FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, and welcome to the first quarter trading update and interim management statement. At this time I'd like to turn the call over to Stacey Cartwright. Please go ahead.

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

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

We're pleased with our start to the year, with double-digit growth in Retail and Wholesale in all regions and all product categories.

Total revenue in what is our smallest quarter was up 34% underlying, at constant exchange rates, of which 10% came from our Chinese acquisition.

Retail revenue increased by 49% at constant FX. Of this, the acquired stores in China contributed 20%, new space 14%, and comparable store sales growth 15%.

By region there was double-digit comp growth in Asia Pacific, the Americas and emerging markets.

And underpinning this global growth are many of the initiatives that we've talked to you about before. So product intensification, innovation in outerwear, the re-launch of menswear, continued elevation of the brand leading to increased penetration of Burberry Prorsum and London, monthly flow of new products supported by compelling digital marketing strategies, and the outperformance of core replenishment styles; all of that contributing to double-digit increase in average selling price.

Within Retail, our Chinese stores, which account for less than 15% of total Retail sales, continue to perform strongly, helped by improved merchandising and in-store disciplines.

Comparable store sales in China were up by around 30%, although, of course, this wasn't in the Group reported comp number. And those acquired stores added 13% to space in the first quarter, which we expect to decline to about 9% in the second quarter as, of course, the transaction anniversary is on September 1, so just two months into the second quarter.

So turning now to Wholesale, revenue for the first quarter was up 11% underlying, or 19% excluding China. More importantly for the half, we've edged up our guidance from mid-teens to high-teens underlying growth, excluding China. This is our new estimate based on in-season orders received to date, which have been a few million pounds higher than planned, facilitated by the supply chain and logistics improvements.

Including China, we're now looking for mid to high single-digit underlying Wholesale growth for the half.

And on licensing, revenue was up 6% underlying, very much in line with guidance, although the movement of the euro against sterling has led to a small upgrade in our forecast for the full year at reported numbers.

In the first quarter we've also made further progress on our five strategic themes. Under leverage the franchise, brand momentum remains strong. In social media, Burberry now has nearly 7 million Facebook fans, has had over 6 million channel views on YouTube and over 2 million visits to our Art of the Trench website, while developing a local presence on social media sites in emerging markets, such as China and Russia, also remains a focus.

Under non-apparel we're making good progress in under-penetrated categories, such as men's accessories and shoes, in both Retail and Wholesale. And, interestingly, the highest percentage penetration of these categories is actually online on the recently re-launched burberry.com.

Under Retail-led growth we've opened five stores in the quarter and closed three, while our major flagship projects, that we discussed at the prelims just a few weeks ago, remain very much on track.

In under-penetrated markets, the Saudi joint venture is now operational with five stores transferring from franchise or Wholesale to Retail, and this contributes to a slight increase in average selling space guidance, excluding the acquired Chinese stores. So we've moved from 12% to 13% growth, as previously guided, to now about 15% for the year as a whole.

And finally, under operational excellence, we've just gone live on SAP in the Middle East and are preparing for the go-live for SAP in China later this year.

As we explained at the prelims, we're continuing to invest during the year to drive growth. CapEx remains on track at between GBP180 million and GBP200 million for the year. We're going to continue to dynamically manage gross margin and operating expenses to fund further investment, including customer service, the flagship transitional costs and digital initiatives, with the objective of modestly improving operating margin in the full year.

You'll remember we told you in May that we're expecting the first-half operating margin to be down year on year. Part of this is just the math, as our revenue is becoming more weighted to the second half as we switch more to Retail, but also some of our ongoing costs and investments, which are skewed to the first half.

With that, now we're very pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Edouard Crowley, BNP Paribas.

Edouard Crowley - *Exane BNP Paribas - Analyst*

Just a quick question on the US business, which, of course, is sizeable to you. We saw that basically for Q1 -- of course it was strong in the case of Burberry, but also very strong in the case of the industry as a whole. When I look at the most recent data points we have in terms of monthly like for likes for high-end department stores it's very healthy. But the consumer environment still remains quite tough -- quite unpredictable. When you talk to buyers and industry participants in the US, how positive are they on the -- how comfortable are they with the retail environment there? Thank you.

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

Well, clearly we're in market right now selling spring/summer '12. We continue to work very proactively and positively with the US department stores in that regard. I would say that the feedback that we get is more Burberry specific, and clearly we have been outperforming within the US department stores for some time now and therefore we're having very positive conversations with them about what Burberry can do for spring/summer '12 with them.

I'm not sure we're particularly well equipped to talk about sentiment more generally. Our message to our teams is always about making sure that we outperform, whatever the macro conditions throw at us.

Edouard Crowley - *Exane BNP Paribas - Analyst*

And when I look at the Wholesale bit for Q1, the fact that it's reflected now in the guidance upgrade, is the upgrade to Wholesale stemming more from one specific region, or is it broad based?

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

It's very broad based, Edouard.

Edouard Crowley - *Exane BNP Paribas - Analyst*

Okay. Thank you very much. All clear.

Operator

John Guy, RBS.

John Guy - *RBS - Analyst*

Just a question following on from that, on the US Wholesale and the US department stores. Could you talk a little bit about how much more space you're able to drive in the US department stores, based on the product segmentation now? That's the first question.

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

We are driving more space. As always, we'd like to be driving more space faster. But we've talked previously about the difficulty there being that it's not just about getting space that is free; you're having to actually oust somebody else to get that space. So those dialogs continue.

We have very supportive top-to-tops between Angela and all of the senior teams within each of the major US department stores; all very positive. And it's a matter of time in terms of getting the spaces that we want. But we are making inroads.

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

And we're on track to double the number of shop-in-shops, basically by Christmas, but I think, as we said before, from a very small base.

John Guy - *RBS - Analyst*

And are you still a lot more progressed in terms with the likes of Nordstrom versus Saks? And is there still a lot more catch up that you can do with some of -- say two or three out of the big five US department stores?

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

I would say the top-to-tops are proving very helpful in terms of making sure that we're getting just about all of the key players there to recognize the journey that Burberry's been on and remains on. So I would say they're all playing catch up with each other.

John Guy - *RBS - Analyst*

Okay, great. And could I just ask a question on the size, the square footage, of the Canton Road store, please, in Hong Kong?

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

About 10,000 is it? I can't remember.

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

We'll come back to you, John.

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

Yes. We'll let Charlotte look it up and then we'll come back.

John Guy - *RBS - Analyst*

Okay, great. And just a final one on the average selling prices. I know that you talked about double-digit ASP increases, could you maybe split out what was effectively mix and what was on a like-for-like basis?

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

It's always really difficult to do that, John, because it's -- like for like when we're adding product innovation at the rate that we are, what is the definition of like for like?

We always talk about the opportunity to go to the next price point by adding innovation, whether it's a new buckle or trim or whatever else, and that's what the team has remained focused on, innovation, because it's right for the brand, but it also gives us, from a price value perspective for the consumer, more justification for going to that next price point.

John Guy - *RBS - Analyst*

Okay. That's fantastic. Many thanks.

Operator

Sophie Dargnies, HSBC.

Sophie Dargnies - *HSBC - Analyst*

Three questions. All regions were very strong, in Europe and in the US. This trend is due to local, tourism or it's both?

The second question, just to be sure. So the EBIT margin guidance did not change, just is some wording change? But can you just come back on why the EBIT margin guidance was not raised since Retail's comps were very high and since also you raised your H1 Wholesale guidance?

And the third question, you said that you will open 20, 25 stores, 25 stores net. Can you give us details on where do you want to open it?

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

Okay. I'll pick up the first one. I'll let Fay pick up on the EBIT no change, because I think we do need to get some clarity around the cost base for the business and just make sure everybody's on the same page there. And then -- what was the question again on the 20 to 25 stores? Where are they?

Sophie Dargnies - *HSBC - Analyst*

Yes, exactly.

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

They're very broadly based, very broadly based. So back to are we seeing local or traveling consumer for Europe, US, it's not as blunt as one region; it's basically think of it as the big flagship markets, be it London, Paris, etc., that is seeing a nice predominance of the international luxury consumer, whereas the secondary city is very much the local consumer.

In the US, we're seeing, yes, Brazilian, South American consumers coming to shop. But otherwise, it's predominately the local consumer there. So hopefully that helps.

And you're right, we haven't made any change to the EBIT operating margin guidance. I'll probably let Fay just talk about some of the detail behind the costs just so everybody's up to speed.

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

Yes. I think we're just trying to reiterate what we flagged at the prelims where we told you that depreciation will be up about GBP30 million year on year, share schemes will be up about GBP15 million and the transitional flagship costs, that's the best part of GBP10 million, so you've got GBP50 million there.

And then don't forget, on top of that, when you're looking at operating expenses, Retail/Wholesale in pounds million, there's probably about a 5% inflation. You've got to put in five months of China costs and the investment around Japan, Brazil, India; all the heads we've been adding in customer service, planning, supply chain, digital warehousing. And altogether, that's probably the best part of GBP100 million. And what we're doing there is continuing to invest, because we need to, to support the level of sales growth we're delivering.

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

And then the 20 to 25 stores, just to repeat, they're very broadly spread. We've got three-year plans that each of our regions operate to. They lay out very clearly what the trajectory in growth plans are and we allocate investment on that basis. So we see lots of opportunity over the three-year planning horizon to keep investing and adding new stores and therefore, it's very widely distributed across the regions.

Sophie Dargnies - *HSBC - Analyst*

Okay, perfect. Thank you very much.

Operator

(Operator Instructions). Thomas Chauvet, Citigroup.

Thomas Chauvet - *Citigroup - Analyst*

Three questions for me, the first one on retail. Could you give us some details on the timing and magnitude of your refurbishment program this year? I understand you'll incur additional costs, but are you seeing or experiencing significant disruption in like for like, probably not in Q1, I guess?

Secondly, in terms of your product pyramid, the top end is clearly outperforming. Can you give us the growth rates by label if you've got them -- Prorsum, London and Brit -- and also comment on the trend in your standalone stores, Brit and London?

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And finally, on China and luxury import duties, you have Pascal Perrier and very experienced people on the ground in Asia and perhaps good relationship with the authorities there. What is your view on a potential reduction of luxury duties in the country? I'm interested to know whether -- what would be your approach to pricing if that reduction in duties was going ahead. Would you be tempted to leave your pricing unchanged? Thank you.

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

I'll do the first couple and let Fay get into a little bit more detail on the China customs duties.

In terms of timing of the refurbishment program, we've called out the biggest refurbishments, which are Knightsbridge, Regent Street and Chicago in the US. Those programs remain exactly where we thought they'd be. We only told you about them, what, six weeks ago.

So Knightsbridge and Regent Street, just to reiterate, these are two fantastic flagship stores for our home market here in London, around 20,000 square feet each. They'll have the latest Burberry digital technologies in store. They'll show the full world of Burberry and we're very excited about the locations that we've secured there to make sure that they've got the right prominence on these high-traffic locations.

In terms of impact on like for likes and disruption, take each of them in turn. Knightsbridge will continue to trade out of its existing location. We'll be working on the old Jaeger space next door, but separate. So we expect to just carry on as normal in the existing Knightsbridge location.

Regent Street, we do have the issue there that the existing location on Regent Street has to close because the Crown Estate is redeveloping that whole block and, therefore, we will be out of Regent Street for a period of time until we reopen with the brand new flagship in the spring. And clearly, that will then come out. It won't affect like for likes; it just won't be in like for likes. It'll be a closure and in non-comp.

And then Chicago, essentially that's about moving to a temporary location because that is a longer project because we're actually knocking it down and rebuilding. That will extend into '12/'13 as well and clearly, the new space in Chicago will be non-comp; it's a temporary store and the existing space will come out of comp.

So it's only Knightsbridge that will stay in comp because it will be unaffected until we actually break through into the Jaeger space.

You asked about the growth by label. We never go to that level of detail, Thomas. What we do do is give you the directional shift and hence, what we called out in the release, that you've seen more sales growth in Prorsum and London than you have in Brit because that's where the shift has gone deliberately on our part as we've tried to move on up through the pyramid.

Fair to think that Prorsum, we always talk about it being 5% to 10% of our sales; it's now heading up towards the top end of that range. We talk about London being 30%, 35% of the range; again heading up towards the top of that range. And Brit is the rest; obviously the lion's share of the business.

China customs duty, Fay?

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

Yes. This is something that's really been under review since early 2009 within China and there are two ministries; one who's looking to potentially drive local consumption and another who's looking to collect taxes. So it's not yet clear to us even with -- from Pascal and Andrew in China, which way, what's likely to happen.

So I think we'll wait and see exactly what the proposals are and when we have those proposals, then we'll decide how to react, obviously cognizant of what our peers do as well.

Thomas Chauvet - *Citigroup - Analyst*

Thank you.

Operator

Fred Spiers, UBS.

Fred Spiers - *UBS - Analyst*

A question on volumes. Just seeing that Retail's up 15% comparable, talking about double-digit average selling price increases in Prorsum in London, which you just said makes up about 35%, 40%, I just wondered if you could give us any indication on how your actual volumes were looking.

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

Yes, you've got to remember that, in terms of volumes, you count in there outlets and promotional activities from prior years. So it's fair to assume that we're seeing a shift from a volume perspective. There's less inventory flowing throughout, so there's less inventory that we've had on mark down.

So, if you like, that consumer, or that level of sales, has been reduced and what we've replaced instead is the new younger, luxury consumer. So really not much movement on volumes; it's all about the mix shift.

Fred Spiers - *UBS - Analyst*

That's great. Thank you.

Operator

(Operator Instructions). Rogerio Fujimori, Credit Suisse.

Rogerio Fujimori - *Credit Suisse Europe - Analyst*

Could you just give us some color on your non-apparel trends beyond large leather goods, say shoes, small leather, soft and men's non-apparel?

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

Yes, we continue to push these. As you know, Rogerio, we've got -- that large leather goods forms the foundation of our non-apparel offering, around half of it. But we do continue to push on soft, so we're very pleased with how scarves have performed over the course of this last quarter. Really pleased with shoes; that offering is coming together brilliantly now and we're getting lots and lots of coverage on shoes. We talked about shoes driving to be around 10% of overall Group sales. That's remains the objective.

The new entrant is probably, that we've started to talk about, is men's accessories. And I can't remember, Rogerio, if you were in the showroom with us when we did the tour, but if you were, you'd have seen that we've got a much broader offering now.

Obviously, there's the acquisition of China, which has helped fuel our enthusiasm in this area because men are shopping more prolifically in China even than the women. And, therefore, we need to make sure that we've got the right, non-apparel offering for them as well. So a great assortment of the larger bags and the bags that will carry two pieces of technology rather than just one, really tailoring it to the male consumer.

Rogerio Fujimori - *Credit Suisse Europe - Analyst*

And does non-apparel as a whole account for a similar proportion of sales in your own stores versus Wholesale or is it a bit higher?

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

It's slightly higher and it does depend on the individual stores as well. But it is slightly higher in our own stores than in Wholesale in overall terms.

Rogerio Fujimori - *Credit Suisse Europe - Analyst*

Yes. And would it be higher in China?

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

A little bit higher, yes, because obviously you've got the men's non-apparel as well that's doing very well.

Rogerio Fujimori - *Credit Suisse Europe - Analyst*

Okay. Thank you very much.

Operator

Robert Miller, Redburn Partners.

Robert Miller - *Redburn Partners - Analyst*

I just wanted to follow up on Fay's number on the OpEx line. Fay, could you just confirm that that GBP100 million, or best part of GBP100 million you talked about, captures all of your pay-as-you-go brand investments in the OpEx line for this year? That's your best estimate.

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

Very broadly. The thing it doesn't pick up is obviously the new space, but if you set that to one side, that's where the investment in customer service planning, supply chain, digital -- don't forget we opened a new warehouse in Italy to cope with the volume that we're putting through non-apparel, yes.

Robert Miller - *Redburn Partners - Analyst*

Yes, okay. And it includes the very first number you mentioned, which was the depreciation number?

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

No, it's on top of that depreciation number. So you have share scheme's depreciation and the transitional flagship costs, which are the best part of GBP50 million, and then you have the inflation, China, new markets and all the investment, which is the best part of GBP100 million.

Robert Miller - *Redburn Partners - Analyst*

Okay, fine. Good stuff. Thank you very much.

Operator

Fraser Ramzan, Nomura.

Fraser Ramzan - *Nomura - Analyst*

Just a question about digital marketing and actually marketing in general. I think you said before that marketing is a low single-digit percentage of sales. Is that correct?

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

Yes, mid to low, yes.

Fraser Ramzan - *Nomura - Analyst*

And are you maintaining that percentage as we move forward?

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

Yes, we are.

Fraser Ramzan - *Nomura - Analyst*

Obviously, we talk about the extra creative investments this year.

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

Yes, but it is broadly at that same overall percentage.

Fraser Ramzan - *Nomura - Analyst*

Yes. And is there any way -- I appreciate you are definitely getting the return on this through the sales performance we've seen, but is there any way of measuring -- are you finding ways of measuring the return on your digital marketing investments?

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

I would say at the margins, Fraser. I don't think it's anything we can share externally at this stage. But it is about the noise and the chatter and the buzz around the brand that just keeps reinforcing itself in everything that we do. So there are small pockets of how we're actually able to track through click-through rates and all the rest of it, but it's a new world for everybody. So insight, developing the insight is the next step for us.

Fraser Ramzan - *Nomura - Analyst*

And digital takes a greater proportion of the total budget as well incrementally so, presumably, digital is growing much faster than the rest of the total budget.

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

It is, because we believe that's where we're getting most reach and most response.

Fraser Ramzan - *Nomura - Analyst*

I'd agree with that. Thank you very much.

Operator

Louise Singlehurst, Morgan Stanley.

Louise Singlehurst - *Morgan Stanley - Analyst*

Just a couple of ones from us, please. Can you just remind us of the percentage of product which is now what you regard as replenishment products? I suppose I'm just trying to consider the potential to surprise on the further in-season reorders that we've seen in the last period and the length of time it takes from the likes of Saks to actually when they place their order to the time to delivery of the product. Thank you.

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

Okay. We talked about moving to having 50% to 60% of our overall business on replenishment and we're obviously more successful on non-apparel, where we've got more core established ranges there.

On the apparel side, we've been moving up. The outerwear, in particular, steadily up from about 20% replenishment up to about 40% replenishment.

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

On the Retail side.

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

Yes, on the Retail side.

Your second question about how fast can your Wholesale accounts get it, they can get it very fast; within a couple of days is the objective. But it's all about how we work with those wholesalers so that we can be anticipating that they're likely to need it.

So we work very closely on forecasting with our own Retail and with our major Wholesale partners, so that we can have the product there ready for them to place the orders. If they're not planning with us, then we're less able to, obviously, respond and take from elsewhere if there's suddenly a spike and they want, X, Y, Z.

Louise Singlehurst - *Morgan Stanley - Analyst*

Great, thank you. And just finally, on Europe, is there any color or any changes from the prior period to this period for your ranking? Obviously, you've highlighted France and Germany; presumably the southern regions are still pretty volatile.

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

Yes, we called out the southern regions historically, so places like Italy. But they were also the regions that were helping to drive Europe up; I think over 40% over the last two years. So you have got tougher comparatives as a result.

And you're right, we called out this time round that it's France and Germany that have been leading the charge, obviously, along with the UK, that performs very strongly with that luxury tourist component.

Louise Singlehurst - *Morgan Stanley - Analyst*

Super. Thank you very much.

Operator

As we have no further questions at this time, I will hand the call back over to your host for any additional or closing remarks.

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

Well, thank you very much, everybody. In summary, we've had a pleasing start to the year. We remain confident in our strategies and our increased investment plans to drive growth, while, of course, remaining mindful of the tough comparatives that the business faces as we move through the year.

So thank you very much for your attention. We look forward to speaking to you again on October 12, which is when we'll be publishing our first-half trading update. Thanks very much.

Operator

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

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