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Burberry Group plc
Interim 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 our interim results presentation.

I will start with a brief introduction, followed by Julie, who will cover our financial results and guidance.

After this, I will give you an update on our strategic progress, as well as our upcoming focus areas and priorities. We will close with a Q&A.

Two years ago, we set out our multi-year journey to re-energise Burberry.
Our goal was to transform the way consumers view our brand, and firmly establish Burberry in luxury fashion.

The last 18 months have been focused on building our foundations and creating brand heat and as we come towards the end of the first phase of the Strategy, I'm very pleased to say that we are now starting to see the first results of this transformation.

Since Riccardo arrived, we have launched three collections, each of which has generated an excellent response from customers, and delivered double digit sales growth.

Performance is also starting to come through in our underlying business - as you can see from this chart, our total comp growth has started to gain momentum and all regions have delivered growth, despite a challenging trading environment in Hong Kong.

We are very pleased with this momentum, which indicates that the Strategy is starting to deliver results.

Julie will now take you through the financials.

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Financial Review

Julie Brown, Chief Operating & Financial Officer
Thank you, Marco and good morning Ladies and Gentlemen.

Before I start, I wanted to remind you that in FY20, we have adopted IFRS 16, which means all operating leases have now been brought onto the balance sheet.

This has increased operating profit and also marginally increased PBT.

So you will see on the slide, we have included a pro forma column to aid comparability with the prior year results and allows you to see the underlying business trends.

So now, looking at our summary financial performance. During this presentation unless otherwise stated, I will refer to pro forma growth at CER

Total revenue was £1.3bn, +3% over the prior year.

Adjusted operating profit was £187m, a decline of 4%, including absorbing significant impairment charges from Hong Kong.

Adjusted diluted EPS grew by +1%, positively impacted by tax.

Free cash flow was negative in the half at -£29m, largely due to accelerated UK tax payments.

We have declared a dividend this morning of 11.3p, representing growth of 3% on the prior year.

In summary, we have delivered in line with guidance at the half year and are maintaining guidance for the full year despite considerable disruptions in Hong Kong.

Turning to our total revenue performance - Group revenue grew by 3%, with the main growth driver being our Retail business.

In retail, comparable store sales growth were up 4% and space was down -0.5%.

We continued to evolve our store network to align with our luxury positioning:

We opened 18 stores with a particular focus on China and Japan

We closed 26 stores, including those associated with our rationalisation programme.

And finally, we continued with our refurbishments, with every major city now incorporating a store aligned to our new creative vision.

Wholesale declined 2% as we rationalised non-luxury distribution.

Sales to luxury accounts were positive with growth in double digits.

Finally, Licensing grew 4%, reflecting strength in eyewear.

Looking at retail comparable sales growth in more depth, every major geography is now showing a consistent or sequentially better performance in Q2, with the exception of Hong Kong.

Taking each region:

EMEIA grew mid-single digits, with the trend from both locals and tourists accelerating across the quarters.

The UK grew high single digits with local customers improving significantly and tourist spend remaining strong.

Continental Europe grew mid-single digits with strength in Italy and Spain and the Middle East returned to growth in Q2.

The Americas grew low single digits, benefiting from a stronger performance in Canada and Latam.

The US delivered consistent low single digits growth across the quarters, with locals improving in Q2, offset by softer tourist spend.

Asia Pacific grew by a mid-single digit %, with a strong performance across the board, with the exception of Hong Kong:

Mainland China accelerated from mid to high teens in Q2

Korea showed a marked improvement, accelerating to mid-teens.

Japan grew MSDs in both quarters. However, if you include new store openings, Japan accelerated to high teens in the second quarter.

And finally a word on Hong Kong.

Given the disruption, we saw significant declines, particularly in Chinese visitor spend, resulting in sales in Hong Kong falling 38% in Q2; down 22% for the half.

In H1, the Chinese consumer globally grew by a mid-single digit percentage. This was slower than Q1, as the losses in Hong Kong were only partially offset by repatriation elsewhere.

Turning to product and looking at the retail and wholesale performance combined:
In this half, our mainline stores benefited from a meaningful proportion of new product.

At the end of the period, around 70% of our assortment was designed by Riccardo, including a more comprehensive leather goods range.

The response from consumers has been very promising with new product delivering strong double-digit percentage growth, with all regions ahead of the prior year. However, our older replenishment lines remained soft as we are now creating the new icons of the future.

In apparel, our womens business grew 6% and mens 10% in the period:

Our full look merchandising initiatives and new branding platforms continued to drive strength in tops, skirts and trousers.

Jackets delivered good growth with nylon and lightweight check styles particularly strong.

Accessories declined 5% with the overall performance negatively impacted by older product lines.

During the half we continued to build out a more comprehensive leather goods offering with the arrival of several new bag families, supported by marketing campaigns, activations and increased store visibility.

This fuller assortment has enabled us to have better price point coverage resulting in an improvement in accessories through the period.

Turning to the income statement, there are a number of key areas to highlight:

Gross margin was broadly stable at reported rates, however at CER, gross margin fell by 110bps, broadly in line with guidance and I'll return to this on the next slide.

Adjusted operating profit fell by 4%, in line with guidance. However, the underlying business was stronger than this, as we have absorbed £14m of impairment charges relating to Hong Kong, without which, operating profit would have grown 4%.

The cost saving programme continued to deliver, with cumulative savings now at £114m and we are on track to reach £120m by the end of this year.

Adjusted EPS grew by +1%, benefiting from a reduced tax rate from 24 to 22%.

Taking a more in-depth look at margins:
Gross margin fell 10bps in the half, with a benefit from currency offsetting a 110bp decline at CER.

As guided, this reflected two factors:

First, the investment into product quality, where we are deliberately elevating materials and quality, increasing cost of goods sold, but for certain categories, not yet raising prices commensurately.

Second, inventory management is key during a period of creative transition and we have engaged in deeper discounting of older product lines in line with our policy of non-destruction.

In addition to these factors, the disruptions in Hong Kong negatively impacted gross and operating margins.

Looking forward, we anticipate Hong Kong to continue to impact the second half and I'll return to this under Guidance.

Turning to the operating margin, this also fell by 100bps before the positive impact of currency.

This was driven by the gross margin headwind and impairment charges partially offset by the delivery of incremental cost savings.

Turning to cash.

We generated a free cash outflow of £29m, as anticipated, with the reduction over the prior year predominantly due to working capital outflows, tax and capital expenditure.

Working capital was impacted by an outflow in payables, predominantly relating to timing of inventory payments.

Tax cash was impacted by accelerated payments under the new HMRC rules, which, I'm sure you are aware, means paying 18 months rather than 12.

And finally, as guided, capital expenditure increased as we prioritised store refurbishments and IT programmes.

As you know, our normal seasonality means we generate most of our free cash flow in the second half of the year.

Looking at our net cash position:

We generated free cash of £39m before capex - we invested £68m in the half, and returned over £140m to shareholders by way of a dividend and buyback.

Today we have announced an interim dividend of 11.3p up 3% year on year, and we expect the remaining £135m of the buyback to be complete by the end of the year.

In total, our net cash was £0.7bn and our net debt is £0.4bn including reported lease liabilities under IFRS 16.

Now turning to guidance for the full year, I am pleased to confirm, that whilst mindful of the macro situation, we continue to expect to achieve our guidance of broadly stable revenue and adjusted operating margin on a pro forma basis at CER.

For the purpose of modelling:

In retail: The new product will build from around 70% now to around 80% by the end of the year. However, in Q3, we will have reduced levels of inventory available for markdown, as guided. In addition, we expect the sales in Hong Kong to remain under pressure.

In wholesale: We now expect a low single decline, reflecting improved luxury orders.

Regarding gross margin, we now anticipate a decline of around 150bps, with the incremental 50bps due to mix and disruption in the higher margin market of Hong Kong.

Regarding capex, spend is likely to be £180m, below our previous guidance due to the timing of projects.

Turning to currency, we now expect a benefit to full year operating profit of £4m using 1 November spots due to the strengthening of sterling, compared with our previous estimate of £15m.

Finally regarding IFRS 16, we expect it to benefit full year operating profit by £30-35m and PBT by £5m-10m.

To conclude, we are now in the final months of our two year transitional period before we turn our focus to accelerating growth.

We have made good progress in the half with very promising early signs from the new product and the transformation of our retail and wholesale network.

Despite considerable disruptions in Hong Kong, we remain on track to achieve our financial objectives in the full year and with that I am pleased to hand over to Marco.

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Business Update

Marco Gobbetti, Chief Executive Officer
The growing momentum Julie mentioned has been driven by the great progress we have made in executing our strategy, and I would like to highlight some of our key activities across communications, product and distribution.

In communications, we've seen a real acceleration in our activities this quarter signalling luxury through our campaigns and also starting to disrupt activity in three key areas:

First, content, where we have been much more native.

Collaborating with Nowness, Dazed and Mille to name a few, we allowed each partner to interpret our product in their own way.

These activations brought our brand to life with local audiences and each drove click-through rates 3 to 9 times higher versus our campaign display average.

We have also been much more localised with our content.

This is an example of our latest campaign for the Qixi Jie festival in China, which is similar to Valentine's Day.

It was one of our most successful regional campaigns ever, achieving readership and engagement rates close to three times above our platform average.

Second, through disruptive, physical experiences that allow consumers to interact with the brand - such as these cube installations we built in Hangzhou, Shanghai, New York and Seoul.

These gave consumers the opportunity to experience our latest campaign in a completely immersive environment, providing the ultimate backdrop for social media posts and creating influencer and consumer-generated content, which augmented our reach to millions of followers.

Lastly, this quarter we stepped up our social activations - for example becoming one of the first luxury brands to stage a major campaign on TikTok.

Our TB challenges on Douyin and TikTok generated over a billion views, and allowed us to connect with young consumers in a way that felt authentic to them.

All this activity contributed to increased heat across our priority social platforms, with over 30% growth across reach and engagement rate on Instagram and even stronger reach and engagement rate growth on Wechat.

We were also listed in the top 10 hottest brands in the LYST index, reflecting our growing brand heat both on social media and online overall.

In terms of product, as I mentioned earlier, we have seen strong performance across our new collections, and as Julie said, the majority of the product in our stores is now Riccardo's.

We reached around 70% of mainline product at the end of Q2 and plan to increase further to approximately 80% by the end of the fiscal year.

The collections continue to evolve and strengthen.

The last show was indeed an “Evolution" with every element of the collection - the materials, the design, the Show itself - signalling confidence and luxury.

The Show was extremely well received - we saw a step change in press coverage, with a double digit increase from the AW19 Show, and our overall reach increasing over 50% vs February.

We also saw some of our most influential brand ambassadors at the Show, translating into a double digit increase in earned media value compared to AW19.

Finally, we were delighted that Riccardo was recognised as 2019's Fashion Innovator by the Wall Street Journal.

In leather goods, we continue to make steady progress.

As I've said before, this category will take longer to transform - and we continue to focus on building our new architecture - including the replenishment offer - as well as strengthening our credibility with consumers.

Though performance is still being impacted by the exiting of older lines, over the past few months we have started to see momentum building for our new styles - for example.

The TB, which continues to be a key pillar of our new architecture.

The Lola, has already become our fastest selling bag and driven earned media value with influencers and VIPs and the Pocket Bag, which has ignited significant brand heat in China.

Finally, growth in innovation from our product and communications is supported by the way in which we go to market.

We have continued to bring our store network in line with the new creative vision.

Focusing on high visibility locations such as our new stores in Shanghai IFC, IAPM, also in Shanghai, our reimagined Miami Design District and GUM in Moscow, where we secured one of the most enviable spaces overlooking the Red Square.

We have also significantly invested in our pop-up programme - launching over 20 pop-ups over the last six months to celebrate our monogram collection.

These drove excellent performance, with notable increases in sales and traffic in the stores with these activations.

In terms of digital, we continue to innovate in the way we go to market, creating immersive experiences such as the 3D monogram world on Burberry.com, which we extended to digital partners, such as Tmall, with additional features including social sharing and gifting, and an augmented reality experience for consumers to try on the monogram product.

We continued our successful partnership with Farfetch, where we launched the collection with a special campaign featuring talent from the Farfetch community of ambassadors.

Finally in September, we teamed up with Apple to launch a new chat functionality, allowing sales associates to talk directly to their clients, providing a seamless luxury experience and building stronger relationships.

All of this has been delivered while driving forward our commitment to sustainability. In the half, we received our highest ever score in the Dow Jones Sustainability Index, launched our Econyl capsule crafted from a sustainable nylon yarn, became a signatory of the G7 Fashion Pact, and hosted our first carbon neutral show.

Going forward, sustainability will remain high on our agenda, and you will be hearing more about our pioneering work in this space.
Looking ahead, the next 12 months are a very important time for us.

The actions we take during this period will ensure that we lay the foundations for our acceleration and brand repositioning.

As you saw, we are starting to see momentum in our business despite headwinds in Hong Kong.

To seize this opportunity and prepare for acceleration, we are focusing on a few key growth drivers:

First, as always, is product where we will continue to focus on our core luxury products, such as outerwear and leather goods, investing to ensure quality is perceptible, and to excite consumers with newness and fashion.

We will also increase our focus on inspiration, which is paramount to the luxury consumer journey.

Globally, luxury consumers spend 50% of their journey in the inspiration phase - this is where the vast majority of purchase decisions are made.

This trend is even more significant in China, where consumers spend two-thirds of their journey in the inspiration phase and since we expect China to remain the greatest contributor to luxury growth over the next 5 years - inspiring the Chinese consumer is key for us.

Consumer inspiration takes many forms, and over the next 12 months we plan to focus our efforts across the highest visibility touchpoints including making our campaigns even bigger and bolder, creating a deeper emotional connection with consumers.

Stores are also a critical source of inspiration - and here we will amplify our store experiences, through store associates, retail excellence, refurbishments; windows, visual merchandising and store events; as well as through our wholesale partners - such as Nordstrom which you can see here.

We are the first fashion house to take over the store's concept space with a bespoke immersive installation to coincide with the opening of its first New York flagship.

We will also continue to focus on digital innovation, creating new, exclusive experiences that drive engagement and loyalty such as our recent B Bounce game which was a huge success.

And because inspiration is particularly important in China. We are delighted to announce today our exclusive partnership with Tencent - another step in Burberry's long history of digital innovation.

Our partner Tencent dominates inspiration for the Chinese consumer, covering everything from social media, entertainment, information, software - to the most popular lifestyle apps in China.

Tencent's products touch 98% of Chinese netizens and account for 55% of the time they spend online.

That's why I'm thrilled to be pioneering a concept with Tencent that blends two of the most important, and increasingly fluid, consumer touchpoints - social media and physical experiences.

The first step in this partnership is to open a pilot store, offering unique social retail experiences that connect social journeys to physical environments.

It will be a key space for us to test and learn, trialling innovation before rolling it out to the rest of our network in China.

We will open this store in Shenzhen, the centre of technology in China in the first half of next year.

In conclusion, I'm really proud of the progress we have made on the Strategy.

It's exciting to feel the growing momentum for our brand and product, and also start to see this coming through in our numbers.

Now is the time for us to seize this momentum and prepare for the next phase of our journey, focusing on:

Completing our product transition, truly establishing our positioning in luxury, and continuing to inspire consumers in a meaningful and authentic way.

Finally, I'd like to end by thanking our incredible teams for what we have achieved so far - I look forward to continuing this exciting journey together.

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Questions and Answers

Luca Solca, Bernstein
Good morning. I'm very interested in understanding how you getting traction by nationality, and if you could give us on the back up - obviously around the data you already have and how you're progressing with Chinese consumers in particular, but also with the European consumers and the American consumers alike?

Second, question is on the APAC and Hong Kong and the potential repatriating of consumers in other locations. I see that in Q2 you had a significant spike in Korea for example and further progression in Mainland China. I wonder if you have a way to ascertain how much of that has been almost - especially in Korea, by Chinese consumers deciding to buy in Korea rather than in Hong Kong for example? And whether there's any way to potentially gauge how much of this disruption in Hong Kong is actually balanced out by recovery elsewhere?

Thirdly, I was wondering how you expect the improvement in leather goods and in handbags in particular, which has seen a significant amount of new styles starting to get traction as these styles, I'm thinking that there must be more styles that are potentially going out of the range, not getting us the full benefit of the product innovation? Thank you very much.

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Julie Brown, Chief Operating & Financial Officer
Thanks Luca for the questions. So in terms of nationality trends, first of all the Chinese being our biggest component - so we had a mid single digit growth in the Chinese consumer globally for the half year. In the second quarter it was slightly slower than the first quarter, so we had high single digits in the first quarter slowing down to lower single digits in the second.

The impact of that was really felt due to Hong Kong, so Hong Kong is a significant tourist business for us and in particular Chinese and we believe the slow performance in the second quarter was simply due to the disruptions in the Hong Kong market.

In terms of other nationalities, taking the Americans, we actually saw a good trend in the American local consumer. So although the US market was flat Q1 into Q2 in terms of performance, both low single digits, what we actually saw was growth in the local consumer being offset by slower tourist traffic into the US in the second quarter. So a good low single digit trend but good local consumption going on in the US market.

We had actually the same situation in EMEIA in the sense that although the tourist spend in EMEIA was fairly consistent across the two quarters, it was strong, what we saw in EMEIA was again an uptick in local consumption in EMEIA. So UK domestics were much stronger in the second quarter.

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Marco Gobbetti, Chief Executive Officer
Yeah in fact I think it's quite pleasing to see that across the geographies the consumers have responded very well to the new collections being delivered in the market.

In terms of your question on the repatriation of the Hong Kong decrease, Korea has certainly been a country that has seen an increase in - particularly in mainline Chinese spend, however the mix and the percentage of Chinese spend to the total is really small and therefore the uptick from there is fractional for us.

So really I think it's more about the repatriation in China and that is as you know very difficult to quantify precisely. What we can say is that certainly there is a portion of repatriation in China but we can also certainly say that it's not the totality that is probably - at the moment, there is some but it's hard to quantify how much it is and we feel that we will in time - I think the situation will settle more and it will be a little bit easier to read through the movement of tourists.

In terms of leather goods I think we have spoken - every time we meet we speak about leather goods, it's clearly one of our priorities and I think we're doing well. I'm really pleased with what we have. I think the best way to assess it is to go into one of our refreshed stores that has a large assortment of leather goods. I think what you see is a transformed offer there. And it has transformed in a very qualitative, in a very contemporary and with a very strong identity. And I think that we're starting to see a better traction there. I think we are turning the corner. We have seen an improved momentum also across the quarters.

We still - as you say Luca we still have some headwind from exiting of older lines and there may be a little bit more to come, but I really think that what we have done so far is really boding very well for the future so we're quite pleased there.

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Zuzanna Pusz, UBS
I have three questions please. First of all just on trends by nationality. So you mentioned that the Chinese consumer grew low single digit in Q2 so which nationality makes up the delta because like for likes were plus 5, which I guess is mid single digit. So was it the Europeans or the Americans that saw the biggest acceleration? That would be very helpful to know.

Secondly on impairments, so in the press release it was mentioned there was a £14m impairment related to Hong Kong. I just wanted to clarify was it related to store closures, so are there any stores you specifically closed in Hong Kong? And if that was the case would they have been excluded from the like for like growth in the quarter? So just to clarify that.
And finally EBIT, so there's been a couple of moving parts. On the one hand we had that additional impairment which if I understood correctly was included in the adjusted number. And that was offset by additional cost savings. But there was also an upgrade to the Wholesale outlook for the full year. So I just wanted to check is it the right assumption that Wholesale is slightly more accretive for you at the EBIT margin level? Thank you.

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Julie Brown, Chief Operating & Financial Officer
So just taking those in terms of the order, in terms of the nationalities, as you mentioned the Chinese consumer globally was at a low single digit, but when you're comparing that with the comp overall of 5%. As mentioned really we did have an improvement in domestics in two of our major markets, one being America where we saw an uptick in domestics, and also in the UK market we saw an improvement in domestics. And generally we saw an improvement in some of the other European countries. In particular we saw it in Spain and then France and Italy were quite strong. So they were offsetting. I think in terms of - I think Luca mentioned as well Korea was up, South Asia Pac overall has been strong excluding Hong Kong.

In terms of impairment so the charge of - the £14m charge - it wasn't related to store closures in Hong Kong, it's basically every accounting period we assess the stores, the whole store portfolio for impairment, look at the future cash flows and assess that against the value on the balance sheet. And so it causes an impairment charge to lower - if you've got lower levels of business in particular stores it can cause an impairment charge - and that's essentially what happened in two of our stores in Hong Kong at the half year.

It did go through the adjusted operating profit so you see that £14m impact both in reported numbers and in the adjusted numbers. So we've put it through the trading results. So no impact on like for likes at all because no Hong Kong stores were closed.

In terms of the EBIT impact, as you say there are a number of moving parts. So clearly we've got the impairment charge - first of all we've got the gross margin headwind which is basically as we guided, apart from we've increased the gross margin headwind by 50bps for the full year, largely because of the disruption in Hong Kong and it's a high margin market for most luxury players. So the full effect of that in the second half goes through.

The second thing that has occurred is of course the cost savings are going through and will reach £120m by the end of the year. So the incremental cost savings help the operating margin. And like you say the Wholesale upgrade also to a low single digit decline also helps the operating margin but not the gross.

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Thomas Chauvet, Citi

Thank you. Three questions please. The first one was the material loss, elimination or perhaps there was some EBITDA margin accretion from the 26 store closures in the first half and I think there's 17 mainline stores. Was that immaterial?

Secondly, on inventories high single digit year on year in the first half, Julie do you feel that's the right amount entering the Christmas period, I remember you said you won't have intense promotional activity that you had last year. You also I think guided for 3% like for like in Q3 so is that amount of inventory fine to you?

And finally on leather goods. I understand that disruption from the old styles but on these new styles are you starting to see perhaps your manufacturing efficiency - sell through a substantially higher underlying gross margin than you had in the past and this category is still a pretty low gross margin business for you which is quite unusual. So are you happy with the development of gross margin in the new lines of handbags?

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Julie Brown, Chief Operating & Financial Officer

So in terms of the store closure and the impact on margins - as you know we decided to embark on a store rationalisation programme which affects 38 of our stores. There's no impact in fact in terms of the EBIT itself because the gross margin is being offset by opex savings. So net-net in terms of EBIT value there's obviously no impact.

In terms of the inventory so we've had a growth in mid single digits at the half year. In terms of finished goods it's a rise of 4% so it's broadly in line with the growth in the retail sales number. So overall we're reasonably happy with that. In terms of the preparation for festive we're very comfortable with that.

You mentioned about the Q3 and the like for like and the markdown, so we are expecting to put lower levels of inventory into the markdown period in Q3 which is our biggest markdown period over the Christmas and festive period. The reason for this is that at the moment in the inventory we've got the older collections and then we've got the newer collections from Riccardo. The older collections, we will be clearing through the markdown period. The newer collections we're being very selective in terms of which of those attract a discount during this period. So net-net we end up with lower levels of markdown inventory.

Now we guided this because we wanted to be transparent with you because when you're doing the quarterly modelling we wanted you to appreciate this would happen in the third quarter. No change to that whatsoever.

Consensus expectations then for the third quarter were that we would have a comp of 3%. However, and very importantly, on top of that now we need to reflect the disruption from Hong Kong because when we were guiding on markdown we didn't have the Hong Kong situation.

Hong Kong in Q3 we do expect to have quite a significant impact because in the second quarter we've had two months out of three being impacted. In the third quarter we're actually expecting all three months to be fairly seriously impacted given the status we've got at the moment in that market.

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Marco Gobbetti, Chief Executive Officer
In terms of leather goods - sorry I'll just answer the third question. In terms of leather goods I think as I said we will still have a bit of headwind from exiting older styles, but we have started to see good traction on the new styles that we launched. I mentioned three there before, I mentioned TB which is now I think quite recognisable and working very well at the top of the pyramid. Lola, which is a bag we launched recently and is now creating really a lot of demand and a lot of volume, performing really well. And then we have other styles like Pocket, like Title.

We have a number of new shapes that were introduced in the market. The point is now making some of those shapes really pillars for the future, having continuity on those shapes, so creating basically the new icons in leather goods for the future. And this is when then we start to accelerate in terms of volume on the shapes because you start to have consolidation around those, demand around those shapes, and you start to have opportunities in terms of industrialising those shapes and getting more margin out of that.

But as I think we guided from the beginning, the leather goods business is an investment for us for the future and this is why we have said that we wouldn't look to this category for the highest gross margin at the outset of the transformation. As we move into it now I think the opportunity will hopefully start to materialise over the next couple of seasons of handbags. Handbags in particular is the case.

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Elena Mariani, Morgan Stanley
Can I please go back to your Wholesale guidance? You've talked about an increase in orders from luxury customers that is offsetting partly the slowdown we're seeing in Wholesale due to the rationalisation. Could you elaborate a little bit more on which ones are those customers that are buying more, is it mostly in Europe, is it in the US? Would you expect this to continue to accelerate through the coming quarters and can you just in general be more precise about the moving parts?

Secondly a very small technical question. So you've reported some more closures but in the second quarter your non-like for like part of Retail was going up. Can you quantify the impact from calendar days or anything that is non-like for like or non-space related and help us understand how they are going to move in the second part of the year?

And thirdly just a broader question perhaps for Marco. You've been very consistent in delivering against your guidance and now we are approaching this very interesting turning point. How would you see next year evolving? Are you comfortable around the fact that you're going to see top line progressing further growth in Wholesale and Retail and you're going to see both gross margin and EBIT margin improving on a constant currency level? Thank you.

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Julie Brown, Chief Operating & Financial Officer
So if I take the first two and Marco takes the third one. In terms of Wholesale we were pleased with the outcome at the half year. It was a combination of timing of shipments but also an improvement in luxury orders and that was particularly the case in the EMEIA market.

So we have, in the full year, we've actually factored that in so we've gone from expecting a mid single digit decline in Wholesale for the full year which is largely due to US rationalisation, we've now gone to low single digits which is largely due to the strength we're seeing in those luxury orders coming through. So the timing washes out but we've got the luxury orders coming through which we're very optimistic about.

So as mentioned, I think Marco mentioned it, you know we've seen double digit growth for the Wholesale accounts which is really positive, they're our partners. But clearly this is the year where we feel the greatest weight from the US closures. So US Wholesale is actually a double digit decline because of the size of that rationalisation work that was taking place in the US. The majority of which will be finished by the end of this financial year so we'll be clear of that at that point.

Just in terms of the like for likes, so we had a minus 0.5% in space in the first half. As you know we've been making some store closures partly due to the rationalisation programme, partly due to relocations, and they're always adjusted for in the comp.

You mention about the second half and what we're expecting is marginally positive, so for the full year it will be broadly neutral as we originally guided but a slight movement between the two halves.

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Marco Gobbetti, Chief Executive Officer
Look I mean in general I think we - as I said before I think we are very pleased to be where we are today. I think we are not only on track in terms of delivering the numbers that we had outlined when we set out on this journey, but I think also when we look at the activity in general I think we see a brand that is much more energised. I think we see a lot of momentum and a lot of energy around the brand.

We have transformed the product and the product is now delivering into the stores. And we are having a very good reaction from customers. Both from existing customers who have not left us and also we're starting to recruit well new customers. And this is across the geographies, with also I have to say a strong traction in China, in domestic China, which clearly is a positive indicator for us as they are also becoming today probably the most educated and savvy and fashionable customers in the world.

We are transforming the network and I think where we can have refreshed stores we have a team that is energised in the stores, we have great retail excellence programmes, they're going on. We see great results there.

Wholesale we are I would say almost completed with the transformation of Wholesale, particularly in America which was for us perhaps the most difficult position that we started from. I think by the end of this year we should be pretty much done with that. And we are seeing traction with our luxury partners.

So I think in front of us I think we have something that is very exciting for us. I think we see good momentum. We see that we have worked well. We see that the company is reenergised also internally, on the inside. The competition out there is very strong and it's actually a great stimulus for us to compete with them. And I think we have been competing also by being very innovative in the market.

Sometimes we don't have scale of some competitors but I think that we have more than compensated by being innovative, by surprising, by being effective also with the communication we have. And I think we have connected very well I think with the new generations of customers in particular.

So all of that is very positive. I think we just have to be cautious of the macro environment because clearly there are headwinds and we have spoken a lot and for every brand there is always presentations on comp being clearly a focus, and I think we have to be very, very careful with that and aware of that. Foreign exchange is unpredictable and we can see that it can also swing the results, but it can also swing where consumers shop. So barring that I think that we can only look I think forward with a lot of optimism for what we have done so far.

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Rogerio Fujimori, RBC Capital Markets
Three questions. The first one is you commented on outerwear and your actions to elevate the performance in category, outerwear?

The second is that when you will think about product assortment and strategy and the balance between fashion and carry over or dynamic carry over, have you reached the point where you want to be or do you still see a greater shift towards fashion or any indications ASP and gross margins that we should keep in mind?

And the third is for Julie. Is 2% to 3% underlying opex inflation still a valid assumption for second half and perhaps next fiscal year? Thank you.

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Marco Gobbetti, Chief Executive Officer
Okay about product and I think the two questions are probably connected in my view, I think the first objective we had set out was really to establish the new creative vision. And we did that by focusing on the fashion part of the collections, not necessarily on the key categories like outerwear which is a pillar of our offer.

So as we move along now into the second phase and as we think that we are starting to establish a clear identity with our fashion part of the collections and see interaction from the consumer, this is where now we can turn the focus, continuing to focus on fashion of course, but we can turn the focus also on categories that are more fuelled by what we can call carry forward or replenishment or every brand has a different definition of that.

So you will see us clearly now as Julie mentioned before and I think I did in leather goods, working on creating these new iconic shapes or products for the future which will be the ones that then we can carry forward, and then also from a customer point of view it's easy to recognise the brand through those products obviously.

Outerwear is for us a very important category but not only because we have a significant activity in jersey for example for men's in particular but also for women. Scarves of course, our soft accessories are very important. And as I've said I guess from the beginning leather goods I think is another opportunity for us.

So the work that is going to really be a focus for us is now building those new carry forward categories, those new iconic pillars for us for the future. And this is where you get by getting continuity, by getting focus you can really work the details of gross margin, of industrialisations and you can really get the benefit from there.

So we are in that phase of I think the transformation that we had set out probably 18 months ago. I don't think we are either behind or ahead, I think we are right where we expected to be at this stage.

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Julie Brown, Chief Operating & Financial Officer
So just in terms of the opex and the inflation situation, so we would normally expect around 2% to 3% this year. We're actually going to be likely to be tracking more at the 1% to 2% level for this year. And as you know we've engaged in tight opex management in the company throughout that period.

Clearly going forward in terms of the question about the forward view, some of our opex is variable. So we've got Asia associated with variable rents so you can have a rise in the opex as the sales improve. We've also got something to bear in mind regarding how the capital programme is running; it was running at about £100m a year; it's now running at closer to £200m pa as we've guided and so therefore you'll have the opex lift coming through from the depreciation impact. So net-net going forward we'd expect to be more in the sort of 4% to 5% category in terms of opex.

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Flavio Cereda, Jefferies
Morning, four quick questions please. First one, you guided a slight dilution in the capex and this was a timing issue, perhaps you could give us a bit of colour there.

The next three questions all link up. Can you give us as of today the percentage of product which is new product in the Asian stores because it seems to be significantly higher than in the rest of the world and I was just wondering what the situation was today?

I guess this is for Julie, if the situation in Hong Kong stays as it is - which it looks as if everything is getting worse, are we likely to see a second greater impairment in second half of the year?

And question number three if I look at digital spend overall, can you give us a sense of how much more money you're spending with digital and how much of it is perhaps focused on the Asian consumer please?

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Julie Brown, Chief Operating & Financial Officer
Okay sure. So first of all in terms of capital expenditure we originally guided to £200m for the full year. We're now going to be around £180m. Clearly it's really all about the timing of projects. There's an element of the store programme being impacted there, but we're also gaining some efficiencies in the capital programme, you know working very closely with the commercial team and the architecture team and we drive out efficiencies as we roll out the programme. And in addition to that there are some changes to the timing of office refurbishments so nothing really to be concerned about in that sense.

In terms of new product in the Asian stores it's actually very similar.

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Marco Gobbetti, Chief Executive Officer
Yeah there is no strategic difference in the offer in Asian stores from the western based stores. So I think we are as we said at the end of H1 we are at approximately 70% of new product being delivered, the offer representing the total offer for the customers, there is no difference between Asia and Europe.

You may see a difference when you walk into flagship stores in general whether it's in Asia or in Europe, having more space, having more possibility to assort and to present new lines. You may have an impression of seeing a lot more product in those stores. But as a whole we don't distinguish Asia from Europe in terms of the percentage of Riccardo's new products or previous lines.

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Julie Brown, Chief Operating & Financial Officer
Just coming back to the question on Hong Kong and impairments. So when we do the work at the period ends on impairments we're always taking into consideration the forward view,

so it's all about the carrying value of those leases on the balance sheet relative to revenue and EBIT income. So that forward view of Hong Kong which is to be experiencing pressure also in Q3 and Q4 is already built into the impairment that we took at the half year.

The only thing then that would therefore move that was if the situation deteriorated to a greater extent, or it can move it the other way likewise if the situation becomes alleviated somewhat.

The point we were talking about in terms of the element of repatriation, when it comes to impairments that doesn't benefit us at all because it's based on the stores in Hong Kong. So even if there is a degree of repatriation as Marco mentioned we would still suffer the impairment. But based on our current forecasts, which do build in continued uncertainty, we wouldn't expect any further impairments in half two because they're already built into the first half.

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Marco Gobbetti, Chief Executive Officer
In terms of the fourth question on digital, I think overall, clearly we continue to increase the spend in digital media versus other types of media, particularly printed media, that is a shift that is I think industry wide on which we have been clearly always leading, and that will continue.

In terms of the proportion whether we spend more in Asia I think it's important to go back to what we said before in terms of inspiration. Inspiration being a fundamental part of the journey of the customer. We saw that in Asia really Asian customers, and you know we analyse Chinese in particular, but we don't think that is significantly different in other countries, if it's 50% in the west it's two thirds in the east. So clearly the portion of time that is spent on forms of digital which is either social or research, education, is higher in Asia and so we clearly reflect this in our allocation of spend in terms of digital.

We as you have seen not only is it a question of how much we spend but it's also a question of how we can innovate there and capture the attention of the customers. It's not only volume of spend but it's also the quality that we have seen has made a great difference. The operations we made with TikTok I think it has generated a huge amount of views and a lot of energy for the brand. The new game, the B Bounce that we launched we think you know that has been a phenomenal success. Those are always built into our plans because they generate it and they maximise and they optimise the investment, the other investments that we make in digital media.

The partnership with Tencent coming up, it's clearly for us something that is going to - it's probably going to be, hopefully it's going to be a step change for us in terms of the way that we can connect. The journey that the customer has throughout social platform and their own interaction with product, with fashion but only with their community and then being able to bring that to life in the store, I think that is an incredibly rich territory that we want to explore. And Tencent clearly is the best place to provide us with all the technology and information and experience in that field. So we are quite excited with that.

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Charmaine Yap, Redburn
I have three questions please. When we talk about attracting new customers and you talked about old customers not leaving, I was just wondering if footfall or traffic in stores is now returned positive? And also related to that - price mix and volume split if I look at the comps on sales progression?

And the second question relates to inventory provisions. Julie were there any changes in expectation of Q3 that's reflected - in the first half, was there anything on the gross profit line or in any case maybe in the reverse - was there any release of provisions?

And the third question is in terms of the partnership with Tencent, it seems very exciting. What exactly are Tencent doing, are they offering software, are they helping out on logistics as well? And also is this a trial or have you signed a multiyear relationship through a JV partnership on a revenue share model? So what can we expect from this partnership? Thank you.

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Julie Brown, Chief Operating & Financial Officer
I'll take traffic, price volume mix and Tencent for you.

In terms of customers, new customers, we're actually very encouraged. I mean in terms of traffic generally in the sector, traffic is always under pressure as people move more towards digital. But what we've seen particularly as we went through the first half and into the second quarter we have seen very positive new customer growth and some traffic coming in terms of certain of our territories. So in particular China, Japan, clearly we've got a major focus on those two countries, but also as we mentioned increasingly in the UK with the local population in the UK coming through and some of the other countries we're starting to see that emerging. But generally as an industry I think pressure on traffic remains as a general trend because of the move towards digital.

In terms of price volume mix I think the key thing to say is we've not increased LFL prices - it's all really about the mix of the product. So we are consistently investing in quality, design. The level of detail in our designs if you see the range now compared with a number

of years ago there's a massive difference in the range. And so what you do get is an elevation of the price due to mix and that's a major driver. In addition to that we've had some volume coming through as well in the comp that we've reported.
Just in terms of inventory provision, before I hand over to Marco for Tencent, so in terms of inventory provisions there's been a small release at the half year. No specific provisions built in for future, but we do always look at the inventory ageing and there's a specific accounting policy that applies, we've got PwC in the room, that applies every single quarter in terms of looking at the ageing of that inventory, but nothing unusual in that, just a small release at the half year.

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Marco Gobbetti, Chief Executive Officer
The Tencent partnership, this clearly has been made possible by the fact that we have been partnering with players like Tencent, Alibaba, Facebook, Apple. This is a position that the brand has established over the course of the year. We are still somehow very much partnering with them in testing innovation for our space, for our industry space.

So with Tencent there is a constant dialogue like there is with other partners about how we can continue to innovate together. And clearly the subject of linking the social journey with the physical experience is a subject that we all are talking about today because in any case we know that is part of the journey. They're two very important parts of their journey.

So we have been thinking about this for a while and we have together come up with an idea that Burberry has on how we can bring this to life, and that we can power through that technology and information and the data on behaviours also of customers that Tencent has.

So it's clearly not a partnership that intends to be limited to one store in one city and for one season. But the partnerships start with piloting so this will be a pilot. Shenzhen is - I think we find Shenzhen to be obviously a very important location, not only because it's the technology hub but as a consequence of that you also have a population that is very connected, very young, very fashion forward, and so this is a great opportunity in an area that is also an area that is growing significantly.

So while we obviously don't want to disclose the terms about the partnership but at the same time we think that our partnership with Tencent will continue over time because it's a fundamental engine in our activity and in our connectivity with the consumer with them. So as I said before we are quite excited there.

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Annabel Gleeson, VP, Investor Relations

Thank you very much everyone.

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Julie Brown, Chief Operating & Financial Officer
Thank you. Bye.

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Marco Gobbetti, Chief Executive Officer
Thank you very much.

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