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Burberry Group plc

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Burberry

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Jonathan Akeroyd, Chief Executive Officer
Good morning. Thank you for joining us today for our interim half-year results presentation.

In terms of the agenda for today, I'll start with some brief remarks on our performance in the half. Then provide an update on the business. Then hand over to Kate to update you on our financial results. And we'll take your questions at the end.

This time last year, I shared our strategy for the next phase. Since then, we have focused on execution. There's a tremendous amount of energy and excitement across the business.

While we're still in the early stages of executing our plan, I am proud of the progress we have made. I'm particularly pleased with what we have achieved in the past six months. We delivered solid financial results. Retail revenue was up 10% on a comparable basis. This was driven by good performance in Leather Goods and Outerwear. And positive momentum in EMEIA, Japan and South Asia Pacific, driven by tourism and accelerating growth of Chinese customers globally.

We made significant progress across all areas of our strategic plan. We have seen a positive early response to our new brand identity and collections.

As you will have noted in this morning's announcement, the slowdown in luxury demand globally is having an impact on current trading. If the weaker demand continues, we are unlikely to achieve our previously stated revenue guidance for FY24.

But we remain confident in our brand and strategy, and we are committed to achieving our medium and longer-term goals.

Modern British Luxury is our vision for Burberry's next phase. This is about leveraging our heritage and Britishness while bringing a more modern, contemporary feeling to our brand.

Our strategy is anchored around Brand, Product and Distribution, and supported by a sharper focus on Operations, Execution, and Efficiency.

And as I mentioned, while we're still in the early stages of implementation, the pace of change across the business has been impressive. In terms of highlights over the last six months, starting with Brand.

In July, we unveiled our Winter 23 campaign, showcasing our new offer with a distinctive visual language that celebrated our new and enduring brand codes and placed key product categories centre stage.

We have seen a lot of interest from fashion editors globally. This has translated into higher volumes of editorials with more than 2x greater reach vs. Winter 22

We continued to focus on communicating a more coherent brand story with a brand aesthetic that is recognisably Burberry.

For this campaign, we took new codes from the Winter 23 collection and applied them consistently across our customer touchpoints. As you can see here with our distinctive rose flags on Bond St in our store windows and with key themes from the campaign incorporated in client experiences. And we ensured product and brand storytelling reached a broader audience than ever before, through a large programme of out of home activations, pop-ups and pop-ins.

We also refreshed the Burberry.com website, with a new look & feel aligned to our brand identity. The new site went live with the Winter 23 product launch.

To complement the launch, we amplified our visibility with a series of city takeovers in high impact locations. 'Burberry Streets' started in London in September and included a takeover of Bond Street tube station during London Fashion week, London's iconic black cabs being wrapped in rose print. And immersive experiences anchored in Britishness, including a takeover of Norman's Café in North London

'Burberry Streets' then travelled to Seoul, where we took over the vibrant Seongsu area. And then onto Shanghai.

We are very pleased with the response. These activations helped drive our highest level of brand clarity in the last 3 years, as well as continued growth in consumers who associate Burberry with Britishness and Heritage.

Our new brand expression and aesthetic are resonating well with our top clients, who have grown double digits in both number and revenue vs last year.

The positive momentum is also reflected in external industry rankings. And we plan to build on this.

Daniel evolved his creative expression for Burberry during London Fashion Week in September. The Summer 24 show, held in a custom tent in North London, continued to build on our heritage of the outdoors, reimagining the trench for the season, while also embracing new codes tied to the British summer.

It was well attended by high-profile talent from the worlds of music, creative arts, and sports that helped amplify our presence on social media.

The response to the show has been highly positive. Global reach from press coverage doubled vs Winter 23, with key editors praising Daniel's focus on our British heritage and marriage of the aesthetic and environment.

We also saw strong engagement on our social channels.

Looking ahead, we will continue to strengthen our brand storytelling and connection with Britishness, building on the progress we have made so far.

Customer recruitment is a key area of focus as we continue to engage broader consumer audiences and play more firmly in the luxury space.

We will leverage our new product offer and make it much more visible and desirable, putting a spotlight on hero products.

And we will strengthen the relationship with our customers, with richer, more personalised and dynamic experiences.

To support this, we will continue to invest strategically to enhance our brand. We have set a clear ambition to evolve our customer base, with clear targets across all key dimensions. In line with our strategy, our goal is to grow the share of women's customers while maintaining strong traction with men's. Leverage our unique heritage and creativity to engage with a younger audience. Deepen the relationship and grow our top tier client. And focus on aggressively growing our customer base, and deliver a more personalised customer experience, driving improvements in repurchase rate. I will update you regularly on our progress towards these targets.

In terms of product, we believe Burberry is a brand that can play across all categories. In the last six months, I'm pleased with the progress we have made, particularly in Leather Goods and Outerwear.

In Leather Goods, sales were up 8% vs. last year, driven by double-digit growth in Bags. This was supported by ongoing momentum with our iconic offer and new shapes introduced as part of the Winter 23 collection.

In Outerwear, sales were up 21% vs. last year, driven by sustained outperformance of Heritage Rainwear.

In parallel, we continued to expand and evolve Ready-to-Wear, and, starting with Winter 23 collection, we introduced a more complete shoe offering.

In bags, the Vintage check maintains its position as our top selling Women's line. I'm pleased to say that the new shapes we launched in September are working alongside our existing offer. Daniel has a unique strength in accessories and we already seeing some of these new shapes gaining traction with our customers.

The Knight bag appears in the 10 top performing products from the collection across all regions, for both new and repeat customers.

The Trench Tote is also resonating, appealing to both male and female audiences; and it's already on re-order showing very encouraging sales results.

In recent weeks, we have had some good visibility with celebrities and KOLs wearing the Knight bag. We are confident this will be an important pillar for us in the category.

In Outerwear, our heritage rainwear continues to perform strongly, with high double-digit growth across Mens and Womens. We celebrated our Heritage Rainwear with an impactful campaign early in the year before the new product launched. This focused approach has delivered consistently good results for the category since

Additionally, an early read on Winter 23 Outerwear indicates the new offer is resonating well with repeat customers, as well as attracting new customers to the brand.

I mentioned last year, shoes are a key opportunity for us as we have been under-penetrated in this category. I am delighted that in a short space of time we now have a much more complete offer across all functions. This broader shoe offer complements our Ready to Wear collections and gives us the opportunity to offer our clients complete outfits.

We also more recently partnered with Tricker's, bringing together two iconic British brands. We will continue to build this category.

We supported the launch of Winter 23 with a higher level of investment in new product across categories. This enabled us to achieve broader distribution and higher visibility in all doors, compared to only 25% for our Winter collection last year. As a result, our stores look considerably more animated. And the new offer complements our existing core product.

While it is still early to have an in-depth read on commercial performance, early indicators are encouraging: We have a much more fashion forward customer buying into the collection. A higher share of sales for the runway looks. A significant improvement in share of transactions with more than one product purchased, indicating that customers are buying more into the complete outfit and look.

And we have built on this with Summer 24, evolving our aesthetic and codes across Leather Goods, Shoes, and Ready-to-Wear.

In addition, our Licensing business showed excellent performance in the half, up 44% at CER, driven by Beauty with the successful launch of the Burberry Goddess fragrance.

Looking ahead, we will focus on accelerating the visibility and desirability of our accessories business by heroing our new Bag pillars and developing the offer, continuing to build the Shoe offer. and re-energising Softs. Protecting our iconic Outerwear category and reanimating Rainwear. Completing our assortment in Women's Ready-to-Wear, expanding underrepresented categories and evolving the core commercial offer in line with the new brand aesthetic.

In terms of distribution, in the first half we have seen sustained growth across EMEIA and Asia Pacific, supported by a gradual recovery in Chinese tourism.

With respect to our retail network, I am proud of what we have accomplished. We have continued the roll-out of our store refurbishment plan and we are on track to meet our goal of more than 50% of our full-priced stores refurbished by year-end.

We have invested in several activations across our retail footprint and with wholesale partners to celebrate the launch of Winter 23.

Across all stores, we continue to see improvements in store productivity, which grew double-digit in the half.

As I mentioned earlier, we also refreshed our website in line with the new brand aesthetic and improved the customer journey.

EMEIA and Asia performance was solid across the half, albeit with a slowdown in the second quarter. Growth was primarily driven by the rebound of tourism, with greatest contribution from Chinese customers spending particularly in Japan, Hong Kong, and Macau.

The Americas experienced softer performance in H1 with similar trends across both quarters. This was driven by a slowdown in traffic and a more cautious spending by Americas customers locally.

Within Asia Pacific, Mainland China was down 8% in Q2, however we are pleased with the performance of the Chinese customer group overall which grew 25% in the quarter.

Here are a few examples of our newly refurbished stores completed over the last 6 months, starting with our Bond St. Flagship, which re-opened in July. As you can see, this elevated shopping experience effectively highlights our new product offering and key categories.

This is our newly refurbished Omotesando store in Tokyo. We brought forward the opening to align with the launch of Winter 23. And since opening in September, we have seen a good response from customers and a considerable lift in Accessories sales.

And finally, here is our recently reopened Rodeo Drive flagship store in LA – which again, seamlessly reflects the new brand identity and showcases our new products.

For the launch of Winter 23, we also worked closely with strategic wholesale partners. Here is an example from Sak’s in New York, with a striking window takeover that ran along their Fifth Avenue storefront.

Looking ahead, we will continue to, deliver our store refurbishment plan, covering the majority of our key doors by the end of the year, integrate Daniel’s vision into our store footprint and drive productivity improvements by focusing on accessories and investing in recruiting and clientelling for top clients. And lastly, we will strengthen the performance of e-commerce with a targeted approach for key regions, categories, and third-party partners.

Turning to Operations. We have clear leadership across all teams, each with solid plans in place to deliver our strategic priorities.

We have made significant improvements across the value chain, in terms of product availability, on time delivery and material waste re-use. And further strengthened our supply chain in our core categories, with the acquisition of a division of our longstanding outerwear partner Pattern.

Looking ahead, we will deliver speed, quality and margin improvements across our strategic categories by leveraging our more verticalised operations. Strengthen our product fulfilment operating model. Adapt our operational plan to support execution, including optimising investments. Carefully reassess processes to identify improvements and cost efficiencies.

Responsibility remains a cornerstone of our plan, and in the last six months, we have continued to embed sustainability in our operations. And as you may have seen, we recently launched a partnership with leading global resale platform, Vestiaire Collective. This allows us to offer our customers a new way to trade in their preloved Burberry pieces and ensure they can be enjoyed for longer.

Looking ahead, we will, continue advancing product sustainability initiatives. Launch 'ReBurberry', a dedicated space and programme for our customers to learn and engage with our sustainable products, packaging and circular services. Develop a robust climate transition plan to enable us to deliver our carbon targets. And strengthen our focus on Communities by expanding our Burberry Foundation Youth programmes.

I will now hand over to Kate to talk you through the numbers.

Kate Ferry, Chief Financial Officer
Thank you, Jonathan, and good morning everyone.

Before I get into the numbers, I'd just like to say how delighted I am to be here as Burberry's CFO. I have been in the role for four months now and what I have found is a company with a very clear sense of where it can win, and a strong plan to get there.

I share Jonathan's confidence in the strategy, and I am glad to have the opportunity to join the team at such a pivotal moment.

And finally I'm looking forward to getting to know you all over the coming weeks and months.

So now let me turn to the interim results. In headline terms, we had a solid performance in the half, with comparable store sales up 10% and total revenue up 7% at constant exchange rates.

Adjusted operating profit was up 1% at CER, but we did see some pressure on our adjusted operating profit margin delivering 16.6% at CER, down 110 bps as we continued to invest in the brand.

Adjusted diluted Earnings Per Share grew 2% at CER; down 5% at reported rates.

We have increased the interim dividend by 11% based on the target of 30% of the previous full year's dividend as stated in the FY23 Annual Report.
Net debt to adjusted EBITDA landed at 0.9x within our target range 0.5-1.0x.

We completed £200m of the current £400m share buy-back by the end of the half and completed the programme by end of October.

We did see a slowdown of luxury demand globally towards the end of the period. This weighed on our Q2 result, with comparable sales decelerating from 18% in Q1 to 1% in Q2.

Jonathan has spoken about guidance, and I will provide further detail after updating you on the first half financials.

Turning to the abbreviated income statement and, as usual, changes will be referred to at constant exchange rates, CER.

Revenue came in at £1.4bn, a 7% increase.

Overall, we saw a 30bps increase in gross margin as inflationary pressures were absorbed by the business, along with benefits from regional and channel mix.

Adjusted operating profit was £223m, a 1% increase. The adjusted operating profit margin fell 110bps as the improvement in sales and gross margin was offset by investment in the business, particularly store network related selling costs, in line with our strategy to strengthen distribution.

Adjusted diluted EPS increased 2%, with attributable profit impacted by a higher tax charge due to the increase in the UK tax rate, offset by reduced shares in issue following the share buyback programme.

Free cash net outflow of £15m in the half reflects the investment in our business with higher capex as we prioritise the store refurbishments. Changes to the timing of our seasonal collections impacting working capital. Higher tax payments as expected.

Foreign exchange is a substantial headwind in the half, taking revenue growth to 4% reported. Adjusted operating profit and adjusted EPS declined 6% and 5% respectively on a reported basis.

There were no material adjusting items in the half.

I shall now move onto the detailed performance for the half, starting with revenue.

Comparable store sales increased 10% in the half.

Space was stable in the half, leading to total retail revenue growth of 10% at constant exchange rates.

Wholesale revenue decreased 8% due to pressure in the US, however our performance was slightly better than guidance.

Licensing continued to see good traction rising 44%, supported by the highly successful launch of our latest fragrance, Burberry Goddess.

Total revenue was up 7% at CER and 4% on a reported basis.

Moving onto the regions which Jonathan referred to earlier. EMEIA continued to grow double-digit for comparable store sales in Q2, increasing 10%, albeit a slowdown from Q1. The growth was supported by tourism up 28% in Q2 versus a tough comparative base. Tourists accounted for around 50% of sales in the second quarter in line with Q1, but below pre-pandemic levels. The EMEIA customer group declined low single digit in Q2, in line with the previous quarter.

Americas saw a 10% decline in comparable store sales in Q2 – a slight softening from Q1 down 8%. However the region continues to be up over 20% vs pre-pandemic levels. The Americas customer group was broadly in line with regional performance.

Asia Pacific delivered 2% in the quarter with standout performances in Japan up 41% and South Asia Pacific up 22%, both supported by tourism, with South Korea softening down 7% in Q2.

Within Asia Pacific, Mainland China was down 8% in Q2 against a period less impacted by COVID-19 restrictions. While this was a 10% decline over two years, we saw an acceleration from the Mainland Chinese customer group globally to 24% over the same period. Travel continues to be seen mainly near-shore in Asia.

We remain confident in the medium and long term prospects in each region and have refurbished a further 14 stores in the quarter, a total of 33 in the half.

Turning to the profit bridge. Adjusted operating profit was up 1% at CER at £239m, but down 6% at reported rates.

We are pleased with gross margin landing at 70.4% at CER, up 30bps from the prior year despite a 90bps headwind from inflation on raw materials and labour. This was more than offset by regional and channel mix benefits, as well as lower transportation costs.

Net operating expenses increased by 10% at CER due to investments in the business in marketing, client experience and stores as well as the impact of inflation on people costs.

Currency was a headwind as mentioned, bringing the reported adjusted operating margin to 15.9%.

Turning now to the cash flow statement. Free cash was a net outflow of £15m with conversion of 38%, lower than last year as we continued to invest in product and distribution.

Cash generated from operating activities decreased from £289m to £271m.

Working capital was an outflow of £154m, impacted by the build of inventory in preparation for festive, as well as changes to the timing of our seasonal collections.

Capital expenditure was £89m, with £53m attributed to the store network refurbishment programme.

Tax was a £98m outflow, £33m more than the prior year due to the higher UK tax rate and one-off payments.

Moving on to our net cash bridge and capital allocation. We started the year with net cash of £961m and generated £74m of cash before capex.

We invested £89m in capex, primarily relating to stores, and dividends amounted to an outflow of £167m.

We returned £200m via a share buyback in the half, along with £1m in stamp duty, and closed the period with net cash of £570m and net debt of £887m after £1.2bn of IFRS16 lease liabilities.

The balance sheet remains strong with net debt to adjusted EBITDA at 0.9x, including lease debt. We are within our target range of 0.5 to 1.0x, with the increase from last year due primarily to the final dividend, the share buyback programme and capex.

Turning to the financial outlook. We remain confident of achieving our medium-term guidance of £4bn in sales. We have made good progress against our strategy, seen in the positive response to our Winter 23 launch, and we are focused on realising our full potential as *the* modern British luxury brand.

As Jonathan stated upfront, the slowdown in luxury demand globally is having an impact on current trading. If the weaker demand continues, we are unlikely to achieve our previously stated revenue guidance for FY24. In this context, adjusted operating profit would be towards the bottom of the current consensus range of £552m to £668m.

There are no changes to our full year expectations for, Retail space being broadly flat, effective tax rate of around 27% and capex of around £200m.

However, wholesale is expected to be down a mid-single digit for the full year, below our previous expectation of broadly flat, as the channel continues to be impacted by the macroeconomic environment.

Finally, currency is now expected to be a reduced headwind based on the 25th of October rates, indicating a revenue headwind of around £110m and a profit headwind of around £60m. Further detail can be found in the appendix. I will now hand back to Jonathan.

Jonathan Akeroyd, Chief Executive Officer
Thank you, Kate. So to sum up, I am very pleased with what we have achieved in the first half of the year. I am proud of the pace at which we are executing our plan. I would like to thank our teams for all their passion, energy and hard work. We are still in the early stages of implementation and there is more work to do. But I am encouraged by the early response.

In the next 12-18 months, our focus will be on accelerating recruitment and engagement of new customers. Continuing to evolve our product, completing the assortment and aligning our commercial offer to our new brand aesthetic. And identifying efficiencies that can make us faster and more agile.

We are mindful of the current uncertain macroeconomic environment and its impact on short-term luxury demand. But we believe that our strategy is the right one and we will continue to invest in key growth initiatives to deliver our medium-term ambition and goals.

Kate and I will now take your questions.

Question and Answer Session

Telephone Operator

The first question comes from Thomas Chauvet with Citi. Your line is open, please go ahead.

Thomas Chauvet, Citi
Thank you and good morning, Kate and Jonathan. Three questions, please. The first one on LFL by category. In Leather Goods, could you comment on volumes vs ASP in Q2? And, with greater volume and scale you now have, plus the pricing, is that category on par with the profitability of Outerwear?

And just maybe quickly on men's and women's Ready-to-Wear, that seems to have turned negative in Q2, so the non-Outerwear part. What do you think, within Daniel Lee's aesthetics, will drive a steep change in performance over the next year or two?

Secondly, on the new store concept, can you talk about the performance of refurbished store versus non-refurbished stores, particularly in September and October where LFLs seemed to have got a lot weaker, but you also benefit, I guess from Daniel Lee's collection in store?

And, thirdly, on opex, up 10% in constant FX in the first half. I guess, that's a mix of underlying cost inflation and your planned step up in marketing and store renovation programme, if we look at the bottom of the consensus range that Kate just mentioned, so £552m EBIT, that would imply around 2%, 3% of opex growth in the second half in constant FX if my maths is correct. Does that seem sufficient to you to support the plan? And, you know, what costs will you want to maintain and to eliminate in the second half given the slower global demand outlook? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Yeah, hi, Thomas. How are you? I'll start with the question on the Bags and the Ready-to-Wear, then the store concept and then Kate will come back onto the opex.

In terms of the Bags and the Leather Goods, you know, pleased with the performance in Q2, 8% growth in the half for Leather Goods, but women's Bags also 7% growth in Q2. And so, we're pleased with the performance of actually the bags, both older bags and that we have also Daniel's new bags.

Actually, I think the important thing to flag here is, as I've mentioned before, we've been very mindful to, seamlessly integrate our old offer in with our new offer, and that's really giving us a very satisfactory performance into the mix of the sales of our Leather Goods.

So, our Vintage Check line is still our number one line, which has now overtaken the TB hardware line, which is positive.

Also, quite a good performance in men's Bags, up 11%.

And, in terms of the newness, as I mentioned earlier in the presentation, the Knight bag, which is, sort of, what we see as our iconic first Daniel bag, it's in the top ten of our bestsellers across all of our winter collection. So, this is positive.

The new shapes that we have, the Knight is performing well. We also have a Trench tote, that, initially, we saw as a unisex bag, probably more focused on men's, but now we've seen a big uptick in sales for women's as well. Had very strong reception to this in China actually, and we've already placed reorders, so that's very positive. And I think, again, that really plays into, I think, our heritage, it's a trench, it feels for the outdoor, and it really blends in well with our Outerwear offer as well.

Just in terms of the pricing because, you know, I know that there's been some callouts on that, the Knight bag range, really that's around £2,000, so it's at the top end of our new offer, but it really is in line with price similar to our peer's iconic line. So, I think we feel we're in the right position there.

We did say that we wanted to elevate our Leather Goods offer, and we're really pleased with the reaction that we've had, both from our existing, customers and our new customers coming in, so this has been positive.

Also, the price increase has really been done with the reason of the high level of quality, high level of leather quality, but also, you know, a much stronger focus onto detail and the hardware as well. So, this is positive.

And then, as we move onto our next Daniel group that we think is going to be very strong is the Shield bag, and this is priced at £1,500. That's actually in line with our Lola pricing as well. So, again, we think that the price positioning is where it should be, and we'll continue to monitor that. And the Trench group that I mentioned, it's working well, is the £1,000 mark. So, we're comfortable with the pricing and, again, we also have the existing offer in place there.

Good observation on Ready-to-Wear. I think the season that we've reported, and, again, I've mentioned this before, our Ready-to-Wear offer, historically, particularly in the summer, has been driven around the jersey categories outside of outerwear. So, jersey's been, you know, mainly the core driver of our business there.

We feel the opportunities I've called out before, we feel we've lot of opportunity in categories outside of that, so dresses is the biggest callout I would say, other Ready-to-Wear categories as well going through men's. And we've seen a good level of interest in that as well.

So, we think, as we go into next year and we get more of Daniel's product into the stores, starting from, actually, our pre-collections which is, obviously, more of that, it's about 70% of our seasonal buys come into the pre-collections, and this really leans into the other Ready-to-Wear categories there. So, we'll see that mix, and I'm sure we'll see the mix of sales adjust and adapt to that as we go through. So, this is positive.

On the stores, as far as the stores are concerned, I would say the one thing to call out here is that we've actually refurbished 33 stores in the half, which is a big achievement for the teams, so more than 1 a week. And, actually, a lot of these are big stores for us.

So, we've done Los Angeles, we've done Dallas, Houston, Omotesando in Tokyo, and, of course, Bond Street as well, which we're very excited about.

Their performance, as we've mentioned before, in terms of the performances of those stores, we're seeing a higher level of productivity coming from both the AUR and also the average transaction value, and this is a mid-teens uplift versus stores in the same regions in the same areas as well. So, again, we're positive and we're really pleased with the fact that a couple of these stores, Omotesando being one of them, we thought we wanted to open this before we launched with the new product, and it was great decision because we've been really pleased with the performance of that. And, actually, we've seen a really good, strong performance coming from the Accessory categories in this store as well. So, I think those are the main points to call out there.

Kate Ferry, Chief Financial Officer
And then, just moving on to the third question on cost – hi, Thomas – so, in the first half, you can see that we really have continued to invest in the business with opex up 10%, and I think, you know, fair to say, on the second half, whilst, you know, the external environment is more challenging, we're absolutely committed to protecting the consumer-facing areas, such as marketing.

I mean, I think your calculations are broadly correct. The absolute level of spend will be slightly higher H2 versus H1, but I think fair to say the year-on-year growth will be low-single-digit, but, as I say, very much protecting the key spend.

Thomas Chauvet, Citi
Thank you.

Telephone Operator
We now turn to Chiara Battistini with JP Morgan. Your line is open, please go ahead.

Chiara Battistini, JP Morgan

Hello. Good morning. Thank you so much for taking my questions. I have, I think, one for Kate and one for Jonathan actually.

So, the first one, on your updated guidance for the year, I was wondering whether you could share with us what kind of retail like-for-like assumptions you have embedded in that comment about the EBIT coming towards the bottom end of consensus?

And, following up on Thomas's question as well on opex, in case the like-for-like – the retail like-for-like keeps on slowing more than your initial assumptions, what would be the priority? Continuing to work on your repositioning and supporting innovation or protecting margins to some extent?

And the second question on the consumer you're seeing coming for Daniel Lee's product, I was wondering if you could give us a bit more colour on what kind of consumer you're seeing, if it's your existing consumer, a new consumer that is coming specifically because of Daniel Lee? And any further colour on the customer after Daniel Lee's products specifically, please? Thank you.

Kate Ferry, Chief Financial Officer
Thank you, Chiara. Well, I'll start with first question. I mean, look, you know, I'm not going to guide on revenue for the second half, but we have guided on profit. We've said that we expect operating profit to be towards the low end of the range, so it's probably, you know, worth noting that, you know, moving towards the bottom end of the range on revenue would probably be a good starting point.

Also worth noting, from a gross margin perspective, still expecting that to be similar to the prior year at constant exchange rate, so, obviously you'll note, that there is a 110-basis points headwind from currency. So, I think, with that, you can probably, you know, work it out.

I think, you know, all I would say is that, you know, throughout Q2, in line with what our peers have been saying, you know, we did see a deterioration. I think it was really September where we particularly noticed the global slowdown. And I think, as indicated by our guidance, fair to say those trends have continued into the quarter.

In terms of opex, I think, you know, as you'd expect me to say, we've, obviously, been very vigilant on sales performance and, likewise, you know, we'll be very focused on cost. 20% of our cost base is, obviously, variable, so that will move with sales. And then, you know, where possible, as everyone else is saying the same thing, we will absolutely be focused on discretionary spend.

But as per the first question, I think it's important to note that we will continue to spend where it matters, those of the consumer-facing areas, you know. We've talked in the past about marketing spend being high-single-digit percentage of sales, and we will continue to support that.

Jonathan Akeroyd, Chief Executive Officer
Just on the customer, I mean, I think, first of all, we have a very important existing client base which, you know, obviously, before the collection's launched, we did a number of trunk shows globally and had a great response to those. Actually, we had a much stronger pickup than we

expected there, so they're really engaging and very excited with the newness and what they're seeing.

And I think, just calling on that, this is one of the things that I've mentioned before, you know, our great, amazing store teams, they're really excited about having a lot more to talk about as we go into these new categories, across Ready-to-Wear, for example, new Bags, Daniel being known to be a strong accessories designer as well, the sales teams have been able to really engage with our existing customer base and bring them in.

And we've seen, for example, in terms of our new bags that have come in, we've seen a big pickup from our existing customer base on that, and so this is really pleasing.

We've also seen a higher level of increasing number of transactions of customers buying greater than one product, both in men's and women's, which fantastic. We've seen a higher share of cross-selling of Ready-to-Wear across bags and shoes, which is, again, very positive. And people, very much, as I highlighted in the store presentation that we did in September, I think people are really seeing that they can easily now buy in more to the looks as well.

And then in terms of new customers, you know, clearly, this will take time. I would like to, you know, really highlight that we've only been live for six weeks now, but it's very early days, but we've also seen some really encouraging indicators on that and we've definitely seen some new customers come in there.

And particularly I have to call out in Asia, across Asia, Hong Kong included China. There's a strong awareness of Daniel and his talent and what we're doing actually and a positive response to that.

And I'd say one callout there that we're seeing, we've seen, very early days as well so we don't want to play too much on it, but we've definitely seen an increased performance in shoes and bags in China, which is, again, a good sign, and a strong awareness of what we're doing.

And then lastly on that, the events that we've done globally, which we've been really excited about, we decided to focus on that and have a real push on doing big events, sort of, city takeovers to have a higher level of impact. We've had 100,000 visitors across 30 days to the pop-up that we did in Seoul, in Seongsu in Seoul. So, a really, really big performance there. All the spaces were booked within a few days.

I actually had the pleasure of going to that event and there were crowds, and the streets were actually blocked off to see one of the influencers that we'd brought in, but to get a glimpse of Daniel as well. So, this shows that we've got, you know, a bit of style factor there as well, which I think is really impressive.

And then just lastly to two things to also flag in terms of China, we did an event two weeks ago in China and we saw a big spike in terms of searches for Burberry on WeChat, both Burberry and Daniel Lee on there. So, again, it showed that we did the right thing at the right time, and it's great that we've done this and ramped up that activity as we've gone live.

And then, lastly, I'm sure you've seen, we did an event in New York last week and, again, really pleased with the outcome there. We've had a lot of press coverage there. It was great to also focus on the Americas. We had a great turnout. Missy Elliott, Maggie Gyllenhaal and Karlie Kloss. So, we had a really great turnout, everybody wearing Burberry. And, again, that bar is open for a few more days as well, and really encouraged by the results that we're seeing there.

Chiara Battistini, JP Morgan
Thank you very much.

Telephone Operator
Our next question comes Louise Singlehurst with Goldman Sachs. Your line is open, please go ahead.

Louise Singlehurst, Goldman Sachs
Hi. Morning, everyone. Morning, Jonathan and Kate. Thanks for taking my questions. Just two if I could. Just going back, firstly, on to the guidance, I suppose what we're all trying to do is probably unpick the message with regard to the macro messaging and the brand specific. And we've given us lots of anecdotal points this morning in terms of the improvement in the underlying brand momentum in terms of searches and the next content, but I just wonder if you can help us think a little bit behind, you know, the macro, around the fringes?

I would argue that the commentary from some of the peers and some of the local US names have got a little bit more encouraging. Again, I do definitely say around the fringes and there's a lot of uncertainty, but if we look at the commentary in the last, kind of, two or three weeks, it's probably a little bit more favourable than what we thought maybe five or six weeks ago. So, on that question, I wondered if there's anything specific by region that you've seen stand out or if there's anything in this brand repositioning that you're seeing that's behind initial expectations?

And then my second question was specifically on China, please. I think you mentioned it was down 8% in Q2. The cluster is up 25% in Q2. I presume that's a year-on-year number. I think, in Q1, you gave a datapoint that was up mid-teens in China on the cluster, but on a two-year stack, I wondered if we could have the comparable number for Q2 as well on a two-year stack? Thank you.

Kate Ferry, Chief Financial Officer
Thanks, Louise. I'll kick that one off. I mean, look, as you've rightly highlighted, along with our peers, we did begin to see a slowdown. It was particularly in September. You know, I think every brand's trying to contend with this at the moment.

I think, you know, it's really important that we do decouple, if you like, the macro piece and, you know, kind of confidence if you like in our own strategy. But I think commenting specifically on the regions, I think, you know, the interesting thing about the current backdrop is that it is a little bit everywhere.

You know, often, you know, you'll have a scenario where certain areas of doing well, others less so, whereas I think, this time round, the consumer has been, you know, a little weaker, particularly since September, everywhere.

However, as you rightly point to, you know, things are volatile, and whilst I'm not going to comment on current trading, but, yes, things are varying week by week. I think fair to say the Americas, I mean, they were soft in Q1, we saw similar softness and declines in Q2, and, you know, Q3, again, I'm not going to comment on current trading but, you know, there have been both some weeks more positive, some weeks more negative, and I think I'd say similar things for the other regions as well.

In terms of China specifically, so if you're looking at last last year, so two years ago, the cluster, or if you like the Chinese nationality, it was 15% in Q1, and then we saw that accelerate to Q2 where it was +24%, whereas versus last year, obviously, you had the big COVID impact in there, so Q1 nationality was very strong, +78%, and then Q2 was +25%.

Louise Singlehurst, Goldman Sachs
Thank you. And can I just check, I suppose it's a question for Jonathan, that there's nothing in terms of the brand, like the repositioning and the agenda that's to callout that's above, ahead or behind initial expectations from earlier in the year? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Hi, Louise. No, I mean, clearly, you know, we're in a challenging situation in terms of the macro. We've really only launched Daniel's products in September, so this performance is absolutely nothing to do with that.

We've been really pleased with the response to the collections. Obviously, you know, we're now live. I think the positive thing is that we are now live with Daniel's products. This gives us a lot more visibility on what's working and what's not working and we're very mindful about that, and we will adapt and adjust to that. But, overall, no, I think this is really down to the macro.

Louise Singlehurst, Goldman Sachs
Thank you.

Telephone Operator
Our next question comes from Antoine Belge with BNP Paribas. Your line is open, please go ahead.

Antoine Belge, BNP Paribas
Yes. Good morning. Three questions, if I may, and I'd like to pick you up on what you said about, you know, the Chinese cluster and especially year on year, you said it went from 78% to 25%, so that's roughly a 55% delta on something which is maybe around 20% or 25%. So, that maybe explains, I don't know, 10 to 12 points of deceleration between the 18 comp and the 1%. So, it feels like, outside of the Chinese, it caused a substantial sequential slowdown. I don't really see that much in the American cluster, so is it the European, but also, I would say, in Asia, the local consumer as opposed to the Chinese traveller.

My second question is on the implied guidance. So, if we move to the lower end of the top line, you know, consensus range which I think is about £3.1bn, that would imply as, sort of, flattish year-on-year growth in H2. And, at the moment, it seems that, even though you don't want to comment here, the trends are negative, or have been negative in September and October, so, to get to a more flattish number, it is because you expect that the Daniel Lee product offering will actually add a bit more weight as we move towards the month of March of next year?

And, finally, my third question is about, you know, your, sort of, pricing or your view on pricing in the next, you know, 6 to 12 months. Thank you.

Kate Ferry, Chief Financial Officer
Thank you. Well, perhaps I'll take the first couple and then Jonathan comment on pricing.

So, look, I mean, I think, on the Chinese point, what we have seen is very much spend shifting offshore, as you've expect with tourism picking up there. You know, although that tends to be, when I say shifting offshore, near-shore travel. So, you can really see that coming through if you look at the numbers that we've given for Japan, very strong. Also seeing, you know, really strong numbers in Hong Kong and Macau.

So, I think the way to look at China, you know, you're right, the region is down, so Q2 minus 8%, but, in terms of the nationalities, you know, as you'd expect, we're looking at really on a kind of 2-year view because I think, you know, you quoted Q1 to Q2 this year, but Q1 very much distorted by COVID. But on a two-year view, we have seen acceleration Q1 into Q2, so that's 15% to 24%. So, you know, broadly as we would have expected there.

You talked about America, I mean, I think you're right, the comps are broadly consistent over the last three quarters, you know, the three quarters similar, kind of, mid to high-single-digit negative.

In terms of the implied guidance, so, yeah, you're right, I have said I'm not going to guide on revenue today, but, yes, your assumption of the low end of the revenue range, as I said earlier in the call, is certainly a good starting point.

On the trends, look, we have called out September as being the weakest month in the quarter, so we certainly saw a deterioration through Q2, very similar to what others have been saying. I think, today, in the statement, we've said that trading deteriorated, so I think, you know, it's probably a fair assumption what you've said about the second half.

I'm not going to guide, obviously, on the second half. It is too early to do so. We're six weeks in, you know, remaining cautious on the macro. But what I would say is that, you know, we are just launching into festive. Our campaign launched on 1st November, we're really excited about the new gifting proposition, we've got a great campaign behind it, you know, we've got more new product coming into the store every week, clearly building Daniel's product, which had, you know, no impact at all in Q2. There's spring pre-col coming into the stores at well.

So, I think, you know, again, if we, kind of, decouple the two things, we've got reasons to be positive, certainly on what we're doing, notwithstanding the macro piece, which is why we're being a little more cautious on the second half.

Jonathan Akeroyd, Chief Executive Officer

Yeah, and in terms of the pricing, you know, our pricing strategy is something that, you know, we highlighted previously. We feel that there's an opportunity for us to elevate.

Our previous pricing structure was skewed quite disproportionately to the lower price brackets versus our peers, so I think this is also a positive for us and we continue to really focus on our entry price in our volume categories that we have.

We're also adjusting our pricing to really reflect the increase in quality. So, one example in terms of our core product offer that we have, we've really increased the quality there, the quality of the fabrics, but still those prices, I think, are more than in line in terms of entry price than where they should be. So, I think this is really important.

We've raised our rainwater recently mid-single-digits. This was to coincide with the renewed offer that we have in terms of a higher level of quality, more sustainability in terms of fabrics. So, this was positive.

And, again, you've seen, you know, very strong performance in our rainwater categories as we continue to focus on that.

The new product in stores at the moment, the newness, the new collections, as I've mentioned before, this was a runway collection. These are typically more elevated, higher level of design, skews much more towards the higher AUR categories, especially in Leather Goods and Outerwear.

Now, as we enter into December, our pre-collections launch, so this is focused on what we would develop more of a core offer of the business, so a lot more focused on price positioning there. This comes through in December and onwards.

We've also, and I'm really excited about this, and, actually, our Wholesale clients have been as well, we're now re-energising our core offer as well with a new twist to it. So, I think, first of all, this will give us a freshness to our old core offer, a better level of animation, higher level of quality, more sustainable fabrics, but, again, in good price positioning as well and good sweet spots there.

In terms of the Leather Goods, again, our iconic Knight bag, it's priced just over £2,000. It's a similar level to our peer's iconic leather goods lines, but, more importantly, we also have groups at the same levels of our old existing groups. So, our Shield group, for example, is around £1,500. This is the same as a Lola as well.

So, we're comfortable with our pricing strategy. We're comfortable with the elevation, we think it's the right thing to do in terms of increasing quality, and, obviously, it's something that we continue to monitor as we go through this project.

Antoine Belge, BNP Paribas
Thank you. Maybe just a quick follow up – so, with regard to the European cluster, is it possible to give us the trend in the quarter and remind us what it was in the previous quarter? Thank you.

Kate Ferry, Chief Financial Officer
Yeah, of course. So, in EMEIA, so, in the region, Q1 was +17%, Q2, +10%. So, in terms of locals, they were down single digit in Q1 and Q2. Tourists were up double-digit in both Q1 and Q2. And, in terms of the absolute, kind of, tourist level, again, very similar in Q1 and Q2.

Antoine Belge, BNP Paribas
Thank you.

Telephone Operator
Our next question comes from Rogerio Fujimori with Stifel. Your line is open, please go ahead.

Rogerio Fujimori, Stifel
Good morning, Jonathan and Kate. So, Jonathan, one of your strategies is to attract more elite customers and sell more bags above the £2,000 threshold, I think, …… versus peers over time. So, I think consensus, the market thinks it will be very difficult for luxury brands to drive mix up next year and for Burberry to elevate the brand. So, could you talk a little bit about how you can leverage the growth offer to manage and keep driving, I think, brand elevation in the current environment?

And then, in America, I think the traffic is weak, but I think you flag more recruitment of higher income female customers and new customers, so could you talk a little bit about, you know, the trends between you and existing customers in US? And do you see any signs of repatriation of American cluster purchases from Europe and back to the US towards the end of Q2? Thank you.

Jonathan Akeroyd, Chief Executive Officer
So, I think, Rogerio, your first question was on pricing and our ability to adapt to that? Is that correct?

Rogerio Fujimori, Stifel
Hi. It was more about the ability of Burberry keeping drive and brand elevation in the current trading environment.

Jonathan Akeroyd, Chief Executive Officer
Yeah, yeah. So, a good question. You know, again, the most important thing to highlight here is over 50% of our offer currently in our stores is our core offer and our replenishment offer. So, actually, we haven't delisted any of our core products. So, I think this is a real positive and it's a strength that we have. We're very proud of the core offer that we have, and we'll continue to build on that.
We definitely feel that there is an opportunity for us to recruit a higher level of luxury customer into the brand, especially through Accessories that, you know, historically, is still a big opportunity for us is to grow into our Accessories categories. So, we feel that this can be done through both a high level of focus to it from a design perspective, a high level of quality of product, something that

will align itself to our key iconic categories that we have at the moment, like our Trenches, for example. So, we're pleased that we can further develop on that.

We've definitely seen, you know, one of the positives is that we've seen an increase in recruitment of our top-level elite customer base. We've seen a high level of performance coming through and spending from them across all regions actually, even in the US, which is positive. So, they're reacting and engaging with the new collections in a good way. So, I think this will also help us really transition into the new aesthetic.

Kate Ferry, Chief Financial Officer
And I think your second question was more the Americas cluster was mid to high-single-digit down in both Q1 and Q2, and I think, you know, in terms of how the customers are behaving, the new and repeat customers are performing fairly similarly actually. And tourists, I think tourists are up about 5% in Q2 in the US.

Jonathan Akeroyd, Chief Executive Officer
In the US, we've seen, you know, more attraction towards female clients, a continuing shift towards the more affluent customers, again, with the top clients outperforming. And, as we reported in the last quarter, a little bit more challenging on the entry price categories that we have.

Kate Ferry, Chief Financial Officer
And I think, on your repatriation point, you know, we're certainly still seeing Americans shopping in Europe, but, obviously, we're comping quite a tough base there because we saw an increase in spend given the currency benefit.

Rogerio Fujimori, Stifel
Thank you.

Telephone Operator
Our next question comes from Charles Scotti with Kepler Cheuvreux. Your line is open, please go ahead.

Charles Scotti, Kepler Cheuvreux
Hello. Thank you for talking my questions. I have three. The first one on current trading. I'm not going to ask you to comment on October and November, but could you comment on the equity trade for your comparables sales growth? It was +1% in Q2, so it is fair to assume September was negative, maybe in the high-single-digit range?

Secondly, on Wholesale, H1 was a touch better than anticipated, but you downgraded your full-year guidance. How should we read this? Is it due to the general environment or was the reception of Daniel Lee, new collections with key accounts less positive than anticipated?

And, thirdly, if I'm not mistaken, the UK Government will review the decision on VAT-free shopping next Wednesday. Do you have insights on whether or not they will reinstate it, and have you already quantified how much this decision dragged on your sales performance? Just to help us, you know, assess what could be positive impacts if the outcome is positive for you next week. Thank you.

Jonathan Akeroyd, Chief Executive Officer
Okay. So, Kate will take the first question and I'll come on to the wholesale and the VAT.

Kate Ferry, Chief Financial Officer
Okay. Perfect. Well, that's kind of reasonably easy because I think current trading, I mean, I'm not going to, obviously, break out month by month in Q2 how we were trading, but, yeah, absolutely, you're right. The exit rate, you know, September was certainly the weakest month in the quarter, and we see no different, you know.

In the statement, we said trading deteriorated in the quarter, so I think yours is a fair assumption.

Jonathan Akeroyd, Chief Executive Officer
Yeah, and just on the Wholesale, you know, we think it's clearly related to the challenges that we have in terms of the macros affecting our wholesale clients in the same way.

We expect the full year to be down mid-single digit. This was really coming in primarily from the collections that we had in September. So, when we spoke to you in July, we launched our pre-collections, and the response was quite positive. As business has softened for us and our wholesale clients, we definitely saw a change in sentiment there coming through there.

They've welcomed the Spring '24 collection. I think this is definitely a positive.

I mentioned earlier about the new core that we've now launched to the market, a really positive response to that.

And, obviously, at the moment, when things are challenging more on the macro, our wholesale clients typically take a more cautious approach to new product and new offer. So it very much probably leans more into a wait and see than something that's a little bit more aggressive, and we understand that.

It's mainly in the US that we're seeing the biggest impact, the big partners, the big department stores that we have in the US, but they're still very positive about what we're doing, the journey that we're going on, they're seeing positive changes, particularly in the Accessories areas as well. So, we think we're setting ourselves up well for the future going on there, and we're really supporting them and working with them to management that.

In terms of the VAT, as we've stated before, you know, we're disappointed with the UK Government's decision not to reinstate the VAT Retail Export Scheme. There's continuing lobbying for this, not just from us but from the industry in general. We think it's a missed opportunity, particularly in this environment, and clearly impacting, you know, customer spend and how they spend it, where they spend it globally.

We've seen a good uplift in terms of tourist spend in Europe from European customers, from Middle Eastern customers, from Americans, that swing much more towards spending in Europe versus the UK. And, obviously, us being a British brand, we've invested in two new incredible flagships in the UK, and, you know, it's a pity that customers are choosing to spend that money in Paris versus than in our great stores in London as well. But, you know, fortunately, we are global business, so we can manage that. But definitely, it's something that we hope will get corrected in the mid-term.

Charles Scotti, Kepler Cheuvreux
Thank you very much.

Telephone Operator
We have Thierry Cota with Société Générale. Your line is open, please go ahead.

Thierry Cota, Société Générale
Yes. Good morning, Jonathan and Kate. I will have three follow-up questions on comments you've made. First, you say you are very pleased with the reception of Daniel Lee's products. I was wondering, since the Runway collection was launched early September, how large has been the outperformance gap versus the group average since then? I mean, how much better the sales trend has been versus the rest of the offering?

Secondly, you have said several times that the better quality of the products justifies the higher prices, so I was wondering whether there was an exact matching or whether we could have some hopes for gross margin going forward in the coming years?

And then, lastly, on store productivity, you highlighted, you repeated actually comments you've made in the past about a mid-teens productivity boost post reopening of refurbished stores. I was wondering how the £25,000 sales per metre you're targeting in the medium term? Where did you stand in H1 overall and particularly in the reopened stores? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Okay. Thank you. Yeah, just on Daniel's collections, again, very early days, we're six weeks in. You know, I would say there's really nothing to call out between the performance of Daniel's products versus the current offer that we have. All I can say is that the reactions have been in line with our expectations. Customers are positive, they're seeing the change.

You know, for me, the biggest callout is the fact that our stores look lot more animated now and, clearly, at this stage, and, again, early days, but, at this stage, it's clear to me that, as we go into, you know, future seasons, people will be able to buy across categories through our retail network more than they have done before. So, this will improve on our units per transaction, and I think it will just also improve in the overall shopping experience through the network.

And, you know, I think one of the bigger callouts here in terms of Daniel's let's call it new product, what's actually been quite seamless are two iconic categories and strengths that we have, as you know very well, our rainwear, and we've seen how this has really seamlessly been integrated into the offer. And we've had not only a big improvement in terms of our heritage rainwear offer but also Daniel's newness and Daniel's new shapes that he's having here, we've had a great response to those as well and a good, positive performance there. And, again, just blending in. To me, it's not been an old and a new, it's something that actually I think we've integrated into the business very well.

And, again, as we go into the festive and the winter season here, we've also seen the same thing with scarves, and Daniel believes that this is something that we can really continue to elevate there.

In terms of the pricing, just as an example there of what we have done in terms of the pricing, we wanted to not only increase the quality of the fabric but move into a level of more sustainable fabrics, so organic cottons more. So, we've actually refreshed this through our core offer of shirts, for example, men's shirts, and increased the price accordingly. But these shirts, just to highlight, they're still under £500, so it's still in a nice, good, sweet spot for us, in line with our peers, so not a huge increase and something that we think will impact the volumes that we're having.

And then, lastly, in terms of productivity, really pleased with the fact that, by the end of this year, around about 50% of our network will be fully refurbished and, of this 50%, you know, these are really now the key doors. So, you know, I think this is a real positive, so we can really focus on that, and I think this will help us increase our productivity further, the offer will be better. And we still very much feel that we're on track to achieve that productivity goal of £25,000 a square metre, as we communicated. So, very much on track as far as that's concerned.

Thierry Cota, Société Générale
Okay. Thank you.

Telephone Operator
Our next question comes from Luca Solca with Bernstein. Your line is open, please go ahead.

Luca Solca, Bernstein
Yes. Good morning, Jonathan and Kate. Maybe one question about the Wholesale exposure and the inventory overhang risk that you see and how you're planning to manage this inventory over time.

We know that you, as department stores, tend to discount very aggressively if they're caught up with excessive inventory. This could be damaging to the brand, especially as you're trying to elevate the perceived brand image of Burberry. Being subject to significant discounts would be very damaging indeed. I wonder how you're thinking about that, what you have organised in order to take care of this risk, if you're planning to take inventory back and convey through your factory outlets?

And what is the role of factory outlets today in the business as they convey a very significantly cheaper product and could, potentially, also contribute to cheapening the Burberry brand image?

So, the second question, looking at the newness that Daniel has been bringing to the brand, there's a very significant fashion element, at least in what we perceive, which comes particularly obvious in the fashion and in the apparel collection. I wonder how you balance the brand's nature as you have, I think, a heritage element and a fashion element that need to be combined, and how you're faring in this market where consumers seem to be asking for sophistication on top of fashionability and where quiet luxury seems to be rampant? Thank you very much indeed.

Jonathan Akeroyd, Chief Executive Officer
Thank you, Luca, and good observation, I think, in terms of the wholesale exposure. I think what we're doing here, and, you know, this part of the reason why we've seen, I guess, a lower wholesale order take in the recent seasons, so lower guidance there, is because we're helping them with supporting our Wholesale partners, managing their existing build-up that they've had, particularly on the core offer. So, this has been, kind of, I would say, a correction that we're working with them on.

And, yes, some of them we do support. You know, they're strong partners for us, they're good partners for us, we will work with them and support them where we can.

I have to say, in terms of those Wholesale clients, most of the offer that they have currently, clearly, it's been with our core offer. So, it is something that we think we can manage quite well rather than something that we pump through the outlet, it's just really a correction. But where they need a bit of help with our key partners we will help and support them.

In terms of the outlets, obviously, the outlets, still, for us, at the moment, are an important channel for us in terms of liquidating the old product. We're also managing that channel as best we can. So, I think it's still an important channel for us but very much, at the moment, clearly, with the strategy that we have in place, we're really, really focusing on driving the full price business and that side of things. But, at the moment, we will use outlets to discontinue products.

And, on that note, we don't have an issue, I believe, in terms of high seasonal fashion product from the old collections. So, you know, it's not something that, you know, we're going to be needing to really dump heavily a seasonal product into the outlet network in the coming months. So I think this is a positive and credit to the business that we've been able to manage our inventories quite well in this respect.

Good callout on newness and fashion. I think we agree with you on that. Obviously, again, picking up on this, what you have seen, I've seen your comments and your observations, but what you have seen is a show collection, and this needed to be strong. As I've mentioned before, credit to Daniel and the teams, they launched this collection within four months of Daniel joining, had a high impact, drew a lot of attention. Very pleased with the responses to that. But, yes, it is a fashional show collection.

As we now go into the new offer that you'll see coming through in the coming months, starting from December, you know, a much more balanced offer. We've got a very strong focus on that from our merchandising team, from myself as well, very aware of the opportunity in terms of Burberry planning on – you know, to me, actually, as we go through this, this timeless element to Burberry as something that we can really play on.

I called out earlier the rainwater category, if you look at Daniel's rainwear, it's not high fashion, it's actually very elegant, very timeless as well, and I think this will become, for us some new core product there. The same with the softs.

And again, talking about, I would say then we go on to the Leather Goods, you know, really, again, playing probably more into the quiet luxury space in terms of style and aesthetic than maybe we were before.

So, very aware and I think you'll see, as we go into pushing more of the new Daniel product or the new Burberry product into the network in the coming months, you'll see also this new core coming through as well in a more dynamic way, including a clearer focus on price positioning as well as we update the core.

Luca Solca, Bernstein
Thank you very much, Jonathan.

Telephone Operator
We now turn to Piral Dadhania with RBC. Your line is open, please go ahead.

Piral Dadhania, RBC
Okay. Thank you. Morning, everyone. I have two, please. The first one is just on the offer side, so following up on Luca's question. If our analysis is correct, we think you've increased the Ready-to-Wear SKU count by around 50% in the last 3 or 4 years. So, going into a slightly more challenging macroenvironment, is there any concern from your end that you might have a higher markdown risk if the product doesn't sell through because, you know, the demand trends are a bit weaker? How do you manage that bigger SKU count, the range expanding as much as it has to support the new aesthetic? That was our first question.

And just maybe as a follow-up to that, what's the mix today of carry over versus seasonal now that you've got the new Daniel Lee autumn/winter product in store?

And then my second question was just around the current trading guidance comments and the fact that there is a macro slowdown in luxury consumption. Obviously, the offset to that, from your perspective, is the turnaround, the Daniel Lee product, etc. So, if we think about the macro slowdown that you're attributing to the softness, how should we think about that from the perspective of footfall versus conversion? You know, which one is a bigger factor in your slightly more cautious outlook? Because we would expect there to be a bit of an uptick in the footfall coming into stores to look at the new product, so I just wanted to understand how consumers are behaving and what kind of observations you're seeing on that front? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Yeah. So, just in terms of the current offer and the SKU count, obviously, as we're now going into a new world with new product, we wanted to invest and back, you know, Daniel's product, put that through, make a statement. So, we definitely have done that.

At the same time, and I'm really pleased that we did this, we really felt it was important as we go through this transformation to protect our existing core business that we have as well. So, for this particular autumn season, we frontloaded our autumn collections. Typically, we would normally split our buyers to be 50% our show collection and 50% autumn collections, but, actually, in terms of newness, we increased the newness from Daniel's product. But, in terms of core product, we've pushed that forward into the autumn season because, you know, we clearly wanted to protect our existing offer that we had now. So, this is why you're probably seeing an overlay of SKUs there. As we go through this, we'll start to reduce that down.

And, clearly, as we've stated before, for us, the opportunity is to grow a much bigger share of our business towards the Accessories categories, into bags, into shoes.

Shoes, as I've mentioned before, is a smaller share of our business compared to our peers. Really pleased with what we've done there and what we've built there. This will take time, to be honest. We're not seen to be, at the moment, a go-to shoe brand, but I'm very confident that we will be in the coming seasons, so I think this is positive.

And then, in terms of the mix of the offer, we're still, as I mentioned earlier, and this is a great strength for Burberry, 50% of our mix of offer is carryover and replenishment and the 50% is in newness. And what we're looking at now is refreshing the newness, making that feel more compelling, more relevant to the luxury customer but, at the same time, I don't believe it's overweight.

In terms of, you know, the current macroenvironment and the trading, clearly, the challenge here is conversion. For us, it's conversion that would be something that all of our teams are focusing on.

At the moment, obviously, clearly, traffic is down for us and for our peers, so it means that we have to drive a higher level of conversion through the network, and that's really what we're focusing on.

And I think, playing into this new, more dynamic offer that we have in our stores where, you know – and, again, for me, I genuinely believe this and I know probably, hopefully as lot of you have observed this, when we're looking through our stores now, you know, you can really see a clearer offer that's not just leaning too much into, you know, our strengths, which we'll continue to build on, of Outerwear, for example, and Softs, and we really now have, you know, a much more fully offer to enable us to have a higher level of conversion in the mid-term.

Piral Dadhania, RBC
Thank you, Jonathan.

Telephone Operator
We now turn to Zuzanna Pusz with UBS. Your line is open, please go ahead.

Zuzanna Pusz, UBS

Yes. Thank you for taking my questions. I have two little quick ones and a follow-up. So, maybe, first of all, on the various consumer clusters, thank you so much for sharing a lot of the details, I just wanted to follow up, given that the Chinese consumer has slightly accelerated on a two-year stack and it sounds from your comments that both Americas and European locals were pretty much unchanged versus, sort of, Q1, would you mind explaining which consumer classes would have decelerated the most in Q2 versus Q1 just so that, sort of, you know, we get the idea of where most of the deceleration came from?

Secondly, a very quick question on e-commerce business. There's been a theme throughout the journey seen from the comments that e-commerce has been a bit of a drag on retail given that it tends to be bit more exposed to the aspirational consumer, and there's been a general return to stores. I was wondering if you could share with us how much of a drag e-commerce may have been on your like for like this quarter versus prior quarter?

And the third question, which is sort of a follow up, I think, Jonathan, you mentioned earlier that your fixed cost base was roughly 80% of your costs. Can I just double check that's, sort of, you know, correct? Is it 80%? I'm asking because it seemed a little bit higher than I would have expected versus peers. So, I just wanted to double check in terms of the number and maybe, if that's the case because you've just been having quite high efficiency costs over the past years? Thank you.

Kate Ferry, Chief Financial Officer
Okay. I'll kick off with the regional one. I mean, you can see, in terms of quarter on quarter, obviously, the EMEIA region, you can see Q1 +17%, you know, Q2 +10%, so, clearly, we have seen a bit of a slowdown there.

I think also, you know, worth mentioning South Korea as well. We did have a negative comp there in Q2. And, as I say, the macro impacting everywhere, as per previous commentary.

America, a slight slowdown from Q1 to Q2, although broadly consistent. And you're right in terms of overall China cluster actually on a two-year view an acceleration there. So, I think I'd probably, you know, callout particularly Korea and a little bit in Europe.

I think maybe before I hand over to Jonathan, just to confirm, you're right on the cost base. You know, we always talk about 20% variable broadly and 80% fixed.

Jonathan Akeroyd, Chief Executive Officer
Yeah, and just onto digital, I mean, as we've seen with peers and third-party partners, the digital channel's suffered, sort of, really post COVID, primarily, I think, driven by a greater desire for customers to purchase in store.

There's definitely been a softening in searches for brands across the luxury sectors, which is a challenge. And I think it is really particularly in terms of the entry price categories.

In terms of Burberry, we obviously see digital as a key part of our omnichannel experience, and we've now invested in a new design of the site, which we launched in terms of September.

I think, just calling out on that, you know, we're still going through – we launched it in September. Whenever you launch a new site there are always things that you need to look at and improve and develop in terms of the experience.

I think one callout here is that, you know, when you're showing things online it's probably harder to blend in the old versus the new. So, people are really seeing, you know, Daniel's newness, a high level of fashion coming through there, and then they're also seeing the older, more carryover products in there as well. And, as we start to evolve and develop that, that will be more of a seamless experience in terms of absolute product journey and display on our site.

So, again, early days for us in terms of own digital site since the relaunch, but we're continuing to invest in digital, we're excited about the channel, we've been known to be a digital-first brand and will continue to focus on that and make sure that we continue to give a stronger level of customer experience.

Zuzanna Pusz, UBS
Makes sense. Thank you.

Telephone Operator
That concludes our Q&A session for today, so I'll hand back over to Jonathan Akeroyd for any closing remarks.

Jonathan Akeroyd, Chief Executive Officer
Thank you for your time today. Obviously, very good to give you further colour on our core performance. Just to reiterate, the external environment has become more challenging for us, but we're very confident about the plan that we have in place.

I'm very proud of the fact that we've executed at a very high level of speed, and I think this has been recognised and I'd like to, you know, give credit to our teams across the company to helping to achieve and make this happen, and looking forward to talking to you again in January. Thank you very much.