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BRBY.L - Burberry Group PLC Second Half Trading Update Conference Call

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PRESENTATION

Operator

Good day, and welcome to the second half trading update conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Stacey Cartwright, EVP, Chief Financial Officer. Please go ahead.

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

Good morning, and welcome to Burberry's second half trading update conference call. With me this morning are Carol Fairweather, our Chief Financial Officer designate, and Fay Dodds, our Investor Relations Director. I'm going to make a few brief comments on trading in the second half, and then we will be happy to take your questions.

Burberry had a good finish to the second half with total revenue up 9%. Retail, which is now 75% of sales, grew by 13%, indicating strong global brand momentum with wholesale and licensing coming in, in line with our guidance.

In retail, comparable store sales increased by 7% in the half, 8% in the fourth quarter. Trading was uneven over the period, but Christmas and Chinese New Year were both strong, reflecting our intense focus on product, merchandising, marketing, and customer service initiatives in these key festive periods.

The retail performance was well balanced and of good quality. Against a background of continuing soft footfall, all four product divisions delivered double-digit growth, as did both fashion and replenishment.

Average selling prices increased as outerwear contributed half of the growth, and the penetration of Prorsum and London increased further.

And finally, men's tailoring and accessories continued to outperform, and we saw a resurgence in the spring '13 women's Brit business.

By region, Asia Pacific, particularly China and Hong Kong, led the way in terms of comparable store sales growth. There was low single-digit growth in the Americas, whilst Europe was broadly unchanged.

Turning now to wholesale, revenue declined by 3% underlying in the second half, in line with our guidance. Growth in North America, Asia Travel Retail, and emerging markets helped mitigate the planned double-digit decline in Europe.

Europe is still our largest wholesale region and is being impacted by weakness in local demand, particularly Italy, which is around 40% of European wholesale revenue, and by the continued rationalization of small specialty accounts, for both credit and brand reasons. This downward trend in Europe is expected to continue into the first half of the current year.

With customers globally planning more conservatively in this environment, and the ongoing impact of account and product rationalization, first half wholesale revenue is expected to be down by around 10% at constant exchange rates.

And finally, licensing, where revenue was up 3% at constant exchange rates, consistent with full-year guidance. Excluding the terminated fragrance and beauty license, we're expecting slightly positive growth in licensing revenue for this next financial year with Japan broadly unchanged and the two remaining global licenses, eyewear and watches, delivering double-digit growth.

As we hedge 12 months forward, the weakening of the yen will only have a relatively small impact in 2014.

Meanwhile, our teams remain focused on the consistent execution of our five key strategies. So under the leverage of the franchise, innovation remains at the heart of what we do. During the second half, we introduced increasingly personalized luxury experiences around Runway made-to-order, for example, including bespoke digital content relating to custom-made products.

We've also had an intense focus on preparing for the integration of fragrance and beauty with effect from April 1. Now that we are directly operating this business, we will be able to capitalize on the growth opportunities in this division, and will update you on our progress at the prelims in May.

In accessories, which is around 40% of revenue, we saw elevation of our large leather goods offer, partly reflecting the impact of removing entry price programs last year, but also the outperformance of leather handbags in retail in the second half, reflecting innovation around key shapes and materials.

In retail-led growth, net new stores added 6% to retail revenue in the second half, 7% in the full year, biased towards those larger format stores in flagship markets, including London, Hong Kong, and Chicago.

And following two years of above average space growth, '13, '14 will be a year of consolidation, with about a net 10 mainline stores planned.

For the new year, we're expecting the sales contribution from that new space to add a low to mid-single percentage to retail revenue. Looking forward over the next three years, we're expecting sales contribution from new space to add a mid-single digit percentage on average each year to retail sales.

In under penetrated markets, we're continuing to evolve our Chinese operations. At year end, we had 69 stores in 35 cities, so that's a net increase of six stores in the year.

In '13, '14, we will significantly enhance our position in Shanghai, where we're opening three larger format stores, which will both serve the local Shanghai customer and Chinese domestic tourists, given that the vast majority of their spend is still within Mainland China.

And finally, under operational excellence, year-end inventory is in good shape as the investments that we've made in SAP globally and in planning start to pay dividends.

You will also see in the statement this morning, we're modifying our disclosure slightly going forward to focus on key business trends and make it easier for you to build your models. This move reflects our retail-led growth strategy as we are now 75% retail. That's up from just over 40% back in 2006.

So, in summary, we've had a pleasing finish to '12/'13, especially the 13% retail growth and good quality sales in this channel. Looking ahead, we're expecting the external global environment to remain challenging, but we're excited at the opportunities we have available to us, especially in Retail, Digital and Beauty, our new integrated division.

So, with that, we're very happy to turn it over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Antoine Belge, HSBC.

Antoine Belge - *HSBC - Analyst*

Three questions. First of all, can you comment a bit more about the trend in Europe, distinguishing between local clients, and also what you're seeing in terms of [product] flows; and here also maybe a distinction between the Chinese, on the one hand, and then the Japanese on the other hand?

Second question, I think you mentioned an innovationin handbags, especially after the discontinuation of Nova Check, so here is it a trading up from existing clients? Or is it more that you are able, actually, to attract new clients at the higher end of the pyramid?

And finally, in terms of the consensus for profit before tax, is it fair to assume that on the back of these strong Q4 results maybe consensus has to move up for this year, but maybe, given what you have mentioned in terms of initiative to streamline the distribution network, that maybe your consensus may be a bit high for next year?

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

Okay, well, I think we'll take them in reverse order, Antoine. I'll take the first couple, and let Fay then come in on the trends in Europe.

Consensus for this year, given that this is a net beat at retail, we are expecting forecasts to move to at least the top of the range, or perhaps even a little ahead of it, for this year end. The range, as we see it, is 400 to 416.

And then when you look at '13 to '14, there's no real new news today, other than a little bit on the sales guidance there. So, really, we're not expecting much in the way of movement, other than, perhaps, those at the very top of the core range may shave their numbers slightly. The core range, as we see it, is 450 to 480 for next year. There are a few outside of that, but we're just looking at what the core range is.

Then in terms of the -- you talk about the elevation in handbags and who is it that's buying. We are attracting a new luxury consumer into the brand. That's nothing new; that's what we've been doing over recent years.

I think it's quite hard -- we're at the very early stages of being able to dissect any consumer insight so I'm not sure we can give you a quantitative answer there. But I think qualitatively, we think it is very much that we're attracting in new consumers and, whilst there may be some trading up, it's more the sort of the higher end luxury consumer who is buying the new elevated offering.

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

And then in terms of the Europe transactions, you know we're at a very, very early stage with all of our customer insight data. But if we look at the number of transactions in terms of the fourth quarter then the proportion that sold to the traveling luxury customer has been at least in line with last year, and the proportion that is -- the Chinese within that has been at least in line. So we're not seeing, from our early stage customer insight data, any particular change in trend.

And in terms of Japan, they are clearly a relatively important tourist category for us, but they're nowhere near as important as the Russians, the Chinese, the Americans, the Middle East customer. So, again, it's very hard for us to pick out any particular change in trend there.

Antoine Belge - *HSBC - Analyst*

Okay, just a quick follow up for next year, especially relative to the weakness of the pound, which should be a tailwind for you. Can you maybe remind us what could be the positive impact if the current exchange rates remain at this level?

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

Yes, we'll give you more detail on that in May, Antoine, rather than now, in terms of the profit levels. Bear in mind, as you know, we always hedge on transactions but we don't hedge on translation. So, clearly, you can do the math in terms of the exchange rates that we're ending at this year and where exchange rates may go for next year.

I think you know, Antoine, sometimes we give you a little bit of a ready reckoner at the back of the analyst's presentation, which we may well do in May again, just to give you some helpful flavor as to what it's worth.

Antoine Belge - *HSBC - Analyst*

Thank you very much.

Operator

Thomas Chauvet, Citi.

Thomas Chauvet - *Citi - Analyst*

Three questions, please. Firstly, I guess you must be very pleased by this like-for-like acceleration. What was the like-for-like excluding China?

And you said at Christmas that a normalized level at an LFL for Burberry was, perhaps, 4%, 5%. What is this new normal as you continue to see outperformance of the top end of the pyramid accessories, strong merchandising skills, etc., and the recovery in Asia? That's my first question.

Secondly, could you provide a quick update on beauty since you went live in-house on April 1? I know it's early, but can you share, perhaps, with us some of the difficulties or challenges ahead that you've identified in terms of manufacturing, distribution, revenue recognition? And are you happy with all the agreements that you've extended, or newly signed? And what's the timing of make-up and skincare launch, please?

And thirdly, can you come back on the notes at the bottom of page 4, where you're announcing the changes to the disclosure? So, if I understand correctly, you're not going to disclose wholesaling/licensing on a quarterly basis, despite their high contribution to Group profits. I suppose we won't have earnings guidance, perhaps, as frequently as before if you're not reporting the revenues associated to that?

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

No, absolutely not. I'll pick up that one first of all, just to nip it in the bud, Thomas. The reason for not giving the absolute wholesale numbers as at Q1 and Q3, and the same with licensing, is that everybody then tries to extrapolate what that means for the half when we've given you the guidance for the half.

To be honest, whether we ship something -- if you think about the peak season for shipping, for example, across Q1 and Q2, June and July are the big months and so suddenly, whether we ship something in the last couple of days of June, or the first few days of July, you do try and interpret what that means when in fact it's simply down to timing of shipments.

So we will absolutely be updating on guidance at every opportunity when we talk to you. So it's absolutely not taking anything away in terms of the guidance. But it's not helpful, we believe, to give you a quarterly number that really can be meaningless when actually it distorts from quarter to quarter according to when something got shipped at the end of one week, or the beginning of the following week.

So no change in terms of the overall guidance. We'll be continuing to update that at every opportunity. We'll also be adding some extra elements. You'll have seen in this release, for example, that instead of giving you just space contribution and then letting you try and -- space growth, and trying to get you to work out what that might mean in terms of contribution to sales, we're actually changing and cutting straight to the chase and giving you what we think the contribution to sales for the year will be.

So, if you like, this is our opportunity to make things even clearer going ahead, and getting you to focus, with us, on the key metrics that really make the difference.

Then going back to your first question, which was on like for likes, and then I'll let Carol pick up on where we are on beauty, yes, of course, we're pleased with the like for likes. We've said that China was double-digit. We're not going to get into, and can I pull out this territory or this territory and tell you what the rest of the like for like would have been. I think you can do the rough math yourself on that.

You made some comment about is this the new normal. With the uneven trading patterns that we're seeing out there, I'm not sure that there is a new normal.

And if you ask me what our exit rate was, I don't even think we can tell you what the exit rate for the year was because, of course, it was Easter besides. So it's a very uneven trading pattern.

We said that footfall for the sector generally is down. Our team is doing a fantastic job, I think, in terms of optimizing the traffic that there is in terms of conversion, and, of course, driving up the average unit retail, with the product mix shift that we're seeing with outerwear, and, of course, Prorsum, London, and the elevation in the large leather goods, those leather handbags.

Carol, do you want to talk about beauty?

Carol Fairweather - *Burberry Group plc - CFO Designate*

Beauty, clearly, it's still early days, but we are very pleased with the progress to date. As you know, we took over on April 1. We've had a great cross-functional team working on the project for the last nine months, and we're in good shape.

As we talked to you before, we've stepped into the shoes of Interparfums with most of the arrangements, both from a supplier point of view, and also from a distributor point of view. But we have sourced those products now and have actually begun shipping from our warehouse. So early days, but very pleased with the progress to date, and we will be back in May to give you more color about that.

Thomas Chauvet - *Citi - Analyst*

Thank you.

Operator

Louise Singlehurst, Morgan Stanley.

Louise Singlehurst - *Morgan Stanley - Analyst*

A couple of questions from me, please. Just following on from Antoine's question on the geographic color, actually, just in terms of the performance, so if we look at Europe and the UK, [stated] another way, is there any improvement, or bottoming out, do you think in terms of the domestic consumption, which we know remains pretty tough?

And then on the US, are we pretty much through the product repositioning there in taking out the entry level product that we saw during last year?

And then secondly, on new space growth and the outlook for full-year '14, when we think about the openings, are there any big flagships, any special projects that we should be mindful of?

And the closures, does that include some of the repositioning of the stores in China, i.e., closing some of the smaller doors to open up some of the bigger flagships, i.e., you mention in Shanghai?

And then thirdly, just again on China, I know that it's difficult to give us specific detail but is there anything that you'd call out in this last quarter that's different to the prior quarter? Thank you.

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

Okay, I think we'll probably split those one each. I'll take the first one, let Fay take the second one, let Carol take the third one.

In terms of geographic color, I'm not going to tell you there's any major changes in trends at all from the third quarter. No, I don't think we'd call out anything significant on the domestic consumer. I think Southern Europe remains weak. Reading across into wholesale, that's one of the reasons why you'll see we're being even more prudent in terms of the wholesale sales expectations out of Europe. In these next six months, we're keeping a very tight rein on things from a credit perspective.

You talked about the US and are we through that. The elimination of the opening price-point product really started essentially last May in our own stores. But remember, wholesale is the laggard, so in wholesale it started to come out about November time. So whilst we're almost through it from a retail perspective, we've still got six months to go from a wholesale perspective.

Fay, do you want to talk about the openings and the closures for '13/'14?

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

Yes. If you look at what we're actually opening in terms of '13/'14, there's three larger format stores, and they're the three that we've talked about in Shanghai, which opened during the year. That's really important because it's a very big flagship city in China and it will transform our presence in the Shanghai flagship market.

In terms of closures, we're planning to close about 15 stores, which is a slight increase on what we closed in the year just finished, which was about nine stores. And that is really around the evolution of the store portfolio. So there's relocations in Europe, there's the evolution of the Chinese store portfolio, and then there's a bit of work going on as well in the Middle East. So it's a very normal thing for a luxury retailer to do each year to relocate and evolve their stores.

Carol Fairweather - *Burberry Group plc - CFO Designate*

And then just turning, Louise, to the performance in China, you said was there any change in trend, we spoke to you in January about the fact that we've had double-digit growth in Q3. That continued through Q4.

We've referenced the very strong impact we had of Chinese New Year; not just in China, but also globally. We had great product relevance for that holiday period with lots of red, which did very well, a great innovative marketing campaign, and conversion with goods. Because whilst footfall was down, those product initiatives, the marketing and the incentivization of our retailer associates, all led to increased conversion, so we were very happy with our performance in China in this fourth quarter.

Louise Singlehurst - *Morgan Stanley - Analyst*

Great. Thank you all very much.

Operator

John Guy, Berenberg Bank.

John Guy - *Berenberg Bank - Analyst*

A couple of questions from me, please. Could you just talk a little bit about any more quantitative reflection on performance within Regent Street, and also Chicago? They've been open now for a little bit longer.

Second question is around the sales contribution on space. If I look at it the old way, and especially looking at the second half of the year, it seems as if the sales conversion to new space was around just under 60%. So assuming a 4% sales contribution in the FY '14 year, does that mean that you're looking to open around 7% space?

Also, with regards to beauty, Carol, I know you talked about obviously very early days, but you're very happy with the way that beauty is going so far. The GBP140 million and GBP25 million EBIT still looks pretty conservative. I guess we're going to get more of an update during the full-year results, but --

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

As I say, John, remember, we're only 17 days in, okay, of actually running it ourselves. You wouldn't expect us to say anything different at this point on that last question.

John Guy - *Berenberg Bank - Analyst*

Yes, but a sub-18% margin does look pretty low. Anyway, maybe we'll skip that, because you probably won't answer anything on that one. How about the [AUR], or ASP, moves looking at volume and value for the fourth quarter, please?

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

Okay, so I'll pick up the first couple, and maybe let Fay pick up ASP at the end. How do we feel about Regent Street and Chicago, thrilled with them both. I think they are both transformational stores in their respective market places, so really pleased with how they've started. We are only a few months in. We won't be anniversarying them until the autumn.

Remember, Regent Street is more than just a store to us, though. We use Regent Street extensively from a marketing and events point of view besides. You may well have heard, John, that we've got Kaiser Chiefs performing there with us next week.

John Guy - *Berenberg Bank - Analyst*

I'm looking forward to the invitation.

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

(laughter) Well, I'll have to see what the PR team have to say, John. I know there is a huge demand, as you would expect.

Then in terms of the sales contribution from new space, no, don't extrapolate out. We always talk about how you can't just say that there's going to be a contribution percentage from the new space because it depends on what the new space is that is opened; which is why we're simply cutting to the chase now and giving you the sales contribution from new space that we are expecting, rather than having to explain, look, when you take the average of the openings this year and the average of the openings next year, and are they larger format stores, on multiple floors, you're not going to get the same densities of sales on the upper floors, etc., So that's why we've just cut straight to it will be a mid to low single-digit percentage.

When you actually look at what space we're adding, you know historically we've always talked about adding about 10% per annum. We've had a couple of exceptional years of adding, what, 13%, 14%, in the last couple of years. That will normalize.

As we said, the only big openings next year are the three larger format stores in Shanghai. Yes, we've got some bigger openings in the outer years. But the way in which the openings fall, it's really only those three in Shanghai that I would call out as being particularly noteworthy for next year.

And then, Fay, do you want to talk about average selling prices?

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

I don't think you'll be surprised to hear that average selling price, again, has been the key driver of mainline sales growth. Again, it's a reflection of the consumer preferring to buy those higher selling and higher priced items.

So we saw really strong growth from outerwear, and, as we said in the statement, Prorsum and London continue to increase their penetration. And then finally, within the handbag category we've seen an increase in the penetration of solid leather, which is pleasing. So it's very consistent driver coming through from average selling price. There is some like-for-like price inflation within that, but it is still mainly mix that's driving that average selling price.

John Guy - *Berenberg Bank - Analyst*

Is that low to mid single-digits on the LFL price inflation, Fay, is it?

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

Yes, it's that sort of level globally.

John Guy - *Berenberg Bank - Analyst*

Okay. And, sorry, maybe just one follow up with regards to the weather. Listening to the Prada call in Europe, talking about seeing some very soft footfall, March obviously being very weak, and also not seeing a particularly great start into April, are you able to make any comment with regards to weather-related --?

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

As you know, we never talk about the weather. What we've said for the quarter as a whole is that footfall remains soft, and the trading was pretty uneven.

John Guy - *Berenberg Bank - Analyst*

Okay, many thanks.

Operator

Annabel Gleeson, Redburn.

Annabel Gleeson - *Redburn Partners - Analyst*

Three questions. The first one is what does this lower level of space growth mean for CapEx? Should we be decreasing our CapEx forecasts?

And the second question is when you talk about these stores, the larger format ones, hitting the 25% IRR threshold, could you just tell us what you're assuming for the maturity profile of the stores?

And my last question is this time last year you guided to, I think, 12% to 14% square footage growth, adding 8% to 9% to sales; now you're converting 14 to six. Could you explain what changed in your assumptions?

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

Okay, all right, so let's start with the lower level of space, and does that mean lower level of CapEx. Whilst directionally, yes, Annabel, it depends on what the stores are. So we've already said that for the coming year we've got three magnificent new larger format stores in Shanghai coming, including with wonderful facades that also deliver the right brand image into that marketplace. So it depends on what the stores are, and whether there's any facade works to be done there, so it's not a straight like for like.

And as we've said previously, the stores in China, we can make them even more impressive and still generate IRRs that are well over 25% because of the rest of the metrics there in terms of the rent, either turnover rent or absolute rent levels that we're paying, as well as obviously the operating cost. So there isn't a hard and fast answer to that.

And there isn't to the second part, which was the maturity profile of stores. It really depends on where they're opening, how established the luxury traffic market is in that particular location. You can have stores that may take two or three years to get up to maturity; you have other stores that open and they're pretty much there within the first 12 months. But none of the stores really take that long to generate the level of sales that we would say was a more normalized level.

And then the third question, I think Fay --

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

On the third question, we guided at the start of the year to 12% to 14% space growth, and for the full year we delivered 13%. That's delivered a 7% contribution to sales growth, which was slightly lower than we initially thought, but that's because you've seen the decline in footfall for the luxury sector as a whole. And I think we've said before, as your customer is shopping less frequently, he or she is shopping less frequently in your new stores, as well as your old stores.

Annabel Gleeson - *Redburn Partners - Analyst*

Okay, thank you very much.

Operator

Allegra Perry, Cantor Fitzgerald.

Allegra Perry - *Cantor Fitzgerald Europe - Analyst*

Just a few questions from me, please. Firstly, on China, I was wondering if you could give us a little bit more of a flavor for how trading was in your tier 1 city stores relative to stores in smaller cities; and particularly also, within your store portfolio there, if you could give us a sense for how your newer stores are trading relative to the stores you originally acquired.

Secondly, on outerwear, I was wondering if you could give us some degree of magnitude of the outperformance of outerwear, how much it represents today. And presumably that bodes well for second half margins; maybe a comment on that.

And lastly, in terms of the soft footfall, could you maybe comment a little bit around how that may have varied across regions, and whether any major variances to that comment globally? Thank you.

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

We'll take them in reverse order, again, I think. So I'll pick up soft footfall, and then throw to Fay and Carol to answer the other two.

Soft footfall, quarter on quarter I wouldn't say there's been any material change, Allegra, in terms of -- you know we've been calling out soft footfall for the sector now really since, I think, last summer and no change regionally across the quarters, every market, where we can measure it. Again, the caveat that Fay put up right up front, we are in the early days of being able to monitor some of this data, and we haven't got footfall counters in every location; or where we have got it, we haven't necessarily had it in for the full 12 months in the previous period. But no change in trends that I would call out.

Outerwear, Fay?

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

As I think we said in the statement, it delivered about half of the growth, and it's, very roughly, half of our apparel business. Again, some of the things that have worked really well have been around color. Prorsum has performed very strongly.

Clearly, outerwear is helpful to our gross margin, especially where it's replenishment. But to counter that, you do have the outperformance of Prorsum and London, which is not helpful to our gross margin percentage but obviously helpful to our cash gross margin. And I think we'll come back in May with all the details on gross margin.

Carol Fairweather - *Burberry Group plc - CFO Designate*

And then you asked about our tier 1, tier 2 cities. We don't tend to categorize our markets by tier1/tier 2; we think more in terms of flagship markets in those provincial capitals. The trend we have seen, perhaps, Beijing performed slightly less strongly in Q4, but other flagship markets in Mainland China outperformed.

And then, I think, in terms of the question you asked around how are our new stores comparing to our acquired stores, we continue to see that the new stores that we've opened since acquisition are strongly outperforming those acquired stores.

Allegra Perry - *Cantor Fitzgerald Europe - Analyst*

Great. Thank you very much.

Operator

Paul Swinand, Morningstar.

Paul Swinand - *Morningstar, Inc. - Analyst*

First, just following up on Louise's question, maybe I missed the detail, but 10 closings forecast, it sounds like they're relocations, or smaller stores in China. Sorry if I missed that.

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

No, that's right, that is. The majority are simply relocations. There's a lot of relocations that are going on in Europe, and then the natural course as we evolve and upgrade the China portfolio.

Paul Swinand - *Morningstar, Inc. - Analyst*

Is it easy to get out of those store leases because they're short in term, or is it older stores that have long leases?

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

Yes, that's what we typically tend to do in China is keep them on relatively short lease. Because that is such a fast-moving market you want to make sure that you've got the optionality, when the traffic moves to a new mall, that you've got the option to up and go with them.

Paul Swinand - *Morningstar, Inc. - Analyst*

Sure, got it. And then a question on the beauty and some of the license take over. Excuse me if I've misunderstood this, but is that adding -- will that be adding to same store sales? Or is it a net wash, sort of, because you were buying it at a wholesale from a licensee, or --?

Carol Fairweather - *Burberry Group plc - CFO Designate*

Yes, in the past we accounted for that as license income, the royalty on those sales. As we move to owning the business ourselves, that will now be wholesale sales. We're running that beauty as our fifth product division and we will be reporting those as wholesale sales. Clearly, there's a little bit we do as well in our own retail, and that will continue to grow, but the predominant amount in the next few years we'll see will be addition to wholesale sales.

Paul Swinand - *Morningstar, Inc. - Analyst*

So the product I'm seeing in the stores is not that big a contributor, just brand new and (multiple speakers)?

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

A few million pounds.

Paul Swinand - *Morningstar, Inc. - Analyst*

Okay, got it. And then real quickly, I know you declined to comment on the weather (laughter) but I'd like to try again since it's been so cold here, and I know in Europe too. But do you believe that it is contributing to the outerwear outperformance, the fact that the cold weather has been extended into spring so far?

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

Again, we're just not going to comment on the weather. You do need to bear in mind that we are a very global business, and one of the things that we have been working on really hard over the last year is actually the seasonless offer so to make sure that we have lightweight outerwear and lightweight scarves and mufflers, for example, in those hotter climates.

Paul Swinand - *Morningstar, Inc. - Analyst*

Okay, great. Thank you, and best of luck.

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

Thanks, Paul.

Operator

Rogerio Fujimori, Credit Suisse.

Rogerio Fujimori - *Credit Suisse - Analyst*

Two questions from me, please. On China, you articulate the plans to increase and upgrade your store network to around 100 stores, and some of your non-apparel peers are slowing the pace of retail expansion to protect exclusivity. So do you feel that the target of 100 stores in the long term still makes sense for the brand?

And second, on Japan, just an update on how your non-apparel stores in Tokyo and concessions in department stores are performing in terms of like for like versus the overall market. Thank you.

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

Okay, Japan, I don't know. Fay, do you want to pick up Japan, and then we'll get Carol to talk about China?

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

We're delighted with the performance of our Japan trial. We've got three stores now and about 10 concessions and they are showing really good, strong comp growth. So it gives us confidence, as we work through towards the integration and the termination of the Japanese license, that there is strong demand for the global collection in Japan.

Carol Fairweather - *Burberry Group plc - CFO Designate*

And then in terms of China, we still see an opportunity, a significant opportunity, for Burberry in China and will continue to invest in those right strategic locations in those key flagship markets in tier 1 provincial cities. So we continue to think about a net 10 store openings per year, which is where we were when we acquired the business.

Longer term, as we look at China, we think it has got the right demographics for longer term growth. We think that the Chinese customer has a strong brand connection with Burberry and, therefore, we see significant opportunity in that market. But don't forget, it's not just China where we see our global growth coming from because there is this other travelling luxury consumer in other under penetrated high growth markets, including the Middle East and Latin America.

Rogerio Fujimori - *Credit Suisse - Analyst*

So you stick to your 100 stores in the long term?

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

In the long term, yes.

Rogerio Fujimori - *Credit Suisse - Analyst*

Thank you.

Operator

(Operator Instructions). Luca Orsini, One Investments.

Luca Orsini - *One Investments - Analyst*

Thanks for taking my questions. First is just to make sure that I got my notes right. When you said that the new openings are planned to contribute to low single-digit for the next three years, it means that -- have I got it right? So for the next three years the growth of the new shops are going to be contributing less than in the past to average the 10% long-term growth that you were talking about?

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

I think, Luca, you're confusing space contribution, which is roughly 10% per annum, which remains unchanged, with us now telling you what sales contribution we expect from that new space, where we're talking about over the long term this mid single-digit contribution. And specifically, because we've had two years of exceptional growth, we're saying for the year ahead it'll be mid to low single-digit contribution from the average new space.

Luca Orsini - *One Investments - Analyst*

Thanks for the clarification. And the second thing is if you can comment on your marketing spend and your marketing plans.

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

Yes, the marketing spend, we've talked historically about it being a low to mid single-digit percentage of sales that we've spent on marketing.

We talked about one of the rationales for bringing beauty in-house being the power of being able to put what is a large beauty marketing budget within a fragrance business, alongside our own marketing budget for the core business, that we saw huge opportunities to basically leverage that combined spend for greater effect and greater reach going forward. So you'll, obviously, see the impact of that within the marketing spend in the future.

The underlying position, if you excluded beauty, would be that we were always looking to nudge up slightly the amount of marketing spend as a percentage of sales because we do believe that we are significantly lower than many of our peers. But that said, the focus on digital within the marketing team has meant that we've got, we think, greater reach and greater success off the back of it.

Luca Orsini - *One Investments - Analyst*

Thank you.

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

Thanks, Luca.

Operator

Mario Ortelli, Bernstein.

Mario Ortelli - *Sanford C. Bernstein - Analyst*

A question on pricing. I would like clarification about the mid single-digit price increase that you talk about the last quarter. I would like to understand if there were very differences among countries and among product lines, and if you can give us some ideas about your pricing strategy going forward.

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

Yes, Mario, it's worth just standing back and looking at how we approach pricing. We're very cognizant of the global pricing architecture that exists out there in terms of how our peers price. Very cognizant of the different pressures, for example, in places like China, with high costs of freight and duties to get products into that market; that, that invariably requires that higher price point in that market and in many other markets around the world.

And we're constantly monitoring what our peers are doing. We're constantly looking at our own product innovation to work out when we've, essentially, added more design input, more in terms of the offering, in terms of the materials, the leather trims, whatever, which enables us to take things to the next price point.

So this isn't about a hard and fast we're going to put X% in. It's very much done on a bottoms-up basis in terms of the price value for the consumer, but also then from a top-down perspective looking at what our peers are doing beside. That happens to average out, typically, in a year to a mid to low single-digit percentage increase in pricing, which doesn't set us apart from our peers; absolutely in line with what the market is doing.

From time to time, it may well be that we will take one market up a little bit more than another. So, clearly, as exchange rates move it may be appropriate to take the sterling prices up a little bit more and, perhaps, not to move the Chinese renminbi prices by the same amount. But it's done on a very dynamic basis.

Mario Ortelli - *Sanford C. Bernstein - Analyst*

Thank you.

Operator

Fraser Ramzan, Nomura.

Fraser Ramzan - *Nomura - Analyst*

Just coming back to an earlier question on time to maturity of new stores, could you just revisit what that looks like?

I'm sure it's very different by market, but if we're in an environment now where you are opening less space, certainly for the next couple of years, is that helpful from a cost perspective? Obviously, you always balance gross margin and cost to deliver margin improvement, but at least at an SG&A level does this help you deliver -- is it beneficial for delivering the improvement in retail/wholesale EBIT margin?

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

The whole time to maturity piece, Fraser, as we've always said, there is no average store. So I'd refer you back to that lovely scatter graph slide that we put up about six months ago that shows you that if you were to look at the stores over the previous 12-month period that we'd approved, literally the metrics are all over the place because it does depend on the local deals that can be done in terms of the returns that we get. Therefore, if you get a particularly good deal it doesn't matter if you've got less traffic with less sales per square foot.

In terms of whether this implies lower OpEx going forward, again, there's all the different dimensions there in terms of the CapEx, the rents, the store, the store staff costs. I don't think there's an easy way of just extrapolating, I'm afraid. I'm not sure we can help you on that one.

Fraser Ramzan - *Nomura - Analyst*

So, sorry, just to summarize here, you're still confident of hitting your hurdle rates for IRRs of 25%?

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

Exactly.

Fraser Ramzan - *Nomura - Analyst*

But it doesn't necessarily imply lower CapEx, nor does it imply lower costs?

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

Yes. And bear in mind, you look at those -- go back and look at those charts that we showed you six months ago and how some of those returns are off the scale, literally. And there were some that we didn't put [up] there. So you start to play around with some of the returns there. It doesn't necessarily mean that you are coming anywhere near breaching your 25% IRR, but you're picking out individual metrics, which all get combined together to form what is the overall IRR of a particular project.

Fraser Ramzan - *Nomura - Analyst*

Okay. But sales you can be pretty confident about, and that's why you've given us the guidance?

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

Yes. We can give you guidance on every one of these metrics, but there has to be a limit.

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

The way the sales guidance is built up, as you know, as part of our budget process was each of the store projects goes through the investment council. Each individual store project has to meet that 25% IRR hurdle rate; as you do that analysis then we forecast sales forward over the next X years. And then, to try and be helpful, to help rebuild your model, we basically share a bit of our budget with you, which is built on a store by store basis rather than, essentially, let's grow everything by 5% basis.

Fraser Ramzan - *Nomura - Analyst*

Sure. Okay, thank you very much.

Operator

As there are no further questions in the queue, I would now like to turn back to Ms. Cartwright for any additional or closing remarks.

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

Thank you very much, everybody, for your attention. As you can see, we've had a strong finish to '12/'13, and we're focused, as ever, on optimizing the opportunities available to us going forward in what remains a challenging external environment.

We look forward to speaking to you again on May 21, which is when we will be reporting our preliminary results. Thanks very much.

Operator

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