

WORLD TELEVISION

Burberry

First Quarter Trading Update Conference Call - 15th
July 2015

BURBERRY

Carol Fairweather, Chief Financial Officer

Fay Dodds, Vice President, Investor Relations

QUESTIONS FROM

Thomas Chauvet, Citigroup

Louise Singlehurst, Morgan Stanley

Tom Forte, Brean Capital

John Guy, MainFirst

Warwick Okines, Deutsche Bank

Mario Ortelli, Sanford Bernstein

Rogério Fujimori, RBC

Julian Easthope, Barclays Capital

Melanie Flouquet, JP Morgan

Key Highlights

Carol Fairweather, Chief Financial Officer

Good morning and welcome to Burberry's First Quarter Trading Update conference call. With me this morning is Fay Dodds 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 first quarter Retail revenue grew 8% underlying, or 10% at reported rates. We are pleased with this performance in what remains a challenging external environment. We remain focused on the consistent execution of our key strategies and initiatives; underpinned by our continued planned investment in stores, in digital, in customer service and in marketing.

Comparable sales growth was 6% for the quarter.

By region, there was double digit comp growth in EMEA, led by France, Italy and Spain; supported by sales to the traveling luxury customer.

The Americas delivered high single digit comp growth, with traffic recovering from the soft start in the first few weeks of the year, which we referenced at the time of our preliminary results.

Asia Pacific however experienced a low single digit comp decline, and I would call out a further deterioration in footfall in Hong Kong for the quarter, which led to comp sales being down double digit in the quarter. With Hong Kong remaining a challenging market for the luxury sector we continued to focus on the things we could control, driving conversion, targeting local customers with specific marketing and of course taking a tough line on costs.

It is worth noting that excluding Hong Kong and Macau, comp growth in Asia Pacific was up low single digit. We delivered a low single digit comp growth in Mainland China and saw exceptional growth in Japan, albeit off a small base.

For the Chinese customer globally we continued to see growth in all markets apart from Hong Kong, although at a slower pace than in Q4.

Globally we continue to execute against our six key strategies, let me just highlight three of these today. First, under Inspire With the Brand, we continue to target the core luxury customer, both at home and when travelling; focusing our Retail investment in flagship markets, including this quarter, relocations in the Mall of Emirates in Dubai and Westfield White City in London. And innovation in digital marketing continued, extending our use of newer social media platforms, such as Periscope and Snapchat and events from LA, to the Men's Runway show, generating record customer engagement.

Second, under Realise Product Potential, we saw double digit growth from our British made heritage trench coats and cashmere scarves and ongoing strength from ponchos, an emerging key category for us. The strength of these products resulted in average selling price, once again being the most significant driver of comps growth in the

quarter. And looking ahead to the second half we have continued to innovate the design and merchandising over these three core products which are centre stage in our new autumn/winter advertising campaign.

We also expanded our Regent Street store, with the opening of an exclusive space dedicated to gifting as we continue to explore the opportunities for growth in this area.

And third, under Unlock Market Opportunity, let me just touch on the US and Japan. In the US we continue to elevate our brand positioning, the flagship event in Los Angeles reinforced our British heritage and reached a record global audience. And in New York we opened a new store in Brookfield Place in this quarter. And this month we reopened our expanded store in Spring Street Soho.

In Japan we're now very much in the transition phase, let me remind you that following the expiry of the licence at the end of June, licensed product will be phased out of the mainline channel by the end of September as we look to build distribution of our global collection.

In the past couple of weeks we've assumed the direct operation of ten small childrenswear concessions and our other store plans for the year remain on track, with the Shinjuku store opening in the autumn and a further five or so concessions planned for the second half. And you may also see that we've now launched our iconic My Burberry fragrance in Japan, with Shiseido, our new distributor in this market.

Turning now to the guidance there is no change for Retail space, Wholesale or Licensing revenue to that that we gave you in May.

To help you with your models we have as usual updated the effect of FX, using the rates as of 8th of July. This leads to an expected benefit for financial year 2016 of about £20m to Retail/Wholesale profit compared to last year's rate, which is about £10m more than when we spoke in May. However, we currently expect the £10m benefit to be offset by a more adverse geographic mix, particularly from the sales shortfall in the higher margin market of Hong Kong.

So in conclusion as Christopher said this morning, we are pleased with our performance in the quarter and while mindful of external challenges we remain confident in our long term strategy to build the Burberry brand and business globally with exciting plans for the year ahead.

So with that we'd now be pleased to take your questions.

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Questions and Answers

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Thomas Chauvet, Citigroup

Good morning. Three questions all on Asia please. The first one Mainland China, you used to argue there was a lot of self-help in the business and you clearly outperformed

peers in the past few years, at low single digit on sales, that's probably no longer the case. Can you comment on what's been happening there in the past three quarters or so and whether you have any visibility on whether the development of grey markets in Europe is perhaps hitting your Mainland Chinese business?

Secondly on your comment that Asia, ex Greater China, was positive, so I guess should we assume that you've not seen a particular slowdown in Korea from the MERS syndrome among both your domestic and duty free business.....?

And finally on Japan, what were the LFL in the quarter compared to the 30% LFL last year? And with regards to the exits of the licensed business can you indicate whether you've seen any issues in the past few weeks as you unwind the business and any additional information we should be aware of to model FY'16 and '17? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay, thanks Thomas. So in terms of China - we've posted for this quarter a low single digit comp growth compared to mid single digit for the second half of last year. Important to note that we are still seeing growth from the Chinese, because it's not just about what's happening in China, you know globally in all markets other than in Hong Kong. And in China we continue to elevate the brand, so it's the journey that we've been on, particularly regarding the store portfolio. And again we will be closing more of those legacy stores, you know, this year as we continue to elevate the brand, making sure we've got the right adjacencies.

Digital is a huge piece of the business, or potential business in China in terms of both engagement with the Chinese luxury consumer and indeed you know we re-launched the mobile site last year, we see that the traffic in China to that site is very high. So we're still very focused on the Chinese market, both when they're at home and when they're travelling to optimise the opportunity, be it in terms of the product, or terms of channel, or in terms of you know the stores themselves.

In terms of Asia Pacific as a whole, yes low single digits, excluding Hong Kong, within that as I said China was low single digit. Korea didn't have a particularly strong quarter, we were marginally negative. And as you referenced I think particularly in June were impacted potentially by MERS. What we did see though was that there was strong growth in our digital business in Korea, again albeit off a small base. So, great to have that business there - so when they weren't happy to go out to the stores they were shopping online.

And then the other highlight in Asia Pacific I would call out is really Japan, which is your last question where we saw, again albeit off a small base, very, very strong like for likes, higher than the 30% we referenced previously. And markets like Australia also remain very strong for us.

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Thomas Chauvet, Citigroup

Okay, just maybe a follow up. When you're saying, I saw that on Reuters I think that the Chinese business, the Chinese clientele is positive in other markets. Are you suggesting the slowdown in the first quarter in both Hong Kong and Mainland China is actually offset by an acceleration elsewhere in Europe? It doesn't seem to me that Europe accelerated, but do you see Chinese demand elsewhere accelerating? And again do you see grey markets in Europe developing?

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Carol Fairweather, Chief Financial Officer

Yes, so I mean in terms of what we said was that we have seen growth, albeit slower than in H2 for the Group globally from the Chinese consumer, and growth in all markets other than in Hong Kong. So just - we've got double digit growth in EMEA broadly in line, the same sort of rate of growth as the second half, but we do believe that was underpinned by tourism and the Chinese in particular. And you know we called out France, Italy and Spain, you know slightly less tourists in London I think, influenced by currency.

And in terms of grey market, clearly we are acutely aware of what's going on there and have, our brand protection teams in place to do what we can to mitigate against that, and procedures in our stores. But inevitably you know that issue does exist.

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Fay Dodds, Vice President, Investor Relations

Yes and clearly the relationships we have with some of our third party digital retailers, and I'm thinking particularly Tmall, helps tidy up the grey market in areas and regions like China.

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Thomas Chauvet, Citigroup

Thank you very much.

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Louise Singlehurst, Morgan Stanley

Hi, good morning to you all. Three questions from me too please. I'll switch geographies and go for the US. You talked about the higher or the improving footfall throughout the quarter, can you just talk to us a little bit about ASP spend and what you're seeing across the consumer group? I imagine it's still part of the brand elevation story that's going on in the US as well, and just a comment on how digital behaved for the US market.

Secondly can you update us on the pricing benefits in Europe during the quarter and any plans for any further changes? Might be a little bit early for you to talk about that at this stage of the year.

And then finally can you talk to us about the level of discounting end of season product. Was there any change year on year what we saw in terms of the number of SKUs or the length of duration of the promotional activity? Thank you.

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Carol Fairweather, Chief Financial Officer

So yes in the US we did call out in May that it had been a slightly softer start for us. We saw that improve through the quarter as footfall came back and you know in terms of the Retail metrics ASP was up, conversion was up and digital again performed very strongly with, as we've said before, a higher penetration of digital sales in the US compared to elsewhere in the world. So, we're pleased with the performance in the US as we went through the first quarter.

In terms of pricing no further changes; important to remember that the price changes we made in Europe and on selected products in Hong Kong and China were part of our normal pricing strategy, and there's nothing new to talk about today. We'll look at it again as we always do as we enter the second half of the year, but we're very satisfied with the decisions we made around pricing at the beginning - end of April

And in terms of discounting absolutely no change to the duration of the sale date, or the sale timing, or the level of markdown within that period. So very consistent year on year.

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Louise Singlehurst, Morgan Stanley

Thank you. Finally one last one from me. On Hong Kong specifically, going back to Asia, can you just give us an idea of the magnitude of the deceleration? I know you talk about the double digit declines in like for like for Hong Kong, but is that nearer minus 10, nearer minus 20? Is there any range that you can help us with there?

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Fay Dodds, Vice President, Investor Relations

Yes I mean we're not going to be particularly specific about it except to say that it's in that range of 10 to 20.

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Louise Singlehurst, Morgan Stanley

Great, thank you.

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Tom Forte, Brean Capital

Hi, thank you for taking my questions. I had a couple of questions. On digital engagement you talked about Snapchat and you talked about some of the other new initiatives. Can you indicate if these efforts are as effective in not only driving engagement but also in driving sales as some of the other digital efforts?

And then can you update us on the percent of your sales mix coming from your customer one to one and your collect in store sales efforts?

And then lastly if you see continued pressure in Hong Kong are there additional levers you can pull to modify the business there, either in store closing or in promotional activity? Thank you.

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Carol Fairweather, Chief Financial Officer

I'll take - in terms of digital engagement as always we continue to innovate and you know in this quarter our relationship with both Periscope and Snapchat, I think the LA event which was our big brand moment for this quarter, you know I think we had a record level of something like over 100 million impressions from social on the back of that digital engagement. So really pleased with the way in which we continue to engage, and likewise the menswear show in June also where we used Periscope again and Snapchat again, the best coverage I think we'd ever had in terms of digital engagement. So very pleased that we continue to innovate there.

And in terms of sales obviously you've seen the number for the quarter; we can't be precise in terms of what it drives specifically. We talk about digital being an integral part of everything we do from that initial engagement to the fulfilment at the end. So you know very important and we had that 6% comp growth so pleased with that for the quarter.

In term of Hong Kong and then Fay can just touch on the collect in store data, in terms of the other actions we're taking I mean we said we're very much targeting the local domestic consumer given that has traditionally been largely than 80% tourist market. We're saying okay what can we do with that local consumer, redirecting some of our marketing efforts there, using our customer value management tools, using our Burberry product client associates to bring back those customers in the store, making sure the stores are appropriately merchandised. So very much focused on driving conversion from that local customer.

And then in terms of you know rigorously managing the discretionary costs that we can in that region, and then in terms of rents themselves, clearly at the moment we're at the threshold where all of our rents are now fixed, but as the leases come up for renewal we're already out talking to landlords about what we might be able to do in terms of negotiating improvements to those terms going forward.

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Fay Dodds, Vice President, Investor Relations

In terms of your questions on digital I mean I think it's been fairly consistent that collect in store is over 20% of our digital sales, iPads in store are over 25% of our digital sales, you know and that's really - you know that we're sort of agnostic about whether the consumer researches online, purchases online, purchases in store, has it delivered it to home, has it delivered to office. So that's a good offer that we've got across the customer journey in digital.

In terms of CVM I don't think we've really got much more to say than what Steve said at the prelims in May. You know we're just really refining and extending the use of our customer insights.

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Tom Forte, Brean Capital

Thank you.

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John Guy, MainFirst

Good morning Carol, good morning Fay. Just a couple of questions from me please. With regards to product categories you've mentioned scarves, ponchos, you also mentioned outerwear, trench coats etc. Could you just comment on how large leather goods performed within the retail channel over the quarter?

And then with regards to Mainland China, Carol you flagged that you're still effectively cleaning up some of the legacy stores on the back of the franchise acquisitions I think back in September 2010. Could you just maybe give us an indication now in terms of how many legacy stores you need to clean up and what the total store count will be in Mainland China for the yearend?

And finally just in terms of Hong Kong and Macau sales exposure versus last year, could you just comment on that in terms of what the sales exposure is and how it's changed year on year given the moves that we've seen this quarter? Thank you.

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Carol Fairweather, Chief Financial Officer

Yeah so in terms of product categories you asked specifically about large leather, I'd say we had a steady performance on large leather through the quarter. What we're really excited about is you know we've got those two key standout opportunities coming next quarter, the Banner bag that went down the runway at the men's show, innovating around that bag which has already been very successful for us. And of course following on from the women's show the Bucket bag, so very excited about the large leather opportunities ahead for this coming half.

And then in terms of Mainland China and legacy stores, I think we ended - at the end of March we had 68 stores, we're now at 67. Of those 54 are stores that we've opened ourselves, 13 are legacy stores. And by the end of the year we expect to be at around something like 63 with 10 legacy stores remaining. So ongoing cleanup there and elevation, continued elevation, of the store portfolio.

And in terms of the Hong Kong percentage?

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Fay Dodds, Vice President, Investor Relations

I'd say Hong Kong and Macau last year was about 10% of Retail Wholesale. I haven't really run it for the first quarter but I wouldn't expect it to be significantly different to that.

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John Guy, MainFirst

Sorry was that 10?

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Fay Dodds, Vice President, Investor Relations

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John Guy, MainFirst

Yeah okay, so no real - no significant change there. And maybe just one final follow up on Japan. I know that you flagged that the first quarter you've seen some very strong growth in excess of the 30% like for like as of last year. Just in terms of the number of concessions that you - I think you said in the second half of the year you're looking to add five concessions. You've got the Shinjuku store opening later this year, are there any other developments from a concession and mainline perspective that we should be aware of? And still no change in terms of Ginza?

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Carol Fairweather, Chief Financial Officer

No, I mean so we're very much on track to deliver the sort of - we talked about eight to ten mainline stores and 30 to 40 concessions, and as we sit here today that feels very much like where we will - we're still on track to deliver that you know. Omotesando, Osaka doing very nicely, I'm very excited about opening Shinjuku, taking back the children's wear and then as we've said we've got five or more concessions in those key luxury department stores coming in the second half which will really reposition us nicely in those locations.

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John Guy, MainFirst

Thanks very much indeed.

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Warwick Okines, Deutsche Bank

Morning Carol and Fay. Could you put a number please on the growth rate of the Chinese consumer globally this quarter?

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Carol Fairweather, Chief Financial Officer

No I mean what we're saying is that overall we still saw growth in all markets other than in Hong Kong, albeit slightly slower than what we had seen in Q4 last year. But I don't think we've actually put a specific number on it, have we Fay?

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Fay Dodds, Vice President, Investor Relations

No, sort of low to mid-single digits.

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Warwick Okines, Deutsche Bank

So should I presume it's slightly below the sort of global growth on a comp store basis? Below the 6?

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Fay Dodds, Vice President, Investor Relations

Yes.

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Warwick Okines, Deutsche Bank

Okay thanks. And could you say whether the inventory pooling in Mainland China boosted the comp in the quarter?

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Carol Fairweather, Chief Financial Officer

Yeah I mean I think it's still reasonably early days. I think we're pleased that we can now fulfil those digital sales from that store inventory, but nothing specific to call out other than we were excited by the fact that we were able to do that in China, and looking to roll it out both in the UK and in the US as we come towards, you know, our big sort of festive period. So you know a nice beginning for that initiative in China.

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Warwick Okines, Deutsche Bank

Great, thank you very much.

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Mario Ortelli, Sanford Bernstein

Good morning Fay, good morning Carol. Three questions from me. The first one is about Macau. How was the performance in Macau in relative terms to Hong Kong?

The second one is about pricing. You have cut the prices in Mainland China and Hong Kong on some specific products. Have you noticed a difference of the consumer behaviour between the products for which you cut the prices and for the products which you didn't cut the prices?

And the last question is about digital and especially mobile. Can you tell us which is the percentage of access to your website or the percentage of digital pay done through mobile and through the traditional PC? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay so in terms of Macau we have one store, and we're opening another store and we're very soft opening on that at the moment. But in terms of the existing store that we have in Macau I think it wasn't dissimilar from the double digit declines that we saw in Hong Kong through the quarter.

In terms of pricing as you know we did take some prices up in Europe, again part of our normal strategy, and took prices down on selected products in China and Hong Kong. And that's performing broadly in line with our expectations and we're satisfied with the pricing decisions that we made back in April.

In terms of digital mobile is absolutely becoming increasingly important. I think 40% of the traffic now to the site or our digital traffic comes from a mobile device. And as we - I think in terms of the penetration of mobile sales as a percentage of total digital, we said those trebled in the quarter and I think we had more sales in total via a mobile device in this quarter than we did in the whole of the festive quarter last year. So all signs pointing to the fact that investment we had made and will continue to make in mobile is absolutely in line with the way in which consumers want to interact with us.

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Mario Ortelli, Sanford Bernstein

Excuse me, just one clarification about price cuts in Hong Kong; I want to be clear with my question. Probably in Hong Kong you cut prices on specific items, and on other items you didn't cut the prices and you said that is going with your expectation of the consumer behaviour. So what does it mean that in the products that you have cut the prices you have seen that the volumes had even growth and in the other you have a significant decline, vice versa? I just wanted to understand better what was the reaction of the consumer to this price cut? If really the boost or the capped volume in the domestic market in comparison to the other products in which you didn't cut the price?

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Fay Dodds, Vice President, Investor Relations

Mario I'm afraid we're not going to dissect price and volume by product line, by market, really just to say that we're generally very satisfied with the reaction that we've seen from the consumers to those selective price changes.

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Mario Ortelli, Sanford Bernstein

Okay thanks.

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Rogério Fujimori, RBC

Oh hi Carol, hi Fay. I have two questions. I was curious to hear about trends you see for your domestic European clientele in May, June after the price increases in trench coats and scarves in April?

And my second question, at global level you've said that price mix is still driving comps growth, but could you give us extra colour on how price mix and volume contributed to retail comp, so how is it changing versus their contribution in the second half of last year? Thank you.

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Fay Dodds, Vice President, Investor Relations

Yeah I mean again in terms of the domestic European consumer and reaction to price increases, again I'm not going to dissect all that but we have delivered double digit comp growth in EMEIA which we're very pleased with.

And then in terms of the price mix, I mean Carol said in the script that the majority of the driver was added selling price, and that was pretty much the same as the second half and that was driven by product mix, you know the success we saw with the heritage trench coat and the poncho which were quite high average selling price products.

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Rogério Fujimori, RBC

And just a last question, any change in trends in the UK market?

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Carol Fairweather, Chief Financial Officer

No I mean I think what we said was that in our first quarter we probably saw less tourism in the UK market than we had in the fourth quarter. You know I think we called out the strength of the tourists in France, Italy and Spain, slightly less tourists in the UK and I think that's more a function of what happened to currencies. And therefore on the back of the movement in the euro they chose to go to Europe instead of London, which for us - I mean as long as they're shopping somewhere clearly that's fine. And then the UK domestic market remained pretty solid.

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Rogério Fujimori, RBC

Thank you very much.

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Julian Easthope, Barclays Capital

Yeah hi everyone. Just a couple of questions as well. Just in terms of the Hong Kong market, presumably the stores are still quite profitable even after the double digit declines. I think the four wall margins are probably slightly ahead of 30%, 40%, certainly they were at peak, so I was just interested to know if they're still very profitable.

And the second question, you didn't comment that margins would be flat as reported; I just wondered whether that was a deliberate decision not to comment?

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Carol Fairweather, Chief Financial Officer

So in terms of Hong Kong yes all of our stores remain very profitable, notwithstanding the comp declines we have seen. I'm not going to give you specific margin percentage but safe to say they all remain very profitable. So you know nothing else to call out there.

And in terms of margin, we didn't address this specifically Julian because there's no change. Broadly the net impact of the FX and the Hong Kong challenges mean that again I think on the reported basis we think margin will broadly be flat year on year.

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Julian Easthope, Barclays Capital

Okay, thank you very much.

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Melanie Flouquet, JP Morgan

Yes good morning. Sorry I have three questions actually. The first one is on just a confirmation, when you say the Mainland Chinese consumer at home and travelling is up low single digit to mid single digit in Q1, this includes Hong Kong right?

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Carol Fairweather, Chief Financial Officer

Yes.

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Melanie Flouquet, JP Morgan

Okay. The second question is on space growth which is at 2%. You had guided for low single digit but when - is it going to accelerate in the second half or should we be on that very low single digit number?

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Carol Fairweather, Chief Financial Officer

No, we're not changing any of our guidance so we had said low single digit before. Remember it just depends at the rate at which the space comes online, and so we're holding our guidance on low single digit for the full year and it's really just timing across the quarters.

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Melanie Flouquet, JP Morgan

Okay. And can you update us on what is happening in Wholesale US? You know Retail seems to be relieved that it's actually caught up towards the end but what are you doing in the US in Wholesale? Can you update us and when do you expect this to pick up? Thank you.

Carol Fairweather, Chief Financial Officer

No I mean so there's no change. We guided back in April and May to our first half expectations for Wholesale in the US which was to be broadly unchanged from that in the second half. And there's nothing to update on today. I mean those orders were placed back in the previous market and we're holding to that guidance today. So I don't think there's anything specific we can say on Wholesale.

Fay Dodds, Vice President, Investor Relations

You know this is the thing that's going in the US is that we are - there's two things going on. We are seeing great growth where we're getting dedicated shop in shops, but we are also taking the opportunity still to kind of elevate the brand. And I think we've talked to you before about pulling out of certain - menswear doors was one of our big partners.

Carol Fairweather, Chief Financial Officer

So we will still see growth in America's Wholesale notwithstanding that elevation, but no, nothing new to say compared to the guidance we gave back in May.

Melanie Flouquet, JP Morgan

Yeah I was more interested in strategically what are you doing to the Wholesale US business, to take it to the next level?

Carol Fairweather, Chief Financial Officer

Continuing to elevate Melanie. I mean it's been very much - we've talked to you before, I mean last year we walked away from some of those doors, those men's doors that weren't appropriately brand positioned, and we will continue to do that. I mean it's very much part of our strategy and our pay as you go approach to continue to elevate in those really key doors and to move away from those doors that aren't so brand appropriate.

Melanie Flouquet, JP Morgan

Thank you so much.

Carol Fairweather, Chief Financial Officer

Okay so thank you very much for your attention and we look forward to speaking to you again on 15th October with our first half trading update. Thank you.

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