WORLD TELEVISION

Burberry

Second Half Trading Update Conference Call
14th April 2016

BURBERRY

Carol Fairweather, Chief Financial Officer

Fay Dodds, Vice President, Investor Relations

QUESTIONS FROM

Helen Brand, UBS

Thomas Chauvet, Citigroup

Antoine Belge, HSBC

Luca Solca, Exane BNP Paribas

Charmaine Yap, Jefferies

Rogerio Fujimori, RBC

Julian Easthope, Barclays Capital

Elena Mariani, Morgan Stanley

Melanie Flouquet, JP Morgan

Daniele Gianera, Macquarie

Key Highlights

Carol Fairweather, Chief Financial Officer

Good morning and welcome to Burberry's Second Half Trading Update conference call. With me this morning is Fay Dodds from our Investor Relations team. I will make a few brief comments on this morning's announcement and then we will be very happy to take your questions.

As we said in the statement earlier today the external environment remains challenging for luxury. Against this background total revenue in the second half was down 1% at both underlying and reported rates and we expect adjusted PBT for the year to March 2016 to be broadly in line with analysts' expectations.

Retail, which accounted for 75% of our revenue, was unchanged year on year, with comps down 2%, slowing from unchanged in the third quarter to down 5% in the fourth, with this shift being largely volume led.

The most significant change in trend between quarters was in Continental Europe, where sales by the travelling luxury customer declined sharply, particularly from the Chinese, although we did see growth from domestic customers. Overall with the UK and the Middle East remaining difficult markets throughout the period the EMEIA region delivered broadly unchanged comps for the second half.

The Americas also slowed in the fourth quarter to give a marginal decline in comps in the half. As we've been saying since the start of the last financial year, demand from the US domestic customer has been uneven and this continued, and spend from the travelling luxury customer was down double-digit. We were however pleased with the strong performance from our Burberry Private Clients team, leveraging our customer insight data to contact customers in a more personalised and effective way.

And finally in Asia Pacific performance was consistent across both quarters, with a mid single-digit decline in comps. Hong Kong declined by over 20% for the third consecutive quarter, as footfall for the sector remained weak. Excluding Hong Kong and Macau, comps for Asia Pacific were up mid single-digit for the half, led by growth in Mainland China, Korea and Japan. Our Retail revenues in Japan have more than doubled for the full year as we build our direct luxury business and we now have six mainline stores and 30 concessions.

As we said in the statement other channels performed in line with guidance, wholesale revenue in the half was down 1% underlying, with a 6% decline in Apparel and Accessories and Beauty up 11%. And finally Licensing declined to £16m in the half, largely reflecting the planned expiry of the Japanese Burberry licences.

Globally we continue to execute against our six key strategies and let me just highlight progress on three of these today. First under realised product potential, Accessories were more resilient than Apparel in the second half, led by innovation in scarves, ponchos, and Runway rucksacks. Within Beauty we continue to elevate our image through focusing on our key fragrance pillars, with both product extensions such as My

Burberry Black and the launch of our new male fragrance Mr. Burberry. We are also pleased with the performance of makeup in Sephora online and in store and are planning to expand the physical distribution beyond the 40 current stores or so during the coming year.

Second, under optimise channels Digital again grew in all regions, supported by investment in new initiatives, including the rollout of the single pool of inventory model, now covering all 44 online countries, personalisation initiatives such as the Scarf Bar and the rucksack and new payment methods including China UnionPay and PayPal. Digital also continues to see the benefit of our prior investment in mobile which represented the majority of Digital growth in the half.

Third, under unlock markets we continue to reposition our store portfolio in China, where we finished the year with 63 stores. A particular focus for us now is Beijing where we have several projects planned to elevate our Retail positioning in this key flagship market. Looking ahead to FY'17 we have said in the statement that we currently expect adjusted PBT to be around the bottom of the range of analysts' expectations, which as of today we see at around £405m. This includes around a £60m benefit to profit in FY'17, based on current exchange rates compared with FY'16 rates.

So let me explain some of the factors behind this guidance, firstly, we expect the demand environment to remain challenging. Second, we expect H1 Wholesale to be down around 10% underlying, due to significantly tighter inventory control by our US Wholesale customers, continued cautious ordering globally, and the elevation of Beauty distribution in key markets. And thirdly as you're already aware there will be a further step down in full year licensing revenue of about £20m, primarily due to the planned expiry of the Japanese licenses.

In response to this we are as you would expect taking actions. Firstly, we are increasing our tight control on discretionary costs, having saved over £25m against our original plans this year. However, cost inflation pressures persist, such as year on year rent increases, which will contribute to an underlying mid single-digit percentage increase in our opex in 2017.

Secondly, and important to note, this guidance excludes the benefits to come from our productivity and efficiency agenda. As we announced in January we have accelerated this work, especially looking at our ways of working. We are also addressing how to optimise future organic revenue growth opportunities, the resulting investment plans and our capital structure. As Christopher said this morning we are making good progress and will share our plans, as well as the short and medium term benefits at the Preliminary Results in May.

Meanwhile, I'm pleased to say that brand momentum remains strong, Digital continues to outperform and innovation in new products is resonating well with our customers. So with that we'd now be happy to take your questions.

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Questions and Answers

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Helen Brand, UBS
Hi good morning, three questions from me. So the first one just on the 5% negative like for like in Q4, obviously the delta - mainly volume led but can you break out what you saw between ASP footfall and conversion in the quarter?

Secondly on the H1 Wholesale guidance are you seeing any impact from the move to one brand on how the wholesalers are ordering? And also how do you expect to manage with the wholesale partners as we go through the year, the impact of the kind of see now, buy now from the fashion shows? And can you also break out Beauty versus the underlying in the H1 guidance?

And then finally just around the PBT guidance at the bottom end of the range in '17 can you just clarify your assumptions for performance related pay within that and also within the £60m of FX guidance, how much of that comes from hedging? Thank you.

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Carol Fairweather, Chief Financial Officer
Okay so first of all in terms of the 5% negative like for like we're saying that footfall did continue to decrease as we went through the fourth quarter predominantly in EMEIA, and as we said that was largely tourist driven. Conversion was up in Q4 but the rate of growth slowed slightly and as we said this morning I think we saw some small growth from ASP but it was largely volume led decline.

In terms of your question on Wholesale guidance the negative 10% for H1, absolutely nothing to do with the one label strategy because that really only impacts the second half of this year as people come into market in May to buy for the second half. And as we've said before, so far, that has been positively received by our Wholesale customers in concept and we'll see what happens as we close the order book for H2.

And in terms of the change to Runway, remember it's only a tiny percentage of our business, largely in our own Retail anyway and will be with selected Wholesale partners; but no significant impact anticipated certainly on Wholesale from that change, although very exciting obviously from a brand point of view.

In terms of Beauty we're saying that Beauty will be broadly flat across this year, split evenly across H1 and H2. And that reflects underlying growth in Beauty, partly offset by the clean up or the elevation of the distribution in one of our key markets; effectively here in the UK where we've taken the decision for brand reasons to actually reduce distribution and elevate going forward.

And then your question on PBT and what's included for PRP as we've said as we've gone through this year we've achieved around a £60m to £70m worth of savings versus last year, split broadly between bonus and long term incentive plan. Within that there is an underlying cost of share schemes in every year, around £20m, and that cost in this year has been masked by credits relating to prior year share scheme charges as we have trued up to reflect the latest vesting assumptions. And therefore next year's number the guidance we have given today includes that £20m charge next year.

And then your last question on currency it does reflect, as you know we hedge forward our euro procurement and as we look forward to next year we won't have the same degree of benefit on procurement that we had this year because obviously rates have moved against us from a procurement point of view but do benefit us from an overall translation point of view.

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Helen Brand, UBS
So within the £60m that's purely the pound benefit then or is there any hedging benefit within that?

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Carol Fairweather, Chief Financial Officer
Well we always guide inclusive of everything, I think others sometimes split out hedging, we guide including all the hedges that we have in place. So at the moment the anticipated rate based on spot rates and any hedging we have in place on euro and US dollar procurement is incorporated within that £60m guidance.

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Helen Brand, UBS
Okay thank you very much.

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Thomas Chauvet, Citigroup
Good morning, three questions please. Coming back to the £405m PBT guidance for March '17, I'm just not sure I understood the £20m PRP so can you just confirm what bonus costs and also cost savings you factored in that guidance compared to the £60m cuts in bonuses and £25m discretionary opex savings?

Secondly on the FY'17 revenue and profit guidance can you perhaps detail what assumptions you made in Japan and whether there's been any change versus last time we spoke on the delays in Retail expansion, and could you give us just a couple of numbers, sales and EBIT margin perhaps for March '17 in Japan, are you seeing in Japan's like some of your peers, softer tourist demand in recent weeks on stronger Yen?

And finally on Europe if we look at the deterioration in like for like it seems largely due to tourist falls from Chinese into Continental Europe, have you seen the loss of that business recouped elsewhere be it Mainland China, Japan, Korea? I mean I would have expected perhaps these three markets to accelerate sequentially if you've lost some Chinese tourism business or do you think effectively what is lost is lost and not recouped elsewhere? Thank you.

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Carol Fairweather, Chief Financial Officer
Okay so your first question in terms of PRP, so I'm saying we saved around £60m versus the prior year. And within this year's numbers there's an ongoing charge for existing LTIP schemes of around £20m, but that has been offset by credits in this year relating to accounting true ups, you always true up your LTIP schemes which vest over several years. And so this year the underlying charge of £20m has been offset broadly by credits relating to prior year charges where schemes will now not vest. So I'm saying that as we look forward into FY'17 that underlying charge of £20m which was in this year's number but was masked by the credits, is incorporated within our guidance to FY'17, but there is nothing in for new schemes that the Remuneration Committee may or may not decide to grant in May for either in year bonus or LTIP, depending on what they deem to be an acceptable level of performance for PRP to kick in.

And then in terms of the £25m we took out actually £25m and a little bit more as we obviously saw difficult conditions through Q4, that robust cost control absolutely continues, the £25m plus that came out in this year stays out. As we put our budgets together we took further robust measures in terms of discretionary cost savings and that's baked in. But notwithstanding that, we do see this underlying increase in opex driven by non-discretionary spend, which is largely the rent increases and the annualisation of stores that we put down in this year. And all of this is before the benefits that you will see from the productivity agenda work that's going on at the moment, where we'll update you on both the short term benefits and the medium term benefits in May.

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Thomas Chauvet, Citigroup
Okay so how does the £25m in March '16 compare to the savings that you've identified in March '17 and can you tell us what these savings are?

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Carol Fairweather, Chief Financial Officer
So in March '16 we didn't spend £25m of costs that we had planned to spend when we saw the difficult trading conditions, that cost which was across the board effectively stays out of next year. So it's on a like for like basis there's been no increase in discretionary costs in the budget for next year.

There may, and we'll talk about it in May, be further cost savings to come in FY'17 as a result of the productivity agenda work. And as we've said we'll update you on all of that in May. So the robust ongoing cost control persists and we have taken that forward into FY'17, but there is this inflationary pressure around annualisation and rent increases and all of that's incorporated in our guidance.

I'll just do the question on Europe and then maybe Fay you can just touch on Japan. So as we said the biggest change in trend we saw during the quarter was in Continental Europe, where we saw tourism go from double-digit growth to negative, and that was principally the Chinese across all of our Continental European markets.

Your question about where did we see that business going, I mean we still saw continued growth in Mainland China mid single-digit which we were very pleased with. And we also continued to see positive growth in Japan and Korea but remember for us Japan, and we'll come on to Fay's answer in a minute, Japan is a much smaller business for us than for many of our peers and therefore if the Chinese were travelling more localised within Asia we wouldn't necessarily see all of that pick up to the same extent that others may have done. But we were pleased that in Mainland China we continued to see growth in the quarter.

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Thomas Chauvet, Citigroup
Okay so the trend is not accelerating in these Asian markets where the Chinese are potentially repatriating some of their tourist demand in Europe back into Asia?

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Carol Fairweather, Chief Financial Officer
I mean we're saying that the trends in Asia were broadly unchanged quarter on quarter.

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Fay Dodds, Vice President, Investor Relations
And if you look at the spend by the Chinese consumers globally for us it was down in the third quarter and it softened a little bit in the fourth quarter. But really importantly as Carol said we've had that continued comp growth in mainland China.

And then turning to your question on Japan and we've been very pleased with the performance this year I mean it was slightly softer in Q4 than Q3 but still over 30% growth in the second half. And in terms of our plans going forward no real change to what we said before and we currently have six stores, 30 concessions including 10 small children's wear concessions. Over time we're probably looking for 6 to 8 mainline stores, 30 to 40 concessions excluding children's wear, and as we look forward really still expecting to get to about £100m of revenue and £25m of profit in financial year 2018.

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Antoine Belge, HSBC
Three questions please. First of all following up on a previous question about Chinese consumption globally, could you be a bit more specific in terms of how much was down in Q3 and how much further lower it was in Q4? It's quite clear that what was lost for instance in Europe wasn't compensated elsewhere. So on this are you doing any surveys of trying to understand if it's just a question about threat to travel, etc, or is it, I don't know, something a bit more profound than this?

Second, on the Wholesale, especially in the US, I mean you highlighted that you're cautiously delivering to retailers there. Can you comment especially on what type of, you know, there are different types of retailer in the US and shouldn't you also be streamlining the number of doors there, I think it seems that many players have issues with US retailers at the moment?

And finally on Beauty the elevation strategy, I mean is it a bit of a legacy from the past i.e. from when IP was running the business or are you actually closing some doors that you had opened since you took over? Thank you.

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Carol Fairweather, Chief Financial Officer

Okay so on Chinese consumption we're saying that we did see - in Q3 we saw Chinese consumption negative and we saw that just accelerate a tad further negative in Q4. And again the major shift as we look at it market by market was in EMEIA, where we went as I said, from double-digit positive across Continental Europe to negative as we went through Q4, all significant countries in Continental Europe impacted. Hong Kong and Macau we said no change in trend and likewise in China we saw continued mid single-digit growth.

I mean in terms of surveys and travel patterns and whatever clearly we've got our customer insight data that we use to understand where the Chinese consumer is shopping which is how we can give you these stats here, but I think it's a little early to say in terms of specifically what impact longer term the events in Europe may have on tourism.

In terms of the US, in terms of the cautious outlook on Wholesale, so we're saying overall we're guiding to H1 Wholesale down around 10%. The biggest section of that is in the US so there is cautious ordering globally both in EMEIA and in Asia around Travel Retail. But the US is the most significant portion. And there it reflects I think what the difficult market conditions that the US wholesalers are seeing. You know for us that's principally four or five big accounts. And we have been on this journey of elevating our presence in US Wholesale for some time, and to your point we certainly wouldn't want to encourage or look for the US Wholesale account to take any more inventory than we think they can appropriately sell, and therefore that is what they believe they can sell. It wouldn't be appropriate for us to push that any harder given that we want to continue to elevate our position in US Wholesale.

And then on Beauty, the elevation there it is absolutely a legacy issue related to the business that we took over, and I think I said in answer to the previous question it is principally in the UK, our home market, where with the very successful launch of My Burberry and now Mr. Burberry it feels entirely appropriate to only be in those real luxury doors, and we're delighted with sort of the position we now have in Harrods in the Black room there, and so that needs to continue. So it's the UK that we've taken the decision on this year.

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Antoine Belge, HSBC

Thank you. Actually I've got two follow ups. First of all so if we analyse the 5% delta going from overall comps flat to minus 5%, so is it fair to say that the decline in Chinese consumption would be a bit more than half of that, and then maybe local consumer, especially in the US, explaining the other half?

And the second follow up would be on US Wholesale. I understand that you don't want to push more inventories, but in your offering you always have a lot of new products so what happens to the sort of older inventory? Do they have to sell it before they sell the new products? I don't really get that.

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Carol Fairweather, Chief Financial Officer
So your comment on what was the impact of Chinese versus local, I haven't got the data cut that way but if you think about what we're saying, we're saying we saw a significant decline in Continental Europe which explains most of the movement in the comp in Continental Europe is principally Chinese driven, and then the other change in trends we referred to was in the US domestic market where that was probably broadly about half and half I would have guessed, but I haven't cut the data that way.

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Fay Dodds, Vice President, Investor Relations
We'll have a look at it Antoine; we'll get back to you.

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Carol Fairweather, Chief Financial Officer
And then your comment on US Wholesale I'm not quite clear, I mean every season they come in and they will buy an element of replenishment products and an element of newness and that continues. And it's just their absolute pounds millions or dollars of buy that has been reduced, and I don't think there's anything to call out between replenishment or fashion.

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Fay Dodds, Vice President, Investor Relations
No I think historically what we've done is if we haven't liked the number that's come out of the order book we've gone back to the department stores and perhaps encouraged them to buy more than they wanted to. This year we've been very, very clean because as part of the elevation strategy we would just much rather they bought what they think they can sell through at full price, rather than then having to put it into mark-down either in their mainline stores or increasingly in their off price stores.

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Antoine Belge, HSBC
All right, thank you very much.

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Luca Solca, Exane BNP Paribas
Thank you, good morning. First question to understand the nationality mix so that we can make heads or tails of these trends by geography. At one point you mentioned that the Chinese consumers represented about 40% of your sales. I wonder whether for the

just finished fiscal year this is still the case or whether they went down by one or two percentage points?

The second question relates to the productivity agenda and your current PBT guidance. I wonder whether it's just by a measure of prudence that you're not including it at the moment or because you're still working on the agenda, and whether you anticipate that this could potentially be material for fiscal year '17 in supporting the PBT results that you will achieve?

And thirdly I was wondering whether you could give us a ballpark assessment to where you stand in the fragrances and Beauty business, and ideally how much this is contributing to your results if you may? Thank you.

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Carol Fairweather, Chief Financial Officer
So in terms of Chinese, I mean I think we've always said around 40% from the Chinese across our Retail business, not of Retail/Wholesale. And I think that may have been a tad over 40% and it now may be closer to 40%, I don't think there's been a really material shift, it's still around that amount, clearly we always sort of quote to the nearest round number. I don't think there's anything else significant to call out on that.

In terms of the productivity agenda, when we spoke to you in January, Luca we said that we had accelerated that work and we would come back in May and share all of our plans around that, both for future growth drivers top line and operational efficiency, both of which would drive bottom line growth. And we committed then to coming back in May. That work is ongoing and we're making good progress as Christopher said this morning, and so we look forward to sharing both the short term benefits and the medium term benefits when we come back in May. But the impact on this year, obviously we'll be part way through the year, it won't be a full year benefit but we'll be updating you on the number in terms of the extent to which it will impact this year and as importantly future years when we come back in May.

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Fay Dodds, Vice President, Investor Relations
And in terms of the Beauty profitability, you know we don't split that out but we've traditionally said it's around about the same level of the Group Retail/Wholesale margin. And one of the reasons that we don't split it out is well illustrated by the recent launch of Mr. Burberry where the advertising campaign is not only about the fragrance, but it's also really supporting our menswear business.

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Luca Solca, Exane BNP Paribas
Understood. Thank you very much indeed.

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Carol Fairweather, Chief Financial Officer
Thank you Luca.

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Charmaine Yap, Jefferies
Hi good morning. I have three questions please. The first one in terms of for your FY17 guidance on PBT that's very helpful thank you, but are you able to share what assumptions you have included for comp for sales growth?

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Carol Fairweather, Chief Financial Officer
No.

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Charmaine Yap, Jefferies
A broad range.

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Carol Fairweather, Chief Financial Officer
We've given you the normal guidance that we would give at this point but what we are saying is that you know clearly the demands, the environment for luxury remains very challenging and that's all we're commenting on today.

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Charmaine Yap, Jefferies
So a similar run rate to where you are currently?

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Fay Dodds, Vice President, Investor Relations
No we're not guiding Charmaine.

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Charmaine Yap, Jefferies
Okay sorry. Then perhaps a second question on price adjustments. Are you seeing any narrowing in the market in general between regions? Are there more activities in Europe or US to narrow the gap versus Asia for example?

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Carol Fairweather, Chief Financial Officer
No. I mean we talked this time last year when pricing was obviously very topical and we did talk about the fact that we did adjust prices, some down, in China and Hong Kong and likewise took prices up in Europe. As we tracked through last year we've got our

strategic pricing policy, there has been no change to that fundamentally and therefore I don't think we have anything new to say in terms of any price adjustments today.

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Fay Dodds, Vice President, Investor Relations
No, I mean we're clearly listening to what our peers are saying but we've yet to see any material adjustment from them.

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Charmaine Yap, Jefferies
Okay thank you. And a third question was just if you have any views on the recent new tax regime in China in terms of tightening the customs borders of people buying products abroad and bringing back to China? Have you seen any impact or do you expect just a gradual shift more towards spend in Mainland China?

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Fay Dodds, Vice President, Investor Relations
No I don't think we're seeing any material impact at all because it is really just for cross border ecommerce, so to date no material impact. And don't forget we have a very strong digital and retail presence within mainland China and we saw comp growth in the second half.

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Charmaine Yap, Jefferies
Okay thank you.

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Rogerio Fujimori, RBC
Oh hi everyone, thanks for taking my questions, too. Just a clarification on your plans for Beauty. How should we think about your distribution in terms of total number of stores in fiscal '17? You referred to further elevation of Beauty in the UK but you also announced recently partnerships with Shiseido and Sephora so just wondered about the net global footprint?

And your retail guidance, could you give us extra colour on your 15 store openings in addition to your plans for Beijing? Just wondering how many are planned for in Japan and does it include any selective closures in Hong Kong, Macau among your planned closures in the next 12 months? Thank you.

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Carol Fairweather, Chief Financial Officer
No so in terms of Beauty what we're guiding on today Rogerio is the fact that we expect Beauty revenues to be broadly flat year on year, H1, H2 evenly weighted. As I said that's due to ongoing growth in the business offset by the rationalisation of our distribution in the UK. We don't guide specifically by doors, what we are pleased with as

we've said on the call just now is that somewhere like in Sephora in the US we've seen - launched there digitally and we have launched beauty counters for Sephora and we expect that to continue to grow and roll out further. We've talked about early progress we've made with Shiseido in Japan in terms of beauty counters there. And so we will continue to carefully monitor the rollout to make sure that we protect the distribution whilst delivering growth. It's really about quality as much as it is about quantity so it's a balancing act as we go through this year and future years, but we are seeing growth in the underlying business.

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Fay Dodds, Vice President, Investor Relations
And in terms of the store portfolio I think we said in the statement we're going to open about 15 mainline stores and close roughly the same number, and that's a trend that's really been going on over the last couple of years. If you look at the openings in 2017 it's predominantly as we evolve the portfolio in China, particularly in Beijing, and there's a couple of small openings in the Middle East which we see as a long term growth opportunity. And really it's relocations as well, and nothing really much to call out in terms of closures.

And specifically in Hong Kong I mean I think Carol has said consistently that all of our stores in Hong Kong remain profitable. We are clearly seeking to reduce rents there, we're clearly seeking to work more closely with the local customer, but that is still a very profitable market for us.

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Rogerio Fujimori, RBC
And just one quick follow up in your Wholesale guidance, any comments about what is implied in terms of Asian Travel Retail in that minus 10%? Thank you.

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Carol Fairweather, Chief Financial Officer
So Asia Travel Retail is probably down sort of mid single-digit within that. As I said the lion's share of that Wholesale guidance really does relate to the US.

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Rogerio Fujimori, RBC
That's great, thank you very much.

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Julian Easthope, Barclays Capital
Many thanks. I've got three questions as well if that's okay. In terms of your one brand, I had one of your US department stores, who I happen to be on their list for, email me the other day saying 20% to 25% off Burberry on the Brit and London ranges. And it suddenly occurred to me as you move to the one brand is it likely there's going to

be some disruption from - say you have to get rid of the old sort of branding and is that an issue for the first half?

The second area is from opex, your mid single-digit growth. I think you said it was a mixture of rents and salaries. Just how big a concern is salary growth particularly in the emerging markets because I think it's still sort of 20% plus in some areas. Is that the main area actually of your opex growth? And there's not really a lot you can do about that I guess.

And lastly in terms of the delta between Q3 and Q4 of the nought to minus five, I think you specifically said the seasonal product was extremely good running into Christmas, can we assume therefore that your core product ranges have therefore kind of been consistently down 4% to 5% from Q2, is that the right way of looking at it? Thanks.

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Carol Fairweather, Chief Financial Officer
So in terms of the one brand comment Julian, I mean absolutely not, we're not expecting any change in promotional discount policy due to the label strategy at all. So we've been very clear with US department stores that this was coming, they will have planned that in their buys, both in their own Retail and in US Wholesale we expect to be able to manage through that in terms of the new labels as we move away from the current labels and go to the one label strategy. So there's nothing I'm aware of from the one label strategy that should affect discounting. I mean clearly the US is a promotional market and we have seen that impacting, and that's why we are trying to be very pure in what we're doing, but I don't think one label has anything to do with that at all.

In terms of the opex guidance I mean I would say that the rent inflation is probably more of a pressure than the salary inflation. We do broadly just look to give inflationary increases; we don't look to do anything over and above that across our regions. And that will vary market by market and it's the net of all of that, but I would say if anything it's the impact of the annualisation. Remember this year we've just finished we've opened some pretty large flagship stores in Japan, in Korea, we've relocated Soho in New York so we've got the annualisation impact coming through, contractual rent increases and then - probably what is on average low to mid single-digit salary inflation. And as I said any discretionary headcount increases or pay rises have not happened in the budget year.

And then Q3 into Q4 in terms of product, I mean what we're calling out is that Accessories did show more resilience than Apparel in this quarter or across the half. You know certainly we saw growth in scarves, in certain aspects of large leather, ponchos. We are saying that outerwear for us was more difficult. We hate talking about the weather but we do know that around the key festive period that may have been the case. And then offset by I think what is encouraging is that the newness in emerging categories like dresses, like the lightweight cashmere trench coats. Off of a small base we are seeing nice growth there so it's been a mixed bag, but I would say that for us in this half, Accessories was more resilient than apparel.

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Julian Easthope, Barclays Capital
Okay thanks. If I could have one follow up, mainly because I was too embarrassed to ask four questions outright. But in terms of your licence fee on Fossil is it around £5m most of which will be in 2018?

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Carol Fairweather, Chief Financial Officer
Yes I mean we don't split it out specifically year on year but what we are saying is that within the £20m down, the way in which the termination arrangements with Fossil have materialised that's contributing to part of the £20m in this year versus last year. But the lion's share of that again is the Japanese licence income, but there is a small impact within that £20m from the termination of Fossil.

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Julian Easthope, Barclays Capital
But it is around £5m is that right or is it …?

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Carol Fairweather, Chief Financial Officer
Something broadly like that, yes.

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Julian Easthope, Barclays Capital
Perfect. Many thanks, speak to you later, bye.

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Elena Mariani, Morgan Stanley
Hi good morning. Thanks very much for taking my questions, actually I have just two follow ups. The first one is on your productivity and efficiency agenda, it's just a clarification. What should we expect in May? Is this going to be a detailed plan around productivity initiatives, efficiency initiatives, with a clear concrete quantification of what these would imply, and is this going to be a three year plan, two year plan? If you could clarify that it would be great.

And then with regards to the short term benefit, so if I understood correctly you're going to share a new number for the PBT for fiscal year '17 which is going to include these benefits so I was wondering why didn't you wait until May to give like full guidance for the year which includes these initiatives as well?

And the second follow up is about the £60m FX benefits. Can you share with us how much of this is actually locked up, maybe because of previous wholesale sales, so it's not going to actually change over the year, and how much is the part that is going to continue to vary according to how much FX moves? Thanks very much.

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Carol Fairweather, Chief Financial Officer
Okay so your first question on the productivity and efficiency agenda, we have said consistently since January that we'll come back and share our plans with you in May. Those plans will give a degree of detail around where we see the growth opportunities and the efficiencies coming from but you'll have to wait until May. And clearly we will give you an indication then as well about how those benefits will materialise over both the short and the medium term and that will be laid out to a certain level of detail in May that will enable you to be able to understand how much will come in 16/17.

I mean you said why didn't we wait until May. As part of our normal H2 trading update we would always talk about our normal guidance on licensing, Wholesale, FX, and that is what we have done today. The only piece we haven't been able to do in this year where we are - we have got this agenda on productivity running, is to guide as to what the benefits may be, the short term benefits, that we may see in '16/'17 because it feels more appropriate to do that as a joined up package when we've finished the work and can give you the total picture in May.

And then in terms of the £60m FX benefit, most of that in the coming year is - so first thing to say it's based on spot rates at 31st of March, and a lot of that benefit in this year is coming from translations rather than from procurement, and therefore the only piece that we've sort of locked in is part of the procurement benefit which is reasonably small in this coming year. The bigger piece is mostly coming from translation and there it will depend on what the exchange rates are at the month in which we book the revenues and profits as we track through the year. So broadly I wouldn't bank on any of it being locked in. What we can say is that at those spot rates at 31 of March it would come out at around £60m.

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Elena Mariani, Morgan Stanley
Thank you, very clear. Thanks very much.

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Melanie Flouquet, JP Morgan
Yes good morning. I have three questions actually. On US Wholesale can you confirm to me that I understood this right, are you saying that the Wholesale partners are ordering prudently or that you are delivering cautiously? Are you actually delivering them less than what they are asking for? This is my first question because I suspect it is - it's an important one in reality.

Number two is in Japan could you give us an idea of the size of this business today in sales and profit terms compared to the £100m, £25m sort of profit by full year March '18?

And the last one just so I get that clear but I think Elena's question was already answering this. In full year March '17 when you guided for £405m you have in there £60m FX gain, you have underlying cost pressure of mid single-digit, you have sustained discretionary spend cuts of roughly £25m still in and you have basically a long term incentive plan reinstated at £20m. Can I just confirm there is no accrual on bonuses in there for full year March '17, and on the more positive side there is no incremental productivity gains which you would announce in May? Thank you.

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Carol Fairweather, Chief Financial Officer
In reverse order absolutely, so yes that's exactly – you're exactly right Melanie. So we've put in everything that we would normally guide on other than we have not got yet - we've got the fixed charge for PRP in there and then if there's any new award under either bonus or LTIP from the Rem Co in May then that would have to be factored in. Likewise we have not incorporated any benefits, short term benefits that will come from the productivity agenda. Again we will guide on that in May.

In terms of US Wholesale, we are saying that that is based on the orders that they have come in to market and given us which reflects their tight inventory management given that we know that the Wholesale market in the US is pretty challenged right now. Our comments were more around, you know, that is the level at which they've ordered. We haven't reduced their order but in other seasons we may have looked to see whether we can increase their order. We certainly wouldn't be doing that because we do not want any inventory in the US Wholesale chain that we don't believe they can sell through in a brand appropriate way. So it's really about continuing to protect the brand.

And then in terms of Japan?

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Fay Dodds, Vice President, Investor Relations
Yes I mean basically if you look at the Retail revenue it's doubledto about £60m.

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Melanie Flouquet, JP Morgan
Okay. And could you share with us, I know it's not a profit call but the profit impact on that roughly?

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Fay Dodds, Vice President, Investor Relations
Yes I mean given the level of investment that we're making in some of the flagship stores that Carol referenced, it's broadly breakeven.

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Melanie Flouquet, JP Morgan
Okay perfect. And just can I - you know there seems to be a pretty big issue in US Wholesale of US department stores being involved in pretty big off price activity and also some shipping back into Asia actually. I was wondering, you know I'm surprised that they would actually - I mean it sounds like they're actually asking for more because they resort to all of these activities so what do you - how do you explain their soft ordering

and do you not want to even get it further down than what they're actually ordering given the environment?

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Carol Fairweather, Chief Financial Officer
So we've worked - we have a very close relationship with US Wholesale. As I said we've been on a journey to elevate the brand in the US department stores. It's part of our long term strategy. We work closely with them and based on the orders they believe they can sell through in the first half of this year, that is the number that we have guided to today. So we work closely with them, we're not looking to force that number one way or the other, we are keen to make sure that we believe that they can sell through and that is why we've accepted this double-digit decline in ordering from them for H1. And I'm not aware of any - we do know that the US Wholesale market is very promotional and certainly we wouldn't want to do anything to jeopardise our brand in any way by trying to encourage them to take any more.

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Fay Dodds, Vice President, Investor Relations
Especially to put in their off price channel.

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Carol Fairweather, Chief Financial Officer
Yes.

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Melanie Flouquet, JP Morgan
Thank you very much.

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Daniele Gianera, Macquarie
Hi good morning, thank you for taking my three questions. My first question is specific to the UK trend and how the Q4 performed versus the third quarter. In addition do you expect an improvement on the back of the new visa scheme for Chinese and the weaker pound?

The second question if you can please give us an update on the rollout of the single inventory pool that is planned and what is your learning from it so far, a few months already? And moreover than this, where do you see the highest benefit from it? Is it more an efficient inventory level, is it gross margin or should we expect lower opex from that side too then obviously with the additional discretionary costs you are making?

And the last one is just a clarification; can you please give us more detail on the eight stores that have been closed over the quarters in terms of location please? Thank you.

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Carol Fairweather, Chief Financial Officer
Okay so in terms of the UK trend we said that the UK trend continued so it was negative in Q3 and that continued into Q4. Again we believe that was tourist driven. Clearly the restriction on the visa requirement is potentially good news for us, likewise with sterling where it is at the moment. That said we need to understand what the impact of recent events in Europe will have on tourist patterns, so I think we can't guide specifically in terms of what we think is going to happen into the UK.

In terms of the single pool of inventory, as I said earlier I mean we're delighted with the progress we've made there. So we're saying that it did have a meaningful uplift in terms of our Digital sales because what we've effectively done is opened up, when you look on our Digital website, all of our stores that are involved, and I think we're up to something like 75 stores now globally. And you see not only the inventory in the distribution centre but also in those 75 stores. So it did have a nice benefit, and the benefit principally for doing this was to make sure that we optimised sales. Clearly it will also have a benefit on inventory management but it was done in response to the customer to make sure that they could access that inventory wherever it was in the world and we didn't disappoint them. And we did see that that contributed to our Digital outperformance in the quarter.

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Fay Dodds, Vice President, Investor Relations
And if you look at the eight store closures in the second half, a couple of them are in China, a couple of them are in the US and there's a lot of relocations but very much a normal part of business.

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Melanie Flouquet, JP Morgan
Sorry if I missed it but just a small clarification. You updated us on what you expect for the FX gain for full year March '17, but for full year March '16 I don't think I saw the update and I suspect it's slightly higher than the last £10m?

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Carol Fairweather, Chief Financial Officer
Melanie we're closing the books - obviously the number that we report in May will be based on the final profit number. We're clearly going through our year end close process at the moment. The way rates have moved I would expect that there would be a £1m or £2m benefit perhaps, but don't forget also the last time we guided it was on volumes that we're expecting for Q4 and so therefore any reduction in sales, the benefit from translation won't come through. So I think I'd expect a small benefit from rates maybe offset a little bit by business performance. So I wouldn't roll much above the £10m.

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Melanie Flouquet, JP Morgan
Thank you very much.

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Carol Fairweather, Chief Financial Officer
Okay so thank you all very much for your attention and we look forward to speaking with you again on the 18th of May. Thank you.

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