Good morning everyone. I hope you’re keeping well, and welcome to Burberry’s First Quarter conference call. Slides are available to accompany this presentation on the IR section of our website.

In today’s presentation, I’d like to run through three areas: first, our retail sales and brand performance; second, some further information on organisational changes as we enter the second phase of our strategy; and third, our views on outlook. With me this morning is Annabel Gleeson, our Head of IR, and we will be happy to take your questions at the end.

Finally, I would like to say that when I refer to comparable store sales growth, no adjustments have been made for closures relating to the Hong Kong disruptions or COVID.

Turning to slide 3, I wanted to start with a summary of our strategic progress this quarter. Firstly, we saw an excellent response to new product launches in recovering economies as well as online. Demand for leather goods was strong in Mainland China and Korea, bringing new, younger luxury customers to the brand.

Secondly, we focused on rebounding economies, tailoring initiatives to optimise our sales growth. We innovated in digital to inspire customers and drive sales both on and offline.

And finally, as we enter the second phase of our strategy, we’re making organisational changes to sharpen our focus on product and increase agility and generate structural savings that we will be able to reinvest into consumer-facing activities.

Turning to slide 4, I’d like to provide some context for the financial performance this quarter. We started the quarter with 60% of our stores closed and this reduced to around 15% by the end of the period, albeit 45% of our retail network remains on reduced trading hours.

Gradual store openings, together with strength in Asia and our Digital business, caused our monthly comp performance to improve from -60% to -20% over the quarter.

Turning to slide 5 and looking at the major components of retail sales. Group retail sales comp was heavily impacted by COVID delivering a decline of 45% in Q1. Space was a 4% headwind. This reflected the closure of four stores relating to our rationalisation programme together with
the timing of store closures and openings. For the full year, we anticipate this to reverse in H2 with space being broadly neutral for the year.

In terms of openings this year, we’re excited that our social retail store developed in partnership with Tencent, will be opening in Shenzhen this summer. This experimental store will offer unique experiences that connect luxury customers’ social and online lives to their physical environments using technology powered by Tencent, and we look forward to sharing more details with you shortly.

In total, retail revenue declined 49% at constant exchange rates, with a small benefit from currency.

Turning to slide 6, these charts show our retail comp performance globally and by region from January onwards and highlight the improvement in trading through the first quarter.

Starting with Asia Pacific, this region showed the earliest recovery and delivered -10% in the quarter as a whole. Performance was led by Mainland China which grew mid-teens in the quarter. Korea was also strong, with double-digit sales growth in Q1. In total, sales trends in Asia Pacific returned to +9% growth in the month of June.

The Americas declined 70% in Q1 starting the period with all stores closed, but began to reopen in May. The Americas has shown a dramatic improvement since reopening, with comp sales in June down 27%, driven by local customers, which normally account for over 90% of the region’s spend. This is a strong indicator of brand heat and perception in America, which as you will recall, was the region which required the greatest change to achieve luxury positioning.

Finally, EMEIA declined 74% in the quarter. This region was impacted by the most prolonged period of store closures, with the majority of stores reopening at the end of May and the UK only re-opening on 15th June. EMEIA is also the region most dependent on the travelling consumer and this business was significantly disrupted in Q1, particularly impacting performance in tourist cities like London, Paris and Milan.

Domestic trends showed a marked improvement through the months with Continental European domestic spend growing double-digits in June and this underpinned an improving trend in EMEIA, which declined 55% in June.

Turning to China and slide 7, I wanted to give a bit more colour on the trends we are seeing in the Mainland. China grew mid-teens in the quarter, including an exceptional performance in Digital, and delivering an improving sales trajectory through the period. Sales in June have already exceeded pre-COVID trading levels in January.

We have also experienced an exciting rise in customers new to the brand, growing double-digits year-on-year in Q1. The growth in China has been supported by the localised approach we have been taking market by market, and some repatriation of spend.

In April we launched a leather goods campaign exclusively in Mainland China. This featured several components: a bespoke bags experience on Burberry.com, featuring enhanced landing pages and product exclusives; a series of pop up stores, deliberately designed to be more sustainable and reconfigurable, incorporating an augmented reality experience where animals come to life through mobile technology. And a limited edition pocket bag for influential fashion blogger Mr Bags’ WeChat followers.
The reaction was exceptional with the limited edition bag selling out within a minute of becoming available and pocket bag styles overall selling out within three weeks of the campaign going live. It also helped to support strong Q1 full price bag sales growth in Mainland China.

In terms of the Chinese consumer globally, we have seen a decline in the Chinese cluster in the mid 20% range for the quarter and mid-teens in June, indicating some level of repatriation.

Turning to slide 8 and looking at our brand and product momentum. During Q1, we inspired customers with a number of product launches including our new Autumn collection, Pride and Summer Monogram capsules, and Leather Goods exclusives. The consumer response in recovering economies as well as online was excellent, including recruiting new, younger consumers to the brand.

Our Autumn/Winter 2020 pre collection campaign generated a reach four times higher than last year’s campaign.

Our Summer Monogram campaign included a video set in a CGI geometric world featuring Kendall Jenner, a curated Spotify playlist and a new multi-player game called B-Surf.

This has already been our best performing Instagram TV video ever, with an Instagram reach more than 60% higher than our previous monogram capsule.

Turning to slide 9, I wanted to explain more about the changes to product that we announced last week and some further organisational changes we are proposing to make.

As we enter the second phase of our strategy, we are evolving our approach to product. Under the new structure, we will create three new business units covering Ready-to-Wear, Accessories and Shoes, allowing us to embed product specialism, resulting in a pooling of category expertise, an enhanced product focus and elevated quality.

Elsewhere in our organisation we are proposing to further streamline our enabling functions and improve retail efficiency. These changes also include office space rationalisation following further development of ways of working.

Turning to slide 11. This shows the financial implications of our proposed changes. Subject to consultation, we expect the changes to deliver savings of around £35m in full year 2021, or £55m annualised, with an associated one-off restructuring charge of £45m. These savings and costs are incremental to our previously announced £140m cumulative restructuring programme.

Conditional on the macroeconomic recovery from COVID-19 and luxury industry growth, we will be able to reinvest these organisational savings into consumer-facing activities, including pop-up stores, visual merchandising, digital activations, events as well as marketing.

Turning to slide 13, I wanted to recap on the diagram we shared in May. As you know, we have modelled a range of planning scenarios, to ensure we are well prepared for a number of macro and regional situations.

Looking forward, the course of the pandemic from here will largely depend on the actions governments pursue to control the spread of the virus as economies restart. In addition, our
performance will depend on the phasing of store openings and closings; the easing of travel restrictions and overall consumer confidence. Our objective is to protect the long term value of the brand and ensure we have the headroom to fuel growth.

Given this backdrop, we are therefore unable to provide our usual annual guidance, but in order to aid your modelling, we would like to provide some additional colour on the quarter ahead.

Turning to slide 14. We expect our sales in the second quarter to continue to be materially impacted by the pandemic. In retail, tourist flows are likely to remain negligible, and traffic is likely to remain weak. Based on our comp retail sales performance in June 2020 of -20%, we expect Q2 comp to decline by 15% to 20%. In wholesale, we anticipate H1 sales declining around 40 to 50% as we collaborate with our partners to protect the brand and control inventory in the market.

Based on these trading assumptions, we would expect H1 gross margin to decline by around 200bps to 300bps year-on-year and H1 operating expenses to reduce by a mid-teens percentage compared to last year.

Turning to the summary on slide 15. To conclude, our first quarter results have been heavily impacted by the global pandemic and we expect a material impact on our Q2 performance.

In line with our strategy, we believe it is crucially important to invest in strengthening the Burberry brand and continuing to excite the consumer with new product and innovative campaigns. We are planning organisational changes to increase product focus and deliver improved efficiency and this, coupled with the embedded flexibility in our plans, will allow further capacity to invest in growth enhancing consumer facing activities as opportunities present.

And now we would like to turn to the Q&A.

Q&A session

Question 1

Louise Singlehurst Goldman Sachs

Hi, morning everyone. Just three questions from me please. First, when we look at the exit rate and going into the current quarter the -15% to -20% can seem a little bit cautious in terms of remarks but I know it’s obviously an environment which is very difficult to read, can you just help us think about the impact of the delaying of the Autumn/Winter product into stores and the impact that's having? And what’s the appetite from customers coming in and wanting full priced product? Obviously we're in very much a markdown activity at the moment. Is there a reason for extra caution just on that sales momentum because of the absence or the shifting out of the full price Autumn/Winter new product coming through?

And then secondly, Julie, I wonder if you can just help us think a little bit more about the savings that you’ve announced, the £55m: how is that going to be allocated and you obviously
talk a lot about the customer engagement and I'm sure the teams are trying to work out the projects, but what's really driving the number? Is it more about what savings can be delivered? Obviously you're working the team very hard to get and deliver the savings, or is it more about what's required for the projects that are in place? Thank you.

Julie Brown

Okay thanks, Louise. So you're spot on, we're dealing with a very uncertain macro environment at the moment with the coronavirus. We were pleased with the June exit rate of around -20% but we've taken into consideration that we expect tourist flows to remain under pressure, particularly long haul, which affects our EMEIA business considerably, as it is a sizeable proportion of our business.

We also see the Americas facing some uncertainties with second waves breaking out and there are obviously higher infection rates in some states and, as we saw yesterday, California having to make tough decisions around lockdowns. We've also seen that in other countries: we saw the issues in Beijing relating to a second lockdown, and recently in Australia.

So we're very cognisant of the fact that the virus lives with us, it stays with us until we've got a vaccine and therefore infection rates are going to be volatile and therefore sales. So I don't think in this world that we can really safely extrapolate a result that we had in June.

You're absolutely right as well there are a number of moving parts within this. We've got Autumn/Winter that has gone into the stores, there was a slight delay in it going into the stores because of the distribution chain and we're obviously now in the markdown period, the classical markdown period across the world. It goes in phases across the world as you know, but now most luxury brands are in that period of clearing the Spring/Summer season.

So there are a number of moving parts but net/net we believe, you know we can't give guidance for the full year because of the impact of second waves in the winter period when we think it might be more significant, but we're trying to give some line of sight to the second quarter as best we can.

In terms of the savings programme I would definitely see it as we're entering the second stage of the strategy. The focus is very much on the product: product specialism, quality and putting more specialism behind Ready-to-Wear, Accessories and Shoes, which are technically very different areas of the business. So this allows our planning, product development, merchandising teams to focus on those areas.

The second part of it is all really about the enabling areas of the business and increasing the efficiency of running those enabling areas of the business. It's all about streamlining decision-making and ways of working to allow us to create these savings which then, as the first port of call, would be for reinvestment.

Now we haven't got a firm view of how exactly they will be allocated but what we're doing is we're taking a 360 degree view. So in the case of China recently, for example, and the bag campaign, we had a number of areas of engagement with the consumer to inspire the consumer. We had a collaboration with influential fashion blogger Mr Bags and we've also had pop-ups. We've also had dedicated product line for China with the pocket bag and a limited edition pocket bag in collaboration with Mr Bags.
So it’s really a 360 approach to the consumer, to inspiring the consumer around different campaigns. You’ve also seen the beginnings of that with the Summer Monogram, with Kendall Jenner.

So it’s going to depend on the quality of the projects and the campaigns that we believe we can support, and approaching them very much in a holistic way as a company.

Final thing to say on this, we’re very much putting our focus when it comes to reinvestment into rebounding economies. Asia is rebounding very quickly, China in particular, Korea is also very, very strong at the moment. So these are the areas that we’re very much focused on, it's the recovering, rebounding economies.

**Question 2**

**Thomas Chauvet, Citi**

Good morning Julie, Annabel. A couple of questions please. The first one on the LFL pattern, if you take January and June so both months where you had a substantial amount of stores that were open around the world, did you see a change in patterns between full price stores, outlets and online? And in markets where you had double-digit growth in June like China and Korea can you comment on the level of discounting you may have had to implement to drive traffic conversion, whether that's in full price stores or outlets?

And secondly, in your product divisions reorganisation you created a specific unit distinct from Accessories and Ready-to-Wear which is Shoes, I thought that was quite interesting, a category that Burberry may not have always been very successful. Can you comment on where you see the opportunity and maybe provide a few numbers what was the weight of shoes in full year 20 sales, the split between sneakers and more formal footwear, men/women? And where does shoes now sit in terms of margin hierarchy between Ready-to-Wear and leather goods and how are you going to push that category, is it going to be wholesale, online driven in particular? Thank you.

**Julie Brown**

Okay thank you very much, Thomas. So taking your first question, like-for-likes for June compared with January as you say is a good comparison, most of the stores were open. We’ve actually seen the strongest area of the business has been full price, so a very good performance. In terms of our comp in the quarter of -45%, the full price was outperforming that comp.

Online was a very impressive performance, so online in full price again was up double-digits in the quarter, and a very strong performance in June from our online full price business. So overall the two clear strengths in there were full price and online.

In terms of the outlet business, it’s been more challenged. I think in the outlet business we’ve got more travelling consumers and also of course the outlet business has got more of a presence in the Western markets which have been the most badly hit, much less of a presence in the Asian market which has returned to growth quite quickly. So those are the reasons I think the outlet business has been under pressure.
No major change at this stage to levels of discounting to quote in the quarter. Clearly we’re now coming into the major sales period, it varies by region, and we’ll have a better view when we get through the first half on that.

In terms of the product reorganisation: On shoes, just to give you a stat on this, they’re around 3% of our business at the moment, this is pre-COVID obviously. We do see it a significant opportunity. We also believe it’s a technical area that we need to put more emphasis on, so it’s more about appreciating the technical complexity of shoes; very similar to the work we did, almost two years ago now, when we purchased the leather goods centre of excellence in Italy. It’s recognising where the technical expertise lies and making sure that we capitalise on that opportunity. It’s all about driving the quality of the product and the craftsmanship associated with the product.

Now just to point out as well because Shoes are relatively small compared with the rest of our business, the Head of the Shoes unit will report into the Head of Accessories but obviously the Ready-to-Wear expert who’s just joined us, Adrian, and the Head of Accessories will report to Marco.

**Thomas Chauvet**

And has it become really a sneakers business now like for some of your peers or do you still believe in formal footwear?

**Julie Brown**

We believe in both. I mean the sneakers business is going extremely well but we do believe in both because as you know we’re very focused on the outfitting initiative where we’ve actually very much focused on the look of the woman or the man and, of course, in formal wear, with females often it will be a heel shoe. So we actually believe in both because we want to maintain that silhouette of the woman in the way that Ricardo has imagined in terms of the way that he designs product which is holistic. So we believe in both.

**Thomas Chauvet**

Okay and for the profitability I guess it’s a bit like leather goods in that you don’t yet have scale and the AUR is not at full potential given the perception of the category is not super-luxury yet, so lower gross margin and profitability than Ready-to-Wear?

**Julie Brown**

I mean obviously we will, when we’re talking about initial margins as we call it, be looking at the profitability of lines as we’re introducing them. We’ll always be very cognisant of the gross margin when we’re introducing new lines, but nothing really to mention specifically because at the moment it’s so small that it’s unlikely to move the dial. Leather goods was a much more significant part of our business so it had a much more significant impact, but we’ll certainly keep you posted as the category develops.

**Question 3**

**Zuzanna Pusz, UBS**

Good morning everyone, can you hear me well?
Julie Brown

Morning Susannah. It's a little bit faint. I'll just turn the volume up.

Zuzanna Pusz

Oh, I hope it gets better. I'll try to speak loud. So I have two questions please if possible. So the first question is on China. Is there any chance you could comment on the sequential performance of China in Q1? I think you mentioned in the press release that the exit rate was above 30%. So just to clarify, I mean, did you turn positive in China only in April or was it in May? And if you could maybe comment, sort of just, you know, on what was the performance of April, May, June, whether May was already double-digit or April maybe was already double-digit, some sort of colour would be very helpful. Because I think the problem we all have these quarters is that the numbers between the countries are not really comparable, so it would be just helpful, I think China is the only region where we can really compare things like-for-like.

And then the second question on the restructuring. So first of all on the restructuring charge, just to clarify unless I missed it, is it all cash, and also what is the sort of split between FY21, FY22, just so that we know for the modelling purposes?

And also the cost savings, so I understand there’s additional cost savings right now on top of the £140m cumulative, but can you just remind me, is this additional? I remember the previous cost savings, they were net of any reinvestments, so how should we think of these new cost savings? Are they net of investments or shall we assume that basically you’re saving in one place but it’s going to be reinvested, so net/net it’s sort of, yes, all reinvested? That would be very helpful. Thank you.

Julie Brown

Okay, thank you very much, Susannah, for the questions. Just taking each one, so on China, we’ve tried to be super helpful in the sense of providing the chart to show the monthly trends in the deck. I don’t know if you’ve had a chance to look at that yet, but China was already in double-digit growth in May, and obviously exceeded the January rate already in June. So we saw a very quick improvement. Korea has been strong throughout as well. So yes, we’re very encouraged by the monthly trends that we’re seeing in China. And obviously for the quarter, as we mentioned, it was up mid-teens.

So, going back to your question on restructuring, the restructuring charge is going to be mostly cash. There is potentially an element that will not be cash relating to office space, but we’re anticipating most of it being cash. And you’re probably talking about a single-digit number that may not be cash, it’s probably going to be that for the split. And then in terms of the charge into full year ’21 and full year ’22, again, the majority will be in full year ’21. So we anticipate most of the spend to go out this year, with again, probably single-digit number into next year.

In terms of the cost saving, so you’re absolutely right, this is incremental to the cost saving programme of £140m cumulatively. This has been really a second review of the ways of working in the business. It’s been designed to gain further operational efficiency in the business, clarity of decision making, clarity of roles between regions and centre, and that’s what’s driven the savings we’ve published this morning of £55m annualised.

Now, in terms of net or gross, this is the gross saving. Because we’re a growing business, we are focused on growth. We’re also very focused on the opportunity that we’ve got in front of
us now with a great product range, a great marketing team, and the ability to create activations across the world. The opportunity is there. And particularly in rebounding economies, there’s a real desire for the product in rebounding economies. So we’re intending to reinvest a large proportion of this, depending on the way the economies rebound, and depending on the strength of the cases that we have in front of us. But I think the safe assumption is to assume it’s reinvested.

Zuzanna Pusz

Perfect, thank you. So just to clarify on April in China because I’m not good at reading charts I guess, because it looks like, so April probably still wasn’t as a whole positive. It’s not the wrong assumption, right, in China?

Julie Brown

Yes, as a whole it was slightly negative but very marginally.

Question 4

Melanie Flouquet, JP Morgan

Yes, good morning, Julie and Annabel, thank you for taking my question. The first one is I wanted to come back on your impairments on rights of use assets that you posted at the end of last year and is going to help you in this year. I was wondering, when you face a big impairment like this linked to your assumption on this, does that not tell the story as to whether you should be more active in closing stores, and if that’s not the case, why not? So that’s my first question.

The second question is on gross margin. You’re guiding to 200 to 300 basis points negative impact in H1 on gross margin and I understand there are a number of pressure points going on. But I wondered whether you could help us understand a bit better how much is markdown, so how much is production capacity under utilisation, product investments, because of course China and geographic mix I imagine is positive on the other hand. So if you could help us to understand where this pressure is coming from and how much is going to stay in the business therefore then on.

The third point is actually you’ve had a bit more than a year of product investments going on. When do you think this will stop being an impact on the business? And when do you think you’ll be able to use your pricing power a bit more to compensate some of these product investments? Thank you.

Julie Brown

Okay, thank you very much, Melanie. So first of all, you’re absolutely right, with regard to the impairment charge that we took at the end of last year, so there is a benefit to depreciation and amortisation. In terms of store portfolio, clearly this is something that we keep under review. We did a very comprehensive review of the store portfolio, it must be about two years ago now, and we concluded that we needed to take 38 stores out of the network at that point and we’re just over halfway through that store closure programme. We felt that that was absolutely the right thing to do when we looked at strategic reasons for the store, we looked at financial performance of those stores, and we looked at the future of those stores in the network and we made that decision.
I think in view of COVID it would be too early for us to form any permanent conclusions around the store footprint. But clearly what we’re doing is whenever a store comes up for renewal we’re reviewing that footprint in the context of what we’re finding. But with COVID it’s a very uncertain situation as to whether the long haul traveller returns and when they return. And I think that will be a big determinant of the future of the store footprint generally. So that’s number one.

The second question you raised was about the gross margin and the moving parts within the gross margin guidance. And you’ve summarised the main pressure points, but starting with the positives, there will be a positive mix effect because the business has moved closer towards Asia and we’ve also got retail outperforming compared with wholesale. So that is a positive mix effect. We are anticipating that levels of discounting potentially in the second quarter will be at a higher level than the previous year, and in addition to that we’ve got supply chain overcapacity at the moment relating to cost absorption increases while production levels are at a lower point.

And there are some other mechanical effects in gross margin. Due to the sales being lower, the percentage gets affected. The good news is we’ve looked at this in some depth and we believe that the majority of these gross margin headwinds, the additional ones that we’re seeing in the first half of this year, we anticipate they should be resolved in subsequent years because they’re more related to overcapacity issues and particular issues relating to the COVID period than they are permanent structural changes. So we hope that’s helpful to people for their modelling.

The final part of your question was all about product investments and the area where we’ve probably made the most product investment is in leather, and this is part of our strategic move into leather to ensure that the value is perceptible to the consumer. So we’ve invested significantly into the design facility that we’ve got in Italy. We have not put the prices up commensurately to the quality of the leather and the design of the bags, but we anticipate being able to do that at some point in the future, but we’ll clearly keep the situation under review as the luxury sector emerges from COVID.

**Question 5**

**Anne Laure Bismuth, HSBC**

Hi, good morning. So I have two questions please. My first question is about the space contribution, so it has had a negative impact in Q1, and I was just wondering, I know the visibility is quite limited, but what should we expect in H2 and for the full year? So if you can give us a bit more detail about the stores closure and the openings for this year. I know the visibility is limited but just about the impact from the contribution of space for H2 and the full year.

And my second question is about the US market, so with a second wave of COVID and the riots so I know again the visibility in the region but how do you see this market evolving, going forward? Thank you very much.

**Julie Brown**

Thanks very much for your questions. So turning to the space, so starting with the first quarter we’ve got a space of minus four. We’ve got basically a net movement in stores of minus four stores, it takes our store count down to 417. We’ve got closures of seven in the period. One
of the main factors here is that it’s due to the timing and the low levels of sales from stores that opened over the last 12 months and came online. So due to the COVID impact, as a new store comes online, the sales impact of it coming online is a lot lower than the sales impact of stores that closed previously. So there’s a mathematical impact just because of COVID.

In terms of expectations, we anticipate that space will probably be at about minus three for the half year and then we’re expecting this to unwind into a neutral for the full year, so I think that hopefully clarifies the position on space.

And then coming back to the broader question of the US market; some encouraging news in terms of the US market, in terms of the speed of the recovery. So the US market, unlike EMEIA, is heavily a local market, so it’s about 90% local, so it’s not a market that gets seriously impacted by tourist flows. And as you can see from the chart we presented we’ve had a very steep recovery in the US market which is really encouraging. And because it was previously one of the markets when we did the brand perception work that we needed to do the most work in terms of brand perception, it’s actually a very encouraging result to see that momentum in terms of the recovery.

Now looking forward, having said this, clearly there are significant uncertainties in the US, largely because of the infection rate in certain of the states and the decision those states then take as to whether they engage in a second series of lockdowns as we’ve seen just recently in the last two days in California. So I think that is really the area of concern and the thing that we’ve got to look out for now in the second and third quarters.

**Question 6**

**Charmaine Yap, Redburn**

I have three questions please. The first one on gross margin. I wanted to come back to this to clarify that if it’s on a reported basis, the guidance that you’ve given. And given that you’ve already taken a big inventory markdown in a previous year, so I assume is there any mechanical impact whereby you expect sales to be above that level to be recognised as revenues but you don’t get that on gross margin. So I’m trying to see if there’s any mechanical impact from the write downs already taken on the guidance.

And in terms of the second question, I was going to ask about the organisational changes. As I understand in the past few years you’ve already streamlined the teams to increase accountability, more flexible ways of working; so how do the new business units really differ from the existing team, and how does that relate to the creative teams and the merchandising teams? Are they part of this structure? Just to help us understand. And when you talked about the office space rationalisation, is that in London?

And the third question, which is a clarification, did you mean that you haven’t done any material price increases in the recent months? And in terms of your price architecture, thinking longer term, do you see the need to evolve it in any way, be it a bit more skewed in the lower end and upper end, or any changes that you think are warranted, given the environment?

**Julie Brown**

Okay, thank you very much. Very comprehensive questions. So in terms of gross margin, the gross margin guidance is on an adjusted basis, as we’re always reporting on that basis. In terms of inventory, what we do is we review the inventory provisioning position at the end of
each balance sheet date, so the next big review point will be for when we report the results in November. And the impact on that inventory provision will largely depend on the sell through rates of the product that we’re providing for relating to COVID, if you’re talking about the exceptional item.

As you know, we very unusually provided for three seasons, the more recent seasons that we felt would be impacted by COVID, which was Spring ’20 and the prior two seasons. And the final verdict on the inventory provision, where any reversal will be below the line, will depend on the sell through rate when we get to the end of September. So I think we need to just wait and see with that one. In terms of the gross margin guidance, it’s before any reversal of the exceptional COVID inventory provision that we took last year.

In terms of the second question you raised around the organisation, under the new structure we will have end to end management and accountability for each of the major areas, Ready-to-Wear, Accessories and Shoes. And, therefore, whereas previously commercial planning, merchandising and product development went across all those categories, we’re now reorganising the teams to be business units focussed on each of these three major areas, so Ready-to-Wear includes Men’s, Women’s and Children’s, and then Accessories and Shoes. These new heads, Head of Ready-to-Wear and Head of Accessories will report to Marco, and Shoes will report in through Accessories because of the scale of it at this point in time.

Very importantly, Ricardo remains in charge of the design team and he continues to report to Marco, so there’s no change being proposed to design. I hope that gives you a bit more clarity on that.

Offices in London, no proposal. We’re making a change to the office footprint, it’s outside the UK, and it’s based on ways of working that we’ve discovered. It’s not in London.

And then the final piece was about price increases. In terms of price increases we haven’t made any material changes in terms of price increases in this period. We’re aware that some of our competitors have, but we haven’t done that. We will keep the pricing under review as we normally do, and we may make changes in the future. We’ve got a certain set of objectives in mind where we’re being guided at the moment by ensuring the product is of perceptible value to the consumer and that’s our primary driving force. But at some point we will look to recoup some of the gross margin investments we’ve made over the last number of years.

Charmaine Yap

Okay, thank you. And just to clarify, the merchandising team, does that get split up into the business units now?

Julie Brown

Yes, it will. Yes, the merchandising team is also included in the split. The idea is that we get product development, merchandising and commercial planning very closely linked by business unit.
**Question 7**

**Marion Cohet Boucheron , MainFirst**

Hi, good morning everyone. A few follow-ups for me please. The first one, you were flagging Europeans were up double-digit in June I think. Would you say that’s more revenge spending or delayed spend after lockdown or is it more the brand gaining shares in Europe? I mean, do you see this pace of growth sustainable or not? And just can you remind us what tourism was in Europe as a percentage of sales?

Then on the wholesale, once we've passed H1 are you using the period to close stores and so should we still expect a decline in the remainder of the year, or could we see an inversion of the trend?

**Julie Brown**

Could I just clarify that final question relating to stores at the end of the year? Was it about space?

**Marion Cohet Boucheron**

No, it’s more on the wholesale part.

**Julie Brown**

Oh, the wholesale. Okay, thank you very much for clarifying that. We saw a strengthening in Continental Europe. It was not across the board in Europe in June in terms of domestic recovery, it was really concentrated in Continental Western Europe, but it is encouraging. We've found with the regions that when countries come out of lockdown some countries have responded extremely well, particularly the Asian ones. Other countries, like the UK, are very cautious, so it does depend. So it’s difficult to call it at this stage as to whether it’s an element of revenge spending, but generally speaking what we’re seeing in Europe is it’s not attributable to that. It’s more about, I think, there’s a level of caution across Europe in terms of reopening and consumer behaviours.

So in terms of tourism, the percentage of tourists in Europe has dropped considerably. So we tend to find about half of our EMEIA business is tourists, and less than that is long haul, but it’s around about half of our business in total. We've found significant drops in the tourist business in Europe in the order of 90%. So the drop’s been very, very significant.

And then finally, with regard to wholesale, yes we are working with our wholesale partners to continue to protect Burberry and enhance the image of Burberry. We've got reasonable visibility over the order book in H1, and this is where we've decided to give guidance on H1. Again, we've been driven by the fact that the most important thing is to protect the brand. In terms of H2, we haven’t provided any guidance on H2, simply because probably the biggest single factor will be how the virus progresses, particularly in the winter months. So we've decided not to provide guidance but, of course, at the half year we'll try and give some further line of sight as we’ve done today on the next quarter to half.
Marion Cohet Boucheron

Okay, thank you. And just one more question. On the Q2 guidance for retail, how much would you think that it's affected also by the average price going down as a result from the significant markdown currently?

Julie Brown

No, it's largely a factor, entirely in fact, entirely a factor of footfall in the stores. It's absolutely not to do with AUR or average price, it's all to do with footfall in the stores. All the stores being closed for a period or reclosing as we've now experienced in Australia and in the US state of California.

Concluding Comments: Julie Brown

Well, thank you for joining our call today and we look forward to updating you on our interim results early in November. Thank you very much everyone.