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# EDITED TRANSCRIPT

BRBY.L - Burberry Group plc Trading Update Conference Call

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**Thomas Chauvet** *Citigroup - Analyst*

**Louise Singlehurst** *Morgan Stanley - Analyst*

**John Guy** *Berenberg Bank - Analyst*

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**Annabel Gleeson** *Redburn Partners - Analyst*

**Julian Easthope** *Barclays Capital - Analyst*

**Peter Farren** *Bryan Garnier & Co - Analyst*

## PRESENTATION

**Operator**

Good day and welcome to the Burberry Group plc, first half trading update conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Miss Stacey Cartwright. Please go ahead.

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

Good morning. And welcome to Burberry's conference call. As you'll have seen we've made two announcements this morning, one about directly operating Fragrance and Beauty, and the other our first-half trading update. I will provide a summary of both and then Fay Dodds, our Investor Relations Director and I, will be happy to take your questions.

So let me deal with Fragrance and Beauty first. We are very excited about taking these product categories in-house. Directly operating Fragrance and Beauty is in line with our strategy of taking greater control over our brand. And we believe there are significant opportunities to accelerate growth over time.

We will run Fragrance and Beauty as our fifth product division, completely leveraging our existing infrastructure. This is a business where we already lead the product design, the packaging and the marketing activities, so it's a natural evolution for us to now take control of the relationship with sourcing, logistics and distribution partners.

The license relationship with Interparfums has also been extended by three months until March 31 next year, to facilitate a smooth transition. We are going to provide further strategic operational and financial details at our interims on November 7. But in the meantime we reiterate that we are very excited about the opportunities in Fragrance and Beauty where we believe we are under-penetrated.

So turning now to the first half trading update, Burberry delivered 8% underlying revenue growth with 10% in the retail channel, which accounted for around two-thirds of sales.





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This is the 14th consecutive six-month period where Burberry has delivered double-digit retail growth at constant exchange rates, and was achieved against a more challenging external environment and record prior year comparable sales. We announced last month that retail sales growth at constant exchange rates was 6% in the 10 week to September 8, with comparable store sales unchanged year on year.

As you can see from this morning's announcement we saw a modest improvement in the final weeks of the period, finishing the quarter with comparable store sales up 1% and total retail sales up 7%. And what we'd like to do this morning is share with you some of the factors behind the slowdown in the second quarter, and then the actions that we've taken as a result.

As we suggested in September, the primary driver behind the deceleration was lower footfall. All of our data sources are consistent here whether from footfall counters in the 60 plus stores where we have comparative data, or the number of daily -- average daily transactions in store, all supplemented by information from mall operators and other partners.

This suggests to us that part of the slowdown is macro-related, which accords with recent data points on economic growth, the luxury sector and international travel in some of our key markets.

But what we have seen in the second quarter is much higher quality sales growth. So growth in average selling price accelerated in the second quarter. As always, there were modest like-for-like price increases in line with previous seasons and benchmarked against our peers. But we did also see outperformance of Prorsum and London, up 6 percentage points to 49% of apparel sales in the second quarter. We saw an increased proportion of our purchases at higher transaction values and a greater proportion of mainline sales were at full price.

By product, the deceleration in the second quarter was broad-based, across both apparel and accessories and across replenishment and fashion. So all four product divisions exhibited slower retail growth in the second quarter than the first, while the percentage of sales from replenishment styles was basically unchanged year on year.

By region, looking at the second quarter as a whole rather than specific two- or three-week time periods, we saw unchanged comparable store sales in the Americas and Europe, and slightly positive comparable growth in Asia Pacific. If we compare the growth rates in Q2 against Q1, all three regions saw some deceleration, although this is more marked in Europe and Asia Pacific.

Within Europe we saw robust growth in France and Germany, while Italy remained soft and the UK slowed during the second quarter. Footfall in London decelerated in part due to the disruption from the Olympics, which impacted both domestic and travelling luxury consumers equally. With the UK as our home market, accounting for nearly 40% of retail sales in Europe, we are more heavily weighted to this market than our peers.

Within Asia Pacific, Hong Kong was robust if a little uneven and Korea remained weak. Mainland China was up against very tough comparative prior year numbers, and slowed in the second quarter although the comp sales did remain positive.

Although the footfall data we have in China is limited, consensus internally is that lower traffic is again the key driver. Interestingly, the deceleration in growth is across all product categories while the quality of sales growth improved for the same reasons I mentioned earlier on a global basis.

So turning briefly to wholesale, first half sales increased by 5% underlying. This is in line with the guidance that we first issued last April. And as we said in July the first quarter benefited from the re-phasing of some deliveries into Q1 from Q2 which is why we do always guide wholesale by half.

For the second half we are expecting broadly unchanged underlying wholesale revenue year on year. With wholesale often a lagging indicator, this reflects a more cautious approach from our customers worldwide.

And some legacy cleanup continues be it the ongoing rationalization of small European specialty accounts or the impact of the withdrawal of opening price point programs in accessories and outerwear.

And finally on licensing, revenue was down 5% in the first half as we expected, and we are expecting full-year licensing revenue to be broadly unchanged, reflecting the timing differences around Japan.



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So against this more challenging environment, what actions have we taken? The team remains focused on the consistent execution of our five key strategies. Under leverage the franchise, we've already put in place initiatives to drive retail performance in this most important third quarter of the year for us, including more targeted PR and marketing to increase reach and awareness, heightened visual merchandising to drive retail productivity, and a very strong balanced festive offer to optimize global gifting.

Under non-apparel, which remains at nearly 40% of sales, we are delighted with the performance of both men's accessories and the new seasonless soft accessories.

Under retail-led growth, we've opened 13 mainline stores in the first half focused on flagship markets, including of course Regent Street in London, Pacific Place and Russell Street in Hong Kong, and our third store in Milan. And following the 12% average space growth in the first half, we are planning 14% space growth in the second half with a strong pipeline of flagship market projects including in Chicago, Shanghai and London.

There has been no change to our capital expenditure plans, around GBP180m to GBP200m of spend for the full year. And recent reviews reconfirm that our new store projects meet the 25% IRR hurdle rate even with potentially lower sales projections.

In under-penetrated markets we continue to evolve the store portfolio in China. This now stands at 68 stores, having opened seven and closed two in this first half. We've also opened our first franchise stores in the Baltic region. And finally under operational excellence further progress has been made in the quarter in SAP, logistics and customer insight.

As you'd expect we are tightly controlling discretionary spend, in line with our pay-as-you-go approach. And we are now expecting retail, wholesale operating margin for the first half of the year to be at least in line with the same period last year versus our previous guidance of it being down.

So in summary, although retail sales growth slowed in the second quarter against a more challenging external environment we are pleased with the quality of our sales and remain confident in the brand momentum.

We are very focused on the consistent execution of our key strategies in both this key retail quarter and longer term, whilst tightly controlling discretionary spend.

We are also very excited about the opportunities in Fragrance and Beauty as we take over direct operation of this business from the start of our new financial year.

So with that, we'd now be pleased to take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions). We will take our first question now from Antoine Belge from HSBC.

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**Antoine Belge** - *HSBC - Analyst*

Yes, good morning, Antoine Belge at HSBC. Three questions.

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

Hi, Antoine.





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**Antoine Belge** - *HSBC - Analyst*

First of all, could you comment a little bit on the performance in the US? Actually that's a region which saw a pick up Q2 versus Q1. And maybe differentiate between the trend in retail and the one in wholesale.

Second question on Europe here quite a significant slowdown. I remember at the time of the warning you mentioned that you'd seen a sort of slowdown in tourism including Chinese. I understand what you've mentioned about the impact of the Olympics, etc. But is it -- at the same time you mention the strong performance in France or at least satisfactory. So could you maybe elaborate a bit on how you see tourism in general?

And finally, the third question would be on the EBIT margin for the full year. You commented about obviously pre-tax profits when you warned a few weeks ago, but could you maybe be more specific about how you see the EBIT margin evolution over the full year. Thank you.

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

Okay, so I'll start with the last one first. In terms of the EBIT margin you know the team remains very committed to continuing to deliver modest retail wholesale operating margin consistently over not just this year but the outer years besides, so that remains intact.

I think the question was around Europe and the slowdown in tourism. What we are calling out is that we are seeing traffic down across most markets. But obviously what we are converting is we are converting a guide of the same or better rates and obviously driving more the higher average transaction value. And that applies to tourism and local traffic alike.

Clearly, we were calling out at the time of the update a month ago just the traffic aspect, and the fact that we weren't seeing the tourism in Europe that we have been. As we then blend out across the quarter as a whole it is London that is the most impacted rather than France or Germany which remained relatively robust over the quarter as a whole.

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

And, sorry if on Europe you're looking at the slowdown Q1 on Q2 you just have to be very careful there, because a lot of it also reflects the timing of wholesale deliveries. Stacey said in her script that we had a re-phasing into Q1 from Q2 and that was particularly marked in Europe.

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

And then the same point will apply when you're looking at the Americas numbers for that's a blend, if you're just looking at the geographical breakdown, that's a blend of both retail and wholesale and it's impacted by the timing of shipments. When we look on an underlying basis as to what's happened in the US quarter on quarter, it's gone, it's very marginal change in like-for-like sales.

We have called out that we think that the US is more exposed shall we say to the aspirational luxury consumer, has less in the way of the tourist flows than perhaps Europe does. And therefore if it is the aspirational luxury consumer that is more impacted by the current macro concerns, then the US is disproportionately impacted for that reason.

That said, when we look at US wholesale our numbers are holding up very nicely with our wholesale partners with falling at least in line if not better than peers. So we are seeing, if you like, better strength in those department stores.



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**Antoine Belge** - *HSBC - Analyst*

Maybe just a follow up since you -- I think you've mentioned several times the aspirational consumer being less resilient. Is it also linked to the fact that you are asking this aspirational consumer to trade up? I mean you've mentioned the positive mix. And also I have in mind the fact that you are discontinuing the Nova Check lines. Is it also an impact of that? Or do you think that it's just linked to the macro environment?

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

Yes, we've looked back just to double-check in terms of the product assortments, etc. We remain very balanced across the product divisions, across the product categories within those product divisions and across the different price points.

So whilst, yes, we have eliminated a couple of opening price point programs that we felt were not in the best interests of the brand, there remains a nice balance of assortment right the way through the pyramid.

Our belief is that it is that the traffic is down because the -- that aspirational consumer is not shopping as much as they were, as often as they were, or spending the amount that they were.

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**Antoine Belge** - *HSBC - Analyst*

Thank you very much.

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

Thanks, Antoine.

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**Operator**

We will take our next question now from Thomas Chauvet from Citigroup.

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**Thomas Chauvet** - *Citigroup - Analyst*

Good morning, Stacey and Fay.

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

Morning.

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**Thomas Chauvet** - *Citigroup - Analyst*

Three questions please. The first one I know week-on-week sales analysis is not perhaps very intellectually robust, but what do you think has changed between the very negative high-single-digit trend you had perhaps last week of August, first week of September which prompted your warning, your pre-release, and the plus 2%, 3% like for like in the last three weeks of September. That's my first question.

Secondly, to follow up on the previous question on the labels, on Brit you said Prorsum, London outperformed. What is not selling well at Brit? And could you give us your best estimate of the ASP of Brit, London and Prorsum now that you've done the cleanup of the opening price points?



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And thirdly on Fragrance, I know we'll hear a lot more from you next month, but could you give us a range of start-up costs for instance for the first year of the integration? Talk a bit about distribution agreements, obviously skincare and makeup is quite different from fragrances there. And what level of profitability you've assumed medium term to make it an attractive investment? Thank you.

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

Okay. Well, I'm going to start with the last one first. And all those questions I'm afraid, Thomas, you're going to have to be patient and wait until November 7, because obviously we want to be able to properly articulate the full strategic and financial rationale behind taking that business back.

The only things I would just point out is this is -- there is a huge opportunity in Fragrance and Beauty both from the point of the view of the business itself but also the halo effect that Fragrance and Beauty has over the rest of the brand. Typically you'll be spending almost as much on marketing on that as our partner has done as on the core brand. So there is a huge amount to leverage as we did with the Burberry Body launch.

Back to the earlier question about opening price points, it is an excellent opening price point for the brand, very brand appropriate. And we do have significant expertise in this category already because we've been doing the product design, the packaging, the marketing. And essentially it's now a case of us stepping into the licensee's shoes when it comes to existing relationships with distributors, with suppliers, with logistics partners to be able to complete the end-to-end supply of that product into the marketplace.

And, of course, with the transitional agreement that we've put in place with Interparfums there is an enormous amount of cooperation between their team and our team to essentially twin up and work on how our team then take over those operations between now and April 1.

Then back to your other questions we are not obsessing about the week-on-week performance in terms of what happened to take a negative number in a particular two weeks into a positive 2% for the final three weeks. This is -- it is volatile out there.

Clearly, the team are heavily engaged, as I talked about earlier, with kicking in with all of the appropriate PR, marketing, visual merchandising activities to make sure that despite the fact that there is a consistent trend of traffic being down that we can optimize that traffic to best advantage for Burberry.

And then I think you asked about the labels and Prorsum and London versus Brit, I mean clearly Brit is more key item driven. And again that comes back to the aspirational luxury consumer would be more focused on buying those key items. And that's why Brit haven't got the same penetration that it did have, and why we are delighted that we've been pushing on Prorsum and London, which is the true validity of the strength of the brand and the momentum in the brand there.

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

And also on Brit we have been de-emphasizing it in certain stores. I think we've talked to you before, for example like Bond Street where we've pulled Brit out, it's now in Covent Garden, Bond Street is only London and Prorsum. So there has been some space reallocation towards Prorsum and London.

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**Thomas Chauvet** - *Citigroup - Analyst*

Okay. And then in terms of post the cleanup of the opening price point, could you give an idea of the ASP of Brit, London and Prorsum?

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

Yes, well we are not going to go to that level of detail, Thomas.



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

Thomas, what we'd encourage you to do is go and have a look on the website.

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

Yes.

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

And just have a look at the balance that we have across products, across price points.

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

Thanks, Thomas.

**Operator**

We will take our next question from Louise Singlehurst from Morgan Stanley. Please go ahead.

**Louise Singlehurst** - *Morgan Stanley - Analyst*

Hi, good morning, Stacey and Fay.

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

Hi Louise.

**Louise Singlehurst** - *Morgan Stanley - Analyst*

Morning. Just three questions as well from me please, just in terms of the cost firstly, you talked about tight control of discretionary costs given the store opening profile that you've had. Can you just highlight areas where you have kind of clamped down and what we should be thinking about the second half presuming that the retail rollout plans are unchanged?

Secondly, can you just talk about the product? You were talking about a balanced festive offer as we go into Christmas. What that actually means and how happy you are with the inventory level.

And, then thirdly if you could just give a comment on how Regent Street is performing. Thank you.

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

Okay. Again I'll start with the last one first. So we are delighted with how Regent Street's kicked off. It is performing in line with or better than expectations. And that's both from a financial perspective and obviously from a marketing perspective, and how important it is as a venue for us to be able to leverage a number of events. A very exciting venue and very exciting from a productivity point of view besides.





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Working back up I think you were asking about inventory. So inventory whilst we wouldn't at all suggest that we are perfect here, but inventory is probably in the best shape that we've ever had it from an aging perspective, from the point of view of us having procured less inventory anyway for the season just gone and the season we are entering into for higher full price sell through.

And clearly with the sales slowdown that we've seen in the second quarter it may mean that we are not putting as much back into working capital as we might have wished. But it also means that we are not storing up inventory that's going to need excessive markdowns. So I think we feel pretty comfortable on inventory.

Do you want to talk about costs, Fay?

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

I was going to do festive actually.

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

Oh festive sorry, I'd forgotten that part (multiple speakers).

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

Yes, in terms of festive I think we feel that we've got the best gift offer in terms of product that we've ever had. And then we are supporting that very heavily by some very innovative marketing, and you will see that across all channels.

A lot of work -- the marketing spend has been reallocated towards product marketing. You'll have seen, for example, the recent success we've had with The Orchard Bag which is now one of our top three shapes. So a lot of emphasis on this key global gifting period.

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

And then in terms of costs nothing more to add other than the fact that we are doing what you'd expect every responsible management team to be doing in that all areas of discretionary spend are under intense scrutiny as I'm sure if you meet any members of the team they will attest to. So that is right across from travel, headcount, looking at business projects across the organization, IT projects and re-prioritizing and making sure that we are tapping into what is tens of millions of pounds worth of discretionary spend, and making the appropriate savings.

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**Louise Singlehurst** - *Morgan Stanley - Analyst*

Thank you. And then just to clarify, so for the second-half margin given your comments earlier I think that implies, so you're flat, slightly up in retail wholesale margin for the second half is that correct?

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

Yes, we only talk about the first half and the full year we'll let you do the math in-between. So for the first half we did originally say it would be down, because of the re-phasing of obviously retail sales are more second-half weighted. But obviously with the slowdown in revenue plus the higher quality revenue that is driving better gross margin plus the actions we've taken on costs we will be at least as good on retail wholesale operating margin in the first half. And obviously we are looking to nudge up full-year operating margin.

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**Louise Singlehurst** - *Morgan Stanley - Analyst*

Super, thank you.

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

Thanks, Louise.

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**Operator**

We will take our next question now from John Guy from Berenberg Bank. Please go ahead.

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**John Guy** - *Berenberg Bank - Analyst*

Morning, Stacey, morning, Fay, a couple of questions.

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

Morning, John.

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**John Guy** - *Berenberg Bank - Analyst*

Hi, a couple of questions from me please. First of all, could you just talk about some of the second-quarter impacts with regards to reducing the opening price points on retail LFL? I think my assumption is roughly a 3% impact on cutting back the OPP which is a planned program that you've been running now for some time.

And also maybe talk about any sort of merchandising execution problems that you might have had, especially with regards to Brit in terms of specific colors or even with regards to leather goods and not having enough exotics in store, etc. What sort of impact do you think that that had over the quarter?

Also with regards to the perfume and cosmetics business, I know Thomas has asked a few questions and you're going to update us during the first half of the year. But when we are looking at the percentage of sales allocation, if you like, with regards to things like selling A&P, are we talking within industry standards of anywhere between 20% and 30% within some of those areas? Maybe just give us some indication as to what you think at least the initial costs are associated with that.

And on pricing do you think -- I appreciate that you said that you're seeing better quality buy-in although that overall buy-in has obviously slowed. Do you think that you've raised your price mix maybe a little bit too far given the fact that you've have sort of mid-single-digit ASP growth consistently over the last five years? Or do you think that there is still room for further maneuver? Thanks very much.

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

Okay. So, go back up to the first one which I think was around what was the impact of specifically the elimination of those opening price point categories. Just to clarify, it's not that we've eliminated opening price points. There were two categories, so this is Nova and the handbag assortment. And it's the opening price point [VZ] in the trench coats that were eliminated as part of the brand-enhancing moves that we've made, that we've been consistently making across the business. So we still have opening price point product.



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We -- back to the point about we have a very balanced assortment right the way up and down through the price points through the pyramid. Specifically on those, had there been no substitutional impact then, yes, it would have been something over 2 percentage points on like-for-like. But it's quite hard to be able to work through what might have been the impact of substitutional purchases.

I don't think we are calling out anything specifically in terms of merchandising, execution problems on Brit which is what you were suggesting there, John. Yes, we have seen Brit slowing down, but that's -- remember there's always been the deliberate strategy to shift the emphasis more towards Prorsum and London. We've shifted the floor space allocation more towards Prorsum and London.

And then the residual impact on what's happened to Brit we believe is explained by the fact that these are key item pieces that have not sold in the same way because of the footfall declines from that aspirational luxury consumer.

On Beauty, we are going to give you the full financials when we talk on November 7. You're asking will we be in line with industry standards. I think that's fair assumption to make in terms of what the shape of an average Fragrance P&L account looks like and the amount that's given over to A&P.

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

Let's just reiterate what Stacey said that what we are doing is stepping into Interparfum's shoes rather than rebuilding a supply infrastructure, rebuilding a logistics infrastructure.

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

Yes, we are not inventing this.

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

(Multiple speakers). We are not re-inventing this.

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

We are taking over something that is in existence already and have expert partners in each element of the chain.

And then the last question was around have we raised prices I think or elevated the mix too far too soon. We don't believe so. From a pricing perspective we have done nothing out of the ordinary in terms of what we do every season, and benchmarked against our peers. And we've always talked about a healthier mix being that Brit becomes more around 50% of apparel rather than obviously historically where we had Brit, not that it was called that at that point, but at over 80% of apparel.

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**John Guy** - *Berenberg Bank - Analyst*

So -- that makes sense. Just to confirm then that with regards to the second quarter you didn't feel at all that you missed out on having brighter colors or having more exotic (multiple speakers).

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

No, I think what we have done is to say look if traffic is down how can we optimize and maximize the value out of that traffic and if we were to inject more exotics. Because remember it wasn't about exotic sales being material enough to move the needle here, it's more about the aura that having exotics would give off within the stores.



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**John Guy** - *Berenberg Bank - Analyst*

Sure.

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

And making sure that those were as optimized as they possibly could be in all of the key doors. So it's about making the most of from a visual merchandizing perspective. We did talk about accelerating some of the key items from later floor sets and bringing those in earlier. Again about traffic is down how can we make the most of what traffic there is and convert that at higher rates and at higher transaction value.

**John Guy** - *Berenberg Bank - Analyst*

Okay, great. And thank you very much. And just one follow up on the points around, or the implied points that you've made today around retail wholesale margin. Obviously you've procured significantly less, so you're not looking at any big pent up risk in terms of gross margin dilution on incremental markdown.

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

No.

**John Guy** - *Berenberg Bank - Analyst*

You're also very confident therefore with regards to that first-half mix that are we likely to see still quite a bit of gross margin coming through. Or is this very much driven by some of the cost actions that you've been taking place in order to achieve at least a flat operating margin for the first half of the year.

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

Yes, the first half is influenced by obviously lower revenue implies if you're still maintaining the same level of profit, lower revenue that gives you the higher percentage to start with. But it is better quality revenue which implies higher gross margin, and then all the actions that we've taken on cost besides which leads us to now say operating margin will be at least in line with last year.

**John Guy** - *Berenberg Bank - Analyst*

That's fantastic. Thanks very much indeed.

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

Thanks John.

**Operator**

We'll take our next question now from Warwick Okines from Deutsche Bank.





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**Warwick Okines** - *Deutsche Bank Securities - Analyst*

Yes, good morning, Stacey and Fay.

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

Hi, Warwick.

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**Warwick Okines** - *Deutsche Bank Securities - Analyst*

I was just wondering if you could give us a bit more detail on the initiatives you're taking to strengthen the offer for the aspirational customer. You specifically referenced Christmas gifting ranges, but I wasn't clear whether you meant you were up-weighting that in the mix or actually whether you were totally happy with the balanced offer you were giving the aspirational customer.

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

I think the product offer is there, Warwick, and there's always tweaks that the merchants will look to make because that's what being a dynamic retailer is all about. But the product offer has been there. It's about making sure that we are accentuating that to its best from a visual merchandizing perspective and from a marketing and PR perspective.

So you'll see some quite exciting stuff coming over the course of the next few weeks as we start to launch that online in the stores in terms of the touch points in the windows, the touch -- what the windows look like, the touch points in the stores, and all of the PR besides.

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**Warwick Okines** - *Deutsche Bank Securities - Analyst*

So when you think back about your performance in the first half, and obviously talked about the primary drivers being external is the only thing you would have done differently maybe traded the business hard or been a bit more punchy? Are there any other things you would have differently?

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

That's a really hard one, Warwick. You respond to the data that's available. I think we have a very experienced management team internally who are used to ducking and diving and responding as they need to. And as we've seen trading evolve over the half, the teams have responded accordingly whether that's on fine tuning the merchandising, fine tuning the VM in stores or fine tuning the marketing strategies.

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**Warwick Okines** - *Deutsche Bank Securities - Analyst*

Okay. And just finally, you've talked about a tight focus on costs so I was just wondering if that focus is likely to lead to any delay in landing your CRM upgrades.

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

No, investment in CRM continues. So we've been through a very rigorous detailed process internally looking at all of the business projects, the IT projects that we had underway, over 100 of them. And we've gone through a very rigorous prioritization process from both a strategic and a financial returns perspective. And the investment in CRM is continuing as before.

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**Warwick Okines** - *Deutsche Bank Securities - Analyst*

So you're still hiring where you need to, is that --?

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

Yes.

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**Warwick Okines** - *Deutsche Bank Securities - Analyst*

Yes. Okay great. Thanks very much.

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

Thanks.

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**Operator**

We will now take our next question from Fraser Ramzan from Nomura. Please go ahead.

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**Fraser Ramzan** - *Nomura - Analyst*

Good morning, Stacey and Fay.

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

Hi, Fraser.

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**Fraser Ramzan** - *Nomura - Analyst*

Just want to come back to Brit, could you talk about what its representation is within the retail business both in the quarter just gone but also how that might change going into Q3? I imagine it could be slightly larger. And then also what it represents within wholesale?

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

We talked about it being 51% of the mix in this quarter just gone, and from a health perspective we feel that being around half of apparel feels about right. I don't -- what else (multiple speakers).

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**Fraser Ramzan** - *Nomura - Analyst*

I was going to say as you go into Q3 which is obviously an important trading period and an important gifting period, does Brit rise within the mix?

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

I think a lot of the gifting is actually in non-apparel, yes. And so I don't know off the top of my head. It might increase a little bit. But if you look at the gifting offer it is much more non-apparel than apparel focused.

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**Fraser Ramzan** - *Nomura - Analyst*

Okay. And then you talked about Brit being key-item driven. Could you just talk about which key items they are, so what kind of products.

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

Well, yes, like in jersey wear the polo shirts for example, within denim, jeans. This is what we mean by key items.

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**Fraser Ramzan** - *Nomura - Analyst*

Right.

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

And I think the issue is there is that on a key item like polo or denim it is more difficult to move the -- edge the price up every season, you have to move occasionally from price point to price point.

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**Fraser Ramzan** - *Nomura - Analyst*

Yes.

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

And it's a lot more difficult sometimes to get the price value equation to move. So that's why Brit is, we believe in those key items more dependent on footfall because it's harder to drive the average selling price.

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**Fraser Ramzan** - *Nomura - Analyst*

Okay. That's great, thank you.

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

Thanks, Fraser.

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**Operator**

(Operator Instructions). We'll take our next question now from Rogerio Fujimori from Credit Suisse.

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**Rogerio Fujimori** - *Credit Suisse - Analyst*

Hi, everyone.

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

Hi, Rogerio.

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**Rogerio Fujimori** - *Credit Suisse - Analyst*

Hi. Two questions from me. Could you update us on your plans for China and where do you stand in your efforts of driving retail productivity? Have you more room to improve merchandising replenishment relative to other markets? That's my first question.

And the second one is large leather goods was a very strong performer a year ago. So I was wondering if you could give us more color on how bags performed in the quarter excluding the Nova factor. And how do you think Burberry is performing in bags versus your main Continental peers based on your conversations also in line or better. Thank you.

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

Okay. So in terms of China the continued -- sorry, the opportunity continues unchanged. So we do believe that there is still enormous opportunity to improve retail productivity in the stores.

We've obviously had the early wins of having taken over that business two years ago and having anniversaried the 30% plus like-for-like sales growth that we've delivered over the course of the last couple of years.

That said, SAP was only implemented in the China business at the back end of last calendar year. And we always talk about once you've anniversaried the implementation of SAP that's when you can really start to get into a gear in terms of optimizing decision making because you've got the prior year comparatives to work off, so a lot more to go for in China.

Large leather goods I think was your next question. We didn't call that out as a particularly strong performer. It performed in line with how the business has performed.

Latterly as Fay pointed out earlier, delighted with the success of The Orchard Bag, particularly in these last few weeks. That's being called out as a key shape and has already shot up, essentially being number three within the collection. But we've been obviously working hard to mitigate the impact of eliminating Nova at that opening price point.

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**Rogerio Fujimori** - *Credit Suisse - Analyst*

And just one quick follow up, you've mentioned that non-apparel is key for the gifting period as we approach the December quarter. How has been your progress in small leather goods in terms of ratio to bags that is something that you have been trying to work on in recent years?

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

Yes, that hasn't had as much focus in recent years as we've been focusing very much on penetration of the higher average unit retail like large leather goods, like trench coats because you obviously have to sell a lot of small leather goods to make up for the price of a trench coat or a GBP1,000 handbag.



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But we do believe that this run up to Christmas you will see much more emphasis now on the small leather goods in stores. And whether that's more conventional wallets or purses or the digital offering be it iPad cases or attache cases with the appropriate sections for -- whether it's your laptop or your iPad, etc.

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

We also called out soft accessories, the scarves and the mufflers as doing very well in the first half. And we expect that to continue to go in through the festive period.

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**Rogerio Fujimori** - *Credit Suisse - Analyst*

Thank you.

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

Thanks, Rogerio.

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**Operator**

Our next question is from Annabel Gleeson from Redburn.

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**Annabel Gleeson** - *Redburn Partners - Analyst*

Hi Fay, hi, Stacey.

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

Hello, Annabel.

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**Annabel Gleeson** - *Redburn Partners - Analyst*

Hi. I was wondering could you talk a bit about the consumer response to your European price increases and the trend that you saw in London through the quarter.

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

Yes.

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**Annabel Gleeson** - *Redburn Partners - Analyst*

And then could you talk a bit about how you think about cannibalization when you're doing your 25% IRR threshold calculation on the stores?

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

Yes.



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**Annabel Gleeson** - *Redburn Partners - Analyst*

And then the last question is how are you thinking about your perfume and cosmetics license? Are you applying the 25% IRR threshold there?

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

Okay. So consumer response to price increases I would say no push back. And first of all to just clarify price increases are in the normal course. There is nothing abnormal in what we've done. We've benchmarked against what we've done in previous seasons. We benchmark against our luxury peers to make sure that the offering is competitive. And we are not getting push back in the stores from any adverse reaction to pricing. And it tends to be very modest. So you're in whether it's mid-single digits or low single digit price increases.

In terms of cannibalization we absolutely take into account what we think might be the impact not only on existing retail stores within say a flagship cluster but also what might happen from a wholesale sales perspective if we would turn off an account or we expect to sell less through an existing account, so that all gets taken into account.

And then the last point in terms of the IRR on the Fragrance and Beauty business, now this is far more complicated to look at because clearly we are paying out EUR181m to buy back a business. Arguably we would have got that for free in five years time. But of course we will not, our view being that by taking early control of that business we will be able to drive that to a much higher starting point five years out than you would otherwise have had. So clearly you're reflecting the value for those outer years besides.

And you have to bear in mind in terms of this being a bit of an unusual one-off transaction, that EUR181m is essentially being funded by cash on the balance sheet that was earning not a lot of interest. So we'll give you a lot more detail and color around that when we talk in November. But those are some of the factors to bear in mind.

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

And you also asked about the trends in London during the quarter. And I think the best that we can say on that is volatile. The London team has done a huge amount of analysis about pre/post/during Olympics. But the overall theme was that footfall was down for both the domestic and the tourist customer, and so to say I'm absolutely delighted with the performance of Regent Street which opened at the beginning of September.

**Annabel Gleeson** - *Redburn Partners - Analyst*

Okay, thank you.

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

Thanks.

**Operator**

We'll take our next question from Julian Easthope from Barclays.

**Julian Easthope** - *Barclays Capital - Analyst*

Good morning. Just a couple of, well, three questions if I may. First question is on wholesale. In the first half you did 5% underlying. I think you said previously that if it wasn't for cleanup that was the sort of an underlying figure of around 15%. If we take a look at the flat figure in the second half



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and assume that the US department store cleanup is finished can you give us an indication as to what that implies for the underlying organic growth within the wholesale operation?

The second question is on pricing. Have you actually done anything to narrow the pricing gap between your European pricing and the pricing in Asia to try and discourage some of the tourism purchases that's taking place? I think some of the watch companies have done that already, and just wondered what your thoughts were on that.

And finally, in terms of China, we are coming up to comps now where you did 30% same stores sales on 30% over the last two years, so it's against a pretty tough comp. We've seen some weak numbers coming out of Golden Week. Is China a particular concern going into the fourth quarter given the difficult comps? Thanks.

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

Okay. I'll pick up China and pricing and let Fay talk about wholesale in a minute. Is China a particular concern? Well, China is clearly important to all luxury players. We've seen in this last quarter marginal positive like-for-like sales growth. I think the team are very focused again on optimizing the full opportunity in China be it from existing stores but also new store openings. Yes, we believe that China still represents a fantastic opportunity in terms of luxury sales growth.

So does it give us particular cause for concern? Only in so far as it is a material number. But we believe that the long-term strength and health of the China market is intact.

In terms of pricing have we narrowed between Euro and Asia? To a very small degree, you have to remember that when it comes to markets like China, yes, you've got something like a 40% uplift between Europe and Asia but that is driven by local duties and taxes which you're never going to be able to deal with. That is the cost of getting goods into that market. So it's not that you're making super profits on the ground in China, it is simply reflecting the cost of bringing that good to that -- goods to that local market.

And for consumers who are able to shop abroad and avoid the taxes for want of a better word that's always going to be an attractive pursuit for them. But what we find is that the consumers they want to shop at home. And they will shop abroad when then travel as well. So it's not about one or the other.

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

And then in terms of the wholesale for the first half we delivered 5% growth. And I think we said that would have been double-digit growth if we hadn't have done the cleanup, and that's pretty much where it ended up.

For the second half we are guiding to broadly unchanged wholesale. There is still a few million pounds in terms of the European cleanup, and that will continue as we move away from these small specialty accounts.

The other thing that we flagged in the announcement is clearly that this is the first season where we have withdrawn certain opening price point programs the Nova and the VZ fabric and that's clearly had an impact on our wholesale order book too.

The main factor though is that the consumer is -- our wholesale customers around the world is probably more cautious than we saw them six months ago, whether that's Europe, whether that's US or whether that's Asia travel retail.

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**Julian Easthope** - *Barclays Capital - Analyst*

Thanks very much. It's also good to see that pay as you go really does work in both directions as well, so that's good news. Thanks.



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

Yes, it does.

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

Thanks, Julian.

**Operator**

We will take our next question now from Peter Farren from Bryan Garnier.

**Peter Farren** - *Bryan Garnier & Co - Analyst*

Yes, hello. Two questions from me please.

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

Hi, Peter.

**Peter Farren** - *Bryan Garnier & Co - Analyst*

Hello. The first one is if you could tell us whether the pickup in like-for-like sales for the last few weeks of September was driven by higher store traffic within the stores that you actually monitor.

And the second one is on the weight of men's accessories if you could give us a number?

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

Okay. In terms of the like-for-like, yes, it's really hard to just sort of try and micro-analyze a couple of weeks here and there. So the like-for-like for the last three weeks of September averaged to 2% across the Group. Traffic was still down. Whether it was down a little less than it had been for those -- for that two-week period beforehand I think is perhaps slightly but not to any great degree that we would call out that that's the driver of any kind of perceived recovery.

In terms of men's accessories?

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

Yes, men's accessories fabulous growth again in the first half and it's now running at over 15% of our non-apparel revenue in retail.

**Peter Farren** - *Bryan Garnier & Co - Analyst*

Thank you.



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

Thanks, Peter.

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**Operator**

No further questions in the queue.

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

Okay, well, thank you very much, everybody, for your attention. In summary, we remain very focused on what we can control while continuing to execute on our proven five key strategies. So that's around brand, retail, non-apparel, under-penetrated markets and operational excellence.

We are continuing to invest in flagship locations and emerging markets and product divisions to drive long-term sustainable growth in what remains a very attractive sector. So thank you very much. We look forward to speaking with you on November 7 which is when we will be reporting our interim results.

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**Operator**

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

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