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Burberry

First Quarter Trading Update Conference Call
10th July 2014

BURBERRY

Carol Fairweather, Chief Financial Officer

Fay Dodds, Vice President, Investor Relations

QUESTIONS FROM

Thomas Chauvet, Citigroup

John Guy, Berenberg Bank

Vic Mohan, ISI Group

Warwick Okines, Deutsche Bank

Rogério Fujimori, Credit Suisse

William Hutchings, Goldman Sachs

Ashley Wallace, Merrill Lynch

Mario Ortelli, Sanford Bernstein

Key Highlights

Carol Fairweather, Chief Financial Officer

Good morning and welcome to Burberry's First Quarter 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 our retail performance and then we will be happy to take your questions.

We are pleased with our retail performance in this relatively small first quarter, with revenue up 17% underlying and up 9% at reported FX. Retail comps grew by 12%, which was in line with our expectations and was underpinned by our continued planned investment that we talked about at the prelims both offline and online, in our stores, in digital, in customer service and in marketing.

By region, Asia Pacific delivered double digit comp growth led by Mainland China and Hong Kong.

The Americas also delivered double digit comp growth, with a particularly strong performance from digital with penetration double the global average.

In EMEIA we saw low single digit comp growth, with softening demand, particularly from domestic Eurozone consumers and some tourist groups in our major markets.

The drivers of comp growth remained consistent with previous periods. Both average selling price and volume increased, while digital outperformed in all regions. We also continued to see consumers changing the way they choose to shop with physical footfall down, but online traffic up, and conversion up in both channels.

Globally we continue to execute against our five key strategies. Under Leverage the Franchise we have put our iconic products under a microscope, with an integrated programme of initiatives in design, marketing and retail we have tested a re-launch of our iconic heritage trench coats and scarfs in 30 stores. For the trench coat we have simplified the selection of products making it easier both for our customers and our sales associates to identify them. This trial has seen some good early results and we'll be rolling this out to all of our retail stores in the autumn.

Under Intensify Accessories, the focus on key shapes continued and the penetration of solid leather within ladies large leather bags increased. The new shape, the Bloomsbury, went down the runway at the Autumn/Winter 2014 Prorsum Womenswear Show.

And under Accelerate Retail Led Growth we opened four mainline stores, one in Edinburgh and three in European airports, key for our travelling luxury customer.

In Underpenetrated markets we celebrated Burberry's heritage bringing London to Shanghai with our digitally led store opening event for our Kerry Centre flagship. The programme of media activity supporting the event drove record levels of brand awareness and engagement in the region.

And under Operational Excellence we continue to improve the use of our iPad based customer service tool for example enabling our sales associates to better personalise contacts with customers.

Looking forward there is no change to the revenue guidance we gave in May, but currency headwinds have increased. We now estimate that rebasing '13/'14 Retail Wholesale profit for current exchange rates would reduce reported profit by around £55m which is £15m more than when we spoke to you in May. And including the £10m on Licensing this takes the total impact to £65m which will be H1 weighted.

And please also note that as we continue to grow the business globally the FX impact in '14/'15 will clearly be bigger too.

So in summary we are pleased with our first quarter retail sales performance and while FX will be a material headwind this year we are confident in our underlying growth strategies for 2014, '15 and beyond.

So with that Fay and I would now be pleased to take your questions.

Questions and Answers

Telephone Operator

Thank you Ms Fairweather. Ladies and gentlemen to ask a question please press *1 on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Once again press *1 to ask a question.

Our first question comes from Thomas Chauvet, of Citigroup. Please go ahead.

Thomas Chauvet, Citigroup

Good morning, Carol, Fay, Charlotte. A few questions, firstly any reason behind the slightly better than expected contribution from new space, in Q1 it was plus 5, I think the market was expecting perhaps low single digit once again like at the end of last year?

Secondly can you elaborate on the comments of the softening European markets, perhaps splitting local versus tourist demand and whether you've seen deteriorating demand patterns throughout the quarter?

Thirdly on Japan I was curious to know whether your own retail stores - I know it's a small part of the business, but how did they perform in the period after the boost from calendar Q1 ahead of the sales tax increase? And more generally is there anything you want to highlight on the progress of the Japan transition in Japan, the discussions you're having with the department stores on the search for retail space in particular?

And finally just a few housekeeping questions on digital for Q1, can we get a sense of the split of e-commerce between pure online sales, click and collect, and iPad in store?

That would be great. And are you able to give any data on the returns rate for instance and also whether the penetration of online is higher in some markets than Group average; it sounds like the US is already probably a much, much higher proportion of the retail business there than the Group average. So if we could get a sense of the geographic penetration of online that would be great? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay, so in terms of new space - I mean Fay - I think in terms of there's no change to guidance in overall revenues from new space. I think we've talked before about quarter on quarter - it's not sensible to look at it on a quarter by quarter basis, so nothing new to say today Thomas I don't think.

In terms of EMEIA we're saying that in the quarter, as we had flagged at the prelims we saw some softening towards the end of H2 and this has continued into Q1. Looking at the transaction data we have we see this principally coming from a slowdown in terms of mainland Europeans both in their own markets and when they're travelling, and in terms of tourist transactions we see a lower number of tourist transactions, including from Russian tourists, except for the Chinese. So I think the slowdown in EMEIA if you like is really a continuation of that that we flagged in H2 and is largely Eurozone based and tourists other than the Chinese.

And then I think you asked about Japan in terms of our own retail, I think over the quarter we had a nice growth again, Fay?

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Fay Dodds, Vice President, Investor Relations

Yeah, I mean you have to kind of put April to one side, but actually if you look at the last couple of months we returned to a double digit comp growth there. But do remember that's off a very small base four stores and ten concessions. You asked about negotiations with department stores, I think Pascal is out there negotiating, but nothing really to report in the six or seven weeks since we talked to you in May.

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Carol Fairweather, Chief Financial Officer

And then in terms of digital, I mean we don't split out much of the data because that's not how we think about it, we want to make sure that we service the consumer however we do, but we do know that iPad sales in store have performed very nicely for us again this quarter. And I think we've talked before about it being around 25% of total digital sales. And also collect in store, we've seen again a nice pick up in terms of collect in store where we're now in something like 131 stores I think globally.

So digital continues to outperform, and in terms of penetration I mean we did say that the US is particularly a market where digital sort of punches above its weight compared to our other regions. I think largely driven by our initiatives, but also driven by the way in which the US consumer perhaps likes to shop.

And in terms of returns Fay, I don't know in terms of data there?

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Fay Dodds, Vice President, Investor Relations

It's not data that we share but there have been no unusual trends during the quarter.

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Thomas Chauvet, Citigroup

Okay, very useful thank you.

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Carol Fairweather, Chief Financial Officer

Thanks Thomas.

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Telephone Operator

Our next question comes from John Guy, of Berenberg Bank. Please go ahead.

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John Guy, Berenberg Bank

Yes good morning Carol, good morning Fay, just two questions from me please. First of all on the 12% could you split out volume and value for us in terms of how that's progressed during the quarter? And also you mentioned that the percentage weighting of leather bags across your womenswear range in bagswear has increased. I was wondering if you could just give us some numbers around the percentage uplift year on year in terms of that penetration rate in leather? Thanks very much.

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Carol Fairweather, Chief Financial Officer

In terms of the 12% we're saying that we saw an increase both in AUR and in absolute volumes, probably broadly split something like half and half across the quarter. So reasonably consistent I think.

In terms of the percentage weighting of leather Fay?

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Fay Dodds, Vice President, Investor Relations

I mean again I don't think that's something we're going to necessarily share externally except to say if you look on last year we've seen a several percentage points increase in the penetration.

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John Guy, Berenberg Bank

That's great, thanks very much.

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Carol Fairweather, Chief Financial Officer

Thanks John.

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Telephone Operator

As a reminder ladies and gentlemen to ask a question please press *1 on your telephone keypad. Our next question is from Omar Saad, of the ISI Group.

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Vic Mohan, ISI Group

Hi, thanks this is Vic Mohan in for Omar. Just one question from me; could you talk a little bit about the Mainland China and Hong Kong markets where you seem to be doing a bit better than some of your competitors?

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Carol Fairweather, Chief Financial Officer

Yes I mean I think again we had double digit in both Hong Kong and China in the quarter. You know we're saying that I think in China we know that we've got a number of self-help measures there which we continue to be very focused on, which I think enables us to deliver an outperformance perhaps compared to some of our peers. From the evolution of the store portfolio, remember we only opened our first flagship in Shanghai earlier this year.

Our digital engagement - the Chinese luxury consumer tends to be much younger than elsewhere in the world and I think everything we're doing in the digital space gives us a point of differentiation there, both when they shop at home because also as we called out we did see an increase in the number of transactions from Chinese tourists globally in this quarter.

So I think it's really that continuing focus on product, on customer service, on digital that has driven that performance in both China and Hong Kong in the quarter.

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Vic Mohan, ISI Group

Thank you.

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Telephone Operator

Our next question comes from Warwick Okines, of Deutsche Bank.

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Warwick Okines, Deutsche Bank

Good morning, three questions please. The first is on digital, I thought I'd just try again on click and collect during the quarter. You did say over peak at Q3 that it was about 15% of digital sales, is that sort of a broadly representative number for the quarter?

Secondly could you talk a bit more about the trench trial just in terms of price architecture changes, SKU count changes, just a bit more detail around that please?

And then thirdly on your Beauty guidance for the year of 25% growth you have previously said that you expected the sales in sterling to be pretty evenly weighted between H1 and H2. I'm just wondering if you could confirm if that's still the case? Thank you.

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Carol Fairweather, Chief Financial Officer

Yes, so in terms of digital you know in this quarter we saw collect in store actually increase to something like around 20% - as you look at the average across all three regions, we're now in 131 stores.

In terms of the work we're doing around Heritage, I mean we're very excited about what we're doing there. We're really focusing on that iconic trench coat and making it much easier for the consumer to shop. So being very clear about three styles, three colours, three lengths. And I think you know from the trial that we've done in our stores, that has resonated very well with the consumer both in store, online and also with our sales associates because it makes it a very focused product offering in terms of those core trenches. Nothing specifically to call out in terms of price on those.

And then in terms of Beauty, yes we're saying 25% for the year. As we're looking at the order book now it may be a tad more weighted towards H2 than H1, but no change to guidance today in terms of the 25%.

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Warwick Okines, Deutsche Bank

Thank you very much. And just actually on collect in store, it's in 131 stores. How many - presumably all of those are mainline rather than concessions, how many do you think you might get to by peak? And is there any opportunity in concessions?

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Carol Fairweather, Chief Financial Officer

Yeah. I mean in concessions it is a bit more difficult because you know the space tends to be smaller. It's about how you can actually service the customer when they come in from collect in store. We'll continue to roll this out, you know, in those key, larger format mainline stores. So I think you know, we will continue to look on a store by store basis to where it's appropriate to do that.

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Warwick Okines, Deutsche Bank

Very helpful, thanks very much.

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Carol Fairweather, Chief Financial Officer

Thanks Warwick.

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Telephone Operator

Our next question comes from Rogerio Fujimori from Credit Suisse.

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Rogerio Fujimori, Credit Suisse

Oh hi everyone. I have just one question about Asia Pacific, I was wondering if you could comment on the trends for the other key Asian markets? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay, I mean as we said China and Hong Kong are double digit and really have continued to perform well through the quarter, you know clearly sentiment was a little subdued in the first part of the quarter. Southeast Asia tends to be a little slower for us so that's probably the market that is more challenging. But in the key markets of Hong Kong and China, still seeing double digit growth.

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Rogerio Fujimori, Credit Suisse

Thank you.

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Telephone Operator

Thank you. Our next question comes from William Hutchings of Goldman Sachs.

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William Hutchings, Goldman Sachs

Good morning. I've got two questions. One is on - I hope you can help with what are the natural offsets you've got in your business to FX? Because clearly the way that you're helping us understand it is translating last year's profit performance and P&L based on current spot rates. But presumably there's some natural offsets both in terms of hedging, in terms of what you can do with sourcing, in terms of what you can do with pricing both on a mix and like for like basis. And also just help us understand, you know, are there any things that you can do in terms of where your incremental spending goes on capex and opex, in terms of presumably you get a bit of a support from the FX on those spending outside of the sterling region. So that would be very helpful.

And just the other question is when you talk about your digital initiatives, I wonder if you could just help just in terms of what's gone on in the quarter or perhaps in the next quarter as well, what are you doing explicitly which is new related to either digital marketing or to direct e-commerce initiatives, just to help us understand a little bit what's going on? That would be very helpful, thanks.

Carol Fairweather, Chief Financial Officer

Okay, so in terms of the question on FX, clearly we're not going to necessarily change our key strategies because of the movement in FX rates, because what we're focusing on is the underlying strengths of the business.

So as you would expect where we can hedge transactions, our policy is to do so. Where there is third party transactions out sort of cross border, it has always been our policy to hedge those and we continue to do so. And that is built into our guidance. Remember hedging only actually brings you certainty for the next six months, and the numbers we've guided to today include the hedges we have in place both for our euro and dollar procurement, and our licensing income. So we will always hedge third party external transaction cash flows.

We don't hedge translation, and the FX impact we're talking to you about today is translation. Clearly we do get some offset from opex where we're incurring the opex in our overseas companies. But as we've talked about before, if you look at the balance of overseas revenues and opex, because we are HQ'd in London and we have - our corporate cost base here, we don't get a proportionate offset for the impact of FX on the revenues.

In terms of sourcing we wouldn't look to - change our country of origin of sourcing just to offset FX. We're a luxury brand and therefore we have to make sure that we source appropriately. So it's really around controlling what we can control.

And likewise your comment on pricing, you know as we always do we will look season to season to see where need to take any price movements. We tend to be a fast follower rather than actually setting that, and we will continue to look at where we will take prices over time which could offset part of this, but we won't be doing anything short term just to move prices in a region because of the offset - to offset the FX impact at current exchange rates.

William Hutchings, Goldman Sachs

And on that have you seen others take pricing action? As in if you tend to be a follower, do you monitor what's going on? Do you see prices going up elsewhere from your European peers?

Carol Fairweather, Chief Financial Officer

Well I think we certainly saw people move prices in Japan last year when the yen rate moved. You know for us the business in Japan is quite small but we did follow there. At the moment there's nothing significant that we're tracking. I mean we look at it, you know all the time where we can on like for like products, and there's nothing that we're planning on doing in the very short term in terms of changing prices.

Fay Dodds, Vice President, Investor Relations

Our working assumption is that you'd have price increases of low to mid single digit which isn't significantly different from where we've been in the past.

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William Hutchings, Goldman Sachs

Okay, that's helpful. And just to confirm that, so that guidance that you've given is based on the translation impact is not transactional, as in you know it would be a different impact if you reflected the full transactional impact?

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Carol Fairweather, Chief Financial Officer

That is the full impact of the movement in FX rates on our reported number. If we just simply take '13, '14 and look at what we've got at today's rate, translating the overseas profit and taking into account the hedges that we've got in place on procurement and those Japanese royalty flows. So the net impact of everything we're saying is around £65m.

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William Hutchings, Goldman Sachs

Yeah, okay. Helpful, thank you.

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Fay Dodds, Vice President, Investor Relations

And in terms of digital I mean it's quite a long question. I mean there's probably three buckets to think about. First of all what we're doing on dotcom, on Burberry.com, and later this year you'll see us re-launch our mobile site, you know more traffic is going to mobile but our conversion rates there are quite low. So we're re-launching mobile.

I think we've talked before about we believe there's a lot of opportunity for e-commerce in China. At the moment we fulfil that out of the UK. We'll be looking to fulfil that from in China, so we think that will unlock e-commerce within China. So that's trends on the dotcom side.

The second thing is we're actually using a lot of our customer insight tools to drive better quality traffic to dotcom, and I think you're seeing a better return on investments from that.

And then the third thing that we'll be working on most of this year is really just negotiating with other third party digital retailers, building on our experience with Amazon and Tmall, to work with more partners and to broaden the assortment that we're able to sell through third parties. There's a lot going on.

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William Hutchings, Goldman Sachs

That's great. Thank you very much.

Telephone Operator

As a reminder ladies and gentlemen, to ask a question please press *1 on your telephone keypad. Our next question is from Ashley Wallace of Merrill Lynch. Please go ahead.

Ashley Wallace, Merrill Lynch

My questions have actually been answered but I was just wondering if you could maybe give us a little bit more colour on your conversion rates during the period. You said that that increased, but can you talk a little bit about by region where you're seeing the biggest improvements and where you still have an opportunity for improvement?

Carol Fairweather, Chief Financial Officer

Yeah I think Ashley we were pleased because both offline and online and in all regions, we saw conversion continue to increase. And I think that's testament to the real focus we have on customer service, on products, on our digital initiatives which I think have underpinned that.

You know safe to say we talk all the time about the opportunity that still lies ahead of us in terms of productivity and really there is an intense focus on looking to continually improve conversion rates in our stores and online which will, you know, ultimately drive those productivity gains which we know we need to continue to focus on. So I think more to come on conversion, but it was across all regions and both on and offline conversion moved up again in the quarter.

Ashley Wallace, Merrill Lynch

Perfect, okay, thank you.

Telephone Operator

Our next question comes from Mario Ortelli of Bernstein. Please go ahead.

Mario Ortelli, Sanford Bernstein

Good morning. Two questions from me. The first one if possible about new openings. How many store openings are you planning for this year? And if I may, how many of them are travel retail? And I would like to know if the travel retail revenues that you forecast for the store are more or less in line with the global average, more or less?

The second one is your guidance on margin shows a great pressure from FX. Have you got in mind any cost cutting or cost reduction initiative in the company to try to offset this pressure on margin? Thank you.

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Carol Fairweather, Chief Financial Officer

Hi Mario. So we're still saying around 20 to 25 new mainline store openings this year. You know we've obviously had, in terms of travel retail we've had the three airport stores in this quarter. We've got Hong Kong which is a big one coming up for us, a relocation in Heathrow so absolutely focused on travel retail, we see that as an opportunity for us. So you know Hong Kong and the relocation at Heathrow to come up in the remainder of this year. But you know we'll be focusing on travel retail as we move forward.

In terms of your comment on margin and FX, yes so we're now saying looking at last year's number at today's rates we'd have around 16% operating margin. In terms of, you know, we talk about continue to invest to drive that top line growth that we've reported today. So in light of FX we're not looking to do anything significantly different in our investment plans because we're investing for the long term, you know revenue and profit growth. And therefore this is a - obviously it's an impact on reported profits but not on the underlying health of the business. So no change to the investment plans at the moment that we've talked to you about in terms of looking to increase margin over time.

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Mario Ortelli, Sanford Bernstein

Thank you very much.

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Telephone Operator

Thank you. As there are no further questions over the telephone I will now hand you back to the host for any additional or closing remarks.

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Carol Fairweather, Chief Financial Officer

So thank you. So in summary we are pleased with our first quarter retail performance. And as Christopher said in his statement this morning, we will continue to focus on the things we can control, and remain confident of delivering sustainable profit growth into the future. So thank you for your attention and we look forward to talking to you on 14th October when we have our first half trading update. Thank you.

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