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## Conference Call Transcript

BRBY.L - Burberry Group plc Q3 2009 Trading Update and Interim Management Statement Conference Call

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## CORPORATE PARTICIPANTS

**Stacey Cartwright**

*Burberry Group plc - EVP and CFO*

**Fay Dodds**

*Burberry Group plc - IR Director*

## CONFERENCE CALL PARTICIPANTS

**Aurelie Husson**

*Societe Generale - Analyst*

**Allegra Perry**

*Nomura - Analyst*

**Erwan Rambourg**

*HSBC - Analyst*

**John Guy**

*MF Global - Analyst*

**Luca Solca**

*Sanford C. Bernstein - Analyst*

**Melanie Flouquet**

*JP Morgan - Analyst*

**Dennis Weber**

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**Nick Hawkins**

*Cenkos Securities - Analyst*

**Nick Coulter**

*Numis Securities - Analyst*

## PRESENTATION

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### Operator

Good morning ladies and gentlemen and welcome to the Burberry third quarter trading update conference call, hosted today by Stacey Cartwright. My name is Phil and I'll be your coordinator for today's conference. (Operator Instructions). I'm now handing you over to Stacey Cartwright to begin today's conference call.

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### Stacey Cartwright - Burberry Group plc - EVP and CFO

Good morning everybody and welcome to Burberry's third quarter trading update call. With me this morning is Fay Dodds, our Investor Relations Director. We're going to give you a brief overview of our performance before then taking your questions.

So total revenue for the quarter, it was GBP380m. That's up 15% on a reported basis or up 12% at constant exchange rates.

Retail sales, which account for about two thirds of revenue in this quarter, increased by 16% on an underlying basis. Within this, comparable store sales growth was 10% as many of our initiatives came together to drive strong full-price sales.



So digital media helped drive traffic to our stores, the Burberry Experience sales and service program drove conversion in-store, and while customers responded well to our strong product assortment. Within this, core outerwear performed well as did non-apparel across all product categories. Here I'd refer you back to the presentation that Paul Price, our Senior Vice President of Non-apparel, did at the interims in November to remind you of what we're doing in this area.

All regions showed positive comparable store sales growth. Europe and Asia again delivered double-digit growth, led by the UK and Hong Kong. The Americas saw an improvement, delivering low single-digit growth against, albeit against weak comps. There was much less promotional activity this year. For example, we started our main sale some two weeks later. And Spain grew marginally, although this market does remain very challenging.

In Wholesale, third quarter sales grew by 5% at constant exchange rates. More importantly, for the second half as a whole we've slightly improved our guidance. We're now expecting sales to be down around 10% to 12% at constant currency compared to being down 15% previously. As you know, this forecast decline is driven entirely by our own actions, such as closing small, specialty accounts in Europe, and by the continued weakness in Spain, where ongoing second half Wholesale revenue is expected to be down by well over 20% again.

Excluding these factors, demand for the global collection is now expected to be marginally positive year-on-year, reflecting higher re-orders and expected improvements in our shipping following the SAP conversion in the US last year. In Wholesale we continue to outperform other brands in the department store channel, and also benefit from our exposure to emerging markets.

In Licensing sales were down 3% underlying but up 22% reported due primarily to the movement in the yen hedge rate. We've maintained our guidance for Licensing revenue at constant currency to decline between 5% and 10% in the full year. We expect to be coming in at around the middle of this range.

During the third quarter we've made further progress on our five strategic themes. Under leverage the franchise, brand momentum continues to build. For example, we've had over 5m page views on our social media site, [artofthetrench.com](http://artofthetrench.com), since its launch in November and visitors are currently spending on average nearly six minutes on the site.

Under non-apparel development I've already called out the success that we've had over this holiday season. Under retail-led growth we opened a net five mainline stores, including the first Burberry London and Burberry Brit stores in New York, an initiative which gives us opportunity to grow real estate in both the Retail and Wholesale channels, going forward.

In under-penetrated markets we open a net six stores, with China remaining strong for us. And under operational excellence we're currently preparing for our last two major roll-outs of SAP into Korea, and then converting the European distribution hub, both of which go live in April.

As Angela said in her quote this morning, we're currently expecting adjusted profit before tax to be towards the top end of market expectations. In some more detail, going into the fourth quarter we have significantly less inventory than this time last year, partly due to strong sales reflecting our brand momentum and partly down to lower procurement and operational efficiencies in areas such as supply chain and planning. These lower inventory levels mean less clearance activity in the fourth quarter which may impact sales but will, as planned, improve gross margin significantly.

And also remember what we said at the interims, that given the shift towards Retail from Wholesale, we do expect operating expenses as a percentage of sales for Retail/Wholesale to remain in the high 40s.

Looking forward to 2010/11 we're continuing to plan cautiously as the outlook for the luxury consumer around the world is still not clear. However, we are confident that our strategies by product, region and channel, underpinned by our operational efficiencies, will drive profitable growth.

So with that and let me now hand you back to the operator for questions.

## QUESTION AND ANSWER

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**Operator**

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Thank you. (Operator Instructions). The first question comes through from the line of Aurelie Husson of SG. Your question, please.

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**Aurelie Husson - Societe Generale - Analyst**

Good morning Stacey and Fay.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi, Aurelie.

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**Aurelie Husson - Societe Generale - Analyst**

I have actually one question. Let's say one question and two points that I need to be cleared. The first one is on the Licensing performance. I have some difficulties reconciling the constant currency and current currency sales as there were barely no change in the pound/yen rate year-on-year. Is it a scope effect linked to the renegotiating of the license? So this is my first question. Maybe you want me to go on or maybe answer this.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I'll answer that one first of all Aurelie.

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**Aurelie Husson - Societe Generale - Analyst**

Okay.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

No, we always hedge on a 12 month rolling basis in advance on what we expect our Licensing revenues to be. So what this reflects is the benefit year-on-year for the hedge rate. So essentially you're comparing rates from two years -- average over the two years ago to average over a year ago. So we're seeing the improvement now.

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**Aurelie Husson - Societe Generale - Analyst**

Okay. And this is integrated in the sales -- in the revenue?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, because we convert at the hedge rate that we have covered on this rolling 12 month basis.

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**Aurelie Husson - Societe Generale - Analyst**

Okay, very clear. Second point is there was 8% increase in selling space in H1 and you plan plus 6% in H2. So how do we get to your full-year guidance of plus 8% to 10%? Is it an effect from the joint venture in the Middle East?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

You have got the full-year effect of the joint venture because that started in the second half of last year. So that added a few percentage points to the overall number. I think we said our number for H1 - Fay's just looking it up - but it was over 10%.



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**Fay Dodds - Burberry Group plc - IR Director**

I think it was 12%

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I thought it was 12% from memory.

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**Fay Dodds - Burberry Group plc - IR Director**

What you just need to be quite careful about is if we add say 12% to space, that doesn't always turn into 12% contribution to new sales, to sales growth. It always turns into -- we work on a factor probably of about an 80% conversion.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

In the first year, yes.

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**Aurelie Husson - Societe Generale - Analyst**

Okay. Okay, thank you. And my question is basically, the last one, what is the percentage of sales that was done in the outlets in the third quarter?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

It's actually taken a lower share in the third quarter this year versus the third quarter last year. We don't split it out in detail, but it is taking a lesser share now.

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**Aurelie Husson - Societe Generale - Analyst**

If we assume around 25% is it far from the two?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes. I mean we've talked over a year as a whole it tends to be around 75/25 split between mainline and outlet.

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**Aurelie Husson - Societe Generale - Analyst**

Okay, thank you.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Okay.

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**Operator**

Thank you. The next question comes through from the line of Allegra Perry of Nomura. Your question, please.

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**Allegra Perry - Nomura - Analyst**



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Yes, good morning. I have a couple of questions.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi Allegra.

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**Allegra Perry - Nomura - Analyst**

Hi. First question is I was wondering if you could give us a little more color around the monthly progression through the quarter and also whether there was a big difference in the prior year comps. I suspect so as we go through the events from last year.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

There's not much to call out in terms of the monthly trend actually. We tend not to unless there's something major to share. So, for example, Q2 we did call out that we got stronger as we went through the quarter. That's not the case here. They've been broadly around the same number each month.

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**Allegra Perry - Nomura - Analyst**

Okay, great. And secondly I was wondering if you could give us a little bit more color around what the performance by category, and specifically what kind of products, what kind of price points? Also within the non-apparel ranges that you called out, whether there are certain collections that are doing better than others?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes. In terms of the products it's really outerwear and non-apparel were the two star performers. Outerwear, we think it's testament to the fact that this is the core, iconic product. It's absolutely the backbone of our apparel business. And of course, this last quarter we've ramped that up with the launch of the Art of the Trench social media site and that's undoubtedly helped to drive even more traffic through to the stores and online.

Now obviously outerwear carries a fairly -- is one of the higher price point products. So that bodes well as well for our average unit retail in-store. And then the same applies in terms of non-apparel, large leather goods, handbags, small leather goods have done well. And also the soft category and that is our core, iconic scarves, but also the new offerings such as snoods and as we move into spring and summer, a newer, more innovative range of soft accessories as well.

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**Fay Dodds - Burberry Group plc - IR Director**

Also worth pointing out that shoes in our own retail stores shows some good growth and that's one of the things Paul talked about last time.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

We had a much broader offering in-store and that's gone down very well with consumers.

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**Allegra Perry - Nomura - Analyst**

Great. And just one last question on Burberry Experience. You talked about it a little bit in the statement. Can you give us a little more detail around how that's driving conversion? And maybe specifically whether you can share what the average units are per transaction please?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**



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Yes, the Burberry Experience is still being rolled out globally, but we're very pleased with the way that it's landed in some of our major flagship markets to start with. It is about the consumer journey in-store and making sure that we have the right warmth of welcome and the right level of service, and going above and beyond when we need to. As always, it's quite difficult to measure what of the performance that we've seen in this last quarter is down to the Burberry Experience, is down to the improved marketing, is down to the more innovative product. It's obviously a combination of all of those factors.

We don't talk specifically about the UPT, the units per transaction. We're seeing a modest improvement but it is very, very modest. It is more about -- and I'm not sure whether this is the right climate in which to be measuring that anyway given that people are being somewhat more discerning about their purchases. But if they're coming in-store and they have in mind a particular item, then we're making sure that we get the conversion.

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**Allegra Perry - Nomura - Analyst**

Fantastic. Thank you very much.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Thanks Allegra.

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**Operator**

Thank you. The next question comes through from the line of Erwan Rambourg of HSBC. Your question, please.

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**Erwan Rambourg - HSBC - Analyst**

Yes, hi. Good morning again.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi, Erwan.

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**Erwan Rambourg - HSBC - Analyst**

Three questions, if I can. Just going back to this idea of conversion, traffic etc., if we go back to the comps up 10% in Retail, how should we think about traffic conversion and average selling price making up this 10%? And should we consider that basically the bulk of that is linked to the fact that you're selling less items at on-sale prices?

The second question is on the specific stand-alone Brit and London stores that you have in Manhattan. How do we need to think about the opportunities? I think opportunities are clear at Wholesale, but how can you duplicate this at Retail? And if you can, where would you be thinking about opening Brit and London specific stores?

And then thirdly I had a question on the UK. As you pointed out that things are doing quite well in the UK, probably linked to FX. I was just wondering how much the UK accounted for as a percentage of sales? And if you could give us an idea of the split between foreigners and locals buying into the UK?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Okay, alright, quite a lot there. In terms of the conversion piece, I would call out the fact that selling particularly strongly on outerwear and non-apparel, particularly the large leather goods, means that what we're doing within that comp number is driving average unit retail. So that's probably the first one to call out.

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In terms of traffic, I'm not sure that -- there's some new traffic for us but the key aspect here is then converting that traffic. So I'd call that out as the conversion as being the second most important factor there.

In terms of the Brit and London stores in New York on 444 Madison Avenue, we're absolutely delighted with the way that those have opened. You know that the first objective of those stores was to really create the right impact on Madison Avenue in our new headquarters. The Burberry sign at the top of the building lighting up Manhattan, making sure that for our Wholesale accounts as they come in that they absolutely see what Burberry needs to look like in their stores as well, particularly now that we've got this clearer segmentation within apparel, between the lifestyle element and the wear-to-work element with Brit and London.

So we're thrilled with how the stores look. They're actually performing very well as well despite the fact that we've actually launched them even in November with spring product and without sale product. So delighted with how they're performing against that background.

Gives us a lot of ideas and thoughts about what we might do in other markets. We talked previously about our clustering strategy in high demographic markets, and having more than the one store, having two or three different formats or maybe even more in some of the bigger flagship cities of the world. And this absolutely gives us the optionality to be doing that in those big cities. So it's a bit of watch this space on the Retail front. On the Wholesale front we're delighted with the way the wholesalers have responded to it.

And then the last question was FX.

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**Fay Dodds - Burberry Group plc - IR Director**

So it was on UK Retail

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

UK, that's right, whether FX was improving it, yes.

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**Fay Dodds - Burberry Group plc - IR Director**

And basically UK Retail for the third quarter was over 10% of our total Retail business. We can't give you a definitive split between what's domestic and tourism, but we do believe that the tourist spend is important. We're seeing a lot of Chinese in the store and also still a lot of Europeans.

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**Erwan Rambourg - HSBC - Analyst**

Excellent. Thank you very much.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Okay.

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**Operator**

the next question comes through from the line of John [Simmonds] Guy of MF Global. Your question, please.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi, John.





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**John Guy - MF Global - Analyst**

Hi, it's John Guy. I don't know where [Simmonds] came from, but --

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

It's your middle name.

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**John Guy - MF Global - Analyst**

There you go, it's a new name for me this in 2010. Okay, so I've got three questions, please. First of all looking at the sales out-performance in Nordstrom, obviously all of the US department stores saw better than expected sales growth and I was just trying to get a gauge for by how much out-performance you saw in some of the US department stores. That's the first question.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Okay, and I would say that our sell out, we believe, from what has been reported from all of the US department stores, is better than their -- the numbers that they have reported. So we continue to gain market share right across the board.

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**John Guy - MF Global - Analyst**

Okay. And I mean is that over 500 basis points? Are you able to quantify that at all or --

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I don't know whether we want to get drawn on that, but it is meaningful.

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**John Guy - MF Global - Analyst**

Okay, great. Second question, with regards to inventory, I know you said that inventory was meaningful lower, which will help obviously reduce markdown and drive gross margin. Can you give us an idea year-on-year by how much inventory is being cut? Is it in excess of 20%? Is that roughly where we are?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, it's similar to the level of improvement that you saw at the end of September, which was 40%. So it is a very meaningful improvement. Now don't extrapolate that through to March because clearly we made enormous inroads in the fourth quarter of last year in inventory clearance activity, which meant that we'd got quite a nice improvement as at March already. So you can't bank that on top. But, no, a good 40%-ish improvement.

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**John Guy - MF Global - Analyst**

Okay, great. And then reading through in terms of the working capital movements and looking at where net cash is expected to come out, do you think that it's now likely given this third quarter that net cash is going to exceed the GBP100m? I know that the guidance is anywhere between GBP80m to GBP100m, but do you think that your cash will now come in well above that?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

We are in a much stronger cash position. You're absolutely right, John.



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**John Guy - MF Global - Analyst**

Okay. And sorry, I've got one final one. This isn't from me. This is from Mr. [Simmonds]. The Wholesale reorder rate, could you just maybe put a bit of flesh on that, just to tell us how strong that's actually been?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, think of your Wholesale re-orders as being a nice contributor to that improvement, from minus 15% to minus 10% to 12% for the half as a whole. So it's a combination of reorders and it's also a combination of shipping what's been ordered, and being more robust in actually managing to get everything out of the door.

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**John Guy - MF Global - Analyst**

Great. Thanks very much indeed.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Thanks, John.

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**Operator**

Thank you. The next question comes through from the line of Luca Solca of Bernstein. Your question, please.

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**Luca Solca - Sanford C. Bernstein - Analyst**

Morning, it's Luca Solca.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi Luca.

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**Luca Solca - Sanford C. Bernstein - Analyst**

Hi, good morning. Wondering about the trends that you're seeing in the different markets, most especially in the US. If you are seeing, for example, from wholesale clients, more comfort as far as 2010 is concerned. Whether you are starting to see this not only in the sell through, which I understand has been better than the improving like-for-like performance of department stores there, but also in terms of orders for the full winter pre collections.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, we're not yet ready to give guidance on autumn/winter so we'll do that at the next release. We're still in market so whilst there is a great, positive reaction with customers in the showroom, we want to wait and see the roll up of the orders, so not yet ready to give you guidance.

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**Luca Solca - Sanford C. Bernstein - Analyst**

Okay. And as far as the trying -- as far as trying to understand the Retail versus Wholesale economics going forward, what do you think would be a proper assumption as far as the achieved gross margin for the retail channel once this is, let's say, on an equal ground basis?



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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, we don't tend to split the two, Luca, because, apart from anything else, you've always got this thorny issue of inventory provisions. Do you allocate them to Retail or Wholesale at the point when we have a central customer service team who are always looking to allocate into the best channel according to what the right return is at a moment in time? So we don't go to that level of split between Retail and Wholesale.

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**Luca Solca - Sanford C. Bernstein - Analyst**

Alright, thank you very much indeed. I tried on both counts, but (inaudible).

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Nice effort Luca. Thanks. Okay.

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**Operator**

The next question comes through from the line of Melanie [Flouquet] of JP Morgan. Your question please.

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**Melanie Flouquet - JP Morgan - Analyst**

Yes, good morning, it's --

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi Melanie.

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**Melanie Flouquet - JP Morgan - Analyst**

Hi, how are you?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Good, thank you.

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**Melanie Flouquet - JP Morgan - Analyst**

I have several questions actually, probably three to start with.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I would say three is the order of the day.

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**Melanie Flouquet - JP Morgan - Analyst**

So the number one question is, you actually referred to it slightly in your releases about January to March. I know you probably don't want to guide on like-for-likes for January to March, but can you try and maybe guide us a little bit qualitatively as to what this lower procurement will likely mean for January to March? Should we forecast prudently for January to March because definitely you don't have a lot of stock and it will



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be early to be really incurring sales on your spring/summer collection? Or are there still some leeway that you have to put through to get better to flat like-for-likes over that period?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Okay, in terms of procurement, the procurement issue was around sort of autumn/winter '09, procuring significantly less and having that as a much more disciplined number going forward for every season. In that our planning teams are really motoring now and are looking to get much more efficient on what our procurement levels will be. So when you talk about procurement it's really in respect of having -- not having sale inventory as we go into this fourth quarter, which we actually don't think is a bad thing. This is about being able to convert the stores over to spring/summer '10, as we are doing right now, much, much earlier.

And it's quite a difficult one to therefore judge in terms of where like-for-likes will come out for this quarter. Not that we give guidance anyway, but you are up against a very significant promotional period this time last year. Remember we kept sales going in our stores, in some cases right the way through to March, even if it was a small area at the back of the store. And we simply won't have that this time round. Indeed, in London, if you want any sale merchandise, blink and you'll have missed it because the Knightsbridge and the Bond Street stores are pretty much converted to spring/summer '10 already and we are only in mid January.

So it's a really difficult one to judge. We're probably in the best position we've almost ever been in terms of the cleanliness of the inventory. We think it's right for the brand and obviously in Q4 we'll be -- may be difficult on the sales front but it will be hugely beneficial from a gross margin point of view.

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**Melanie Flouquet - JP Morgan - Analyst**

Okay, that's clear. Could you actually -- you mention in your release as well that you expect [adjusted PBT] it is estimated to move towards the top end of the range. Could you actually share with us what you think the top end of the range actually is?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, I think the consensus for adjusted PBT is GBP175m to GBP200m, so towards the top of that.

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**Melanie Flouquet - JP Morgan - Analyst**

Thank you. And within Asia ex-Japan or Asia Pacific that you report in terms of sales, could you actually share with us what the size of the core markets now are in percentage terms maybe of this market or of total sales?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, Hong Kong and Korea are the two biggest markets as you would expect. I'm just going to let Fay turn up the numbers and try and give you a little bit more color in terms of what percentages we might want to share.

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**Fay Dodds - Burberry Group plc - IR Director**

The biggest when you are looking at retail is Korea, then Hong Kong is number two. And I'm just going to struggle to do that as a percentage because it's not on the same bit of paper. Melanie, can I get back to you? That would be a better way of doing it, rather than trying to do it in my head here.

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**Melanie Flouquet - JP Morgan - Analyst**

Okay. And maybe as a last quick and dirty question.



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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

This is number four then Melanie.

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**Melanie Flouquet - JP Morgan - Analyst**

Yes, yes I did say I'll start with three and I may add one. It's about the ForEx on the licenses. You know this year you had the hedge rate positively impacting this line fairly significantly. For next year do you try to assume that there will be little ForEx impact?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

There'll still be a small benefit because if you think about the hedge rate that we've been at, because we do hedge this 12 months in advance, for '08/'09 our average hedge rate was 213. For this year we are a little under 160 and for '10/'11 we'll be a little bit better than that, in the 145 range so there'll be a little bit more benefit to come.

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**Melanie Flouquet - JP Morgan - Analyst**

Okay, thank you very much.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Thanks Melanie.

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**Operator**

The next question comes from the line of Dennis Weber of Evolution. Your question please.

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**Dennis Weber - Evolution Securities - Analyst**

Yes, hi there.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi Dennis.

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**Dennis Weber - Evolution Securities - Analyst**

Actually most of my questions have been answered by now but one on Asia maybe. Could you give us the growth for -- you said Hong Kong was the main driver of growth for Asia. What was it compared to the rest of the -- to the average of the region?

And then a second question maybe on Wholesale. Even if we understand that a lot of it is caused by your own actions but your guidance probably still implies a worsening of the trend for Q4 versus Q3 on an underlying basis. Could you explain us why that is please?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I'll take Wholesale first and let Fay come back to not give you Hong Kong because we don't break out the individual geographies. But in terms of Wholesale you've seen an improving trend because we always talk about the half as a whole. So the important thing to focus on is that we were talking about the half, including our own actions and including the adverse numbers in Spain being down 15%. We are now talking about it being down 10% to 12%, so that is an improvement.



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The fact that you have got this Q3/Q4 impact is simply down to timing of shipments and of course this season we have been able to stick more rigidly to the planned shipping dates. We've talked previously about wanting monthly flow of product into our own Retail stores and monthly flow of product into our Wholesale partners.

So that means when you are shipping spring/summer '10, you want to ship across November/December/January. In the previous year it was more difficult to do that when our Wholesale partners still had a lot of excess inventory from many other brands besides. So they were trying to just hold back on some of those shipments that it tipped into Q4. This time round the good news is this is the shipping pattern that you would want going forward.

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**Dennis Weber - Evolution Securities - Analyst**

Okay, thank you.

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**Fay Dodds - Burberry Group plc - IR Director**

And in terms of the trends within Asia, we've said it's done double digit overall. Hong Kong is the strongest of our big markets. I think that had a more difficult year last year but it's certainly been on an improving trend in the last quarter and we believe in that market we are also out-performing. Korea continues to deliver double-digit growth, helped in part we believe by the currency. And some of our smaller markets like Taiwan are seeing good growth as well, where there has been a repositioning of the brand going on.

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**Dennis Weber - Evolution Securities - Analyst**

Great, thank you.

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**Operator**

Thank you. The next question comes through from the line of Thomas Chauvet of Citigroup. Your question please.

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**Thomas Chauvet - Citigroup - Analyst**

Good morning.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi Thomas.

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**Thomas Chauvet - Citigroup - Analyst**

Just would like to come back to the Wholesale guidance and understand a bit better what drives you minus 10% to minus 12% guidance in H2. If my calculations are correct that implies minus 20% in the fourth quarter. So is that half your own action, minus 10% and minus 10% the underlying Q4 trend in Wholesale? Is that a good estimate?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I'm not sure that's the way to look at it Thomas, in terms of -- it's arbitrary. If you take the global collection, which we are saying is now marginally positive for the half as a whole, you've simply got products shipping in Q3 that then can't ship in Q4, so you can't have it twice. So, yes, I--



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**Thomas Chauvet - Citigroup - Analyst**

How much was that in the third quarter then that was shipped in pound million? Can you share that?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I'm not sure we can go to that level of detail.

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**Thomas Chauvet - Citigroup - Analyst**

Okay.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I'm not sure what it gives you. We keep coming back to the way to look at this business is for the half as a whole. So -- and the fact that this Q3 is on a more regularized basis in terms of we are shipping November floor set in November. We're shipping December floor set in December. It's as it should be.

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**Thomas Chauvet - Citigroup - Analyst**

Okay, but there's no major difference in the impact of your own action between Q3 and Q4?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

There's a little bit more because the European specialty accounts that we call out as being our own actions, they tend to ship later in the half so they will be more impactful in the fourth quarter than it is than in the third quarter.

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**Fay Dodds - Burberry Group plc - IR Director**

Yes and ditto Spain, where there is a big decline because of Thomas Burberry and also a significant underlying decline. That does tend to ship later than the Global collection. So that's probably a part of the explanation but I think --

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**Thomas Chauvet - Citigroup - Analyst**

Okay, I see.

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**Fay Dodds - Burberry Group plc - IR Director**

But if it ships on December 30 or January 2, I'm fairly neutral about it, but the earlier it ships, the earlier we get paid.

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**Thomas Chauvet - Citigroup - Analyst**

Okay.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

And the more time that the Wholesale customer has to have full price sell through so you really want to get that product in sooner rather than later.



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**Thomas Chauvet - Citigroup - Analyst**

Okay. And my second question, can you give us some color on the progress you've made in your two recent JV initiatives, Japan for accessories and the Middle East with Jashanmal?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, first of all Japan, spring '10 is the first season when we will be shipping into a handful of doors there. So it's kind of watch this space. We've always talked about this being fairly small to start with because we're just starting to build a relationship with the department stores in Japan, but spring/summer '10 will be the first little pilot there.

And in terms of the joint venture in the Middle East, we've been delighted with the way that that's gone. That's working very, very strongly and contributing nicely to our like-for-like.

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**Thomas Chauvet - Citigroup - Analyst**

Okay, thank you.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Thanks very much Thomas.

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**Operator**

The next question comes through from the line of Nick Hawkins of Cenkos. Your question please.

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**Nick Hawkins - Cenkos Securities - Analyst**

Good morning.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Hi Nick.

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**Fay Dodds - Burberry Group plc - IR Director**

Morning.

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**Nick Hawkins - Cenkos Securities - Analyst**

My question is on your guidance for profit. Given the strength of sales, I would have expected actually a bigger upgrade than towards the top. And I'm wondering how much of this is your natural caution and how much of it is because costs are going to be more than we had previously expected. Because your cost actions of last year, or some of them anyway, are being reversed, i.e. headcount freeze is over etc.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, we called out at the half-year the fact that the Retail/Wholesale OpEx number would be in the high 40s. I'm not sure everybody factored that into their models. There's a lot of mid 40s out there, rather than what I would call high 40s. So we are reiterating that today.





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Are we cautious as well? Hopefully we've hit the right balance of caution and upgrades within the release here. We have called out that fourth quarter like-for-likes are difficult to predict at this point in time because we're up against very significant clearance activity from last year. Remember that significant increase, that significant improvement in inventory that you saw as at end of December -- as at the end of March last year, was down to that clearance activity in that fourth quarter. And that's what cost us the 880 basis points of gross margin.

So we have to see where we land at the end of the quarter. There's a lot of moving parts here. We think towards the top end of current range is about the right pitch.

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**Nick Hawkins - Cenkos Securities - Analyst**

Okay. So high 40s, is that 48% or more? Where would we say?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

That sounds like it's getting high to me, yes.

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**Nick Hawkins - Cenkos Securities - Analyst**

Okay, I'm running at 46.5%. Are you saying that's right?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Yes, that's sounds mid to me.

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**Nick Hawkins - Cenkos Securities - Analyst**

Okay, thank you. Secondly, on the contribution to Retail comp sales from the UK, you say it's more than 10% of sales coming from the UK. What was it in the prior year? I'm trying to work out what lift you've had from the effect of a weak sterling.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

I will let Fay work that one out and come back to you I think Nick. I don't think we've got that one to hand.

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**Nick Hawkins - Cenkos Securities - Analyst**

Okay. And on the Wholesale, should we expect at some point some restocking from your Wholesale clients or is increased volume going to be satisfied simply by better reordering in the season do you think?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

A difficult one to judge there. Clearly what people will be recognizing out of the success of the autumn/winter '09 season is that when it comes to fashion products, if they haven't bought it then we can't get it again for them. Once it's sold out, it's sold out and they are walking sales.

When it comes to replenishment, and clearly Burberry is well positioned in this area because we have a good core of our business that is in replenishment type styles. As we get better at this and we're not completely -- we're not slick by any stretch of the imagination yet but we are getting better. As we get better at replenishment then Wholesale customers are using that facility and getting back in with reorders. So --

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**Nick Hawkins - Cenkos Securities - Analyst**



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Okay. Just finally on the gross margin, what are you using to provide your new guidance today, please?

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**Fay Dodds - Burberry Group plc - IR Director**

What do you mean what are we using?

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**Nick Hawkins - Cenkos Securities - Analyst**

What's uplifting gross margin?

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

What's our sales projections? No.

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**Nick Hawkins - Cenkos Securities - Analyst**

Okay. Obviously we all know it is going to be up a lot and I wondered whether you could help us with what assumption you've made with providing your new guidance.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

And the guidance has always been that we are expecting a very significant bounce back versus the 880 basis points that we lost this time last year. Whether we get it all back in one fell swoop, we said we don't know, but internally everybody is striving to be able to do that. So we think we are well positioned, particularly on the basis of what happened in this third quarter and the fact that we are running such tight inventories, but we'll have to see. There's still another two and a half months of the quarter to go.

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**Nick Hawkins - Cenkos Securities - Analyst**

Yes, it was just that as your inventory levels are now so low and you've got so little in clearance, I thought you could be -- give us some help on that.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

The bounce back is happening as we speak in terms of how it's coming through in our numbers. So we need to just monitor that in these last two and a half months. That'll help us see whether we deliver the 700 to 750 basis points that I think is consensus out there. We'll see whether we can get to that, or even beat it.

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**Nick Hawkins - Cenkos Securities - Analyst**

Okay, lovely. Thank you very much.

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

Thanks Nick.

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**Operator**

Thank you. (Operator Instructions). We have another question from the line of Nick Coulter of Numis. Your question please.



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**Nick Coulter** - *Numis Securities - Analyst*

Hi, good morning.

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**Stacey Cartwright** - *Burberry Group plc - EVP and CFO*

Hi Nick.

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**Nick Coulter** - *Numis Securities - Analyst*

Just a quick follow up question on your cost base and the impact of Retail space. All else being equal, if you see a 10% increase in your Retail space, what sort of impact should we expect to see on the Retail/Wholesale SG&A? Obviously there's a heavier cost profile but maybe there's some operating leverage in there as well?

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**Stacey Cartwright** - *Burberry Group plc - EVP and CFO*

There isn't a formulaic answer I can give you Nick because it depends on where, what etc, the kind of the rent and associated costs of the different store formats, what's happening on Wholesale, what leverage we've got already. I'm sorry I can't be more helpful there but it's quite a complex picture.

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**Nick Coulter** - *Numis Securities - Analyst*

So presumably it's greater than 10% from the guidance that you're talking about today, with the heavy cost profile coming through because costs must be accelerating quite materially from half to half?

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**Stacey Cartwright** - *Burberry Group plc - EVP and CFO*

The key factor in this is remember the degree to which Wholesale is shrinking. So that adds to the formulaic approach of what does that mean. The Retail OpEx number which is higher than the Wholesale OpEx number, it adds to the weighting, that's what distorts it. It's less about what you are actually adding into the Retail channel. It's how the mix impact then comes through.

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**Nick Coulter** - *Numis Securities - Analyst*

Okay, and there's a cost of deleveraging within Wholesale as well, I guess.

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**Stacey Cartwright** - *Burberry Group plc - EVP and CFO*

Yes, yes.

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**Nick Coulter** - *Numis Securities - Analyst*

Okay, super. Many moving parts. Thank you.

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**Stacey Cartwright** - *Burberry Group plc - EVP and CFO*

Alright, thanks Nick.



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**Operator**

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

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**Stacey Cartwright - Burberry Group plc - EVP and CFO**

In conclusion everybody, we are pleased with our third quarter performance, which should contribute towards our double-digit profit growth this year. And we are looking forward to 2010/'11 with a mixture of continued caution on the macro environment but real confidence in our strategies. So thank you very much again for your attention. We look forward to speaking to you on April 20, which is when we'll have our second half trading update. Thanks very much.

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