Burberry Group plc 2017 Third Quarter Trading Update

Wednesday 17 January 2018

Julie Brown, Chief Operating Officer and Financial Officer

Good morning and welcome to Burberry’s Third Quarter Trading conference call, which has accompanying slides that are available on the IR section of our website.

I’ll start this morning with some brief remarks on four areas. First, a re-cap of our strategic vision that we shared in November. Second, a quick review of our retail sales growth in Q3. Third, our operational progress to date. And finally, the outlook.

With me this morning is Charlotte Cowley, our Head of IR, and we’ll be happy to take your questions at the end.

In November we set out our plan to establish our position firmly in luxury by re-energising our product, communication and customer experience. This plan is underpinned by our operational excellence and people strategies.

This comes in the context of a changing customer who wants a combination of luxury and fashion, and this means frequently refreshed but high-quality products, with creativity across all categories.

We have a clear strategy to address these changing dynamics, and we’re excited by what the future holds for our business. We’ve begun to make operational changes, however this is a multi-year programme and it will take time to implement Burberry’s transformation.

As we said, in the first two years of the plan we expect revenue and adjusted operating profit to be broadly stable at constant exchange rates, with growth from full year 2021, and will remain strongly cash generative throughout.

Now, before I update you on operational progress let me take you briefly through our retail performance in the third quarter.

Underlying revenue was up 1% at constant exchange rates, and down 2% at reported, to £719m sterling. Comparable sales were up 2%, with Asia Pac delivering a mid-single digit growth percentage, broadly consistent with the first half. Mainland China delivered slower growth, as it annualised the start of the rebound in Chinese spending, and with reduced promotional activity in the quarter.

EMEIA saw a low single digit percentage decline percentage, and as expected, the UK declined given the exceptional 40% growth in spending in the same period last year. This was boosted by high tourist inflows which continued through the year. Excluding the UK, EMEIA’s performance was consistent with the prior quarter.

In America we had a low single digit percentage growth which was also in line with the performance in the second quarter; and in addition to these geographic trends we experienced a headwind from AUR due to product mix.
Turning to our operational progress. Over the last couple of months since we announced our strategy, we have begun to make operational changes within Burberry, and we’re pleased with the early progress.

Firstly, on product. We continued to see the fashion content within our offer outperform. We are preparing for the start of the transformation of our leather goods offer, with new styles launching from Spring 2018. And we are pleased with our expanded outfit offer, it’s shown positive early results, with more customers buying complementary trousers and skirts in addition to tops.

Secondly, on communication. We’ve creatively collaborated with key influencers, such as Kris Wu on social media platforms, and with Blondey McCoy, who created three large scale, outdoor murals in downtown Manhattan for the Christmas season.

And thirdly, the customer experience. In retail, we are piloting a new in-store digital sales associate tool, with enhanced functionality such as allowing product searches by image or look, barcode, and the ability to track inventory across our global distribution network.

In wholesale we have started to have conversations with our US and European wholesale accounts to explain our brand ambitions and our wholesale aspirations, and to begin the discussion around the location and presentation in our points of sale.

And as an example of deepening our relationships with digital third parties, we collaborated with NET-A-PORTER, creating a 14-piece exclusive capsule.

Finally, underpinning all this work is our focus on operational excellence and people. Burberry Business Services in Leeds opened in October as scheduled, a key new way of working for Burberry. We’ve already filled close to 200 roles, ahead of our plan, enabling the centre to deliver elements of work across five major functions and some of our core end to end processes including ‘purchase to pay’, ‘sales order to cash’ and ‘hire to retire’

We also launched a global engagement programme to equip our employees with the knowledge and the tools required to deliver our strategic priorities.

Finally, turning to guidance. There is no change to our outlook for operating profit at constant exchange rates, and we are on track to deliver £60m of cumulative cost savings in full year ’18. We continue to expect currency to be a £20m headwind to operating profit in full year ’18, with a benefit of around £15m expected on the top line. In full year ’19 our initial indications are that currency will be a £25 million sterling headwind to operating profit versus full year ’18.

You will have also seen that we have made a preliminary comment on the recently announced US tax changes. We will provide more detailed information at the prelims in May, but currently estimate that we will see a one-off, non-cash tax charge of £10m to £15m in our full year 2018 income statement relating to the revaluation of net deferred tax assets, and this will not impact adjusted EPS. There is no change to our guidance for the effective tax rate on adjusted profit for this or the outer years.

And finally, just to update you on the share repurchase programme, we have repurchased £242m of the £350m total share buyback that we have committed to complete by the end of March 2018.

To conclude, there are two phases to Burberry’s transformation. Build the foundations before accelerating and growing and we are right at the beginning of this multi-year journey. There is
a lot of work to do but we are pleased with the early progress we’ve made, and we remain focused on our goal of positioning Burberry firmly in luxury and delivering long term sustainable shareholder value.

And with that, Charlotte and I are happy to take any questions.

Q&A session

Question 1

Helen Brand, UBS

Hi, good morning Julie and Charlotte. The first question please for the Chinese consumer. Would it be fair to assume that that nationality globally was flat in the quarter after a round mid single digit in H1? Obviously you’ve flagged some tougher comps but peers still seem to be reporting pretty strong Chinese consumer trends, so what do you think is the reason for the slowdown?

Secondly, I just wanted to see if there were any actions in terms of the turnaround plan since we all last spoke, particularly with respect to timings and scale of the wholesale store or retail closures, and also any refurbishments. And any update you can give us on pricing architecture of the offer and how that’s changing.

Finally, no update in the release today on the search for a creative director. How soon before you think you can make an announcement on that? Thank you.

Julie Brown

Okay, thanks Helen. So in terms of China, taking your three questions, in terms of Chinese we did see a deceleration in Q3. We saw a very, very strong growth in the first two quarters, but we saw a flatter picture in Q3. I mean obviously we were up against some very tough comps, so the second half of the year got a much tougher base. In terms of Chinese consumers we were actually negative in half one 2017, positive in the second half.

The Chinese consumer overall, obviously the population is both a spend at home but also a spend abroad, and in terms of spend at home it was impacted by the fact that we reduced promotional activity ourselves in China. You know, in China the Burberry brand is extremely strong. The brand is very strong, so we decided to reduce promotional activity and that impacted our sort of spend at home local Chinese results.

And in terms of the travelling consumer we saw a reduction in travelling consumer trade across the world, and in particular in the UK, was impacted by that. So that’s China.

In terms of the turnaround plan, I mean no major change at all and obviously the strategy was only announced about nine trading weeks ago. No change to the plans we’ve got in wholesale, retail. So we’ve had very good early dialogue with the wholesalers, both in the US and in Europe, in terms of how we position our brand in the store and the points of sale. And those initial discussions have gone very well, but no change to any of the guidance really that we’ve given in that regard, we’re still anticipating a sort of mid single digit reduction in wholesale. And the retail footprint, we’re broadly happy with it, we don’t anticipate any change in space.

The refresh, the store refresh plan that we talked about in November is progressing, the concept’s been approved and we expect that to roll out towards the end of this financial period.
In terms of price architecture, no change to the plans really at all. There'll be no change to existing prices, as such, but what we expect to do is in particular in emphasising more leather goods and handbags, which we expect to start from spring of next year, there will be a degree of impact on price as we go through the five years of the strategy. But I would emphasise that these things do take time, this is a multi-year programme and it takes a while to build a full leather goods offering that we’ve got in mind.

In terms of the third element, the creative, obviously we’re pleased with the progress. Marco’s leading the search and that’s progressing well, but nothing to announce in terms of timeline at this point, and obviously the time at which the person would join would depend on non-compete periods.

Important to say that Christopher is still leading the February runway show, he leaves the Board at the end of March and will continue to support us as needed throughout 2018.

Helen Brand

Great, thank you. Just to follow up on refurbishment, any ideas on which stores you plan to go forth first, and any impact on fiscal ’19 numbers at this stage?

Julie Brown

So in terms of the refurb programme, we focused on the major cities. We’d certainly expect to see Bond Street being one of the first ones. So yes, the major cities are the area of focus. We’ve got eight in line with our first wave and we’re progressing that. But it’s the major cities, where the big influencers are in terms of Bond, New York, etc, LA.

And the second part of your question, in terms of physical space. I think in terms of physical space we expect no change in that space. We’ve had a minus one this quarter, but it’s largely just due to two main lines closing, two opening, so it’s just a titration of the space as we move, in some cases to more elevated positions, which is our intention in the strategy.

Question 2

John Guy, Mainfirst Bank

Thanks very much. Good morning Julie and team. A couple of questions please. Maybe just starting with the 2% LFL. If you could break that out, volume, value, contribution, it seems like the value contribution was obviously negative. If you could comment on outerwear it does seem that besides I think some specific collections like the Doodle Sketch example which I think has done well, and outside of that within the Heritage DNA outerwear, it seems like there has been a further deceleration. So could you comment on how you see that particular landscape vis-à-vis the competitors and your price points?

And then on China, maybe just thinking about mainland Chinese growth, you’ve annualised the impact of Beijing, mid single digit, it does seem a little bit disappointing to be honest. Could you maybe just talk about how much you’ve reduced your promotional activity in China? I think you’ve made earlier steps to effectively cut out some of the promotional side of things and cut prices in some markets, raised prices in others, namely in Hong Kong and other areas. What exactly are you doing in mainland China today? Thanks very much.

Julie Brown
So just in terms of the 2% comp, as you say, we won’t break out the sort of specifics of volume and value, but the AUR impact in the quarter did have a meaningful impact in the context of the 2%. Volume growth actually underpinning it was strong and we’ve seen very good growth from our customers, our elevated customers, we’ve seen good growth from existing customers.

In terms of other elements of the equation, we saw continued pressure on footfall overall, but our conversion was good, and in particular it was very good in Asia Pac and in the US. EMEIA was somewhat challenged by the tourist impact in the previous year, but conversion in the other two regions was very strong. So yes, the AUR impact is there on the basis of the 2% comp, but we won’t give out the individual numbers.

In terms of the outerwear performance, we were expecting this slight movement in the quarter and probably it will also happen in Q4 as well. We are pleased actually with some of the innovation areas of the outerwear range and how well it has performed. So you mentioned the Doodle Sketch, and we will be continuing to refresh the outerwear range, coming in from March. And as you know we’ve had very good success with the tropical gabardine range that we launched about nine months ago now.

We are finding generally that newness, innovation, is what is driving the consumer and the market, and certainly the range in terms of puffas and quilts did very well in this quarter also.

Just moving on to China, in terms of what’s happened there with the mid single digit; I mean the first thing to emphasise with China, this is the country as opposed to the population across the world, in terms of the country, we’re actually really pleased with how we’ve performed overall in China, we have got just into double digit growth rate if you look at the year to date numbers. So I don’t think we should take a single quarter as indicative of what’s happening, we’ve overall got a very good result year to date in China.

In terms of specifics that have affected this quarter, we had price reductions made in September and November last year so that obviously has an impact and on AUR, and we were up against a very tough comparator base, both in China and with the Chinese population, because the population as a whole were influenced by sterling weakening and coming to the UK to shop. So this is why one of the reasons we saw a deceleration in the Chinese as a nationality through the three quarters. Overall, Chinese as a nationality year to date, we’ve seen mid single digit growth globally, so positive overall in that sense.

I would stress that the Chinese are still a very important part of our business, still 40% of our business, and therefore a much-valued customer group.

**John Guy**

Thanks Julie. Maybe just on that, I think your comps were high single digit in mainland China, double digit excluding Beijing last year, so I appreciate that there’s a bit of a comp effect there. Just going back to the outerwear, I mean your Doodle Sketch and tropical gabardines aren’t really going to drive your full trench coat offering, so I’m just trying to get a little bit more granularity please around the fact that… I mean it seems as if outerwear was down mid to high single digits. Could you just confirm that please?

**Julie Brown**

No, it wasn’t high single digit, we can come back to you with the number, but no.
Charlotte Cowley, Vice President, Investor Relations

Yes, and John, I think what we’re saying is that we’re very pleased to see the positive results from the outfitting, so clearly the fact that tops, bottoms, trousers, skirts, are performing well, but clearly they tend to be a lower price point product than something like a trench coat or a bag, both of which are categories where you’ll see more innovation coming in the future, rather than in this quarter.

Julie Brown

Yes. I think I may have mentioned it with Helen’s question, but we did have this reduction in promotional activity, we haven’t given the exact percentage it’s impacted the result in China, but we wanted to protect the strength of the brand in China and therefore did have a reduced promotional activity which affected the growth. But the mainline remains strong, obviously we don’t split mainline and other data, but the mainline was very strong also in the third quarter in China.

John Guy

That’s very helpful, thank you very much indeed.

Question 3

Thomas Chauvet, Citigroup

Good morning Julie and Charlotte. Three questions please. The first one coming back to China and the reduced promotional activity. Are there any other markets that you’ve identified where you’d like to follow a similar strategy, maybe as part of your five-year plan and your brand elevation strategy?

Related to that question on promotions impact on LFL, could you perhaps give us an indication whether at Group level outlets have generally performed better in the Christmas quarter than full price stores, or maybe slightly differently, whether your full price store LFL globally were positive in the period?

And finally on your unchanged FX headwinds of £20m that was struck at the end of December, obviously the plan was 5% lower than current spot for the USD and I think nearly 10% lower for the euro. Could you give us your maybe best estimate for FX in FY ’18 based on those much higher spot rates, and perhaps comment a little bit on FY ’19, at least directionally, given we’re not going to hear from you until May and your full year results. Thank you.

Julie Brown

Okay, so if I take the China promotion and other markets, if Charlotte could take the promotional impact on LFL. We normally wouldn’t give much data on that. And then thirdly, I can come back on exchange. So in terms of, yes, I mean a key part of our strategy is clearly, as we explained, to remove or reposition some of the non-luxury elements within our distribution. And clearly that goes hand in hand with our own retail network and what we do with promotions in our own retail network. So what we want to do is keep all the channels in complete synchronisation through retail through to wholesale.

So we would expect over the course of the plan to reduce our own promotional activity. In this quarter in particular we were only really calling out China, because in the US we decided to
move really with the peers in this period because the peers went early with their sale period this time. So yes, I think over time you’re going to see us reduce promotional activity in line with the changes we’re making from non-luxury elements of the distribution channel. So the second question, Charlotte, for you?

**Charlotte Cowley**

Yes, I mean we’re not going to start digging into the different performances of different channels in retail in terms of the comp. Clearly all the strategies are focusing on driving our mainline performance and clearly firmly positioning ourselves in luxury, so that’s where we’re really spending our time.

**Julie Brown**

Moving on to foreign exchange in terms of the overall impact. Obviously what we’ve got in the results is the effective rates which we’re included in the appendix. And then we run the final quarter through at the end of the period spot rates to see the impact. This is where we’ve seen no change to the previous guidance which was the -£20m on profit. A £15m positive on revenue, because we notice some models were a little bit out on that, so we decided to try and provide a bit more guidance on the revenue foreign exchange impact, which is £15m positive. Next year we’re giving this heads up that we’re expecting -£25m on the profit. This is coming from a combination of an adverse revenue movement, together with hedges rolling off and further adverse cost of goods movement from exchange, partially offset by a benefit from expenses.

We haven’t run the exchange model again. I think we operate with about 28 currencies. We haven’t run the exchange model again for the latest spot, we’ve only run it at the end of December, but we could update you further should exchange rates move again more seriously. But we wouldn’t anticipate doing that at this stage. Obviously we’ll provide further guidance in May.

**Question 4**

**Mario Ortelli, Bernstein**

Three questions from me. The first one is on the point of the Creative Director. You mentioned that the process is on-going, and the potential candidate can also have a non-compete agreement with the company. In the industry it is not uncommon to see a gardening leave period for Creative Designer of one year, so can we expect that your company will not have a Creative Director even for whole year ’18 and the appointment will be at beginning of ’19, or we should expect by far faster timing?

The second is on wholesale. You mention that you had got very positive talks with the wholesaler regarding the repositioning of Burberry. Can you give us an idea on when you think that wholesale sale will increase? So after the appointment of the Creative Director when you will have these new handbags, because it seems that now the plan is for a progressive decline of wholesale sale?

The third question is about the AUR that was a drag on this quarter result. From what I’ve understood from your words, maybe I’m mistaken, especially from outwear and leather goods, can you tell us if I’m right on the product categories, and this AUR in which countries or geographies was especially strong?
Julie Brown

If I take the first two in terms of creative and wholesale, and then Charlotte can come back on the regional distribution of the AUR point.

In terms of the Creative, we have no further comments really on that. The process is underway, we’re making good progress. It really does depend on the non-competes. In terms of what we’ve got in place in the meantime, clearly we have got a strong design team that currently works under Christopher. Christopher will be responsible for the February runway, that’s making great progress and continue to support the organisation. But I would refer to the strength of the design team that Christopher’s built over the years, and clearly we’ll announce the Creative as soon as we possibly can on that. I think it’s really important to say that Marco’s emphasis on this is to find the right candidate, so not to feel the pressure of time but to find the right candidate for the business, because it’s such an important decision for the brand.

In terms of the wholesale and the timeframe, yes we will run this over a period of time, because the wholesalers are a really important part of the sales of our business. The wholesale business is a great way of introducing new consumers to Burberry who go into department stores as you know, and therefore we want to retain the partnerships with the wholesalers. What we’re doing is having the dialogue about how we want to position the brand, where we want the point of sale to be in the department store, which floor, what are the adjacencies, and those discussions are going well. But obviously it takes time to do this. So we’re anticipating the second half a mid single digit decline. Next year we’re anticipating a mid single digit decline, obviously with that result being probably a little bit more pronounced in the US than it is in Europe.

It’s early days at this stage, but the dialogues have been going very well. The US wholesalers do appreciate where we’re coming from, and they appreciate the brand strategy that we have. In EMEIA accounts we have closed some accounts already in the dialogues with some of the EMEIA wholesalers. Of course there are many, many more wholesalers across Europe than there are in America. So we’ve managed to do that already, because some of them were clearly non-luxury. So I think good progress but early days. We see this happening over a two year period.

Charlotte Cowley

AUR by region. A little bit less of an impact in America, but nothing really significant to call out between the three different regions in terms of the AUR trend.

Mario Ortelli

Thank you very much. Julie, you referred just on wholesale a bit of rationalisation of doors. Can you give us an idea of how many wholesale doors globally do you currently have?

Julie Brown

We haven’t given that data before, so no.

Charlotte Cowley

The number of doors varies significantly. You can have a large number of very small accounts in one market and actually one partner in another region that could be a significant proportion
of revenue. So I think I'd probably use our commentary on the revenue guidance rather than focus on number of doors.

**Question 5**

**Elena Mariani, Morgan Stanley**

A couple of follow up questions from me please. The first one is about your exit rate from this quarter. Thinking about sector trends, it feels like comp is becoming even tougher going into the new calendar year. Is there anything that you can share with us in terms of how things have been developing in the early part of 2018, and whether you expect the softness that we've seen sequentially Q3 versus Q2 to continue?

Secondly, could you remind us what the UK in terms of percentage of total sales as of today? And finally, one question again on promotional activities. Given what you're expecting to do in the next few months and quarters, how should we think about the impact on gross margin? I know you have guided towards pretty much flat EBIT margin for the next couple of years, but do you think we could see some pressure there given what you have observed in terms of early results from this new strategy?

**Julie Brown**

Thank you very much, Elena. Just running through those. In terms of the exit rate, as you say we do anticipate the second half of last year was a lot stronger for Burberry. We did have this impact in the UK which will extend obviously into the next few quarters. So we would expect the comp to be tougher, and therefore we'd expect it to affect the Q4 results. And certainly the Chinese performance continued to improve, between Q3 and Q4 last year there was a considerable strengthening in China. So yes, those two factors will certainly affect our comp in the fourth quarter. The product mix is also likely to run through because it runs by season, so we're also expecting an AUR impact in the fourth quarter as well.

In terms of the UK percentage of total sales, it's 11% at the moment. It was around the 10'ish mark, but it's 11%. In terms of promotional activity impacting margins, we will see a positive impact, we've seen a positive impact in Asia from the reduced promotional activity. But net-net we'd expect on an underlying basis to see some improvement in the gross margin. This is on an underlying basis before exchange. But exchange, because of the hedges rolling off, has a negative impact on our gross margin this year compared with last. So net-net, constant exchange rate, underlying improvement in gross margin. But net-net I think post-exchange it's likely to be neutral, would be our guidance overall on gross margins.

**Question 6**

**Ashley Wallace, Bank of America Merrill Lynch**

Actually all my questions have been asked, so maybe just one follow up quickly if I can. Just in terms of the FX headwinds that you're talking about for 2019, the £25m. Are you able to give us any more colour around the mark to market at current rates in terms of the quantum of that?

**Julie Brown**

No, we can't.
Charlotte Cowley

No, I think we’re just trying to give you an early indication because it does look like not many people had really thought it. It looked to us from our read of the numbers about the FX, so we thought we’d guide on scope clearly at the end of December. We’ve still got to finish this year before we can firm up numbers, we’ll give you clearly better guidance in May.

Question 7

Antoine Belge, HSBC

Three questions please. First of all, following up on your comments about this out-performance of certain categories and also implying that trenches underperformed. Is that something that you’ve been driving? That's at least my understanding. Is it something that should basically be visible in the next three quarters?

Second question on the US. I think it was part of the world where you have been quite happy with relative improvements. So maybe a word on the US. And also some qualitative comment about what’s happening in your retail store network and outlets etc?

And finally, maybe looking at consensus PBT. I understand you don’t want to comment or quantify the additional headwind pressure coming from the move from 131 to 138 dollar/pound since the closing. But was this 2% like-for-like in line with your own expectation, or was it a bit disappointing? Then we would need to maybe take that into account in our estimates, so anything you can have mitigating factors against that. Thank you.

Julie Brown

Thank you very much for the questions, Antoine. In terms of categories, it's all about the relative performance of the categories obviously in the quarter reflected in the comp. We did see a good performance in areas overall like rainwear was strong, it’s just that the relative proportion of the performance of the tops and the bottoms, following on from the work we've been doing on outfitting and looks, have made a bigger difference in this particular quarter, which had really driven the point on AUR. But obviously the strategy is multi-year. The leather goods component of what we intend to do strategically will start to take effect from the spring, but it obviously takes a while to get the results going through the comp on this.

In terms of the second question you raised about US, we have seen an improvement in the US, from Q1 to Q2 we saw an improvement. We've got low single digit growth in the US in Q2, and we've repeated that in Q3. Overall, the highlight that we get in the US, our US performance, is really down to the work that the team have been doing on conversion and the retail excellence programme, driving the clienteling, driving the returning of top customers. Also just the conversion is very strong in the US, one of the strongest performances we’ve got across the world, and that's been very, very good.

In terms of the third question relating to exchange, we've covered. In terms of 2% like-for-like, was it in line with our own expectations. It was in the bounds. We obviously do forecasts at different levels of scenarios and it was within the boundary of what we were looking at in terms of that.

Just on the foreign exchange to clarify. The 1.31 is the effective exchange rate for the nine month period in 2018. And then we've used the rate at the end of December and replicated that for the fourth quarter to give us the full year effective rate. Just to explain how we’ve done
that. Then when we do the full year ’19 calculation, we take the full year at the spot rate at the end of December. So that's what we've done.

Antoine Belge

Okay. Thanks for this precision. So all-in-all that consensus PBT number, in your view there is no significant change to be expected?

Julie Brown

Yes, I think broadly we're comfortable. The only thing is, some of our analysts are at the higher end of that range probably didn't have the opportunity to fully reflect some of the guidance we'd given, and therefore we would expect some of the people at the top end of that range to move down.

Question 8

Zuzanna Pusz, Berenberg

Good morning Julie and Charlotte. I have just two remaining questions. First of all on the new products. If I understood correctly the new handbag offering under the creative direction of Sabrina Bonesi will come into stores in Q1 FY19. Is that right?

I appreciate that it may be a bit too early to share any specific details, but can you give us any idea in terms of how significant this could be? Could we expect a completely new model, or just generally a refresh of your existing range, and also having a sort of major marketing push behind that?

And just secondly, a small follow up on the UK. I understand that the big part of the weakness was obviously driven by the tougher comparable basis because of the tourism. But also can you make any comments on the domestic consumer, have you seen any notable weakness? Specifically there have been some comments made to the press earlier today that there's been some trading down observed in the region. Thank you.

Julie Brown

So taking each of those. Yes, we do. The key thing with the handbags is we want to build out a full sort of architecture of handbags so that we’re looking at different functions, different usage, so day, evening, different sizes, different functionalities. We want to bring that out fully. We will initiate the beginnings of that from March 2018, you will start to see the first launches from that. But I think it's important to say that it's all about building and also having stability in the range in terms of handbags over time. So that's basically the strategy.

In terms of the new models that we may expect to see, we will see a new model being launched in March which we’re very excited about. But the main emphasis that we’ve got is really around that's the start of the new product range, and it's building out the offering over time. We see this as a long-term way of building a sustainable leather goods business, not a short-term sort of one product type approach. So that's the really important thing to say.

In terms of the UK in particular, in domestic UK, the domestic data does indicate also a slow down in the third quarter. However, a very big caveat around our UK domestic data. What we record when a consumer purchases from Burberry is the home address, and that dictates whether we’re attributing the person to UK domestic, or overseas. Quite often people have
second homes, and therefore we could pick them up in our databases as a UK National, but they may not be, they may have a second home and will be still a tourist. In our database what we’ve got is about 90% of our UK population is based out of London and Heathrow, so there’s probably a large tourist component to that, or a travelling consumer to that. So although we’ve seen a weakening in the third quarter in domestics, it’s highly likely to have been influenced by tourist trade I should imagine.

In terms of some of the press commentary, it’s really all around the product mix in the quarter. What we were doing is obviously giving analysts and investors more of an insight into the 2% comp by referring to the product mix which had impacted the AUR, and I think that’s what you’re finding the press will pick up on.

**Question 9**

Rogerio Fujimori, RBC Capital Markets

I think in the press release you referred to good digital sales growth, and I appreciate you don’t disclose specific numbers. But it’s such an important driver for Burberry, so I was wondering if you could qualitatively talk about how growth contribution from e-commerce in Q3 compared to the first half? Could you give us an idea of how much e-commerce contributed to growth in Asia? And could you confirm that your e-commerce penetration in America is still double the global average?

Charlotte Cowley

Yes, we did see and it’s nice to still see, digital performing strongly for us. The growth was led by Asia, so that was the strongest growing part of our digital business, and as you know we’ve had a focus on localisation efforts particularly in Asia so it’s nice to see that working for us. And as you say, yes the US is still the most penetrated market for us, for digital.

Rogerio Fujimori

Thank you. Was the growth contribution from e-commerce in Q3 comparable to the first half?

Charlotte Cowley

It was very similar.

**Concluding comments: Julie Brown**

Thank you for your questions and for joining our call. Just to close, we’re right at the beginning of a multi-year journey, there’s a lot of work to do. We’re pleased with our early progress, and we remain focused on positioning Burberry firmly in luxury, and delivering long-term and sustainable shareholder value. We look forward to updating you at our prelim results which are going to be held on 16th May. Thank you very much.