WORLD TELEVISION

Burberry

Interim Results Presentation 12th of November

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BURBERRY

Christopher Bailey, Chief Creative and Chief Executive Officer

Carol Fairweather, Chief Financial Officer

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Donald Kohler, Chief Merchandising Operations Officer

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QUESTIONS FROM

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Introduction

Christopher Bailey, Chief Creative and Chief Executive Officer
Good morning welcome to Horseferry House and thank you very, very much for joining us to hear more about Burberry's first half performance.

If I may I'll start this morning by outlining a few thoughts on what's been driving another strong set of results and what this means for the future, before handing over to other members of the team.

As usual Carol Fairweather, our CFO, will take you through the details on the numbers. After which John Smith, our COO, will talk about how we weave digital innovation through everything we do; how integrated this is to our culture and why we see this as a continued differentiator. Finally, and as part of my commitment to introducing you to the broader senior team, we'll hear from Donald Kohler, our Chief Merchandising Operations Officer, who has done a magnificent job building our planning and business intelligence functions over the past six years. Donald will give an overview of how we're driving productivity through product related activities consistent with our broader focus on this area, which I will talk more about shortly.

Additionally, as you can see we've also relooked at the format of today's meeting in the same spirit and a few members of the senior team are seated at your tables, so that you have an opportunity to meet them.

Following the presentations we will have a Q&A session, which I will chair, Carol, John, Donald and myself will be happy to take questions. And with that I will turn to the highlights.

Highlights

Christopher Bailey, Chief Creative and Chief Executive Officer
With underlying increases of 14% in revenue and 6% in adjusted profit, Burberry had another strong start to the year. We are particularly proud of this performance against a backdrop of a more difficult external environment which has been felt across the sector. In this context we continue to focus on the things that we can control.

The double digit underlying growth delivered by all regions and our three main product divisions clearly demonstrates how our teams have delivered against this objective in the half. And we will remain absolutely focused on optimising what we can influence during the rest of the year, confident in the underlying health of the business and in the momentum of the brand.

Underpinning our performance is a dynamic strategic agenda and a business with solid foundations, but with an agile mindset. When we met in May I talked about this idea of stability and evolution going hand in hand and how it will define our next chapter. It's an idea that goes right to the heart of who we are, staying true to our roots, whist continuously innovating and moving forward. Our strategy thinking reflects this approach every bit as much as the way in which we marry tradition to innovation in our products in our brand.

I'll set out in a moment how our strategic agenda for the coming years is evolving, but first I should start with the principles that guide us and underpin everything that we do; an overview of both is included in your packs.

The first of these principles we call, Brand First, we will always be led by the brand and every decision we make will be in its best long term, sustainable interests.

The second is that we should be famous for product. We will celebrate our authentic, distinctive products as forcefully and innovatively as we do our brand.

The third is that we should always remain customer-centric; focusing with absolutely determination on putting our customers at the centre of everything we do and recognising our ambition to lead the sector in how we understand, respect, engage and serve them, both on and offline.

The final principle is that we should be both productive and responsible; meaning that we will put ever greater emphasis on productive, efficient and responsible ways of working across the whole organisation.

To deliver against these principles we are evolving the five core strategies that will be familiar to you all with some important shifts in emphasis to better express the shape and the scope of our future ambitions.

The strategy that we've been calling Leverage the Franchise becomes Inspire with the Brand, to express more clearly our determination that Burberry speaks to the consumer with one equally inspiring and authentic brand voice wherever they encounter us. To achieve this we intend to focus, amongst other things, on more extensive utilisation of data and insight, greater emphasis on brand consistency and continued innovation at the intersection of our physical and our digital worlds.

The strategy we've called Intensify Accessories is being broadened out and renamed Realise Product Potential. Our focused attention on accessories in recent years has taken this category to 36% of Retail/Wholesale sales from 29% in 2006. And we now have great balance in our product mix and growth drivers across all categories.

Accessories will remain an important future growth driver as we reinforce our dominant position in soft accessories, such as scarfs and further develop our bags and small leather good. Other areas of focus will include underdeveloped project categories, such as shoes, alongside continued opportunity in all areas of mens and of course the development of Beauty.

Accelerate Retail Led Growth becomes Optimise Channels, we have successfully shifted the shape of our operating model towards the Retail channel, which represented 70% of sales last year from 43% in 2006. Now with our Retail/Wholesale mix broadly where we would like it it's time to broaden out this strategy to focus on improving and optimising all routes to market, both physical and digital. This will include significant opportunities in elevated Wholesale and third party digital relationships as well as exciting initiatives to enhance Retail productivity, some of which Donald will touch on in his presentation.

Invest in underpenetrated markets becomes unlock market opportunity. To articulate more clearly the rich potential to further evolve Burberry's footprint and positioning in both developed and younger markets. Future opportunities for the brand in China and Japan are of course an important part of this and I was pleased to see first-hand the excellent preparations our teams are making for the Japan transition on a visit to the market a few weeks ago.

Other areas of geographic focus will include the ambitious development of our travel strategy and the continued elevation of our business in the US, where the recent openings of our Rodeo drive and Post Street flagships in LA and San Francisco are great example of our vision for the brand.

The final core strategy, Pursue Operational Excellence remains unchanged, but its scope is expanded to encompass our efforts to drive greater efficiency and productivity throughout the business in addition to its historic emphasis on improving our back of house operations. What we call, The Productivity Agenda, spanning opportunities in Retail, product and processes is an area in which we have further significant opportunities and will be the subject of intense focus for this next phase as we leverage the investments that we have made in recent years.

In my mind the evolution of our five core strategies and the success with which we deliver against them is inextricably linked to our continued commitment to building Burberry's unique, caring and connected culture. As such it is our fierce determination that our next phase should be characterised by this culture that is more authentic than ever, by behaviours that truly reflect our values and by a genuinely responsible mindset.

We will continue to prioritise and invest in these human areas, because, just as with all of our core strategies they will make us thrive and grow as a business in a healthy and sustainable way long into the future as befits our historic brand. And they will generate real added value for our teams, shareholders, customers and the communities in which we live and operate. I look forward to updating you more fully on all of this in the coming months.

On that note I will conclude with a few reflections on the first half and the festive period ahead. A clear highlight of the half was of course the introduction of My Burberry, much, much more than just a fragrance launch, this demonstrated the best of the brand and the way we work, bringing our unique blend of heritage and innovation to life through great product, dynamic marketing and outstanding Retail and Wholesale execution both on and off line.

There has been an excellent early performance in both Retail and Wholesale globally, a major moment in the development of our beauty business it reconfirms our ambitions for, and confidence in, the potential for our brand in this category.

The September release of My Burberry was synchronised with the re-launch of our British made Heritage trench coat and cashmere scarfs. As I talked about in May, this new programme gives customers a much more focused offer which tells a clear story about the iconic products that sit at the core of our business globally. After a successful initial test in 30 stores and online we have now rolled the programme out to 200 stores and continue to be pleased with its early performance.

Both My Burberry and the Heritage programme were linked to the rollout of our monogramming offer, a new service allowing customers to have their initials embroidered onto scarfs and engraved onto fragrance bottles reflecting our broader focus on greater personalisation in products and services.

Again, early results from this programme have been encouraging with high levels of engagement which we expect to build strongly as we enter the festive periods ahead.

The third product in our monogram offer, this season's Runway poncho, was a standout performer; generating unprecedented levels of consumer and media interest.

Finally I would highlight how we continue to use digital to connect our business and enhance the customer experience in the half. John will talk more about how our integrated approach in this area continues to set us apart, with initiatives including the expansion of our collect in store service, the upgrading of our mobile platform and the ongoing development of third party relationships, giving us real confidence for the future.

As consumer behaviours continue to evolve, we remain convinced that a determined and unique focus on making digital integral to everything we do will be a key growth driver and source of competitive advantage.

The success of these initiatives, alongside the performance of the business as a whole positions us well for the future and provides a great foundation from which to optimise the critical festive trading periods ahead.

Last week we launched our festive campaign, featuring Romeo Beckham, which drove record engagement levels for the brand across traditional and social media. The launch marks the start of our festive season and the culmination of many months of our teams around the world working together on initiatives that span every dimension of what we do, from design and manufacturing to market and of course Retail.

We have designed great product with an enhanced gifting focus across all categories, we have developed emotive, innovative marketing, both on and offline, built around the theme of Burberry With Love.

We have created service initiatives that merge physical and digital to make the customer experience easier and more engaging than ever. And we have set in place robust systems and planning to ensure that we can consistently deliver. And of course we are just as prepared for Lunar New Year, given the importance of the Chinese customer to our business. This is now a celebration that we approach with equal focus and creativity.

As we enter this crucial trading period we are naturally mindful of the external uncertainties that face the sector as a whole. However, as we constantly challenge ourselves to build on previous year's lessons and to bring the best of the brand to the customer at this time we believe we are better positioned than ever in terms of our internal planning and readiness to execute.

With that, before handing over to Carol I would like to leave you with a short video that I hope brings to life some highlights from the first half and helps frame our ambition for the future.

Video Played

Financial Review

Carol Fairweather, Chief Financial Officer
Good morning, it gives me great pleasure to present the results for the first half, where we have again seen strong revenue and profit growth. As Christopher referenced revenue was up 14% underlying, an adjusted profit before tax at £152m was up 6% underlying.

We continued to be strongly cash generative, closing the half with a net cash position of £307m, up from £208m last year and have proposed a 10% increase in the half year dividend to 9.7p given our policy to move progressively to a 50% payout ratio.

Before I review the half let me just say a few words on exchange rates, which as you have seen have had a material impact on the reported numbers in the period, reducing revenue by £75m and adjusted profit before tax by £31m turning 6% underlying growth into 12% decline at reported FX. As we look forward to the second half of the year and at current exchange rates we do not expect FX to have a material impact on Retail/Wholesale profit.

Turning now to revenue, given that we've already reported on this last month I will only briefly summarise our performance. We increased revenue by 14% underlying to £1.1bn. Growth was led by Retail, up 15% underlying with comparable sales up 10%; underpinned by the investments we have made in recent years in brand, retail, digital and customer service.

Excluding Beauty, Wholesale was up 5% underlying reflecting growth in areas such as Asia travel retail, partly offset by continued account rationalisation as we upgrade our presence in Europe and the United States.

Beauty Wholesale was up 55% underlying, consistent with our full year guidance of up about 25%, helped by the successful launch of My Burberry which Christopher has just spoken about.

And finally Licensing was down 3% underlying. Our plans for the transition in Japan from Licence to Retail remain firmly on track.

We saw double digit growth in all regions and in our three product divisions, a testament to the strength of the brand and the business.

This slide clearly demonstrates the material impact that exchange rates have had on reported profits. We are pleased with the 6% underlying growth in adjusted operating profit which reached £152m driven by an underlying £11m, or 8% increase from our Retail and Wholesale business.

So looking at these numbers in greater detail; this slide shows the bridge between the first half last year and this year for operating profit and margin. You can see both the significant adverse impact that exchange rates have had of £25m, and the underlying increase in operating profit of £11m. And you can also see operating margin in the first half last year was 13.9% reported, the impact of FX is about 140 basis points, reflecting the imbalance between where we generate revenue and where we incur costs. Excluding this the first half margin declined by about 80 basis points and these two factors together led to a reported margin of 11.7%.

So looking at the Retail/Wholesale P&L gross margin was 67.7%, down 150 basis points. Inevitably exchange rate movements were a large part of this. The majority of the underlying change was due to a one off inventory cost relating to execution around the Brit Rhythm for women fragrance launched in February 2014. As you know we accelerated the launch into last year, but at that point we did not have the full visibility of distributor forecasts, or inventory planning that we now have. This led to some excess inventory, including finished goods, components and point of sale material for this particular launch. Clearly we learnt from this and were much better prepared for the launch of My Burberry.

And finally the first half margin was impacted by a number of other small factors, including the weighting of Beauty within the overall product mix.

Looking at operating expense to sales ratio, this was 56%, up 70 basis points compared to the first half last year. This again reflected the adverse impact of exchange rate movements, which more than offset the modest benefits seen from operating leverage and tight control of costs in the half.

Looking at the absolutely increase in opex, over half came from investment in new space and marketing with the balance from general inflation, volume related and people costs.

Turning to the full year margin and as we said to you at the trading update in October, we do expect some downward pressure on the Retail/Wholesale margin in the full year, reflecting the negative impact of exchange rates, a more difficult external environment and continued investment across the business in key initiatives such as flagship markets, customer service, digital and people to drive long term profitable growth. But our aim is absolutely unchanged; continuing to invest to delivery sustainable revenue and profit growth in pounds millions, whilst securing ongoing margin progression over time.

On Licensing profit for the half was £28m, down £8m, due largely to a £7m negative impact from exchange rates, mainly reflecting the movement in the effective yen rate from 1.29 to 1.57 to the pound. And we still expect the FX impact for the full year to be around £10m.

Working down the income statement we had £0.1m of financing come in the half and we'd expect it to be around the same level in the second half. The adjusting items of £10.5m comprises two things, the £7.5m amortisation of the fragrance and beauty intangible, which will be £15m in the full year, and the £3m charge relating to the China put option where there is a call option in 2015 and a put in 2020 over the 15% economic interest in the Chinese business not held by us.

The tax charge of £33m reflects our estimated effective tax rate on adjusted PBT for the full year of 23%, against the 24.7% achieved in 2013/'14, largely reflecting the reduction in the UK corporation tax rate. And finally the non-controlling interest of £4m reflects profits in China and the Middle East.

Our business remains strongly cash generative with £149m of cash flow from operations, up 5% from the £142m last year. Depreciation was £59m and we now expect a charge of around £130m for the full year. The working capital outflow at £79m was £30m better than last year; remember that last year included a one off step up associated with Beauty. And you will hear from Donald later this morning on how we are focused on optimising inventory going forward, leveraging past investment in planning and product teams and processes.

Translating that operating cash flow to net cash, capital expenditure was £73m, of which Retail was about 70%, with a weighting towards flagship markets, including a new store opening last week on Rodeo Drive, the renovation of our San Francisco store and the expansion of our store in Milan. We continue to expect that our capex will be around £200m for the full year, with spend in the second half on major projects including Omotesando in Tokyo which opens in December and other projects including Shinetsu and Osaka in Japan and the Korean flagship which are due to open next financial year.

Tax, dividends and other outflows totalled £172m, so we finished the half with net cash of £307m, about £100m more than this time last year. As you know the Board keeps our capital structure under review and feels that our net cash position, especially when adjusting for operating leases is currently appropriate given the growth and investment plans ahead. And the slide in your pack highlights our usual guidance for 2015.

So to close we are pleased with the momentum in the brand and the business. We finished the half with a strong financial position, we are mindful of the more difficult external environment, but the evolving strategies that Christopher and the entire team are executing are unchanged and will underpin our goal of driving long term profitable growth, always doing what is best for the brand, whist retaining tight financial discipline.

So thank you very much and I will now hand over to John.

Presentation

John Smith, Chief Operating Officer

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Thank you Carol and good morning. These are just some of the many recent examples of Burberry's innovations in the world of digital; showing how Burberry has become known for being a leader in the digital space. And as Christopher said in his introduction digital is a clear point of differentiation for Burberry and a key driver of superior revenue growth.

So this morning I will explain our approach to digital and how we intend to sustain this leadership position through continued investment in an environment where the technology itself and consumer behaviour are both evolving rapidly.

First, let me put digital into context within the luxury sector. The global e-commerce market in 2013 was estimated to be $1.2 trillion representing about 10% of retail sales and is expected to almost double by 2018. And in terms of luxury goods, Bain Altagamma estimate that online accounts for about 5% or €10bn euros, growing at over 25% versus general luxury sector growth of 5%.

Digital for us starts with our strategy of inspiring with the brand, ensuring that we engage customers with a consistent brand story wherever and whenever they encounter us. All our marketing is both physical and highly digital; designed to tell that brand story to digital users but also to broaden our reach to get as many of our target customers to be aware of the Burberry brand and to start their customer journey.

Our digital marketing includes in owned media many connections through social media platforms such as WeChat, Twitter, Vine plus our own Art of the Trench, through bought media, banner ads and paid search and via earned media with PR launches always having a strong digital component. And we see high levels of awareness and engagement from this; we have about 18 million Facebook fans and 3 million Twitter followers.

And in the first week following the launch of our festive campaign, which Christopher talked about, the film had about 5 million views across Facebook and YouTube. Because our marketing is both online and offline any customer's first exposure to Burberry can be physical e.g. via a magazine, or a billboard, or by going in to a store; or it can be digital on a social network, on Burberry.com, or maybe through a blogger.

After becoming brand aware from that point on we want as many people as possible to go on to become satisfied customers. So our approach very simply is one, to manage the whole customer journey end to end as summarised on this slide and two, because each stage of their journey can be made either online or offline to offer the same brand experience and customer service everywhere on all platforms, through all channels and in all stores.

We know that customers frequently move seamlessly between the digital and physical worlds and research is now showing that more than 50% of all purchase journeys have at some point had a digital step along the way. We have nearly 500 stores globally but roughly double the number of people visit Burberry.com as go into any of our mainline stores.

Burberry.com is therefore our largest store by traffic but also by sales. So fundamentally the landing page is the biggest brand statement we can make, so it's vitally important that it looks and feels like the Burberry brand. We recruited an internal creative media team some time ago and that team now produces all the huge volume of video, advertising, music and beautiful imagery for all our physical and digital touch points, including of course, everything on Burberry.com.

For several years sales associates in stores have been equipped with iPads, they can use Burberry.com to order an item, size or colour not currently in stock in that store. And because we've invested in fulfilment have any item delivered next day in key flagship destinations.

To illustrate how customers move seamlessly between channels over 25% of all sales on Burberry.com are made through iPads and over 20% of digital sales are collected by customers in one of our 140 stores equipped to take digital deliveries, this give us of course an additional opportunity to sell products.

Our stores are equipped with myriad digital screens, Wi-Fi and in some flagships RFID technology, all of this blurring of physical and digital is why we regard our digital strategy as symbiotic with our physical strategy.

As we look into the future we believe that having a significant store presence and having an expanding digital footprint are equally essential; but they must both work in harmony with each other allowing customers to choose when, where and how they wish to encounter the brand and to buy.

Through data analytics we're also learning a lot about our customers, in addition to the core luxury customer the millennial consumer is also a significant segment for Burberry. These shoppers are around 20 years younger than the traditional luxury customer and they're people who run much of their lives via apps and are rarely parted from their smartphones. For them buying a Burberry product in say our Regents Street store is as much a technology experience as is it is a product experience.

Over half of visitors to Burberry.com are new. so the site is a good recruitment tool into the brand, about 35% of our digital customers are male, around 60% of our digital customers are under 35. And by product category the penetration of Prorsum, shoes and childrenswear is higher online than offline.

We've spoken to you before about our customer one to one tool loaded onto the iPads which displays all previous purchases each customer has made anywhere in the world enabling an intelligent conversation with that customer about what might match it. The tool is particularly valuable for our private client's team which now numbers nearly 150 people.

We've more recently begun an active customer valued management programme, where we segment our customer database and can now tailor for our most valuable customers how best to contact them and develop personalised service propositions that they are most likely to respond to, such as special events in store.

Since we launched the programme in June we found that customers contacted with a personalised and meaningful message are 20% more likely to come back and tend to spend 30% more than others. This programme is now being rolled out to over 300 stores and covers 90% of our top customers. And it's an example of how past investments in people and technology are now paying off and supporting our growth.

Now the final step in any customer's journey is of course to take delivery of the product, two years ago we aimed to fulfil sales made on Burberry.com within two working days. Now in London as an example we undertake to deliver any orders placed by 7 pm for next day deliver free of charge and during the festive period that will be extended to midnight for collect in store and we're also currently trialling same day collect in store in New York.

And later this year as Donald will explain we'll create our first virtual single pool of inventory in China giving our customers visibility and access to all the stock we have there both in our Chinese stores and in our fulfilment centre.

In line with our strategic focus on optimising all channels and as far as we can see into the future we will continue to invest in physical stores, as well as all aspects of the digital journey, including spending on Burberry.com, payment systems, data analytics, CVM tools and so on. In recent weeks we've seen the upgrade of our mobile site to ensure that Burberry.com looks as great and is as easy to shop on all devices globally no matter what the operating system or screen size and we've seen conversion grow since launch.

We've been testing different mobile points of sales systems in our stores, our revised taxonomy went live in the half, we invested in search engine optimisation and now in browser optimisation and in best of customer service with about 100 people in 4 call centres handling about 1 million contacts, 24/7, through telephone messaging and click to chat or call.

We now know that our digital strategies are significantly contributing to our comps and revenue via Burberry.com this year will be nearly fourfold the figure it was less than three years ago. But the growth of digital will not we believe have any material effect in the near term on our store investment plans, nor on our overall spend on Capex, nor on our margins. Digital is simply a fully integral part of doing business in a modern digitally enabled world.

Now while Burberry.com is the centre piece of our digital strategy around the edges and growing fast are our many emerging digital relationships with third party technology partners. We have of course had for years close online and offline relationships with great department stores such as Saks or Bloomingdales and a wholesale relationship with Net-a-Porter.

More recent are our commercial relationships with technology giants like Amazon, Tmall and Twitter. Seeing a great opportunity to bring more customers into the journey and do that in a luxury environment we approached these players to see how we could achieve our goals of maximising the three Rs, Reach, Revenue and Reputation.

Reach, as this slide shows, these giant platforms naturally reach many more people than are likely to come to Burberry.com.

Revenue, all of the deals that we've struck so far and the many currently in negotiation are designed to drive revenue growth of course.

But most important of all is reputation, this is perhaps illustrated best by the example of the Alibaba platform Tmall, we suggested to them that we operate a digital concession offering an edited range of apparel and accessories using our creative input and our imagery. This was crucial for brand positioning in the important Chinese market and especially on the Alibaba platforms which have over 300 million active users and can be the first and only experience a consumer in a third tier Chinese city might have of our brand. We now sell more product on Tmall than we do directly on Burberry.com in China.

But just as importantly Tmall at our request also took down all listings by unauthorised distributors of Burberry product on their site, so that Burberry items are now being sold by us with the right brand positioning as we merchandise and operate the site as a concession.

And finally at our recent Runway show we were proud to pioneer for Twitter a trial allowing customers to click to buy nail polish directly from within a tweet the minute it appeared on the runway. Whilst initially only a small product offering and in the US only, we see this as a very important development for the future as the world of social commerce begins to supplement that of digital commerce.

So digital innovation in Burberry is pervasive it can manifest itself in social networks, on our website, in store, in the use of devices right the way through the digital value chain. This is because under Christopher's leadership Burberry has within the company a large number of digitally savvy people; in all departments and across the company there is digital strength in depth whether in IT, creative media, marketing, supply chain or the private clients' teams. Burberry can act like a media company or tech company as much as it can a luxury fashion house.

Basically digital is a fully integrated part of the way we do business it is simply part of the company's DNA, digital is not treated as a standalone business, nor a separate channel it is part of every strategy, part of the performance of every store, every region and every marketing campaign.

So I hope this morning I've given you a flavour of how Burberry's digital strategy works, how it's a key driver of comps and that we will continue to invest behind it. We manage a customer journey, we invest in each stage of that journey and we make online synonymous with offline. We believe our approach will continue to be a source of sustainable competitive advantage and that we can maintain it because the culture of the company is digital.

Thank you very much for your attention and now let me please hand over to Donald who will talk about driving productivity.

Presentation

Donald Kohler, Chief Merchandising Operating Officer
Thank you John, good morning everyone. In his introduction Christopher spoke about our focus as a business on driving productivity and I'm delighted to be here today to talk to you about what that means for our global product teams.

By way of background I'm a member of Christopher's Senior Leadership Team and also Chair of our Commercial Committee. I joined Burberry in 2008 to create a central corporate planning function overseeing all aspects of global product planning and analysis. The timing was perfect as we were just completing the implementation of SAP in our corporate teams and beginning to rollout across our regions so we were well placed to begin to leverage the global visibility of product data end to end.

As you'll see here the planning organisation is one of five functions which make up the product team here in London, and along with merchandising, also includes teams within each of our regions, planning could best be categorised as the most analytical function within the product teams.

Today my global team includes various planning strategy and operational functions as you'll see here, the common link across these functions is a strong analytical and operational focus based firmly in product and commerciality. Our collective goal across the team is to drive sales, increase margin and improve inventory efficiency.

This morning I'd like to share with you some of the key productivity initiatives undertaken across the global product teams focussing on the themes of rationalisation, consistency and elevation, where we've made good progress to date and see significant opportunity in the future.

Firstly range rationalisation for our retail channel, this chart speaks to the number of options in our assortments and option refers to each style colour combination, but not size. As you can see we have reduced our assortments available to buy in our showroom by almost 65%, this had led to a subsequent reduction in assortments procured or bought by almost 50%. And now over 75% of what we make available to buy is then procured across our global retail portfolio.

This reduction in what we made available for sale in our showroom has created efficiencies up front in the design and product development areas, in the management of our global showrooms, and in reducing our requirements for product sampling. At the same time the reduction in the number of options procured has enabled us to leverage our supply chain through overall simplification but even more importantly in driving cost improvements.

Since the number of options procured decreased at the same time as our revenues were increasing this led us to buy significantly more units per option providing our supply chain with stronger leverage and costing. This efficiency in our assortments was also seen in Wholesale where our customers now procure about 80% of what we make available to buy up from less than 60% historically.

On to our second theme of consistency, concurrent with our option reduction we designed and implemented what we have called the Brand Buy. This is a strategy put in place to bring greater global consistency across our retail stores and is based in key design inspiration, key business drivers and core replenishment. This has enabled a more consistent experience for our customers around the world supporting our one brand strategy.

The brand buyers determine in collaboration between our corporate merchants and their regional counterparts, here you can see we have moved from about 30% commonality of product assortments among our three regions to now having about 70% consistency. The balance of 25 to 30% allows for regional variation to further enhance the relevance to our local customer.

The benefits of the Brand Buy have extended through to Wholesale as well as today more than two thirds of our assortment is consistent between Retail and Wholesale up from less than 50 historically. Given the strength of the Brand Buy and its alignment to our seasonal marketing our travelling luxury customer is now experiencing a much more aligned brand across all channels.

Another theme within consistency is that of replenishment, we identify and classify our product as either replenishment or fashion each with its own sourcing and selling lifecycle. Replenishment includes those items which are fundamental to our assortments, key business drivers which are seasonless allowing them to remain over time despite the constant evolution of fashion.

Replenishment lines currently deliver about 50% of our revenue on a disproportionately lower percentage of our assortment, a stable, higher margin base of product which we endeavour to never be out of stock in. To support the development of our replenishment programme we put in place a disciplined forecasting process and fully dedicated resources in my team, managing this with each of our regional teams and the supply chain.

Replenishment products are ordered on a tighter, closer to delivery schedule than fashion and are forecasted and inventoried on a monthly basis at style, colour and size level. We can afford to do this as we are dealing with a focussed number of items which are highly productive. Executing on rationalisation and consistency has been a key enabler of the elevation of our brand; you are all no doubt familiar with our product pyramid and the shift in its shape over time with a growth from London and Prorsum now contributing about 50% of our retail apparel business.

Indeed as the assortments have simplified and consistency across Retail and Wholesale has increased this shift towards the more elevated London and Prorsum collections has been very much by design. As with each season the product teams embedded this elevation into the brand buy for the requisite assortment. With this evolution we have seen our average selling price up double digit on average over the last six years. We are now quite happy with the balance of our collection as we remain steadfast in our goal designing for and selling to one customer for different occasions.

As I said earlier all of our initiatives are designed to support driving revenue, profitability and ultimately cash. So looking at how the product strategies have supported productivity improvements across our KPIs.

Improving the productivity of our retail space is a key measure where we know we have opportunity relative to the sector while remaining mindful that with a business which is 60% apparel we will not reach the densities achieved by pure play accessories peers. That said, we have seen about a 40% improvement since 2010 in our sales per square foot but still see opportunity for continue improvement.

Turning to profitability, our gross margin is significantly higher now than it was in 2010 indeed we have had the benefit of mix shift to Retail, but we have also been able to leverage our supply chain increasing our depth of volume, key items and replenishment while managing down unit cost. At the same time the continued elevation of our assortments and brand has allowed for retail price expansion aligned appropriately with the movements across the luxury sector and providing a nice increase in our retail margin.

Finally our retail revenues have posted a CAGR of 21% over the last six years and our inventory growth has been controlled at just a 10% CAGR or 6% if you exclude Beauty. So we have generated tens of millions of cash over the period through not letting the inventory grow at the same pace as revenue.

As Christopher said we are determined to continuously innovate and I'd like to talk you through a few of the projects we have in flight which will support our productivity agenda as we move forward. Firstly store profiling which is a further refinement and enhancement of our Brand Buy process will be a key unlock of driving store productivity, simplistically we have been building assortments at a corporate level to only four store types roughly based on size.

This has been fine up until now but we knew we required a further level of sophistication. Store profiling is our strategy to align the Brand Buy process more closely with our varied store base building assortment to fixture level packages which can then be mixed and matched into clusters of like stores. Our stores and therefore assortments will now be programmed based on fixtures, climate and the customer profile of each location. This standard approach will further align our merchandising globally and allow for enhanced productivity analysis and commercial reaction.

Aligned very closely with store profiling is our second opportunity, warm climate stores, in 2008 we had 97 mainline stores with over 80% of them in Europe and the US compared with 216 today spread across the globe. If you take a map of our global portfolio about 40% of our retail stores are in what we would consider tropical or sub-tropical climates. Given our now global footprint we believe we have only scratched the surface as it relates to designing, merchandising and presenting assortments more specifically to these warm climate locations and customer both offline and online.

Our third opportunity is automated allocation of inventory to our retail stores or keeping our store in stock. Historically we would typically allocate about 85% or more of our fashion inventory to stores on delivery; meaning that we have little opportunity to refilter sales other than instigating a store to store transfer which is both inefficient and often costly. More recently we have allocated something closer to 60% upfront holding the balanced to refill to sales, progress but still completed in a very manual way.

So today we have just completed the global implementation of an automated, algorithm based allocation software package leveraging our strong base in SAP this technology allows each of our regional allocation teams to drive all store level inventory decisions down to size level systematically. We are truly excited about the initial reads and expect this to drive improved in stock rates and therefore sales.

The fourth and final opportunity I would like to share is our next iteration of inventory management and fulfilment. You have heard John talk about the growth we are seeing in the digital channel and our embracing of digital opens up both opportunities and challenges. One of these is looking at how we can better manage inventory in a market using China as a test case.

In the second half of this year we will implement a virtual single pool of inventory within China, this will provide our customers and store associates with full visibility of all stock within the country including the local distribution centre and all Mainland China store locations. This will dramatically improve stock availability online and offline and will meaningfully reduce delivery times; improving the customer experience and unlocking the digital opportunity in this, one of our most significant markets.

As Christopher noted in his opening retail productivity is very much a key priority for us as a team as I have shared we have delivered against a meaningful productivity agenda to date and we still see much more to go for. We see further scope for scaling and embedding retail productivity initiatives and ongoing optimisation of our product strategies across all five product divisions as we continue to drive long term sustainable and profitable growth.

With that I'll hand it back to Christopher.

Christopher Bailey, Chief Creative and Chief Executive Officer
Thank you so much Donald for that great overview which I think conveys brilliantly the gains that we've made in recent years in this area and many, many opportunities ahead, not least in respect of greater productivity.

And so I would like to close the formal presentations by reiterating our pride in Burberry's first half performance and our excitement for the future from our near term readiness for festive, to the opportunities presented by our longer term strategic agenda.

Underpinning all of this is the passion, energy and teamwork of our 11,000 colleagues around the world to whom I extend my sincere thanks for their continued commitment and their achievements.

With that it just remains for me to thank all of you for your attention and we will now move on to Q&A.

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Questions and Answers

Antoine Belge, HSBC
Good morning. Three questions if I may. First of all since foreign exchanges were a topic of this first half, could you maybe give us the breakdown of the 140 basis point negative impact at the EBIT level, breaking it down between on the one hand the gross margin impact and then the SG&A impact? Or maybe give us also the increase in SG&A at constant currency.

The second question is on the gross margin, I'm also trying to tie up your results with what Donald just presented in terms of trying to drive productivity. It seems that in the first half if you restate from FX on the one off there was not much gross margin improvement. So what about the channel mix? What about those initiatives? And also maybe the average increase in your prices of your products?

And finally I think you've highlighted challenges ahead. On Hong Kong more specifically can you comment about October or November, and maybe if you've seen more recent improvement, and maybe differentiate between the situation downtown in Hong Kong and maybe in the airport? And finally how you see the situation evolving, do you think that the Chinese will travel but maybe elsewhere? Thank you.

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Carol Fairweather, Chief Financial Officer
So on FX we're saying that on a reported basis EBIT margin was down 220 basis points on the first half last year. Looking at that - and that was significantly impacted by FX. Looking at it on a constant basis we're saying that gross margin on a constant basis we were down about 80 basis points, and of that around 100 we're saying was on gross margin. And we're saying that that was specifically related to, or principally related to, the one off inventory cost we've taken which I spoke to just now, one off costs relating to the accelerated launch of Brit Rhythm women's fragrance this time last year when we didn't have the same controls, visibility over distributed forecasting, inventory planning that we now have. So that's one off and won't be repeated and that's been the major impact on gross margin.

On opex we have actually seen some leverage this half net-net, and we've seen some operating leverage and you know we've tightly controlled costs as we've gone through the half. So overall down 80 basis points on a constant currency basis.

Donald, did you want to take the one on gross margin and pricing?

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Donald Kohler, Chief Merchandising Operations Officer
To discuss the pricing point, our pricing policy remains unchanged as it has served us brilliantly over the course of the last six years. We are constantly evaluating and have a very discreet team that evaluates our pricing on an ongoing basis, so we continue to

watch how the market moves as well as taking opportunistic pricing where we believe that there is an opportunity.

As it relates to the initiatives that I laid out, yes in fact many of them will clearly deliver productivity and margin. Some of that will be given back through flow through, and some of it will be reinvested back into the business as we move forward.

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Christopher Bailey, Chief Creative and Chief Executive Officer
In terms of your third question, Pascal - obviously we can't talk about current trading but Pascal can give a little bit of colour on what's happening in Hong Kong.

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Pascal Perrier, Chief Executive Officer, Asia Pacific
Yes, thank you very much. As far as Hong Kong is concerned we focus on what we can control. Obviously traffic is not something that is within our control, but there are three things for Hong Kong. The first one is that we do have there 17 stores, and only two of them are in the concern areas. The second thing is that we have also opened our direct operation in Hong Kong airport over the summer, and it delivers great results due to the dynamic of this airport which is the number eight in the world.

And finally I'm living in Hong Kong, it's very peaceful. It is not necessarily what you have seen on TV in the early days. It's very disciplined, very peaceful and in a way it's basically no change. So we continue to do in Hong Kong our great marketing strategies and operation.

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Antoine Belge, HSBC
Thank you. Maybe just a follow up on Donald's comments. In terms of brand elevation, do you think that you've done most of it or is it more to come?

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Donald Kohler, Chief Merchandising, Operations Officer
Elevation can be looked at in many ways. So as it relates to the shape of our brand pyramid, today where we're about 50% London and Prorsum and 50% Brit, we feel very comfortable with the shape of that pyramid at this point. It feels quite balanced and we've done a great deal to get to that place.

Elevation can be in other ways as well. We are building - we continue to look at quality and improving our quality, adding many elements to our garments and our items. So I think we feel quite good that we'll continue to elevate the offer at the same time.

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Christopher Bailey, Chief Creative and Chief Executive Officer
It's also elevation across all different platforms as well, no matter where a customer touches us, whether it's at retail or digitally and online. So for example the heritage

programme that we just re-launched, that was what we're calling an elevation of our iconic products, and it's where we put it really under a microscope.

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Mario Ortelli, Sanford C. Bernstein
Three questions if I may. The first one for you Mr Bailey, about EBIT margin - the management committed in trying to increase this EBIT margin going forward in the next years. Considering your five evolving strategies, what will be the most important to achieve this goal? Elevate part of a brand and therefore having more pricing power, realise the product potential with a different mix and more accessories, optimise the channel with more retail? Can you put a hierarchy of your focus to improve vis-à-vis margin going forward?

The second one is a deep dive on this. Nowadays your Retail if I'm not wrong is 68% of your sales. Going forward, the Burberry in five years, which percentage has it got as a target?

And the third one is about Japan. When I talk with the management of the company, you always tell me that the perception of exclusivity perceived of the Burberry brand in Asia is the highest globally, then we have got the perception in Europe, then we have got America. And in Japan for sure Burberry didn't have yet the challenge to position itself. How many years will take to build up a perception of a Burberry brand in Japan similar, I don't want to say as in China but as least as in Europe? Thank you.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Okay. So your first question about margin, it is an absolute focus in the company to increase our long term margin. That is why Donald spoke at length about the productivity agenda that we've got. And that productivity agenda goes across product, it goes across processes and it goes across retail. So everywhere that we have, all of those points, we have very, very strong initiatives to grow margin.

Do you want to touch further on that in terms of productivity?

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Donald Kohler, Chief Merchandising, Operations Officer
Yeah. And I think the four projects that I highlighted to you are just examples of what we're working through, and part of what we've presented across the course of today is the fact that we have many different strands that we're looking at, and those are just some examples. I think it's very difficult to say which one we would prioritise as the greatest driver of profit because each one of them has their own merits, and ultimately what we're looking for is what would make the customer most satisfied which will then drive the EBIT.

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Christopher Bailey, Chief Creative and Chief Executive Officer

We talked about, as the overarching principles of product, customers, brand and productivity and responsibility. And as a hierarchy those are the things that we're focusing on across all the different five strategies.

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Mario Ortelli, Sanford C. Bernstein
Retail, from 68 to what percentage in five years?

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Carol Fairweather, Chief Financial Officer
Yeah, I don't think we put an absolute percentage on it. I think it's about, as Christopher spoke this morning, it's about optimising all channels, all routes to market. So it's not obsessing about one or the other, it's making sure that now we've got - we're very focused on the opportunities that lie ahead, and I don't think you'd expect us to put a number on it. We're pleased with the strategy that has served us well to date in terms of retail led growth. But I don't know if you want to talk a bit about optimising channels and where that might take us.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Yeah. I mean the channels that we - in terms of the way that we merge the physical and the digital across everywhere the customer journey takes us is how we're focusing on that. So for example in Wholesale and as John talked about, we've got physical wholesale partners as well as digital relationships with those guys. But we're also exploring third party digital relationships. Tmall being one of those. And so we see a lot of different ways of talking to a consumer that we currently don't.

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Mario Ortelli, Sanford C. Bernstein
And the last question was about Japan?

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Christopher Bailey, Chief Creative and Chief Executive Officer
So in terms of Japan we were in Japan recently as a team and I'll let Pascal talk a little bit more in detail but we have the same approach that we have globally which is why we've taken back that licence. We have a very strong flagship strategy in Japan, we have built some very, very strong relationships with the department stores under Pascal's guidance, but we also have a very strong digital media strategy.

So in terms of timing we're not talking about specific timings of when we'll be up to the levels of China but we have a very strong team and a very strong strategy there and very strong relationships with partners there.

Pascal is there anything you want to add?

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Pascal Perrier, Chief Executive Officer, Asia Pacific

Thank you very much Christopher. In last May we disclosed to your our Japan strategy with some timeline and some numbers so this remains unchanged. Over the summer we've been having our road show following the official licence termination that took place in April earlier this year and we have got a great response from department stores.

So both of the flagship store front that Christopher mentioned and with department store we are very confident and have done great progress.

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Warwick Okines, Deutsche Bank
I was wondering if I could just come back to the three questions that Antoine asked about ASP costs and gross margin. On ASP Donald said that the average increase had been double digit in the last six years, you said on your last call that it was about half of the driver of like for like so about 4 to 5%, is that a reasonable assumption for future years?

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Carol Fairweather, Chief Financial Officer
Yes on ASP I think that's a reasonable assumption I mean we've had to take the strategic price increases that Donald talked about as we've sorted out the pricing hierarchy and now going forward we just see modest price increases coming.

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Warwick Okines, Deutsche Bank
Thank you, on costs I think the constant FX cost growth in Retail/Wholesale in the first half was around 12%, is that a reasonable assumption for the second half of the year?

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Carol Fairweather, Chief Financial Officer
Yes I mean we guide into the full year margin really and the first half, second half split don't obsess about that it's really around you know the second half our business is waited in the second half Retail wise. But we're really guiding to the full year margin in terms of we're talking about rebasing that margin for FX down from the 17.5 last year to around something like 17 of constant currency. And then are saying we may see some slight downward pressure from there both because of the more difficult macro and because we will continue to invest.

So really looking to dynamically manage costs as we go through the second half as we always do, very mindful of the macro but not turning off investment in those key initiatives that have driven that top line number we've seen today.

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Warwick Okines, Deutsche Bank
Okay and finally on gross margin I'm a bit confused about all of the moving parts could you just say two things, is the intake margin improving in the first half of the year? And secondly this time last year you said that markdown was at its best level in the history of the company, are you still around that sort of level?

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Carol Fairweather, Chief Financial Officer
Yes I mean initial margin remains strong and there's nothing specific to call out there we're really saying that the margin impact we've seen in the first half is principally been driven by that one off inventory cost we've taken relating to that Beauty launch. There's a little bit of mix in there as well because Beauty is a bigger proportion of the overall product mix than it was previously.

And even within product itself we've talked about Prorsum and London outperforming, they tend to be slightly lower gross margin but more EBIT pounds so nothing significant to call out in terms of initial margin, level of markdowns really just flagging that there was a one off non-repeatable cost in the first half.

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Warwick Okines, Deutsche Bank
Thank you.

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Thomas Chauvet, Citigroup
Three questions please. The first one on Beauty, if we strip out the write down of the fragrance of last year that seems to be about £10m can you give us a broad indication of what is the Beauty growth and EBIT margin or at least did that EBIT margin of 12% in H1 last year improve year on year?

Secondly a question maybe for Pascal on Japan, can you be a bit more specific when you say no change versus the plan and the number of doors that you will open in Japan, are you happy about the locations you've secured? Can you talk a little bit about Black and Blue and how this is going and are you getting rid of the legacy image of Burberry with Black and Blue and what is the pound million capex that you need cumulative over the next two or three years in Japan to do that transition?

And finally on the tougher environment which was very obvious in Q2 because your like for like decelerated quite a bit, still very healthy. But which channel within Retail held up the best between let's say mainline store in flagship cities, mainline store in provincial non-flagship cities, digital outlets I would think perhaps outlets are holding up well. So could you give us granularity on the Retail within the deceleration, the tougher environment? Thank you.

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Carol Fairweather, Chief Financial Officer
So I'll take the one on Beauty and margins so yes there was this one off cost in H1, I said a few million pounds slightly less than 10 but something of that order. We're not splitting out Beauty profitability in terms of margin going forward, no different than we don't talk to you about what the men's margin or the women's margin is. Because I mean as we've talked about the halo effect the way we're running fashion and beauty side by side it's really the, you know the My Burberry launch is probably the best

example of how we're running those businesses side by side and the halo effect that one brings to the other.

So was the marketing spend we spent on My Burberry a beauty marketing spend or was it a fashion marketing spend given that you know Kate and Cara were there wearing Heritage trench coats at the same time that we had just re-launched Heritage. So nothing specific to call out on beauty margin we're just flagging that one off this half but saying that combining those two together is where we believe, you know why we bought the business back and is serving us really well in terms of the halo that one's bringing to the other.

Japan Pascal?

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Pascal Perrier, Chief Executive Officer, Asia Pacific
Thank you very much. Maybe I'll pass it back to you regarding the capex question Carol. So let me remind you the timelines so in June 2015 the licence terminates which means that from that date until the end of September 2015 all the licensed product will be removed from the market.

The second thing that you need to be reminded is that we started our own operation with the global products about five years ago in I would say not an ideal branding environment because it coexists with the licensed product. That said Burberry Japan with global products is the fastest growing entity at Burberry boasting very strong double digits and it tells you how promising and successful and our early stage in these markets are.

As far as clothes are concerned there are two streams, you have the freestanding stores that includes flagship stores to the earlier point of Christopher so we announced that would like to have between four to eight of these stores.

As flagship stores are concerned we are well on track, we'll open at the end of this month's Omotesando store in the luxury street next to LV corner space, we'll open next March Osaka Shinsaibashi another freestanding store next to Prada. In July we'll also open Shinjuku Crossing, another flagship store in front of Louis Vuitton and we are actively looking for securing another flagship store in Ginza. So those flagship stores statement will come right on time, when all the licensed product will phase out the market.

As far as the second part of stores are concerned the department store we have very, very good discussion with the department store and we will confirm presence on the luxury floor in all the flagship stores of each big department stores in Japan. So in total the plan does not change, we are looking at 30 to 50 directly operated stores in Japan and in the next three years we'll look at our £100m business generating about £25m EBIT. So the plan has not changed.

On Black and Blue label and so the plan has not changed the brand migration that we explained last May is underway. And yes we saw it, Japan basically everything we told you last May is on track and executed very, very smoothly and swiftly on all fronts.

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Christopher Bailey, Chief Creative and Chief Executive Officer
And your last question with revenue up 40% we talked about it was across all three regions and across our three main product categories as well, digital absolutely out performed. And Carol I don't know if you want to give a little bit more colour to it?

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Carol Fairweather, Chief Financial Officer
Yes I mean we talked to you on the call a month ago just in terms of you know the comp was 10% for the half as a whole. We had talked about the fact that you know Asia Pacific and the Americas across the half were still double digit, EMEIA had performed well during the half but was single digit. Nothing specific to call out, we talked about digital outperforming as Christopher said, we talked about still seeing growth from the Chinese both in China and when they were travelling although growth had slowed somewhat.

But other than that there was nothing, again Americas digital performed very nicely for us but nothing specific to call out channel by channel. I mean we don't split outlet out, we used to but I don't think we've split out for a long time actually to be fair.

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Julian Easthope, Barclays Capital
I'd quite like to have an update if I may on Beauty, you've had the fragrance launches, how important are the new fragrance launches? And you were building the whole business around the, I think there were five pillars, just how well the pillars have continued to grow. I mean we've obviously seen the Rhythm cut right off in terms of some of the product, has Rhythm collapsed or are we actually still seeing sustained underlying growth?

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Christopher Bailey, Chief Creative and Chief Executive Officer
So to answer Brit Rhythm, absolutely no, it's still very strong and it's a pillar that we absolutely believe in. We had this little issue that's affected gross margin as a one off but we're still reinforcing that as one of our major, major pillars.

And in terms of Beauty as a whole the way that we're looking at it is because it's part of our fifth product division, it's very much a strategy that we're holding to, what we did with My Burberry and we feel that it was a very successful launch and execution because we launched it in tandem with our Heritage programme. As we said we will always make sure that fashion marries directly with beauty so with Kate and Cara on the ad campaign we put them in our most iconic products that we were launching simultaneously.

So again in the advertising it's very difficult to say if that's a fashion campaign or a fragrance campaign and we're seeing that halo effect across the whole business. We also launched in tandem a small capsule collection which has done incredibly well alongside the My Burberry franchise as well.

Carol is there anything that you wanted to add to it?

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Julian Easthope, Barclays Capital
And also in terms of cosmetics how that's actually progressed in the half? And also I think skincare was going to be launched next year, just if you've got an update on that as well?

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Christopher Bailey, Chief Creative and Chief Executive Officer
Yes so skincare absolutely we're still looking at when that actual launch date is but we're working on the development of that. And not dissimilar to fragrance our colour and makeup is very tightly tied to our fashion so you will have seen that it was integrated into all the communication that we did around the fashion show and we're just starting to do quite significant advertising imagery around makeup as well that is all in line with our fashion.

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Julian Easthope, Barclays Capital
Brilliant, and just on a different subject in terms of inventory, we heard all about the efficiencies I just wondered if there was much further to go in terms of your inventory efficiency into the medium to long term?

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Carol Fairweather, Chief Financial Officer
Oh Donald and I talk about this the whole time.

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Donald Kohler, Chief Merchandising, Operations Officer
Yes Julian I think that we do have further opportunity as we move forward and I think the China single pool inventory is a bit of a first glance into where we think we can gain great efficiency.

So let's assume that that's going to work brilliantly well which we wouldn't be doing if we didn't think it would and then it's a matter of what would that mean on a further basis.

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Julian Easthope, Barclays Capital Thank you very much.

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Louise Singlehurst, Morgan Stanley
Morning, I'll do the usual three questions if I may. Firstly just on Christmas you've obviously talked about an exciting campaign, lots coming up, can you talk about how differently the team are executing earlier deliveries, are there more giftables in the selection?

Secondly a question for Carol back to the cost and margin point, in a more difficult environment can you give us a little help in terms of understanding the cost base, the type of like for like that's really needed through the business to normalise margins or keep them flat on a constant currency basis?

And then my final question for John, we've heard a lot about online, I'm sure we were all looking at Tmall numbers yesterday with much excitement, what keeps you awake at night what are the big challenges it can't be as easy as you present, thanks?

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Christopher Bailey, Chief Creative and Chief Executive Officer
So Louise to answer you first question in terms of festive it's something that we've put under an intense focus. We started Christmas for this year we started it this time last year to start learning all the things that we were doing right and that we could have improved on. What we've done is we've done a very, very big product focus, so we've expanded the development of our products with a real giftable microscope; so that includes more accessible gifting as well as very, very high-end gifting.

Online we've created on Burberry.com a giftable search function, we've also and I was going to talk about at the end, we have created a book of gifts which you've all got on your table because you'll all be looking for Christmas gifts. We have invested more than ever in terms of all the creative content and advertising, we've worked with Romeo Beckham and a big group of dancers to launch that globally across all of our social media platforms as well as in cinema.

And we have also worked on our service teams so that they're better prepared than ever with their iPads and with all the training. And also in all of our distribution hubs they have got a very, very strong approach to how we can execute much more efficiently than we've ever done in the past.

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Carol Fairweather, Chief Financial Officer
Yes then Louise to your question on comps and costs. I mean clearly we've always talked about dynamically managing the business as we go and that's what we will do as we go through the second half. You know there are a number of levers we have to pull depending on where the comp level materialises because a number of our store rents are variable, clearly commissions are variable, there's discretionary costs in terms of you know maybe potential headcount increases, T&E that we would always as you've seen through the first half managed quite tightly and will continue to manage it even more tightly if the macro became more difficult.

And then at the end of the day there's always also management incentives in terms of we have those stretched targets and if we don't achieve those then that's the other lever that will naturally be pulled. So we will continue to dynamically manage the costs as we go through the second half and we're guided to the fact that we see on a constant currency basis the margin being under you know some modest pressures as we look to the full year, being mindful of the macro and the fact that all the investments that Christopher's talked about.

We're not going to as we haven't done in the past turn off the investment in China fulfilment or the investment in digital just to spike the margin in the half but very focussed on controlling discretionary spend as we enter the second half.

John Smith, Chief Operating Officer
And on digital, Louise, thank you very much for the question. It's funny - everyone will have seen, I'm sure, the Tmall numbers from yesterday, but just in case - Tmall, the platform in China, have this thing called Singles Day on 11th November. It's quite a phenomena; I won't give you the detail, except to say that last year they sold $5.8bn worth of product on a single day, single country, single platform. So everyone was watching with great interest what it would be this year, and you probably all know by now, it was over $9bn - it's just an incredible phenomena really.

And I have to say, we found it so easy working with Tmall. As I said in my presentation, we went to see them and very much embraced the idea of it. And I'll tell you that - you're asking me what keeps me awake at night in this area - I'd say that I think some companies are seeing this world of massive tech giants, who are huge aggregators, as potentially highly threatening, and you know, a real problem. And we are in such the opposite place. We're embracing it; we're out there talking to them all. In fact, if anything keeps me up at night, it's the fact - the sheer number of them to try and get round and do business with.

And that's why we developed that idea of the three Rs, as a way of trying to sift through the sheer scale of the opportunity and try and work with the ones that are likely to give us those three Rs the most, the quickest. And we've got a lot of deals still to strike, therefore. But we see this as such a great opportunity, and not a threat.

I think generally on digital, Louise, I hope you'd agree, from what you've seen from the company over several years, is that the company embraces this world so comprehensively. All the different developments that are coming along we do see as an opportunity and not as a threat.

Will Hutchings, Goldman Sachs
Thank you. So, again, I've got three - just to keep you going a bit. The first is on the Millennial Consumer, so the younger consumer. It's clearly a point of differentiation for you. Outside of digital, which is obviously one of the attributes of the Millennial Consumer, what are you doing which is so powerful for the Millennial Consumer? Is it about price point? Is it about product? And crucially how do you think that consumer behaves, because I'm just on the cusp of Millennial, so I wouldn't really know. But are they more fickle? Do they jump around a bit more? Are you going to have to pay more for attention? Are you going to have to be more imaginative? Or are they actually going to be stickier than the previous customers? So that's quite a long-winded first question; the next two are a bit simpler.

On digital, John, are you completely agnostic to whether a sale happens on burberry.com or a third party, and you know, how big does this business have to become for you to start to say - okay, but you can have certain parts of our product range, not the full SKU range.

And then just a simple numbers question. The 100 basis points inbacked in the first half from the Beauty write-off, plus the 25m headwind on currency. Presumably that means margins are going to be up quite strongly in the first half of next year.

Christopher Bailey, Chief Creative and Chief Executive Officer
I'll answer the first question in terms of Millennials that you and I can still class ourselves as. Digital is absolutely a key to talking to a younger consumer, but it's not just the language, it's also the sharing. And that's something that we feel is hugely important because they - it's a much more social approach to shopping.

Responsibility is high up there for the Millennial Consumer, which is why, for example, our packaging - we've just reduced the carbon footprint of it, and also that 50% of it is using recycled materials.

Product is obviously something, so we - Beauty is something that we wanted to launch, because that is also attractive to a Millennial Consumer. And the idea of giftables is also something - it's part of, of course, festive and lunar New Year, but it's also another way of talking to a consumer.

But we look at a Millennial Consumer not just in terms of how to get them into the company to transact, but it's how to get their loyalty over the long term. And we've always said that everything we do is for long term.

And so music is something that a Millennial Consumer reacts a lot to. So, for example, in Regent Street and several of our stores around the world we have music events. That brings that Millennial Consumer in. They then start to relate you to things that interest them and they start to share that information.

So it cuts across lots of different areas.

John Smith, Chief Operating Officer
And in fact, just to add to that point, Christopher, about Millennials, it's quite an interesting thing to pop into the Regent Street store and clock what the Millennial Consumer's doing. I mentioned in my speech that technology is as much a part of the experience as the actual product. When you go into the Regent Street store to see Millennial Consumers, particularly from China, they've all got their Smartphone out. It's nearly always open. They've often got WeChat up and running. So as they're buying the product, they're interacting with WeChat, probably interacting with their sociograph back at home, but also taking selfies, videoing the product, and so on - as all part of the buying experience. So I don't think you can separate out what we're doing in digital for

the New Millennials from everything else the company's doing - the whole thing is integrated.

And on the point about - are we agnostic about where the purchase is made, the answer is definitely yes. For us the three Rs are what matters. We don't want to be positioned on a platform that isn't going to give us good reach, good revenue and crucially the reputational positioning that we want. I mean, our deals with Amazon and Tmall are as much about a positive aspect of reputation, i.e. we want our kind of imagery, we want the thing to look beautiful, it wants to feel like a luxury environment, and the negative aspect of reputation, which is the taking down of all the counterfeit, grey market and unauthorised traders, which also matters. All of those things are important for us, but as far as we're concerned, we want to get at potential Burberry customers, luxury consumers, in whatever way we can. And if these platforms can give us great reach, we don't mind that some are wholesale, some are retail, some are concessions - every one is different. We don't really mind; we just want to follow the three Rs.

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Carol Fairweather, Chief Financial Officer
And then to your question on gross margin this year and what it means for next year. Absolutely, that's the one-off, so we would expect that to reverse next year.

In terms of FX, which is what obviously had a significant impact this year, as I model high level the numbers for next year, the way I've just done it for the moment is looking at revenue. And revenue in the first half of this year was impacted by something like £70m. Looking at the same revenue numbers for this year at current spot rates, I think it'll be something more like £20m benefit, because we've got the degree of appreciation or depreciation in sterling is nowhere near what it has been across all the currencies this year. And then we've got something like the euro going the other way. So at this point, and rates move all the time, we don't expect we will see a benefit next year but don't expect it to be at the scale of the disbenefit we've seen this year.

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Christopher Bailey, Chief Creative and Chief Executive Officer
So thank you very, very much indeed, everyone. Thanks for joining us, for coming over to our home, Horseferry House. We really appreciate the opportunity to share with you some of the things that we're doing and also to introduce to the broader team.

Just before you leave, because I know you all want to get into a Christmassy festive spirit, please allow us to show you our festive video and please do take away your book of gifts. We can arrange a Burberry private client to sit with you and go through that at any point -

Laughter

- so just give Fay and Charlotte a call. And thanks again for joining us.

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Festive video played

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END

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