BURBERRY

Burberry Group plc

First Quarter Trading Update

Wednesday, 12th July 2017

Julie Brown, Chief Operating and Financial Officer

Good morning and welcome to Burberry's First Quarter Trading Update conference call.

Before I begin, I would like to say how delighted I am to be working with Marco Gobbetti now that he has taken up his role as CEO.

Marco comes to Burberry with a wealth of luxury industry experience and I am excited to be working alongside him and Christopher as we position Burberry for a great future.

I will make some brief comments on this morning's announcement and there are some slides to accompany the call, available on the IR section of our website. I'll cover three main areas: first, an overview of our retail sales growth by region; second, our progress against our five key pillars: and finally, the outlook.

With me this morning is Charlotte Cowley our Head of Investor Relations and we will be happy to take your questions later on.

So, first our Q1 retail revenue performance. Underlying revenue was up 3% at constant exchange rates and up 13% at reported exchange rates to £478m.

Comparable sales were up 4% driven by volume. Mainline footfall remained challenging but this was offset by improvements in conversion.

Timing of store footprint changes meant that our net space was down year-on-year, which reduced revenues by 1%.

Turning to retail comp performance by region: first, Asia up a mid single-digit percentage, improved from Q4, driven by Mainland China which delivered mid-teens comparable sales growth as Chinese consumer confidence continued to rebound.

Hong Kong where we are pleased footfall trends have improved with growth in the numbers of travelling Chinese customers entering the market.

But Korea our third largest market in Asia declined again, as we continue to be impacted by the macro environment.

Second, comparable store sales in EMEIA grew at a high single-digit percentage. The UK continued to lead the growth albeit the sales trend decelerated towards the end of the quarter as we anniversaried the significant depreciation in sterling in June 2016.

Similarly, across Continental Europe spending from travelling luxury customers softened with particular weakness in Italy. And in the Middle East remained challenging principally due to the macro situation.

Finally, by region, the Americas, declined by a low single-digit percentage. The strong US dollar again negatively impacted both local and tourist spending in the US. Conversion continued to improve due to a very successful Burberry Private Client programme, which partially offset the decline in footfall.

By product, in mainline stores, fashion again outperformed replenishment as we see an industry increasingly driven by innovation.

By category, accessories again outperformed, led by bags, which were up by a mid-teens percentage in the quarter.

Customers responded positively to our new DK88 bag, which was our number 4 best-selling shape in the quarter. And we continue to have great success with our new Tropical gabardine trench coat.

Looking ahead, we have a strong product pipeline with smaller DK88 bags and a wider colour range as well as new innovations in soft, outerwear and leather building in the second half.

Now I would like to update you on our progress against our five strategic pillars. First under Product, with the industry being driven by fashion and newness, we have focused further on increasing the visibility of this product. We reduced our number of SKUs in our May market by over 10% on top of the 15-20% reduction last year.

Not only has this allowed more prominence to the fashion components within our collection, but it has also improved the consistency of product globally and enabled our stores to buy deeper, improving overall stock availability.

We are also pleased that the transition of Beauty to the strategic partnership with Coty is progressing as planned and still expected to complete in October.

Secondly, under Productive space, conversion improved in all regions and spending from our top customers again grew reflecting our investment in Burberry Private Client, an expansion of our Customer Value Management programme and increasing the numbers of appointments year-on-year.

We introduced a new POS system in the UK, which benefits our travelling customers through point of sale processing of VAT refunds. The rollout of this system will continue across EMEIA through the year.

Thirdly, under e-Commerce, we are benefitting from our early entry into Digital at three levels: first, our Digital presence increased our marketing reach and engagement with the Burberry brand.

Second, we were one of the first luxury brands to build a global e-commerce platform.

And third, by leveraging the wealth of data collected in recent years, we have significant analytical and customer intelligence to inform marketing decisions, and enable us to deliver more focused and targeted campaigns.

For example, the Burberry App has now launched in five countries and the technology allows enhanced interactions with our consumers, an improved brand experience and benefiting from our data, we are able to deliver a more personalised story telling experience.

With over 70% of our retail sales now influenced by digital we will continue to invest and develop our omni-channel proposition.

In this quarter, our direct to consumer e-commerce business continued to grow. Mobile again took share, now accounting for 40% of direct to consumer revenues up from 30% last year. And we again saw benefits of enhancing our localised China site with sales more than doubling compared with the prior year.

Fourthly, under Operational Excellence we are on track to deliver £50m of cumulative cost savings this year, as previously guided.

The establishment of Burberry Business Services in Leeds is progressing on schedule and will begin to be operational from October.

We implemented a new product lifecycle management tool at the end of June that will enable commercial and operational benefits through the more timely development of products, increased automation and enhanced vendor and supplier collaboration.

And finally, under Inspired People, we launched an ambitious new five-year responsibility strategy, Creating Tomorrow’s Heritage, including the establishment of the Burberry Materials Futures Research Group at the Royal College of Art.

And we continue to strengthen the leadership team with new hires in the quarter in strategy and the Americas as well as adding the experience in technology and product that we discussed with you previously.

And just to update you on our share repurchase programme, we’ve completed the remaining £50m of our initial £150m buyback programme and we will shortly commence the £300m that we have committed to execute by the end of March 2018.

Now turning to guidance. There is no change to our outlook for retail space or licensing revenue compared to May. However, we now expect total underlying wholesale revenue in the first half of FY 2018 to be broadly flat, reflecting less business disruption in Beauty than we had previously anticipated.

In the second half of the year, however, we now expect wholesale to be negative. This reflects the transition of Beauty to a licensed business model and we also expect wholesale excluding Beauty to decline at constant exchange rates due to ongoing brand control.

On adjusted PBT, our guidance for FY 2018 at constant currency is maintained. However, taking 30th June exchange rates, we now expect currency to be a £25m headwind - a touch less negative than the £30m headwind based on exchange rates on 28th April.

And finally, in terms of our outlook, while we are pleased with our performance this quarter, it is our smallest quarter and the comparatives get more challenging from the current quarter onwards; in particular as we annualise the exceptional growth rates seen in the UK last year following Brexit and sterling devaluation.

In conclusion, in an industry increasingly driven by fashion, we are encouraged that our newest product is resonating well with customers. Our senior management team is now in place, with Marco taking the position of CEO earlier this month and new talent recruited to complement our existing teams.

We have much more work to do as we continue to focus on our brand, our product and the execution of our plans to capitalise on the opportunities ahead.

And with that, Charlotte and I would now be very happy to take your questions. Thank you.

Q&A session

Question 1

Elena Mariani, Morgan Stanley

Hi, good morning all, a few questions from me please. Firstly on your regional trends how would you explain your deceleration in Continental Europe, do you feel it was related to Chinese customers purchasing less? And which differences did you see across countries, you mentioned Italy being more difficult but how about France and other countries? And overall on a global basis how did Chinese spending compare with your previous quarter please?

Secondly, on the UK what exactly have you observed in the last couple of weeks? What is a more normalised level of like for like that we should expect from this country going forward, given the very challenging comp space? And can you remind us of the tourist versus local purchases split in this country please?

And finally, on your wholesale guidance if I'm correct it is unusual for you to give guidance on H2 early on in the year, could you give us some more colour around it? Is this reflecting a different view on wholesale distribution from the new CEO perhaps? And could you broadly quantify this decline, are we talking about a low single-digit decline or a more meaningful one? Thank you.

Julie Brown, Chief Operating and Financial Officer

Okay thank you very much I’ll just take those questions in order. So in terms of Continental Europe the biggest factor in Continental Europe was certainly Italy and here we anticipate, we haven’t seen other people’s results yet but we do anticipate that there is some competition there coming from some of the other brands where Italy is the home market. So there is a factor there.

The second thing is with regard to France we did see a strong rebound in France in the fourth quarter of the previous year, probably because it was annualising the terrorist attacks in France in the previous year to that we did see a rebound in France. That has become more subdued in our first quarter effectively which we believe is a macro trend.

And in terms of China I can some back to Chinese spend, I'll come to Chinese spend globally and then reflect on the distribution. So in terms of Chinese spend globally we saw a very similar trend in the first quarter to that that we saw in the second half of the previous year. So very similar. We're confident about Chinese in terms of consumption levels, it continues to be positive and we've seen a continuation of the trends and it was broadly Q1 was the same as second half last year.

In terms of China and where the Chinese are spending we've seen strength in mainland China. It's been more pronounced than it has been regarding tourists both in the UK and in Continental Europe.

So moving on then to the question about the UK and the last couple of weeks in the UK, probably important to split the UK between the tourists and the locals. So in terms of the tourists what we saw is in the last couple of weeks of the quarter because we were up against some very, very stiff competition, Comps I should say because of the sterling depreciation, the UK decelerated relating to tourist expenditure because of those growth rates being very high in the previous period.

In terms of locals the local population in the UK remained very strong and in fact increased during the course of the quarter towards the end. So the local UK is very strong, the tourists because of the comps have weakened, decelerated at the end of the period.

And then finally moving on to wholesale; as far as wholesale's concerned we don't normally guide on the second half but because essentially we've got line of sight at the moment for around about 70% of our order book, it closes in September, but because we've had an improvement in the first half relating to Beauty we wanted people to be aware that we will continue to do brand control activities as we highlighted really with our full year results, we'll continue to do brand activities in the second half, particularly in the US, and therefore we do expect to see a decline in wholesale in the second half.

You mentioned is this to do with Marco joining the business, the answer to that question is no, this was something that we were embarking on, as you know, over a number of years and you definitely saw us doing it in Full year '17 and we'll continue to do that in the second half of FY 2018.

Elena Mariani

Thank you just a couple of follow ups; is it possible to quantify this decline? Are we talking about low single-digit decline, high single-digit, if possible?

And then secondly, I didn't really understand the point about Italy and the competition from some local brands, did you mention the fact that some local brands were stronger than other brands? Thank you.

Julie Brown

Okay so just to explain that, the wholesale second half decline we would expect it to offset the upgrade that we've had in the first half. So we've had an improvement in the first half and basically we're saying we're expecting half two to broadly offset that. So wholesale for the year would expect it to remain broadly consistent with forecasts ahead of today.

Just coming back on Italy; what I was referring to really is some of the leading international brands where Italy is their home market we do expect them to be stronger although we've got no results at this stage. So it's just really what we're expecting to happen. It's a very diverse market as you know Italy and really nothing further to say on that.

<u>Question 2</u>

Thomas Chauvet, Citi

Good morning Julie, Charlotte, I've got three questions please. The first one on the improvement in LFL is it fair to think that it's been just driven really by the success of seasonal fashion, innovation, product, rather than replenishment? I understand product newness is key to drive footfall and conversion as you said but I'm sure you don't want your higher margin classic heritage trench coats and scarves business to disappear. So how did these categories perform in the quarter? Are they still negative overall?

Secondly, I had a question on the outlet business; how much of your retail sales were generated in outlets in the first quarter or more broadly where do they stand now? How did it grow versus your full price stores? I guess it's probably outperforming strongly.

And an extended view of outlets it's a natural clearance channel nevertheless it's growing nicely I think at industry level. The store count of your outlets is also increasing so it would be great to get some numbers and for you to, as Marco Gobbetti is joining, to give us a view on the outlet strategy.

And finally, on currencies and pricing with the dollar and Asian currencies having generally weakened versus the GBP and Euro in the last three months or so I was wondering whether you had any opportunity to pass on price increase in the US and Asia later this year? Thank you.

Julie Brown

Okay thank you very much. I'll take the like for like and the outlets and Marco. I think store counts Charlotte can take and then I'll come back on currency and the price.

So in terms of why the improvement in the like for like; we are very, very focused on retail excellence and productive space and we saw a good improvement in conversion and retention improved through the quarter.

The other highlight is we've seen strength in accessories, so the bags component has done very well again in the teens growth. And we're also seeing strength in fashion and newness. So we're really pleased about that.

As you mention we continue to have pressure on replen and heritage and this is because really the market is being driven increasingly by fashion and newness.

I think the other thing we're pleased about we've got some new hires in the business and whilst it's very early days we are increasing the talent in the business through a new chief merchandising officer. We've got Claudia Plant joining us from Net-a-Porter etc. and it's early days but we're starting to see an impact from some of the new talent mixing in with some of our existing talent.

So overall we're pleased with the comp but probably important to say as well that this is a small quarter and of the four quarters we were up against the easiest comparator base with this set of results. So I want to be completely open and honest about that.

In terms of outlets, there's nothing in particular to say in terms of the growth versus mainline. Clearly our strategy is very much focused on the mainline and improving productivity of space. Marco is joining the business as the new CEO, and clearly we'll look at the channel distribution across all the channels and how we use them. I think the main focus really is to ensure that the wholesale channel is complementary to the brand, and the image that the wholesale channel, in particular in the United States presents, is consistent with our retail presence, and that's really our biggest focus when it comes to channel utilisation. So maybe if Charlotte can take the stores and I'll come back on currency.

Charlotte Cowley, VP – Investor Relations

In terms of the store numbers and the space, Thomas. Actually we closed one outlet this quarter. As you know the plan, as Julie said, is predicated on focusing on improving the productivity of the mainline stores, so net reduction in number of outlets across the piece. Then in terms of the space piece, it really is just phasing, so still no change to our expectation in terms of space being pretty much unchanged by the end of the year.

Thomas Chauvet

With mainline stores I believe they're outperforming. Is it something you can comment on and elaborate really on what is driving the LFL between outlets and full price stores? It feels at industry level that the consumer is more and more reluctant to pay at full price, be it in the wholesale channel or even in retail or even online. Is the outlet outperforming meaningfully mainline stores in Q1?

Charlotte Cowley

Thomas, we never talk about the difference between the performance of the outlet and the mainline. You've seen our comment that we're pleased that conversion is improving in our mainline stores, retention is improving in terms of our customers returning and repeat spending for us in mainline stores. So that's clearly where we're looking to grow the business.

Julie Brown

Just coming back on the currency. As you mentioned, the Euro at 30th June was down to 1.15 to Sterling, and the Chinese Renminbi was down to 8.80. We continue to review this as you know, Thomas, against our global pricing architecture on an ongoing basis. We made some serious changes to prices last year. We've got the indices now, we index all the major countries against the Sterling price, and we're broadly in line with where we want to be. There may be some adjustments later in the year, but it's going to be nothing of the order of magnitude that we saw in 2016/17. So nothing really to report on that.

<u>Question 3</u>

Helen Brand, UBS

Three questions from me. I guess first of all from Marco's perspective, what's his first priority now he has taken over the CEO role for the next few months, and are there any early views from him on the Asian business that perhaps you can share with us?

Secondly, the online business clearly has been growing pretty fast in Asia, helped by the website re-launch in mainline China. But can you give us more colour on the growth rates in EMEIA and the Americas? And do you have any plans to perhaps start disposing this number given how channels are shifting in the industry at the moment?

And finally in the release you talked about newness is H2 which I think will be targeted across the trench, scarves and leather. Can you give us any more detail around what we should expect in terms of newness in the second half and how that can drive comp?

Julie Brown

I'll take the question about Marco, Charlotte's going to take the question about more colour on the growth in Europe and America. And then I'll take the newness and fashion point.

I've spent quite a bit of time with Marco. I think he really feels that we've got great people with real energy and a commitment to change, and we both had exactly the same impression joining Burberry new. There is something incredibly special about the Burberry culture and people's energy and commitment to change.

In terms of the areas that he's identified, I think we're all very focused on the newness and fashion, and we expect that to move more and more into our commercial product offering. His focus very much in Asia has been on ensuring the stores are appropriately merchandised and laid out so that the customer can see the new product and have a true luxury experience. We'll also continue to be very focused on retail excellence, ensuring that our staff have the appropriate training, and also that we offer a consistently high level of service globally, even more so now that our consumer is so well informed. Likewise, we're also continuing on the agenda of simplification, simplification of the ways of working and simplification of the organisation overall.

So in summary, Marco has spent a lot of time with the Asian teams. He's been a very active member of our Senior Leadership Team and has been involved in the decisions in that forum. I know our Asian Team have been very energised by working with him, and his particular focus has been productivity, merchandising, and also the store concept and the store layout. So with that, I'll hand to Charlotte on the...

Helen Brand

Julie, may I just follow up quickly. You didn't mention the US there in terms of priorities. Is that something that Marco's going to be looking at going forward? And just in terms of the US, how is he thinking about the right distribution footprint for Burberry in the US?

Julie Brown

I didn't mention the US because he hasn't been able to go to the US until he was becoming the CEO. But I have to say that on his first day as the CEO Marco went to the US, so I think that probably tells you how important he sees that market. He's already visited our department stores and our offices in New York.

We see the US as being really important. We expect a continuation of some of the things we've talked about with you already in May. We see wholesale as important to us. It's a very, very good opportunity to introduce a luxury consumer to the Burberry brand because they can see multiple brands in a department store. But at the same time with the heavy discounting that's occurring in the US, we're very focused on ensuring that the inventory levels that go into the US wholesalers, the sell in and the sell out matches. We've put a lot of emphasis on the data that we're collecting from our wholesalers to ensure that that is the case. We're also very keen to ensure that our brand is presented in a way that's consistent with the retail channel. I think Marco will continue, he'll spend more time in the US I'm sure and in Europe, which is the two regions he hasn't been able to spend time in to-date. Then we'll further the strategy on that basis. Charlotte, over to you for the second one.

Charlotte Cowley

On digital, I think we're unlikely to strip it out of the number on its own. Very much seeing that continued focus on omni-channel. As you know, the stats we've been sharing with you is about 70% of our retail sales are influenced by digital, but clearly it's a much lower percentage as direct revenue. Pleased that the direct to consumer business is growing, and you can certainly see the shift in terms of mobile now actually being a true channel there rather than just being used for research, so people now shopping on mobile. So seeing us to continue to invest in that channel. On regional performance the Americas certainly has been impacted, as Julie's been articulating, in terms of the standalone store business in physical retail as much as digital.

Julie Brown

Just coming back on the final part of the question relating to newness. The focus, which will come up in the autumn, is continuing to rollout the bag range with extending the DK88 range. So we'll go into the market with a smaller bag. The DK88 at the moment is quite a large bag. We'll move into smaller bags, and also a much wider colour range and innovation around colours.

The second major area relates to soft, which is predominantly scarves. Outerwear is also going to be a focus, and continuing to build the leather franchise from the second half. So yeah, we've got a lot of innovation coming your way. The wholesale has in looking at the May market, we're very excited about it and we'll continue to roll those out in November and possibly a little bit earlier than that. A lot of excitement around the showroom. The showroom was fantastic. Speaking personally having seen it, it was fantastic.

<u>Question 4</u>

John Guy, MainFirst Bank

A couple of questions please. First of all just with regards to the LFL, can you split out the volume and value components from the LFL? I'm assuming that the bulk of the growth has come from volume over value, but just if you could provide the details that would be great.

Julie, your comments around taking effectively more control, over the wholesale distribution you highlighted the US where there's probably more work to be done. But could you also comment on Europe. I appreciate that the Asia business is more highly skewed towards retail, but if there's anything within the wholesale channel there that needs to be looked at as well, I'd appreciate any further comments there to start with.

Julie Brown

In terms of like for like, the growth was all coming through volume. There was a small negative on price, predominantly relating to the price reductions largely in Asia that we took in full year 2017. We don't give the specific split of price and volume, but basically we had a small negative on price, and overall very good increase in volume in the like for like comp of 4%. As you know space was -1, taking the underlying growth rate down to 3%.

In terms of wholesale distribution, the focus is very much on obviously our brand is our biggest asset, and ensuring the brand is presented in a uniform way across the world. So no matter where it is in the world where we see that not occurring we would take action. But in terms of by region, the big focus predominantly is on the US, because this is where we've seen how the discounting and the presentation of some of those brands in the department stores, where they will put them on racks at the top of elevators with discount signs over the top of them, we don't want to be tied up in some of that activity. So it's really been predominantly controlling where we are with US department stores to ensure it's presented fairly and appropriately to the retail arm.

John Guy

So Julie, maybe just on that. If wholesale in the US is what roughly just over 30% of the business, do you expect this to halve over the course of the next three years? Can you quantify the size of the rationalisation within the US wholesale that's likely to happen?

Julie Brown

The split in the US at the moment is 70/30. You did ask the question as well about Asia where it is 90/10 in favour of retail. In terms of the US, we haven't put a specific number on it, and it really does depend on the interactions and I guess the level of consistency in terms of where the wholesaler wants to take the business, so we haven't put a specific number on it yet. But we're clearly working with our partners to ensure the brand is presented properly. As I mentioned on the call, wholesale is still a really important part of our business, it's still a really great entry point for the luxury consumer, and we've got some great wholesale relationships. So I think it's just going to depend how that all develops alongside the US macro situation.

Question 5

Luca Solca, Exane BNP Paribas

I have a specific question on the design partnership that you have with Gosha Rubchinskiy. I wonder how satisfied you are, and if you envisage more of that in the future to support newness and innovation?

Julie Brown

Yes, we were delighted. It's something that Christopher had been admiring his work for quite a while and I think we were delighted to be offered the opportunity to be able to do that. It is really all about I think using some of the traditional heritage Burberry check, but using it in a very innovative... so it's basically about reinvention of some of our core icons. So we've been really pleased with how that collaboration has worked.

We really like partnering with people, with brands and companies that we admire, and we've also done that with other digital initiatives, for instance with Apple, Snapchat and Twitter, and it's a really exciting time for design and creativity to allow these partnerships to build and to foster authentic relationships. We expect this collaboration with Gosha to be a one-off. The next real new collection will be coming in London Fashion Week with our September show.

Question 6

Erwan Rambourg, HSBC

I was wondering if you could mention Korea, because obviously Korea's been through a lot notably in terms of travel bans from China, but I believe that's been lifted. I'm just wondering if you're seeing a bit of a pick up in Korea?

I have another question on Asia relative to the Hong Kong situation because things seem to be stabilising for the sector and for yourselves there. I'm just wondering if that has positive margin implications relative to possibly rents coming down now, after three and a half years of a tough situation hopefully the landlords are becoming a bit more reasonable.

Then thirdly, sorry to labour the point that Thomas Chauvet was making, but obviously I'm probably under the influence being based in New York now, and having been to Woodbury Commons recently and to your 57th Street full price location, what do you think is the appropriate footprint in terms of outlets versus full price? You're higher than the Continental European brands in terms of footprint, obviously you're much lower than the value for money American brands. What's the appropriate level to be at? I think Charlotte mentioned that you had closed an outlet recently. Where was that and what's the plan for the upcoming quarters?

Julie Brown

In terms of Korea, we actually had exactly the same result in Korea in the first quarter as we had in the fourth quarter of last year. Although the ban has been lifted, what we still see is basically macro sentiment in Korea has still caused a depression in sales. The moderate decline started in the third quarter, moved to be more serious in the fourth, and it's really continued into the first. So we haven't seen an improvement as yet, but I think we should see it going in the right direction. In our business in Korea it is 95% domestic, so it's largely sentiment that we believe is affecting this.

Moving to Hong Kong and the question you raised about Hong Kong. Hong Kong has definitely shown an improvement. We had quite serious negative results at the beginning of 2016/17 financial year in relation to Hong Kong, and we've seen a definite improvement in the first quarter. It's now just very, very marginally negative, broadly flat we would say with Hong Kong. There are two factors within there. One is relating to price, because we did reduce Asian prices, so we've got a price headwind that we're currently encountering in the Hong Kong business. But we are seeing generally changes in footfall which has improved, and conversion has been on an improving trend generally over the course of the last 12 months. So we're more optimistic about Hong Kong just in terms of overall.

In terms of the rents, we're not expecting any significant changes in rents. We had some very positive negotiations during the course of ’16/17, but no significant changes in rents now anticipated. That's all been built into our PBT guidance. So no change to margins with regard to that. And with that, I'll hand to Charlotte to talk about the footprint.

Charlotte Cowley

In terms of footprint, I've seen some assumptions in terms of outlet percentage of the business that I think that are higher than we see. So that's the first point. Then second point, there's one that closed within Italy in the quarter, and I would expect maybe one or two other closures as we go through the year.

Erwan Rambourg

And the appropriate footprint eventually? If you have 20 or 22 locations in the US and Continental European have anywhere between 6 and 13/14, do you think you should go to that level eventually?

Charlotte Cowley

I think I'd refer back to the comment that the plan for the business is to improve the productivity of the mainline stores, therefore improve our full price sell through in those mainline stores. Outlet is used as clearance. If you improve your productivity of your mainline stores you've got less product that needs to go through the outlet channel so you should see it reduce, but I don't have a firm number to put on it today.

<u>Question 7</u>

Warwick Okines, Deutsch Bank

Good morning, I'm afraid it's three actually. Firstly, why do you think the consumer is so demanding for newness in fashion right now and why in particular do you think that's not translating into stronger Apparel performances for you?

Secondly, are the comps actually getting much tougher? You referred to that twice Julie, but as Q1 2016 was actually the last of the really strong mid-single digit growth rates, so on anything beyond just looking at one year the comps actually don't get any tougher.

And thirdly, what changed in May and June that explains your guidance change in Beauty in the first half? Could you just explain that less disruption that you're seeing? Thank you.

Julie Brown

Okay, sure. So in terms of newness in fashion and the consumer demand as to why it hasn't really impacted Apparel as yet, I think what's happening generally is the majority of luxury customers now have established a wardrobe that they're comfortable with, so they tend to have a full range of clothing, and what they're looking for is something that really brightens that up, provides some sort of spark and inspiration to them. So they're really looking for something that feels fresh, looks new, and in particular we see this trend with the Millennials.

We see it in our own results in terms of the growth rates that we see between fashion and replan, and we've also seen it with particular examples within our range. So within our range for instance of trench coats what we're finding is that the growth rates in heritage have slowed considerably but where we're finding very strong growth is something like Tropical gabardine, and in particular the Haughton style is doing extremely well. So the lighter weight fabric, it's got a sheen on it, if you've seen it, Warwick, and also the design, the design is sort of very fresh. So I think that gives you an indication about what people are looking for going forward.

In terms of coming through into the results with Apparel, what we've definitely seen is that the Leather Goods segment is performing better than the Apparel segment generally, I mean there could be a whole series of reasons for this. One is probably linked with discounting in the US, which is more so in Apparel, but generally what we've found also with the luxury data from the Bain studies is that whereas the market was flat in full year '16, Apparel actually declined by minus four, so generally I think Apparel is more adversely affected by market trends.

In terms of the comps getting more difficult, the question you raised about that, we were really referring to the growth rates that we posted in comps last year, so we had to the quarter June 2016 minus three, but then the September, December and March quarters were positive in the 2% and 3% range, so it was minus 3, plus two, plus three, plus two, so we're really just flagging that we were up against the weakest comp of the four quarters, is really what we're flagging.

Warwick Okines

But my point Julie to that sorry, talking about two year stat comps, the reason why you were minus three in Q1 last year was because it was up against the only good quarter from the prior year.

Julie Brown

Yes, plus six. It is a feature, but I think generally when we look at the trends, so for instance if we take China as an example because we've got a large part of our business with the Chinese consumer, we have seen considerable weakening in China in the first half of full year '17, similarly in Hong Kong, and they're becoming stronger. So that's really why we're just referring to the trend as to why the comps are going to start to become more challenging. It's also fair to say that Q1 this year is obviously a small quarter, last year Q2 was boosted by Brexit and sterling devaluation.

Now, I'm keen to answer the final question you had as well which was relating to Beauty and the change in the guidance. As you know we've entered the partnership with Coty, as part of that, following the announcement that we did at the beginning of April we've been dealing with all the major distributors of our Beauty business, and at the stage when we gave the guidance at the beginning of May there was no way of really knowing fully how each of them would react. Some of them could decide to just sell down the product that they have, some could basically take the licence with Coty and continue to order the stock, and we didn't know exactly where it would land. We expected some level of disruption, when you're going through a change of this order of magnitude we expected some level of disruption, and we really haven't had it at this stage. So basically that's why we changed the guidance from Beauty being slightly negative to being flat.

Warwick Okines

So if I understand that correctly that means that you've had more success with the major distributors continuing the relationship than you had expected?

Julie Brown

Yes, we have.

<u>Question 8</u>

Mario Ortelli, Bernstein

Good morning. In your press release you allied that footfall remained challenging. Have you seen any difference from region to region and geography to geography?

The second question is about customers. It seems that you're increasing the conversion very well, your top customers are driving the growth, but what about sourcing new customers? It seems that your focus on extracting value from the existing clientele is working very well, but probably the footfall is declining, you are not so focused in sourcing new customers. Am I right or wrong and what are you doing to address this point?

The last question is about markdowns, if we take the first quarter total sales the incidence, the share of markdown revenues, is higher or lower than in the previous year? Thank you.

Julie Brown

Okay, thanks Mario. So if I take footfall and also customers and Charlotte can maybe take the markdown question. Yes, so in terms of footfall across the geographies, clearly the market where we have the greatest challenge with footfall, which I think is a macro factor, is really around the US, and here we are still negative in the US regarding footfall but it improved in the first quarter compared with the second half of last year. So we have seen some signs of improvement there, but it is obviously a trend in the US, and I think on a macro scale this is clearly what's led to the wholesalers engaging in discounting to get the footfall up in the department stores. So overall we see an improvement in the US.

As you mentioned, conversion is the thing that is driving the sales well, and this is really all to do with our focus on productive space and retail excellence. We're finding that the conversion stats are very strong with our top customers, and you're right in the sense that customer retention is positive, but new customers is where we need to do more. And you asked the question about what we're doing to address this: and what we're doing to address this is basically very much a focus on fashion and newness in the range, so very much a focus on product, and product innovation; secondly we are very focused on secure rationalisation, so that newness and fashion can show through in our stores; and thirdly, all around improving store layout to enable that fashion and newness to show through. And then finally, really to capitalise on that, it's all about attracting the traffic through the product and then converting that successfully to a sale with existing and new customers. So we're doing a lot to address this point.

Charlotte, would you like to take the markdown question?

Charlotte Cowley

Yes, so there's no real change in terms of sort of duration or depth of markdown this season as compared to others. As Julie's saying, we've been pleased to see that performance from the fashion portion of the business which of course is the chunk that ends up going into the markdown period, so actually we had less inventory going into markdown this year than we had last year and so it's the full price business that's been driving these numbers rather than markdown.

Mario Ortelli

Can I have an idea of what share of your total retail revenue in the first quarter is driven by markdowns?

Charlotte Cowley

No.

Mario Ortelli

Thank you.

Question 9

Julian Easthope, Barclays Capital Securities Ltd

Yes, many thanks and good morning. I've just got a quick question about culture. Now, as you rightly pointed out Burberry has a very specific culture about it and over the last year you've introduced a whole new strategy and then changed half of the operations board and senior management team, and also had a £100m cost saving that's resulted in quite a lot of redundancies. So I just wondered just in terms of what the mood is like now at Burberry, but also how the new Board is gelling, or new operations board is gelling, and if you could give some sort of initiatives of what the new team's actually brought with all their vast experience from outside the Group. Thanks.

Julie Brown

Okay, great. I think Burberry has undoubtedly got a unique culture. I mean when I first joined Christopher referred to it as a sort of Burberry family, and everybody firmly believes in the brand and the success of the brand and what we're here to do. We have brought a lot of new people in, I think we've also got a strong internal team and the idea is that we complement the strong internal team with people with particular areas of expertise. So examples of that would be Judy Collinson who's joined from Dior, she's now the Chief Merchandising Officer; Sabrina Bonesi who's also joined from Dior, she's the new Design Director for Leather Goods and Shoes; and we've also got Claudia Plant having joined from Net a Porter, one of the co-founders of Net a Porter, all around the brand experience. And that's in addition to recent hires that we've had in relation to our new US President, Gianluca, and we've also had a new CIO join from Unilever.

So I think in terms of what's happened to the culture as a consequence of this I feel that people are very energised. My own team is a great example of this, I've got 50% new people and 50% longstanding Burberry employees and they've gelled incredibly well and there's a real feeling of energy because of new ideas but also appreciating the heritage and what's great about Burberry. So combining the two you get an amazing combination.

In terms of what some of the new people have brought, most of the people we're talking about have only been here a few months so far, but Judy was already making her mark on the main market in terms of the way the product was displayed, in terms of the engagement with wholesalers, and also recently we've held a retail conference with retail leaders across the world, and again, the energy and passion for the brand and the belief in what we do is really, really exciting. Really exciting.

<u>Question 10</u>

Rogerio Fujimori, RBC

Hi, thanks. I have two quick questions. Was the growth for your Millennial customer base higher than Group average in Q1 and does this compare to the second half last year? So any qualitative comment would be useful just to understand how Burberry's performing with younger consumers.

My second question is on Women's, could you talk about trends relative to minus two underlying in the second half of last year, was there any improvement, given the success of Tropical gabardine?

And then in Americas your like for like was down low single digit and the US is the most important market, so would it be fair to assume that sell out in US wholesale is also down low single digit? Thank you.

Julie Brown

Thank you very much. So in terms of consumer groups we don't actually split it out publicly, clearly we measure it internally, it's one of our key metrics to look at consumer groups, but we don't give that information externally.

In terms of Women's, we still have some challenge in the Women's range broadly in the first quarter, this is largely relating to outerwear. Women's Tropical gabardine has done really well, we've sold out in many markets and some styles in particular like the Haughton style have done incredibly well; but overall in Women's Apparel it still continues to be somewhat of a challenge, which is very much where we're focused on the newness and fashion elements. It's also why we're excited about the new ranges that are going out in terms of softs, leather and outerwear that will be launched in the autumn and through to November. I am thinking though, having seen the new range in the May market that will start to hit the stores in November, I think there will be considerable excitement about that.

I think you had also a question on America and low single digit in America. Yes, I mean obviously our biggest market is Asia, so we've seen a strengthening of the Asian result over the course of last quarter to this quarter and we're now in mid-single digit range in Asia. In America we saw an improvement between the fourth quarter and the first quarter in America, and we saw a slight improvement in footfall. We saw again ongoing continuous improvement in conversion in America.

I think the thing in America is to first of all ensure the new product goes out there and the focus is on newness and fashion and innovation. Secondly, the work we're doing on the wholesale channel is very important here and ensuring the brand is consistently positioned. And thirdly, continuing the focus on Burberry Private Clients where the average retail value of a Burberry Private Client associate is twice that of a normal average sales associate, and we want to continue to really ensure we focus on productive space. Okay, I think those were all your questions Rogerio.

Question 11

Melanie Flouquet, JP Morgan

Yes good morning, thank you for taking my question. I have three actually. The first one is regarding the growth by consumer base. In the last quarter you were kind enough to give us growth by like for likes, by nationality, so I was wondering whether you could clarify what happened to each nationality, or the Chinese, the American and European that you did last time. And notably on the Chinese consumer you mentioned that it was the same average too which was I believe mid-single digit, but is that actually accelerated in Q4? It was my understanding to high single digit, so have we actually decelerated back? Would that be right? I just want to make sure I have the right numbers. And then if we could get an idea of the American consumer base since the tourist is actually stronger than local and the same for the Europeans once you strip out the tourist in Europe.

And the second question is on the sequential trend within the quarter. I'm sure you don't want to comment month by month but you're calling out a deceleration in the UK late in the quarter, so I was wondering whether you could actually let us know whether this has been compensated by an acceleration elsewhere or whether the exit rate was actually slower overall in the sequence.

And my third question is on the forex impact of £25m negative that you are guiding to for this year, how much do you expect in H1 and in H2 please? Thank you.

Julie Brown

Thank you very much, Melanie. So just taking those in order. In terms of the customer base, in terms of China we saw a similar trend in Q1 to the second half, but we have seen an acceleration in the fourth quarter. So overall our second half performance last year was a low single digit that transferred into a high single digit in the fourth quarter and now we're seeing basically the average of those two quarters, a mid-single digit growth percentage in the Chinese globally. It's probably important to say here that we've seen considerable strength in mainland China, so where the shopping has also changed we've had mid-teens growth in China as a country in the mainland, but it's been offset by reduced tourist flows in Continental Europe and in the UK, so that's the Chinese.

In terms of Americans: Americans for the full year last year were flat, we saw a slight downturn in the fourth quarter of 2017, and we've seen similarly a slight downturn also in the first quarter of 2018. So broadly flat last year but a slight worsening trend for Americans globally in the fourth quarter.

The other one to call out is the Brits. The Brits have been doing incredibly well, so we've seen an acceleration of growth quarter by quarter through the British, it was slightly negative at the beginning of Q1 2017, went into positives, went into double digits for the teens by the end of the fourth quarter of '17 and into now higher than that, even higher than that, so we've seen an ongoing acceleration in the British.

Just turning to the second question, because it's kind of linked with that, I just want to turn my attention to the UK performance and the split that you mentioned around the sequential trend. So I'll split the UK between tourists and domestics. So with regard to tourists they're about 55% overall of the UK business. We did see a deceleration in tourists towards the end of the period and so the growth rate started to come down and this is largely because we were annualising Brexit and we were annualising some very, very tough comps. Because of sterling being depreciated, obviously it was very attractive for people to shop in the UK, we saw an influx of tourists in the prior year and hence we've got really tough comps. So we have seen this deceleration which we expect to see that also in the second quarter.

The UK domestic market which is about 45% of our UK market overall has shown incredible growth and continues to show incredible growth, and in fact the trend of improving just continued all the way through this first quarter all the way to the end. So we're really happy about the overall sequential trend of UK domestics.

If I just turn my attention to foreign exchange, as far as foreign exchange is concerned we've got minus 25 for the full year. Splitting that out we expect to have a positive of 12 in the first half, largely as a result of sterling weakening in June 2016 and we expect to have negative foreign exchange impact in the second half in the order of minus 37. So that's the split of the number.

Melanie Flouquet

That's very helpful, thank you very much. Just to confirm, globally, sequentially, did you see a deceleration also in June or was this only UK and compensated by other markets accelerating?

Julie Brown

No, we haven't gone into the specifics of that. One of the reasons, just to explain, we can't really unpick it completely is because during the May/June period we also run the sale period, and separating out completely foreign currency, Brexit and markdown periods is very difficult to do, so just to put that into context.

Melanie Flouquet

But you're able to identify whether June decelerated overall. Well it did in the UK but did it globally?

Julie Brown

Melanie, we very rarely go into dissecting things month by month through a quarter, we have given you the extra colour on the UK.

Melanie Flouquet

Okay, thank you very much.

Concluding Comments: Julie Brown

Thank you very much for attending this morning. In summary, we're pleased with our performance in the quarter in a time of significant change for Burberry and the luxury industry in general. We have got more work to do, we're building on the foundations that we have in place and Marco and I look forward to speaking to you at the interim results which will be on 10th November. Thank you very much.