

15 October 2015

## **Burberry Group plc**

### **First Half Trading Update**

#### **Retail sales up 2% underlying in an increasingly challenging environment for luxury customers**

##### **Highlights for the six months to 30 September 2015**

- Total revenue £1,105m
  - Retail revenue growth in second quarter impacted by increasingly challenging environment for luxury, particularly Chinese customers
    - Amplified by Burberry's geographic mix
  - Accelerated actions to control costs expected to minimise impact on FY 2016 profit
- Retail revenue £774m, up 2% underlying
  - Comparable sales growth of 1%
    - Double-digit % growth in EMEIA: driven by the travelling luxury customer, particularly in continental Europe
    - Low single-digit % growth in Americas: uneven demand in the United States, double-digit % growth in rest of Americas
    - Mid single-digit % decline in Asia Pacific: Hong Kong decelerated further in second quarter
- Wholesale revenue £305m (down 3% underlying) and licensing revenue £26m, (down 18% underlying), both as expected
- Further strategic and operational progress
  - Continued outperformance from British-made trench coats and cashmere scarves
  - Excellent progress in Japan, with a new flagship store in Tokyo and 16 additional concessions
  - Expanded Beauty distribution with Sephora globally and Shiseido in Japan
  - 13 stores opened, including in flagship markets of Seoul, New York and Dubai
  - Apple and Snapchat collaborations driving digital innovation around brand and runway shows

Christopher Bailey, Chief Creative and Chief Executive Officer, commented:

“The external environment became more challenging during the half, affecting luxury consumer demand in some of our key markets. In response, we have intensified our focus on driving sales and productivity, while taking swift action on discretionary costs.

While mindful of this external volatility, our plans for the festive season position us well to return to a more positive sales trend in the all-important second half. Looking further ahead, we maintain our focus on - and confidence in - the long-term growth opportunities for our business across channels, regions and product categories.”

## Summary

In the first half, Burberry generated revenue of £1,105m, including 2% underlying growth in retail revenue. In the second quarter, demand from luxury consumers, particularly Chinese customers, was affected by a more challenging external environment. For Burberry, this impact was amplified by our geographic mix. Wholesale and licensing revenues were broadly consistent with guidance.

In response to this, we have further strengthened product and service initiatives online and offline, while reallocating marketing spend in preparation for the all-important festive period. We have also accelerated actions to control costs across the business. This is part of our ongoing focus on enhancing productivity and efficiency, with initiatives underway across retail, product and processes.

For FY 2016, we expect that adjusted PBT will be broadly in line with the average of those analysts who have recently updated forecasts<sup>#</sup>. Our assumptions include a return to mid-single digit percentage growth in comparable sales in the second half, ongoing cost efficiencies, a reduction in performance-related pay and a benefit of about £10m to reported profit if exchange rates\* remain at current levels.

<sup>#</sup> Based on data compiled by the company, of the 26 analysts who cover Burberry, 18 have recently updated their forecasts from those they published around the time of the Q1 Trading Update on 15 July 2015. The range of forecasts for FY 2016 adjusted PBT for these 18 analysts is £434m to £461m, with an average of £445m.

\* See page 7.

## Revenue by channel

£ million	Six months to 30 September		% change	
	2015	2014	<i>reported FX</i>	<i>underlying</i>
Retail	774	748	3	2
Wholesale	305	317	(4)	(3)
Licensing	26	35	(25)	(18)
	<u>1,105</u>	<u>1,100</u>	-	-

## Retail/wholesale revenue by destination

£ million	Six months to 30 September		% change	
	2015	2014	<i>reported FX</i>	<i>underlying</i>
Asia Pacific	377	385	(2)	(6)
EMEIA	416	410	1	8
Americas	286	270	6	-
	<u>1,079</u>	<u>1,065</u>	1	1

## Retail/wholesale revenue by product division

£ million	Six months to 30 September		% change	
	2015	2014	<i>reported FX</i>	<i>underlying</i>
Accessories	393	387	2	2
Womens	316	316	-	-
Mens	248	247	-	(1)
Childrens	40	36	10	8
Beauty	82	79	4	4
	<u>1,079</u>	<u>1,065</u>	1	1

Underlying performance removes the effect of changes in exchange rates compared to the prior year period. Certain financial data within this announcement have been rounded. The financial information contained herein is unaudited.

## Retail

Retail sales in the first half increased by 2% underlying and 3% at reported FX. Of the 2% underlying growth, comparable sales growth was 1% (Q1: up 6%; Q2: down 4%), with the balance from new space.

By region,

- Asia Pacific delivered a mid single-digit percentage comparable sales decline in the half, impacted by a further year-on-year deceleration in Hong Kong in the second quarter compared to the first, as footfall continued to drop. Mainland China comparable sales decreased slightly in the half, in the context of weakening consumer sentiment in the market in the second quarter. Excluding Hong Kong and Macau, comparable sales were broadly unchanged year-on-year in the first half.

Japan saw comparable sales growth well in excess of 50%, albeit off a small base (with total sales now accounting for around 2% of global retail/wholesale revenue). Good progress was made during the half in expanding our retail presence, with the addition of our sixth free-standing store, in Shinjuku, Tokyo and the opening of a further six department store concessions, bringing the total to 19. We also assumed operation of ten childrenswear concessions.

- EMEIA delivered double-digit percentage comparable sales growth in the half, although growth moderated in the second quarter. With the travelling luxury customer generating about 60% of the region's revenue, we saw comparable sales growth in the first half in excess of 20% in Italy, France and Spain. This significantly outperformed the UK (over one-third of EMEIA's retail revenue), given sterling's strength against the euro.
- The Americas delivered low single-digit percentage comparable growth in the first half. Our directly-operated businesses in Canada, Brazil and Mexico (over 15% of Americas retail revenue) delivered double-digit percentage comparable sales growth in the period. The United States slowed in the second quarter, primarily reflecting uneven demand from both the domestic and tourist consumer.
- Digital continued to outperform in the half, with a further increase in mobile penetration.

In mainline, core categories including heritage trench coats and scarves continued to outperform, as did smaller categories including ponchos and dresses.

During the first half, we opened 13 mainline stores and closed nine. Openings included stores in the flagship markets of Dubai, London, New York, Seoul and Tokyo and our first directly-operated mainline stores in Bahrain and Moscow.

## **Wholesale**

Wholesale revenue in the first half decreased by 3% underlying and 4% at reported FX. This was broadly consistent with guidance.

Excluding Beauty, wholesale revenue decreased by a mid single-digit percentage underlying. Americas delivered low single-digit percentage growth, benefiting from some re-phasing of deliveries into the first half from the second half of this year. EMEA declined by a mid single-digit percentage as planned, reflecting continuing account rationalisation. Asia Pacific saw falling demand from travel retail customers, particularly in Hong Kong and Korea.

In Beauty, wholesale revenue grew by a low single-digit percentage underlying compared to last year, which included the product sell-in ahead of the My Burberry fragrance launch in September 2014. During the first half, we introduced product extensions to our pillar fragrances including Brit Splash and My Burberry eau de toilette. We also enhanced distribution of Beauty in Japan with Shiseido, while building on the strong momentum in our nascent make-up business through an agreement with Sephora globally.

## **Licensing**

In the first half, licensing revenue declined by 18% underlying, 25% at reported FX, consistent with full year guidance. This reflects the impact of the planned Japanese licence transition and strong growth from our global product licences, including a phasing benefit.

## **Outlook**

*Retail:* In FY 2016, net new space is still expected to contribute low single-digit percentage growth to total retail revenue.

*Wholesale:* Burberry expects total wholesale revenue at constant exchange rates in the six months to 31 March 2016 to be broadly unchanged on the same period last year (H2 2014/15: £331m).

In apparel and accessories, an underlying mid single-digit percentage decline reflects cautious ordering by wholesale customers globally, as well as the re-phasing of orders in the Americas into the first half from the second half of this year. Double-digit percentage underlying growth is expected in Beauty in the second half, driven by sales to distributors of our new male iconic fragrance, offset by some destocking.

*Retail/wholesale profit:* In FY 2016, if exchange rates\* remain at current levels, our latest expectation is that the benefit to FY 2016 reported retail/wholesale profit would be about £10m higher than at FY 2015 rates. This compares to a benefit of about £20m at the time of the First Quarter Trading Update in July 2015.

*Licensing:* Total licensing revenue for FY 2016 is still planned to be down by about 40% at constant exchange rates (FY 2015: £68m), due to the expiry of the Japanese Burberry licences. For FY 2016, we continue to expect double-digit percentage growth from the global product licences and about £25m from Japan. At current exchange rates\*, the impact of the movement in the sterling/yen rate on reported licensing revenue in FY 2016 is not expected to be material.

*FY 2016 adjusted PBT:* For FY 2016, we expect that adjusted PBT will be broadly in line with the average of those analysts who have recently updated forecasts#. Our assumptions include a return to mid-single digit percentage growth in comparable sales in the second half, ongoing cost efficiencies, a reduction in performance-related pay and a benefit of about £10m to reported profit if exchange rates\* remain at current levels.

\* See page 7.

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## Enquiries

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There will be a conference call for investors and analysts to discuss this update today at 9am (UK time). The conference call can be accessed live on the Burberry corporate website ([www.burberryplc.com](http://www.burberryplc.com)), with a replay available later. Burberry will announce its Interim Results for the six months to 30 September 2015 on 12 November 2015.

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward-looking statements. Burberry Group plc undertakes no obligation to update these forward-looking statements and will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. Nothing in this announcement should be construed as a profit forecast. All persons, wherever located, should consult any additional disclosures that Burberry Group plc may make in any regulatory announcements or documents which it publishes. All persons, wherever located, should take note of these disclosures. This announcement does not constitute an invitation to underwrite, subscribe for or otherwise acquire or dispose of any Burberry Group plc shares, in the UK, or in the US, or under the US Securities Act 1933 or in any other jurisdiction.

## Notes to editors

- Burberry is a global luxury brand with a distinctive British heritage, built around its core iconic outerwear.
- Burberry designs and sources apparel, accessories and beauty, selling through a diversified network of retail (including digital), wholesale and licensing channels worldwide.
- At 30 September 2015, Burberry globally had 218 retail stores, 218 concessions, 57 outlets and 60 franchise stores.
- Burberry, which is headquartered in London, was founded in 1856. It is listed on the London Stock Exchange (BRBY.L) and is a constituent of the FTSE 100 index. ADR symbol OTC:BURBY.
- BURBERRY, the Equestrian Knight Device and the Burberry Check are trademarks belonging to Burberry which are registered and enforced worldwide.

## Exchange rates

Full year effective rates for FY 2016

£1=	30 September 2015	8 July 2015
Euro	1.37	1.39
US Dollar	1.52	1.53
Chinese Yuan Renminbi	9.62	9.52
Hong Kong Dollar	11.82	11.90
Korean Won	1,772	1,727
Yen <sup>~</sup>	176	177

<sup>~</sup> For licensing revenue, taking into account the current hedged positions.