

Burberry Group plc

Third Quarter Trading Update

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Julie Brown, Chief Financial and Operating Officer

Good morning and welcome to Burberry's full year 2019 third quarter conference call. Slides are available to accompany this presentation on the IR section of our website. In today's presentation I will cover three main areas: the operational progress we've made, our retail revenue results and finally, our guidance for the full year. With me this morning is Annabel Gleeson, our head of IR, and we will be very happy to take questions at the end. Before we begin, I wanted to publicly thank our teams for getting us to this point. A huge amount of work has gone into the preparations for next month's launch of Riccardo's debut collection and we've made significant headway in terms of brand heat. While we are of course mindful of our financial objectives and are managing the business dynamically to deliver these as we transition from one creative vision to another. We're looking beyond our current performance and we're excited about what is to come.

So turning to the first slide, during the third quarter we continued to build brand heat and shift consumer perceptions. In line with our new go-to-market model and frequent product drops, we continued with our monthly B series, introducing limited edition products designed by Riccardo. We collaborated with Vivienne Westwood reimagining a range of Vivienne's iconic pieces in Burberry check. And we launched our annual festive campaign. These activities underpinned improvements across our social media platforms. For example, quarter on quarter we added over a million new followers across Instagram and WeChat. Our reach on WeChat grew by 50 percent, supported by the B series, which was recognised as the most exciting luxury campaign on WeChat and we saw a material improvement in sentiment relating to our brand on social media.

During the quarter we also invited our wholesale customers to place orders for Riccardo's Autumn/Winter 2019 collection which will arrive in stores from May. The results are really encouraging. In the US, luxury wholesale orders per door have doubled on a like for like basis and in EMEA, orders in our luxury accounts have shown a significant increase. However, as guided, our wholesale restructuring accelerates in this half and into next year, and this will weigh on our overall financial performance.

Turning now to Slide 2, I wanted to review a financial performance in the quarter. Whilst we have a number of positive lead indicators in wholesale and social engagement, our performance in the third quarter does not yet reflect the brand and product changes. Against this backdrop, we've managed our business dynamically delivering comparable store retail sales growth of plus 1 percent in the period. All three regions were at 1 percent in Asia-Pac Mainland China and Korea grew a mid- single-digit percentage, while Hong Kong and Japan declined, with Japan particularly impacted by weaker tourist flows. In EMEA, spend by European customers remains subdued impacted by the macro situation particularly in France, and we saw an improvement in buying patterns quarter on quarter, as Chinese tourist spend returned to growth in the UK. The Middle East remains challenging, also impacted by the macro situation. And finally, the Americas was impacted by a more challenging footfall in the US market.

Turning to Slide 3, again you can see the 1 percent growth in comparable sales space was a minus 1 percent impact and during the period we opened two new stores and closed four which takes our net store closures to nine, year to date. As we've previously highlighted, we had a negative impact from the move to a single retail calendar and the adoption of IFRS 15. In total, retail revenue is down 2 percent at CER. And finally, currency had a 1 percent benefit in the quarter resulting in reported sales of 711 million sterling, down 1 percent year on year.

Turning to Slide 4. We are currently navigating our business through the apex of the transition. On the one hand we've introduced clients to our new branding and product. But on the other, the previous collections remain in store. As you can see from the chart, this situation will continue into Q4 as the contribution from Riccardo's collections build over the coming nine months. In terms of the phasing of new product introductions, we start in February with the launch of the September runway and from May, the Autumn/Winter collections start to arrive in store which will build the weighting Riccardo's product by September. Excitement is building in anticipation of Riccardo's debut selection arriving in store. Our preparations ahead of this launch are well progressed with activations planned in key retail stores and across influential wholesale partners and complementary store refreshes are also underway.

Finally, turning to the outlook on the next slide. In terms of full year 2019 financial outlook, we maintain our guidance for broadly stable revenue and operating margin at CER. We continue to progress well against our operational objectives, including the delivery of 100 million sterling cumulative cost savings by the end of the year. However we now expect our full year capital expenditure to be 130 million pounds lower than the hundred and fifty two hundred sixty previously guided due to the phasing in anticipation of the new store concept. As usual, we have updated our currency guidance. There is no change to our view of a 25 million sterling headwind from currency on operating profit. In summary we're excited and well-prepared for the launch of Riccardo's debut collection. While we know it will take time to achieve our ambitions, we're delivering on our strategic milestones and the execution of our plan is on track. And with that we're very happy to take any questions.

Q&A

Zuzanna Pusz, Berenberg: Good morning. Thank you for taking my questions. I have three questions please. The first one is on trends by nationality this quarter. Would you be able to show us some detail especially on the Chinese consumer and if you've seen any sort of deceleration towards maybe the end of the quarter? Second, again on the trends throughout the quarter, but just more generally. I appreciate that December was impacted by some one-off events like the riots in Paris, but is there any colour you could give maybe on the exit rates just so that we understand what the trends are currently. And finally would you be able to comment on the volume value split of the 1 percent like for like growth in the quarter? Thank you.

Julie Brown: Thank you very much Zuzanna, good morning. So in terms of trend by nationality, in particular the Chinese. The Chinese globally, we have seen a small uptick between the quarter on quarter, Q3 to Q4. The Chinese were growing at low single digits in Q2, and now we're at mid-single digits. We've ticked into mid-single digits, but it's a very marginal increase that we've seen and nothing to call out that I would call a trend from it. So I wouldn't read anything into it. The

second part to your question around exit rates, and in particular December, I think only two things to call out, obviously we don't comment on trading in the particular quarter by month, but what is worth calling out is, as you mentioned, is because of the French situation we had to close some of our mainline stores in Paris on a few Saturdays leading into Christmas and that did impact the mainline trading in France. But France as a country is about 3 percent of our sales so it wasn't that material. In terms of other countries to call out, it would probably be America. We saw a softening in sentiment generally, in terms of the macro environment in America, and you will have seen some of the department stores reporting reduced traffic in our third quarter, and we also experienced that as well in our physical business.

Coming back to the 1 percent comp, and the breakdown of the 1 percent comp. It was mostly driven by volume. There was very little movement in price in the third quarter, it was all volume.

Zuzanna Pusz, Berenberg: Thank you so much.

Elena Mariani, Morgan Stanley: Hi good morning everybody, a couple of questions from me as well. The first one is on your fiscal year 20 guidance. So you've maintained guidance also on the upcoming year and am I correct in assuming that you are expecting an implied acceleration in like for like? Given that you have the new products being launched in store in the coming quarters and all-in-all you're still expecting wholesale to be down over the course of the next year. Second question is about your planned launches and the phasing. I was wondering whether you could give us a bit more information about the leather goods segment. Is that going to be the most important part of your planned launches? Is it going to come a bit later? If you could give us some indications here it would be fantastic. And finally a small thing, could you give us some indications on the expected effects impact on fiscal year 20 please at the EBIT level? Thank you very much.

Julie Brown: OK thank you very much Elena. Taking the first piece, the guidance, in terms of the acceleration what we see happening here is that Riccardo's product (and it's basically) the runway will start to go into our stores towards the end of February. As you know it will still be a small part of our business - approximately 10 to 15 percent of our range at that stage will be coming from Riccardo - and this will build over the financial quarters, Q1, Q2 from about 50 percent in May to just over 60 percent by September. So in terms of acceleration we see this as being the next catalyst. We've done a huge amount of preparatory work to prepare the stores and the retail associates for the launch. However, it will build, we see it building over time and not having a significant impact on our fourth quarter trading, but more impact as we go through the next few quarters.

So in terms of the wholesale component, this year we're maintaining the guidance of wholesale being a mid-single digit growth rate. The wholesale rationalisation program is going to affect the second half of this year and the first half of next year in the most pronounced way. In the first half of next year we'll feel it the most particularly in the US. So basically this year mid-single digits, next year we do expect wholesale to be down, and we'll clarify the precise guidance on that when we give the results in May.

The next part of your question relating to launches and in particular the leather goods category, I think we've probably covered the general launches in terms of the cadence of the product build and we've got a slide in the pack that you will have seen. In terms of leather goods specifically the transformation of leather is a multi-year project. We started to introduce new products, but

building the full offer will take time and clearly a key part of the leather transformation will be the introduction of the TB monogram, because we'll be able to denote Burberry through use of a monogram rather than the use of a check, which obviously suits leather goods in a good way. So we expect this to start, bags will start to build up but it's not going to be an immediate overnight change.

And then finally in terms of foreign exchange, we have given specific guidance for this year. For next year, for full year 20, we would expect a very negligible impact at this stage from foreign exchange. We're likely at current rates at the 18th of January we're likely to have a positive impact on sales, but on operating profits it's likely to be fairly flat because we'll still have the procurement contracts running through cost of goods.

Elena Mariani, Morgan Stanley: Fantastic. Thank you very much.

Antoine Belge, HSBC: Hi, good morning. It's Antoine at HSBC. A question if I may. I think in your comments you've noticed the positive response from retailers especially in the US. In that doubling of orders for instance, any product category to call out that seems to be performing or really driving on your uptick? Second question - with regard to the current quarter, you highlighted maybe exit rates in some regions being negative. What's your view about the Chinese New Year in general with the context of the weak [INAUDIBLE] highlighted the product from Riccardo will only impact a bit later in the year. Do you think that it's still possible for Burberry to recover positive like for like in Q4 or is it going to be a bit challenging? And finally with regards to the EBIT consensus today, I think it's a touch below £450 million. Do you think that this should change in light of the more challenging conditions or do you think that there are ways for you through maybe cost savings to make sure that this figure is broadly achieved? Thank you.

Julie Brown: Okay thank you very much Antoine. Taking you through those parts, the first one in terms of the positive response from retailers or US wholesalers and basically how it's defined by product, it's fairly across the board. We've seen as you know, Riccardo's show was all dedicated towards the woman and the girl, the man and the boy. His whole premise here is to have inclusivity across the range and we've seen a very good response across the range both to his runway and also the first commercial collection which will be Autumn/Winter '19.

In terms of Q3 specifically, and the exit rate, it actually wasn't that different apart from the specifics we've called out in terms of the impact of the yellow jerseys in France, impacting our mainline in France with the store closures, and also the softness in sentiment in the US affecting traffic which we've seen reported by a number of department stores across the US. Apart from those specifics that we've called out there wasn't really a change in the exit rate at all.

And you mentioned the Chinese New Year. We've had a specific dedicated campaign to the Chinese New Year, and we've complemented it with the B Series drops which have been extremely successful, particularly in the men's line. So basically in Q4 we wouldn't expect a general change to the trajectory in Q4 that we've delivered in Q3. The key inflection clearly is when Riccardo's product builds through the quarters, and in the fourth quarter it will only come in essentially four weeks before the end of the quarter. So we would expect that to build over time.

The final part of your question relating to EBIT consensus - so EBIT consensus is at £449m at the moment. The macro conditions are somewhat more challenging but we are maintaining guidance.

So no change to our guidance of broadly stable revenue and operating margin at CER. The key thing here is that certain analysts who were on the high side in Q3, we would expect them to recalibrate their comp through our delivery of plus 1 percent. But apart from that we're not expecting any change. We're maintaining guidance.

Antoine Belge, HSBC: Thank you. Maybe just a follow up on my first question regarding the Autumn/Winter, for trenches in particular. Is there a positive trend for that important product line?

Julie Brown: For Riccardo's collection, nothing really to call out. We've seen it across the board across all the product lines, and clearly Riccardo has embraced the trench and the designs and it's a key part of our collection.

Antoine Belge, HSBC: Thank you very much.

Thomas Chauvet, Citi: Good morning. I have two questions please. The first one on the deliveries of the new collection so that the product availability of Tisci's collection will be quite limited in Q4 and in each one. Given the strength in the wholesale order book, how are you going to make decisions of allocating products to the wholesale clients versus your own stores or even between the various geographies? Secondly on Brexit, on the contingency plan, I saw some headlines of your media interview Julie earlier this morning, how much of your COGS are from products actually made or finished in the UK? I'm not talking about raw material but actually made or finished in the UK, versus Italy and other parts of the world. And in a no deal Brexit scenario, how realistic would it be for you to shift part of your UK-based apparel manufacturing to Italy, especially now you've acquired your Italian leather goods partner CF&P. I mean I know they are leather goods not trench coats but everything is possible in Italy I suppose. Thank you.

Julie Brown: Thank you very much Thomas. So just in terms of deliveries, you're right, in Q4 we anticipate it to be fairly limited it'll be the final four weeks of the fourth quarter where we'll have Riccardo's product and it is the runway. So you probably recall Marco's slide that he presented and we've also brought it forward. We'd expect to be about 10 to 15 percent of the range by February and then building to about half of our range by May, and approximately just over 60 percent by September. So that's the sort of product cadence coming from Riccardo's collection.

In terms of allocating the product, clearly we've got good line of sight of the order book from wholesale and indeed as you've seen from the announcement it's very very encouraging. Our aim is to satisfy the supply chain and we're absolutely geared towards satisfying our retail needs and our wholesale customers' needs. And clearly the wholesale customers are very important to us particularly at this stage because they have the fashion consumer and they're a good way of introducing new fashion consumers to the Burberry range. So we don't see any issues with supply.

Moving onto Brexit and the cost of goods and where the products are manufactured. What I was signaling this morning to the media was if we had no deal, if we exited the EU with no deal in place, then we would be subject to world trade tariffs, which would increase the duty we pay on an annual basis by tens of millions. And clearly we would have to take mitigating action against that. In terms of where the product is manufactured we have got the trench coats being manufactured in Castleford in the UK and we've also got the cashmere scarves being manufactured in Scotland. We have got a large manufacturing base outside the UK, but it's mainly

the disruption if there was no deal really comes from operationally moving the products between Europe and the UK, for instance our distribution centre for the digital channel. We've got one in the US, one in China and one in the UK, so the UK one is servicing the rest of the world and it's the operational disruption that we would encounter with regard to shipping product to customers within the lead times and that would obviously mean additional inventory would need to be carried as one of the mitigating actions in the near term.

Thomas Chauvet, Citi: Thank you.

Rogério Fujimori, RBC Capital Markets: Good morning Julie and Annabel. Three quick questions, first to follow up on leather goods. I appreciate it is a multi-season effort but you had the belt bag big launch last spring so if you could talk about how the belt bag is performing and how ASP is changing given this high retail price point. The second is just double checking the markdown levels in Q3 19 compared to Q3 18, and the last is any comments about e-commerce, about your digital performance in the quarter, about common third party online partners. Thank you.

Julie Brown: OK. Thank you very much. So in terms of the belt bag specifically we were very pleased with the belt bag, it's performing well. As you know part of our strategy here is to go in at more elevated price points and the belt bag's gone in at 1590 Sterling and 1790 for the large size. And it's been very successful it's a full leather design as you've seen and at a higher price point than usual and it's been very successful. It's now our third best-selling bag overall. I think in terms of leather and bags, you know this is a strategy and it is a multi-year strategy to build-out the bag architecture over time. You will see more of this innovation coming through with Riccardo's collections. And we're really excited about that but we do see this as a multi-year journey- I think that's the important thing. We wouldn't focus on one shape individually, but the total architecture that we're bringing to our consumers.

Just in terms of the markdown, we don't give the specifics on the markdown, but clearly we've got two really clear priorities as a company - we want to prepare our retail stores to receive Riccardo's product and therefore managing inventory through this creative transition is a key part of what we continue to do. So it's all about preparing them for Riccardo's product coming in stores at the end of February, and also simultaneously ensuring that we protect the brand through that process.

And then finally in terms of digital, our digital channel continues to outperform the mainline. The major growth areas that we see in digital - we've seen Asia being very productive. We've also seen the localisation strategy bearing benefit and moving into new third parties such as the Farfetch collaboration has also been successful because it extends our reach and also gives us access to a slightly different customer base. So overall, we're very pleased with digital and like retail, digital is fully prepared for the launch of Riccardo's product which will come at the end of Feb and expect to see some exciting things on digital at that point as well.

Rogério Fujimori, RBC Capital Markets: Thank you.

Melanie Flouquet, JP Morgan: Good morning. Thank you for taking my question. I have four questions please. The first one is on the product please, could you share with us a bit what happened from the product particularly in October to December, so in particular whether fashion continued to outperform, heritage continued to be under more pressure and leather goods in

total because I know the belt is doing well but I think you were still in transition with the former collections. So that's my first question.

The second question is, if I understood well, but please correct me if that's not the case, when you're looking at the doubling of the orders of the Tisci collection for the core collection in the US, you're referring to the remaining doors. So I was wondering whether you can help us understand what these orders are looking like in total if we include all the closures that you are undergoing in the US, because if I'm not mistaken you're closing 60 percent of the doors. So I know you have a total guidance but the total guidance is probably including everything. So on the Tisci collection are the more fashionable parts and not the heritage products that have not changed, what is actually happening including everything?

The third question is a quick one on CapEx, should we expect to see reacceleration of CapEx in the year after, or in other words when is the new store format expected to start coming in? And then, sorry, your clarification on markdowns, you said you were preparing the stores for the Riccardo collection I wasn't sure whether this meant the markdowns had been slightly superior. Thank you.

Julie Brown: OK thank you Melanie.

So running through those, in terms of the product split, we're no longer providing the distinction between fashion and replenishment because this strategy is very very clear that we're moving more and more towards a fashion company and then you'd expect the emphasis to be on the fashion lines, so we're no longer providing the split. But the component of our business that's orientated towards fashion is performing at a much stronger level than replenishment. Well this is a macro factor that we're seeing across the industry.

In terms of the wholesale position, your second question. You're absolutely right. The doubling of US orders that we've seen relating to the November market which was Autumn/Winter '19 from Riccardo is a statistic that's coming from the remaining wholesale doors. So if we've retained, for instance, a floor or several floors in Neiman Marcus we're comparing like for like in that sense. So it's a very similar statistic to comp in that sense and it means that the productivity of those doors is anticipated to rise significantly because of the rise in the orders relative to the space that we retain. If you think about wholesale as a whole and you think about the closures we are, as you quite rightly say, in the process of closing approximately 60 percent of our wholesale doors in the US. And so the total guidance is taking into account the whole situation. This year we anticipate having a mid-single digit rise in wholesale because the first half was not really impacted, the second half is more impacted in the US negative overall in the US. And then next year we would expect wholesale to be negative overall because we will have a significant pull down from the closure of those US doors specifically in the first half.

Moving on to the third part of your question with regard to capital expenditure. What we've done with CapEx is we have been through a serious prioritisation exercise and basically decided which stores need to be refreshed at this stage which are consistent with the strategy. So it's really the flagship locations, the high fashion cities and which stores can now wait for the new store concept which is going to be developed and announced in the second half of the full year 2020. And really it's been a recalibration of that. So yes, you would expect us to stay with the overall capital expenditure guidance that we gave when we laid out the strategy, but there is going to be a back-phasing of that in accordance with our plans and prioritisation.

The final part of your question in terms of the markdown period: we don't go into the details of percentage of markdown or sale periods but what we have done is we've been very disciplined about the management of the inventory situation. The most important thing being that we prepare the stores for Riccardo's collection which starts at the end of February, and so the important stage now really is because we're changing creative and changing the vision, it's the importance of clearing our inventory accordingly. Thanks Melanie.

Louise Singlehurst, Goldman Sachs: Morning Julie, morning Annabel. Just a couple of follow ups from me please if I may. Just on that CapEx can you just tell us about the 10 stores that you're doing and in terms of obviously key cities where you're starting, and then in terms of management I think the last, from memory, the last additional announcement was the chief marketing officer back at the end of last year. Have there been any other changes and are we pretty much through the entire transition? There has obviously been a lot of change over the recent past. Thank you.

Julie Brown: Yes thank you very much Louise. So in terms of the ten stores, we started with our two UK flagships, which were Bond and Regent, and I'm sure you've seen them, in terms of the stores that are coming through next, it's mainly focused on the key fashion orientated cities where we've got key influencers and opinion leaders. So for instance, you'd expect New York, Milan, Paris. Clearly some of our partners in London. And then the next phase is some of the major Asian cities such as Hong Kong, Shanghai, Tokyo, those are the main areas that we'll be covering.

In terms of your next question about people changes, yes, we're delighted to have welcomed Rod Manley to work for the company. He joined us a couple of weeks ago steeped in luxury marketing so he joins us with a lot of experience in this phase, so that's fantastic. I think in terms of the only other change at the senior leadership team is a change in our HR and Corporate Affairs. So we've got a new HR director who's joined us recently and she's joined us from American Express. These are the major changes that we've got at the senior leadership level.

Louise Singlehurst, Goldman Sachs: Super. Thank you.

Julie Brown: Thank you very much everyone for joining the call, and we look forward to seeing you again associated with the show. I think we've got store tours etcetera., and we're also seeing you in May when we do our full year results. Thank you.

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