THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

BRBY.L - Preliminary 2012/2013 Burberry Group plc Earnings Conference Call

EVENT DATE/TIME: MAY 21, 2013 / 8:30AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Angela Ahrendts *Burberry Group plc - CEO*

Carol Fairweather *Burberry Group plc - CFO designate*

Alessandro Fabrini *Burberry Group plc - SVP, Licensing*

Simona Cattaneo *Burberry Group plc - SVP, Beauty*

Roberto Canevari *Burberry Group plc - Chief Supply Chain Officer*

CONFERENCE CALL PARTICIPANTS

Thomas Chauvet *Citigroup - Analyst*

Luca Solca *Exane BNP Paribas - Analyst*

John Guy *Berenberg Bank - Analyst*

Will Hutchings *Goldman Sachs - Analyst*

Louise Singlehurst *Morgan Stanley - Analyst*

Mario Ortelli *Sanford Bernstein - Analyst*

Rogerio Fujimori *Credit Suisse - Analyst*

Rod Ozun *Bank of America-Merrill Lynch - Analyst*

PRESENTATION

Angela Ahrendts - *Burberry Group plc - CEO*

Good morning. Welcome to our preliminary results presentation for the year ended March 31, 2013. Our '12/'13 financial performance has been strong in a challenging market. Revenue was up 8% to GBP2b, adjusted profit before tax up 14% to GBP428m, and we increased the dividend by 16% to 29p.

This year we've once again consistently delivered against our five key strategies, including the integration of Beauty under Leverage the Franchise, continued investment in our retail store footprint as well as the digital customer experience on and offline. And evolution of our China business, still an underpenetrated market.

This performance is a great testament to the strength of the brand and the talented team behind it. As you're aware, Stacey is leaving us in July. And she has been a great partner to the business and to me personally. And we'd like to thank her for her dedication and her commitment over the last nine years.

This morning I'm also delighted that Carol Fairweather, our CFO designate, will present the financial review. And as you will have seen from this morning's separate announcement, Carol formally joins the Burberry Board this July. Congratulations, Carol.

And then members of the team that have led the integration of Beauty will update you on the current progress since April 1, and future growth opportunities in this, our newest and fifth product division.

But first, let me summarize the achievements of the financial year 2013. As I stated, revenue growth this year was led by Retail, up 12%. Now it's 75% of sales in the second half compared to 50% five years ago. And Wholesale and Licensing were in line with guidance for the year, both broadly unchanged as we balance growth and continue brand legacy cleanup.

Our brand momentum remains strong, with record engagement through traditional and social media, further innovation around our runway shows, investment in iconic out-of-home advertising, especially in key airports in flagship markets, while bringing Art of the Trench, our social platform, to life to support out flagship launches.

In September we introduced the concept of Burberry World Live, with the opening of our Regent Street flagship. This environment blurs the physical and the digital for the first time, bringing all aspects of our website to life, including the first physical introduction of Burberry Bespoke, allowing the customization of an iconic trench coat, to Burberry Acoustic, hosting live performances by British bands, while testing and refining retail disciplines and services.

So turning to Retail, we're pleased with our performance. Up against a historic year of double-digit comps, in '12/'13 we saw comp sales growth of 5% on average, ranging from 1% in Q2 to 8% in Q4.

Mainline store traffic was soft globally, while online traffic grew significantly, reflecting the evolving consumer shopping behavior. In an uneven trading environment our teams focused on optimizing convergence by the aggressive rollout of our Burberry private client services, which we talked about last year, and expanded a richer consumer engagement both on and offline, along with compelling festive assortments, all supported by higher average transaction values as consumer preference continued to lean towards Prorsum and London.

In line with our retail-led growth strategy, '12/'13 was another year of strong space growth, adding 13% on top of 14% in 2012. This investment was clustered in flagship markets and more biased towards larger-format stores than in previous years. These stores enable a full representation of the brand, more in tune with what consumers see online. This connectivity is critical as consumer buying preferences continue to shift, and Burberry is in an excellent position to capitalize on this trend. Servicing customers across countries, formats and devices is a key part of our retail-led growth strategy.

As we look forward to '13/'14, there's no change in our real estate expansion strategy. We plan to open about 25 mainline stores, focused in flagship markets and high-potential markets such as China, Latin America, and the Middle East. And we will continue to close and relocate smaller stores as appropriate.

Looking out three years, we still continue to expect net new space to contribute a mid single-digit percentage to retail revenue growth on average each year, still testing every project against our internal 25% IRR hurdle rate.

Wholesale was up 1% underlying, and performance was balanced, with growth from North America, Asia Travel Retail and emerging markets, offset by weak domestic demand in Europe and the continued impact of our own actions, be it opening price-point product or specialty account rationalization.

We felt it was worth reminding you of how the wholesale business has evolved. Americas has grown, driven by US department stores. Asia Pacific has been driven by Travel Retail. Rest of the world expanded through our franchises. While we have, through our own actions, scaled back other activities, whether converting to retail or exiting the local collection in Spain. So today we're much more balanced in wholesale, which will always form a part of our route to market, especially with the integration of the new Beauty business. And while customers globally are currently buying cautiously and we're still gradually rationalizing accounts, we now have a healthier exposure to growth markets.

And licensing revenue for this year declined 1%, as guided, with continued non-renewals in Japan offset by double-digit growth in the product licenses.

As you'll hear shortly, innovation is key in these licensed products. And this slide shows some recent launches, realigning our licensed products more closely to the brand's luxury fashion positioning, from Body Tender to The Britain watch, and Aviator and Splash sunglasses, with the advertising and marketing campaigns always featuring core outerwear.

And now a quick word on Japan, which is still the third largest luxury market in the world behind the US and China. Japan last year was just over 60% of our licensing revenue. As you're aware, the apparel license expires in June 2015, enabling us to remove the more premium position licensed products from Japan and start to more aggressively import and sell our global luxury apparel and accessory collections.

Although this transition is still two years away, it is top of mind for management and we look to offset the lost royalty income. Some of this will come from within Japan, where the small -- where our small retail and digital operations we have selling the global collection is performing well. And we're also confident that there's other parts of the core business, particularly Beauty, that can drive above-average long-term growth. We look very forward to outlining our plans for you next May.

By region, Asia Pacific and the rest of the world led the way with double-digit revenue growth, with Europe and the Americas delivering mid single-digit growth. In Retail, China, Hong Kong and India were strong. France and Germany remained robust, while Italy and Korea were weak.

And given the importance of the Chinese consumer, we continue to focus on understanding and engaging with these high-growth customers. We continue to evolve the retail portfolio, both on and offline, from 50 stores in 30 cities at the time of acquisition to 69 stores in 35 cities today. We have already closed 15 of the smaller, less brand-enhancing stores we acquired, with more planned over time. And we're opening larger stores with more appropriate adjacencies, such as the first new -- three new stores in Shanghai. And our presence online is beginning to resonate with Chinese traffic, up 70% last year.

We've also undertaken proprietary consumer research to better understand the influences and preferences of this new first-generation luxury customer as well as the more established core and ultra-high-net-worth luxury customers. We see opportunities to refine our assortments, extending product sizing and fit, especially in men's apparel where huge growth opportunities exist, and accessories including men's and our new watch collection, and in Beauty by adding local colors and products.

We must continue to invest in training and service, especially Burberry private client teams, and leverage our in-store technology investment, such as iPads and retail theater screens. And we're now offering customer service support on Sina Weibo, the Chinese equivalent of Twitter.

The Burberry brand has been in China for 20 years. So we're simply reeducating today's luxury consumers about the modern Burberry brand, strengthening our digital presence in line with other large markets and creating bespoke content across multiple platforms for major festive periods, like Chinese New Year.

Turning to our performance by product division, where the portfolio continues to be very balanced. There was solid growth in core outerwear, especially children's due to the recent campaign. And women's, our biggest apparel division, still saw great growth. And men's, once again our strongest performing division, is on a historic small base.

Tailoring is now in 70 stores globally and nearly doubled online. The first dedicated trial menswear store opened in Knightsbridge in London. We've increased focus on advertising and men's marketing. And we're thrilled to be bringing the menswear show back to London next month.

In ladies' large leather goods, the core of accessories, we've been rebalancing our assortments between core iconic products and the new fashion leather groups, ahead of industry trends and driven by innovation in fabric and shape as shown on this slide, much as we do in outerwear and our other core categories.

So in conclusion, the Burberry team has achieved another record year, enabled by consistent communication, collaboration to unite and inspire our highly connected culture, always underpinned by our five key strategies.

So before I hand over to Carol, let me play for you our highlights video showing all that this team has accomplished in just the last six months.

(Video playing).

Carol Fairweather - *Burberry Group plc - CFO designate*

Good morning. It gives me great pleasure to present the financial results for 2012/'13. As Angela referenced, the headline numbers were strong, with revenue up 8% and adjusted PBT and EPS up 14%. We generated over GBP500m worth of cash from operations, funding investment of around GBP320m and we have declared a 16% increase in the full-year dividend, returning about GBP130m worth of cash to shareholders.

We grew adjusted operating profit by 14%, with almost all of the increase coming from Retail/Wholesale, where profit was up 17% on sales growth of 8%. Our Retail/Wholesale margin reached 17.8% compared to 16.4% in the prior year, but this 140-basis-point increase does require some explanation.

It is important to note that around 70 basis points of this improvement came from the GBP12m benefit from a lower performance-related pay charge. Without this benefit the operating margin would have been 17.1%, up 70 basis points from last year. In the current financial year our aim is to modestly increase the Retail/Wholesale margin from this normalized 17.1% base.

Turning now to gross margin, which was up 250 basis points to 70.6%, with a stronger-than-expected performance in the second half. The key drivers for the year were higher average unit selling prices from mix and modest underlying price increases; continued FX benefits from sourcing, especially from the euro, where we source the majority of our products; and the ongoing mix shift to retail.

In the second half, with less benefit from FX, our gross margin was helped by stronger retail sales compared to the first half and a continuing benefit from improved inventory management processes. We procured less at the start of the season, which contributed to an improvement in full-price sales compared to the prior year. And we further refined the global brand buy, which ensured greater consistency across the retail channel, driving revenue growth, and increased inventory efficiency, where rationalizing the size of the assortment enabled us to buy key products in key colors, in greater depth, driving margin.

Having delivered significant improvement in the gross margin over the last few years, the rate of progress will now naturally start to moderate in the coming years.

Operating expenses increased by GBP94m or 110 basis points to 52.8% of revenue, or 53.5% excluding the benefit from the lower charge for performance-related pay. The key driver was the continuing shift to retail, with new space contributing over half the increase in pound millions.

As the external environment remained challenging throughout the year, we tightly controlled discretionary spend in both the regions and at corporate. For example, spend in the three largest functions, marketing, IT and product and design, fell as a percentage of sales. And this allowed us to continue to invest for future growth in areas including digital, mobile and customer insight.

And on Licensing we delivered GBP92.5m worth of operating profit, up 3% on revenue of GBP109m. Note that of the GBP109m of revenue, GBP27m was royalty income from the fragrance and beauty licenses with InterParfums, which of course will not continue this year. Excluding this, we have guided to slightly positive growth at constant exchange rates in the current financial year.

Turning now to the income statement. I would highlight a net finance charge of GBP0.3m, with facility fees offsetting the low interest income on our cash balance. For the current year we would expect the interest charge to be broadly neutral.

Consistent with what we told you at the interims, the exceptional item of GBP77m is composed of a number of moving parts, including GBP83m from the termination of the license relationship, of which GBP71m relates to the termination payment itself, plus an additional GBP9m of setup costs and GBP3m of other costs that we have incurred in this year that will not repeat going forwards. Secondly the valuation of the China put option liability has resulted in a non-cash credit for the year of GBP5m.

The tax charge is GBP92m. And the tax rate on adjusted PBT is 25.8%. We anticipate that the tax rate will be around 25% in 2013/'14, reflecting the lower UK tax rate where we pay a significant amount of our taxes.

And finally, the non-controlling interest of GBP4.9m represents our partner's share of income, with the impact of profits in China and the Middle East balanced by losses in some of our under-penetrated markets, such as India and the Japanese retail business. As part of our preparation for the transition in Japan in 2015, we have effectively taken full ownership of our small retail business there, which will adversely impact the non-controlling interest number in 2013/'14.

As you can see from this slide, Burberry is a strong cash generator, with cash flow from operations exceeding GBP2b over the last five years and more than 100% of operating profit converting into operating cash flow in each of these years. This has enabled us to invest significantly in growth opportunities, be it retail expansion or refurbishments, in in-house acquisitions such as China, and this year the one-off payment for terminating the fragrance and beauty license relationship. It is worth reiterating here what Angela has said, that each individual CapEx project is always tested against our 25% IRR hurdle rate. And over the same period we have paid nearly GBP400m worth of dividends to shareholders.

So going into the detail of the cash flow statement, we generated GBP523m worth of cash from operations, up 8% on the prior year. Depreciation rose to GBP111m and we anticipate that it will increase to roughly GBP140m in FY2013/'14. We saw a net working capital outflow over the year of GBP54m. Inventory was tightly controlled, demonstrating the payback from our investment in planning teams and processes. Excluding a GBP9m increase for Beauty, inventories were up only 7% at constant exchange rates against Retail sales up 12%. And in 2013/'14 we would expect inventory, excluding Beauty, to grow at a lesser rate than sales once again.

Translating that operating cash flow to net cash, our largest cash outflow was GBP321m of investment, including GBP176m of capital expenditure and GBP144m for the termination of the Fragrance and Beauty license. With tax, dividends and ESOP trust purchases totaling GBP259m, we finished the year with net cash of GBP297m.

This year capital expenditure is planned at around GBP200m. Remember that this number includes some spend for stores that will open next year as well as refurbishment spend, so is never a direct function of space growth. As you can see from the chart, the majority of spend is again going to Retail, with slightly less emphasis this year on flagship markets, reflecting the timing on these larger projects.

IT and other spend also increases in areas such as digital and mobile. And we are expanding our Horseferry House headquarters. This space is needed as the business has grown nearly threefold since we committed to this building in 2006.

Looking forward, as you build your models for 2014, let me remind you about the impact of the transaction year for Beauty, which is unchanged from what Stacey said in November. At this very early stage we still expect Beauty to add about GBP140m to wholesale revenue and to be neutral to adjusted PBT, with about GBP25m of Retail/Wholesale operating profit offsetting a similar loss of royalty income. Clearly as we directly operate Beauty, we will continue to refine our plans and update guidance accordingly.

And secondly, this slide in your pack summarizes our normal guidance. The team remains focused on driving growth and profitability each year, although as the business model evolves the phasing of profits is changing. So please note our current expectation that half-year adjusted profit for this year is currently expected to be below last year's GBP173m.

There are four key factors which explain this. Firstly, revenue, which continues to be weighted to the second half; secondly, Wholesale excluding Beauty, which is expected to be down 10% in the first half as we guided in April; thirdly, Beauty, which is expected to be dilutive in H1 as the profit from direct operations is currently expected not to fully offset the lost royalty income in the first half; and finally, H1 last year benefited from a lower performance-related pay charge of about GBP15m, as we disclosed in November.

For the financial year 2014, as Angela said in her quote this morning, while we do expect the macro environment to remain uncertain, we see significant opportunities for the brand and the business, aiming to outperform on revenue growth while modestly improving the Retail/Wholesale margin in the full year from the 17.1% normalized level in 2013/'13.

So thank you for your attention. And I would now like to hand you back to Angela.

Angela Ahrendts - *Burberry Group plc - CEO*

Thanks, Carol. It now gives me great pleasure to introduce some of the team who've been responsible for the successful integration of Beauty, our fifth product division, which includes both fragrance and makeup to start. Having established a team of 90 functional experts from within Burberry and externally, we believe that Beauty will be a key contributor to our future growth as the brand is so underpenetrated in this category compared to our peers. And direct ownership will enable opportunities to be pursued more rapidly.

So this morning, Alessandro Fabrini, our Senior Vice President of Licensing, who joined us three years ago from a luxury brand and an FMCG background, will remind you of the size of the opportunity and describe how we're working with our current distributors.

Simona Cattaneo, who joined us from Dior in November as the Senior Vice President of Beauty, will talk through the innovative product strategies.

And then Roberto Canevari, who joined us in September as Chief Supply Chain Officer for the Group, will summarize how he and his team have rebuilt a complex infrastructure for Beauty in just six months.

So let me now hand over to Alessandro.

Alessandro Fabrini - *Burberry Group plc - SVP, Licensing*

Thank you, Angela, and good morning to everybody. Today I'm very pleased to share with you the market opportunities, how we built the beauty team and the work that we are doing with our distribution partner. Let me first start with the market opportunities.

The premium beauty market, which includes fragrance, makeup and skincare, is sized at approximately $100b. And this premium end, the one in which we play, is expected to continue to outperform us.

More specifically, the fragrance market shown in this slide is fairly concentrated in few territories. USA and Europe account for more than 60% of the total market. And our opportunity here is to grow share. But it's also worth highlighting the faster-growing markets, such as China, where the premium beauty industry has doubled over the last five years and is expected to double again in the next five, according to Euromonitor.

As Angela outlined in November, Beauty is also the most widely encountered projection of our brand. It's our opening price point, sold through thousands of points of sales. It appeals to younger, more digitally savvy customer, and it represents over a third of our global media spend. And now the direct ownership will allow greater alignment and synergies across the Burberry businesses, as you will hear this morning.

Let's now move to the Beauty team. As you know, to make the transition from Interparfums fast and smooth, we had to step into their shoes, effectively working with the same supplier and the same distributors they had in the past. We now have a team of around 90 people in Beauty. We have recruited exceptional talent who come with great skills and experience from leading beauty companies. More specifically, we feel that around a third are positioned by reallocating internally people who had previous experience in Beauty. We hired great talent from outside, from organizations such as Dior, P&G and Chanel. And finally, we leverage our existing fashion expertise in areas such as IT and HR.

Of the third parties shown in this slide, Roberto will talk about the supply chain-related partners. But let me briefly talk about the distributors.

Burberry Beauty is already sold in over 100 markets globally via a network of best-in-class distributor partners. While this is a large group, the business is quite concentrated, with 15 of these distributors accounting for over 50% of the total business last year. And in March we signed a contract with BPI, part of Shiseido Group, to distribute our beauty products in selected regions.

We want to build a strong partnership and establish excellent communications with our distributor. And to do this, in February we hosted our inaugural beauty conference where our distributor partners were invited to the autumn/winter Women's Prorsum show in London. We have rolled out Burberry Chat, our internal social media-based communication platform to all distributors. And we have leveraged the power of our regional infrastructure, delegating them the responsibility for the relationship with the distributors to maximize growth and deliver synergy.

Like for any other businesses we have integrated, we will continue to refine distribution strategy, focusing on brand-enhancing channels in department stores and travel retail, and focusing on differentiation in retail and beauty, a strategy that we believe will be particularly relevant to these products and this customer demographic.

So let me now introduce Simona Cattaneo, who will outline the product strategy that will drive the growth. Thank you.

Simona Cattaneo - *Burberry Group plc - SVP, Beauty*

Thank you, Alessandro, and good morning, everybody. Today I'm delighted to show you our vision and development strategy for the newborn Beauty division. Essentially the big idea is to catapult our brand into the worldwide top 10 of beauty brands. So, why do we strongly believe we can achieve this?

We are convinced that the leveraging the best of Beauty and the best of Burberry will assure us of a unique position and result in dynamic growth, leveraging the best of Beauty means, building on our established position in fragrances worldwide, which is 95% of our revenues, and developing our distinctive offer in makeup, with huge growth potential.

Now on the Burberry side, what are the key strengths we can leverage to have a solid competitive advantage? I want to emphasize this point. The top 10 is made by established, solid, powerful companies. And to succeed, we need to be different and not only a follower me-too brand. And in Burberry we are different.

Firstly we are always one company, one brand. If we consider all the other fashion and beauty brands, the two are separate structures. On the contrary, Burberry Beauty will be fully integrated into our existing organization. Importantly, Christopher Bailey will be our creative lead, allowing us to power up ideation and innovative product. And for beauty, innovation is everything.

Our second strength is our broad consumer appeal in luxury fashion where we are already the leading digital player. And you would expect us to leverage this to target the millennial consumer as influencer across genders and generations.

Our third competitive advantage is our authentic British heritage. Britishness is an integral part of all our strategies at Burberry. Grounded by our heritage yet constantly innovating, inspiring and disrupting, Burberry today is the leading British luxury brand globally. And tomorrow it will be the most iconic British beauty brand.

Now let's move to what are the key strategies for Beauty. These are achieved with a fashion business. First of all, we want to establish ourselves as a true luxury beauty house. To accomplish this, the most powerful weapon will be using fashion to lead. And our recent fashion show is a great example. Please, let's share some video.

(Video playing).

As you have just seen, makeup, although only a very small business current for us, was integrated into one of our key brand moments in the autumn/winter '14 runway show. The show revealed a new Burberry look. And the interactive beauty booth enabled backstage images to be shared with our 2m Twitter followers, generating over 500,000 views in just over one hour. And the images were among the best-performing on Instagram.

Our next beauty strategy focuses on continuous innovation, which is part of our DNA and essential to our success. Breakthrough products, disruptive communication tools, the digital model and the unique selling experience will be our priorities.

Finally, to be truly effective, we need to be focused on pillar products and stay agile to reduce time to market. The first question customers ask when they come in the store is what's new. Our plan is to run parallel to the fashion calendar and to create monthly stories to animate point of sales.

Having outlined, our three key beauty strategies. Let me now focus on fragrance.

Firstly I would like to stress once again the importance of developing an innovative and distinctive positioning in fragrance. We really believe that the British fragrance house positioning is a unique and powerful statement.

British perfumery has a fascinating history, a story that has never been told before. Very few people know, for instance, that under the reign of Queen Elizabeth I all public places were scented; since, she couldn't tolerate bad smells. Or that perfumery in England was first introduced for a barber's shop in Jermyn Street. Here they created toilet waters of jasmine, orange blossom and lavender, still key notes in the English perfumery.

And the British story is very different to the better-known French perfumery, which was built around opulence, classicism, Paris and French art de vivre, the rich interiors and the Oriental floral lavish scents. By contrast, the British perfumery evocation is dramatically different, with an eclectic mix of British heritage and sharp innovation, old grooming tradition and eccentricity, and the natural herbal scent of the British countryside fused with the London attitude. We want to acquire true ownership of the British fragrance heritage and taking it a step forward by modernizing it and reinventing it in the Burberry way.

Our second strategy for fragrance is the need to elevate the image of fragrance, which is especially important for then supporting the image of makeup. This will be achieved by partnering with scent experts to develop a truly distinctive scent proposition, focusing on raw materials to play in the luxury arena, and creating a luxury stage to display our fragrances in an appropriate universe, whether it is the new or existing points of sale.

Thirdly, we need to optimize our portfolio of fragrances. We showed you in November the range of products that exists in the current portfolio. To be effective we will focus on our pillar fragrances, a strategy that is in line with our largest peers, where 90% of their business comes from the four or five key pillars that they support continuously.

So which are the pillars that we need to support and drive? We want to mirror the positioning of our fashion pyramid. We want Brit to be the fundamental cornerstone and point of entry into the brand.

In any fragrance business, as I explained, it's important to have an exciting program of new initiatives. In the early autumn we will launch our new Brit fragrance for men. And we'll follow that with the women's launch in the following year.

The London segment, that is the most tailored, designer expression of the brand, is matched by Body, currently women's-only fragrance, but we have plans to launch a men's version.

And to match the elevated position of our Prorsum line, we will also launch a collection of very exclusive colognes to affirm our British position.

We believe Body is the most powerful of our pillars, and has the potential to get into the top 10 as our biggest feminine. Launched in 2011, Body is our number-one line in the portfolio. And there's a very intimate link with the style icon of the brand, the trench coat.

But, as with any pillar, it does need to be continuously supported with the never-ending storytelling, and this has just started with the new Body Tender launch. Fresh, pink and playful, Tender is the new, younger face of Body. And the first news back is very positive. It's also the most Asian-friendly fragrance in our portfolio and we will be launching Body Tender in China in September.

I will now hand over to Roberto to highlight some of the amazing feats his team has achieved to establish the organization and supply chain for Beauty. Thank you.

Roberto Canevari - *Burberry Group plc - Chief Supply Chain Officer*

Thank you, Simona, and good morning to everybody. I'm really delighted to be here today to describe how we have managed to effectively integrate a complex business into our supply chain, Burberry's supply chain, in a matter of months. It is worth illustrating the scale and complexity of the operations we have integrated over this accelerated timeframe as, while there are similarities with the fashion business in the form of brand building, there are fundamental differences in terms of supply chain.

The lead time for product development can be in excess of 18 months, meaning that at any one time we have around 20 separate launches being developed. It is a complex, component-based sourcing model, with an intricate legal and regulatory landscape. For example, we have needed to reregister all existing products in many jurisdictions in which they are distributed today.

We need as well to synchronize launches to many thousands of point of sales to our distributors' network. With the combination of fragrance and makeup and the very large portfolio of products in fragrance currently, we already have business that involves over 80 suppliers, over 500 finished goods SKUs and over 1,500 component SKUs.

This is a year of transition, in which we need to take over the existing operations, while at the same time preparing for the ambitious program ahead of us. In order to execute the strategy that you have heard about from Simona and Alessandro, we need two things, organization and infrastructure.

Firstly I want to start with the people. The Beauty supply chain team now consists of about 30 people. About one-third of them have been recruited from outside, bringing functional expertise, while the balance have been reallocated from roles within Burberry to ensure Burberry knowledge and culture. It is a cosmopolitan team, as befits this global product category, with 10 nationalities represented, 11 different languages spoken, and a very, very high level of energy.

As you have heard, our approach to the integration process was to replicate the Interparfums operating model. Step one was to ensure the structure was in place well ahead of the handover on April 1. The transition required to establish relationships with suppliers as a matter of priority, enabling us to start placing our first component orders early in December.

From a system standpoint, we are now managing all our supply chain operations in SAP. And from a logistic perspective we have worked hard with our colleagues in IT to establish warehousing facilities in France, also fully integrated with our SAP. Our global hub, managed by a specialized logistics service provider, perfectly located as it is 30 minutes away from our main finished goods suppliers, where we produce more than 70% of our volumes. We are delighted to say that we took delivery of product into this facility ahead of the original schedule and we have started to ship product to our distributors this season.

But control of the existing business is not enough. From a product development perspective, we need to work hard to ensure continued progress with the pipeline of new product launches that Simona has talked to you about.

So how are we doing in this complex environment? More than 20m units of product placed, covering over six months of forecasted demand, approximately 2m units already live in our distribution network and approximately 1m liters of fragrance currently in production. As Simona has talked to you about, we are extremely proud of our most recent launch and the first product being produced by Burberry, Body Tender. And we in the supply chain have already produced over six months' stock coverage.

So the machine is now built and running. And we believe it is scalable for the market opportunities Alessandro was referring to. Looking forward, this is no different from the rest of our supply chain operations. We need to ensure we are flexible, reducing our time to market. Ultimately we aim to have the fastest supply chain in the market. We need to continue to work with our partners, upstream and downstream, to enhance our supply chain execution. And we are already working on our fulfillment strategy to support our digital journey.

So we are delighted about the progress in integrating this business and we are very excited about some of the product strategies that are planning for the coming years.

Thank you for your attention, and let me hand you back to Angela.

Angela Ahrendts - *Burberry Group plc - CEO*

Thank you very much, Alessandro, Simona and Roberto. Prerequisite was you had to be Italian before you took a senior role in Beauty. And I'd also like to take this opportunity to thank the entire integration team for all of the amazing work that they've done, enabling us to now seize the significant opportunity we have in Beauty going forward.

So in conclusion, we've completed another strong year, particularly in Retail. The team is closely connected and working to unlock the growth potential in Beauty, men's and Retail, both on and offline. And we're planning on the basis that the macroeconomic environment will remain uncertain. But we've got great confidence in our brand momentum and proven strategies to drive continued outperformance.

So thank you very much. And Carol and I will now take your questions.

QUESTIONS AND ANSWERS

Thomas Chauvet - *Citigroup - Analyst*

Good morning. Thomas Chauvet, Citigroup. I have three questions, please. The first one, I saw Pascal Perrier earlier in the room, so I was wondering if I could get an update on Japan. I know you will give technical financial details next year, but two points of interest for me.

Firstly, you're talking in your release about limited consumer awareness about the luxury products of Burberry in Japan. Are you working between now and 2015 to change that perception?

And secondly, do you expect Japan to be more profitable than your Group average margin, as it is the case for most of your peers?

Secondly, on Beauty --.

Angela Ahrendts - *Burberry Group plc - CEO*

Can -- we won't remember all of them so can we answer that one first? So let me take the first part of Japan. I'll hand the second part to Carol. I don't have Pascal mic'd or prepped for this and I just literally was in Japan with him three weeks ago. So there is limited awareness. We're not spending a fortune from a marketing and advertising standpoint. We still have a really giant partner with a very big business there.

We've done about three things. One, we continue to have top to tops with every major department store because we've got to renegotiate real estate in that large part of the business.

Two, we continue to invest in our own real estate in our own stores. He's got a couple of big negotiations under way right now that we can't talk about. We've got a handful of stores opened up, about a dozen shop-in-shops, if you will. And I will tell you, those, with limited awareness, are outperforming the rest of the Group in that country.

And then three, we continue to strengthen the management team. We've got a standalone office. Pascal has hired a great group of people, from CFO, etc. That infrastructure will mirror the infrastructure we have in other markets, like Korea, like Hong Kong, etc. So that's where we are.

He has also hired probably one of the strongest heads of strategy around the world, a very accomplished executive that is -- him and the team are going to Japan monthly now, again, meeting and laying out what that strategy is. So it would be remiss to go into much more detail than that at this stage.

Carol Fairweather - *Burberry Group plc - CFO designate*

Yes, and then to your question in terms of impact on margin going forward. Again, as Angela says, we are working through all the details. We will come back and talk to you next May in more detail once we have more to share with you. But safe to say we are working very intensely internally in terms of coming up with those plans, but premature at this moment to share anything on margins.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. And the only thing we do say in the one-on-one meetings is we are not going to -- in that market, we're not going to offset 100% of that profit in that market. So you can hear me talk about the relationship with Beauty. And if we can drive exceptional growth in a lot of other areas, yes, we'll drive profitability in that market, but it won't 100% offset what's there now.

And we don't want to be in the 500 points of sale that we're in, so we will pull that business back. We'll make a higher percentage of the profit versus just royalty. And then we'll offset the balance of the profit through other big global initiatives.

Thomas Chauvet - *Citigroup - Analyst*

Thank you. On Beauty, there's one category that's pretty exciting and very exposed to Asia. You haven't mentioned it. It's skin care. I know it's early stage, but is it something you have in mind and could you elaborate on that, please?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. Skin care is a very important part of the business. Fragrance is the largest. Next is Beauty, depending on the region, meaning makeup, and then skin care. So give us about 18 to 24 months. That is even more regulatory, etc., so we will get there in the longer term. Phase one is, as Simona said, get these pillar fragrances. No different than outerwear in apparel or large leather in non-apparel, these pillar fragrances that are the bread and butter, make sure that we can handle the replenishment, the reorders on those.

The Beauty business is really tiny. She's got phenomenal, her and Christopher, innovative things in place. We need to get a monthly flow of those going. And then absolutely we'll get into skin care, but it's not anything in the short term.

Thomas Chauvet - *Citigroup - Analyst*

When you talk about narrowing the gap with peers in beauty, I guess skin care is one of the main differences.

Angela Ahrendts - *Burberry Group plc - CEO*

We are well aware. We have every fact and figure on our peers. Trust me, we're playing to win in beauty. It's why she said the top 10. This is -- it's why we have 90 of the greatest experts in the world today on this business. It is the largest growth engine for this Company over the next five years.

Thomas Chauvet - *Citigroup - Analyst*

And just finally on FX, it helped your gross margin, I think, on sourcing pretty much last year. Can you elaborate on how the weaker pound will affect your P&L, in particular gross margin this year?

Carol Fairweather - *Burberry Group plc - CFO designate*

Well there's two aspects. There's the translation aspect, if we simply just translate our profits from overseas at the rates they are today, and that will give us a benefit going forward. But then conversely we had the benefit in gross margin this year from the way principally the euro moved, and again, that may go against us. So there's a number of moving parts in there. But just on a translation basis, that would give us a benefit at today's rates, but we are only six weeks in.

Thomas Chauvet - *Citigroup - Analyst*

Thank you.

Angela Ahrendts - *Burberry Group plc - CEO*

I'll let you guys fight for who.

Luca Solca - *Exane BNP Paribas - Analyst*

Luca Solca from Exane BNP Paribas. You were referring to challenging environment for luxury goods. I wonder if you could give us a flavor, from your viewpoint, where you see demand going by geography and what are the trends and challenges that you see in the market?

The second question would be about retail productivity. How do you see the evolution of retail productivity, especially looking at the significantly larger stores that you've been opening during 2012/'13? And what do you expect this to become going forward?

Just a clarification on the fragrances in Beauty, is it correct to assume that you're selling in all markets through distributors?

And lastly, when you say that business in Japan is not going to offset the significant profit you have with your license today, is it again fair to assume that it's going to offset possibly, at best, 20%, while 80% will have to come from elsewhere, at least in the short term? Thank you very much.

Angela Ahrendts - *Burberry Group plc - CEO*

Okay. So Japan we're not going to give you any more color on. You've got to be patient with us. There's a lot of work in process, and I have no idea what percent. I have a rough idea, but I'm not going to tell you. Sorry. You have to allow us some time on these things. We still have two years. So that's one point.

Luca Solca - *Exane BNP Paribas - Analyst*

It would be quite nice to have the rough idea though.

Angela Ahrendts - *Burberry Group plc - CEO*

Excuse me?

Luca Solca - *Exane BNP Paribas - Analyst*

It would be nice to have the rough idea.

Angela Ahrendts - *Burberry Group plc - CEO*

And I'm not going to tell you that we don't. But you know what? Anything I say will be held against me, so just let's do this in bite-sized chunks. Let's focus on -- there's so much right now short term. And I was going to say, one of those questions was Beauty, I think, so refresh for me what you were saying on Beauty?

Luca Solca - *Exane BNP Paribas - Analyst*

On Beauty, I was just wondering whether it's right to assume that you're selling in all markets through distributors.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. Yes, absolutely. And again, that's for now. We'll wait and see, market by market, how that evolves. And then we did do, as Alessandro mentioned, the one big agreement with BPI, which is the big division of Shiseido. So they've got some of the large markets, USA, etc.

For retail productivity, are we going backwards? Do you want to take that?

Carol Fairweather - *Burberry Group plc - CFO designate*

Yes. We continue to work with all our teams globally to drive retail productivity. In flagship stores, it's not just about -- we've talked to you before -- there's no typical store. So in terms of in flagship stores we will see different levels if you're talking about productivity in terms of sales per square foot. But in terms of profitability, the way we can operate those stores, we get leverage. So it's not as simple as looking at one metric. But our teams globally do remain intensely focused on driving productivity.

Angela Ahrendts - *Burberry Group plc - CEO*

So the other segment of that is you know the technology we've invested in these stores. Every sales associate has an iPad in their hands. That is their global inventory pool. So we are averaging higher conversion rates year over year because we're not walking as many customers if we're out of a size or we're out of something. In a smaller format, they can't have the 5,000 styles that are up online. They can now, and we can ship it anywhere in the world and get it to them in 48 hours, etc. So that's a -- this online/offline connection is a huge part of driving productivity.

We've also -- we will end the year with close to 100 what we call Burberry Private Client Associates in our flagship stores around the world. These are the ones that give that extra level of service to these ultra-high-net-worth customers who possibly don't even want to walk into a store. They want you to take the product to them. It's a very different way of shopping. And service will be one of the biggest differentiators in driving productivity longer term.

Not that we talk about current trading whatsoever, so these are just simply your first question, which was the global environment. So if we were to look -- if we were all to read the same reports, be it McKinsey, Bain, Altagamma, Forrester Research, so that's where these numbers are going to come from -- this is not our current trading numbers, right? So China should continue to be the fastest-growing market in the world for us, as well as most of the luxury peers. But we don't -- we are not just focused on Mainland China.

If I believe what I read from McKinsey, 100m Chinese consumers will leave Mainland China, will go to flagship cities all over the world. That's why two years ago we were focusing on what is our brand presence, what is our service proposition in these flagship markets. We have Mandarin-speaking sales associates in all of those flagship markets. We've been opening up flagship stores.

Again, if you believe what you read, not only will the 100m travel to the flagship markets, they will spend six to seven times more when they travel versus when they stay at home. So that's -- China will continue to be large for us.

We've been very focused on Latin America. John's sitting here. He's relocating from Latin America up to New York now, but he's done a brilliant job, him and his team. We've got eight stores open there. They've just signed three more franchise partners -- Chile, Bolivia --?

Unidentified Company Representative

(Inaudible - microphone inaccessible).

Angela Ahrendts - *Burberry Group plc - CEO*

So we've got franchise partners in place. So Latin America will continue to be very robust for us.

We've ended the year with 23 stores in the Middle East. That shows absolutely no signs of slowing down. And we've got roughly eight, nine stores in India now. So we've done the right amount of investment, and it was dilutive initially while we were doing in Latin America and India. They're not now, so I think we're well positioned for the regional growth in those high-growth markets.

Luca Solca - *Exane BNP Paribas - Analyst*

Thank you.

John Guy - *Berenberg Bank - Analyst*

Thanks. It's John Guy from Berenberg. A couple of questions for me, please. First of all just on the leather goods opportunity. You're very well integrated, and from a vertical standpoint in trench coats. It seems to me that there's a pretty big opportunity for you to maybe look at in-house manufacturing at some point on leather goods and becoming more vertically integrated. So I'd like you to maybe talk about the opportunities potentially that you see within that part of your business.

The second question is around probably my favorite topic, operating expenses. Carol, you talked about the gross margin. Obviously a very strong performance this year. And the natural moderation, which I think is fair to accept given where you are, excluding the wholesale business, retail standalone looks pretty good now. So can you talk about how you're going to manage the cost side of the business in order to continue to drive that push/pull on gross margin and expenses going forward?

Angela Ahrendts - *Burberry Group plc - CEO*

Okay. Can we stop there and answer those, because otherwise we won't remember.

Carol Fairweather - *Burberry Group plc - CFO designate*

Okay, so I'll take that one first, John. So in terms of gross margin, operating expenses, no change to strategy there in terms of what we've been saying for the last two, three, four years now. We will continue to moderate between gross margin, balance between moderating gross margin and operating costs as we go to ensure that we consistently deliver a modest improvement in the operating margin year on year.

So this year we've gone from our 16.4% to our 17.1% normalized. And we will continue to, as we've demonstrated from last year and the year before, continue to balance between gross margin, taking those opportunities where we can, taking the opportunity to continue to invest in the business, but ensuring that we always continue to deliver that modest improvement in retail wholesale operating margin. So it will be a constant balancing act, as it has been. We've got teams that work with us to dynamically manage and will continue to do so.

Angela Ahrendts - *Burberry Group plc - CEO*

And in regards to leather manufacturing, I would never say never, but we already are a vertical manufacturer. Right? We've got a weaving facility in the north of England. We've got a big factory in the north of England. We've got to tightly manage the capital we balance between the investment in stores, the investment in technology and the investment in our own manufacturing facilities.

So I will tell you, until we get those state of the art and we get those where we want them, I can't see us doing -- I can't see us investing in another manufacturing facility. We may in due course. But again, we need to -- we make as much profit from our vertical outerwear facilities as we currently make in large leather goods today. So a lot of our peers may be vertical in leather, but they're not vertical in outerwear like we are.

John Guy - *Berenberg Bank - Analyst*

Okay. Thanks. So following on, when I look at the stock performance, so just up about 13% year on year, and you're obviously talking about a slightly reduced space on the back of large space growth over the course of the last two years, or above average, you feel that stock is well managed and the quality of the stock is -- or the inventory is very good at the moment. Maybe just stop there and I'll let you answer that one.

Carol Fairweather - *Burberry Group plc - CFO designate*

Yes, no. I think in terms of the number we've reported today, excluding Beauty, we had GBP9m worth of increase relating specifically to the new Beauty business. Take that out at constant FX, we were up 7% on stock, with revenue up 12%. So we were delighted with the year-end performance on stock.

The inventory has never been healthier in terms of the aging. But working with Donald and the magnificent work they've done in the last two years, there is still opportunity to refine that further. But we're very happy with where we've ended the year, but plenty more to do in that space too.

John Guy - *Berenberg Bank - Analyst*

Okay. Great. Thanks. And sorry, just one final one. With regards to the Beauty business, obviously the guidance on GBP140m revenue and GBP25m EBIT still implies less than an 18% EBIT margin, which again, relative to peers, looks a little bit light, especially within the premium segment. So I guess you're being reasonably cautious to start with.

But if I look at the Burberry Body launch and you break into the top 10 markets with Burberry Body, but I guess there wasn't the same momentum to follow up and continue to sustain the top-10 positioning, especially in the US market. Now you feel the pipeline is significantly stronger and there's a great opportunity to really push through into the US market in particular.

Angela Ahrendts - *Burberry Group plc - CEO*

I sure hope that you felt a little of what the presentation was. So go backwards on Burberry Body, because I said it at the last presentation. We were under negotiations with Interparfums for over 18 months. So 200 distributors weren't sure to invest, not invest, invest, not invest, so we absolutely broke into the top 10. It was not sustained.

We have gone back with Body Tender. It's already rapidly going up. We're already taking and fulfilling reorders, etc. So the brand has such momentum and such strength today that -- and we believe the Body pillar as a franchise, Body will be like a trench coat. Body to fragrance will be what a large leather goods is to accessories. So yes, we absolutely think we can regain that. It was a pity that the negotiations took longer than planned.

Slightly incorrect information. So you have a gigantic beauty market. You have a luxury, where our peers, Dior, Chanel, etc., play, and then you have where the L'Oreals of the world play. Interparfums had a very different distribution model. So the luxury peers made a lot less than what

Interparfums did because they own their distribution; Interparfums worked through distributors. So it's all not apples for apples. And offline the team can go through with you how we're looking at it, etc. But we are at high levels of profit versus the big luxury peers right now.

John Guy - *Berenberg Bank - Analyst*

That's great. Thanks very much.

Will Hutchings - *Goldman Sachs - Analyst*

Hi. It's Will Hutchings for Goldman Sachs, all the way at the back here. I had two questions, one on your distribution growth, your space expansion, and one on digital. So the first one is with your plan for net 10 store openings, did I read it right that eight of those are going to be in China? So I wonder if you could update us on the store plans in Europe and the US, etc.

And on digital, given you're not breaking out the numbers in terms of the amount of revenue you're generating from digital explicitly and you're looking at it in terms of metrics in store, how do you think about the investment program? You said that you're going to continue to invest and grow your cost base on digital. How do you think about calculating that 25% IRR? How should we think about that investment program? Thank you.

Angela Ahrendts - *Burberry Group plc - CEO*

So do you want to take the space, 25 stores?

Carol Fairweather - *Burberry Group plc - CFO designate*

Yes. So in terms of the stores next year, as we always say, it's really around finding -- you can't look at just a year in isolation; it's around timing. So last year we had some great openings. This year we've got openings that are focused in China and Latin America. But that's just simply a function of when the space becomes available, the time it takes to construct the stores and when they open.

So we're very happy with the stores. We've got three great new stores opening in Shanghai in the next six months which will really -- a market -- a flagship luxury market we've been underpenetrated in. I think that will correct the balance there. We're still continuing to do more in Latin America, as Angela said.

And then in the coming -- in the next year, some of the CapEx we're spending this year in '13/'14, the GBP200m, is to fund some more flagship projects coming in the '13/'14/'15 year. So it's not necessarily a one-for-one equation. You really need to understand the store opening program. But we're happy with the plans we've got for next year.

Angela Ahrendts - *Burberry Group plc - CEO*

Which continue, those 25 stores, so it's pretty balanced. A little bit more in China, etc. But as Carol said, LA, San Francisco, some of the big projects that we're funding this year don't open until the following year.

Digital.

Will Hutchings - *Goldman Sachs - Analyst*

Perhaps you could explain, where are the store closures then? Are they broadly balanced across the regions as well?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes, they are. And then understand, closures are not just retail stores; they're concessions, etc. And this is absolutely nothing new. We're just giving you a little more color this time. Every single year that we have done this, as a great retailer, you will open, you will relocate and then you will close X number of stores. So we are opening 25 new stores next year. And then we are closing, if you will, 10, be it stores, concessions.

But it's no new news; we have done this every single year. So a number of the closures are the smaller stores in China. So the smaller stores in Shanghai all go away. You go in with Kerry Center, a flagship and two mainline stores, all in new developments, all in the right areas of town, etc. So you come out 10 times better in Shanghai than you were before.

So don't get fixated on some of the smaller closures. They're smaller. They weren't worth renovating. It was more cost-effective to move and relocate to another part of town and have a better brand statement.

Digital? And that is probably the $1b question that we are all working on, and we're working on it inside and outside of the Company, because consumer behavior is absolutely, positively at an inflection point. And it's even trickier because of this traveling luxury customer. So nobody can totally tell you how many people shop online and buy in store. And do they shop online and buy in store in one market or do they shop online in Beijing and buy in store in London?

So I think we told you about two years ago, 18 months ago, we invested in a Senior Vice President of Customer Insight. Today he is the Chief Customer Officer. He has a team of people underneath him. We are capturing as much data as we can for ourselves, from our partners, to analyze these traffic trends, to -- and if they log on online then we can see what happens with them online.

We've just launched a -- it's a test phase. I don't usually tell you about these things until we're further down the line, but we will be in pretty much all stores by the end of the year. But we just launched what's called Burberry 360, which is our clienteling app for all of our 10,000 sales associates around the world. So if a customer walks into a store and identifies themselves, from their iPad, they can now see what they did online, what's in their basket, what they've said about us on Facebook, what they've tweeted about us on Twitter, how many times they've called customer service, what they bought in any other store from Burberry around the world.

So we're working towards, we'll have much better analysis going forward. I think we're pretty progressive in the space compared to most of our peers who only have traditional CRM. We're trying to take it to the next stage. But we don't have a lot of data to do that yet.

What we do know, from all of the research, again from Bain and Altagamma, that we read, you still have to have powerful brand statements. You don't have that powerful flagship store then they're not -- you're not going to be top of mind and they're not going to engage with you online. So it's kind of like nobody stopped going to the movies just because DVDs came out. It's no different. It's a continued evolution and we've got to stay on the forefront as consumer behavior continues to change.

Will Hutchings - *Goldman Sachs - Analyst*

That's great. Thank you.

Louise Singlehurst - *Morgan Stanley - Analyst*

Hi there. It's Louise Singlehurst here from Morgan Stanley. Just two questions from me, please.

Angela Ahrendts - *Burberry Group plc - CEO*

Where are you, Louise?

Carol Fairweather - *Burberry Group plc - CFO designate*

Louise is there.

Louise Singlehurst - *Morgan Stanley - Analyst*

Slightly small behind the back. Just in terms of the retail initiatives that we were just talking about, obviously you're annualizing some of the CRM data that you've had in place now -- I presume you're annualizing it. Can you talk about the -- I know you highlighted the average transaction spend improving across the customer base during last year. But in terms of traffic trends, repeat customers, is there anything that you can share with us on the CRM data to date?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes, so let's answer them one at a time. So not a ton, Louise, or we would have put in the presentation. So we've been cleansing the database, still really small database. Once we get a really rich, robust, one that we're really confident in, then we'll give you a little bit more color. So we're looking right now at conversions. We are looking at loyalty. So loyalty is up, conversions are up, average unit transaction is up from a -- on and offline. But that's about as specific as we're going to give right now. It is still a very small database. We've only been at this a year and a half.

Louise Singlehurst - *Morgan Stanley - Analyst*

And the plan for Beauty, presumably that's targeting a brand new audience, a younger demographic coming through. What are you seeing so far? Is that working in the stores? I know it's in a limited number of stores at the moment.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. So the Beauty business, not dissimilar to when we shared the shoe strategy with you, we told you 80% of the shoe business would be done wholesale, not in our own stores. Shoes are in our flagship stores. We told you children's, 80% would be done wholesale. We don't want it in every store. It's only in our flagship stores.

Beauty will be exactly the same. It will be -- there will be Beauty presence in the 25 flagship markets around the world, our stores. The balance of all Beauty will be done through the Sephoras of the world, through travel retail, through all the department stores, etc.

Louise Singlehurst - *Morgan Stanley - Analyst*

And is the distribution now where you want it to be for Beauty, or still got a lot more?

Angela Ahrendts - *Burberry Group plc - CEO*

Honestly, it depends market by market by market. I will tell you in China today, the fragrance is number three, right behind Chanel and Dior. We've had a long-term partner there. I think nearly 18, 19 years. So it all depends market -- America? No. Titanic opportunity, which is why we've been meeting with all the department -- we've been meeting with all the CEOs of every department store. We've got a great new distributor there. So we'd have to go through all 80 countries and tell you exactly. But based on the size of the business, I think you can overall say that it's not.

Louise Singlehurst - *Morgan Stanley - Analyst*

And my final question, one for Carol. In terms of uses of cash, GBP300m of net cash at the end of the year was obviously much stronger, I think, than we all anticipated. What can you tell us about that? Thanks.

Carol Fairweather - *Burberry Group plc - CFO designate*

We were pleased with our year-end cash position, as you mentioned. In terms of -- we've talked to you constantly about the fact that we keep it under constant review with the Board, and we'll continue to do so. We've been happy carrying our prudent balance sheet as we've been through this uncertain macroeconomic environment. But we come back to it very regularly at the Board. And if we choose to move our balance sheet strategy, we'll come back and share it with you in due course. But we have -- you'll notice that today the dividend has nudged up slightly, a 16% increase in the dividend. So we'll keep it under constant review.

Mario Ortelli - *Sanford Bernstein - Analyst*

Mario Ortelli of Sanford Bernstein. Two questions for me. The first one on pricing strategy. What sort of price increases should we expect for this fiscal year?

And the second one on brand positioning. Has Burberry reaches the target positioning in terms of exclusivity that you have in mind? In particular, until 2011 you were talking about democratic luxury. Now this term is completely disappeared from your communication to customers. But don't you think that too many customers has got still in mind this idea of democratic luxury for Burberry? And in case you think so, how long will it take to do the full repositioning of Burberry until a fully aspirational brand?

Angela Ahrendts - *Burberry Group plc - CEO*

So first of all, we absolutely, positively, never used democratic luxury position to a consumer. That was to take you on the journey with us, right, from where we were to there to here. So the way -- the total communication we've always had with consumers is we -- and we've talked to you openly about our pyramid. So we have -- and we basically say that there's three big chunks of consumers. There is your ultra-high net worth, there is a core luxury consumer, and then there is what we call your first-time aspirational luxury customer. And you know what? All of our peers have all three of those same customers and we all have them in the same markets.

So we have Prorsum for this customer, exclusive, limited edition, not in all doors, etc., absolutely not about price; about exclusivity, about innovation. We have our core London Collection, what a working man or woman wears. I was sharing with you some of the statistics on the menswear business, how the tailoring was growing, etc. So that is what anyone in these flagship markets, local customers, need every day.

And then of course we are all are going to have, with the growth coming out of China and the emerging markets, we are all going to continue to have great customers that are just moving up the structure into becoming -- they want great brands, but they also want a piece of luxury, if you will. So we again have to have those core products. A huge part of that now can be beauty and fragrance. But it is also where your small leather goods and your soft business. It's where Brit plays, whether it's a Polo shirt or --. So Brit is designed as innovatively as the runway collection is, but there happens to be some more democratic or accessible items for that first-time customer who's not buying a wardrobe.

So that -- we used, again, democratic early on internally with you to take you on the journey. The brand is solidly repositioned today. Is each market slightly different? Yes, we're spending a little bit more in China because we just took the business back two years ago. Of course there's probably more traditional perception, if you will. But again, we play in 80 countries around the world. Each one of them is in a slightly different phase.

But the more that we do online, more customers are coming to Burberry.com. Over tenfold will go to burberry.com this year than will walk into every store around the world combined. So the sharper and the more exciting and the more engaging we get that platform, the quicker it is to change consumer perception all over the world.

Mario Ortelli - *Sanford Bernstein - Analyst*

And about pricing?

Angela Ahrendts - *Burberry Group plc - CEO*

We are pretty much, again, if you remember our original pyramid and you look at the pyramid today between Prorsum, London and Brit, we absolutely love where we're price positioned right now. We've been gradually taking up, based on the cost of living or if all of our peers in one market are up, our teams are very aligned. Market by market, if all of our accessory peers have gone up 5%, 10%, we're a pretty fast follower. But aside from that, I think you're just going to see pretty modest increases in price going forward. We're pretty much where we want to be right now.

Rogerio Fujimori - *Credit Suisse - Analyst*

Rogerio Fujimori, Credit Suisse. I have just one question to Carol on the profitability of your Chinese business. On your [private] business two years ago you disclosed an operating margin north of 18%. After all the investments and all the growth, could you give us some feel of where profitability stands today? Thank you.

Carol Fairweather - *Burberry Group plc - CFO designate*

We don't split out profitability by country or by region when we're reporting externally. So obviously internally we have some numbers, but on a macro level we don't split that out. But we are very pleased with the progress we've made in China, let's just say that. You can see the phenomenal growth we've had in revenue and in elevating the brand. So more to go for in China, but we don't disclose profitability by country.

Rod Ozun - *Bank of America-Merrill Lynch - Analyst*

Good morning. Rod Ozun from Merrill Lynch. You highlighted Beauty as one of the strongest growth drivers for the next few years. You've got in menswear, which is doing extremely well as well. You talked about it a few months ago. Can you update us on this business and add a little bit of color on the next growth drivers?

Angela Ahrendts - *Burberry Group plc - CEO*

Specifically in menswear? Yes, absolutely. I tried to do a little bit of it. I had about four sentences in the presentation. So same exact product pyramid as all of the other businesses. So we're thrilled with the Prorsum performance; it's been up double digits in men's pretty much all year.

Men's London is where we've seen significant growth, mostly through the launch of the tailoring initiative. Suits are a much higher average unit retail than sportswear, and we were able to get that solidly positioned with our department store partners. We've got it in about 70 of our own stores today. So you will see in the London Collection area, again, which is what a guy wears to work, you'll see tremendous growth there.

And then the whole Brit, which is the more casual component of the Men's collection, has also seen nice growth, specifically driven by outerwear, where we think we've even got further penetration opportunities.

So men's will be -- it's just on a much bigger base than Beauty is now. You realize Beauty is a small base, right? Men's is really starting to be significant now so it'll be the second largest-growing business for us.

And not just apparel; we talked about Men's non-apparel ending the year up 30%. It's now 20% of our total accessory business, men's accessories. And I would argue there's tremendous growth opportunity there, specifically in the Asian region going forward.

Terrific. Well, okay, one more. Not four, one.

Unidentified Audience Member

Just on Korea, it seems like it's been pretty soft for the past 24 months and it looks like it's starting to improve. Maybe just a few comments on what you think has made the difference. Is it a question of bringing a bit more freshness into the lineup in Korea? Any significant macro change in consumer sentiment or what's suddenly got you out of the darkness in Korea?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. Korea is still soft, but we've done a couple of things. It always begins and ends with people. We've got a great new Managing Director over the country. He has gone in now with every major department store. We were just falling behind in Korea. The brand wasn't keeping pace, as it was in all of the other markets. So we've got a number of new shop-in-shops in Shinsegae, Lotte. They are understanding the modern Burberry now.

So new Managing Director, new team, new investment going with our department store partners. And I don't think it's been formally announced, but you will see some -- a phenomenal flagship opening that Pascal and our brilliant team in Asia have negotiated, because we've also never had a flagship store in Korea, which was one of our largest markets in Asia.

Unidentified Audience Member

Thank you very much indeed.

Angela Ahrendts - *Burberry Group plc - CEO*

Thank you. Thank you very much. I think there's one final video.

(Video playing).
