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Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Burberry first-half trading update conference call. Today's conference is being recorded. At this time I'd now like to turn the conference over to Carol Fairweather, CFO. Please go ahead.

Carol Fairweather - Burberry Group plc - CFO

Good morning, and welcome to Burberry's first-half trading update conference call. With me this morning is Fay Dodds, our Vice President of Investor Relations. I will make a few brief comments on this morning's announcements and then we will be happy to take your questions.

So, before I turn to trading, you will have seen that Angela, who has been the CEO since 2006, is stepping down in mid-2014 to take a newly created position with Apple; and that Christopher is to be appointed as Chief Creative and Chief Executive Officer.

For Burberry this demonstrates succession planning in action. Our strategies, which have underpinned our success in recent years, will remain unchanged as Christopher has been an integral part in developing these over the past 12 years.

This is a natural progression for Christopher and shows his dedication to, and passion for, the business. He is supported by a world-class experienced operational team, many of whom you know. And to assure a seamless transition, Angela and Christopher will continue to work closely over the coming months.



Turning now to trading. This half is the first period where we have directly operated Beauty as our fifth product division. You will have seen in the statement we have tried to set out clearly the performance of the existing Apparel and Accessories business, and of the Beauty business.

In the first half, total revenue grew 14% underlying, or 17% at reported rates. And, as we said this morning, we now expect adjusted PBT for the first half to be around the level of the prior year, better than down as previously guided.

It is, however, worth noting that, since we last spoke in July, sterling has appreciated against the dollar and dollar-denominated currencies. If current rates persist, this will negatively impact the translation of second-half revenue and profit compared to where we were in July.

Retail sales contributed 67% of revenue in the half, and increased by 17% at constant FX rate. Although uneven, comparable store sales growth was 13% in both quarters, with double-digit growth in Asia Pacific and EMEIA, and high single-digit growth in the Americas.

Footfall remained soft globally offline and grew online, with increased conversion in both. And product mix and innovation increased average selling prices.

We continue to be pleased with our performance in mainland China, underpinned by brand, product and real estate evolution. Although comparable store sales growth slowed very slightly in the second quarter, this was offset by Chinese customers buying elsewhere in Asia, especially in Hong Kong, and in Europe. And this is why we are focusing our investment in flagship markets, be it real estate, marketing or customer service resources.

The other market I would call out is the UK, as London anniversaried the Olympics last year. We did see a nice improvement in comp growth in the second quarter. But remember that Regent Street only went into comp in mid-September and Knightsbridge is still in non-comp. So it is still quite a difficult market to read.

With the regions taking ownership of digital commerce in their markets, online sales continue to outperform globally. And we are increasingly seeing our customers interact with us across all channels. For example, collect in store is now in about 50 stores across EMEIA and Americas.

Wholesale, excluding Beauty, declined by 7% underlying, which is marginally better than guided as we saw reorders globally, reflecting strong brand momentum, as well as a timing benefit in the US. We are expecting a mid to high single-digit percentage underlying increase in second-half wholesale revenue, excluding Beauty, with our key markets of the Americas, Asia travel retail and emerging markets showing good growth again.

Before I turn to Beauty, a quick word on licensing. Again, excluding fragrance from last year's numbers, licensing revenue increasing by 2% underlying, with double-digit growth from watches and eyewear, and an unchanged performance in Japan as expected.

On Beauty, we are pleased with the progress we made in the first six months of direct ownership. We have built a great team. We have managed through a complex transition period, especially in the supply chain. And our first launch in September, Brit Rhythm for Men, has been successful, supported both by innovative digital marketing and TV advertising, which has only just started in the US. All of which gives us great confidence that we can capitalize on the opportunities we have in Beauty over time.

In the first half, Beauty wholesale revenue was GBP51 million, with full-year guidance remaining at around GBP140 million. However, we now think that the mix of sales in this transitional year will be slightly different from our earlier plans. We are shipping less of the existing lines, due to disruption in the first two months of direct operation, while we are planning to ship more of the new launches, which will be supported by additional marketing investment.

We are still learning about this business and, with the key sell-out periods still ahead of us, we will share our outlook for H2 as the year progresses.

Globally we continue to execute against our five key strategies. Under leverage the franchise we extended our digital leadership in luxury, with innovative collaborations with Google for Burberry Kisses and with Apple where we used the iPhone 5s to film the Spring/Summer 2014 runway show, driving increased reach and engagement.



Under intensify accessories the penetration of solid leather bags increased year on year and key shapes performed well. For example, The Crush is a top 5 shape already, having only been introduced in the runway show in February.

Under accelerate retail-led growth we opened 14 mainline stores and closed 8, in line with our full-year plans. We opened two stores in the flagship market of Shanghai and a fourth store in Japan, in Roppongi Hills in Tokyo, selling the global collection as we prepare for the end of the license in June 2015.

In under-penetrated markets we continue to build our presence in Central and South America, both through own retail in Brazil and Mexico and via franchise in markets such as Colombia and Chile, where our first store opened recently.

And, finally, under operational excellence, as well as the huge effort the supply chain have put into Beauty, all digital fulfillment is now done in house from our facilities in the UK and, since August, in the US.

In conclusion, as Angela said in her quote this morning, we are pleased with our first-half performance, particularly in retail, and have managed through a complex transition period in Beauty.

Looking forward, we expect the external environment to remain uncertain and currencies volatile but we're excited by the growth opportunities available to us globally in Apparel, Accessories and now Beauty, both online and offline.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Thomas Chauvet, Citi.

Thomas Chauvet - Citi - Analyst

A few questions, please. The first one, can you elaborate on the separation of responsibility of the senior management team now between Christopher Bailey, the design team working for him, John Smith, yourself?

What would be the main changes in the way the Company's run on a day-to-day basis? I understand the strategy likely to be unchanged, but there might be some fine tuning on the way it's run.

Secondly, if we look at the evolution of regional LFL, was there an underlying improvement in European local demand and a deterioration in US domestic demand in the second quarter? I understand China might be disruptive here.

And if mainland China LFL was up only high single digit, what was the growth of the total Chinese clientele in Q2?

I was just also curious to know whether September like for like showed a deceleration relative to July and August, as seen with your peers.

And, finally, on Beauty you're talking about greater product launches and A&P to impact profitability. Are you guiding for lower profitability than the 18% margin you have guided for at the full-year results? Thank you.



Carol Fairweather - Burberry Group plc - CFO

So first of all, in terms of the announcement about the Board change this morning. So Christopher will be stepping up to Chief Creative and Chief Executive Officer. We're very excited for both Angela, who's leaving for an exciting new role, and for Christopher. This is great succession planning in action. It is a natural progression for Christopher.

Your question about the team, important to say he has a very strong creative team beneath him and a very strong executive management team working alongside him with many of those members of the team having been in place for five years or more. And we've got very strong regional chief executives, many of whom you've met, strong chief marketing officer, supply chain officer, clearly you know John Smith.

So in terms of how it's actually going to work, clearly we'll be working through the transition over the next few weeks. But really important to note that strong team beneath him, strong team alongside him and that no change to strategy, because Christopher's been working now with Burberry for 12 years and has been absolutely influential in the strategy that we have set ourselves as an organization in executing that and very excited about the opportunity to take that forward.

Do you want to do the regional question, Fay?

Fay Dodds - Burberry Group plc - VP, IR

So, Thomas, you asked about the regional like for likes. If you look at Asia Pacific, that was basically double digit in the first quarter and the second quarter. EMEA actually accelerated slightly, but this is very much at the margin and, as Carol said, that was driven predominantly by the UK. But do remember that Regent Street didn't go comp until the middle of September and Knightsbridge doesn't go until end of October, so I wouldn't read too much into that.

And then with the Americas again, there was a slight slowdown in comp growth in the second quarter but nothing really to call out in terms of trends. I think overall globally what we would say is that it's still pretty patchy, pretty uneven.

When you look at China, we're delighted with our performance in the second half, which is still up high single digit. But what we did call out in the statement is that we do believe that during that quarter in particular there were more Chinese luxury customers traveling because we saw an acceleration in the rest of Asia, we saw robust growth in Hong Kong and we did see a higher proportion of transactions from tourists in Europe, and that was particularly the Chinese tourist.

Carol Fairweather - Burberry Group plc - CFO

And then in terms of Beauty, as you'd have seen, we're holding the GBP140 million revenue guidance and commenting the fact that that is now more skewed towards new product launches rather than existing product, partly because IP sold quite a lot of that existing product into the market prior to the transition and partly because supply chain, as we anticipated, was a little bit bumpy in the early months.

But very happy with the new launches, but mindful of the fact that, with that skew towards the new launches, that does require the right amount of marketing investment, particularly in this transitional year. And, therefore, we are calling out that we may be shy now of the GBP25 million profit and, therefore, the 18% margin we had talked about. But important to note it's a transitional year and that we will be looking, as we always do, to offset any shortfall resulting from that marketing investment elsewhere in the business, adopting our pay-as-you-go approach.

So no change other than currency, which we flagged today, to the full-year expected outturn at this stage.

Thomas Chauvet - Citi - Analyst

Thank you, Carol. Just a follow up on the like for like. I know you don't comment on monthly like for like but a lot of your peers have talked about a very soft month of September. Did you notice anything particular relative to July and August that worries you?

Carol Fairweather - Burberry Group plc - CFO

Again, we don't comment on like for like, so I don't think we'll be changing that this morning.

Fay Dodds - Burberry Group plc - VP, IR

[You can expect] patchy and uneven.

Thomas Chauvet - Citi - Analyst

Thank you.

Operator

Warwick Okines, Deutsche Bank.

Warwick Okines - Deutsche Bank Research - Analyst

Three questions from me as well, please. Firstly, you talked about timing effect in the US wholesale. Can you just explain what that was and maybe quantify what the effect was on your sales?

Secondly, could you give us a bit more help about your Beauty outturn for the first half? You have guided for a decline in profit. I was just wondering if you could scope out whether that's a small decline or GBP10 million or what have you.

And then, thirdly, could you give us the H2 hedge rate for the yen, please? It would be helpful to have that number.

Carol Fairweather - Burberry Group plc - CFO

So in terms of timing in US wholesale, we called out that around the H1/H2 cutoff, and sometimes it's just around when department store want us to shift more than anything else, but actually part of that GBP8 million improvement we saw from minus GBP7 million to minus GBP10 million, was driven by US timing, and probably around GBP4 million at the revenue level, something like that. So not an upgrade to the full year, just timing around H1/H2.

In terms of Beauty, we anticipated that Beauty would be, at the PBT level, diluted in year 1 this year in H1, compared to last year. And that has been the case and I'd put a few million on it.

Fay Dodds - Burberry Group plc - VP, IR

And then, finally, in terms of the hedge rates, if you look -- I can give you the first half and the full year. First half this year it was about JPY1.29 to GBP1 against JPY1.25 last year. For the full year it's looking like about JPY1.37 against JPY1.27 last year.

So you can see there will be more of an impact in the second half because I think the yen started to move last October, last November.



Warwick Okines - *Deutsche Bank Research - Analyst*

Thank you very much. And just coming back on the Beauty profits, when we come to the H1 results, are you going to give us that number?

Carol Fairweather - *Burberry Group plc - CFO*

I think we'll give you an indication of the impact in H1, yes.

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

You've got to remember it is being run as our fifth product division, so there is quite a lot of shared cost as well.

Carol Fairweather - *Burberry Group plc - CFO*

And only in this transitional year will we be calling that out because we wouldn't normally call it out. But important to note it is a transitional year and that's why it's slightly lower.

Warwick Okines - *Deutsche Bank Research - Analyst*

Great. Thanks very much.

Operator

John Guy, Berenberg Bank.

John Guy - *Berenberg Bank - Analyst*

Just a couple of questions from me, please. First of all, with regards to the 13% retail LFL, could you give us an indication in terms of the volume and value splits, please, within the LFL for the second quarter?

Also wanted to just take a look at the Accessories underlying trend, which seems to have slipped a little bit. And maybe you could comment on what you're doing within the Accessories business and why that was a little bit softer.

And, finally, with regards to the rest of Asia, I know that you're obviously very pleased with the performance in mainland China and I think that's a pretty strong performance relative to what we're going to see from some of our peers.

But could you just talk about maybe quantify some of the outperformance in some of the other areas? So how Korea is performing, Singapore and also you called out Hong Kong as well as being pretty strong. So maybe some numbers around those, please. Thanks.

Carol Fairweather - *Burberry Group plc - CFO*

In terms of the 13% like for like, John, most of that did come from increase in selling prices, driven effectively by product elevation rather than just like-for-like price increases. So the majority of that did come from selling prices.

I'll just go to the rest of Asia and then Fay will come back on Accessories.



In terms of the rest of Asia, we don't always split out the numbers but sufficient to say Hong Kong is looking very robust and, again, underpinned, I think, by that traveling Chinese consumer. Korea, in our own business we are seeing that beginning to turn around. We've talked to you before about having had a new management team in place. So overall happy with the performance in Asia.

Fay Dodds - Burberry Group plc - VP, IR

And in terms of Accessories, I think what you're doing is you're looking at the half 1 number compared to half 2 last year. Don't forget that this year in half 1 --

John Guy - Berenberg Bank - Analyst

You've got GBP2 million. GBP2 million change, is it, on the --

Fay Dodds - Burberry Group plc - VP, IR

Well, there's GBP2 million change, which is the Beauty, but what I was actually going to say is this year in half 1 the discrepancies between retail and wholesale, the performance, retail was up 17%, whole was down 7%, that probably impacts the growth rates you're looking at.

We are hugely -- if you look our mainline retail, very confident in our large leather goods strategy, as Carol talked about. It's driven by solid leather, it's driven by some of our key fashion shapes; we've got brilliant growth coming through from men's accessories; really exciting festive offer coming up. So I don't think there's anything to worry about. I think it's just more the sums when you're looking at half 1 on half 2 last year.

John Guy - Berenberg Bank - Analyst

That's great. Thanks very much indeed.

Operator

Annabel Gleeson, Redburn.

Annabel Gleeson - Redburn Partners - Analyst

I was just wondering could you give us a little bit more of the specific deadline -- or timeline, even, on when Angela's leaving? I think the Apple statement says she's joining in spring, you're saying mid-2014. What exactly is the timeline there?

The second --

Carol Fairweather - Burberry Group plc - CFO

I think it's just perhaps the way the US call out spring versus the way we call out spring. So we're absolutely working towards the transition in mid-2014, so around June time, I think, but to be confirmed finally.



Annabel Gleeson - *Redburn Partners - Analyst*

Okay, thank you. And how involved has Christopher been to date in the running of the day-to-day business and also in the planning for the Japan transition?

Carol Fairweather - *Burberry Group plc - CFO*

Christopher has been in -- as we've said at the beginning, Christopher has been involved in strategy in the whole 12 years that he's been here. So in terms of the day-to-day business in his role as Chief Creator Officer, everything you see and feel about the brand. But also commercially a lot of the initiatives we've been involved in, Christopher's been heavily involved working alongside the regional chief executives, alongside supply chain.

So he has been very involved in the business to date and we've got a very strong team beneath him and, as I said earlier, working alongside him in terms of the whole executive team, many of whom I think you've met, Annabel.

Annabel Gleeson - *Redburn Partners - Analyst*

Okay, no. Thank you very much.

Operator

William Hutchings, Goldman Sachs.

William Hutchings - *Goldman Sachs - Analyst*

Two questions. One is the change to the first-half profit guidance and how we should disaggregate what's going on with the currency implication for your profit, and particularly on your gross margin versus your EBIT margin for the first half. And that statement that you say will impact the translation of second-half revenue and profit, if you could just help us understand to what quantum on that.

And then the second question was about store openings. I know you're not changing your guidance for full year, but has anything changed in terms of your thinking about the pace of openings and closures from what you've learnt in the first half for the second half? Thank you.

Carol Fairweather - *Burberry Group plc - CFO*

So talking to H1 first, William, we did see a modest currency benefit in H1 in terms of reported PBT but we're only 15 days in so we're just working through that. So we'll come back and be more specific about that when we report the H1 PBT numbers, but we are anticipating a small benefit from FX in H1.

We see that then absolutely moderating and going away in H2. And to give you some quantum, when we last spoke to you back in July, if we simply translate what we think the H2 may look like at latest exchange rate versus what the exchange rates were in July, we see at the PBT level in excess of a GBP10 million swing adversely compared to where we were in July, just to put some quantification on it for you.

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

And in terms of the store openings, we said at the prelims in terms of mainline stores we'd open about 25 and shut about 15, and that's what the plan still is. A couple of stores have split, as they always do, but still very happy with our original plans with those openings biased towards the high potential markets like China, Brazil, Mexico and India.



William Hutchings - *Goldman Sachs - Analyst*

Okay. And no more openings in Japan in the second half.

Carol Fairweather - *Burberry Group plc - CFO*

I don't think so.

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

I don't think so, no.

William Hutchings - *Goldman Sachs - Analyst*

Okay. Thanks very much.

Operator

Erwan Rambourg, HSBC.

Erwan Rambourg - *HSBC Global Research - Analyst*

Three questions if I can, please. First maybe a naive question on --

Carol Fairweather - *Burberry Group plc - CFO*

Erwan, you're very crackly, I don't know if you can be a bit clearer.

Erwan Rambourg - *HSBC Global Research - Analyst*

Is this better? Can you hear me?

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

Just about.

Carol Fairweather - *Burberry Group plc - CFO*

Go ahead, we'll see if we can --

Erwan Rambourg - *HSBC Global Research - Analyst*

Okay, I'll try. So first a naive question on talent management. I think many times in meetings with Angela and yourselves when you were asked what's a risk for the Company, you pointed to key (technical difficulty) risk and to talent potentially leaving the Company.



As Angela steps down mid-2014 what can you put in place to ensure you don't have other talented managers leaving the Company? I know this is a bit of naive question but I think it's quite important to get a sense of how you lock in, so to speak, senior management.

Secondly, I was wondering if you could give a sense of what the range of real consensus, if I can say, is in terms of PBT for the year and explain why, despite slightly tweaking the H1 PBT guidance, you're not touching the full year one.

And then thirdly, if you can explain the shift in wholesale, the rebound you're expecting for H2. Do we -- should we understand that you've addressed most of the legacy issues in terms of distribution at wholesale now? Thank you.

Carol Fairweather - Burberry Group plc - CFO

So to your first question on talent management, I think what you've seen today is absolutely succession planning in action. So, as you would expect, as a Board and as a management team, we are constantly keeping under review succession planning and Christopher's absolutely been our preferred successor for a number of years and so we're delighted that he's been able to step up in that role today.

And that goes deeper in the Company than just for all of the key executive roles. We regularly review at a Board level where the succession plan is coming from. So rest assured there's robust succession planning in place for talent.

In terms of retention, it's around continuing to grow people, it's around continuing to give them new opportunities and, of course, it's around reward as well. And all of those combined and the great opportunities we have ahead of us in Burberry, I think if you look at the key executive team that we're talking about today, working alongside Christopher, we're saying that many of us have been there working at Burberry for in excess of five years, so I think that speaks for itself.

Talking then for the range for consensus PBT for the full year, going into today we saw it at the average being around GBP472 million, with the range being GBP455 million to GBP509 million; the second highest being GBP493 million within that.

Given that we're not really changing any guidance today for the core business, we're not expecting consensus to move necessarily significantly other than for people who perhaps want to factor the impact of FX into their models in H2 if they haven't done so already.

And Fay, in terms of the wholesale shift?

Fay Dodds - Burberry Group plc - VP, IR

Yes, and I think what you're seeing in terms of second half wholesale is really our customers globally having a less cautious approach to buying.

So if you think for the first half they were in last November placing the orders, when luxury goods as a whole had slowed. For the second half they were in at May, when everyone was probably feeling a bit jollier. So I think we've got less cautious buying by our customers globally. And what you're seeing is the re-emergence of the US, Asia travel retail and emerging market franchise partners as our growth drivers.

Europe still -- there's still some continuing account rationalization, but we are seeing also good growth from those accounts that we're working quite closely with. So it's more about the mood of the wholesale customer than it is swinging account rationalization.

Erwan Rambourg - HSBC Global Research - Analyst

Okay, thanks a lot. Sorry you couldn't hear me well. Thank you. Very clear.



Operator

Fraser Ramzan, Nomura.

Fraser Ramzan - Nomura - Analyst

Just really a follow-up question on the 13% comp you reported in the quarter. I guess that number was delivered against a backdrop of negative store traffic and I know, as a business, you think of digital-enabled sales rather than online sales per se. But how important were sales generated online to that 13% comp in the quarter, i.e., not ones that were done by your associates in store, but instead customer-driven online sales?

Carol Fairweather - Burberry Group plc - CFO

Fraser, as we've talked before, increasingly, we're becoming agnostic, as you reference, about how the customer likes to shop. So we're calling out that digital did outperform within that comp number that we talked to today.

iPad sales in stores and collect in store were very successful but, within that, we were still very happy with the balancing contribution that came from people accessing from home or the office or wherever. So very happy with the momentum we've got in our digital business, making sure we can service that customer however they want to shop.

Fraser Ramzan - Nomura - Analyst

I guess the reason I'm asking the question is I'm just trying to understand, as your space contribution number moderates relative to what it has been previously, part of that strategically in the landscape is obviously the customers choosing to shop in different ways and sales generated digitally become increasingly more important.

So while you might not quite have the space you've had previously, actually that can be mitigated or offset -- more than offset by sales generated digitally and particularly by the customer themselves, going forward.

Fay Dodds - Burberry Group plc - VP, IR

Yes and I think there's two answers to that. The first is don't forget this year it's a relatively small space-opening program, given the space that we've opened in the last couple of years.

So I think we pointed that out in May just to say, remember, we have had two years of almost record space growth and this year, just because of the way of timings, is much lower.

I think the point about digital is one of the things that we're thinking about a lot internally. We are agnostic about how the customer will shop, but we do believe that, as a luxury goods company, we still need those stores because the customer still wants that in-store experience if she's spending GBP1,000 on a trench coat.

Fraser Ramzan - Nomura - Analyst

Yes, understood.



Fay Dodds - Burberry Group plc - VP, IR

If she's buying baby gifts or wellingtons, she can do that online. So I think it's a very good challenge and it's one that we're working through internally.

Fraser Ramzan - Nomura - Analyst

Great. Thank you very much.

Operator

Mario Ortelli, Bernstein.

Mario Ortelli - Sanford C. Bernstein - Analyst

We should expect a less involvement of Christopher in the designing part of his role. So should we expect a less involvement of Christopher [terms] of development of entry level collection like the Brit, less involvement in defining the guidelines for the advertising campaign and the definition of a store concept or even definition of the online marketing initiative?

And, moreover, should we expect any change in the organization of your creative department with Christopher having to dedicate less time to this part of his role?

Carol Fairweather - Burberry Group plc - CFO

No. So in answer to your question, Mario, in the terms of -- Christopher has an incredibly strong team beneath him, so will absolutely still retain oversight influence over everything that we do creative for this organization, as he always has done, from the collection, to the marketing campaign, to the stores. So no change.

But he has a very strong team beneath him to whom he gives that design direction and then who execute to those strategies. So we don't anticipate any dilution of that whatsoever.

And in terms of organizational change, again, over the last few years -- in fact many of his designs have been with him almost the whole time he's been here, so he has a very strong team. So not expecting any organizational change in the team beneath him as of today.

Mario Ortelli - Sanford C. Bernstein - Analyst

Can you remind me how many people do you have in your design department?

Carol Fairweather - Burberry Group plc - CFO

About 70, something like that. And also, Mario, to say it's not just about the design team; it's about the wider organization and the strength we've got in the whole exec management team. Again, many of us having been in place for five years plus.

Mario Ortelli - Sanford C. Bernstein - Analyst

Thank you.

Operator

Omar Saad, ISI Group.

Vick Mohan - ISI Group - Analyst

This is Vick in for Omar. There was some news out yesterday that the UK may be easing Chinese tourist visa requirements. I was just wondering how you think about this and how you think this could affect your business.

Carol Fairweather - Burberry Group plc - CFO

We always talk about -- we've been very focused on making sure that we can service the Chinese consumer wherever they want to shop, be that in their home market or in our flagship markets all over the world, which is why we've continued to invest in those flagship markets.

So that said, it is pleasing news to hear that the restrictions may be lifted for the UK. So we were pleased to hear the news yesterday, but important that the Chinese are important in all of our flagship markets.

Vick Mohan - ISI Group - Analyst

Thank you. And in terms of the mix shift to some of the higher end collections, is this continuing? And how much farther do you think it has to go?

Carol Fairweather - Burberry Group plc - CFO

Yes, I think there has been a shift over the last few years and I think we're broadly happy with the shape of the pyramid as it sits today. That does change sometimes half on half, but not expecting any significant changes going forward.

Vick Mohan - ISI Group - Analyst

Thank you very much.

Operator

(Operator Instructions). Rogerio Fujimori, Credit Suisse.

Rogerio Fujimori - Credit Suisse - Analyst

I was just wondering if you could give us an idea of the present size of the distribution network for fragrances and beauty compared to the setup under the previous arrangement and the planned cleanup of an appropriate point of sale done in the first half.

And secondly, to grow Beauty coming years, how do you plan to overcome the barrier to entry of distribution controls from leading brands like Chanel to make Beauty a sizeable business for Burberry? Thank you.



Carol Fairweather - Burberry Group plc - CFO

I think in terms of -- you were talking about the distribution network. As we said, we pretty much stepped into the shoes of IP with the distributors they were working with. So at the moment, there has been no significant change. Clearly, over the coming years, we may look to do something different.

The only change really was where we stepped in where IP were currently distributing themselves as a wholesaler and there we've signed a distribution agreement with BPI for the US, Spain, France and travel retail.

So no significant changes at the moment.

And in terms of the -- I think your second question, it was difficult to hear, was around the opportunity in Beauty and how we build it to the scale of something like Chanel I think you called out.

I think we've shared with you before the size of our Beauty business versus our Apparel business and theirs. And we see significant opportunity, as we begin to build this business to scale, focusing around those pillar fragrances, of which Brit Rhythm Men that we just launched was the first one under our own control.

Rogério Fujimori - Credit Suisse - Analyst

Thank you.

Operator

Julian Easthope, Barclays.

Julian Easthope - Barclays - Analyst

I've got a couple of questions on Japan and one on Beauty, if I may.

The first on Japan is just with regards to the new openings and, first of all, how the existing openings are faring currently. Within your medium-term forecast of mid single-digit growth coming through from new space, does that actually include some Japanese openings in there?

The second question is a fairly simple one, I guess. The current rates on the yen's like JPY157 to sterling and it looks like you're averaging JPY133 for last year. So could we assume that the license fee will just be translated back at 20% less for next year?

And the third question really is within the Beauty side of things. One of your key pillars was Burberry Body. I just wondered how the original Burberry Body has actually trended and whether or not the new Burberry Body Tender has taken over volumes from that?

I think one of the concerns of Beauty is that product lifecycles tend to be relatively short and they're only really kept up with very high marketing costs. And I guess some of the things you mentioned today sent one or two alarm bells going. So I just would be interested to know how the original Burberry Body was performing. Thank you.

Carol Fairweather - Burberry Group plc - CFO

So in terms of new openings in Japan, the openings we've had in the last year or so are doing quite nicely. Remember that the global collection we're not putting a lot of heavy marketing or anything behind it at this stage. So early days, but we're very pleased with what we're seeing.



Medium term, in terms of when we've talked about space guidance, although we're not guiding on space going forward, as we've been rolling up our plans for the next two or three years, clearly we are expecting some further rollout of the store portfolio in Japan as we begin to take that business back. So that is included within our internal space guidance, if you like, for the next two or three years.

In terms of the performance of Body, Fay, do you want to just make a comment in terms of --?

Fay Dodds - Burberry Group plc - VP, IR

Yes, clearly we've been going through, as Carol said, quite a complex transitional period and we've had some supply chain hiccups on the way. So it's quite difficult to get a clear pattern at the moment.

We launched Body very successfully a couple of years ago. We did then go into negotiations with Interparfums, so they perhaps didn't give it the support it deserved. So I think we've been quite open with you that it did tail off a little bit.

We've had a very successful launch in our Burberry Body tender. That's going into new markets, and I think that will reinforce that fragrance going forward.

And clearly where the investment is going for the second half of this year is around Brit Rhythm for Men, which launched in September, and then Brit Rhythm for Women, which will be a February launch.

Carol Fairweather - Burberry Group plc - CFO

And, Julian, I skipped over your point on the yen rate going forward. So yes, as you think about next year, clearly we're hedging now for next year. So that movement in the yen rate from the JPY1.57 to JPY1.33 you should factor into your plans for next year, because we're locking into that now.

Julian Easthope - Barclays - Analyst

Thank you very much. Thank you.

Operator

John Guy, Berenberg Bank.

John Guy - Berenberg Bank - Analyst

A couple of follow ups, please. Just with regards to the online and offline sales, this is obviously a metric that you've been focusing on a little bit more over the course of the last few years. But could you just talk about the percentage sales mix now between online and offline? So how you look at that and the implications around, I guess, future space expansion, if you're continuing to see a stronger online presence.

Can we assume, going forward, that there should be some bigger opportunities in terms of cost management? Obviously, a lot of your OpEx is driven through new retail stores. So can we think about starting to see a slow progressive downturn of that pretty high OpEx as a percentage of sales number? Thanks.



Carol Fairweather - Burberry Group plc - CFO

In terms of your first question about how we look at online versus offline, as you said, John, we're constantly evolving the way we think. And internally now we're just not fixated on that difference.

We do report the numbers internally between online and offline, but we're not calling that out today, because we are completely agnostic about how people shop, particularly given the really nice uptake we've seen with iPad sales in stores, click and collect. So online is outperforming globally, we've called that out, but we're not giving a specific number in terms of percentage of mainline.

In terms of we're very mindful of the rollout of the store portfolio; very much still focused on flagship markets, for all the reasons we've talked about, in terms of traveling luxury consumers. So we will continue to share you with our plans but, absolutely, you can't look at each of these in isolation; you need to look at them together.

John Guy - Berenberg Bank - Analyst

Yes, but I think there is, clearly, an implication when it comes to costs. If you're not driving out a significantly greater bricks format going forward over the next three to five years and there is a greater transition online, then there should be some cost and leverage opportunities. So --

Carol Fairweather - Burberry Group plc - CFO

And we'll look at -- as we always do, as each of those store proposals come up, we will look at those and evaluate them against our IRR, making sure they've got the right adjacencies, they're consistent with our flagship market strategy.

But, to Fay's point earlier, people are agnostic. So it may be that online's growing, but it may be because they're actually enjoying the experience of going into the store and seeing the products there. Some of the customer service -- click and collect has been very successful, but you need to have a store for them to go and actually collect in. So working through all of that in our plans, as consumer preferences continue to evolve.

John Guy - Berenberg Bank - Analyst

Okay, thanks. And maybe just one final follow up from me, just with regards to North America. I know that you've talked about a transition or a change in buying attitudes today, but looking at some of the recent US retail trends, if you like, they all look pretty soft.

So is this just more a retrospective comment in the sense that the wholesale attitude has obviously improved and the sentiment has improved? But that was, effectively, looking back over the course of the last quarter or so. But now, looking forward, have you noticed any significant, I guess, downward shift in consumer sentiment in the US?

Fay Dodds - Burberry Group plc - VP, IR

I think there's two things. We always say that wholesale is a lagging indicator, because the orders that we're talking about for our second half were collected largely in May, when I think everyone was feeling relatively jolly compared to November. And I think, as I said earlier, if you're actually looking at retail trends in the US as a whole, it's a really difficult market to read.

John Guy - Berenberg Bank - Analyst

Thanks very much, Fay.



Operator

Luca Solca, Exane.

Luca Solca - *Exane BNP Paribas - Analyst*

I was just wondering, a number of investors are doing their homework and trying to anticipate how the business is going to look like and how the P&L is going to look like and Beauty in the after years. And Beauty development seems to be a key element in replacing licensing revenues from Japan, and the license will expire in mid-2015, as we know.

So I was wondering, 18% looks pretty punchy as an operating profit margin for this year. I wonder if there are any one-offs, and if it's fair to expect a significantly lower operating profit margin as the business moves more to a steady and ongoing basis.

Secondly, I was wondering if you expect any change as far as Chinese tourist purchases are concerned and Chinese tourist trends are concerned, in the face of legislation changes in China on package tours prices that were implemented on October 1. Do you see any change as far as the number of tourists you receive in your stores, either in Hong Kong and Macau, or even in Europe?

And last, but not least, I just wanted to understand. Angela is moving on to Apple. You said it's a newly created position. I understand this is the position that was held at one point by John Browett, former CEO of Dixons. Do I understand it correctly? Thanks very much.

Carol Fairweather - *Burberry Group plc - CFO*

Luca, in terms of the Beauty questions, this year, remember, is a transitional year. We have flagged today that. Whereas we've talked before about GBP140 million of revenue and GBP25 million of profit delivering that 18% margin, we may be shy of that GBP25 million now, looking for offsets elsewhere in the business as, in this transitional year, we have a lot of fixed costs in the first half, where revenue was beginning to build. So don't think of this as a normalized year.

But, going forward, we then need to factor in what the plans look like as we begin to build makeup as we go forward.

So we do see Beauty as a significant growth opportunity for us. And we'll come back and share more with you about margins as we refine those plans, looking out to years two and three.

In terms of the change in legislation regarding China trips, Fay, do you want to --?

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

Yes. And I think it's just very early days. It came in October 1, and so it's very early days for us to know if there's going to be any impact. And, I think, internally what we're wondering about is whether it's really going to impact the true luxury customer. Is it aimed much more at the mass market tourists? And is it more likely perhaps to impact travel retail than our own mainline stores? So early days, but we're mindful of it.

Carol Fairweather - *Burberry Group plc - CFO*

Yes. And lastly, to your question about Angela and Apple. It is a newly created role. We're sad to see Angela go; delighted that she's got this opportunity. But it's not for us to comment on the specifics of the role.

Luca Solca - *Exane BNP Paribas - Analyst*

Thank you very much indeed.

Operator

Allegra Perry, Cantor Fitzgerald.

Allegra Perry - *Cantor Fitzgerald - Analyst*

I was wondering if you could give us a little more color on the increase in AUR, specifically within the handbag category. And maybe a sense for how that's moved over the last couple of years. And, if possible, just a sense for how it's moved within the markets where it's moved the most.

And then, lastly, how much logo is as a percentage of the handbag sales today globally, please. Thank you.

Carol Fairweather - *Burberry Group plc - CFO*

In terms of what's happened to the AUR, we have seen it nudge up slightly as solid leather and key shapes became a bigger part of our portfolio within the accessories category. Delighted with the content in terms of how much of our mainline growth is coming from those large leather goods. So that has actually helped nudge up AUR.

In terms of how much logo products we've got left now, Fay, I think (multiple speakers) --

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

It's still the majority of our large leather goods. But we've done a lot of innovations, you've seen when you've come into the show room, around those core iconic checks. And I think the trend that we are seeing, probably in common with our peers, is increasing penetration of solid leather, because I think that's the industry trend.

Allegra Perry - *Cantor Fitzgerald - Analyst*

Okay. Can you give us a sense of how leather has increased in the penetration over the last couple of years?

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

Well, over the last year or so, it's practically doubled.

Allegra Perry - *Cantor Fitzgerald - Analyst*

Okay, great. Thank you.

Operator

There are no further questions over the telephone at this time.



Carol Fairweather - Burberry Group plc - CFO

So thank you all for your attention. As I said earlier, we are pleased with our first-half performance and are focused, in the coming weeks and months, on building on the strength of last year's all-important festive periods while capitalizing on the brand momentum we have in Beauty, as shown by the success of the recent launch of Brit Rhythm for Men, and excited to be working with Angela and Christopher and the team as they transition over the coming months.

So we look forward to speaking to you again on November 14, when we announce our interim results. Thank you.

Operator

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

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