BURBERRY

Burberry Group plc

Third Quarter Trading Update – Analyst Call

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Burberry

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Questions From

Antoine Belge, BNP Paribas Exane

Chiara Battistini, J.P. Morgan

Louise Singlehurts, Goldman Sachs

Thomas Chauvet, Citi

Rogerio Fujimori, Stifel

Luca Solca, Bernstein

Carole Madjo, Barclays

Thierry Cota, Societe Generale

Zuzanna Pusz, UBS

Julie Brown, Chief Operating & Financial Officer

Good morning and thank you for joining Burberry's Q3 trading update call.

My name is Julie Brown, Chief Operating and Financial Officer of Burberry.

And with me this morning is Julian Easthope, our Head of IR.

Slides are available to accompany this presentation on the IR section of our website and a transcript will also be made available.

In November, we outlined our plan to accelerate growth and realise our ambition as the modern British luxury brand.

This quarter, we continued to make progress against these strategic objectives.

Comparable store sales grew 1%, impacted by COVID-19 related disruption in Mainland China which fell 23%.

We remain encouraged by our global performance, with comparable store sales growing 11% outside of Mainland China, with EMEIA, South Korea, Japan and SAP all achieving double digit growth.

Throughout the period, we continued to amplify our brand with the outerwear, Festive and Lunar New Year campaigns at the end of the period.

Leather was the standout category with continued strong sales of the Lola range as well as very good traction from Giant Check and the Frances bag.

Outerwear had a tougher quarter, affected by the exposure to Mainland China, but we still saw high single digit growth in the rest of the world.

The roll out of stores in the new format is progressing well with 15 completed this quarter and we remain on track to complete 65 stores this year. I'm pleased to say we continue to see these stores generating a higher AUR and retail productivity.

In sustainability, we are pleased to report that we achieved an A rating with CDP and a AAA rating with MSCI for leadership in transparency and performance to tackle climate change.

During the third quarter we continued to build on our commitments to communities, partnering with Onside to support their winter appeal.

And finally, we have completed £363m of the £400m share buy-back with the balance to be completed by the end of the year.

Slide 3 provides more data on the breakdown of our retail sales.

As mentioned, comparable store sales grew by 1% in the period.

The impact of space is -1%, leading to flat retail sales at constant currency and we still anticipate retail space to be broadly stable for the full year.

Currency was a 5% tailwind this quarter, with reported retail revenue landing 5% up compared with last year.

Outside of Mainland China we saw another quarter of double digit growth at 11%.

EMEIA delivered 19% growth and this was primarily driven by tourists increasing around 80% year on year and accounted for around 40% of our sales.

With Americans and Middle Eastern customers being the key driver.

Overall, retail revenue from EMEIA nationals increased by low single digits.

Taking a look at the EMEIA as a region versus pre pandemic levels full price sales are now well ahead and total retail revenue is now broadly stable.

The Americas showed a slight improvement quarter on quarter, posting a 1% decline in Q3 from -3% in the first half. The brand elevation journey has led to higher AUR categories performing well, led by the female customer, especially in leather goods but this was offset by pressure in entry level categories.

Globally, nationals from the Americas were +3% up this quarter including tourist traffic mainly to EMEIA.

Asia Pacific fell 7% in Q3 with Mainland China down 23% and the rest of Asia PAC up 16%.

Mainland China saw volatile trading, affected by lockdowns and more recently by COVID outbreaks amongst our customers and client advisors.

We saw a fall in traffic to stores in China during December although there has been a good recovery in January.

South Korea saw another strong quarter rising 10%, similar to the +11% delivered in Q2.

And Japan delivered a very strong performance, rising 28% this quarter driven by leather goods and South Asia Pac was up 15%.

Given the importance of the Chinese customer, slide 5 splits our performance in and outside of Mainland China.

Group trading has been reasonably stable outside of mainland China, so I thought I would provide more background on the impact of the Chinese customer.

Pre-pandemic in 2019, Chinese nationals accounted for around 40% of group retail revenue with just over half shopping in Mainland China and the balance overseas.

By contrast in this year to date, the Chinese only account for around 25% of our business, impacted by COVID-19 restrictions and a lack of international travel.

While the timing and pace of recovery remains uncertain for the rest of this year, we are confident in the opportunity and the long term prospects of the Chinese market.

Returning to strategy, I will now take you through our initiatives in brand, product and customer experience in more depth.

A key pillar in our strategy outlined in November is to Harness the power of our brand.

We made good progress in the quarter with the outerwear, Festive and Lunar New Year campaigns.

We started the second half with our outerwear activations that was supported by over 50 pop ups, VIP experiences, influencer campaigns, and a partnership with Minecraft.

We followed this with our Festive campaign starring Shakira and Burna Boy called 'The Night Before', which celebrated the excitement and anticipation of Festive preparations. We saw very strong traction and engagement with two joint Instagram posts with Shakira, and our best non-collab reel to date.

We ended the quarter with our Lunar New Year campaign – Take A Leap – inspired by the Year of the Rabbit, featuring a playful interpretation of the TB monogram.

We are pleased to report that our brand investments have been well recognised with two awards recently.

In December, Burberry won the Metaverse World and Gaming Experience Award at the 2022 British Fashion Awards, in recognition of our innovation in this space through partnerships with Blankos Block Party and Minecraft.

We were also recently honoured by the 2022 Prix Versailles Official World Awards winning a category for our Imagined Landscapes pop up in Jeju, South Korea. The awards celebrated the best in contemporary architecture highlighting innovation and creativity as well as ecological efficiency and cultural impact.

Moving to product on slide 7.

Supported by a dedicated campaign and a 360 degree programme of commercial activations for Festive, accessories grew double digits outside of Mainland China.

We made good progress in leather, launching new styles of the Lola bag including the vintage check Bouclé option during Festive and continued to innovate across all ranges, seeing strong traction in our house codes.

In addition to the Lola, the Giant Check and the Frances bag also performed well.

Men's accessories grew strong double-digits with bags increasing over 25% and small leather goods up over 15%.

Soft accessories also performed strongly during Festive, with the iconic archive beige check cashmere scarf generating 60% of sales for this category.

Women's ready to wear comparable sales increased by a mid-teens percentage supported by dresses and the knitwear featured in our seasonal campaigns.

Outerwear comparable sales grew high-single digits outside of Mainland China with total sales affected by the high dependence on the Chinese market.

Moving on to the next slide, I wanted to share an example of the investment we have made to improve customer experience and drive growth.

In Hong Kong, S.A.R, we now have three stores in the new store concept, Pacific Place, K-11, MUSEA and Lee Gardens that positions us well as the border reopens with Mainland China.

In December we opened a highly successful activation, our first ever ice rink over the K-11, MUSEA promenade in Hong Kong, designed with bespoke iterations of the TB Monogram and constellation graphics.

This created a major buzz with ticket sales selling out and a very high level of reach on social media. The associated outerwear pop-up achieved triple-digit growth vs the activation last year.

Furthermore on customer, we continue to elevate the in-store experience and strengthen distribution, rolling out our new concept to 15 more locations in the quarter, across Asia, EMEIA and the US.

Key highlights include Pacific Place as mentioned and North Park Centre Dallas.

We remain on track to achieve our target of completing 65 newly designed stores in FY23, bringing the total to over 100 by the end of the year equating to around a third of the retail estate.

In these stores we continue to see a higher level of AUR and an improvement in store productivity and are pleased with the performance of the new store concept.

Moving on to our ESG agenda.

Our commitment to sustainability was recognised across key benchmarks in the period.

We were commended by both the CDP with an A rating, and MSCI with a AAA rating for our transparency and performance across environmental issues. Burberry was one of a small group of organisations to achieve these ratings from both agencies.

We also continued to support our communities throughout the cost-of-living crisis, partnering with, OnSide, a major youth charity to ensure that young people can access food, warmth and safety this winter.

And finally the outlook.

Overall, our near and medium-term targets remain unchanged as we continue to target high-single digit revenue growth with operating leverage ensuring good margin progression, notwithstanding the macro environment.

It is still too soon after the re-opening of borders and relaxation of COVID restrictions in Mainland China to understand the near-term effects but we remain confident in the recovery and the potential of the Chinese market in the medium term.

The only change to the outlook since we announced in November is currency.

We now expect there to be a revenue tailwind of around £160m, compared with £170m previously, and with adjusted operating profit remaining the same at or around £70m based on 30th December spot rates.

All the other guidance areas remain unchanged and are shown in the appendix.

Thank you for joining and we can now move into the Q&A.

Question and Answer Session

Antoine Belge, BNP Paribas Exane

Yes, good morning. It's Antoine Belge from BNP Paribas Exane. So two questions. First of all, is it possible to have an update of the cadence of the product launches from your new designer? So in terms of, first of all, presentation and fashion shows but also in terms of products in store? And my second question relates to the EBIT consensus after the trading statements of today. Would you expect some changes in the EBIT for the fiscal year March 23? Thank you.

Julie Brown

Thank you very much, Antoine. So turning to your first question around the cadence. So we're really all looking forward to Daniel's debut collection in February. So we've got the show coming up in February. He's actually also going to be using existing product from Riccardo for launching a campaign, which is his aesthetic around Burberry with a great deal of influence in terms of the Britishness of the brand. So that's coming up in early Feb. In terms of the product going into into the stores, his products will first go into the stores in September and this will then be followed by the next fashion show, which will be in September for spring summer, and that will enter the stores in November and January. So we're all looking forward to that. There's a huge amount of excitement in the organisation across the design teams, the marketing teams and commercial areas of the business around what's to come over the next few weeks. Just to come back to your point about consensus. So we believe in terms of, first of all, revenue expectations we do anticipate people will actualize the results this quarter and obviously adjust for the exchange rate change as well. In terms of EBIT we expect it to remain broadly similar. Clearly, the big, big swing factor in this fourth quarter, given the rest of the business outside of mainland China is performing extremely consistently in double digits. We've delivered double digit growth across all three quarters now up 16, up 15, up 11%. The key, I guess, change factor is China and just how it reopens. Very optimistic about the market in the medium term is just getting through this reopening period due to infection levels. But overall, we'd expect consensus to remain broadly stable.

Antoine Belge, BNP Paribas Exane

Okay, let me just follow up. I'm not sure I understood what you said about the retail Tisci product. And so we should we expect that there will be a sort of early discontinuation or should we expect any provisions to be made or anything like that? Thank you.

Julie Brown

Yes. Thank you. Thank you for the question. Yes, we would anticipate an orderly progression. If you thinking back to when Ricardo joined the business that then was a very significant change in the products because we were elevating the brand and we were elevating the product line. In this case, we anticipate a very smooth transition. So obviously, Daniel's debut will be coming through in February he'll present his new aesthetic for the brand at the beginning of February. And the show obviously will be entirely his product, which will then be going into our stores from September onwards. I think it's important also to say that the underlying business is in a much stronger position. So we've got around half of our range is continuity product, which will remain within the business. And then the newness element of our product range in total is around half of it. And obviously that's the element that will start to change and it will move over to Daniel's products over time. In terms of inventory, just going back to your point on provisions. We've managed the inventory very well, I think. I mean, COVID was a great example, I think, of how we've managed our inventory. The inventory turn is actually the best it's been for about a period of five or six years. And the ageing of the inventory is also in the best position it's been for some time. So I think, overall, we can anticipate an orderly transfer over to Daniel's product and we don't anticipate any significant excess provisions at all. We anticipate it be stable.

Antoine Belge, BNP Paribas Exane

Thanks a lot.

Julie Brown

Thank you

Chiara Battistini, J.P. Morgan

Good morning. Hello. Thank you for taking my questions. Can I just to start maybe with China and you've mentioned that at the beginning of the year has been encouraging. I was wondering if you could provide us with more colour and more evidence of what you're seeing so far, your gearing up into Chinese New Year as well. And the second question is on the U.S. and I was wondering also there if you could elaborate further on the dynamics you saw throughout the quarter in Q3 and also whether as the comps are getting increasingly easier, whether you're expecting to start turning positive in too at the beginning of this year and into this year. Thank you.

Julie Brown

Thank you very much, Chiara. So just in terms of the beginning of the year with regard to China, as you know, we experienced a fall in traffic in December. Originally, infection levels were relatively high in the country. I think we obtained data from the Chinese Centre of Disease Control and they were quoting around 70% infection levels. So this immediately in December caused trading to be volatile, in fact, in our results December was our worst month in the quarter in China, largely impacted by footfall to stores, but also availability of our own client advisors. So net net in the third quarter, just to give you a bit of a data point, the traffic was down 40% in the third quarter in China. Now the good news is January it opened much more positively. We're seeing very promising signs. We've seen a total change in traffic and we've seen some strong initial trade coming through. However, as you quite rightly refer to, Lunar New Year is earlier this year. It starts on the 22nd Jan, whereas last year it started on the first of Feb so I think we'll have a much clearer position on this once we're through the Lunar New Year period. But the early signs are very positive just in terms of trade and in terms of traffic. Also in terms of the products, the higher AUR products are being sold. Very importantly as well clearly the Chinese consumers are very important in mainland China, but also important in terms of the tourism that it can bring. And we provided some data points in the presentation just around the level of the Chinese consumer within our business, both pre-pandemic and post. Now the encouraging thing is traffic started to increase in terms of overseas travel. So we had more Chinese consumers that are moving into Hong Kong, and also Macau is showing very good signs, very good green shoots. So I think the net net effect is there are a number of key factors in favour with the reopening that we're seeing. One is overall the market potential in China and the opportunity of the growth in the middle class, significant accumulated savings of Chinese consumers and also policy easing. So the Chinese government has recently released a guideline to expand domestic consumption and investment, including economic drivers such as housing, infrastructure, urbanisation, supply chain and foreign investment. So net net whilst in the near term could be changeable, the medium and long term prognosis is extremely positive. So moving on to the next question relating to the US. So first of all we actually we saw a quarter on quarter improvement in Q3 compared with Q2. So we were -1% and actually when you look at the months in the quarter, we saw an improvement through to December. In terms of the comps, they do get progressively easier. The comps were very tough for the US market in the first half of the year and so we do expect to see a shift in that regard. We're cognisant of the macro situation though, and we are also cognisant of the credit card data, the external credit card data that we pick up shows a little bit more pressure building in the US, but our business results didn’t show that but we are cognisant of the external data.

Chiara Battistini, J.P. Morgan

Thank you. And just following up, you you've mentioned in previous quarter the softness at the entry point is that something that you continue to see during the quarter and to a different extent versus the previous quarters or similar?

Julie Brown

We do still see pressure in the in the entry price categories and particularly in the shoe, the shoe business, the sneaker business essentially, that did very well in the prior period. The encouraging thing is we've seen further strengthening at the higher AUR categories. They've continued to perform well versus the prior year, particularly leather, and also a shift in women's bags to higher price points within the female bag range and the newest styles. So again, we're seeing this as very encouraging. So just to give you an example, Lola and the birch brown actually accounted for around about half of our leather sales in the United States. So very encouraging trends, I would say.

Chiara Battistini, J.P. Morgan

Great. Thank you.

Louise Singlehurts, Goldman Sachs

Hi. Good morning Julie, Julian thank you very much for taking my questions. I had two quick ones.

A follow up firstly on China and Julie given the drop off, particularly in December. Can you just tell us about the inventory position and if there's any excess seasonal product that's left over and how that will be treated or dealt with? Presumably the pickup at the beginning of the new year is very welcome from that perspective. And then secondly. Just on back to the U.S., if we think about. The U.S. consumer in the spending from tourism in Europe, can you just remind us when that really picked up? Was that Easter last year? So presumably you're up against fairly easy comparable on the tourism until the beginning of this year. And just the demand, the appetite for that consumer from the U.S. is purchasing in Europe in terms of products and price points. Thank you.

Julie Brown

Okay. Thanks, Louise. So, first of all, the China situation we are actually really positive about the way we've been managing the inventory. I think actually the learning through COVID was actually very valuable in managing inventory across the world given the volatility in trading patterns. And we've adopted a policy whereby we've held more of the inventory centrally so that you can see the trends in each of the regions and deploy the inventory accordingly. So that's been a difference compared with prior years and we've managed the process well. We've redistributed product to faster growing regions in Asia and in EMEIA, and we're really not at all concerned about the inventory levels as we head into the year-end if we do have excess inventory, we have basically redeployed some of the inventory to other relevant regions. So no concerns on that front. In terms of your second question. Yes, certainly we found Americans continuing to shop in EMEIA, we had this issue well, WELL not an issue, but just a change in trend or change in trade, I should say. We had this also happening in the second quarter where we had a large number of American tourists coming in to EMEIA and similarly, really with the third quarter. In terms of product point, we're seeing real strength in leather. So both EMEIA and America, the country has performed really well in leather and you've seen we've just posted double digit growth, including China. So net net, I think we're seeing a transfer to higher AUR categories and the leather goods range, particularly Lola, the birch brown check, Francis have all done extremely well.

Louise Singlehurts, Goldman Sachs

Great. Thank you very much.

Julie Brown

Thank you.

Thomas Chauvet, Citi

Good morning, Julie and Julian. A few questions please. Firstly, a follow up on the on the phasing out of the legacy collections from Riccardo. How does it differ from five years ago when I remember there was quite a bit of disruption. It lasted for quite a while when you had to clear the Christopher Bailey collection. So what's really different this time? That's my first question. Secondly, on pricing, can you just talk a little bit about pricing in the calendar Q1 and how you intend to reduce the price gap between Europe and China in the U.S. given the boom in tourism you're enjoying in the region? And just finally on the U.K., I think in a media interview this morning, Julie, you reiterated that Burberry would benefit from the tourist tax scheme. Just wanted to know how the discussion you, Harrods and other key participants are progressing with the government. Thank you.

Julie Brown

Thank you very much Thomas some good questions. So, first of all, with regard to the product and the difference compared with five years ago, I'd call out a number of major differences. The first one is five years ago we were undertaking a major transformation of the Burberry brand, which included a major change to the product line, a major change to the distribution that we had across the world together, with the branding. And therefore when Riccardo joined us, there was a significant change that was required in the product line and you may recall we only had about a quarter of the business then in newness. And so now we're in a much stronger position. We've got a very well established what we call carry forward business so there are lines that have got longevity in approximately half of our range. So that gives us stability through this period. And the major elevation of the product line that was significant five years ago. I mean, Daniel will bring, for sure, expertise in the areas he's very strong in leather goods in particular, shoes for sure, as well as his expertise in ready to wear. But we do not see the change being as significant we've been focusing on strengthening our collections over the past three, 3 to 4 years. So I think that's the key first thing. And then the second thing is just the mix of the product in terms of the items that we've got in the range that we see having longevity, you know, will remain and we expect those to remain strong and to continue to grow across the accessories lines and the ready to wear. So I think as we mentioned to one of the questions earlier, in terms of inventory, we don't see a major risk and we see it being a relatively smooth transition. In terms of the next point about pricing and tourism. So making the pricing point first, we have been over the course of a while now increasing the prices. So we started this in the fourth quarter of last year in terms of high single digit price increases to our leather goods range and early in fact, in full year 22 also. And then we undertook a further increase at the beginning of this year across a sizeable proportion of our rainwear and of the jersey were in the middle of the year. There was a significant increase or mid-single digits, I would say, in the range. And then moving now into these more recent periods, obviously with spring 23 going live again, we've had a high single digit increase in the pricing. So we are moving the prices accordingly, together with drawing out more efficiencies in the supply chain to offset the headwind from inflation and in particular on logistics and freight. To your point about the price gap, there is still a price gap in differential between America and EMEIA. This is one of the reasons we're getting increased tourists coming from America into a EMEIA, and we keep this under review. We decided not to make any regional changes to the pricing architecture at this point in time, apart from a modest amount in Japan. But we keep it under review and will continue to do so during the course of the next financial year. And then thank you for picking up on the point about the retail expert scheme. We we've been engaging very strongly with the government and you may have heard from the CEO of Harrods on this as well. We have seen that there has been a marked difference in tourist spend going into continental Europe versus the UK, which is disappointing for ourselves and obviously clearly Harrods being a major British luxury brand. So just to give you a little bit of data, compared with our full year 20, which was pre-pandemic, there's been a higher growth in US tourists this quarter. So we've seen a 102% lift in Europe, but only a 63% increase in the UK. The Middle Eastern traveller is even more stark versus pre-pandemic levels. They're up 122% in continental Europe. Where they are only at 14% in the UK. So we would really like to change this and work closely with the Government and our colleagues within the fashion groups, to make a change here and introduce an incentive scheme.

Thomas Chauvet, Citi

Thank you. Thank you very much Julie.

Julie Brown

Thank you.

Rogerio Fujimori, Stifel

Oh, hi, Julie. Rogerio here from Stifel. I have two questions. Just with the with the mix composition in Q3, with less sales in China and lower sales in China and outerwear, over indexed in China. Just to confirm that you are comfortable and on track to get to gross margin target of 70% at constant rates for the full year. And could you give us an idea of the contribution from volume in your 11% ex China comp. Thank you.

Julie Brown

Okay. Thank you very much. So first of all, on the gross margin. We are working extremely hard on the gross margin to maintain the 70% that we've guided. The reason for this, largely, you've hit the nail on the head. It's not only the inflationary pressure that we're seeing in raw materials, freight, logistics, but it's also the switch in business because we've now only got about 25% of the business in China. And of course, the gross margins tend to be higher and they obviously have variable expenses going through OPEX, but the gross margin tends to be higher. So net net it is a pressure on the margin we're working very, very hard across finance, commercial, merchandising, supply chain to maintain that 70% gross margin. We're holding the guidance, but there's a lot of work. I wouldn't underestimate the amount of work that's going on in the business to preserve that. So that's the first point. The second point, in terms of the business outside of China, we're absolutely delighted with how the rest of the business is performing. We're seeing real underlying strength in the business. And as you know, the first quarter we had outside of China, 16% growth, second quarter, 15% growth, third quarter, 11% growth. And we're very pleased and it is a combination of volume increases, but also AUR, the AUR is a significant factor as we continue to elevate the brand and we continue to elevate the product line, obviously, together with some price increases that have come through in the period. So, yes, a combination of both, but AUR is significant.

Rogerio Fujimori, Stifel

Thank you very much. All the best.

Julie Brown

Thank you very much. Thank you.

Luca Solca, Bernstein

Yes. Good morning. This is the Luca Solca from Bernstein. I have a couple of questions. You were referring to sneakers as a possible example of the entry price product being on the back foot and potentially the impact of inflation, reducing the amount of discretionary spend in the lower part of the social pyramid. I wonder if that could also be a sign of a shift towards more formal footwear and apparel. This seems to be the talk in the industry environment with consumers going back to going out, celebrating and wanting to look sharp. I wonder if you've seen anything like that in your sales as well and if that could potentially mean a tweak in the approach that Burberry is taken with its streetwear emphasis under the previous creative director. The second question is about manufacturing, if I may, and sourcing. I understand that you remain very flexible and that you could adjust to a significant recovery in luxury spend by Chinese consumers. It's early days. We don't know whether this is going to appear or not, but just wanted to confirm that this is indeed the case and that you could potentially increase the amount of inventory that you have available if Chinese consumer demand rebounds in a similar vein to what we've seen in Europe and in American domestics in two years. Thank you.

Julie Brown

Thank you, Luca, for the question. So the first one, we agree. I mean, we've seen if we compare ourselves with where we were during the pandemic to now, there has been a shift in what people are buying. And the categories, definitely the higher AUR categories, the outerwear, the more elevated ready to wear together with certainly leather. We've seen significant strengthening of leather goods, double digits, even including China. It indicates, people are moving more towards formal formalwear. We also had a very good result, as you've seen, double digit growth in women's ready to wear. And again, that is a positive sign that people are changing habits. They're going out far more. And I think wanting to celebrate, certainly festive was very strong for us as well. We saw a strong trend coming through in December. Totally agree with you. And in terms of Burberry adapting its approach, yes, we anticipate having emphasis on the higher priced categories. We also anticipate revealing a much more balanced footwear offer, which will become evident in the February show I don't want to give away too much, but I'm sure it is going to become evident shortly. So yes, we're definitely moving in that direction. In terms of the inventory availability to support the China rebound. Yes. I mean, we as you probably recall, during COVID I think we managed the business through a very turbulent time and we managed the inventory levels. We brought the inventory to the upside case. We managed the cost base to the base case, and we actually managed cash at the time of the height of the pandemic to the downside case, just to ensure that we were protecting the business and we were agile to cope with a whole series of different scenarios. And what we've done, and what we're in the process of doing as we speak, is that we will increase inventory availability to support the rebound in the Chinese market. And we also are holding more inventory centrally so that we can respond to demands according to the regions in terms of how they develop. So we're very much in terms of adopting agile inventory allocation and that's put us in a very good position. The strongest position, I would say for about five or six years in terms of inventory management.

Luca Solca, Bernstein

Thank you very much indeed Julie.

Julie Brown

Thank you.

Carole Madjo, Barclays

Good morning. I have two questions, please. The first one on the European markets. Could you maybe come back a bit on the trends you have seen from the European cohort to the locals especially? Have you seen any change in consumer sentiment over there? Was there more caution during the holiday season, for instance, or nothing much, just like here? That's the first question. And the second one coming back on the Chinese markets. You mentioned that you had seen a bit of tourism coming back from them. So spending abroad in Hong Kong and Macau, notably. Do you see there any change in the way they spend in those other regions? Do they have a higher basket, changing product they buy or something like that?

Julie Brown

Thank you. Thank you very much for the question. The first one, in terms of the UK markets in the European cohort, we've actually seen strength and an improving position with regard to first of all, if we take a EMEIA nationals, you know, strong performance in terms of EMEIA nationals and, you know, very good strength in the third quarter we saw a single digit increase. Europeans were actually under more pressure, a little bit more pressure in the second quarter and again have improved into the third quarter. Europeans as such and very interestingly British from the second quarter through to the third quarter have also improved. So just to give you a data point, in the second quarter, the British were -1% and in the third quarter the British have moved up to plus 2%. So again, encouraging. In terms of your question about cautiousness, we've been really, really, I guess initially going into this quarter, somewhat concerned about press commentary and macroeconomic commentary around the U.K. in particular and EMEIA. Now, we didn't see any evidence of that in the buying patterns of what people were purchasing. And we also saw a strengthening in Q3 as you go through the month. December was the strongest in terms of compared with December last year, which indicates people were not being cautious and actually they were buying the higher AUR categories as well. Significant strength in leather goods and the Lola. Our Lola bag is a relatively high priced product relative to some of the other bags in the range and we saw the Lola was one of the most successful products with all the festive activations that we did. So I would say no sign of it yet impacting our business. And then as far as the Chinese market is concerned, we hope now that we'll start to see the improvement in tourism from the Chinese. So for mainland China recovering from the higher levels of COVID infection rates, really, but we are seeing signs that green shoots because we are seeing, you know, increase in travel into Hong Kong, the increase in travel into Macao. These tend to be the first areas that will improve. Hainan is another one. And then it usually goes into the rest of Asia and then it usually goes into Europe. Certainly when people travelling to Europe from China, they do tend to buy the traditional Burberry trench because they want something to exemplify where they've been and also the traditional Burberry scarf, the cashmere scarf. They tend to be extremely popular. That business fell away. We're happy to take the next question.

Thierry Cota, Societe Generale

Yes. Thank you. Good morning Julie and Julien. Three questions from me. First, on wholesale, I think you mentioned in the past that Hinan was a big negative and drop back in the recent performance. So I was wondering whether with the reopening of China and more local tourism, actually there was no scope for upgrading to full year wholesale guidance. Secondly, you did mention on sales on the date, the change or no change of guidance on the tailwind for the year? I was wondering whether on gross profit, the impact would be on un changed also on EBIT or on the other hand, slightly smaller? And the last point. Now, I know it's difficult for you to give numbers but I still try. On the improvement on store productivity coming from the refurbishment. Can we get any sense of after or before or refurbish stores in the country or in the region versus non refurbished stores to get a sense of how much it brings extra sales productivity, please. Thank you.

Julie Brown

Okay. Thank you very much. So taking the wholesale question, first of all. We, in terms of this year to start with this year we've guided to broadly stable. And the reason the main reasons for that is actually the underlying trend in wholesale is actually very positive. The impact and why it's broadly stable is entirely due to the fact that we stop shipping to Russia. And also the Asian travel retail market has been under a lot of pressure due to COVID. So hence the broadly stable guidance as Asian travel retail resumes, which we sincerely hope it will, then what we will see is the potential for wholesale to accelerate. I don't think it's going to occur this quarter necessarily because obviously the order book is in and wholesale is predictable just because of the timing in terms of their orders that come through to Burberry. However, you know, we would be very optimistic about this certainly next year. And the other good news is that the reception that Daniel has had with wholesale clients is very, very compelling. So there's a huge amount of enthusiasm for his product when it becomes available. So I think that addresses the first question The second question with regard to foreign exchange. In terms of foreign exchange. And I think you were looking at the gross margin in particular. So basically it will impact the gross margin. So we anticipate from our revenue moving from 170 million in the previous guidance, foreign exchange benefit to a 160 million now at 30th December 30 spot. But in terms of the gross margin, we'd anticipate it being about 5 million lower and more or less 135 versus 140. With the balance of the 5 million going through OPEX, leaving us with the same profit upgrade from foreign exchange as 70 million. In both previous guidance and the current, rates that we're seeing. So I think that addresses the foreign exchange question. And then in terms of the refurbishment of the stores, we have seen a number of key metrics when we compare the stores that have been put into the new store concept with the stores originally. Either the store before or neighbouring stores that are similar. Then we've seen three key metrics that are beneficial. The first one is the stores are more productive by around 15%. We're seeing a higher AUR we've seen an uplift of around 15% and also we're seeing around a 13% increase in the basket size. So net net, this is one of the reasons we are accelerating as far as possible, the new store format rolling out, because what we find is when the product is seen in a new store format, the product also looks so much better. So it's a much better customer experience. And we literally envisage increasing the CAPEX into next year to about 200 million, which includes an uplift of around up to about 120 million for the stores in full year 24.

Thierry Cota, Societe Generale

Right. Thank you all for the detailing.

Julie Brown

Thank you.

Zuzanna Pusz, UBS

Good morning. Thank you for taking my question. I have just one, actually. Would you be able to tell us if you expect any meaningful margin impact from potential resumption of tourism, specifically from China? I think you mentioned earlier there was a question on the gross margin and then you flagged that China has a higher gross margin. Now, of course, we know that China also has more variable costs. And I know that, you know, there's no rule of thumb. And then the shopping, some of your peers are very large scale they tend to flag they don't expect any negative margin implication, But maybe some of the companies with somewhat lower sales densities, they flagged that this could be somewhat more negative. So where do you sit in that debate?

Julie Brown

Okay. Thank you. Thank you very much for the question. I think with China reopening, we anticipate there being positivity for the margin, gross margins and operating margin. The mainland China obviously is beneficial when it reopens. And the tourist business at the moment is virtually, it's tiny. And so when tourism resumes and they come to other countries, we do expect an incremental improvement overall. So I think a much stronger base in mainland China together with obviously I mean, I think in the data we provided as part of the presentation, you know, it was it was designed to sort of show the potential that we now have because before the pandemic we had 40% Chinese customers and just over half was shopping in mainland China and the rest were overseas. And now we anticipate, you know, we're down to about 25% of our business. And this is clearly influenced by lack of tourists and it's also influenced by lockdowns in China. So there is a real potential when this opens up. But net net, we would see this been positive for the growth for the gross margin.

Zuzanna Pusz, UBS

Excellent thank you. And just maybe to follow up, would you be able to tell us on average what is a differential and sort of fixed variable cost based between China and Europe? Because we are always told that there is a bit more fixed cost base in Europe, but is there any sort of a ballpark number you would be able to share?

Julie Brown

We haven't given that data specifically before, but it is definitely true that in Asia, the Asian system tends to work far more with variable rent. So although the gross margin is higher as the sales improve. It naturally, if we don't change anything, naturally the variable costs within OPEX do rise. So, the variable proportion, if we just give you a little bit, the variable proportion, if you take somewhere like EMEIA or Americas it’s in the teens level as a proportion of the total cost base. However, in China it would be much higher. It's around about a third of the OPEX base just in terms of the change. So you do find that the gross margin is higher in China. The operating cost base, if you don’t change anything else, would be slightly higher in terms of proportions. But still the profitability in that region, it tends to be higher as a consequence of the pricing.

Zuzanna Pusz, UBS

Great. Thank you. And sorry, I promise the last one. Can you say how much on average the gross margin is higher in China?

Julie Brown

We haven't given the specific data on that. It's really a feature of the pricing.

Zuzanna Pusz, UBS

All right. Thank you so much.

Julie Brown

Thank you.

Operator

So this concludes our Q&A session, and I head back to Julie Brown for closing comments.

Julie Brown

Thank you very much. So thank you to everyone for joining the call. And thank you very much for the questions and for the interactions that I've had with you over the past six years. I've really enjoyed working with you and look forward to seeing you again, if that's possible. Thank you.