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Burberry

First Quarter Trading Update

13th July 2016

BURBERRY

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Fay Dodds, Vice President, Investor Relations

QUESTIONS FROM

Helen Brand, UBS

Thomas Chauvet, Citigroup

Luca Solca, Exane BNP Paribas

Louise Singlehurst, Morgan Stanley

Warwick Okines, Deutsche Bank

Rogerio Fujimori, RBC

Dan Gianera, Macquarie

Annabel Gleeson, Redburn

Opening Remarks

Carol Fairweather, Chief Financial Officer
Thank you. Good morning and welcome to Burberry's First Quarter Trading Update conference call. You will have seen the announcements made earlier this week about the changes to our senior management team, so as usual, today's call will be focused on the first quarter trading.

With me this morning is Fay Dodds from our Investor Relations team. I will make a few brief comments on this morning's announcement and then we will be happy to take your questions.

In what remained a challenging external environment, underlying Retail revenue in the first quarter was unchanged at constant exchange rates and up 4% at reported rates. Comparable sales were down 3%, with all three regions posting low single-digit comp declines.

First, within Asia, Mainland China saw comparable sales for the quarter unchanged year-on-year. Our performance is currently being impacted by the ongoing elevation of our store network in Beijing, which is our largest market within China. Excluding Beijing, comparable sales in China remained up by a mid single-digit percentage.

Hong Kong continued to suffer significant double-digit footfall decline, although the market did show some improvement compared to the fourth quarter. While comparable sales remained down by a double-digit percentage, this was better than the declines of over 20% we had seen for the previous three quarters. And excluding Kong Hong and Macau, comparable sales in the region were positive.

Second, in EMEIA, the UK which accounts for over one third of the region's Retail revenue improved, particularly in the final weeks of the quarter to deliver mid single-digit percentage growth.

Continental Europe however, remained depressed, with continued double-digit declines in sales to the travelling luxury customer, particularly in France and Italy, offset in part by growth from domestic customers in all major markets.

And then in the Americas, we continued to experience uneven demand from domestic customers and spend from travelling luxury customers, which represents over 15% of the market, remained down by a double-digit percentage.

Meanwhile Digital continued to outperform and grew strongly in all regions. Mobile represents approaching 60% of traffic to the site and delivered the majority of the growth.

As regards product, in mainline stores, Fashion which tends to have a lower growth margin, outperformed replenishment with a positive customer response to innovation and newness.

So turning now to guidance, there is no change for Retail space or Licensing revenue from what we said in May. For Wholesale, the response from our customers to the move to one label continues to be positive. However, our outlook for revenue in both Fashion and Beauty, particularly in the US is now more cautious for both the first and second half of the year. We now expect Wholesale revenue to be down over 10% in the first half. This reflects significantly tighter inventory control by our US customers and cautious ordering in the other regions, and the elevation of Beauty distribution in certain key markets.

Having completed the review of growth drivers for our Fashion business we spoke about in May, we're now carrying out the same exercise for Beauty.

And finally as regards to guidance, let me just update you on FX, using the rates as of the 30th of June, the recent depreciation of sterling means that the expected benefit for financial year 2017 is now about £90m for Retail/Wholesale profit, when compared to last year's rates, which is about £40m more than when we spoke in May.

So, let me now just update you on our initiatives to deliver enhanced revenue growth and improved efficiency, which are well underway. Starting with the initiatives to drive revenue growth, which are grouped under three headings; first, under Product, in order to deliver greater visibility for fashion and newness we have reduced the number of SKUs for May market by about 15%. And in marketing you will have seen the main campaign is now more product focused, featuring the Patchwork bag.

Secondly, under Retail Excellence, we've increased investment in training, with regional conferences planned for our store management teams over the Summer, focusing on customer cultivation. And as we look to elevate our service, our growing team of Burberry Private Client sales associates, whose productivity is significantly above the average, delivered an increased number of personal appointments in the quarter.

And third under Ecommerce, the relaunch of Burberry.com, with improved content and functionality is scheduled to be launched in the Autumn as planned. And the customer app, facilitating mobile checkout in particular, is also on schedule.

And then turning to process, our plan is to improve efficiency through changes in our ways of working are well underway, and as a result we remain confident in delivering the financial goals for this year and through 2019, as we outlined in May.

And finally I should just let you know that we will shortly be starting the previously announced share buy-back programme of up to £150m.

In conclusion, at this early stage in the year we continue to operate in a challenging external environment where underlying cost pressures persist. But against this background we have remained focused on managing the business day to day, while implementing the initiatives announced in May, to deliver enhanced revenue growth through focusing on key products, retail productivity and ecommerce and improved efficiency through changes to our ways of working.

So with that, Fay and I would now be happy to take your questions.

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Questions and Answers

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Helen Brand, UBS
Hi, good morning. I've got three questions if I may. Firstly, you said you're happy with the consensus PBT of £413m, would it be fair to assume that this reflects low single-digit like-for-like for the year? And is there anything that you're seeing currently that suggests that like-for-like can't return to positive trends in Q2, particularly given the 10 percentage point easier comp base?

Then secondly, just on Wholesale you've guided that down over 10% now in H1, what's the main delta there between the US and Beauty within that? And can you talk to your early indications for H2 here and also the split between the sort of core Wholesale business and Beauty as well?

Finally, I appreciate it's a Q1 trading call, but you've obviously outlined the plan to increase sales densities more in line with the peers, can you just talk to - with the management changes, will the new CEO be spearheading this retail excellence process when he comes in, and what previous experience he has here in his many years in the industry? And do you still think that you may need to strengthen headcount in Retail further down the organisation at all?

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Carol Fairweather, Chief Financial Officer
Okay Helen, do you want to take the one on consensus Fay and then I'll take Wholesale?

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Fay Dodds, Vice President, Investor Relations
Yes, what we've said this morning is now that most of the analysts have actually included the FX benefit, consensus is about £413m, we're not going to particularly comment on what that includes in terms of like-for-likes. It's very rare for us to do that.

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Carol Fairweather, Chief Financial Officer
And turning to our Wholesale guidance, what we're saying now is that as we look forward to H1, we had guided, as we said to around 10, we're now saying that will be more than negative 10, both in Fashion and in Beauty. And they are probably around and about the same. What's happened is we've seen Beauty wholesalers are also reacting to the external environment and they're destocking, I think not just for us but for other fragrance brands. I mean importantly our sell out on our new products, so My Burberry and Mr Burberry remains strong; it's the sell-in that's being impacted. And now we're expecting Beauty revenues to be down by something like around 10% across the year, and probably broadly split equally, sort of half on half, something like that.

And then in terms of retail expertise, Fay?

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Fay Dodds, Vice President, Investor Relations
Yes, Helen as you know we did a huge amount of work over the last six to nine months identifying the opportunities to improve Retail productivity. That is well underway under Christopher's leadership with the existing team. But I'm sure as Marco joins, you know he is a luxury retail person through and through and he will be able to add to that programme.

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Helen Brand, UBS
Okay, thanks very much. And just on that Q2 like-for-like and that 10 percentage point easier comp base, following up on that, is there anything you're seeing that doesn't suggest that that shouldn't return to positive?

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Fay Dodds, Vice President, Investor Relations
I think Helen we've all been caught out with the weak comp argument before, I remember doing that with Hong Kong, "oh things will get much better in Hong Kong because of the weak comp", so you know this is an early stage of the year, I think that the most important thing to note is that Christopher talked to you in his quote, about things remaining very challenging.

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Helen Brand, UBS
Okay, thank you very much.

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Thomas Chauvet, Citigroup
Good morning Carol, Fay. I have three questions please. The first one I'd like to have a bit more colour on your minus 3% LFL, could you split perhaps ASP and volumes, perhaps outlets versus mainline stores? And if we think of LFL by nationality what is the slight improvement coming from in terms of customer cluster, is it from the Chinese customer improving sequentially? That's my first question.

Secondly, on FX and pricing, obviously the sterling, but also the Euro have moved quite a lot versus the dollar recently. Have you taken, or will you implement price increase in both the UK and Continental Europe to reduce the price gap with Asia and the US, are you happy with the gap as it has moved in recent weeks?

Finally, still an FX related question, if you're happy with consensus PBT of about £415m, or £413m, I believe this means you're not reinvesting any of the additional £40m FX benefit into the business, is that a fair assumption? Thank you.

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Carol Fairweather, Chief Financial Officer
Okay Thomas, so in terms of the minus 3% like-for-like the split between ASP and volume, ASP may be up just a tad, but it's volumes that are down. We don't ever split out the split between mainline and outlet, so nothing specifically …

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Thomas Chauvet, Citigroup
You used to, but …

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Carol Fairweather, Chief Financial Officer
I don't think we have for a little while now.

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Thomas Chauvet, Citigroup
Well did outlet outperform mainline stores?

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Carol Fairweather, Chief Financial Officer
No. And then in terms of nationality, if we look by region, what we are saying is that in the UK, we saw return to positive growth, and remember for us you know its about a 50% tourist market and even within domestic we've probably got lots of expats too. If you talk about the Chinese in particular, we had said we had seen growth from the Chinese slow overall as we went through quarters three and four last year, and that just slowed a little bit more than it had in Q4.

Other than that by region, I don't think there's very much to call out specifically. All regions improved just a little bit. We've talked about Hong Kong improving to now not to be down over 20% and China is impacted by Beijing. But other than that, I think a little bit of an improvement and I would say we feel that's the initiatives we spoke to you about beginning to kick in, be it around product in the stores, be it around retail service, products marketing.

And then in terms of FX and the impact on pricing, you know we've chatted before about the fact that we have a global pricing strategy, we don't tend to make knee jerk reactions when FX rates move. Clearly there has been a significant shift and we'll wait until that settles and then make any price adjustments that may be appropriate, always looking to see also what our peers are doing. So nothing new to call out in terms of pricing today.

And then on your point on consensus and the FX impact, clearly there has been a £40m upgrade at 30th of June rates. Remember we manage the business day-to-day on an underlying basis, and therefore whilst the FX moves affect reported profits, that doesn't necessarily change any investment decisions or anything else in terms of the way we're managing the business, which we always look to deliver growth on an underlying basis.

Thomas Chauvet, Citigroup
Very clear, thank you.

Carol Fairweather, Chief Financial Officer
Thank you Thomas.

Luca Solca, Exane BNP Paribas
Thank you very much. I wonder - there have been major changes since we last spoke and I wonder what Brexit could mean for Burberry. Are you considering, or envisaging any changes to the organisation or the way that you conduct your business to adjust to this scenario going forward?

As a second question, and continuing with the big changes coming on, I wasn't clear when the new CEO is going to join Burberry, I wonder if you could give us a bit more detail on that?

And lastly, I was wondering whether you see any differences in sales trends when you look at your assortment and divide it by price point? Thank you.

Carol Fairweather, Chief Financial Officer
Okay Luca so in terms of Brexit, as you know this wasn’t the outcome necessarily that we would have been hoping for, but that said we now need to move on, you know we’re a global company. And in the short term we don’t see any, other than the FX benefit which we’ve called out today, we don’t see any discernible impact on our operations globally. I think it’s far too early to call out what the longer term impact may be and as that becomes clearer we will obviously respond to make sure we continue to optimise and deliver on our strategies. But I think it’s still very early days and we’re just focusing on continuing to manage the business day-to-day and on those growth opportunities ahead of us, but we’ll keep you posted as we get more clarity along with everyone else on what this really means.

In terms of the CEO role Fay?

Fay Dodds, Vice President, Investor Relations
Yes in terms of when Marco is able to join us, it will be sometime in 2017 as we said in Monday's release.

Carol Fairweather, Chief Financial Officer
And in terms of sales trends by product, the one thing we are calling out today is that we saw Fashion outperform replenishment in this quarter, which I think is important given we know how important

newness and fashion is to the luxury consumer. So that's probably the only thing, but in terms of what that meant for ASP, again nothing significant to call out.

Luca Solca, Exane BNP Paribas
All right, thank you very much.

Fay Dodds, Vice President, Investor Relations
Thank you Luca.

Louise Singlehurst, Morgan Stanley
Hi, good morning to you all. Obviously today's call as you rightly said is focused on the Q1 updates but I think after the big announcement definitely a thank you to Carol. We'll no doubt be chatting to you later on this year but hopefully a well-deserved break coming in 2017 for you.

Carol Fairweather, Chief Financial Officer
Thank you Louise.

Louise Singlehurst, Morgan Stanley
In terms of the questions I've got simples ones. UK obviously much better towards the end of the period, no surprises, but can you just give us a bit more colour on this and if there's any scope to increase prices going forward given the currency?

And then secondly on the US travellers down double-digit. Did that change at all over the period?

And then my last question on domestic US, obviously still tough and we can see that reflected in the US Wholesale comments, but any change on the promotional environment that you've seen? Is there anything on the inventory position to highlight? Thank you.

Carol Fairweather, Chief Financial Officer
So in terms of the UK we did say it improved towards the end of the quarter. I don't think we will be, as I said to Luca just now, I don't think we'll be changing prices in the immediate short term but we'll obviously keep that under review depending on where sterling settles. But it has been moving day to day as you've seen.

In terms of what's underpinning that improved performance, we do believe it is the strategies that we put in place, are now beginning to kick in, so we particularly saw a pickup in domestics across EMEIA and that's very much about the focus we have on our Burberry Private Clients, our CVM programme, our improved Retail disciplines, which I think is helping with conversion, continued strength in Digital. And also I think we've got traction in those key areas of product focus be it around bags with the rucksack, outerwear in terms of lightweight cashmere and lace, and entry price point products. So I think it's a number but there's not one big callout, it's a number of those initiatives now really beginning to kick in.

In terms of US travellers Fay, I don't -

Fay Dodds, Vice President, Investor Relations
Yes, just to remind you that for us, the Americas is about 80% local, 20% tourist. We still saw tourist down double-digit in the first quarter, very similar to the fourth quarter. And in terms of the US domestics they were broadly unchanged year-on-year.

In terms of your question about promotional activity, the market as a whole remained quite promotional but we actually ran a shorter, sharper sale in the US.

And you had a question on inventory. At March we talked about it being 10% up with a lot of the increase due to being either currency from stock or replenishment and we're pretty relaxed about our inventory position at the moment.

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Louise Singlehurst, Morgan Stanley
Great, that's very helpful. Thank you.

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Warwick Okines, Deutsche Bank
Hello, good morning. Two questions please. The first is back to FX. You've talked about the £90m benefit; presumably that's a bit of a mix between translation benefits and transaction costs. Could you maybe talk about whether there is a drag on COGS from the stronger euro this year or whether more of the negative impact from currency should come through into the next financial year?

And secondly could you just confirm that all your PRP is based at constant currency rather than reported? Thank you.

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Carol Fairweather, Chief Financial Officer
Yes so in terms of the FX benefit as you say the majority of that Warwick this year is coming from translation. There is part of it, there is an adverse on procurement, principally on US dollar where just the way our hedging timing works; as we sit today the US portion of our hedged procurement has been impacted versus the procurement rate for last year. But by far the most significant majority is around translation. And remember for us with a 40% sterling cost base means we're getting more of that benefit coming through.

In terms of PRP, everything is done at constant exchange rates so nothing significant to call out there other than the one measure in the ESP, the long term incentive plan, where the ROIC, the return on capital measure, is actually done at a reported rate.

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Warwick Okines, Deutsche Bank
Okay thank you. So back on the procurement it could be a sort of tens of millions drag from the dollar this year on COGS? It's obviously being more than offset by ...

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Carol Fairweather, Chief Financial Officer
I wouldn't say tens of millions, I would say around that sort of number but not tens of millions.
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Warwick Okines, Deutsche Bank
Okay perfect, thanks very much.

Fay Dodds, Vice President, Investor Relations
And sorry just on FX so everyone is clear, don't forget the rates that we've put in the back of the announcement include three months of basically pre-Brexit rates and then nine months on the rates at the 30th of June.

Rogerio Fujimori, RBC
Hi everyone, three quick questions. I was just wondering with Hong Kong down in the teens or so in Q4, how the profitability in Hong Kong compares today with the global average?

Second is just a quick question. The shape of the quarter, was June materially different to Q1 figures? You mentioned UK but I was just wondering about other regions or key markets?

And in Wholesale has the travel retail in Asia component changed within this revised Wholesale guidance? Thank you.

Carol Fairweather, Chief Financial Officer
Hi Rogerio. So in terms of Hong Kong we did say it had got slightly better albeit still down double-digit. All of our stores there still remain very profitable and they still are some of the most profitable stores that we have. So no change to what we have been saying previously.

In terms of Q1 and trends I don't think there's anything specific that we're calling out, we're saying all regions just did slightly better but no significant shift.

And in terms of travel retail again nothing really, the biggest movement in our Wholesale guidance is largely in relation to the US.

Rogerio Fujimori, RBC
Thank you.

Dan Gianera, Macquarie
Thank you, good morning all. Three questions on my side please. The first one is on the SKUs. You're talking about reduction, I just wanted to get a clarification here, does it apply to all collections or it's just on the Fashion items?

The second one is on the Wholesale. I was wondering if there is a self-inflicted impact as well coming from the consolidation of the three labels into a single one?

And also wondering how much of the £90m benefit to profit before tax from FX do you think is already crystallised and locked in for the year? Thank you very much.

Carol Fairweather, Chief Financial Officer
So Dan in terms of the SKUs, we're saying 15% and there will be more to come as we go through following years. But that's pretty much right across all of the collection and will continue to reduce further as we go forward.

In terms of Wholesale, I said when I opened the call that absolutely no impact from the three label consolidation. The response from our Wholesale partners in the US has been very positive. What we're saying now is that we're just seeing a - remember H1 is not impacted at all by label consolidation and that's where we're seeing it down over 10%, and we're saying we now see similar trends for H2 but we do not believe in any way that has been impacted by the consolidation.

And then your last question, sorry I didn't quite catch what you were asking.

Fay Dodds, Vice President, Investor Relations
I think it was about how much of the £90m FX benefit has been banked in the first quarter.

Dan Gianera, Macquarie
Correct.

Fay Dodds, Vice President, Investor Relations
And clearly a lot of that is half two weighted.

Carol Fairweather, Chief Financial Officer
Yes and don't forget in the first quarter, so the number we're calling out this morning is only the Retail number, but it is very much weighted towards the second half. Two reasons, one because the quarter as Fay said has already been banked in, and secondly given we are a H2 weighted business a more significant portion of that will come in the second half.

Dan Gianera, Macquarie
Very clear, thank you.

Annabel Gleeson, Redburn
Hi Carol, hi Fay. Just two questions. First of all you're obviously calling out that Fashion outperformed replenishment. Firstly is that because you promoted more, I know you said you didn't in the US but sort of on a global basis? And also how should we think about the gross margin pressure because obviously your replenishment products are higher gross margin?

And then the second question is I know you've just sort of said that your Wholesale partners have reacted positively to the brand collapse but can you give us an update in terms of Retail? So when are you actually going to be starting to change those stores over? Maybe can you talk a bit about the trial stores and how they're performing?

Carol Fairweather, Chief Financial Officer
So in terms of Fashion outperforming replenishment it will have an impact on gross margin, but clearly will also drive, we believe, top line outperformance. So in terms of pounds millions will be positive overall. And I think it's just the reason it's outperformed in this quarter is because we are now - we talked about the fact that the stores looked a little - it was difficult to see the newness in the stores

and we very much changed the merchandising, we've reduced the SKUs, the way in which customers are able to come into the shop and see that newness in fashion I think is resonating really well.

In terms of Wholesale, as I said you know we do not believe there's any impact from the label consolidation. In terms of our own Retail that's beginning to roll out right now with full implementation in the Autumn. And we talked to you last year about the trial stores. Now we're moving more away from those trial stores and just looking to absolutely roll it out globally. So that's happening as we speak and will be fully implemented by the Autumn.

Annabel Gleeson, Redburn
And what sort of percentage of stores have got that, the new way of merchandising, i.e. all the product categories together?

Carol Fairweather, Chief Financial Officer
It's literally happening. It's a sort of work in progress Annabel because this is the season when we actually switch over. So as you go into the stores now you will begin to see it, but as I said it's really by the time we get to the Autumn that it will be fully implemented. We're doing it globally, it's not on a test store basis anymore, it's just as the collection rolls out.

Annabel Gleeson, Redburn
Perfect, thank you.

Carol Fairweather, Chief Financial Officer
Okay so thank you very much and we look forward to speaking to you again on the 18th of October with our first half trading update. Thank you.

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