



WORLD TELEVISION

Burberry

Preliminary Results for the Year Ended
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BURBERRY

Christopher Bailey, Chief Creative and Chief Executive Officer

Carol Fairweather, Chief Financial Officer

Steve Sacks, Chief Customer Officer

QUESTIONS FROM

John Guy, MainFirst

Bassel Choughari, Berenberg

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Annabel Gleeson, Redburn Partners

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Performance Review

Christopher Bailey, Chief Creative and Chief Executive Officer

Hi everybody and welcome to Horseferry House. Thank you so much for joining us for Burberry's Preliminary Results.

We're continuing today with November's format, so you're seated at tables hosted by members of our Senior Leadership Team and I'm sure I'll be calling on some of the group to contribute during the Q&A later. I'm extremely proud of the people that we have leading every part of the business and so it's great to have so many of them here today from all around the world.

I'm going to kick things off now by talking about our performance and what makes our brand so distinctive in the sector. Then I will hand over to Carol, who as you all know is our Chief Financial Officer, to take you through the numbers. And as at previous meetings we'll then cover a specific part of the business that's particularly topical. Today we'll focus on how we're using data and insight to add value across the business with a presentation from our Chief Customer Officer, Steve Sacks. And then we'll be glad to take your questions. So with that let's get going.

Last year was a busy but exciting one for me personally in my new role and a strong one for Burberry as we evolved our strategies for the next chapter.

As a young old company we have always looked to the past as we have embraced the future. And so last year, perhaps more than any other, was about going back to our roots, about remembering what made Burberry the company it is today and celebrating anew the timeless and authentic products that define our 159 year old brand.

In so doing we reinforced two crucial things. Firstly, our distinctive positioning with the consumer and secondly our unique culture as an organisation. Both critically important as the world evolved rapidly around us and external challenges persisted for the sector as a whole. Against this backdrop we dynamically managed the business to deliver a strong financial performance.

Revenues were up 11% underlying to £2.5bn, and adjusted profit before tax up 7% underlying to £456m. And Retail was a highlight again, despite traffic declines globally, with revenues up 14% underlying, comps up 9% and continued outperformance globally from digital.

Regionally we were pleased to report continued double digit growth in the Americas and EMEIA. Gains in Asia were more subdued, consistent with wider market challenges, notably in the high margin market of Hong Kong, where a slowdown in growth masked stronger results elsewhere in the region; this included an outstanding performance from our directly operated stores in Japan, albeit from a small base.

And as Carol will explain, our cash generation was strong and we are pleased to recommend a 10% increase in the full year dividend as a result. Overall, while exchange rate movements negatively impacted reported numbers, the underlying health of the

business remained robust and brand momentum continued; underpinned by our ongoing investments in long term growth initiatives.

I'd now like to talk about what's driving this performance. In November we set out four themes that underpin our evolved strategic agenda. These come under the following four headings; Brand First, Famous for Product, Customer-centric and finally Productive and Responsible. These themes guide everything we do and I'll turn to them now in considering our achievements last year, as well as some key areas of focus for the future.

I'll begin with the principles of Brand First and Famous for Product, emphatically asserted last year in a global celebration of our heritage. At its core was our intense pride in the British made trench coats and cashmere scarves that are at the heart of our product universe. We radically simplified our heritage trench offering to three fits and three colours, reinforcing the craft and provenance of this iconic piece and reconnecting the customer to its meaning and its purpose.

This is a product for which we control every stage of its journey, from the cotton seed all the way to the customer, distinctive in luxury apparel and ensuring flawless quality and a truly authentic end product. We also brought our iconic cashmere scarf centre stage to launch our first monogramming service online as our product heritage became a springboard for product innovation.

Including the successful launch of our My Burberry fragrance, conceived as a trench coat in a bottle, right down to its Yorkshire woven Gabardine bow. And the introduction of our Runway poncho, made in Scotland, like our heritage scarves. The success of this piece represented the best of our teams in action, from design innovation to marketing amplification, to the agility of our supply chain in responding to unprecedented demand.

Both are destined to be Burberry icons, just like the products that inspire them. Every major brand initiative over the year restated our pride in the craft and story behind these products and in our British roots. Together with the passion for digital and music that have become every bit as much a part of our identity today.

Global events to mark the openings of new flagship stores had this distinctive brand signature at their core. From Dreams of London which recreated the streets of our home city in a warehouse in Downtown Shanghai, to London in Los Angeles where the Queen's Grenadier Guards and James Cordon led an unorthodox runway finale at the Griffith Observatory last month, capping a major celebration of Britishness and music for the opening of our Rodeo Drive store.

Our Runway shows and other events continued to inspire digital collaboration, engaging consumers globally through existing partnerships like Twitter, Instagram and WeChat and newer relationships including Snapchat, Periscope, and Line, the Japanese messaging network that hosted our February Womenswear Show as its first ever live streamed fashion event.

With more than 52 million users in Japan, Line is one of the world's fastest growing messaging platforms and the partnership was an important step in building Burberry's profile and awareness digitally in this priority market for the brand.

And finally this year's festive campaign celebrated our home town and British talent on a global scale, with over ten million views of the campaign video online and ten million visitors to our Window Takeover at the Iconic Paris Department Store Printemps, we were proud to take London with Love to the world.

In the year ahead we will make our unique brand and product proposition just as unmistakable and every bit as unmissable; including through further brand and product initiatives that link back to our core, with the scarf in especially sharp focus. With continued marketing innovation on and offline and a sustained emphasis on unlocking the potential of digital as we reinforce our leadership in this area and with exciting plans ahead for Beauty in particular this year.

The energy with which we pursued these brand and product goals was mirrored by our commitment to being customer-centric, which is the third of our four guiding themes. As we continued to invest to ensure customers have the best possible experience, wherever and however they shop. Just as digital is a brand hallmark, it also defines our approach to the customer experience and so the merging of our online and offline worlds was central to key initiatives over the year; including the rollout of our collect in store programme, increasing customer choice in 200 locations globally.

The re-launch of our mobile site, significantly enhancing the Burberry.com experience in this high growth channel, the extension of our third party digital relationships to expand reach and ensure a more authentic brand experience on platforms including Tmall, Amazon, Nordstrom and Shinsegae. And the introduction in China of a new fulfilment approach that allows digital transactions to draw on inventory in both the local distribution centre and the store network. This pilot has significantly improved stock availability and reduced customer delivery times and will be rolled out to the UK and to the US this year.

Stores remain a critical part of the customer experience in an omni-channel world and we continued to refine our physical presence over the year with relocations and refurbishments including San Francisco, Los Angeles and Tokyo and seven new airport stores, predominantly in Europe, reflecting the significant opportunities we see in the high growth Travel Retail channel. With total planned capital expenditure of around £180m this year key openings will include Seoul, New York and another flagship in Tokyo, as well as the upcoming launch of a new gifting store and Café, called Thomas' after our founder at our Regent Street store here in London.

Alongside these openings we continued last year to rationalise our store portfolio in locations that no longer provide the customer with a consistent experience of the brand, including a net ten closures in China and this will continue in the coming year as we balance near term commercial realities with always doing what is best for the brand over the long term.

Finally, in relation to our customer focus we accelerated investment during the year in our data and insight capabilities, knowing that the key to serving our customers better is understanding them better. As Steve will talk about shortly these investments are creating value by improving decision making right across the business from retail to digital, marketing to merchandising. And we think this is a real point of differentiation for us in the sector.

The customer is feeling the benefits through an enhanced experience on and offline, more personalised service because we know their preferences, more targeted and responsive marketing behaviour and more of the products they want in store. And we are seeing early productivity gains across sales, profit and product with more to come.

The final theme, shaping our performance is our drive to become more productive and responsible in all that we do, as we look to build on the investments of recent years to drive enhanced profitability, we are embedding a more productive and efficient mindset across a business; together with tight control of operating costs, consistent with our stated ambition to drive margin progression over time.

And we have made some good early progress over the past year. For example our intense focus on driving retail productivity was reflected in sector leading retail comps, despite subdued traffic globally. And we saw benefits from operating leverage and tight cost control, albeit masked by the adverse impact of exchange rate movements.

This year we will look to build on this progress to drive future productivity gains across opportunities in product, retail and processes. These include under Product our ongoing rationalisation of assortments that will continue to drive more efficient ways of working and better sell through, a double digit reduction in options brought to market this year is evidence of further progress here.

Under Retail we are evolving governance arrangements to facilitate the sharing of best practice and customer analytics globally, making us more responsive. And under Processes we will continue our investment in IT system upgrades, to enable productivity improvements right across the organisation.

2015/'16, will also see an enhanced focus on responsibility, the second part of this final theme, because we want to be a successful business, but we also want to be a compassionate company and we are thinking ambitiously here. We're taking our environmental responsibilities ever more seriously, expanding our in house team, investing in research and challenging ourselves to make further progress in areas like limiting chemical discharge and energy consumption.

Consistent with our focus last year on our core we launched a sustainable farming initiative in our cotton supply chain in Peru, reducing chemical and water use. We're also making a real difference to our communities through the 1% of our profits we give to charitable causes annually. This included major donations linked to flagship openings and a 25% increase in staff volunteering with partner charities last year. And at the level of the individual we're putting ever greater emphasis on nurturing our authentic and vibrant culture.

A key highlight last year was becoming the first luxury retailer and manufacturer to gain full UK living wage accreditation, a significant achievement, of which we are particularly proud.

And looking ahead we will be launching an ambitious new programme to help young people build their future careers in the creative industries and beyond. With nearly 70% of our global team under the age of 35 it made sense to us to do something in this space. It will build on our company's passion, and my own, for nurturing young talent through programmes like Burberry Acoustic and our partnership with organisations including BAFTA and the Royal College of Art. And it will also create opportunities for some of the most disadvantaged young people in our communities. We will talk more about this in the coming months and are hugely excited about its potential to make a real difference within and beyond our organisation.

These are just a handful of examples of the intense focus on building our culture that we believe is critical to our future success, allowing us to attract and retain the very best talent. As the world's 36th most in demand employer according to LinkedIn we know we punch above our weight in this regard and will continue to prioritise it accordingly.

And so to conclude we end the year proud of our teams' achievements, in an external environment that remained challenging during the year. Against an increasingly uncertain backdrop in 2015/'16 we will do what we always do and focus on those things we can control in the months and the years ahead, building our unique brand in an innovative and exciting way for the long term, creating authentic and distinctive products that people aspire to love and to own, making every customer experience the best that it can be both on and offline, and realising the benefits of a more productive and responsible mindset across our organisation.

I can confidently say we have never been clearer as a global team about where we need to focus in this next phase, nor more united in the pursuit of our goals. With rich opportunities ahead of us by channel, region and product division we are excited about the future and ready to navigate the road ahead.

With that I will leave you with a short video that summarises some of our brand and business highlights in the second half of the year, after which Carol will take you through the financials.

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Financial Review

Carol Fairweather, Chief Financial Officer

Good morning and thank you Christopher. It gives me great pleasure to present the results for the financial year 2015, where we have delivered a strong financial performance against a challenging external environment. As Christopher referenced

Burberry - Preliminary Results Presentation - 20th May 2015

revenue was up 11% underlying, and adjusted profit before tax of £456m was up 7% underlying.

We continued to be strongly cash generative, closing the year with a net cash position of £552m and have proposed a 10% increase in the full year dividend to 35.2 pence.

Clearly the movement in the exchange rate has had a big impact on our reported numbers and I will explain this as I go through the presentation.

Turning to revenue, given that we have already reported this, I will only briefly summarise our performance. We grew revenue to £2.5bn, up 11% underlying and up 8% at reported exchange rates after a £72m FX impact.

Growth was led by Retail up 14% underlying with comparable sales up 9%, underpinned by the investments we have made in recent years, in brand, retail, digital and customer service. Excluding Beauty, Wholesale was up 1% underlying reflecting the impact of our own actions, such as account rationalisation as we upgrade our presence in Europe and the United States, and external factors including cautious ordering from customers serving the European consumer, and in Asian Travel Retail markets, especially in the second half of the year.

Beauty Wholesale was up 25% underlying in line with guidance with the successful launch of our iconic My Burberry fragrance last September that Christopher has just spoken about. And finally Licensing was unchanged underlying also in line with guidance.

By product our three largest divisions all posted double digit growth, with particular strength from our heritage trench coats and cashmere scarves. By geography we saw double digit growth from both EMEA and Americas and while Asia Pacific was up 9% for the year it did slow in the second half. This reflected the disruption in Hong Kong, which is about 10% of our revenues, which decelerated to a mid single digit comp decline in the second half. As you would expect Pascal and his team are intensely focused on the Hong Kong market. Faced with significant declines in footfall we are driving conversion and average transaction value; switching marketing more to the local customer and using the new customer value management tools that Steve will talk about shortly, while reviewing all costs from real estate to staffing levels.

Now turning to global pricing, let me just remind you what we said in April. We have a clear long term strategy for global pricing, with defined 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 impacted the global pricing architecture, both for us and our peers, so we continue to act thoughtfully and responsibly to address this just as we have always done.

Turning now to profit, this slide clearly demonstrates the material impact that exchange rates have had on reported profit. We are pleased with the 7% underlying growth in adjusted operating profit which reached £455m.

So looking at these numbers in greater detail this slide shows the bridge between last year and this year for adjusted Retail/Wholesale operating profit and margin. You can see both the exchange rate impact of £26m, which was practically all in the first half, and the underlying increase in operating profit of £32m resulting in a profit for the year of £399m. And you can also see operating profit margin which last year was 17.5% reported - the impact of FX is about 60 basis points, reflecting how exchange rates have moved through the year and the imbalance between where we generate revenue and where we incur costs. Excluding this, operating margin declined by about 60 basis points to give a reported margin of 16.3%.

Now looking at the Retail/Wholesale P&L, gross margin was 69.2%, down 100 basis points. This reflects the negative impact of exchange rate movements, the one off inventory costs relating to a previous fragrance launch that we discussed at the interims, as well as various mix and other effects, including an adverse regional mix from the slowdown in Hong Kong, which as you know has historically been one of our most profitable markets.

Looking at the operating expense to sales ratio this was 52.9%, up 20 basis points compared to last year. This again reflected the adverse impact of exchange rate movements which more than offset the modest benefit seen from operating cost leverage and tight control of costs.

On licensing profit for the year was £56m down £11.5m due to the negative impact from exchange rates mainly reflecting the movement in the effective yen rate from 1.37 to 1.64 to the pound.

Now working down the income statement we had £0.6m of financed income in the year, and for the current year we would expect it to be around the same level.

The adjusting items of £11.2m comprised two things, the £15m amortisation of the fragrance and beauty intangible and a £4m credit relating to the China put option.

This year the tax charge was £104m with an effective tax rate on adjusted PBT of 23.4%, down from 24.7% in 2014, largely reflecting the reduction in the UK corporation tax rate. For 2016 we expect a similar rate of around 23%.

Our business remains strongly cash generative with £568m of cash flow from operations, up 6% from the £536m last year. Depreciation was £124m, a little below our guidance reflecting the phasing of capital expenditure, and we expect a charge of around £140m in 2016.

Inventory was tightly controlled demonstrating the payback from our investment in planning, teams and processes, and this contributed to an outflow on networking capital and other items of £32m in the year, less than half of that of the previous year.

Burberry - Preliminary Results Presentation - 20th May 2015

Below operating cash flow we saw capital expenditure this year of £156m, similar to last year's level and slightly lower than guidance, reflecting the phasing of new projects.

Retail represented about three quarters of the spend, broadly evenly split between regions and focused on flagship markets including our new stores in Los Angeles, Osaka, Tokyo and Dubai, and refurbishments in San Francisco and Milan.

Looking forward to 2016 we can expect capital spend of around £180m, about two thirds in Retail weighted towards Asia with key projects including our first flagship in Korea which is due to open in the autumn, a number of projects in Japan including our Shinjuku store in Tokyo, and the continued upgrade of our store portfolio in China.

So returning to the cash flow. You can see the capital expenditure of £156m. Tax, dividends and other movements totalled £263m. So we finished the year with net cash of £552m, about £150m more than this time last year.

We are often asked about our capital structure so let me just recap on our thinking. As this chart shows our net cash has grown significantly after funding over £700m of capex and over £200m acquisitions over the last five years to drive growth. But it is also worth remembering that we lease the vast majority of our stores. So if you look at lease adjusted net debt, which we calculate as five times our annual minimum lease charge less net cash, this increased slightly during the year from around £380m to about £400m, and has nearly trebled over the last four years as we have moved more to Retail and focused our investments in flagship markets.

Over the same period we have also returned over £550m worth of cash to shareholders through dividend payments. And today we have proposed a 10% increase in the full year dividend, moving the payout ratio to 46% from 42% last year, as we move progressively to 50% over the next two years.

Before I close a few points on forecasts for 2016. Adjusted operating profit in 2015 was £455m including £53m of licensing income from Japan. Looking to 2016, as we said in the statement this morning, if exchange rates remain at current levels this will benefit 2016 profit by about £10m which is a reduction in the benefit of £40m since we last spoke in April, reflecting the appreciation of sterling against all our major currencies since then.

Japan licensing income will decline by about £28m as previously guided giving you a rebased profit of say £412m excluding Japan licensing. As you look to grow that we have given our normal revenue guidance in your slide pack.

Turning to reported Retail/Wholesale margin, we do now expect the benefit from FX and tight cost control to be offset by an adverse geographic mix and channel mix, and continued investment in the business in flagship markets, digital and technology.

Finally please note that profit at constant exchange rates is expected to be more H2 weighted than in 2015.

So to close we are pleased with our performance and the delivery of robust growth reflecting the strength of the brand and its iconic products both online and offline. We finished the year with a strong financial position. We are mindful that the external environment has become more uncertain in some markets since the start of the year, but we'll continue to execute against our key initiatives focusing on what we can control while investing selectively to drive long term profitable growth, always doing what is best for the brand whilst retaining tight financial discipline.

So thank you and I'll now hand over to Steve.

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Productivity and Service: The Customer Opportunity

Stephen Sacks, Chief Customer Officer

Thank you Carol and good morning ladies and gentlemen, it's a pleasure to talk to you today. I'm Steve Sacks, Burberry's Chief Customer Officer. I've been here for three and a half years having previously been at Lloyds Banking Group and McKinsey and Company. It's great to be working in a business that is so focused on its customers and that has such an appetite for innovating and constantly improving.

This morning I would like to talk to you about how we're helping to drive productivity and improve customer service, two of the key themes that Christopher talked about this morning.

We spoke in 2012 about investing the customer by focusing on four key areas. Retail excellence, how we provide a great customer experience and maximise productivity in our stores, Burberry private clients, our team who focuses on our most elite customers, customer service, our team who serves customers on the phone, chat, email and through social media, and customer analytics which we will concentrate on this morning.

To start let me explain what data we have. As this chart shows we collect data from a wide range of sources globally. This data covers both our physical and digital interactions, and is combined into a single global view of each customer. Of course we only collect and use this data in a way that we feel is appropriate and responsible.

We capture customer data in about 85% of our transactions, and have today 9 million customers in our database. We analyse browsing behaviour on our website, footfall data from over 400 of our stores, and anonymised data from a number of social media platforms.

Having built our cloud computing infrastructure we are able to process and analyse a huge volume of data, and in fact we've increased the volume of data we ingest by a factor of five over the last year.

We have built and invested in a team of talented people across the business and IT with our own in house data scientists who include a number of PhDs in disciplines from physics to economics. Their goal is to structure, analyse and extract the insights from

our data to inform commercial decisions across the business from retail to marketing, merchandising to planning.

Having all of this data means we have a single global view of our customers, how they're attracted to the brand, how and where they interact with us, their purchase journeys and their customer profile. We also aggregate this data to understand broader consumer trends, some of which I will share through examples this morning. Clearly much of this is commercially sensitive so as you'd expect we won't share it externally.

We believe that customer data appropriately used will play an important role in the future of our sector. Our goal is to embed customer analytics into the fabric of our business. Let me stress that we're on a journey but we have already made substantial progress in using customer data to provide our customers with a better experience and to create value for the business.

To illustrate this I'd like to take you through some examples of how we are doing this today in four main areas, in retail stores, customer value management, digital and marketing.

Firstly Retail. We know the relative size of Retail spend by key nationalities and where they shop when they travel. Importantly we monitor how this changes weekly, monthly and year on year. So let me give you an example of how we used our data to better prepare for Lunar New Year and meet the needs of our customers.

First we analysed what Chinese customers bought at home in the run up to Lunar New Year, what items they browsed on our website before travel and what items they bought most frequently while travelling. We used this to build a detailed picture of their product preferences, including the style, fit, length, colour and sizing for each product category.

Second, we analysed when and where Chinese customers were purchasing over the Lunar New Year period. The bar chart shows when the spend peaked and the line shows the percent of spend at home rather than overseas. You can see it peaked at over 70% domestic in the New Year's week. This enabled us to predict their shopping patterns by market and even by store.

Using this data and analytics gave our merchandising allocation and retail teams insight to enable better decision making aimed at maximising sales and profit. It allowed the regional teams and Donald's planning team to make sure that we had the right product in the right stores at the right time to satisfy our customers. It also allowed our retail teams to relocate Mandarin speakers into our stores to reflect these travel patterns and to focus our in store training to meet these customers' needs. Even at this early stage we believe that these actions contributed to the 9% comp growth that we delivered in the fourth quarter.

The second area where we use customer analytics is in our customer value management programme which aims to retain and grow the value of our existing customers, a key driver of growth for our business. This pyramid shows the segmentation of our customer base which is built on the lifetime value and product preferences of each customer.

While our Burberry private client team focuses on providing service to our most elite customers, the customer value management programme is about expanding that personalisation and service further down the pyramid. Currently it focuses on the top elite, connoisseur and classic customers who account for over a third of our sales.

We launched this programme last year and rolled it out to all our mainline stores in October. This has allowed our associates to reach out directly to more of our top customers and to provide them a more personalised service.

What we believe makes the programme powerful is its scope, scale and level of personalisation. While at the heart of this is an analytical engine, what the customer receives is regular, personal, one to one communications from an associate. This includes invitations to experiences or events. In the six months since launch we have sent out over 10,000 event invitations, including to a handful of our top clients who were invited to our recent LA event.

This includes suggestions for the perfect product. For each new season or collection our top customers are engaged in a personalised communication from their sales associate about what new arrivals will complement their wardrobe. And this includes special services, for example private, exclusive appointments during the festive period to help meet their gifting needs.

And the benefits of this personalised approach are clear. Our top customers who are contacted through the CVM programme are 50% more likely to return and purchase from us again. They also spend 50% more when they shop than similar customers who weren't contacted directly in the same period. Last year we grew the value of our top customers by over a quarter, with customer value management driving a third of this growth.

The third area in which we use analytics is to help our teams improve our digital platforms in terms of design, content and site performance. Let me give you two brief examples. In the third quarter our merchandising and digital teams identified that sales of our new Banner bag were performing less well online than in store, but why? When we got together to look at the data we found that very few visitors looking at bags actually clicked through to the Banner product page. Basically the visual imagery wasn't working to drive a click.

So within a morning our digital merchandising and creative media teams created new images for the Banner bag in our in house studios downstairs and loaded them onto the website. And as a result both product views and sales increased by over 100% to the extent that the Banner online was outperforming offline.

Secondly, we have a globally consistent website which is live in 44 countries and 11 languages. By analysing customer journeys for different nationalities we found that while US consumers used the traditional left hand navigation menu, Japanese consumers prefer to browse in a more visual way. As a result of these insights our digital team changed our global mobile site to add new types of visual navigation links. This led to a lifting conversion of over 10%.

The fourth area where analytics creates value is within marketing. We have recently conducted a global piece of work using econometric regression models to provide quantitative answers to key questions which will help in allocating our marketing spend. This analytical approach is common practice in many FMCG and media companies, and we were bringing these best practices to luxury.

So how does this help us? As an example one of our econometric models focused specifically on the variables that affected tourist spend in our UK stores. From this we were able to determine the relative influence of local marketing in a customer's home market versus the influence of marketing where they ultimately shop. Our marketing team has used this information to allocate marketing spend and to optimise the regional marketing messages consumers receive pre travel.

Given that the travelling luxury consumer accounts for around half of our sales in EMEIA you can understand the benefit of these insights.

Another example is improving the targeting and reach of our marketing spend, getting the right message to the right audience through the right channels, thereby generating a better return on investment. For festive 2014 we ran two separate campaigns on one of our social media platforms. One to engage our active customers and a different one to re-engage our lapsed heritage customers with brand content specifically tailored for each group. The initiative delivered a double digit engagement rate, a multiple of the industry benchmark.

So in summary we have started using data extensively to better serve our customers and to create value today, and this data is changing the way we make decisions and operate across the business. Harnessing this data will be a core underpinning of the future of Retail. Indeed McKinsey has said that companies that succeed aren't the ones who have the most data but the ones who use it best.

I'd like to leave you with a thought that we're on a journey to build customer analytics into the fabric of our business. Over the next two years our priorities are to continue to embed customer analytics throughout the organisation from retail to digital, marketing to sourcing and merchandising to planning; to enhance and personalise our customers' experience whenever, wherever and however they choose to shop, and to extend and deepen our customer value management programme to serve more of our customers and to drive retention.

Beyond this, as a forward thinking, digital business we want to make sure that we are at the cutting edge of analytics in a rapidly evolving luxury retail environment.

Thank you and now I will hand you back to Christopher.

Christopher Bailey, Chief Creative and Chief Executive Officer

Okay so I hope we've given you a little insight into some of the things that we've been doing and some of the ways that we're approaching the future. Thanks to Steve and thanks to Carol. And we are happy to take questions now.

Questions and Answers

John Guy, MainFirst

Thank you. I've got four brief questions please. First of all Carol, just to start on the opex as a percentage of sales on the Group that grew by 20 basis points but obviously there seemed to be underlying some improvement. As you look at your space growth programme for FY'16 within your pay as you go system, what can we expect to see underlying pre FX in terms of that, the movement within the opex?

The second question around cash. You talked around five times operating leases and looking at effectively a net debt position but even on eight times capitalised leases you've got headroom in excess of £2.5bn. So a £500m share buyback potentially, is that on the cards? What is your thought around returning more cash to shareholders?

Christopher one for you in terms of ecommerce relationships, you didn't mention Alibaba. Just wondering what your current thoughts are within the context of Kering's law suit and what your relationship is there.

And one for John on skincare. Can we have an update in terms of a partner on the skincare side? Thanks very much.

Carol Fairweather, Chief Financial Officer

So in terms of opex in the year that we've just finished we did say that we did see a benefit from leverage and tight cost control but that was more than offset by the FX impact in the year. As we look forward to next year we have guided this morning to a £10m FX benefit year on year, and we're saying that reported margin incorporating that benefit we see as being broadly flat year on year, reflecting that benefit and ongoing tight cost control which will be broadly offset by our continued investment in the investments we continue to make in flagship stores, in digital, in customer and also the adverse geographic mix of Hong Kong.

So continuing to be very focused on driving income revenue and profit in pounds millions while driving that margin expansion over time. But as we sit today we expect reported margins to be broadly flat year on year.

And then turning to your point on cash, you know as I said we do look at our balance sheet every single Board meeting. We keep that under close review. But taking into account that adjusted net debt position, our future investment plans, potential opportunities to think about what we might want to do with our China minority partner in the future and the investment plans that we've got ahead, we are delighted today to have moved our dividend payout ratio up from 42% to 46% as we committed to do as we move towards 50%. But as always we'll keep it under constant review, but no change to announce today.

Christopher Bailey, Chief Creative and Chief Executive Officer

And then John I'll just frame both the Alibaba and the skincare questions that you asked. First of all Alibaba and Tmall, we have a very strong relationship with Tmall. It is a small business. It's something we obviously can't comment on the way that Kering are dealing with Alibaba, that's - they have their own way of approaching those things. Our approach has been to clean up the market on Tmall and make sure that we have consistency across all of our platforms. So on Burberry.com if you go onto Tmall today and you see Burberry, it's very, very consistent and you'll also see the grey market has been significantly reduced to practically zero, and that was a big part of our initiative. John will embellish in a second perhaps.

And then just on skincare, again just to frame that. We've always said that fragrance will be the bulk of our business within Beauty. We are delighted with the launch of My Burberry. We have got something very exciting coming up with makeup in the summer of this year, we haven't announced it yet, but fragrance will always be the bulk of it but we believe in the opportunities in makeup.

Skincare, we did say that there is some - that potentially we'd be having something by the end of 2015. We have no plans at the moment. We're exploring partners as you would expect. We're in no rush. When we find the right partner we will work with them, but again just to reiterate fragrance is really the key to our Beauty division. John do you want to add anything?

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John Smith, Chief Operating Officer

Thanks Christopher. Just to add John that on Alibaba we have the most tremendously close working relationship with them, and since we went live a year ago we've extended our product range with them and feel we continuously get great success with them in taking down counterfeit and parallel traders off the platform. I mean we meet with them frequently, they're incredibly responsive. If we find that there are unauthorised traders up there or products up there they take them down really quickly. I mean only last month 23,000 different items removed because they do keep popping up. So we feel that by engaging actively with them in a commercial engagement which is about giving us better reach and revenue we also get the benefit of a good relationship in terms of cleanup.

And on Beauty, I mean as Christopher said we're incredibly pleased by how the year has gone. My Burberry has been a super success, we've met the revenue guidance that we said earlier, 25% up as Carol mentioned. We feel we've had a very successful period. The current year is about proving ourselves in makeup with lots of very exciting plans to announce in due course, digitally too of course. And skincare we're still working with potential partners and will come back when we're ready to announce something.

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Bassel Choughari, Berenberg

I have three questions please. The first one is on Japan. You've pushed forward a bit your target in terms of store openings and I was wondering to what extent are you being

cautious with that guidance because I feel that Japan, you know if you go to Ginza for example, Ginza is what it is, it is very mature and it can take one, two or maybe five years to find the right space. So how cautious are you in that new guidance?

The second one is a bit on Hong Kong/Japan which is what we are seeing right now is some of the tourist flows going from Hong Kong but more Chinese customers going to Korea where you're in a strong position, but into Japan as well where it seems like you're still in expansion phases. So to what extent do you think you might be missing on an opportunity here because of these travel flows?

And the last one is maybe on Hong Kong and your guidance on costs. To what extent are you factoring potential lease renegotiations? Because we've seen some renegotiations from some of the watch players in that market so maybe if you can give us a bit of detail here. Thank you.

Christopher Bailey, Chief Creative and Chief Executive Officer

So first of all just on Japan. It is absolutely a timing issue that we talked about a couple of months ago. We are very, very confident and though it's important to reiterate, it's a very small base today, the performance in Japan has been outstanding.

To your point we are being very consistent with the way that we are approaching the search for the right real estate. We've just opened Omotesando, we've just opened Osaka, we've got a new opening towards the end of this year in Tokyo. Ginza, we continue to look for the right space. The reason that we talked about timings is again going back to the rigidity of the way that we are positioning ourselves in Japan, we want consistency, we want to have the right adjacencies, we want to have the right peer group. We will sacrifice larger spaces to have the right spaces and that's really been the reason behind some of the delay with timings.

I was there with many members of the senior leadership team just three weeks ago. The team in Japan that Pascal has built is a stellar team. They are on fire. We feel very confident about the approach that they are taking. It's a very strategic, very thoughtful, very long term approach for Japan. We see our peers having a very strong, large business in Japan and we know that we have got huge opportunity there.

And Pascal, do you want to talk about some of the Hong Kong things and maybe you want to embellish on Japan? We were talking about tourists in Hong Kong and also costs in Hong Kong?

Pascal Perrier, Chief Executive Officer, Asia Pacific

Yeah, thank you very much Christopher. Just to add on what Christopher said on Japan, let's keep in mind this is the second largest luxury market in the world. We have long term views there. Last May when we talked to all of you we said that real estate was the key and we said that we always would go for the best quality. This is what we are doing.

We are very, very pleased with our results, you know the business is currently more than 30% and we have an uncompromising attitude vis-à-vis real estate, be it free standing stores we have now five of them, and with department stores we have 13 concessions. So as far as Ginza is concerned, and let's not forget that we have already invested in key flagship cities of Japan with Omotesando and Osaka and in the fall this year we will open Shinjuku. So we can take the time to look at Ginza which is indeed very, very critical and very strategic and we'll need to find the right space.

Regarding Hong Kong it is a sector wide issue. We focus on what we can control and we look at three things. One is the transaction aspect of the business, looking at the conversion your average transaction value, and also very importantly the customer experience.

Two, we look at the local customer as the traffic from mainland China is decreasing so the local customer becomes very, very important for us and we shift our marketing spend into more targeted action. And the third thing that we do is indeed cost control. We do look at the organisation, staffing and of course structural cost and particularly real estate cost. So we will update you as appropriate on this one. Thank you.

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Mario Ortelli, Sanford Bernstein

Thank you very much indeed for this opportunity. The first one a clarification on your pricing strategy. Your recent pricing change across geographies, if you can illustrate that, possible increases in Europe, decreases in Asia. And which impact do you think they will have in margins?

The second is about what is currently the differential of margins of sales that you do in Europe and America and in Asia?

And the last question is about this store allowed. You guided for a low single digit growth. You focus on the re-engineerisation of your current store network. When will you complete the transition in China? With the last closure - you will have a state of the art retail network, and if we look on a longer term, three to five years, which is the space growth that you have got in your plans? Thank you very much.

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Carol Fairweather, Chief Financial Officer

So your first question on pricing I mean I'll hand over to Donald who has done all the work in the team there, but just to say as I said earlier you know we have a long term strategy and there has been no change to that strategy. Clearly FX rates have significantly impacted and just as we always do season to season we've moved prices and maybe Donald can give a little bit more colour.

In terms of how that affects margin, just to say today you know there has been no change to our full year outlook and the margin guidance we have given which has just been impacted by FX today, incorporates those pricing changes. So nothing to say in terms of how we expect it to change margin compared to when we spoke to you in April.

Donald, I don't know if you just want to give Mario a bit more colour on how we look at pricing region by region?

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Donald Kohler, Chief Merchandising, Operations Officer

Thanks Carol. So as Carol said we feel quite confident in the long term pricing strategy that we've laid out. And all of the actions that I think many of you have noted are consistent with this strategy. We have a couple of periods a year when we actually address this pricing and you will have noted some shifts that occurred most recently, and those shifts were focused in select categories, primarily in rainwear and scarves, and that we did address across many currencies but most specifically within Hong Kong, China and Europe.

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Carol Fairweather, Chief Financial Officer

Thank you Donald. In terms of store rollout plans in China, Pascal I don't know if you want to give Mario a little bit of colour in terms of where we are on that journey?

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Pascal Perrier, Chief Executive Officer, Asia Pacific

Thank you Carol. So China it's - you know the network evolution is very, very consistent with what we have been doing since we acquired this market almost five years ago. We always said that we would elevate the brand image so we closed the year with 68 stores with net closure of 10. So we closed 14 stores and opened 4 new ones. We had a space increase last year of about 12%. This is very important for us to continue this strategy because globally the Chinese customer is very important for us.

Globally we have enjoyed growth last year; however with the slowdown in the second half in mainland China we still continue to see growth on the comp basis in this market. In Hong Kong unsurprisingly we see you know a slowdown, and in the rest of Asia and Europe and Middle East and America we see strong double digit growth with the Chinese customer.

So this strategy is unchanged. We continue to elevate and optimise the store network.

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Carol Fairweather, Chief Financial Officer

And then your question in terms of differential margin, I think we've talked to you before, we're not going to give you specific numbers but I think no different than many of our luxury peers it tends to be Asia followed by EMEIA followed by Americas is just structurally the way the business has tended to operate in terms of where we see margins.

Annabel Gleeson, Redburn Partners

Just three questions from me. The first is following your price cuts in China and Hong Kong could you give us an idea if you've seen any volume impact there?

The second question is in your presentation you did a very impressive talk about what you're doing with customer relationship management, etc. Where would this put you now relative to your peers do you think? Do you think you're now streets ahead or does this just bring you up to speed with them?

And the third point is on your guidance you're saying PBT is going to be more H2 weighted than this year. Can you just clarify why that is and sort of what we should expect H1, H2? Thank you.

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Carol Fairweather, Chief Financial Officer

I mean just in terms of price cuts Annabel I mean it's very early days. So as I said it's factored into that guidance today. I mean it's been a few weeks and normally season to season we don't talk specifically about what's happening, it is very much business as usual both in Asia and indeed in EMEIA so nothing specific, early days and no change to guidance on the back of those movements that we've made.

I'll just take the H2 question and then I'll hand over to Christopher or Steve. In terms of H2 given what's happened in Hong Kong specifically, clearly last year we had strong growth in Hong Kong in H1 and then we saw it declining in H2. As we enter this year clearly that high margin market, you know we've guided to the fact that we're still finding Hong Kong very challenging sector wide we believe, but that will impact on the weighting of profits H1, H2 principally driven by Hong Kong, and the continued rollout of our flagship strategy with some of those big openings we talked about in Japan, in Korea which will put a little bit of pressure on H1 versus H2 this year.

In terms of customer relationship management and where we are?

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Stephen Sacks, Chief Customer officer

In terms of our customer value management programme and more broadly our use of analytics throughout the business, I think we talked about how we're using the size of the database that we have, the infrastructure we're building around it. And I think what's powerful about it is the way that we're building all of this into the fabric of what we do day to day. So it's not just a programme that we're running out, a CVM programme, but it's actually a fundamentally different way of using data everywhere throughout the business.

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Louise Singlehurst, Morgan Stanley

Just a couple of questions from me please. Firstly for Carol, can you help us understand that underlying opex move into full year '16? And I know you talk about the incremental IT investment but can you give us a flavour of what was spent in full year '15, whether

that's a big increase for full year '16 and whether that's a two or three year project or something that's done over the next 12 months?

And then secondly obviously the inventory position, a huge pat on the back for the team given it was pretty much flat year on year given the growth. Can the team give us some idea in terms of the benefits that you're seeing for the Chinese business? Obviously you're rolling that out to the UK and US. I presume that's a question for Donald.

And one cheeky question which I'm sure I'm not going to get the answer for, but in terms of how you're planning the business and the change in the Hong Kong environment, how are you thinking about managing the business for the like for like that you need to sustain that margin that we're now looking for, for full year '16 currency neutral? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay so first of all just in terms of opex, so we have called out in the statement today that we will continue to invest in flagship markets, in digital and in technology. I'll hand over to John. Over the last few years we've massively benefited from the SAP investment that we made what is now eight years ago which has underpinned a lot of our growth and particularly gross margin improvement over the last few years, and it's now time to upgrade that platform as we look forward in order to underpin future growth and productivity initiatives. But it will be a few million pounds a year prioritised very much in line with our pay as you go approach, you know making sure that we're delivering the returns off of that. I don't know if you want to add anything John?

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John Smith, Chief Operating Officer

Certainly, quickly Carol that I mean SAP 2007, here we are eight years later. It's been brilliantly helpful to us in getting visibility about performance store by store, standardisation and so on, the things people do get from SAP. But like all software suppliers they're evolving their offering too and you may have read from other companies that they're moving to something called HANA which we have taken the decision to go to, and we will implement that slowly over the course of the next 12 months or so. We won't be getting new visibility benefits, we've got those already. We will be getting benefits in terms of process improvement, and also we're obviously replacing something that's now eight years old anyway, including the hardware that it runs on.

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Christopher Bailey, Chief Creative and Chief Executive Officer

And then Donald do you want to do the China fulfilment?

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Donald Kohler, Chief Merchandising, Operations Officer

Yeah absolutely, thank you Christopher. So Louise thank you for the pat on the back, I think the global planning and allocation teams will appreciate that and a credit to them absolutely. To your question around single pool of inventory, as we spoke about in our last interims we actually rolled that out in China most recently. We're very happy with the results that we've seen so far. And then over the course of the coming year we have the plans to implement that both in America and in the UK.

So I think we're in a very good spot there. The other benefits that we've seen are from our automated allocation system that we've placed in, and the benefits coming from that across our inventory management have been quite strong.

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Carol Fairweather, Chief Financial Officer

And then just in terms of Hong Kong, obviously there's the specific issue in terms of the actions that we're taking in Hong Kong to mitigate that continuing decrease in footfall in our highest margin market. But beyond that it comes back to the wider business wide productivity initiative that Christopher spoke to early which is right across the business through driving productivity in our retail sales, through the investment we're making in product, through the investment we're making in customer, in merchandising, some of the work that you heard Donald talk about earlier. And then of course looking to drive long term margin expansion as well in terms of tightly controlling costs, again balancing investment with costs.

But you know the size of the decrease in Hong Kong; it will impact the first half numbers as I alluded to earlier. But it's really focusing on the productivity agenda right across the business which I think will drive both top line and indeed benefits to gross margin and opex over time as well.

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Guillaume Gauvillé, Credit Suisse

I'm just trying to get a better understanding on your LFL development for fiscal '16 so three questions on that please. Firstly are you thinking about increasing prices on trench coats to the same extent you did last year? If I remember correctly you increased prices to sometime about 20% on trench coats which probably have been a material contributor to LFL, so that is my first question.

The second question is on mix contribution. I mean you have been flagging the poncho collection as being a massive contributor to mix and hence LFL, so are you thinking it will repeat again this year or are you seeing new products bringing the same mix contribution?

And the final question also related a bit to opex. I mean what is exactly your LFL I would say breakeven point, in terms of what is the LFL you need to achieve to avoid operating deleverage in a let's say currency neutral environment? Thank you very much.

Carol Fairweather, Chief Financial Officer

I mean just in terms of pricing, as I said our pricing strategy is you know season to season we have always adjusted prices and so you did see something last year on Heritage trench, you've seen something regionally this year in response to FX. So nothing to announce today specifically, it is just part of business as usual. And as we go into each season we'll look at that product in market, decide what the appropriate pricing adjustments if any we need to make are, and then move onto the next season. So nothing specific to call out today in what we might be doing differently there than what we have done in the past.

In terms of the mix and ponchos, I mean I don't know Christopher whether you want to give any colour?

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Christopher Bailey, Chief Creative and Chief Executive Officer

Yeah. I mean we - ponchos was really a new category so we know that we have got a lot of further opportunity in ponchos, but it's part of a broader range of what we call softs, so basically cashmere scarves, and that will be a big focus for this next year. But we also don't underestimate the heritage and the trench coats, and what we started last year, that is becoming the foundation of everything that we do and we know that we have got a lot of further potential there.

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Carol Fairweather, Chief Financial Officer

And then your last question about what was the breakeven point in terms of like for like, clearly I'm not going to - you know it depends market by market and that's not what - that's not how we necessarily think. It's about dynamically managing the business as we do, making sure that we're taking the opportunities right across the region, so you know looking to offset some of the challenges we've got in Asia by outperformance in other regions whilst we tightly control discretionary spend as we always have done, but also mindful that we need to continue to invest in those initiatives which we believe drive that long term, top line revenue and profit growth in pounds million. So it's that dynamic management that we've been doing for the last three years that needs to continue as we navigate our way through this year.

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Rogerio Fujimori, RBC

So Mr Bailey do you think it would be desirable to invest to have more products made in England given your success? I understand it's not for everything given leather skills in Italy, but I was just curious to hear your thoughts.

And Carol, one question about gross margins. Could you help us to think about the outlook for fiscal '16 because you were lapping a big inventory write off in the first half in fragrances and I was a bit surprised? Obviously Hong Kong is a drag but if you could help us on the gross margin outlook it would be great. Thank you.

Christopher Bailey, Chief Creative and Chief Executive Officer

So I'll take the first one about made in England, made in the UK. It's fundamentally important to who we are and our identity. We have over 700 people in Yorkshire making our trench coats, and as we mentioned in the speech we work with the farmers, the cotton farmers, to bring that to our factory in Keighley where we weave that into the gabardine, the famous gabardine. It then gets driven to our factory in just down the road, 20 miles away, to be made lovingly by hand by the seamstresses there.

It is fundamental to the heritage and to the history that we continue with that process and with that craft. And then also the iconic cashmere scarf is woven and made in Scotland which is where we've also started producing the ponchos. So it's very, very much a part of our identity. It's part of our DNA and it's something that we will continue to expand on.

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Carol Fairweather, Chief Financial Officer

And then just to your gross margin point, clearly H1 of last year was impacted by that one off Beauty write off. You know you'll have seen from the yearend number we're delighted with that inventory position. We have both our Fashion and Beauty inventory very much under control so we certainly will hope to be able to have some positive leverage from not having the Beauty write off.

We need to wait and see where Hong Kong materialises in terms of the mix impact that that will have on gross margin. But some of the initiatives Christopher spoke to earlier in terms of option assortment, higher full price sell through, I'm hoping that we will also see benefits in gross margin coming from that. And the reason we're guiding to flat Retail/Wholesale margin at underlying rates is because depending on what happens in Hong Kong there is a large fixed cost base there, and that will put pressure on opex as we continue to invest and balance that as we go. But yes, absolutely would expect that we would be able to offset that impact we had on gross margin from Beauty last year.

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Christopher Bailey, Chief Creative and Chief Executive Officer

So guys thank you so much for taking the time to come over to see us and to listen to all the things that we're doing. A couple of things just to finish. I mentioned in my speech we'll be opening the end of the week a new store called Thomas' which is just behind our Regent Street store on Vigo Street. It is a gifting store so I'm sure you're all looking for gifts so please do go there, check it out. We're looking forward to seeing you in there. And it's also a café. It is a prototype store but we would love you all to go there, particularly if you're there to shop.

Laughter

Secondly we also invited many of you to Los Angeles to celebrate the opening of Rodeo Drive, our new store there. Few of you were able to join us so we wanted to just share with you some of the highlights that we had there so that next time you take us up on the offer to come over.

So thanks again for joining us and enjoy LA.

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Video played

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