BURBERRY

Burberry Group plc

Preliminary Results Analyst Call

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Burberry

Gerry Murphy, Chair

Jonathan Akeroyd, Chief Executive Officer

Julie Brown, Chief Operating & Financial Officer

Julian Easthope, VP, Investor Relations

Questions From

Antoine Belge, Exane BNP Paribas

Rogerio Fujimori, Stifel

Zuzanna Pusz, UBS

Luca Solca, Bernstein

Kathryn Parker, Jefferies

Louise Singlehurst, Goldman Sachs

Carole Madjo, Barclays

Chiara Battistini, JP Morgan

Elena Mariani, Morgan Stanley

Sarah Butler, The Guardian

Thierry Cota, Société Générale

Gerry Murphy, Chair
Good morning everyone, thanks for joining us and welcome to our first physical results presentation since the pandemic began a couple of years ago.

I'm Gerry Murphy, Chair of Burberry, and I'm delighted to be joined today by Jonathan Akeroyd, our brand new CEO, and a more familiar face in the person of Julie Brown, our Chief Operating and Financial Officer.

Jonathan will share with you some initial thoughts on Burberry after his first eight weeks in office and then Julie will take us through the highlights of our last financial year which ended on 2nd April last. Julie will also comment on the outlook for the current year, which is evolving as continuing COVID-19 lockdowns in Mainland China contribute to near-term external uncertainties.

Despite the challenging macro-economic environment, I'm very proud of our teams as they adapt to developments and stay focused on our brand journey, our purpose and our values.

As a reminder, the slides and transcript of this presentation will be available on our website.

We'll be happy to take your questions at the end of the presentation. Thank you and I'll now hand over to my new best friend, Jonathan.

Jonathan Akeroyd, Chief Executive Officer
Thank you Gerry. Good morning everyone. It's a pleasure to be here. I'm really looking forward to getting to know you more in the coming months- I've actually seen a few familiar faces here as well which is fantastic. I feel very privileged to be standing before you today

As you know, Burberry is a unique British brand and business that I have admired for many years. It has extraordinary history and heritage, iconic products and house codes, and strong culture and values.

I am very much looking forward to leading Burberry in the next phase of its development.

I have closely followed Burberry's journey over the past few years and I have been impressed by the progress made.

The company laid out a clearly defined strategy to elevate the brand, product and customer experience to true luxury status and has taken some challenging but important commercial actions to achieve this ambition, including a relentless focus on full price sales.

At the same time, Burberry has continued to be a force for good, leading the industry in luxury's transition to net zero and supporting communities in need.

As CEO, I fully intend to build on these strong foundations as we focus on accelerating growth.

The ambition to be a 'true luxury' brand remains absolutely the right strategic positioning for Burberry.

It will create the most desire and value for the brand, and ultimately the most sustainable and profitable business.

Meanwhile, Burberry will continue to go the extra mile in terms of environmental and social responsibility, guided by our purpose and values.

Since joining in mid-March, I have been able to get to know better our teams and our business.

My immersion has left me even more excited about the opportunity that lies ahead.

The quality and commitment of our people are second to none and we have a strong platform from which to grow faster.

I look forward to updating you on my plans to do so at the Interim Results in November.

I will now hand over to Julie.

Julie Brown, Chief Operating & Financial Officer

Thank you, Jonathan. Good morning everybody. It's absolutely amazing for me to see so many familiar faces in the audience- after two years, it's a great pleasure. I shall now update you on the progress we have made in the year.

During FY 22, we continued to deliver on our strategy of elevating our brand, product and customer experience.

It was a year where we focused on increasing our full-price business and this underpinned our strong gross margin and record profit.

While it created a headwind to revenue growth, our decision to exit markdowns was the right one for the brand and also for the foundation for longer term sustainable growth.

Regionally, compared with FY20, we have seen a strong performance in the Americas where full-price sales in the US have almost doubled and in Mainland China and South Korea that are up more than 50% and 80% respectively. EMEIA has been impacted by travel trends due to COVID, but we are pleased that full-price sales turned positive in the 4th quarter versus pre-pandemic levels due to growth in local clientele.

From a product perspective, continued investment in our focus categories, outerwear and leather goods, led to full-price sales growth of 39% and 28% v LLY respectively.

We have enhanced the luxury experience with a strong new store concept that is being rolled out globally with 47 stores completed this year and a further 65 planned in the coming year.

We have made great progress in our five-year responsibility targets and are now carbon neutral in our own operations.

As a business with ESG at its core, we are building on the success of our programme by committing to new industry leading climate targets.

Finally, we've delivered excellent cash conversion of over 100% leading to a strong balance sheet.

This has enabled us to grow the annual dividend by 11% and recommend a £400m share buyback to be completed in this financial year.

The lockdowns in Mainland China and SAP resulted in a challenging end to FY22.

Turning to the summary financials on slide 7 and referring to year-on-year changes at CER.

Total revenue was £2.8bn, up 23% and adjusted operating profit was £523m, an increase of 38% and a record level for Burberry.

This resulted in a margin improvement to 18.5%, this is up 210bps at CER compared with PY, and approaching the 20% target we set for the group.

Adjusted diluted EPS increased 49% at CER and 40% reported, further benefiting from a lower tax rate and reduced shares in issue.

Free cash flow in the year was £340m – slightly down on last year due to investments in the store portfolio and the phasing of tax.

The dividend has increased 11% to 47p, in line with our progressive policy and restoring dividend cover to 50%.

Please note, that in this presentation, growth rates and the figures stated at CER are on a LFL, 52 week basis. As you know, under the retail calendar, this year is a 53 week year and this has been incorporated in the reported financial values.

Before I get into the financials in detail, I just wanted to share one slide that gives some data behind Jonathan's comments about the journey we have been on over the last five years as we shifted the focus of the business.

Retail revenue has increased from 77% to 80% of sales despite the removal of around £200m of markdown revenues.

Newness has increased as part of our product portfolio from around quarter to almost half our revenues, resulting an improved balance of product offer.

Real estate has been substantially refreshed. Over the last 5 years we have opened 125 new stores and closed 176 including 38 stores in non-strategic locations, delivering improved productivity.

And importantly, we have seen a 30% decline in global wholesale doors as we exited non luxury, and despite this, wholesale revenues have increased through the remaining higher quality accounts.

During this period, product elevation has been the major focus, and this has been reflected in a significant increase in AUR.

Finally, we have also transformed the cost base of the business, delivering over £200m of cost savings and reinvesting in the business in marketing, clientelling and customer inspiration.

Overall, the foundations for growth are well set.

I shall now take you through the income statement starting with total revenue on slide 9

The group saw retail sales growth of 20%, with comp up 18% and within this, full-price comp grew 24%.

Wholesale was strong, up 35%, driven by an excellent order book and Licensing saw good traction in both eyewear and beauty rising 11%

Overall revenue grew 23% at CER and +21% at reported rates, due to a £35m tailwind from the addition of the 53rd week, together with a £86m headwind from currency

Slide 10 shows our retail sales performance vs 2 years earlier (or LLY, as we call it).

Total retail sales grew +10%, comprising 6% from the retail comp and relatively modest space growth of 4%, largely due to expansion in Asia.

Within the retail comp, full-price grew 30% and the exit of markdown presented a 9 percentage point headwind to comparable sales growth, together with reduced trade in outlets.

It is worth noting that there was less inventory available for outlets this year, despite the exit of markdown, demonstrating strong inventory management and improved sell-through.

As mentioned, headwinds from MD reductions will no longer occur going forward- this is the last quarter.

Moving to slide 11 showing our quarterly retail performance.

We believe it is most helpful and more representative to compare this against pre-pandemic levels and consequently, we show Q1 to Q3 against LLY and Q4 against LLLY;

We will focus on full price through the quarters given the disruption from MD:

Full-price growth in the first 3 quarters increased 21% compared with FY20, driven by strength in Americas, Mainland China and South Korea and from our key focus categories of outerwear and leather goods.

In Q4, full-price growth was up 17% v pre-pandemic levels, lower than the Q3 due to COVID-related disruption in Mainland China and SAP. Including digital, around 40% of our Mainland China distribution is currently affected by closures or restrictions.

I'm pleased to say that going forward, we will simplify comparisons to versus LY only and also return to the single measure of retail comp performance.

Taking a closer look at regional retail performance versus 2 years ago on slide 12.

Americas has been the stand out region – up 28%. The full-price business was excellent, with the US almost doubling in the period. This was driven by new clientele to the brand.

Overall, Asia Pacific grew by 13% with full-price up 29%.

Strong growth was seen in Mainland China with full-price sales rising 54% in the period, although this was affected by COVID in Q4. The region saw good demand from all customer groups with particular success in leather and outerwear in the year.

South Korea saw full-price sales increase 81% This growth was partially offset by Japan and South Asia Pacific that have been most impacted by COVID-related tourist flows in the region.

EMEIA has continued to progress in the period but for the FY was down 18%, and full-price down 11%. We are pleased with this performance given 50% of EMEIA pre-pandemic annual sales were driven by tourists that remain at low levels. In the 4th quarter, EMEIA full price sales were ahead of pre-pandemic levels driven by our focus on local clientele.

Turning to the gross margin on Slide 13.

The most significant year on year benefit to GM was our move to full-price and we also benefited from price increases.

These more than offset a number of headwinds, including channel and geographical mix, and increased duties following exit from the EU.

Overall, gross margin was ahead of guidance at 70.6%.

In FY23, despite significant inflationary pressures and further investment in product, our active management of procurement efficiencies and selective price increases, means we are planning to maintain the gross margin around 70%.

Turning to the Adjusted Operating Profit margin on slide 14.

Operating margin last year was 16.9% and we have seen a considerable improvement this year through operating leverage, the gross margin rate and cost savings, aggregating to boost the margin by 640 bps.

Of this, we have reinvested 320bps of margin into commercial areas of the business and also absorbed a 110bp headwind from impairments.

Operating margin closed at 19.0% at CER, placing us in a good position to reach our 20% medium term target.

Turning to cash – the business has very strong cash generation as we show on slide 15.

Over the last 6 years cash conversion has averaged over 100% despite the impact of COVID -19.

Key metrics include: Receivable days from 25 days to 19 days over this period and inventory turn increased from 1.6x to 2.0x in FY22.

I'll now turn to the cash flow statement on slide 16.

We delivered another solid year of cash conversion – generating £340m in free cash flow, a conversion of 106%.

Working capital saw a £54m inflow. Within this, inventories reduced in gross terms due to improved inventory management.

Capex of £161m was broadly in line with guidance – reflecting a significant investment in the store network.

Tax paid at £180m, was up on the prior year due to rise in profits and phasing of tax payments.

I thought it was worthwhile reinforcing our medium term value creation model that has two components on slide 17.

Firstly from our operations, we remain committed to achieving a HSD revenue growth and meaningful margin accretion from FY20 at constant currency, assuming a broadly stable macro environment.

And secondly from our capital allocation model, which prioritises: first, organic investment where we have invested over £600m in capex over the last 5 years; second, a progressive dividend – we have returned to a 50% cover and paid out over £700m over the last 5 years; third, inorganic investments which are, by their nature, infrequent; and finally, returning excess cash to shareholders while maintaining a solid investment grade credit rating.   We have previously returned £800m since 2017 and today announced a further £400m SBB programme today.   Our leverage is low at the end of this year, with 0.2x ND/EBITDA, resulting in a robust balance sheet position.

Now, given we issued guidance last year, we'd like to update you on progress towards our goals.

Guidance was set based on FY 20, given the disrupted base in FY 21 due to COVID. Revenue is running at 5% CAGR, with full price delivering a 15% CAGR. The benefit of this elevation is seen in the gross margin that is around 70%, a level we believe that is sustainable for the business.

Similarly, the operating margin is up over 200 bps and shows good progress towards our 20% medium term target.

Turning to the Outlook on slide 19.

Starting with the medium term, we retain our revenue and margin ambitions.

That said, as we start the new financial year, there is a more challenging trading environment due to macroeconomic uncertainty and the recent outbreaks of COVID-19 in Mainland China.

We are expecting a rebound in China once restrictions are lifted and we will continue to invest ahead of the recovery, which is likely to lead to a more pronounced phasing in Group profits between H1 and H2 compared to a typical year.

We expect wholesale to be flat in H1 with no change expected in overall retail space.

The tax rate is expected to remain around 22% this year. We expect a rate increase of around 5% points from FY24 reflecting the UK corporation tax rate increase.

Capex is expected to be around £170-180m, with investment into the retail network being the largest component covering a further 65 stores.

Currency movements are favourable based on 6 May spots with revenue boosted by £159m and adjusted operating profit by £92m.

And for modelling purposes, to remind you, FY23 returns to a 52 week year.

So you should adjust the FY22 base by £35m of revenue and £9m of adjusted operating profit.

Having covered the financials I will now turn to our strategic progress.

Throughout the year, we excited customers in unexpected and innovative ways with a range of original brand activities which generated strong reach and engagement.

In March 2021, we unveiled our Autumn/Winter 2022 collection in an event that marked the first live runway show for Burberry in two years.

Presented in the heart of London, the show was a celebration of British culture and identity, further reflected in our collections which featured icons from the Burberry archive, including the Equestrian Knight Design.

Excitement around the event helped to generate record views on social media which were up triple digits compared to Autumn/Winter last year.

We have also inspired our customers with activations and collaborations.

Q3 saw one of the largest activations on Jeju Island, South Korea.

And we followed this in Q4 with a month long takeover on Rodeo drive in LA. The immersive instalment was directly inspired by Riccardo's Spring women's collection 'Animal Instinct'.

As part of the store takeover the exterior facade of the building was draped in a kaleidoscopic abstract drape, with the activation bought to life through an Instagram filter.

At the end of the quarter we teamed up with Supreme to launch an exclusive capsule which sold out on Burberry.com within seconds. The collaboration elevated brand heat, with Supreme posts representing some of the best performing content in Q4, outperforming average engagement by over 100% and generating a high level of new followers.

We built on that positive momentum at the Met Gala earlier this month where we hosted a table and dressed a stellar line-up of guests, including Kate and Lila Moss, Bad Bunny and Bella Hadid. We outperformed peers in terms of earned reach on social media and generated over 1,000 pieces of coverage.

We also continued to harness our creativity to drive growth across our two core product categories, outerwear and leather goods.

Following the success of our first dedicated campaign celebrating our iconic outerwear offer, full-price sales grew 39% compared with two years prior.

This was driven by strong performance in jackets, quilts and downs.

Rainwear too performed well across both heritage and non-heritage product, accelerating in the second half.

Secondly, Leather goods also delivered a good performance, with FY22 full-price sales up 28% vs LLY with the fourth quarter benefitting from the launch of the Frances tote, a recent extension to the TB family.

As we enter this year, we have initiated the recent launch of the Lola handbag campaign, including a programme of pop-ups and pop-ins across the world.

Following the campaign launch, we saw an impressive level of views and engagement across social platforms, outperforming previous handbag campaign video views by over 110%.

Turning to the Customer Experience, we continue to roll out the new store concept that represents all that is new Burberry; authentic, bold, elevated with creativity at its core.

The concept will transform how our customers experience the brand and products in a uniquely British luxury setting with our leather product in a much more prominent position. Here you can see our recent opening in Rue St Honore in Paris, with the store draped in birch brown check.

We now have 4 flagships in the new concept, including Paris; Sloane St, London; Plaza 66, Shanghai; and IFS, Chengdu.

In terms of the roll out of the concept, we've completed 47 stores, with a further 65 planned for FY 23, meaning that over half our sales will be made in new or refurbished stores, enhancing the customer experience.

In terms of performance, the majority of stores are performing above plan, attracting new elite clientele and delivering higher AUR than the prior store portfolio.

In addition to the physical stores, we continue to focus on omnichannel and a seamless customer experience between on and off line. For example, in Q4, we expanded our aftercare offering by rolling out new digital tools to enable customers to access bespoke services.

To supplement stores, we have also invested in a large number of pop-ups and pop-ins during the year.

These are more interactive spaces dedicated to amplify the marketing campaigns and inspire consumers.

This year, we started with 70 units in H1 with the leather campaign followed by outerwear in H2 with a further 34 units.

In Q3, we created a 'travelling trench cube' inspired by our Shenzhen social retail store to showcase an immersive experience across a number of stores in Mainland China generating strong engagement, traffic and sales.

We have followed this more recently with Lola, launching an extensive programme of 65 pop ups globally to accompany the campaign.

Finally, moving on to ESG, we continued to take industry-leading steps to advance our decarbonisation agenda and are proud to have largely met all the ambitious targets we set out in our 2017 Responsibility strategy.

First, as a company, we are now carbon neutral across our own operations globally and 100% of electricity is from renewable sources.

Second, regarding product, almost all our products have more than one social or environmental benefit and actually the majority have more than 3.

Finally, with regard to communities, we have exceeded our goal of positively impacting 1m people, through projects such as our recent partnership with Marcus Rashford MBE and charities across the UK, US and Asia, to provide literacy skills and safe creative spaces for underrepresented youth.

Looking forward, we remain resolute in our commitment to making a positive difference for people, planet and communities.

The strong foundations we have set underpin our new ambition to become Climate Positive by 2040, which will require accelerating emission reductions across our extended supply chain.

In November, we also announced a new biodiversity strategy to further protect and restore nature, while expanding support for farming communities and developing regenerative supply chains.

In parallel, we have continued to prioritise diversity and inclusion, together with colleague health and wellbeing, while supporting communities in need.

As a modern luxury brand, I am pleased to confirm today that we have banned the use of exotics in future collections, building on the commitment we made a number of years ago to go fur free.

In summary, having successfully established a strong platform from which to accelerate growth, we are well set up to embark on our next chapter where we will continue to deliver high-quality growth whilst building a more sustainable and inclusive future. We are a business with enormous potential and I look forward to working closely with our new CEO, Jonathan Akeroyd, as we advance the next phase of Burberry's strategy.

I shall now show you a short video highlighting some of the year's achievements and we'll return for questions at the end.   Thank you

Video Played

Q&A Session

Julian Easthope, VP, Investor Relations
Okay thanks everyone and we'll open it up to questions. I'll take Antoine first this morning, so Antoine. If you can just say your name and where you're from for the transcript that would help.

Antoine Belge, BNP Paribas Exane
Yes, good morning, three question if I may. The first one, Jonathan, obviously early days for you. It seems that the brand perception for Burberry differs from one region to the other, it's quite good in some, and less so in others. So do you think that Riccardo Tisci needs to maybe change a bit the aesthetics of the brand?

My second question is about the fact that sales are expected to grow high single digit this year, what's the embedded situation in China that you have in the guidance, i.e. do you expect that for high single digit to be achieved, that China should get out of lockdowns, I don't know, in July for instance?

And finally in terms of the margins, 18.5% is the reported base, I understand the FX benefits. But if you just look at the underlying margin at constant currencies, what are the moving parts? And do you think that there could be a significant margin improvement this year? I don't know see if you can be maybe 100 basis points. Thank you.

Jonathan Akeroyd, Chief Executive Officer
Thank you, Antione. I'll take the question on the brand, because actually I think I'd really like to call out the great work that everybody's done over the past four years. And also please take in mind that in those four years we've also had a pandemic. And for me coming in I've been extremely impressed initially with the strategy that was laid out. I

think the execution was very quick. And I think it's also important to call out other things that Riccardo has brought in and the company's brought in.

We now have new brand codes, which give us a huge amount of consistency. I've been very impressed with the TB that was launched very quickly, we're now applying it to a great deal of our leather goods. Also the monogram I thought was an excellent complement to the heritage brand codes that we have. And again I think this is something that we're going to plan in a lot, particularly in the summer months, we had activations last summer, we're going to continue that through this summer.

So I think this brings a big consistency and I definitely call it out across all regions personally. So from that side I think, I'd give Riccardo a lot of credit for it.

And also in terms of the - I'm sure I'll come back to this later, but it's easy to say about elevation but it's certainly, the elevation of the retail network has had a lot of investment last year. And we plan to continue to invest this year. And again the consistency, the network clearly needed to be upgraded. We're doing it, we've doing it very quickly, and again also very, very consistently and I've been impressed with that.

Julie Brown, Chief Operating & Financial Officer
Okay thank you Antoine. So first of all the question about China in relation to guidance. We are experiencing - well first of all going one stage back, in the fourth quarter versus last year, our China business declined 13%. But we did deliver in the quarter a strong comp at 7%. So the rest of the business effectively was growing around 20%. So we've got a strong underlying business performance, it was really the disruption from China in that final period.

In terms of the current trading situation, or the current situation in China, what we're finding at the moment is we've got approximately 40% of our distribution in China disrupted. That's either through store closures or it's basically due to people not going out because the city is on lockdown, and then also restricted hours, together with the digital hub being disrupted also. So it's around 40% of the business that is currently experiencing a disruption.

And we obviously - we don't know when it will end, like most people. And we've worked a number of scenarios out in the business and basically, we've worked on the basis of an upside, a base case, and a downside. The cost is to the base, the upside is the inventory planning, and the downside we'll manage cash to the downside case. So we're being very flexible and agile in the way that we're managing the business.

In terms of the margin, you know we're very pleased with the margin, we're pleased with the gross margin. So coming out at 70.6% despite the inflationary pressures from logistics and freight, we're pleased with that. And then when it comes to the operating margin as you say it's reported 18.5%, but on an underlying basis it's 19% CER versus last year. So again you can see us making the progress towards the targeted margin of 20%.

And within the components of that operating margin accretion, you know we had a considerable benefit, over 500 basis points of leverage on the operating margin, but we chose to invest over 3 percentage points of that back into the business, largely into the commercial frontline, into visual merchandising, marketing, and customer inspiration. So net-net we see it as a good result for the business.

Julian Easthope, VP, Investor Relations
If I go to Roger next and then Zuzanna.

Rogerio Fujimori, Stifel
Thank you, I have two questions. First, I think on the price increases that you have taken, have you seen any consumer resistance, any surprises on elasticity and are you still happy with the value proposition versus peers?

And the second is on the distribution clean up, I think you completed the rationalisation of all non-strategic doors. So I just wanted to confirm that I think in terms of particularly both the outlet footprint and if the work is completed? And I think related to that I think how many stores perhaps you need in Hong Kong? I know it's easier to close than open, but any thoughts would be appreciated. Thanks.

Julie Brown, Chief Operating & Financial Officer
So yes, in terms of price as you know we took a high single digit price increase on a large part of the leather range back in May last year. And we've taken some price increases on other parts of the range across the portfolio. We undertake data and analytics to look at the consumer response whenever we take a price increase so that we can judge the position. And we've seen no adverse consumer response to the leather goods price increase, which was the more substantial of the two.

We've taken an additional one in January also, again largely the leather range. And in terms of pricing opportunity, we do see continued opportunity for price, clearly the world is suffering at the moment from major inflationary pressure. So we do see opportunities for selective price increases. But we'll be very careful, and we'll work with the merchandising team on deciding where to pitch it, and we'll inform you when we've done it. It's commercially sensitive information so we won't give it ahead of time.

In terms of stores and store closures, yes, we finished the programme, a few years ago we said we're going to close 38 non-strategic stores. And these were stores that were either in the wrong strategic location, or they were under performing, and we've made those closures now, we've completed that programme.

The rest of the changes you saw on the bridge that I shared this morning; it was all to do with really refreshing the network. So in some cases we've moved from one location to another. So Paris is a great example of that, and I know Jonathan visited it recently, just last Friday, so I think we're very pleased with the new location in Paris. I don't know Jonathan if you want to comment.

Jonathan Akeroyd, Chief Executive Officer
And I would also like to call out Shanghai as well. We've moved from a good location in Shanghai into the best location in Shanghai, it shows our commitment to China and our belief that we can, once this wave is out of the way, that we really confident that we've got the product mix, we've got the retail network to continue to build on.

I've been very impressed with the store concept, clearly, it's also been readjusted to help us focus more on leather goods, as well as our core business around outerwear and softs and ready to wear. So it definitely feels in line with elevation strategy that we put in place.

Julie Brown, Chief Operating & Financial Officer
Then picking up your point about future closures, we're anticipating retail space being broadly stable during the course of full year '23. There will be closures and relocations within that, but broadly stable in terms of overall dimensions.

And then the final question about Hong Kong. So yes, we have made the decision to make two of the main store closures in Hong Kong, the trading position there is challenging. Clearly it was an area of the world that previously benefited a lot from Chinese tourists. So yes, and now of course suffering from lockdowns. So yes, we've made two changes there. But at the same time we are continuing to refurbish and invest in the stores in preparation for a reopening, a full reopening. So yes, the investment continues.

Zuzanna Pusz, UBS
Thank you for taking my questions, I have three. So the first question is a bit broader outlook for both Jonathan and Julie. I mean you've confirmed today your outlook for high single digits sales growth and 20% margin, EBIT margin. So I'm just wondering - I mean first of all given that you've achieved almost 20% margin because you had 19% on an

underlying basis, despite just 5% sales CAGR, does it mean that maybe in the short term you're likely to prioritise sales a bit more, so reinvest and we should see a bit more of a pause in terms of margin expansion?

And secondly, related to that, that's more for Jonathan, you highlighted in today's press release that we should expect a strategic update in November. And does it mean that it will be more qualitative rather than quantitative and does that mean you're not going to change any of the financial targets, or is it just too early to say?

My second question is a follow up on pricing. Can you just remind us what exactly were the price increases and the timing? Maybe I'm wrong but I'll just check, I think it was roughly it was 10% on your leather goods offering, early in the year, which means that you saw a 2 percentage point contribution. In which case I was just wondering why full price sales lagged so much, because I mean the total like for like was 7, full price was 5 but it should have benefited sequentially from pricing. So is it just related to China, or any additional colour on that would be very helpful?

And third question would just be generally if you could maybe comment on what you are seeing in the market right now. I appreciate China's not easy to comment on, so I won't be asking you about that. But maybe specifically the US, it's been an incredible success story for you, and the sector overall, given the market volatility are you seeing trends unchanged and maybe similar in Europe? Thank you.

Jonathan Akeroyd, Chief Executive Officer
I mean I'll start on the strategic effort. I mean surely with two months in, it's still early days. But I've been quite immersed into the brand, I've had a good study of it obviously clearly before I joined as well. Again, calling out, I'm very aware that we've gone through a transition, we've put in line a new strategy, we've executed it recently in the in the past few years. And now the expectation is on growth. I think all of the actions that have been put in place will enable us to focus on that and I'm very excited to do that.

I'm also very excited to share with you what we can also do to enhance the strategy that was put in place, and I'm sure we can give some colour on that in November. So I'm very positive that we can do that.

I'd also again like to - the decision to exit markdown was very brave, and very impressive. You've seen the growth that we've grown on our full price business. We believe that we can continue to really focus on that. You also saw the share of the mix in terms of the offer, we now have a very good balance between newness and carry over. This means that we can protect our margins on the carry over, we can continue to build our accessory business there, which I think is really important. But also there's, you know an opportunity now to really also play on the newness as well, which is clearly important.

And I would say your comment on America is right, I think there's a much stronger - now we've gone through this move, there's a much stronger appetite for the brand. We've seen a high level of recruitment for a new customer coming to Burberry, younger customers coming in across all the regions. So there's lots of elements we can play on.

But I think one thing that we have that's very special is we have some very core, strong categories, obviously in outerwear. We're developing, I would say, a stronger presence in outerwear on top of our raincoat business, that's something that I think we can safely say that we own that very, very nicely. But then also the introduction in leather goods as well, and there's been a very positive reaction to that. I'm confident that we can continue to build on that and again I'll share more depth and more colour on that in November.

Julie Brown, Chief Operating & Financial Officer
Great. So the first one in terms of the margin progression given the 5% CAGR. I mean we're obviously pleased with the margin; you can see the benefit of the full price switch coming through there with the gross margin. We will reinvest in the business. And you've seen us do this when we share the operating margin bridge, you know, there was a considerable amount of leverage we could have gained but we chose to reinvest in the business, over 3 percentage points of that was reinvested.

And I think we'll carry on doing that, the focus is very much we're holding what you might call support areas in the business, or enabling areas, Burberry Business Services, relatively flat. Then we're allowing all the growth to go into the commercial frontline, and we'll carry on doing that because it's the way to fuel the growth.

We're not obviously going to give guidance, specific margin guidance on the next two years, just because the environment doesn't really favour doing that. But we are confident of reaching the guidance which is the 20% margin by full year '24. It's just a case of the timing and the phasing of how we go about doing that, just because we've got to manage the business in a very agile way as you saw us do during the first wave of COVID.

In terms of pricing we took a price increase, as we mentioned back in May, which it wasn't 10%, it was a high single digit percentage change, and it was a sizable proportion of the leather goods range. So we have taken some price increases.

But just in terms of your question about why have you got a comp of 7% and full price of 5%? The reason for that is simply due to the mix of the regions. So in terms of our mix of regions, China which is one of our most prominent, mainline regions if you like with stores, as opposed to outlets, as that fell because of the lockdowns and EMEIA was growing very strongly, you get a shift in the regions.

So if you look at all the major regions the full price actually beat the comp in all cases, it was just the fact that when you put them together it's the mix, it's just the maths that does it unfortunately. But it can be tricky for people to follow. But try it out and you'll see it does actually work.

So in terms of, I think you mentioned also about China and price. So just to say, China in this fourth quarter has had a major impact. So you know minus 13% in our fourth quarter versus last year, the rest of the business is up 20% so a very strong performance elsewhere.

And then what we're seeing in the market was I think your fourth question. So in terms of the market we are seeing a robust environment in the United States. So our growth in the United States, we were up 13%, this is full price. The comps get tougher though in the United States. So you probably remember in the first quarter last year, our full price business grew over 110%. So we are going to come across some much more difficult comps. Having said that there's still a clear demand for the product and we're seeing very good traction in leather goods, Jonathan mentioned leather goods, really, really strong traction.

Then it brings me on to the other major region, which is EMEIA, EMEIA is growing very, very strongly we're seeing over 50% full price growth in EMEIA. As we mentioned the full price is back to pre-pandemic levels in the fourth quarter, which is really quite an achievement because half the business was tourists.

So overall we're seeing that strength continuing into the first quarter yes. If only China would unlock, we would have a very good picture yes.

Erwan Rambourg, HSBC
Thank you, Julian. Thank you, Julie. And welcome again, Jonathan. Three points, if I can. So, maybe in terms of, you know, you arriving and discovering, I mean, I suspect you knew the brand quite well before, but, looking at merchandising, you know, if you interview some of the sales staff they'll tell you – we need more t-shirts – or – we need more denim – you know, are you identifying any easy wins as you take over the brand in terms of merchandising, because I think you have a reputation for being a really good merchandiser? Are there any obvious gaps that you think can be filled for the brand?

Secondly, I think you mentioned that, you know, exiting markdowns was quite a brave move and, at the same time, there's a bit of a dichotomy because, in mainline stores, you're selling more at full price and, at the same time, there's still a pretty big outlet component, so I'm just wondering how you think about this dichotomy? And, you know, coming more recently from a group where outlets are a big thing, how do you view, you know, the potential conflict or contradiction?

And then, lastly, on China, you know, when you had lockdowns last year in Xian, and more recently in Shenzhen, you had a pretty big rebound following that, but there's a lot more duration here in Shanghai and now Beijing and other places. So I'm just wondering, you know, you mention you have been working on different scenarios, but how do you think about consumer psychology as you've had more duration, and how can you hope for the consumer to rebound versus, you know, the experiences of lockdowns from last year? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Great. Thanks. And so, on the product side and easy wins, you know, of course, when you join a company, you can always see some callouts and some easy wins. So, you know, we're already working on that with the teams, but, clearly, again, I will be working on those now, but, you know, I'll set out, I'd say, a much more concise merchandising strategy at the end of the year.

I would just like to say that, again, credit to the teams. We've got a very good team of merchants in the company. I've been very impressed with the level, or the calibre of our teams, both through design and also merchandising. So, they're able to adapt. And, as a I mentioned earlier, you know, with this ability that we have to, sort of, complement, our replenishment and our carry-over business with newness, we can adapt to that quite quickly.

I would also like to say I was very curious upon joining to see the ability of a company that was, historically, a ready-to-wear-focused company transition into a better focus on accessories. And we've, you know, again, built some good teams there across design, merchandising. So, I've been very impressed very impressed with the offer that we have in place and there's lots of things that we can build on there.

Julie mentioned earlier, recently, in the last few weeks, we've launched our Lola bag. There's been a very positive reaction to that. That is actually, I would say, beyond our expectations in the launch that that's had as well as, you know, a very strong link in between the way that we've marketed it and we promoted it. So, that's been a success.

Just coupled into that, the pop-up model in terms of launching products, as you know, is very modern, it's very relevant for now. The consumers really engage with pop-ups, wherever they are, both, you know, locally but also particularly in Asia. We've held back on, obviously, activating those. So, we intend to, when the market does come back, we will be ready and we'll be activating those pop-ups through, hopefully, the second half of this year. So, we're all ready to go with that. But, yeah, again, I look forward to showing you a little bit more colour on the merchandising strategy in a few months.

Just on the outlet business, you know, as we have exited mark-down and we have a clear policy in terms of how we manage our aged inventories, the outlet channel will help support that, and we believe that, for now, it will be very complementary, and we're very confident that we can actually manage that well.

Julie Brown, Chief Operating & Financial Officer
Yes. And just to add to that as well because we were one of the first, if not the first, actually, to announce a non-destruction on inventory policy, it's therefore important to keep the ability to liquidate that inventory. But we're coupling it with, you know, good sell-through on the mainline product.

In terms of your third question relating to China, we were actually looking at this with my team at the back just a few weeks ago, and we looked at what happened to China sales in the first wave and the length of time to reboundand then what happened in August. August was a much smaller snapshot of a downturn - but we looked at what happened in August and the length and the speed of the uptake, and the curves are tending to just follow, you know, in terms of the rebound. So, it does seem to be fairly resilient.

I mean, obviously, the section of society that luxury brands target anyway tends to be a more resilient sector to these macroeconomic issues we're experiencing in the world at the moment. So, we are anticipating a rebound, and that's one of the reasons we've brought the inventory to an upside case so that we're ready for that rebound. And we will also invest ahead of the curve because we think it's important to be ready.

As Jonathan mentioned, we suspended a whole series of pop-ups and pop-ins that we were planning China; Plaza 66,our major store there, is currently closed. But, as soon as we can reopen these, they're extremely good engines for growth, so that's exactly what we will do.

Julian Easthope, VP, Investor Relations
Okay. I think we've actually got somebody online, so over to you?

Facilitator
We've had an email on behalf of Luca Solca from Bernstein. He says – now that you have exited the unwanted wholesale accounts and stopped markdowns in store, has your strategy regarding outlets changed?

And then follows on with – the Supreme collaboration has been particularly successful with the younger generation. Are you planning to rely on collaborations going forward to diversity the brand aesthetic under Riccardo?

Jonathan Akeroyd, Chief Executive Officer
So, hello, Luca. I think we covered, really, the outlet question. I think that's quite clear.

With regard to the collaborations, you know, they're an important model of the market that we're in at the moment. And we were extremely impressed with the Supreme collaboration. It was very nice to see, finally, queues outside of our flagship store in Regent Street. We sold out online very quickly. And, again, you know, the nature of our brand really lends itself to doing exciting collaborations and also product initiatives.

Again, I mentioned earlier, the Monogram, we activated that well in the summer. We plan to do it again this summer. I think that will be our internal collaboration, if that makes sense. And I think people have really reacted to that very well. And it's something that we evolve every season. So, it's not just the same product. It's refreshed and a new Monogram, and we can, you know, hopefully build on the excitement, next month, when that launches.

And then, beyond that, this is, you know, something very much in Riccardo's creative vision as well and, you know, he's definitely got, you know, a strong eye and a pulse to see really what's needed and what really the market needs at this time. So, we believe that there will be something that we will continue.

Kathryn Parker, Jefferies
Hi. I just had two questions, please. So my first question is for Jonathan, and I wondered if you could make some comments on the current status of Burberry's supply chain and whether you see any opportunity for M&A in this area and what products that might focus on?

And then my second question is on the wholesale guidance for H1 for flat year on year. Pricing should have had some positive impact, so I wondered if there's any additional impact from a switch to the e-concession model or if you're seeing any kind of caution on reorders from your wholesale accounts?

Jonathan Akeroyd, Chief Executive Officer
Great. Thank you. Just with regard to the supply chain, again, two months in, so I've been doing a few tours, as we speak, within the two months. I've actually visited our internal manufacturing facility in Castleford in Leeds. Very impressed with the teams

that we have there. I think that we can really build on, the fact that we're now actually, as we go into the end of this year, we're going to be really focusing on our heritage raincoat business and really promoting the fact that these will be made in the UK in an extremely sustainable way. Very much a lot of handcraft, a lot of passion that goes into it. And this is a real position of strength for us, we believe.

And then, going on to accessories, as you know, we have a good leather goods industrial facility in Italy. I've not seen that yet. I'm travelling there next week. But it certainly delivered, you know, a very good high level. I've been also impressed with the quality of our leather goods, actually, and the ability to react and develop products in a very clear and fluid way.

Obviously, at the moment, it's too early to comment on an M&A and I've got, you know, a lot of things to focus on in the coming months, but we'll see how that evolves.

Julie Brown, Chief Operating & Financial Officer
Okay. And taking the wholesale guidance question, yes, the main reason the wholesale guidance is flat, it's not to do at all with subdued orders because, when you look at Americas and EMEIA, the growth rate is very strong.

There are two issues really that we're encountering; one is travel retail in Asia. So, because there's little travelling taking place, it's a major compression factor on the wholesale business. And then the second reason is largely due to the Russia/Ukraine situation because we stopped shipping. As you know, we were, I think, one of the first brands to stop shipping into that region and, therefore, it's put pressure, considerable pressure on the wholesale business. So, those are the two factors as to why you see it being broadly stable.

Julian Easthope, VP, Investor Relations
Okay. Louise?

Louise Singlehurst, Goldman Sachs
Hi. Good morning. Thank you very much for taking my questions. I think just two. Maybe if we can start with Jonathan, if I could do. This is probably the only occasion we can actually ask about your initial, kind of, 100 days. You're a few days into that first plan, but we've all asked questions about merchandising, supply chain, I wonder if you can talk more holistically about the view coming into Burberry, you know, the top three priorities, you know, what excites you most about Burberry over the next, kind of, several years ahead?

And then, secondly, for Julie, we've sat in many years of presentations at Burberry where we've been really focused on the cost saving plan. That's always been the topic of discussion, particularly from your content, Julie. Today, there's a lot more mentions of investment, investment for the future. When we think about the margin and that margin target of around 20%, and we're not far away from it, is it fair to say there's just a lot more flex in the system now, so there's a lot more ability to put that investment back into the brand to drive that top line that we haven't probably seen in the last five years? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Thank you. As far as the top three priorities 100 days in, again, definitely, we will be coming back to that, but, clearly, you know, the three areas for me to focus on, and there was already, you know, some clear ideas in place and I think I can help enhance that and accelerate that, it's brand. Really, really focusing on making sure that we continue to elevate the brand. That journey has clearly been well-executed and we're in a very good place.

Product, I mentioned earlier, lots of opportunities on product, and we will continue to build on that.

And then also just touching on the retail, you know, 80% of our business is retail. We are a, you know, very strong retail company. I've been also very pleased to come into a company with a big, strong retail network that's been also refurbished, but we've also exited some of our poor performing stores. So, I think our retail position is in a good place.

And then one of the very nice surprises for me has been the quality of the Retail teams. Obviously, externally, I've been really looking at the what the brand has been doing on the product and the marketing activations, not so much on the retail side. But now I'm here, toured a number of stores, and there's been, you know, probably, I would say, on the back end, you know, a huge effort in terms of retail excellence and, you know, I can safely say that we are in a very good place here. Very passionate teams, highly engaged.

I've also been impressed with the blend that we have in the company between new talent coming from the outside with good, strong luxury experience, but also there's a lot of a people that have been here for a good time with, you know, a huge knowledge of the brand, and equal passion, actually, which is, you know, often very rare in a business. There's a huge amount of positivity. So, I think that's been the biggest call out.

And I would really like to call out, you know, our Retail Excellence teams and our HR teams for driving this because, as you know, it's not very easy to really, really pick up. You know, when you're refurbishing these stores and investing a lot of money into them, it's often, sometimes, you can forget about the quality and the focus of the Retail team. So, I think that has been really impressive for me, and look forward to, again, building on that.

But, you know, again, just to conclude on that point, you know, for us, obviously, we've got some immediate challenges now with the macro environment, but it will really be about how we can build on that and continue to grow the top line, I think, will be our focus.

Julie Brown, Chief Operating & Financial Officer
Okay, thanks. Thanks, Louise, for the question. There's been a real focus, I would say, in reorientating the cost base of Burberry.

As you know, we have streamlined many activities in what you may call the enabling areas. So, one example was we created Burberry Business Services as a captive in Leeds, and what we've, therefore, been able to do is pivot the cost base more towards some of the commercial areas in the business.

So, there has been significant investment in the business, although it may not be visible a number of years ago, within it there was a lot of change within the composition. It's a bit like the change in the composition of the sales line, similarly.

So, over the last 12 months, you can see our opex base has grown, you know, close to 20% CER like for like. So, there's been a big step up in the opex.

And, as you saw from the margin bridge, you can see the degree to which the business is capable of leveraging. You know, so 500 basis points could have come through into the margin this year, but we've chosen to reinvest over 300 basis points of that back into the business.

So, we'll continue to make, you know, those judgements, but we also believe, you know, that the business is easily capable of the margin target we've set. You know, we do believe that. And the gross margin, we've done a lot of work to protect that and keep that at around the 70% level. So, you know, we think it's achievable, yes.

Julian Easthope, VP, Investor Relations
Okay. Carol?

Carol Madjo, Barclays
Hello. Good morning. Two questions from me, please. The first one, to follow up on the US market, there seems to be some growing concern about the, I guess, macro

environment in the US in terms of, you know, inflation, stock market volatility, etc. And when you think that your consumer base has been really boosted by new and young consumers, do you see a risk of this cohort being a bit less sticky, a bit less resilient in the case of macro slowdown? That's the first question.

And the second one, just to come back quickly on your new store concept, you give us some target for '23, but how should we think about it for the mid-term in terms of new stores being developed? Thank you.

Jonathan Akeroyd, Chief Executive Officer
I'll take the US question. Obviously, as Julie mentioned, we had a very strong quarter in Q4 last year. We've still managed to, you know, have a good improvement on this quarter. There's definitely, we believe, from our brand's perspective, still more opportunity to grow.

We actually plan to invest more money in terms of our marketing spend into America this year, continued store refurbishments, and, you know, obviously, it's challenging times at the moment in general, but we're also confident that the way we're progressing, you know, with our merchandising strategy, with the store refurbishments, you know, we think we're going to well-set for future growth going forward.

Julie Brown, Chief Operating & Financial Officer
Yes, I think, in terms of the question about the stores, so we're planning 65 in this coming 12 months. So, the capex we're expecting to be around £170m, £180m. So, you can see we're stepping up the capex a stage further.

Our objective is really to roll out the new store concept, which is proving to be successful, you know, in terms of clientele that are coming, the AUR that they're spending, the linked selling that we're gaining in those stores. It's a more elevated experience for the consumer, and that's really what we're very focused on.

So, we expect to rapidly – it's one of our key strategic objectives, is to roll out that new store concept as quickly, really, as the Architecture team can possibly manage to do it because we think it's a real value driver for the business.

Julian Easthope, VP, Investor Relations
Okay. I'll take Chiara and then Elena.

Chiara Battistini, JP Morgan

Hello. Hi. Thank you for taking my questions. Just following up on the store concept, on our store concept, I was wondering whether you could give us some update on how your KPIs of the stores are actually changing, what kind of sales density, uplifts you're seeing, what kind of conversion you're seeing now that some of the biggest projects have been done?

And then the second question on your consumer, and I was wondering if you could give any colour on how to think about your exposure to a more aspirational consumer versus a rather affluent consumer, if you feel exposed to these aspirational consumers they might be saving to buy into luxury versus the proper luxury consumer? Thank you.

Jonathan Akeroyd, Chief Executive Officer
I think, on the store concept, it's important to note that we're, you know, only about six months in. As Julie called out, we've seen, you know, a good improvement in our AUR. We've also seen a better shift on the accessory sales from our accessory sales in our old store concepts. So, we've been pleased with that. We've also seen, you know, a much higher level of new customers coming into those stores.

So, you know, the early indications are that, you know, we're in a good place, and we really do believe that we can continue to build on that, and, more importantly, as you know, you know, the ultimate objective is to, you know, really improve our store productivity and our sales density, but still a little bit too early to give a true outlook on it.

Julie Brown, Chief Operating & Financial Officer
Yes, and just to add to that, it's probably worth knowing that we target around a 25% return on the stores when we do a new capital appraisal, and the majority of the stores that we've put in place, you know, are already ahead of those expectations.

And what we also do is we review the performance of the new stores relative to neighbouring stores that haven't been put in the new store concept so we can compare. It's not exactly like for like, but it's the best we can do. And, again, this is where we've got the customer data from in terms of the higher levels of spend and the higher degrees of linked selling that we've obtained in those, hence the need to and the desire to accelerate that programme as much as possible.

And then in terms of the consumer, yes, I mean, it varies. We look at, you know, the socioeconomic pyramid when we're looking at our consumer and patterns, and there's certainly been a rise in the higher levels of the consumer. But also, we've had considerable business this year from new consumers that have come to be brand for the first time. And we've particularly seen that in Americas. We've also seen it more recently coming into EMEIA because it's now largely a local business.

And then, obviously, before China was locked down, China and Korea were the big beacons of new consumers coming to the brand, largely driven in Asia by the leather goods and the outerwear. They were the very strong performers in that region. So, yes.

Elena Mariani, Morgan Stanley
Can you hear me? Okay. Good morning. I have two questions for Jonathan. The first one is about your background. So, you come from a very long experience with Alexander McQueen, relatively small brand in a large group, and then, more recently, with Versace, so can you comment a little bit about, I know it's early days, but the difference you see between working in a large group, large conglomerate versus coming into a mono brand, like a standalone brand? You know very well that the industry has been showing a sort of divergence of growth between the large groups that have been able to capitalise on various things, and then the smaller brands, the mono brands, have been struggling a little bit. So, what's the difference, in your opinion? Can you comment on this? And do you still feel that mono brands and smaller companies can still have their voice heard in terms of, like, investments, firepower, communication?

And then the second question is about, you know, the creative situation at Burberry and the Creative Director. You've been clearly impressed by what has been achieved so far, and we can see the results. I mean, there's no doubt that the quality of the business has improved, the products have been completely transformed. You probably know as well that part of the luxury audience has also partly been puzzled by the move towards fashion and the change in DNA of the brand. So, some people have been saying that maybe Burberry walked a little away from the British heritage that they used to have. So, what do you think about this? Are you seeing things differently?

And, overall, besides all the good things that you've mentioned, is there anything that, you know, maybe is an area of improvement that is standing out that, you know, you see clearly, and you'd like to change or work on? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Thank you. Well, comparing the three brands, I mean, I think that's not really something to do in this forum, but, you know, all I can say is I'm very excited to be here. It really felt like, you know, a real natural fit for me to come here.

We've said that I've had a history with Burberry, but I have had a long history with Burberry. I've really been in touch with the brand since my days at Harrods, so, you know, it was really an honour to come here and join.

Obviously, the incredible thing for me is, you know, this is one of the top luxury brands, you know, in the world, so it's an incredible opportunity for me. I've been here for two months. I feel very comfortable since I've been here. As I said earlier, we've got a great team with incredible backgrounds. I think that my experience in the two brands that I've worked for previously, one being a British brand, one of a big group, one being an Italian luxury house, embedded in luxury, there with a good industrial operation as well, you know, I think what I've learnt from that, you know, I can bring here and, you know, help support the growth that we have here.

With regards to Burberry being, you know, a standalone brand, you know, I don't see anything wrong with that. I think it's a great establishment. One of the things that I'll definitely call out in November is, you know, we are very fortunate to be in such a strong position as a great British brand, and this brings a lot of opportunity.

Sort of, leading into your next question, if you saw Riccardo's last show in March, you know, he's picking out the DNA of the brand now and so, you know, I think this is important, and I definitely feel it is something that we will continue to build on and develop. It's definitely a call out.

But also, I've recognise that there was an opportunity four years ago to make Burberry more international, and definitely that was the strategy that was underlined. Unfortunately, my last trip to China was well over two years ago, obviously, but, you know, I remember travelling and seeing the Burberry activations in China, particularly on the marketing side, and actually really, you know, no idea what was going to happen and that I would be here now, but I was really impressed with the shift, you know. As you know, the Chinese consumer, they're fashion forward, generally, the luxury consumer's a little bit younger, and I actually noticed it. And I think that's been, you know, a real benefit for the brand as we, you know, really start to work on being the fact that we are a British luxury heritage brand but also with a contemporary twist.

Sarah Butler, The Guardian
Hello. I just wanted to go back to price, and you mentioned that you put prices up on luxury goods by around 8%, 9% in May. Is that now are we talking about?

Julie Brown, Chief Operating & Financial Officer
That was the year before.

Sarah Butler, The Guardian

Okay. And when you say you're going to put prices up again now, can you say what sort of order you're putting them up by and why you're focusing on leather goods? Is that because that's where cost inflation is coming through or where you see elasticity in the market, and opportunity to raise prices there where you can't raise them in ready-to-wear? And what do you think the luxury consumer reaction to this inflationary environment is? Will their spending be depressed or are you not expecting them to be affected?

Julie Brown, Chief Operating & Financial Officer
Yes, so, just to clarify, it was May last year that we made the change, and then another change at the beginning of this.

In terms of leather goods, we deliberately set out a strategy to elevate our leather goods range, and I think, as you know, originally, our bags were selling for around £600 to just over £1000, and we wanted to move them into the £1000 to £2000 range, and we've been very successful in moving them. So, some of, you know, the top leather bags now are retailing just below £2000.

So, we've made the transfer successfully, but we wanted to take it in stages, and the first thing was we purchased Burberry Manifattura a number of years ago, so we wanted to build our own capacity. And then we also wanted to, basically, take it gently, in a way, because we were a ready-to-wear and we were moving more into leather goods. We wanted to move the prices so that it was taken steadily. And that's, basically, the strategy that we've been embarking on.

The prices we've been putting the leather goods up, there's been no adverse response in terms of consumer response to those prices. As Jonathan mentioned, the Lola's been one of the most successful lines, so I think it's a testimony to the quality of the bags.

In terms of consumer and the luxury environment generally, I think it's the sector that we're operating in. We're still seeing robust demand for the products. You know, as we mentioned, because China was closed for the last part of the fourth quarter, if you strip that out of the business, the rest of the business has been growing in the 20% range. So, we're still seeing that underlying demand. Europe's really strongly growing at the moment. America, the growth rates are falling, but this is partly because of the extremely high base in the prior year now. So, yes, overall, we're seeing it positively.

Sarah Butler, The Guardian
Are you fairly confident that the luxury consumer will carry on their spending power … [no microphone]?

Julie Brown, Chief Operating & Financial Officer
It tends to be the more immune part to these types of situations with inflation and cost of living. It tends to be the last sector to be impacted. We're much more impacted by real estate prices and the stock market. In terms of the correlation with various macro factors, those are the two main factors that we need to keep an eye on. Yes.

Facilitator
I have a question that's been emailed in from Thierry Cota from Societe Generale – Could you explain why EBIT was down 5% in the second half versus sales up 10% whilst the gross profit was up 11%? Thank you.

Julie Brown, Chief Operating & Financial Officer
Yes, certainly, Thierry. Hopefully Thierry can hear me, but the main reason is really back to the question that Louise raised earlier. So, it was really all about significant investment that we made in the business in the second half. So, it was the cost base grew, you know, just shy of 20% in the second half. So, there was a lot of activations, pop-ups.

We also opened Plaza 66 in November. So that cost comes through at that point, we had major activations - both in China – and you've seen some of the examples we had in LA during the course of last quarter. So, Jeju, in Korea, was in the third quarter. So, there's been a lot of, I guess, cost put into the business to be able to talk more about the Burberry brand externally and engage and excite consumers.

Julian Easthope, VP, Investor Relations
Okay. I think we've probably had time for questions now, so thank you, everybody for coming.

Julie Brown, Chief Operating & Financial Officer
Thank you very much. Thank you.

Jonathan Akeroyd, Chief Executive Officer
Thank you very much. Thank you.