FINAL TRANSCRIPT

Thomson StreetEvents℠

BRBY.L - Preliminary 2010/2011 Burberry Group PLC Earnings Conference Call

Event Date/Time: May. 26. 2011 / 8:30AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Angela Ahrendts
Burberry Group Plc - CEO

Stacey Cartwright
Burberry Group Plc - EVP & CFO

John Douglas
Burberry Group Plc - Chief Technology Officer

CONFERENCE CALL PARTICIPANTS

Thomas Chauvet
Citigroup - Analyst

John Guy
RBS - Analyst

Fraser Ramzan
Nomura - Analyst

Rodolphe Ozun
Bofa Merrill Lynch Intl - Analyst

PRESENTATION

Angela Ahrendts - *Burberry Group Plc - CEO*

Good morning, and welcome to Burberry's results presentation for the 12 months to March 31, 2011.

For those of you in the room, thank you very much for making the trip to Horseferry House, our global headquarters. We felt this was absolutely the best place to update you on our financial results, brand devolution, and innovative digital strategies.

Stacey and I will run through the financials and strategic progress, and we're joined today by John Douglas, our Chief Technology Officer. He'll explain how we're leveraging technology internally to not only drive efficiencies, but externally, to more closely connect the brand content with our consumers worldwide.

Burberry has delivered a record year, with revenue of GBP1.5 billion, adjusted PBT of GBP298 million, and a Retail/Wholesale profit margin of 15.6%, a new high. We achieved many of these strategic milestones, including an extensive store opening program, and the acquisition of our Chinese business.

This performance is a testament to the five years of consistent execution, the same strategies, the same management team, delivering on what we said we would from day one. As such, it's another step along the way in this long-term growth story.

With strong net cash at year end we will continue to invest in the brand this year to support long term growth. Total revenue for the year increased by 27% at reported FX, or 24% at constant FX, with the acquisition of our Chinese operations contributing 5% of the underlying growth.

What was most pleasing was that revenue growth was very balanced, with double-digit growth in both Retail and Wholesale, and in every region globally, and in every product division.

In Retail, comp stores sales in the year increased by 11%, driven by the core strategies that we've consistently highlighted, including though, innovative digital marketing and monthly flow, replenishment, increased average selling prices, largely due to mix, and mainline outperformance.

We continued to add real estate around the world, reaching 1 million square feet of selling space at the year end, while renovating our stores in cities such as Las Vegas, Boston etc.

Our Wholesale performance was also strong, with sales, excluding China, up 25% underlying. And this reflects strong demand for our collections, particularly in re-launched menswear, and the first full year of our Brit label segmentation, while improvements in supply chain and planning enabled us to better fulfill initial and in-season orders.

And finally, licensing where underlying revenue was down 4%, as guided. Excluding the terminated licenses, Japan royalty income was broadly flat, with double-digit growth from our global product licenses. And we've been strengthening our licensing team during the year to better integrate with our licenses from strategies, to product development, to digital marketing.

And by geography, we saw double-digit growth in all regions with Asia Pacific, our largest region, in the second half of the year at 35% of sales, reflecting the Chinese acquisition and strong performance from Hong Kong, where five stores were opened.

Europe saw double-digit Retail comp growth, and we opened our first European Brit trial store in Milan. In the Americas we opened a further four Brit trial stores, our fourth store in Canada, and our first two stores in Brazil.

US Wholesale grew at a faster rate than Retail to reach about one-third of that business. And we saw good Retail growth in the rest of the world, including the Middle East with 15 stores, and India with 5 stores, markets we now operate directly in line with our strategy, while our franchise partners opened a net 9 stores during the year.

And finally, we saw consistent double-digit growth across all of our product categories. Non-apparel now 40% of sales, core large leather goods, which are half of the non-apparel business, were up 26% in mainline Retail during the year.

And men's accessories ended the year at just over 10% of non-apparel Retail sales, a huge opportunity, especially in male dominated emerging markets such as China and India.

Men's apparel growth also accelerated with spring/summer 2011, the first collection all designed in-house. And, in line with our global strategies, growth came from outerwear in all divisions, core replenishment styles, where sales were up 50% in mainline stores, and our new tailored suiting initiative.

In both women's and men's apparel we saw outperformance from our Prorsum and London collections which, together, increased our penetration of mainline retail sales over 10 percentage points. And our young childrenswear business continued to rapidly evolve, now that a cohesive team is in place, and core replenishment inflow strategies initiated.

So before I hand over to Stacey, let me just show you a short DVD that summarizes some of the key achievements of the team in the second half.

(DVD playing)

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

Good morning, everyone. I'm going to start by giving you the financial highlights for the full year.

As you've heard, revenue was up 27% reported. Our adjusted pretax profit at GBP298 million is a record for the Company, and up 39% year on year.

With adjusted, diluted earnings per share also up by 39%, the Board is recommending a 43% increase in the full year dividend to 20p per share, broadly in line with our policy of a 40% payout based on adjusted earnings per share.

And we've generated GBP36 million of cash after investing over GBP150 million in CapEx and the acquisition of China.

Please note that the discontinued Spanish operation has now been reported separately in both the 2010 and 2011 numbers. This includes the Spanish trading results, restructuring costs, and tax for both years, so my comments this morning will exclude all of the discontinued Spanish business.

But up front, I would like to just thank our Spanish and corporate teams for their partnership in completing the restructuring of the Spanish business, so professionally and within plan, in terms of both timescales and costs.

So adjusted operating profit increased by 37% to GBP301 million with only a small FX benefit. Retail and Wholesale profit grew by 59% on a sales increase of 29%, while our Licensing business saw a small decrease in operating profit, as expected.

So now turning to our Retail and Wholesale business; adjusted operating margin was 15.6%, compared to the previous high of 14.9% delivered in 2008, pre the global crisis. And as we look into 2011/'12, we're going to continue to dynamically manage gross margin and operating expenses with the goal of delivering a further modest improvement in the operating margin this year, balancing investment and strategic initiatives against what's delivered from the top line.

Gross margin was up 390 basis points in the year. Following the 670 basis points improvement in the first half, the second half performance is always going to be more modest, not least because, of course, we're anniversarying the 1,400 basis points recovery in the second half of '09/'10.

So we're pleased with the increase of 170 basis points in H2, reflecting the continued shift from wholesale to retail, more replenishment and mainline outperformance offset, in part, by a shift in mixed to Prorsum and London, and the challenge of raw material price inflation, largely absorbing savings that are made by the supply chain team.

Operating expenses, as a percentage of sales, came in at 49.3%, roughly in line with the guidance that we gave this time last year. And we've delivered operating leverage in the regions, which accounts for around two-thirds of total costs. And, of course, this is after a continuing shift from wholesale to retail, and an increase in investment of nearly GBP40 million in high growth markets such as China, Latin America and India, as well as our non-apparel JV in Japan.

This operating leverage has then being reinvested back into the business to fuel growth; the strengthening of creative media; developing Burberry World with, for example, nearly 60 people now working in our customer service department; expanding client services, around 30 people serving VICs or very important clients; and further strengthening of core functions such as planning and strategy.

And finally, share scheme costs, which increased by about GBP15 million during the year, with another similar size increase expected this year as we build back up to a full annual charge following, of course, the nominal charge in '08/'09.

So looking forward into 2011/12, we're expecting central costs to remain roughly flat as a percentage of sales, while still funding investment in corporate functions such as customer insight, supply chain, and design.

Regional expenses, however, will be impacted by the transitional costs associated with the flagship projects that Angela will talk about shortly.

As we relocate and renovate stores, there is, of course, a lot of disruption; closing profitable stores during the refurb, opening temporary stores, incurring preopening costs such as rent. And altogether, this transitional investment will reduce EBIT by around GBP10 million in the current year.

As we said in the statement this morning, with our investment overall weighted to the first half, we're currently expecting Retail/Wholesale operating margin in the six months to September '11 to be lower than the same period last year, whilst expecting to deliver a modest improvement overall in full year operating margin.

So turning to Licensing, sales and, thus, gross margin were down 4% on an underlying basis, and with slightly higher operating expenses, as we've strengthened the in-house team, operating profit was GBP81.6 million with a margin of 82.9%.

Returning to the income statement, a net interest charge was GBP3.2 million and, for '11/'12, we're expecting a smaller, but still net negative charge. Note that this does exclude the China put option liability charge, coincidentally also GBP3.2 million, which is reported in exceptionals along with a small restructuring credit.

Our tax rate came in, as expected, 27.9%, and we're looking forward to a rate of around 27% for '11/'12.

I've covered discontinued operations on the next slide, and here the non-controlling interest relates to our partner's share of income, largely in Burberry Middle East, offset by the losses in the Japanese non-apparel JV.

As I mentioned earlier, all of the results of the discontinued Spanish operations are now disclosed separately. The trading loss, at GBP2.1 million, was better than we expected, as we cleared residual stock efficiently and managed costs tightly as we then exited the business.

The final restructuring charge was GBP4.1 million in the year, which included a GBP3.5 million credit in the second half as, again, the costs of closure were lower than expected. And last year's tax charge was largely the write-off of the Spanish deferred tax assets.

So turning now to the cash flow, let me highlight a few items. The cash spend on restructuring in Spain was GBP20 million, depreciation increased to GBP63 million, and is expected to rise to around GBP90 million to GBP100 million in '11/'12, reflecting the increased investment.

Working capital was broadly neutral on a cash flow basis. Within this, inventory increased to GBP248 million at year end, with about one-third of the increase coming from the inclusion of China for the first time, and two-thirds from the investment support monthly flow of new products, increased replenishment, as well, of course, as the underlying growth in the business.

So moving down the cash flow, capital expenditure was GBP108 million, a little below the guidance of GBP130 million as payments for certain projects were delayed into the current year.

For '11/'12 we're planning to invest between GBP180 million and GBP200 million, including this catch up spend, but also with a focus on retail projects in flagship markets, as Angela will come on to explain.

The only other thing I would highlight would be the China acquisition, where we've spent GBP52 million to date, and GBP15 million of the total purchase price has been deferred.

Finally, having paid out GBP69 million in dividends, we ended the year with GBP298 million of cash.

This slide summarizes our guidance for the current year. We've completed another successful year at Burberry, with record financial performance driven by the consistent execution of our core strategies. Although we are mindful of the macro challenges ahead, we are very excited about our investment plans in 2012, which are H1 weighted. And our goal is to drive sustainable top line growth whilst then modestly increasing the Retail/Wholesale operating margin percentage each year.

Now I'm delighted to hand you over to John Douglas, our Chief Technology Officer, who has been a great partner to me in transforming IT at Burberry. He's going to explain to you how his team has bought our core systems first of all up to standard, and now is making sure that IT is at the center of the retail and marketing initiatives that are helping to drive growth at Burberry. Thank you.

John Douglas - *Burberry Group Plc - Chief Technology Officer*

Thank you, Stacey. I hope the technology works (laughter). I think one other thing to get out the way before we get started, is I've already been told that if the share price goes down today, it's entirely my fault, so we'd better get going then.

Good morning. In a recent article in the Sunday Telegraph, Angela was quoted as saying we've transformed Burberry's backstage IT, a job which she admits was not very glamorous. Having personally led that task, I could not agree more.

But today, in spite of outward appearances, I am bringing glamour to IT. In fact, my job is one of the sexiest I know. Indeed, there has never been a more exciting time to work in information technology and, more importantly, there has never been a more exciting time to work in IT at Burberry.

Essentially, we have spent the first few years bringing core operating systems up to standard. Today, the team's focus in investment is shifting to driving growth and enabling creative and digital leadership.

Before I start, however, we are mindful of the limitations of webcasting through external office firewalls, which makes it very difficult to showcase our technology to the full. So for those of you watching in black and white, please visit burberry.com or our YouTube channel to fully experience what I'm going to talk about.

So let me take you back to when I started five years ago. I joined as an SAP professional to sort out our SAP program, the biggest investment Burberry had ever made in IT. Part of that challenge was also to bring under one global structure a federation of 10 regional IT departments that operated completely independently, with 11 different email systems, 10 different telephone providers, and my personal favorite, one Internet connection for our regional office in Hong Kong.

Today, Burberry have one global information technology department, with one central budget, one global system, SAP, one global email platform, with Internet on every desktop capable of receiving live streams, such as the one today.

With an annual budget in the 10s of millions of pounds, global IT is supported by three regional offices, and employs about 120 people. All our IT systems are now scalable, enabling growth.

IT's achievements are based on the partners we've chosen, taking advantage of their industrial leadership and innovation. Increasingly, we will use them for IT services that can be commoditized, such as data storage or email, while for others we are on their innovation cycle, which will differentiate us from our peers.

We regularly hold [top-to-top] meetings with these partners to ensure that we are at the forefront of what is happening. And these large partners are as keen to work with us as we are to work with them.

But before turning to the more glamorous bits of IT, allow me to update you briefly on SAP. We've very nearly completed the deployment around the world. Currently, it covers about 80% of our stores, with China and the Middle East to be completed in the second half of this year.

We are often asked to quantify the benefits from SAP. It enables much better decision making across the whole organization, increasing efficiencies in all operations. Simply put, without the transactional backbone that is SAP, Burberry could not have delivered 50% growth in sales, and 60% growth in Retail/Wholesale profit since 2007/'08.

So what are we doing next, now that SAP platform is nearly completed? I would like to talk about three things today, retail theatre, the re-launch of burberry.com, and creative and marketing digital technologies.

Literally a year ago, we started accelerating our investment in retail theatre, which is basically the deployment of leading-edge, multimedia technology in store. Since a picture paints 1,000 words, let's watch a video about our retail theatre, and see how much technology you can spot.

(Video playing)

I love that video. I hope you spotted anyway, the 10pitch LED exterior walls, the larger [ION walls] inside capable of livestreaming high definition broadcasts, like our runway shows; the touch-enabled Samsung plasma screen is showing complete looks of stills and video; the Apple iPads used by our sales associates to access all the inventory on burberry.com; and the iPad applications that allow us to directly sell from the runway to the consumer.

But what you may not have considered is the systems used in the background to broadcast and deliver that content, and the Verizon-enabled global network.

So why have we invested in this technology? First, it enables us, more closely, to connect our brand content to our consumers. The technology being rolled out is consistent around the world, and the content and distribution is centralized and controlled from here in our global headquarters in London.

Second, we believe it will improve retail productivity, with increased units per transaction as our sales associates have better selling tools.

And third, there are soft benefits in terms of engagement, and increased brand awareness and loyalty.

Today, about 100 of our stores and concessions boast retail theatre. Going forward, new and refurbished stores, depending on their size, will receive elements of retail theatre relevant to them.

The second initiative I would like to talk about to you is burberry.com, which we call Burberry World, our new global digital platform. As Angela said, this is not primarily about driving ecommerce as a percentage of sales but, more importantly, this new site is the complete Burberry experience. It is the purest expression of the Burberry brand.

It is an important marketing tool to drive traffic through all channels; it allows customers globally, in many cases for the first time, to connect to our heritage, our music and video, and our full product offering. And it has improved functionality to provide the ultimate online luxury shopping experience. And we are just getting started on this journey.

So why is this different from other sites?

First, the site is very rich in content and ties to our social media presence, for example Art of the Trench and Facebook.

Second, it has the most comprehensive product range available globally, and innovative features such as 3D product displays.

And third, the reach of the site is extensive. It is now live in 45 countries, 23 currencies, and 6 languages, including Japanese and Mandarin. The digital opportunity in China alone we believe is significant, over time.

And finally, we have innovation in customer service with, for example, click to call, click to chat in real time, in 14 languages.

Rather than listen to me, please visit burberry.com and experience it for yourselves.

In my role as CTO, you might be surprised to hear me even mention the word creative, let alone dare to discuss IT's involvement. But our creative and marketing teams do require a significant amount of technology and technical support. We've deployed IT systems to support our designers and creative media.

Today, our design and development processes are supported through our product lifestyle management system, which manages the product all the way from concept to merchandising, through sampling and ultimately to production, within SAP.

The recent explosion of creative assets has required us to build systems to support the creative media team, allowing them to create content and then to efficiently store, retrieve and distribute these assets worldwide.

We also continue to support the team as we break new ground in the reach and impact of our fashion shows. Even two years ago these were still closed-door events for the 1,500 or so invited guests. In February 2011, our womenswear show was livestreamed not only to our own site, but also on key media and fashion sites such as CNN and Vogue, in high-impact locations, including the iconic video screens in London's Piccadilly Circus. And the show was viewed over 1 million times globally.

I'd like to share with you a short clip of our recent global event in Beijing, which was again groundbreaking, from a technology point of view, using a combination of live models, animated footage, and lifelike holograms for a virtual runway show.

(Video playing)

Actually, I think I like that one better. So that's what we're doing currently. Now what about the future?

First, the continued outsourcing of any technology that doesn't differentiate the brand, and investment in technology which does.

Second, customer insight and analytics. We believe the future of our brand lies with a fuller understanding of our consumer and how we connect with them, and we are making the initial investments in this area.

Third, we are starting to build an infrastructure that will better connect Burberry to its suppliers, employees and partners, extending to other stakeholders what we have done with burberry.com, which connects us to our consumers.

And this brings me neatly full circle to where I started, aiming to have one single consistent platform for the whole Burberry community, both in terms of user experience and technology.

So in conclusion, I hope this gives you some insight into how Burberry views technology. For us, it is a driver for growth. When I speak to my industry peers I hear of their frustrations at resistance to development or adoption of new technology.

Here at Burberry, IT is constantly being challenged to innovate more, and continually push the organization forward. And this really comes from the top, with Angela and Christopher feeling passionately that IT is an integral partner, and digital should be at the core of the business.

One of our key partners from Verizon summed it up rather well when he spoke to the Burberry Board this year. Most luxury companies see technology as a cost; Burberry sees it as a key differentiator and driver.

I couldn't agree more. Our IT mission is simple, for Burberry to become the world's number one digitally driven luxury goods brand. Thank you.

Angela Ahrendts - *Burberry Group Plc - CEO*

Thanks, John. I hope you now have a better understanding of the transformation of IT, and how it literally touches everything that we do at Burberry.

Christopher and I are very grateful to John and his entire team worldwide, who ensure that we remain at the forefront of innovation and excellence in this digital space.

So now let me turn to two of our key strategies, retail-led growth, and under-penetrated markets.

This morning, we've announced plans for capital expenditure of between GBP180 million to GBP200 million in '11/'12. This compares to about GBP108 million in '10/'11, with the increase, as Stacey explained, partly catch up of payments delay from last year.

This slide shows the CapEx split two ways. On the left, you can see the uplift is nearly all in Retail, with the increase equally split between new stores and refurbishments. On the right, you can see the increased focus on flagships, while technology investment will continue at about the same level.

So what's giving us the confidence to accelerate this spend? Very simply, the strategies we've been executing over the last five years have only strengthened our brand momentum, and consistently increased our store productivity and our sales densities, now enabling us to accelerate our investment in these key retail projects.

We're shifting our focus over the next couple of years back to high profile flagship markets to ensure our brand presence is now keeping pace with our global brand perception. We've identified opportunities to invest in many of them, from a significant refurbishment in Chicago, a property that we own, to extending our footprint in Knightsbridge, London, to new stores in Hong Kong. And the flagship stores we're building are still under 20,000 square feet, ensuring solid retail productivity.

So let me take London as an example of this flagship cluster investment. London is not only our home market, but consistently one of the strongest flagship markets and a top destination for luxury travelers, with our Horseferry House headquarters now the greatest brand statement for wholesalers, suppliers and franchise partners, and our runway shows attracting global attention and retailers' interest to London. Our retail presence needs to also exceed expectations, just as this headquarters does.

We need to test new concepts and technologies and express every facet of the brand so the impact, engagement, and mode of experience stays with the customers and partners long after they leave town. In 2012, we plan to invest around GBP20 million in London alone, nearly doubling our selling square footage.

The Knightsbridge flagship store will be extended to give us more prominence in this high traffic area. And the Regent Street store will be relocated and expanded. In London with Regent Street, has a key international tourist destination much like the Champs Elysees in Paris, or Fifth Avenue in New York.

In addition, we've just opened the UK's first Brit test store in Covent Garden, which is also our largest to date. Brit, which is our casual, more contemporary label, is well positioned in this neighborhood, next to Apple's largest store in the world.

In Bond Street, London's most prestigious luxury shopping destination, we now have a more expansive range of Prorsum and London and non-apparel, having relocated Brit to Covent Garden. We've closed our test standalone childrenswear store, as this category is been given more space in these expanded flagships.

Finally, our airport stores are refocusing on non-apparel and iconic products after the success of Heathrow Terminal 5.

Following the successful integration of China, the UK is now our third largest single retail country behind the United States and China. So we're excited by this investment, and confident in the expected financial return.

So if we turn to the second theme, investing in underpenetrated markets. Revenue from our emerging markets has grown nearly fourfold over the last three years, and now represents 16% of Retail/Wholesale revenue, up from just 6% in '08. Here too, we're continuing to execute on our proven strategies.

First, entering new markets via franchise agreements to reduce risk. In '10/'11 these included Armenia, Egypt, Israel and Mongolia. And, in the current year, we're continuing to explore other new markets.

Second, we then take these operations under direct control when they reach an appropriate stage or scale, and as we did in China in 2010. In Saudi Arabia, we're currently awaiting Government approval to transfer these stores into a joint venture in 2011.

Third, we continue to drive growth in emerging markets overall. We plan to open about 20 stores here in '11/'12 while applying global initiatives such as technology infrastructure, retail disciplines, and digital marketing. If you look at where Facebook fans are, countries such as Turkey, India, Mexico are frequently in the top 10.

And finally, a quick word on China, since Pascal Perrier, our President of Asia spoke to you last November, the team has successfully integrated these operations. We've now opened new offices in Shanghai and Beijing, boosted the local team to about 60, attracting great talent with international and luxury retail experience.

We've continued to drive retail productivity, our greatest initial opportunity in this market, while evolving the store network in the largest, most developed cities. This is in line with our flagship cluster strategy, as I previously discussed in London. Of the eight or so new stores planned this year, all are in provisional capitals.

We're also relocating and expanding some of our existing stores when a better location becomes available. Our focus continues to be on the quality, not the quantity of the real estate in China.

And not only are we directly investing in China, we're serving the Chinese consumers that travel and shop online. John mentioned the Burberry World site; it's live in Mandarin, as well as the 24/7 customer service in both Mandarin and Cantonese. And we have Mandarin speaking sales associates in nearly 30% of our stores outside of Asia.

In marketing and communications we're leveraging our global brand strategies to some of the most digitally aware consumers in the world. And as you'd expect, we're virally spreading our brand messages. For example, in social media we are the first luxury brand in Mandarin on the four key sites in China.

Finally, a word on our values, which underpin everything that we do. We've always said that we not only strive to be a great brand, but also a great Company. We continue to embed our core value to protect, explore and inspire throughout the organization, and with our external partners.

The Burberry Foundation unites and engages all of our teams to give back and help disadvantaged young people realize their dreams and potential through the power of their creativity. The Foundation receives the majority of the 1% of our profits we donate annually to charity. We are as proud of our efforts here as we are in our financial results.

So in summary, a huge thanks to our team worldwide who consistently execute our vision and our values while consistently delivering on our core strategies. Burberry has completed another successful year, with double-digit revenue growth across Retail and Wholesale, 39% profit growth, widening the reach of the Burberry brand, and building the Burberry community through the innovative use of digital content and technology.

Our confidence in these strategies continues into '11/'12, and we will continue to invest to drive sustainable top line growth while focused on refining all aspects of the Burberry brand. We will, of course, remain dynamic, adjusting our plans as the global macro and luxury environment evolves, aiming to modestly increase operating margins every year.

Thank you very much again for your attention, and Stacey and I will now take your questions.

QUESTIONS AND ANSWERS

Thomas Chauvet - *Citigroup - Analyst*

Firstly on burberry.com, I understand it's not aimed at only pushing ecommerce, just want to know what tools you have in place to monitor the correlation, the relationship between those big investments and revenues and returns?

Secondly, on average selling price, you said ASP was up largely because of product mix last year, product mix changes. Can you elaborate on the performance of each of your segments of Prorsum, London Collection and Brit and how you see that evolving/progressing this year?

And finally on Japan, you indicated in April that you expect the royalty income from your License partner to be collected as planned. Can you give us an update on the situation of your partners there, and whether you're sticking to your plans to take over the License business by 2015, or perhaps earlier? Thank you.

Angela Ahrendts - *Burberry Group Plc - CEO*

I think we got all three of those. From a digital perspective, how do we measure the returns? Honestly, I think that the trading statement that we've just put out is a pretty good testament to how it is impacting every single thing that we do. It is the halo. To be able to reach 10s of millions of people and invite new consumers into the brand and -- and it's interesting, on Facebook, the fastest growing consumer group is over 50. So you hit your core customer, you hit a new customer and, again, I think the results speak for themselves.

But I will tell you, there is a science to it as well, but there are no companies right now, no advertising or marketing agencies in the world, who can connect every one of those dots. But we are beginning to measure; John gave a little highlight when he said we would be investing, going forward, into customer insight, and analytics is a new area we're looking as our database continues to grow significantly.

So we're starting to measure, very specifically, where we market in a country, where we market in a region, where that traffic goes, whether it's travel retail, our own stores, online, what the conversions are etc., so stay tuned and, hopefully, in six months we'll be able to give you a further update.

From an average Retail perspective, it is up very nicely, almost 20% in Q4. And as we said that is, in part, due to mix, the outerwear business, the large leather good business has been very, very strong; those are our two highest average unit Retail categories. Burberry Prorsum, which was the hardest hit during the downturn, has been backed brilliantly, and driven a disproportion amount of the business specifically online, where it's over 20% of the business.

Burberry London, which we've been investing in, specifically in menswear, all of the licenses are gone, so the re-launch of our tailoring business and all the London sportswear for men has been very good as well as the women's London segment, which we called out. So all four of those, outerwear, large leather, men's and women's Prorsum and London, those are all the highest average unit Retail businesses that we have, and they have been some of the best performing.

THOMSON REUTERS

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

I think your third question then was on Japan, and really no change from what we said in April. We are continuing to expect License revenues for '11/'12 to be received in line with contractual minimums. That continues to be the case; no change in circumstances that would mean anything different.

And then I think you hinted at 2015 and beyond as well, Thomas, and again, no change there. You know that we took five years off the end of the apparel license a couple of years ago. We continue to work with our licensee on a transitional arrangement for that marketplace on the basis that we do have the vision, just as we did with Spain. But ultimately, we will see global product in that marketplace, not just on non-apparel as we're starting to do today, but on apparel as well.

John Guy - *RBS - Analyst*

Just a couple of questions, please. First of all with regards to the IT spend and total CapEx that you've guided for FY'12, could you give us an indication as to how much of the IT spend and total CapEx has been directed, first of all in China, and then as a total in Asia?

And the second question, with regards to your indication around a modest increase in Retail/Wholesale operating margin, does that equate to a 25% increase on what we've just had? What do you determine as modest, because there's been some pretty big moves recently?

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

Okay. I think those are both mine. In terms of the IT spend in CapEx, there's not a huge amount actually that is just on China. Remember, when John put up his slide earlier, he talked about China and Burberry Middle East being the last of the regions to go SAP, so there's specific dedicated investment on that.

But we've reached the stage now where, dare I say it, John, we've got into a bit of a groove and a rhythm here, and it should be, touch wood, very straightforward to do that implementation. So we're not spending the sort of money that we were on establishing what that global platform should look like right up front.

So really the investment in China is more in, we talk about moving from 57 stores today up to 100 over the medium term, so maybe 8 to 10 stores in the coming year, and that's just commensurate with normal new store costs.

I think the second question was then on what does modest mean in terms of net operating margin improvement. It means exactly that, modest. Bear in mind where we've come from, so back in 2008 we hit our historical peak; like everybody else we took a dive. And we were very clear, we've been very clear in the last three years, about how our priority has been to get back up to that historical peak level. And now it's about just nudging and pushing modestly on and beyond from that, on the basis that there's still a lot of investment that we believe is going to deliver long-term value for the business.

There's still some clean up that we want to make sure we're doing, and we're mindful that we have levers to pull to make sure that we still deliver modest incremental net operating margin at the same time.

John Guy - *RBS - Analyst*

Thanks. If I could just have one follow-up? Just with regards to where you are on your back end, in terms of SAP and IT and all of that, you said it was around about a 6 out of 10 when we last spoke. Where are we now?

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

You need to distinguish implementation from optimization. So from an implementation point of view, as you heard from John earlier, we're 80% of the way through, and this year will really be the push to get the final part on with China and Burberry Middle East. Sitting here this time last year we'd have said we were further advanced because, of course, we hadn't got China in the portfolio at that point to convert. So we're well advanced on the implementation point.

What we always talk about is that fact that SAP has a big tail to it, and it's not a case of just switch the system on and, locally, everybody knows how to optimize it, how to look at the business differently. And we always say there's a two to three year lag as people first of all understand they've got comparative -- first of all they have to get comparative data which takes the first year. Secondly, they then have to work out how to use that comparative data. And then by the time you get to year three that the light bulb really goes on. So that's why we talk about ourselves being maybe 6 out of 10 on optimization.

John Guy - *RBS - Analyst*

Thank you.

Fraser Ramzan - *Nomura - Analyst*

Just a couple of questions. First of all on returns, I think you said somewhere in the presentation that increased space productivity means that more projects basically breach the bar, meet your targets. How confident can we be that you're really challenging those projects as aggressively, they're not just simply reflecting the fact that, cyclically, sales densities have lifted, but the locations are still the right locations, etc., because that's obviously very key?

Secondly, comps get a lot harder in the second half of the current year. I guess you've been through the autumn/winter selling cycle; you've given us guidance for the first half. Should we be confident you can make progress through the second half?

Angela Ahrendts - *Burberry Group Plc - CEO*

I'll take the Retail one. Honestly, if you cover luxury, you've been to Tokyo lately, or any major flagship market in the world, and I think that, if you look at Burberry, and you look at the top four or five luxury peers, I think that you would challenge us and really say, what are we doing? Again, we focused a lot of the investment, the first five years, on the back end of the business. We had to get supply chain, we had to get technology, we had to get the infrastructure in place.

So we have tremendous confidence, not only because of the productivity, but everything else we've shared with you today. I know there's not any other luxury brand that is changing the landing page and changing windows and shipping goods every single month like clockwork now. And I know that they all have bigger, more prime real estate right now, and that's why, again, I gave London as an example. But we've got 15 flagship markets [under the world] under serious view right now.

So we're under construction in Paris, we're under construction in Milan, and we're playing catch up on the front end of the business. But I think you'll see it nicely accelerate, because we have the back end very strong, the foundation is there, the monthly flow, half of the business replenishment today, so that's why we feel very confident in making this investment today.

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

And I think Angela's answer then links in with your point about the comps getting harder in the second half, and thank you for pointing that out. We are very mindful of that, as are our regional teams. But at the same time, all of the efficiencies and improvements that we've brought to bear on the infrastructure of the business, the way we're now refining monthly flow, the way everything's tying together, means that the teams are confident that they can continue to drive for further growth and further productivity improvements in each of the stores.

And that's not to say, well, that's fine, we can repeat the same comps that we did in '10/'11; we recognize those very nice double-digit comps were for that moment, but we can still deliver very nice growth notwithstanding that.

Fraser Ramzan - *Nomura - Analyst*

So achieve the modest margin improvement on modest comps?

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

Absolutely.

Angela Ahrendts - *Burberry Group Plc - CEO*

I think the other thing on comps though, measuring comps are a blessing and a curse. So I think pick up also where we talked about mainline. We did close seven outlets last year; we do plan on continuing to do that. If it was only about driving revenue we wouldn't do that, we'd open more.

So this brand's been around 155 years, and we'd like it to be around another 150, so while we're here we're doing everything we can to continue to elevate it. It's not just about driving comps.

Fraser Ramzan - *Nomura - Analyst*

Thank you.

Rodolphe Ozun - *Bofa Merrill Lynch Intl - Analyst*

I would like to know what's your assumption in terms of payback period for retail openings; if you can give us at least a qualitative idea. And also what are the differences by region, because the financials are quite different between non-Japan, Asia, and the rest of the world?

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

And that's why, Rodolphe, it is quite difficult to talk about a generic, this is the payback, this is the return. We do have very wide variations in terms of the store formats, the regions, and what's going into each of those stores.

Fair to say, I think we've said before, our Asian stores absolutely blast through any hurdle rates that we have. As you move further west, sometimes the financials get a little bit more challenging.

You may remember, in terms of internal rates of return, back when the downturn hit we talked about the fact that we'd raised the bar, so we were on a 25% IRR required for every project. Fair to say that that had gone from 20% in the current climate, and we had luxury back with a vengeance. Fair to say that we are compromising a little bit on some of those hurdle rates, because they're still delivering terrific returns, and for the momentum that we've got in the brand right now, upping the investment even if we don't quite hit 25% on some of those projects, is still driving terrific growth.

Angela Ahrendts - *Burberry Group Plc - CEO*

Well, thank you very much. I know coming to Horseferry House was a little bit of a challenge with Mr. Obama in town, but thank you very much for making it, and we look forward to seeing you again in July.