

BURBERRY

Burberry Group plc
Preliminary 2019 Results
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Burberry

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Key Highlights

Marco Gobbetti, Chief Executive Officer

Good morning everyone. Thank you for joining us today for Burberry’s preliminary full year results presentation.

In terms of our agenda, I will start with a brief introduction, followed by Julie, who will cover our financial results, guidance, and operational excellence.

After this, I will give you an update on our strategic progress - and Judy Collinson, our Chief Merchandising Officer, will comment on our product evolution. We will close with a Q&A.

Last year we embarked on our multi-year journey to re-energise Burberry, and over the last 12 months I’m pleased to say we have made excellent progress.

As I will shortly show you, we have transformed the way the luxury consumer sees Burberry, substantially evolving our communications, product and distribution.

In tandem, we continued to manage the business with a focus on operational and financial discipline.

In line with guidance, we have delivered an increase in group revenue of 2% adjusted for Beauty Wholesale at £2.7bn, and maintained adjusted operating profit at constant exchange rates.

At the end of February, the new collection became available to buy, and the early results are very promising.

Feedback from consumers, press, influencers and wholesale partners has been extremely positive, with sales in March reflecting that.

As the new collection remains a minority of our product, it will take time for our growth to accelerate, but we are energised by the early results and we confirm our outlook for fiscal 2020.

I would now like to invite Julie to take you through the numbers.

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Financial Review

Julie Brown, Chief Operating & Financial Officer

Thank you Marco and good morning Ladies and Gentlemen

Around 18 months ago, we set out our vision to firmly establish Burberry in luxury fashion. As we said at the time, this is a two phase plan.

The first two years are foundational, where we are re-energising the brand, rationalising and investing in distribution and managing our creative transition, after which we will accelerate and grow.

We made several financial commitments in November 2017 around the foundational years of 2019 and 2020 and I wanted to summarise how we are tracking.

Firstly, we committed to broadly stable revenue and operating margin over two years. We delivered this this year and we are confirming guidance for next.

Secondly, we committed to cumulative cost savings of £100m in full year 2019 and £120m in full year 2020. We delivered ahead of target this year at £105m, we are on target for £120m next, as well as increasing the programme to £135m by full year 2022.

Third, we guided to a reduction in the tax rate of around 200-300 basis points by full year 2020. To date, the rate has reduced by 270 bps with a further 100 bps expected next year.

Finally, we guided to capex of £150-£160m per annum - around £300m over the two transition years and we are maintaining this guidance, with an investment of around £200m planned in the coming year.

Now I will turn to our full year financial performance. During this presentation, unless otherwise stated, I will refer to growth at constant exchange rates.

Revenue was £2.7bn, a decline of 1%, however excluding the impact of Beauty Wholesale, we delivered growth of 2%.

Adjusted operating profit was £438m, and operating margin was 16.1%, impacted by currency. Margins were stable at constant exchange rates as guided.

Adjusted diluted EPS was up 7%, benefiting from a reduced tax rate and share repurchases.

As guided, exchange was a headwind, resulting in Adjusted EPS at reported rates being flat on the prior year.

Free cash flow was £301m and cash conversion remained high at 93%.

And finally, we are paying a full year dividend of 42.5 pence, an increase of 3% in line with our progressive dividend policy.

Now looking at our revenue performance in more detail, excluding the impact of Beauty Wholesale.

In Retail we delivered comparable store sales growth of 2%, however space and accounting adjustments reduced overall retail revenue growth to flat.

In Wholesale we delivered 7% growth, excluding the impact of Beauty, slightly ahead of expectations due to the timing of shipments.

The first half grew double digits with Asian travel retail accounts benefiting from exceptional growth from Chinese tourists.

The second half was impacted negatively by the decision to rationalise non-luxury Wholesale doors.

Finally, Licensing benefited from Beauty transitioning to a licensed model.

Now, to give you a bit more colour on our regional Retail comp performance. In the full year, comp sales grew 2%, with H1 at +3% and H2 at +1%.

Globally, the Chinese consumer, our largest nationality, grew by a low single digit percentage, broadly in line with trends seen in the first nine months. However, we did see a shift in their spending patterns between halves.

In H1, this benefited Asian tourist destinations such as Hong Kong and Korea. Whilst in H2, Mainland China benefited from the repatriation of spend. In total Mainland China grew low single digits in the full year.

The Americas, which is predominantly a local market, saw softer footfall trends in the second half and delivered low single digit growth.

Finally, EMEA grew low single digits. Europe improved in the second half, driven by better tourist spend.

Now turning to product and looking at Retail and Wholesale performance combined.

Accessories declined 3%. As discussed, we are undertaking a significant transformation of our leather goods business. The early customer response has been strong for example, the Belt bag, has been one of the bestselling bags in the year. And the initial reaction to the TB and Grace bags have been very positive

However, the overall performance of the category continues to be impacted by softness in older styles.

In apparel, our womens business grew 3% and mens 8% in the period. Our full look merchandising initiatives drove strength in tops, skirts and trousers, including exceptional growth from men's jersey wear.

The first deliveries of Riccardo's product arrived in store at the end of February. The initial reaction from consumers has been very positive with sales of the new collection delivering strong double digit percentage growth consistent with our ambitions. Marco will cover this in more depth later.

Turning to the income statement. Gross margin was 68.4%, down 100 bps due to FX.

Excluding currency, gross margin was broadly stable, with investments in design, product and quality offset by favourable movements in inventory provisions and duty credits.

Beauty also transitioned to a licence model benefiting gross margin.

In line with guidance, adjusted operating margin was stable at constant exchange rates, with a £29m currency headwind, taking the reported margin down to 16.1%.

On an underlying basis, margin benefited from the cost saving programme, offset by investments in the business.

And adjusted EPS was up 7% at CER, ahead of profit, due to a 200 bps improvement in tax and the accretive impact of the buyback.

Moving now to cash, we generated free cash flow of £301m and cash conversion remained strong at 93%.

The main movements were similar to the prior year, with the major change being working capital with a £45m outflow.

Within this, inventory was up £59m year on year, +10% at CER, reflecting our investment into product quality, our on-going product transition, and higher raw materials due to the acquisition of Burberry Manifattura.

Trade and other receivables were up £52m largely resulting from non-trade-related factors such as indirect taxes and prepayments.

Capex was £110m and we expect a step up next year to around £200m to reflect the store refurbishment programme.

Looking at our net cash position, we generated free cash of £411m before capital expenditure. We invested £110m, and we returned over £320m to shareholders by way of a dividend and buyback.

Today, we have announced a further share buyback of £150m.

We also completed the acquisition of our leather goods centre in Italy and made a payment relating to Burberry Middle East.

In total, our net cash was £0.8bn in line with the prior year. On a lease-adjusted basis, net debt is £0.4bn, with an adjusted net debt to EBITDAR ratio of 0.5 times, which is well within our capital allocation guidelines.

During this foundational phase, we are balancing priorities to ensure appropriate levels of investment in customer facing areas. So, I wanted to give you a bit more colour about key investment areas in full year 2019 and full year 2020.

The first is product. At this stage of our transformation, we are investing in design and product development, enhancing our overall quality, and ensuring value is perceptible to our consumer.

In financial terms, this translates into a gross margin headwind. We experienced this in H2 this year, and expect this to continue into the first half of next.

The second area is our investment in customer experience. Here, we are investing in our Retail Excellence programme, our people and their leadership and into our store portfolio which I will now come onto.

Thinking about our retail footprint, we are optimising our store network with a focus on three main areas.

First, we are investing in new stores and relocations to ensure luxury positioning with a particular focus on China and Japan.

Second, we are investing in existing stores through an accelerated refurbishment programme.

And finally, to optimise our network, we are closing 38 retail stores in non-strategic locations, to enhance productivity.

This programme has now commenced and will continue into next year. By the end of full year 2020, we will have over 80 retail stores aligned to our new creative vision.

Now before turning to Guidance, I'd like to update you on Operational Excellence and our cost efficiency programme.

Our progress is significant and we are ahead of plan, with savings of £41m delivered this year, taking our cumulative to £105m, and putting us three quarters of the way to delivering our overall programme.

We have also increased our cumulative savings guidance to £135m by full year '22.

The cost of the restructuring programme remains at £110m and this now incorporates the additional cost of closing non-strategic stores.

This cost saving programme is an important part of our overall five year plan, as it supports our profitability at a time of closing non-luxury distribution, and provides headroom to invest in customer-facing areas.

Turning to guidance, we confirm our full year '20 guidance of broadly stable revenue and adjusted operating margin at CER.

As you know, this is the second year of our transition and again a year of significant change.

Taking Revenue first. Riccardo's product will build through full year '20 from 15% at the start to 75% of our mix by the end of the year.

Early signs are promising with the new product growing strong double digits, consistent with our ambitions.

Our retail network will undergo a major refresh, with store openings, closings and refurbishments, all designed to enhance the consumer experience.

We expect -1% from space in H1 and +1% benefit in H2 - therefore - flat for the full year.

Our decision to rationalise non-luxury wholesale will cause a mid single decline for the FY. In the US, it will be more pronounced with a double digit decline expected.

By the end of FY '20, we will have aligned more than 80 stores to our new creative vision and closed 38 non-strategic stores.

We also expect to have completed the majority of non-luxury wholesale doors closures in the US.

Turning to Margin. As I said earlier, we are investing in design, product development and quality to ensure value is perceptible to our consumers.

This means gross margin headwinds of around 100 basis points will be seen this coming year and be more pronounced in the first half.

The cost saving programme will reach £120m cumulatively, supporting profitability through the period of rationalisation.

And as mentioned we will step up our investment in capex to around £200m.

Now a word on phasing, we expect the weighting of profit in H2 relative to H1 to be more pronounced than the prior year.

The first half last year reflects a strong comparator of +8% and this, together with our strategic actions, will lead to a decline in profits in H1.

Growth will be re-established as Riccardo's product builds through the year.

Turning to currency, we have run our usual FX model at the end of April spot rates. This implied a headwind of £20m on revenue and £7m on adjusted operating profit.

Our currency model and other elements of technical guidance are included in the appendix, together with the estimated impact from IFRS 16 which we will now adopt for our next financial year.

To conclude, we are pleased with our progress in the year. We have delivered enormous foundational steps whilst consistently delivering financial results in line with guidance.

The early signs in our business are very encouraging and with that I'm pleased to hand over to Marco.

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Business Review

Marco Gobbetti, Chief Executive Officer

Thank you, Julie. I'd now like to give you an update on our strategic progress starting with our brand.

Over the last 12 months, we have completely changed consumers' perception of our brand. Bringing to life a new creative vision - and importantly, building heat and desire for Burberry.

This year, we unveiled a new logo and revived the Thomas Burberry monogram.

We immersed consumers in our new branding through exciting activations in high profile locations and by putting our campaigns in unexpected places.

For our Spring/Summer '19 campaign alone, we more than doubled the number of outdoor sites used, with over a quarter of them new to the brand. And collaborated on innovative digital activations, including taking over image-leading sites, as you see here.

Surrounding this brand transformation was the reveal of Riccardo's first collection, Kingdom, last September, followed by his second, Tempest, in February

As you know, brand heat is ignited by building the right image with the right people - and in the past 12 months, our new brand and product have been organically endorsed by some of the world's most followed celebrities and influential fashion icons.

In terms of numbers, influencers' endorsements around our fashion shows have significantly increased.

For instance, in February, we tripled our earned media value from influencers at the Show compared to Riccardo's first show in September.

Press reaction to our shows has also been exceptional, with coverage growing significantly versus last year. Over February we saw double-digit growth in the number of full page editorials and in our editorial return on investment.

We also saw a step change in the quality of press coverage. For the new collection, we landed a significant number of important covers for the first time in several years.

And for his second Show, press reception was outstanding, praising the desirability of the collection - particularly the outerwear and the leather goods pieces.

Heat with influencers, press and industry has started to spread to consumers, resulting in much higher social reach and engagement than last year.

Across key markets, we have seen our followers increase by more than 3 million.

As you know, changing wider consumer perception takes time, but these are encouraging results.

A year into our transformation, I also wanted to highlight some of the excellent progress we've been making in our product evolution.

I'd like to welcome Judy to say a few words on this.

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Judy Collinson, Chief Merchandising Officer

Thank you Marco, good morning everyone.

Riccardo's first Runway redefined Burberry as a design house. The show was his manifesto. He laid out his roadmap, the architecture of his vision. He began to define new language for the brand, and new house codes which the teams are now establishing.

The first, his update of the Check. A 1980's version. Sensitive to colour that works well for both men and women. This archive check is a more neutral, cooler version.

The Icon Stripe is, actually, the check deconstructed. The warp without the weft. This stripe refreshes the brand.

A gorgeous silk satin blouse, a men's knitted short. A charming children's wear collection.

The Thomas Burberry Monogram is inspired from the archives, by an original drawing of Thomas Burberry's initials. Designed with Peter Saville, the motif opens huge product opportunities. It is our past and our future.

Initially launched on jersey as a tease to the first show, it was subsequently released through the B Series.

It debuted on the runway as the luxurious 24 carat gold-plated hardware on a classic crossbody bag.

It is a new belt, for both men and women. It is an embroidery on a men's shirt. A hoodie. A nylon wadded car coat.

The Thomas Burberry Monogram print was its logical extension, interlocking the TB into a new branded pattern. It launched in light honey and vermillion red. This print has great potential for every category from leather goods, to ready to wear, to shoes, to outerwear.

It is a powerful new language. Another defining historic brand element, a way to enrich the brand and give Burberry a stronger competitive foothold.

Riccardo's first show was a love affair with Britain. He quoted Shakespeare, Richard the Second, even on T shirts. He talks about Britishness. He announces his penchant for pistachio, the colour of the first rose received upon moving to London.

A pleated backless jersey day dress. A relaxed men's suit silhouette. The lining of his new packaging.

This collection begins to define his silhouettes. They are classic. Silk pleats and a tied neck blouse. They are street. Victorian corsets in cotton trench fabric.

He gives us evening, a start, black jersey with gold Victorian showgirl inspired trim. Not so quietly chic.

He is defining looks, wardrobing.

The collection is balanced and for different customers. Different moments for the same customer.

The focus is on the total look. Burberry has been an outerwear brand. It now feels more complete.

Burberry's leather goods are being redefined with the new house codes.

We are building by function, by customer. We are building the identity and the credibility of this important category.

It will complete over time. The new TB bag walked the runway. Box leather. Rich hardware, silk-like gold plating. An envelope and a waist bag.

Grace also launches this first season. Refined. Irreverent. It breaks the Burberry address. Heightened quality at a not so heightened price. This is a strategic modern approach.

The ready to wear transition is to a mix of streetwear and luxury that represents the modern dichotomy of a casual and elegant lifestyle. This collection alludes to the potential we have in fashion jersey, for men, where we already have a strong business, and especially for women.

This collection gives us total looks, strong skirts and trousers. Great shirts.

Riccardo shows a proclivity to fashion rainwear. We set a new direction in outerwear with sophisticated and integrated branding.

Our price strategy remains to protect the entry price while building a business in higher price bands.

New categories have been introduced at accessible price points. Jewellery. Silk. Headwear. We are investing in quality, creating a strong sense of perceived value.

The intent is that our range of products and prices will sustain a broad base of fashion customers.

This first Runway opened a whole new conversation with our customers. We will continue to engage frequently and with fashion product.

The response was strong to the Vivienne Westwood collaboration. We see double digit growth on newness. Our goal is a constant and a creative conversation.

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Marco Gobbetti, Chief Executive Officer

Thank you, Judy. As Judy described, this year we have transformed our product offer. And I'm delighted to say that we can see consumers responding well to it.

The new collection became available in stores globally at the end of February, and has already delivered strong percentage growth, well into the double digits versus last year.

While this is very encouraging, our replenishment lines will take longer to transition, as we build new icons for the future.

The collection has resonated particularly well with key consumer groups, such as our elite, top-spending customers and importantly our Chinese customer base. We still have work to do to recruit significant numbers of new customers to the brand, but this is a good start.

In terms of leather goods, the response to the new assortment has been very good, with our new bags performing well.

In addition, in this last market, our Wholesale partners increased their orders of accessories by double digits compared to last year, welcoming the pricing architecture and shapes of our new handbags, and commenting on the perceptible improvement in quality.

As I've said before, building a collection architecture and credibility with consumers in leather goods takes time.

We continue to invest significantly in quality, a fundamental sign to consumers at this stage in the transformation, including through our Burberry Manifattura.

To develop and deliver our new product this year, we have innovated our supply chain - from product design and sourcing to deliveries. Our focus on agility and efficiency has allowed us to deliver monthly drops of product, as well as frequent capsules.

In tandem, managing inventory to make room for the new product has been a priority. We have changed the way we buy to ensure our stores invest in and maximise the availability of new product, and freed up back of house space in stores to make room for it.

While we are pleased with the strong sales performance of the new collection, it currently makes up a small proportion of our overall mix. The chart here shows, for the coming year, the proportion of Riccardo's product at the end of each season, as each collection delivers over multiple floorsets.

As you can see, the new product will only become a meaningful part of our business from the second half of this fiscal year.

In line with product, we have also begun to transform the customer experience in our retail network. We have completed a number of store refreshes, starting with stores in key fashion cities, including, 57th Street in New York, Via Montenapoleone in Milan, and Faubourg in Paris.

We also refreshed a number of our key flagships including Rodeo Drive in Beverly Hills, Mall of the Emirates in Dubai, Kerry Centre in Shanghai, Omotesando in Tokyo and Seoul, among others.

We continue to roll out these updates at pace, refreshing and relocating stores around the globe, all with a bespoke aesthetic suited to each location, but all telling our new brand story.

By the end of this fiscal year, we will have transformed more than 80 of our Retail locations. As Julie says, through our ongoing efforts in store rationalisation, we continue to ensure that our footprint is well-positioned and productive, and that we are focusing our resources in the most impactful locations.

We also expanded our retail presence beyond our own stores through a series of exciting pop-ups around the world, including the Burberry Conservatory featuring the Belt Bag and most recently pop-ups featuring the new collection, like the one you see here in Shin Kong Place Beijing.

We will build on this in the coming year, with over 30 pop ups already planned for the next few months.

Within the store, we have also updated the parts of our brand experience which are most visible to customers. Firstly, I am particularly proud of our new packaging, which is fully recyclable and certified by the Forest Stewardship Council. We began rolling out the new packaging in February, and are planning to cover the full store network by September to ensure minimum waste.

We also updated our uniforms - often the first thing a customer sees when arriving at our stores - to reflect our new aesthetic - modern, chic and playing with British tradition.

At this point in our transformation, Wholesale is particularly important. It's where luxury customers and fashion influencers shop, and where we can build our image and drive heat. So for the launch of the new collection in February we made sure we had exceptional visibility in the most coveted multi-brand environments in the world.

For example, for New York Fashion Week, we took over every window at Barneys New York and built stunning pop ups and window displays with The Webster.

During Milan Fashion Week, we built a bespoke display for Antonia and installed a 2 metre deer in the entrance of Dover Street Market for London Fashion Week. We also took over the elephant room at Dover Street Market in Ginza.

Partners placed us in their best locations, in stores and online. As a result, we have seen strong sell through in Wholesale for the new collection.

In addition, we've had great feedback from Wholesale on Riccardo's second runway, with strong growth in orders versus last year.

While these are very encouraging results, runway remains a very small portion of the wholesale order book overall.

In the US, we have made excellent progress in aligning our presence completely to luxury. As this chart shows, all the orders at our last market in November were from luxury accounts.

However, in financial terms we will not see the impact until later this year given the six month lag in product deliveries, and this will remain a significant headwind to our numbers, as reflected in our guidance.

This has also been a great year for digital innovation. The B Series continues to provide us with an exciting way to communicate with consumers. Recent B Series drops have sold out in a matter of minutes and they are also a source of recognition for us externally. We recently won a Webby, which I'm assured is the Oscars of the digital world, for the best social experience in Fashion & Beauty - the first time Burberry has won this award.

We applied this spirit of innovation to the way in which we launched the new collection with partners like Farfetch, Net-A-Porter and image-driving accounts like SSENSE.

We made sure we had maximum visibility across all digital channels - websites, emails, and high-profile social accounts.

We have also partnered with Instagram in the US as part of our efforts to innovate the customer journey by being one of the first brands to launch on Instagram Checkout. As of last week, this also meant that customers were able to buy our products directly through influencer posts, without leaving Instagram.

Looking ahead, we have significant plans on digital for some of our upcoming launches, so stay tuned.

Lastly, a word on our people and sustainability efforts. Ensuring our people are inspired, motivated and proud to work at Burberry is key to our business. This year, we invested in driving engagement and developing our leaders.

We also embarked on a new Diversity and Inclusion programme, focused on increasing understanding, diversifying the pipeline of talent, and championing those who help others.

In sustainability, we were named the leading luxury company in the Dow Jones Sustainability Index, for our constant innovation and leadership in this space.

Looking back over the year, I am very happy with our progress. We have transformed the way the luxury consumer sees Burberry, reaching millions of consumers around the world and establishing Burberry's creative identity.

We have ignited and sustained brand heat, ensuring the brand is top of mind for press, influencers and partners, and desire builds among consumers.

We have created an entirely new foundation for our product offer, investing deeply in quality - and the first pieces that arrived in our stores received great feedback and sold very well.

We moved quickly to update our stores, and ensure we have a well-positioned, productive footprint.

And we have continued to progress our transformation across the business, making huge strides on each of our strategic pillars.

Looking ahead, I am reminded how much of our transformation is still to come - but the amount we have achieved this year gives me huge confidence for the future. We will continue to manage the business to maintain stable results.

We will surprise and excite consumers with innovative new content and product launches - as you see here from the campaign we launched this week.

We will move at pace with the transformation of our product and retail network.

And we will sustain heat and the momentum driven by the positive early results from the new collection.

I would like to take this opportunity to thank the teams who made this year so successful; the passion, effort and energy shown by our people has been remarkable and I am really proud of what we've achieved. I'd like to close with a short video.

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Video Played

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Marco Gobbetti, Chief Executive Officer

And now I'll open the floor for the Q&A.

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Questions and Answers

John Guy, MainFirst

Thanks very much. Good morning, Marco, Julie and Annabel.

Three questions, please. If I could just start with margin and thinking about some of the moving parts, you know, opex was flat, gross margin was down, appreciate unreported, flat in constant, D&A was down around 18%, giving you that EBIT that was slightly down. But how do we think about the margin in terms of investments going into product, in particular in leather goods? Could you give us some sort of quantification as to how much was invested there?

And, as the store network continues to shrink, are we going to be able to see, I guess, a further D&A reduction, Julie? That's for you.

The second one is on the double-digit growth in Riccardo's new collections. Are you able to provide us with a bit more information in terms of looking at volume versus price in terms of the growth that you've seen there?

And, on Mainland China, Marco, why do you think it was relatively soft? If we're looking some of the peer groups at the moment, we've seen the repatriation of consumption there. Your numbers seem a little bit lacklustre relative to peers. Could you maybe just talk about what you see in that particular region? Thank you.

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Julie Brown, Chief Operating and Financial Officer

Yes, so in terms of the moving parts in the gross margin, the overriding thing really is, as we mentioned around investment in product design and product development, because, at this stage in our transformation, it's really important that the consumer sees the value of the Burberry product relative to the peers, and, in some cases, in some categories more than others.

As Marco mentioned, you know, we're on a journey with leather goods. This is one of the areas of focus.

So, in the year that we've just had, in full year '19, there was pressure on the gross margin for that reason because we were investing in product. And, clearly, the other priority we have at this stage is to be able to manage the inventory and be able to prepare for Riccardo's project coming into our lines and into our stores. So, that was one of the drivers of gross margin on a CER basis in the second half.

Offsetting that, we did have the benefit of the stock provisions that were lower. You will probably recall, at the end of '18, we put in some additional stock provisions related to the creative transition. And so, we had some credits in '19.

And, also, we had some very, you know, good outcomes in terms of duty credits going through the margin. So, those two combined were around 100 basis points.

The reason, therefore, net net, that you see the margin come down by 100 basis points for the full year is simply due to currency, because those factors were offsetting each other, mutually. I think that's the main thing. In terms of store network?

So, yes, in terms of store network, we are making extensive changes to the store network. You know, Marco shared some of the imagery. And, by the end of this coming year, we will have refreshed more than 80 stores in line with the new creative vision.

At the same time, we also undertook a very thorough review of the mainline store network, and made the decision to close 38, what we would call non-strategic secondary stores, because we're very focused on the productivity of the footprint.

It will allow us to be more productive and, very importantly as well, for Judy and her team, it will allow us better allocation of merchandise and inventory management. So, this is one of the other drivers of doing this.

Net net, as you've seen from our capex, we are investing incredibly in stores. We are more than doubling the capex investment in the store portfolio. That's the main reason for the uptick between '19 and '20, because, what we find is, when we've got Riccardo's product in the store, and a refreshed store, the customer experience is incredible, and this is what we're driving towards over the next 12 months.

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Marco Gobbetti, Chief Executive Officer

So, as we said, we want to move really at pace on the refreshing, on the refurbishment of the stores.

So, I think that we have 14 that have been done now already, and we plan to be over 80 by the end of this fiscal year. So, we have a lot in the pipeline to do.

To your other two questions – I think that the sales of the first collections designed by Riccardo have been stronger across gender, so across men, women, children, it has been strong across different categories. I highlighted some of them - but not only.

I think we did a very good job in also cross-selling and merchandising the categories together. It's not been either price or volume; it's been both combined that have driven the growth. So, I think what we have seen is very encouraging and very positive.

In terms of China, I think, you know, the numbers of Chinese customers in China and abroad have been more or less in line with the rest of the year. So I think you have to look at this

more in the context of Burberry than in the context of - and the transition we're going through, rather than the Chinese economy, or the performance of luxury goods in general.

We remain extremely confident on the growth opportunities in China, both structurally, from the growth of middle class and the spending power in luxury, and from a Burberry perspective, knowing that we have huge opportunities with traction that we hope to get over the next few months.

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Luca Solca, Exane BNP Paribas

Thank you very much indeed.

I was interested to understand the dynamics within the leather goods part of the collection. You were saying that the new styles are selling very well, but that was partially offset by the old style sort of fading. I wonder if, in the overall mix, you're seeing your ambition realised to increase the average price of the handbags that you sell?

When you say that 80 stores, by the end of the current fiscal year, are going to be realigned to the new image, how much of that is in terms of Retail sales overall as you're starting from the most important stores?

And then, thirdly, you're a pioneer in developing digital and digital distribution. You were mentioning that you are engaging now with a number of retailers, multi-brand retailers and platforms. How do you see the end game of your digital strategy? Clearly, to piggyback on traffic and make the most of that, I presume you're leveraging platforms, but do you see mono-brand distribution online as a continuing focus of yours?

And, maybe, if there is time, just the last one, a tight grip on inventory, is it possibly penalising the speed of your recovery and how much traction you're getting with the new styles? Thanks very much.

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Marco Gobbetti, Chief Executive Officer

Okay. So, starting with leather goods - as I said, we saw some very positive signs from the sales of the new models that were launched with the Runway Collection. When you look at the big picture, the leather goods is our biggest transition that we're going through because, while, in other categories of ready to wear, we have very strong foundations, and we have very strong pillars, the assortment of leather goods was based more on a logo play on check or on logo.

So, we are in the process of really building those icons, those pillars, on which we can build the rest of the product architecture.

So, we think we have some of those that are starting to come out from the first collections, the first designs of our team.

Clearly, as you said, and as we said in the presentation, we balance that in this transition with the exiting and the reduction of the older lines.

So, that makes for, frankly, a planned slowdown of the leather goods activity in this period of transition, which is supported by, instead, the good performance that we're seeing from the ready to wear categories whether it is men or women, particularly men, but, in general, ready to wear is supported there. So, all of this is kind of an overall plan that we had.

And, in terms of pricing, we said, from the beginning, and I think I'm actually quite pleased to see that we have been able to stretch our prices upwards with the introduction of the new collections.

So, the TB bag, Society, a couple of these bags that are coming in, have really taken us to a price level which was very difficult for us. Somehow, it was a price that was very Runway related, and were items that were very seasonal.

What we're building, we're building items that have the possibility of staying and becoming icons for us, like the TB bag.

And those are in the £1,400, £1,500 to £2,000 category, okay, which we find is still a very competitive price for a handbag that is fully made in leather, lining in leather, with a gold-plated closure is really a fantastic bag that we have there, and I think the reasons, as I said before, a real perceptible value from the customer.

But, at the same time, we're introducing new styles, like the Grace, that was introduced now, in the category, around £800, which is another key category of enterprise for customers, particularly for, you know, a younger, just a more dynamic type of customer.

So, it's too early now to call in terms of the price effect of all of this because we've had a few weeks of sales, and mainly from Runway products, but we think we're really on target with our plans there.

I don't think that we're calculating necessarily the growth - your question was about growth from stores that have been redone.

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Luca Solca, Exane BNP Paribas

I was asking how much the 80 stores represent as a percent of the total retail sales that we've just seen.

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Julie Brown, Chief Operating and Financial Officer

Okay.

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Marco Gobbetti, Chief Executive Officer

It's a sizable percentage.

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Julie Brown, Chief Operating and Financial Officer

I think it's approaching 50% in the main cities.

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Marco Gobbetti, Chief Executive Officer

But it is a sizable number, or is a sizable part of the sales because we start from the key stores, so flagships and stores in key metropolitan cities.

In terms of platforms, clearly, we think that platforms are an opportunity, and are a place where customers shop, and continue to shop. They enjoy the diversity of the product they found, and the ease of shopping there.

So, we have an early play there. I think that what we have done with Farfetch, frankly, when you look at it from a back of house point of view, is quite remarkable because our stock is fully, and completely, plugged into the platform. And that is, I think, quite an achievement. And that is growing extremely well. And Tmall is the same thing in China, and we're seeing great results there.

Platforms I believe, we believe are going to continue to be very important and I think we will see dynamics of new arrangements between brands and platforms that will evolve over time and find forms that are more and more qualitative for the customers.

And in terms of inventory do you want to say a word on inventory?

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Julie Brown, Chief Operating & Financial Officer

Yes so in terms of our inventory it's increased 10%. Part of that is the acquisition of Burberry Manifattura. So we've picked up the leather goods centre. In terms of the element of the finished goods inventory, it's a rise of 9%.

We were expecting it to be ahead of sales growth at this stage because clearly we've got a different product positioning, so the inventory balance will run ahead of the sales growth.

And in addition the move more towards fashion means the ordering cycle is different from replenishment because you're ordering ahead.

Having said that we're clearly at this point going through the creative transition from one creative leader to another and that means managing the inventory of the collections throughout the next 12 to 18 months. But I think over that period we would expect the growth to be more normalised as we reach this 12 to 18 month period.

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Thomas Chauvet, Citigroup

Thank you. Three questions. The first one, how much capex is dedicated to these 80 refurbishments in pounds million and what are you expecting in the outer years?

Secondly as you are phasing out the old collection have you see in the fourth quarter - are you expecting for the March '20 a pickup in LfL in outlets versus full price stores? How are you thinking about the maybe step up in shipments of merchandise to the outlet channel?

And coming back to leather goods, if I remember well you've historically had a lower margin in this category versus apparel which is a little bit counterintuitive relative to some of your peers. I know you don't have the same size in leather goods. Could you tell us Julie roughly what's the gross margin differential between bags and apparel or bags and trench coats? And what are going to be the drivers of gross margin improvement in that category, is it all about scale effect and as Marco was talking about just increasing the ASP on higher brand perception of the category? Thanks.

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Julie Brown, Chief Operating & Financial Officer

Yes so in terms of capex when we laid out the five year plan we were really flagging that we would have about £300m in the transition over the two years. The phasing is different, we've done £110m, we'll do approximately £200m in the coming year. And then we guided that the capex would be around £190m to £200m.

I think we're still expecting it to be in that ballpark. Our ambitions around the change of the store network, we've done some reprioritisation of that but they're broadly in line with where we were at the five year plan. So no change really overall to the view that we articulated before.

Just in terms of the question about the phasing out of the older collections and how we anticipate that working through outlets, etc. I think we've got a very broad, diverse business with multiple channels at our disposal including mainline, obviously we've got the Wholesale business and we've got outlets. And we will use all of the channels to be able to manage the inventory situation as we move from one creative leader, Christopher, to Riccardo.

And as you've seen, we've managed the business dynamically this year and we'll continue to do so in the second year of our transition. Because we feel the most important thing is to allow Burberry to be able to grow, have the headroom for the new product to come in and be able to grow by turning that product over to the new range. And that's the most important thing. And in the process we're also very focused on the brand equity during this period.

Just in terms of the leather goods and the margins, obviously you wouldn't expect us to disclose the margins in an open forum like this.

What we're finding is that it depends on the category. So you mention the trench coat, the trench coat where we've got relatively high volumes of the product that is in great demand and we've got very well established production processes, obviously it's made in house in Castleford, that's when you get the benefit of the volume. And particularly if the line is also being reordered as it's selling through you get the benefit also through the inventory.

So because we're earlier in our stage in terms of developing the leather goods strategy, in terms of the leather - the solid leather styles, as Marco was mentioning the leather range previously or the handbag range previously had included other fabrications other than leather.

So the move towards leather means that over time what we will do is we will be able to get production and scale efficiencies through the leather goods range. But at the moment yes the margins on the leather goods range are slightly lower in some of the newer shapes, not all of them, but some of the new shapes.

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Rogério Fujimori, RBC Capital Markets

Three questions please. Could you talk a little bit about how the trench coat, your core trench coat business is performing and should we expect to increasing brand heat for the heritage trench coat business to pick up?

The second is do you think that the luxury environment is requiring more investment and what type of increase in marketing is baked into your fiscal '20 guidance, is it double digit increase or kind of any qualitative indication would be helpful?

And the third question is with regards to the strategy of increasing fashion content. In fiscal '20 what kind of implications should we expect versus fiscal '19 with regards to AUR, gross margin and SKU productivity from this higher fashion content move? Thank you.

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Marco Gobbetti, Chief Executive Officer

The trench coat, the whole rainwear category remains for us the pillar of the brand. And so as we have seen in the past we are dedicating a lot of attention both in terms of the

continuous development of the product, the proven quality, the continuous tweaking in terms of also making sure that the fit is adapted to the times, so that work is continuously ongoing.

And that category has been really reinforced now by the new vision that has taken this category and developed it in a lot of fashion extensions of it which we have seen on the Runway.

So overall this is a category and a business where we continue to invest. Clearly over the past year the focus has been on launching the new aesthetic and the new creative vision, but our attention and our focus on the rainwear category remains extremely, extremely important.

In terms of marketing I think what we have seen - what we are operating is we're operating a broad shift in our marketing strategy. Really what we are doing now is first and foremost we are concentrated on product and concentrated on creating content particularly for social media, where we feel that we have an opportunity through fresh new continuous content and continuous engagement to really track in terms of customer engagement. We are also focusing our investments in key moments and in key launches of the products and the brands.

So there has been quite a shift. Digital obviously in all forms is continuing to increase its share of our investment. So we have really made a major shift in there. At the same time clearly we are investing in marketing within our financial objectives because we have clearly stated that we want to achieve certain objectives in terms of profit in particular. So we are moving along with the transformation of the company but what we see underneath is a radical transformation of how we go to market.

And in terms of the fashion component going forward, well I think that we have seen - already in the first two collections we have seen the foundations of the fashion offer being laid. So now I think that from here we will continue the journey in fashion but we also have the opportunity to create the new icons and the new continuative replenishment programmes, particularly in ready to wear where we are more advanced in a certain way. As I said in accessories, in leather goods it will take a bit more time.

So I think that we are probably at the peak of now the fashion offer and probably going forward I think starting probably in like six months and starting in H2, we will start to have an opportunity to now really focus on what we think are going to be key items for the future and develop around those categories.

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Flavio Cereda, Jefferies

So three questions from me as well. Firstly are you comfortable with the selling space dedicated to your outlets at this moment in time? Meaning I understand it's a channel that

you need especially because of the transition phase, but is this something that you're likely to be addressing in the medium term in terms of potentially reviewing that?

And then two questions on the ready to wear. Firstly are you comfortable for the new products, so for newness with your current supply chain? I'm quite surprised there's still a lot of product that comes from China, so I was wondering whether that's something that you're likely to be looking at?

And thirdly and we're seeing it in the numbers with menswear which is outperforming womenswear. Now if you go into your stores, if I go into the stores that I visited, there is a noticeable difference in terms of buzz between menswear and womenswear and I was wondering if that is something that you're looking at, if it's something that bothers you in any way at this moment? Thank you.

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Marco Gobbetti, Chief Executive Officer

In terms of the outlets I think that our plan in terms of outlets is clear. I think that what we had identified last year is an opportunity to increase the mainline - the full price let's say share of our business and to control the outlet part of our business. And that will be done through a number of levers including closing some of the outlets and also remerchandising outlets.

Now in this particular moment I think that outlets are playing a very strategic role because at this stage where we want to transition from one basically inventory to new product coming in, outlets are very useful for this. And so frankly speaking we are really using outlets today with that objective in mind.

Now going forward outlets I think they also play a very physiological - I've always called it a physiological role for a brand that has a high component of ready to wear business okay. And for a brand that has committed to not destroying products at the end of their cycles.

So we need to exit ready to wear collections. These are obviously positions that we're taking on a number of products and trends and capsules, and we need to exit them in a controlled way at the end of their cycles, and we need to minimise the leftover.

So outlets for us is a question of balance but the strategic importance of outlets over time is not going to change, it's just going to be different from a tactical point of view. Today we are in one phase; in the future we will be in a different phase.

I believe the second question was about the sourcing of some of the product.

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Julie Brown, Chief Operating & Financial Officer

Comfort in the supply chain and proportion from Asia, China.

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Marco Gobbetti, Chief Executive Officer

I think that in general our supply chain has reacted extremely well to a radical change in our go to market in terms of delivery and in terms of construction of collection, and in terms of an aesthetic and product attributes that have completely changed since last year.

So I think we have proven - being able to deliver B Series in September to deliver our Vivienne Westwood capsule in December. Riccardo came onboard in March, so basically by the time that he looked around and started working was in April. So being able to deliver that together with a fundamental first fashion show I think is pretty remarkable and speaks to the agility of the chain.

In all of that we also had to adapt vendors to the new aesthetic and the new product categories.

We have - the majority of our production is obviously in Europe, but I think that we have some very strong sourcing and manufacturing also from outside of Europe. It's a minor part of our activity but that we are very comfortable with because the quality that we get is exceptional there.

And in terms of the difference between menswear and womenswear I think that we're seeing actually good traction across both. Now the menswear, if you look at the menswear you can perhaps say that the younger line if you want of the menswear has been very developed in this early beginning of Riccardo's design and this has attracted in fact a lot of new younger customers to the brand. So I think this creates perhaps the fact that you notice that.

In womenswear I think we have been tracking very well also with an elevated product. So the type of quality and somehow profile of customers that you see in the store perhaps are different and that may create somehow the impression that there is a difference. But the reality there, they both have been tracking over the past few weeks, the only few weeks we've had of test.

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Annabel Gleeson, Director, Investor Relations

So thank you very much everyone for coming.

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Marco Gobbetti, Chief Executive Officer

Thank you very much.

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