BURBERRY

Burberry Group plc

Preliminary Results Analyst Call

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Burberry

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Marco Gobbetti, Chief Executive Officer

Good morning everyone, and thank you for joining us for Burberry's Preliminary Results presentation.

In terms of our agenda today, our presentation will be structured into three chapters before moving on to Q&A.

I will start with a review of the first phase of our strategy, then cover our vision and plans for the next phase. After this you will hear from Julie, who will cover our financial results and guidance.

I want to start today's presentation with a review of the first phase of our strategy and what we have achieved to date.

Fiscal year 21 has been an exceptional year, with the COVID-19 outbreak continuing to impact livelihoods and industries globally. In the last 12 months we have focused on prioritising the safety and wellbeing of our colleagues, partners and customers, contributing to the relief efforts to support our communities globally, continuing to create a more sustainable future for luxury through our ambitious sustainability agenda and protecting our business to deliver a strong financial performance.

Stepping back to three years ago, in 2017 we announced our vision for Burberry. Our goal was to firmly establish our position in luxury fashion and to inspire customers with our unique British attitude. We set out two phases to reach our vision, with clear objectives for the first phase. We wanted to reenergise our brand, renew our product, evolve our communications and transform the customer experience. We also set out to maintain sales and profit broadly stable while undergoing this transition. And I'm pleased to say that in the last three years we achieved what we set out to do and transformed our business.

Starting with communications. In 2017 we said that we would reenergise the brand by placing product at the heart of our communications, reimagining content with a curated, edited approach, and investing in meaningful experiences. And we have achieved this by completely redefining our brand image, renewing all brand touchpoints and elevating our position towards luxury and fashion.

One of the very first steps we took was to redefine our brand image, and we did this by refreshing our logo and creating the TB monogram, along with introducing new house codes which gave new energy to our brand.

We presented our new collections in fresh and exciting ways, for example, by showing our Spring Summer 21 collection outdoors in a beautiful English forest, and by introducing dedicated Men's and Women's presentations for Autumn Winter 21 which we made available for everyone to experience digitally during lockdowns.

Throughout this journey we focused on the most relevant channels for the luxury consumer, particularly social media, through video led content and activations on Instagram, WeChat and TikTok, as well as occasionally surprising our audiences in totally unexpected ways. We also amplified our brand voice through others, including culturally relevant influencers and communities that have been advocates for our brand, and impactful press titles across every region.

As a result, we have elevated the brand and significantly increased our visibility and engagement with luxury consumers. On social media, for example, which is a good indicator of brand heat we were seeing continuous traction. On Instagram where we have achieved double digit growth in both earned reach and engagement, and on WeChat where our reach has also growth double digit and our engagement levels by triple digit.

In terms of product, our ambition was to renew our offer by increasing fashion content, injecting newness and transforming leather goods. In the last three years under Riccardo's new creative direction we have achieved these objectives, transforming Ready-to-Wear to a new elevated fashion offer, building our leather goods business, diversifying outerwear in line with luxury consumers' preferences, as well as rebuilding our ever green offer.

In Ready-to-Wear we elevated our collections, presenting a more luxury and fashion forward offer, upgrading our products with higher quality materials, supporting higher price points. Additionally, we diversified and elevated outerwear, transitioning from a largely cotton based offer to luxury pieces with a higher share of technical and eco fabrics, such as nylon, down and quilt.

In terms of leather goods we also made a significant transition. In fiscal year 17/18 our top selling handbags were the Banner, the Rucksack and the Buckle Tote, a basic offer with an entry price proposition. Today our top selling handbags are the TB, Lola, Pocket and Title, and you can see these shapes represent a real luxury leather offer with a step change in quality of materials, hardware and finishing, supporting higher prices. They are also distinctive shapes, covering different functionalities which are resonating well with consumers, like Pocket, which has received great response from our younger customers.

More recently we have introduced Olympia, first revealed on the Autumn Winter 20 runway, and named after Olympia London where the show took place. It's a unique, recognisable shape with its crescent curve and made in beautiful calf leather. Thanks to the integration of Burberry Manifattura we have achieved high quality and speed in delivery, resulting in margin improvement for this category.

Through our efforts we have seen great tractions in sales growth in our core categories, leather goods and outerwear. As you can see from these charts, performance has been strong, particularly in the last two quarters of fiscal year 21 with double-digit growth in full price sales for leather goods and outerwear. And since these are our highest AUR categories, as a result we have seen an improvement in AUR every year with high single-digit growth across mainline and digital last year.

In terms of distribution, in 2017 we said we would transform the distribution experience by reducing exposure to non-luxury channels, building a luxury network in line with our brand, upgrading our stores and transforming the instore experience. And in the last three years we have reset our distribution, focusing on luxury doors, upgraded our stores' look and feel and introduced a new store concept, transformed our store experience, and launched industry leading digital innovation.

We reset our distribution network in two phases. This allowed us to shift our network to a higher quality base, while maintaining stable revenue and profit. In phase one we exited non luxury wholesale accounts and doors in EMEIA and Americas, closed non-strategic stores, opened new stores in luxury locations and refreshed our stores' look and feel in line with our new brand image.

In phase two we took steps to reduce markdown activities and designed a new store concept which embodies our updated brand image. The images you see here illustrate our old store format and the step change we have achieved in look and feel by creating new luxury omnichannel spaces, supported by impactful windows and visual merchandising activations.

In Digital over the last three years we launched multiple industry leading innovations, securing our leadership position in this space. We reimagined Burberry.com with a strong focus on product storytelling and inspiration and inspired consumers with our activations and gains.

We launched our social retail pilot in Shenzhen Bay, bridging social and physical channels to innovate the way customers experience and shop our brand, and focused on creating a seamless integration of our online and offline customer journeys.

Additionally, we partnered with growing digital platforms to reach digital multibrand consumers. As a result, from a strong base we have achieved double-digit growth in full price digital sales in the first three quarters of fiscal year 21 and triple digit growth in the last quarter.

As a result of these efforts we have set solid foundations and have built a new Burberry.

First and foremost we have repositioned the brand, with external consumer research confirming that our brand is now firmly considered as luxury. We have attracted a new customer, gaining traction with young, influential, fashion forward consumers, while at the same time, driving growth in our existing customer base. Importantly, in the last year we have seen traction with our local customers, thanks to innovative selling formats during lockdowns.

We have built a high quality business, both in terms of revenue where growth is being driven by full price sales, and you can see from the chart the momentum we have been having over the past couple of quarters. And in terms of profit, with good progress in gross margin now broadly in line with pre-transition levels.

Performance has been strong across the key regions for luxury. In China we delivered strong double-digit growth every quarter last year, well above industry average, through our significant local efforts. You can see some examples here of our dedicated lunar year campaign in capsule, as well as our digital activations with TMall and TenCent.

In the US we have also seen strong performance, again above industry average, which has been supported by our focus on building cultural relevance, content partnerships and visibility with key global influencers.

Throughout the transition we are focused on building a sustainable future with significant progress across three areas: colleagues, communities and environment.

Starting with the environment, I'm pleased to say that by the end of this year we will have a carbon neutral footprint across all of our operations at Burberry.

In terms of our colleagues, we have built a diverse equitable and inclusive organisation that has been recognised in the latest Bloomberg Gender Equality Index, and Hampton-Alexander Report.

And in terms of communities, we're really proud of the contribution we made to COVID relief efforts, as well as the partnership we have developed with Marcus Rashford and charities supporting youth across the globe.

As you have seen over the last few slides we are now successfully through our transformation, and with new solid foundations are now into the next chapter of our strategy.

And this next chapter is about growth acceleration. In this section I want to outline what our ambitions are and how we will achieve them. In this next phase we will leverage our unique brand to create significant value, delivering not only growth but a step change in the quality and composition of this growth.

Let me outline the framework we are using to describe this next phase. Sitting above everything is our brand, which we will continue to energise and strengthen throughout. We will also accelerate revenue growth, driven by high quality full price sales. We will deliver meaningful margin expansion and free cash generation. And finally, we will continue to be a force for good in the world, driving positive change for our colleagues, our communities and our environment.

Burberry is a unique powerful brand with deep roots that set us apart from our peers, grounded in our rich heritage and the founding principles of our founder, Thomas Burberry. Through time the Burberry brand has represented true luxury, committed to sustainability from our earliest days, from Britain to the world, in the outdoors and beyond. We are unexpected innovators with purpose driven values inspired by our founder.

These unique credentials shape what we want to be known for in the minds of consumers. A true luxury fashion house, creators of beautiful iconic products with a relentless focus on quality and craft. A beacon of creativity, imagination and innovation. Authentic, the definitive luxury outerwear pioneer, a modern brand upholding our rich heritage and bringing a uniquely British perspective. A values driven brand with a strong purpose, guided by the spirit of our founder, committed to doing the right thing, from championing our community to protecting the environment. Throughout this next phase we will continue to energise and strengthen the brand, ensuring the consumer sees us as I just described.

Turning then to revenue, we will drive revenue acceleration through five key levers. Building brand advocacy and community. Focusing on core categories. Driving store performance. Supercharging digital sales. And focusing on full price. In the next pages I will outline our ambition and areas of focus for each lever, including how each of these will contribute to accelerating our revenue growth.

Starting with building brand advocacy and community. Our ambition for this next chapter is to excite and inspire the influential luxury consumers, the Fashion Vanguards, fostering a strong Burberry community. Today Burberry is a highly relevant brand that all luxury consumers know and consider. The next step for us is to build strong affinity and advocacy for our brand, and this is the key to unlock growth.

To drive this, we will focus on four areas: strengthen the emotional connection with our community with authentic luxury storytelling; leveraging our strong network of local and global Burberry communities, editorial partners, and influencers, to amplify our brand; driving reach and engagement through new social first content and formats; and creating unexpected memorable brand experiences that unite and excite our customers. These actions will drive revenue by fuelling demand and increasing our pricing power.

This ambition and focus have underpinned our latest campaign, launching next week, which celebrates our newest bag shape, the Olympia. The campaign will feature a globally recognisable and diverse talent, and will tell a story of luxury with quality and craft at the heart, in a way that is creative and innovative. We will leverage our communities to create inspirational content to support storytelling. And large scale installation in key luxury destinations will complement the campaign, manifesting our craft story on an epic scale.

We will also drive revenue through a strong focus on our core categories. Our ambition is to leverage the strong elevated offer we have built over the past few years, maintaining focus and innovation around our anchors, outerwear and leather goods.

Our priorities in this next phase will be in five areas. First, expanding our accessories pillars in leather goods. Second, building and owning fabric innovation in outerwear, focusing on luxury performance and leveraging our own technical gabardine DK fabric. Third, developing a strong position in everyday beautiful Ready-to-Wear, focusing on 360 quality. Fourth, increasing our focus on shoes, a key category for customer acquisition. And lastly, continuing to build on our replenishment offer.

These actions will drive revenue growth as the new offer with accelerate demand. The focus on higher AUR categories drives higher transaction values, and the development of our replenishment offer increases stock availability.

Activities are already underway to deliver on our product ambition in this next phase. As an example, in leather goods we will celebrate our key shapes through our programme of over 70 pop-ups and instore pop-ins in high visibility locations launching this month, including Harrods, which you can see in a preview image here. They will feature 68 leather goods options across our handbag pillars, including TB and Pocket and celebrate our newest shape, the Olympia.

In this next phase we will also continue to drive our stores' performance by creating a luxury omnichannel experience that attracts and continuously engages customers. We will do this through four key priorities: rolling out our new store concept and experience; taking a lead position in omnichannel, including continuing to develop and scale our social retail concept; rapidly scaling outreach to drive appointments and introducing bespoke clienteling formats; focusing on local customers, driving customer acquisition, supported by locally relevant content and experiences.

These actions will drive revenue growth by attracting new customers to the brand and driving a significant improvement in sales density.

Our new store concept rollout has started at pace, with five stores open since the beginning of the new fiscal year, including Shinsegae Times Square in Korea, SKP Accessories in Beijing and Umeda Hankju Accessories in Osaka.

Sloane Street, which is opening in June, will be the first flagship built with the new concept. The space will embody our luxury positioning and is a drastic step change versus our old format, as you can see here from these preview images.

The rollout of the new store concept will continue at pace over the course of the year with 55 stores planned in fiscal year 22, the majority of which will be in the Asia Pacific region. We will also continue to create immersive instore experiences to inspire and engage our customers. Building on our test lab social retail store in Shenzhen we plan to scale successful experiences and activations across our store network globally over the year.

The fourth lever to drive revenue growth is digital. In this next phase we have a bold ambition to remain the digital pioneer in luxury, building on our robust digital foundations and credentials.

To supercharge digital sales we have plans in place to drive qualified traffic to our digital own channels, through increased focus on inspiration and precision marketing. Significantly scale customer recruitment through data partnerships. Step change conversion through digital product assortment, personalisation and localisation. Strengthen our clienteling capabilities to cultivate and retain our digital customers, boosting their lifetime value. And deepen our relationship with third party digital partners.

Through these actions we will drive revenue growth by attracting new customers to the brand and accelerating digital sales, both on owned and third party channels, capturing the increased demand in the industry.

As an example of our progress on our digital ambition, our leather goods programme in May will be supported on .com by the launch of the Handbag Hub, an interface offering the experience of our pop-ups virtually.

The final lever to revenue growth is our focus on full price. Building on our progress this year we will exit markdowns in mainland stores in fiscal 22, while focusing on full price channels. This will enable us to further strengthen our brand and increase AUR, driving high quality revenue growth.

Moving now to the bottom line. In the next phase we will also drive profit growth through five key levers: gross margin strength, through pricing and replenishment; full price penetration; sales density; digital penetration; and continued cost control. This margin expansion will drive good operational gearing as we maintain cost discipline while at the same time enable us to reinvest in critical areas for future growth, consumer facing activities, digital and ESG.

Our strategy in the next phase will be underpinned by a number of important enablers, including an agile supply chain that delivers exceptional quality and service, investing in consumer-led technology that allows us to enhance the customer experience, attracting and retaining diverse world-class teams while fostering a strong culture of inclusion and belonging, and maintaining operational efficiency.

Throughout in the next phase we will be relentless in our focus on ESG. This is the purest expression of our values and we are committed to building not only a financially stronger Burberry, but also a better company by fuelling the creativity of our people, by championing diversity and inclusion and supporting their wellbeing. Empowering young people in our communities by providing them with the skills, confidence and opportunities to succeed. And creating a more sustainable future for luxury by reducing our environmental impacts and helping transform our industry.

Today's customers, colleagues, communities and investors rightly expect more. Building on the progress we have made so far we will accelerate our investment in

ESG related initiatives and raise our ambitions, something you will hear more about in the coming months.

To summarise our ambition for the next phase, I would like to highlight our medium term targets.

In terms of revenue, we expect to deliver high single-digit growth from our fiscal 20 base, with over performance of full price. In terms of profit we expect meaningful margin accretion. And from a cash perspective we will reinstate the dividend for fiscal 21 and a progressive dividend policy thereafter.

Finally, in terms of ESG, we expect to achieve three goals: diversity and inclusion leadership; positively impacting one million people; and become 100% carbon neutral.

To conclude, I want to leave you with a simple statement about the vision we have for Burberry, the leading British luxury brand, delivering sustainable high quality growth and value for our stakeholders and communities. Over to you, Julie.

Julie Brown, Chief Operating Officer and Financial Officer

Thank you, Marco. I will now take you through the financials and guidance. We will start by recapping on our objectives we set out in November 2017. The targets were to hold revenue and earnings broadly stable for two years as we built the foundation for growth. Investment in both product and distribution would be financed with the benefits of a cost saving programme. We've achieved this. The first two years were broadly in line with plan and in fact would have been head of our target had it not been for COVID impacting the final quarter last year.

We delivered cost savings ahead of the original guidance at £150m and we've since brought cumulative benefits to £185m, including the COVID related programme. As Marco mentioned, whilst the targeted acceleration of revenue was disrupted this year, we used this period to strengthen the brand further and drive full price sales. We have built a better quality business and we've improved revenue and earnings composition.

We also set up a robust financing platform with an investment grade credit rating, and we were the first luxury fashion company to issue a sustainability bond. We managed the COVID crisis well, produced a good financial outcome in the year and we are well on track to see good acceleration, driven by full price sales from this point.

Slide 49 takes us through the main financial figures. Looking at the results for the year and referring to year on year changes at constant exchange rates, total revenue was £2.3bn down 10% with a strong recovery in the second half. Adjusted operating profit was £396m, a decline of 8%.

The revenue fall of £289m resulted in an adjusted operating profit decline of just £37m. The normally high level of operational gearing was partially offset by the actions we took to manage the cost base with both permanent and temporary reductions. This resulted in a margin improvement to 16.9%.

A higher tax rate and finance costs resulted in the adjusted diluted EPS falling 14%. And free cash flow in the year was £349m, up significantly from last year and we have returned to paying a full year dividend at 2019 levels, given confidence in our strategy and strong cash position.

Slide 50 shows the main moving parts within our Q4 performance. Full price sales performed well rising 12% on a two year comparative.

We continued our strategy of materially reducing mark down volumes and shortening sale periods, reinforcing the equity of the Burberry brand resulting in a 3% headwind to Q4 comp sales growth.

COVID related store closures increased this quarter rising from an average of 7% in Q3 to 16% in Q4. And tourist destinations continued to see the most significant impact on trade, particularly Europe.

Turning to slide 51. This shows the quarterly progression of our retail sales on a comparable store basis. Comp saw a 9% decline in the full year that started with a 45% decline in Q1 and closed with 32% growth in the fourth quarter.

From Q4 FY21 we entered a period of low comparatives as we started to anniversary the initial impact of the pandemic. For this reason we have shown the results against Q4 2019 as we believe the two year comp is more representative of underlying performance. This shows a decline of 5% in the fourth quarter.

But turning to the chart on the right we believe full price sales are the best barometer of the underlying brand strength and we're encouraged by the improving performance. Full price sales closed up 7% for the full year, despite an average 18% of stores being closed and accelerated each quarter with Q4 up 12% against two years ago.

Moving on now to slide 52 where we show the quarterly regional performance with Q4 against two years ago. The Americas robust performance continued with a 15% comp and a 43% full price growth. Within this the US was particularly strong with a full price growth of up to almost 50% driven by attracting new and younger consumers to the brand.

Asia Pacific grew 17% with full price up 21% with a stand out performance in China and Korea. Mainland China accelerated and grew more than 50% with full price up almost 70%. Korea also showed a strong performance of around 50% with full price over 60%. This was partially offset by Japan and the rest of Asia Pac that continued to be impacted by reduced tourist spend.

EMEIA fell 44% in the fourth quarter impacted by around 50% of the stores being closed and a significant reduction in tourist travel. EMEIA was the region most impacted by the pandemic. Both continental Europe and the UK fell by more than 50% compared with 2019, whereas the Middle East increased by a mid-single digit percentage.

The quarter also saw continued strength in digital with strong double-digit growth against two years ago with China up triple digits, Asia almost doubling and Americas and Europe up double digits.

Slide 53 shows the Group revenue summary with retail sales down 9% and group revenue down 10% at constant exchange rates. All areas of the business were up in the second half except licensing. Wholesale was particularly strong up 7% in half two and this represents a good recovery given the impact of the pandemic on Asian travel retail, given this typically accounts for almost a quarter of our wholesale business.

As you can see from the previous slides while 2021 was challenging we managed through the crisis effectively. We saw a good recovery in financials and delivered higher quality revenue and earnings from full price sales and a streamlined operational cost base.

We show the income statement in slide 55 where there are a number of key areas to highlight. Gross margin increased by 270bps at CER and adjusted operating profit margin increased 50bps and I will discuss both of these in more detail shortly.

We saw a net credit from adjusting items of £125m with the major cash item being £54m relating to rent rebates negotiated with landlords.

The effective tax rate rose to 25% due to the geographical mix of profits. Adjusted EPS fell 14% as a result.

Slide 56 looks at the main moving parts of the gross margin which increased to 70%. Around two thirds of the increase is due to business benefits from full price, positive channel mix and regional mix as the business shifted towards Asia. The gross margin also benefited from COVID provisions taken in the prior year by around 80 basis points.

Following the step change in gross margin in FY21 to 70% we believe this level will be sustained in FY22 with a medium-term opportunity based on scaling the business, product categories and full price mix.

To help provide further clarity on the adjusted operating profit margin we show the bridge on slide 57. The decline in profit was due to reduced revenue partially offset by an improved gross margin and opex reductions.

The cost reduction programmes delivered £60m this year bringing cumulative benefits to £185m.

Property savings are enhanced by a £43m reduction in amortisation charges following the store impairment taken last year. Please note, however, that the benefits from rent rebates are greater than this at £54m and have been treated as an adjusting item and therefore not included on this profit bridge.

We also voluntarily paid UK rates and did not take the UK furlough foregoing a further benefit available.

In summary, whilst there were reduced charges this year due to the COVID provision in 2020 they have been more than offset by cash benefits taken as adjusting items below the line, meaning this is a good quality trading outcome for the Group.

This brings us on to adjusting items that represent a credit of £125m this year, as shown on slide 58. This stems from two main sources. Firstly COVID-19 related items of £137m. We have mentioned the £54m of landlord rent rebates and additionally there were £9m of government grants also taken as exceptionals.

In addition to this our COVID provisions last year were taken at the height of the pandemic and trading in certain regions has improved considerably since that point, particularly in the US. We have therefore revised some impairments based on current and expected future trading below the line within adjusting items. Secondly, restructuring costs and a profit on disposal netted to a £12m charge in the year.

We have shown the income statement split by H1 and H2 on slide 59 given the very different performance. Revenue in H2 increased 8%. Gross margin increased significantly leading to a 15% increase in H2 gross profit. This, together with our focus on operating costs, resulted in a strong H2 margin, with an 8% growth in sales converting to a 48% increase in profits.

Going into FY22 we expect the operating cost base to normalise as stores reopen and social distancing restrictions lift, allowing the more normal cadence of client engagement. We shall review the cost dynamics later to help you formulate your forecasts.

Having seen the robust performance in the income statement we now take a look at how this converted to strong cash generation during the year and liquidity management.

This year we have seen exceptional cash conversion with free cash flow of £349m resulting from lower lease costs and prioritised capex, together with reduced tax and the close management of working capital.

Inventory, in particular, was well controlled with gross inventory 16% down from last year and 7% below two years ago, benefiting from improved sales revenue. Cash conversion was strong at more than 100%.

Turning now to our cash position on slide 62. As mentioned overall our cash increased by £0.3bn in FY21. Importantly we took a number of measures to restructure our financing sources. We obtained an investment grade credit rating to provide easier access to the debt capital markets and issued our first sustainability bond to provide medium-term financing.

We also repaid the RCF and the government-backed CCFF. As a result we have £1.2bn of cash at the end of FY21, comprising £0.9bn of our own cash and a further £0.3bn from borrowings with a further £0.3bn available through the revolver.

Since 2017 our financial policy has been to maintain a strong balance sheet with solid investment grade credit metrics and this has placed us in a strong position throughout the pandemic. Our target remains at a net debt to adjusted EBITDA ratio of 0.5 to 1.0x and at March 2021 we had low leverage of 0.1x. Had the dividend been paid during FY21 at the level declared today the net debt increases to 0.4x on a proforma basis.

Today we have announced the reinstatement of the full year dividend back to 2019 levels. To recap we have four priorities for the use of our capital. First, organic business needs. Second, a progressive dividend. Third, inorganic investments. And, fourth, returning excess cash to shareholders, based on maintaining solid investment grade.

Next year we expect to return to the policy of declaring an interim dividend in November. We also note our leverage is currently below our target range and we plan to return to that range from FY22.

Slide 64 highlights the use of cash over the last five years based on our capital allocation policy. It's worth noting that we've delivered high cash conversion, over 100% on average, including 111% in the current year and this presents us with the opportunity to invest in the business and provide investors with a good return.

Over the last five years we've generated free cash inflow of £2.2bn and within this we have allocated £0.6bn to capex, £0.7bn to dividends, £0.1bn to strategic investments and £0.8bn to buybacks. Overall, we have invested £2.1bn of the cash flows in the last five years, including a return of over £1.4bn to shareholders via dividends and buybacks. This is equivalent to 17% of our current market cap, whilst maintaining net debt to EBITDA well below our 1x ceiling.

Turning to guidance as Marco mentioned our ambition is to deliver high single digit compound annual revenue growth from a FY20 base. We wanted to take this opportunity to explain the building blocks of medium-term margin accretion.

Gross margin will strengthen on an underlying basis driven by full price sales and will offset headwinds as travel resumes.

Coming on to opex, variable costs are a modest part of the cost base and will clearly rise with revenue. The balance of opex can be split between two main areas. Firstly, customer-facing areas that will see increased investment. This includes digital, marketing, visual merchandising and events that will rise initially ahead of sales in addition to ESG expenditure.

Secondly, enabling areas that will be closely controlled. This is the general admin area that has been reduced over the last few years and will be held below sales growth providing a considerable operational gearing opportunity. We anticipate profit growth to be considerably ahead of sales growth in the medium-term.

Taking a look at a multi-year horizon, as Marco said to achieve our revenue ambitions we will build brand advocacy and community through distinctive and meaningful storytelling, formats and experiences that inspire influential luxury consumers. We will focus on our core categories, drawing on the strong offer with the anchors being outerwear and leather goods. We'll create a truly omnichannel luxury experience while focusing on local consumers and we will supercharge digital sales and continue to be focused on full price.

In terms of operating margin our aim is to proactively optimise sales growth to take advantage of the strong foundation we have built in the last three years and we will invest and maximise this opportunity.

FY22 will see costs normalise and increased investment to accelerate growth. Meaningful margin accretion is expected in the medium-term driven by revenue and leveraging our fixed cost base.

The presentation today highlights how we've transformed our business and built a new Burberry. We completed our objectives for the period with a revitalised brand image, renewed product offer and elevated customer experience ending the year with strong full price momentum.

Despite the challenges of COVID we have seen improved earnings quality, excellent cash generation and built a strong financial platform. We have reintroduced a full annual dividend at the 2019 level, given our confidence in the success of the strategy and on the back of this robust performance.

Supported by these foundations we are targeting an acceleration in growth and we expect to lead to a high single-digit compound annual revenue growth at constant exchange rates and meaningful margin accretion.

Thank you for joining our call. We look forward to your questions and I'd like to leave you now with a video that summarises the journey.

Video Plays

Q&A session

<u>**Question 1**</u>

Louise Singlehurst, Goldman Sachs

Hi good morning everyone, thank you for taking my questions and thank you for all the detail so far. I've got three questions if I may the first two for Marco and then one for Julie. Marco, I wondered if you could just talk a little bit more about the markdown activity, I suppose that the surprise factor this morning in the fact that there is still a mid-single digit headwind for this year. I was under the assumption that we're a bit further along in that. Just to confirm is that the end of the markdown activity and where those hotspots still are in terms of the work that needs to be completed?

And then secondly, you talked about new customers and customer loyalty a little bit in terms of the slides, I wondered if you could just talk to us about where you're most excited, what the new customers, like a profile, what they're coming in what they're really looking for? Is it the core on the apparel, is it the streetwear? Obviously, we've touched on the leather goods as well.

And then finally for Julie just in terms of margin. We've talked a lot about meaningfully expand the margin over time for Burberry and in slide 66 you do give us a little bit of a path for the future, are we right in interpreting that should be a 20% plus margin medium-term? Thank you.

Marco Gobbetti

Good morning, Louise, and thank you for your questions. For the first questions in terms of markdown. The markdown was expected, it was always a plan that we will be exiting markdowns from our mainline stores over a couple of years. We have done a good part of this work last year. We will have another important part that will happen, in particular, in the first quarter of this year and then it will be less of an impact in the third quarter of the year going forward. And I think this is obviously a very qualitative step that we're taking. In general what we have seen, we have seen that we have prioritised and have been successful in developing very, very high quality revenues.

As Julie and I have mentioned in our slides there is a very strong full price growth. Markdown has been reduced and is being phased out and we are managing inventory very well and centrals are high so there is less inventory going into outlets which also means again that our mix and our quality of sales is very high.

With regard to the second question in terms of customers, actually we're seeing a broad spectrum of new customers coming from different geographies. In Asia certainly we are seeing significant strength in China and in Korea. There are new customers that in those countries I have to say that leather goods and outerwear but in general all over they have over-performed. So those are our key categories, that's where we've focused our efforts and it's performing extremely well. It's both new customers, young, fashion, educated, really fashion customers, but at the same time we have kept and we have developed very well also with our existing customers who are also part of double-digits in terms of sales.

The other I think very good region has been America where I think we're seeing quite a change somehow in the landscape of customers. I think we're seeing a new generation of customers, young customers, again fashion. Fashion is becoming part of their culture, part of their way to express themselves, a little bit like in China has been for a while now. And we're really hooked into the local culture there and I think we are benefiting from that and we are attracting a lot of new customers.

But equally in America we have kept our existing customers. They have bought into the new products and I can call out in America, I think, in particular, in handbags is really accelerating now. Shoes has been a very strong driver of growth for us and, of course, Ready-to-Wear in both categories. So I think it has been quite an interesting year in terms of customer recruitment and new customer recruitment. Julie.

Julie Brown

Thank you, Marco, and thanks for the question Louise. So in terms of profit and in terms of margin, we've got a number of major drivers of margin increments over the medium-term. So the first one it's underpinned by growth margin strength. We've got the pricing opportunity as we mentioned together with the clear outperformance of full price, we've seen that already coming through this quarter versus two years ago. And this is the way we are driving the business. So the full price growth, within the guidance, in terms of revenue of high single-digit is outperforming.

The third area relates to the sales densities, improving the store network as Marco outlined in his presentation. Digital penetration is the fourth lever. And then the fifth lever is of course the cost control and the enabling cost areas, what you might call the back office cost areas are being very tightly controlled which gives us the leverage opportunity.

So to your question around obviously do we equate this to around a 20% margin improvement over the medium term, yes this is absolutely our ambition.

Now the one thing we have flagged really on the final slide is that we do see that we've got a golden opportunity for Burberry, given the strength that we've come out of the pandemic with to invest in the business. So we've got a period of FY22 of cost normalisation and investment in the business in terms of marketing, visual merchandising, digital, these frontend drivers will give us a more sustainable positive margin going forward. But yes your ambition that you stated at the beginning was spot on.

<u>Question 2</u>

Thomas Chauvet, Citigroup

Good morning. I've got three questions please. The first one on pricing. As your markdown reduction exercise ends in H2, where do you feel the ESP of bags and outerwear compares to your key competitors, Vuitton, Gucci, Prada, for instance? We've seen a return to pure pricing, like for like pricing in the last 12 months in the industry, will you then be able to increase prices for the carry over business and is that captured within your pricing or bridging revenue guidance?

Secondly, on capital return, you've returned to the FY19 dividend level at 42.5p, now that year there was also £150m buyback and in the prior two years as well. With the net cash position of close to £1bn above '19 level what prevented you from launching a share buyback today? Should we just assume this is another gap year, buybacks will resume next year or maybe even during the course of this year? Maybe today would be a good day to purchase a bit of shares.

And, thirdly, related to that on your capital allocation chart, Julie, would it make sense to allocate this cash pot if you don't use it otherwise to do what you call strategic and organic investment. For instance, the acquisition of another luxury brand that may address new categories, new customer segments, or are you Marco and the teams just too busy with the multiyear plan for the Burberry brand that you have no time or appetite for M&A?

Marco Gobbetti

Okay shall I take the first one, Julie, on pricing? Hi, Thomas, thanks for the questions. Look on pricing I think we said that, in particular, for handbags and leather goods our strategy was to rebuild the architecture of the offer which we did and to start to get traction in the market on key shapes, which we have now before we would somehow look at pricing opportunities. We know that the value of the product we have in the market today is quite high compared to the pricing we have, so we know that we have opportunities there and we will take those opportunities as and when we are confident that we have solid traction there. Clearly that will give us also margin opportunity in the category. As I said we are seeing real traction, it's focused on five families with the Olympia now joined and we have high expectation for that bag. So, also from a margin and a replenishment point of view I think it's exactly what we wanted to achieve. We wanted to achieve volumes in a limited number of families, so we are there.

I think in outerwear kind of a similar thing, except we are already a big player in the outerwear world. So we have, as you have probably seen, renewed the offer, we have created new evergreens, we have created new replenishments and carry over items. They are working, they are working also with some of the new codes that we have created for the brand. I think our level of pricing may warrant for us in the future taking some price increase. But at the same time I think we do want to maintain a high volume business there. We have very strong traction, particularly in Asia, Korea and China the traction has been phenomenal on this category.

So, we haven't taken a lot of price increases, we have taken a little bit. So, to summarise there is probably opportunity going forward.

Julie Brown

Shall I take capital allocation, Marco? Thanks, Thomas, good morning and thanks for the question.

In terms of the decision, we've restored the dividend, as you know, but we decided at this point, given the overall macro environment, that we would not commence the buyback immediately. We're very pleased with the cash position that we have. And as you quite rightly point out we've got very low leverage. It's actually 0.4 on a proforma basis, but it's still at a low level. And, therefore, what we will do is we will consider this as part of the interims. We expect to return to an interim dividend at that point, and we will also look at the buyback situation.

In terms of future uses of the cash, we are continually assessing the situation in terms of inorganic opportunities for the business, together with opportunities for further returns to shareholders by way of buybacks or specials. And I think it's going to be driven in terms of where we're up to. The areas we focus on mostly, as you've seen, is really vertical integration opportunities when we bought the leather goods design and manufacturing facility in Italy about two years ago. So, it's those types of opportunities you'll probably see us doing initially. Because we believe the biggest value driver for Burberry is the Burberry brand itself and the pursuit of a clear organic strategy to maximise and optimise the value of our brand.

Question 3

Ashley Wallace, Bank of America Merrill Lynch

I have three questions please. First of all are you able to give us any colour on Q1 trading for April on a two-year stack both in terms of the full-price business and the revenue overall?

My second question is just around the cost inflation coming through in FY22, especially considering the cost saving plan that you had in place the last few years. If you could use FY20 as a base could you please help us with the bridge on opex inflation out to FY22?

And I guess within that can you please confirm how much spend or incremental spend will be reinvesting back into the brand? I think you already outlined £55m of brand reinvestment funded by cost savings last year, but what's the total amount in FY22 versus FY20 please?

And then the last question is just on the medium-term guidance for both top line and margin. Can you please confirm if management LTIP is also based on the same target? Thank you.

Julie Brown

Good morning, Ashley, good to speak to you. In terms of trading we have seen very positive trends. The business was growing very strongly as we exited the fourth quarter in terms of full price. As we mentioned, the US was trading at full price at plus 50%, and these are last last year growth rates, China full price was approaching 70%, Korean full price was just over 60%, so very powerful growth rates. And we've seen a continuation and strengthening of those trends, so yes we're very pleased with the current trading picture.

In terms of, it is important to flag and Marco mentioned this, around the markdown so this will be a mid single-digit impact for the full year, and we're anticipating a more pronounced impacts of high single-digits in the first quarter. So, that will affect the comp, but as usual we'll give you the full price growth which continues to be on a very good trajectory for the business.

In terms of the cost base, if we take a look at FY22 it's been characterised by three major changes within the cost base. One will be the acceleration of variable, commissions and variable rent as the sales improve considerably, this is over FY21. And then there's going to be a combination of cost normalisation and also acceleration of expenditure in marketing related areas, visual merchandising. And the growth in those two latter areas is broadly equal. We've got around investment levels of 50% of the increase, BAU or normalisation at about 40% of the increase, and variable just over 10% of that increase.

Like I say, this is an opportunity for us to focus on investing in the brand to drive the growth. And as you've seen from the cost saving programme that we put in place almost 12 months ago that has been really targeted at the back office parts of the business, all designed to drive the commercial front end.

I think the final question was around top line management?

Ashley Wallace

It was just around the medium-term guidance on top line and margins, if you could confirm if the management LTIPs are based on the same targets?

Julie Brown

Thank you. We've moved actually over to a Burberry Share Plan, which is based on, so the LTIP levels were lowered, and it's now based on a three-year picture. And Marco and I our incentives are supported with underpins, of which one of those is revenue and the other two relate to brand, sustainability and return on invested capital. So, those are our metrics.

Question 4

Elena Mariani, Morgan Stanley

A couple of questions from me as well. The first one is on your top line guidance. I was trying to better understand the building blocks and you've been focusing a lot on leather goods and outerwear in your message. So, is it fair to say that you expect these two categories to grow faster than your medium-term target, so perhaps at a low double-digit rate versus the rest of the business growing a little bit slower?

And still on the top line, is this high single-digit growth pretty much in line with what you expect for the market? What is the basis for you in terms of benchmarking yourselves to. Is it the overall luxury market? Are you focusing particularly on the apparel segment plus leather goods? Essentially is this guidance implying that you're going to grow in line with the market or perhaps losing a little bit of market share or gaining a little bit of market share?

And then second question is about your investment behind the brand. We're trying to better assess the magnitude of this investment. So perhaps could you share a little bit more detail around the marketing expenses and whether perhaps before your plan you thought you were under-indexing the industry, which pretty much is investing by single digit in marketing percentage of sales, and now going forward you're going to be more in line with the industry? Just because many of your competitors have stepped up materially in their marketing spend, so we were just wondering how confident you are to further increase your share or voice? Thank you.

Marco Gobbetti

I'll take maybe the first question and introduce the second, and Julie maybe then you can speak about the investments behind the brand. Hi, Elena, and thank you for the questions.

In terms of the top line and over the medium term what is important to say is that full price growth will significantly outperform the high single-digit guidance that we are giving, for two reasons:

The first reason is the exiting of markdown. And the second reason is that as we will focus more and more on our mainline stores, and as we are driving leverage and better performance in terms of sell throughs and inventory management in the mainline area we will have less inventory to exit through outlets. Therefore, you will see mainline full price grow faster than the aggregate high single-digit guidance.

Within that certainly our core priorities in terms of product, as you said, are leather goods and outerwear. And we have a very strong focus, as you saw in our business plan, on those two categories. So, as we see now them over-performing we expect and we wish this to continue.

At the same time I have to call out that we have other opportunities and other categories that are growing very fast. One above all is the shoe category which is driving incredible growth in a number of markets.

In terms of our growth versus markets, having explained the quality of the growth that is behind the high single-digit we refer to the luxury industry and we refer to studies that call for 4% or 5% roughly of growth over the next few years. And so we think that with high single-digit we will over-perform the broader market.

And in all of this also I think that the digital component is going to be really significant, because we are really stepping up our programmes in digital and I shall call it actually now our omnichannel ambition, which is a project where we are investing a lot of energy and resources. It's starting to be fruitful, but there is a lot to come in the future, and that will certainly be an area that will help us to achieve and hopefully go beyond our goals.

Julie Brown

I'll take the third part of the question just relating to investment behind the brand. We have over the last three years completely reshaped the cost base in the business towards the front office of the business in terms of the marketing spend, visual merchandising and away from the more administrative areas of the business.

In terms of the customer facing areas that we're very focused on in terms of targeted investment it includes digital marketing, as I mentioned, visual merchandising events, together with pop-ups and pop-ins and the store refurbishment programme that Marco outlined, which is very ambitious this year.

In terms of the allocation of the spend or the adequacy of the spend we believe this is now, with the FY22 plan, going to be at absolutely the right level. We'll continue to focus on it. But it's all about really driving heat by focusing on creativity and engaging content. And what we do in the business with our marketing team is we're always looking at maximising the return on those investments.

And as you say, the £55m cost reduction programme that we announced last year has been targeted to exactly those areas.

So, hopefully that puts your mind at ease with that question.

<u>Question 5</u>

Luca Solca, Bernstein

Three questions from me too. I was wondering about the rebound you're experiencing in the fourth quarter, in the first calendar quarter, that seems particularly strong in the US. I was wondering if there's anything that prevents you from having an even stronger rebound with Chinese consumers, given your higher exposure to Asian consumers. And whether there's anything material coming from the recent uproar about Xinjiang cotton; I guess the question would have to come on this front.

Secondly, a very strong progression of gross margin, however, you didn't highlight that in the presentation if I understood correctly. But I wondered if there was any component in this coming from core product cost efficiency. You mentioned in the past a better ability to understand and dissect cost structures, especially leather goods; but I wonder whether you managed to achieve product cost efficiencies in other areas of the business.

And last, but not least, there seems to be quite a significant opportunity to shift to a full price sales mix. Just to give us a ballpark, is it fair to assume that you're moving from a 60:40 mix in terms of full price versus discount of price? Or is that way off the right mix? Thank you very much indeed.

Marco Gobbetti

Julie, maybe I'll take the first one and I'll introduce also the second one on product cost efficiency, and then I'll hand it over to you for more detail on that. Luca, hi good morning, thanks for the questions.

In terms of your first question around the rebound in the US, we're having a very strong rebound in the US, as Julie pointed out. In Q4 in the US in particular our growth against 2019, not against last year but against 2019, was close to 50%.

As I said, we're seeing a new breed of customers that are joining the ranks of fashion customers in the US, and I think we're scoring very well with them. But as I said, at the same time we have kept our customers and we have developed them.

You are absolutely right, it is an opportunity and we want to go after this opportunity. One of the reasons why we want to increase our investment this year in consumer-facing areas, in particular marketing inspiration stores, is because we feel that the momentum for the brand is very strong.

And actually as a matter of fact this started pre-COVID, because back in January of last year we were already seeing double-digit growth in full price in our business. It was paused by COVID when our clients could not really, or would not, given the level of pandemic at that time, go into the stores. But as soon as that started to ease we have seen that our growth and our momentum has picked up from exactly where it had been paused, and it has accelerated through the quarters. And we are seeing actually in the beginning of this next quarter also the continuation of the same trend. So yes absolutely America is an opportunity, and yes we will invest to maximise on the strength we are seeing.

Leading into China, as I said, the Chinese situation has been part of a macro environment, and we like other brands have had to and will continue to navigate through that. Having said that, our performance in the region is strong, the numbers have been very good, even though it's a bit early to comment on current trading, but we are pleased with the start of the year. And I can say that the impact has been relatively limited, and it doesn't modify our overall expectation. China is a primary focus for us. Will continue to be. We think we can create enormous value out of China. We will continue our investments in our clients, in our partners, in innovation, in localisation, in everything that we were doing we are continuing to do. So we remain extremely confident about the opportunity of that market.

Turning to gross margin progression, there has been certainly cost efficiency. In certain areas, for example leather goods, we are starting to see the benefit of, first of all, having built a new architecture, and second of starting to drive volumes focused in key items in a few families. So we have started. It's just the beginning but we have started to scale some margins there. I think we have quite an opportunity there as our numbers grow and are growing fast in the category. And again we will continue to strengthen those families.

More product is going into, as you called out, into replenishment and evergreen, and the same thing we can say that is going to apply in other categories. It's maybe too early, but eventually in shoes and in outerwear as well where we have renewed our offer, we consider that we have the opportunity to improve on our entry margin on our gross margin there, particularly now that our sales are shifting more and more towards full price, better sell-throughs controlled inventories. And maybe this leads into the full price sales mix. Julie, if you want to.

Julie Brown

Yes, absolutely. I think the only thing in addition on the gross margin to what Marco mentioned, is of course the pricing opportunity. The move and emphasis on outerwear and leather goods in terms of the overall price point of those ranges, and the luxury positioning and the pricing opportunity that that gives us, to complement the areas that Marco just mentioned.

Marco Gobbetti

Absolutely, Julie.

Julie Brown

In addition regarding the calculation you did at full price, we don't disclose the split of the business, but it's higher than your first indication suggested, Luca. When we finish the exiting of markdown in mainline stores by the end of full year '22, we'd anticipate it to be considerably higher than the level that you indicated in terms of the full price mix in the total retail business.

Question 6

Antoine Belge, Exane BNP Paribas

I've got three questions actually all on the outlook but ranging from the medium-term to the more short-term. More medium-term, I understand the reference to the 20% because that's what you gave back in 2017. But when you look at the level of margin you were achieving in H2 of 23%, what the gross margins now at 70%, actually isn't really the journey more to go to low to mid-20s margin rather than just 20%. Any reason why it couldn't get there?

Second question relates to the outlook for this year. I think you mentioned this high single-digit for the entire period versus full year March '20, and also mentioning this headwind. Can the high single-digit be achieved which would mean sales of around £2.9bn this year, or should we then deduct that headwind and then maybe the sales would be closer to maybe £2.7bn?

And finally, regarding the quarter. I think you mentioned no real impact on China of the cotton topic and so exit rates which are strong. I think that actually in Q4 last year you already had a headwind from markdown, so any reason why the first quarter stage couldn't be broadly on par with what they were two years ago? Thank you.

Julie Brown

Thank you, Antoine, for the questions. Taking the first one. We are very confident of achieving the margin ambition that we've laid out, and really it's a case of reiterating the original guidance this morning. There is potential upside to this, there's no question. However, we're conscious of the macro environment at the moment, and we've basically gone with what we know we can deliver for the reasons that we've outlined, largely driven by the gross margin strength we've talked about, the full price trajectory we're seeing, the sales densities, the digital penetration, and the cost control. And this brings that margin up to the levels you've indicated. Yes, we could over-achieve that ambition, but obviously we don't want to call that at this point in time, it's too early, and we're conscious of macro.

The second point about the level of sales. We're deliberating not guiding on retail revenue. We've guided on the first half of wholesale just because we've got visibility of the order book. But we wanted to give and focus the audience and our investors on the medium-term opportunity for the business, rather than a single year in question. But as far as we can see, in terms of the opportunity for high performance of the main line and the full price, it is certainly there. If you just allow for the mid single-digit impact due to the exit of the markdown in the mainline stores, then you'll have the comp I think in terms of where we see it, driven by the categories Marco's mentioned.

The final piece of your question was all about the China impact. I think Marco has already probably covered that.

Marco Gobbetti

I can re-state the fact that we have seen a limited impact in China for the time being. That our rate of growth is strong and was strong, also against LLY. And so we remain very confident in that market, and as I said we will continue to focus and invest in that market.

Antoine Belge

Thank you for your answer. But I was mentioning China just to say that I was trying to look for any reason why in the first quarter your retail sales couldn't be on par with what they were two years ago, implying sort of an 80% comparison versus last year.

Marco Gobbetti

I think you're getting into the details of the numbers, and as you know we can't give such a short-term guidance over the next quarter. So, as I said, we're very pleased with the trend that we're seeing at the beginning of the quarter. The trends are continuing confirming. I don't think we can say anything further than that. Thank you, Antoine.

Antoine Belge

Maybe a follow up if I may, because you mentioned online as an important driver. What will be the share of third party online providers in that strategy?

Marco Gobbetti

Third party is definitely going to be an important part of our digital ambition plan. First of all, we have very strong partnerships with a number of partners. We're focusing on a few key partners. We've done a lot of innovation and will continue to do. Just now on TMall we were the first brand a few weeks ago to be the first to have a super-brand day, we're on social commerce. So you will see us doing more and more partnership, and you will see us also tightening the relationship with them and moving more and more into real partnership and not just arm length transactions. So they are a key player. They cater to a clientele that we are interested in and is a very fashion clientele in a particular number of the players, and so they will play a role. It is going to be about our .com but is absolutely also real partnership with a few players. There is also a lot of consolidation, a lot of movement in this space, so it will be about focus again here.

Julie Brown

Thanks, Antoine, very much. I think in view of the time, we're conscious of your time, we may just take one more question and then we're happy to have follow up calls subsequently.

Question 7

Rogerio Fujimori, Stifel

Good morning Marco and Julie, thanks for taking my two questions.

Marco, you flagged the retail productivity opportunity for Burberry. Could you talk about how your current levels of retail productivity compared to pre-pandemic and the long-term potential you see for the business given your exposure to apparel or your projection to mix and accessories, your improvements to the network, just to give an idea of how you can help to drive the ratio for apex sales down over time.

Then just a clarification on pricing. I understand it's an interesting pricing opportunity. But could you comment on the recent pricing action, especially in bags, I understand the bag price has increased in April. So if that's the case what was the scope and magnitude, and have you changed prices in outerwear or other categories subtly. Thank you.

Marco Gobbetti

Rogerio, thank you and good morning. Thank you for your questions. In terms of the productivity of our stores, definitely I called it out and I said that this is one of the drivers for us is to increase the productivity of our stores and the sales density. Look, we have a number of actions that we have in place in order to do that. I think I listed a few of them, but I think it's worth recapping them. I think obviously traffic is the first lever. Obviously traffic has been impacted by COVID. But in the markets that are easing out of COVID we're seeing traffic coming back. And driving brand heat and scaling our CRM capabilities on which we are investing significantly, going to be two important drivers, as well as our omnichannels, our efforts which aim at making customers shop seamlessly across both online and offline. So moving from inspiration that happens most of the time on .com, online, moving customers to our stores.

Then again, we have in place also a very strong activity with our top spending elite customers, and with our local customer. As we called out, it is going to be about developing local bases of client. We have a drive behind conversion, we have a very strong retail excellence training and plan in place, and as I said omnichannel will also help us to scale conversion. ATV's on pricing, we'll come back later to the pricing, which is not only pricing opportunity but also the focus on our categories. The two categories of leather and outerwear are going to drive AUR increase. We also have cross-selling that is possible. We have categories that are recruiting new customers, for example with shoes, and we are seeing that we have successfully then taken them across into purchasing and selecting other items.

In general we are focusing a lot on appointments and appointments with our customers, that's driven a lot of our growth, and we will continue in that way. Clearly then it's going to be a full price business as we are going to exit our markdowns, and obviously this is going to increase our productivity in our stores.

And finally, I want to call out the new store concept. I think we are all going to see it close to us here on Sloane Street. I think is going to be transformational both in terms of the luxury environment that it will create for a product that is a real luxury today, and for the fact that it's also built on precise ideas around how we want to traffic to move in the store, the key categories and so on. So, there is a very strong and robust plan in place to increase the productivity of the stores.

In terms of handbag prices, Julie, you want me to take this, or you want to take this?

Julie Brown

I can do, yes absolutely. In terms of the pricing opportunities, as you mentioned we did implement a price increase in the first quarter, just gone. This is affecting a sizeable proportion of our leather goods business, and a fairly significant price increase in the order of high single-digits. And we continue also to make periodic adjustments relating to foreign exchange to maintain the global price architecture.

So I think as Marco mentioned, we're seeing some significant opportunities given the change in the brand and the perception of the brand to both focus on higher value categories, but also in certain categories ensure that we have appropriate price increases put through. And this is exactly the strategy.

I think you mentioned outerwear specifically. I think no immediate change at this point. But as we continue to elevate the product we would anticipate there being some price increases at a later point.

Marco Gobbetti: Concluding comments

I just want to thank everyone for attending and for your questions. Thank you very much, and we look forward to the next session of trading announcements. Thank you.