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Burberry Group plc

Third Quarter Trading Update – Analyst Call

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Burberry

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Rogerio Fujimori, Stifel Europe

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Julie Brown, Chief Operating and Chief Financial Officer

Good morning and welcome to Burberry's third quarter conference call. I hope you're staying safe and well. With me this morning is Julian Easthope, our Interim Head of IR and slides are available to accompany this presentation on the IR section of our website. We will be happy to take your questions at the end.

As guided, we reduced our markdown this quarter and this had a material impact on the total comp. I will therefore include full-price sales commentary to provide further insight into the performance of the Business.

We highlighted four areas at the half-year where we made good strategic progress and this has continued into Q3; our full-price business strengthened further, with seasonal campaigns and collections resonating strongly with clients; digital continued to grow at pace; full-price leather goods continued to perform well; and growth continued to be driven by new, younger consumer as well as existing clients.

We also executed a significant planned reduction in markdown. This, together with a decline in outlets, and increased COVID-19 restrictions, led to a -9% comp this quarter.

While we are not providing formal guidance at this stage due to the volatility in some markets, we would like to highlight that: gross margins will benefit from full-price, regional and channel mix and lower stock provisions. Opex remains well controlled and savings programmes are delivering to plan and inventory is on track to be below last year's levels by the end of the year.

Slide 3 shows the main moving parts within our Q3 performance. Full-price sales grew by a HSD percentage year-on-year. This strong underlying performance was a good backdrop for us to pursue our strategy of materially reducing markdown volumes and shortening sale periods, reinforcing the equity of the Burberry brand.

This resulted in a very significant reduction in markdown comp sales that affected total group comp by a high single digit negative, as we flagged at the interims.

In addition to this, COVID-19 restrictions increased the number of stores closed, particularly impacting Europe, together with capacity restrictions or reduced hours. Footfall was also down, particularly in outlets.

In addition to this, tourist traffic has virtually disappeared, mainly impacting EMEIA, Japan and South Asia Pacific. Overall tourist traffic fell by over 70% in the quarter and accounted for significantly less than 10% of our sales.

As we show on slide 4, there is a high correlation between store closures and sales performance and the chart shows the progression year-to-date.

In Q3, we had an average of 7% of our stores closed, with 19% in EMEIA, 3% in Americas, and 2% in Asia. In addition, a third of the network was operating with reduced hours.

We now have around 15% of our stores closed globally and a further 36% operating under restrictions, as well as other challenges such as the recently imposed travel restrictions in China.

So while we are confident of a good recovery in open markets, we expect an increase in trading disruption in the fourth quarter.

Turning to slide 5, this shows the major components of retail sales. We start with the minus 9% decline in comparable store sales. Space was up 4% this quarter, in line with our guidance of broadly flat for the full year. Space benefitted from new stores as well as an increase in temporary pop-up stores this period.

We made progress with the store rationalisation programme, with 30 stores now closed of the 38 planned, and we have now refurbished 86 stores.

In total, retail revenue was down 5% at constant exchange rates and reported revenue down 4%.

For the full year, current spot rates now give a broadly neutral impact on revenue and profits, compared with previous guidance of a £16m tailwind on revenue and £5m on adjusted operating profit.

To provide assistance in modelling currency, the sensitivity of a 5% change in foreign exchange on our projected mix would result in a change of £35m to adjusted operating profit compared to the £45m we outlined previously.

Turning to slide 6 and looking at the comp store sales by region: Asia Pacific saw 11% growth - a little better than Q2.

Mainland China saw strong double-digit growth, similar to Q2 FY21, in a quarter that has a higher percentage of local sales compared with H1.

Full-price sales increased at a level well above the Mainland China comp and strengthened over the prior quarter, largely driven by leather and outerwear, with strong trends from both new and repeat customers.

It is worth noting that Q3 typically has a higher mix of locals shopping in Mainland China, so this growth is off a higher base.

Korea remains one of our best markets globally with comp sales up mid-teens. Within this mix, full-price sales were strongly ahead with markdown reduced very significantly.

Trends in Japan and South Asia Pacific continue to be affected by lower tourist traffic and COVID-19 related restrictions. EMEIA declined 37% as it continued to see lower tourist demand. In addition, the region saw the biggest swing in store closures, moving from 5 to 19% over the last two quarters.

Continental European customers saw a small increase in domestic demand.

And finally, the Americas fell 8%. The material reduction in the markdown impacted performance this quarter, but the key statistic is full-price sales growth and this continued to be strong. Full-price sales growth increased in the mid-teen range, with growth driven entirely by a new and younger clientele.

Slide 7 brings you up to date on some of business and strategic achievements. I will start with product and focus on the areas we highlighted as important pillars, primarily leather goods and outerwear.

Full-price leather goods saw a low teens increase in comp sales. This was especially strong in China and Korea up over 50%, and also very positive in the US.

Within this, the top 4 women's bags account for around 60% of women's bag sales, with all shapes contributing a good level of sales.

We also saw good initial traction in the Olympia bag launched this quarter.

Outerwear, including rainwear, also saw a low double-digit increase in full-price sales with China and Korea being the main drivers. Within the mix, there was also good growth in quilts, down and jackets.

Digital continued to perform well in the period, with full-price sales growth up more than 50% and triple-digit growth in China. We also used the digital capability to engage with customers during periods of limited traffic or lockdowns through live chat, virtual appointments and client events.

In addition, we have also continued to deliver on innovative campaigns for the festive season and Lunar New Year.

Our festive campaign with international footballer and child poverty campaigner, Marcus Rashford MBE, has been exceptionally well received, with the Instagram post being the most liked of all time.

The Lunar New Year campaign has just kicked off with a capsule collection launched in China. This is being supported by our first bespoke campaign and film called 'A New Awakening', and is being launched globally over the course of January. Localised campaigns are a key focus for us.

In the quarter we had success with The Burberry generation – a monthly content series where we collaborate with young cultural talents and in China, a teaser for our Honour of Kings collaboration with Tencent

Turning to slide 8, I wanted to say a few words on our responsibility goals. This is a core value at Burberry and we are pleased this is being recognised among the independent agencies.

In Q3 we achieved our highest ever score in the 2020 Dow Jones Sustainability Index and we were also included as a leader on CDP's A List, following our work to cut emissions and mitigate climate risk.

Deepening our commitment to drive diversity and inclusion, Burberry became the first luxury company to partner with the Business Disability Forum, a non-profit member organisation bringing businesses, those with disabilities, and policymakers together to help make a real difference across industries.

To supplement our own internal programme, we joined the BBC's Creative Allies initiative, which aims to unite the creative industries to promote the concept of allyship.

We are also very pleased to see the start of the roll out of the vaccine developed by Oxford University and AstraZeneca, whose research we helped to fund in March last year.

Turning to the Outlook on slide 9: we are encouraged by the strengthening of full-price performance.

Our decision to reduce markdowns was executed to plan. Gross margins will benefit from full-price, channel and regional mix, and lower stock provisions.

Opex is also on track and we will deliver the savings programmes as guided. This has been achieved while managing inventory and we expect it will be below last year's levels by the end of the year.

However, the short-term outlook remains uncertain due to COVID-19, with 15% of stores currently closed and a further 36% under trading restrictions. Whilst mindful of the uncertain backdrop, we believe we are well placed to accelerate when the pandemic eases and deliver on our strategic ambitions. We would now like to turn to the Q&A.

Q&A session

Question 1

Thomas Chauvet, Citi

Good morning everyone I have three questions please. The first one on the markdown reduction, if we think about the next three quarters, so Q4 to Q2, can you tell us which quarters see the most headwinds from that markdown reduction. And when you talk about markdown reduction how much of that is a lower proportion of products on sale versus reduced depth of discount?

Secondly, on the outlets I guess the performance must be difficult in some of your tourist-driven destinations like La Vallée or Bicester Village, what's the typical sales mix between locals and tourists in your global networks of, I think, around 50 outlets?

And finally on pricing has there been any pricing worth mentioning at the beginning of January or plans for calendar Q1? More generally Julie what do you think about the opportunity for the industry maybe to return to a more sustained pace of price increase?

Julie Brown

Okay thank you very much, Thomas, for the questions. So taking your first one the markdown reduction we executed this as we planned in Q3, Q3 is always the higher markdown period so in Q4 we would anticipate some impact because we have EMEIA tending to be in markdown more in Q4, whereas in Q3 it's Asia and Americas. So there'll be a more muted impact on Q4. I would anticipate a low single-digit percentage.

In terms of going through the following quarters into next year we will continue our strategy of focusing on the full-price and strengthening the full-price. And in terms of next year we'll provide further guidance on this at the year-end. But the important thing to note is really Q3 is the more marked quarter.

In terms of the proportion versus the discount depth, we actually did both. So we decided to lower the proportion of the markdown, so the value was lowered together with the depth of the discounting level. So it was a case of both.

Moving on to outlets, outlets are more dependent on tourist travel and that's why we've seen an underperformance in outlets this quarter that's contributed to the -9% in terms of the total comp. And yes the tourist dependency on outlets is in the order of 40% whereas full-price channels it's around 23%.

The final question you had was about pricing and so we've taken no major changes in relation to pricing. In terms of plans next year we'll obviously assess this as we finalise the budget, which we're in the process of doing this quarter.

And then in terms of industry pace, price increases returning, I think the industry will resume price increases, different brands depending on the degree of transformation at different stages. But yes I think the industry will resume that.

In our case we've seen a good level of improvement in the AUR but it's been driven by changes to the product line, the fabrication, the design and this has led to the AUR increase.

Question 2

Zuzanna Pusz, UBS

Good morning everyone I have three questions please. My first question is on full-price sales: so quite a big part of the press release was focused on that to highlight the underlying performance, but I just wanted to understand how do you exactly define that full-price sale development, is it just main line stores, excluding outlets or is it specifically within the main line stores the products which are not discounted? So that would be very helpful because I'm just struggling to understand how we get from plus high single-digit to -9 at the like-for-like level? So it would be very helpful to understand that dynamic.

Secondly, on gross margins. So reading your press release it sounds like you're a bit more positive on the gross margin in H2 and that's because of the mix of factors, full-price sales through etc. So I just wanted to double check what are exactly the drivers of that? Were there maybe any quite specific factors like provision releases or anything just to be aware of? That would be very helpful to know that.

And finally on digital, so would you be able to say how much digital is actually the percentage of sales because I remember historically you were a bit reluctant to comment on e-commerce specifically and back then the industry didn't even comment about that at all. But by now quite a few companies talk about e-commerce so I guess it would be easier to put that comment about digital full-price sales being up over 50% if we knew actually what percentage of sales that is. Thank you.

Julie Brown

Okay thank you, Zuzanna. So taking those questions, first of all in terms of full-price sales and the definition, it's basically items sold at full retail price in our own main line, retail and online network. And we've actually included a definition of this, just for completeness, on page 4 of our announcement just so it's absolutely clear. So I think that deals with the first part.

In terms of the element of how do you get from high single-digit full-price to the -9% comp, there are two major factors. One relates to the significant fall in markdown activity. And this contributes a negative high single-digit impact on the group comp, so effectively negating most of the full-price increase.

And then in addition to that we've got a decline in outlets. As we mentioned, outlets are very exposed to tourists and our outlet business has come under serious pressure this year and particularly the third quarter. So we've also got that further depression coming from outlets.

If you are comparing the Q3 comp of -9% with the Q2 comp of -6% there was a step up in closures between the two quarters. So we had stores closed at around 3% in Q2 and it's moved up to 7% in Q3. As we showed on that bridge there's a very high correlation; even though we've got a strong digital channel and some traffic moved to digital, there's still a very high correlation with store closures in terms of our comp performance. I think that deals with the sales related questions.

Moving on to the gross margin; yes we are guiding to a positive impact on gross margin. We had a 90 basis point improvement in gross margin already in the first half and in addition to that we're expecting a number of benefits to continue. So we've got mix effect benefits from both channel and regional shift and this should continue into H2. And in addition to that there's a positive full-price mix effect and a lower impact in the second half from fixed cost absorption compared to that in the first half.

Just to let you know, wholesale was a benefit to margin in the first half, but we don't expect that to continue into the second because we expect wholesale sales in half two to be at a similar level to last year.

In terms of stock provisions, we're expecting these to be positive. We've got an improved sell through and we expect this benefit to continue into half two because we've got better trading than we expected and therefore a cleaner inventory position. We've also had a lower buy of the Autumn Winter season, so that reduced inventory levels, and we also had cautious provisioning last year because we had 60% of the stores closed when we were finalising our year-end. So again, positivity coming from stock provisions.

The final part of your question was relating to digital. So we don't disclose the digital proportion of Burberry. What we do share is the industry viewpoint and in terms of the industry as a whole it was around 10% before COVID. What industry commentators are expecting is that it will move to, you know, in the order of 20%-25% of the business. Even some commentators are suggesting higher than this.

In terms of our own position, because we pursue an omnichannel strategy and we find that there's a high degree of consumers researching online, in 70% to 80% of cases before they would buy in a physical store, we find that the lines are very blurred, and therefore measuring the precise channels is not so relevant, it's really all about the growth across main line and digital combined.

Zuzanna Pusz

Perfect, thank you. Sorry, I just wanted to follow up. So basically to double check that definition of full price, that's main line stores excluding any discounting. So it's just full price sales within the main line stores. It's not total main line stores performance, right?

Julie Brown

That's absolutely correct. If we mark a product down in a main line store it counts as markdown.

Zuzanna Pusz

So basically if I take the fact that it was high single-digit positive but there was a negative high single digit from reduced markdowns then basically the main line stores were flattish?

Julie Brown

So if you take the high-single... Can you just repeat that piece to make sure I've understood you?

Zuzanna Pusz

So basically if I understood correctly you had high-single digit performance in main line stores on the full price assortment. But there was a negative high single-digit because you reduced the markdowns depth and basically that whole aspect of markdowns. So if I combine these two they offset each other, so it's a fair assumption that main line stores, so the whole business excluding outlets was actually flattish?

Julie Brown

Yes, so there's a slight additional benefit, so the main line full price positive growth was slightly higher than the high single-digit markdown loss.

Zuzanna Pusz

Okay, perfect. And sorry, just a last follow up. So on the gross margin, so I think you, just to check if I understood correctly, so there will be some positives from the stock provisions, but in H2, right? To check?

Julie Brown

Right.

Zuzanna Pusz

What will be the magnitude, just so that we understand how much of, let's say, potential upgrade to consensus today would be sort of a clean number and how much would come from some positives from the provisions. Would you be able to quantify that?

Julie Brown

At this stage it's very difficult to do that. We've clearly got the fourth quarter to trade through where we've got increasing volatility in terms of store closures, so giving precise line of sight on the release of stock provisions is extremely difficult ahead of the balance sheet date because those stock provisions will depend on the lines that have sold through well in the final quarter and those that remain, and the age of those stock lines and whether they attract further provisions or not. So it's very hard for me to give you the accuracy of the split. What we can say is these factors are expected to both benefit the margin, you know, both the mix, regional, channel, together with the stock provisions. We'll get a benefit from both of these by the end of the year we expect.

__Question 3__

Luca Solca, Bernstein

Yes, good morning, I have a few questions please. One is about trends in sales growth by nationality. We understand that Europe has been geographically under pressure, but I was wondering how your progression looks when you take into account sales to Chinese consumers globally, as well as sales to European or American consumers.

You were also talking about leather goods being quite concentrated in sales with high rate of concentration on the top SKUs. I wonder if you're starting to see that these SKUs have multiyear appeal and they're starting to build the line-up that you were pointing to when talking about the development of handbags taking a few years. Do you start to see the platform you have there consolidating and expanding into different families that give you a better view on how this category could be developing?

Looking at your explanation of how comp sales have developed, I draw the conclusion that the outlet business is very important indeed and very material indeed for Burberry. I'm not sure that you commented before on the size of this business. But on a back of the envelope it looks to be probably a third or the business and with the discontinuation of discounts in store I would expect it to be even bigger going forward. But please correct my perception if you can?

And then last, if I may, we are looking at the COVID-19 situation in China with some apprehension. I wonder if you have from your experience some rule of thumb on the importance of sales in the run up to Chinese New Year, and after Chinese New Year for the calendar first quarter. I know that the date of Chinese New Year tends to change, but I have the impression that the period up to Chinese New Year is the most important, and after that people start travelling normally, so I wonder how we should be reading the situation that is unfolding in China at the moment. Thanks very much.

Julie Brown

Thank you, Luca, for a very comprehensive set of questions. So turning to the first one in terms of nationalities, and obviously the most important, the Chinese. So Chinese were broadly stable in Q3, and this is despite material reduction in markdown. We've had strong local growth, offset by negligible tourist traffic. And our growth in mainland China has been very much supported by the continued success of our localisation strategy and some repatriation of spend.

The British, here we saw a weaker performance, largely due to the store closures in November, and further lockdowns and restrictive measures in December. In terms of the Continental Europeans, it remains positive despite the headwinds of the second wave of COVID in November. And then Americans were slightly softer in the third quarter, largely due to the significant reduction in the markdown activity. So I think that addresses the first question relating to nationality.

In terms of the second part to your question, leather: yes we always said leather would be a multiyear journey, and what we wanted to do was focus on building out the architecture of the bags, and we feel that we have been successful in building a number of pillars to the range now. So the Pocket bag is doing extremely well, the Lola, the TB, the Title, these are all strong pillars now within the range. And we recently added a fifth pillar which is the Olympia range that launched this quarter.

So yes, we do believe we're now generating a multiyear appeal with refreshers in terms of colours, depending on the season, but we certainly believe now we've got the foundation for a very successful leather goods range. And as you will have seen from the announcement we've done well in terms of a low-teens full price growth in leather this quarter, which is a continuation of the strength we also saw in Q2.

If we move on to the outlet business. So we don't disclose the size of the channels including the outlet, but what we are seeing is that we're most likely to be reducing discount levels and markdowns and we don't expect this to be a bigger part of the business going forward, because the whole objective of this is to continue on the journey of elevating the brand. So this means reducing the markdown in the stores as we've done very significantly this quarter, but in addition reducing the size of the business overall in outlet. So this is the direction we're moving in as a company.

The final question about COVID-19 and China, and then relating to Chinese New Year, we obviously have picked up an increase in infection levels in China, and in particular the northern region, including Beijing has been impacted thus far, where we've seen some isolated cases across different cities in China, and so far now we've got one store closure remaining in the Hubei Province. And we've seen some impact on traffic as a result of that. As you probably know, the Chinese have stopped people from travelling for Lunar New Year, which brings me nicely on to the second part of that question.

Traditionally, you're absolutely right, we used to see a surge in sales in China leading into Lunar New Year, and then we would typically see a surge in sales outside of China, particularly in EMEIA, post Lunar New Year as people were travelling and taking holidays. It will be interesting to see how this pans out this year, because of course most of that travel has now been stopped. So I think we will probably see the uptick in mainland China. Lunar New Year is a bit later this year, so we have to reassess our comps in the light of that, but yes, I think we'll see an uptick probably before and potentially afterwards as people stay more locally based.

<u>**Question 4**</u>

Rogerio Fujimori, Stifel Europe

Hi, Julie and Julian, I have two questions. The first one is about outerwear where you called out a return to low-teen full-price growth in Q3. I imagine China's a key factor. If you could comment about what's driving that low-teen growth and your initiatives to drive the women's outerwear in particular this year.

And my second question is on sales trends in terms of price points, if you could talk about areas of sales strength in terms of price points. I've seen your younger new consumers moving towards lower or higher price points across the main categories . I can see an improvement in your answer to Thomas but I was curious to hear if these younger consumers in places like the US buy more high price items than average. Thank you.

Julie Brown

Okay, thank you, Rogerio. Yes, so in terms of outerwear, overall we delivered a double-digit, low double-digit full-price performance. China was absolutely key to this, so we saw particular growth in China, also in Korea, and in terms of what drove it, we've obviously had a campaign dedicated to outerwear, so the Winter campaign featured outerwear very strongly. We've also had a special review of the heritage of our outerwear. And I'm sure you will have seen on our website, also a comprehensive review about how, in particular, the trench is made and the handmade involvement in the trench.

I think outerwear, and this is a good season for outerwear, so we tend to pick up generally, and we've seen very strong pickups in the rebounding markets, particularly in Asia. So in addition to the trench we've also had quilts and downs have been performing very well and again, this has featured as part of our shows and our exposure of the product line.

Just moving to the sales price trends and the price points, younger consumers, so we have seen an increase in AUR, this has been a progressive increase that we've seen now over a number of quarters. As we've elevated the product, the manufacturing, and also the material that's been used in the design, we've been able to charge higher prices for the product.

In addition to this, in terms of younger consumers, they are buying across categories, very encouragingly, and they're also buying across different price points. So again, I think it's an encouraging trend. So AUR has improved through Q3 globally across all regions and with new and also existing clients. So again, a positive trend.

Question 5

Chiara Battistini, JP Morgan

Hello, hi. Thank you for taking my questions. I just have a couple of follow up questions really. I just wanted to make sure, did you say wholesale is expected to be flat in the second half? I just wanted to double check this comment with the comments that you made around growth margin and the channel mix expected to be positive also in the second half of the year. So I just wanted to tie those two comments please.

And second question on the space growth in the second half. Should we still be expecting around 3% growth or slightly better, given what you achieved in Q3?

And finally, if you could give us any colour on what you think about the opex in the second half of the year; and also given that Q4 should see a strong acceleration of top line given the comps, is that we should also factor in an acceleration of the spending in the second half, or to what extent the tighter cost control should continue in the second half. Thank you.

Julie Brown

Okay, thank you very much, Chiara. So wholesale, yes, you're absolutely right, we're anticipating at this point in time, obviously notwithstanding any further issues from COVID, but we're expecting wholesale to be flat in the second half compared with the prior year. This is one of the channel mix benefits that won't benefit the second half because we had an uplift in the first half relating to the retail wholesale mix which won't be coming through in the second half. However, other mix factors will be positive to the gross margin. Full price will be positive, the regional mix will be positive because of the skew towards Asia. And also the skew away from the markdown, and the outlet channel will also be a positive factor, together with stock provisions.

In terms of the space, yes, we're maintaining the guidance for space being broadly stable for the full year, so we're anticipating a further benefit coming through in space in the fourth quarter that will lead to the second half being around, probably slightly less than the 5% level which will take us overall to flat for the full year.

And then finally, in terms of operating expenses; there are some timing reasons why the benefits in the first half that we had on operating expenses year-on-year will not repeat in the second half of the year. But overall we're basically on track to deliver everything that we've said in terms of opex. So the savings programme that we articulated will deliver the £148m cumulative total by the end of this year, so that will come through. In addition, we've also got the programme that will deliver in total £35m as expected this year from the organisational changes we announced in July. However, that will be reinvested in the business, into the commercial frontline, particularly marketing activities into the business. And basically the other benefits we'll expect to get, just in terms of amortisation benefits they will also come through. But the store rationalisation programme also gives us a benefit to opex but it doesn't benefit the profit, and that is also moving to plan and expected to be around about the £10m mark for the full year.

Chiara Battistini

Thank you very much. Just a couple of follow ups and some clarifications please. So when you talk about the channel mix being positive to the gross margin you mean the full price versus outlets, not retail versus wholesale?

Julie Brown

Yes, we're referring to that point for the second half, yes, but for the full year retail and wholesale will give us a benefit because of the decline in the wholesale in the first half.

Chiara Battistini

Absolutely, yes. And just on the point of the investments into marketing activity, when shall we be expecting an acceleration of the marketing spend from the savings that were invested?

Julie Brown

So we're already, you know, as a business we're very focused on moving money from enabling areas in the business more towards the commercial frontline. So we've already engaged in that by moving money from Finance, HR etc, and pushing the money more into the commercial areas, including marketing. So this is a thing that we have been working on for a number of years.

Chiara Battistini

And should we expect an acceleration...? Sorry.

Julie Brown

Well, what we're also doing, very much so, is we've relooked at the way we were spending the marketing, and we're also focusing that marketing on rebounding markets, so there's very much a focus on China, Korea, local influencers, localisations.

Question 6

Charmaine Yap, Redburn

Hi there, good morning. I have two questions please. The first one in terms of recapturing the demand from travelling customers. Can you comment on any shifts here, perhaps maybe is Hainan now a focus for you. do you have stores there? And in terms of the improvement in Korea where the travel region is wholesale, has that helped at all or is it still too early here and leading up to the better wholesale overall outlook?

And the second question in terms of digital, can you comment between perhaps your own brand dotcom, what's that performance, and those of the concessions through Farfetch and also especially in China in terms of platform sources or websites? Thank you.

Julie Brown

Okay, thank you very much, Charmaine for that. Yes, so in terms of travelling consumers, we have seen a very significant uptick in Hainan. I'm glad you've raised this because Hainan for our business is a wholesale account, so it doesn't get included in the retail numbers, but we have seen a significant impact. And actually it's probably worth knowing that it would add about five percentage points to our Chinese comp if it was included in retail.

We have seen some element of travel returning in Asia, particularly we saw an uptick in Macau, but apart from that it's been relatively subdued, and certainly long haul travel has continued to be very subdued.

Moving on to Korea. Korea wholesale has been under a significant amount of pressure this year, largely because of travel retail. This has not contributed to the expectation that we'll be flat in wholesale in the second half at all, it's continued to be under serious pressure. The uptick in wholesale in the second half versus the performance in the first half was really due to the fact that in the first half we were very, very strict in terms of control of inventory that was going into our wholesalers because we wanted to control the inventory in the channel. In the second half the increase has really been due to Americas, strong performance in Americas, as we've seen in retail, very strong price performance, and also we've seen the same improving trends in Europe. So year-on-year we've got that benefit. It's probably also worth remembering that the fourth quarter was impacted by COVID last year in terms of wholesale accounts.

The final point you mentioned about digital, we've seen very good traction in terms of our own channel, so third parties have also been performing very well, but burberry.com has had very strong performance too. I think if you look at the third quarter compared with the second, yes we did see an uptick in third party relative to our own channel, but both are performing strongly. It's important to remember as well that the third quarter's impacted by the significant steps we took to reduce the markdown in digital, as well as in main line.

Question 7

Kathryn Parker, Jefferies

Good morning, just two follow up questions from me. So firstly, back on the topic of outlets. We notice an increase of two versus the interim results, and I wondered which region these were located. And going forwards, as you see this as a smaller part of your business are you happy with the number of outlets, or do you think there's some scope to reduce this number?

And secondly, on to leather goods. So another thing we noted was that the TB bag had a low single-digit price rise in most global markets in January, and I wondered if this was the same across your other key bag pillars, and how you see the price relative to your peers developing specifically in the leather goods area.

Julie Brown

Okay, thank you very much. In terms of outlets, so we have got an outlet presence in all the major regions and the reason for this is because we are still just about a 60% apparel business and it does mean that you deal with broken sizes – the size ranges get broken as you're going through the sales. What that means is you've got to be able to clear that inventory using the outlet mechanism. So each of our regions is responsible for their ordering of inventory and then their subsequent clearing of that inventory and they will use outlets in that equation.

Just in terms of the overall level we've got around 50 at the moment and as we were mentioning to Luca earlier we do anticipate keeping that under very tight control, it is within our control completely as a business, and it will probably be at around that level but we'll probably reduce the volumes over time.

In terms of the price increases we have got the low single-digit price rise. We've taken very modest price increases and relative to our competitors. I think what we deliberately set out to do was increase the quality of the leather that we were using, we've increased the sophistication of the designs and we charge a price where there is definitely perceptible value to the consumer because we've been building up the leather range and that's been our first priority at this point in time. So yes I think our bag range represents very good value to consumers.

Question 8

Thierry Cota, Société Generale

Good morning. I have three follow-up questions. First on wholesale, you mentioned flat weight on your constant currency, you also said no benefit from general mix are you implying that the retail trend in H2 expectedly would be similar to that of wholesale, or did I misunderstand?

Secondly, on online in terms of exposure you did mention that you don't want to be too specific. However you did say that the industry was more or less around 10%

before COVID and could expect up to 20% - 25% or above this year. You used to say that you were over-indexing on the industry, were you before COVID when the industry was around 10% and do you still expect to be above the industry if it reaches 20% to 25% this year?

And lastly on outlets, I'm just try understand what's going to happen going forward. You did say about 40% of tourists, which presumably are not far from zero now so this is down not quite half but not very far; is that a level that you're happy with or do you think that when things normalise the business will go back up somewhere between where it is today and where it was before. And you would be happy with that or you would rather keep it down, let's say broadly speaking at the 15% level compared to earlier levels?

Julie Brown

Okay thank you very much, Thierry. So just in terms of wholesale we're expecting to be flat in the second half. As you know we get reasonable line of sight on wholesale orders so it's a lot easier to anticipate compared with retail. Retail I think it would be wrong for us to guide on retail because we are experiencing this increase in store closures between now (the fourth quarter) and the third. We're up to 15% of stores closed. And the other complication, of course, is that because the Q4 comp was affected by COVID - you've got this issue of the growth rates increase very significantly as you go into those final nine weeks of this year. So what we will be doing is providing a line of sight on both our performance versus last year and also versus last, last year, so that you can see through the trends.

So no further colour really on retail apart from having guided on the number of stores closed and the disruption the business is still seeing. As I mentioned it's now 15% of our stores that are closed due to COVID disruptions.

Moving on to digital and it would be worth me just clarifying this; so I'm talking luxury as a whole exposure to digital is about 10% but it's very important to note that it's very, very much an omni-channel approach in terms of the way the consumer buys. They move across digital and main line stores quite freely and they do very frequent research online. So it's very difficult to measure this precisely but basically the luxury industry used to be 10%. The growth I mentioned earlier in digital at an industry level is over a number of years. So industry commentators such as Baine, McKinsey and BCG are anticipating that level of growth in digital by around 2023. So it's not going to happen immediately, it's over a number of years.

In terms of our sales over-indexing yes we definitely over-index in digital because we went into digital many years earlier under previous management and we've really continued to build that presence as we've gone through. And we've had a very concerted effort this year in attracting consumers to digital, improving the website and doing various other operational activities to improve.

So yes we expect to continue to over-index and it's so useful to us not only as a way of reaching out to consumers when stores are closed but also a communication vehicle for our campaigns and very importantly also a very important data store for our consumers so that we can see what they're browsing and make the connection between what their interests are and what we have available in the range through our retail associates.

The final point about the tourists in the outlets; I think tourist travel will, over time, resume. I mean I'm so encouraged, personally as well as business-wise, by the fact that we will hopefully be vaccinated soon and we'll be able to resume our normal lives and we do expect tourist activity to come back, probably not over the next six months in terms of long haul but maybe over 12 to two years I think, we'll be talking about that sort of level. And then clearly the outlets will probably improve as a result of that but we won't be doing anything in particular to encourage that to happen I think it's just going to be a natural phenomenon.

Julie Brown: Concluding comments

Okay well thank you very much for all joining us this morning and thank you for your great questions during the call. So we look forward to engaging with you subsequently and certainly for the full-year we'll be seeing you on 13th May and I really do hope that it will be in person on 13th May. Thank you.