# BURBERRY

## Burberry Group plc

## Preliminary Results - Analyst Call

## Thursday 18th May 2023, 09:30

## Burberry

Jonathan Akeroyd, Chief Executive Officer

Ian Brimicombe, Interim Chief Financial Officer

## Questions From

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**Jonathan Akeroyd, Chief Executive Officer**

Hello. Thank you for joining us today for Burberry's preliminary full year results presentation.

In terms of the agenda for today I will start off with some brief remarks on our performance. Then hand-over to Ian to update you on our financial results. I will then provide an update on the business, and we'll take your questions at the end.

I am very pleased with our performance and the progress over the past year.

We delivered strong financial results. Revenue comp was up +7% and +14% excl. Mainland China and adjusted operating margin increased +60bp at constant exchange.

This was driven by strong performances in leather goods and outerwear, and revenue accelerated in the fourth quarter as growth rebounded in mainland China.

In November, we set a clear ambition and strategy for the next phase.

Since then, we have successfully launched a new creative expression for the brand and Daniel has presented his first show for Burberry.

We are building on our strong foundations with a new brand aesthetic across all product categories.

Whilst the external environment remains uncertain, I am confident that we can achieve our FY24 guidance, and our £4bn revenue ambition in the medium term.

I will now hand over to Ian to walk through the numbers.

**Ian Brimicombe, Interim Chief Financial Officer**

Thank you, Jonathan.

Overall, we are pleased with FY23 performance.

In summary retail comparable sales growth landed at 7% for the year and at 14% excluding Mainland China where we saw significant COVID-19 related restrictions.

Adjusted operating profit margin increased 60 basis points to 19.0% at constant exchange rates and increased to 20.5% at reported rates.

Adjusted Earnings Per Share grew 30% at reported rates and we have increased the proposed annual dividend by 30% in line with adjusted EPS growth at reported rates.

Cash conversion remained strong at 87% and Net debt/adjusted EBITDA landed at 0.5x – the bottom of our target range 0.5x-1.0x.

Having completed the £400m share buy-back in FY23, our strong financials enable us to announce a further £400m share buy-back for the current year to remain within our target leverage range, in line with our capital allocation policy.

We are retaining the guidance for FY24, and the medium-term targets also remain unchanged.

Turning to the abbreviated income statement and, as usual, I will refer to changes at constant exchange rates; CER.

Please note that FY22 was a 53-week year under our retail calendar and the 53rd week contributed £35m of revenue, £27m Gross Profit and £9m of adjusted operating profit. This 53rd week is removed when calculating growth at CER.

Revenue is reported at £3.1bn, a 5% underlying increase and 10% reported.

Overall, we saw an 80bps reduction in gross margin impacted by inflationary pressures that was only partly offset by price increases.

Adjusted operating profit was £634m, increasing by 8% at CER. The adjusted operating profit margin benefitted from 60bps of underlying business improvement, despite COVID-19 disruption in Mainland China, and closed at 20.5% at reported rates including a 150bps currency benefit.

Adjusted diluted EPS rose 30% at reported rates, benefiting from increased interest income and reduced shares in issue following the share buy back programme.

Free cash flow remains strong at £393m in the year, an increase of 16% with conversion at 87%.

A full year dividend of [61.0p] per share is proposed, growing at 30% in line with adjusted EPS growth at reported rates.

Adjusting operating items amounted to £23m – including a net profit from the sale of our Boston store. We have published full details of adjusting items in the appendix.

I shall now move on to the detailed performance for the year and the fourth quarter, starting with revenue.

Comparable store sales increased 7% in the year.

We saw a 1% reduction from space leading to total retail growth of 6% at CER.

Wholesale revenue increased 1%, with EMEIA seeing double digit growth offsetting pressure in Asia Travel Retail.

Licensing continued to see good traction, rising 22%.

Total revenue was up 5% at CER and +10% on a reported basis.

Reflecting on FY23 revenue progression, performance by quarter was impacted by COVID-19 disruption in Mainland China principally in Q1 and Q3.

However, outside Mainland China, we saw a consistent underlying performance with sales up 14% overall and a double digit percentage growth in each quarter.

Moving on to the regions that Jonathan will describe in more detail later.

EMEIA was the standout performer showing good double digit growth every quarter with Q4 rising 27% in line with the full year average. The region has benefitted from tourists outside Mainland China with the mix of tourists rising to over 40% for the full year vs under 25% last year. In Q4 we saw HSD growth compared with 2019 levels despite Chinese tourists being around 80% lower.

Americas was more subdued at minus 3% for the year and minus 7% in Q4 due to a softening macro environment with a decline in men's shoes and ready to wear. Americas nationals were up 2% in the year although fell 2% in Q4.

Mainland China showed a strong recovery during Q4 increasing 13% with the lifting of COVID-19 restrictions and was flattish against two years ago. Chinese nationals increased 23% in Q4 with good near shore tourist growth.

Asia Pacific was very strong in Q4 up 19%, with South Korea up 7%, Japan up 30% and South Asia Pacific up over 50%.

Adjusted operating profit rose from £514m, adjusted to 52 weeks of FY22, to £556m up 8% in the year at CER, boosted to £634m up 21% at reported rates.

Overall gross margin landed at 69.7% at CER broadly in line with our guidance of around 70%.

During the year we saw inflationary pressures on transport, raw materials and labour that was only partly offset by price increases.

Net operating expenses were up 2% at CER due to increases in net selling and marketing, offset by a reduction in administration costs.

Currency was a major contributor as mentioned, bringing our adjusted operating profit margin to 20.5% at reported rates.

Turning now to the cash flow statement. We delivered strong free cash flow of £393m with conversion of 87%.

Working capital was an outflow of £76m. Both trade creditor and trade receivable days were broadly in line with last year. Inventory turn remained flat at 2x but within this there is a much higher current season percentage at the period end.

The cash outflow in the current year was primarily due to the phasing of our spend. Covid lockdowns in Mainland China impacted our ability to make payments in the fourth quarter of FY22, and certain non-trade items required higher accruals in the prior year.

Capital expenditure was £179m, broadly in line with our guidance – mainly focused on investments in the store network of £110m where we opened or refurbished 60 stores during the year (with a further 7 in April), and IT investments of £60m.

Tax cash was a £140m outflow, falling £40m compared to the prior year, which included one-off payments.

Moving on to our net cash bridge and capital allocation.

We started the year with net cash at £879m and generated £572m of cash before capex.

We invested £179m in capex for organic growth and dividends amounted to an outflow of £203m.

We also returned £400m via a share buyback in the year.

We ended the year with net cash of £663m and net debt of £460m after £1.1bn of IFRS16 lease liabilities.

This results in a net debt to adjusted EBITDA ratio of 0.5x – the bottom of our target range that extends to 1.0x adjusted EBITDA.

Based on our strong cash position and expectations for FY24, we are planning to return a further £400m to shareholders via a share buy back during this year.

And finally the current year outlook and guidance.

We confirm our near-term guidance for FY24, to grow revenue at HSD CAGR from 2020 to 2024 at CER, and to achieve an adjusted operating profit margin of around 20%.

We are expecting retail space to be broadly flat for the year.

For Wholesale revenue, we are guiding to around a low double digit decline in H1, however expect the full year to recover to broadly flat growth with the cadence impacting H1/H2 revenue weighting.

The effective tax rate is expected to be around 27% primarily due to the increase in the UK corporate tax rate from 19% to 25%.

We expect Capex at around £200m, including around £120m on stores.

Currency is now expected to be a headwind to revenue of around £70m and adjusted operating profit of around £40m, based on 21st April spot rates.

And finally, as mentioned, we have announced a further £400m share buyback to complete in the current financial year.

I will now hand back to Jonathan.

Jonathan Akeroyd, Chief Executive Officer

Last November, I shared the ambition for Burberry's next phase to realise our potential as the modern British luxury brand. Building on our strong foundations. Reinterpreting our heritage and unique attributes with a modern vision and aesthetic.  And leveraging them to drive revenue growth and acceleration

And I presented our plan to achieve this, focusing on three key elements: Harness the power of our brand, bring all product categories to full potential, and strengthen distribution. We have made good progress across all areas.

We talked about the opportunity to bring more clarity to the brand, refocusing on Britishness and broadening our appeal.

With Daniel, we have started to address this with the launch of a new creative expression of the brand.

I am pleased to share with you a short video of some of the highlights so far.

In February we revealed a new brand identity, with a new Burberry wordmark. Alongside this, we refreshed our iconic Equestrian Knight Design. This is a heritage mark from our archive that has existed since 1901. Daniel was very excited to revisit it and bring it to life in bold new colour.

In February we launched new branding across multiple touch points, including the facades and interiors of our stores in key fashion cities. In each location we brought to life the Equestrian Knight in a unique way, through colours, textures and shapes specifically designed for each space.

Here you can see hand-embroidered flags outside our store on Regent St, London, and our store windows in Sloane Street. And in our store interiors in Soho, New York

For our store in Rue Saint Honoré, Paris, we collaborated with British artist Tom Atton Moore who created 7 back-to-back suspended works to hang in the store's windows as well as a bespoke rug installation. This brought to life our new vision in a cohesive yet highly localised way, elevating the customer's experience in each store.

Alongside this, we launched Daniel's first campaign for Burberry. Set against a contemporary London backdrop, the campaign featured a cast reflective of modern British society that Daniel styled in our iconic rainwear and Burberry Check.

This campaign presented a sharper and more coherent brand image, which we rolled out consistently across all communication touchpoints.

Here are examples of some of the impactful out-of-home displays in top-tier cities including Los Angeles and Tokyo.As well as print spreads in key fashion magazines, which were supported by partnerships on social media.

In November, I mentioned the opportunity that Burberry has to give a stronger level of inspiration and pull to the brand.

I called out our advertising at Heathrow airport and as you can see here the results with this campaign are quite impactful.

Overall, the campaign reached nearly Ha billion people in its first week.

At the same time, we have taken a fresh approach to our social media, which we believe gives us sharper content, more creativity and better engagement.

Our goal is to deliver a more inspirational experience, and we plan to do this by developing stories with creators who interpret the brand in new and exciting ways.

We will build on this as we continue to roll out our new creative expression for the brand with a greater focus on product in the coming months.

We followed the launch of our new creative expression by returning to the London Fashion Week schedule for our Autumn Winter23 Runway Show.

For Daniel's debut collection, we built a custom-made tent in Kennington Park to create a show space that reinforced our connection with the great British outdoors.

The seats were covered in bespoke coloured check blankets, and the audience had a strong representation of creative talent across all industries which helped make the show very impactful.

The collection introduced a bold, new colour palette to our aesthetic and reimagined codes synonymous with Burberry such as gabardine, the Equestrian Knight and check

It also celebrated British symbols like the rose and the swan.

Combined, the campaign and the show performed very strongly across press, generating over 4,000 pieces of global coverage, with an estimated reach of ~4billion.

Key fashion publications celebrated this new chapter, recognising the strong connection with our British identity and editors praised Daniel's creativity, revisiting the brand's heritage through an innovative evolution of our codes and product.

The response from consumers to our new creative vision was also overwhelmingly positive.

With many calling out the Britishness of the collection and expressing excitement about what's to come.

The show was the season's most viewed show on Vogue Runway across all fashion weeks.

In November, we shared our ambition to bring all categories to their full potential, shifting our mix more towards accessories.

I'm very pleased with the progress we have made, particularly in our core categories.

In Outerwear, growth was up +7% vs. LY, +16% excluding Mainland China, with a strong acceleration in heritage rainwear in Q4.

In Leather goods, we were up +12% vs. LY, +19% excluding Mainland China, with strong growth in Women's Bags, as well as Men's Leather Goods.

Performance was also strong in Women's RTW, which delivered double-digit growth YoY.

I also said that we would make our campaigns and brand activations more relevant, more coherent and more connected to who we are and what we offer.

And our brand campaign is a good example of this. Our iconic Rainwear featured front and centre of the campaign. We dressed our VIPs and brand ambassadors at the Show in heritage trench coats.

Daniel opened his collection with a look that featured his modern take on the Burberry trench.

We launched a refreshed version of our heritage trench containing organic cotton and launched it in 10 pop-ins and pop-ups in high-visibility cities.

This 360 approach was a great success, and delivered very strong acceleration in heritage rainwear sales, which doubled YoY in the last quarter.

In Leather Goods, we continue to see strength in our Women's bags pillars, particularly Lola, Frances and our newly launched Vintage Burberry check line.

We launched our vintage Burberry check line in Q4 and it is resonating very well with customers.

We are excited to build on this with Daniel's new product.

I am very pleased with the work that we have done for Daniel's first collection: it covered a refresh of all our product categories, including new families of distinctive bags, enhancing our current offer, a completely new shoe offer, which has strong potential and a fresh take on Ready-To-Wear, with a broader offer for the Burberry woman.

This collection will land in our stores and online from September, and we will showcase this dynamic, new offer through our campaigns and marketing activations globally.

And we look forward to building on this with our future collections.

In terms of distribution. Across markets, performance has been particularly robust in EMEIA and we are seeing strong momentum in Asia Pacific, with growth accelerating in the last quarter as Covid restrictions were lifted in Mainland China.

We are progressing at speed with the roll-out of our store refurbishment plan and we have delivered a material improvement in store productivity.

We have focused on strengthening our foundations in e-commerce and we have developed a comprehensive plan to unlock our potential in this channel.

Starting with EMEIA. We had a very strong performance this year, +27% vs LY.

Performance was strong across all markets, and particularly in UK, Italy and Spain. This was primarily driven by the return of tourists, particularly from Americas and Asia.

All product categories grew double digits vs. LY, with very positive performance across our core strategic pillars.

New and refurbished stores now represent ~25% of the network in the region.

Here is an example of our refurbished store in Vendome, Qatar, which we reopened in Jun-22.

In the Americas we are seeing some softening in the region, due to the recent macroeconomic slowdown.

But are encouraged by the direction in which our business mix is evolving: we are recruiting more higher-spend women, buying into higher AUR products, particularly leather goods.

We will build on this, through dedicated local store activations, and as we continue to roll our store refurbishment programme.

We have two major refurbishments planned - 57th St New York, starting over the Summer and Rodeo Drive, Los Angeles, which will reopen in June.

While the 57th St refurbishment takes place, we will be opening an exciting pop-up on Fifth Avenue which Daniel has curated, to maintain strong engagement with our local clients.

You can see here our store in Dallas which opened in October, it provides a significantly elevated shopping experience.

In Asia-Pacific our performance has been volatile, primarily driven by Mainland China and Chinese customer travel restrictions.

However, we closed the year positively, +2% vs. LY, and saw strong growth momentum in the last quarter, at +19% following Mainland China's reopening in January

In Mainland China, overall performance for the year landed down at -11% vs. LY and was heavily affected by the Covid-related disruptions.

Since the lifting of restrictions in January, we have seen a gradual recovery, delivering growth of +13% in Q4, with strong performance during the Lunar New Year.

I visited the region earlier this year, travelling to Chengdu, Beijing and Shanghai and visiting more than 30 stores. I was impressed by the quality of our store network and by the energy and excitement of our teams for this new chapter of the brand.

In April, we also welcomed Chinese actor Chen Kun as our latest brand ambassador, and look forward to collaborating with him for future brand events and campaigns.

South Korea delivered solid growth in FY23, on the back of an already strong performance last year. This was achieved thanks to the successful elevation of our brand

perception, improvements in our store network and by capitalising on our strength in outerwear.

Japan grew +27% vs LY. This is a region where we see very strong potential and our core product pillars are resonating well, as we have the highest share of leather goods/

The rest of Asia grew +36% vs. LY, and we are seeing a strong rebound with Chinese tourism.

Overall in this region, we are most advanced with the refurbishment of our network, with 40% of our doors new or converted to date.

This is one of our more recent refreshes, Taikoo Li in Chengdu, Mainland China, which we opened this March.

Here, we created a highly localised and culturally relevant store experience which is resonating very well with our customers.

As mentioned in November, strengthening our distribution will be key to accelerate our growth and we are already delivering results.

In FY23, we increased the number of updated stores by 60, bringing the total number of new and refurbished stores to around 30% of the full price network.

These stores enable us to deliver a different customer experience, with a more dynamic product discovery journey, and a stronger focus on our accessories categories.

We aim to reach >50% of the network, which will cover the majority of our key doors, by next year, and to complete all store refurbishments across our network by FY26.

We also highlighted our goal to transform store productivity. We saw a material improvement vs. LY.

This was supported by optimising the size and location of our store network and elevating it through the store refurbishment programme.

Strong growth in higher AUR categories, including Leather Goods and Outerwear and double-digit increase in sales from top spending customers.

Giorgio Belloli has joined us in a newly created role of Chief Digital, Customer and Innovation Officer.He has deep experience in luxury e-Commerce and he is bringing new energy and fresh ideas to the team.

We have developed a comprehensive plan to unlock our potential in this area. This includes maximising traffic to Burberry.com, elevating and personalising the shopping experience to drive conversion and creating an exciting offer for our online consumer.

In September we will unveil a new creative expression and customer experience on our website as we launch our Winter 23 collection.

To execute our plan, we have also made changes to our operating model and hired other specialists in new leadership roles.

We have integrated our Supply Chain and Product Development teams under a new Chief Supply Chain and Industrial Officer Klaus Bierbrauer to improve efficiency, while ensuring end-to-end ownership for delivery.

We have also strengthened the connection between Product Merchandising, Planning and Design under a new Chief Merchandising Officer, Delphine Sonder. This will enable us to ensure consistency and balance in the offer enabling a higher level of productivity.

We have streamlined our collection structure to simplify the product development and planning process for each collection, while also optimising deliveries to stores.

Our core offer continues to be a strength and a great asset. We are now improving delivery flow and availability across all retail doors.

This will enable us to improve on-time delivery and drive option productivity. We are already seeing positive results in the categories where we have implemented these changes.

Alongside these changes, we are strengthening our industrial capabilities.

In March, we entered into an agreement to acquire a product development business from Pattern, a longstanding Italian supplier.

This strategic investment will enhance our technical outerwear capabilities, building on our strong manufacturing heritage in the UK and provide greater control over product quality, delivery and sustainability.

We also appointed Kate Ferry as our new Chief Financial Officer. Kate has extensive experience of public markets, business transformation and development and an excellent understanding of the luxury industry. She is a strong addition to our leadership team and I am excited about her joining in July to support this next phase of Burberry's development.

In addition, we continued to make progress on our responsibility commitments.

We further reduced our scope 1, 2 and 3 carbon emissions and expanded our aftercare services to cover more products in more stores.

To support our UK employees through the cost of living crisis, we brought forward the living wage increase by more than six months.

We also expanded our wellbeing programme to benefit more than 5,000 workers in our extended supply chain.

And we continued to positively impact young people through community programmes and the Burberry Foundation.

In conclusion I am very pleased with what we have achieved this year and I am proud of the pace at which we are executing our plan.

Our teams are very excited about this new phase and I would like to thank them for all their hard work and support over the past year.

While the external environment remains uncertain, I am confident we can achieve our ambitions and realise Burberry's potential as the modern British luxury brand.

Ian and I will now take your questions.

## Question and Answer Session

### Chiara Battistini, JPMorgan

Thank you very much, good morning, everyone. I have a couple of questions, please. Firstly, as Daniel Lee now has presented the first collection, I was wondering if you could give us more colour on how the order book is shaping up on his collections with response from the buyers? And also how that ties in with the guidance for wholesale low double digit in H1, please? And my second question is on spend and on your OPEX plan for this year. You've talked in the presentation about hiring, about investments in the stores, about investments on the brand. So I was wondering how you're thinking about your OPEX growth for this year? And notably, given the OPEX were very well contained in H2 this year, H223, whether we should expect a further acceleration on OPEX spend? And actually, finally, sorry, on the gross margin, you mentioned in H2 that it under inflationary pressure. Was there any promotional activity or any push into outlets on the old collections as you transition towards Daniel Lee, please? Thank you.

### Jonathan Akeroyd, Chief Executive Officer

Hi Chiara, thanks for those questions. Just first of all, with regards to Daniel and the order book in regards to wholesale. As you know, we launched Daniel's collection for our show, which is the smaller part of most buyers buy for the winter collection. So it's a smaller phasing. And indeed, the deliveries for that will start in September. So the response to the show from our wholesale clients was overwhelmingly positive, super excitement. We had probably a bigger attendance in terms of wholesale clients and key fashion press than we've had for many years. So we will really - I think that ticks all of the boxes for us. And people were very, very encouraged by what they saw in the showrooms.

So we had some good response. We had some pickups in categories where we did expect, particularly in accessories. But really, we will see this come through from the following season. So the next big collection that we launched to our wholesale clients is in 2 weeks in June, which will be our pre-collection, which tends to be the bulk phasing of their buys. So we're very encouraged, which is why we've also highlighted this is phasing from a softer H1 ramping up to a stronger H2.

Obviously, Americas, which I'm sure we'll talk about was the main impact in terms of our wholesale guidance for H1, which was really down to an overall macro effect in our wholesale clients mainly doing destocking. But in terms of wholesale response and feedback and indeed momentum, in relation to Daniel and the new era, super excited.

Just a quick anecdote there. I'm sure you saw from the show completely new aesthetic and a lot of development and cohesion across all product categories. When we had the showroom in Paris, our store is probably about 10-minute walk from our showroom. And if you were going to -- if you went into our store, it's full of incredible product, which we're

actually trading well at the moment, as you saw. And then you walk down 10 minutes into the showroom and the it was full of life, full of colour. And this is obviously complementing the core offer that we have, and we will always continue to maintain.

So overall, very excited. This will take a few seasons for us to develop and get to exactly where we need to be, but we've got -- we've seen an improvement in our shoe offer overnight within, again, just to repeat, this has been done within 4 months of Daniel starting. We have a new refreshed shoe offer. The bags -- incredible offer of bags. And all of these have been really well received. So we're super encouraged by that.

In terms of the CAPEX spend, we've raised our CAPEX in terms of our front-facing investments for next year. So we're speeding up our store refurbishments. So last year, in FY23, we refurbished 60 stores. And then going forward, by the end of this year, we'll have more than 50% of our network covered. So really pleased with how that's progressing.

And then in terms of OPEX spend, we touched on this before in November. We will be increasing our OPEX spend versus -- the marketing spend versus what we spent in this year. So continued investment in the brand, particularly coming through CAPEX and our real estate and then in OPEX, in terms of marketing.

The GM pressures were really related to inflationary pressures that we had. We managed to partially offset that from price increases, but most of the impact that we had on the margin was related to our inflationary pressures and cost of goods.

### Grace Smalley, Morgan Stanley

Just one follow-up on wholesale. Given the anticipated decline you do expect in wholesale in the front half, could you just help us with the level and quality of your inventory at wholesale partners today, especially in the U.S?

And then secondly, more broadly on the U.S, following the softening in trends that you did see in Q4. Could you comment on what you're seeing on the U.S retail trends as we've moved into April and May? And then it would also be really helpful to understand what your 2024 outlook embeds for the U.S market as well, please.

### Jonathan Akeroyd, Chief Executive Officer

Yes. Thank you. With regard to wholesale, again, it's worth pointing out that post COVID, as you know, there was a big growth in terms of business -- our business, both in wholesale and in retail, so -- which was primarily at the entry price of our offer. So -- and as the business has softened through last year -- through the back end of last year, the calendar year of last year, inventory levels are higher in terms of our wholesale clients in terms of the stock that they're holding.

It's not a problem. This has resulted in a lower order base, which is why we're highlighting that our H1 order base is going to be lower, which is really driven by the U.S. situation that I've just explained. But that would really enable them to destock and get a correction of their inventory levels.

In terms of our overall U.S. business, I mean, positively despite what I've mentioned in terms of the lower price categories giving -- having been softened from a very high base 2 years ago, we're seeing an encouraging response to our higher AUR offer, mainly coming through bags and leather goods. So very positive there. We've also seen actually a good growth in our elite customers do we're confident that this is really in line with the overall elevation strategy that we put in place. So we're confident that we're in the right place, and we're managing that in the right direction.

We're also -- just going forward into that in terms of the elevation strategy, we're building on a lot more local activations to sort of really push Daniel's collections as we go into the second calendar Hof this year. We're refurbishing heavily in -- investing heavily and accelerating our refurbishment program in the U.S. So we're closing our Rodeo store for just a couple of months. That will open again in June. That will be fully refurbished. And then the bigger project is 57th Street in New York. But we're also, to balance that out, we're opening a pop-up in Fifth Avenue. So really pleased about that.

And just another quick highlight we've had a show with our new offer and our new collections we got all of our elite clients in to see that and super excited about what we saw there in terms of preorders.

Thomas Chauvet, Citi

Good morning, Jonathan and Ian. Three questions, please. To continue on regions nationalities, Europe and China. The Europe LFL were nearly up 30% Q4. What was the share of locals versus tourists? And can you comment on the growth in local European demand and weakness there like you saw in the U.S.? And for the Chinese customer base, obviously, quite a nice tailwind in Q4. How do you expect that clientel to respond to Daniel Lee's collection versus Ricardo? What will differ in terms of the appreciation of the style of certain categories? What do you think will work better with that that cluster?

Secondly, FX. Obviously, it's a fact of life. You're now getting the reversal of last year's benefit. Can you tell us whether the £40 million headwind on EBIT is prompting you any price action that goes beyond the normal strategy of brand elevation and pricing just to offset that £40 million headwind?

And finally, a question on your product mix. You're talking in the press release about strong growth in Q4 in the refreshed heritage trench coat, while men's ready-to-wear, excluding outerwear, I guess, a lot of casual where there was much softer. Do you think we're going through an important change in the fashion cycle where consumers will return maybe to a more formal way of dressing and therefore casual wear, street wear --

product perhaps underperforming from here? And if so, how are you and Daniel Lee preparing for that? Be keen to hear your view on the mix between classic and formalwear and casual wear, street wear.

### Jonathan Akeroyd, Chief Executive Officer

Okay. Thanks, Thomas. Just starting on the EMEIA, we saw a very good growth, as you said in the year, 27% up in the quarter. Tourism was the main driver of that. Our EU locals were up in Q4, which was driven by Mainland Europeans. Our tourist mix, however, was very positive. So we have 41% for the year versus 24% last year. And Q4, we saw 40% again versus 27% so pretty similar there.

The encouraging thing is obviously a high level of tourist flows going into Mainland Europe, which is good, especially clearly coming -- at the moment, coming from our U.S. and the Middle East. And the tourist mix overall for us is 40% tourist, 60% local. So this really highlights the great job that we've done in terms of growing and developing our local customer.

In terms of China, really encouraged by the performance that we're having in China. We've seen a strong uplift in terms of our tourist flows in China going down into Southeast Asia as well. Our Mainland China recovery was 13% in Q4, so a big improvement on Q3. And our Chinese nationals increased 23% in Q4 so we're really pleased with how that's going. And I think the most encouraging sign for us was to see a high level of tourist spend going into Southeast Asia.

We feel -- I touched on it earlier that we feel that we were right to be continuing in our investments in the regions in terms of our store refurbishments in China. So our network there, I was really impressed when I saw it. Our positioning is extremely strong and the stores look great. So this will also help us going on to one of your next questions in terms of product mix. I mean the offer and the journey flows through the stores to how it was pre-COVID in China, we believe, will give us a good opportunity into increasing the store productivity there. Also welcomed a new brand ambassador, Chen Kun who's extremely well known there, and we think that this will help us to considerably improve and ramp up our marketing activities there. So we're really encouraged by that.

At the moment, we haven't embedded in the upside that we could potentially get in terms of Chinese tourists coming into Europe. So we're looking forward to seeing how that develops as the summer season develops. So really pleased with how we are in China. And just again, a little bit of insights there into what I saw when I visited in March. It's very clear to me that the appetite for Burberry for what's to come in terms of -- Daniel Lee is very well known in Asia, not only in -- across Asia, including Japan and Korea. So there's a huge level of excitement there. The customers are really aware of his talent, what he will bring. They've studied the show at great length and really positive. And this isn't just

anecdotes. People are coming into the stores wanting to know when it will be delivered and a higher level of interest in all product categories. So from that respect, we're really encouraged. So it's positive.

In terms of the product mix that you mentioned and the shift, I'm really encouraged by the growth that we've had in outerwear, outerwear being a key strength of ours. The fact that we could grow our outerwear business overall by 16%, excluding Mainland China, at 7% overall, I think, is a good achievement for our core product. The rainwear campaign that we did -- I did call out, I said we were going to focus on our core strength of our business as we went into this calendar year with a stronger 360-degree approach to that. And that was, I would say, brilliantly executed. Actually, even better than I expected for us to have in our peak trading period through March post show of having growth -- triple-digit growth on our core category. I think this is something that people are really calling out as an opportunity for Burberry and something that may be potentially, we were missing in the past.

We're definitely seeing -- I think it's in line with what I touched on there with the Americas. The more entry price level of product is softening in some cases. So men’s jersey is one area. So that's really in relation to the macro situation that I discussed in America. However, we're shaping our offer. This was something also that we've been working towards in terms of our merchandising offer, our offer in our stores. In fact, when you do go into the U.S., the share of our accessory business in the U.S. is one of the strongest across all of our regions, which I think is encouraging, and it's in line with what we wanted to do.

As we're building on -- in terms of trends in the marketplace, I would say, clearly now there's -- the good thing is this is really playing to our -- the direction that we're going. There's evidence that people are now -- casualization trend that we've seen very evident in the past 4 or 5 years is still important, but we're also seeing people now coming more into areas like dress shoes, formal tailoring, dresses, even categories like knitwear, very -- a big opportunity for us, where historically, we've been a little bit soft. So we've been building up on those categories there as well. So as well as being a trend, it's something that we've been calling out in terms of opportunities for Burberry.

**Ian Brimicombe, Interim Chief Financial Officer**

Jonathan, do you want me to pick up...

**Jonathan Akeroyd, Chief Executive Officer**

Yes, sorry.

**Ian Brimicombe, Interim Chief Financial Officer**

No, no problem. Thomas, thanks for the question. You mentioned the FX headwind coming through in FY24 quite right. In terms of pricing, FX is a factor, but it's not the determinant factor, of course, in our pricing reviews that we conduct for each season and regularly by reference, really to local competition and global indices. So FX must come into it from time to time, but it's very volatile , it's short term, and it's not something we chase in terms of pricing strategy. I hope that answers your question.

Charles-Louis Scotti, Kepler Cheuvreux

Good morning, thank you for taking my questions. I have three, actually. In China, we are seeing mixed economic data very recently, especially the unemployment rate of young people. Can you update us from the current trading in Q1? Obviously, I guess it's accelerating strongly year-on-year, but if you could give us an idea of the growth on a 2-year stack or 3-year stack if it's more relevant for you?

Second question, can you address, please, on your ambition to increase your sales density by 50% to £25,000 by, I guess fiscal year ending March26. And this would be very helpful if you could remind us what is the starting point in terms of fiscal year?

And lastly, you are guiding for retail space flat this year. If I look at your store network in fiscal year ending March23 and also over the past 6 years, the network of directly operated store and especially concessions has been streamlined in EMEIA. Should we expect further concession closure there? Or are you happy with the network currently?

Jonathan Akeroyd, Chief Executive Officer

Yes. Thank you, Charles. In terms of -- maybe Ian and I can part share this, but in terms of China and the performance of China today. As I said, we're very encouraged with the performance of what we saw in Q4. I would say, at the moment, that current trend is actually still continuing. I can't really say too much about that at the moment. But I think we can assume that we will continue to focus on our business in China. Overall, our local Chinese business versus pre-COVID [2021] is flattish. So it's a good improvement from what we've had last year. So this is positive.

In terms of the densities our densities are up in FY23, really moving on to our ambition is £25,000 per square metre, as you mentioned, in FY25. And we've been pleased with the progress that we've made through last year. And we're moving towards our target of achieving that, which would be more than a 50% increase in our overall densities.

On the size of the network, again, I've called this out before. I think we had a good rationalization of our network before I joined. I personally feel that the network that we have, we're very well positioned. I'm very happy with that. It will pretty much remain as it is if anything, just minor fine-tuning. But pretty much, I would say, we're looking to keep our retail space pretty much in line with how it is today.

Thierry Cota, Societe Generale

Good morning, Ian and Jonathan three questions for me. First, could you make some comments on the tailwinds and headwinds for gross margin this year after the H2 erosion and basically what you expect overall at that level of margin?

Secondly, on your wholesale, implicit guidance for this year, of, I presume, double-digit growth. I was wondering if there was anything specific, any specific aspects to wholesale to bear in mind or whether we can start to consider it as a proxy for retail to some extent or not?

And lastly, on your medium-term target of high single-digit growth, if that does equate to get there sort of low-teens approach for this year. I was wondering if you could help us break it down between price and volume or ASP and volume in your mind and again, in the context of possible or not price increases this year?

### Jonathan Akeroyd, Chief Executive Officer

Thanks, Thierry. I'll start on the wholesale part question, and then Ian will follow up on the other two. In terms of our wholesale guidelines, as I mentioned, as we've mentioned before, the H1 slip is pretty much related to the macro issue that we're having in terms of American wholesale. We expect to see this lift in the second half. We also -- it's just worth pointing out as well, in FY23, we also have pressures on wholesale in terms of our duty free business and travel retail wholesale orders. We see those coming back in H2 so this is it is one positive.

And then just reminding you, in terms of our long-term strategy, with wholesale, where we're working towards it being a 15% of our mix. So still an important channel. It's an area where we would also look to -- we're focusing really on the retail side then top line growth and we'll manage our wholesale business accordingly. So we will target it to be about 15% of our total mix.

### Ian Brimicombe, Interim Chief Financial Officer

Thanks, Thierry, for the question. Yes, on gross margin, quite right to pick up the headwinds that we faced during FY23, certainly inflationary pressures coming through transport, materials and labor and with that 69.7% at CER. We'll see some of those pressures still coming through in H1 in FY24, although the transport costs are alleviating a little with lower fuel costs and increase in supply. There's also some mix trends going on within gross margin, of course, wholesale for retail and regional mix will have an impact - positive impact to gross margin. So some benefits coming through there. But overall, we're guiding gross margin at this point, roughly around the same level, around 70% for FY24. And on the high single-digit growth CAGR from FY20 to24 is the guidance for this year. We haven’t broken that down in price and volume. I mean, prices are coming through for the most part in FY23. It's part of the mix. So we probably expect that to continue in FY24 as well.

**Louise Singlehurst, Goldman Sachs**

Hi good morning Jonathan and Ian I've got two, please, if I can. Just more broadly on like the cluster and the performance. Obviously, we're halfway through the quarter. I know there's very limited information that you can give us on that. But just to check, has there been any particular change through the quarter, the exit rate if we think about that U.S. cluster? I know Jonathan, you're saying in the press this morning that the U.S. is under pressure, but I just wondered if there's been any further deterioration at the end of the quarter and going into Q1? And similarly, across European domestic. China obviously, you've already given us some colour on already. But if we could focus on those. And obviously, elsewhere in Asia, that would be great.

And then my second question, just thinking more broadly about the EBIT margin. Obviously, the FX impact was bigger than we were all expecting in fiscal23. We've got the headwind in24. I mean how confident are you if we think about the underlying margin expansion on a constant currency basis of expansion in 2024 versus 2023 constant currency?

**Jonathan Akeroyd, Chief Executive Officer**

Thanks, Louise. So I'll just touch on current trading. Obviously, I'm not going into too much detail there. But in terms of China, I would say no change in the trajectory in the region. We've seen a good continuation of where we are today. The nationality has accelerated from Q4. We had a really good period in Golden week, which was great. And again, good performance on Golden Week versus last, last last year.

In America, some deterioration, not too significant versus Q4, and it continues to be difficult, driven by a decline in really those categories that I mentioned earlier.

EMEIA. Really pleased with EMEIA continues to show a good growth there – good double-digit growth there. And I haven’t really touched on it before, but I mentioned it in the slide, it’s still an area of opportunity for us. But seeing very good trading coming from Japan and Southeast Asia as well. So this has been a big highlight for us. And actually, in terms of Asia Pacific, probably one of our biggest positives, I would say. So we’re really encouraged with how that’s going in Macau, Hong Kong, into Singapore. So some really, really strong performance there as the tourist flows increase. So yes, that’s, I would say, the main takeouts there.

**Ian Brimicombe, Interim Chief Financial Officer**

Yes, Louise, thanks for the question. As you say, we are guiding in FY24 to around 20% EBIT margin and that’s after the investment that we’re going to make in customer-facing activities that Jonathan mentioned earlier. If you take the FY23 margin, FY20 FX rates to 19.6%, so coming to around 20% is progression. Then you’ve got the adjusted FX, as we said, minus 40 against the EBIT for this year. So that will get you in the right position, I think.

Luca Solca, Bernstein

Good morning, my questions are on, price discipline. I understand you were saying, Jonathan, that your long-term goal is to reduce wholesale to 15%. I see that some of your peers, take Gucci or Prada in the most recent years, were also exposed to wholesale and reduce that to around 10% in the most recent years. Is there any particular reason why you would want to be ahead of them and why you wouldn't want to be lower in the high single digits, for example? And wouldn't that give you more control on price execution?

The second question connected to this is on the £2.5 billion in retail revenues. How much of that is dependent on off-price distribution? And would be £750 million far off the mark? At this point, you've been pointing out positive trends in full price sales. Maybe connected to this, if you could give us a sense of where your full price stores profitability is, that would be great if possible.

Jonathan Akeroyd, Chief Executive Officer

Hi Luca thanks for that. I mean, good questions. I would say in terms of the target that we set in terms of our wholesale mix going to 15% is very much a midterm target. It's a target that's been set as I joined the business a year ago. So this is really the first step for us. Wholesale is an important channel for us, I would say. And historically, we're with some very strong partners there. So we're pleased with the distribution that we have to date with regards to wholesale and the performance of it.

There is and there will be, I think, one of the areas where we've already started is the conversion of some of our good top wholesale distribution, particularly through department stores. We're working on converting a lot of that into concession. So that will -- is a journey that we are very much on at the moment. So I guess we'll be able to share some more colour on that further down the line.

In terms of -- on the pricing, we -- this is something that we don't share the mix of our business in terms of outlet versus full price sales. But our full price strategy is very much the key part of our strategic plan, and we're very encouraged with the pickup that we've been having in our wholesale -- sorry, our full-price business performance so this is really what we're focusing on.

And with regards to the outlets, it's a channel for us at the moment that works well for us, working on liquidating our end-of-season product. So that's the way it is at the moment. And that's what we'll continue to focus on. So it's very much a focus on the full price business.

And I would probably, here, call out, obviously, we've seen good strength across all the regions. But in Europe, for example, we've had a very strong performance in the pickup of

our full price business in the last year or so I think we're heading in the right direction there.

### Rogerio Fujimori Stifel

This is Rogerio from Stifel. I have a follow-up question on gross margin and another one about marketing. I think on your, I think, indication of 70% gross margin for fiscal24, could elaborate a bit on the tailwinds -- on the other tailwinds and headwinds because I can see channel mix working favor as retail should strongly outperform wholesale. I think product mix is working in favor with outerwear making a comeback. Scarves making a comeback also with Chinese stores and leather goods picking up in the U.S. You have regional mix in favor of China coming back. Cost inflation easing on freight costs. Your exposure is hedged. So just wondering, I think about the -- what -- the headwinds that gross margin level that we should keep in mind? And then I think as we approach, I think, the arrival of Daniel Lee's products in stores, how should we see about phasing of marketing spending H1 versus H2 to increase by him?

### Jonathan Akeroyd, Chief Executive Officer

Okay. I'll touch up a little bit on the gross margin, and then I'll let Ian come on to that and then I'll also mention about the marketing question. But last year, I'm pleased with the way that we've been able to manage our margins this year because actually, it was a very good performance considering the extreme pressures that we've had mainly, obviously, in terms of inflationary pressures on our cost of goods and logistics, et cetera, but also in terms of the regional mix of business that we have. So I think it's actually a good achievement considering the challenges that we've had. And I'll let Ian kind of develop a little bit more colour on that.

In terms of the marketing, we mentioned before that our marketing spend is high single digit. We're increasing that, which still remain at high single digits for this budget. But you're absolutely right to call out the fact that as we looked into planning this year's marketing spend, we definitely have geared it towards the summer. So the second half, a little bit into Q2, where we'll start -- you'll start to see a lot more amplification about the new storytelling that we're about to have. So there is a definite phasing of how we're cutting our marketing spend H1 versus H2.

### Ian Brimicombe, Interim Chief Financial Officer

Thanks, Rogerio, for the question. I think you hit on most of the variables actually going through gross margin. We are expecting to see some tailwinds from the regional mix, from the channel mix that you mentioned. I still think there's some headwind in cost. Obviously, we buy ahead. We've locked in a few costs on labour and materials. That's more of a hit than for us, as you say, transport with some relief there. Within that mix, we'll see how it evolves during the year, but again guiding to around 70% for the full year.

**Rogerio Fujimori Stifel**

Okay thank you. And just one quick one on the U.S. cluster. I think you indicated the U.S. cluster down 2% in the March quarter. So was there any change in April? Thank you.

**Ian Brimicombe, Interim Chief Financial Officer**

No. We're seeing a continuing trend there, Rogerio. Yes, you're quite right, minus 2% for Q4 plus 2% for the year, but some deterioration in the back end of the year, and that's a continuing trend, not much more to call out there at this stage.

**David Da Maia, CIC Market Solutions**

Hi good morning. Three questions from me, please. The first one on a clarification on your fiscal year EBIT margin guidance. So you said around 20% at constant currency, but at which base, is it full year22, full year23? That’s the first question.

The second one on FX. Can you explain why the negative impact from FX is disproportionately high this year at the operating level with a £40 million headwind compared to only £70 million at the sales level?

And the third one on Daniel Lee collection rollout, can you give us an early indication of how the contribution to sales from Daniel Lee collections will increase in the coming quarters starting from Q2?

**Jonathan Akeroyd, Chief Executive Officer**

Okay. I'll start on the -- thanks, David. I'll start on the Daniel Lee collections. Again, I'm super excited about what we've got to come. The start of the deliveries of the show collection, which Daniel designed, will be in at the end of September, so the end of Q2. And then that will progress through and obviously, improve in terms of the share of our newness mix of goods, that would improve as it will grow as the year -- the financial year progresses.

Again, it's really important to highlight, we're very pleased with the performance of our offer to date. So this will be, as far as we're concerned, it's a continuation of our business. Its Burberry. Daniel, we've got, we believe, one of the best designers in luxury. So this will be an enhancement for us, and it's really part of our growth strategy. We're also very positive about the flow.

We don't see, I think, potential -- my understanding is we kind of called out in the past a lot of the weighting for Daniel's product versus the old product. We really see this as a seamless flow in, which will enable us to have a better long-term performance and momentum and building on the great platform that we have.

**Ian Brimicombe, Interim Chief Financial Officer**

Thanks, David. And just on the EBIT guidance. You're quite right, it's around 20% for FY24, and that's the FY20 . So we've done some math for you to help you. But in FY23 equivalent -- or FY20 exchange rates, the margin was 19.6%.

In terms of pacing being disproportionate, it's a bit of a mixed review on FX. There's lots of moving parts within COGS and within OpEx. Obviously, the mix is different every year. So we run those numbers, and I said that we've done that at 21st April spot rates and we've got that £70 million headwind to revenue and £40 million to EBIT. And that's what our model is showing us and hence why we're guiding on that today. There's no sort of rhyme or reason or direct linkage between the 162 revenue benefit and the 78 EBIT benefit we have in FY23. It's just the mix of business and phasing of our business in FY24. So that's -- we're happy to guide you on those numbers.

### Piral Dadhania, RBC Capital Markets

Hi morning everyone. Just two quick ones from me, please. Firstly, are you able to share with us what the marketing to sales ratio spending was in fiscal23? I think your ambition is to grow it towards high single-digit percentage of sales across your strategic plan. And that's just in the context of our view that the cost to compete in the luxury sector appears to be going up, just given what some of your peers are doing.

And secondly, just an update, if you have one, on the lobbying in relation to the VAT retail export scheme for U.K. VAT refund. Just wondering if there's any progress there or any update on any discussions you're having in that respect?

### Jonathan Akeroyd, Chief Executive Officer

Sure. Thank you. In terms of the marketing spend, again, we don't share our actual spend to that. It is high single digits. We -- it will grow this year in terms of the percentage share, will still remain at high single digits. This is actually in line with our peers. So it's not -- we're not out of line there.

You're absolutely right to call it out. It's a very important part of driving growth and supporting all of the changes that we're having. I do feel and felt this actually even before I joined that Burberry are very good at this. We're very strong on the activations that we do and the activations that we've already put in place to support the new creative expression that we have, have been very impactful, very well received. People are seeing them. Outdoor home, for example, is very much a key trend at the moment. And it works well for us.

We just highlight -- I don't know if anybody has seen -- we've now launched our summer campaign, which is really strong, really also playing again to our -- in February. We played onto one of our key strengths, which is the trench. Daniel has picked up, and again, to repeat, this is -- these campaigns are coming from Daniel with a product that is already existing in the business, which is why I highlight the fact that we already have a very strong offer in place. And our summer campaign is really playing to our strengths and

highlighting our vintage check. And we actually -- we anticipated that launch it in Miami for the Formula One Grand Prix, which is, I think, last weekend or the weekend before. So really pleased with the impact that's having.

So I do think that the we do compete. I think we're in a good place in terms of what we do in marketing initiatives, and it definitely works well and we get the responses that we get. It's -- we're already seeing in some reports that the awareness of what we're doing is on the rise and increasing, which is great.

In terms of the VAT, we're -- as we've mentioned before, we're disappointed that the government chose to scrap the VAT retail export scheme. We think it leaves the U.K. in a competitive disadvantage for global shoppers and our current trading suggests this is the case with the U.K. underperforming versus the rest of Continental Europe. We've seen much stronger performance in terms of tourist sales in Mainland Europe, Spain, Italy and France than we're getting in the U.K. where we're still getting growth, but not at a level that we're getting to Mainland Europe.

And the other interesting thing that we're seeing more and more is a stronger increase in surge in British shoppers shopping in Mainland Europe, which again is quite a concern. And for us being a British brand, where we're calling out the fact that we are really coming back to celebrating the fact that we're being British in the first quarter call for any tourist is clearly -- you go to Buckingham Palace, you go to Harrods and then you go to Burberry as well. So these are the three key destinations for tourists when they're coming to London, and it's something that we're going to keep campaigning for.

Operator

This concludes our question-and-answer session, and I would like to turn the conference back over to Jonathan Akeroyd for any closing comments.

Jonathan Akeroyd, Chief Executive Officer

Thank you very much. So overall, as I said, we're considering all of the changes that we've had in the past 12 months. We've had challenges on the macro environment, we've had changes in executive leadership, myself and changes in creative leadership. But going back to, again, what I said in November, we have a great platform, we have an incredible brand and so we're very pleased with these results that we've got in place there. But we also see a great opportunity to build on and focus on growth in the midterm going forward. So thank you for your time. We really appreciate it, and we look forward to talking to you again in July. Goodbye.