

BURBERRY

Burberry Group plc

Interim Results Analyst Call

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Burberry

Gerry Murphy, Chair

Julie Brown, Chief Operating & Financial Officer

Julian Easthope, VP, Investor Relations

Questions From

Louise Singlehurst, Goldman Sachs

Antoine Belge, Exane BNP Paribas

Luca Solca, Bernstein

Zuzanna Pusz, UBS

Thomas Chauvet, Citi

Rogério Fujimori, Stifel Europe

Carole Madjo, Barclays

Gerry Murphy, Chair

Good morning – I am Gerry Murphy – here in my role as Chair of Burberry and I am joined by Julie Brown, our Chief Operating and Financial Officer.

I will start with a brief introduction before Julie takes over with a discussion on the results, together with a progress update on our strategy.

As a reminder, slides are available to accompany this presentation on the IR section of our website and a transcript will also be made available. We will be happy to take your questions at the end of the presentation.

As announced in late June, our CEO Marco Gobbetti will be leaving the Company at the end of the calendar year.

I want to take this opportunity to wish Marco and his family well in their imminent return to Italy. I also want to thank him for his vision and leadership in the transformation of Burberry, his strong partnership with me personally, and for his professionalism and commitment during the transition to his successor, Jonathan Akeroyd, whose appointment we announced a few weeks ago, with effect from the beginning of April next year.

We're delighted that Jonathan will be joining Burberry as the next chapter in a very successful career in luxury fashion, initially as chief merchandising officer at Harrods, followed by 12 years at Kering as CEO of Alexander McQueen and most recently 5 years in Milan as CEO of the iconic Italian brand Versace. Jonathan is an experienced leader with a strong track record in building global luxury fashion brands and driving profitable growth. He shares our values and our ambition to build on Burberry's unique British creative heritage and his deep luxury and fashion industry expertise will be key to advancing the next phase of Burberry's evolution.

4 years ago, even before I joined Burberry, Marco set out a strategy for transformation and growth by elevating Burberry's luxury status and building on the legacy and values of Thomas Burberry.

The transformation has involved some pretty heavy lifting, including rationalising our distribution to focus more on full-price sales of higher value product, eliminating markdown in our mainstream retail channels and stronger focus on inventory management and sell-through rates to improve gross margin.

Targeting increased investment in key consumer-facing areas including transforming our product quality and offer, especially in our strategic categories of leather and outerwear, re-energising and elevating the brand to luxury and building more luxurious stores and a stronger digital platform mostly funded by some tough choices to reduce costs, improve efficiency and expand operating margin

I'm happy to report that we have largely delivered what we set out to achieve

On a like for like basis (CER), Burberry looks and feels like a higher quality business. Full-price retail is now a much higher percentage of the retail operations. Our own retail now accounts for around 80% of the business, the other 20% delivered through our true luxury wholesale partners around the world. Financial security is underpinned by leverage of less than 0.5x and cash conversion of over 100%.

Critically, Burberry is now firmly in the luxury consideration set, attracting new and younger customers and our strategic product categories are delivering strong full-price growth.

Burberry is now a substantially restructured business with a much stronger foundation to accelerate revenue growth and deliver positive operating leverage in the years ahead.

Central to our ambitions for the future is our determination to integrating responsibility and sustainability into everything we do, building on Thomas Burberry's legacy, to secure Burberry's future as a global luxury brand, powered by our unique British cultural and creative identity.

Thank you.

Over to you, Julie

Julie Brown, Chief Operating and Financial Officer

Thank you, Gerry

I shall now update you on the progress we have made in the half.

In H1, we achieved 18% full-price comp store sales growth vs 2 years ago with both quarters up double digits as our collections continued to attract a new, younger clientele to the brand.

We have seen particularly strong growth in markets not impacted by COVID-19 travel restrictions or tourist flows, hence they are more representative of the underlying performance of our brand— notably in Americas and South Korea.

So Mainland China also continued to perform well despite some COVID related travel restrictions.

Full-price sales are driving margin accretion and over the last 2 years we have seen increases in gross and operating margins – in line with our plan to deliver meaningful margin accretion.

We are continuing to deliver our brand and product priorities and elevating customer experience both in stores and online.

And a key point that I wish to make today, as the world focuses on COP26, is that we continue to drive performance with a strong focus on sustainability. We have set ourselves industry-leading targets to be Climate Positive by 2040 and to reduce Scope 3 carbon emissions in our wider supply chain by 46% by 2030. Thomas Burberry was a pioneer in sustainability and it remains at the heart of our brand and integral to our strategy to deliver positive change for our employees, customers and investors.

And finally, we've delivered excellent cash conversion in the first half of over 100% and have a strong balance sheet, enabling us to grow the interim dividend and recommence the £150m share buyback programme.

I'll cover these five main topics, starting with revenue.

And turning now to the detail of our Half 1 performance.

Slide 5 shows the group revenue summary, with comparable store sales up 37% compared with last year and space up 4% at Constant Rates. Wholesale was particularly strong, up 69%, driven by an excellent order book, including increased in-season orders, bringing total Revenue to 45% above the prior year, before the currency headwind.

Turning to retail revenue on slide 6, where on the right we share our performance versus 2 years ago due to COVID, and this shows our Retail Revenue flat, with comp sales up 1%, offset by space. Within this, full-price revenue in the first half grew 18%, with our overall comp impacted by our strategy to exit mainline markdown and tight management of outlets as we guided. The markdown exit reduced our comp growth by a mid-single digit percentage versus two years ago.

Taking a closer look at regional retail performance versus 2 years ago on slide 7. Americas has been the stand out region – up 38% and accelerating in Q2. The full-price business was excellent, almost doubling in the period with strong sales to new and younger customers. Overall, Asia Pacific grew by 5% with full-price up 14%. Strong growth in Mainland China and South Korea that we will describe in more detail shortly, was partially offset by trading in Japan and South Asia Pacific which were impacted by COVID-related travel restrictions and store closures.

EMEIA continued to be challenging, given around 60% of Q2 pre-pandemic revenues were generated by tourists. And against this backdrop, EMEIA fell by -31% in the half, but improved sequentially to -25% in Q2. The region benefited from mainline stores reopening and growth has been driven by local customers and improving trends in both new and repeat business. Within the mix, there was strong growth in the Middle East, good progress in Continental Europe while the UK remained challenged by reduced tourists in London. Encouragingly, EMEIA has continued to strengthen as we enter our third quarter.

I would now like to share more details of our underlying brand performance from two regions undisrupted by travel patterns – Americas and South Korea.

First Americas which is an excellent example of a region where our strategy is driving accelerated performance. Having successfully repositioned the brand, we are focused on increasing engagement with local consumers and we've continued to launch multiple brand activations, including a dedicated US capsule designed by Peter Saville and location takeovers in celebration of our summer monogram collection. As a result, we saw our brand continuing to strengthen, with the brand consideration significantly increasing quarter-on-quarter in the United States.

In terms of product, we are seeing success with leather goods full-price sales growing high double-digits in Half 1, again supported by dedicated product activations, with accessories also performing very well. As I mentioned earlier, full-price sales in the region almost doubled, driven by triple-digit growth in the US market vs 2 years ago.

In South Korea, a region which was relatively unaffected by COVID lockdowns, we also saw good evidence of our strategy driving accelerated growth. And building on our efforts to strengthen the brand over the last 4 years, we have continued to drive increased engagement with local luxury consumers, signing a new brand ambassador, singer and actor Cha Eun-woo, and planning exciting customer activations such as the immersive outerwear experience that went live on Jeju Island earlier today. These activities have driven much greater reach and engagement with our brand – for example a 1.5x increase in reach and 2.5x increase in engagement on social media versus last year.

In terms of product, we are also pleased to see our strategic categories performing well, with strong full-price performance in both leather and outerwear, which are attracting new young customers in the region.

As a result, we delivered 79% growth in full price sales and a doubling of business from new local customers.

In Mainland China we have continued to deliver double digit growth in both quarters, driven by traction with our new strategic product categories: outerwear and leather goods. This result was achieved in the context of regional lockdowns and extreme weather particularly impacting August, before recovering in September.

We have driven engagement in Mainland China through highly localised, culturally relevant programmes of activities. This included a dedicated capsule collection and campaign for Chinese Valentine's Day, and a series of unexpected partnerships with local Chinese artists for the summer monogram collection resulting in 1.5 x more engagement on social media in Q2 this year compared with last year.

We also continued to take steps to strengthen our commitment to consumers in China, and I would like to highlight two initiatives. We are focusing on promoting culture and supporting youth by partnering with local organisations. In line with our decarbonisation agenda, our new store in Plaza 66 opened earlier today and is carbon neutral

Turning to Slide 11 and taking all regions and looking at the quarterly progression, we continued to show strong full-price sales growth in the last 4 quarters compared with pre-pandemic levels. Overall, we have now delivered better quality business, both due to the improved mix of full-price revenues and the business being driven by local clientele, with tourists now less than 10% of sales this quarter, compared with almost 30% two years ago.

So turning to the underlying performance of the business on slide 13, full-price sales have helped to drive strong margin improvement over the last 2 years. The first chart shows the gross margin, adjusted for currency, where we have seen a 210bp improvement at Constant Rates since FY20 and 180bp reported. Adjusted operating profit margins are 120bp up at constant currency over 2 years and this is less visible in the reported numbers due to the adverse impact of currency. Cash conversion has remained consistently high and in H1 is over 100%.

I'd now like to take a closer look at how we've advanced our strategic priorities regarding brand, product, customer experience and ESG.

So turning to brand, we continued to strengthen our positioning and drive engagement with a drumbeat of activities in the half including reinforcing our luxury, fashion position through our Spring-Summer '22 Womenswear Fashion Show, which generated 1.5 times more reach vs last year, engaging our consumers with innovation, for example through our partnership with 'Blankos Block Party', creating our first NFT which sold out in 30 seconds and bringing immersive experiences to our customers, including launching an interactive, augmented reality brand filter on Tik Tok for our summer monogram collection, which generated 3.7bn views. This was an industry and platform first.

Moving to product on slide 16, we continued to strengthen our strategic product categories. First in terms of leather goods by strengthening our Women's handbag pillars, by delivering a programme of 70+ pop-ups on Olympia and by expanding the Lola family and introducing our new shape, the Rhombi, as part of the Spring/Summer '22 Womenswear Show. As a result, we continued to drive full-price sales growth in this category.

Turning to outerwear, growth accelerated in the second quarter and we have launched a dedicated product moment for this category in the second half of this year, involving dedicated outerwear brand film and campaign which launched in October, with strong storytelling on key social media, including a Tik Tok takeover as well as activations across physical and digital channels. We also have a dedicated edit showcasing the DK fabric, developing a new lightweight Gabardine, and applying it to more casual styles to create a DK down, combined with new special details, including, quilting techniques, cashmere linings and leather details that are resonating strongly with our consumers.

We continued to elevate the customer experience across all our channels, as shared on slide 17.

Our new store concept roll out is progressing well, with 15 stores completed so far, and around 50 planned in total by the end of the year. These stores are resonating well with new customers and are driving significant increase in higher spending clientele across renovated locations. We are particularly excited about the launch of Plaza 66 in Shanghai, which will strengthen our luxury position in the region, as well as our commitment to addressing climate change. Additionally, we strengthened the integration between our on-and-offline channels by launching new content sharing tools for our sales associates, increased appointment functionality, and improved messaging and omnichannel services.

Turning to digital, we maintained strong engagement in the half through interesting content, such as Monogram takeovers on .com and enhancing product discovery by launching an 'Outerwear Hub' as a dedicated part of our website. As a result, we have seen good traction with Digital full-price sales growth almost doubling compared with LLY.

To share an insight from our new customer experience in Mainland China, I'd like to share a video of our recently opened store in Plaza 66, Shanghai.

Turning now to ESG and guided by our purpose and values with sustainability at the heart of business and brand, we advanced all priorities within our industry-leading ESG agenda: climate and nature, building true allyship, and investing in youth and creativity. Our brand is rooted in nature and the outdoors. We recognise that success for our business depends on conserving the environment and we have been committed to sustainability from our earliest days. We have made significant progress against our goals. We remain on track to become carbon neutral and source 100% renewable electricity across our own operations by the end of 2022. In June, we pledged to become Climate Positive in the wider supply chain by 2040, setting a new industry standard that goes beyond net zero.

At COP 26 in Glasgow this month, we announced our biodiversity strategy to protect, restore and regenerate nature. And this includes a significant five-year investment in the LEAF Coalition, the largest ever public-private initiative to finance the protection of tropical forests, and a partnership with The Savory Institute to help regenerate the world's grasslands and the livelihoods of their inhabitants.

We have laid out a 5 and 10 year roadmap to deliver our ambitions. We also continued to make strong progress against our D&I ambition, widening the scope of our internal council, expanding company-wide training and implementing focussed action plans for every function and region. And we strengthened our wellbeing programme, introducing new global policies to support colleagues. We also expanded our strategic partnerships and are proud to be the lead sponsor of the inaugural British Diversity Awards in March 2022.

Continuing our support for youth and creativity, we've expanded our education programmes globally and we also made a further donation to the UNICEF COVID-19 Vaccines Appeal via the Burberry Foundation, enabling more equitable distribution of the vaccine around the world.

As we have just shown, we have achieved a lot over the last 6 months and I now wish to take you through the main financials on slide 21. So looking at the results for the first half of FY22 and referring to year on year changes at CER, total revenue was £1.2bn, up 45% and back to pre-COVID levels. Gross margin increased by over 100bps and adjusted operating profit margin increased significantly and is now ahead of pre-COVID levels, driven by the gross margin expansion. Adjusted operating profit was £196m despite a £20m currency headwind. Adjusted margins came in at 16.2% and represented an improvement in quality of earnings. The effective tax rate fell to 24% and we continue to expect this to be around 22% for the year. Adjusted diluted EPS of 33.5p – was up more than 7x against last year. Free cash flow in the half was an inflow of £104m, with a strong conversion level over 100%

I shall now review these elements in more depth.

Slide 22 looks at the main moving parts within the gross margin which increased 120 bps to 69.3%. The increase is due to business benefits from the higher mix of full-price sales and the product range driving higher average prices. These benefits were more than enough to offset the headwinds we described at the prelims from the channel mix, Brexit duties and stock provisions.

Turning to the Adjusted Operating Profit margin on slide 23, we saw growth to a margin of 17% at CER. Trading delivered the greatest benefit of £270m. The cost reduction programme delivered a further £20m savings in the half and cumulatively, savings now of £205m. We have delivered a completely restructured cost base, laying the foundation for future operating leverage.

Included in this half, we also have a property disposal gain of £5m. The other major factor to note is the investment in the business of £125m, which comprises investment in marketing, visual merchandising, the retail network, Digital and ESG as well as cost normalisation post the pandemic. Our H1 margin was 17% at CER, up over 100 bps on 2 years earlier, before the currency headwind.

On slide 24, we show Adjusting Items recorded in the half and note that COVID-related rent concessions are treated as an Adjusting Item in our accounts, consistent with last year.

Turning to the cash flow on slide 25. Free cash conversion was strong at 104%, reflecting tight working capital management, even as we approach the seasonal inventory build ahead of festive. Despite COVID-19, there were no closures in our hubs or manufacturing sites, and there was no material impact on our supply chain. We continue to deliver on-time and with high customer satisfaction, managing inventory levels closely to drive positive working capital performance. This is reflected in the reduction of gross inventory close to £100m vs both last

year and 2 years ago. Capex amounted to £39m and we expect it to accelerate in the second half and be around £160m for the year, lower than guided due to efficiencies and phasing.

Turning now to our cash position in slide 26. We have a strong balance sheet position, affording investors financial security, with net cash of £0.8bn and leverage is low at 0.3x ND/EBITDA. There was a net cash outflow of £73m in the half, largely due to the payment of a full year dividend. We have recently undertaken a full review of strategic investments and have decided to accelerate investment in the new store concept in FY23 and recommence the share buyback with £150m to be completed in the second half of this year. Our financial policy remains consistent to maintain a strong balance sheet and we intend to return to our target leverage range of 0.5-1x in the near term.

I thought it was worthwhile reinforcing our medium term value creation model that has two components on slide 28.

Firstly from our operations, we remain committed to achieving a high single digit revenue growth and meaningful margin accretion from FY20 at constant currency. And secondly from our capital allocation model, which prioritises firstly, organic investment, secondly, a progressive dividend, and today we have declared an interim dividend 3% ahead of FY20, and thirdly, inorganic investments which are, by their nature, infrequent, and finally, returning excess cash to shareholders while maintaining a solid investment grade credit rating.

Turning to the Outlook on slide 29. The execution of our strategy is on track, with the management team focused on delivering the 'growth and accelerate phase' laid out in May. By the end of this financial year, we will have finalised our markdown exit from digital and mainline stores and this headwind will no longer impact next year's performance. As guided, there will be a mid-single digit headwind from markdown in the second half of this year, compared to last year. A strong order book has resulted in us increasing our expectations of wholesale and we are now anticipating wholesale revenues to increase by around 15% in the second half and mid 30's% for the year, which will lead to wholesale being ahead of pre-pandemic levels.

Currency is expected to be a £40m headwind to adjusted operating profit in the FY. Regarding the current year, we are comfortable with market expectations with adjusted operating profit margin accretion at CER likely now to be offset by adverse currency movements.

Medium term guidance remains unchanged with HSD top line growth and meaningful margin accretion with a target to achieve a 20% profit margin barring any unforeseen macroeconomic events.

As Gerry mentioned at the beginning, we have undertaken considerable change in Burberry under Marco's leadership. We have transformed our product offer, driving growth in strategic product categories. We have re-energised the brand, which is now firmly in the luxury consideration set. We've rationalised distribution, focusing on luxury doors, and re-

orientated the business towards full-price, including the exit of markdown. We have maintained our leadership as digital innovators and improved our operational efficiency. And throughout this journey, sustainability has and always will be at the core of our brand and business. We are now in the “accelerate and growth” phase of the journey and well on track to realise our commercial ambitions.

I'd like to thank Marco personally for his partnership and leadership over the past five years, for what he has brought to Burberry and wish him every success in the future.

And now I will hand back to Gerry.

Gerry Murphy, Chair

Thank you, Julie.

Today we have reported a strong set of results for the first half of the year, of which the Board and management are rightly proud. We remain focused on driving our full-price business across all regions by leveraging the brand to deliver high quality product through an elevated customer experience.

Our financial performance demonstrates our recovery to pre-Covid levels with operational leverage driving the bottom line and cash generation. We have grown the interim dividend and recommenced the share buyback.

As always, we continue to put ESG at the heart of our brand and business.

Finally, I would like to thank Marco, Julie and our leadership team for delivering on our strategy and we look forward to welcoming Jonathan in April next year.

We will now show a short video highlighting some of our first half highlights.

Video plays

Thank you for watching and listening. Today, 11th November, is a special day in our calendar being Armistice day which we at Burberry acknowledge with a moment's silence at 11am UK time, 12 noon Continental time. We will complete the Q&A by 10.45 to allow everyone time to honour all those young men and women who died protecting our freedoms.

We can now open the call for questions – operator.

Q&A session

Analyst Q&A.mp3

Operator: Your first telephone question comes from the line of Louise Singlehurst with Goldman Sachs. Please go ahead.

Louise Singlehurst, Goldman Sachs: Hi, good morning, thank you for taking my questions, everyone. My first question if I could ask Gerry if I may, thank you very much for joining the call this morning. It's really helpful to hear your perspectives as well. I think the opening commentary you touched on, clearly the elevation improvements that we see in the high quality of sales coming through the business today. I suppose the obvious question to ask is if you're comfortable this is where you want to be, where you want the business to be to achieve that acceleration in growth. And to cut to the chase. I suppose, following discussions with Jonathan, you're confident that there's no second reset with the advent of a new CEO next year. And then my second question would be for Julie, if I may, just in terms of the guidance and the outlook. You've obviously made it very clear that you're happy with existing consensus for EBIT for full year 22. Given the beat in the first half, it does feel a little bit conservative. Just to clarify, is that more the timing of the Opex which you've highlighted on between first and second half? Or are we just taking a little bit more caution with regards to the like for like progression? Thank you.

Dr Gerry Murphy; Chair, Burberry: I'll start, our thanks Louise for the question. Yes, I mean, Jonathan has been very complimentary about the progress made by Burberry under Marco, Ricardo and Julie's leadership in all manifestations, really particularly around elevation, around the repositioning of the brand as a credible luxury fashion brand around the building of a new cohort of younger clients. The progress we've made in Asia, particularly, and of course, the continuing development of our digital platforms so he is very, very supportive of the direction of travel. And I don't expect any significant strategic shift. Naturally, he'll make his own of all these elements in terms of nuance and execution. One would expect that from a new CEO, I would expect no less. But in terms of overall strategy and direction Louise, we don't expect major strategic shifts from the change of CEO.

Julie Brown, Chief operating and financial office, Burberry: OK. morning Louise, I'll take your second question. Just wanted to check the sound is OK? yes, thank you. Okay, excellent. So in terms of the consensus in the guidance. Yes, we're broadly happy with where consensus is and there is an underlying improvement in the business in terms of margin accretion for the full year. It's just that in the reported numbers, it's being offset by a currency headwind, which we anticipate, based on rates just at the end of last month, around the 70 to 80 basis point mark. So we're pleased with the overall progress in the first half. Full price business is up 18 percent, which we're really pleased about. So I think it's just the case that there is an Opex phasing point, but we've got this currency headwind also coming into the reported numbers and Opex phasing is half two weighted.

Louise Singlehurst, Goldman Sachs: Great, thank you.

Operator The next question is from the line of Antoine Belge from Exane BNP Paribas. Please go ahead.

Antoine Belge from Exane BNP Paribas: Yes, good morning, it's Antoine Belge from Exane BNP Paribas. Two questions, both of them actually on China. So it seems that when we spoke in September, I think in that store tour that that you organised at this stage you had mentioned that August had been weak, but September had recovered. So I don't know. I mean, since then, was there a further sort of deterioration towards the end of the quarter and so now that you have almost half of the quarter behind you. So I mean, have you seen a sequential acceleration in October in China vs September? And the second question relates to China because I understand the COVID restrictions, but also I remember that, you know, around the issue of the cotton in China, you lost some brand ambassadors there, and you probably had to lay low a bit in terms of communication and on events. And so, you know, your all activations there. So what is, in your view, the real impact of that issue on this? So when do you think that you could be back in terms of share of voice and marketing participation in China? Thank you.

Julie Brown, Chief operating and financial office, Burberry: Okay, thank you. So taking the first question in China, we were pleased with the results. You know, Mainland China grew 30 percent in the first half and the full price was up 40 percent. So this is all compared with two years ago. Again, the performance was driven by outerwear, a very strong performance in full price and leather goods, as we've seen. And these are also categories that are attracting new consumers to our brand and are growing double digits. So all very positive. The impact in the quarter was really in August and it arose for two reasons. One was the COVID related travel disruption that did cause reduced traffic going into our stores. And then the second issue is just weather patterns in that particular month. So we've seen this impact largely across the industry. As you say, we recovered well in September and really October, without giving too much current trading information, is basically performing in line with our expectations. So no concern in the first part.

The second part of your question regarding brand ambassadors, we have had a recalibration of some of our investments and communication channels in China. I believe we're managing the situation well. We've continued to innovate in how we serve our customers, partners and communities to maximise the opportunity in the region. And we take a very long term view in China. We invest for growth and we're confident in the long term opportunity. You will see and you will have seen from the video, we've just opened our flagship store in Plaza 66 earlier today. Again, supporting our sustainability initiatives, it's also carbon neutral. So we look forward to hearing the feedback from that as there was a really big build up to Plaza 66. So I think really that's it, in terms of the answer to your two questions,

Antoine Belge from Exane BNP Paribas: Maybe just to follow up, if I may. So I mean, we've heard that some brands are a bit moving away from the model of having brand ambassadors already in China. I mean, is it something that you're going to pursue or are you trying to replace the brand ambassador that you lost?

Julie Brown, Chief operating and financial office, Burberry: I think the focus is very much on localisation in China. We've had some very focused activations around Valentine's Day. And, you know, we'll continue to work on that basis in terms of always being respectful of the situation in China, we're responsible corporate citizens and we've continued to support the things that are important to China, such as education, sustainability and other societal values.

Operator: The next question comes from the line of Luca Solca of Bernstein. Please go ahead.

Luca Solca, Bernstein: Yes, good morning. Two questions, one is related to Jonathan Akeroyd. Right, and I am quite interested in understanding the criteria that you used in researching and recruiting the new CEO for Burberry. And what specific skills or experiences or competencies you thought the most relevant? I'm imagining, but correct me if I'm wrong, that you are looking for specific elements that could further enhance Burberry's progression. And I wonder what those would be and what are the areas where you expect Jonathan will provide a most important contribution and improvement relative to where you are today. The second question is about full-price progression. If we look at two years ago, there seems to be quite a significant disparity in the progression between the two quarters in the first quarter full price, what was up relative to two years ago. It was flat relative to the second quarter so the third calendar quarter and again in comparison to two years ago. I wonder how you think about that if there were any sort of specific reasons to precipitate this result, or if you think that the brand is needing more oomph, more momentum in terms of its ability to drive price and also adoption to this what you believe is the appropriate level of full price sales as a percentage of the total. Thank you.

Dr Gerry Murphy; Chair, Burberry: Good morning, Luca. Thank you for your questions. I'll take the question on CEO succession. Julie will, take the question on full price sales. Well, look. The I'll go back to the answer I gave Louise earlier on. Our strategy is well-established and it's working. So the focus of the recruitment was to find a replacement for Marco, a worthy replacement for Marco to continue the development of the business pretty much along the current lines with the continuing focus on elevation, continuing focus on key categories, continuing focus on key markets where we expect the growth to come from and the demographics, as well as continuing to progress better stores and a better digital platform. So very much strategy as usual. But looking to take the business forward. So frankly, we were looking for somebody who would do all those things, and the brief was to find a CEO who is experienced and credible at managing a creatively led business like Burberry and who had the commercial and operating expertise to run a business like this and of the scale. We also wanted somebody who would be a good cultural fit with Burberry, with a great team we have here. So those are the broad characteristics that we look for. And in Jonathan's case, we think he brings pretty much all of those dimensions. So he was and is a very good fit to our wish list. Luca, I think if you asked Jonathan himself. He would describe himself as a natural merchant. I think there is in our next phase of growth with a strong focus on product and merchandising and elevating the story variants. I think there's a very strong element of merchant and merchandising in the next phase of execution that I think Jonathan

will bring to the party. We're also very keen to have his fresh take on the brand and the way that we projected and communicated. That's not to criticise where we are today. I think these things evolve over time and we'd like them to take the best of the work that Marco and Riccardo have done and go forward with that. So I think the priorities are pretty, pretty set. I think Julie has described them well, they are about. Product stores, digital and continuing to ensure that we've got a proposition that appeals to a broad range of consumers around the world.

Luca Solca, Bernstein: Thank you, Gerry,

Dr Gerry Murphy; Chair, Burberry: Julie for prices.

Julie Brown, Chief operating and financial office, Burberry: Thank you Luca. So just looking at the full price performance that you were referring to the 4 quarters. And as you say, the full price base does get tougher because it was two years ago that we were rolling Ricardo's products out. So it reaches much higher levels of the business in the second half of the year and indeed Q2 over Q1. Returning to full price in terms of the regions, Americas remain very strong across the two quarters. So we were dealing with Americas in the first quarter was over 100 percent full price growth. In the second quarter, it was in the 80 percent range, with comp strengthening slightly also in the second quarter. The change between the two quarters performance versus two years ago was really occurring in Asia PAC. And this was coming through China, where we had a softer Q2 because of the August effect that I was just talking about, together with serious headwinds we encountered in South Asia PAC and also Japan. Japan post the Olympics, but South Asia PAC because of the closures related to COVID. So that really talks about the two features. In terms of the markdown. We did have a headwind on the markdown. This is versus last-last-year at mid-single digits. So there was an impact on comp of mid-single digits. And in terms of the prognosis, in terms of full price, the full price, I think as Gerry mentioned in his introductory comments, the full price business is in a strong position. We've completely changed the makeup of the business over the course of the last two years, with the most work being done on this last 12 months, and we will have finished the exit of markdown or should say we will finish the exit markdown by the end of this year. And therefore the headwinds to our comps from the markdown will be over by the end of this year, and the majority of which will actually be over by the end of the third quarter. We're overall pleased with the full price business in terms of the split of the channels. I think it's important to say that we are very, very much focused on the full price as a lead indicator. We're very focused on inventory, so the inventory purchases are tight because we're targeting higher sell through levels of that inventory, which means therefore that you've got the opportunity to have lower levels of product going into the outlets, which means again, you can improve gross margins through this route. So it turns into a virtuous circle. For the business, outlet is a considerably reduced proportion of our business than it was a number of years ago.

Luca Solca, Bernstein: Thank you very much indeed, Julie.

Julie Brown, Chief operating and financial office, Burberry: Okay, thank you, Luca.

Operator The next question comes from the line of Zuzanna Pusz with UBS. Please go ahead.

Zuzanna Pusz, UBS: Good morning. Thank you for taking my questions. So I have one, which is a bit, I would say more a broader question. I understand that you're quite happy with how the strategy has been progressing and sort of, you know, the elevation of the brand. But if we take a step back and, you know, kind of trying to put ourselves in the shoes of the shareholders, I mean, effectively, we look at a company that for the past 10 years has seen flat EBIT compared to a sector that has seen on average double digit growth in the EBIT. So I'm just wondering, you know, how do you assess really the strategy and kind of what is the timeline when you actually expect the brands to catch up with the industry? Because I guess, you know, for shareholders, you know, at the end of the day, they are comparing Burberry to flat EBIT for the past 10 years to peers that have been actually growing. So be interesting to, you know, have your take on that. And what is the timeline that actually, you know, you use to assess if the strategy is working from the financial perspective or not? And the second question is more on, I guess, is just a kind of a clarification on your retail full price sales. I mean, you've been referring to them for a while now, and it's very helpful. And they've been clearly outgrowing total like for likes for a while. But I would expect them, maybe at some point to converge with the like for like. So could you please maybe remind us what is the split right now? What is then at full price as a percentage of total retail just so that, you know, we can get our head around that calculation because the differences between the numbers are quite meaningful and it's been two years and they don't seem to be converging for now. Thank you.

Julie Brown, Chief operating and financial officer, Burberry: Okay, thank you very much for the questions. So taking the first one our strategy is progressing well. So when we announced the strategy at the end of 2017, we did say that we were going to undertake some considerable restructuring in the business. And one of the biggest examples of that was removing non-luxury wholesale doors, 60 percent in the US. Obviously, they're on high margins. So for the first two years, we guided broadly stable revenues and broadly stable EBIT. And that's exactly what we delivered, we were going to enter the accelerate and growth phase in full year '21. Of course, when COVID struck and I think luxury in that particular year was expected to fall around 30 percent in terms of our revenues, we kept it below minus 10 percent in a very, very difficult year to manage. So we've now come out of that. And what we said this year very clearly is that we would undertake the removal of the markdown from the business, which we were in a very good position now to do. So we will have exited the markdown at the end of this year. And we also wanted to focus on investing in the business, to build the brand, to build the core product categories, to elevate the luxury experience with regard to stores and also to supercharge digital. And this will drive considerable leverage opportunity in the business. So if we take, you know, we're delivering what we said this year and the first half, we've got 18 percent full price growth. And we've also got considerable margin accretion. So when we take a look at the gross margin versus two years ago, it's up 210 basis points at constant rate. If we take the operating margin, it's up 120 basis points, at constant rate. So we're very pleased actually with the overall leverage

in the business. The headwind we are facing to these margin statistics is foreign exchange. So we've got a hit on foreign exchange that's removing around 80 basis points from the EBIT margin at the half. So just coming back to your question about the timeline we see full year 22 as being a focus on investment. Having said that, we're getting margin accretion even with that investment. And then in terms of the coverage or when the retail comp and the full price will converge. We see that convergence occurring much more next year. They will never completely converge because we've obviously got an outlet business. And as you go through the inventory cycle, there will be cycles of inventory levels occurring. But basically, at the end of this year, the markdown headwind will be finished and will then just be dealing with a full price business in mainline and an outlet business, depending on the liquidation of inventory. So I think now shareholders can be confident of that from full year 23 going onwards.

Dr Gerry Murphy; Chair, Burberry: Zuzanna, if I can just qualify Julie's response to the first part of your question. In my remarks I said that Burberry looks and feels like a much higher quality business. than it was a few years ago and when we look at this from a board perspective. You know, we look at sustainability in all its manifestations, including the sustainability of the business model, and it's very clear. Looking back over the periods that you mentioned before either Julie or I arrived the business model at the time was much less sustainable from an economic perspective than the business model today. We've got a business now with a much better margin structure, with a much better level of reach to younger consumers in growing markets, but frankly, with a much stronger right to exist and prosper into the future. So I think it is a fair challenge to look at the longer term progression of the numbers. But I think behind the numbers one also has to look at the quality of the earnings, the quality of the business.

Zuzanna Pusz, UBS: Thank you. That's extremely helpful. Sorry. Just maybe to follow up so. No, I completely agree with you when it comes to the quality of the business, and I think that's, you know, pretty well recognised by investors. But I guess, you know, given that there is a transition ahead of us with the new CEO, I mean, what is the timeline where you feel like we could start seeing profit growing? Because I do understand there's been some FX headwinds, but equally and FY17 there was over 100 million tailwind. So I guess, you know, if we took on a multi-year view, there was probably a bit more benefits from FX given after Brexit. But putting that aside, kind of, you know, what is the timeline is it three years, it is five or 10 years. We are in an industry where people are patient and they're happy to invest in the brands and wait in the long term. But just, you know, maybe to get at least any idea you may have about timeline where we can see that margin improvement and EBIT growth coming through? Thank you.

Julie Brown, Chief operating and financial office, Burberry: Yes, we absolutely see this occurring in the medium term guidance that we went out with a high single digit revenue growth. This is on a full year 20 base, which was largely undisrupted by COVID, and we definitely see this occurring. We gave that guidance out to full year 24, and we definitely see the high single digit revenue base coming through. The markdown headwind will be gone by the end of this year, and that's a major contributor to that. And also the margin accretion, because we deliberately took the strategy of investing in the business in full year 22 to

improve that margin accretion and the momentum of the business into 23, 24 and beyond. So we're building, we're building the brand into the true luxury setting. So I think you can be you can be sure of that. Barring macro events, you can be sure of us delivering that. And I think just to reiterate Gerry's point, we've created a much stronger foundation for the business. You know, the whole cycle in terms of full price focus in the business, inventory management, very productive sell-through rates. This all leads to a product line now that's very well established and has elements of carry forward and replenishment. It all leads to a virtuous cycle as a sustainable and profitable business model, and that's what we aim to deliver.

Dr Gerry Murphy; Chair, Burberry: And also just to complete the picture. We're very proud of the fact that the business is in a very strong financial position, got a very strong balance sheet. We're in a position with our current capital allocation model to increase our dividend and to resume the share buyback programme. So I think if you take the whole thing as a piece Zuzanna, I think one can claim of indeed as I did in my remarks that we've made, I think, pretty good progress over the last few years.

Zuzanna Pusz, UBS: Perfect, thank you very much for your answer.

Operator The next question comes from the line of Thomas Chauvet with Citi Research, please go ahead.

Thomas Chauvet, Citi: Good morning, Julie and Gerry. Two questions. Firstly, on product, when we met you back in September, with your head of ready Adrian Rees talked about his expectations of a shift in the fashion cycle with a return to formal wear and tailoring after a decade of high growth in casual wear. Are you starting to see that in your H1 numbers or in the H2 wholesale order book? Of course, this goes beyond the reopening of stores and return to back to the office kind of a trade, but a shift maybe from casual wear that could be more profound. Are you seeing that? And related to that you mentioned in the release, women's wear was more challenging in the half. What do you think is required to get that important part of the business up strongly again, whether you know, from product, merchandising or communication? And secondly, on capital allocation, you had a very high, net cash position in the first half 850 million, excluding leases. If we project ourselves at March 22, you should be close to a billion net cash adjusted for the buyback and the accelerated store roll out. So that that means about that, debt free, including the leases, if I'm if I did the maths correctly. So that's below your target of 0.5 to one times net debt to EBITDA. Does that give you appetite to reinforce the second and third pillars of your capital allocation frameworks or dividends? And, uh, maybe external growth?

Julie Brown, Chief operating and financial officer, Burberry: Okay, thank you. Thank you very much Thomas for the question. So, yes, in terms of Adrian's comment, what we're still finding in terms of the business, is that ready to wear is strong, casual wear is still strong. We have seen a return to some elements of more formal wear, so outerwear in particular strengthened through the first half and into the second quarter. So double digit growth in full price in the second quarter from outerwear and in particular, we're seeing coats, jackets, quilts with increasing momentum this period. And we've just done the brand campaign, which

you will have seen from video and hopefully seen on the website. And this is also generating increasing traction as we move into the third quarter. Menswear is performing very strongly. And women's wear we've seen a good performance in terms of trousers and elements of women's wear. But basically, what we're also finding is that women are buying the menswear range in this increasingly sort of unisex way of doing business. We're finding that there's a large amount of crossover business. I think Adrian is right, particularly as we come into the festive season. So we do expect there to be more of an emphasis on formal wear, probably more emphasis on some formal shoes as opposed to casual shoes coming about.

In terms of the next part of your question relating to capital allocation. So yes, I mean, we've got a very strong position with the balance sheet. And, as you say, 850 million of cash and a low leverage level at the end of the period of 0.3x net debt to EBITDA. So in a strong position, we have recommenced the share buyback programme it's going to be £150m basically in less than six months. So it is going to move at quite a pace. And then we will review it again at the end of the year. We have a very clear target leverage level in place, which is 0.5-1x, and we will use the capital allocation policy, which first looks at investing in the organic business. Second, the dividend, third, inorganic investments, and those types of initiatives are likely to be in the vertical integration space, because we want to continue to support the capabilities in the business. And then obviously, fourthly we return excess cash to shareholders when we're under the leverage level by way of the buyback or special dividend, and we will continue to do that. We think it's important to say that in terms of strategic investments, we've recently done a very thorough review with the board around our strategic investments and we do intend to accelerate the investment in our new store concept. We're seeing great traction from our clientele, high spending clientele coming to the new store format. And so we want to accelerate that as we go into next year.

Thomas Chauvet, Citi Thank you, Julie.

Julie Brown, Chief operating and financial office, Burberry: Thank you.

Operator The next question comes from the line of Rogerio Fujimori with Stifel. Please go ahead.

Rogerio Fujimori, Stifel: Oh, hi, good morning, Gerry and Julie. Thanks for taking my question. My first one is on outerwear you are just coming into your key selling period for outerwear. So how confident you are in terms of your products and marketing initiatives to accelerate growth in the in the second half? I think you said that coats and jackets were strengthening, improving in Q2. But you also said that women's rainwear was a bit challenging in Q2 after the price hikes you implemented in June. So could you talk about rainwear and your level of confidence for H2 would be great. And then my second question on bags, how confident also you feel about your handbag pillars sustaining their sales momentum in H2. Thank you.

Julie Brown, Chief operating and financial officer, Burberry: Thanks Rogerio. So turning to outerwear, first of all, we see this as a very strategic area of the business we have, as you saw, launched a dedicated product moment involving a brand film, and the campaign was

centred on the story of Burberry outerwear, the outdoors. The freedom, 'the freedom to go beyond' was all in the storytelling. We've also included a Tik Tok takeover relating to this, and we've now just recently launched a dedicated edit that is showcasing the DK fabric, but using it in a different way in terms of puffer coats etc. So this is a very Burberry specific DK element. And we've engaged in many activations now across physical and digital channels relating to our outerwear moment. So it's a key strategic area. We have seen an improvement. You mentioned rainwear we've seen an improvement in rainwear, much better performance in Q2. It remains under some degree of pressure, but we're now coming into the season where this will inevitably pick up. So we are seeing very strong growth overall. In the regions not disrupted by tourist flows, particularly in Asia, China is very strong. Korea is very strong. We've seen outerwear perform extremely well in those regions. In terms of handbags turning to leather. And yes, we're very pleased with the leather performance we've strengthened our bag pillars through this period. We had a dedicated campaign centred on Olympia featuring a number of key influencers, and we've actually done more than 70 leather goods pop ups featuring Olympia during the course of the last six months. We've also recently extended the Lola's family, and we've extended it into the crossbody, the bucket and small leather goods are also doing incredibly well as part of the winter collection, and we've introduced a new shape the Rhombi as part of the Spring Summer 2022 runway collection. So overall, we're finding leather goods is an area that's attracting new and younger clients, and Marco always talked about establishing a strong architecture for bags. And we've managed to do this. We've now got the top five female bags accounting for more than or around 70 percent of the business. And all the shapes are contributing to a good level of the sales. In terms of the price rises that you mentioned. We actually saw no resistance to the price increases that we took in May this year. So a good - a good overall performance.

Rogério Fujimori, Stifel: That's great. Thank you.

Julie Brown, Chief operating and financial officer, Burberry: Thank you.

Operator The next question comes from the line of Carole Madjo with Barclays. Please go ahead.

Carole Madjo, Barclays: Yes, hello, good morning two questions for me, please. First of all, can you remind us what is your exposure to e-commerce per region and in China? I think it's quite small there, still. But when we think about the slowdown in traffic in August, did you see any support on e-commerce or were the trends similar in both offline and online? And the second question just to clarify. Have you returned to positive comps in Asia in October on the back of the better trend that you're seeing in China? Thank you.

Julie Brown, Chief operating and financial officer, Burberry: Okay. So taking the Ecommerce piece. We don't give a split of our channels in terms of digital versus physical because what we believe and see in our business is it's the omnichannel combination that is the key part. So it's the connectivity and allowing the consumer to move between physical and digital at ease and having a CRM system that talks to both channels equally so that we give the client an extremely luxurious and tailored focus. So we don't give the split. In terms

of the regions, you're absolutely right. China has the lower exposure to e-commerce generally than we find for example, in the US market where it's already, very, very high in the US market. It's building in China. But we are finding that the growth in China is very strong because it's coming from a small base. In terms of the offset in August. Yes, there was a transfer of business from physical to digital. But what we find generally is that when we've got physical stores closed, even though we've got a strong digital channel as we have in the US, it's more developed, we still find that it doesn't offset the physical store closures. In our business, physical stores are a very important part of the luxury journey. So you don't get the complete offset. In terms of the comps, just in terms of if we take versus last year. Then we had a positive comp in Asia-Pac in the second quarter and the dip that we saw coming in versus last year, like one year ago, one when we had a very strong base in Asia in the second quarter because it was the first region to reopen and two, we did have this impact coming through from both China because of August, but also we had a softening in South Asia PAC and in Japan because of lockdowns, COVID related lockdowns. So the thing that we never know is when COVID related lockdowns are going to impact the business, but assuming things continue according to plan, then we would expect to return to positive comps bearing in mind, though, that compared with last year, there was a very strong performance in that Asian base just one year ago.

Carole Madjo, Barclays: Thank you.

Operator Ladies and gentlemen, this concludes our question and answer session. I would like to turn the conference back over to Dr. Gerry Murphy for any closing remarks. Thank you.

Dr Gerry Murphy; Chair, Burberry: Well, thanks everybody for dialing in and for listening to our presentation and for your great questions. As I said earlier on, we're going to finish now because of the Remembrance Day observations around the world at eleven. But thank you for your attention, as I said, and we look forward to seeing you again in January for our Q3 update. Thanks, everybody.