WORLD TELEVISION

Burberry

Preliminary Results Presentation
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Burberry

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Presentation

Christopher Bailey, Chief Creative and Chief Executive Officer
Good morning, welcome, and thank you for joining us today at Horseferry House. This morning I will go through our results for the year and Carol will take you through the financials. But we will be a little bit briefer than usual because we want to spend the bulk of this meeting focused on how we see the future of Burberry.

We've been doing a lot of detailed work, to understand what we need to do to secure the next phase of Burberry's growth in a very different climate than the sector has experienced over most of the past decade. To do this, we have been asking ourselves what are the key macroeconomic and demographic trends impacting the luxury sector and, in view of these, what kind of a company do we want Burberry to be in this next phase of our growth. How do we need to change how we work as a business in this new environment, and where do we need to focus our resources and investment in the future. How can we maximise value and returns for our shareholders.

It has been an intense exercise but hugely energising, involving the whole senior team and looking right across the business. We want to share our thinking with all of you this morning.

So Carol and I will be joined by two of the team who have led key parts of this work. John Smith who you know, our COO, and Donald Kohler, our President of the Americas.

But let's begin with the key points of the year just gone. There is no doubt that 2015/16 was a challenging year for our industry, shaped by macro trends including volatile financial markets and geopolitical tensions as well as changes to the dynamics of luxury consumption, not least in Hong Kong.

Given the shape of Burberry's global footprint we were relatively more exposed to many of these trends than our peers. And while our teams worked hard to mitigate their effects, we could not fully offset their impact, and this was reflected in our overall performance for the year.

At £2.5bn, revenue was down 1% underlying, while adjusted profit before tax was down 10% underlying to £421m. This in part reflected a £19m decrease in profits from the planned expiry of our Japan licenses.

However, the business remained highly cash generative, with net cash increasing by £108m to £600m.

As you will have seen this morning, we have increased the 2016 dividend by 5%, taking the payout ratio to 53% from 42% just two years ago. Having now met our payout target of 50% we will move to a progressive dividend policy going forward. In addition we have also announced today our plans to commence a share buyback programme of up to £150m starting in 2017.

Both these actions reflect our confidence in the future growth prospects for the business, and our commitment to balancing financial efficiency and flexibility.

It's important to note that our headline financial performance masks some more positive aspects that give us confidence for the future. Let me highlight two areas in particular.

First in Retail, while comps decreased overall by 1% they were up 3% if you exclude the heavily impacted markets of Hong Kong and Macau. Within this, improved conversion globally reflected our intense focus on retail disciplines, in the face of traffic declines.

And second, we were pleased that digital sales again grew in all regions, despite the difficult environment, because of our sustained focus on, and investment in this channel, which we will talk about later.

More broadly, further strategic and operational progress within our four key themes - Brand First, Famous for Product, Customer Centric and Productive and Responsible - demonstrates the underlying health of our business.

Under Brand First, we continue to build brand momentum and engagement globally, underpinned by Burberry's distinctive blend of heritage and innovation. We began the year with a magnificent event to celebrate the opening of our new Los Angeles flagship on Rodeo Drive, an important moment as we continue to elevate and reposition the brand in the US.

Elsewhere in the world, we marked a major milestone with the full launch of the global collection in Japan. Although from a small base, we doubled our revenue here over the year, and see incredible potential ahead as we grow the brand in this, the world's second-largest luxury market.

We also announced that we will move to one label later this year, better reflecting how the customer shops and thinks about our brand today. And we were able to partner with some of the most digitally innovative companies in the world at key brand moments, including Apple, Google, Snapchat, DreamWorks and WeChat. This helped drive record digital engagement over the year and an increase of some 30% in our followers on social media globally to over 40 million.

Under our second theme of Famous for Product, our focus on our iconic UK-made products and fashion innovation saw some notable successes. Following last year's re-launch of the Heritage trench, our Scottish-woven cashmere scarves moved centre stage with the introduction of the Scarf Bar. This innovation and focus helped scarves to outperform other accessories during the year, recording double-digit growth.

We drove commercial and editorial success from the runway with our monogrammable rucksack, just as we did with the poncho last year. We celebrated our most successful men's fragrance launch to date with the introduction of Mr Burberry, capping a year of real progress for our Beauty business. And finally we announced that we will be building a new weaving and manufacturing facility in Leeds for the trench coat, securing the future production and British provenance of our most iconic product.

Within our Customer Centric theme we continue to make progress in putting the customer at the centre of our decision making and instilling a retail mindset through the organisation. Highlights here include the provision of more personalised experiences to more of our customers globally through the expansion of our Burberry Private Clients team and Customer Value Management tool.

Further investment in merging physical and digital experiences to provide a more seamless shopping experiences including through the expansion of our Single Pool of Inventory, with 75 stores now live. We also re-launched our mobile site, which delivered the majority of our digital growth. And finally, we announced plans to change our runway calendar to combine our men's and women's collections, and to allow customers to purchase the collection straight after the show.

This new approach broke with tradition and was a big step forward in enabling our customers to have what they want, when they want it. We are excited about our show in September and our plans are on track.

Finally our fourth theme of Productive and Responsible where we saw further progress throughout the year. This included the rollout of the first phase of our core IT system upgrade, which is already improving the responsiveness of decision-making across the business. And we took tight control of discretionary costs, realising over £25m of savings against our plan during the year.

We also celebrated a number of milestones in the field of sustainability, with our inclusion in the Dow Jones Sustainable Indices and the launch of our first Apprenticeship scheme. I hope these achievements illustrate some of the reasons we end a challenging year feeling positive about the future.

With that, I'll hand over to Carol on the detail of the financials, after which we will show a short video covering some highlights of the second half before we turn to the future. Over to you, Carol.

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Carol Fairweather, Chief Financial Officer
Good morning. Thank you, Christopher. I will now talk through our financial performance for FY'16 and then return later to run through our financial ambitions for the coming years. As Christopher referenced in what remains a challenging external environment, revenue was down 1% underlying, and adjusted profit before tax, at £421m, was down 10% underlying. We continued to be strongly cash generative, closing the year with a net cash position of £660m, and have proposed a 5% increase in the full year dividend to 37p.

Turning to revenue, given that we have already reported this I will only briefly summarise our performance. Retail representing 73% of Group revenue was up 1% underlying, with comparable sales up 1% in the first half and down 2% in the second half as EMEIA and Americas slowed. Digital outperformed, growing in all three regions, benefitting from the investments in mobile, fulfilment and payments.

Excluding Beauty Wholesale was down 6% underlying, predominantly reflecting the cautious ordering from customers serving the US consumer and Asian travel retail markets.

Beauty Wholesale was up 8% underlying, partially driven by the selling of Mr Burberry, which launched in April 2016. And finally Licensing was down 33% underlying due to the license expiring in Japan.

Turning now to profit, as this slide shows, our adjusted operating profit was £418m, with an 8% underlying decline in Retail/Wholesale profit, and a step down in Licensing profit from Japan. This gave an 11% underlying decline in total adjusted operating profit. This was before an FX benefit for the year of £11m, with a positive £14m in Retail/Wholesale, and a £3m negative impact in Licensing.

Looking now at the Retail/Wholesale P&L, adjusted operating profit was £381m. Looking at the drivers of this, gross margin was 69.6%, up 40 basis points, reflecting a 70 basis point benefit from exchange rate movements and a 30 basis point underlying decline, small in the overall context, and reflecting various mix effects, with channel positive and region and product negative.

Turning now to operating expenses, looking at the pounds million number, there was a mid single-digit percentage underlying increase in FY16 with over half of the increase coming from net new space and the balance from inflation and some investment in marketing and IT. This also includes the £25m worth of savings compared to our plan, as we responded to the challenging trading environment during the year with tight management of all discretionary costs.

In addition the performance related pay charge was about £65m lower year on year, as the business did not achieve its stretching targets. And there was also a £35m increase in the store impairment and onerous lease provisions to £45m, reflecting more challenging trading conditions in certain markets, including the United States and Macau.

On Licensing, profit for the year was £37m, down £19m, primarily due to the expiry of the Japanese Burberry licenses, partly offset by double-digit revenue growth from our product licenses. To note for FY17 we expect a further step down in Licensing revenue of about £20m, again primarily due to Japan.

Working down the income statement, we had £2.8m of finance income for the year. For the current year, excluding the impact of any changes to capital structure, we would expect it to be around the same level.

The adjusting items of £5m comprised of two things: the £15m amortisation of the Fragrance and Beauty intangible, and the £10m credit relating to the China put option. This year the tax charge was £101m with an effective tax rate on adjusted PBT of 24.7%, up from 23.4% in 2015, and ahead of our guidance due to a change in the transfer pricing approach by an overseas tax authority. For 2017, we expect a tax rate of around 24%.

Our business remains strongly cash generative with £503m of cash flow from operations. This was £65m less than last year.

In terms of the key factors for this year, clearly operating profit was lower than last year. Depreciation was £132m and we expect a charge of around £140m in 2017. Inventory was up by around £50m, predominantly due to second half revenue being below our expectations. However, it is important to note that the majority of the increase is current season product, with replenishment and aged stock largely flat year on year. And overall, we are comfortable with the quality of the inventory.

Below operating cash flow we saw capital expenditure this year of £138m, which included the initial investment of about £15m for our new manufacturing facility in Leeds.

The total expenditure was below our guidance of about £180m. About one third of the decline was due to phasing, with projects and spends now falling into this year from 2016, coupled with tighter control of spend on both Retail and other projects.

Looking forwards we expect capital expenditure for this year to be around £150m, of which about half is Retail, some new space, particularly in Beijing our largest market in Mainland China where we are relocating a number of stores. But reflecting the moderation of new space, with more weighting this year towards refurbishments across the network.

As John will mention, we continue to invest in technology to support both our growth initiatives including digital and to enable our changing ways of working.

So returning to the cash flow, you can see the capital expenditure of £138m. Tax, dividends and other movements totalled £257m. So we finished the year with net cash of £660m, about £100m more than this time last year.

So this concludes the financial review for FY16. We would now like to share a short video summarising some of our highlights from the second half.

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Video playing

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Christopher Bailey, Chief Creative and Chief Executive Office
So as I said we would at the start of this morning, let us now turn our attention to the future of Burberry. We have done a huge amount of work business-wide to look at the context in which we're now operating; to understand the real shifts in the trends driving the industry and how the behaviour of our customers is changing. And from that, we've been framing the actions that we plan to take to succeed in this new environment.

These efforts have given us the confidence that we have got the right strategy to deliver on our ambition, which is to outperform the luxury market over the coming years. Because we are absolutely committed to Burberry being a growth company.

So let me begin by giving you our point of view on the trends affecting our sector, and of course our future.

Our external environment is changing profoundly, and in this fast-evolving context, our view at Burberry is that change is not a choice. As we all know this sector has enjoyed exceptional growth for much of the past 15 years. This was most pronounced in the 2000s, as access to luxury was broadened by expanded distribution and product strategies. And we saw the rapid inclusion of a new and large group of emerging market consumers, particularly the Chinese. Over the past five years we've seen a gradual tempering of that initial explosive growth, as headwinds have increased.

Consumption growth in China has decelerated as economic growth has slowed. Store networks have become largely built-out, and pricing leverage has decreased. And after a post-financial crisis rebound, developed economies have levelled.

Today, external experts are predicting that sector growth over the next five years will be around 2% to 3%, down from 7% over the last five years. That's the reality of the world we're now operating in. Yet luxury remains a £200bn market globally, and it will continue to grow, albeit at a slower rate, at least for the near term. And our plan is to capture a disproportionate share of that growth, just as we have done in the past.

We have also analysed the main factors that we believe will shape how the market operates in the coming years. First, we are in no doubt that digital innovation will become more and more important, from production techniques and materials in the creative process, to omnichannel experiences for our customers.

Second, we expect a number of emerging customer trends to accelerate, with people wanting more distinct experiences, more newness and innovation, greater authenticity and a more personal relationship with the brands that they love.

Third, we see some demographic shifts that will have a real impact on luxury consumption over time. Wealth will intensify in key cities. Millennials will mature into an increasingly meaningful customer base. And China will continue to contribute a disproportionate amount of new customers, both while travelling and increasingly at home in China. We have developed our strategies with this understanding of the external landscape in mind.

So let me now turn to the changes that we're going to make in Burberry to operate successfully within this new context. What we're doing today is planning the next step in our growth journey, which has taken us in the space of around 15 years from a predominantly licensed business to a Wholesale business, to the development of our Retail business today, and an omnichannel focus for the future.

So we have shown our ability to change and adapt and stay ahead of trends in the past, and we are now ready to do so again for this next phase.

We believe we have significant growth potential right across our existing business, but to unlock these opportunities we need to prioritise our investments differently and we need to genuinely shift our mindset and our ways of working.

Of course, at the same time we need to retain all of the strengths and advantages that we've built up in recent years which really are considerable. As you'll see, what we're planning is consistent with our existing efforts to deliver productivity improvements across product, retail, and processes. But it represents a real step change in our ambition.

There are three key levers to growth that underpin our future agenda and that we believe will deliver outperformance accelerating over time. In addition there is a fourth element which is the enabler. We will change our ways of working to drive simplicity across the business and reduce costs, which we will quantify for you this morning.

In a moment we'll take you through the detail of each of the areas, but first just let me give you the headlines. The first growth lever is product. The guiding principle for change in this next phase is to move from product breadth to product focus. Briefly, this is about how we will reduce our assortments, simplify our offer, and importantly add additional excitement into our products. And behind that the changes that we are making in how we manage our categories. I'll be giving you a bit more detail on these changes in just a couple of minutes.

Our second growth lever is in Retail, where we will move from new space to productive space. Donald will take you through some key elements of this shortly.

As you know, a significant part of our growth over the past decade has been driven by the rapid expansion of our Retail footprint. This next phase is about how we make that space more productive. We have significant opportunity here. We are focused on three key changes. First, we are embarking on a multiyear Retail excellence programme which covers all aspects of what we do, from our service to our approach, to customer cultivation, to how we manage our operations and product.

Now, I know that Retail excellence has become a bit of a buzzword recently, but I want to be very clear that for us it is really meaningful, because it will move the needle to achieve sales per square foot more in line with our peers. And closing that gap is a major opportunity for us.

Second, we are putting in place new strategies to cultivate our local customers much more effectively, having previously focussed our energy more on the travelling consumer. Today the luxury customer wants a less transactional relationship than in the past. So we are creating an elevated and much more personalised service. And of course that is also key to improving customer loyalty, which we're lagging, and we have an opportunity to make real gains.

Third, we will increase our focus on key cities globally. The big opportunity for luxury is in cities, and we plan to apply a disproportionate focus and investment where our target customers are.

We're developing a tailored strategy and a new management approach for a handful of cities where we believe we have the ability to win. And we will give you more detail on this at future meetings. Overall we expect the improvements we're making in retail productivity to drive about half of our revenue growth over the next three years.

And alongside this we'll continue our clean-up activity, reducing outlet penetration and working very closely with our Wholesale partners to create a stronger, carefully-curated Burberry offer globally, supporting the achievement of our new strategies and our long-term brand health. And we'll accelerate this activity within our pay-as-you-go approach, particularly in our US Wholesale.

Our third growth lever is to move from digital prowess to ecommerce leadership. Through a sharp strategic focus and prioritisation of investment early on, we have established a leading position in digital in our industry. Part of our strength here is the digital skills and mindset that we have now embedded within our company. With over 40 million followers on social media globally today, we have got competitive advantage in terms of reach, awareness and engagement.

Looking ahead, we plan to deploy this capability more assertively to supercharge ecommerce. We aim to lead the sector in increasing digital customer acquisition and retention, in driving ecommerce sales on our own platform and through our strong third party relationships, in creating omnichannel customer journeys and in how we use digital technology to engage and service our customers in store.

All that will enable us to develop a deeper relationship with the digital audiences that we've built up over the past decade and at the same time allow us to attract new customers. Overall we expect our ecommerce strategy to drive a third of revenue growth over the coming three years. John will talk more about this in a moment, and about the initiatives that underpin this.

Together these will accelerate our progress towards omnichannel excellence, in response to changing consumer expectations.

Let me now say a few words about our fourth major area of focus for the future, and that is changing our ways of working. When you look at the three engines of growth that I have just been talking about, it's very clear that we must align our ways of working, our processes and our cost base to unlock this potential. I believe we need to be every bit as ambitious in how we're thinking about this as we are in how we're thinking about our growth strategies, because it will underpin our ability to deliver.

As our business has grown rapidly over recent years, our organisation has become increasingly complex. We now see a real opportunity to reduce that complexity to simplify how we work and to tackle our inefficiencies.

To work out how to achieve this, we've been taking a really detailed look at the organisation today., top down, bottom up, and by region, by function and cross-functionally. And we have benchmarked our processes, our costs and our headcount. This work has involved the whole senior team and indeed the wider organisation. And while it is important to note it's not yet fully finalised, we are now clear on the direction of the key changes we need to make for the future.

First, we will ensure that the organisation is the right size for the future. To do this we're looking at how we can reduce complexity and expand spans of control across the business. We will be a leaner, simpler, better balanced organisation as a result.

Second, we will ensure that the organisation is the right shape for the future. This means eliminating duplication between the centre, our regions and local markets, as well as across functions. This will mean some structural evolution, but the real change will be behavioural. A huge amount of work is underway to examine and redesign our processes globally, in order to support better decision-making and to drive real accountability throughout the organisation. It is also designed to help us improve global consistency and at the same time local insight. And it will allow us to work in a way that is more responsive and more dynamic.

Finally we will ensure that the organisation has the right capabilities for the future. As we have grown we have been able to attract and retain some exceptional talent with an incredible passion for our brand. We now want to shift our focus onto developing our people for the next phase of our growth, and adding new capabilities in some critical areas.

I know that we are going to need new skills, and we need to build capacity in key areas such as Retail. And as you've heard, we have a significant amount of change to deliver. Work on all of these areas is progressing, and we will talk more about our specific plans in due course.

What this all adds up to is that we will work differently in the future, making us better performing, more agile, and more customer-focused. This will enable us to deliver our ambitious growth agenda and save meaningful costs into the future.

Overall we will deliver at least £100m of annualised cost savings by 2019, building from about £20m this year. Around half of the savings are expected to come from these changes to our ways of working, with the balance coming from reducing operating expenses and increasing the efficiency of our spend in areas such as non-stop procurement and marketing.

Now let's take a bit of time to go into a more detailed picture of each of the growth drivers that I summarised earlier. I will start with the product focus before handing over to Donald and John, and then Carol will bring the financial implications of what we've discussed this morning.

Okay, so let's start with product. Here we start from a position of real strength which gives us a great platform from which to build. We have authentic, iconic products recognised the world over. We have strong fashion credentials and the ability to commercialise runway successes. We have an offer that appeals across gender and age groups. And we have some of the best talent in the industry across our creative and design teams.

So where is our room to grow? As I said earlier, our real opportunity lies in moving from product breadth to product focus. What that means in practice is, first, we will retain our existing categories, but we will sharpen our focus within them by meaningfully reducing our assortments. We have already made good progress here in recent years and we will see further progress as we move to a single Burberry label later this year.

However, we still have many more styles than the majority of our peers, and we plan to go further and faster in the future. We are targeting a 15% to 20% reduction in our assortments over the coming year. This will give us dual benefits. Internally it will reduce complexity and for our customers it will provide greater visibility of the fashion and newness in our collections which sometimes can get lost today.

Second, we will tailor these reduced assortments more effectively for the needs of different customers in different locations, in line with our plans to cultivate our local customers.

Third, we will rebalance our marketing activity to tell the product story much more powerfully. We want people to fall in love with our products every bit as much as they fall in love with our brand, and we are creating dedicated campaigns, creative content events and experiences to bring all of that alive.

Fourth, we have a strong core to our collection, but we see the opportunity at both ends of our existing pricing architecture. At the top end, we want to respond to the demand that we know is there for our most luxurious products across all categories. Meanwhile at our existing opening price points we're planning to inject more innovation and creativity into our offer to drive traffic and excitement. This is something we consider particularly important to commercialise our digital followers more effectively, and to attract new customers entering the market in the coming years.

Finally, we will prioritise investment into a handful of key categories to drive volumes aggressively in what we consider our biggest product opportunities. Some of these are in established areas as you'd expect, and we have exciting plans for outerwear in particular. Then there are other categories that we are going to build up considerably over the coming years, and you'll start to see some significant changes soon in bags, for example. There is a pipeline of other opportunities further out.

These shifts will be enabled by a couple of fundamental changes from how we work today, and which will cover all of our product areas. The first change is that we will introduce an end-to-end approach to how we manage our categories. Today for each category we pass the baton between different functions and from the centre to the regions. In the future we will have an owner and a team for each category, and the central and regional functions will sit within this. We will create joint and aligned accountability on results for both sales and net margin, around each of our categories through globally shared incentives and metrics. And as a result, every function within the global organisation will be in service of the category, and each category will be better lined up to focus on the needs of our customers.

The second change in how we work is that we will restructure our merchandising process to better direct and focus our assortments. In practice this means a couple of key changes. First, we will increase the proportion of our store assortment that is centrally directed. Part of this will be an image buy, key products best representing the brand's current design direction and attitude inspired by our runway collections. The majority will then be what we call an 'essential buy'. This will ensure that our Retail network has important core business drivers across all product categories, for example trench coats, cashmere scarves, tailoring and bags.

So together, these image and essential buys will make up the centrally defined elements of the assortments. The remaining proportion of the assortment will be a 'local buy'. This will be defined by our local merchandising teams, and tailored to their specific needs including climate and culture. This new model will give us much greater consistency overall and better local responsiveness, reflecting our new end-to-end category strategy.

And as I said earlier, all this will be implemented within the context of significantly reduced assortments. This tighter focus will give us the scope to concentrate greater creativity and innovation into all of our products, and our customers will feel it much more because there will be less surrounding noise. And I think that all creates a very, very exciting opportunity for us for the future.

With that I am now going to hand over to Donald who is going to talk about Retail. Over to you, sir.

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Donald Kohler, President - Americas

Thank you Christopher and good morning everyone. It gives me great pleasure to present to you our Retail Excellence programme on behalf of the global team who have been working on this over the last few months. This forms a key part of our overall push to move from new space to productive space, one of our three key drivers for future growth.

To provide some important context to our plans in this area, I think it is helpful to take a quick step back and begin by looking at our starting point. As Christopher noted, we have made significant progress in becoming more retail-led in recent years, with this channel accounting for 73% of Group revenue last year, up from just over 40% ten years ago. To deliver this we have built a great store footprint as well as a global retail organisation, and we're making progress on improving our retail disciplines, for example improvements in conversation we recorded last year. As such, we are in a very different place than we were a decade ago.

However we have yet to become a truly retail-led organisation. We have real room for growth in this, potential for development and improvement across our internal mindset, behaviours, ways of working and retail skill set, all of which have not kept pace with our growth in this all important channel. Over the next few minutes I'm going to set out the changes we're going to make to capture this opportunity, by thinking like, and acting like a retailer end to end, elevating our customer experience and building loyalty while applying more science to our selling.

As Christopher mentioned, we expect improvements in mainline retail productivity to make up around half of our revenue growth over the next three years. And our Retail Excellence programme will be the engine for this growth by further improving our conversion rates and also increasing the rate at which we retain our many new customers we successfully attract to the brand each year, but where we have real scope to build more long-term relationships. All of which will drive an increase in sales densities, an area where we have made progress but where we still lag our peers even considering our predominantly apparel mix.

To give you a sense of the potential of each of these areas, independent of one another, every 10% increase in the rate of conversion is equivalent to about £100m in revenues. Every 10% increase in annual customer retention would generate around £50m in revenue. And every 5% increase in sales per square foot adds about £90m to revenue. The opportunity within this channel for us is clear.

To give you some more colour on how we plan to capture this opportunity I'd now like to outline the pillars of our Retail Excellence programme, the overall objective of which we like to think about as building our Retail muscle. There are four pillars in the programme, all designed to enable us to elevate our Retail experience in service to world-class over time, and always in a way that is distinctively Burberry.

First, by enhancing customer service, delivering a true luxury service our way.

Second, by maximising our potential in customer cultivation and retention, with a particular emphasis on developing stronger relationships with our local customers, while evolving and upgrading our customer insight and client-telling tools in support.

Third, by improving in store operations and ways of working, from front of house ceremonies to back of house processes, to facilitate a seamless customer experience with a strong focus on omnichannel, which John will take you through in just a moment.

And finally as you've just heard, by continuing to deliver global consistency in product, while more aggressively localising segments of our assortments where it makes sense for our customer.

As Christopher said in his introduction, we appreciate that many of these dimensions are familiar in luxury retail terms, but the potential gains for us are truly meaningful. While we have made good progress across many of these areas in recent years, we are still relatively early in our Retail journey. And this starting point means that the potential for this programme for us is profound. Either because we have real room for improvement or because existing strengths position us for distinct competitive advantage in the future.

So our aim is to drive a real step change in this area. To do this we have built a multi-year strategy around these four pillars, involving many different functions across the global organisation, both existing and newly-hired talent. The key objective of the strategy is to place the local customer squarely at the centre of everything we do. This is a strategic shift from the focus on the travelling luxury customer that has prevailed across the luxury sector over recent years, but it is our firm belief that developing stronger local relationships will pay dividends when those customers travel as well.

As I noted, our Retail Excellence programme is one that will build over time, and we need to systematically evolve our Retail skillset and behaviours as well as our ways of working. To make this more tangible I'd like to share with you some detailed road map we've prioritised and we will deliver over the next 12 months, focusing on three of the four pillars: Service, Cultivation, and Product.

So let me begin with service. A key early step here will be to develop new globally consistent assessment and hiring criteria for all of our stores, at all levels, by September, to ensure a consistent standard of excellence around the world. In tandem with this focus on hiring the very best people, we will launch a new more focused training offer to ensure we are developing and deploying our talent to best effect. This will cover new service standards and selling ceremonies, customer cultivation and product storytelling, and will also begin in September. This change is our commitment and investment in our store teams, providing them with all the tools required to professionalise their engagement with our customers.

And finally consistent with our broader focus on data and insight, we will pilot a Net Promoter Score programme in late summer in key locations, directly linking customer feedback to store performance metrics for the first time. This direct connection to customer feedback will provide us with the opportunity both to coach underperformance as well as celebrate and learn from excellence, as we bring each store to a common standard, globally.

I will now turn to Customer Cultivation, which is especially important given our focus on local customers. Over the coming year we have ambitious plans to build on the recent success of our Burberry Private Clients (BPC) teams, and our CVM programme. In BPC we will expand the global team by 20% through 2017, with a sharp focus on replicating the positive results we have seen to date from these associates worldwide. To give you a sense of the opportunity, let me give you a few examples from our Americas region. Our average BPC consultant generates twice the annual revenue of all other associates, and as a population of just around 6% of our retail staff, they deliver more than twice that in revenue contribution. The Average Transaction Value for a BPC consultant is 50% higher than all other associates. If that transaction is booked versus a walk-in, the Average Transaction Value jumps to twice the average.

One of our greatest achievements in BPC in the Americas has been building the team from within, through a trial programme which top associates can apply for. For last year, just over one-third of our new BPC consultants were developed from within. As we look forward, we plan to double this mix, as it is highly motivating for our loyal teams and far less costly to the business.

Meanwhile we will further evolve our CVM programme globally, integrating it fully with marketing, to support more effective tailoring and personalisation of our communications, and introducing an enhanced Digital Selling tool for our associates, focused on improved client-telling functionality. With CVM sales recording an Average

Transaction Value significantly above the average in the Americas today, we are excited about the global potential here.

Finally let me touch on a couple of key initiatives under the Product pillar, supporting the wider plans that Christopher just shared with you. First, we will simplify our Visual Merchandising standards in store, prioritising bags and small accessories, to communicate a much stronger and more elevated point of view for our customers. This will be supported by the enhanced training I spoke about before, and the overall look will be much cleaner, more focused and easier to both shop and sell. We are in the process of testing this in selected stores, with some strong results and good learnings for the future, much as we did with the Scarf Bar prior to its global rollout last year.

Another small example is changes that we've made in our showroom, just opening for May market. It is now fully reflects a retail environment, including replenishment and new product versus our historical approach of creating a wholesale-centric showroom. This will allow the global Merchandising and Visual Merchandising teams to more fully understand how our stores will look seven months from today, and surely bring different, more informed decision-making on our assortments. The showroom also now reflects our targeted 15% to 20% reduction in assortment this year, and the first iteration of our new assortment model, which Christopher discussed with you earlier, as well as the full integration of our Store Profiling Model, the programmatic codifying of each store into clusters that I covered with you just over a year ago, and another example of bringing a stronger level of science to our approach.

So to conclude, we can see that our largest channel also holds our largest opportunities. I hope I have given you a sense of what underpins this conviction and how we are already moving to implement changes to make it a reality. Through our four pillars of Retail Excellence, Service, Cultivation, Operations, and Product, where we have mobilised the global Retail team and central functions with tangible deliverables, with timelines and shared metrics, through our enhanced focus on our local customers, building lasting relationships and loyalty to our brand. And all underpinned by meaningful and necessary changes in our retail mindset, skill set, and ways of working, globally.

With that I'm going to pass you over to John who will cover our plans for ecommerce.

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John Smith, Chief Operating Officer

Thank you, Donald. Digital is a point of differentiation for Burberry. It is an embedded part of our DNA, of our culture. For many years we have been early adopters in digital, investing throughout the business along all points of the customer journey. Some examples are innovation in social media to extend the reach of our brand, most recently with Snapchat. Today we're present on 20 different social platforms with over 40 million followers globally. Constant refinement of Burberry.com, our highest traffic and largest store by revenue. Rolling out the single pool of inventory model to the US and EMEIA. Personalisation initiatives, most recently for scarves and the runway rucksack. And new payment methods.

All of these contributed to good digital growth in all regions again in the year, and 40% compound annual growth in revenues on Burberry.com since 2012.

The next stage of our digital journey is to extend this digital prowess into true ecommerce leadership. Ecommerce in the luxury sector is expected over the next few years to continue to grow by a double-digit percentage each year, and to be the fastest growing segment of the market. It's unsurprising therefore an area of increased competition and significant investment from our peers. But we intend to ensure that our digital proposition remains the clear point of differentiation for Burberry.

So our digital strategy has four elements, traffic initiatives to drive customer acquisition and retention, such as all our initiatives in social media. Ecommerce itself, both on our own Burberry platforms and on those of third-parties. A move towards true omnichannel leadership rather than seeing the customer journey as separate on digital and in Retail. And the next stage of using digital technology in store, for example the new digital selling tool for sales associates that Donald referenced earlier.

Now I don't want to go through all the details of these four strategies today, but I would like to highlight four specific revenue growth initiatives within them.

First is mobile. We re-launched our mobile and tablet sites in late 2014. Since then, traffic from mobile devices has seen the fastest growth, and represented about half of all traffic to the site in 2015/16, as shown in the chart on the left.

Our investment to date has also delivered a significant improvement in mobile conversion, up nearly 40% year on year. Indeed the growth in traffic, coupled with the higher conversion, meant that in the second half of the year mobile sales delivered the majority of the growth for Burberry.com, with more mobile sales in H2 than in the whole of the previous year.

But, we still see new opportunities to improve conversion on mobile - and this is a key area of focus for the coming year - including the launch of a new customer app ahead of the festive period, which will among other things facilitate fast and simple mobile checkout. There are many more things planned to drive mobile conversion, but this is not to forget desktop. Through our ongoing investment and innovation on Burberry.com we continued to increase conversion on desktop too last year, up about 25%. And we anticipate a further improvement with the upcoming complete redesign and re-launch of Burberry.com in the autumn. The new site will have improved content, new layout and new functionality.

The second area is an opportunity to improve digital sales penetration by country. Today Burberry.com has a wide coverage, transactional in 44 countries and 11 different languages. However the level of sales penetration does vary significantly by geography and by language. We do best in the English speaking world. Conversely the opportunity is greatest in Asia. We intend to focus on improved performance and penetration through a series of localisation initiatives, whether by responding to different customer behaviours, habits, or preferences in these countries, or by improving the actual performance of the site itself.

For example our in-house team of analytic experts who optimise search engine performance but also browser performance, discovered that Burberry.com pages loaded much slower in China, given the rich media content that comes with it. So we reconfigured the site and the network architecture in China so that it now loads four times faster on both desktop and mobile devices, and we're seeing the benefit starting to come through.

We were very pleased to receive two weeks ago from the highly respected global luxury think-tank, L2, an accolade for Top Global Luxury Brand in Digital for China, in addition to giving us first place for fashion in the US this year.

The reconfiguration of our site in China is just the first step in a push to drive ecommerce sales throughout the region towards the levels we experience elsewhere in the world. If Asian penetration reached the levels we achieve in the English speaking world, that alone would deliver over £100m of new ecommerce revenue.

The first two initiatives are about better use of our own platforms, but the opportunity for future revenue growth is balanced between growing Burberry.com and growing with third parties. As you know, we have been following a strategy which is also about embracing third party platforms, providing three conditions are present. First, that they create brand enhancement with the right digital adjacencies, and a clean-up of any pre-existing grey or parallel activity, or reputation enhancement. Second, if they have greater reach than we can get ourselves via Burberry.com. And third, if they give us additional revenue.

Today we have over 25 third party online commercial relationships, including being online with physical retailers together with a range of online pure players or e-tailers and social platforms. We plan to grow with more of the right third party digital players, which are expected to deliver about two thirds of future ecommerce growth for the sector as a whole. Indeed over the next few years we see the highest rates of growth coming from e-tailers and new business models. We expect magazines to approach the space and we expect social commerce to begin, finally, to arrive. And Burberry is well positioned to benefit from all of these trends.

The focus this year and next is on being able to transact with more players quickly and easily, and to experiment with new business models and relationships as they emerge. It's like a 21st century version of the arrival of department stores. It's today's version of space expansion, it's just virtual space expansion.

Now to be successful here requires not just an ability to spot and sift opportunities as they emerge, but to have the IT and creative skills and the toolkit to be able to execute quickly. And these are all areas for investment.

The final example from our four point strategy is omnichannel. Now omnichannel is possibly an overused word currently, but customers do now expect to be able to shop both physically and digitally, often during the same transaction, and they expect the experience to be seamless between the two. We've been blurring physical and digital for some time, for example bringing iPads into store and rolling out collect in store. These two initiatives now account for about 25% and 20% of our digital sales respectively.

And this year we introduced store stock lookup, so customers can check which store has stock, if they prefer to purchase it in store to avoid a wasted journey. We expanded stock availability for online customers by extending the single pool of inventory model, which we tested in China last year into the US and into EMEIA, and now live in 75 stores. This means that store stock can now be seen, ordered and delivered to fulfil online orders. It has improved stock availability by 5% and it contributed very nicely to digital growth in the second half.

Now there are many more points to omnichannel like free shipping, next day delivery, same day delivery in New York. And as you'd expect we have a long road map of initiatives to support the changing behaviours of our customers to offer and support comprehensive cross-channel journeys, from online appointment bookings to easy in-store goods exchange. And for airports reserve in store. This is currently something we currently have in test mode in Heathrow Airport. It allows customers to identify and reserve an item on Burberry.com ahead of actually travelling while actually making the purchase in the airport terminal as they make their journey.

So far all these omnichannel initiatives just relate to Burberry.com. However we see this trend moving to one where customers can not only wander on and offline with us, but in the future, they will be able to wander between Burberry and other online retailers who also sell Burberry product. We would regard that as true omnichannel experience.

We have already made much of the underpinning investment in systems and technology to make all these things work. We do intend to increase our investment here. Ecommerce is a significant area of growth and it requires innovation and experimentation supported by appropriate investment. A lot of this is about hiring the right people with the right ways of working, but it also requires a step up in capex and, as Carol will explain, we're focussing about a third of our total capex on digital and on technology this year.

So in conclusion we've seen huge shifts brought about by digital, but we're still really only in the foothills of this change. We're proud of our prowess and our performance to date, but we need to continue to focus on innovative developments as the environment continues to evolve. We see plenty of opportunity ahead, and indeed expect digital to drive about a third of our revenue growth over the next three years and we are budgeting to make the necessary investments in people and capex to make that happen.

Thank you very much. I'll now hand over to Carol to describe our overall financial ambition. Thank you.

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Carol Fairweather, Chief Financial Officer
Thank you, John. Now let me conclude by summarising what everything you've heard this morning means in terms of our financial ambition over the next three years and beyond. Our normal guidance slide is included in the appendix of your pack.

As Christopher said, despite the external environment remaining challenging we fundamentally believe that we can again outperform sector growth, with this outperformance accelerating over time. With about half of the growth coming from improving mainline retail productivity as we unlock key product categories, drive KPIs including sales densities, conversion and retention rates. About one third of the growth expected to come from ecommerce, as we increase conversion, grow in underpenetrated regions, and work with more third party players, especially the evolving new business models. And the balance will come from growth with key Wholesale partners, from Beauty and from some net new space, partly offset as we continue to improve the quality of our business by reducing the outlet mix in Retail, and further rationalising our traditional Wholesale distribution. To drive this outperformance we plan to invest about £10m of additional opex in FY17, and then about £20m to £25m in each of the following two years, focusing on Retail, digital and filling capability gaps in the organisation.

Turning now to our cost reduction programme, let me just remind you first about how our operating expenses break down. Last year adjusted operating expenses were about £1.3bn, and you can see from the chart the largest cost is employees, about 30% of our opex base, down from about 35% last year, reflecting tight control of headcount during the year and the much reduced performance related pay charge. The second largest cost is property related costs, and although we have had some success in reducing rents in markets such as Hong Kong, rental pressures persist in key cities. Depreciation is largely fixed and we continue to invest in IT and Marketing. The balance includes items such as design and visual merchandising costs, warehousing, and travel and expenses where we have already taken cost action in FY16.

So now looking forward, as Christopher has announced we will deliver at least £100m of annualised cost savings by 2019; over 10% of the cost base excluding depreciation and property related costs, building from about £20m in FY17. About half of the £100m is expected to come from ways of working, reducing complexity and duplication while improving global consistency and local insight. With the balance coming from reducing operating expenses and increasing efficiency across all areas of spend including, but not limited to non-stop procurement and marketing.

There will be associated one off costs of about £60m in total, primarily in cash, across the first two years. And assuming we meet our ambitious targets for growth, the performance related pay charge will begin to rebuild with a cost of about £20m this year in addition to the £20m charge that we discussed in April.

So this gives you the broad financial shape of our growth and productivity agenda. Led by Christopher and the whole of the senior team we will have dedicated resource to deliver this transformation over the coming months and years, building cross-functional teams with clear goals and timelines. And obviously we'll keep you updated regularly going forward on what we have achieved.

So now let me just turn to tell you how we think about enhancing capital returns to shareholders. Our capital allocation framework prioritises the investment needs of the business and regular dividend payments to shareholders. It then considers additional returns to shareholders, balancing capital efficiency with financial flexibility in what is a cyclical sector.

In terms of investment in the business we expect capex in FY17 to be around £150m, and to spend about £16m having taken full economic control of our operations in the Middle East. We can now also choose to exercise the option to buy the minority interest in China, if we want to.

Turning to the dividend. Firstly you will have seen that for FY16 we have increased the dividend by 5%, which based on adjusted EPS results in a payout ratio of 53%, reaching the target we set two years ago. Now we intend to move to a progressive dividend policy, maintaining or growing the dividend going forward. And as such expect the dividend in pence to remain at least flat in 2017.

Beyond this we have reviewed our future cash generation, reflecting our growth, productivity and investment plans, and taking into consideration the current challenging external environment. We have also considered relevant financial parameters, both historic and future, which as highlighted on this slide include net cash which was up over £100m this year; lease adjusted net debt up over £40m as our fixed rents increased, reflecting new store openings particularly in flagship markets, our net debt ratio which is stable at around 0.5, and our fixed cover charge which is now at 3.6.

Balancing all of these factors and given the confidence we have in our growth and productivity initiatives, the Board has decided to increase capital returns to shareholders and to commence a share buyback programme of up to £150m starting in FY17, with future returns to shareholders beyond this to be kept under review.

So with that let me now hand you back to Christopher.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Okay, so I hope that that gives you a good view of our plans and a feel for why we are excited and energised about delivering them. We are taking the real shift in the external environment as an opportunity to become a stronger, a leaner and a more efficient business. To become more focused about our goals and better at delivering on them. And above all, we want to recognise that this moment of change offers us the opportunity to further strengthen our 160 year old brand for the long term.

While a lot is changing, it is also a moment to stay true to what is essential about the magic of the Burberry brand. It has a long history, a pioneering spirit and an authenticity that resonates with today's consumers. It has global awareness expressed through iconic products and fashion. There really is so much to build on.

What we have shared today has its roots in our existing strategies that you will all be familiar with, but I hope that we have shown that what we're planning represents real and significant change from what we do today, and very importantly how we do it.

This has been a critical piece of work for Burberry and a shared endeavour for the entire senior team, and it's given us confidence that we do have the right strategies for our future. Of course we are mindful that we are embarking on this plan at a time when our industry is facing significant challenges, especially in respect of near term trading. However, that does not change our future ambition. We acknowledge that our plans to unlock growth through greater product focus, productive space and ecommerce leadership are stretching. But we also feel that they are achievable.

We know that one of the biggest unlocks is to be clear about what needs to be different in our ways of working, and how we strengthen our capabilities to take advantage of the opportunities that we've identified. And as I said at the start of this morning, we are absolutely committed to Burberry being a growth company, and we believe we can outperform the luxury market over the coming years.

The plans we've set out this morning will enable us to reshape the business and deliver improved performance in the context of this new external environment. A transition like this will take time, of course, and it will evolve as we progress. I will keep you updated as we go.

And with that we will be happy to take your questions.

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Questions and Answers

Antoine Belge, HSBC
I've got three questions. First of all you're aiming at outperforming the sector, yet short term you seem to be underperforming. First of all can you maybe comment about what's lacking at the moment? If I got you correctly it seems that you're not focusing enough on your core products and your organisation is a bit oversized. So is it - I mean can we expect maybe Retail like-for-like to turn positive, probably not this quarter because you still have a very high basis of comparison, but maybe when you anniversary the minus 4 that you did in Q2?

My second question is about PRP. I would like a bit of clarification. I think you had mentioned £20m addition and now there is another £20, so is the delta year on year £40m? And maybe explain what's the rationale for already lifting that PRP pool.

And finally I'm quoting you here; there is a need to move from digital prowess to ecommerce leadership. Is it a bit of an acknowledgement that you're investing a lot but not getting enough from this investment in digital so far? Thank you.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Hey Antoine. So I will start the first question and then I'll hand over to Carol for a couple of the others and then we'll come back to digital.

First of all in terms of your question about what's lagging today and it's not dissimilar to your digital question. We don't look at it like that. We have outperformed in recent years across our sector. We have grown considerably. What this exercise is about is defining what we need to do in order to continue that growth. We did a very broad and deep review of all of our strategies. We looked broader than our existing strategies to see if there was anything else.

What we reflected on is we have so much potential with the investments that we've already made. One of the biggest ones that you've heard about is our Retail footprint. You know we went just 15 years ago from a licensed business through the Wholesale, through a Retail, we're now in an omnichannel world. We've made great investments and now it's about really capitalising on those investments.

So we don't look on it in terms of we made a mistake. We're in a different cycle to some of our peers who have been retailers for many, many, many more years than we have so this is just a different moment for us in our cycle. And then I'll hand over to Carol to finish that and also to go into the PRP, and then we'll come back onto your digital question.

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Carol Fairweather, Chief Financial Officer
Thank you. So I think you were saying we were talking about outperforming the sector and were we going to guide on like for like comps. No. What we are saying, you know at the moment it is very challenging. We do believe with these opportunities that it will enable us to return to outperforming. Christopher said that the work that we have done and looking at external factors as well we think low single-digit is where the sector will be and we will be looking to outperform that over time and accelerating over time because this programme is a multiyear programme.

In terms of your question on PRP, we talked on the call in April about the fact that this year there's - in FY17 there's a charge for LTIPs of around £20m, which is broadly fixed because it relates to existing schemes. That was masked in the year that we've just finished by credits relating to true ups related to prior years, so it looks like an incremental £20m, whereas actually the underlying charge in both years is £20m. That's fixed.

What's now happened is that the RemCo, having considered these ambitious plans that we've put down, have asked us to put in a provision for a further £20m of PRP. They will set the performance targets against that in due course over the course of the summer and then assuming we reach those targets based on ambitious plans, then that PRP charge will begin to build. But as we have demonstrated this year, that will only pay out assuming we deliver to stretching performance targets.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Digital. I'm going to pass over to John in a second but just to frame it about your question have we not commercialised our digital investment. We absolutely have. We today in our sector have one of the strongest ecommerce businesses but it goes much, much broader than just looking at it as a channel for commercial.

What we've done is we have brought in new people from - new customers from all over the world, very different demographics, that we've been able to seduce by all the different things that we've been doing on our digital channels. What we see is greater opportunity in those investments and it means that we feel, and again every organisation, brand, has a very different approach, we believe wholeheartedly that digital is the right channel for us to continue to invest. Our customers, it resonates that channel with them and we have still got a lot of growth to commercialise within that area. So John?

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John Smith, Chief Operating Officer

I think what I'd add to that Antoine and thanks for the question, is I think the investments we've made in this area really have been paying off and I think it's great that people recognise just how much a leadership position Burberry has here. I think the thing we're saying to you now is that as everyone else invests and tries to catch up and is doing all the things we've been doing for quite a long time, I mean remember our iPads in store for example are virtually five years old, some of these things were done a long time ago, that we need to continue to invest and continue to make sure that we stay ahead.

What we're laying out, what we just laid out really, is a list of things, an extract from the four point strategy of things that will ensure that we continue to outperform in digital into the future. And it remains a clear point of differentiation for us.

I think I'd say two other things. That if you talk to any economic commentator who looks at the growth of ecommerce over the next few years, people like Bain, McKinsey, Goldman Sachs and so on, they'll all say that they're expecting double-digit growth in ecommerce for the luxury sector a way ahead of any other growth for the sector. And people differ exactly, is it 18%, 20%, 25% whatever it is, but we're pleased at the fact that we've been growing at rates like that for a long time. As I said on the chart, 40% CAGR since 2012. We'd like to continue to outperform in digital and we're making further investments to make sure that that happens.

And the last thing, as Christopher has alluded, I mean we do brilliantly in social media. We're rather pleased that we've been ahead of the pack in terms of relationships with people like Line, KaKao and Twitter, and as platforms like that that have been traditionally just social platforms start to get into the world of social commerce, it's great that we can be there along with them, and those three in particular we've already started a commercial relationship. You remember the 'tweets to buy' initiative for example, similar with KaKao and Line. We feel really well placed to seize that area of growth, which we expect to be super significant over the next few years.

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Annabel Gleeson, Redburn Partners

Three questions please. First one I suppose it's Antoine's question in a different way, if the industry does deliver 3% growth that Bain or whatever are expecting, and you execute perfectly on all your productivity initiatives, what sort of like for like growth could we expect in March '19 or what sort of PBT do you think your business could deliver in March '19? Can you give us any number around that?

The second question is that you've kind of said you can deliver at least £100m of opex savings. Does that mean that there's potentially more in the bag if things deteriorate further? Could you give us an idea of what more you haven't attacked maybe and you could attack?

And the third question is this year you're guiding to underlying opex growth, excluding the opex savings, of 5%. Now some of that growth is obviously from new space, as you slow your new space capex, what does that number kind of trend down towards and what could be the kind of underlying opex pressure that you're feeling in your business?

Can I throw in a very small fourth one? Can you give us an idea of the percentage of ecommerce sales at the moment that your business is generating?

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Carol Fairweather, Chief Financial Officer
Thank you very much. I think they're all for me.

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Christopher Bailey, Chief Creative and Chief Executive Officer
There were five questions.

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Carol Fairweather, Chief Financial Officer
So first of all Annabel you were asking if the industry delivers 3% and we're saying low single-digit, 2% to 3% or whatever and we execute perfectly. We're not going to guide on what the comp could be in FY'19. I think you've heard today that there is significant opportunity and we're very confident that we can return to outperforming sector growth.

You said about what sort of PBT guidance. I mean what we are being clear on today is that that £100m, at least £100m, will be delivered in '19. That will be a clean saving. We've talked about the fact there'll be up to £25m of investment in capability technology, etc, to deliver the top line. That clearly will be more than self funding and that's really the guidance I can give you today.

In terms of the £100m, I mean it's an ambitious target when you look at it. As a percentage of our non-fixed cost base we called out that a number of obviously our property costs and depreciation is largely fixed. We have plans internally and we're confident today to say that we can deliver that £100m. We'll come back and update you over time. You know notwithstanding that in the current challenging conditions robust cost control continues across every aspect of day to day business. We're talking here about a fundamental change in ways of working and operating efficiency. But it was day to day cost control and then a fundamental change.

In terms of the mid single-digit increase in opex this year, as you say and we chatted before, some of that is coming from the annualised new space, it's not just rent and wage inflation. Therefore as we move forward and we've talked today about moving from new space to productive space, the amount of annualisation kicking in each year should moderate, therefore we'll be left with what is underlying rent pressures in the market which we do see persisting and other inflationary pressures. And we'll come back on a guide as that as we go.

And then no we don't split out our percentage of digital sales.

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Luca Solca, Exane BNP Paribas
The impression I draw today from your presentation is that there's a lot of science and cold blooded logic focused on optimisation activities that are all very sensible and promising. But when it comes to outperforming on growth what we seem to see in the industry today is that the brands that innovate the most and produce a bit of the stomach newness effects on consumers are the ones convincing them to part with their money. So I wonder what you plan to do as far as producing this excitement and increasing the energy and the newness around the brand?

The second question I have is on price steps. You were talking about extending to the high end and also maintaining an aggressive approach as far as the entry price points are concerned. Do you think you have the same possibility to do so or an even better possibility to do so now that you have one brand rather than several brands?

And lastly how do you see your off price activity? Are you satisfied with it? Are you planning to reduce its scope as you're one of the two European brands apparently most exposed to the off price channel, and do you see a potential brand trivialisation threat from it? Thank you.

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Christopher Bailey, Chief Creative and Chief Executive Officer
So I'll take your first question. In terms of - first of all I think we absolutely agree that today's brands that continue to be successful are those that have innovation and newness at their heart. And that is, and I'm sorry if it didn't come across in these presentations, that is absolutely the foundation to this strategic work. It's why we're going to reducing our assortments, it's why we went from one label, it's why we're talking about putting innovation into our products so that our customers don't have and I think I used the word as much noise around. We will absolutely be putting much more focus on the way that we design, create, the storytelling, the experiences, and not just in terms of the actual product themselves, but also the experiences whether you touch it online, whether you touch it in store or whether it's through our Burberry Private Clients in your home or your office.

So we're taking a really 360 approach to product and it's also why we talked about this category management so that we can absolutely look at each product within a category and make sure that there is a story behind each product. And that story today we feel doesn't get out to our customers as much in our stores. We know that our assortments are far too broad, it's why we went to the one label, it's why we talked about this year doing a 15% to 20% reduction. So I think that kind of talks a little bit about your one brand.

We talked about the opening price points. This isn't about changing our pricing position. We know that we've got scope to increase prices with our most luxurious customers, but also at the other end of the pricing spectrum we know that there, if we're talking to a more millennial consumer, if we're talking to our digital consumers and we've attracted an incredible amount of young consumers, we need to make sure that that opening price point product is as exciting, is as innovative and as inspiring as the rest of our product and that it doesn't get lost within these broader core assortments.

And then in terms of - I will just quickly go into the outlets, and the discount business. We talked about that in part of this. We do have a very strong strategic approach to reducing our discount business. That is across our own discount outlets over the years. We talked about a pay as you go approach that may be more aggressive in the US than we have been historically, because we know that we need a very consistent brand globally. I think we talk, and John talked, about the importance of digital, that also has meant a greater transparency in the world and we see it every day. So that global consistency is very important, making sure that we protect our beautiful brand.

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Mario Ortelli, Sanford Bernstein

Good morning. Three questions if I may. The first one about brand. In the last years you talked a lot about brand elevation. Now I don't hear the term elevation anymore. Should I assume that you are satisfied with the current positioning of Burberry? And what are your direct peers in accessories and ready to wear? Because if the market of luxury is not growing so much and you are taking share, you have to take in share from a direct competitor and I want to understand the relative strength of Burberry directly to the direct competitors.

The second one is on the cost cutting programme. £100m you said on about operating expenses of about £1bn, I take just in consideration the fixed one. But I think this £100m is not compared to the current £1bn but to the operating expenses that we will have in '19, in your previous internal plan for '19. Which is the increase of operating expenses that you have got in your internal plan? And can you please clarify of this £100m which is the percentage linked to personal cost? From what I've understood it's about 50% of it, so we should expect a significant rightsizing in your workforce.

The last is about outlet. If you can please give us which percentage of the current business of Burberry is done through the off price channel? Thank you.

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Christopher Bailey, Chief Creative and Chief Executive Officer

Okay so Mario I'll just start with your brand innovation. I'm a bit confused with your brand innovation question at the beginning because we talk about it all of the time, it's something we're very consistent about. We have got brand innovation across everything that we do from the way that we sell our products, our digital platforms, our products. So we have just in terms of - and we put it actually at the centre here, we just launched something called the Patchwork bag which is absolutely about brand innovation. It's where every single bag that we sell is unique to any customer. So the bags that you see here, every single one is unique. Every single bag in the world that we make in the

Patchwork, in this series, is unique to that customer. It has a specific name, it has a - you personalise it with your monogramming and no two bags are the same.

We've got many, many examples across digital, all the stuff that we do with innovative partnerships with the Googles, with the Apples, with the Snapchat, with the WeChats all across the world. We've taken I think a very innovative approach to making the products that we do on our runway shows and making them into commercial successes. We talked about the ponchos; we've talked about the rucksacks historically. I think we've also been a frontrunner in innovating the way that we sell to our customers. We're the first brand to go to a more formal show now and buy now model.

And I think just in terms of the peers and competitors, we have a brand that we talked about it, it goes across genders, it goes across age groups. It doesn't change the peer group that we have always seen, the traditional luxury peers that we sit next to whether that be in Hong Kong or in London or in Los Angeles. Our real estate is a physical incarnation of where we see our peer group and we're very, very consistent with that.

And I'm going to pass over to Carol for cost cutting.

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Carol Fairweather, Chief Financial Officer
Yeah thanks Mario. So yes I mean the £100m we explained it in terms of a percentage of our cost base today. To Annabel's point earlier opex will continue to rise based on inflationary factors in local markets, but I'm not going to split out exactly what our original three year plan was and how that looks differently. What we are confident is that we will take out at least £100m compared to our base within three years, £20m in this year and then building to the £100m. And yes within that we're saying over half of that will come from changes to our ways of working. You know as we look, as Christopher talked about, to eliminate duplication, inefficiency to bring global consistency, local insight, so there will be some reduction in headcount. We're working through those plans now but we're confident that we can deliver the £50m or 50% of the £100m.

And then to your point on outlets, I think you wanted to know whether we split it out as a percentage of sales. We haven't split it out as a percentage of sales, but what we do see based on this plan going forward is that we will be able to obviously reduce that percentage as we significantly drive the top line in full price mainline and take the opportunity to reduce outlets over the next three years.

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Christopher Bailey, Chief Creative and Chief Executive Officer
I also Mario just want to clarify if I didn't answer your first question correctly about the elevation side. And we alluded to it in the presentation; we know that we have got some way to go in still elevating our brand in certain markets. It's why we talk about the consistency. We know that we have got huge opportunity in the US and it's something that we're working on in a very, very focused way. That's across the discount market but also across the relationships and partnerships that we've got with our Wholesale partners, and it's something that we're working very, very closely with.

We also know that we've got opportunity in markets like Japan where we have historically had a licensed business as you know. We took that business back in the summer of last year. We've got a huge elevation strategy in that market from real estate to the marketing that we do. So do we feel that we've finalised the elevation strategy? Absolutely not. Do we have a very strong strategic approach to it? Yes we do.

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John Guy, MainFirst

Three questions please. Christopher just following on from that on product and price positioning, you mentioned earlier in your presentation that there was less price and space leverage within the luxury sector. As a whole and over the past 12 to 18 months we've seen a shift in focus from you into say lower priced items, ponchos, scarves, accessories etc. Now there seems to be a little bit more focus going back to your bags. So when we think about how you're looking to drive the price mix at the upper end and also at the entry price point level what does that mean for a blended ASP evolution going forward? Does it mean it's effectively neutral or to your point are we going to see mid to high single-digit opportunities going forward?

Second question around any operational assistance. There's been some commentary in the market that there's a lot going on at Burberry. Do you need some help effectively working through the operational side of the business? Maybe you could comment on how you're balancing the creative side with the operational?

And I think thirdly with regards to digital, you know splitting out some of the quarters when your Retail like for like has been growing at maybe 2% to 3%, you know we've seen potentially digital growing at closer to 5% to say 6%. So to your point around digital and being ahead of the curve in digital and the opportunities still very much within the Retail side of the business, is that a fair assumption?

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Christopher Bailey, Chief Creative and Chief Executive Officer

Okay I'll answer the first half of your first question and then Carol will go into it, and then I'll go into your second one, then John if you go into the third one.

So in terms of price positioning, it's not strictly true that we've been focusing on the lower price points. We have absolutely been - we've done a big focus on our cashmere scarves which for the category have a relatively high price, as well as our ponchos also made in Scotland so with that British provenance comes a price. But we've also - our top selling bag the Banner bag, which is a leather bag for us, which is a stronger price point than historical, we've also got the Rucksack again focusing on our - we've been working on this bag strategy over the last kind of 12 months, as I mentioned the Patchwork bag. We've got a very determined approach to growing the bag category.

But within the bag category we know that we've got pricing differences between a canvas bag and some of the leather ones. The Patchwork bag I think is a good example of the reception that we've so far received and that was all through our - so far our

Burberry Private Clients that Donald talked about which is a much higher price point than many of our others.

And also just in terms of outerwear, going into another category, one of the strongest products that we've had are our cashmere trench coats that we launched last year. Again a much higher price point but we've had an incredible response to that.

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Carol Fairweather, Chief Financial Officer
I mean in terms of ASP John I think you know the biggest opportunity we have out of everything we've heard today is about driving unit volume. I don't see necessarily a significant shift in ASP. We'll work through that. I mean it's a multiyear programme as we said so depending on which categories, you know bags first and then outerwear or whatever, but I think the biggest driver absolutely of the top line as we look forward is about units.

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Christopher Bailey, Chief Creative and Chief Executive Officer
And then in terms of your second question, do I need any help; you know obviously we're not going to start commenting on speculation in the press. I think I made it very clear today that we acknowledge that there is a lot going on in the company. There is great change. We know that we've identified that we have skills we need to beef up in our organisation and when we're ready to talk about them in more detail we absolutely will.

I balance my work with a phenomenal team of people, many of which are in this room today, but it's a much broader team throughout the company. But again we will update you as those plans continue to develop. And as you would expect we will talk to our internal teams about any fundamental shifts in our managing of the company, but you guys will be definitely the second people to hear.

And I'm going to pass over to John; do you want to talk about digital?

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John Smith, Chief Operating Officer
Yeah thanks John. I mean I think - I hope I said earlier we see like everybody else the growth in ecommerce in the future being well into the double-digits as it has been in the past, not 7% or those kinds of numbers. And in terms of our own numbers I think we've also said that half of our growth we expect over the next three years to come from the Retail programme and a third to come from ecommerce.

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Christopher Bailey, Chief Creative and Chief Executive Officer
Okay we have time for one more, so it's whoever puts their hand up the highest. Hi there, we don't know each other I'm sorry. Sorry, Melanie, you've got a new haircut.

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Melanie Flouquet, JP Morgan
I have three questions. The first one is one big absence of the discussions today is gross margin. Productivity, reduction in SKUs, channel mix, all this is positive to gross margins so what do you, beyond the FX gain which I take as an aside, what do you expect this to lead you to? Are you going to reinvest in better quality to your consumer or are you going to keep some of this into an uplifting gross margin?

My second question is on your sales productivity uplift. Who are you benchmarking your analysis against? And notably in particular how dependent is sales productivity uplift on leather goods?

And my last question is on cost savings. I notice that in full year March '16 there was an accelerated impairment of £35m so are you actually recovering this in FY17 and is this part of the savings - in the upcoming savings? And I was a bit surprised, I mean you basically have property-related costs being a sizeable part but employee costs separate, but quite a lot of this is I imagine staff within stores. Are you going to undergo major store network review or not at all? And is this part of your actual opex saving plan? Thank you.

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Carol Fairweather, Chief Financial Officer
I think most of those are for me. So gross margin Melanie, I mean we've talked about you know gross margin for the last two years moderating. I think coming out of this plan again it's about driving top line growth. There may be benefit over time if we do increase mainline versus outlet mix or whatever, but this programme is much more around growing the top line. What comes through in margin we may choose to invest some of that as we go through this product category so I wouldn't be modelling significant gross margin expansion going forward.

In terms of sales productivity I think you asked who we benchmarked ourselves against, was that your question? Yeah, well I don't know Donald whether you want to just say in terms of the work that you're doing.

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Donald Kohler, President - Americas
Obviously we would benchmark ourselves in two ways, and the chart that was up on the screen when I presented suggests that we look against our apparel peers as well as our more accessories peers. And where we sit today is that we not only have opportunity against our pure play apparel peers but also on the accessory side even more so. So we're sitting right in the middle and so we feel the productivity opportunity there is quite great. The names would be the obvious ones that you would expect so no real reason to necessarily list them. So that would be it.

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Carol Fairweather, Chief Financial Officer

And in terms of the store impairment onerous lease charge this year Melanie; you know we have to do a review of store impairments every year. The charge has been typically sort of £10m to £20m over the last three years. As we've sat here at this yearend, given the more challenging environment particularly in Macau since we agreed to open a store there and in the US too, we have taken a larger charge this year. That's absolutely not part of the cost savings that we've called out going forward and I would expect that charge to go back to a more normalised level next year of sort of £10m to £20m.

And then you talked about the amount of our property costs and were we happy with the store network. Broadly we are. I mean we continue to evolve the store network year on year just as we always have done, and that's why we talked about our big opportunity now is going from getting new space to making it productive new space. So we are happy with the overall network. We will continue to evolve it as we always have done, but the opportunity now is about making that existing space much more productive.

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Christopher Bailey, Chief Creative and Chief Executive Officer
So I just wanted to say thank you very much for everybody taking the time. It has been a little bit longer than usual but we do appreciate having the opportunity to share with you how we see the future of Burberry. I know many of you have to run immediately. There's chaos with the traffic out there, but we are around for the next kind of 15, 20 minutes or so.

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