia Pacific continued with double-digit growth.

For Wholesale, in what is a small quarter, we grew revenue 46% underlying. Here, deliveries were re-phased into the first quarter as Wholesale customers ordered more this year for June delivery in response to our strategy of offering monthly floor sets. And supply chain improvements meant product arrived earlier into the DCs for dispatch to customers ahead of the peak months for deliveries in July.

We are maintaining our guidance for H1 overall for underlying Wholesale revenue growth of high teens, excluding Spain. As we continue to take share, we're seeing significant increases in all regions except Europe, where the planned rationalization of small specialty accounts continues.

The Licensing revenue was up 14% at constant FX, benefiting greatly from the favorable timing of receipts. For the full-year we're maintaining our guidance of being down between 5% and 10%, partly reflecting the termination of licenses in Japan and in menswear.

Reported licensing revenue grew by 36% in the first quarter, benefiting from a favorable yen hedge rate. This will continue into the second quarter, but then partly reverse in the second half of the year to give only a marginal FX benefit in the full-year as a whole.

In the first quarter, we've made further progress on our five key strategic themes.

Under the first, leverage the franchise; we continue to invest in industry-leading digital initiatives. As an example, the advertising campaigns to support the Burberry Beauty launch are available on all digital platforms, including Burberry.com, Facebook, YouTube and Twitter. And the press launch was paperless, with the press kit delivered instead on iTouches.

Under non-apparel development, accessories were again our best performing division with strong growth in all categories. The early read for autumn/winter '10, which arrived in stores from June, is that the momentum is continuing, driven by the new smoked check collections in particular.

Under Retail-led growth, we've opened eight mainline stores in the first quarter as part of our goal of opening between 20 and 30 stores in this year as a whole. As we said at the prelims, we're doubling our CapEx this year, with the majority of this increase on new stores and catch-up on store refurbishments.

In under-penetrated markets we're beginning to see some traction with the US department stores giving us more real estate, especially for spring/summer '11. And emerging markets, although volatile in some regions, remain a key growth driver, particularly in China and Turkey.

And then finally, under operational excellence, as you know we rolled SAP out into Korea and other parts of Asia so that we now have 90% of our stores on this integrated IT platform.

So with that overview, I'm going to hand you back to the operator who will now open up for questions.

+++ q-and-a

Operator: Thank you. (Operator Instructions). And our first question has come from the line of Allegra Perry from Nomura. Allegra, please go ahead.

Allegra Perry: Yes, good morning.

Stacey Cartwright: Hi, Allegra.

Allegra Perry: First of all, congratulations on a good set of numbers. I have two quick questions, actually; firstly on Wholesale. I was wondering if you could just give us a sense for the kind of mood you're seeing amongst the clients. Obviously in light of uncertainty in the global macro situation, are you getting any cancelations? And generally, what's the mood on that side of things?

And then the second question is on the increased segmentation that you introduced recently. Can you perhaps give us an update on the performance of Burberry Brit versus Burberry London versus Prorsum? And also an update on the potential roll-out of more stores. Thank you.

Stacey Cartwright: Okay, first question Allegra was around a sense of the mood of the wholesalers and cancelations. I would say, no we're not seeing anything on the cancelation front that's given us any cause for concern at this stage.

I go back to what we always say, which is that we do believe we've got a certain momentum in the brand right now that hopefully means that we can continue to outperform and gain market share. And that's the message that we have when we talk to the Wholesale accounts.

Then the second question around segmentation. Brit and London are both doing very nicely indeed. I would say Prorsum is stronger this year than it was last year, but remember it's only a small percentage of the pyramid as a whole, so it's mid single-digit percentage.

And in terms of more new Brit stores, there are a handful of these. Remember this is in pilot mode. So having opened the two stores, Brit and London standalone stores, at the foot of the headquarters at 444 Madison Avenue, just a few weeks ago we opened up the second Brit store in New York in Columbus Avenue in New York.

We have Santa Monica and Roosevelt Field coming down the track very shortly. And we may have one or two in Europe as well. But those are early days.

Allegra Perry: Great, thank you.

Stacey Cartwright: Thanks.

Operator: Thank you. Our next question is coming from the line of Erwan Rambourg from HSBC. Please go ahead.

Erwan Rambourg: Hi, good morning again. Erwan Rambourg, HSBC. Three quick questions; sorry I'm quite predictable. The first one on the iconic pricing policy. Is this just the fact that you're not actually going on sale? Or beyond that, are you actually seeing some opportunities to increase a few prices within iconic products?

The second question is on rationalization of European accounts, just to figure out how long this is going to affect you. Is this a full-year impact or do you expect this to wane at some stage this year?

And thirdly, I was just wondering if you could give us an update on China; the number of stores, the run rate, maybe the percentage of Wholesale that China now represents for the business.

Stacey Cartwright: Okay, well I'll pick up the iconic pricing policy piece, and just explain that in a bit more detail.

It's about not marking down iconic products actually, particularly on outerwear and large leather goods, handbags, cashmere scarves. The whole pricing question which you tagged on the end of that, Erwan, is something that we consider every single season in terms of the price, value, proposition for a consumer.

So we'll look at strategically taking certain prices up when it's right to do so. But really, the iconic pricing policy as we've articulated it internally is about not marking down.

Then rationalizing European accounts, this is an ongoing process. We took out about 200 accounts last year, we're taking out about 200 accounts this year. I'm not going to say that takes us completely to the end of the road, but it really eats into the majority of what we needed to clean up.

You haven't seen much impact in this first quarter because those smaller Wholesale accounts across Europe tend to have later deliveries. They're very much Q2 driven, so you'll see them in Q2 and essentially Q4.

And then China is around 10% of our Wholesale sales. There's 50 stores there today. And I can't remember, was there anything else you wanted to know specifically on China?

Erwan Rambourg: The run rate; the growth that you saw.

Stacey Cartwright: The growth -- very nice double-digit growth. I [don't know] specifically what it is, but it's very strong double-digit growth.

Erwan Rambourg: Okay, all right. Thank you very much. Bye.

Operator: Thank you. Our next question is coming from the line of Katharine Wynne from Investec. Katharine, please go ahead.

Katharine Wynne: Thank you. Just a follow-up on that China question actually. The proportion of Wholesale sales being 10%; is that across the year, or is that in this quarter?

~~Stacey Cartwright~~Fay Dodds: It's a broad indication for last year.

Katharine Wynne: For last year. Right, okay. Thank you. I also wanted to ask about trends in Japanese department stores, what you can tell us about the outlook there.

~~Stacey Cartwright~~Fay Dodds: Katharine, I think you can see the same numbers that we see every month on department stores, and they're still running negative, but they're running less negative. And for us, as you know it's a licensed business, and we have amended the apparel license so that we've got broadly flat license income this year. And I don't think we've really got much to add over that.

Katharine Wynne: Okay. But you did mention in the statement about the performance of fragrances. Perhaps you can elaborate on that a bit.

Stacey Cartwright: Fragrance performed very nicely for us. Remember that we had the Burberry Sport launch -- fragrance launch not so long ago, so that's benefiting the numbers. So fragrance was the strongest performer of our licensees.

Katharine Wynne: Okay, thanks.

Operator: Thank you. Our next question is coming from the line of Nick Hawkins from Cenkos. Nick please go ahead.

Nick Hawkins: Morning again, everyone.

Stacey Cartwright: Hi, Nick.

Nick Hawkins: Is there any fundamental reason why, maybe because of mix perhaps, that the first half of the year should have a lower gross margin than the second half?

Stacey Cartwright: The first half of the year versus the second half?

Nick Hawkins: Yes, your reported halves.

Stacey Cartwright: Right. Well remember the Wholesale -- yes, it's mainly mix, Nick; so Retail, Wholesale. Remember last year we had Wholesale becoming a much smaller percentage of the pie. As we move into the first half of this year you'll have Wholesale holding its own a lot more. So that'll be the biggest impact in there.

Nick Hawkins: Okay. And your move to much higher sell-through at full price and restricting the amount of product you put in the stores, to what extent do you think, and I understand you won't be able to put a hard number on this at all, but what extent do you think your sales line was constricted by that? Can we read across from what happened in the US for example?

Stacey Cartwright: It's a really difficult one to try and quantify. I mean you're right in that you've had half of the quarter for the US where they didn't essentially anniversary to the same degree the sales activity that we did last year and the year before, and they come in more mid single-digits than 10%. So, that gives you some indication, but clearly, with a significant benefit to gross margin.

Nick Hawkins: Okay. And the strategy going forward is to maintain this level of markdown and just hope that the momentum continues through?

Stacey Cartwright: Yes, it's around making sure that we are much purer with the brand, we're much tighter. We're in a much stronger position in terms of our inventory planning now, having the IT systems and the planning function commensurate with our luxury positioning. We don't believe we should be doing the level of sale activity that we did do historically.

So we started that move back in January, albeit up against a highly promotional period in the year before when everybody was offloading inventory post the downturn, but we picked up 1,400 basis points of gross margin specifically because we got much, much tighter on the whole approach to sale. I would say that this time round, we've got even purer and even tighter on sale.

Nick Hawkins: But do you think you've reached the right point for you in terms of purity?

Stacey Cartwright: I think we're learning. Remember, we've only just gone on sale in Continental Europe, albeit on a much reduced basis to that that we did last year. We need to basically get through all of this and do the post review and conclude if there's more to be done going forward or whether we've reached the right level.

Nick Hawkins: Okay. Thank you.

Stacey Cartwright: Okay.

Operator: Thank you. The next question is coming from the line of Rogerio Fujimori from Credit Suisse. Please go ahead.

Rogerio Fujimori: Hello everyone.

Stacey Cartwright: Hello Rogerio.

Rogerio Fujimori: Hi there. One additional question on the US. I understand the sale period started in mid-May last year. But I was just wondering if you have detected any meaningful change in terms of traffic and conversion in your own stores towards the end of the quarter? That's my first question.

The second one; have you taken any price increases in May, June in any of your key markets?

And third, anything to report in terms of progress of your non-apparel JV in Japan? Thank you.

Stacey Cartwright: Okay. So the first question there was around the US and did we detect any trends. Well clearly, not anniversarying sale in mid-May and only starting sale in early June, we saw the numbers being negatively impacted by that, but again, I come back to what we were selling, we were selling at full price and making a much stronger gross margin. So absolutely, we noticed the impact; you will do when you're anniversarying someone breaking sale.

And clearly, now that we've reached into July, we were still on sale this time last year in the US but, of course, this time this year, we're not, but the impact is far less by the time you get towards the tail end of anniversarying the sale.

Then you asked about price increases in key markets. You referred to specific months. That's not how we look at it, we look at the seasons. Remember that we're selling way in advance, so we're currently selling spring/summer '11 in our showrooms to our Wholesale partners for example, so we're setting prices for the spring/summer '11 season. And that is in the context of what we think is right for the market and the whole price value proposition. So it's not as reactive as did we move pricing in the month of May or June, it would have been around what were the price increases going into spring/summer '10.

And then the last question I think was on the Japanese non-apparel JV. I think we've got nine shop-in-shops and two standalone stores now in that marketplace. Delighted with how they've kicked off but it's going to be a slow build in that marketplace as we look to sort of slowly layer in the global collection in lieu of that local licensee product.

Rogerio Fujimori: Thank you.

Stacey Cartwright: Thanks, Rogerio.

Operator: Thank you. We currently have no questions coming through. (Operator Instructions). And we have a question from the line of John Guy from RBS. John, please go ahead.

John Guy: Yes, good morning. Just --

Stacey Cartwright: Hi, John.

John Guy: Hi. Just following on from the previous question on increases in prices. I know you said that you're very much geared around the actual seasons, but given the fact that you're now being able to deliver on a monthly basis and you're putting in capsules, and we've obviously had April Showers and you're doing Winter Storms, I'm just trying to get a sense for how prices are actually changing, not necessarily on a monthly basis or on a seasonal basis, but even on an interim sort of capsule basis. Is that one way to actually look at the way that you're shifting prices given the fact that you're putting in these capsules as well?

Stacey Cartwright: Yes, bear in mind, John, that there's a large part of our business which is replenishment as well, so don't get too carried away by the individual capsules. A large part of, particularly non-apparel, is replenishment and there we look -- you know, it is literally season-to-season; what's the price of the iconic cashmere muffler or the Nova bags. And we're looking at when's the right time to move them to the next price point if appropriate and that is done quite a way in advance.

John Guy: So if we look at the quarterly ASPs on average, how much were they up over the quarter?

Stacey Cartwright: Well remember the quarterly ASP is up because we're not anniversarying markdown activity.

John Guy: Right, okay. Fine.

Fay Dodds: And also because the growth has come from outerwear and non-apparel.

Stacey Cartwright: So it's all ~~(inaudible)~~mix driven.

John Guy: It's just mix. Yes, okay.

Stacey Cartwright: Yes. So it's not as straightforward as that.

John Guy: Got it. Thanks very much.

Stacey Cartwright: Okay.

Operator: Thank you. Our next question is coming from the line of Assad Malic from Credit Suisse. Assad, please go ahead.

Assad Malic: Morning, guys. My question's just -- main part was just answered, was asked by John. But so, you're saying that the ASP increase has mainly been mix-driven, so that 10% comparable store sales growth is pretty much a function of mix and volume; was that correct?

Stacey Cartwright: Yes.

Assad Malic: There's no underlying price increase there on like-for-like product?

Stacey Cartwright: Very little.

Assad Malic: And just then looking towards spring/summer '11. Are you anticipating underlying price increases to come through, plus a mix ASP increase? So are you budgeting for lower volumes?

Stacey Cartwright: No. No more so than we do in any other season. You know, we're always looking at gently nudging prices where it's right to do so because of the right price value proposition for the consumer.

So -- but we're absolutely looking to drive volume. I gave a little hint in my text around the sentiment in say even the US department stores and their willingness to give us more real estate. So that gives you an indication of the power of the brand and therefore what momentum we might be driving through in our own retail as well.

Fay Dodds: And also, as we continue to correct some of the legacy issues like we're reducing the proportion of sales that go through outlets, that will also help contribute towards an increase in the average selling price.

Assad Malic: Okay. And just a quick follow-up on the iconic products. Is there a difference in penetration across the spring/summer and the autumn/winter seasons in terms of how much iconic product you have? And does that therefore influence some of the gross margin going forward?

Stacey Cartwright: Not tremendously. I mean, clearly, you don't sell as many cashmere mufflers in spring/summer as you do in winter, but there's a huge part that is even the lighter outerwear styles, the iconic check handbags that sell consistently all year round.

Assad Malic: Okay. Thank you.

Stacey Cartwright: All right. Thanks, Assad.

Operator: Thank you. Our next question is coming from the line of Peter Farren from Bryan Garnier. Peter, please go ahead.

Peter Farren: Yes, hi. I was wondering if you could give us more detail on the outlook regarding department stores in the US in spring/summer '11 because you mentioned ~~added~~ adding real estate~~s~~. If you could give us more detail, possibly quantify it? And also, if you're working with more accounts for next year.

Stacey Cartwright: Yes, it's not around more accounts Peter. We've always talked in the US about wanting more penetration through existing doors and we're still in the conversations with those US department stores. We haven't closed the order book yet for spring '11. That's what we always give guidance on when we come to October. But we were just giving you a little hint in the text there that we are starting to see some movement.

We always said that with the clearer delineation now with Burberry Brit and Burberry London, it was a catalyst for the US department stores to give us more space. The only issue was where they would take it away from. And we are now seeing for spring '11 some movement in that regard.

Fay Dodds: And again, back on the legacy issues, you'll see from spring/summer '11, we're starting to shut down some of the US outerwear doors that do very little for the perception of the brand.

Peter Farren: Okay. Thank you.

Operator: Thank you. The next question is coming from the line of Warwick Okines from Deutsche Bank. Warwick, please go ahead.

Warwick Okines: Yes, good morning. I was wondering if I could just follow on, on that line of thinking and press you a bit harder on the US. Could you tell us how many Brit standalone doors you expect to have in department stores in the US in autumn/winter this year, just a sort of rough quantum?

Stacey Cartwright: Yes, it's just a handful at autumn/winter '10. We're sort of giving you a hint that it might be a bit more for spring/summer '11 but not yet concluded.

Warwick Okines: Okay. Thanks. And just on the main line versus outlets, could you just give us the split in sales for the quarter please?

Stacey Cartwright: What in terms of percentage?

Warwick Okines: Yes.

Stacey Cartwright: We talk generically for the year, but it's about 75%/25%. What you're -- and clearly it will be distorted in any particular quarter by when promotional sale activity did take place. What we have said is that 75%/25% should veer much more towards main line as we go through the next year or so.

Warwick Okines: For Q1 though, I mean I'd assume it'd be a fair bit lower for outlet than that 25%, both kind of structurally because of the quarter that --

Stacey Cartwright: No, not significantly.

Warwick Okines: Okay, fine. Great. Thanks a lot.

Stacey Cartwright: Okay.

Operator: Thank you. (Operator Instructions). We have no further questions coming through, so I'll hand you back to your host to wrap up today's call.

Stacey Cartwright: Well, so in conclusion, for the first quarter, we're pleased with the start to the year, especially in terms of the quality of the sales growth, Retail in particular. And, as we explained at the prelims, we're building our brand momentum to invest for the future in new stores, regions and in digital and product initiatives, whilst continuing, of course, to correct the legacy issues that we've explained to you previously.

So thank you again for your attention. We look forward to speaking to you on October 13, which is when we will have our first half trading update. Thanks very much.

Operator: Thank you for joining today's conference. You may now replace your handsets.