Burberry

Interim Results and Strategy Update

9th November 2017

Burberry

Marco Gobbetti, Chief Executive Officer

Julie Brown, Chief Operating & Financial Officer

Judy Collinson, Chief Merchandising Officer

Charlotte Cowley, Vice President, Investor Relations

Questions From

Helen Brand, UBS

Luca Solca, Exane BNP Paribas

John Guy, MainFirst

Warwick Okines, Deutsche Bank

Elena Mariani, Morgan Stanley

Thomas Chauvet, Citigroup

Zuzanna Pusz, Berenberg

Aurelie Husson-Dumoutier, Kepler Cheuvreux

Mario Ortelli, Bernstein

Rogerio Fujimori, RBC Capital Markets

Introduction & Highlights

Marco Gobbetti, Chief Executive Officer
Good morning everyone. I'm very pleased to welcome you all to my first Burberry results. Burberry is an incredible brand and I'm very honoured and excited to be here and to work with this exceptional team on building our future.

First of all in terms of our agenda today I will touch briefly on our performance in the first half of the year before handing over to Julie who will go through the interim results. I will then present our strategy to establish Burberry's position firmly in luxury, during which Judy Collinson, our Chief Merchandising Officer, will talk about our plans for product. Julie will come back on our financial ambition and I will close before we open up to Q&A.

Before we begin I wanted to say a few words about Christopher who is sitting here with us. As you will have seen from last week's announcement, Christopher has made a personal decision to leave Burberry at the end of next year. This is a decision I know he came to after much deliberation. Christopher joined Burberry when he was 29 years old and he has lived a long and successful experience.

As Burberry begins the next decade of its journey I fully understand why he felt he couldn't commit for another lengthy period at this point in his life. I'm sad to see him go as I wished to collaborate further with them. At the same time I am very grateful for the legacy he leaves and the strong foundations on which we can build the future of the brand.

As was communicated last week a process has now started to identify a successor and I look forward to updating you in due course.

Turning now to our interim results, I am pleased with our performance in the half which was underpinned by good progress on our operational efficiency and productivity programme.

Revenue grew 4% and adjusted operating profit increased 17% underlying. Retail led the growth with strength in Asia Pacific. Digital grew in all regions led by mobile. And consumers responded positively to fashion and newness.

Adjusted EPS was up over 30% and we have declared an interim dividend of 11 pence, up 5% year on year.

With that I will hand over to Julie to take you through the detail.

. . . .

Financial Results

Julie Brown, Chief Operating & Financial Officer
So thank you Marco and good morning ladies and gentlemen. Revenue was up £1.3bn, up 4% underlying and 9% reported. Adjusted operating profit was £185m, up 17% underlying and 28% reported.

Adjusted diluted EPS was up 32%, reflecting adjusted operating profit growth and the accretive impact of our share buyback.

With strong free cash generation we closed the period with net cash of £654m, after £191m of share repurchases. And finally, we have proposed and interim dividend of 11 pence, up 5%, in line with our progressive dividend policy.

This slide shows the changes in our H1 revenue by channel. Retail, which is 75% of our business, grew 5% underlying with comparable store sales growth of 4%, split +4% in Q1 and +5% in Q2, with space contributing the balance. Wholesale, excluding Beauty grew 1%, broadly in line with guidance. And Licensing revenue was £4m lower year on year, primarily reflecting the reduced revenue from Japan. And royalties from watches also tapered ahead of the licence expiry in December. The total business, excluding Beauty grew by 3% underlying.

Turning to Beauty Wholesale revenue grew 5%; this was a strong finish for Beauty ahead of the transfer to Coty as we saw less disruption than originally anticipated. The business successfully transferred on the 2nd of October as we planned and Licensing income will be recognised in the second half of the year.

Total revenue grew 4% underlying with a £63m exchange benefit, reported revenue growth was 9% at £1.3bn.

Now briefly Retail/Wholesale revenue by region, Asia Pacific grew 7% with a mid single digit comp sales growth driven by strong mid-teen performance in China Mainland. Hong Kong returned to growth while Korea remained challenging.

EMEIA grew 5% with a mid single digit comp sales growth. The UK delivered double digit revenue growth over the half as domestic spend remained strong, however as expected the UK slowed through Q2 with the annualisation of sterling's weakness.

And finally our business in the Americas continued to be under pressure from the challenging environment in the US. Comparable Retail sales were marginally negative, albeit the trend improved in the second quarter.

For Wholesale growth in Asia Pacific offset declines in other regions as we took a cautious approach to managing the inventory sold into our partners.

By product newness and innovation again outperformed in all categories. Accessories grew 4% with particular strength in small leather goods and bags, benefitting from innovation like the Beasts campaign and the launch of DK88 in smaller sizes.

In Apparel we saw similar trends in women's and men's both up 4%.

Rainwear delivered strong growth in Q2, reflecting in particular the recent success of our Car Coat and Tropical Gabardine.

In Beauty there was a good response to new fragrances with the successful launch of My Burberry Blush.

Finally in children's we saw strength in Outerwear.

Now looking at the operating profit we delivered 17% underlying growth, 28% at reported rates with a £15m currency benefit. Profit was driven by a strong Retail/Wholesale business performance, coupled with significantly improved Beauty profitability and the phasing of marketing and IT spend between the two halves. We also had positive regional mix from Asia.

In addition we delivered incremental £20m of cost savings, which I'll give more detail on shortly. This was partially offset by strategic investments in Digital and Retail, so for example a new instore sales associate tool improving visibility of inventory across our network.

This slide shows our income statement and first a comment on simplification. We're simplifying our disclosures to focus on Group operating profit and Group margin as a single measure and way of tracking our profitability going forward. For transparency the detail of the split between Retail, Wholesale and Licensing is still available in the appendix and will continue to be so going forward.

So turning to the Group, gross margin grew 60 basis points in the half, benefitting from regional mix and the non-repeat of the prior year Beauty inventory charge.

Operating expenses increased 6% in the half, reflecting inflation, PRP and currency, partly offset by benefits from the cost saving and reduced marketing spend in Beauty.

Operating margin grew 210 basis points to 14.6%, including a 50 basis point benefit from currency.

Now turning to cost savings, we've delivered a cumulative £40m from our original £100m commitment, £20m last year and £20m now in the first half year. These have been realised through operating model simplification and procurement savings.

I'm also pleased to announce the Burberry Business Services in Leeds opened on the 9th of October and we extended its scope to include IT; such that we now have a comprehensive centre covering finance, HR, procurement, customer service and IT. We now have over 120 new recruits successfully on-boarded, with the IT helpdesk going live last week, customer services started taking calls in November and finance streams go live on the 27th of November.

And finally, this morning we announced that we would be accelerating - extending the cost saving programme, delivering £60m of benefits this year, £100m in full year '19 and an additional £20m annualised in full year 2020.

To give you an insight into the split of these benefits of the £120m, about 45% will come from operating model and process simplification, 25% from procurement and 30% from other activities such as property related savings.

Now moving further down the incomes statement, adjusted operating items totalled £58m and I will return to this on the next slide. We expect a full year tax rate of around 25%, an 80 basis point improvement on the prior year and this is the rate we have applied in the half. We have repurchased 15 million shares over the last 12 months, contributing to diluted EPS growth of 32%.

I'd now like to summarise the main components within our adjusting items. So firstly we've incurred a £28m of costs associated with the transfer of Beauty. Important to note that for the full year this charge is expected to be minor, as around £30m of the proceeds received in the second half from Coty relate to the transfer of Beauty operations. The remaining proceeds will be recognised evenly over the term of the licence.

Second, the restructuring charge of £33m and we expect this to build to about £75m by the end of the year, this compares with previous guidance of £40m. This reflects the accelerated delivery of savings, the expansion of the targeted cost savings, coupled with new strategic decisions which Marco will outline shortly. And finally there is a small credit relating to Burberry Middle East.

Now turning to cash, the business remains strongly cash generative, with £270m of cash inflow from operations. This reflected the growth of operating profit and a working capital inflow driven by inventory, with Fashion inventory down 11% at constant exchange rates compared to last year and Beauty inventory of £31m reclassified as held for sale.

Free cash flow was £171m after tax, which benefited from timing differences. Capex was £53m and we now expect capex for the full year to be £130m, which is below our previous guidance of £140m, as some refurbishment projects have been delayed pending the strategic review.

This slide shows the cash movements in the half, we generated free cash of £224m pre-capex and the main outflows in half one have been capital expenditure, the final dividend and our share repurchase programme. We repurchased £191m of share buybacks and with the remaining balance of £159m to be completed by the end of the year.

And finally in total our net cash at September 2017 was £654m, or on a lease adjusted basis this is net debt of £0.6bn. This excludes the proceeds from Coty, which we already received on the 2nd of October and we expect this to translate into an inflow of about £165m in half two.

So turning now to our full year 2018 guidance, as you can see the details are on the slide, so I won't talk you through each line. The key message is that the expectations for full year adjusted operating profit have only marginally increased at constant exchange rates.

In the second half we are mindful of a number of factors impacting this, so we expect the cost phasing benefit in half one to reverse in half two. We expect a decline in Wholesale revenue in line with strategy. Customer facing investment is expected to increase in support of the strategy. And we're very mindful of a tougher comparative base for the remainder of the year, particularly in the UK, where we've seen a softening in recent weeks as we annualise some very tough comps.

As usual we have updated our estimate of the impact of currency on the full year reported profits and we now expect a negative minus £20m impact compared with minus £25m as previously guided. As we saw a £15m benefit in that first half, this will mean £35m adverse for the remainder of the year.

So in summary we are pleased with the performance in the first half, showing clear evidence of strong operational execution and we're now focused on implementing the strategic initiatives that we'll share today. And this concludes the review and I'm very happy to hand back to Marco.

. . . .

Strategic Review

Marco Gobbetti, Chief Executive Officer
Thank you Julie. These results give us a very solid platform from which to launch the next phase of Burberry's journey, which is the topic I want to turn to now.

This company has been on an extraordinary journey since our founder Thomas Burberry set up his first shop in Basingstoke 161 years ago. Burberry has been synonymous with innovation and adventure. We invented the Gabardine, which revolutionised outerwear. We clothed the great explorers of the early 20th century. Our pioneering spirit drove us to become a truly global company, evolving from a licensed business to Retail and Digital leaders. Today we are a company with revenues of £2.8bn under one label, but our spirit of innovation and adventure remains the same.

As we start the next phase of our journey we are fortunate to be able to build from some enormous strength. First, we are a truly iconic brand, according to Interbrand we're one of the most valuable luxury brands in the world and have ranked amongst the top 100 most valuable brands since 2010.

We are also the only British luxury brand in the top 100, unlike France or Italy which have many luxury brands we are the only luxury company of this scale in Britain and also one of Britain's most valuable brands.

Second, we are brand with strength across multiple categories. Of course we are known for our iconic outerwear, but we're also leaders in soft accessories and have built a significant business in leather goods.

While many of our luxury peers are known for leather goods, there are not many companies who can play across multiple categories in this way. And this gives us a unique base on which to build.

Our third strength is our distribution footprint; here I would like to draw out three things.

One, we have an extensive number of stores, with 461 directly operated stores and 48 franchised stores. Second, our distribution is well balanced, with a good presence in all the major luxury cities around the globe. And third, in terms of mainline stores, we have excellent locations, with adjacencies next to top luxury players.

Lastly, we consistently have been a digital innovator. Back in 2009, we were the first brand to operate on Facebook at a time when most luxury brands believed it would be damaging to create such a direct relationship with their customers. Since then, we have continued our digital leadership in the industry. We were the first to live stream our Runway show. We formed marketing partnerships with leading tech companies such as Apple, Google and Snapchat.

We built a global e-commerce platform with a deep level of localisation. And this year, we are the number one digital luxury brand in China. Digital is part of our brand identity, another dimension of our innovation.

In today's environment, luxury players are having to adopt and clarify their brand positioning. This chart shows on the vertical axis, price; and on the horizontal axis, a scale from heritage to fashion. In my view, Burberry occupies a position somewhere in the middle of these two axes.

Let me explain. First, Burberry has elements of both heritage and fashion. We have a long and rich history and are well known for iconic, heritage products such as our trench coat. At the same time, we have a reputation for creativity and industry leading fashion shows.

In terms of price, our offer today is a combination of two different price points. For some items, we price below our luxury peers. For example, our standard Oxford polo shirt is about 50% less than the equivalent at other luxury brands. For other items, we price on the level of luxury players.

Recently, our growth has been slower than several of our peers. Industry performance has polarised, and best-in-class players that are delivering strong, differentiated offers are exciting luxury customers and enjoying strong growth. The strengths Burberry has built over the last decade give us a solid platform, but what drove our growth in the past is not necessarily what will fuel our future success.

Today, the luxury sector is changing. First, overall industry growth is expected to slow to 4% or 5% in the medium term. Second, the drivers of top line growth will be different, with space and price playing less of a role. Third, growth is becoming more expensive, particularly with the increased marketing investment required to engage and excite luxury customers.

In addition to the sector, the luxury customer is also changing. Today's customers are moving away from traditional notions of luxury and elegance and are looking for casual, fun, fashion that fits with their lifestyles. They expect creativity even on entry price products. They care about experiences and use luxury goods to express their opinions and point of view.

Today, consumers want fashion and newness. Their wardrobes are already full of iconic staples. Only innovative, exciting products will entice them to buy.

In the digital age, consumers also engage visually and often, and expect continuous new innovative content, which favours fashion brands. Even heritage brands are now using the tools of fashion, even streetwear, to introduce newness and respond to today's luxury consumers.

Consumers are also polarising between luxury and mass. 30 years ago, mid market brands dominated the fashion market. Today however, consumers prefer either luxury items or mass market brands, mixing them together to create a look. The mid market offering no longer has a place with this consumer.

This polarisation is also reflected in pricing. As this chart shows, over time, luxury players have been able to create a substantial price premium. Brands that play in the top segment enjoy very strong pricing power and have driven growth through price increases. At the mass end, prices have fallen over time.

In the meantime, the middle ground has stagnated. Players here have neither the equity to raise prices nor capabilities to produce an offer that is competitively priced against the mass segment.

With the movements in the market, we must sharpen our brand positioning. We must move up to ground ourselves firmly in luxury. We must move left to respond to customers who want fashion and newness.

The luxury segment is the most valuable and enduring segment of the market. Burberry has the history, equity and capability to play here, especially after its recent consolidation to one label. And I believe this is where we should position our brand.

For the next chapter in Burberry's history, our vision is to establish the brand's position firmly in luxury fashion and inspire new luxury customers with our unique British attitude.

One of the reasons I came to Burberry was because I truly believe that we have one of the most inspiring brands in the industry. I want to take a minute now to share with you a video, which captures some of the history and the spirit of this amazing brand.

. . . .

Video Played

. . . .

Marco Gobbetti, Chief Executive Officer
As you saw, we are and always have been extraordinarily creative, innovative and outward looking; we are dynamic, constantly moving forward and have been pioneers and explorers in every sense of the word. It is true that we are 161 years old, but we're also young, relaxed, informal and relevant. No one else has such a credible claim to British luxury, and there is so much potential here.

Today, consumers are looking for modern, casual, fun fashion that fits with their lifestyles. This has always been the very essence of our brand, and this soul gives us a completely unique and relevant voice in fashion today.

We will achieve this vision through three major initiatives: renew the product, evolve the communication and transform the experience. Let me explain each one.

First, we will renew our products. I truly believe that the fundamental mission of any luxury business is to create irresistible product, and the transformation of this brand has to start here. There are five pillars to our product strategy: fashion, leather goods, continuous engagement, wardrobing and rebalancing our pricing.

I'm really pleased to introduce to you now Judy Collinson, who joined us in May as Chief Merchandising Officer; and who, in just a few months, has already formed a great partnership with our design team to inject a remarkable level of excitement and newness. And Judy will take you through our vision for product.

. . . .

Product Vision

Judy Collinson, Chief Merchandising Officer
Thank you, Marco. Good morning, everyone. I'm very happy to be here. I have always thought Burberry an extraordinary brand. Luxury fashion is its natural evolution. This is the next step. We are renewing ourselves with every collection. While we completely are committed to our current client, we are designing and merchandising to the new luxury client.

We are talking to the evolving luxury consumer. This client is by nature young but any age, open, informed, they are critical, enthusiastic. They take their clothes personally.

Fashion is part of who they are to the world. They want to look new. They want to be themselves, but constantly refreshed.

We will excite, challenge, entertain this client. We will build a real relationship. For the millennial, we are told we have to provide context and true meaning. Honestly, this applies to every demographic. Each collection we've focus on fashion, even those who do not walk the runway. We will celebrate our aesthetic, our ironic, optimistic, inclusive, genuinely humorous, uniquely British definition.

We have incredibly strong business drivers, which we continue to refresh. We're adding novelty to core categories. We're renewing bestsellers like Banner and Rucksack. We are reinvigorating our basics. We will entice all our clients to explore the newness.

We are creating relevant product to recruit the new fashion client. Ready to wear is the primary signal of evolution for both men's and women's. Collections will balance casual and elegant. Outerwear strength will continue. Runway deliveries will become even more important. All deliveries will be directional. We will elevate leather goods.

We are transforming this category. One of the most visible ways Burberry can renew brand perception is through leather goods. Handbags are a source of prestige, a barometer of quality and creativity. We will build a solid architecture of leather goods to reach the new luxury consumer.

How will we take leather goods market share? We have an incredible design team that understands luxury. They are focused on growth, strategic development, the modern client. We are evolving the character and attitude and language of the Burberry handbag. It is an ongoing conversation and is resulting in bags with humour, personality and functionality; handbags that are identifiably Burberry. We will increase the prominence and space dedicated to leather goods in our stores.

We will wardrobe the customer. We are merchandising and styling our collections to outfit the whole client. We will emphasise cross-selling and consider all end uses, casual, travel, work, dinner, event. We will display in store by look and fashion category, fashion story.

We are rebalancing our price architecture. We are merchandising a full breadth of price points. We are building an architecture of competitive prices. Value will be perceptible. Quality, richness of design will continue to be inherent. We will constantly renew our entry price offer to drive client conversion and capture the new fashion client.

We will continue to excite with customer converters. We have been pioneers of direct customer conversation. Our clients expect continuous engagement through fresh product. We are bringing them to stores through regular, curated deliveries. We will continue to be unconstrained by the traditional calendar. We will choose the moments we speak to our clients, creating lively, robust, constant conversations.

We will build on energy of capsules, projects, collaborations and amplify our brand with art, music, culture and the wider world.

This is the beginning of a new chapter. We have such a strong foundation on which to build. We've recently brought back a vintage 1960's check, it has tremendous energy. It is infilled in intricate (?) linings, appeared on a Car Coat, shirt, cap, muffler.

We sent a casual fashion tote down the runway and an extravagance of tartans. Nude knits, our British stitch collages and signal future intensification of this category. We have made translucent rubber rainwear completely wearable fashion. Our evolution has begun.

. . . .

Marco Gobbetti, Chief Executive Officer
Thank you very much, Judy. The next pillar of our strategy is communication. We will evolve the way we communicate with our customers, reimagining our content and taking a curated, edited approach.

Our communication strategy has three pillars, product first, content revolution and experiences. Product first - one of the most important actions we'll take us to make product prominent in everything we do and make it look irresistible. We're a fashion brand that makes beautiful products, so in every image and campaign, we'll make product front and centre. From now on, we will also create dedicated support and campaigns for pre-collection, not just for the runway.

Content revolution - here we'll do three things. One, think differently about all content from campaigns to what we publish across all Digital channels and our on site. Two, update our creative language, it will be bold, dynamic, real, compelling, and the change is underway. Three, ensure everything is not just relevant for social, but made for social, it's now the first access point to any brand. As an example, this is a snapshot of our Instagram feed, which shows the recent collaborations we did around the September show in our new direction of travel.

Focus on experiences. We know that experiences are becoming ever more important for exciting and engaging luxury customers. We must focus on the most powerful experiences for our clients across every channel, physical, digital and even augmented reality.

This image shows our recent augmented reality collaboration with Danny Sangra, which allowed our customers to step inside Danny's illustrated Burberry world. If you haven't tried it I encourage you to have a go on our app.

Across all communications, we will leverage our digital reach to convey our new brand energy. As an early adopter, we have outstanding digital reach, with over 50 million fans globally, across 15 platforms, 22 accounts and 11 languages. More than our physical network, this will allow us to communicate the changes in our brand instantly around the globe.

In addition, our data and analytics also enable us to get the best from this reach, connecting the right content to the right platform and audience.

The third step in our path is to transform the way our customers experience our brand. As we move towards our new brand positioning, it is critical that we create a consistent luxury brand experience across each and every one of our customers' touch points, including Mainline, Digital, Wholesale, Travel Retail and Outlets.

Our mainline stores are clearly fundamental to our growth ambition, and the rejuvenation of these stores is critical to convey Burberry's new brand image. We will start by rolling out a light yet high impact refresh of our top stores in high visibility, influential fashion markets.

In addition, we will also develop a new store concept and make significant investments to roll this out over our network. Over the medium term, we plan to refurbish the majority of our stores.

Our store managers and associates play a pivotal role in shaping the brand experience. Over the past two years, we have done a lot of work on retail excellence, and we'll continue to accelerate this. In order to support the new brand positioning, we will also introduce some new initiatives, especially in training and client telling, which will drive productivity.

We believe all these efforts will drive a meaningful increase in sales density. Over time, we clearly have the potential to improve our performance, while recognising that many other luxury players that are predominantly leather goods will continue to have higher margins.

Moving now to Digital. Contrary to popular belief, one of the key reasons I joined this brand was because of its digital leadership. To me, Digital is an absolutely integral part of Burberry and will continue to be one of our biggest opportunities. As soon as you land on our homepage, it will be clear that Burberry has a strong fashion point of view with an endless feed of exciting content. We will convey our point of view through highly curated product assortment and merchandising, innovating angles and stories on our products, and new views and formats that bring our products to life.

Personalisation is about digital platform responding to the customer. It is about changing how we interact with them because we're listening to what they're telling us explicitly through what they buy and implicitly through what they're viewing.

Omni-channel is a much used term, but our priorities are straightforward. We will allow customers flexibility in how they want to pay for and receive product, consistently and seamlessly across all channels.

Finally, many customers and key opinion leaders in fashion will continue to buy our products via third party channels. We will ensure these are a key driver of our growth in the future as well this brand image.

Turning now to Wholesale. Our goal is to reflect and amplify Burberry's new luxury positioning. This includes recruiting and growing our image driving accounts, implementing special product collaborations, increasing our accessories presence in key department stores and growing Travel Retail.

At the same time, we plan to reduce our presence in non-luxury points of distribution to strengthen the brand experience and ensure consistency across all touch points.

In the US, I have personally visited the majority of our Wholesale accounts, and addressing these will be my first priority. Here, we will both upgrade doors to drive brand image and also reduce exposure, where necessary, to reflect the new brand positioning.

Outlets will remain an important part of our business model as a liquidation channel for inventory. However, as this chart shows, we are slightly over penetrated in outlets, and therefore, plan to right size our portfolio.

In aggregate, by taking these actions, we will build a true, luxury distribution network. We will achieve significant growth in our Mainline and Digital channels, supplemented by growth in luxury Wholesale. In the medium term, this growth will more than offset the declines associated with reducing our non-luxury distribution.

So to recap, we will achieve Burberry's vision through coordinated actions in product, communication and customers' experience.

As we embark on this path, we expect our transformation to have two phases. First, we expect a period of transition as we implement the strategy. In this period, we will rationalise our distribution and invest to reactivate the brand experience as well as manage the creative transition. We believe this period of investment will enable us to establish Burberry's position in luxury and prepare us to deliver sustainable, long term value.

In the second phase, we expect growth to accelerate across all geographies, driven by a new creative vision and rejuvenated brand and underpinned by strong Mainline and Digital performance.

One final comment before I hand over to Julie to take you through our financial ambition. It is important to reinforce the point that becoming luxury does not mean we will not pursue efficiency or financial discipline. On the contrary, especially during our transition phase, we must remain focused on managing costs and delivering savings to stabilise our profits. We will also carefully prioritise our resources during this time. Julie, over to you now.

. . . .

Financial Ambition

Julie Brown
Thank you, Marco. Now I will provide more definition around the guidance for our five year plan.

So we plan to invest in the future in order to place Burberry definitively in the most profitable and sustainable segment of the luxury market. There will be this period of transition where we implement the strategy, throughout which we expect to remain strongly cash generative and committed to our capital allocation policy.

So turning to the short term, we expect, 2019 and 2020, to be the transitional years for Burberry. Revenues here are expected to be broadly stable as we rationalise the non-luxury elements of our distribution channels. And our revenue ambition beyond this point is to deliver high single digit top line growth.

Our adjusted operating margin is expected to be broadly stable during the initial period of investment in the brand. £120m of cumulative cost savings will support profitability during this important period.

Thereafter, we expect to deliver meaningful margin expansion, with revenue leverage and cost base control improving our profitability.

We expect continued strong cash performance throughout, maintaining strong levels of cash conversion, with ROIC improvement in the outer years.

The plan will be supported by capex of £150m to £160m per annum through the first two years, building to £190m to £210m per annum as we invest in refurbishing our store network.

We remain committed to our progressive dividend policy and expect to continue to provide additional shareholder distributions in line with our capital allocation framework.

At Burberry, we are guided by a value creation framework, which has three major components, first, revenue growth; second, operating margin; and finally, capital efficiency.

And I'll now discuss the impact to our strategy and how we will achieve our financial ambitions within each of these drivers.

So first, on revenue, our financial ambition is to deliver high single digit percentage growth. And as you heard from Marco and Judy, this will be underpinned by building a compelling fashion and leather goods offering, changing our communication to convey new energy and transforming our customer experience in the way that was described.

Our second driver of value-creation is profitability, where our overarching ambition is to deliver meaningful operating margin improvement. And here you can see our operating margin in the context of the peer group.

The first point to note is the difference in margin between apparel and leather goods players. Typically, leather goods luxury players have higher sales densities and consequently higher margins than company specialising in apparel.

Second, we're above the average for luxury apparel players. And whilst we recognise that our margin is unlikely to reach the levels of leather goods, we have the ambition to improve the margin significantly as we take the actions outlined by Marco on the top line, coupled with the actions I will come onto relating to our cost base.

So, to summarise, we expect EPS to grow ahead of revenue for three major reasons. So first, our cost saving programme and simplification agenda will drive savings to support profitability. In addition, G&A expenses will fall over the planned period, allowing increased investment in marketing and other customer facing activities.

Second, improved top line growth will generate operating leverage as we control the fixed costs and the semi-fixed costs within our business.

And finally, we expect to improve our tax rate to 200 to 300 basis points from full year 2017 by full year 2020, assuming no major changes in tax legislation.

So taking a look at the cost saving programme in more detail. We have six major mechanisms for realising cost savings across our business, and I will highlight just a few.

As you've seen from our interim results presentation, cost savings of £40m have now been delivered through simplification of our operating model and procurement savings. In the next phase, we have accelerated and upgraded the savings target to a cumulative of £120m. And for context, this equates to about 15% of our addressable cost base.

The main levers of change continue to be firstly procurement, where we've now got a global approach to the main nine categories of indirect spend across the entire company.

Secondly, our operating model, where we continue to yield savings by addressing spans, layers and complexity in both the front and the back office, including our brief to buy process.

And thirdly, Burberry Business Services, which I discussed with you earlier. We now have the opportunity to standardise company-wide processes such as purchase to pay, sales order to cash in one centre. This delivers savings from three sources, labour arbitrage, real estate and productivity improvements. And more importantly, this initiative will make it simpler and easier to work in Burberry as the back office becomes more standardised and systematised.

Finally, inventory management. Although fashion is a headwind here, the rationalisation of the range and the simplification of the brief to buy process will enable deeper buys and streamline order fulfilment. And building on Lean Six Sigma, we will also improve our supply chain agility and shorten lead times.

Our third lever for value creation is capital efficiency. Burberry is highly cash generative with strong cash conversion over the last five years. And going forward, we continue to adopt a disciplined approach to resource allocation, capital investment and working capital management.

Now looking at capex, over the last five years, our capex has averaged £150m, with the largest proportion being retail investment being directed at new stores. In full year 2019 and 2020, we expect capex to be broadly in line with historical run rate of £150m to £160m. And beyond this, as Marco discussed earlier, we'll step up our refurbishment programme, refreshing the majority of our stores by the end of the five year period, so we expect capex to build towards £190m to £210m per annum.

As you would expect, we will continue to invest in IT and Digital.

So turning to the next slide, I thought it would be useful to recap on our established capital allocation framework. So first, we reinvest in the business to drive organic growth. Second, we will maintain our progressive dividend policy, with a pay-out ratio of around 50%. Third, we pursue selected strategic investments in line with stated objectives. And fourth, we're committed to returning surplus cash to shareholders.

Underpinning these capital allocation priorities is our decision to maintain a strong balance sheet with a solid investment grade credit metric. We assess our balance sheet strength by referring to two key areas, first, our lease adjusted net debt to EBITDA ratio, which is 0.5 times for full year 2017 and our fixed charge cover, which is comfortably above the level required. So for planning purposes, we would expect to maintain an adjusted net debt ratio of 0.5 to one times.

So to illustrate this, by looking back over the last five years, we've returned over £1bn to shareholders through a combination of dividends and buybacks. And over the period, the cash generation has been strong at £2.5bn. And there, we've invested £0.8bn in capital projects, including opening almost 100 mainline stores, including flagship stores in London, LA, Shanghai and Tokyo.

We've returned £0.8bn through the dividend, with an average growth rate of 11% per annum. And we've made strategic investments of around £200m, predominantly relating to the purchase of Beauty and China operations. And finally, we've repurchased 0.3 billion of our shares.

So to pull this all together, we expect to generate significant cash over the five year plan. We are fully committed to the capital allocation framework, including a progressive dividend of growth as at least in line with prior year, and we will review the scope for additional shareholder distributions at the end of each financial year as we usually would.

The plan requires capital investment, but we'll exercise strong discipline in our allocation of capital to ensure we're investing in the most accretive projects. And in total, this means we expect our ROIC to remain significantly ahead of our weighted average cost of capital, accelerating in the outer years of the plan. This completes our review of financial ambition, and I'll now return to Marco

. . . .

Concluding Remarks

Marco Gobbetti
So to recap, I've already spoken at length about our plans for product, communications, distribution and Digital. And Julie has just talked about operational excellence. Now I want to turn to people.

Having an engaged and talented team working in the right way is vital for delivering the strategy. One of the things that struck me most when I first joined Burberry was the incredible talent we have here and the energy and passion people have for the brand.

To build on this, we have also put in place an extensive people programme, addressing engagement and ensuring each employee finds meaning in our new strategy, strengthening our skills and capabilities, empowering our leaders, simplifying our ways of working, promoting a creative and pioneering culture, and positively impacting our community and environment.

Perhaps most importantly, we will continue to review our ways of working, focusing on the highest priority processes to ensure we're working as effectively as possible. Ultimately, this will have a huge impact on our culture and our performance.

People are a topic very close to my heart, and I will personally ensure that I deliver the strategy so that the whole organisation understands this vision, how we're changing and why. I want everyone here to be as excited about this as I am.

And of course, leadership will be critical to delivering the strategy. I am fortunate to have a really exceptional team in place, who have a balance of in-depth experience from Burberry, the luxury industry and major multinational businesses.

We also have a great mix of fresh talent and existing Burberry expertise across each of our strategic pillars.

In conclusion, we are starting this next chapter from a position of great strength. We are an iconic brand with a unique and vibrant spirit. We have a strong luxury network and innovative Digital leadership. We have always had first rate creative talent, and this will continue.

Luxury consumers are changing and we too need to change. As you have heard, we will evolve all elements of the business to do this. In the first years, we will make important investments to build the right distribution network and manage the creative transition. This will give us a strong foundation from which to accelerate and grow.

The strategy will now position Burberry firmly in the luxury segment where all our peers aspire to be. This segment is the most enduring and rewarding part of the industry, where brands enjoy strong equity, reduced volatility, pricing power, high margins and growth.

In this segment, we will build a sustainable, long-term business for all of our stakeholders and create significant value. I'm personally honoured to lead this exceptional team as we build the next chapter for Burberry. Thank you. And now I would be pleased to take any questions.

. . . .

Questions and Answers

Charlotte Cowley, Vice President, Investor Relations
Just to let you know we've got quite a full room this morning, so can I please ask that you limit yourself to two questions so that we can allow everybody to ask a question. Please not lots of six part two questions either. Thank you.

. . . .

Helen Brand, UBS
Hi good morning. Hi Marco, nice to meet you.

. . . .

Marco Gobbetti, Chief Executive Officer
Hello, hi.

. . . .

Helen Brand, UBS
Just the first question, in terms of creative director and timing around a new announcement here - as you're thinking about the fashion refresh, how should we think about timing there?

And secondly, can we just talk a little bit around how you expect the pricing architecture of the business to move? You talked about elevating towards that more fashion luxury positioning. Can you talk about each product category in terms of pricing architecture? And specifically, I noticed that you didn't mention outerwear, particularly in the talk; can you talk about your plans there and the pricing architecture?

. . . .

Marco Gobbetti, Chief Executive Officer
Yes. So in terms of the timing, we have started the process - the process has started, it will be a process. So we have factored in, in this plan that it will take some time to find

the right lead - the right creative lead for Burberry for the next decade. So we have factored it in.

Don't expect any announcements very, very soon. There will be plenty of rumours. I want to speak about this immediately; there will be plenty of rumours as there are already. There'll continue to be, we will not comment on any rumours, but we will make an announcement when we're ready.

In terms of pricing, Burberry, as I said already, plays across the luxury space. What we need to do is to sharpen our price architecture across the categories.

I think in leather goods, for example, we plan to develop a structured offer that will play across the category, across the functions, across the uses of leather goods by today's consumer.

You mentioned outerwear. Outerwear is and will remain a fundamental part of Burberry. It's the founding - probably the founding element of Burberry and it's very important that we maintain and we develop that. And while we have plans to grow leather goods, we are absolutely determined to remain with a very strong market share in that category. I think that in terms of pricing, I think we are pretty well priced in that category for example.

So there are items, as I showed before in of some the charts that need adjustment, but don't expect a major price repositioning of the brand. I think it's more about sharpening and defining where we are under-priced, and where we think it is not the right space to play, we will correct it.

. . . .

Luca Solca, Exane BNP Paribas
Good morning, maybe just a question on the adjustment that you anticipate to carry out on distribution. You showed a very clear chart as far as the US market is concerned, how fast do you plan to go there and how big a sacrifice short term do you anticipate to make?

And on off price, equally you showed that you believe that Burberry is too exposed to factory outlets. Again, how do you anticipate to reduce that exposure as you go forward? Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
So yes, distribution is obviously an important element. In terms of the American distribution, in terms of Wholesale, what we will do, we will work with our partners to elevate the position that we have today with them where it's necessary. We will review the doors where it's essential that we are and we are present in a much more compelling way, and we will review some doors where perhaps it won't be necessary for us to play anymore.

This will be done in partnership with our local wholesalers. It will take a reasonable amount of time. This is part of the discussions that will be ongoing. We foster their partnerships; all of our Wholesale partners will be partner for the future. We also have the opportunity of increasing our presence with some other partners, in America, where perhaps today we have a marginal presence. So it will be work that will be ongoing for, I would say, the next couple of years.

In terms of the off price - in terms of the off price, it is a marginal adjustment that we are talking about. We don't need to significantly resize our position there. As I said, off price remains, outlets remain a physiological important channel for liquidating our inventories. So that will continue, it will continue for that reason. There may be a few locations where we don't think it's essential that we remain, but as I said, it will be fairly marginal.

. . . .

John Guy, MainFirst
Thank you - thanks for taking my questions. The first one really around Digital. Burberry has always been a prodigious forerunner in terms of its positioning in the digital landscape, but that landscape has now continued to become a lot more competitive, not only in terms of the own brands, investing more in their own digital presence, but also through third parties. How does Burberry plan to keep pace or even stay ahead considering you've always been at the forefront of Digital? That's my first question.

And my second question, just so I'm clear in terms of the product and the price positioning that you've been talking about, Marco, if you're talking about the focus on leather goods, outerwear doesn't need too much work done to it in terms of pricing, what are the expectations from '21 then in terms of value versus volume in that high single digit formula?

And maybe just one final - not a question, but just to say, Christopher, wishing you all the best for the future.

. . . .

Marco Gobbetti, Chief Executive Officer
So Digital first, yes, clearly, there is a lot of catching up that players are doing in the industry. That's quite obvious, and it was expected. So will we be able to enjoy forever the same lead that we had before? No.

But what we have is an innovation lead, an innovation leadership that for the moment - and we will invest significantly in it to continue it, will really make the difference. We are the one that pioneered collaborations, new ideas with the technological companies. We have always been the one that has gone where other brands have not gone or have come after us, and this will continue.

Our investments will be very significant in Digital, not only in the technology platforms, but also in the content, which is today a significant element in drawing customers in there. So we think - we're convinced that we have the elements to really remain leaders there.

In terms of price, in the outer years, I think that, clearly, we think that there will be an element of price, but it will not necessarily be actually the only element of growth. We think there will be volume and there will be price in the outer years.

As I said, there are some categories where we will need to fine tune our pricing. There are categories, as I said, and I want to be precise on that, on outerwear, I haven't spoken much about outerwear because it's one of our pillars, and it will remain one of our pillars, absolutely. So with that, obviously, there will be a revision of the offer. There will be a reinforcement of the offer and there will be a price.

We like our price breadth. It's an asset, okay, I have no intention - we have no intention of positioning Burberry in a very small extremely high level niche of prices. I think Burberry - what I always like to say is Burberry is an inclusive brand. We bring customers in through our experiences. Digital is the great gateway to Burberry and this has to continue. So we have no intention of shutting out customers through pricing.

. . . .

Warwick Okines, Deutsche Bank
Morning, the first question is just on the role of - maybe being a bit more specific on the role of Wholesale in the plan. Am I right in understanding that through the transition period you'd expect the Wholesale business to decline modestly, maybe mid single digit negative and then from 2021 onwards, contribute something to the growth of the overall business, and therefore, the channel shift should be modest rather than dramatic?

And secondly, on the exceptional charges that you're booking for the cost savings programme, I think it's £111m in total, can you say how much of that will be cash please?

. . . .

Marco Gobbetti, Chief Executive Officer
So maybe I'll take the first question, and Julie, you take the second. I think, yes, I think Wholesale - first of all Wholesale will continue to play a very important role. I'm a believer in Wholesale as a driver of image, as a great way to position our product in the context with others, with the reality of what the market is, in the efficiency that is given by the results that Wholesale informs us with. So Wholesale will continue to be part of our strategy.

There will be - as we go through some realignment, there will be a, as you said, a small decrease over the first couple of years. I expect that as we phase out through that I expect that after that it will become an opportunity for growth.

. . . .

Julie Brown, Chief Operating & Financial Officer
Yes. Thanks, Warwick, for the question on the restructuring charges. So we'd expect the majority of the restructuring charges to be cash linked or cash related. This is largely because we're dealing with employee type costs, onerous lease obligations and also retention type awards. So the majority of it will be cash.

We've given the re-phasing of this all together - and it largely relates to the fact that we've accelerated the programme. We've increased the amount that we're committed to delivering from £100m to £120m. And the third element of the change relates to the change in the rationalisation of the distribution towards luxury, and that comprises the total charge.

. . . .

Elena Mariani, Morgan Stanley
Hello, good morning - two questions from me. The first one, going back to leather goods and your focus on that category, as you correctly mentioned in the presentation, it's quite a competitive segment because margins are very appealing. And if I understand correctly, in the medium term, you plan to outgrow the market, and therefore, to gain market share. How do you expect and plan to differentiate yourself in this very competitive environment? And who are the players you think you could gain market share from? This is my first question.

And the second question, mostly for Julie. Thinking about the building blocks that you've laid out, could you perhaps share with us the expected medium term, let's say, five year margin target that you would imagine, let's say, in 2023, thinking about the high single digit top line, all the savings and all the investments? So if you have something in mind that you could share with us. Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
So first, leather goods, you know first of all Burberry has been a brand that has been capable, while it did start in - has its founding and its origin in apparel, Burberry has been one of the few brands that has been capable of creating already a significant leather goods business. The business is significant, it's a legitimate business. The customers are coming to us for leather goods. So we're starting from a pretty strong position for an apparel brand. So it is about accelerating that.

We have also seen that over the past few years, leather goods has been outperforming other categories for us. So we're on a great trend there, and we want to continue on that trend and we want to accelerate.

We are convinced that we have the teams from design to merchandising, product development in the stores where we will reinforce the capabilities in the stores to sell and to explain leather goods. We think we have the teams to do it. We have the means to do it. We have a great network, again, physical and digital, that we can play with. We're going to increase the presence of leather goods in our stores. We're going to structure the offer.

So it's not an overnight thing obviously, it's not being done in one season. Even though I think we already have in the pipeline some very interesting products that will come out as we move on to next year. But we have, as I said, we have the experience, we have the means, we have the assets to deploy it, so we're quite optimistic there.

. . . .

Julie Brown, Chief Operating & Financial Officer
So to the question on margin, we delivered a 16.6% margin in full year '17. And what we expect to happen is in this first phase of the transition, as we've got the restructuring of the distribution channels, the cost savings will support the profitability during that period. But then in the outer years, obviously we've done five year modelling over this, in the outer years we'd expect to see a margin which is around 300 basis points higher by five years.

What we're thinking about here, though, is it largely will come as the sales accelerate. So not only have we restructured the cost base, which we're doing in the first three years, but we'll also get the leverage from the sales line, which we expect to be high single digits in those outer years, those outer three years of the plan. So net-net, we get the leverage on the cost-saving restructure benefit.

Probably important to say as well that we will also get an EPSA, adjusted earnings per share improvement coming through the tax rate and obviously through cash distributions.

. . . .

Thomas Chauvet, Citigroup
Good morning, two question, one on capex, one on cost. On the capex, obviously, you have a greater focus on investments with a step up to about £200m in the medium term, can you elaborate on what the extra capex will be spent on - I understand it's distribution, but can you be a bit more specific on that extra £50m versus normalised capex?

And I was also wondering why is the capex not stepped up next year, why does it increase only in March 2021? And does that - how do you think, Julie, about your share buyback programme once it's over - given the step up in capex?

And secondly, on costs. If I remember correctly, underlying cost inflation at Burberry has been, in the last few years, about - or you were guiding for about 5% underlying cost inflation, it was about start to slow down to 3% or 4%. You said in the past, wages and rents would still be the main drivers of inflation in cost. In your transition phase '19 and '20, how should we think about cost inflation underlying, and then, obviously, in the outer years FY'21 - '23, when margin is going to be increasing? Thank you.

. . . .

Julie Brown, Chief Operating & Financial Officer
Yes, I could take these. So first of all, in terms of the capital expenditure, the reason - the bulk of the spend, the increase in the spend is being driven by support for Digital, as Marco outlined in the presentation, and also store refreshes and refurbishments. And we expect the refurbishment programme to really step up towards the end of the second year into the third and fourth years of the financial plan that we have.

Largely because, clearly, we're currently undergoing a creative transition with the change in our Chief Creative Officer and therefore, we phased it according to allow that to take effect.

We will be doing store refreshes, so you will see some change there, but the larger programme will really kick in a number of years later. It takes a while to plan these things, as I'm sure you appreciate. So that's on the capital expenditure.

In terms of the cost and the sort of underlying inflation on the cost base, it's running at around 4% at the moment, and we anticipate it staying at around that level going forward and that's what we put in our overall modelling assumptions. A combination of obviously salary increases; we've got a large presence in Asia, which impacts that. And then the other factor, of course, is the lease renewals, which are also based on the rates we're achieving at the moment. Okay, thanks.

. . . .

Zuzanna Pusz, Berenberg
Hello, I have two questions, please. First of all maybe on the Retail experience, I mean, just to understand - I understand it's a big part of the strategy as well and you've really spent some time at Burberry, so I'll be just interested to hear what you think needs to be changed in Burberry stores? How do you see the overall Retail experience evolving in the industry? And maybe more specifically, when we could expect to see the new store concept to be presented?

And secondly, I'll turn to people, because you've mentioned this as an important area of focus for you. As a part of your strategy, you obviously plan to also focus more on omni-channel. And I feel like currently in the industry, let's say the incentive system doesn't necessarily encourage it for the sales associate to have their customers shop online. So I was just wondering as a part of changing the business, do you also plan to change the incentive systems for the sales associate, or any changes to the KPIs of the employees? Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer

Well, in fact, the customer experience and refreshing the customer experience is an important part of our plan. In Digital, we're already taking steps; Digital is perhaps the first gateway to the brand. As we know customers inform themselves primarily through Digital even before they push the doors of our stores.

So there, we have already made an important renewal in our website, and we're working to even a bigger renewal of our website coming at the beginning of next year. There will be more content, there will be an approach that will be much more curated, the offer will be tailored for Digital. So we expect that to be quite an important step for us.

In terms of the stores, the physical refresh of the store is an important part, but it's not the only part. As we said, we will start with refreshing. That will happen fairly soon, actually at the beginning of next year again. And then we will move on as we laid out in the plan, with deploying a new store concept as we move on towards the end of the second year and the third year and onto the rest of the plan.

But there are many other actions that we're implementing, working with our teams; working as well, as we said, with our managers and our associates in really developing client telling today. And we are preparing the tools, the digital tools for them. Some of them are being deployed now. We are already quite ahead in those initiatives. Others will be deployed over the course of the next years, to give them but the best tools, the most competitive tools in the market to client tell and to keep the communication and the relation with their customers.

Training is going to be another aspect that is fundamental for us. Because as we define and precise our positioning, there will be plenty of categories and interactions with the client to that we want to develop and that we want to evolve. So we have a significant training programme and ideas that will go in that area to.

In terms of the commission system, this is something that we keep always under review. It will be also reviewed as part of this process, it is being reviewed. As I said, Digital has been for us already a reality for a long time, so we have a pretty good head start in that. And Digital is today fully integrated in the mindset of our sales people since, I would say, for quite a while.

. . . .

Aurelie Husson-Dumoutier, Kepler Cheuvreux
I have two questions, please. The first one is how are you committed to the see now, buy now strategy for the next five years?

And the second one is what are you looking for in a creative designer, maybe to help us narrow down a little bit the profile that you're searching for?

. . . .

Marco Gobbetti, Chief Executive Officer

I'll start with the second, if you don't mind. As I said, the process is starting. And clearly, part of the process is defining the criteria that we think will be fundamental for us in a designer. But it's all we're going to say there. We are not going to go more in detail and speak about the criteria today.

The see now, buy now is something - we are deeply committed to the direct to consumer approach. It's fundamental today; immediacy is part of the way customers expect to access brands. So we are very committed to that. In fact, as we said in the presentation, I think Judy said it, too, we are thinking - the other element that is really changing is the velocity and also the continuous engagement with the customers. They don't expect any more to come and see two collections a year to come to the store a couple of times or four times a year. They want to find novelty very often. So - and this is physical and Digital, by the way, because now, they shop exactly the same way across the two channels. So our aim is to create more velocity in the way we go to the consumer and more frequency, in particular, with our deliveries.

So we will look to collections that will be more edited, but they will be more frequent either as collections themselves, or capsules, or initiatives in the product area, which will have, almost always I would say, a direct to consumer approach, because this is fundamental.

. . . .

Mario Ortelli, Bernstein
You highlighted in a very clear your strategy for brand elevation, but you've got an ambitious target to keep revenue and margin flat for the next two years. That is really ambitious, if I may. In these two years, you will find that many times a trade-off between the spotless implementation of your brand elevation strategy and not to lose too much revenues or too much profit in the short term. What will you prioritise, the spotless implementation on the strategy or the short term point? Because, for example, you highlighted your gradual decrease or cut down of Wholesale door, but also wholesalers will order less to Burberry because it's changing skin and so they don't want to take many risk, just to make as an example.

The second question is about the role of ready to wear and creativity in your journey to reach this brand elevation. You envision a sharp creative change, like we have seen of Gucci, to create the wow effect on the customer. Will you envision more a gradual change of creativity that we will see in the ready to wear collection? Thank you.

And if I may, a last word, thank you very much to Mr Bailey to be great, frank and open in dealing with the financial community that many times can be very annoying. Thank you very much.

. . . .

Marco Gobbetti, Chief Executive Officer
So on the first part of your question, my immediate answer will be this is what they pay me for, to manage through this - exactly through this - through the balancing of

decisions that need to be long term with a sound and disciplined approach to results. You know this is a public company, and we have shareholders that expect and will receive good remuneration from their investment.

So we will - we have a plan; we think we have a plan that is based on, as we said before, on reviewing some investments in reviewing, in part, the Wholesale distribution; a marginal, perhaps reduction of space as we align our Retail distribution, be that in mainline or in outlets and a cautious approach to growth because we know that we're going through a creative transition. I have been through a couple of those. I know that it's a period where we need to manage very finely the business, very, very carefully and very precisely.

So the long term direction is clear and we will work on the long term direction without hesitation. Clearly, we will look at the context, we will look at the phasing, we will look at the general context of the market - but we will not lose sight of what is our overall ambition.

In terms of creative change, I - we start, as I said, from great assets, okay some great assets that certainly other brands have, in terms of heritage or in terms of other assets, but we also have categories that are really iconic here and products that are really iconic.

So we have a large customer base. Burberry is one of the - in terms of the brand awareness, is one of really the top, top, top brands. So we have no intention of alienating our customer base. We want to take that base on our journey with us. They demand more fashion, they demand more newness, and this is the aim we will have in there.

At the same time, we know that we have an opportunity to capture some customers from other players, and we will do that through a new creative vision that will look at the whole offer of Burberry comprehensively, but on the basis of categories and areas where we already have strength and where we want to absolutely continue with that strength, so that our customers will find themselves within the new creative vision.

. . . .

Charlotte Cowley, Vice President, Investor Relations
Just last one, I think I'm very mindful of time. So, Rogerio.

. . . .

Rogerio Fujimori, RBC Capital Markets
I think you articulated that in the outer years you see scope for margins to go up from 17% to 20%. Do you see scope within that plan for gross margins to go higher, Burberry gross margins are very high, similar to Hermes, so within this plan, do you see the need to invest more on products who offer the value for money proposition to gain market share? So that's my first question.

And then my second question is that, within this plan, given your focus on leather and more space in stores for leather goods, do you see the Accessories component in the mix growing from 40% closer to half of the Group sales given this focus on leather? Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
Maybe I'll start and then - you know as we laid out, we think that there will be meaningful margin expansion in the outer years. That will come from a number of areas obviously, growth being one, some pricing power that we will have and the different playing moving parts, geographical mix, product mix and all of that. So we think we have that opportunity and we have built it into our plan.

Leather goods, as far as leather goods are concerned, as we said, we think the leather goods will outpace other categories and can grow faster than other categories. We don't have a specific number that we're going to guide you to in terms of the share of Accessories actually you're talking about, all Accessories I believe.

I think we have, certainly, strength and potential, potential for growth significantly in the leather goods category, being large leather goods or small leather goods, in some new Accessories, in shoes, in custom jewellery. Those are opportunities for us. They are also traffic drivers, and we're very mindful of those areas which are fundamental to attract new customers.

And we think that we can keep and develop on our leadership in the soft Accessories, which are for us very important. And they can contribute marginally, but they can contribute also to the growth of the category overall.

. . . .

Julie Brown, Chief Operating & Financial Officer
I mean, just add to Marco's comment on the gross margin, the specific question on the gross margin, there are a number of factors within this, but broadly, we would expect this to be broadly stable. We've got the geo mix probably going in the favour of the gross margin obviously through expansion in Asia. But also, we've got a product mix factor going on in the move more towards fashion. But when we've looked at this in some depth, broadly, the financial guidance would be that the gross margin will be broadly stable.

. . . .

Marco Gobbetti
Thank you very much.

Applause

. . . .

END

DISCLAIMER

This transcription has been derived from a recording of the event. Every possible effort has been made to transcribe this event accurately; however, neither World Television nor the applicable company shall be liable for any inaccuracies, errors or omissions.

Tel: +44 (0)20 7243 7350
Email: askus@world-television.com

World Television Ltd
18 King William Street
London, EC4N 7BP