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PRESENTATION

Operator

Good day and welcome to the third-quarter trading update and interim management statement. Today's conference is being recorded. At this time I would like to turn the conference over to Stacey Cartwright. Please go ahead.

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

Good morning, everybody, and welcome to Burberry's conference call. With me this morning is Fay Dodds, our Investor Relations Director. I'm going to make a few brief comments on trading in the third quarter and then Fay and I will be happy to take your questions.

So in the third quarter Burberry delivered an increase of 9% in total underlying revenue, with growth in all regions, all product divisions and all labels across our pyramid. Retail contributed 75% of total Group sales in the period and delivered 13% underlying growth, with 6% comparable store sales growth.

We discussed at the interims how we were intensely focused on flawlessly executing this festive period. We were fast-tracking best sellers, obsessing over visual merchandizing and creating a new gifting experience on Burberry.com. We also released selected spring '13 advertising images earlier than usual to stimulate awareness and traffic. And these initiatives led to a particularly strong week in the run-up to Christmas, in what remained an otherwise difficult quarter.

For the period, the drivers of growth were consistent. So footfall remained soft. We introduced initiatives to improve conversion rates. Customers again opted to purchase higher-end collections, with the penetration of outerwear, Prorsum and London all growing.

In men's, tailoring and accessories outperformed. And we benefited from our investment in digital commerce, enabling a seamless channel experience for our customers.

By region, we saw double-digit comparable store sales growth in Asia Pacific, including both Hong Kong and China, low single-digit growth in Americas, with Europe broadly unchanged.

The better performance in China compared to the second quarter was, we believe, driven in part by an improvement in wider consumer sentiment, but also the self-help measures as we focused our sales associates on driving conversion and cross-selling. And we're now intensely preparing for Chinese New Year in mid February, that's a little later this year than last.

Turning to wholesale, revenue declined 5% in the third quarter. And we've reduced our second-half forecast by around GBP10m to now being down low to mid single digit compared to being broadly unchanged previously.

While wholesale demand in the US, Asia travel retail and emerging markets is still expected to grow, Europe is weaker, particularly the small specialty accounts serving domestic consumers. And we're expecting this trend to continue into the new financial year. As a result, we take a more proactive action to rein back on sales to those accounts where there is a heightened potential credit risk.

And finally licensing, where revenue was up 4% underlying. Full-year guidance remains for a broadly unchanged performance year on year. And here we're particularly pleased with the innovative launch of The Britain, which is our first collection of high-end watches. The Britain already accounts for around a quarter of total watch sales in retail, selling at more than double the average price of our traditional offer in this category.

And the integration of fragrance and beauty is on plan. We continue to work more closely with sourcing, logistics and distributor partners worldwide. And we're looking forward to taking control of the business from April 1, giving us the opportunity to accelerate growth in these categories where Burberry is underpenetrated.

And meanwhile, the team remains focused on the consistent execution of our five key strategies. So in terms of leverage the franchise, we continue to strengthen our position in social media. And selected images from the spring '13 campaign, which launched on December 17, generated over 2m YouTube views since launch, exceeding previous campaigns.

In non-apparel, which is around 40% of revenue, we saw a near 40% increase in men's accessories, a key merchandizing strategy for us, and strong growth in soft accessories, such as scarves, benefiting from our intense focus on festive.

In retail-led growth we opened seven stores and four concessions, with much of the focus in the Americas, including the rebuilt flagship in Chicago, the first ever concession in the US in Macy's Herald Square in New York alongside our luxury peers, and two more stores in Brazil.

And then in underpenetrated markets we continue to engage with the Chinese consumer, both in the home market, where we're expecting to have around 70 stores by year end, that's up from 50 at the time of acquisition two and a bit years ago. And as they travel we have, for example, more than doubled the number of Mandarin-speaking sales associates in Europe over this last year.

And then finally under operational excellence, in October our Blyth distribution center in England started to fulfill our digital commerce orders for all regions except for the Americas. We're delighted with how this transition has gone. And this has supported the outperformance of digital this quarter.

So in summary, we're pleased with the third-quarter performance. Total revenue up 9%, retail up 13%, benefiting from that particularly strong week in the run-up to Christmas, in what otherwise did remain a difficult quarter. And while we expect that the external global environment will remain challenging, we do see continued opportunities to drive productivity in our existing businesses while investing for growth in underpenetrated regions, product categories, channels and mediums.

So with that, Fay and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question today comes from Thomas Chauvet from Citigroup. Please go ahead.

Thomas Chauvet - *Citigroup - Analyst*

Good morning, Stacey and Fay. Two quick questions. The first one, your like-for-like has improved a lot in Asia in the period. And I think you said to the press just now that there was greater consumer confidence in China. Can you comment on the key Asian markets, so Hong Kong, China, Korea and Taiwan? And what do you think is actually Burberry-specific in this strong performance as we are still hearing mixed messages, I think, from some of your European or Chinese peers?

And secondly on Europe like-for-like, can you comment on whether you're seeing a deterioration in demand from local clientele or tourists, please? Thank you.

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

Okay. Well I'll pick up Asia and let Fay do Europe. So in terms of Asia, I think your question, Thomas, was how much is Burberry and how much is market. And I don't know we can divide the two. If you say that half is down to market sentiment, half is down to the self-help actions that we've taken, maybe that's right, but I don't think you can measure it.

Hong Kong and China have been the standout performers. So we've pulled those out as being into double-digit. It's fair to assume that Korea remains weak, as it does for pretty much the majority of the luxury peers, we believe. And the same with Taiwan is at the lower end of performance.

Do you want to talk about Europe?

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

Yes. No, I can take Europe. Again I think in the third quarter we saw the continuation of the trends in the first half, that France and Germany were the more robust markets. Italy, from a retail and a wholesale point of view, remained very difficult.

And the UK, which is our biggest European market, is really difficult for us to read at the moment given the amount of new space we've put down. We've opened Regent Street; we're delighted with the performance of that. We've opened a new Knightsbridge store, menswear store. Again that's good strong performance in the very early days. It's quite difficult for us to read what's going on in the underlying UK market given that less than half of our sales are in that [com] number.

And in terms of is it local or domestic, again quite difficult for us to unpick. I don't there is any particular trend we'd want to call out.

Thomas Chauvet - *Citigroup - Analyst*

Thank you.

Operator

Comes from Antoine Belge of HSBC. Please go ahead.

Antoine Belge - *HSBC - Analyst*

Yes. Good morning. Antoine Belge, HSBC. Three questions, if I may. First of all, maybe since you've commented on Asia and Europe, maybe a comment on the US and if you've seen a sequential improvement in the US versus the previous quarter.

Then the second question relates to women's accessories, and particularly handbags. You've mentioned men's accessories doing well, many categories within apparel doing well as well. So should we assume that women's accessories underperformed and maybe that's a short-term thing linked to the discontinuation of nova check or other?

And finally maybe a question on your new guidance for Europe. I think you made it quite clear that it was especially -- the downgrades was mostly driven by your own initiatives. And on those initiatives, what is the part which is linked to, I would say, [short] and management of bad debt or trying to avoid those? So what is more leaning to the structural move towards less specialty resellers, especially in the south of Europe?

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

Okay. We'll take them in reverse order, I think. I'll take Europe wholesale and women's accessories and let Fay take the US.

So the downgrade that we commented on today in terms of European wholesale is really linked to largely Italy and us taking a much more cautious view on what we are happy to ship into that market, the amount of credit risk that we're prepared to carry. Italy is the largest of our wholesale markets. If you know that marketplace, it's not a department store-led market. It is very much led by the smaller mom-and-pop specialty multi-brand stores.

And we've been, if you like, raising the bar on the number of accounts that we have in that market, the way in which we operate them for a number of years now, taking out several million pounds worth of revenue on a season-by-season basis because it's the right thing to do for the brand in terms of elevating the brand presence in that market. Here this is really driven by sensitivity to what we're going to ship. If there's a heightened risk that we won't get paid for it, there's not much point in shipping if it just turns into a bad debt. So that's really the -- if you focus in on what's the change since we gave the last guidance, it's credit-related.

In terms of women's accessories, by definition, Antoine, we call out the strongest performers. We've often called out in the past that women's accessories, large leather goods have been the stronger performers. Now we've called out that the stronger performances have come from particularly men's accessories rather than the women's accessories. Yes, clearly nova will have had an impact within that. The underlying offering within women's leather bags remains very strong indeed, and you only have to walk into the store or go on Burberry.com to see that.

Do you want to talk about the US?

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

Yes. In terms of the US, if you're looking at retail comps, they did improve slightly in the third quarter, again helped by that strong Christmas week. And they were broadly unchanged in the first half and up low single digits in the third quarter. Digital was very strong for us in the US, so delighted with that performance as well.

It is worth pointing out that the US is still more affected by the rationalization of the opening price point products in core handbags and outerwear than perhaps the other regions, but pleased with the performance in the US. And then Chicago, which opened late in the quarter, performing very well for us. And then the Macy's concession, which Stacey talked about, opened very, very late, just before Christmas, but that's really [encouraging] for us as well given that we're there with all our luxury peers.

Antoine Belge - *HSBC - Analyst*

Okay. Thank you very much.

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

Thanks, Antoine.

Operator

John Guy from Berenberg. Please go ahead.

John Guy - *Berenberg Bank - Analyst*

Good morning, Stacey, Fay. Happy New Year. Just a couple of questions, please, from me. First of all, could you highlight some of the initiatives that you used to drive footfall during the quarter and maybe talk about some of the incentives that you provided your sales teams to convert at high rates? That's the first one.

And Antoine's just talked about the wholesale side so that's fine.

And then just on the AUR, was that up double or single digit, please? Thanks.

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

Yes. We don't go into the details as to how much any of the metrics are up, John. So I'm going to tell you right off, we're not going to say we were up X% in the AUR. We were up nicely in AUR, as we said, because of the higher-end luxury offering that consumers were choosing to buy.

In terms of the initiative to drive footfall, this was -- obviously there was a huge focus on digital marketing to be able to drive as much traffic into the stores and onto Burberry.com. But recognizing that we do see softer traffic, we believe that that is sector-wide. And really it's, in our mind, the more aspirational consumer who is more impacted by the global economic position right now. And the more resilient purchases are coming from the higher end, luxury consumer.

So recognizing that footfall is down for all -- was down for us, yes, we put a number of incentives in place. It's the usual stuff that you'd expect us to be doing in terms of incentivizing our teams to sell more, upgrade the selling and provide the highest-quality service when the consumers are in the store. I don't know if there's anything more specific we'd want to add.

John Guy - *Berenberg Bank - Analyst*

Just on that, is it a question therefore, when you were laying out some of the stores for the third quarter, that the product mix was significantly different than previous quarters in terms of consciously recognizing that the more resilient consumer was spending towards the high end? And conversely, I suppose, did you also have where you thought you could drive footfall a few more opening price points or discounted products that you were trying to drive footfall?

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

No, no, no. We're not playing the discounting game. So there's a continuation of the theme in terms of making sure that the stores look as beautiful and as appealing as they possibly can. It's why we have the visual merchandizing teams literally working round the clock to optimize what we have. We talked about fast-tracking a few of the high-impact products that we thought would make a difference, not in terms of the volumes that they sold but in terms of the impact that they had in the store to create that wow experience as you walked in. It was more in that sort of nature.

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

The product is being very, very consistent. The themes that we've talked to you today are the themes that we've been talking to you about for the last couple of years. I think there was a more intense focus on gifting, and you saw that with the performance of the soft accessories, but there was nothing that was a change of strategy.

John Guy - *Berenberg Bank - Analyst*

That's fantastic. Thanks very much.

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

Thanks, John.

Operator

Our next question comes from Rogerio Fujimori from Credit Suisse. Please go ahead.

Rogerio Fujimori - *Credit Suisse - Analyst*

Hi, everyone. In wholesale, you highlighted growth in US department stores, travel retail in emerging markets. So I just wondered if you could give us a bit more color in each of -- for each of these pockets. Are we talking about single-digit growth, low double digits, strong double digits? And do you believe Burberry is still gaining share in US department stores?

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

Yes. Generally it's single-digit growth in all of those three areas. Emerging markets is very much driven by our franchise partners in the new areas. Travel retail working much more closely with our big partners in Asia to make them big strategic partners, like we work with the US department stores, and to take advantage of the flow of Chinese consumers particularly as they travel through Asia.

And then on the US, again concentrating really on the top four or five partners we have there, getting more shop-in-shops, driving the productivity of existing [sales]. So again, real continuation of the strategies that we've talked to you about in the past.

Rogerio Fujimori - *Credit Suisse - Analyst*

Thank you. And with regards to gifting in China, have you noticed qualitatively any change in trends reported by your people?

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

Yes, and it's really hard, Rogerio, to know what the end destination of purchases are. There's clearly a return in sentiment. Whether it's a return of gifting I don't think we can comment.

Rogerio Fujimori - *Credit Suisse - Analyst*

Good. And your inventory position at the end of December in terms of ageing, replenishment focus?

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

I think I told you at the interims that the inventory was in the best shape it's ever been. I'm probably even more pleased at the end of December.

Rogerio Fujimori - *Credit Suisse - Analyst*

Excellent. Thank you very much.

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

Thanks, Rogerio.

Operator

(Operator Instructions). Our next question comes from Allegra Perry from Cantor Fitzgerald. Please go ahead.

Allegra Perry - *Cantor Fitzgerald - Analyst*

Yes. Good morning. I've two questions, please. Firstly, I was wondering about potential calendar effects in the quarter. I guess given that Christmas fell on a Tuesday in 2012 versus a Sunday the year before as I guess there would have been almost a full additional weekend in December.

And secondly, on the US I was just wondering if you could update us a little bit on how that concession's performing and whether you're already considering a rollout of further concessions in the market. Thank you.

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

Okay. The calendar effects, Allegra, you're absolutely right. Christmas fell a couple of days later, therefore you've got an extra weekend in. What impact did that have? I don't think we know. We had a particularly strong week in the run-up to Christmas, undoubtedly helped by, yes, the calendar shift as well, but all of the other activities that we just articulated. Very difficult to try and unpick that.

In terms of the US concession, literally they opened two days before Christmas, Allegra. Please, it's a little early to start talking about anything broader off the back of that.

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

And the other point on the calendar effect is clearly you need to be very cognizant of what's going on in terms of Chinese holidays. So the start of our third quarter benefited from a later Golden Week. And then clearly as we go into our fourth quarter, Chinese New Year is going to be the middle of February rather than the end of January, so that's going to make our sales performance very difficult to unpick. But that's one of the joys of being a retailer.

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

It is.

Allegra Perry - *Cantor Fitzgerald - Analyst*

Great. Thank you very much.

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

Thanks, Allegra.

Operator

Our next question comes from Louise Singlehurst of Morgan Stanley. Please go ahead.

Louise Singlehurst - *Morgan Stanley - Analyst*

Morning, Stacey. Morning, Fay.

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

Hi, Louise.

Louise Singlehurst - *Morgan Stanley - Analyst*

Two or three quick questions for us too, please. Firstly just on the pricing dynamic, have you -- can you talk about the pricing particularly for Europe? And I know we spoke about this last year as well, but a few of the peers have been talking a bit more favorably about pricing in the region for calendar '13 as well.

Secondly, can you comment on the exit rate? Obviously you talked about Christmas being much stronger, so presumably above the 6% coming out of the period.

And then thirdly, I know you won't give us a number, but can you comment just on the inventory position as well? Thank you.

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

Okay. And the inventory piece, Louise, you may have missed what I said. I think it was Rogerio who just asked that and my only comment there is if inventory was in great shape at -- or the best it's ever been at the interims, then I'm even more pleased now at the end of December, so continuing the improvements that we've been talking to you about over the last few months.

In terms of the exit rate, I don't know that you can draw any -- it's not really relevant. We talked about a particularly strong end to December, but that's Christmas for you and there are so many other factors in there I don't really think that's anything that anybody should certainly be extrapolating. We were trying to articulate that the 6% like-for-like should not be extrapolated forward into the fourth quarter. Things do remain very challenging out there.

And then in terms of pricing, and you mentioned Europe in particular, yes, we're constantly looking at what our peers are doing on pricing. We're constantly looking. Our merchants are obsessing over the whole price value equation for consumers. And yes, we do look to nudge up prices where appropriate to do so. But remember it's not about blanket increases. We're looking at when is it appropriate to move to the next price point, particularly if we've added some innovation or new feature to an item, which means, whether it's leather or fur or anything else, it enables you to go to the next price point. So it really is done line by line.

Louise Singlehurst - *Morgan Stanley - Analyst*

Great. Thank you. And then just a quick follow-up. In terms of adjusted pretax for this year, I think consensus is about GBP403m. I know you usually get the question. Are you happy with that number?

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

Yes. It's GBP403m, but the range is quite wide. So GBP390m, I think, at the low end, and GBP417m at the high end. And I think our expectation is based on what we said today. Those in the bottom half may well nudge up towards the middle or the top half and those in the top half may well stay where they are.

Louise Singlehurst - *Morgan Stanley - Analyst*

Super. Thank you.

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

Thanks, Louise.

Operator

There are no further questions.

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

Okay. Well thank you very much, everybody, for joining us. As Angela said in her quote this morning, looking forward we do expect the external environment to remain challenging, but we do see continued opportunities for Burberry for us to drive productivity and growth by region, by channel and product.

We're going to look forward to speaking with you on April 17, which is when we will update you on the full second-half sales performance. Thanks very much.

Operator

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