WORLD TELEVISION

Burberry

Preliminary Results for the Year Ended 31st March 2014

BURBERRY

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Good morning everybody and welcome to Horseferry House. We are pleased today to have announced another set of strong financial results and thank you all for taking the time to join us to discuss them.

This is a very exciting time in the evolution of our business and so we're delighted to have this opportunity to share some further insights into our current and future performance drivers.

With that in mind I'll begin with a brief update on our recently completed management transition, before sharing some highlights for the past year and some thoughts on future opportunities. I will then hand over to Carol Fairweather, our CFO, who will take you through the numbers, after which John Smith, our Chief Operating Officer, will provide an update on Beauty, and Pascal Perrier, our Chief Executive Officer for Asia Pacific, will give you an overview of our exciting plans for Japan. We'll then be happy to take your questions.

First a few words on the successful completion of our management transition. At the start of this month I formally assumed my new role, completing a six month transition period, during which I've been able to put the right team and structure in place for the next phase of Burberry's evolution.

The performance of the business in the second half is testament to how our teams responded during this period, remaining focused and executing brilliantly. The organisation is now fully aligned across the three pillars I spoke about in November; design product and communication, the regions and operations and finance. Across these three pillars I have a broadly equal balance of reporting lines between the creative and the commercial. What I also have is an outstanding group of senior executives with an average tenure of more than eight years at Burberry. They are charged with the day to day running of the business, allowing me to lead it effectively, to provide strategic direction and to monitor progress against our ambitious goals.

I am confident that this is the right structure for this next phase, recognising the realities of the breadth of my role and leveraging the deep expertise we have in every area accordingly.

As you know my new role is an unconventional one, and my background is not that of a traditional CEO. As such I will lead Burberry in my own way, but always guided by a passion for what this unique brand stands for, by a desire to take the business from strength to strength, and by a tremendous pride in building its distinctive culture.

So while you may notice changes in personal style and approach, there will be no fundamental change to our existing strategies, focused execution or overall ambitions to realise the brand's potential across platforms and markets, to secure sustainable sector leading growth and to be a good company.

It is this consistent vision that has driven our continued strong progress over the past 12 months. We are pleased today to report a 17% increase in revenue to just over £2.3bn, with adjusted profit before tax up by 8%, to £461m, as we continue to balance growth with investment. We are particularly proud of the 12% increase in our comparable store sales, reflecting our ongoing focus on driving productivity and brand awareness through the retail channel, both on and offline.

I'd now like to take a few moments to reflect on three key drivers of this performance, brand momentum, menswear and flagship markets, before considering the opportunities that lie ahead of us.

First brand momentum. We continued during the year to fuse the physical and digital to enhance the brand experience wherever the customer engages with us. For example we further leveraged data and insight to create increasingly personalised customer experiences. This included the rollout of our customer One to One app to all mainline stores, allowing sales staff to access customer purchase histories, search real time stock availability and arrange delivery globally.

We also developed more integrated and emotive storytelling across our online and offline worlds. This included a heightened emphasis on Outerwear, the increasing personalisation of products and communications and the innovative use of digital technology, including with partners such as Google, Apple, Instagram and WeChat.

This sustained focus on the brand experience is enabling us to ensure the consistency and elevate the quality of every customer interaction globally, while always reminding customers of who we are and what we stand for. As such it represents not only continued improvement and innovation in systems and processes, but also our desire to connect consumers ever more closely to the products and experiences that define us and about which we are so passionate.

Second, the continued growth of menswear, further investment in design and marketing drove significant outperformance from this category in mainline stores during the full year fuelled by Outerwear, Tailoring and Accessories. June will mark the anniversary of the return of our menswear show to London after more than a decade in Milan, reflecting not only the importance of our authentic British heritage to this category, but also our ambition for its future growth. At about 30% of our total sales we see compelling further potential as we look to build all dimensions of this under developed category for the brand.

Third, our ongoing commitment to optimising the opportunities that exist in the 25 flagship markets that account for about 60% of our mainline retail sales. During the year we strengthened our Burberry Private Client service for local customers, while developing further product, merchandising and service initiatives aimed at the travelling luxury consumer.

This included particular attention to the travelling Chinese, already a significant proportion of our global revenues and likely to increase further as current outbound travel numbers are predicted to double to 200 million by 2020.

With 13 store openings flagship markets represented half of our retail capital expenditure in the year. Shanghai was a particular focus where four new openings included our largest store in Asia Pacific in the Kerry Centre. We were delighted at the end of last month to mark its opening with a magnificent event that celebrated both Burberry's British heritage and its deep association with the Chinese market.

A synchronised programme of media activity supporting the event drove record levels of brand awareness and engagement in the region and the store's performance is ahead of expectations in its early weeks of operation.

The Kerry activity continued our focus on leveraging key flagship openings to drive local and global brand interest, with Los Angeles and San Francisco in the autumn expected to be similar highlights for the year.

So a few words about the future, as I reiterated earlier there will be no fundamental change to our core strategies moving forward. However, it is the dynamic management of these strategies that has driven our outperformance in recent years and we will continue to challenge ourselves to evolve them, ensuring they remain as responsive and relevant in the future as they have in the past.

Tremendous opportunities lie ahead, by channel, by region and by product category. Notwithstanding the continued macroeconomic uncertainties that exist beyond our control, we have multiple levers that exist within it. I'd like to touch on the most significant of these, namely Beauty, Japan, digital commerce and underpenetrated markets.

However, there is something that I think sits above and informs the success of them all, the potential that exists within our authentic British brand story, Burberry's unique story, formed of our iconic heritage together with the accomplishments of our more recent past gives us that most precious of things, a true and clear identity.

It is my fierce determination that this 158 year provenance should sit at the heart of everything we do; the products we produce, the experiences we create and what we stand for. It is the ultimate expression of our old young brand which has creativity at its core, from the traditional crafts we foster through our weaving and manufacturing facilities in Yorkshire, to the most digitally progressive events and platforms that allow us to share the energy of the brand with audiences around the world.

This year will see us intensify our focus in this area, with a celebration of our heritage that will reconnect consumers with our iconic products through an integrated programme of initiatives in design, marketing and retail. Early pilots of this programme in over 30 stores have proved highly successful and we are excited about its broader potential to drive revenue, productivity and brand engagement over this year ahead.

Beyond this it will be an important focus for our broader sustainability efforts, including through a new research programme to develop innovative and sustainable raw materials, consistent with our aim to be not only a successful business, but also a good company.

This notion of authenticity, of remaining true to what we stand for as a brand in everything we do, touches all of our future opportunities and will be central to unlocking their promise.

So let me know briefly turn to Beauty on which you will hear more from John shortly. Despite the complexities of the transition to direct operation, last year's establishment of Beauty as our fifth product division recorded some significant early successes including the Brit Rhythm launches, the opening of our Beauty Box retail concept pilot. Now with the team fully established and operations refined we are well positioned to accelerate our unique vision of integrating fashion and beauty.

As John will explain we remain confident that our investment in Beauty will be a key component of future growth, bringing a new dimension to our relationship with existing customers and connecting new audiences to the brand. We have exciting plans to realise this ambition in the months ahead, not least a major women's fragrance launch in September featuring Kate Moss and Cara Delevingne and linked to our wider heritage focus.

Turning next to Japan, another area of sharp focus and great potential; as you will hear from Pascal, all business functions are currently engaged in laying the foundations to transform the brand in this, the second largest domestic luxury market in the world. With licences expiring in 2015 preparations are well underway to assert Burberry's global luxury positioning forcefully in the future by opening freestanding stores and department store concessions in key locations and developing digital.

We expect retail revenue of over £100m by 2017 and further benefits from an enhanced positioning with the travelling Japanese consumer globally.

To facilitate this transformation we have agreed with Sanyo Shokai an orderly transition of licensed Burberry product from Japan by September 2015. At the same time we are pleased that they will continue their operation of the successful Blue and Black labels in Japan, but with no association to the Burberry brand. This provides continued revenue from these successful labels, helping to mitigate the short term financial impact of the transformation.

Our plans for Japan demonstrate our ongoing commitment always to do what is best for the brand over the long term under the final piece of activity in a multiyear programme to integrate legacy, regional and product licences back into the business.

2014/'15 will also see intensified activity in digital commerce, which is already showing outstanding growth, albeit from a relatively small base. In addition to further investment in Burberry.com, notably in mobile functionality, we will begin to unlock the potential that exists in third party digital relationships, which we look at no differently from the bricks and mortar wholesale partners that are so important to us in the physical world.

Following the launch of Burberry Beauty on Amazon in the US last year we announced last month a collaboration with the Alibaba Group in China, opening a Burberry store on Tmall.com, the largest digital commerce platform in the market. The first collaboration of its kind in the luxury space it offers tremendous reach, while reflecting a shared commitment to offering Chinese consumers the best experience of the brand, including ensuring that only authentic Burberry product is made available on the site going forward.

Both partnerships are consistent with our broader belief in the opportunities presented by digital commerce globally, always with the right partners and always executed in a way that protects and enhances our luxury positioning, as well as leveraging our digital competence. Brand development, including the acceleration of Beauty, and the Japan transition, offer exciting further potential in this context.

The final opportunity I'd like to highlight is our sustained investment in underpenetrated and emerging markets. The coming year will see us continue to maximise the opportunities presented by the rapid development of new centres of luxury consumption, as well as intensifying our focus on the travel retail channel that will only grow in relevance as travel trends accelerate to, from and between these markets.

We will also continue to challenge ourselves to operate more efficiently in all areas as we enter this next phase of our evolution, leveraging the significant infrastructure investments of recent years and realising further productivity gains, not least in our retail stores. This is consistent with our aim to drive sustainable growth in profit for our stakeholders, investing to deliver further top line growth, whist securing the ongoing margin progression that remains our goal.

While confident of the opportunities ahead we do not underestimate the realities of delivering against them. Sector growth has moderated from the historic highs of the recent past, while the landscape has become ever more competitive. Meanwhile shifts in consumer behaviour from digital advances to changing travel patterns require agility and innovation in both thought and in action. But I believe we have the clarity and the focus to deliver continued outperformance in a context that constantly presents both new challenges and new opportunities.

So I'd like to end with a comment on the importance of people, because the drivers of our future growth will not only be strategic and operational, but also human. As I mentioned at the start, one of my proudest achievements in my 13 years at Burberry, has been the culture that we have created, the close connectivity, and shared passion that allows us to retain our entrepreneurial spirit as we grow the brightest and best talent we have at all levels, and the outstanding group of senior executives heading our three organisational pillars. I believe there is no more powerful foundation for future success then these united global teams who I would like to thank profoundly.

In this context I would also like to highlight the role of our Board, which continues to evolve to ensure we have the right skills and the competencies for the future. Following the exciting appointments of Matthew Key and Jeremy Darroch during the year, we are also thrilled today to announce the appointment of a third new non-exec director with Carolyn McCall joining the Board in September. As CEO of easyJet since 2010 Carolyn has overseen a period of outstanding growth and innovation and brings brilliant skills and expertise to the Board. We are delighted to have Carolyn join the team.

With that I will leave you with a short video summarising some of Burberry's key achievements in the second half of the year. I hope these give you a sense not only of what is driving our performance today, but why we are so excited about our future.

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Financial Performance

Carol Fairweather, Chief Financial Officer
Good morning. It gives me great pleasure to present the results for the financial year 2014, where we delivered record sales and profit. As Christopher referenced the headline numbers were strong, revenues were up 17% and adjusted Profit before Tax was up 8% at £461m reflecting the shift of beauty from high margin licensing to direct operation. We closed the year with a [gap in audio] net cash position, up £106m at £403m, and have proposed a 10% increase in the full year dividend to 32p, and have returned about £130m to shareholders in the year.

As we've already reported our revenue last month I will only briefly summarise our performance, but there is more detail in the appendix of the presentation. We increased revenue by 17% to £2.3bn. Growth was led by Retail up 15% underlying with comparable stores growth up 12%. We opened a net eight stores globally and digital performed strongly. Core Wholesale, excluding Beauty was up 2% underlying, with the first half of the year down 7% and an increase of 11% in the second half where the Americas and Travel Retail outperformed.

In our first year of direct operation Beauty delivered £144m of Wholesale revenue in line with guidance. Licensing, excluding the £27m royalty income from fragrance in 2013, was up 2% underlying as expected, with Japan unchanged and Eyewear and Watches combined up double digit percentage. And we saw double digit growth in all regions and in our three major product divisions.

Turning to profit, operating profit grew by 8% in the year to £460m. The key drivers of this growth were a £45m increase from the core Retail Wholesale business, demonstrating operating leverage with revenue growth of 11% and profit growth of 14%, a first time contribution from Beauty of £11m, while core licensing delivered a £6m increase in profit. These growth drivers were partly offset by the absence of £27m from the fragrance royalty income we had in 2013 and a £3m negative impact from FX.

So let's look at the retail wholesale number in greater detail. This chart shows the movement in the retail wholesale margin, you will remember last year we delivered a normalised margin of 17.1%, excluding the benefit of a lower performance related pay charge; including this benefit the reported margin was 17.8%.

This year the core business, excluding Beauty delivered a solid 40 basis point improvement in margin to 18.2%. But this was more than offset by Beauty, where, as flagged, short term supply chain issues impacted the gross margin, and we increased marketing spend to support the earlier launch of the Brit Rhythm for women fragrance, which left us with a 17.5% reported retail wholesale margin.

And please remember that as we are running Beauty as our fifth product division we will not be reporting its profits separately going forward following this transition year.

Turning to the gross margin, there was progress around 40 basis points in the core business to 71%, reflecting small gains from net price increases and the channel shift to retail. And this was offset by the dilutive impact of Beauty in this transitional year, to give reported gross margin of 70.2%.

Our operating expenses, excluding Beauty were held flat as a percentage of revenue at 52.8%.

About half of the increase in pounds millions came from general inflation and new space, with the balance from volume related costs and an increase in investment in areas such as marketing, digital, creative media and customer service, which drove the revenue growth.

The performance related pay charge was broadly unchanged year on year, as the 8% PBT growth did not meet our stretching internal targets.

Before I turn to licensing, let me just remind you of what we said in April about the impact of foreign exchange on our reported numbers and update this to reflect current exchange rates. As you are aware sterling has appreciated significantly in recent months against our major currencies. And if exchange rates remain at current levels there will be a material impact - adverse impact on reported retail wholesale profit in financial year 2015.

We estimate that as an indication rebasing financial year 2014 retail wholesale profit for current exchange rates would reduce reported profit by around £40m and reduce the retail wholesale operating margin to around 16.3% compared to 17.5%, with the impact broadly evenly split between gross margin and opex. And this FX impact would of course be bigger in financial year 2015 as we continue to grow the business.

And as we said in the statement this morning in the current year we will continue to invest across the business in areas such as flagship markets, customer service, digital and people, which means we may not necessarily see the retail wholesale margin progression this year. But as Christopher said, our aim is absolutely unchanged; continuing to invest to deliver sustainable revenue and profit growth in pounds millions while securing ongoing margin progression.

Turning to Licensing, profit for the year was £67m. As you can see from the slide the change from last year related predominantly to the loss of £27m of revenue from the terminated fragrance licence. A £4.7m negative impact from FX, largely reflecting the movement in the effective yen rate from 1.27 to 1.37 to the pound, partly offset by growth in the remaining licenses and lower allocated costs. And FX will have a further impact in 2015, reducing reported Licensing revenue by about £10m, working off an effective yen rate of about 1.64 to the pound.

Working down the income statement, we had £0.7m of financing come in the year, for the current year we'd expect it to be about the same. The adjusting items of £17m comprises of two things, the £15m amortisation of the fragrance and beauty intangible and a £2m charge relating to the China put option.

This year the tax charge was £112m. Our effective tax rate on adjusted PBT was 24.7% which compares to 25.8% last year, and we expect the tax rate on adjusted profit for 2015 to be about 23% as UK corporation tax reduces again.

And finally the movement in the non-controlling interest of £5m is primarily a result of us having taken effective full ownership of the retail operation in Japan from the end of March 2013 in preparation for the expiry of the Apparel licence in June 2015.

Our business remains strongly cash generative with £536m of cash flow from operations, up 3% from the £523m last year. Depreciation rose to £124m and we expect a charge of around £140m in 2015.

Inventories were tightly controlled, up 11% at constant FX, excluding Beauty, compared to retail sales growth of 15%, demonstrating the payback for our investment in planning teams and processes. And this contributed to an outflow on net working capital and other items of £74m in the year, as shown here.

Translating that operating cash flow to net cash, capital expenditure was £154m, which I'll talk about shortly, tax, dividends and other outflows totalled £276m, so we finished the year with net cash of £403m. Looking at our net cash position, please remember fixed operating lease rentals in 2014 totalled £157m, which if capitalised would add significant debt onto the balance sheet.

As you know the Board keeps our capital structure under review and feels that our net cash position is currently appropriate given the growth and investment plans ahead.

Capital expenditure this year was £154m below our guidance of £200m, reflecting the phasing of new projects and some later timing on payments for existing projects. Retail represented the majority of the spend, with about half of that spend focused on flagship markets such as Shanghai.

Looking forward to 2015 we expect capital spend of about £200m, again focused on retail, with key projects including Rodeo Drive in Los Angeles, Omotesandō in Tokyo and the refurbishment of our San Francisco store. And remember that all of our retail store projects are reviewed against a number of measures including our IRR hurdle rate of 25%.

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 year with a strong financial position and you will have seen today that the Board's intention is to progressively move over the next three years to a 50% dividend payout ratio, signalling our confidence in the underlying business.

Clearly in 2014/'15, if rates remain at their current levels, FX will be a material headwind. But the strategies that Christopher and the team are executing are unchanged and will underpin our goal of driving long term profitable growth, always doing what is best for the brand whilst retaining tight financial discipline.

So thank you and I will now hand over to John to give you an update on Beauty.

Beauty Update

John Smith, Chief Operating Officer
Thank you Carol. I'm delighted this morning to talk to you about Beauty our fifth product division, one year after we took direct control. This is now an area of focus for me as COO, as it is a key driver of our growth.

So this morning I want to briefly remind you of our vision for Beauty and the strategic rationale for buying the licence, summarise the progress in the first year, talk about why we feel confident we can outperform the luxury fragrance market in the future and share some of our current test initiatives in makeup as we begin to plan the build out of a full beauty business.

A year on our vision is to be a top ten luxury player, with a distinctive British positioning driven digitally and appealing to the millennial consumer and with a business comprising three axes, fragrance for image building, makeup for customer recruitment and skincare for driving loyalty. This slide is a reminder of the strategic rationale; we're underpenetrated compared to our peers in what are large luxury markets.

Beauty, as product at the opening price point, gives us the opportunity appeal to the first time luxury consumer. We can differentiate ourselves from other players by full alignment with our luxury Apparel and Accessories business. And finally gain synergies from leveraging existing infrastructure.

Our first year of direct control was really about stepping into Inter Perfums shoes and taking direct responsibility for relationships with suppliers and distributors. Step 1, was creating an in-house integrated business as our fifth product division. As you know this was more complex and challenging than had been expected, but that transition period is now over with the whole organisation energised behind the task.

And as step 2, we're now looking forward to building the foundations for future growth. Crucial to success in Beauty was our ability to create a strong team quickly. By the year end we had about 140 people across central functions such as supply chain, product development and marketing and in the regions to ensure execution in the field, with a good mix of internal and external hires from leaders in luxury beauty, including Dior, Chanel, Esteé Lauder, L'Oréal, and P&G.

Secondly, we built an entire supply chain, contracting with 130 suppliers, gaining regulatory compliance in over 80 countries, establishing distribution capacity in France, so that now we are fully in stock across fragrance and makeup, fulfilling 98% of all orders since November 2013; while at the same time sourcing over 100 new products to support future growth.

Thirdly, we secured a network of around 100 distributors for the first 12 months and our regions are now evolving this by signing longer term agreements and consolidating with preferred partners. Our top 15 distributors account for about three quarters of revenue.

Our product focus during the year was of course fragrance which is currently 98% of revenue. During the year we launched Brit Rhythm for men and for women, leveraging the best of Burberry. Being digitally led, linked to music for their inspiration, with innovative use of social media and digital screens in flagship markets and fully aligned with Brit Rhythm fashion capsules. All of this summarised in the men's and women's TV campaigns which I'd now like to share with you.

Video Played

John Smith, Chief Operating Officer
Now turning to future growth in fragrance, we've already guided for about 25% growth at constant FX in 2015 following the year of transition. And for 2016 and 2017 we're targeting mid-teens revenue growth purely from fragrance, while looking to improve the quality of sales by balancing the rationalisation of legacy fragrances with growth of new ones. This growth rate is much faster than the market.

Now why do we believe we can do this? First we are massively underpenetrated here. The prestige fragrance market is worth about £20bn at retail value and we have a very small share of that. If you look at the UK as an example we are currently ranked about number 30. Achieving our goal of being top ten would triple our sales in this, our home market.

Secondly, we will continue to elevate the image of our fragrance offer and build the product range around our key pillars. And in the coming year, as we gradually rationalise legacy fragrances we will launch product extensions for the new Brit pillar, and I'm very excited about the major women's launch in September, capitalising on our brand heritage and on the trench with Kate and Cara being the faces of the campaign.

Thirdly, outperformance will also come from growing both traditional and non-traditional distribution channels. Remember, we are currently 95% wholesale and only 5% retail. So let me give you four quick examples.

First, we are intensifying efforts to sell direct to the end consumer in our own retail stores and on Burberry.com with about 50% growth in the second half of 2014 and digital outperforming, albeit from a very small base now.

Second, we are leveraging our existing relationships with luxury retailers to accelerate growth online and offline. An example was the Bloomingdales takeover, where our team in the US was able to deliver such a strong share of voice for the launch of Brit Rhythm for men.

Thirdly, we are targeting travel retail; Beauty is a £10bn market here which has grown double digit over the last three years. Fragrance represents over half the sales, but we have less than a 1% share, there is clear potential to gain higher profile and larger permanent spaces for our brand.

Fourthly, we believe there is huge potential in the digital space for fragrance. Highlighting our desire to take a lead here we have begun a major push online via third party digital e-tailers and retailers starting with Amazon US on their luxury beauty platform, ensuring that customers can only buy genuine Burberry fragrance on their site. And Tmall, demonstrating synergy with fashion on China's largest online retail platform.

Now a commercial relationship with these companies provides access to a significantly greater number of customers in a transactional environment, allows us to test new distribution, payment and delivery models, allows the repositioning of our content and brand imagery, while affording an opportunity to tackle counterfeit and grey market activity, otherwise a significant issue in this space.

So with fragrance now on a good growth trajectory, we can turn our attention to building out a full Beauty offer, with the acceleration of makeup and preparing for the launch of skincare, again all fully aligned with Apparel and Accessories.

As this slide shows these prestige markets combined are worth about £60bn, a prize worth pursuing, given we have no share in two of the three segments. These other categories are of course not without their challenges. We recognise that makeup is a structurally lower margin business than fragrance, especially while we're sub-scale and that both will require more capital investment in physical points of scale depending on the route to market, which is why we will spend this year testing and proving models and concepts to ensure we get good returns on this investment over time.

Here are some of our initiatives for 2014/'15. In makeup we are reformulating, upgrading and expanding our product portfolio. By the end of the year we will have nearly doubled the number of SKUs to about 300, compared to where we started the year and be much closer to luxury peers.

In skincare, which requires a very different skill set we continue to explore opportunities in partnership with experts in the field looking to launch in late 2015. And we will continue to build awareness of our makeup offer, by aligning it fully with Apparel and Accessories and being imaginative digitally.

Witness the innovative collaboration with Google that delivered Burberry Kisses, or the prominence that Beauty was given at the recent launch event in Shanghai, or how Beauty now plays an integral part of our runway shows. Whether the Beauty Booth where personalised images taken by models backstage were shared in real time with our 3.1 million Twitter followers, or next seasons nail connections being available through Runway Made to Order.

We're also testing concepts to elevate the distribution of Beauty. In December we opened our first Burberry Beauty Box in Covent Garden London. We've used it to show distributors and partners, our vision for how we will present Beauty to customers differently and the feedback has been outstanding.

Let me show you a short video which describes this.

Video Playing

John Smith, Chief Operating Officer
As you saw there the Beauty Box is differentiated from peers as it combines Burberry makeup, fragrance and accessories while blurring physical and digital experiences. This year we will continue to test the concept to evaluate the potential for standalone beauty stores, particularly in flagship markets and also travel retail. A second Beauty Box store is planned in Asia in 2015.

And we use Beauty Box as inspiration when designing our new Beauty Concept Counters for use in our own stores and by our partners, with the investment varying by type of door. The concept was launched to our partners in April and we will spend this year formulating rollout plans to new and existing locations, building on our existing base of approaching 100 counters. And as with fragrance we will scale non-traditional channels with NET-A-PORTER being an early example of our online presence for makeup.

As Christopher said we remain confident that our investment in beauty will be a key component of future growth. This first year of transition has been complex, but today our fragrance business is in great shape and poised for mid-teens annual revenue growth from 2016.

And the focus this year is on building out the full Beauty offer, developing makeup and preparing for skincare, planning for the physical and digital rollout of Beauty the Burberry way, moving as quickly as possible to capitalise on this opportunity while generating good returns on our investment; our Pay As You Go approach in action.

Thank you for your attention, let me now please hand over to Pascal who will talk through our exciting plans for transforming Japan. Pascal.

Pascal Perrier, Chief Executive Officer, Asia Pacific
Ohayou gozaimasu, irashaimase. In Japanese this means good morning and welcome. Indeed I'm delighted to talk to you today about our plans for transforming our business in Japan. In his introduction Christopher talked about always doing what is right for the brand and Japan is certainly the best illustration of this.

I'm personally very excited about this business opportunity. Prior to taking the role of Chief Executive of the Asia Pacific at Burberry in 2007, I worked in the luxury industry in Japan for more than ten years, and I have a clear vision and understanding of what Burberry can achieve in this fascinating market over time.

This morning I'll take you through the outstanding opportunity Burberry has now to develop in the second largest luxury market in the world, the exit process of the existing licence product, the opportunity for a new Blue Black Label licence, and very importantly our plans to grow our luxury business.

Today Burberry is among the largest and best known apparel brands in Japan. As you know this business is run under licence and is positioned very differently from our global collection anywhere else in the world, more premium than luxury and at lower price points. With the expiry of the licences in June 2015 Burberry now has an opportunity to build a fast growing luxury business in Japan, focused and built around the trench coat, our Britishness and our digital engagement.

The strategic rationale for the move to the global collection is compelling with four reasons. First, Japan is the last remaining market for us to integrate and align with our global brand strategies. Second, as I mentioned before, Japan is the world's second largest luxury market. When you include Japanese consumers shopping abroad, Japan represents 13% of the world's luxury market. Our peers generate about 10% of their global revenues in Japan while we are scarcely playing there. We also see strong growing inbound tourism to Japan, especially the Chinese customer.

The third reason is that the Japanese luxury market is growing once again which we see in our small own retail operations, while our licence income from Japan is flat. The last reason is that by doing direct we will elevate our brand to the level of our luxury peers locally, while taking the whole retail margin rather than just a small proportion through royalties. We will be able to generate good profits from a business aligned with luxury standards.

Let me remind you of our presence and the licence in Japan today. The Sanyo Shokai licence for Burberry Apparel has been in existence for about 35 years. It represents about 80% of our royalty income from Japan with estimated retail sales of over £500m over 500 points of sales.

The apparel is split in three areas. The local London collection, targeting more mature consumers, the childrenswear and the Blue and Black Label brands targeting a much younger consumer group, these two labels representing about half of the apparel royalty income. The remaining 15% is coming from other licences covering hosiery, handkerchiefs and umbrellas. All these licences will expire at the end of June 2015.

So, what will happen to our licence income? In fiscal '13/'14 licensing revenue from Japan was £62m. As Carol said earlier, we are expecting it to remain broadly unchanged at constant exchange rates this year, with about £10m negative impact from forex. The licence ends in June 2015 and we have developed with Sanyo to ensure an orderly exiting of the local products from the market.

By the end of September 2015 all the London Collection concessions will be closed. Inventory clearance will be carefully managed, mainly through the outlet channel of Sanyo Shokai, and clearance will be finished by June 2016. In terms of royalty, in financial year '15/'16 we will receive about £18m at current exchange rate relating to the remaining term of the licence and the transition period.

Because the Blue and Black Label brands are about half of the business, and because they are addressing a different younger customer base not a luxury customer, we considered options to maintain these businesses. Indeed we know that Blue and Black Labels are very successful lines in the Japanese market contemporary apparel, that there is a strong appeal for these labels, especially around the Japan specific fit, styling and assortments, that the consumer proposition is more associated with the terms Black and Blue, and understood as distinct from the Burberry brand. And finally, these brands are not seen as part of the luxury market.

These brands are also an important profit contributor to Sanyo Shokai and the department stores. We have worked with Sanyo Shokai to migrate these brands into a new licence agreement which will allow them to continue with no Burberry association, leaving the market completely free of Burberry branded licensed products. Let me share with you what details we can disclose at this stage.

The Blue and Black Label brands will be supported by a new non-Burberry association for Japan, with a phased migration starting from fall/winter 2014, completed with the removal of the Burberry brand a year later. We will own all the intellectual property rights of Blue and Black Labels, in return for which we will receive a royalty income under a three year licence, effectively starting September 2015. The royalty will be based on sales, with a minimum of around £10m at current exchange rates for the first 12 months.

With this arrangement we will capitalise on the proven brand equity of the Blue and Black Labels, preserving a successful business for consumers, Sanyo, department stores and generating a valuable stream for Burberry without compromising the integrity of our global brand in Japan.

To conclude on licences, these actions that I just described will result in the exit of all licensed Burberry branded product from primary distribution by September 2015.

Now let me share with you our plans to engage the core luxury customer in Japan with our global collection. Consistent with our strategy of retail led growth we will be active both offline and online. In Japan the department stores are dominant with about 80% share of the luxury market concentrated in the hands of a few large national names. This is reflected in the store counts of our luxury peers, having between 40 to 60 stores each, heavily weighted towards department stores and including some flagship stores in key cities to support the brand positioning.

Mindful of the experience of other luxury peers who have taken back their licences in Japan in the past, we have been thoughtfully preparing this transformation for many years.

We did set up our own retail operations about five years ago to build our brand and dedicated capabilities to understand the specificities of the Japanese luxury market. We have the full infrastructure in place to support our growth plans, from the team on the ground to SAP going live by the end of this September.

We have a small retail footprint with four standalone stores and ten concessions in department stores selling the global collection. This business has been performing very well, posting some of the strongest comparable sales growth of all of our markets in the last two years, demonstrating the appeal of the brand to the core Japanese luxury customer.

For completeness we have also a small wholesale business selling scarves and ties to Japanese department stores. Combined retail and wholesale generated revenues of about £25m, about 1% of our global revenue, and was breakeven in terms of profit.

As we prepare to more forcefully assert the brand's global luxury positioning in the market, we continue to build Burberry's offline retail presence. First we are securing exceptional real estate in key luxury worlds for freestanding stores. Strong brand statements including flagship stores aligned with our peers will signal our brand repositioning to consumers and department stores ahead of the licence expiry.

In 2013 we opened a new store in Roppongi Hills, Tokyo. This year we are relocating and expanding our Omotesando store in Tokyo. And within our three year plan time horizon we will have a flagship store opening in Osaka 2015, and a location secured in the high traffic area of Shinjuku in Tokyo for later that year. And we are actively looking for a flagship location in Ginza, Tokyo.

Secondly, on top of three real estate we are also gaining traction with key department stores to expand the number of concessions in this key channel, with a handful opening this year, while expecting about ten new openings in both 2016 and 2017. And in 2015 we will assume the operations for the childrenswear concessions run by Sanyo Shokai which are already selling our global childrenswear collection since fall winter 2012.

As in other geographies digital is also expected to play an important role in Japan. Our own site has been live in Japanese since 2011, and although small it is performing well, up 40% on last year, further proof of the global appeal of our global collection to the Japanese luxury customer. We have seen excellent engagement with our Runway Made to Order, Japan representing around 10% of global orders to date. We will integrate digital technology with the physical stores, as we do globally. Finally we are exploring opportunities with third party digital partners.

We are also actively working on the significant opportunity for Beauty in Japan which is the second largest beauty market globally. We look forward to sharing our plans at an appropriate stage for Beauty.

As we build our business offline and online we will communicate the change to the core luxury customer by investing more in marketing. We will do this in the same way we have successfully repositioned our image and turned around our brand in China, using the tools illustrated on this slide. Always centred around the trench coat, our icon and our heritage, with key brand moments such as the Kerry Centre lounge, with innovative use of social media and outdoor sites supplemented by extensive PR.

This will be replicated in Japan, phased appropriately as the store base grows, and we already started elevating our brand's image, for example using out of home in flagship cities and building our PR presence. With the appropriate retail presence supported by our globally consistent marketing we will be effectively re-launching the brand in Japan.

Looking out to fiscal year 2017, our three year planning cycle, we expect retail revenues to be over £100m with incremental profit of about £25m. Over the longer term we will move to our vision of having a highly profitable business which could represent about 10% of our global revenues in line with our peers, with an appropriate mix of offline and online retail, Apparel Accessories and Beauty serving the Japanese consumer both at home and abroad.

Now it's time to say arigotatou gozaimasu which in Japanese means thank you very much. The transformation and growth of our brand in Japan is a very exciting opportunity for us. I will now hand you back to Christopher. Thank you again.

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Christopher Bailey, Chief Creative and Chief Executive Officer
I do not speak Japanese.

Laughter

Thank you very much Pascal for that overview which conveys the significant opportunity we see in Japan, and the great progress that the teams have already made in laying the foundations to capture that potential in the months and the years ahead.

So in conclusion we have completed another strong year and begin this new phase energised by the opportunities ahead, not least in the areas of Beauty and Japan as highlighted today. With great brand momentum and a focused vision for the future we are looking ahead with confidence. Thank you all very much for listening and now I'll ask Carol, John and Pascal to join me to take any questions that you may have.

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Questions and Answers

Mario Ortelli, Sanford Bernstein
Two questions if I may. The first one is about the brand positioning of Burberry. You mentioned that the brand is having a great brand momentum, and from what I've seen you're trying to elevate the brand. What is the target positioning that you are aiming for on the brand? And how will you arrive there, cutting down more entry prise point product, opening new stores? Do you not feel the risk to retaliate (?) some of the accessible or aspirational consumers?

The second question is about EBIT margin. What is your long term target for the EBIT margin, because we have seen that in these areas it was more or less flattish and stable? Thank you.

Christopher Bailey, Chief Creative and Chief Executive Officer
So I will answer the first question and then I will pass the second question over to Carol. You talk about brand and elevating the brand, absolutely, that has been a continuous strategy over the past eight years of elevating the brand globally.

We are doing that in many different ways. We have a pricing pyramid that remains very strong. Heritage that we talked about earlier will continue to go across the pricing strategy. We have opening price points and Beauty is a very good example of how we see our luxury business expanding, making sure that we keep the brand momentum but it gives an entry for a young, luxury consumer.

Digital is also something that we've put a lot of focus on. It does talk to a younger millennial consumer. Still a luxury consumer and we've always chosen our digital partners, whether it be Tmall, whether it be Amazon, whether it be everything that we do on .com, to talk to that consumer. So it's not about taking away entry points, in fact Beauty I think talks to that, but it is about elevating.

Carol Fairweather, Chief Financial Officer
Yes, and in terms of EBIT margin, as we said this morning over the last three years we have delivered EBIT margin expansion. And as Christopher referenced it's absolutely one of our key priorities to continue to do that, balancing investment in the business to make sure that we drive profitable or long term sustainable revenue growth and profit growth in pounds millions, whilst continuing to grow the margin over time, but always doing what's right for the brand in terms of investment to drive that long term growth.

So we haven't put a number on it. We know that there is absolutely opportunity to go for and we're absolutely very focused on driving that and we'll continue to look to do that, you know, over the next years, but we haven't put a number on it. I mean we're very focused as a management team in terms of that's where we need to go, productivity efficiencies, there's lots to go for, but we haven't actually put a number on what the end goal will be.

John Guy, Berenberg Bank
A few questions please. First of all staying with the opex and also the retail wholesale gross margin, when you look at the performance from FY'11 to FY'14, you've had about a 340 basis point increase in your opex as a percentage of sales, and you've had about a 530 basis point increase in your retail wholesale gross margin.

So when we think about the evolution over the course of the next three years, a little bit of dilution running through within the Beauty business, albeit coming from a very low base so a strong opportunity, when we think about the investment in infrastructure and digital and also you know quite a step change in terms of what's happening within Japan, how does that relationship evolve over the course of the next three years between the opex and the gross margin, especially I guess within the context of maybe driving up your ASPs by anywhere between 8% and 9% consistently over the last five years? That's my first sort of part question I suppose.

Secondly with regards to Japan, and talking about the right sizing the business and potentially getting to a range of about 45 to 50 stores, your predecessor talked about 50 to 75 stores, so are you just effectively looking at the moment at the basic footprint of around 8 to 9 flagships if you like and about 40 or so concessions? And is there room to maybe take that further?

And also what is the mix likely to be in Japan? That may be a question for Pascal. Certainly looking at some of the flagship stores we've seen, Prorsum as a percentage of sales would be particularly high in some of your newer flagship stores, maybe in excess of 25% to 30%, so well ahead of the Group average? Maybe you could talk about that.

And finally just with regards to your working capital and cash. You know very strong result this year especially with over £60m of inventory in Beauty. You've talked about a progressive payout ratio increasing to 50%, is it too early to talk about buybacks in addition? I mean there's a lot going on, but is that something that we could also potentially look forward to? Thank you.

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Carol Fairweather, Chief Financial Officer
Okay, I'll take the first one.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Okay so part one Carol will take.

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Carol Fairweather, Chief Financial Officer
Yeah, I mean absolutely we've driven that EBIT margin expansion through gross margin, and as you said opex has gone up. But that largely reflects a lot of the shift in the business model, you know from what was much more of a wholesale business to a retail business. So a lot of that is in there in terms of the way the margin has shaped.

I've talked over the last year about the fact that we have made good progression in gross margin and we now begin to see that moderating which is why I believe the expansion will come over time from opex, but continuing to balance that level of investment to drive, you know, the comp sales growth we posted last year of 12% was an outperformance, but is absolutely driven by the investment we've made in digital, in customer, in flagship markets. And so for us it's a combination of balancing that top line sustainable growth with profit in pounds million, whilst looking to drive that margin forward.

So moderating on gross margin I would say going forward, looking to get opex expansion or expansion from the margin from opex saving as we drive efficiencies over time, but continue to invest to drive that top line quality sales growth.

Christopher Bailey, Chief Creative and Chief Executive Officer
And in terms of Japan, Pascal will add more detail but our strategy remains that we are looking for the right locations, the right locations for both our own standalone flagship stores as well as the right partners in wholesale. And Pascal has very strong relationships in Japan having worked there for over ten years, and has an incredibly strong team in the region building those relationships with the right partners. We're also looking digitally and have started to build up some very significant relationships with digital partners in Japan. So it's a three tier approach as well as a very strong digital social strategy that we have got in the region.

Pascal, do you want to go into a little bit more detail?

Pascal Perrier, Chief Executive Officer, Asia Pacific
Yeah, thank you Christopher. Yes, as far as Japan is concerned and the store network is concerned, you know it's first and foremost about the quality. We consider us as newcomers in this market although we've been there learning, building capabilities over the last five years. Nevertheless we'll have to show our face under a certain angle, big brand statements with flagship stores where Japanese customers can discover Burberry because they've never had that in the past and then partnerships with department stores.

So the number we quoted in the presentation is, you know, our vision for 2017, aligned, or directionally aligned, with peers we might be missing some doors compared to big players there. But the point we need to keep in mind is that the key challenge for us in Japan will be to unlock department stores, and it takes time. This is a country where these things take time. We have hired a new GM; he is going to join us next month. Super seasoned and expertise in relationships with department stores, but we do not want to do anything short term, anything stupid. We are there for the long term. We want to do our brand statements. We will never accept a secondary space from a department store just to be there.

The other thing we need to consider when it comes to the merchandising mix, yes we are not going to convert the premium Japanese customer into luxury customer. We are going to target directly at the luxury Japanese customers. And for that reason in the short term we might have a more elevated merchandising mix than anywhere else in the world. But over time we expect this to be fairly aligned.

Carol Fairweather, Chief Financial Officer
And then in terms of working capital, your last question John, in terms of last year we were pleased because I mean inventory on our core fashion business you know only grew 10% compared to the 15% retail sales growth. We have got £400m worth of cash on the balance sheet. Don't forget the £160m worth of lease commitment which you know effectively you put that on the balance sheet as a form of debt.

I think the Board felt that moving to a 50% dividend payout ratio over the next three years demonstrates our confidence in the underlying business. But at the moment we do feel it's appropriate to carry that cash on the balance sheet given the fact that we have growth and investment plans ahead. So nothing new to talk about in that space today.

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Will Hutchings, Goldman Sachs
Good morning. I've got two questions, they both are about growth. The first is like for like, I mean you talk about driving sustainable growth. I mean the 12% like for like you've done recently is pretty exceptional. I wonder if you could help us understand, you know, what's the sustainable like for like and what are the drivers of how strong it's been recently, you know just to understand how it may change over the next couple of years?

And regarding digital as well, you know you talk about digital a lot and it sounds incredibly exciting with all the way that you brand your product. I wonder if there's any way that you can help us understand what it actually does for revenue. Is it driving better conversion? Is it driving more customers into your store? Or is it that you're just driving the growth because of pure direct sales, ecommerce - because presumably it's a combination of those? Thank you.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Thank you. So your first question about growth, our strategy is to outperform. We can't give any numbers on the way that we aim to do that. We've got some very strong strategies that we've had in place for several years. We continue to develop those strategies and we deal with them in a very dynamic way. Not dissimilar to what Pascal was just saying about the stores in Japan, we find the right - we manage with them in a dynamic way to make sure that we are finding the right locations at the right time. If it's not the right location then we won't go into them.

What we're trying to do is to make sure that the product strategies are in line with the growth. For example, menswear, we talked about the building of menswear as a product category. The menswear business is currently 30% of our total, remains a huge focus as well as non-apparel in menswear which has now become I think 20% of our total non-apparel business. We continue to try to outperform in all those different areas.

And Carol, I wonder if you want to …

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Carol Fairweather, Chief Financial Officer
I mean in terms of digital, I don't know if you want to take that one, but in terms of how we measure that.

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John Smith, Chief Operating Officer
Yeah digital, I mean the brand has been known, as you know, for being innovative in digital for a long time. I mean three years on the run for the L2 fashion IQ Index the brand has been number one. And any time you look at the brand, touch it, feel it, read about it, digital comes over as a key source of inspiration. It's a key piece of innovation about everything that the company stands for. And that's the place to start really in thinking about the role that online plays in what the company does.

Obviously the centrepiece of our strategy is Burberry.com. It's the thing that matters most, it's where we want to drive traffic, it's where we make an increasingly high number of sales, it's very important in growing channel.

We don't pull out the sales specifically on Burberry.com because increasingly the experience that customers have is an online, offline journey which weaves in and out of one and into the other. So it might start at home on a desktop looking at our site let's say, and then may end up with somebody going into a store thinking about buying, touching the product, talking to a sales associate. The actual decision to purchase may happen in a purely offline environment in the store, or it might happen in the store in an online environment because the sales associates have iPads with them, and increasingly we are selling through sales associates with an iPad helping customers work out what they want, and if we don't happen to have the right size or fit or colour, we can order it directly from Burberry.com in store.

So the fact that the whole thing is weaved and interweaved means that we don't want to pull out Burberry.com as a separate channel, although of course it is the centrepiece of the strategy.

The only other thing I'd say, and a key trend for the moment for us, is the world of third party digital is increasingly important. We've started this year with relationships with Net-a-Porter, with Amazon US as I've already mentioned, and just recently with Tmall. Very, very important indeed because those relationships or those companies rather are a growing source of online transactions for our customers, and it's important for us to make sure that our brand presence, the way that Burberry product looks on those sites has got to be as good as it is on Burberry.com.

Indeed if I could encourage you to have a look at our page on Tmall you would see that actually much of the effort has been to make sure that the experience the customer gets is that high level beautiful brand imagery that you would get on Burberry.com. But essentially these relationships do three things. They drive reach, they drive reputation and they drive revenue, and we want to do all three and work with as many third party partners that we can get that kind of relationship with.

Julian Easthope, Barclays Capital
Thank you very much. Yeah I've got three questions as well, although the first one comes in two parts.

Carol Fairweather, Chief Financial Officer
That sounds like four.

Laughter

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Julian Easthope, Barclays Capital
So starting off the first part is about Japan. It's more of a technicality this, when the contract comes to an end on 30th June presumably Sanyo Shokai will have a tonne of stock left in the stores. Will they be given a period to discount and disrupt - basically disrupt the brand for a further period of time?

Within the margins of Japan - sorry, within the margins of the current licence contract, I noticed on the perfumes that you had a central head office allocation that was removed. Does this mean that the ongoing licence will still have an 85% grace or EBIT margin moving forward? But that central overhead, does it disappear or is it reallocated back to the other divisions? So that's the first question.

In terms of management incentives, you get paid basically on pre-tax profit growth generally 10 to 15% on a three year compound basis. Now last year obviously you were affected by the perfume contract, this year by currency and next year by Japan. So the chances of you being incentivised by the current structure is quite difficult because you'll have three years presumably where you will not be able to achieve your incentives. So I just wondered whether or not those are kind of out-dated now and they're under review?

And the last question, as I look at the Board now it's massively changed over the last two years, and I just wondered how - I presume you had a Board meeting yesterday or thereabouts following the departure of Angela, and I just wondered how the Board meetings are going or how it's different, and how the decision making process has changed through all the changes? I see your chance is there as well. Thank you.

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Carol Fairweather, Chief Financial Officer
Pascal, do you want to …?

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Christopher Bailey, Chief Creative and Chief Executive Officer
Sorry, do you want to go into that first about our excess stock?

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Pascal Perrier, Chief Executive Officer, Asia Pacific
Yes, so as I said earlier we have been really working very thoughtfully with Sanyo to manage the orderly exit of all the apparel licensed product in Japan. So Sanyo has a network of outlets and the sale and the clearance of those products will be contained to these outlets stores, and by the end of June 2016 it will be finished.

Please note also that we have a word to say on how they dispose of inventory even in their own outlets. So all this is very tightly controlled. We spent an enormous of time to plan with Sanyo and they have a very good understanding what they have to do. So we feel very comfortable with that.

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Carol Fairweather, Chief Financial Officer
In terms of the allocation of costs Julian, I mean it's an allocation effectively of central costs that we have to put against the licensing business where we can see that it relates to that licensing business. So we will keep that under review. Clearly some of those, you know the time that Pascal has been spending on the Sanyo relationship may or may not be less, we look at that allocation every year and broadly it's come out at around an 85% margin on licensing, but we would keep that under review as we do every year, reflecting the amount of time that has been spent on the licensing business and what's the appropriate amount to allocate to that segment.

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Christopher Bailey, Chief Creative and Chief Executive Officer
And in terms of the Board, yes we've had quite a change having some new wonderful additions. We just announced today Carolyn McCall. The structure of our Board and the Chairman is here and will answer questions afterwards, after the Q&A; the structure of the Board remains the same. We have the same committees within the Board but we do have this new, very dynamic team of people that are helping us to advise in specialist areas including in media with Carolyn McCall and travel.

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Carol Fairweather, Chief Financial Officer
And I think there was one on management incentives. I mean that's a matter for the Rem Co obviously and you know they set the targets. We've said today that we didn't achieve our stretching internal target. We talk about pay as you go and this year, you know, in terms of Beauty we talked about that when we updated you at the interims on that number. And you know it's a matter for the Rem Co to set those targets, but clearly you know it is to incentivise management, and I think you know you can see today the management is very excited about the growth opportunities ahead.

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Louise Singlehurst, Morgan Stanley
Hi there. Quick question for you Christopher in terms of how you think about running the brand. Obviously there's many different things that you're doing differently versus the traditional luxury peers, particularly the leading initiatives on digital as one example. What do you actually think about in terms of your peer group? Presumably you're not looking at the luxury or the traditional brands. Can you just give us a bit of flavour how you think of the brand going forward?

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Christopher Bailey, Chief Creative and Chief Executive Officer
We were born from outerwear so we were born in a very different way to all our other luxury peers. We have always said that we are an old young company, almost 160 years old. Digital has been at the centre of everything that we do. We have stayed very true to that approach. It cuts across not only our customer interaction but it's also within our internal teams and also with our suppliers that we work with. So that is something that is a halo effect across the whole organisation.

We increasingly work across different areas and different industries. Music is a very important part of our DNA and we've built a world there, something very different to any of our peers. And that helps us to talk to a millennial consumer that we've always said that is very different to our other luxury peers. If we can talk to that new, young, upcoming luxury consumer then we get ahead of the game and we can continue to build things like Beauty.

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Louise Singlehurst, Morgan Stanley
Great, thank you. And Pascal, quick question on Japan before I hand over. Japan are obviously going to lose a lot of the local customers as they're used to the local product. What can you tell us about the luxury customer and what you've seen with the non-apparel business in the last few years? And when you think about Japan is there much of a tourist business for Japan? So how much would be ex domestic sales? Thank you.

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Pascal Perrier, Chief Executive Officer, Asia Pacific
Thank you. Yes, definitely we're going to target at the core luxury customer in Japan. Japan is the second luxury market in the world, USA is number one. The luxury market in Japan is about €17bn and it's growing again. Last year it is said that it has been growing at constant exchange rate of 12%, so there is a new dynamic there. The customer is certainly more demanding so it's going to allow us to elevate our standards of doing business, especially at retail globally. And it's a customer that is very keen and very interested on newness.

So now talking about the merchandising yes, historically Japan is very much geared towards non-apparel, so large leather, small leather, and we started five years ago focusing at this. And down the road we have seen that there is also a great opportunity for our own apparel, particularly the trench coat. So the way we see it, and this is in that sense that we will have a unique proposition in Japan, we will just come, you know, as a global brand like we are everywhere else in the world, with apparel driven by the trench coat in particular, and then accessories. So we will bring something definitely new to the market, and since the Japanese customer is definitely interested in something new, we are very confident.

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Louise Singlehurst, Morgan Stanley
And the tourist base sorry, just in terms of Japan?

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Pascal Perrier, Chief Executive Officer, Asia Pacific
The tourist base is Chinese tourism; inbound Japan is about 1.3 million last year. It's growing strong double digit so we see a great opportunity here. Overall Asian tourism in Japan has been growing 30% last year as well. So tourism is definitely an important opportunity, one more reason to align Japan with the rest of the world.

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Rogerio Fujimori, Credit Suisse
Thank you for taking my question. Carol, one of the questions is for you. Do you expect given all the investments in Beauty, Japan, flagship markets, and the comments from Christopher about increasing competition in luxury, your marketing to sales ratio to increase in the next two or three years?

And my second question is on underpenetrated markets. Do you see any - which underpenetrated markets look particularly interesting in terms of pipeline of important retail products in the next 24 months? Thank you.

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Carol Fairweather, Chief Financial Officer
So in terms of marketing spend, I mean yes we will continue - we talk about investing to continue to drive that top line revenue. You know the marketing spend per se; you know we've combined fashion and Beauty now so we've got a bigger pounds value of marketing. It's how we now use that really creatively to make sure we get a bigger bang for our buck.

And it's not just simply about old fashioned marketing spend, it's about digital, it's about investing in stores. And so we look at marketing one as a percentage of sales, we can track that number, but it's much broader than that now, particularly with digital innovation, with creative media. So we will continue to invest in all the right ways to continue to drive that brand momentum.

You know we don't specifically disclose that number as a percentage of sales and that's not how we manage it. We look at this pay as you go approach, making sure we're getting returns on our investment decisions, be it in marketing, in flagship stores, in digital innovation. So expect investment to continue, we're not putting an absolute percentage on it.

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Christopher Bailey, Chief Creative and Chief Executive Officer
And in terms of underpenetrated markets Japan is clearly our big focus this year and for the future, and we continue to put a big focus on the Americas as well. We have Los Angeles opening in the autumn of this year, and we're also doing a very big refurbishment in San Francisco, so we continue to put the Americas under a microscope as well.

I think we've got time for just one more question.

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Warwick Okines, Deutsche Bank
Thank you, good morning. Two parts to my question please. As well as underpenetrated markets, Christopher you talked about travel retail as an opportunity. Could you just give us some thoughts about where the opportunity lies there?

And then maybe one for Pascal, could you talk about the Chinese market, mainland Chinese market, how has that market changed in the last year? And looking forward, what areas of self-help do you particularly identify that you have that will enable you to continue to outperform?

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Christopher Bailey, Chief Creative and Chief Executive Officer
Okay, so the first one, in terms of travel retail we have just hired somebody who will take care of all our airport strategies. That's a very big part of our ongoing movement for travelling consumers. And not only on a retail presence, but also the advertising and marketing that we can do as we get that travelling luxury consumer.

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Pascal Perrier, Chief Executive Officer, Asia Pacific
As far as China, indeed we are very satisfied with our performance over there. You mentioned self-help, and yes we've done a lot of - we had plenty of initiatives in mainland China that allow us to perform. Just for you to know since we acquired this market back to September 2010 we bought about 50 stores and we closed 30 of them. And all the new stores that we have opened are driving very strongly the like for like and of course are outperforming all the legacy stores.

So we continue to help ourselves doing this. This is not only a revenue game; this is also to elevate our brand. The Kerry Centre launch is the perfect illustration of that. And also in China we are awarded by L2 think tank for being the most innovative company digitally in the fashion luxury sector. So we play - we have a large number of initiatives to support our growth.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Thank you very much indeed everyone for joining us today. We really appreciate you taking the time out. We do have a lot of the senior team here who are around if you need to get any more detail, and thank you again.

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