# WORLD TELEVISION

## Burberry

## Second Half Trading Update Conference Call
15th April 2015

## BURBERRY

**Carol Fairweather, Chief Financial Officer**

**Fay Dodds, Vice President, Investor Relations**

## QUESTIONS FROM

**Tom Forte, Brean Capital**

**John Guy, MainFirst**

**Louise Singlehurst, Morgan Stanley**

**Warwick Okines, Deutsche Bank**

**Erwan Rambourg, HSBC**

**Rogerio Fujimori, RBC**

**Annabel Gleeson, Redburn Partners**

**Mario Ortelli, Sanford Bernstein**

**Thomas Chauvet, Citigroup**

### *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 from our Investor Relations team. I will make a few brief comments on this morning's announcement and then we will be happy to take your questions.

In the second half, total revenue grew 9% underlying, or 10% at reported rates. We are pleased with this robust performance in what remains an uncertain external environment, as we continued to focus on consistent execution and delivery against our key strategies and initiatives.

Retail was up 13% underlying and comps grew 9%, broadly consistent across the quarters. Higher conversion and average selling price more than offset lower in-store traffic. Digital outperformed in all regions. And this overall Retail performance was underpinned by our continued planned investment in store, in digital, in customer service and in marketing.

By region, both Americas and EMEIA delivered double digit comp growth, with both domestic and travelling luxury customers spend increasing.

Asia Pacific delivered low single digit growth, impacted by a further deterioration in Hong Kong through the half. Footfall in Hong Kong was down again, more significantly than in the third quarter. So we continued to focus on the things we could control, increasing conversion year on year, partly offsetting the decline in footfall. Comp sales for the half were down mid single digit, including Q4, which was down high single digit.

Our other large Asian markets of China and Korea both delivered mid single digit comp growth in the half.

As we've said in the statement other channels performed in line with guidance.

Wholesale revenue in the half was unchanged year on year underlying, with a 3% decline in Apparel and Accessories and Beauty up 8%, delivering 25% growth for the full year and finally licensing increased 3% underlying resulting in unchanged revenue for the full year.

Globally we continue to execute against our five key strategies, let me just highlight three of these today. First, under Inspire With The Brand, we saw a strong performance from Heritage trench coats and scarfs, which were featured across key brand and marketing activities; celebrating their British made heritage and benefiting from the halo effect from the My Burberry fragrance launch.

Second, under Optimise Channels, we opened seven mainline stores; including two in the US, a flagship store on Rodeo Drive in LA, where we have an event celebrating the store opening taking place tomorrow evening. And one in the Miami design district, a key market for the Brazilian travelling luxury customer.

And third, under Unlock Market Opportunity, our own stores in Japan continued to post strong growth with comps up over 30%. Our most recent store opening is the flagship store in Osaka, increasing our footprint to five stores and 13 concessions.

Our store plans for '15/'16 including the Shinjuku store in Tokyo which opens in September; opening around another five concessions, as well as assuming direct operation of about 10 small childrenswear concessions.

As we said in the statement the timing and availability of brand and commercially appropriate retail space means there is likely to be some impact on our target for 2017; but there is good momentum in the business and we remain confident about our long term transformation in this market.

Finally let me just touch on pricing, we are currently being asked by a lot of people about pricing in the luxury industry, particularly following recent extreme FX volatility.

So let me just remind you of Burberry's positioning and approach, which remain unchanged. We have a clear long term strategy for global pricing, we define structures and processes to monitor and manage this. We always seek to maintain our price positioning in each market relative to our immediate peers, while we actively manage prices as appropriate for our customers, our business and our brand.

Recent FX volatility has clearly impacted the global pricing architecture, both for us and our peers, so we will act thoughtfully and responsibly to address this, just as we always do.

Turning now to the guidance we gave in this morning's statement, let me just highlight three areas for you when you're looking to build your models. First, with the expiry of the Japanese licences later this year, revenue from Japan licensing is planned to be down from 53 million in 2015 to about 25 million in 2016 and of course as you know most of that falls straight through to profit.

Secondly for Retail/Wholesale as regards to revenues, for Retail we expect net new space to add a low single digit percentage growth to total Retail revenue for the full year. For Wholesale, excluding Beauty, we expect revenue at constant exchange rates to be down by a low single digit percentage in the first half. And for Beauty we are looking for full year wholesale growth of about 10 to 15%, with additional opportunities in retail and digital.

And then thinking about the Retail/Wholesale margin, we do expect further adverse impact from geographic and channel mix in the year. And despite the external challenges the sector faces we will continue to thoughtfully invest for future growth, for example in flagship markets and this investment will be partly funded by very disciplined cost control. This is all about building the long term value of the brand.

And the third building block is FX, where as we have consistently said we will update you on the impact FX has on our reported profits each time we report for so long as it remains material.

For Retail/Wholesale we have seen about a £25m negative impact on reported profit in 2015 and looking ahead to 2016 we expect a benefit of about £50m at current rates, which is about £10m more than when we spoke to you in January.

So in conclusion as Christopher said this morning, we are pleased with our performance in the second half and while mindful of external challenges as we enter the new financial year we remain confident in our long term strategy to build the Burberry brand and business globally.

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

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***Questions and Answers***

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**Tom Forte, Brean Capital**
Good morning and thank you for taking my questions. I wanted to see if you could talk a little more about your digital efforts, how your collect in store for example performed during the second half and just any other digital highlights you want to call out? Thank you.

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**Carol Fairweather, Chief Financial Officer**
Yes, I mean we have called out consistently we think digital is a differentiator for us and digital again outperformed in the second half. We don't split out our digital sales because we talk about the customer being agnostic and that's how we think about digital versus mainline of course, but within that in terms of - you asked specifically about collect in store, we'd say that of our digital sales collect in store is about 20%, something like that.

So we've rolled that out consistently over the last two years and it has absolutely helped drive that digital sales which we're really proud about. And we've actually rolled it out in China in the second half; you know one of the largest digital - potential markets in the world. So we're looking forward to seeing what that delivers in due course.

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**Tom Forte, Brean Capital**
Great, thank you very much.

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**John Guy, MainFirst**
Yes good morning Carol and Fay. Could you just comment a little bit more around the Japanese sales targets, to start with I appreciate that you've said in the statement that I think internal targets for '17 were around about £100m. How far short do you think you'll be relative to that target, and I appreciate it is about just getting the right space,

and maybe just sort of comment around how the process is actually going and should we be thinking around £100m for the FY'19, or do you think that that's maybe - your £100m internal target will come in somewhere between '17 and '19? That's my first question.

The second question with regards to the pricing strategy, you commented on that in your intro, you said that you were going to look to see what peers were also doing. So given the fact we've seen some private labels obviously reduce prices selectively, are we going to see you do the same in certain areas of Asia, notably Hong Kong and potentially Mainland China as well? I'll start with those two thanks.

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**Carol Fairweather, Chief Financial Officer**
Thanks John, so you know as we said in the statement this morning our business in Japan is performing very strongly, 30% comp in the half and it's important to note that our strategy is absolutely unchanged and we remain very confident in that.

The number we had guided to for FY'16/'17 was around £100m worth of revenue and £25m worth of profit. As we look out today, given the timing of some of that brand appropriate space that we've been able to acquire, and also looking to the fact that we're actually getting slightly smaller space in some of the concessions, but much better positioned within department stores, and the fact that we are still looking for the right flagship on Ginza, all about doing what is right for the brand; as we look out today we think we may be shy of that target in '16/'17, but as you said it's absolutely a timing issue - nothing fundamental. And you know you asked when we would actually achieve that, we're saying maybe a year or so delayed.

So everything remains very much on track, the momentum in the Japan business is very strong, you know we've just opened Omotesandō, Osaka and posted 30% comp for the half.

And then turning to pricing, as you said I mean we always seek to maintain our price positioning by market relative to our immediate peers. And it's those immediate peers that we look to as we actively manage prices from season to season. So nothing to say today, but just to say this that our strategy is absolutely unchanged in relation to pricing.

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**John Guy, MainFirst**
Great, and just one follow up on Wholesale. You've guided to a slightly softer 1H '16 Wholesale, I think unchanged year on year relative to 2015. Is that just effectively down to more cautious ordering within the travel retail side of the business and are there any specific areas on a geographic basis that you can call out? Thanks.

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**Fay Dodds, Vice President, Investor Relations**
I think we said in the statement that the regional trends that we're expecting to see in the first half of the current year are pretty similar to what we saw in the second half, so cautious ordering from Asia travel retail, continuing contraction in the European business

and broadly unchanged in the Americas as we basically continue to elevate the business there, seeing some good underlying growth in the shop in shops we're proud of, while we continue to pull out of less brand appropriate space.

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**John Guy, MainFirst**
Fantastic, thank you very much indeed Fay and Carol, thanks.

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**Louise Singlehurst, Morgan Stanley**
Hi, morning to you all, just a couple of questions and again, unsurprisingly, following up on pricing. Given there obviously has been some changes in the market in Hong Kong, are there any additional kind of competitive pressures that you're noticing from the other brands? And I suppose more importantly have you seen any increase in the grey market activity with the price differentials from FX at the beginning of the year and how does that impact, or benefit, or otherwise with your alliance with Tmall? Thank you.

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**Carol Fairweather, Chief Financial Officer**
So I mean in terms of Hong Kong, as we said we actually - we did see a significant decline in footfall in Q4, more so than in Q3, you know we were able to offset that through increased conversion. So in terms of any increase - compared to our peers I think we probably think that's an outperformance.

In terms of the grey market, I mean we haven't got anything specifically different to report today. Clearly we have a strong brand protection team with an ongoing programme to address grey market issues and that continues.

And then in terms of Tmall, I think we're very pleased with what we have done as a result of the Tmall relationship because that's absolutely addressed grey market issues in terms of they've taken all of the grey market parallel product down from Taobao and you know Tmall allows us to access consumers in the tier 3 and 4 cities, extending our reach and doing it in a brand appropriate way. So it's still very small for us, but absolutely the right thing to do for the brand and the future growth of the business.

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**Louise Singlehurst, Morgan Stanley**
Great, thank you.

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**Warwick Okines, Deutsche Bank**
Good morning, I've got three quick questions actually. Firstly on your Japanese guidance, you're saying you're going to be a little bit delayed on the revenue guidance for March '17, I'm just wondering if you have any different view on the 25% margin that you also guided to for that year; whether you think that might take a little longer to achieve?

Secondly on space guidance for the year ahead, I appreciate you like to talk about the contribution rather than the net percentage of space growth, but could you just confirm whether the sort of 2 to 3% that I suppose you're guiding to for the year ahead contribution is based on around double digit, around 10% space growth in square metres for the year ahead?

And then thirdly are there any other markets besides Mainland China that you've been selectively trialling price cuts, and if so, where? Thanks.

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**Carol Fairweather, Chief Financial Officer**
Okay, so in terms of the Japanese guidance as I said this is a timing issue, so no change to the long term strategy, and therefore in terms of the margin we anticipate that we'll be able to deliver out of that market. Nothing to report today different to the 25% that we guided to, it's really just the timing of getting the right space in that market.

I'll then skip to the pricing one and then Fay can just talk about space. So you know we adjust prices all the time Warwick, not all the time, you know season to season there's nothing different in what we have done recently or what we plan to do in the future. So nothing different to call out today about any of the price adjustments that we have made in the recent past, it's just part of our ongoing and unchanged pricing strategy to make sure we maintain that price position market by market relative to our immediate peers.

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**Fay Dodds, Vice President, Investor Relations**
And in terms of the contribution from new space, we're guiding to low single digits in terms of retail revenue growth and that - it's not right to assume that that is double digit space growth, you know it's basically mid single digit space growth.

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**Warwick Okines, Deutsche Bank**
Thank you.

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**Erwan Rambourg, HSBC**
Hi good morning and congratulations for the comp and the sales. Two questions please, looking at Hong Kong can you tell us what you think about mitigating factors, you know if this drags on for a while what position are you in to eventually renegotiate rents and how do you feel about potentially store closures - eventually if this drags on and mainlanders continue to dismiss Hong Kong and go to other destinations?

My second question is around pricing, sorry, everyone is talking about lowering pricing in Hong Kong and China, I was wondering what you thought about the potential to increase prices in the eurozone? And also on this price issue, how much can you do via mix, by introducing new products rather than just by bigger shocks or bigger changes? Thank you.

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**Carol Fairweather, Chief Financial Officer**

Okay so in terms of Hong Kong and mitigating factors, clearly you know given what's happened to footfall we've said in the statement that we're increasing conversion and that's one of the things our team is relentlessly doing whatever is happening to footfall, so we'll continue to see how we can continue to increase conversion. You know as you say the tourist, which has been about 80% of our business in Hong Kong, is where we've seen the decline in footfall, so how can we thoughtfully market to local consumers in Hong Kong and we've started to do that.

And then of course there is maintaining and continuing with tight cost control, so nothing to announce today specifically, but rest assured that all our team on the ground in Hong Kong is looking at what the commercial arrangements are and how we can make sure that we can mitigate what we're seeing in terms of traffic as best we can through what we can do on store leases.

You asked about closures. I mean most of our lease terms in Hong Kong are probably no more than three years, something like that. So we remain cautious in the short term and we're tightly managing costs as you'd expect us to, but nothing different to call out today in terms of the store profile.

And then you asked about pricing and lowering prices in Hong Kong and China and increasing in Europe. As I said earlier, we adjust prices all the time as part of our ongoing pricing strategy. So again following our global pricing architecture and looking to maintain our price positioning by market relative to our immediate peers, we may well adjust prices one way or the other as we move through the seasons, but no different to what we have always done.

And then in terms of mix I think you were asking about whether there's anything we do in terms of product mix to mitigate or try and offset some of the pricing pressures, and we have a nice product range, we have entry price point products which are brand appropriate and we'll continue to look at the merchandising range. But again nothing different specifically to call out in relation to mix as a result of pricing pressure. You know and we've talked -

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**Erwan Rambourg, HSBC**

I'm sorry, what I've meant by that is introducing new products that are more price harmonised across the globe and that would basically address the issue without having to change the actual sticker but via new product introductions that are more harmonised throughout.

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**Carol Fairweather, Chief Financial Officer**

I mean our global pricing architecture is there to reflect the cost of doing business in those regions, and therefore as we introduce new products to our range every year which we do, that reflects that global pricing architecture knowing that the price differential largely reflects the cost of doing business in various regions. So no, I don't think we would be looking to change our global pricing architecture.

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**Fay Dodds, Vice President, Investor Relations**
And remember we have talked to you about the really important role that Beauty plays as an entry price into the brand, so let's make sure that the consumer has a wonderful luxury experience buying fragrance at £90 a bottle as their first perhaps exposure to the brand, rather than trying to dumb down existing products to meet a price point.

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**Erwan Rambourg, HSBC**
Okay thank you.

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**Rogerio Fujimori, RBC**
Oh hi everyone. Could you please let us know how much price mix contributed to Retail comp's performance in Q4 and also give some colour on the performance of London versus Brit?

And then on the pricing again, you are a fast follower on handbags but in trench coats you are the leader, so what is the ideal global pricing architecture for trench coats London versus Hong Kong versus China? Thank you.

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**Carol Fairweather, Chief Financial Officer**
So in terms of what drove the comp in Q4 it was largely price but driven by elevation in product as we've talked to you about before, both with - largely with the product segment across the pyramids unchanged but really within each segment elevation probably within the pyramid, and the fact that we had strong performance from Heritage and scarves in the period which underpinned. London probably grew slightly faster than Brit because obviously the Heritage trench coats sit within the London collection so that was what happened in Q4.

And then your other question in terms of pricing.

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**Fay Dodds, Vice President, Investor Relations**
Yeah I mean we're not going to comment particularly just really refer you back to what Carol said in that we have a very clear pricing strategy, we have structure and processes to monitor and actively manage that, you know, and we will continue to adjust prices accordingly as we always do.

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**Rogerio Fujimori, RBC**
Okay, thank you very much.

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**Annabel Gleeson, Redburn Partners**
Hi Carol, hi Fay. Just two questions. First of all sorry again on pricing, but you said that obviously you look at yourselves relative to peers, at the moment are you happy with your price positioning relative to your peers in Hong Kong, in China, in Europe?

And the second question is what initiatives have you got in store for next year that can help keep that like for like high?

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**Carol Fairweather, Chief Financial Officer**
So in terms of pricing Annabel again clearly recent FX volatility has meant that the pricing architecture has changed for us in the same way that it has for our peers, so we are always seeking to maintain that and therefore there is nothing else I can tell you today because our strategy hasn't changed and we will react in the way that we always do, you know actively managing those prices as appropriate for our customer, our business and our brand. So I really can't help you anymore. I'd like to but just to say it's unchanged and therefore we will do what we have always done.

In terms of initiatives we've got for next year, I mean I think we talked about the investment that we've made in customer, in digital, in marketing, in our flagship markets, and all of that continues thoughtfully as we move into next year. You know we're mindful of the more difficult macro, but we always look to invest in those initiatives which drive long term profitable growth and therefore, again be it through the product lens, be it through continuing to improve our customer service, continue to innovate in digital which has been so important in terms of being a differentiator for us, and continuing with our you know very thoughtful marketing campaigns, the benefit of which you've seen this year.

So rest assured no change to strategy but continuing to very thoughtfully invest and flagship markets being a key part of that; you know you've seen what we have just done in terms of elevating our presence in the US, you know we've got Japan coming, we've got our first flagship in Korea, so again no change to strategy but very much focused on those initiatives that drive that long term profitable revenue growth.

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**Annabel Gleeson, Redburn Partners**
Thank you.

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**Mario Ortelli, Sanford Bernstein**
Good morning. Three questions if I may. The first one is about the margin for fiscal year 2015/16. You say in your press release that the benefit from FX and tight cost

control will be partly offset by the geographical and the channel mix. Can you be a bit more specific on how much can we - if the current spot rate of FX will remain, how much we can expect on EBIT margin for the next year?

The second question is about, surprisingly, about pricing, I am sorry for this. But you mentioned that you closely monitor immediate peers. Can I ask you which are the immediate peers that you have got in mind when you set your pricing for handbags, small leather goods, menswear and womenswear?

And the last question is about digital. Burberry was one of the frontrunners in digital and it had a significant competitive advantage in comparison to the other brands in the past, but now the other brands are investing a lot. Have you seen that this advantage of the frontrunner is decreasing in comparison to the other brands? For example we have seen that LVMH is investing a lot on this. And what are you doing to keep this competitive advantage in comparison to peers in the past? Thank you.

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**Carol Fairweather, Chief Financial Officer**
Okay so I'll take the one on margin and digital and then Fay can just come back on pricing in terms of our immediate peers. So in terms of margin Mario we're saying that we're seeing a £50m positive impact from FX at 31 March rates, to be partly offset by the channel and geographic mix and continued investment in the business. So net-net we would expect EBIT margin to go up from the reported number that we're going to be announcing at the end of May. So I would expect margin accretion from that benefit from FX next year.

And in terms of digital, I mean I think we talk about the reason that we have always been - you know we've seen this as a point of differentiation. I think the big thing is digital is embedded right throughout our organisation in everything we do. So yes other people are beginning to invest in digital, but are they doing it, have they got the same advantage to the fact that it is absolutely embedded in everything through - every part of our organisation looks at everything through a digital lens.

So as other people may be investing, you know we continue with our investment plans too and continue to innovate as we go, looking always to make sure that we maintain that level of innovation, delivering the returns on the investment and giving that great customer experience right across digital. It's not just about digital commerce, it's how we embed it in our marketing in the way we communicate with our customers, the way we do our shows, digital innovation and embedding it throughout the organisation is for us I think the point of differentiation and what we plan to continue to do.

And then in terms of peers Fay?

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**Fay Dodds, Vice President, Investor Relations**
Yes and it's a good question in terms of who are our immediate peers are, and if you're looking for example in handbags it wouldn't surprise you to know it's people like LV, it's

Gucci, it's Prada. You know that's where we have moved our price positioning to and we're happy to work in those ranges compared to those peers.

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**Mario Ortelli, Sanford Bernstein**
And the menswear, womenswear which are your immediate peers?

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**Fay Dodds, Vice President, Investor Relations**
Yeah I mean clearly in outerwear we are the price - set the prices there because it's the market that we own, but we will look at then in brands like Armani, Max Mara, parts of Hugo Boss, Zegna, Moncler, so the people that we choose to really co-locate with in department stores.

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**Mario Ortelli, Sanford Bernstein**
Thank you.

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**Thomas Chauvet, Citigroup**
Good morning. A quick question on Japan and your 30% like for like, what is fundamentally driving that number? I mean when you think about your brand equity, I remember Angela Ahrendts a few years ago said you have no visibility in Japan, so what has changed in the last two, three years perhaps? And shouldn't that number be a strong argument to actually negotiate larger concessions in department stores, and maybe going forward find more easily flagship stores?

And just on Japan again what was the comparative basis of this plus 30? Were you also boosted by the VAT increase on 1st April 2014? Thank you.

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**Carol Fairweather, Chief Financial Officer**
Yeah so in terms of what's driving the 30%, I think it's the fact that as we're beginning to roll out the global collection in Japan, be it the way in which you know I think the product has been incredibly well received, I think the customer service we're giving in the store, the way in which presenting ourselves in the store, the refurbishments we've done, you know Osaka, relocating Omotesando, the new opening in Osaka, we've begun the partnership with LINE, we live streamed the show at the time.

So all the things that I think are driving the business elsewhere globally are beginning to resonate in Japan, albeit with still reasonably limited marketing exposure, and with the licensed products still in the market. So we're very pleased with the early results that we're seeing from the global collection in Japan, and I think it plays to all the positive impacts that the brand has elsewhere. It's the same things that are driving the business in Japan at the moment.

And yes it is absolutely a strong argument for being able to get better relationships and better space in the department stores. And as I said, one of the things we're seeing when we look out to '16 and '17 is we're actually getting better space, it just may be smaller space and therefore we're very happy with the relationships we've got with the department stores and the progress we're making, it's just really about timing and the size of the space we're getting.

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**Fay Dodds, Vice President, Investor Relations**
In terms of the question about VAT, I mean our sales did slow in Japan in March but it's such a tiny business for us it didn't have a material impact on group sales.

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**Thomas Chauvet, Citigroup**
Okay and I was just thinking what was the comp of that plus 30 in Q4 last year?

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**Fay Dodds, Vice President, Investor Relations**
I don't know Thomas; can I come back to you?

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**Thomas Chauvet, Citigroup**
Sure, no problem. Thank you.

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**Carol Fairweather, Chief Financial Officer**
Okay so thank you very much for your attention and we look forward to speaking to you again on 20th of May when we announce our preliminary results.

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