

# **BURBERRY**

**Burberry Group plc**

**Third Quarter Trading Update – Analyst Call**

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**Burberry**

Julie Brown, Chief Operating & Financial Officer

Julian Easthope, VP, Investor Relations

**Questions From**

Louise Singlehurst, Goldman Sachs

Rogério Fujimori, Stifel

Flavio Cereda, Jefferies

Anne-Laure Bismuth, HSBC

Luca Solca, Bernstein

Antoine Belge, Exane BNP Paribas

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## **Julie Brown, Chief Operating and Financial Officer**

Good morning. My name is Julie Brown, Chief Operating and Financial Officer of Burberry. And with me this morning is Julian Easthope, Head of IR. 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. Please note, similar to prior quarters, we are referring to comparative sales against two years ago as LLY as it is more representative of the underlying trading performance.

Turning to slide two. Q3 was a strong quarter with a marked acceleration in full price sales growth to 26% compared with LLY. We see this as a key indicator of brand strength as we took the decision to exit markdowns in our mainline stores and our Burberry.com digital platform. This impacted the comp by a low double digit percentage and this, together with the decline in outlets, took our overall retail comp down three% this quarter. It is important to say that the impact of the markdown exit on comp will end in our current and final quarter, so we can all look forward to simply numbers from Q1 FY 23, which is now only weeks away.

In terms of underlying results, we saw strong full price growth across our strategic product categories as collections continue to attract new, younger clientele to the brand. This was particularly evident in outerwear, following a dedicated campaign that started in October and helped to drive full price sales growth of 38% vs. LLY.

Our other focus category, Leather Goods, also performed well, with full price sales increasing 29% vs. LLY. This benefited from the extension of the Lola handbag range. In distribution, the rollout of our new store concept is progressing well, with 31 stores now in the new design, transforming how our customers experience our brand and product in a luxury setting.

In digital, full price sales grew high double digits versus LLY as we enhance the way we connect with customers through our omni channel approach. The strong Q3 performance has led us to upgrade market expectations today where, assuming no further changes in the external environment, we now expect adjusted operating profit to grow in the region of 35% at constant exchange rates year on year.

Finally, during the quarter, we continued to support our ESG priorities.

Turning to slide three, I would like to update you on our progress against the revenue growth drivers we set out in May last year. In summary, these were to build brand advocacy and community, to focus on the key product categories of outerwear and leather goods, drive store performance and supercharge digital, all guided by our purpose and values with sustainability at the heart of our business.

Turning to slide four. In this third quarter, we have continued to build brand advocacy through distinctive and meaningful storytelling, formats and experiences that inspire influential luxury consumers. We launched a dedicated campaign celebrating our iconic outerwear offer, with an edit of pieces showcasing our reimagined gabardine fabric across quilts and puffer jackets and an inspirational brand film unlocking the themes of freedom and exploration. This included activations across physical and digital channels.

In addition, we had 24 pop ins and 10 pop ups and an activation at Plaza 66 in Shanghai dedicated to the campaign.

Here we show the largest physical activation of the imagined landscape pop-up in Jeju Island, South Korea, which invokes Thomas Burberry's ambition that "inherent in every Burberry garment, is freedom". This activation saw our highest level of earned reach of any campaign to date, with Instagram newsfeed reach almost 50 percent up against Q2 and average engagements more than doubling quarter on quarter.

We have also benefited from a number of impactful editorials, including Adele on the cover of The Face, as well as support from strong celebrity and influencer activity in the quarter.

In addition, we have seen a significant amount of media coverage following the launch of Burberry Hero, our new men's fragrance, with an extensive campaign over the festive season fronted by Adam Driver.

Turning to slide five, that shows how our investment in product has helped drive strength in our two focus categories of outerwear and leather.

The outerwear campaign resulted in strong acceleration in the category in the quarter, with full price sales up 38%, building on the momentum already seen in Q2. In a continuation of recent trends, we have seen good growth in jackets where full price sales almost trebled and quilts and down saw a high double digit increase globally, with women's more than doubling. We saw very good traction for the birch brown check puffers that helped reposition the check to a more elevated level. We also saw a return to growth in rainwear, highlighting the demand for a more formal aesthetic.

Our other focus category, leather goods, also performed well, with full price sales increasing 29% compared with LLY. This was supported by the Lola bag, where we extended the range with the introduction of the crossbody, the bucket, the tote and small leather goods versions as part of our winter collection. Leather was especially strong in the Americas, Mainland China and South Korea that also benefited from the synergy with outerwear performance.

As we enter our final quarter FY 22, we're excited about the recent launch of our Lunar New Year campaign, celebrating the year of the Tiger, with a bespoke product capsule and dedicated fashion campaign.

Turning to slide six on distribution, this major growth driver is focused on improving store performance. We continue the rollout of our new store concept with 31 stores in the new design by the end of Q3 across all regions. I am pleased to report that revenue growth from refurbished stores is demonstrating a marked improvement on neighbouring stores. They have also attracted a large number of higher spending customers and an elevated average transaction value compared with equivalent stores nearby, with positive engagement from consumers. We showcased the flagship store in Plaza 66 Shanghai at the Interims, which was opened in November and is now already one of our top three stores globally. And we remain on track to have around 50 stores in the new design by the end of the year.

Turning to slide seven on supercharging digital. Digital innovation remains a key driver of growth, with digital full price sales up high double digits compared with two years ago. We're seeing strong and increasing engagement with consumers globally buying online as a result of enhancements we've made to the online purchase journey, including greater personalisation. Our customers are also increasingly choosing omnichannel solutions, including booking store appointments, which we're expanding across more stores and countries. Continuing to innovate in social retail, we've created a travelling trench cube inspired by our trench room in our Shenzhen social retail store to showcase the immersive experience across a number of stores in Mainland China generating strong engagement, traffic and sales. We're also focused on partnering with digital innovators, As an example, for our outerwear activation on Jeju Island in South Korea, we designed an immersive outerwear experience, including augmented reality technology and powered by TikTok, which supported strong engagement with our customers.

Turning to slide eight, our ESG agenda, where we highlight three areas.

Firstly, sustainability, where Thomas Burberry was a pioneer, remains at the heart of our brand and integral to our strategy to deliver positive change for our employees, customers and investors.

We continue to embed environmental and social responsibility across our operations and remain on track to complete our 2017 to 2022 responsibility goals this year. Earlier this week, we announced the refinancing of our revolving credit facility to a £300 million sustainability linked loan facility. This is linked to the achievement of key targets aligned to our ambition to become climate positive by 2040. This includes accelerating emission reductions across our extended supply chain by 46% by 2030 and becoming net zero by 2040, 10 years ahead of the 1.5 degree pathway set out in the Paris Agreement. It also

involves investing in nature based projects with carbon benefits that restore and protect natural ecosystems and enhance the livelihoods of global communities.

We continued our support for young people, extending our partnership with the international footballer and youth advocate Marcus Rashford MBE, to help disadvantaged children in the UK develop their literacy skills. We also provided funding for new libraries and books in underserved communities in the U.S., Japan and Hong Kong SAR, China.

We continue to deliver on our global D&I strategy, including launching 'Demonstrating Allyship' workshops, which will be rolled out globally. On World Mental Health Day, we also launched a new Global Bereavement Policy, leaders guide and colleagues support site, which includes paid time off for all colleagues who suffer a bereavement, including pregnancy loss. Additionally, we celebrated our first year of working with the Valuable 500 and Business Disability Forum on International Day of Persons with Disabilities as part of our commitment to building a more inclusive future, we are working to improve accessibility across our stores, manufacturing sites and offices.

Turning to slide nine and looking at our trend in our comparable store sales and full price comp sales growth vs. LLY by quarter. This slide shows the relatively neutral trend of retail sales at CER this financial year due to the planned excessive markdown. Improving revenue quality through elevation and eliminating markdown is a focus of the business, and we delivered double digit full price growth for the past four quarters with an acceleration to 26% in the third quarter compared with two years prior.

During Q3, we saw higher growth from new customers, generating double digit full price sales growth across all product categories, driving exceptional performance in outerwear and leather goods with more younger clients in the mix. We also attracted a larger percentage of higher spending customers in the quarter, with average transaction values rising compared with LLY. Growth was driven by local customers as tourism remained at a low level, generating only 9% of all sales vs. 18% two years before.

Moving on to Slide 10. The regional performance compared with LLY. This quarter, we've seen a sequential improvement in full price comp sales growth in Asia Pacific and the Americas is continuing its strong performance.

Looking in more detail, the Americas continued its exceptional full price sales trend, growing 72% as the brand attracted growing numbers of new consumers. In total, comp sales grew 8%, impacted by the exit of markdowns and reduced outlets. The U.S. outperformed in the region, with full price sales increasing 77%.

EMEIA, whilst still under pressure, improved significantly in the period, with full price comp sales declining only 4%, compared with 27% in Q2. EMEIA comps vs. LLY are

particularly challenging due to the lack of tourists who accounted for 40% of our sales pre-pandemic. Sales benefited from a strong performance of both UK and continental European locals with good double digit growth versus LLY.

Turning to Asia Pacific, full price comp sales accelerated to 22% in Q3, compared to 5% in the previous quarter, driven by less COVID disruption. Total comp was flat. In Mainland China. Full price sales grew 37%, accelerating from Q2 and South Korea grew 62%. This benefited from exceptional performance in outerwear, rising high double digits, with leather performing especially well in South Korea. Growth in Japan and South Asia PAC continue to be impacted by reduced tourist flows.

To summarise the sales position on Slide 11. Comparable store sales grew by 7% in the quarter compared with last year. Retail space growth was a modest 1%, leading to an 8% increase in retail sales. Currency headwinds reduced growth by 3%. On the right, we show growth in Q3 vs. LLY. Comp fell 3% as indicated due to the deliberate reduction in the discounted business to improve revenue quality and the luxury positioning of our brand. Compared to two years ago, space increased 5%, largely due to expansion in Asia, and currency was a slight headwind, leading to sales of £723 million, slightly up on two years earlier.

Turning to the outlook on Slide 12.

In light of a volatile macro backdrop with burgeoning cases of the Omicron variant and the impact of continuing travel restrictions, we're very pleased with the progress made in Q3 and the acceleration of full price sales.

The planned exit of markdown creates a temporary headwind to overall sales growth, but is coming to an end. For the full year, we expect the markdown exit to be a mid-single digit headwind versus last year and a high single digit headwind versus two years ago.

Assuming no further changes in the external environment, we expect current year adjusted operating profit to grow in the region of 35% at constant rates compared with the prior year.

In addition, the currency headwind is now expected to be £79 million on revenue from 100 million and £27 million on adjusted operating profit from £40 million, based on the 24th of December spot rates.

We maintain our medium term guidance for high single digit top line growth and meaningful margin accretion at constant exchange rates.

To complete our guidance, FY22 wholesale is expected to be up in the high 30% range at CER from the mid 30% range previously. We also expect capital expenditure to come in

at around £150 million, compared with £160 million previously guided as we continue to find efficiencies as we roll out the new store concept.

To close, we remain focused on delivering sustainable, high quality growth and are confident of providing a strong platform on which to build when our new CEO, Jonathan Ackroyd, joins in April. Thank you for joining our call today and we shall now move on to the Q&A.

## Q&A session

### Question 1

**Louise Singlehurst, Goldman Sachs**

Hi everyone. Morning, Julie and Julian, thank you very much for the information so far. Just two quick questions from me, I think. In terms of firstly thinking about Q4, can we just make sure we're understanding correctly the parameters around the full price and the promotional activity in the comp base. I know Julie that you absolutely clarified that from FY23, that will be a clean base but just making sure we've got the parameters right and correct thinking for Q4 and just associated with that markdown activity, I wondered Julie if you can just contextualise it a little bit better for us. So if you think about the holiday period and the progress made on the reductions in the markdowns, is there something in absolute terms you can talk about the level of markdowns, a number of days that you've had on promotions where you are today versus probably where you were two years ago? And then my second question on the EBIT outlook. Obviously, the underlying improvement very nicely coming through today. Can we just confirm that's really about the operational leverage from the higher sales coming through? There's nothing that's changed in terms of your planned level of Opex spend during the period or any phasing of Opex from the quarter Q3 into fiscal Q4. Thank you.

**Julie Brown**

Okay, thank you very much, Louise, so the questions. So just in terms of the parameters for Q4 in terms of promotional activity, as you know, we've stopped all mark down activity in the mainline and on Burberry.com. And therefore, there's a very, very modest headwind now as we go into Q4. So we're expecting it to be extremely low single digit, hardly noticeable, in fact, versus one year ago. Obviously, as we move into Q4, we'll move the comps to versus last year because two years ago it was disrupted by COVID. So it is absolutely negligible. And as you quite rightly say at the end of this year, and it's now really weeks away, we will be over this markdown headwind and we will have completely exited it from the mainline business. In terms of into context. I think the most important thing to say is that we did have sales periods operating previously in mainline and digital. Mostly the third quarter was the most impacted and there was some in the first quarter, to say it was the traditional end of season sale that was taking place across the regions. That no longer takes place, so we no longer have an end of season sale. So Q1 and Q3 will no longer be impacted by this. In terms of the EBIT outlook. So as you know, we've upgraded the guidance today to say around a 35 percent growth over the prior year, at constant rates. In terms of the reason for the upgrade. We're seeing strength in full price, which supports the gross margin. We've also upgraded the wholesale, as I mentioned, to a high 30 percent range. The gross margin has been under pressure because of new features during the year because of freight and logistic inflation and



we've been working extremely hard to offset it. Our level of confidence around being able to offset this has increased. So we're holding the gross margin guidance to be the same as last year, which is 70 percent at constant exchange rates. And then finally, operational leverage. There's an element of operational leverage, for sure, because of the strength in the full price. And also we found some further operating efficiencies. One example of this would be relating to the new store concept. So the unit cost of rolling that out now is considerably reduced over where it was at the beginning of the year. And that does tie in to the reduction in the capital expenditure guidance from £160m to £150m. But yes, we're very pleased with this set of results. You know, we're on track to deliver a record profit in the year, including operating margin improvement from the previous year. So yes, we're very pleased with the results.

**Louise Singlehurst**

That's really clear. Thank you for the detail.

**Julie Brown**

Thank you.

## **Question 2**

**Rogério Fujimori, Stifel**

Thank you for taking my question. Good morning, Julie and Julian. I was just wondering if you could talk a little bit more about your performance and the shape of the quarter in China. Do you see any impact in terms of economy or property market or consumer confidence or performance beyond the temporary disruption from COVID restrictions? And then my second question is on retail sales densities, I was just wondering if you could talk a little bit more about how should we think about retail productivity levels this year compared to pre-pandemic, would be something off the mark to assume something around £16,000 per square metre. Thank you.

**Julie Brown**

Thanks, Rogério and good to speak. So in terms of China, obviously we take a very long term view of China. We invest for growth and we're very confident in the long term opportunity. It's a key, a key market for luxury. As you saw in our results, our full price accelerated from around 30 percent in Q2 to 37 percent in Q3. In terms of the sort of macro environment, probably a number of a number of things to call out, we expect to see some ongoing disruption from COVID in the near term simply because of the zero tolerance policy. So we do see regional lockdowns occurring to cope with that, and we expect that to continue to some degree. In terms of Q3, we did see a resurgence of

COVID cases in November and December, although to a much lesser extent than we experienced in August in the second quarter. Overall, in terms of macro, we still see it as being a very positive market, certainly for luxury and certainly for Burberry. And in terms of common prosperity, we see it as actually being beneficial to the industry because it's all about sort of growing the middle class. And just in terms of property nothing really to call out of any significance that is affecting our business at this point in time. And obviously, we just keep the situation very closely under review.

In terms of your second question around sales densities. This is an area of focus for our business. So retail productivity and sales per square metre is definitely an area of focus. And what we've been doing is, you know, the strategy is very focussed on the brand. So in terms of brand advocacy, working with key influencers; the product, as you've seen the product is strengthening and actually in this quarter, we've had double digit growth in all our product categories in full price being clearly led by outerwear and leather., And we're improving the retail experience through the new store concept, so we're now drawing a new generation of luxury customers to our brand and you may have seen the recent launch of Plaza 66 in Shanghai, which has been extremely successful and this, coupled with digital, enhances the way we connect with consumers. So we believe this will improve retail productivity, and this is really the next major area of focus for the business because this can considerably improve operating leverage.

**Rogério Fujimori**

Thank you.

**Julie Brown**

Thank you.

### **Question 3**

**Flavio Cereda, Jefferies**

Yes, thank you. Morning, both. Two things that I'm curious about. Number one on wholesale, can you explain why the numbers look to be a little stronger than perhaps you previously anticipated. And then, Julie, If I'm not wrong, when you were commenting performance in the U.S., you made a comment about the outlets. Can you, are you closing outlets? Is there a strategy that you can share with us, the current maybe over the next 12 months or so in terms of net outlet closures perhaps? Thank you.

**Julie Brown**

Okay, thank you. Thanks, Flavio. So in terms of wholesale, it's stronger actually across all our regions. So as you know, a couple of years ago, we undertook a major change to distribution in wholesale. The biggest and most significant change was in the US market, where we basically closed all B and C doors. So we've considerably upgraded the wholesale network, if you like, across the world. In terms of the upgrade, it has come from improved performance, largely in Americas, in Europe, so fairly consistently. This is both department stores and digital. We also managed the wholesale order book very tightly last year in the advent of COVID. So you'll recall there was significant pressure on wholesale because we didn't want wholesalers to have excess inventory, so we managed the inventory very tightly in our own business and that of our partners. So really, there's an element of catch up that is now occurring in FY22 and now the mix is more in line with what it was two years ago. Just in terms of wholesale is around 18 percent of our business. So I think the key thing is we've improved the quality of wholesale. We've got good levels of in-season as well as preseason orders coming from our major wholesale clients, and that's really what's led to the upgrade.

Just coming onto your second question about the U.S. and outlet closures. So we obviously keep the store footprint under review. And certainly when lease renewals come up, we take a strategic view about how the store fits within the overall network. But the major pressure on outlets really across the world is coming from the decision that we've taken to put reduced inventory into the outlets. Now this is largely being driven by improved inventory management of the full price mainline business. So if we buy the inventory more tightly, we get improved sell throughs of these products and then there's less inventory available for the outlet. So that's the major source of the pressure on the outlets as opposed to outlet closures.

**Flavio Cereda**

Thank you. Thank you very much.

#### **Question 4**

**Anne-Laure Bismuth, HSBC**

Yes, good morning. I have two questions actually. The first one is on the operating profit. And you mentioned that it will be ranging around 35% year on year at constant FX. So meaning roughly around £505m EBIT or to £510m for full year ending March 22. So can you confirm that number and also whether you are planning an EBIT margin of roughly 18 percent for this year? Are you comfortable with an EBIT margin of around 20 percent by full year ending March 24? Or is there anything I'm missing? And the second question is about the US, so is it possible to have any indication of how much of the new business has been done with new customer. Any comments? Is it the bulk of the growth in this quarter. Thank you very much.

## **Julie Brown**

Thank you very much. So first of all, taking the operating profit and the c. 35 percent increase at constant rates. That does include the 53rd week because we've got the retail calendar adjustment this year, so 53 weeks. But yes, the range, the range we would anticipate consensus moving to would be around the five hundred to five hundred and fifteen mark. And yes, in terms of confirming our margin ambition, we've got a very clear margin ambition. So to full year 24 our margin target is 20 percent. This is coming from, you know, the strategy driving the full price business, driving improvement across operating leverage in the company and also very importantly, protecting the gross margin at around the 70 percent level. In terms of the US, in the US, the growth is largely being driven by new consumers coming to the brand. We are very pleased with this. We've seen a number of categories, product categories being very important attractors to new consumers in the US. So here we would call out the leather goods range. The outerwear range has been extremely successful on the back of the brand campaign that we did and the broadening of the outerwear range into puffers and quilts and the new Birch brown check. And the other category that is really proving to be very successful is shoes in the United States, this is casual shoes. It's largely sneakers. It's important to say as well that the male consumer is coming more and more to the luxury industry and certainly Burberry proving to be very attractive as a way of expressing themselves. I think the other thing that we're finding in the U.S. is there's more traction now in emerging hubs, emerging cities in the US, including Chicago, Atlanta, Detroit. These are certainly growing on a very quick basis. So yes, we're pleased with the performance in the U.S. and we've had it now consistently for a number of quarters. As you know, Q1, we were over 100 percent full price growth, Q2 just over 80 percent and Q3 72 percent. Thank you.

## **Question 5**

### **Luca Solca, Bernstein**

Yes, good morning, Julie and Julian, I have, uh, three questions. The first one is on any initial signs of tourist flows revival. If you're starting to see that there's some signs that tourists are coming back to Europe, albeit in small quantities? So I was wondering whether they had any update on this front also coming from current trading? Then a question to try and understand what is going on as a consequence of the decision to discontinue markdowns and more importantly, how is the net impact on outlets because I see different puts and takes on the one hand, discontinuing markdowns would increase inventory going into the outlets. But on the other hand, tight inventory management that you mentioned should reduce off price volumes, as well as a higher full price sales. So I wonder what is the net effect that you see on, uh, on the off price network? Maybe to try

and get deeper into this, the balance sheet and P&L impact of markdowns, it's very clear that this is having an impact on like for like growth because you're no longer carrying out promotions within stores of any material impact on networking capital that you could potentially highlight, as well as achieved margins as those volumes wouldn't go through the promotion discount, uh, framework, but they would go through the outlets, I guess.

**Julie Brown**

Yes. Yes, absolutely. So taking the first one in terms of tourists. We saw some recovery through the summer and the early part of the quarter. But then I think with concerns about the new variant, you know, we actually saw a significant reduction again in December. We're expecting tourists may return as Omicron, the severity of it somewhat seems to be reducing now and restrictions start to ease, particularly with regard to, you know, quarantine requirements and testing requirements make a big difference. But just in terms of the quarter, you know, the tourist component of our business was around nine percent and is still relatively low from the pre-pandemic levels.

In terms of the second, your second question about the markdown. So you're absolutely right. The removal of the markdown from our mainline and digital does have the potential to increase the inventory going into the outlets. But as you quite rightly say, we have combined this approach with also tight management of inventory and therefore by targeting higher rates of sell through, when we buy the inventory, it means that the inventory balance is actually coming down and we demonstrated that at the end of this year, we're expecting to demonstrate that also at the end of the current year. So the tight management of the inventory means there is less inventory going into the outlets. That's certainly been the case throughout this year, which is why you see a decline in our outlet business. You can see that coming through the comp. Our comp was minus three. The markdown impact was actually minus 14 in this quarter, and in addition to that, you've got the pressure on the outlets coming through. So there's reduced inventory going into the outlets. So it's all about really continuing the journey of brand elevation, you know, continuing to attract new customers to the brand, continuing to focus on the strategic product categories, which are high AUR categories as well, and therefore protecting the gross margin and delivering operating leverage. That's the next stage of the strategy.

**Luca Solca**

Understood. Thank you very much. Thank you.

**Question 6**

**Antoine Belge, Exane BNP Paribas**

Yes, hi, good morning, it's Antoine Belge at BNP Exane. Some questions, please. First of all, thank you for commenting on these new hubs in the U.S.? Do you think that you can cater to the demand that exists in these footprints? Or do you see maybe scope for opening new stores in the U.S.? So maybe reminding us how many stores you have and potentially what would be the number of store openings, if any, in the US? The second thing I think in the press release, you confirm the medium term guidance while the new CEO is not there yet. So should we assume that there is now very limited risk that this target could be abandoned by the new CEO when he comes in? And finally, on China, thanks for commenting on the colour but more specifically, because I think you've mentioned, you know, ambassadors and being proud of your performance. But I think I recall that in China after the cotton incident, two brand ambassadors had left so have you recruited new ones and have you renewed a bit more marketing and events in China. Are you still a bit lying low in that part of the world? Thank you.

### **Julie Brown**

Okay, thank you very much, Antoine. So first of all, the new hubs in the US. Yes, we are. We're basically focused on the new store concept. So what we're doing is we're rolling out the new store concept to the stores in America. We undertook one in about the last six months and we've got a major programme of accelerating that in the US market during the course of full year 23. And that's already being planned in and it's now underway in the design stage. We wouldn't anticipate necessarily increasing the number of stores. So we've got around 60 stores in the US market. We feel the store footprint in terms of numbers of stores in the United States is about right. It's all about accelerating the new store concept because what we're finding is that's giving the luxury consumer, you know it's recruiting a new generation of luxury consumers. It allows us to also merge the social, digital and physical worlds, as you probably saw from the little image we did of Plaza 66. Customers want something relevant and exciting, and our new store concept really speaks to that. So it's just part of this long running strategy to elevate the brand and that is certainly paying off. So that's definitely part of the strategy.

In terms of the medium term guidance. We are definitely retaining the medium term guidance. We've made major strides forward in quality, the underlying quality of our business. This year, with the removal of the markdown and significant investment in the business, provides us with an excellent platform for growth. And I think Jonathan, I know that he really appreciates the work that's already been done.

Um, finally, with regard to China. I mean, in terms of China, we have pivoted and rephased some of the investments we were making in China. We are very cognisant of the external environment. But as you can see, we've, I think, managed the situation well following some recalibration of communication channels. We're very focused on how we serve our customers, partners and communities in that country. You will have seen the Plaza 66 opening. That has been a great success. And also, we're very excited about the

recent launch of the Lunar New Year campaign, which affects this coming quarter. We've launched a bespoke product capsule and also a dedicated fashion campaign. And we continue to work with China on important themes, such as education, sustainability and other values. I mean, we take a very long term view of China. We invest for growth and we're confident of the long term opportunity.

**Antoine Belge**

Thank you very much.

**Julie Brown**

Thank you.

### Question 7

**Thomas Chauvet, Citi**

Good morning. Julie, Julian three questions, please. The first one on pricing within your 2 year full price sales, plus thirty eight for outerwear, plus twenty nine percent for leather in the period. How much was your estimates of the pure price increase you've passed on in this two year period? And just in your media interview Julie this morning is the headline saying your keeping pricing under review? What is the type of pricing LFL you may be able to implement in the current calendar year or so. Secondly, follow up on outlets if you are de-emphasising outlets, whether through closures or better inventory management or I guess, in Europe, lack of Chinese tourists, would you be willing maybe next fiscal year to start, ideally, to start sharing the share of outlets in your total retail sales, whether for fiscal 22 or for the third quarter, to get a sense of how much it is, it has decreased versus pre pre-pandemic level. And I guess the lack of tourists might explain a bit of that, too. And finally, on Jonathan Akeroyd's joining on the first of April? What do you think will be his top three priorities to continue or even speed up the journey that Marco Gobbetti has started? Thank you.

**Julie Brown**

Thank you, thanks so much for the questions. So in terms of pricing, I mean, the important thing within our revenue is this there is an element of pricing. So you referred to leather and as you probably recall in May last year, we increased leather prices. A large part of the range was increased by a high single digit percentage. We do, by the way, on this one, we do detailed data analytics around the response to this and there was there was no adverse response to this at all. So it was good news in terms of the ability to make price changes. The big change really is not necessarily come through price, it's really comes through an improvement in the product line and the AUR. So we've changed

the product line completely. We've elevated materials, design and production capabilities. And as a consequence, we've been able to raise AUR. And that's been, that's made the biggest difference in some of these categories.

To take your second question around outlets. As you know, no luxury company shares the percentage of outlets within their business, and therefore there's no intention to do so. What you can be sure about is that we're doing absolutely the right thing for the brand. So we've been on a concerted effort. First of all, to remove the markdowns which started in the third quarter last year and has continued into this year, and it will be finished by the end of this year. So we're at the very end stage of it now. We're going to have only a very modest impact of this in the fourth quarter. So the residual is almost gone. In terms of outlets we will continue to manage them tightly. It's something that we want to do as a business because the focus of the organisation is all really on full price, mainline and digital growth. I think in terms of tourists, yes, there's been an impact on outlets because of the tourists. But yes, it's both tourists and also it's basically the control of the inventory level that makes a difference as well. That's a deliberate action that we're taking.

And then the third question was about Jonathan. Yes, he'll be joining us by April. We're looking forward to welcoming him into Burberry. I know he's really pleased with the foundations that we've laid. And then I think in terms of top three, I'm sure the emphasis will be on the same strategic areas. You know, I think the brand is important, product is critical in our business. And thirdly, the customer experience. So this is both the stores, the new store concept, and the digital channel, and I'm sure they'll be a great deal of emphasis on those areas.

**Thomas Chauvet**

Many thanks, Julie.

### **Question 8**

**Demetris Demetriou, Schroders**

Hi, thank you for taking my question. It has been partly answered, so I'll just ask the critical part here, which is on gross margins. You anticipate growth of gross margins, explained how changes in the product lines are also supportive in that regard. I just wanted to understand within that gross margin expectation that it would remain constant. If you have different moving parts in terms of some material prices, including significantly more than others and if you are taking any remediation measures, which we are not seeing at the gross margin overall level. And also your comment on whether we expect further price increases at the retail level for the upcoming quarters, even just, you



know, I know you may not be able to share exact numbers, but just an indication of whether you do expect Burberry to be versus competition. Thank you.

**Julie Brown**

Okay, thank you. So in terms of the gross margin, yes, we believe that we will achieve the 70 percent gross margin at CER and see the sort of moving parts within it. The full price, the full price and markdown shift has made an impact together with some price increases that we took earlier in the year as we just mentioned. The headwinds to the gross margin have really come through channel and regional mix. So the move more towards the West in particular, you know, we see strong growth in the United States. This drives actually a reduction in margins because margins, gross margins tend to be higher in Asia. And then also we've had a headwind relating to, you know, stock provisions and other provision movements. So net net, though, we're confident of being able to retain that 70 percent gross margin at constant exchange rates this year. Now, going forward, to address part of your question, there is a considerable inflation occurring on the supply chain, so the impact on freight and logistics is definitely with us. I think this is where being in the luxury industry is helpful, and having strong gross margins is helpful to the business because in this industry, you know, price increases can occur and the consumer is relatively inelastic, as we found with some of the other things we've done. In terms of, um, you know, to your question about intended price increases, we haven't got anything that we can share with you. Obviously, we wouldn't be able to do that anyway ahead of time. But we just keep the retail prices under review. We've got extensive research that we do relative to our competitors and looking at the overall market. And obviously, we keep an eye on it because of exchange rates as well. It changes the market movements, the relative positioning. So we just keep it under review and where we need to make periodic changes, we certainly would do.

**Demetris Demetriou**

Many thanks. Thank you.

**Julie Brown**

Thank you.

### **Question 9**

**Carole Madjo, Barclays**

Yes, good morning. It's Carole from Barclays. Just one question for me, please, on the emerging trend. So I think that you're doing a lot of digital innovation and there is currently a big focus on luxury digital craze around the metaverse. So I mean, I think you

have done yourself an initiative on NFT gaming and etc. So I guess I just wanted to have your views on what you think about the metaverse opportunity, and do you see it as having a potential to generate sales in the future. Or do you just expect it to remain a marketing tool going forward? Thanks.

**Julie Brown**

Thank you. Thank you very much. Yes, I mean, we think first of all, digital, we think digital is critically important. Our emphasis is very much into the omni channel. So the ease at which a consumer can connect both physically and digitally is really the name of the game. And you saw us doing this very, very clearly with the Shenzhen social retail store, where the consumer's journey is basically seamless, and they can move from social media into a physical setting such as a store and then come back straight out into social media. So we do think digital is a really key driver of growth and also a key driver of communication and consumer personalisation. The ability to personalise the message to the consumer. In terms of the metaverse. Yes, I mean, like you, we've seen a real boom in everything metaverse this year. And in terms of what we've been doing so far, we've partnered with the multiplayer game Blanco's Block Party to create our first in-game NFT that we released a limited edition Burberry Blanco that was named Sharky B with a full range of accessories which were actually inspired by our monogram capsule. And all the units basically were sold out within 30 seconds. So we continue to look at ways in which we can show up in virtual spaces, basically to support brand moments and values. So it's something that we want to continue to work on, an exciting opportunity for the next generation, and it allows us to build connection with the next generation of consumers.

**Carole Madjo**

Thank you.

**Julie Brown**

Thank you.

**Julie Brown: Concluding comments**

Okay, thank you very much and to everyone for joining our call today, and we look forward to seeing you again in May for our prelim results. Jonathan will be with us at that time, and it's the 18th of May for people to note in their diaries. Thank you very much.