

WORLD TELEVISION

Burberry

H2 Trading Update
16th April 2014

BURBERRY

Carol Fairweather, Chief Financial Officer

Fay Dodds, Vice President, Investor Relations

QUESTIONS FROM

Thomas Chauvet, Citigroup

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John Guy, Berenberg Bank

Vic Mohan, ISI Group

Ashley Wallace, Merrill Lynch

Louise Singlehurst, Morgan Stanley

William Hutchings, Goldman Sachs

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Melanie Flouquet, JP Morgan

Annabel Gleeson, Redburn Partners

Chris Walker, Nomura

Key Highlights

Carol Fairweather, Chief Financial Officer

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

We are pleased with our second half performance, with total revenue up 19% underlying and Retail, which is over 70% of Group revenue, up 13% underlying. Retail comps grew by 12% in the half, which was in line with our expectations and as we discussed in January was driven by our planned investment in store, in digital, in customer service and in marketing.

Asia Pacific delivered double digit comp growth with Mainland China up just double digits, continued strength in Hong Kong and good momentum in Korea.

Americas and EMEIA saw mid to high single digit growth. In EMEIA there was continued growth in transactions from Chinese consumers, offset by some weakness from Russians and Brazilians.

Globally we benefited from our focus on driving Retail productivity, with higher conversion rates both offline and online, serving our customer however they choose to connect with us, with a further increase in penetration of iPad sales in store and collect in store, and further elevating the brand for the core luxury customer in leather and exotics for example, whilst pursuing opportunities at opening price points in areas such as beauty and small leather goods.

Wholesale, excluding Beauty we saw 11% underlying growth, ahead of our guidance as some deliveries occurred slightly earlier than expected in the fourth quarter rather than the current first quarter, and there was slightly higher than expected in season reorders.

Beauty delivered full year wholesale revenue of £144m in its first year of direct operation; underpinned by a now well established infrastructure and team and the Brit Rhythm launches.

And finally Licensing which delivered 2% underlying growth in line with guidance, though down 9% on reported FX.

Consistent execution around our five key strategies underpinned this performance. Under Leverage the Franchise, brand momentum remains strong. Our core outerwear and large leather goods drove half of mainline growth, while key looks from the women's spring/summer Prorsum collection, which featured in the main advertising campaign, sold out quickly; demonstrating the strength of our brand with the luxury fashion consumer.

Under Intensify Accessories, if you exclude Beauty, Accessories was our fastest growing product division in the second half, with increasing penetration of non-check and over 20% growth from men's accessories, nearly twice the rate of women's.

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Under Retail Led Growth we opened 11 mainline stores and closed nine, giving us a year-end total of 215 stores, up from 206 a year ago.

In Underpenetrated Markets we opened a net nine stores in Mainland China, giving 78 at the year end and we'll continue to evolve the real estate portfolio there, reflecting changing consumer shopping patterns and our digital initiatives in the market.

And finally under Operational Excellence, Burberry World was rolled out to supply chain partners, to give access to brand content and product information through a single portal.

Turning now to the guidance we gave in this morning's statement, let me just highlight a few points. For Retail we again expect net new space to add low to mid-single digit percentage growth to total Retail revenue for the year.

For Wholesale, excluding Beauty we expect revenue at constant exchange rates to be broadly unchanged in the first half, however adjusting for the impact of the re-phased deliveries and ongoing strategic initiatives, such as the conversion of Wholesale to Retail in Canada and Thailand, and the ongoing account and door rationalisation in Europe and US menswear the growth would be around 5%.

Also this time as a one off, we are providing full year guidance for Beauty, our fifth product division, to help you build your models in the year following transition. We are planning for around 25% wholesale revenue growth in Beauty at constant exchange rates in the full year, supported by a new women's fragrance launch this autumn.

And Licensing revenue for FY 2015 is expected to be broadly unchanged at constant FX, but down around £10m at reported FX.

And finally on foreign exchange, as you are all aware sterling has appreciated quite significantly in recent months against our major currencies. As well as the £10m impact on Licensing I have just mentioned, if exchange rates remain at current levels there will be a material adverse impact on reported Wholesale Retail profits in FY 2015.

To help you quantify this in your models we estimate that as an indication rebasing FY 2014 Retail Wholesale profit for current exchange rates would reduce reported profit by around £30m. And this is the new level from which to apply your growth rates at constant FX. And this FX impact would be bigger in FY 2015 as we continue to grow the business globally.

So in summary we are pleased with our second half sales performance and while FX could be a material headwind this year we are confident in our underlying growth strategies for FY 2015 and beyond.

So Fay and I will now be happy to take your questions.

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Questions and Answers

Telephone Operator

Thank you Ms Fairweather. If you would like to ask a question at this time please press the * followed by the 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question.

We'll now take our first question from Thomas Chauvet of Citi.

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Thomas Chauvet, Citigroup

Good morning Carol and Fay I've got three questions. The first one on FX, the £30m profit hit for next year you refer to, I assume this is a net impact taking account of your opex budget. I would have thought given your high opex base in China and the US, and perhaps some early investments in Japan that this would have partly mitigated that hit? Also will you be getting some benefits on your cost of goods from the current FX evolution?

Secondly on the guidance for Beauty, 25% growth in FY '15 that's very strong; can you give us your best estimate of what is the underlying growth rate if we adjust for the effects of channel stuff and a buffer ahead of the integration? And also tell us whether this guidance includes a significant space growth component in terms of number of fragrance doors, the way you've reorganised the distribution, perhaps additional makeup doors driving that growth?

And thirdly on Wholesale, so your clean Wholesale growth guidance for H1 is plus 5, if I understand correctly that defers once again, materially from the strong growth you're experiencing in Retail. Could you comment on the mood of your wholesale partners in Europe and the US and perhaps also just give some colour specifically on Beauty, on the nature of the discussions you have with these partners? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay, hi Thomas. So just in terms of your question on FX, just to be clear the £30m that we talked to in the statement this morning is rebasing the expected 2014 profits at current exchange rates. Clearly that would grow further the FX impact if current rates persist as you grow the business going forward.

Your question to why we're not seeing any offset in operating expenses - we are seeing some offset in operating expenses, compared to the turnover hit. But of course around 40% of our costs are based in the UK in sterling, and so we don't get the offset in terms of any rebasing of the UK operating cost base. So that's really why the £30m is the size that it is.

In terms of any benefit from hedging, there will be a small benefit next year in terms of our cost of goods as we hedge that six months and 12 months forward, but remember our cost of goods is just a small component of our overall operating cost base and

therefore there is a small benefit there, but the net £30m is the impact of retranslating the revenues that procurement and then the offsetting opex saving.

On Beauty, I don't know Fay if you want to take that one just in terms of the guidance.

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Fay Dodds, Vice President, Investor Relations

Yes exactly, so the guidance of 25% at constant FX is our current best view of what's happening in that business, and it takes into account the launch of the new fragrance we have coming up in September, continuing growth from existing fragrances, particularly around the Brit Rhythm launches and some channel clean up on the fragrance, particularly in Asia. So it's a combination of all of those factors.

There is a little bit of growth coming through from makeup, but actually the majority of that growth in 2015 is driven by fragrance rather than makeup.

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Carol Fairweather, Chief Financial Officer

And then just on your Wholesale question, so the 5% number we referred to, having adjusted for those earlier deliveries and some of the conversion from Wholesale to Retail; I mean you asked what the mood of the wholesalers is? I think there's nothing different to call out. I mean in Europe there's still softness we see in Southern Europe, in Americas there is some growth, but we've got that conversion of Holt. Travel retail is still an opportunity for us with Wholesale, but no new news really in terms of any emerging trends compared to what we've seen previously.

And then you also asked about Beauty, that Wholesale number excludes that Beauty number, the Beauty number we've guided to separately being that 25%. And obviously we're pleased with that number and that reflects the conversations we're having with our distributors and the fact that we've got this new launch coming, new women's fragrance in September.

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Thomas Chauvet, Citigroup

Thank you.

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Telephone Operator

Our next question comes from Paul Swinand of Morningstar.

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Paul Swinand, Morningstar

Good day and thanks for taking the questions. Just with a follow up on the last question - you're really not seeing anything different in Europe, I think a lot of companies have said they are seeing some improvement, even I think L'Oreal said yesterday Southern Europe looked a little better. Is it really just status quo or is there some sign of change?

Carol Fairweather, Chief Financial Officer

I was talking specifically about our Wholesale customers there Paul, which are those smaller specialty stores in Southern Europe, and no we're not seeing anything different to the patterns we've seen over the last couple of years.

Paul Swinand, Morningstar

Got it, so in your own stores maybe there's a little improvement in the overall traffic and just the buying mood?

Carol Fairweather, Chief Financial Officer

Nothing really to call out either in our own stores.

Paul Swinand, Morningstar

Okay, and then with - you have had a significant number of openings and closings and a lot of the other companies are talking about maybe needing to rejigger their store footprint in China and Asia. Are you sort of ahead of that because you're later in the cycle of the way you're developing your stores and that you've been ongoing opening and closing for a number of years?

Carol Fairweather, Chief Financial Officer

Yeah, I mean we continue to evolve our store portfolio globally. I mean specifically in China remember we only brought the business back you know three plus years ago, so there we've been rolling off the acquired stores as they came to the end of their leases and focusing our investment in the larger flagship markets, particularly in China.

I would call out Shanghai this year where we've opened, you know, we've now got eight stores, but specifically we've opened our big flagship Kerry's Centre in the last month or so. Really making sure that we're appropriately represented in China; both for the travelling Chinese which is one of the patterns we're seeing, a lot of people coming out of other cities into those key flagship markets; and also making sure that we're properly represented in China so when the travelling Chinese go abroad they get that consistent brand experience. So I think it's just the constant evolution of our store portfolio in line with the strategies that we have set out, nothing different to call out really.

Fay Dodds, Vice President, Investor Relations

And I think we've talked to you about an investment that we are making within China, in digital in terms of fulfilment and payment options and that will go live later this year. And that's a key trend for us as well, because the Chinese consumer, the luxury customer is younger than the Western luxury customer and very digitally savvy.

Paul Swinand, Morningstar

Excellent. And really quick if I missed it, the Retail comp stories are very strong, but that would be including Beauty?

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Carol Fairweather, Chief Financial Officer

No, well it's our own Retail - there is a small element of Beauty within our own retail yes ...

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Paul Swinand, Morningstar

But it's very small, it's insignificant? Okay. And is that being driven do you think by the newer stores or is it pretty much across the board that performance is stronger, or good double digit?

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Carol Fairweather, Chief Financial Officer

Yeah, I mean we've focused very much on our flagship markets and we're seeing nice growth out of those flagship markets. Remember that number includes digital as well, so that's the digital number where people shop off iPads in store as well as at home. Really making sure that number is underpinned by that digital investment, making sure that we can service that consumer however they want to shop Retail, both online and offline. And we're seeing a nice uptick in conversion, again, in both online and offline.

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Paul Swinand, Morningstar

Great, thank you again and the best of luck.

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Carol Fairweather, Chief Financial Officer

Thanks Paul.

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Telephone Operator

Our next question comes from John Guy, of Berenberg.

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John Guy, Berenberg Bank

Good morning Carol just a few questions from me please. With regards to the conversion rates that you've been seeing online and offline, I think you mentioned that the conversion rates have gone up across both channels. Could you maybe talk a little bit about how they're evolving, what the difference is between the two channels to start with please?

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Carol Fairweather, Chief Financial Officer

Yeah, I mean we don't - you know we've talked before John about the fact that we think of Retail as being both online and offline, so we're not splitting out digital other than to say that traffic was up on digital while it was down offline, but conversion is up in both channels. And I think that's testament to customer service, to the product assortment, to all of those things that we've talked to you about but nothing specifically, we're not going to actually disclose the conversion rates offline versus online, except to say we've seen a nice uptick in both.

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John Guy, Berenberg Bank

Okay great. And then with regards to the 12% Retail LFL, could you maybe talk about the volume and value components within that LFL?

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Carol Fairweather, Chief Financial Officer

Yeah I mean again we saw an increase in both volume and value. I think in this half it was slightly more weighted towards volume than we have seen in the past. We've talked about broadly being happy with the shape of the pyramid now and the way in which our pricing structure has evolved and the elevation has happened over the last few years. So a little bit more from volume in this half than we would have seen previously, but growth in both.

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John Guy, Berenberg Bank

Okay, great. And then with regards to your successful strategy in China in terms of repositioning some of the old franchise stores; I know that last year the focus was very much on Shanghai, where are you focusing your attention going forward into the FY '15 year, in which cities?

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Carol Fairweather, Chief Financial Officer

I mean again we'll be closing some of those smaller stores and opening - I haven't got the numbers here Fay, do you know which cities - have you got the details?

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Fay Dodds, Vice President, Investor Relations

If you look actually at what we're doing during 2015 there's no sort of big flagship investment and we'll actually be closing more stores than we're opening. Especially we'll be pulling out of those old acquired stores in some of the smaller cities; you know the evolution of what we're doing. Again, as Carol said because - we're concentrating on the flagship markets where the Chinese luxury customer goes when they shop and because we're starting with the rollout of digital in China.

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John Guy, Berenberg Bank

Right, so when we think about the store count for the end of the FY '15 year for Mainland China, I think you said to date you were up plus nine to 78 stores. So should we be thinking ...

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Carol Fairweather, Chief Financial Officer

That will be drop down - that will actually drop down John as some of those older stores roll off, so I think we'll end up at sort of early 70s, 72, 73, something like that probably.

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John Guy, Berenberg Bank

Okay that's fantastic, thank you very much indeed.

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Carol Fairweather, Chief Financial Officer

Okay thank you.

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Telephone Operator

Our next question comes from Omar Saad of ISI Group.

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Vic Mohan, ISI Group

Hi, thank you this is Vic Mohan in for Omar. I was wondering if you could talk a little bit about the Americas market and what you're seeing there and perhaps your outlook for the rest of the year? Thank you.

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Carol Fairweather, Chief Financial Officer

Yeah, I mean in terms of Americas as we said - I mean we posted in the half again a mid to high single digit comp in Americas, so we were pleased with that, unchanged in Q4 from Q3. I would think the one thing that I would call out in Americas is that, you know, again as it was globally digital outperformed and we continued to see a higher penetration of digital in Americas than we do elsewhere in the world, which is consistent pretty much with what everybody else is seeing. But the one thing I would call out is that digital is doing very nicely for us in the Americas.

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Vic Mohan, ISI Group

Thank you. And could you also talk a little bit about tourism trends, specifically here in Europe, and whether those are continuing from 2013 and what are your expectations for the rest of 2014?

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Carol Fairweather, Chief Financial Officer

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We're still seeing a nice number of Chinese tourists in Europe; you know I've just mentioned briefly that we've probably seen a little bit of a decrease in Russians and Brazilians in this last few months. But I mean for us the travelling luxury consumer in Europe in those key flagship markets is very important and we have seen a continued increase in tourist transactions.

Vic Mohan, ISI Group

Thank you.

Telephone Operator

Our next question comes from Ashley Wallace of Merrill Lynch.

Ashley Wallace, Merrill Lynch

Hi, I was just wondering if you could answer a few questions on space growth. Can you please give us some colour on why revenue contribution from new space decelerated to only 1% in the second half versus 4% in the first half? Was that timing related or what drove that slowdown?

And then can you please also give us some indication of what growth was in square footage for the period? And then lastly on your guidance for 20 to 25 new mainland store openings in 2015, can you talk about the size of those stores relative to your current portfolio?

Carol Fairweather, Chief Financial Officer

Yeah, I mean in terms of the space growth in the last half Ashley, we guided to 3% - we guided to low to mid-single digit contribution from new space in this year and we've ended up over the year delivering 3%, which is in line with what we were expecting. Quarter by quarter it's quite volatile or uneven due to the sort of numbers of openings and closures. So I wouldn't read anything specifically into the quarterly number. I think more to focus on the fact that across the year as a whole we've delivered in line with our guidance and our own internal plans.

And then as we look forward we're not giving square footage guidance going forward, which is why we're actually guiding to the contribution from new space. And again next year as we look out we believe that will be again low to mid single digit percentage.

And in terms of the new stores, Fay?

Fay Dodds, Vice President, Investor Relations

Yeah, I mean it's a year really of smaller openings; the only sort of big flagship store we've got is Rodeo Drive, which opens in the second half. Otherwise it's travel retail which tends to be quite small, some relocations in the Middle East. So this year the

openings will be smaller than perhaps they have been historically because we've only got that one big flagship store.

Don't forget however that the contribution to retail revenue growth that we're seeing, the low to mid single digit that Carol talked about, that is partly new store openings this year, but also the annualisation of the openings last year.

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Ashley Wallace, Merrill Lynch

Okay, thanks for that.

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Telephone Operator

Our next question comes from Louise Singlehurst of Morgan Stanley.

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Louise Singlehurst, Morgan Stanley

Hi morning Carol, morning Fay. A couple of follow ups for me then please. So firstly just on the like for like, great number on the 12% underlying. Just to clarify obviously some of the peers have been talking about Japan being particularly strong in Q1.

Remind us, you've only got about what 14 DOS in Japan, obviously it's still relatively small for you, I'm just trying to work out the impact there.

Secondly thinking about the cost items for the year ahead, you just touched on Rodeo Drive opening, but any other big projects - I presume now that the Beauty transition is really behind us, but anything else that we're missing? And as I've got you, lastly are we still on track for an update on Japan next month, thanks?

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Carol Fairweather, Chief Financial Officer

Yeah, so first of all just on your question on Japan in our Q4, you know calendar Q1, remember, as you said we've got about 14 DOS, we're tiny in Japan compared to the rest of our peers and ourselves globally in terms of the luxury global collection. So we did see a little uptick, but again off a very small base, so no material impact on our numbers.

In terms of the cost items as we look forward we've got Rodeo Drive, and remember the capex spend in any one year doesn't necessarily reflect just the openings in that year, but will reflect upcoming openings. So we've got - you know our Korea flagship coming in the next year, so we'll have a lot of capex spend next year on that. But nothing specific to call out about and we'll come back and just confirm where we ended up on cash capex for the year and our guidance for next year in May.

And yes absolutely - in May we will be sharing with you our plans for Japan, where we've shared with you the high level strategy but we'll come back with more colour on that in May. But we're making good progress there.

Louise Singlehurst, Morgan Stanley

Super, thanks.

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Telephone Operator

Our next question is from William Hutchings of Goldman Sachs.

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William Hutchings, Goldman Sachs

Good morning, I just wanted to ask on the message for next year on profitability. Obviously you're giving us very clear help with the translation impact of FX, could you talk us through what you think is implied with underlying margins, both at gross and EBIT margin, you know is it still in place that you're looking at underlying improvements year on year?

And also in the guidance for stores for next year, does that include any openings, incremental in Japan, or are we going to hear that message exclusively in May? Thank you.

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Carol Fairweather, Chief Financial Officer

So on profitability for next year Will we're being very, hopefully helpful, in terms of our guidance if current exchange rates continue from where they are now. But what we're focused on is the underlying growth obviously and there yes we will be looking, as we always are aiming to do, to continue to deliver modest Retail Wholesale margin expansion. And on an underlying basis that is absolutely our expectation.

Of course on a reported basis when you factor in the impact of FX, given the impact that it will have on the top line and the fact that as we've talked to this morning, our cost base - there's 40% of that fixed in sterling, on a reported basis at current exchange rate the maths simply suggests that we will not be reporting Retail Wholesale margin expansion, but we will be focusing on ensuring that we continue to deliver that modest expansion on a constant basis.

In terms of the stores for next year in Japan, Fay?

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Fay Dodds, Vice President, Investor Relations

Yeah the space guidance, or the contribution to Retail revenue that we've given actually does include a couple of new openings in Japan, but nothing material.

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William Hutchings, Goldman Sachs

Okay, thanks very much.

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Telephone Operator

As a reminder, to ask a question please press *1 on your telephone keypad. Our next question comes from Julian Easthope of - Barclays.

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Julian Easthope, Barclays Capital

Yeah, hi everyone. Almost changed jobs then.

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Carol Fairweather, Chief Financial Officer

It's a promotion

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Julian Easthope, Barclays Capital

Most of my questions have been answered but I just wanted a couple of questions. First of all this is the second year of low to mid single digit growth in terms of space, and yet your medium term was mid-single digits. I just wondered whether - you seem to be sort of closing almost as many as you open now, whether or not that low to mid single digit is probably more likely for the medium term?

The second question is on Beauty. Last year in the first half it was obviously really depressed by the huge selling that Interparfums have put through on the first quarter. I just wonder if you can sort of just give us a guide as to what you think the first half/second half split would be on the Beauty numbers? And yeah, that's it, thank you.

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Carol Fairweather, Chief Financial Officer

Okay. Well on the space question Julian, yes I mean we are guiding to low to mid single digit contribution from new space next year. I mean as we look forward in our three year plans we talked about middish, you know roughly 5%, but you know we'll continue to update you as we evolve the store portfolio and, you know, firm up our space expansion plans. But no change to strategy and nothing specific to call out today in terms of real estate.

In terms of Beauty, I mean we're guiding for the full year number in terms of 25% growth. I mean broadly I expect that to be pretty evenly balanced between the halves, but we can come back and share more with you as we -

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Fay Dodds, Vice President, Investor Relations

Pounds million?

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Carol Fairweather, Chief Financial Officer

Pounds million, yes, in terms of absolute pounds million. Obviously the growth will be higher in H1 given the fact that - the issue we had in H1 this year, but in terms of how the revenue will actually split over the course of the year, we expect it to be broadly balanced between the two halves.

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Julian Easthope, Barclays Capital

So just to clarify on that, therefore it works out to about 180 million, so 90 first half and 90 second. But does that mean you have no growth therefore for second half on second half?

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Carol Fairweather, Chief Financial Officer

It really depends on the weighting. I mean it depends on we've got that - we've got our big women's fragrance launch in September of this year. The year we've just reported don't forget we had two launches. So we're really looking at it on a full year basis, and that's why we're guiding to the 25% on the full year basis.

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Julian Easthope, Barclays Capital

Okay, but then of course your next perfume launch is in September, I guess that comes in the first half as well so.

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Carol Fairweather, Chief Financial Officer

Yeah.

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Fay Dodds, Vice President, Investor Relations

Yeah exactly, and then we don't have the repeat of the second.

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Julian Easthope, Barclays Capital

Second, yeah.

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Fay Dodds, Vice President, Investor Relations

You had significant selling, so this business will always be very lumpy depending on, you know, when you have those launches.

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Julian Easthope, Barclays Capital

Brilliant, thank you ever so much. Have a good day.

Carol Fairweather, Chief Financial Officer

Okay, thanks Julian.

Telephone Operator

Our next question comes from Rogerio Fujimori of Credit Suisse

Rogerio Fujimori, Credit Suisse

Oh hi everyone. In the January call you flagged modest outperformance of Brit, so when we think about outerwear and handbags specifically, is Brit now outperforming London and what do you see in your autumn/winter order book - and just trying to think about average selling price momentum for this year following strong gains in recent years?

And my second question is on wholesale guidance. You're seeing mid single digit growth for the first half, any colour on what level of growth you're expecting from department stores, duty free and franchise with stores in emerging markets? Thank you.

Carol Fairweather, Chief Financial Officer

Your question on Brit and London Rogerio, we're broadly happy with the shape of the pyramid now, so we did call out in Q1 that Brit had done quite nicely for us, but nothing different really to call out now other than to say that, you know, overall the shape of the pyramid we're happy with, and that you know outerwear and large leather again contributed to, you know, our mainline growth in the quarter that has just finished.

In terms of the guidance around wholesale and the shape of that, Fay?

Fay Dodds, Vice President, Investor Relations

Yeah, I mean in the second half it's all a bit distorted by the timing of the deliveries, and also you know where we've made conversions from Wholesale to Retail. So you know, the US on a kind of clean basis is showing good growth, but you know that is one of the regions that's seeing A, the conversion, and B, the earlier deliveries.

Travel Retail really strong for us again in the first half, and emerging markets, you know, fairly solid and then continuing rationalisation in Europe.

Rogerio Fujimori, Credit Suisse

Thanks. And do you expect the Wholesale clean-up in Beauty to be completed by the end of fiscal '15?

Carol Fairweather, Chief Financial Officer

Yeah. I mean we'll continue. We talk about pay as you go as we always do, so we will be looking, you know, to elevate that distribution as we move forward on Beauty, but nothing really significant to call out. We'll continue to evolve and clean up that distribution as we grow the business.

Rogério Fujimori, Credit Suisse

Thank you very much.

Telephone Operator

Our next question today comes from Mario Ortelli of Bernstein.

Mario Ortelli, Sanford Bernstein

Good morning Fay, good morning Carol. Three questions please. The first one is about pricing. What were the price increases that you made in Q1, and what will be your pricing strategy in the next year, also considering the negative effects?

The second one is on markdowns. Can you give us an idea of the incidents of markdowns of the total Retail sales in the last quarter?

And the last is about advertising expenses. Considering also that you have got a new launch in fragrances, should we expect an increase of advertising and communication expenses next year? Thank you.

Carol Fairweather, Chief Financial Officer

Okay, so in terms of pricing in Q1 or our Q4, nothing significant to call out there. I mean low percentage price increases as we've talked about, you know, throughout the course of this year. Looking forward to next year, again we're planning for low single digit percentage increases. You know we're broadly happy with the shape of our pricing architecture now, and it's very much aligned with that of our peers.

As, you know, FX materialises it may be that other people begin to move prices and we would probably do likewise, but we haven't factored that into our plans at the moment. It will be very much strategic rather than tactical, and it's really waiting to see where FX settles. But we're not planning for big price increases, and we'll want to retain our global pricing architecture, the shape of it, as we have it today.

In terms of markdown?

Fay Dodds, Vice President, Investor Relations

In terms of markdown, I mean this is only a sales update, so we can come back to you in May. But I think it's fair to say that we've had a very solid performance from full price sales, and that our year-end inventory is in a good place.

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Carol Fairweather, Chief Financial Officer

Yeah. And then, you know the question on advertising and the launch in Beauty. We will look to manage that within our operating expenses and delivering that, you know, modest improvement in underlying Retail Wholesale operating margins, remembering that, you know, we're not calling out Beauty separately from a profit perspective going forward. But you know, it's the sort of halo impact that the Beauty advertising brings to the Fashion business and vice versa. So you know we're happy that we've got that exciting launch coming and we'll make sure that we optimise our marketing spend around that.

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Mario Ortelli, Sanford Bernstein

Thank you very much.

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Telephone Operator

Our next question is from Melanie Flouquet from JP Morgan.

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Melanie Flouquet, JP Morgan

Yes good morning. I have two questions actually which are linked. I'm trying to understand a little bit better the space growth sorry. Can you clarify in full year March '14 you delivered 3% space growth? There was a net opening and closures, but my impression was that the absolute space growth actually grew by approximately 8%. You closed a lot of highly productive stores that were not ideally positioned, and you opened larger stores that had lower productivity, so that the overall contribution of that space was 3%. Is this correct? And does that actually mean that the maturity of your larger stores is a little bit longer and is actually feeding positively into your like for likes? That's my first question.

And the second is for full year March '15 do we see an inflection in these openings in the sense that we actually get smaller stores opening than only one large store? So you know, just to understand the dynamics moving forward. I appreciate that a 3% number remains the same, but the drivers may be different.

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Carol Fairweather, Chief Financial Officer

Yes, I mean in terms of the way you summarise the space growth this year Melanie I think that's right, you know the 3% or more, whilst we're not guiding to the absolute

percentage increase in new space, that's broadly correct, your assumption. In the same way that you're talking about the fact that it takes a little longer for these larger flagships to grow to maturity. And therefore you'll see the same sort of patterns next year. We will have, you know, places like Kerry Centre will still be in our new space next year. Don't forget that's only just opened so again we'll take a little while to really begin to deliver those levels of productivity. So it's a constant evolution of the store portfolio which is, you know, in line with the strategy that we've outlined.

.....

Melanie Flouquet, JP Morgan

Okay, great. So no inflection in full year March '15 in this sort of space growth dynamic and contribution of space growth depth right?

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Fay Dodds, Vice President, Investor Relations

No, it's really just to do with the timing of the store availability. And if you roll forward to the following year you know we'll be talking a lot about our flagship opening in Korea.

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Melanie Flouquet, JP Morgan

Okay, great. Thank you very much, that's clear.

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Telephone Operator

Our next question comes from Annabel Gleeson of Redburn.

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Annabel Gleeson, Redburn Partners

Hi Carol, hi Fay. Just a question, could you just clarify what you've just said about your guidance around moderate improvement in operating, Retail Wholesale operating margin at reported FX?

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Carol Fairweather, Chief Financial Officer

Yeah, so I'm saying as we look forward, and it was around next year's number that I was talking to you Annabel. As we look forward, given the FX headwinds we see at current exchange rates, and we don't know what's going to happen to exchange rates, on a reported basis if you simply factor in the sort of impact that we talked about this morning, the reported Retail Wholesale margin, just if you do the maths, would not grow year on year. However, we will be also looking at it on an underlying basis, and we will continue to look for modest expansion on that underlying basis at constant FX.

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Annabel Gleeson, Redburn Partners

So if we look at reported FX, you know you should have presumably quite a lot of investment in pay as you go activities from prior years. And you've talked a lot about kind of flexing those type of costs to be able to protect your margin. Will you look to be doing that next year to kind of be able to hit guidance at reported FX?

Carol Fairweather, Chief Financial Officer

No, so I mean we need to focus on constant and then at reported. At constant we will be looking to deliver continued Retail Wholesale margin expansion. You know, reflecting our pay as you go approach, reflecting that investment, continuing to grow the top line and the bottom line on a constant basis. However, on a reported basis, if you simply factor in the FX impact on revenue, on cost of goods and then on opex, on a reported basis the maths would suggest that we will not be reporting on a reported basis an improvement in the Retail Wholesale operating margin, simply because of the scale the FX has on the revenue number as opposed to the cost number.

Annabel Gleeson, Redburn Partners

Okay, thank you.

Telephone Operator

Our next question is from Chris Walker of Nomura.

Chris Walker, Nomura

Morning Carol, morning Fay. Just a couple from me. Firstly on the China digital initiatives, just wondering if you could give us an update on the, I think you mentioned payments and fulfilments, but just a bit more detail on the initiatives there and the timing and phasing of the rollout. And then secondly, obviously with the opening of the Beauty Box, just wondering how that changes your confidence about rolling out makeup and skincare over time? Thank you.

Carol Fairweather, Chief Financial Officer

I mean so in terms of China Chris at the moment, everything we're doing digitally to get product into China has to - is not being fulfilled locally in China. So we're looking to be able to do that on the ground in China which will actually mean that the goods will get there quicker. And in terms of margin, you know they won't be - we'll be able to import them with different customs arrangements and whatever. So that rollout is planned for the second half of this year and that's on track to happen.

And with that obviously we're looking to look at options for payments in China around how again the Chinese consumer likes to pay using the various credit cards and other

options they have in China. So we'll be looking to improve payment opportunities for our Chinese customer where they are fulfilling off the website in China.

In terms of the Beauty Box, you said what, if anything, does that mean different for us. I mean I think the Beauty Box is a test. We're very happy with how that small test store is doing in Covent Garden. It's a great way of showcasing our vision for Beauty and how we can combine makeup, beauty and fragrance and fashion, and that's what that store is doing. It's been great to be able to use it as a showcase to our distributors in terms of showing them how we are going to operate the Beauty business differently, and we will be looking, you know on the back of the success of that store, to see how we rollout variations if you like of that, to department stores, and to our own Retail.

Chris Walker, Nomura

Great. Thanks very much.

Telephone Operator

Finally we have a follow up question from William Hutchings of Goldman Sachs.

William Hutchings, Goldman Sachs

Sorry to come back on, I just wanted to check my thinking on this FX. If I look at your performance in the fourth quarter alone, you faced a pretty tough currency environment in the fourth quarter which looks comparable to the impact going into next year in terms of just where exchange rates are year on year. I mean is it right I'm thinking that you'd have offset a 8 to 10 million hit in the fourth quarter alone, given the same shape of movements? And taking that you're giving a message that there's no risk to this year's profit guidance; I'm just wondering if you could take us through how you offset that and then why you think it's going to be so much worse next year relative to the fourth quarter of this year? Thanks.

Carol Fairweather, Chief Financial Officer

I mean in the first half Will we reported that we'd had a benefit from FX. If you just look at something like the US dollar, you know the first half of this year it was down at something like 153 versus where it was in the previous year. In the second half that has reversed. So we talked back in November and January about the benefit we'd seen of the first half reversing in the second half, and that's what we're seeing. We're not giving a profit update today, but we will obviously come and share with you what's the overall FX impact has been.

So in the year that's just ending it was a year of two halves really, with a benefit in the first half and an adverse in the second half. As we look forward at current exchange rates, clearly we don't - you know, the impact is much more significant in the first half of next year, just given the way FX rates have moved. And if you look back at this year,

rates have actually gone plus and against - you know if you look at the Hong Kong dollar, the US dollar, the RMB, the euro, there's been a mixture. As we look forward, all of those rates today would be negative, and the scale of the movement year on year is also more significant.

So it's really the full year impact next year that we're calling out. This year has been a year of two halves with pluses and minuses, and all we can do today is guide based on today's spot if you like, and on today's spot that's what we're seeing.

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William Hutchings, Goldman Sachs

Sure. But to be clear, the fourth quarter where it's been particularly - the fourth quarter has been much worse than the third quarter in terms of currency moves, you've managed to offset that for this year?

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Carol Fairweather, Chief Financial Officer

Well we're not changing any of our guidance today. And remember the fourth quarter is a very small quarter for us. You know, our second quarter is probably the biggest quarter, so you know there's a number of moving parts. But in terms of the full year numbers today we're not talking about anything different than we had already been guiding to.

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William Hutchings, Goldman Sachs

Perfect. Very helpful. Thanks very much.

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Carol Fairweather, Chief Financial Officer

Thank you.

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Telephone Operator

As there are no further questions at the time I'd like to hand the call to Ms Fairweather for any additional or closing remarks.

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Carol Fairweather, Chief Financial Officer

So thank you for your attention. We've had a pleasing sales performance in the second half of the year, and look forward to talking to you about profit, cash and future growth strategies, including Japan and Beauty, on 21st May when we report our preliminary results. Thank you.

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