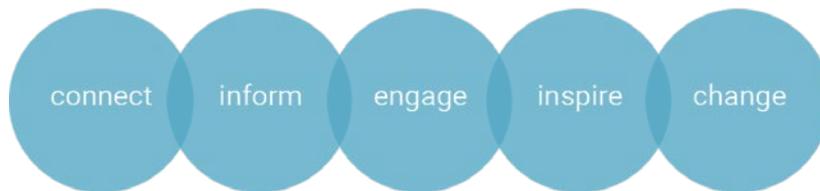


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Burberry
Interim Results Presentation
9th November 2016

BURBERRY

Christopher Bailey, Chief Creative and Chief Executive Officer

Carol Fairweather, Chief Financial Officer

QUESTIONS FROM

John Guy, MainFirst

Helen Brand, UBS

Julian Easthope, Barclays Capital

Annabel Gleeson, Redburn Partners

Luca Solca, Exane BNP Paribas

Melanie Flouquet, JP Morgan

Rogério Fujimori, RBC



Introduction & Highlights

Christopher Bailey, Chief Creative and Chief Executive Officer

Hi there everybody and thank you so much for joining us, we of course appreciate what a busy morning it is today, so thank you for making it across London.

We're going to begin this morning by giving you an overview of our first half performance, with Carol taking you through the numbers. I will then come back up and update you on the progress that we're making against our strategic plan. And we'll close with a little more detail around our recent Runway show and our plans for the festive season. After which we will of course be pleased to take your questions.

So turning to the first half, we made good strategic and operational progress in an external environment that remained challenging in several of our key markets. Against this backdrop and with broader changes in consumer behaviour shaping the future of our sector our focus has remained on keeping near term trading in balance with actions to secure the long term health of our brand and business in order to deliver future value for our shareholders.

We've begun to implement the growth and productivity agenda that we shared with you in May and continued to take further deliberate steps to elevate the brand, including in our wholesale business and our ongoing transformation in Japan.

As such, we're in a period of transition as we ready ourselves for the future and this is reflected in our performance for the half, which Carol will now take you through. Over to Carol.

Financial Review

Carol Fairweather, Chief Financial Officer

Thank you Christopher. So I will now talk through our financial performance for the first half. Our revenue was down 4% underlying and up 5% at reported FX. Adjusted PBT was down 24% underlying and down 4% at reported FX. Adjusted EPS was down 6% on a reported basis.

Our net cash position remained strong and we have declared a 3% increase in the interim dividend to 10.5 pence.

So now to run through the detail, revenue was £1.2bn, down 4% underlying, up 5% including the FX benefit of £99m.

Growth in retail was offset by declines in wholesale and licensing. Our adjusted operating profit was £145m, down 24% underlying and down 5% reported, including an FX benefit of £29m.

Looking at retail/wholesale, profits were down 19% underlying and up 3% at reported FX. Revenue was down by 3% underlying with growth in retail offset by a decline in wholesale. Retail revenues grew 2% underlying with improved comparable sales in the second quarter, up 2% following a 3% decline in the first quarter.

In Q2, Mainland China was up double-digit excluding the impact of the elevation of the store portfolio in Beijing. We saw a slight improvement in Hong Kong and the Americas and the UK was very strong, up over 30% boosted by strong tourist inflows.

As you know we keep our pricing under regular review and as a result we will now be increasing UK prices in the coming days.

Digital again outperformed and grew in all regions.



Wholesale revenue was down 14% underlying, reflecting cautious ordering from our customers, coupled with our own actions to elevate the brand positioning in both fashion and beauty.

Moving to gross margin, which was down 40 basis points to 68.3%. This included a 70 basis point positive impact from FX, gross margin for the apparel and accessories business was unchanged on an underlying basis, with positive channel and regional mix offsetting adverse product mix as fashion outperformed replenishment. For Beauty the margin was negatively impacted by strategic actions we took in the half.

Operating expenses were £649m with a £45m adverse impact from exchange rates. On an underlying basis, operating expenses were down 1% year-on-year. This underlying improvement reflects ongoing tight cost control across all discretionary costs and positive results from rent re-negotiations, some net benefit from timing impacts and initial savings of £6m associated with our cost efficiency programme, with around £20m still planned for the full year. These offset underlying cost pressures and investments in our growth initiatives.

Turning to licensing, revenue was down £13m year-on-year, principally due to the planned expiry of the licence in Japan. With lower operating costs, profit was down £11m on a reported basis, including a £1m exchange rate benefit. For the full year total licensing revenue is still planned to be down by about £20m at constant FX.

Moving down the income statement, the adjusting items of £44m compares to an income of £2m last year. This charge consists of four items: firstly a charge of £26m relating to the beauty intangible, as a result of actions we took in the half to improve the category's positioning, our expectations for beauty revenues through to December '17 are now lower than previously planned. Therefore, in addition to the regular amortisation charge of £7.5m, an additional £18.6m has been recognised, bringing forward the planned amortisation to December '17.

The second item is a restructuring charge of £13m associated with our cost and efficiency programme and we expect the charge for the full year to be around £20m.

Thirdly a charge of £1m for movements in the China put option calculation up to the 1st of August when we exercised our call option and acquired the remaining 15% of our business in China.

And finally, a charge of £4m recognising movements in future payments relating to the purchase of the non-controlling interest in Burberry Middle East.

Moving to tax, the effective tax rate for the year is now estimated to be around 25%, 1% higher than originally guided due to a change in the transfer pricing methodology of an overseas tax authority.

Our business remains highly cash generative with £182m inflow from operations. Depreciation was £69m. With sales below our original expectations inventory was up 10% on an underlying basis, but we are comfortable with both the quality and the aging.

This chart shows the major cash outflows in the first half. Tax of £65m, capital expenditure of £43m, with over half in retail, balanced across new stores and refurbishments. Due to timing shifts we now expect capital expenditure of around £130m for the full year, about £20m lower than our previous guidance.

In addition, a payment of £69m for the purchase of non-controlling interests in China and Burberry Middle East for £54m and £15m respectively.

The final dividend was £119m and share buybacks were £32m.



We finished the half with £529m of cash and once you adjust for our leases this is equivalent to about £600m of net debt, up around £50m on last September.

We have declared a 3% increase in the interim dividend to 10.5 pence a share. In terms of the share buyback we will commence the next £50m once we have completed the initial £100m which we started in July.

The slide in your pack gives our normal guidance for the balance of the year and on an underlying basis there is no change today in our expectations for full year adjusted PBT. We remain very focused on both driving the business through this all-important second half and on executing the initiatives underpinning our growth and productivity agenda.

So I'll now hand back to Christopher, who will talk you through the specific progress we have made on these initiatives in the half and on our plans for the future.

Business Review

Christopher Bailey, Chief Creative and Chief Executive Officer

Thanks so much Carol. So as Carol just said I'm now going to turn to the plans that we shared with you in May and the good early progress we're making with their implementation.

As you will have seen from today's statement, we have distilled these plans into five key strategies that will be how we talk about the business going forward. Product Focus, Productive Space, E-commerce Leadership, Operational Excellence and finally Inspired People. A new strategy covering our culture and the changes to our ways of working that will be a critical enabler for all of our plans in the future.

Since May we've been focused on developing the detailed plans underpinning each of these strategies, which we are now beginning to execute. And as a reminder these strategies are being informed by a number of external factors, a more subdued luxury growth environment, the shaping force of digital technology, rapid changes in consumer behaviour, and significant demographic shifts, including the increasing importance of cities and the maturing of millennials.

I'll now share some of the details of these plans and importantly some initial results from each area, because while we are still early in this process, we are making good progress in laying the foundations for future outperformance. All of which gives us confidence we will achieve our significant growth and productivity ambitions, which we're currently on track to deliver.

So turning to the five strategies I'll begin with our plan to move towards greater Product Focus; by simplifying our offer, reducing our assortments, and allowing innovation and newness to come through more strongly than before. As with all our areas of strategic focus, we expect the benefits of actions here to build over time. But I am pleased to say progress over the past six months has been significant.

Let me give you a couple of examples. First, the strong performance of bags as we start to reorganise this category around a new pillar and shape strategy. We saw mid-single digit growth from this category in the half, with an acceleration to double digit growth through the second quarter. This included standout results from existing styles that we're focused on building for the future, notably the Banner bag, as well as newer introductions including the rucksack, the Buckle family and most recently the runway Bridle. This is already our third bestselling style globally following its introduction in the September collection a couple of months ago.

The exceptional performance of these styles is an early indication of the benefits we believe will flow from our new approach in both new and existing styles.



For example we're introducing more novelty through fabrications and personalisation, we are elevating price points where appropriate, reflecting enhanced design and construction and already being reflected in higher AURs. We have much more focused marketing, heroing our products every bit as much as our brand.

And finally, we've introduced a more elevated approach to selling and visual merchandising in our stores. With phased plans now in place in several other key categories, we expect not only to build further on this early success in bags, but also to replicate it in other areas over time. And we will update you on these in due course.

The second area of progress I'd highlight in product is that we are reducing our assortments in line with our targets, with a further 15-20% reduction for our November market, building on a similar reduction we made in May. This, together with our move to one label, fully implemented across our retail network this month, will greatly improve our customers' experience, while significantly decreasing internal complexity.

Reducing our assortments is also helping to give greater visibility to the fashion and newness in our collections, which is a major area of focus, with fashion again outperforming replenishment in the half. Within this we saw strong results at both ends of our pricing architecture, in line with the opportunity that we highlighted to you in May; including the outperformance of runway apparel and accessories at the top end and strong results from new products at the opening price points in our core categories.

Finally, then under our Product Focused strategy I'd highlight that we're getting on with simplifying how we work and ensuring true accountability for the results. Actions here include the evolution of our merchandising process and the introduction of end-to-end category management, with new roles, responsibilities and ways of working starting to be put in place for this November market downstairs.

Just before I move on from product, I'd like to say a few words on our Beauty business given the impact of our reported numbers. As you know, since buying back Beauty in April 2013 we've been focused on rebuilding it around key fragrance pillars, including Brit, My Burberry, and Mr Burberry, as well as growing our more nascent make up business. And as the success of our recent fragrance launches has shown, this strategy is working to drive market share gains and elevate perception of the brand in this category globally. This has been supported by ongoing improvements to distribution, not least here in the UK, and an integrated approach to Fashion and Beauty marketing, with the results that the business today is much better aligned with our overall brand positioning in key markets. But we do still have a lot further to go to unlock its full potential.

So back in July, we said that we would review this category, building on the work that we did in our Fashion business. As a result we are now accelerating the elevation of our fragrance business, including through upcoming launches within our key pillars and further elevating their distribution, while significantly reducing activity on older lines, most notably in the secondary channel. This will ensure an overall focus on sustainable, profitable growth, underpinned by our full commitment to the future success of this category.

Turning now to our second strategy for the future, Productive Space. This is all about taking the footprint we've established in recent years and realising the significant opportunity we have to make it much more productive, including by better targeting the local customer in key cities.

The initial focus here is our multi-year retail excellence programme, but other areas will follow over time; most notably the further evolution of our wholesale business globally, including in the US where we are working closely with our partners to elevate our presence, consistent with our luxury brand positioning, single label strategy and overall objectives for the region.



Our retail excellence programme is a truly global, cross functional effort, covering product, service, client engagement and operations. And we're already seeing results across all of these areas, as we sharpen our focus on driving the business in a lower-traffic environment.

Actions in the half have included increased investment in training, the expansion of our CVM programme and Burberry Private Clients team, and an emphasis on creating more compelling content for events and appointments, with particular success from those linked to the design and craftsmanship of our products.

All of this has helped to drive an overall uplift in conversion across our key markets, as well as improved average transaction values in mainline. And improved customer retention with a double digit increase in spend from returning top customers. We expect the benefits to build as other retail excellence initiatives go live in the second half.

Within product, as I mentioned, this will include the full rollout of our one label strategy this month. We're particularly excited about this given the very positive feedback from customers and partners to its staged introduction over recent months.

And this month will also see the full deployment of our new store profiling model at our November market, which as I said we're just setting up in our showrooms downstairs. This means we'll be taking a more scientific approach to merchandising; ensuring assortments are better tailored to the specific needs and preferences of customers in different locations.

In service and client engagement we will roll out a new customer feedback tool, based on net promoter scores, for the first time. Following six months of planning and a successful pilot this will provide invaluable insights for our retail teams and will allow us to become much more responsive in how we manage our customers' experiences.

Early results suggest this will be of particular benefit as we seek to drive loyalty and stronger relationships with local customers, both key aspects of our overall retail excellence programme.

And finally in operations we're prioritising how we support our wider omni-channel plans, building on the 7% increase in online stock availability that we've achieved through the initial rollout of single pool of inventory. And we're also laying the foundations for shipping e-commerce orders directly from our stores.

These are just a couple of examples of progress from a programme that is genuinely galvanising our whole organisation to think and work differently in order to put our customers first. And as we said in May, we expect half of our growth, through to 2019, to come from improving mainline retail productivity. So its significance and potential for our business should not be underestimated.

Turning now to our third strategy, E-commerce Leadership. Our focus here is on translating the strong digital capabilities that we've established into greater sales growth across our own and partner platforms, as well as developing a deeper relationship with our existing digital audiences, while of course attracting new customers to the brand.

As we said in May, we believe Burberry is uniquely positioned to lead the sector in this, its fastest growing channel. From digital customer acquisition and retention to developing omni-channel journeys we are using skills we believed in and developed early on and which today are core to our DNA.

We have a detailed set of initiatives planned to achieve our e-commerce ambitions and we are investing behind all of these. From people, to capabilities, to technology, to ensure that we stay ahead. And we made good progress in the half just gone, as digital once again outperformed and grew in all of our regions. Traffic to our website increased year-on-year and conversion improved across platforms. Mobile accelerated to more than 50% of our mix, reflecting sustained investment.



And we began to realise the benefits of our investments in the significant commercial opportunity we see in Asia, with our newly configured site driving a strong sales uplift in China.

I'd also highlight the strong growth we saw in sales on third party platforms, which now represent a significant proportion of e-commerce retail revenues. A number of initiatives delivered or developed in the half will underpin further progress in our E-commerce Leadership strategy going forward.

First our new website, which launched on desktop in September, now a much better representation of our brand and a greatly improved customer experience. Very much a living platform, we will continue to improve and evolve the site over time and look forward to its mobile launch in the coming months.

Second, we are just finalising a new customer app, which will create a more personalised shopping experience, connecting our customers more effectively to our stores and associates, delivering seamless mobile commerce and a platform for interactive storytelling. This app will launch in the coming weeks.

And third, and finally, we are continuing to build relationships and drive innovation with partners in the digital space, such as our collaboration with Barneys and WeChat for the September show. This partnership approach will be critical to building reach, brand consistency and keeping pace with customer expectations for the future.

Our fourth strategy, operational excellence covers the majority of the plans for greater efficiency that we shared with you in May, with a focus on systems, processes and balancing cost reductions with investment. We're making progress across all of our areas here, not least in respect of cost efficiency.

With our plans on track to deliver around £20m of savings this year and at least £100m annualised by 2019, supported by actions in the half, including supplier renegotiations where we saw double-digit reductions in the cost of numerous large contracts. Improved marketing efficiency with investments in digital marketing capability allowing us to reduce the cost of each view of our content by 20% and the cost benefits flowing from changes to our ways of working.

Beyond this programme, we're keeping a tight control on all other operating expenses, as you'd expect. This includes the renegotiation of lease agreements, most notably in Hong Kong, and continued rigorous control of other areas of discretionary spend. All of which resulted in meaningful savings in the half, and underlines our confidence in our planned full year savings.

In addition to these cost efficiency measures, we're taking action to simplify the most critical processes across our organisation and to introduce new technology solutions to support improvements in how we operate.

For example in procurement we're implementing a technology called Ariba, which will halve the effort involved in processing our supplier payments. In product development we will roll out a new system to simplify how we manage the product lifecycle between design, merchandising, planning and supply chain. And we're taking steps to optimise our management of stock with the single pool of inventory improvements that I mentioned earlier. And finally we have established a new Transformation Management Office reporting to John Smith today and then to Julie Brown after she arrives in January, to partner with the business to ensure the delivery of all of our strategic priorities.

Together these actions position us to realise benefits that will build over time, as we embed greater efficiency into the processes that form the backbone of how we do our business.

Overall I'm pleased with the progress in our operational excellence strategy, we've made a good start but with lots more still to do.



These changes to how we operate will be complemented by an evolution of our ways of working, which form a critical part of our fifth and final strategy, Inspired People. Underpinning this is our commitment to reducing complexity in our organisation, making us more agile and reducing duplication as well as driving greater consistency globally while also improving insight locally. All of which will allow us to get design and creativity to the customer much more effectively and serve their needs so much better.

As we said in May, this is partly structural and we've already begun to make a lot of changes in the half. For example we've started to implement category management as I mentioned earlier and we're simplifying our shared services globally, including introducing more common processes in areas like finance and HR.

Beyond this structural evolution, we're ensuring everyone is adding maximum value to the product and the customer in their role to support our overall ambition. This of course includes the changes that I'm making myself to my own role here at Burberry. And I'm excited about the partnership that I'm going to have with Marco Gobbetti when he joins us as our CEO next year. And it's true right through the organisation, where actions range from streamlining how we make decisions and being clearer who is accountable for what, to bringing in additional skills to complement our brilliant existing teams. Because our talent will, as ever, be the key to our success.

Meanwhile, alongside these changes to how we work we're redoubling our efforts to nurture and build Burberry's unique culture for the future, with an enhanced emphasis on our values and responsibility agenda. And we'll be talking to you more about this in due course.

So in summary, we're making good progress on the strategic plans we shared with you in May, with some early results already feeding through to performance and more to follow, consistent with our commitment to outperform sector growth accelerating over time.

With that, before closing with some insight into our September show and upcoming Festive plans I'd like to share a short video with a couple of highlights from the first half of this year.

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Video played

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Christopher Bailey, Chief Creative and Chief Executive Officer

Now then just before we close this morning's presentations and move to questions I'd like to reflect briefly on two incredibly important moments, our show in September, some highlights of which you just saw in the video, and the Festive season that we have ahead of us.

This is partly because how we've approached these brings to life so much of the strategic agenda I've just been talking about, but it's also because they embody the spirit of our brand, and that remains our most precious asset and most important priority. So it felt like an appropriate note to end on today.

September's show was a milestone moment for Burberry. As a brand we stand for a pioneering spirit, born from invention, exploration and adventure. And 160 years later, our brand and our culture still reflect the curious mind and innovative outlook of our founder, Thomas Burberry.

I believe it's for that reason that we're at our best when testing boundaries, pushing established practices and challenging norms, while always remaining true to where we come from. And for me that's what made our September show so significant. It demonstrated our agility, making the straight to consumer concept a reality in just eight months from announcement to the show.



It validated our commitment to bold and flawless execution, making every item in the collection available immediately afterwards online and with representation in every one of our stores globally. It showed our passion for product and our commitment to creativity and to our roots, from the collection itself, to the week-long craftsmanship installations at the venue. And of course to the digital collaborations that connected global audiences with the excitement of our show.

And above all, it reinforced our belief that the needs of the customer must always be our priority above all else. Ultimately I believe this change was the right thing to do as customer behaviours evolve. It's a significant moment for our brand, positioning us at the forefront of an industry changing paradigm. We're proud of that achievement and excited about what it means for the future, particularly because the September show exceeded our expectations across all measures.

We've seen a great response to the collection, from the press, from our partners, and most importantly from our customers, with particularly strong sales in areas of strategic focus; including outerwear, with military cavalry jackets becoming a seasonal trend and bags with the runway Bridle as I've already mentioned, already our third bestselling style globally.

And we've also seen a strong reaction to the more commercial pieces inspired by the runway collection and made available shortly after, all part of our commitment to greater newness and innovation across categories and price points.

We also saw record reach across PR and social media and over 15 million views of our show on our owned and partner platforms. As always, this was driven in part by new and innovative ways to engage consumers with the experience including through partnerships with Facebook Live and Messenger, SnapChat, WeChat and YouTube and our spend was more efficient than ever, consistent with our broader commitments here.

And finally, more than 20,000 people visited our venue, Makers House, in just one week. This showcased the collection, alongside some of the work of some of the UK's finest craftspeople through a series of installations and events.

Inspired by this success we're currently looking at how we can extend elements of this experience into our own retail on an ongoing basis.

All of which is continuing to build our brand momentum, as shown by our strong unaided awareness versus peers, with Burberry in the top five luxury brands across all of our key markets.

We now intend to leverage this momentum as we enter the all-important Festive season. As many of you will already have seen, I hope, we launched our Festive campaign last week, inspired by the life of Thomas Burberry, ending a year that's been all about positioning ourselves for the future, it felt natural to us to do something linked strongly to our past. Because as I said, our heritage and the spirit of our remarkable founder remain our inspiration today and we wanted to celebrate that as we embark on our next chapter.

Alongside this celebration of our past, our Festive plans highlight our renewed commitment to product and to the customer experience, all linking back to our central theme. Let me give you a couple of examples.

In product we have made gifts a more significant proportion of our overall assortment and introduced our widest selection of monogrammable items to date. And this commitment to personalisation extends beyond products themselves into all of our communication with customers. For example, our top customers globally will receive a customised Book of Gifts that features their own monogram on the products throughout the book. And we're launching further real time personalisation innovations across email, banner advertising and digital out-of-home sites globally.



We're also planning an ambitious and immersive programme of events, all linked to hero products and their craftsmanship stories and closely aligned with our overall theme. And we're bringing the story to life with partners too, including following up on the success of our 2014 Printemps partnership in Paris, with a Festive takeover of Harrods here in London, which launched just last week.

This collaboration, over a year in the making, includes exclusive products, a dedicated pop-up store and the iconic Christmas windows all along the whole of Knightsbridge, all of which are touch-responsive enabling visitors to interact directly with the sound, the lighting and the mood of each scene in each window.

And across all of this activity we have our richest and most creative content ever, ensuring the customer sees one coherent message, Burberry message wherever they are. Just a few reasons why we're feeling well prepared for the coming weeks.

With that I'd like to end by sharing the campaign film that I hope you've all seen, the Tale of Thomas Burberry. This is the most ambitious piece of filmmaking we've done as a brand, commensurate with its importance to us as an idea. And we're proud to have worked with some incredible creative talent to bring that idea to life. Oscar winning director Asif Kapadia, Oscar-nominated screenwriter Matt Charman and an amazing cast featuring Domhnall Gleeson, Dominic West, Sienna Miller, and Lily James.

The result is a film inspired by the pioneering discoveries of our founder and which reimagines some of the key events that have shaped our history and our values, which are as relevant to us today, as they ever were and which sit right at the heart of the enduring magic of our brand. I hope you enjoy it and we will look forward to taking your questions afterwards.

Video Played

Questions and Answers

Christopher Bailey, Chief Creative and Chief Executive Officer

Okay I think we're ready for questions.

John Guy, MainFirst

Three questions please. After that it's going to sound quite boring but maybe we'll start with costs. Pretty good job in terms of costs down 100 basis points on a constant currency basis. Where do you see costs moving over the course of the next couple of years? I mean we're still up as a percentage of sales in the mid-50s, how much more is there to go? I appreciate that you've given us some update around the FY'19 plans but just wanted to get a greater sense of where you could maybe take a little bit more out?

In terms of the pricing architecture, you know the Banner bag you highlighted at 995 seems to be a strong price point and driving significant volume, yet within scarves we see some of your prices are higher than that of Loro Piana so there still seems to be an inconsistency around some of the product areas, so maybe you could give us a couple of points Christopher in terms of how you see, I guess narrowing or effectively maximising or optimising the price mix architecture across different categories?



And then finally, I don't know, scotch the rumours, I mean did you talk with Coach at all? Is there anything in that? I mean it seems to go on and on and on, I guess you're probably not going to comment but I might as well ask it anyway. Thanks.

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Christopher Bailey, Chief Creative and Chief Executive Officer

Shall we start with the last one first? So there's no comment to the speculation and rumours. As you just said they keep on coming. We've never commented on those rumours so nothing more to share today, sorry.

Over to you Carol just on the costs.

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Carol Fairweather, Chief Financial Officer

So in terms of costs John, as you say in this half we've done a really good job, on an underlying basis costs are actually down 1% year-on-year. We had guided to mid-single digit cost pressures going into this year. What we've done as we've gone through the half as Christopher just spoke about, is we've really dynamically managed all discretionary costs. So no different than what we did last year. As we went into this year clearly the markets are still challenging so we've been very thoughtful about discretionary spend and we've been able to offset some of that underlying cost inflation by just really being very thoughtful about how we're spending costs. We're not necessarily replacing people as soon as they leave, deferring costs into the second half. So a great job in terms of discretionary spend and importantly also alongside that in delivering the first £6m out of our £20m target for this year on what I would call the more strategic cost savings.

As we look forward for the balance of the year I would imagine now that - and the other thing to mention, again Christopher referenced it, was the good job we've done in Asia on rent re-negotiations which has also helped offset some of that cost pressure.

So then flipping to the full year I would imagine that the underlying cost pressure now is probably more like low to mid-single digit. We will expect to bank some of those savings we've made in the first half. We may not get the same run rate in the second half, but we will deliver the £20m worth of cost savings in the full year.

And then just thinking about the future, as we said we're committed to delivering at least the £100m by '18/'19 and we'll update you on that progress as we go. But you know good initial early progress and I think setting up the TMO gives us the confidence that we'll be on track to do that if not better.

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Christopher Bailey, Chief Creative and Chief Executive Officer

And then your second question on pricing architecture I'm going to hand over to Donald to give a little bit more detail. But just to put a bit of context around it, we did talk in May about looking at both ends of our pricing architecture, that's absolutely a part of our strategy, not only across different categories but also within. And you mention the Banner bag, but even in the Banner bag we've got a stretch from an opening price point all the way through to the most expensive beautiful alligator Banner bag.

So looking then at the other extreme you'll see in Festive for example as we're going into that season, that we have got the broadest range of opening price points that we've ever had. But we talked about adding fashion, innovation, newness and that's been a very big part of what we're doing downstairs. Also now linking things back to the shows, which is again is something that we've never done before. Donald any colour?

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Donald Kohler, President – Americas

What I would just add is I think there is a natural question that will come up about our general pricing architecture. We are moving within the next week or so to move prices, as we've spoken about before as a Group, we typically move pricing twice a year, October/November, May/June, those are our two times that we address that based on our seasonal shift. So that pricing you'll see come into effect across a broad range of categories for the UK.

Your specific example and tying back to what Christopher was saying around scarves, that's a perfect example of a place where we are absolutely confident in the pricing of our core cashmere, that is our heritage. But the opportunity does exist to develop creative, innovative product at the opening price point and that's what you'll begin to see as we move forward.

Helen Brand, UBS

Three questions from me. Christopher one for you first, just how do you envisage the President role evolving for you and your relationship with Marco? So in terms of your day-to-day role how do you see that changing?

Secondly maybe a question for Carol. Just in terms of that Beauty hit to the gross margin in H1, was that a low double-digit millions impact on the gross margin? Can you confirm that? And is that done now or should we expect more in H2 in terms of the write-offs? You've resized the UK market, is there more to do elsewhere?

And then finally just to follow up really on the pricing distribution. Impressive performance in handbags in the second quarter up double-digit. Can you split that out between the volume and the AUR in terms of the handbags? And obviously talking about that price range from the entry level to the high end, but in terms of the price distribution of your handbag architecture, are you now happy with that relative to your competition or is there more to do on the handbag side?

Christopher Bailey, Chief Creative and Chief Executive Officer

Okay so the first question, me, my role, Marco. So first of all I can't wait for Marco to join at some point next year. Marco and I will dovetail into each other very well. We both have very specific areas of responsibilities within our roles. I, as you'd expect, will be covering all of design, all of the creative aspects, everything to do with the brand of the company. Marco, again as you would expect, will be overseeing all of the commercial aspects of the company. We will have joint responsibility for the strategic approach to our business, to our global business, and we will also be working together and have joint responsibility on our culture and the people side of our business.

Again as you can imagine, Marco and I have gotten to know each other very well over the months and I'm just very much looking forward to him coming in and to having a real partner.

Helen Brand, UBS

Just to follow up have we got any sort of final confirmation of his start date yet?

Christopher Bailey, Chief Creative and Chief Executive Officer

Nothing has changed to what we said whenever it was in July. It's at some point next year. We will tell you the second we have a proper date.



Helen Brand, UBS

Thank you.

Christopher Bailey, Chief Creative and Chief Executive Officer

And gross margin?

Carol Fairweather, Chief Financial Officer

So Beauty gross margin as you said the impact in the half on gross margin on a constant basis was purely to do with Beauty, Fashion margins were flat. Beauty was about just over £10m so as you calculated a combination of incremental stock provisions and a little bit to do with product mix in the half.

We expect that to go back to more normalised margins in H2. This really reflects the review that we've done of the business and very much looking to reduce that secondary distribution as we move forward, so just a little bit more stock provisioning on the older lines. The pillar fragrances that we have launched, you know, continue to do incredibly well and we're gaining market share in those.

So your question about what does it look like going forward, I would expect to see nice growth in those pillar fragrances which is exactly what we intended to do when we bought the licence back, well positioned now alongside the rest of our categories. And then over time I would expect to see the secondary distribution pull right back and we'll be managing that closely over the coming couple of years.

Donald Kohler, President – Americas

As it relates to the pricing conversation on bags it's very consistent with what I said earlier. So the way that I see it is we look into the year ahead knowing the introductions that we'll be having. It's focusing on the upper end and on the opening. And so I would say that our sweet spot I think we feel we have covered quite nicely. We are going to be pushing to the upper end in the first half of next year and in the second half of next year pushing to opening price point aligned with Festive. And I think I would suggest that the AUR might grow ever so slightly, but again that's just an estimate at this point because it's all in the mix.

Helen Brand, UBS

And in terms of the Q2 number, volume versus the AUR and that double-digit growth was it mainly volume?

Donald Kohler, President – Americas

It was a combination of AUR and volumes.

Julian Easthope, Barclays Capital

First of all I think Carol this is your last presentation so first of all I'd like to say a big thank you for your help, not least your annual trips over to Canary Wharf to see ourselves, which I think is definitely above and beyond the realms of what you should have done.



I guess the first question I have is in regards to wholesale. I think every year for the last few there's been a sort of cleansing of the wholesale operation, so if you take a sort of long term theoretical view if you started with a complete blank sheet of paper how big would your wholesale business actually be and is that where you expect to get to say in a five year time horizon?

And the second question actually comes back to Carol, it's a really dull question I know but you've probably taken a look now at the lease adjustments from the new reporting standards that come into place. Is it below five times because I think you've got quite a few leases that are below five years and I'd just be interested to know what you think you'll actually have to bring back on balance sheet? Thank you.

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Christopher Bailey, Chief Creative and Chief Executive Officer

Shall I frame the first one and then - so just frame the first one in terms of wholesale. We have been talking for several years about cleaning up wholesale. We still have much to do. I think it's important to just go back and look at the single label strategy that we've just introduced. That was designed as a wholesale strategy. I think we talked in May about the flip of our business over the past years from predominantly wholesale to retail. We do have a lot of work there to do; it continues to be work in progress.

We talked also about Beauty wholesale; we have got a lot of work to do there. It's something that we're taking some short term pains, we're being probably more aggressive at the moment than we may have been in the past, I think specifically talking about Beauty, but we know that the opportunity is there to make sure that we have got a strong, quality and sustainable business with our wholesale partners.

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Carol Fairweather, Chief Financial Officer

And I think as we look forward Julian I think the other thing to call out is around third party digital because I think that's another way in which we will grow our wholesale revenues. So I think to Christopher's point it will be about continuing to elevate the brand. I think wholesale is a part of the business we want to be in but we want to be in it in a brand appropriate way, and therefore I think you will see going forward more cleaning up but absolutely growth in those key accounts like some of the third party digital wholesale players, pillar fragrances in Beauty and some of the other areas in EMEA and travel retail is another one I'd probably call out.

Your techy question on lease accounting, my team are very busy working through the first stages of lease accounting, I mean it's a hugely complex model and we'll update you when we've got visibility on that because there's a lot of work going on at the moment in terms of what that might look like.

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Annabel Gleeson, Redburn Partners

Just two questions. The first is that I know your bags grew mid-single digit in the half but your accessories number is obviously negative, so I was just wondering what sort of may be not performing as well and is there a cross selling opportunity to maybe smaller leather goods now that your bags seem to be performing better?

The second question is on inventory, one for Carol. Your inventory days seem to be up even though you're doing all of this back end processes. Can you just comment on maybe why and what's sort of the opportunity there maybe to pull that number down?

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Christopher Bailey, Chief Creative and Chief Executive Officer

So just in terms of accessories, bags were up double-digit in the last quarter just gone. That is purely to do with all the work and the focus that we have put on this pillar and style strategy. It is a multifunctional approach and also a global approach. It starts with product but also goes through to the supply chain, the way we merchandise, our selling techniques, the training that we've got in stores, the visual merchandising.

We are at the beginning, I just want to temper that a little bit. We talked about the strategies in May, we've started implementing it. We've become very rapid in certain areas and started to see results. We also talked about the small leather goods and the opportunities there which is one of our focuses as well, but more to come there as we start to look at other categories.

Carol Fairweather, Chief Financial Officer

And then just in terms of inventory levels we're about up 10% year on year at the half, pretty much where we were at the year end. I anticipate that coming down as we get towards the end of this financial year, I think I've been talking about that during the period. It really reflects the buys that we did a couple of seasons ago before we saw the overall luxury market slow down so it will take us just a little bit of a while to get through that. We did significantly pull back on the buys in the May market which is why I'm confident that over time we'll get back to more normalised levels.

Important to say both the ageing and the quality of that inventory is good so there's a lot of replenishment in there so we're not worried about the inventory levels but I would expect it to come down.

Annabel Gleeson, Redburn Partners

And the medium term opportunity?

Carol Fairweather, Chief Financial Officer

Medium term opportunity, I think you know as we continue to develop our operational processes I think there will be an opportunity to do even better. I mean over the last few years I think we've demonstrated great progress. This has been a little bit of a blip reflecting really what's going on in the wider macro, but I think there's quite a lot more to go for as we become a lot more dynamic in how we manage inventory globally.

Luca Solca, Exane BNP Paribas

You talk about digital and you clearly have a leadership in that area. I was wondering about direct to consumer, and how much of your sales actually go to consumers that you know by name and you can potentially address individually and how do you see CRM growing in the business going forward?

On a second point, improbable things seem to be happening more and more frequently.

Christopher Bailey, Chief Creative and Chief Executive Officer

What do you mean Luca, do you have any examples?

Laughter



Luca Solca, Exane BNP Paribas

I think we have a big example this morning. I was wondering how you think and potentially anticipate Brexit risk in the ongoing negotiations that you will have between the UK and the European Union beyond currency I mean, and if you are taking any action on that?

And on Beauty, are we right to expect that although there is a very significantly better alignment with the rest of the strategy in the company from a financial viewpoint this will continue to be dilutive in both operating profit and return on invested capital for a while? Thank you.

John Smith, Chief Operating Officer

Yeah thanks Luca, I'll just deal with the digital question first. I mean as you know Luca and thanks for saying it, we do see digital as a differentiator and we've been calling out for a while now that of our growth in the future we expect about a third to come from everything that we do digitally. It's not just about Burberry.com although that is of course the centrepiece of any digital strategy for any company. It is also about what we do on third parties. An area we've been embracing for a very long time.

And I think we said in May that we saw maybe two thirds of the overall growth [for digital for the sector] coming from relationships with third parties which we built a lot during the half. Traffic is up, conversion is up on both channels and of course we're investing in omni-channel through things like store stock lookup, being able to ship directly from store, single pool inventory and all those things.

In terms of being able to address customers directly, we've got about 12 million people on our CRM database at the moment. We've had a programme of capturing new data for new customers for quite a while, we have about an 85% success rate, of any new customers coming in store, 85% of them are likely to go into the database, if they give us permission.

Once we've got that data we then use it in all sorts of ways, we can use it in a macro way to look at travelling patterns, behaviour shifts, trends and so on, what's happening to the Chinese customer and things like that. And we can do it on a micro basis, either by in store allowing sales associates who have the data on their iPads to be able to have a meaningful conversation with a customer based on actual purchases that customer has made in the past. And once the sales associate has identified a customer and typed the name in onto the iPad, all previous purchases with a picture of what they bought and when they bought them come up. And so you can have a meaningful conversation around that rather beautiful jacket you're wearing Luca, would you like to have the latest trousers just come in off the runway.

And we could also use it in a micro way to target customers on the CRM database to stratify it and send out emails and other forms of communication specifically tailored to the likely shopping habits of that individual customer because we've got the data.

Christopher Bailey, Chief Creative and Chief Executive Officer

And just to add that we're launching the app, an app that we just mentioned there, in a couple of months. That will give us a whole load of more data on our customers. It's a very personalised app, it links directly to our stores, our store associates, the storytelling of the brand and it's a very, very personalised experience which will allow us to have a much, much more intimate relationship with our customers.

You just asked about Beauty, Carol is going to go into some of the detail but just to give a little bit of context there. We bought back the licence in April 2013. We had a very strong approach to creating a pillar strategy to align it much more closely with where we were going with the rest of the fashion business.



We did take when we took over that licence, a very, very broad distribution that was not the right one for where we were going with the brand. We feel very proud of the pillars that we have created. We know that there's huge potential there, we know that there's huge opportunity, we feel very confident that it's the right thing for our brand and now we're looking at how to make sure that we create a strong, sustainable and profitable business that is positioned in the right way to the rest of the business. Carol?

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Carol Fairweather, Chief Financial Officer

So in terms of impact on margins going forward, you know as Christopher said we are taking a hit this year and we will then I believe get back to margins that won't be substantially different from the overall retail/wholesale margin for the Group. It may take a little bit of time to build because we will be continuing very robustly in terms of the amount of distribution that we will let into those secondary channels, but I am confident in the longer term it should not be particularly dilutive to gross margin or return on invested capital.

In terms of Brexit I don't know whether you're talking specifically about actions we might be taking to try and mitigate the impacts when they come. I mean clearly we've got teams across the company, across the finance, supply chain, HR understanding all the areas of the business where we may be impacted. I think it's still too early to say what those impacts will be; we will look to mitigate incremental customs costs where we can. That said we're a British brand and so I, you know, don't see it fundamentally affecting the way in which we operate here in the UK, but we'll look where we can to mitigate if appropriate.

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Melanie Flouquet, JP Morgan

I have a number of questions actually. The first one is a little bit dull, it's regarding forex. I think the impact on gross margin is certainly smaller than I would have anticipated. I'm not too sure whether we're getting the hedging on sourcing wrong but could you help us understand what's going to be the forex impact next year? Yeah assuming spot right, so that's the first question because clearly there is an impact or delayed impact on sourcing.

The second question is on the handbag strategy from a distribution standpoint. I was wondering whether there is a shift there, whether this had over indexed retail and is shifting to wholesale so therefore we have a bit of an impact there potentially this year in the acceleration?

And my third question is on management. I was wondering whether you could share with us what was it exactly that attracted you to your new CEO? And you mentioned hiring from a transformational manager so I was wondering whether you could help us understand what he's working on, what are in other words one or two projects that could be transformational in luxury and at Burberry in your view in the next five years?

And again thank you very much Carol.

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Carol Fairweather, Chief Financial Officer

Okay shall I - I'll take the FX one first. Early days Melanie. Clearly we have hedged effectively the first season of next year at the moment but as always we find it easier to come back and actually update you on the overall impact when we know what rates are going to be.

Clearly on procurement given the way rates have moved there will be some pressure from a procurement point of view. It will really depend where rates go over the course of this year and into



next year from a translation point of view, and I think the easiest thing to do is to update you on that specifically but clearly on procurement per se there will be some impact and we've only hedged through the first half of next year at the moment.

Christopher do you want to speak about Marco?

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Christopher Bailey, Chief Creative and Chief Executive Officer

Yes, perfect. About Marco yes he has a broad experience. I'm sure some of you may know him. He's had a very strong luxury experience. He is very commercially minded. He understands retail incredibly well but he also understands how to get creativity, design and brand messages across a global retail network. He also has the right values for our company in terms of understanding about heritage but also about contemporising heritage, and has a very strong understanding of the whole end-to-end process from design all the way through to supply chain to shipping and getting it into our stores.

And then also just on a very human level we connected on a very personal level, and I think when you spend time with someone and very quickly you can start to finish each other's sentences because you see things in a similar way you know when something feels right, so that was an important part of that.

Just to go, because the next thing was the transformation office, just to clarify the transformation office is really working with the business to ensure that we execute and implement all of the five strategies that we've just talked about. So it's not about the big transformational things that may happen, it's really ensuring that we're on track both in terms of critical paths, budgets and expectations and what we've committed to. And as I said John is leading that.

In terms of the - John did you have anything more you wanted to add there? No, okay.

In terms of the bags distribution, obviously we're looking at the distribution constantly of all of our products. Within the category management, the 360 of looking at our bags, we know that we've got a huge opportunity there. We've talked already about pricing, that will influence distribution, we will of course want and be seeking out with our partners bigger corners as we further develop it. But again we're early on in this work but it's something that we know the opportunity and the potential there is for us to grow that market. And the initial signs that we've started have been going incredibly well as well. That's both in our own stores but also wholesale and third party.

We've got time for one more apparently.

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Rogério Fujimori, RBC

With regards to the improvement in bags in Q2 was it driven by the Chinese customer base or you also saw an improvement with the local customers in key cities in Europe and US?

Second question perhaps related to that, how do you feel about the Chinese cluster as for the second half?

And the third is about outerwear. It was a bit softer than usual in the first half, what kind of actions are you taking to reignite growth back in the second half, especially in women's? Thanks.

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Christopher Bailey, Chief Creative and Chief Executive Officer

So bags, yes of course it was also the Chinese but it was also our local customers and very much as you said linked, for example here in the UK we're enjoying, which is lovely, a foreign exchange positive for us which is bringing in tourists, many of them Chinese consumers.

But important to say here in the UK as well, as well as the increase in tourism we saw also an increase in our local customer as well. Obviously in China the business remains strong and the performance remains strong. But here particularly in the UK we've had very strong Chinese consumers.

In terms of outerwear that you just mentioned. It has been a little bit subdued in the last half but nothing that we're unduly concerned about. We're just coming into our key selling period for outerwear, we've got lots of initiatives both marketing and product and we expect to see that gaining strength again. But like I said a little bit subdued but nothing that we're overly worried about at this point.

So that is the end and just again to thank everybody for joining us. We're surprised by the turnout; I think we were all a little surprised when we put the news on at three o'clock this morning. Thank you for being with us today to allow us to kind of share more detail around the strategies. We will see you all again in May.

I do just want to take this opportunity as a few of you have, to say a huge thanks to Carol. She is a magnificent partner to every single one of us in this room, both inside the company and outside and thank you Carol.

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END

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