Introduction & Highlights

Marco Gobbetti, Chief Executive Officer
Good morning everyone. Thank you for joining us today for Burberry's interim results presentation.

Our new Chairman, Gerry Murphy and I are very pleased to welcome you here today.

In terms of our agenda, Julie will start by covering our financial results and guidance. After this, I will give an update on our strategic progress and close with a Q&A.

Before we begin, I would like to say a few words about our performance.

Firstly, I am pleased with our progress in the half.

Our journey to transform and reposition Burberry is underway, and the initial response from influencers, press, buyers and customers has been exceptional.

We continued to manage the business dynamically through the transition - and group revenue is up 4% at £1.2 billion adjusted for beauty, and adjusted operating profit is up 8% at £178 million. We also confirm our outlook for the year.

I would like to underline that we're still in the first phase of our transformation, with the majority of change still ahead of us.

At this stage, we are focused on shifting perception and generating brand heat.

With that I'll hand over to Julie to take you through the numbers.

. . . .

Financial & Operational Review

Julie Brown, Chief Operating & Financial Officer
Thank you, Marco, and good morning ladies and gentlemen.

This time last year, we set out our vision to firmly establish Burberry in luxury fashion.

As we said at the time, this is a two phase plan:

The first phase, is a period of transition as we change our product, rationalise our distribution and invest to re-energise the brand. We believe this period of investment is necessary to enable us to deliver long term sustainable value.

The second phase, is where we will complete our transformation and accelerate growth.

We are now at the point where we have relaunched the brand and shown the new runway product, but the consistency of brand, positioning and product will only build through the next financial year.

In the half, we have built strong foundations to bring Riccardo's product successfully to customers starting from February and focused on operational execution and continuing cost discipline.

Turning to the summary financials:

During this presentation unless otherwise stated, I will refer to growth at constant exchange rates.

Revenue was £1.2bn, down 2%, but adjusting for the Beauty deal, revenue was up 4%.

Adjusted operating profit was £178m up 8% and our operating margin improved by 150bp at CER

Adjusted diluted EPS was up 14%, positively impacted by tax and share repurchases. Exchange was a headwind, as guided and adjusted EPS at reported rates was up 2%.

Free cash generation was lower than last year at £46m, due to a working capital outflow, primarily due to inventory, which I will return to later.

And finally, we announced an interim dividend of 11 pence, in line with last year.

Now looking at revenue in more detail.

Retail sales grew 2%, with comparable store sales growth of 3% in H1 with improved footfall trends.

The impact of space was -1% on retail.

We continued to evolve our store network to align with our luxury positioning, closing a net seven stores in the period and opening our new Dubai flagship and stores in Shin Kong Place, Xian in China.

Wholesale sales (excluding Beauty) grew 10%.

More than half of the growth resulted from an outperformance of our Asian business as travelling Chinese switched their spending out of Europe and into Asian destinations, where travel retail is operated through our wholesale channel

Wholesale in EMEIA grew by a MSD percentage, with the benefit of new luxury accounts more than offsetting headwinds from the closures of non-luxury doors.

And, US wholesale declined as we began to close a small number of non-luxury doors in the half.

Finally, Licensing grew significantly benefiting from Beauty transitioning to a licensed model bringing total business growth to 4% (excluding Beauty wholesale).

Now I wanted to give you a bit more colour on our retail comp store sales performance by region:

In Asia Pacific comparable sales grew MSDs.

Japan and South Asia Pac were up MSD.

Korea continued to grow HSD supported by strong tourist spend and Mainland China was up LSD comp.

Globally, the Chinese consumer, our largest nationality, grew by a LSD percentage.

In EMEIA comp sales were unchanged, with reduced visitors into EMEIA impacting our retail business.

And finally, comparable store sales in the Americas grew MSDs.

Retail trends in the US were consistent between quarters.

However, growth slowed in other countries within the Americas

Product wise, this half was a historic moment for Burberry with Riccardo's first runway show in September.

Marco will discuss the successes around this in his presentation, but I wanted to briefly touch here on some of the product trends we have seen in the half across retail and wholesale combined.

Starting with accessories, which grew 2%:

As you know we are undertaking a large transformation of our leather goods business to focus more on an elevated product.

The Belt bag, our first solid leather style from the new team, launched in March and during the first half we have been adding new styles to our assortment.

We are encouraged by the early response, which in our mainline stores are over indexing with local customers and customers that are new to the brand

However, the overall performance of the category has been impacted by older styles.

In apparel, our womens business grew 3% and mens grew 6% in the period:

We saw continued strength in tops, trousers and skirts, as we now offer a "full look" for our customers.

In outerwear, the Car Coat outperformed, while customers responded well to our refreshed quilted jackets.

This slide shows the major components of our income statement.

Gross margin was 67.6%, down 160bps due to a significant FX headwind.

At constant currency, the gross margin was broadly stable with the benefit from Beauty, being offset by growth in wholesale and the move towards fashion.

Adjusted operating profit grew 8% CER, -4% at reported. And the operating margin was stable at reported rates at 14.6% and I will return to the underlying margin improvement later.

Adjusting operating items were small at £5m, largely due to restructuring charges from our cost saving programme, the details of which are in the Appendix.

Adjusted EPS growth was ahead of profit due to a 100bps improvement in the effective tax rate and the accretive impact of the buyback.

Let me summarise the improvement in our operating margin in more depth:

Operating margin was 16.1% at CER; 14.6% at reported rates, representing an underlying improvement of 150 bps for 3 main reasons:

The first, and the single largest contributor was our cost savings programme, which delivered incremental savings of £15m, bringing our cumulative benefits to £80m.

Secondly, we had the beneficial impact from the phasing of marketing and depreciation between the halves.

Investments were targeted towards the September brand relaunch and will accelerate in H2 to support festive and Riccardo's product entering our stores from February

And finally, the conversion of beauty into a licensed business had a minor benefit on operating margin

These benefits more than offset inflationary pressures and strategic investments in our business.

Now I'd like to provide a holistic view of progress of our cost efficiency programme.

With cumulative savings of £80m, we are on track to deliver £100m by the end of the year and now 2/3rds of the way through our total commitment to deliver annualised savings of £120m by FY20.

The two largest drivers of our programme are our simplification and efficiency, and commercial procurement savings.

We have already delivered around 70% of total efficiency savings:

The key unlock here was the opening of a shared service centre in Leeds just over a year ago.

This centre now encompasses around 340 roles, operating across five major functions, and we have appointed global process owners to focus on driving efficiency through Lean Six Sigma

In our supply chain - In omnichannel, we upgraded our fulfilment methods for Burberry.com, driving optimised order routing and preparing for enhanced luxury services such as same day delivery.

For the B-Series, we delivered the vast majority of our product within 24 hours of order.

In procurement, we are now 60% of the way through our ambition.

Over the last six months, we have had notable success in the delivery of cost reductions across insurance, media and application management.

Now I would like to turn to cash.

This slide shows the movements between our adjusted operating profit and free cash flow.

The largest outflow of just over £90m resulted from working capital.

The biggest driver of this was inventory, which grew 11% at CER.

As you would expect, this reflects the ongoing product transition, as well as,

A shift in our business towards fashion, which by its nature involves longer lead times;

And a normal seasonal inventory build ahead of festive period.

Capex in the half was £51m, similar to last year.

Cash conversion was 48%, compared to the median of the last 5 years of 59%

Turning to our net cash position and the application of our capital allocation framework.

We generated free cash of £97m before capex.

In the half year, the main outflows were:

Capital expenditure and returning £276m to shareholders by way of a dividend and buyback.

We also had a £14m outflow relating to strategic investments, largely associated with the acquisition of our leather goods centre in Italy.

In total, our net cash at September 2018 was £0.6bn broadly stable with our position last September. On a lease-adjusted basis, net debt of £0.6bn.

Turning to Guidance.

Whilst mindful of the transition the business is undertaking in the second half and the phased introduction of new product, there is no change to our guidance for broadly stable revenue and operating margin at CER.

However, there are some updates to the moving parts:

In wholesale, given the stronger than anticipated performance in H1, we now expect wholesale revenues in the full year to grow by a MSD percentage.

For Capital expenditure: we now expect FY spend to be £150m-£160m, lower than we originally guided due to phasing between years.

Regarding FX - As usual, we have run our model on the end of October spot rates. This implied a benefit of £10m on revenue and a headwind of £25m on profit compared with the prior year.

In terms of sensitivity, taking last year's operating profit as the base, a 5% movement in sterling equates to a £45m movement on the operating profit.

To conclude, our journey to transform and reposition the brand is underway.

Our current financial performance does not yet reflect these changes with the product transition starting in February and the brand relaunch having only just begun.

We are confident in our brand transformation strategy, particularly given the encouraging lead indicators we are seeing, and I am now pleased to hand over to Marco.

. . . .

Strategy Update

Marco Gobbetti, Chief Executive Officer
Thank you very much Julie. Now I'd like to turn to our strategy.

As Julie said, we are 6 months into our journey to transform Burberry.
It's early days, but I'm pleased to reiterate our expectations have not changed.

At this stage, our strategic focus is on igniting brand heat - starting with influencers and key opinion leaders, which will cascade to all consumers - and I'm pleased that we have started to make some good progress on this front.

But as you know, shifting consumer perception, product transition, and transforming our distribution take time.

As previously guided, we expect to see a real acceleration in the business in the second phase of our plan.

As you see here, I've previously shared with you the significant effort we're putting into strengthening the foundations for the transformation.

Today I want to focus on four areas, where we've really advanced our strategic agenda over the past few months: our brand relaunch, wholesale, product, and responsibility.

With Riccardo in place, we relaunched the brand.

We unveiled a new logo for the first time in 20 years, evoking the new spirit, mood and personality of the brand.

We refreshed our monogram - a staple of all great fashion houses - inspired by our heritage and created from our founder Thomas Burberry's initials.

And … we made sure people saw it. We flooded key markets in surprising, engaging and impactful ways.

First, we targeted the cities hosting major fashion weeks … London, …New York, …Paris, …And Milan.

We also focused on cities with influential luxury consumers, including …Shanghai, …Seoul, …and Hong Kong.

We rolled out new branding in image-driving print and digital media…and while our direct reach across all of these activations was over 60 million consumers…this was nothing compared to the amplification on social media through images shared by press, influencers, consumers and our own channels.

This all culminated in the reveal of Riccardo's first collection, "Kingdom", at a new show venue in London.

Invitations were focussed on fashion insiders and influencers - keeping the spotlight completely on the collection.

This collection celebrated Britishness and brought to life Burberry through Riccardo's eyes.

One of the things he loves about Britishness is its contradictions - the tension between classic and fashion…tradition and rebellion, the punk and the queen.

Street influences play just as important a role as codes of luxury and sophistication.

Riccardo's vision is a Burberry that is as much for the young as the older.

He talks about inclusivity and multi-generational dressing - from club kids to aristocracy, mothers and daughters, fathers and sons.

There's an attitude and a spirit that's reverent but renegade.

This also applies to the way we are selling and our new go-to-market model of frequent product drops.

In conjunction with the Show, we launched The B Series, drops of exclusive, limited-edition product designed by Riccardo - sold in a completely new way.

To purchase, customers buy directly through our social pages on Instagram, WeChat, LINE, and Kakao.

The B Series has now become a new monthly cadence for us - and we will continue to drop product on the 17th of every month - Riccardo's lucky number! - With a strong social focus.

To maintain heat, at this stage we will keep the drops very limited, and not aimed to drive significant volumes.

We also began to translate the new creative vision in some of our stores with the reimagining of Regent Street, and refresh of Bond Street.

You can see some of the beautiful changes here.

Burberry has more than 1 kilometre of windows around the world - and we completely transformed these too with a new architectural and visual concept.

The world's top influencers have engaged with our relaunch.
For instance, 3 of the 5 most followed accounts on Instagram, all with more than 100 million followers, wore or endorsed Burberry.

From Beyoncé wearing a custom design, to Rihanna, who as you see was one of the first people in the world to wear the TB product.

We believe these are encouraging indicators that engagement from influencers is starting to pick up.

The press response has also been very positive.

The buzz around our Show and the logo and monogram change generated thousands of articles from a broad range of titles globally.

In particular, the new social selling mechanic for the B Series was praised for its relevance and appeal to younger fashion consumers.

Heat with influencers and press also began to spread to consumers, which together with a more effective use of our social media channels, resulted in much higher engagement. Compared to last September, the number of mentions of our brand on Instagram has seen triple-digit growth.

More importantly, consumers' engagement has also increased vs. Q1 across all key social platforms, particularly on Instagram and WeChat where we have focused our activity.

The Show in particular drew a significant amount of interest.

Recent rankings from Vogue.com (as shown here) and the Financial Times, which focussed on industry insiders and influencers, indicated that Burberry's Show was the second most viewed collection this season - appearing in the top 10 of both rankings for the first time this year.

The launch of the B Series completely exceeded our expectations.

It generated incredible brand heat and engagement - which was exactly our intention! Influencer response to the drops was overwhelming - and we are still receiving many requests for the TB product!

Key items sold out very quickly - the latest B Series in October, for instance, completely sold out within a matter of hours as consumers became used to buying from us in this new way.

We also saw that compared to our February Capsule, The B Series attracted many new and young customers to the brand.

One of the things I'm most pleased about is the response from the Chinese consumer.

In China, where consumers are already used to purchasing on social platforms - our "surprise drop" in September sold out in a few hours, and the latest drop in October sold out in less than 1 hour.

In the lead up to Singles Day, we also recently launched an exclusive piece from Riccardo's collection with Tmall - the scarf you see here - which completely sold out and was highly oversubscribed.

Lastly, the brand relaunch played an important part in re-energising our stores, where we saw crowds form to watch the Show live (you can see an example of Montenapoleone here), queues at Regent Street as people lined up to be the first to buy our new product, and double-digit uplift in traffic for our Thomas Burberry monogram-wrapped locations.

All of this activity resulted in a positive shift in consumer sentiment - which you can see here reflected in social media.

It's now our job to ensure this change is sustained and radiates to the wider luxury consumer.

I also wanted to highlight some of the excellent progress we've been making around wholesale.

Firstly, we've had a great response to Riccardo's collection - with consistently positive support for the direction of the collection and enthusiasm for its newness, breadth and excitement.

In EMEIA, for example, spend from partners who typically buy our September runway collections has more than doubled this season… and in the US our largest luxury accounts have significantly increased their bookings of runway product.

While these are extremely encouraging indicators, it is important to note that the runway market remains a small proportion of the wholesale order book overall, and as this was the first opportunity our partners had to buy the new product - they were exceptionally motivated!

More broadly, our structural evolution of wholesale is also well underway.
We've completed the vast majority of negotiations, made good progress in securing better locations within our existing partners, and built new relationships with several influential, fashion destinations such as Barney's - where this image is from.

In EMEIA, we continue to evolve our wholesale mix towards luxury - and have seen double-digit growth in the number of luxury wholesale accounts visiting the Showroom versus last year.

In the US, by the end of next financial year, our wholesale presence will have completely transitioned to luxury, a critical part of our strategy.

However, as this chart shows, as we transition, we will also substantially reduce the overall number of wholesale doors.

This will remain a significant headwind to our numbers into next year, as reflected in our guidance.

On product …I've already mentioned the B-series - this is core to our strategy to continuously surprise and excite consumers.

In addition, as you've heard, before Christmas we'll also launch a collaboration with Vivienne Westwood… hotly anticipated by the press and consumers.

This is more than just doing something new - Vivienne's unique representation of British style is unrivalled, and an unexpected and exciting union for us.

In terms of leather goods, as Julie mentioned earlier, we continue to build our handbags architecture, and deliver newness - including some of the shapes you saw on the runway.

We are placing increased focus on the environment in which we display our leather goods - such as the Burberry conservatory you can see here, which was a pop-up designed for the Belt Bag.

We are also ensuring that leather goods are placed front and centre in our stores.

As you know, building our leather goods business will take time, as we continuously improve innovation, quality and sustainability whilst integrating our new centre of excellence.

Lastly, a word on responsibility.

At Burberry, responsibility is something we believe in strongly and it's what we mean by modern luxury.

In September, we announced an end to the practice of destroying unsaleable products.

We also announced that we will no longer use real fur and joined in October the New Plastics Economy Global Commitment to transform how we use plastic in our supply chain.

And last month, the Burberry Foundation launched Burberry Inspire, a four-year initiative for eight schools in Yorkshire, to examine how cultural and creative education can help young people.

I am incredibly proud that our work in these areas has been recognised externally, particularly as the leading luxury brand in the 2018 Dow Jones Sustainability Index - and we will continue to put responsibility at the heart of everything we do.

What I've shared so far shows some highlights of our progress and encouraging early results.

But I want to stress that this is just the beginning; to really accelerate growth, we have a lot more to do.

We need to sustain and expand our heat - no small feat, as you know.

Social media is instant and therefore constantly changing.

It takes continuous and engaging content to maintain our share of voice and make our initial results a pattern, rather than a snapshot. And, it takes time to really change consumers' perception of a brand.

We also need to transition all of our product. And this won't be complete across the network until well into next year.

The first delivery of Riccardo's product is in February when September runway lands in stores.

But as this chart shows, it won't make up a significant portion of the overall offer for some time.

At this stage in our plan and until the end of the year, we are at the peak of our transition from old to new product - and are managing this dynamically while protecting the brand.

This will allow us to have the best possible presentation of Riccardo's product in our stores starting in Fall / Winter next year.

Finally, in terms of retail, our major priority is to embed our new vision across our store network.

We have started with Regent and Bond Street, introducing new bespoke aesthetics that are unique to each store… and will continue updating the rest of our network, starting with flagships and key fashion cities.

As we laid out in our strategy, we also still have some work to do to rebalance our network in line with our new brand positioning.

In addition, we will continue with our focus on customer service as well as training on styling and wardrobing to ensure our store staff are ready for the new product.

I am pleased with the initial results of our retail excellence programme. With the pilots complete, we are now focused on rolling it out throughout the network.

Before we turn to Q&A, I'd like to thank our amazing teams who have worked tirelessly to make this all happen.

I've really felt the energy building in the business over the last 6 months.

There's a palpable excitement for what is to come, and what we can achieve together. While we are in the midst of a major transition, I am sure the best is ahead of us.

Now I want to leave you with some highlights of this #newera.

. . . .

Video Played

. . . .

Marco Gobbetti, Chief Executive Officer

Now I'll open the floor to Q&A.

. . . .

Questions and Answers

Luca Solca, Exane BNP Paribas
Two questions if I may, I think you were saying in interviews prior to the presentation that Chinese nationals are not showing any particular inflection point and you were talking about mid-single digit growth in Asia Pac. I wonder if there is anything that you're seeing in China when you look at Chinese consumers, even outside of China, that is showing some kind of development, whether they're buying more at home, or aboard, whether you are getting more traction with younger consumers in comparison to the past, or whether you're getting more traction in tier one cities, in comparison to deeper into the country?

The second point that I would really like to focus on is your ambitions in Leather Goods and in handbags in particular. You've been saying that it's going to take time to build the handbag architecture to your satisfaction, could you help us understand a bit more - where you're driving to and whether upgrading the price position of the brand is indispensable in your view?

There seems to be a significant gap between where Burberry is in handbags today and where other brands, like Gucci or Prada are at the moment, are you envisaging that a price upgrade is indispensable in order for you to succeed in this category, or could there be a position for Burberry at a slightly lower price points and still be a success? Thank you.

. . . .

Julie Brown, Chief Operating & Financial Officer
Yes, so in terms of the Chinese, as we mentioned, we've seen no change globally with the Chinese, so we've seen low single digit growth in both quarters, absolutely no change for the half.

What we have seen though is the patterns of consumption have definitely changed and they've certainly moved regions. So post Brexit we had a lot more Chinese focused on buying in Europe and in particular in the UK. But what we have found now, more recently, is the consumption has moved much more back towards Asia.

So, in particular we've seen an uptick in Hong Kong, we saw an uptick in Korea and as you know in our Korea business if they shop in duty free it goes into the wholesale business. So definitely a pattern of movement across the world, but a very stable trend overall.

In terms of our recent product drops, both the drops that we did around the fashion show and also the B Series, we've found amazing traction with the Chinese consumer. And we, in particular, found that we were attracting new consumers to the brand and younger consumers in addition.

In terms of the Chinese, the second one we did sold out within a few hours. And the third one was made at a very unsociable time in China, so it was going live at like 1am, but even so people were waiting for the drop and the sales result was phenomenal, sold out within an hour.

I think what we've also been very focused on doing is ensuring when we've been doing the social drops we have been very focused on partnering with our partners and using WeChat and using the way that the Chinese prefer to buy, so using the mobile app, using the social channels makes a big impact. So thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
Your second question was on Leather Goods and handbags in particular. And our ambition in handbags has not changed, we believe that this is going to be a very important category for us. We continue to work on the architecture of our handbags offer. As I said this is a multi-season project, it's not a one or two season project.

And in terms of the price positioning I confirm that our ambition is to reposition our offer, but still I think that we want to be positioned in a very competitive price zone. So as I said last time, I think there is space for us to be slightly below some of our peers in the - let's say in the top of our offer.

I want us to maintain an articulated breadth of prices with an entry price, a core area of prices and then a more elevated price range. This remains our ambition. And I think that already in the first new things that we have done, pre runway and in the runway, I think that that is being confirmed.

. . . .

Helen Brand, UBS
Hi, good morning, a couple of questions on the numbers maybe, Julie, first. Could you just confirm what the underlying cost inflation was in H1 on opex, excluding Beauty, and how we should think about that for the full year and also perhaps midterm, whether that mid single digit opex inflation still holds?

And then just on the gross margin, obviously some impact from FX in H1, lots of moving parts. As we go into H2, we perhaps might have some lower inventory provisions year over year. Obviously FX is still a headwind, so how should we think about the gross margin pressure into H2?

And then perhaps one for Marco, I think you've recently lost your Head of Asia, Pascal, who was obviously quite influential in the business over a long period of time and had also been running with the Japan rollout, which I don't think we've heard too much about recently, so I was just wondering if you could talk a bit about your management in Asia and how we should think about Japan as we move away from the License business?

. . . .

Julie Brown, Chief Operating & Financial Officer
In terms of cost inflation first of all then I'll take the gross margin. So if you strip out the cost savings and Beauty, then the underlying opex inflation in the first half was 1%. We're expecting that to be running at around 3% for the full year. As we mentioned there are some phasing differences in the flow of opex through the two halves. One relates to depreciation because we've guided capex for the full year of £150m to £160m,

and we've spent £51m in the first half. So, there is a slower rate of depreciation coming from this spend than in the prior year, or the prior years.

And then the second factor is as you've seen from Marco's presentation we had reserved some of our marketing firepower for the show which obviously came in September, and again we will ramp up the marketing spend in the second half to support Festive and to support Ricardo's product going into our stores. So hence you've got this phasing difference between the two halves. Net-net around 3% inflation for the full year and the cost saving programme which will deliver cumulative £100m by the end of this year is offsetting really that inflationary factor.

Beauty in the first half spend is not as significant as you might think because we had already started to tail down the Beauty spend because we were handing over the licence to Coty.

In terms of the gross margin, as you say there are so many moving parts in the gross margin. I don't want to go into too much detail in this room. But in terms of the main features, in the first half the vast majority of the fall in the gross margin was exchange. So the gross margin was broadly similar if you exclude the impact of exchange which was most of the drop.

In terms of the elements within that, we had a benefit from Beauty transitioning from Wholesale to licence. But we've also had some offsetting headwinds just in terms of the Wholesale beat comes in at a lower gross margin, so you've obviously got that effect going on. And then the third factor is as we move towards fashion, and particularly as we build our Leather Goods business, until those production levels are at a higher level they're coming in at a lower gross margin. So we've had some pressure in the Leather Goods business on margin as a consequence, and again as I mentioned fashion.

Inventory provisions, we made some specific inventory provisions. We've got our normal provisioning policy based on the ageing of the stock, no change to that whatsoever. We made some specific provisions last year that totalled £14m on specific line items and then we've done exactly the same review this half year and we've increased inventory provisions by a further £10m in the half year.

We don't anticipate that moving significantly now. The inventory, although it's at a higher level, is largely current inventory. So we will manage that through our usual channels.

In terms of underlying gross margin there will be some pressure in the second half because some of the things I mentioned in the first will continue such as the pressure from fashion. Some of the pressure from Leather Goods will continue in the second half. And we'd expect some negative exchange effects, not as serious as the first but certainly moving also into the second.

. . . .

Marco Gobbetti, Chief Executive Officer`
And again on the second part of your question, Asia. We had announced and we put in place the evolution of our commercial organisation and that meant the phasing out of the regional structure that was covering Asia, and the creation of four regions that completed the six regions including EMEIA and the Americas who now report directly to Gavin Haig who is here with us and who started with us in June I believe Gavin. And

therefore Pascal's transition had been planned within this process and was really a normal transition from one organisation model to another one. And I think now we have a very balanced commercial model with a lead here at the centre and with strong regional Presidents on each area.

As far as Japan is concerned, I think that Japan still remains an opportunity and a priority. I think we have a new team in place there for about a year. I think there is a lot of development that is going on in Japan; we have a lot of opportunities, greater interest and excitement around the new creative vision and the brand repositioning. So frankly I think that Japan is going to be quite a good driver for us over the next couple of years because we have some opportunity also in terms of distribution. It's one of the areas where perhaps we are or we were under distributed but we are catching up very quickly.

. . . .

Elena Mariani, Morgan Stanley
A couple of questions from me. If we leave for one second the restructuring aside and you think about the top line and the brand heat that you are seeing after the first product drops, do you feel more confident on a potential like for like reacceleration going into next year assuming that market conditions remain pretty stable? So I just want to understand whether the first signs that you've had so far were exceeding your expectations or not? So talking precisely about like for like.

And secondly I know that there is a lot of focus on Chinese consumers but I was also interested on the response you had from European consumers and American consumers because I believe that they would be equally important within the context of the brand restructuring. So are you happy with the response you are seeing there, particularly in the US where I think that in the past probably the brand perception was not exactly where you wanted that to be? Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
We're obviously extremely pleased with the results we've had from a number of things as you have seen in the presentation. This all culminated with the presentation of the new collection and the product. But all things combined the new branding, the new monogram, all the campaigns that went through the summer, the B Series and the drops, all of this has definitely generated a lot of buzz and I think excitement. This was exactly the objective.

Now this is going to - in our mind - the influencers' interest and excitement is going to generate over time a very positive influence on the consumer. Now this will take a little bit of time, point number one. Point number two, as we said before product transition is also going to take a little bit of time.

So really when you look at the delivery of the fashion show, the Runway first and then fall, that needs to build up over the summer, and the next fashion show, you saw in the chart that we will reach the majority of new product probably around the summer, the fall of next year.

So it's from that time that we really need to look at comps and to see how the performance is going to be. Before that I think as we said we're really in the middle of a very, very thick transition, a major transition. We are not only transitioning creative vision, we are also elevating the brand at the same time. So we are really in the middle of it. I think we really want to see the products land in the store. All the activity we're doing with the consumers to prepare them for that, to keep them engaged, excited, communication drops, one on ones representing them, the preview of collections, there is a lot of work that is going on in Retail to keep that engagement and to keep that excitement going until they can finally touch and feel the products in the stores.

I think, and I'm speaking about these new products and the new vision, I think that there is equal excitement and interest across the regions. I don't see any difference. We spoke about the Chinese consumer, clearly their reaction is very fast and very quick and very much also related to their views and habit of already buying on social media as they are doing in their own platforms.

But the reaction we've had in America for example from buyers and press has been phenomenal. I think it has obviously helped us to speed up our negotiations and clarify also the position of the brand because for the first time you know we spoke a lot about what we wanted to do but it didn't become clear and crystallised until they saw collections in the showroom. And so that clearly was a big factor and there was a lot of excitement.

So now, as I said, I think the Wholesale repositioning in America is really well, well, well underway. And in Europe, Julie also mentioned it in her speech; even in Europe I think the reaction from multi brands and the partner stores has been phenomenal. So I think we seem to be in a situation where you know the collections have been received very well everywhere.

. . . .

Julie Brown, Chief Operating & Financial Officer
I was just going to add really that the lead indicators you know Marco mentioned, Wholesale is a big lead indicator and both the US response - I mean when you go round the US and you see Burberry's position now in those large department stores including elevated like Barneys is very different from where we were a year or two years ago, it's completely different. So these are really important lead indicators.

Marco talked about the statistics around the EMEIA, the same people buying over the two periods has basically doubled. But what we don't want to do is people get carried away with this. The reason being that these two plates are moving opposite against each other. We've got really strong indicators in Wholesale, but at the same time we've got to move away from the non-luxury accounts. And the biggest financial impact of that is really going to come in the second half and into next year. So we're really dealing with the next 18 months, in particular in the US we're beginning to see double digit falls in the Wholesale because of the net changes that are really biting financially now. Wholesale negotiations have been brilliantly successful but the financials lag what's going on commercially.

. . . .

Zuzanna, Berenberg
I have three questions please. So first of all on the B Series, is there any chance you could maybe mention volumes or anything? I understand it's small but just so that we

get an idea of how much of that actually sells within the four hours or hour, whatever it was.

Then the second question on Retail. I understand that the focus is initially on products and obviously it will take time before you develop your new Retail concept, but Marco you have mentioned that the Bond Street store is being also upgraded so I was just wondering if you could provide any update on the timing of the presentation of your new store concept for Retail?

And then finally on Wholesale. It's really good news about the encouraging response to the Runway collection, but if I remember correctly the replenishment, so the biggest part of the business, has been presented in the last couple of weeks as well in showrooms unless I am wrong. So is there any colour you could also provide on the response from Wholesale to the remainder of the collection? Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
In terms of B Series you know as in anything we won't disclose the volume that was in the B Series. What I think that Julie has already mentioned and I did in my presentation, I think that the response to that has been fantastic frankly. I think we had a surprise drop that came just before the show that sold out very quickly. We had a drop that we wanted to be more articulated with quite a few products in there that sold very, very, very well. And then we had an additional drop in October that sold out completely. Then we had a specific one for China that also sold out very quickly. So frankly I don't think we could expect anything more than what we had there. So we're really, really pleased. And as I said B Series will continue to have as their primary objective to generate excitement and engagement with the customers. It is not about volume okay.

In terms of Retail upgrades we are very pleased with what we have done in Regent and in Bond Street. They are two concepts that have been thought - thinking really also about the specific stores configurations and the type of furniture and layout that is in the stores. And we are really so pleased with those that we are going to do more and to upgrade more of our stores. So you will see that coming starting in February, March, and perhaps also continuing into next year.

Of course we will start to target primarily the most important cities, you know the flagships, you know the cities where we think we have the key consumer target now. And that is somehow a step into the new concept which is going to be certainly taking into consideration some of the ideas that we have already expressed in the stores. I think that we don't want to think about a store concept that is a fixed rule that needs to be applied to all the stores. So I think look more for something that will have agility and the capacity of changing and presenting newness over time. So I think these two initial concepts of refreshes are actually quite important for us as a starting point.

And in terms of Wholesale and your question about the offer of replenishment, we have an offer that is in the showroom at the same time and that is both the product that is seen on the Runway and all the extensions that are either derived from the Runway or the work that we do on our iconics seasonally. And that was part of the presentations in our showroom and is always part of our presentation in the showroom. So we wanted to isolate Runway just to give you a better understanding and being capable of comparing apples to apples. But it's all done in the same way.

. . . .

Antoine Belge, HSBC
Three questions. First of all regarding China. So I think Julie has said that up until the end of September trends were quite strong and it seems that in October probably the new products did very well. So just for a second if we assume that maybe calendar 2019 could be a period of slower growth in China, in that context would Burberry outperform because the brand is in a transformation phase, or do you think that it will hit you at the wrong time, i.e. maybe you would lose out versus more established brands?

Second question, one of the changes in the guidance is about capex. Does it mean - and I understand it's because of phasing, does it mean that through March '20 we'll see a spike in capex around £200m or something like that?

And finally is it possible to have an idea of the growth in constant currency from your online business in the first half? And how much online accounts, first of all as a percentage of retail sales, and then when you accumulate online sales from your third party distributors, how much of total Burberry sales is online?

. . . .

Marco Gobbetti, Chief Executive Officer
I think that as of today we don't see a decline in Chinese national purchasing with us. There are movements from areas where they buy to other areas where they buy. These are primarily influenced by foreign exchange; changes in the value of the Chinese currency will determine their preference in buying more in Europe or in Japan or in Korea. And this is obviously not controllable.

So right now we are seeing some movement of Chinese back to China, buying more in China and in some areas of Asia. Honestly it's difficult to project that for next year. In general we think that the fundamentals with the Chinese consumer are still very strong so we don't see really strong headwinds coming from there.

As far as Burberry is concerned, next year in any case we will be in the midst of our transformation, in the midst of our transition from one product to the next. So as I said until really fall/winter of next year no consumer in the world will be able to really shop fully into the new product. So I think it will hit us if there is a slowdown in China, it will hit us at the moment of transition where in any case our objectives are very clear during a transition phase. We want to manage this transition, prepare our stores to have the best possible offer of Ricardo's products, and manage through the inventory and prepare ourselves to be in the best possible condition then. At the same time whatever we do is always with our brand in mind because we are elevating the brand in this period, and therefore we will do all of that very carefully.

. . . .

Julie Brown, Chief Operating & Financial Officer
Okay, so if we just move onto capex. The major change in phasing first of all was largely due to office refurbishment work that was due to take place this year has moved into next. So no other material change. So, this year we're guiding £150m to £160m. Next year there will be a slight ramp up but not to the degree that you mentioned. I

think we're looking at £170m to £180m next year in terms of overall spend, but obviously we'll give that guidance with the full year results.

The following two years we would - as the new store concept starts to roll out we expect that to be in place at the end of full year '20. That's when we may see £190m to just over £200m levels. So that's in terms of capital expenditure.

In terms of Digital as you know we don't split out the exact Retail mainline outlet and Digital split. Digital consistently outperforms our Retail business and has continued to do so in the first half of the year. We've got a number of components to it, iPad in store, we've got dotcom and we've also got the third parties. Recently we took Farfetch on board and that's all going very well. So Farfetch is exceeding expectations and we've actually found the biggest growth area as you probably would expect is in Asia as Asian consumers love the mobile app. So there's been a definite move as well towards the mobile app.

. . . .

Thomas Chauvet, Citigroup
Good morning. Two questions. The first one, follow up on the Retail renovation programme. Are you planning to renovate just your mainline stores so 240 or so, or also refreshing concessions and outlets? And can you give us a more precise timeline of how many stores per year are you planning to refurbish and within Julie's capex guidance how much for the next five years is dedicated to renovation?

And secondly on your Apparel business, it had pretty healthy growth in the first half but particularly the men's. Could you comment perhaps on the main segments of outerwear, casual wear, formal wear, and whether you're seeing growth differentials there? We saw at Christopher Bailey's last show in February lots of casual wear. We saw a good proportion of casual wear too I think at Ricardo's show in September. Thank you.

. . . .

Marco Gobbetti, Chief Executive Officer
In terms of the renovations we are targeting the stores that we consider as key for the customer base that we are focusing on. So within that I don't exclude there will be also a few concessions. We are not at this stage focusing on outlets. Outlets will continue to go through a physiological renovation if it's needed but out of perhaps age, but clearly our focus now is on mainline stores.

In terms of giving you the exact number it's difficult to give you that today. We obviously are working within a capex budget that we have given ourselves. That budget includes refreshes, it includes some openings, some moves, so it includes a number of variables in there. I think we have a first wave where we plan to do another 10, 12 stores right away. And then we plan to do more during the course of the year. But I'm not in a position to say exactly how many.

. . . .

Julie Brown, Chief Operating & Financial Officer
So just in terms of the capex split and the store refurbishment programme which Marco has just referred to. Broadly if we take the sort of office refurbishments out of the

equation which can bounce around a little bit, the spending on the stores is approximately half the total capex. The remainder is basically IT systems, upgrades, investments in the omni-channel for example, and ERP systems. But there's a large proportion of the spend is going on the stores and in particular focus on the mainline store refreshes because it's brand enhancing in terms of image.

In terms of the product split of the sales, as mentioned when we did the presentation the key areas we have been focusing on has been very much around sort of outfitting the client. So providing a total look for whether it be male or female, and obviously you've seen that with Ricardo's looks as well. And this is the part of the business that was initiated about 12 months ago and has been doing very well. So the tops, the bottoms, the trousers, the look has gone extremely well and we're looking at double digit, sizable double digit growth in those areas.

In terms of outerwear and rainwear it's been more subdued. Partly because what we've seen in that category is a mixed performance. We've had outperformance of the Car Coat for example but as fashion has moved more towards single breasted styles it's put more pressure on the traditional trench and that's the composition of what's happened in those categories.

. . . .

Question
I have two questions for Marco. I think one on your existing customer base. I was just wondering if you could talk a little bit about customer retention rates, recent trends, how do they compare to plan and what should they expect next year?

And the second any thoughts on Retail KPIs? I think last full year results you flagged increased conversion, just interested what's happening with your traffic conversion, particularly average basket?

. . . .

Marco Gobbetti, Chief Executive Officer
In terms of the existing customer base I think the teams are doing a great job in retaining our existing customer base. We have a lot of activity that is dedicated to that. It is a focused part of our Retail excellence programme. And we are seeing some very good results from that. So we are very pleased with the retention of our existing customers. That is what is going to carry us through the transition, so we pay a lot of effort in that because the transition and the new product and the new vision by Ricardo and all we are doing is also very much oriented at recruiting new customers. But as I said in the meantime, we have to work very hard on our customers and it's doing very well.

In terms of Retail KPIs, as I said before, this is a transition. So I really don't think that what we see today is necessarily very meaningful for what our future will be and whether we are successful or not. I think that there is no major swing in our Retail KPIs from last time. I think traffic is okay, conversion is slightly lower than before. But all things and all indicators are quite normal I would say in a phase like the phase we are today.

So overall I think that our focus on Retail excellence is really well on its way, and as I said the pilot stores, we've already implemented this new strategy in the pilot stores, we have excellent results, now we're in the phase of rolling it out to the whole network. So really as I said before to prepare our stores for the next phase when we will have all of the new products in the stores.

All right well thank you very, very much for coming. Thank you.

. . . .

Julie Brown, Chief Operating & Financial Officer
Thank you.

. . . .

END