WORLD TELEVISION

Burberry

First Half Trading Update Conference Call
14th October 2014

BURBERRY

Carol Fairweather, Chief Financial Officer

Fay Dodds, Vice President, Investor Relations

QUESTIONS FROM

Thomas Chauvet, Citigroup

Ashley Wallace, Merrill Lynch

Julian Easthope, Barclays Capital

Warwick Okines, Deutsche Bank

Mario Ortelli, Sanford Bernstein

Vic, ISI Group

Antoine Belge, HSBC

Peter Testa, One Investments

Louise Singlehurst, Morgan Stanley

Annabel Gleeson, Redburn Partners

Melanie Flouquet, JP Morgan

Key Highlights

Carol Fairweather, Chief Financial Officer

Good morning and welcome to Burberry's First Half Trading Update conference call. With me this morning is Fay Dodds, our Vice President of Investor Relations. I will make a few brief comments on this morning's announcement and then we will be happy to take your questions.

In the first half total revenue grew 14% underlying, or 7% at reported rates; broadly balanced by region and major product division. This was a strong performance reflecting continuing brand momentum and business momentum.

Before I turn to the key drivers of this revenue growth let me just outline some factors to consider when building your full year model. Currently the impact of currency on reported profit is about £30m better than when we last spoke in July; however, the external environment deteriorated in some markets in the second quarter, which will partly offset this improvement.

Ahead of our biggest trading quarters we remain extremely focused on driving productivity and closely managing discretionary costs. However, we will continue to invest in those key initiatives which we believe will drive long term growth and create value for shareholders; with the outcome that we currently expect slight downward pressure on this year's Retail/Wholesale margin, while our goal to realise further margin improvement over time remains unchanged.

Turning now to revenue by channel, we are pleased with our Retail performance, up 15% underlying with 10% comp growth, which we believe will be amongst the best in the luxury sector and reflects the benefits of past investment, be it in digital, which again outperformed in all regions, in product design and marketing, focused this half on the re-launch of heritage rainwear, or on driving retail productivity with conversion up again, helped by customer service initiatives.

By region in the half, there was double digit comp growth in Asia Pacific and Americas and mid single digit growth in EMEIA. Comp growth was 12% in the first quarter, in line with our expectations, but slowed to 8% in the second quarter - balanced across the regions. So let me spend a few minutes explaining the regional trend.

Within Asia Pacific our performance was underpinned by the investments we have made in digital marketing, service initiatives and store evolution. We continued to see growth from the Chinese consumer, both at home and when travelling within Asia; but it won't surprise you to learn that we saw some softening in this growth in Q2 in line with macro trends.

In the Americas, following a strong but small first quarter, sales growth in the second quarter was more in line with last year's high single digit trend. Weaker store traffic was again offset by better conversion and higher average transaction value; coupled with a strong performance from digital.

And finally performance in EMEIA strengthened a little in the second quarter, we saw continued but slower growth from the travelling Chinese consumer, faster growth in domestic transactions, particularly in London, and an improving trend from other tourists groups.

Turning to Wholesale we saw 13% underlying growth, with 55% in Beauty and 5% in Apparel and Accessories. This 5% growth was slightly ahead of guidance due to the phasing and higher in season orders. For the second half Wholesale revenue, excluding Beauty, is expected to be down by a mid single digit percentage, partly this is phasing, partly ongoing account elevation and partly cautious ordering by Asia travel retail and European customers.

Our guidance for Beauty revenue is unchanged at full year growth of 25% at constant currency.

Licensing at 3% down underlying in the first half was consistent with guidance of being broadly unchanged for the full year.

Globally we continue to execute against our five key strategies, under Leverage the Franchise we are very excited about My Burberry a women's pillar fragrance, launched with our most personalised and interactive campaign to date, this features Cara Delevingne and Kate Moss wearing heritage trench coats, carefully planned to support the re-launch of our simplified offering in trenches which is now being rolled out across our stores.

Under Intensify Accessories we continue to elevate our handbag offer, with outperformance from solid leather and Prorsum, especially in colour and key shapes. And we are thrilled with the success of the runway poncho which has had strong editorial coverage and consumer response while celebrating our heritage, made in Britain and showing innovation in outerwear.

Under Accelerate Retail Led Growth we opened nine mainline stores, concentrated in airports, mainly in Europe, but also in Hong Kong where we are now in the luxury area of the airport and seeing significant early uplift on sales and productivity.

In Under Penetrated Markets we continue to prepare for the transition in Japan in 2015 and we will see the opening of our larger relocated store in Omotesando in Tokyo later this year.

And finally under Operational Excellence we have launched our new customer value management programme to drive retention and loyalty using our single view of customer data around the world. This tool is now being rolled out to over 300 stores.

So in conclusion, as Christopher said in his quote this morning - we had a strong first half and although mindful of the more difficult external environment we have never been better prepared internally for the all-important festive period, while continuing to invest to drive productivity and growth over the long term. So with that we'd now be pleased to take your questions.

. . . .

Questions and Answers

Telephone Operator
Thank you, if you would like to ask a question at this time please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We'll pause for just a moment to allow everyone to signal.

Our first question comes from Thomas Chauvet of Citigroup.

. . . .

Thomas Chauvet, Citigroup
Good morning Carol, three questions please. The first one on Retail, so conversion was up, footfall down; can you comment on ASP, I might have missed that? And Retail Asia, I understand that Hong Kong held up well in the second quarter, why do you think that is in light of the recent events with the Mainland, and can you comment perhaps on this market in the first two weeks of October?

Secondly, on the guidance for Wholesale for H2 of minus 5, are you expecting both Europe Wholesale and Asia travel retail to be down in the second half, or is it just Asia travel retail not as strong as before? And how much does travel retail account for your total Wholesale business?

Thirdly, any update on the transition in Japan, if you have any comments perhaps for both the global luxury brand moving to Retail and the evolution of the Black and Blue licence? Thank you.

. . . .

Carol Fairweather, Chief Financial Officer
Thanks Thomas, so yes in terms of Retail we said conversion was up, in terms of average selling price we're saying it was equally weighted - the comp between ASP and units in the quarter, so nothing significantly different in trend to that which we saw in the first quarter.

In terms of Hong Kong, yes we delivered double digit again in Q2 in Hong Kong, clearly the recent events that have happened in Hong Kong are outside of the numbers we're reporting which are up to the 30th of September, so we don't have anything to update on that specifically at this moment; remember we've got 17 stores in Hong Kong. But I think in terms of what, you know, underpins that performance in the quarter is the investments we continue to make in those flagship stores, in customer, and in product around continuing to innovate. So I think it just plays to all of those strategies we've had in place over the last year.

In terms of Wholesale, Fay?

. . . .

Fay Dodds, Vice President, Investor Relations
Yeah, I mean we are expecting both Europe and Asian travel retail to be slightly more - to be down in the second half. And in a way we don't mind about that because if the macro is slowing we'd much rather that our Wholesale customers were properly stocked rather than overstocked.

To your question about travel retail as a percentage of Wholesale it's about 15 to 20%, predominantly in Asia. And you would have noticed as well that in the first half in retail we opened six airport stores, so travel retail is a good long term opportunity for us.

. . . .

Carol Fairweather, Chief Financial Officer
And then just in terms of the transition in Japan, I mean nothing new to update you on in terms of guidance or numbers since we spoke to you in May, safe to say that the transition is going very well, our teams are very focused, we've had teams out there again last week and we're looking forward to the opening of our relocated Omotesando store in the coming months. So no new news but all on track.

. . . .

Thomas Chauvet, Citigroup
Okay thank you and just perhaps a follow up on Wholesale. Is it fair to think that the effects of conversion to Retail and the account clean-up will be largely over next year, so in the year to March '16?

. . . .

Fay Dodds, Vice President, Investor Relations
No I mean I think in terms of the European clean-up that's pretty much ongoing and there are always opportunities to transfer from Wholesale to Retail and what we've done this year is the Canadian concessions, the Russian franchise has expired, but there will be further opportunities going forward because that's very much the business model, the way we work in emerging markets, do it with a franchise partner and then bring it under direct control as we get more confident in that market.

. . . .

Thomas Chauvet, Citigroup
Okay, thank you.

. . . .

Telephone Operator
Our next question today comes from Ashley Wallace of Merrill Lynch.

. . . .

Ashley Wallace, Merrill Lynch

Hi, I was just wondering if you would give us a little bit more colour on the contribution from digital, you did mention that you continue to see outperformance from that channel?

And then my second question is just on Europe, if you can talk a little bit about which tourists have been compensating for the weaker growth from Russian and Chinese consumers?

. . . .

Carol Fairweather, Chief Financial Officer
So in terms of contribution from digital Ashley you know we don't split it out specifically, we say it does contribute a few percentage points to our overall comp number and there's really nothing new to say in Q2 compared to the performance in Q1, other than that the investment in digital we believe is what does differentiate us and underpins what we believe is a strong performance for the second quarter and the half overall. So nothing new in terms of trends in digital that we need to call out in terms of this quarter.

In terms of EMEIA I think what we're saying is that in the UK we saw perhaps less tourists, we called out that Russians were impacting slightly on our numbers towards the end of the last fiscal year, the UK has probably seen less tourist traffic in this quarter, maybe currency driven; but then we're seeing a nice pick up in Mainland Europe, again we are still seeing growth from the Chinese and from other tourist groups such as Americans. So you know well balanced across Europe and the UK market from local UK customers remains strong, which I think is important in our home market.

. . . .

Ashley Wallace, Merrill Lynch
Thank you.

. . . .

Telephone Operator
Our next question comes from Julian Easthope of Barclays.

. . . .

Julian Easthope, Barclays Capital
Good morning everyone, three questions as well please. First of all on Beauty, it looks like with your guidance and what you achieved in the first half there'll be a 45/55 split in terms of revenue. Now in the second half of last year you had a perfume launch, I just wondered whether you can achieve that growth without doing a perfume launch, or whether you are going to do a perfume launch in H2?

The second thing in terms of store openings, it's probably towards the higher end of your guidance, now last year again you did more closures in the second half than the first half and I just wondered what your plans were in terms of closures in terms of timing for the year?

And lastly in terms of online, is it possible to give some indication as to whether it's changed as to what sort of proportion of your online business is actually driven through the stores? Thank you very much.

. . . .

Carol Fairweather, Chief Financial Officer
So in terms of Beauty, yes it's 45/55 this year Julian, no change to full year guidance of around 25% at constant currency. There is no new launch planned in H2 of this year, we're very pleased with the early indication from the launch of My Burberry in September, clearly our expectation for H2 assumes that there will be increased orders on the back of that as you'd expect as we continue to grow that key pillar fragrance for us, but nothing specific to call out in terms of new launches in H2, but no change to full year guidance today on the back of anything we've seen through the first half.

And then in terms of openings, Fay, and closures in H2?

. . . .

Fay Dodds, Vice President, Investor Relations
Yeah I mean I think if you look in the first half we opened nine and closed eight, and then for the full year we're now looking to open 20 and close about 20, so you can do the maths. And that's just the way the timing of store openings and closures have worked. I think the important point is about seven of those stores are actually relocations, you know for example in Omotesando where we're going from a smaller store, not quite properly relocated - to just down the road to a much bigger store.

. . . .

Carol Fairweather, Chief Financial Officer
And then back to online Julian, in terms of - again no new trends emerging, very similar stats that we've shared with you before in terms of the contribution that comes to our digital sales from iPad sales in stores of around 25%, collect in store around 20%. So, you know, continuing outperformance but no real change in trend.

. . . .

Julian Easthope, Barclays Capital
Brilliant, thanks ever so much.

. . . .

Telephone Operator
Our next question comes from Warwick Okines of Deutsche Bank.

. . . .

Warwick Okines, Deutsche Bank
Good morning a couple of questions from me please. Firstly on Mainland China could you just expand a bit more on what's happening there, why you've seen a bit of a slowdown in the market, is there anything you can sort of give us in terms of tier one

and tier two performance, or converted/unconverted stores to maybe explain a bit more what's going on there?

And then secondly could you talk a little bit more about the current service initiatives that you're pushing through the stores, you know how many mainline stores now have click and collect, I think it was 131 at the last count, and what other service initiatives have you got that you're implementing? Thank you.

. . . .

Carol Fairweather, Chief Financial Officer

So in terms of Mainland China Julian you know we posted a double digit comp for the first quarter and a high single digit comp for the second quarter, nothing to call out specifically around tier one and tier two cities. And although that is a slight slowing, I mean I think that is still, we believe, growth that is outperforming many of our luxury peers, which I think continues to be underpinned by the investment that we're making in digital, in the store portfolio, in customer service.

We do see that the new stores that we've opened since we bought the business back continue to outperform the legacy stores, significantly outperform the legacy stores, and I think we're now down to just 20 legacy stores left. So I think that the evolution of the store portfolio is what's contributing to what we believe is better than other peoples' sales in China in this second quarter.

In terms of customer service, Fay do you want to take that one?

. . . .

Fay Dodds, Vice President, Investor Relations

Yeah I mean very much so, so if you look at collect in store that's currently in about 130 stores and I think there are plans to roll that out to a few more stores this side of Christmas. Then if you look at what we're doing in terms of customer insight, we've got two really exciting tools, one is the customer one to one tool, which enables you to sort of - the sales associate to see a customer's purchase history, and that's currently in over 300 stores.

The new thing that we've been rolling out over the summer, which is what Carol referred to, which is customer value management, which is basically a retention and loyalty tool and that's also going out to about 300 stores this side of Christmas.

The other thing probably to point out is, we've talked to you before about our Burberry Private Client initiative, these are the special sales associates who look after our high potential customers and I think there's something like about a 50% increase in the number of those consultants in the current financial year.

So it's an evolution of all the things that we've been talking to you about that you can see how we're gearing up to be really as best prepared as we can for the festive period.

. . . .

Warwick Okines, Deutsche Bank

Thank you, could you just explain a bit more about the customer value management tool, what that means?

. . . .

Fay Dodds, Vice President, Investor Relations
Yes, I mean essentially it's using our global sort of view of customer data and it's actually giving that data to the stores so that the sales associates there can start to identify their highest potential customers and then they can basically personalise correspondence with them. So if they know that I only buy Prorsum then they can invite me in when Prorsum first comes into the store. If they know that Carol only buys womenswear and not menswear then the emails that she gets will be around womenswear, she won't get one on kids and menswear. So it's really giving the power of the database to the sales associates.

. . . .

Warwick Okines, Deutsche Bank
Great, thank you very much.

. . . .

Telephone Operator
A reminder to ask a question please press *1 on your telephone keypad. Our next question comes from Mario Ortelli of Bernstein.

. . . .

Mario Ortelli, Sanford Bernstein
Good morning, two questions if I may. The first one is about America; America showed a very strong performance is there any difference between the contribution of local consumption and the increase of consumption of tourists in the United States?

The second question is about margins, in your press release you say that the FX improvement will be partially offset by the more difficult external environment and all in all the effect is a slight downward pressure on the Retail/Wholesale margin because of the investment. Should I read this one like an increase of investment that you are doing lately on top of what you planned in the initial part of the year, or are the investments that you plan - and if you could give us a little more colour of the reason and where these investments are targeted? Thank you very much.

. . . .

Fay Dodds, Vice President, Investor Relations
I'll take the question on the US, I mean that is still about 90% domestic and what we saw in the second quarter was a bit of a slowdown from the first quarter and really because footfall reverted to the trend of last year. We are seeing a significant increase in Chinese tourists coming into America but it's off a tiny base.

. . . .

Carol Fairweather, Chief Financial Officer

And then in terms of the comment on the margins, so we're saying that at current FX rates last year's 17.5% Retail/Wholesale margin would rebase to 17%. And we're saying that as we sit here today ahead of H2, we are seeing some slight downward pressure on that rebased margin from the 17%.

No significant change to our investment plans over the course of this year compared to what we had expected to do previously, because we will continue to invest in those key initiatives, be it in marketing around - we just had the most successful launch of My Burberry, it would be we don't think in the best interests of people to turn that marketing off in the balance of this year because that is our - one of the key pillars we're going to build going forward. The, you know, investment we've made and are continuing to make in our mobile digital experience, the investment we're making in local fulfilment centres in China to provide a better customer experience and to get the product to them quicker.

So all of those investments continue. We constantly prioritise those investments, and of course we continue to closely manage discretionary spend as you would expect us to. And all we're calling out today is given the fact that we have seen a little softening in Q2, and mindful of the macro ahead of us for H2, we may see some slight downward pressure on that rebase margin.

. . . .

Mario Ortelli, Sanford Bernstein
Thank you very much.

. . . .

Telephone Operator
Our next question comes from Omar Saad of ISI Group.

. . . .

Vic, ISI Group
Hi. Thanks Carol and Fay, this is Vic in for Omar.

. . . .

Carol Fairweather, Chief Financial Officer
Oh hi Vic.

. . . .

Vic, ISI Group
Just two questions from me, one on pricing. You mention that the last couple of quarters had seen, you know, some incremental pricing and I'm just wondering whether that's going to continue over the next couple of quarters. And secondly on the men's business, are there any special initiatives or any additional colour you'd like to give on the men's business?

. . . .

Carol Fairweather, Chief Financial Officer
Yeah, so in terms of pricing we've called out that you know it's been low to mid single digit price increases over the last - over this half. Nothing new to call out this morning, you know we're constantly evaluating our pricing hierarchy, benchmarking ourselves where we can against our luxury peers, taking into account currency movements and the cost of getting product into the country. But we're happy with the overall shape of our architecture, and so no changes planned right now.

And in terms of menswear.

. . . .

Fay Dodds, Vice President, Investor Relations
Yeah, I mean I think what we're most pleased with in terms of the first half is the continued outperformance we're seeing from men's tailoring. And if you go onto Burberry.com at the moment you can see all the work that's being done around travel tailoring in particular. And then the other area we expect to see good strength is the re-launch of heritage rainwear, which is one of our big initiatives.

. . . .

Vic, ISI Group
Thank you very much.

. . . .

Telephone Operator
Our next question today comes from Antoine Belge of HSBC.

. . . .

Antoine Belge, HSBC
Hi. Three questions. First of all when you're commenting on the second half outlook you're referring to macro consideration whereas it seems that in many markets actually it's not so much the macro which seems to be an issue, but more like political tensions or Ebola fears etc. More specifically on Hong Kong what's your view about that market, not just for the second half but even like longer term? It seems that beyond what's happening today there also seems to be - Hong Kong is becoming more commoditised, etc, so what's your outlook in terms of store footprint in Hong Kong? Also do you expect some negative geographic mix if you have lower sales in Hong Kong, given it's a very profitable area?

Second question relates to the gross margin outlook for the first half. At least qualitatively how do you feel about the level of markdowns you had in the first half?

And finally, with all these FX movements and also your sort of reduced outlook for the second half, how do you see PBT consensus moving after this announcement? Thank you.

. . . .

Carol Fairweather, Chief Financial Officer
Okay so in terms of our comments about outlook, I mean Christopher said in his statement this morning we're mindful of the difficult external environment. So I think it's all of the factors that are out there, be it geopolitical, be it general sentiment, be it, you know, economic growth. So I think there's nothing specific, I think just as we sit here today it just looks a little more difficult than it was six months ago.

So and in terms of Hong Kong in particular, again as I said earlier we've had double digit comp up to the end of Q2. We're not talking about current trading in terms of what's happened in terms of recent developments and no plans at the moment to change our store footprint. You know, we're happy with our store portfolio in Hong Kong, but it's no different than any other of our key markets, and we'll keep a watchful eye on what's going on there. But there's nothing specific to talk about today in terms of change of plans in Hong Kong.

. . . .

Fay Dodds, Vice President, Investor Relations
I think it's just worth pointing out; it's 1 of 25 flagship markets around the world.

. . . .

Carol Fairweather, Chief Financial Officer
Yeah. And in terms of gross margin, clearly we'll come back in November and give you the detail on gross margin for H1, but nothing to alert you to in terms of any changing trend there today.

. . . .

Fay Dodds, Vice President, Investor Relations
Apart from the impact of the FX of course.

. . . .

Carol Fairweather, Chief Financial Officer
Apart from the impact of FX, yeah I'm talking on a constant basis. Yeah.

And then just in terms of where we expect PBT to move to today Fay, in terms of consensus?

. . . .

Fay Dodds, Vice President, Investor Relations
Yeah, I mean I think this morning as we went into the trading update it was just over £450m. Clearly we've talked about £30m less lower hit, or a benefit, from FX, but we wouldn't be expecting everyone to add all of that back, given our more cautious outlook on the macro.

. . . .

Antoine Belge, HSBC
Okay. Maybe just a follow up on the question regarding the store opening and closure, is it possible to have a feel of which region will see the bulk of the opening, and which region will see the bulk of the closing?

. . . .

Fay Dodds, Vice President, Investor Relations
Okay, well in terms of China over the year we'll be closing about six stores I think, Charlotte?

. . . .

Charlotte
Yeah.

. . . .

Fay Dodds, Vice President, Investor Relations
And that's part of the store evolution that we've talked to you about. And apart from that it's really just each of our regions are looking to open and close appropriate stores, and relocate them. And I don't think there's any particular regional buyer. You know if you think we've just renovated San Francisco, we've got the Rodeo Drive opening coming later this year, so that's good in the Americas. In Europe you're seeing a lot of those airport stores in that region.

. . . .

Carol Fairweather, Chief Financial Officer
Omotesando relocation.

. . . .

Fay Dodds, Vice President, Investor Relations
Relocation coming later in Japan. So as you know we build our store opening and closure programme bottom up, region by region.

. . . .

Telephone Operator
Our next question comes from Peter Testa of One Investments.

. . . .

Peter Testa, One Investments
Hi, thanks, I've got a couple of questions please. Firstly on the Wholesale side, you obviously did better in the half due to performance in season delivery and season, and I was wondering what you ascribed general better performance of delivery in season two internally versus just Wholesale or demand due to a better environment? And maybe

also how you're viewing the in season performance when trying to give H2 guidance on Wholesale?

Then the second question was just on the margin, and it's partly linked to the guidance question on PBT just answered. You describe a series of different influences, positive on currency, stepping up investment, pulling that back and maybe underlying trading pulling that back, giving a slightly lower margin, but you just stated that you wouldn't expect people to add back all of the FX, implying that you would expect PBT to go up a bit on forecasts. Can you just explain maybe the message - what seemed to be two different messages there to understand what's going on? And maybe the extent to which inside the margin comment you're also stepping up some of your investment versus original expectations? Thank you.

Fay Dodds, Vice President, Investor Relations
Okay, well I'll take the Wholesale question. And basically we had guided for the first half to about flat growth, that's not very good English, about a flat performance. We came in at about up 5%. Roughly half of that outperformance came from phasing, and it's really just a question of when our Wholesale customers actually come and pick the goods up, you know which side of the yearend it goes. And about half came from in season reorders.

Now clearly as we look to the second half we will take account of that phasing, and we also have to make an assumption about what in season reorders we get and what cancellations we also get, you know and we haven't - it's always quite difficult to land it exactly on the number. But we use our past history in terms of assumptions on in season reorders and cancellations to try and give you our best current view of what we think will happen to the wholesale order book in the second half.

Carol Fairweather, Chief Financial Officer
Yeah, and then in terms of margin Peter, so there are a few moving parts. We are saying that we are seeing less of a FX headwind today than we saw on the last quote - which is what we see as about a £30m benefit compared to last time, which will obviously improve our reported PBT number for the year. But we're saying partly offsetting that is a slightly more cautious view in terms of the external environment, difficult environment, so we're not expecting all of that FX benefit to flow through to PBT when we look at the revised numbers after the announcement today.

There's been no change, no significant step up in investment plans. What we're saying is that we don't want to curtail some of those investment plans, notwithstanding perhaps what is perceived to be a slightly more difficult external environment, because we believe that it is those investments in digital, in customer services, in marketing, in product that are enablers to deliver what we believe is an outperformance top line growth, and that the result of that may be that we see margins - you know, a slight downward pressure on margin from the restated constant currency number of 17% last year.

So net-net, we would expect numbers to probably move up slightly today, but not reflecting the whole benefit of the FX.

. . . .

Peter Testa, One Investments
Right, thank you. And sorry just on the Wholesale part, can you just say - you assumed a roughly flat Wholesale in season performance versus cancellation in H2?

. . . .

Fay Dodds, Vice President, Investor Relations
I haven't got the details I'm afraid, but you know again it's still region by region, and they will look at their major customers and just sort of - we're trying to give you our best view as we currently stand.

. . . .

Peter Testa, One Investments
And then on the guidance you're saying there's slightly downward pressure margin but upwards pressure on PBT, is that clear?

. . . .

Carol Fairweather, Chief Financial Officer
Yeah.

. . . .

Peter Testa, One Investments
Great, thank you.

. . . .

Telephone Operator
Our next question comes from Louise Singlehurst of Morgan Stanley.

. . . .

Louise Singlehurst, Morgan Stanley
Hi Carol, hi Fay. Just two or three very quick ones from me please. On Hong Kong I know we're not going to get the trading information last few weeks, can you just confirm that if the stores are all back to normal or if there have been any closures during Golden Week, or adjustments to opening hours?

And then secondly, I know you highlight ongoing focus on discretionary costs, is that just the ongoing best practice or is there anything in addition that you've done given the macro outlook?

And then finally just on US, quickly on Wholesale. I know you highlight the Wholesale more caution for European exposure, but can you just talk to us the about the US Wholesale accounts as well please? Thank you.

. . . .

Carol Fairweather, Chief Financial Officer
Yeah, I mean so in terms of Hong Kong; you know as far as we're aware and we're obviously monitoring the situation daily if not hourly from here, we've got our teams on the ground there, nothing specific to call out in terms of any ongoing store closures. I think a couple may have closed early on a couple of days, but nothing significant to call out at this stage. But obviously all our teams on the ground there are very focused on making sure that everyone is safe and we respond accordingly.

In terms of discretionary costs, we're constantly re-evaluating, reprioritising as we go through the half, and it's very much our pay as you go as we've talked to you about before Louise, but most importantly there are of course variable costs that move with revenue. There are a number of discretionary costs around spend that we have planned for the rest of the year that we may choose to defer, but we're not going to defer the more key investment initiatives if you like, because we're already - we're seeing the benefit of those in the numbers that we reported today, and believe that they will deliver growth in the longer term.

. . . .

Fay Dodds, Vice President, Investor Relations
In terms really of US Wholesale, you know there's two things going on. We're seeing good continued success in getting shop in shops in those key department stores that we want quality space in, but that is being offset by two things. Further elevation of the brand, so I think we talked to you in the first half about pulling out of some menswear doors with one of our key partners, and of course you know the big sort of transaction that they have seen during this year is Holt Renfrew in Canada, which has gone from Wholesale to Retail. But you know good underlying health of the business, but still the need to continue to elevate that business.

. . . .

Louise Singlehurst, Morgan Stanley
Great, thank you.

. . . .

Telephone Operator
Our last question today comes from Annabel Gleeson of Redburn.

. . . .

Annabel Gleeson, Redburn Partners
Hi Carol, hi Fay. Just two quick ones. The first is on Beauty, I think you talked on the Q1 call about the revenue being H2 weighted, so I wondered what had changed there?

And the second thing is could you talk a bit about the monthly trend through the quarter?

. . . .

Carol Fairweather, Chief Financial Officer
Of course. So in terms of Beauty I think at the beginning of the year in May we said of our 25% growth at constant currency we expect is to be about half and half. Actually the way it's panned out, just based on, and remember our distributors come and collect the inventory from us, the way it's panned out at our 25% guidance which would be £180m at constant currency, I think the split is now 45/55. So it's really just timing around shipments across the half year. So no change to anything significantly that we'd reported previously, and full year guidance unchanged.

And then in terms of through the quarter, I mean it was uneven so nothing to call out. The exit rate wasn't materially different from what we'd seen during the quarter itself, so you know nothing to really alert you to in terms of any pattern across the quarter.

. . . .

Annabel Gleeson, Redburn Partners
Perfect, thank you.

. . . .

Telephone Operator
Now just take one final question from Melanie Flouquet of JP Morgan.

. . . .

Melanie Flouquet, JP Morgan
Yes hi, good morning. I was wondering whether - actually I have several questions. The first one is regarding your initiative on raincoats, three lines, three colours. To what extent is that now extended and to how many stores, and how many more do you think it this is going to be extended to and what was the uplift in sales from that?

The second question is on opex. Can you help us maybe understand a little bit better what part of the opex growth cannot be capped? In other words there is a minimum of say 5% increase in opex that you will post direct with a little bit more discretionary this year, so we have a better understanding maybe of how much sales top line you need in the second half?

My third question is on China and Mainland China which if I understand well have decelerated in quarter two slightly, to a high single digit in quarter two. What was the performance of mainline stores versus digital within that? Can you be maybe a bit more specific on that?

And my last question is on price differentials in the UK versus the US versus Mainland China and versus Hong Kong? Thanks a lot.

Carol Fairweather, Chief Financial Officer
Okay so firstly in terms of our heritage initiative Melanie, we've talked before about the fact that we've put heritage - really focused on heritage, our iconic rainwear, and we've simplified the offering to you know three key shapes, three lengths, three colours, which has made it much - given much more clarity for both our customers and our sales associates to engage with that heritage rainwear.

Currently I think we're pretty well rolled out. Now we're in about 43 doors in out of 80 in EMEIA, 120 out of 160 in Asia I think, and America is 48 out of 90. So you know, continuing to roll that out, but we've seen a nice uplift, and we've called out that rainwear has been strong for us in this half. And I think that plays to the fact that we have made that heritage offering so much clearer for people to really understand our iconic trench.

In terms of opex, we're constantly dynamically managing that number as we move through the quarters and the half, as you would expect us to do so. You know, there's an element of variable costs I think we shall question around store rent, staff commissions, and of course we are constantly looking at every, what I would call discretionary element, be it new headcount, be it travel, be it anything we're doing in terms of training or whatever. But we're never going to turn off the really key investments if you like, or operating costs that are customer facing. So marketing, customer service, digital, we will continue to invest in, but rest assured on all other discretionary we are very focused on controlling that very tightly as we move through the second half.

In terms of China, you were saying is there any difference between mainline and digital. Our digital business in China is tiny and so really the performance we're talking about is all store related.

And then lastly in terms of pricing.

Fay Dodds, Vice President, Investor Relations
Yeah, I mean the pricing differentials I don't think have changed materially, you know and they're very much in line with our peers. And we say if we're about 100 in the UK we're probably about 105 in Europe and America, probably about 130 in Hong Kong, and something like 150 in Mainland China. I mean it obviously varies from product to product, but that's the sort of pricing architecture we have in the back of our minds.

Melanie Flouquet, JP Morgan
Will you be considering lowering that price differential, because most other companies have bridged quite a lot the gap between China and Europe? Is this something you're considering?

Fay Dodds, Vice President, Investor Relations
Yeah. No I think as we discussed before, the bulk of that sort of 50 point differential is actually freight and duty.

. . . .

Carol Fairweather, Chief Financial Officer
Okay. So I think if that's all the questions for today thank you very much for your attention and we look forward to speaking to you again on 12th November when we announce our interim results.

. . . .

Carol Fairweather, Chief Financial Officer
Thank you very much.

. . . .

END